VOLKSWAGEN LEASING

GMBH

ANNUAL REPORT

IFRS

2022

Key Figures

VOLKSWAGEN LEASING GMBH GROUP

€ million	Dec 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Total assets	54,249	50,659	46,039
Loans to and receivables from customers attributable to			
Dealer financing	12	9	9
Leasing business	18,932	18,215	19,182
Lease assets	25,764	23,298	18,955
Equity	6,506	4,631	3,858

in percent (as of Dec. 31)	2022	2021
Cost/income ratio[1]	43	50
Equity ratio[2]	12.0	9.1
Return on equity[3]	22.8	17.6

in thousand vehicles	Dec 31, 2022	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
New contracts	296	361	304	381	326
Current contracts	1,833	1,792	1,582	1,593	1,449

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

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

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COMBINED MANAGEMENT REPORT

Fundamental Information about the Group

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

BUSINESS MODEL

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

ORGANIZATION OF THE VOLKSWAGEN LEASING GMBH GROUP

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

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

Mr. Armin Villinger has been responsible for Corporate Management and has also been the Chair of the Management Board since July 1, 2022. Until June 30, 2022, Mr. Jens Legenbauer was the Chair of the Management Board and responsible for Corporate Management.

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. Armin Villinger and was under the purview of Mr. Jens Legenbauer until June 30, 2022.

Following the integration of the organizational units from MAN Financial Services GmbH, the Front Office MAN FS Board department was established and was under the responsibility of Mr. Frank Czarnetzki until January 31, 2023. The Front Office MAN FS board department has been under the responsibility of Mr. Armin Villinger since February 1, 2023.

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

The Operations Board department has been under the responsibility of Ms. Manuela Voigt since August 1, 2022.

FIRST-TIME PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

Due to a modification in the refinancing of an existing ABS transaction in the first half of 2022, the parent company, Volkswagen Leasing GmbH, is now exposed to most of the risks and rewards of the special purpose entity affected by the modification, VCL Master Residual Value S.A., Luxembourg, and therefore exercises a controlling influence on the special purpose entity in accordance with section 290(2) no. 4 of the Handelsgesetzbuch (HGB – German Commercial Code). As a result, the parent company, Volkswagen

Leasing GmbH, is required to prepare consolidated financial statements in accordance with section 290(1) of the HGB. The annual financial report as of December 31, 2022 have therefore been prepared as consolidated financial statements based on International Financial Reporting Standards in accordance with section 117(1) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act).

The consolidated financial statements for the year ended December 31, 2022 were prepared accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315e(1) of the Handelsgesetzbuch (HGB – German Commercial Code).

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

MOBILITY2030 STRATEGY

Volkswagen Financial Services AG's new MOBILITY2030 strategy, which replaces the existing ROUTE2025 strategy, was formally adopted in fiscal year 2022. The changes in the nature of commerce and the way people live, especially as a result of digitalization, have changed purchasing behavior and patterns of demand among many customers. The impact of this development on automotive sales is that flexible access to vehicles and mobility solutions in the broader sense are becoming increasingly relevant. Merely using the vehicles is becoming much more the focal point than owning them. With its NEW AUTO strategy, the Volkswagen Group has defined its road map for the transformation to a software-driven mobility company and identified the establishment and expansion of mobility solutions as a key core element thereof. Within this framework, Volkswagen Financial Services AG plays a central role and transfers the Group strategy into its own MOBILITY2030 strategy.

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

INTERNAL MANAGEMENT

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

KEY PERFORMANCE INDICATORS

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

Report on Economic Position

The global economy recorded positive growth in fiscal year 2022. In spite of these circumstances, Volkswagen Leasing GmbH managed to grow its current contracts and expand its lease assets. Volkswagen Leasing GmbH's operating result in accordance with IFRS is substantially higher than the level of the previous year.

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

In 2022, the operating result was substantially (+70.0%) up on the prior year. New business contracted due to the shortage of semiconductors and the resulting restricted availability of vehicles. At the same time, the shortage also led to a substantial rise in marketing performance in respect of used vehicles in the Volkswagen Leasing GmbH Group.

In fiscal year 2022, the share of leased vehicles in the Volkswagen Group's deliveries (penetration) for Volkswagen Leasing GmbH in the Germany market was 59.5% and thus moderately under the prior-year level (62.1%).

Funding costs were substantially (+51.5%) above the prior-year level, although the volume of business was higher.

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

In fiscal year 2022, the volume of receivables at Volkswagen Leasing GmbH continued to grow despite ongoing crises on the markets (residual effects of measures related to the coronavirus pandemic and the associated supply chain problems, the Russia–Ukraine conflict, the energy price crisis, massive inflation, etc.). This growth was mainly attributable to the established sales promotion programs and continuous expansion of the fleet business. In spite of the aforementioned difficult macroeconomic conditions, stable portfolio development could be observed, so the risk costs for Volkswagen Leasing GmbH's credit risk remained at a stable and moderate level. In light of the energy price crisis, more stringent purchasing regulations were concluded for energy-intensive sectors to reduce risk.

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. The continued insufficient availability of new vehicles because of ongoing supply chain disruptions (e.g. semiconductor shortage) led to stronger demand for used vehicles in 2022 as well and resulted in positive marketing results and positive residual value performance. Changes in residual value risk continue to be closely monitored on an ongoing basis, leading to corresponding measures where required.

At the level of Volkswagen Leasing GmbH, liquidity risk remained stable in the reporting period. Funding risk always remained within the specified limits. The spreads were above the prior-year level in fiscal year 2022.

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

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

The Management Board of Volkswagen Leasing GmbH considers the business to have performed well in 2022 despite the consequences of the Russia–Ukraine conflict and the semiconductor shortage.

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

	Actual 2021	Forecast for 2022		Actual 2022
Nonfinancial performance indicators				
Penetration (percent)	62.1	<62,1	Slightly lower than the prior-year level	59.5
Current contracts (thousands)	1,814	>1.814	Significantly higher than the prior-year level	1,897
New contracts (thousands)	646	>646	Significantly higher than the prior-year level	637
Financial performance indicators				
Interest-bearing assets (€ million)	39,689	>39.689	Substanitially higher than the prior-year level	42,189
Operating result (€ million)	746	<746	Substanitially lower than the prior-year level	1,268
Return on equity (percent)	18.0	<18,0	Substanitially lower than the prior-year level	23.0
Cost/income ratio (percent)	50	=50	At prior-year level	43

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

Following the slump in global economic output in 2020 and the incipient recovery due to baseline and catch-up effects in 2021, the global economy recorded positive overall growth of +3.0 (+6.0)% in 2022.

Both the advanced economies and the emerging markets continued to recover on average, albeit with diminishing momentum and slower growth overall than in the prior year.

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

Europe

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

Germany

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

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

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

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

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

The market volume was slightly down in Western Europe.

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

Sector-Specific Environment

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

Europe

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

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

Germany

At 2.6 million, the total number of new passenger car registrations in Germany in the 2022 fiscal year was similar to the weak prior-year level (1.1%). Shortages and disruption in global supply chains continued to restrict vehicle availability. With delays in semiconductor deliveries persisting, and the associated measures such as cutbacks in production and production shutdowns therefore continuing too, domestic production and exports remained at a low level in the reporting period: passenger car production increased by 9.9% to 2.8 million vehicles and passenger car exports grew by 9.0% to 2.1 million units.

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

In the 27 EU states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was noticeably up on the prior-year level, increasing by 5.1% to a total of 337 thousand vehicles. Growth could be observed in many truck markets in the region, albeit to differing degrees. The substantial market recovery seen in 2021 slowed during the reporting period to a noticeable level of growth. New registrations in Germany, the largest market in this region, were on a level with the previous year (–1.7%).

Demand in the bus markets relevant for the Volkswagen Group was on a level with the previous year (+0.3%). Demand for buses in the EU27+3 markets in the reporting period was slightly down overall on the level of the previous year (–3.8%), with the picture varying from country to country.

FINANCIAL PERFORMANCE

The Volkswagen Leasing GmbH Group performed well in fiscal year 2022.

The IFRS operating result improved to €1,268 (746) million, significantly exceeding the corresponding prior-year figure. This improvement was mainly attributable to the rise in net income from leasing transactions and higher gains on financial instruments measured at fair value.

Profit before tax came to €1,267 (746) million, which was substantially higher than in the prior year.

Return on equity amounted to 22.8 (17.6)%.

Interest income from lending transactions and marketable securities was €28 million (+83.3%), which represented a substantial year-on-year increase.

Net income from leasing transactions amounted to €1,677 (1,220) million and was therefore substantially higher than in the previous year. A considerable portion of this increase was accounted for by the net gain from the disposal of used ex-lease vehicles amounting to €622 (263) million. The impairment losses on lease assets of €23 (93) million included in net income from leasing transactions were attributable to current market fluctuations and expectations.

Interest expenses were substantially up year-on-year at €364 million (+51.5%).

Net income from service contracts amounted to €191 (143) million and was substantially above the prior-year figure.

The provision for credit risks of €33 (–88) million was significantly higher year-on-year.

Net fee and commission income amounted to €–76 (9) million, well below the prior-year level.

General and administrative expenses were slightly up on the previous year at €624 (618) million. This figure also includes costs associated with services for other entities in the Volkswagen Group. Accordingly, costs of €30 (32) million were recharged to other entities in the Volkswagen Group and reported under net other operating income/expenses. At 43 (50)%, the cost/income ratio was significantly better than in the previous year.

Net other operating income/expenses fell substantially short of the prior-year level at €36 (102) million (+23.8%). An amount of €64 (31) million was added to the provisions for legal risks and recognized through profit or loss in net other operating income/expenses.

In total, the Volkswagen Leasing GmbH Group generated a profit after tax amounting to €859 (541) million.

Under Volkswagen Leasing GmbH's current control and profit-and-loss transfer agreement, a loss of €1,016 million reported by Volkswagen Leasing GmbH in its single-entity financial statements prepared in accordance with the HGB was absorbed by the sole shareholder Volkswagen Financial Services AG.

NET ASSETS AND FINANCIAL POSITION

Lending Business

At €51.5 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Leasing GmbH Group – accounted for approximately 95% of the Group's total assets.

The number of new retail financing contracts came to 637 thousand, which was slightly below the prior-year level (646 thousand). The number of current contracts stood at 1,897 thousand at the end of the year.

Receivables from leasing transactions were moderately up on the previous year's level at €18.9 billion (+3.9%).

Lease assets recorded significant growth of €2.5 billion to €25.8 billion (+10.6%).

Total assets of the Volkswagen Leasing GmbH Group rose to €54.2 billion year-on-year (+7.1%). This increase was mainly attributable to the growth in lease assets as well as receivables from customers, reflecting the expansion in business in the reporting year.

There were 3,428 thousand service contracts in the portfolio as of the end of the year. The new business volume of 976 thousand contracts was on a level of the prior-year figure (989).

Deposit Business and Borrowings

In terms of capital structure, the main liability items are the liabilities to customers of €19.0 billion (+57.8%) and the notes and commercial paper issued amounting to €25.1 billion (–13.3%). Further details on the funding and hedging strategy can be found in the management report in the sections Liquidity Analysis (page 11) and Funding (pages 11 and 12) and in the risk report within the disclosures on interest-rate risk (pages 32 and 33) and liquidity risk (pages 33 and 34).

Equity

The subscribed capital of Volkswagen Leasing GmbH remained unchanged at €76 million in fiscal year 2022. Equity in accordance with the IFRSs was €6.5 (4.6) billion. This resulted in an equity ratio (equity divided by total assets) of 12.0% based on total assets of €54.3 billion.

KEY FIGURES BY SEGMENT FOR FISCAL YEAR 2022

in thousands	Retail	Wholesale	Segments total	Reconciliation	Group
Current contracts	**2,259**	**3,067**	**5,326**	**–**	**5,326**
Leasing business	915	982	1,897	–	1,897
Services	1,343	2,085	3,428	–	3,428
New contracts	**703**	**911**	**1,613**	**–**	**1,613**
Leasing business	302	336	637	–	637
Services	401	575	976	–	976
€ million					
Loans to and receivables from customers attributable to					
Dealer financing	–	12	12	–	12
Leasing business	9,134	9,798	18,932	–	18,932
Lease assets	12,430	13,334	25,764	–	25,764
Investment[1]	4,777	5,313	10,090	–	10,090
Operating result	296	775	1,070	197	1,268

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

KEY FIGURES BY SEGMENT FOR FISCAL YEAR 2021

in thousands	Retail	Wholesale	Segements total	Reconciliation	Group
Current contracts	**2,224**	**2,965**	**5,189**	**–**	**5,189**
Leasing business	881	933	1,814	–	1,814
Service	1,343	2,032	3,375	–	3,375
New contracts	**706**	**929**	**1,635**	**–**	**1,635**
Leasing business	305	341	646	–	646
Service	401	588	989	–	989
€ million					
Loans to and receivables from customers attributable to					
Dealer financing	–	9	9	–	9
Leasing business	8,847	9,368	18,215	–	18,215
Lease assets	11,316	11,982	23,298	–	23,298
Investment[1]	5,133	5,734	10,867	–	10,867
Operating result	249	638	887	–142	745

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

Liquidity Analysis

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

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

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

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

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

REFINANCING

Strategic Principles

In terms of funding, Volkswagen 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 2022, Volkswagen Leasing GmbH did not issue any unsecured bonds as an issuer under Volkswagen Financial Services AG's debt issuance program.

In addition, Volkswagen Leasing GmbH was nevertheless 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:

ABSs

Originator	Transaction name	Month	Country	Volume and currency
Volkswagen Leasing GmbH, Braunschweig	VCL 35	March	Germany	EUR 1.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 36	June	Germany	EUR 750 million
Volkswagen Leasing GmbH, Braunschweig	VCL 37	November	Germany	EUR 1.0 billion

Volkswagen Leasing GmbH

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2022

Volkswagen Leasing GmbH reported a result from ordinary activities after tax amounting to a loss of €1,016 million for fiscal year 2022.

Lease income of €23,105 (21,438) million was offset by lease expenses of €11,652 (11,156) million.

Net fee and commission income of €–732 (–686) million is mainly comprised of closing commissions arising from lease business.

Other operating income came to €270 (430) million, with other operating expenses amounting to €266 (32) million. Other operating income included income from service fees from ABS transactions amounting to €162 million.

Other operating expenses included expenses arising from an additional payment from the commission model with VW Bank in the amount of €237 million.

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

Risk costs totaling €1,593 (596) million primarily included expenses arising from additions to provisions, in particular for the provisions for anticipated losses for derivatives with negative fair values.

The loss after tax of €1,016 million will be absorbed by Volkswagen Financial Services AG pursuant to the existing control and profit-and-loss transfer agreement.

Receivables from customers rose by €3,227 million (52.9%). The increase results primarily from the subordinated loan given to the ABS transaction.

Lease assets increased by 6.5% to €41,227 million. The change results from an increased vehicle inventory.

Liabilities to customers increased by €7,501 million (37.3%) to €27,603 million. This primarily results from increased liabilities to affiliated companies.

Commercial paper issued decreased by €3,785 million compared to the previous year (23.4%) to €12,417 million.

The increase in provisions of €1,103 million (108.6%) arose mainly from higher provisions for expected losses.

The equity ratio was 0.5% (0.6%). Total assets at the end of the reporting period amounted to €53,292 million.

NUMBER OF EMPLOYEES

Volkswagen Leasing GmbH does not use its own personnel for its operating activities in Germany. The employees are provided by Volkswagen Financial Services AG in return for a consideration. In addition, the Company had an annual average of 53 (68) salaried employees at its branches in Milan and Verona.

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

Volkswagen Leasing GmbH is integrated into the internal management concept of the Volkswagen Leasing Group. It is thus subject to the same key performance indicators and the same opportunities and risks as the Volkswagen Leasing Group. The legal requirements governing the management of Volkswagen Leasing GmbH as a legal entity are observed using key performance indicators such as penetration, operating result and return on equity. This internal management concept and these opportunities and risks are described in the section on the fundamental information about the Volkswagen Leasing GmbH Group (pages 1 – 3) as well as in the report on opportunities and risks (pages 18 – 37) of this annual report.

INCOME STATEMENT OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG, FOR FISCAL YEAR 2022

€ thousand				Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
1.	Lease income		23,104,557		21,437,751
2.	Leasing expenses		11,652,020		11,156,184
				11,452,537	10,281,567
3.	Interest income				
	b) From other activities				
	aa) Lending and money market transactions		142,249		46,816
4.	Interest expense				
	b) From other activities		713,886		575,120
	thereof: unwinding of discount on provisions		2,965		3,560
				–571,637	–528,304
5.	Fee and commission income				
	a) From payment services and the issuance of e-money		82		159
	b) From other activities		812		47,997
6.	Fee and commission expenses				
	b) From other activities		970,135		734,401
				–969,241	–686,245
7.	Other operating income				
	b) From other activities			270,277	430,418
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	123			226
	b) From other activities				
	aa) Personnel expenses				
	aaa) Wages and salaries	4,254			4,679
	bbb) Social security, post-employment and other employee benefit costs of which: for post-employment benefits €15 thousand	1,192			1,471
			5,569		6,376
	bb) Other administrative expenses		625,483		616,543
				631,052	622,919
10.	Depreciation, amortization and write-downs				
	a) Depreciation and write-downs of lease assets				
	ab) From other activities		9,257,708		8,655,690
	b) Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment				
	bb) From other activities		60,978		66,290
				9,318,686	8,721,980
11.	Other operating expenses				
	b) From other activities			28,430	31,527

€ thousand				Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
12.	Write-downs of and valuation allowances on receivables and additions to provisions in the leasing business				
	b) From other activities			1,592,874	596,315
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			349,716	294,716
14.	**Result from ordinary business activities**			**–1,039,331**	**–180,530**
	a) From payment services and the issuance of e-money			–41	–67
	b) From other activities			–1,039,290	–180,463
15.	Income tax expense			–23,386	61,280
	a) From payment services and the issuance of e-money			–1	23
	b) From other activities			–23,385	61,257
16.	Income from the absorption of losses			1,015,945	241,810
	a) From payment services and the issuance of e-money			42	–44
	b) From other activities			1,015,903	241,854
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**

BALANCE SHEET OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG, AS OF DECEMBER 31, 2022

€ thousand		Dec. 31, 2022	Dec. 31, 2021
Assets			
1. Loans to and Receivables from Banks			
b) From other activities			
aa) Repayable on demand	619,918		1,092,617
		619,918	1,092,617
2. Loans to and receivables from customers			
a) From payment services	0		0
aa) From fees and commissions	243		148
b) From other activities	8,311,091		6,100,611
		8,311,334	6,100,759
3. Lease assets			
aa) From other activities		41,227,096	38,700,324
4. Intangible fixed assets			
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	80,382		84,232
b) Prepayments	0		0
		80,382	84,232
5. Property and equipment			
a) Land and buildings			
ab) From other activities	25,961		32,771
b) Operating and office equipment			
ab) From other activities	481		767
		26,442	33,538
6. Other assets			
b) From other activities		1,987,780	817,404
7. Prepaid expenses and accrued income			
b) From other activities		1,038,696	818,143
8. Excess of plan assets over pension liability		0	0
Total assets		**53,291,648**	**47,647,017**

€ thousand		Dec. 31, 2022	Dec. 31, 2021
Equity and Liabilities			
1. Liabilities to banks			
b) From other activities			
aa) Repayable on demand	162		53
bb) With agreed maturity or notice period	0		0
		162	53
2. Liabilities to customers			
b) From other activities		27,603,478	20,102,328
3. Notes, commercial paper issued			
a) Bonds issued	10,978,686		14,752,276
b) Commercial paper	1,438,526		1,449,788
		12,417,212	16,202,064
4. Other liabilities			
b) From other activities		1,254,251	1,086,879
5. Prepaid expenses and accrued income			
b) From other activities		9,622,317	8,963,940
6. Provisions			
a) Provisions for pensions and other post-employment benefits			
bb) From other activities	1,114		1,355
b) Provisions for taxes			
bb) From other activities	35,619		28,614
c) Other provisions			
bb) From other activities	2,080,759		984,989
		2,117,492	1,014,958
7. Special tax-allowable reserve		824	883
8. Fund for general banking risks		6,000	6,000
9. Equity			
a) Subscribed capital	76,004		76,004
b) Capital reserves	193,259		193,259
c) Net retained profits	649		649
		269,912	269,912
Total equity and liabilities		**53,291,648**	**47,647,017**
1. Contingent liabilities			
Liability arising from the provision of collateral for third-party liabilities		74,953	66,703
2. Other obligations			
Irrevocable leasing commitments		11,267,767	8,429,212

Report on Opportunities and Risks

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

OPPORTUNITIES AND RISKS

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

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

Macroeconomic Opportunities and Risks

Global events such as the Russia–Ukraine conflict bring with them massive restrictions in all areas of society and economic life. In light of inflation trends, there could be a further dynamic increase in the respective interest rates in different currency areas. This can have a negative impact on consumption and investment at the same time. In the event that actual inflation and interest rates remain below expectations, this could result in opportunities for Volkswagen Leasing GmbH.

However, it is not possible to make a reliable assessment of the further development of individual economies and of the economy as a whole. The Management Board of Volkswagen Leasing GmbH predicts that deliveries to customers of the Volkswagen Group in Germany will exceed those of the previous year, although market conditions will remain challenging due, for example, to bottlenecks and delays in the global supply chains.

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

Strategic Opportunities and Risks

The innovation of sustainable products that are aligned with the altered requirements of customers offers opportunities for Volkswagen Leasing GmbH. This involves the development and expansion of new mobility and service products, which play a key role in shaping the future of an outstanding customer experience. Thanks to digital technologies and programs, digitalization of the business is progressing, strengthened by the expansion of digital sales channels.

The product mix – shaped by changes in customer behaviors, heightened regulation and constantly evolving technologies – must be regularly assessed and transformed to ensure competitiveness.

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

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

> The Management Board of Volkswagen Leasing GmbH is the governing body with responsibility for the executive management of the business. In this role, the Board has set up Accounting, Treasury, Compliance, Risk Management and Controlling units, each with clearly separate functions and clearly assigned areas of responsibility and authority, to ensure that accounting and financial reporting processes are carried out properly. The tasks of the treasury 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 accounting and measurement requirements have been put in place to ensure a standardized, proper and continuous financial reporting process in accordance with the International Financial Reporting Standards as well as the accounting provisions pursuant to the HGB in conjunction with the Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV – German Bank Accounting Regulation).
> The clear definition of areas of responsibility accompanied by various monitoring and review mechanisms ensures that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.
> These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT processing controls account for a significant proportion of the integrated process activities alongside manual process controls, such as double-checking by a second person. These controls are supplemented with specific Group-level functions at Volkswagen AG, 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 and the Board of Management of Volkswagen Financial Services AG.

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

ORGANIZATIONAL STRUCTURE OF THE RISK MANAGEMENT SYSTEM

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

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

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

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

In this role, the Management Board member concerned submits regular reports to the other members and to the sole shareholder, Volkswagen Financial Services AG, on the overall risk position of Volkswagen Leasing GmbH.

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

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

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

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

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

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

RISK CULTURE, RISK STRATEGY AND RISK MANAGEMENT

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

As part of this overall responsibility, the Management Board of Volkswagen Leasing GmbH has introduced a business and risk strategy within the meaning of MaRisk. The high-level 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.

During 2022, the MOBILITY2030 strategy was resolved as a successor to the ROUTE2025 strategy of Volkswagen Leasing GmbH.

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 sustainability risks into the risk management system. In this context, existing elements of the risk management control cycle are reviewed in stages and adjusted when necessary.

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 main categories of risk are then assessed as part of portfolio analyses regarding their influence on drivers of sustainability risk.

The risk inventory carried out for 2022 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk, direct residual value risk, market risk, liquidity risk and operational risk; it also concluded that business risk – which is not quantifiable and consists of earnings risk, reputational risk and strategic risk – should also be considered material. Indirect residual value risk was still classified as immaterial because it accounted for a low proportion of the overall risk. Other existing subcategories of risk are taken into account within the categories specified above.

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

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

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

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

The confidence level for determining risk-bearing capacity has been 99% since January 1, 2022. Moreover, in determining the aggregate risk cover, the net asset value of the contracted portfolio is taken into account and earnings risk is combined with strategic risk and reputational risk to make up business risk. Business risk is measured on the basis of an expert estimate.

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

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

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

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

As of December 31, 2022, the economic overall risk of Volkswagen Leasing GmbH stood at €3,700 million; it is attributable to the respective risk categories in the following proportions:

Risk categories (€ million)	Dec. 31, 2022	Dec. 31, 2021
Credit risk	1,727	867
Counterparty risk	58.0	16.0
Residual value risk	1,116.0	947.0
Market risk	379.0	32.0
Operational risk	142.0	95.0
Business risk	278.0	112.0
Total	3,700.0	2,069.0

As of December 31, 2022, the risk-taking potential amounted to €9.853 billion and consisted of the balance sheet equity including the current net income, adjusted for hidden reserves and liabilities. 38% of the risk-taking potential was utilized by the risks described above. In the period January 1, 2022 to December 31, 2022 the maximum utilization of risk-taking potential in accordance with MaRisk was 44%.

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. Moreover, stress tests or scenario analyses are carried out on an ad hoc basis to account for current developments of external factors.

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

RISK CONCENTRATIONS

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

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

> Just a few borrowers/contracts account for a large proportion of the loans (counterparty concentrations)
> A small number of sectors account for a large proportion of the loans (sector concentrations)
> Many of the loans are to businesses within a defined geographical area (regional concentrations)

- Loans/receivables are secured by just one type of collateral or by a limited range of collateral types (collateral concentrations)
- Residual values subject to risk are limited to a small number of vehicle segments or models (residual value concentrations), or
- Volkswagen Leasing GmbH's income is generated from just a few sources (income concentrations)

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

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

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

Collateral structure in %	Dec. 31, 2022	Dec. 31, 2021
Off-road vehicles and SUV's	38	33
Compact class	21	21
Medium class	14	16
Commercial/recreational vehicles	10	10
Upper mid-size	9	9
Small cars	4	4
Large-capacity vans	1	2
Other	3	5
Total	**100**	**100**

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

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

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

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

RISK REPORTING

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

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

NEW PRODUCT AND NEW MARKET PROCESS

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

MATERIAL RISK CATEGORIES AND RISK REPORTING

OVERVIEW OF RISK CATEGORIES

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

FINANCIAL RISKS

Counterparty Default Risk

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

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

Credit Risk

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

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

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

Risk identification and assessment

Leasing decisions at Volkswagen Leasing GmbH are made primarily on the basis of the lessee credit check. These credit checks use rating systems for risk-relevant customers (26%) or scoring systems for customers not relevant to risk (74%), which provide the respective departments with an objective basis for reaching a decision on the lease.

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

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

Rating systems in risk-relevant business

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

Scoring systems in non-risk-relevant business

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

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

System supervision and review

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

Collateral

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

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

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

Risk monitoring and control

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

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

Trends

In fiscal year 2022, the volume of receivables at Volkswagen Leasing GmbH continued to grow despite ongoing crises on the markets (residual effects of measures related to the coronavirus pandemic and the associated supply chain problems, the Russia–Ukraine conflict, the energy price crisis, massive inflation, etc.). This growth was mainly attributable to the established sales promotion programs and continuous expansion of the fleet business. In spite of the aforementioned difficult macroeconomic conditions, stable portfolio development could be observed, so the risk costs for Volkswagen Leasing GmbH's credit risk remained at a stable and moderate level. In light of the energy price crisis, more stringent purchasing regulations were concluded for energy-intensive sectors to reduce risk.

Counterparty Risk

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

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

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

Risk identification and assessment

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

Risk monitoring and control

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

On the basis of an outsourcing agreement, the Risk Management unit of Volkswagen Bank GmbH evaluates counter-party 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.

Residual Value Risk

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

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

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

Risk identification and assessment

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

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

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

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

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

Risk monitoring and control

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

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

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

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. The continued insufficient availability of new vehicles because of ongoing supply chain disruptions (e.g. semiconductor shortage) led to stronger demand for used vehicles in 2022 as well 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. With regard to the development of market risk, please refer to the following section on interest rate risk.

Interest Rate Risk

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

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

Risk identification and assessment

The present value of interest rate risk for Volkswagen Leasing GmbH is determined as part of the quarterly risk-bearing capacity process using the VaR method with a holding period of 365 calendar days and a confidence level of 99%. 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).

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

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

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

Risk monitoring and control

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

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

Trends

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

Liquidity Risk

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

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

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

Risk identification and assessment

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

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

Risk monitoring and control

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

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

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

Trends

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

NONFINANCIAL RISKS

Operational Risk

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

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

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

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

Risk identification and assessment

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

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

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

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

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

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

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

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

Trends
Actual operational losses and the resulting operational risks rose sharply in fiscal year 2022. The increase in the reporting year results from a provision for lease transactions from operating activities.

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, 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 Germany and Italy. Deviations from the minimum requirements or guidelines are only possible if accompanied by a description of the reasons (such as local statutory requirements) and only in consultation with, and with the consent of, the institution's compliance officer.

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

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

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

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

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

Business Risk

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. The risk subcategories of earnings risk, strategic risk and reputational risk have been defined as follows:

Earnings Risk

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

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

Strategic Risk

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

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

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

Reputational Risk

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

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

Model Risk

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

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

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

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

SUMMARY

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

In light of the energy price crisis, risk sectors have been identified and corresponding risk minimization measures (adjustment of purchase criteria) have been resolved.

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

While the situation still has a positive effect on residual value risk, stable development could be seen in credit risk.

The interest rate hikes in 2022 led to a sharp rise in market risk (interest rate risk), which Volkswagen Leasing GmbH actively counteracts via interest rate derivatives.

The risk-bearing capacity was assured at all times in 2022. Volkswagen Leasing GmbH does not believe that there are any risks to the continuation of the business as a going concern.

Human Resources Report

Mission HR: business driven – people focused.

EMPLOYEES

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, 2022, Volkswagen Leasing GmbH had 739 staff members (previous year: 966) in Germany. The reduction in staff at Volkswagen Leasing GmbH results from continuing restructuring measures within the VW FS Group.

There were 57 employees (previous year: 69) in Italy on December 31, 2022.

HUMAN RESOURCES STRATEGY AND STAFF DEVELOPMENT

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. Skilled, committed employees are the cornerstones of the success of the Company With its instruments and measures for staff development, high employee satisfaction and its long-term HR strategy as part of MOBILITY 2030, Volkswagen Financial Services AG constantly provides the human resources necessary, both in terms of quantity as well as quality, for the achievement of Volkswagen Leasing GmbH's strategic objectives.

Report on Expected Developments

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

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

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

Europe

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

Germany

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We anticipate that automotive financial services will prove highly important to global vehicle sales in 2023. The continuing shortages of intermediates and commodities may generate uncertainty, exacerbated by the fallout from the Russia-Ukraine conflict. We expect demand to rise in emerging markets where market penetration has so far been low. Regions with already established automotive financial services markets will probably see a continuation of the trend towards enabling mobility at the lowest possible total cost. We estimate that this trend will also persist in the years 2024 to 2027.

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

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

The trend in the automotive industry closely follows global economic developments. We assume that competition in the international automotive markets will intensify further. The continuing shortages of intermediates and commodities may generate uncertainty, exacerbated by the fallout from the Russia-Ukraine conflict, in particular, rising prices and declining availability of energy.

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2023. Overall, the global volume of new car sales is expected to be noticeably higher than in the previous year.

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

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.

Europe

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

For light commercial vehicles, we expect the volume of new registrations in Western Europe in 2023 to be strongly up on the previous year’s level. Limited vehicle availability as a result of the shortages of intermediates and commodities may continue to weigh on the volume of new registrations.

Germany

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

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

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

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

A significant increase in overall demand, with regional variations, is expected for 2023 in the bus markets relevant for the Volkswagen Group. We anticipate noticeable year-on-year market growth in the EU27+3 countries. Here, we are assuming that the coach segment will recover and that we will receive orders in the context of government-funded programs.

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

INTEREST RATE TRENDS

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

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

Interest rate trends are generally factored into pricing.

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

MOBILITY CONCEPTS

Social and political factors have an increasing impact on many people's individual mobility patterns. The importance of environmental and climate protection has grown strongly 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.

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.

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. Such marketing includes an attractive range of leasing services complemented by packages covering maintenance and wear-and-tear repairs. Those services plays a key role in the marketing of electric vehicles produced by the Volkswagen Group.

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

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

SUMMARY OF EXPECTED DEVELOPMENTS

Volkswagen Leasing GmbH expects its business growth in fiscal year 2023 to be linked to the growth in unit sales of Volkswagen Group vehicles.

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

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

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

Forecast for Credit Risk
As far as credit risk is concerned, it is anticipated that the risk situation will increase slightly in 2023 due to high inflation, in particular in the energy sector. In this context, the effects are strongly dependent on the further course of the Russia–Ukraine conflict with its consequences for the energy markets and the overall economic impact. The Company continues to monitor the risk situation closely so that it can respond proactively to any potential developments by initiating targeted corrective measures.

Forecast for Residual Value Risk
On account of the projected growth in business, we are anticipating an increase in overall risk. The residual value portfolio in 2023 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 supply chain disruptions (e.g. semiconductor shortage).

Forecast for Liquidity Risk
The risk trend is categorized as stable. In spite of the geopolitical uncertainties (Russia–Ukraine conflict, energy price crisis, among others), the established sources of funding are available. Funding diversification continues to be extended and existing sources of funding are being expanded.

Forecast for Operational Risk
Any change in operational risk going forward will generally be shaped by the growth in the Company's business. Due to the anticipated expansion of the business volume, operational risk is expected to rise in 2023.

OUTLOOK FOR 2023

Volkswagen Leasing GmbH's Management Board expects the global economy to grow at a slower pace in 2023.

Risks will arise first and foremost from the increased uncertainty caused by the Russia–Ukraine conflict, the continuation of limited vehicle ability as a result of the semiconductor shortage and high inflation. In addition, growth prospects will be hurt by further geopolitical tensions and conflicts.

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

Based on the effects described above and assuming that the margin in the coming year remains stable, the operating result for fiscal year 2023 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 fall slightly in the German market.

For the coming fiscal year, the Italian market is predicted to see a significant recovery in unit sales (deliveries to customers) and a significant rise in new leasing business. There will be significant growth in the number of existing contracts and moderate expansion in the service and insurance business. Due to increased refinancing costs accompanied by delayed deliveries and falling marketing results, a significant decline in the operating result is expected for 2023.

A significant rise in new leasing business is forecast for MAN Financial Services in the coming fiscal year due to the planned increase in deliveries to customers combined with an increased penetration rate.

Current contracts in financing products will increase and remain largely stable with regard to services. Due to increased refinancing costs, a significant decline in the operating result is expected for 2023.

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

	Actual 2022	Forecast for 2023	
Nonfinancial performance indicators			
Penetration (percent)	59.5	< 59,5	Slightly lower than in previous year
Current contracts (thousands)	1,897	> 1.897	Significantly up on previous year
New contracts (thousands)	637	> 637	Significantly up on previous year
Financial performance indicators			
Volume of business (€ million)	42,189	> 42.189	Significantly up on previous year
Operating result (€ million)	1,268	< 1.268	Substantially lower than in the previous year
Return on equity (percent)	23.0	< 23	Substantially lower than in the previous year
Cost/income ratio (percent)	43	> 43	Substantially up on previous year

Braunschweig, February 14, 2023
The Management Board

Armin Villinger

Hendrik Eggers

Manuela Voigt

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 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.

CONSOLIDATED FINANCIAL STATEMENTS

FURTHER INFORMATION

Income Statement

of the Volkswagen Leasing GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021	Change in percent
Interest income from cash and loans	4, 6, 45	28	15	83.3
Income from leasing transactions		11,748	10,737	9.4
Depreciation, impairment losses and other expenses from leasing transactions		–10,071	–9,517	5.8
Net income from leasing transactions	4, 6, 10 - 12, 16, 55	1,677	1,220	37.5
Interest expense	4, 6, 17, 45	–364	–241	51.5
Income from service contracts		1,733	1,513	14.6
Expenses from service contracts		–1,542	–1,370	12.5
Net income from service contracts	4, 18	191	143	33.8
Provision for credit risks	6, 19, 45	–33	88	X
Fee and commission income		1	28	–96.4
Fee and commission expenses		–77	–18	X
Net fee and commission result	4, 20	–76	9	X
Net gain or loss on hedges	6, 21	12	–14	X
Net gain/loss on financial instruments measured at fair value	6, 22, 45	421	41	X
General and administrative expenses	4, 8 - 11, 13, 14, 23	–624	–618	1.0
Other operating income		124	195	–36.4
Other operating expenses		–88	–93	–5.2
Net other operating income/expenses	4, 24	36	102	–64.8
Operating result		**1,268**	**746**	**70.0**
Other financial gains or losses		–1	–0	X
Profit before tax		**1,267**	**746**	**69.9**
Income tax expense	5, 25	–409	–205	99.1
Profit after tax		**859**	**541**	**58.9**
Profit after tax attributable to Volkswagen Financial Services AG	4, 6, 45	859	541	58.9

Statement of Comprehensive Income

of the Volkswagen Leasing GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 3!, 2021
Profit after tax		**859**	**541**
Items that will not be reclassified to profit or loss		**0**	**–0**
Items that may be reclassified to profit or loss		**–**	**–**
Other comprehensive income, net of tax		**0**	**–0**
Total comprehensive income		**859**	**540**
Total comprehensive income attributable to Volkswagen Financial Services AG		859	540

Balance Sheet

of the Volkswagen Leasing GmbH Group

€ million	Note	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021	Change in per-cent
Assets					
Loans to and receivables from banks	6, 26, 45 - 52	621	1,094	150	–43.3
Loans to and receivables from customers attributable to					
Dealer financing		12	9	9	28.5
Leasing business		18,932	18,215	19,182	3.9
Other loans and receivables		6,788	6,436	5,478	5.5
Total loans to and receivables from customers	6, 11, 27, 45 - 50, 52	25,732	24,660	24,669	4.3
Change in fair value from portfolio fair value hedges	7, 28	–123	–	–	X
Derivative financial instruments	6, 29, 45 - 49, 52 - 53	863	288	401	X
Intangible assets	8, 10	–	0	2	–100.0
Property and equipment	9 - 11	4	7	10	–39.6
Lease assets	10 - 11, 55	25,764	23,298	18,955	10.6
Investment property	10 - 12, 30, 55	25	6	7	X
Deferred tax assets	5, 31	64	223	290	–71.3
Current tax assets	5, 45 - 49	101	17	0	X
Other assets	11, 32, 45 - 49	1,197	1,064	1,556	12.5
Total	6, 26, 45 - 52	**54,249**	**50,659**	**46,039**	**7.1**

€ million	Note	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021	Change in per-cent
Equity and Liabilities					
Liabilities to banks	6, 34, 45 - 49, 51 - 52	0	1	0	X
Liabilities to customers	6, 34, 45 - 49, 51 - 52	18,962	12,017	12,168	57.8
Notes, commercial paper issued	6, 35 - 36, 45 - 49, 51 - 52	25,121	28,963	25,626	–13.3
Derivative financial instruments	6, 37, 45 - 49, 51 - 53	966	90	41	X
Provisions for pensions and other post-employment benefits	13	1	2	1	–39.3
Other provisions	14 - 15, 38	262	90	78	X
Deferred tax liabilities	5, 39	729	456	382	59.8
Current tax liabilities	5, 45 - 49	44	58	21	–23.6
Other liabilities	40, 45 - 49, 51	1,475	1,449	935	1.8
Subordinated capital	6, 36, 41, 45 - 49, 51	183	2,903	2,929	–93.7
Equity	43	6,506	4,631	3,858	40.5
Subscribed capital		76	76	76	–
Capital reserves		361	361	361	–
Retained earnings	6, 34, 45 - 49, 51 - 52	6,069	4,194	3,421	44.7
Total		**54,249**	**50,659**	**46,039**	**7.1**

Statement of Changes in Equity

of the Volkswagen Leasing GmbH Group

€ million	Subscribed capital	Capital reserves	Retained earnings	Total equity
As of Jan. 1, 2021	**76**	**361**	**3,421**	**3,858**
Profit after tax	–	–	541	541
Total comprehensive income	**–**	**–**	**540**	**540**
Loss assumed by Volkswagen AG	–	–	242	242
Other changes[1]	–	–	–9	–9
As of Dec. 30, 2021	**76**	**361**	**4,194**	**4,631**
As of Jan. 1, 2022	**76**	**361**	**4,194**	**4,631**
Profit after tax	–	–	859	859
Total comprehensive income	**–**	**–**	**859**	**859**
Profit transfer to Volkswagen Financial Services AG	–	–	1,016	1,016
Other changes[1]	–	–	–0	–0
As of Dec. 30, 2022	**76**	**361**	**6,069**	**6,506**

[1] Includes German GAAP (HGB) profit/loss attributable to Volkswagen Financial Services AG in the event of loss absorption/profit transfer.

Cash Flow Statement

of the Volkswagen Leasing GmbH Group

€ million	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
Profit before tax	**1,267**	**746**
Depreciation, amortization, impairment losses and reversals of impairment losses	3,484	3,088
Change in provisions	172	12
Change in other noncash items	301	162
Loss on disposal of financial assets and items of property and equipment	5	–0
Net interest expense and dividend income	–313	–359
Other adjustments	–	239
Change in loans to and receivables from banks	474	–944
Change in loans to and receivables from customers	–283	260
Change in lease assets	–5,987	–7,810
Change in other assets related to operating activities	–10	485
Change in liabilities to banks	–0	0
Change in liabilities to customers	6,947	–148
Change in notes, commercial paper issued	–3,842	3,337
Change in other liabilities related to operating activities	26	514
Interest received	677	599
Interest paid	–364	–241
Income taxes paid	–74	–42
Cash flows from operating activities	**2,478**	**–100**
Proceeds from disposal of other assets	0	1
Acquisition of other assets	–0	–0
Cash flows from investing activities	**0**	**0**
Proceeds from changes in capital	–	–
Loss assumed by Volkswagen Financial Services AG	242	128
Change in cash funds attributable to subordinated capital[1]	–2,720	–26
Repayment of liabilities arising from leases	–1	–3
Cash flows from financing activities	**–2,479**	**100**
Cash and cash equivalents at end of prior period	**–**	**–**
Cash flows from operating activities[1]	2,478	–100
Cash flows from investing activities	0	0
Cash flows from financing activities[1]	–2,479	100
Cash and cash equivalents at end of period	**–**	**–**

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

See note (56) for disclosures on the cash flow statement.

Notes to the Consolidated Financial Statements

of the Volkswagen Leasing GmbH Group as of December 31, 2022

General Information

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

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

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

Due to a modification in the refinancing of an existing ABS transaction in the first half of 2022, the parent company, Volkswagen Leasing GmbH, is now exposed to most of the risks and rewards of the special purpose entity affected by the modification, VCL Master Residual Value S.A., Luxembourg, and therefore exercises a controlling influence on the special purpose entity in accordance with section 290(2) no. 4 of the *Handelsgesetzbuch* (HGB – German Commercial Code). As a result, the parent company, Volkswagen Leasing GmbH, is required to prepare consolidated financial statements in accordance with section 290(1) of the HGB. The annual financial report as of December 31, 2022 have therefore been prepared as consolidated financial statements based on International Financial Reporting Standards in accordance with section 117(1) of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act).

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

Basis of Presentation

Volkswagen Leasing GmbH prepared consolidated financial statements in accordance with IFRS 1 for the first time as of December 31, 2022.

In compliance with the guidance of IFRS 1, the Volkswagen Leasing GmbH Group is applying IFRSs and the accounting policies based on these standards for the first time retrospectively as of the date of transition to IFRS-based reporting, January 1, 2021, and for all subsequent reporting periods presented. As Volkswagen Leasing GmbH became a first-time adopter of IFRSs later than its parent, Volkswagen Financial Services AG, the option provided by IFRS 1.D16 a) to retain the carrying amounts of assets and liabilities that would previously have been recognized without consolidation adjustments in the parent's consolidated financial statements has been applied.

The consolidated financial statements for the year ended December 31, 2022 were prepared accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315e(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code). All IFRSs issued by the International Accounting Standards Board (IASB) up to December 31, 2022 for which mandatory application was required in fiscal year 2022 in the EU have been taken into account in these consolidated financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the consolidated financial statements include the statement of changes in equity, the cash flow statement and notes. Items in the consolidated balance sheet are additionally presented as of the date of the retrospective first-time application of IFRSs as of January 1, 2021. The separate report on the risks associated with future development (risk report in accordance with section 315(1) of the HGB) can be found in the management report on pages 19 – 40. This includes the qualitative disclosures on the nature and scope of risk from financial instruments required under IFRS 7.

All the estimates and assumptions necessary as part of recognition and measurement in accordance with IFRS comply with the relevant standard, are continuously updated and are based on past experience and other factors, including expectations regarding future events that appear to be reasonable in the given circumstances. The assumptions made by the Company are explained in detail in the disclosures on management's material estimates and assumptions.

The Management Board completed the preparation of the consolidated financial statements on February 14, 2023 and released them for forwarding to the Audit Committee for information, for subsequent adoption by the Annual General Meeting and finally for publication. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Additional Disclosures as Part of the First-Time Publication of the Consolidated Financial Statements on the Basis of IFRSs

In previous publications, the annual financial statements of Volkswagen Leasing GmbH had been prepared in accordance with the provisions of the HGB 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). They will subsequently be referred to as HGB requirements. In prior periods, Volkswagen Leasing GmbH did not publish IFRS consolidated financial statements. However, in prior periods, consolidated reports of the consolidated companies were prepared for consolidation purposes on the basis of IFRSs for the consolidated financial statements of the higher-level parent companies, Volkswagen Financial Services AG and Volkswagen AG. Therefore, IFRS consolidated financial statements were already available for the consolidated companies of the Volkswagen Leasing GmbH Group and they formed the basis for the first-time preparation of the Volkswagen Leasing GmbH consolidated financial statements as of December 31, 2022 and provided prior-period comparable figures as of January 1, 2021 and December 31, 2021.

The main differences in accounting policies between the last annual financial statements prepared as of December 31, 2021 in accordance with HGB requirements and the first consolidated financial statements prepared as of December 31, 2022 in accordance with IFRS requirements are explained below. There is no quantitative reconciliation of items in financial statements as of previous balance sheet dates to the IFRS consolidated financial statements because there are no comparative financial statements for such a reconciliation, because there was no basis for preparing consolidated financial statements in accordance with HGB requirements as of previous balance sheet dates.

LEASING BUSINESS

Significant differences in recognition between the IFRS consolidated financial statements and the HGB annual financial statements result from the recognition of essentially all leases in the “Lease assets” balance sheet item in the HGB financial statements (HGB classification), compared with their recognition in the “Receivables from customers: leasing business” (finance leases) and “Lease assets” (operating leases) balance sheet items in the IFRS consolidated financial statements.

Other significant measurement differences between the IFRS consolidated financial statements and the HGB annual financial statements result from:

> The classification of leases, according to which most leases in the HGB financial statements are consistently recognized as nonfinancial assets, while in the IFRS financial statements they are recognized either as finance leases and therefore financial assets or as operating leases and therefore as nonfinancial assets, and measured in accordance with the appropriate accounting policy;

> Agency commissions, which in the HGB financial statements are recognized fully as direct expenses at the inception of the lease, while in the IFRS consolidated financial statements they are spread over the lease term through the effective interest rate of the finance lease receivables, or as initial direct costs of the lease assets in operating leases;

> Underlying depreciation and amortization periods, as in the HGB financial statements depreciation and amortization are carried out to a residual value of 0 based on normal useful lives due to tax requirements, and in the IFRS financial statements depreciation and amortization are carried out over the expected useful life to the expected residual value at the end of the useful life;

> Different policies for dealing with credit risk on financial assets, which entail the recognition of specific and global valuation allowances in the HGB financial statements, compared with allowances for expected credit losses in accordance with IFRS 9 in the IFRS financial statements.

BUY-BACK AGREEMENTS AND OTHER FINANCIAL ASSETS

Material differences between the IFRS consolidated financial statements and the HGB financial statements result from the fact that, in the latter, contracts with buy-back agreements are included in the lease assets item, whereas in the IFRS financial statements they are recognized as financial assets under other receivables from customers.

Material measurement differences between the IFRS consolidated financial statements and the HGB annual financial statements also result from different policies for dealing with credit risk on financial assets, which entail the recognition of specific and global valuation allowances in the HGB financial statements, compared with allowances for expected credit losses in accordance with IFRS 9 in the IFRS financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS

For derivative financial instruments, there are material recognition, measurement and disclosure differences between the IFRS consolidated financial statements and the HGB annual financial statements.

In the IFRS financial statements, derivative financial instruments are recognized either as free derivatives or derivatives in hedging relationships, measured at fair value through profit or loss and reported in the “Derivative financial instruments” balance sheet item with positive or negative fair values.

In the HGB financial statements, by contrast, only derivatives with negative fair values are reflected by recognizing them in provisions for anticipated losses. In addition, receivables/liabilities from interest payments for derivatives are recognized with positive and negative fair values in the HGB financial statements.

DEFERRED TAXES

In contrast to the HGB financial statements, in which deferred tax assets are not recognized, deferred tax assets and liabilities are recognized and subsequently measured in the IFRS consolidated financial statements in accordance with IAS 12.

HEDGE ACCOUNTING

The application of micro hedge accounting in accordance with IFRS 9 to hedge interest rate risks for corporate bonds issued results in valuation differences from hedge adjustments that are recognized in the IFRS financial statements under the “Notes, commercial paper issued” balance sheet item. Moreover, the use of portfolio hedge accounting pursuant to IAS 39 to hedge the risk of changes in the interest rates of hedged items on a portfolio basis (from finance lease receivables) results in valuation differences from changes in the hedged fair values of hedged items are recognized in the IFRS financial statements as the separate item “Change in fair value from portfolio fair value hedges”.

ASSET-BACKED SECURITIES

In the IFRS consolidated financial statements, ABS special purpose entities used by Volkswagen Leasing GmbH for refinancing purposes are consolidated as subsidiaries in accordance with IFRS 10. Prepaid expenses, deferred income and liabilities from transactions with ABS special purpose entities are recognized in the HGB single-entity financial statements, but eliminated as intercompany transactions in the IFRS consolidated financial statements. Restricted bank balances, notes, commercial paper issued and subordinated loans of ABS special purpose entities are recognized in the IFRS consolidated financial statements, but they are not presented in the HGB single-entity financial statements.

Effects of the Russia-Ukraine Conflict

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

Significantly higher interest rates led to, among other effects, a sharp increase in funding costs for the Volkswagen Leasing GmbH Group and also impacted the measurements of derivatives arranged for interest rate hedging in the reporting period.

The Volkswagen Leasing GmbH Group does not conduct any financial services activities in Russia or Ukraine.

Effects of New and Revised IFRSs

Volkswagen Leasing GmbH has applied all financial reporting standards adopted by the EU and subject to mandatory application from fiscal year 2022.

As of January 1, 2022, a number of regulations entered into effect as part of the 2020 improvements to the International Financial Reporting Standards (2020 annual improvements project). They include clarifications to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (Annual Improvements to IFRSs 2018-2020 Cycle). Since IAS 41 governs accounting in agriculture, these amendments to the standard do not have any effect on the Volkswagen Leasing GmbH Group. The change in IFRS 9 makes clear the fees that companies are to include when assessing whether the terms of a new or modified financial liability differ significantly from the terms of the original financial liability. An example regarding leasehold improvements was deleted from the Illustrative Examples for IFRS 16.

In addition, amendments were made to IAS 16, which must also be applied as from January 1, 2022. Accordingly, proceeds from the sale of property and equipment generated during the test phase will in future be recognized as income rather than deducted from the cost of the asset. The cost and proceeds for the manufacture of products during the testing phase of items of property and equipment will therefore have to be recognized separately under expenses and income.

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

Finally, an updated reference to the Conceptual Framework and clarifications were added in IFRS 3 to ensure that the existing accounting practice under IFRS 3 can in principle remain unchanged.

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

New and Revised IFRSs Not Applied

Volkswagen Leasing GmbH has not applied in its 2022 consolidated financial statements the following financial reporting standards that have already been issued by the IASB but were not yet subject to mandatory application in the year under review.

Standard / interpretation		Published by the IASB	Application requirement1	Adopted by EU	Expected impact
IFRS 16	Sale and Leaseback transactions	September 22, 2022	January 1, 2024	No	No material impact
IFRS 17	Insurance Contracts	May 18, 2017	January 1, 2023	Yes[2]	No impact
IFRS 17	Insurance Contracts – Amendments to IFRS 17	June 25, 2020	January 1, 2023	Yes[2]	No impact
IAS 1	Classification of liabilities	January 23, 2020	January 1, 2024	No	No material impact
IAS 1	Disclosure of accounting policies	February 12, 2021	January 1, 2023	Yes	Adjustment of the corresponding disclosures in the notes. Essentially no reproduction of the legal requirements.
IAS 1	Non-current Liabilities with covenants	October 31, 2022	January 1, 2024	No	No material impact
IAS 8	Definition of accounting estimates	February 12, 2021	January 1, 2023	Yes	No material impact
IAS 12	Deferred taxes on leases and decommissioning and restoration liabilities	May 7, 2021	January 1, 2023	Yes	No material impact

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

Accounting Policies

1. Basic Principles

All entities included in the basis of consolidation have prepared their annual financial statements as of the reporting date of December 31, 2022.

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

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

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

2. Basis of Consolidation

In addition to Volkswagen Leasing GmbH, the consolidated financial statements cover all international subsidiaries taking the form of structured entities that are controlled by Volkswagen Leasing GmbH. This is the case if Volkswagen Leasing GmbH has power over the entity, is exposed to or has rights to positive or negative variable returns from its involvement with the entity, and has the ability to use its power to influence those returns. In the case of the structured entities consolidated in the Volkswagen Leasing GmbH Group, Volkswagen Leasing GmbH holds no equity investment but nevertheless determines the main relevant activities remaining after the structure is created and thereby influences its own variable returns. The purpose of the structured entities is to facilitate asset-backed-securities transactions to fund the financial services business. The Volkswagen Leasing GmbH Group does not have any business relationships with unconsolidated structured entities.

Subsidiaries are included in the consolidation from the date on which control comes into existence; they cease to be consolidated when control no longer exists.

COMPOSITION OF THE VOLKSWAGEN LEASING GMBH GROUP

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

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

3. Consolidation Methods

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

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

In the consolidation, the recognition and measurement arising from the independence of the individual companies is adjusted such that they are then presented as if they belonged to a single economic unit. Loans/receivables, liabilities, income and expenses relating to business relationships between consolidated entities are eliminated in the consolidation. Intragroup transactions are conducted on an arm's-length basis. Any resulting intercompany profits or losses are eliminated. Consolidation transactions recognized in profit or loss are subject to the recognition of deferred taxes.

4. Recognition of Revenue and Expenses

Revenue and expenses are recognized in accordance with the accrual basis of accounting and are reported in profit or loss in the period in which the substance of the related transaction occurs.

Interest income is recognized in the income statement using the effective interest method. Income from financing activities is included in the interest income from bank balances and loans; leasing income is reported in the income statement under income from leasing transactions. The leasing revenue from operating lease contracts is recognized on a straight-line basis over the lease term.

Expenses relating to the funding of financing and leasing transactions are reported in interest expenses.

Gains from the sale of used ex-lease vehicles are recognized when the buyer has acquired title to the vehicle concerned. The gains are reported under income from leasing transactions. The expenses that are incurred in connection with the disposal of used ex-lease vehicles are recognized under depreciation, impairment losses and other expenses from leasing transactions.

In the case of service contracts, such as maintenance or inspection agreements, revenue is recognized on either a percentage-of-completion or straight-line basis, depending on the type of service performed. Percentage of completion is normally calculated by considering the services provided up to the reporting date as a proportion of the total anticipated services (output-based). If the customer pays for services in advance, the Group recognizes a corresponding contractual liability until the relevant service is performed.

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

In the Volkswagen Leasing GmbH Group, contract origination costs are capitalized and amortized on a straight-line basis over the term of the contract only if the underlying contract has a term of at least one year and these costs would not have been incurred if the contract concerned had not materialized. Contract origination costs that would have arisen even if the relevant contract had not been signed are expensed as incurred.

Fee and commission income for services at a particular point in time is recognized on the date of performance. In the case of services that are provided over a particular period of time, income is recognized at the reporting date according to the stage of completion.

Fee and commission expenses arising from financing-business sales commission that are not included through the effective interest rate for the underlying financial assets are expensed in full on the date of performance.

5. Income Taxes

Current income tax assets and liabilities are measured using the tax rates expected to apply in respect of the refund from or payment to the tax authorities concerned. Current income taxes are generally reported on an unnetted basis. Liabilities are recognized for potential tax risks using best estimates.

Deferred tax assets are generally recognized for deductible temporary differences between the carrying amounts in the consolidated balance sheet and those in the tax base, for tax loss carryforwards and for tax credits, provided it is anticipated that they can be used. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts in the consolidated balance sheet and those in the tax base (temporary concept).

These deferred tax assets and liabilities are recognized in the amount of the expected tax refund or expense in subsequent fiscal years on the basis of the tax rate expected to apply at the time the asset is recovered or the liability settled. Deferred tax assets are recognized if it is probable that in the future sufficient taxable profits will be generated in the same tax unit against which the deferred tax assets can be utilized. If it is no longer likely that it will be possible to recover deferred tax assets within a reasonable period, valuation allowances are applied.

Deferred tax assets and liabilities with the same maturities and relating to the same tax authorities are netted.

6. Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In the case of regular way purchases or sales, financial instruments are normally recognized on the settlement date, i.e. the date on which the asset is delivered. An exception to this rule arises in connection with the accounting treatment of derivatives, which are always recognized on the trade date.

Financial assets are classified and measured on the basis of the business model operated by an entity and the structure of its cash flows.

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

- Financial assets measured at fair value through profit or loss
- Financial assets measured at amortized cost

Financial liabilities are classified using the following categories:
- Financial liabilities measured at fair value through profit or loss, and
- Financial liabilities measured at amortized cost

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

The fair value option for financial assets and financial liabilities is not applied in the Volkswagen Leasing GmbH Group.

Financial assets and financial liabilities are generally reported with their unnetted gross values. Offsetting is only applied if, at the present time, the offsetting of the amounts is legally enforceable by the Volkswagen Leasing GmbH Group and there is an intention to settle on a net basis in practice.

CATEGORIES OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST AND OF FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST

Financial assets measured at amortized cost are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect" business model). The contractual cash flows of these financial assets consist solely of payments of principal and interest on the principal amount outstanding, such that the cash flow criterion is satisfied.
Financial liabilities are measured at amortized cost unless these liabilities are derivatives.
The amortized cost of a financial asset or financial liability is the amount:

> At which the financial asset or financial liability is measured on initial recognition
> Minus any repayments of principal
> Adjusted, in the case of financial assets, for any recognized valuation allowances, impairment losses due to uncollectibility, and
> Plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount (premium, discount) using the effective interest method.

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS CATEGORIES

Derivatives are measured at fair value through profit or loss.

In the case of these financial assets and liabilities, any changes in fair value are recognized in profit or loss.

LOANS AND RECEIVABLES

Loans to and receivables from banks, and loans to and receivables from customers, originated by the VW FS AG Group are recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates.

For reasons of materiality, non-interest-bearing current loans and receivables (due within one year) are not discounted and therefore no unwinding of discount is recognized.

Loans and receivables are generally derecognized when they are repaid or settled. There are no indications of derecognition for loans/receivables from ABS transactions carried out by the Group.

The accounting policies relating to receivables from customers attributable to the leasing business in the Volkswagen Leasing GmbH Group are described in note (11) Leases.

DERIVATIVES AND HEDGE ACCOUNTING

Derivative financial instruments comprise derivatives in effective hedges and derivatives not designated as hedging instruments. All derivatives are measured at fair value and are presented separately in notes (29) and (37).

The fair value is determined with the help of measurement software in IT systems using the discounted cash flow method and taking into account credit value adjustments and debt value adjustments.

In the Volkswagen Leasing GmbH Group, entities enter into derivative transactions solely for hedging purposes as part of the management of interest rate risk.

Derivatives are used as hedging instruments to hedge the fair values of assets and liabilities (referred to as hedged items). Hedge accounting in accordance with IFRS 9 is only applied in the case of hedges that can be demonstrated to be effective, both on designation and continuously thereafter. The Volkswagen Leasing GmbH Group documents all relationships between hedging instruments and hedged items.

When fair value hedges are applied, changes in the fair value of the derivative designated as the instrument used to hedge the fair value of a recognized asset or liability (hedged item) are recognized in profit or loss under net gain or loss on hedges. Changes in the fair value of the hedged item in connection with which the risk is being minimized are also reported in profit or loss under the same item. The effects in profit or loss from the changes in the fair value of the hedging instrument and the hedged item balance each other out depending on the extent of hedge effectiveness. Gains or losses arising from the ineffectiveness of fair value hedges are also recognized in gain or loss on hedges.

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

Changes in the fair values of derivatives that do not satisfy the IFRS 9 or IAS 39 criteria for hedge accounting and are therefore accounted for in the category of financial assets and financial liabilities measured at fair value through profit or loss are recognized in profit or loss under net gain or loss on financial instruments measured at fair value.

Interest income or interest expense related to derivatives is reported in the income statement item in which the interest income or interest expense related to the hedged item is presented.

PROVISION FOR CREDIT RISKS

The provision for credit risks, which is recognized in accordance with the expected credit loss model specified by IFRS 9 and in accordance with uniform standards applied throughout the Group, encompasses all financial assets measured at amortized cost, finance lease receivables and receivables related to payments due under operating leases that fall within the scope of IFRS 16. The provision for credit risks is generally determined on the basis of parameters, taking into account the exposure at default, the probability of default and the loss given default.

Financial assets are subject to credit risks, which are taken into account by recognizing valuation allowances in the amount of the expected loss; such valuation allowances are recognized for both financial assets with objective evidence of impairment and non-impaired financial assets. These allowances are posted to separate valuation allowance accounts.

The general approach is used for financial assets measured at amortized cost (with the exception of trade receivables) unless there is already objective evidence of impairment on initial recognition. Financial assets are broken down into three stages in the general approach. Stage 1 consists of financial assets that are being recognized for the first time or that have not demonstrated any significant increase in default risk since initial recognition. In this stage, the model requires the calculation of an expected credit loss for the next 12 months. Stage 2 consists of financial assets for which the risk of default has increased significantly since initial recognition. Financial assets demonstrating objective indications of impairment are allocated to Stage 3. In Stages 2 and 3, an expected credit loss is calculated for the entire remaining maturity of the asset.

In the case of financial assets already impaired on initial recognition and classified as Stage 4 for the purposes of the disclosures, the provision for credit risks is recognized in subsequent measurement on the basis of the cumulative changes in the expected credit loss for the entire life of the asset concerned. Any financial instrument classified as impaired on initial recognition remains in this stage until it is derecognized.

The provision for credit risks is calculated on the basis of the individual financial asset. The parameters required for this calculation are established by assessing portfolios in which individual financial assets of a similar type are brought together.

In the Volkswagen Leasing GmbH Group, the provision for credit risks relating to trade receivables and to operating and finance lease receivables accounted for in accordance with IFRS 16 is uniformly determined using the simplified approach. In the simplified approach, an expected loss is calculated for the entire remaining maturity of the asset. The valuation allowance for trade receivables is calculated according to the extent the receivable is past due using a valuation allowance table (provision matrix).

Both historical information, such as average historical default probabilities for each portfolio, and forward-looking information, such as macroeconomic factors and trends (e.g. rate of change for industrial production), linked to expected credit losses, are used to determine the measurement parameters for calculating the provision for credit risks. To model the measurement parameters, calculations are carried out for various probability-weighted scenarios using macroeconomic factors.

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

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

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

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

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

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

MODIFICATIONS

Modifications falling within the scope of IFRS 9 are adjustments of an individual financial instrument or finance lease in which the provisions of IFRS 9 must be applied in accordance with IFRS 16.80(b) and in which the nature, amount and/or timing of the contractual cash flows from the contract are modified. They can be caused by credit rating or market factors. If modified cash flows arise in connection with financial assets or financial liabilities, an assessment must be carried out to establish whether the modification is significant or not. The significance of a modification is assessed from both a qualitative perspective (e.g. change in cash flow currency, adjustment in subordination, switch from fixed to variable interest rate) and a quantitative perspective. As a quantitative guideline, the Volkswagen Leasing GmbH Group deems any variation in the discounted cash flows for a financial asset or a financial liability of more than 10% to be significant.

If a modification is significant, the financial asset or financial liability concerned must be derecognized and the modified contract recognized as a new financial asset or financial liability at fair value, taking into account a new effective interest rate. In the case of financial assets that are credit-impaired when purchased or originated and thereby allocated to Stage 4 (POCI assets), a credit-adjusted effective interest rate is applied. Financial assets that are not posted as credit-impaired as part of a significant modification and are subject to the general approach are allocated to Stage 1; in subsequent measurement, they are allocated to Stage 2 if a significant increase in credit risk is determined in connection with the modification.

If a modification is not significant, the gross carrying amount of the financial asset or financial liability must be adjusted such that the gross carrying amount after modification reflects the modified cash flows discounted with the original effective interest rate, including all the costs incurred as a result of the modification of the agreement. The old financial asset or financial liability is therefore not derecognized and there is no recognition of a new asset or liability. The difference between the gross carrying amount before and after modification is the modification gain or loss. If a significant increase in credit risk is determined as part of a non-significant modification of a financial asset subject to the general approach, the asset is allocated to Stage 2.

LIABILITIES

Liabilities to banks and customers (note 34), notes and commercial paper issued (note 35), and subordinated capital liabilities (note 41) are recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss.

For reasons of materiality, discounting or unwinding of discounting is not applied to non-interest-bearing current liabilities (due within one year). They are therefore recognized at their repayment or settlement value.

7. Change in Fair Value from Portfolio Fair Value Hedges

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

8. Intangible Assets

Purchased intangible assets are recognized at cost and – provided they have a finite useful life – amortized on a straight-line basis over their useful lives. These assets mainly consist of software, which is generally amortized over three or five years.

At every reporting date, intangible assets with finite useful lives are tested to establish whether there are any indications of impairment. An appropriate impairment loss is recognized if a comparison shows that the recoverable amount for the asset is lower than its carrying amount.

9. Property and Equipment

Property and equipment (land and buildings plus operating and office equipment) is reported at cost less depreciation and, if necessary, any impairment losses. Depreciation is applied on a straight-line basis over the estimated useful life. Useful lives are reviewed at every reporting date and adjusted where appropriate.

Depreciation is based mainly on the following useful lives:

Property and equipment	Useful lives
Buildings and property facilities	10 to 50 years
Operating and office equipment	3 to 15 years

An impairment loss is recognized in accordance with IAS 36 if the recoverable amount of the asset concerned has fallen below its carrying value (see note 10).

Depreciation expense and impairment losses are reported within general and administrative expenses. Income from the reversal of impairment losses is recognized in net other operating income/expenses.

10. Impairment of Nonfinancial Assets

Assets subject to depreciation and amortization are tested for impairment if relevant events or changes in circumstances indicate that the recoverable amount of the asset concerned is lower than its carrying amount.

An impairment loss is recognized when the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and fair value less value in use. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties. The value in use is defined as the net present value of future cash flows expected to be derived from the asset.

If the reasons for the recognition of an impairment loss in prior years now no longer apply, an appropriate reversal of the impairment loss is recognized.

11. Leases

The Volkswagen Leasing GmbH Group accounts for leases in accordance with IFRS 16. This standard defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

GROUP AS LESSOR

The Volkswagen Leasing GmbH Group conducts both finance lease and operating lease business. The leases are mainly vehicle leases, but to a lesser extent also involve land, buildings and dealer equipment. The accounting treatment of a lease is based on whether the lease is classified as a finance lease or an operating lease. The classification is determined according to the distribution of the risks and rewards associated with ownership of the leased asset.

Lease income and lease expenses that the Group generates or incurs as a lessor are recognized under income from leasing transactions and depreciation, impairment losses and other expenses from leasing transactions in the income statement and are explained in note (16) Net Income from Leasing Transactions. Net income from leasing transactions largely consists of the following components: revenue from operating leases, interest income from finance leases, gains and expenses from the disposal of used ex-lease vehicles, net interest income/expense from derivatives used for hedging of finance leases, and depreciation and impairment losses in respect of lease assets. Interest income from finance leases includes the effects arising from the amortization of changes in fair value recognized for hedged items (changes in hedged fair value) resulting from finance lease receivables in portfolio fair value hedge accounting.

A finance lease is a lease that transfers substantial risks and rewards to the lessee. Where residual value guarantees are agreed, residual value risks are passed to the residual value guarantor. In the consolidated balance sheet, receivables from finance leases are reported within loans to and receivables from customers and the net investment in the lease generally equates to the cost of the lease asset. Interest income from these transactions is reported under leasing income in the income statement. The interest paid by the customer is allocated so as to produce a constant periodic rate of interest on the remaining balance of the lease receivable. The net interest income or expense from derivatives held for interest rate hedging in connection with some of the finance lease receivables is recognized under income from leasing transactions. This net interest income or expense from derivatives is reported within the income from leasing transactions in order to present hedged interest income from finance leases, including the net interest income or expense from derivatives held for interest rate hedging, as it accrues to the Volkswagen Leasing GmbH Group.

In the case of operating leases, the substantial risks and rewards related to the leased asset remain with the lessor. In this case, the assets involved are reported in a separate “Lease assets” item in the balance sheet, measured at cost and reduced by straight-line depreciation over the lease term to the calculated residual carrying amount. Any impairment identified as a result of an impairment test in accordance with IAS 36 in which the recoverable amount (normally the value in use) is found to have fallen below the carrying amount is taken into account by recognizing an impairment loss. Generally, future depreciation rates are adjusted as a consequence of impairment. If the reasons for the recognition of an impairment loss in prior years no longer apply, a reversal of the impairment loss is recognized. Depreciation and impairment losses are reported under depreciation, impairment losses and other expenses from leasing transactions. Reversals of impairment losses are included in income from leasing transactions. Leasing revenue is recognized on a straight-line basis over the lease term and is reported in income from leasing transactions.

Where the Volkswagen Leasing GmbH Group is a lessor, one of the ways in which it counters the risks arising in connection with the underlying leased assets (mainly vehicles) is to take into account residual value guarantees received for parts of the lease portfolio and to include residual value forecasts on the basis of internal and external information within residual value management. Residual value forecasts are regularly verified by a process of backtesting.

The Volkswagen Leasing GmbH Group takes full account of the credit risk arising in connection with lease receivables by recognizing loss allowances in accordance with the provisions specified in IFRS 9.

The accounting policies covering loss allowances for the credit risk on lease receivables are included in note (6) Financial Instruments in the subsection addressing the provision for credit risks.

GROUP AS LESSEE

Where the Volkswagen Leasing GmbH Group is a party to leases as a lessee, the Group generally recognizes a right-of-use asset and a lease liability in its balance sheet. At the Volkswagen Leasing GmbH Group, the lease liability is measured at the present value of the outstanding lease payments, whereas the right-of-use asset is generally measured at the amount of the lease liability plus any direct costs.

The right-of-use asset is depreciated on a straight-line basis over the term of the lease. The depreciation expense is reported under general and administrative expenses. The allocation of the depreciation amounts for right-of-use assets to the categories “Right of use on land, land rights and buildings incl. buildings on third party land” and “Right of use on other equipment, operating and office equipment” is shown in note (55) Leases. In the subsequent measurement of the lease liability, the carrying amount is updated using the effective interest method and taking into account the lease payments made. The interest expenses arising from the application of the effective interest method are reported under interest expenses in the income statement.

The right-of-use assets recognized in the balance sheet are reported under those line items in which the lease’s underlying assets would have been reported if these assets had been in the beneficial ownership of the Volkswagen Leasing GmbH Group. The right-of-use assets are therefore reported as of the reporting date under property and equipment and included in the impairment tests for property and equipment carried out in accordance with the requirements of IAS 36.

Lease liabilities are carried at the present value of the lease payments.

Exemptions are provided for short-term leases and leases in which the underlying asset is of low value. The Volkswagen Leasing GmbH Group has elected to apply these exemptions and therefore does not recognize any right-of-use asset or lease liability for such leases. The associated lease payments are recognized as an expense under general and administrative expenses in the income statement. A lease is treated as a lease in which the underlying asset is of low value if the value of the underlying asset when new is no more than €5,000. The accounting requirements specified in IFRS 16 are not applied to leases for intangible assets either.

Leases may include extension or termination options. When determining the lease term, all relevant facts and circumstances that create an economic incentive for the lessee to exercise an option to extend the lease, or not to exercise an option to terminate the lease, must be taken into account. Periods covered by options are taken into account when determining the lease term if the lessee is reasonably certain to exercise an option to extend the lease or reasonably certain not to exercise an option to terminate the lease.

BUYBACK TRANSACTIONS

The Volkswagen Leasing GmbH Group enters into vehicle purchase contracts in which there is a fixed buyback agreement with the vehicle sellers, who are entities in the Volkswagen Group. Ultimately, these contracts entitle the Group solely to use the vehicles during an agreed timeframe, the contracts being accounted for as leases. The Group is the lessee in the primary lease and uses the vehicles made available under the lease to conduct leasing business with customers. The leases with customers are treated as subleases linked to the right of use received for the period of use and are classified as finance leases or operating leases according to the classification criteria. The vast majority of buyback transactions are classified as finance leases and the values arising from the transfer of the right of use are consequently presented as receivables from finance leases in the balance sheet. To a lesser extent, some transactions are classified as operating leases and the values arising from the transfer the right of use are thus in this case accounted for as lease assets.

In connection with buyback transactions, buyback receivables are also recognized under loans to and receivables from customers within other loans and receivables in the amount of the buyback values agreed at the inception of the lease. In the case of noncurrent leases (maturity of more than one year), the agreed buyback value is discounted at the inception of the lease. The unwinding of the discount during the term of the lease is recognized in interest income.

12. Investment Property

Land and buildings held to earn rentals are reported under the “Investment property” item in the balance sheet and measured at amortized cost. The fair values disclosed in the notes are determined by discounting the estimated future cash flows using the relevant long-term market discount rate. Depreciation is applied on a straight-line basis over useful lives of nine to 33 years. Any impairment identified as a result of an impairment test in accordance with IAS 36 is taken into account by recognizing an impairment loss.

13. Provisions for Pensions and Other Post-Employment Benefits

Provisions are recognized for commitments in the form of retirement, invalidity and surviving dependants’ benefits payable under pension plans.

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

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

The pension provisions for defined benefit commitments are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19. This means that the future obligations are measured on the basis of the proportionate benefit entitlements earned as of the reporting date. The measurement of pension provisions takes into account actuarial assumptions regarding discount rates, salary and pension trends, life expectancy and employee turnover rates, which are determined for each Group company depending on the economic environment. Actuarial gains or losses arise from differences between actual trends and prior-year assumptions as well as from changes in assumptions. These gains and losses are recognized in the period in which they arise in other comprehensive income (taking into account deferred taxes) and have no impact on profit or loss.

14. Other Provisions

Under IAS 37, provisions are recognized if a present legal or constructive obligation to a third party has arisen as a result of a past event, it is probable that settlement in the future will result in an outflow of resources embodying economic benefits and the amount of the obligation can be estimated reliably. If an outflow of resources is neither probable nor improbable, the amount concerned is deemed to be a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed.

Provisions for litigation and legal risks are recognized and measured using assumptions about the probability of an unfavorable outcome and the amount of possible utilization.

Income from the reversal of other provisions is generally recognized in the income statement item or net income item in which the associated expense was recognized in previous fiscal years.

Provisions not related to an outflow of resources likely to take place in the subsequent year are recognized at their settlement amount discounted to the reporting date using market discount rates. An average discount rate of 3.16% (previous year: –0.04%) has been used in the reporting period. The settlement amount also includes expected cost increases.

Any rights of recourse are not offset against provisions.

15. Estimates and Assumptions by Management

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the recognition and measurement of assets, liabilities, income and expenses, and disclosures relating to contingent assets and liabilities for the reporting period.

Assumptions and estimates are based on the latest available information. The circumstances prevailing at the time the consolidated financial statements are prepared and future trends in the global and sector environment considered to be realistic are taken into account in the projected future performance of the business. The estimates and assumptions used by management have been made, in particular, on the basis of assumptions relating to macroeconomic trends as well as trends in automotive markets, financial markets and the legal framework.

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

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

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

As future business performance is subject to unknown factors that, in part, lie outside the control of the Group, assumptions and estimates continue to be subject to considerable uncertainty. If changes in parameters are different from the assumptions and beyond any influence that can be exercised by management, the amounts actually arising could differ from the estimated values originally forecast. If actual performance varies with the forecasts, the assumptions and, where necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

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

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

The assumptions and estimates largely relate to the items set out below.

RECOVERABLE AMOUNT OF LEASE ASSETS

The recoverable amount of leased assets in the Group mainly depends on the residual value of the leased vehicles when the leases expire because this value represents a considerable proportion of the expected cash inflows. Continuously updated internal and external information on trends in residual values – based on particular local circumstances and empirical values from the marketing of used vehicles – is factored into the forecasts of residual values for leased vehicles. These forecasts require the Group to make assumptions, primarily in relation to future supply and demand for vehicles and in relation to trends in vehicle prices. These assumptions are based on either professional estimates or information published by third-party experts. The professional estimates are based on external data (where available), taking into account any additional information available internally, such as values from past experience and current sales data. Forecasts and assumptions are regularly verified by a process of backtesting.

FINANCIAL INSTRUMENTS

The procedure for determining the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. These estimates take into account the latest market data as well as rating classes and scoring information based on experience combined with forward-looking parameters. Further information on determining valuation allowances can be found in the disclosures on the provision for credit risks (note 6).

Management estimates are necessary to determine the fair value of financial instruments. This relates to both fair value as a measurement standard in the balance sheet and fair value in the context of disclosures in the notes. Fair value measurements are categorized into a three-level hierarchy depending on the type of inputs used in the valuation technique and each level requires different management estimates. Fair values in Level 1 are based on prices quoted in active markets. Management assessments in this case relate to determining the primary or most advantageous market. Level 2 fair values are measured on the basis of observable market data using market-based valuation techniques. Management decisions for this level relate to selecting generally accepted, standard industry models and specifying the market in which the relevant input factors are observable. Level 3 fair values are determined with recognized valuation techniques relying on some inputs that cannot be observed in an active market. Management judgment is required in this case when selecting the valuation techniques and determining the inputs to be used. These inputs are developed using the best available information. If the Company uses its own data, it applies appropriate adjustments to best reflect market conditions.

INCOME FROM SERVICE CONTRACTS

The calculation of contractual service rates in service contracts is subject to assumptions about expenses during the term of contracts; these assumptions are based on past experience. The parameters used in the calculation of contractual service rates are regularly reviewed. During the term of contracts, income from service contracts is recognized on the basis of expenses incurred, plus a margin derived from the contractual service rates.

PROVISIONS

The recognition and measurement of provisions is also based on assumptions about the probability that future events will occur and the amounts involved, together with an estimation of the discount rate. Again, experience or reports from external experts are used as much as possible.

The measurement of pension provisions is based on actuarial assumptions regarding discount rates, salary and pension trends, and employee turnover rates, which are determined depending on the economic environment.

In the case of other provisions, expected values are used as the basis for measurement, which means that changes are made on a regular basis, involving either additions to the provisions or the reversal of unused provisions. Changes in the estimates of the amounts for other provisions are always recognized in profit or loss. The recognition and measurement of provisions for litigation and legal risks included within other provisions requires predictions with regard to decisions to be made by the courts and the outcome of legal proceedings. Each case is individually assessed on its merits based on developments in the proceedings, the company's past experience in comparable situations and evaluations made by experts and lawyers.

DEFERRED TAX ASSETS AND UNCERTAIN INCOME TAX ITEMS

When determining deferred tax assets, there is a need to make assumptions about future taxable income and the timings for any recovery of the deferred tax assets. The measurement of deferred tax assets for tax loss carryforwards is generally based on future taxable income within a planning horizon of five fiscal years.

Tax liabilities are recognized for potential retrospective tax payments in the future; other liabilities are recognized for any additional tax costs incurred in this regard.

The entities in the Volkswagen Leasing GmbH Group operate in Germany and abroad and are audited on an ongoing basis by the local tax authorities. Changes to tax legislation, decisions by the courts and their interpretation by the tax authorities in the countries concerned could give rise to tax payments that are different from the estimates made in the financial statements.

The assessment of uncertain tax exposures is based on the most likely figure if the risk were to materialize. The Volkswagen Leasing GmbH Group makes a decision on a case-by-case basis as to whether to account for several tax uncertainties individually or in groups, depending on which approach better serves to predict whether the tax risk will materialize.

The pricing of individual services is particularly complex in contracts for cross-border intragroup services because, in many cases, there are no observable market prices or the application of market prices for similar services is subject to some uncertainty because the services are not comparable. In such cases – and for tax purposes – the pricing is determined using uniform measurement methods applied in generally accepted business practice.

Actual figures may differ from the original estimates if the circumstances differ from the assumptions made in the estimates.

Income Statement Disclosures

16. Net Income From the Leasing Business

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

€ million	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
Leasing income from operating leases	4,574	4,018
Interest income from finance leases	633	605
Gains from the disposal of used ex-lease vehicles	6,179	5,825
Net interest income/expense from finance lease hedging derivatives	16	–21
Miscellaneous income from leasing transactions	346	310
Income from leasing transactions	11,748	10,737
Lease assets depreciation and impairment losses	–3,587	–3,324
Expenses from the disposal of used ex-lease vehicles	–5,557	–5,562
Miscellaneous expenses from leasing transactions	–927	–630
Depreciation, impairment losses and other expenses from leasing transactions	–10,071	–9,517
Total	**1,677**	**1,220**

17. Interest Expense

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

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

18. Net Income from Service Contracts

Of the total income recognized for service contracts, an amount of €1,380 million (previous year: €1,182 million) related to service contracts requiring the recognition of income at a specific time, and €354 million (previous year: €331 million) related to service contracts requiring the recognition of income over a period of time.

Of the income from service contracts recognized in the reporting period, income of €616 million had been included in the contractual liabilities for service contracts as of January 1, 2022. Of the income recognized in the prior year, income of €401 million had been included in the contractual liabilities for service contracts as of January 1, 2021.

19. Provision for Credit Risks

The provision for credit risks relates to the following balance sheet items: loans to and receivables from banks, loans to and receivables from customers and other assets.

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

€ million	2022	2021
Additions to provision for credit risks	–201	–147
Reversals of provision for credit risks	190	273
Direct write-offs	–39	–57
Income from loans and receivables previously written off	18	17
Net gain or loss from significant modifications	–	0
Total	**–33**	**88**

20. Net Fee and Commission Expense

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

€ million	2022	2021
Fee and commission income	1	28
Fee and commission expenses	–77	–18
Total	**–76**	**9**

21. Net Gain or Loss on Hedges

The “Net gain or loss on hedges” item comprises gains and losses arising from the fair value measurement of hedging instruments and hedged items.

The details of the gains and losses are as follows:

€ million	2022	2021
Fair value hedges		
Gains/losses from micro fair value hedges		
Gains/losses on hedging instruments	–829	–211
Gains/losses on hedged items	842	197
Gains/losses from micro fair value hedges	13	–14
of which ineffectiveness of mircro fair value hedges	13	–14
Gains/losses from portfolio fair value hedges		
Gains/losses on hedging instruments	141	–
Gains/losses on hedged items	–142	–
Gains/losses from portfolio fair value hedges	–2	–
of which ineffectiveness of portfolio fair value hedges	–2	–
Total	**12**	**–14**

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

This item includes the net gains on derivatives not designated as hedging instruments in the amount of €421 million (previous year: €41 million). Gains and losses arising from changes in the fair value of derivatives that do not satisfy the requirements of IFRS 9 for micro hedge accounting or those of IAS 39 for portfolio hedging are recognized under gains and losses on derivatives not designated as hedging instruments.

23. General and Administrative Expenses

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

€ million	2022	2021
Personnel expenses	–5	–6
Non-staff operating expenses	–610	–598
Advertising, public relations and sales promotion expenses	–8	–10
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–1	–3
Other taxes	–0	–1
Income from the reversal of provisions and accrued liabilities	0	–
Total	**–624**	**–618**

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

Non-staff operating expenses largely consist of expenses for services allocated by companies of the Volkswagen Group in the amount of €608 million (previous year: €596 million).

In accordance with the requirements specified in section 314(1) no. 9 of the HGB, the general and administrative expenses include the total fees charged in the reporting year by the auditor of the consolidated financial statements Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, as shown in the following table.

€ million	2022	2021
Financial statement audit services	1	1
Other attestation services	0	0
Other services	0	–
Total	**1**	**1**

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

24. Net Other Operating Income/Expenses

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

€ million	2022	2021
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	0	0
Income from cost allocations to other entities in the Volkswagen Group	30	30
Income from the reversal of provisions and accrued liabilities	28	27
Income from claims for damages	29	29
Income from non-significant modifications	2	2
Miscellaneous operating income	35	107
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	–0	–0
Litigation and legal risk expenses	–64	–31
Expenses from non-significant modifications	–1	–1
Miscellaneous operating expenses	–23	–61
Total	**36**	**102**

25. Income Tax Expense

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

The components of the income tax expense are as follows:

€ million	2022	2021
Current tax income/expense, Germany	–61	29
Current tax income/expense, foreign	38	32
Current income tax expense	**–23**	**61**
of which income (–)/expense (+) related to prior periods	2	4
Deferred tax income (–)/expense (+), Germany	441	164
Deferred tax income (–)/expense (+), foreign	–9	–20
Deferred tax income (–)/expense (+)	**432**	**144**
Income tax expense	**409**	**205**

The reported tax expense in 2022 of €409 million (previous year: €205 million) is €29 million higher (previous year: €19 million lower) than the expected tax expense of €380 million (previous year: €224 million) calculated by applying the tax rate of 30.0% (previous year: 30.0%) to the consolidated profit before tax.

The following reconciliation shows the relationship between the income tax expense and the profit before tax for the reporting period:

€ million	2022	2021
Profit before tax	1,267	746
multiplied by the domestic income tax rate of 30.0 % (previous year: 30.0 %)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**–380**	**–224**
+ Effects from different foreign tax rates	–1	–2
+ Effects from tax-exempt income	1	2
+ Effects from non-deductible operating expenses	–16	–2
+ Effects from loss carryforwards	–	–
+ Effects from permanent differences	–	–
+ Effects from tax credits	–	–
+ Taxes attributable to prior periods	–18	14
+ Effects from changes in tax rates	–	–
+ Effects from non-deductible withholding taxes	–	–
+ Other variances	5	7
= Current income tax expense	**–409**	**–205**
Effective tax rate in %	32	27.5

The statutory corporation tax rate in Germany for the 2022 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.99%.

In the German tax group, a tax rate of 30.0% (previous year: 30.0%) was used to measure deferred taxes.

The Group has recognized deferred tax assets of €0 million (previous year: €0 million) against which there are no deferred tax liabilities in an equivalent amount. The companies involved are expecting to generate profits in the future following losses in the reporting or in the prior period.

Balance Sheet Disclosures

26. Loans to and Receivables from Banks

Loans to and receivables from banks include bank balances in the amount of €175 million (Dec. 31, 2021: €57 million/Jan. 1, 2021: €86 million).

27. Loans to and Receivables from Customers

The “Loans to and receivables from customers” item includes deductions arising from the provision for credit risks recognized to cover the expected credit risk. The provision for credit risks is presented in note (50).

Receivables from leasing transactions include receivables from finance leases and receivables due in connection with lease assets. The other loans and receivables largely consist of loans and receivables from entities within the Volkswagen Group and receivables from leasing transactions with a buyback agreement.

Leasing business receivables include due receivables amounting to €330 million (Dec. 31, 2021: €273 million/Jan. 1; 2021: €302 million).

As of the reporting date, receivables from operating leases amounted to €227 million (Dec. 31, 2021: €186 million/Jan. 1; 2021: €200 million).

28. Change in Fair Value from Portfolio Fair Value Hedges

This assets-side line item on the balance sheet recognizes changes in the hedged fair value in relation to the hedged interest rate risk for the hedged items covered by portfolio fair value hedge accounting in the amount of €–123 million (Dec. 31, 2021: €– million/Jan. 1; 2021: €– million).

29. Derivative Financial Instruments

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

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Transactions to hedge against			
interest-rate risk using fair value hedges	515	224	376
of which hedges against interest-rate risk using portfolio fair value hedges	501	–	–
Hedging transactions	**515**	**224**	**376**
Assets arising from derivatives not designated as hedges	349	64	26
Total	**863**	**288**	**401**

30. Investment Property

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

€ million	Investment property
Cost as of Jan. 1, 2022	**11**
Additions	0
Reclassifications	40
Disposals	10
Balance as of Dec. 31, 2022	**41**
Depreciation and impairment losses as of Jan. 1, 2022	**5**
Additions to cumulative depreciation	1
Additions to cumulative impairment losses	–
Reclassifications	15
Disposals	4
Balance as of Dec. 31, 2022	**16**
Net carrying amount as of Dec. 31, 2022	**25**
Net carrying amount as of Jan. 1, 2022	**6**

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

€ million	Investment property
Cost as of Jan. 1, 2021	**11**
Additions	–
Reclassifications	–
Disposals	–
Balance as of Dec. 31, 2021	**11**
Depreciation and impairment losses as of Jan. 1, 2022	**4**
Additions to cumulative depreciation	0
Additions to cumulative impairment losses	–
Reclassifications	–
Disposals	–
Balance as of Dec. 31, 2021	**5**
Net carrying amount as of Dec. 31, 2021	**6**
Net carrying amount as of Jan. 1, 2021	**7**

The fair value of investment property amounts to €25 million Dec. 31, 2021: €7 million/Jan. 1, 2021: €7 million). The fair value is determined using an income approach based on internal calculations (Level 3 of the fair value hierarchy). The main input for the calculation is the cost of capital. Operating expenses of €1 million (previous year: €0 million) were incurred in the reporting period for the maintenance of investment property.

Rental income from investment property of €1 million (previous year: €0 million) is included in the "Income from leasing transactions" line item in the income statement.

31. Deferred Tax Assets

The breakdown of the deferred tax assets is as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Deferred tax assets	5,760	5,917	6,517
of which noncurrent	3,690	3,669	4,071
Offset (with deferred tax liabilities)	–5,696	–5,694	–6,227
Total	**64**	**223**	**290**

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

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Loans, receivables and other assets	78	58	56
Intangible assets/property and equipment	342	321	300
Lease assets	4,895	4,965	5,649
Liabilities and provisions	460	581	540
Valuation allowances for deferred assets on temporary differences	–15	–8	–28
Total	**5,760**	**5,917**	**6,517**

32. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 1, 2021
Vehicles returned for disposal	392	198	663
Restricted cash	374	479	435
Prepaid expenses and accrued income	62	60	48
Other tax assets	126	122	127
Miscellaneous	244	206	282
Total	**1,197**	**1,064**	**1,556**

33. Noncurrent Assets

€ million	Dec. 31, 2022	of which noncurrent	Dec. 31, 2021	of which noncurrent	Jan. 01, 2021	of which noncurrent
Loans to and receivables from banks	621	–	1,094	–	150	–
Loans to and receivables from customers	25,732	11,949	24,660	11,876	24,669	12,855
Value adjustment on portfolio fair value hedges	–123	–46	–	–	–	–
Derivative financial instruments	863	680	288	242	401	396
Intangible assets	–	–	0	0	2	2
Property and equipment	4	4	7	7	10	10
Lease assets	25,764	24,193	23,298	21,478	18,955	16,781
Investment property	25	25	6	6	7	7
Current tax assets	101	–	17	–	0	–
Other assets	1,197	140	1,064	90	1,556	107
Total	**54,185**	**36,945**	**50,436**	**33,701**	**45,749**	**30,158**

34. Liabilities to Banks and Customers

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

The liabilities to customers also included contractual liabilities from service contracts and other contracts amounting to €1,029 million, in connection with which income of €658 million was expected to be recognized in the next fiscal year, followed by income of €371 million in subsequent years.

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

€ million	2022	2021
Contractual liabilities at Jan. 1	807	618
Additions and disposals	222	189
Contractual liabilities at Dec. 31	**1,029**	**807**

35. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 1, 2021
Bonds issued	23,683	27,517	24,369
Commercial paper issued	1,438	1,446	1,257
Total	**25,121**	**28,963**	**25,626**

36. ABS Transactions

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

The related liabilities are recognized in the following balance sheet items:

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Bonds issued	13,477	12,725	12,032
Subordinated liabilities	183	2,903	2,929
Total	**13,660**	**15,628**	**14,961**

Of the total amount of liabilities arising in connection with ABS transactions, an amount of €6,386 million (Dec. 31, 2021: €7,826 million/Jan. 1; 2021: €8,496 million) is accounted for by ABS transactions with financial assets. The corresponding carrying amount of the leasing business receivable amounts to

€8,489 million (Dec. 31, 2021: €8,606 million/Jan. 1; 2021: €9,232 million). As of December 31, 2022, the fair value of the liabilities amounted to €6,510 million (Dec. 31, 2021: €7,908 million/Jan. 1; 2021: €8,730 million). The fair value of the assigned loans/receivables, which continued to be recognized, amounted to €8,106 million as of December 31, 2022 (Dec. 31, 2021: €8,690 million/Jan. 1; 2021: €9,512 million).

Collateral totaling €18,868 million (Dec. 31, 2021: €17,648 million/Jan. 1; 2021: €16,581 million) has been pledged in connection with ABS transactions, of which €8,644 million (Dec. 31, 2021: €8,843 million/Jan. 1; 2021: €9,432 million) is accounted for by collateral in the form of financial assets. In these arrangements, the expected payments are assigned to special purpose entities and the ownership of the collateral in the financed vehicles is transferred. The assigned loans/receivables cannot be assigned again to anyone else or used in any other way as collateral. The rights of the bond holders are limited to the assigned loans/receivables, and the payment receipts arising from these loans/receivables are used to repay the corresponding liability.

These asset-backed security transactions did not lead to a derecognition of the loans or receivables from the financial services business because the credit risk and timing risk were retained in the Group. The difference between the assigned loans and receivables and the associated liabilities results from the different terms and conditions and from the proportion of the ABSs held by the Volkswagen Leasing GmbH Group itself.

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

37. Derivative Financial Instruments

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

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Transactions to hedge against			
interest-rate risk using fair value hedges	729	52	27
of which hedges against interest-rate risk using portfolio fair value hedges	–	–	–
Hedging transactions	**729**	**52**	**27**
Liabilities arising from derivatives not designated as hedges	237	38	14
Total	**966**	**90**	**41**

38. Other Provisions

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

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

€ million	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of Jan. 1, 2021	**1**	**47**	**29**	**78**
Utilization	1	3	21	25
Additions/new provisions	1	32	29	63
Reversals	–	18	7	26
Balance as of Dec. 31, 2021	**2**	**57**	**31**	**90**
of which current	1	17	31	49
of which noncurrent	1	40	–	41
Balance as of Jan. 1, 2022	**2**	**57**	**31**	**90**
Utilization	1	1	22	23
Additions/new provisions	1	63	155	219
Reversals	–	14	9	23
Balance as of Dec. 31, 2022	**2**	**106**	**155**	**262**
of which current	1	75	153	229
of which noncurrent	1	31	1	34

The provisions for litigation and legal risks reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers.

The timing of the cash outflows in connection with other provisions is expected to be as follows: 87% in the next year, 13% in the years 2024 to 2027 and 0% thereafter.

39. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Deferred tax liabilities	6,425	6,150	6,610
of which noncurrent	4,354	3,470	3,816
Offset (with deferred tax assets)	–5,696	–5,694	–6,227
Total	**729**	**456**	**382**

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

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Loans, receivables and other assets	5,004	5,375	5,794
Cash	0	1	16
Intangible assets/property and equipment	1	1	5
Lease assets	414	478	601
Liabilities and provisions	1,005	296	193
Total	**6,425**	**6,150**	**6,610**

40. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 1, 2021
Prepaid expenses and accrued income	1,391	1,342	887
Other tax liabilities	11	17	12
Social security and payroll liabilities	0	0	0
Miscellaneous	73	90	36
Total	**1,475**	**1,449**	**935**

41. Subordinated Capital

The subordinated capital of €183 million (Dec. 31, 2021: €2,903 million/Jan. 1, 2021: €2,929 million) was provided by the parent company VW FS AG.

42. Noncurrent Liabilities

€ million	Dec. 31, 2022	of which noncurrent	Dec. 31, 2021	of which noncurrent	Jan. 01, 2021	of which noncurrent
Liabilities to banks	0	–	1	–	0	–
Liabilities to customers	18,962	8,082	12,017	6,409	12,168	6,756
Notes, commercial paper issued	25,121	18,226	28,963	19,943	25,626	18,075
Derivative financial instruments	966	894	90	47	41	29
Current tax liabilities	44	–	58	–	21	–
Other liabilities	1,475	872	1,449	854	935	553
Subordinated capital	183	94	2,903	2,034	2,929	2,054
Total	**46,751**	**28,166**	**45,481**	**29,287**	**41,720**	**27,468**

43. Equity

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

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

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

Under the current control and profit-and-loss transfer agreement of Volkswagen Financial Services AG as the sole shareholder, the loss of €1,016 million (previous year: €242 million) of Volkswagen Leasing GmbH was reported as an increase of equity.

44. Capital Management

In this context, capital is generally defined as equity in accordance with the IFRS. The aims of capital management in the Volkswagen Leasing GmbH Group are to support the Company's credit rating by ensuring that the Group has adequate capital backing and is able to obtain capital for the planned growth over the next few years. Generally speaking, corporate action implemented by the parent company of Volkswagen Leasing GmbH has an impact on Volkswagen Leasing GmbH's equity in accordance with the IFRSs.

As of December 31, 2022 , the equity ratio was 12.0% (Dec. 31, 2021: 9.1%/Jan. 1, 2021: 8.3% million).

Financial Instrument Disclosures

45. Carrying Amounts, Gains or Losses and Income or Expenses in Respect of Financial Instruments, by Measurement Category

The carrying amounts of financial instruments (excluding hedge derivatives) broken down by IFRS 9 measurement category are shown in the following table:

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Financial assets measured at fair value through profit or loss	233	57	22
Financial assets measured at amortized cost	1,322	1,431	1,350
Financial liabilities measured at fair value through profit or loss	237	38	14
Financial liabilities measured at amortized cost	25,677	27,818	26,287

Receivables from leasing transactions amounting to €18,932 million (Dec. 31, 2021: €18,215 million/Jan. 1, 2021: €19,182 million) and the associated changes from portfolio fair value hedges for receivables from finance leases amounting to €–123 million are not allocated to any category.

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

€ million	2022	2021
Financial instruments measured at fair value through profit or loss	–	–
Financial assets measured at amortized cost	–	–
Financial liabilities measured at amortized cost	–389	–333

The net gains/losses and income/expenses are determined as follows:

Measurement category	Measurement method
Financial instruments measured at fair value through profit or loss	Fair value in accordance with IFRS 9 in conjunction with IFRS 13, including interest and effects from currency translation
Financial assets measured at amortized cost	Interest income using the effective interest method and expenses/income from the recognition of valuation allowances in accordance with IFRS 9 and effects from currency translation
Financial liabilities measured at amortized cost	Interest expense using the effective interest method in accordance with IFRS 9 and effects from currency translation

The interest income from financial assets measured at amortized cost included in interest income from bank balances and loans is calculated using the effective interest method and amounted to €28 million (previous year: €15 million).

The interest expenses in an amount of €363 million (previous year: €240 million) related to financial instruments not measured at fair value through profit or loss.

Expenses that arise from the direct write-off of uncollectible financial assets previously measured at amortized cost are reported and explained as a component of the provision for credit risks line item in the income statement. Income recovered in respect of financial assets already written off is also reported and explained as a component of the provision for credit risks line item in the income statement. After recognizing the income and expenses referred to above, the Volkswagen Leasing GmbH Group did not for the most part generate or incur any gains, losses, income or expenses from the derecognition of financial assets measured at amortized cost that resulted from the elimination of a contractual right to cash flows or from a transfer subject to the fulfillment of the derecognition conditions.

Furthermore, the Group did not generate or incur any material gains, losses, income or expenses from the derecognition of financial assets measured at amortized cost as a consequence of substantial contractual modifications (see disclosures on the provision for credit risks line item in the income statement).

46. Classes of Financial Instruments

Financial instruments are divided into the following classes in the Volkswagen Leasing GmbH Group:
- Measured at fair value
- Measured at amortized cost
- Derivative financial instruments designated as hedges
- Not allocated to any measurement category

The table below shows a reconciliation between the balance sheet items in which financial instruments are reported and the classes of financial instruments listed above. This includes financial instruments that are assigned to the IFRS 9 measurement categories and financial instruments that are not assigned to any IFRS 9 measurement category at all (such as finance lease receivables) and are therefore reported under the “Not allocated to any measurement category” class. The assets and liabilities not constituting financial instruments that are contained in the balance sheet items are included in the “Not allocated to any class of financial instruments” column so that the reconciliation is complete.

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

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

The “Current tax assets” and “Current tax liabilities” balance sheet line items contain assets and liabilities arising from taxes under civil law due to or from entities in the Volkswagen Group. These receivables from and liabilities to Volkswagen Group companies are classified as financial instruments in the class “Measured at amortized cost”. “Current tax assets” and “Current tax liabilities” mainly relate to the tax authorities and do not constitute financial instruments, as a result of which their allocation has been changed and they are now included in “Not allocated to any class of financial instruments”.

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

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

€ million	BALANCE SHEET ITEM			MEASURED AT AMORTIZED COST[1]			MEASURED AT FAIR VALUE			DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES			NOT ALLOCATED TO ANY MEASUREMENT CATEGORY			NOT ALLOCATED TO ANY CLASS OF FINANCIAL INSTRUM-NETS		
	31.12.2022	31.12.2021	01.01.2021	31.12.2022	31.12.2021	01.01.2021	31.12.2022	31.12.2021	01.01.2021	31.12.2022	31.12.2021	01.01.2021	31.12.2022	31.12.2021	01.01.2021	31.12.2022	31.12.2021	01.01.2021
Assets																		
Loans to and receiva-blesfrom banks	621	1,094	150	621	1,094	150	–	–	–	–	–	–	–	–	–	–	–	–
Loans to and receiva-blesfrom customers	25,732	24,660	24,669	6,800	6,445	5,487	–	–	–	–	–	–	18,932	18,215	19,182	–	–	–
Value adjustment on portfolio fair value hedges	–123	–	–	–	–	–	–	–	–	–	–	–	–123	–	–	–	–	–
Derivative financial instruments	863	288	401	–	–	–	349	64	26	515	224	376	–	–	–	–	–	–
Current tax assets	101	17	–	70	–	–	–	–	–	–	–	–	–	–	–	31	17	–
Other assets	1,197	1,064	1,556	440	536	520	–	–	–	–	–	–	–	–	–	758	528	1,036
Total	**28,392**	**27,125**	**26,777**	**7,931**	**8,076**	**6,157**	**349**	**64**	**26**	**515**	**224**	**376**	**18,809**	**18,215**	**19,182**	**789**	**545**	**1,036**
Liabilities																		
Liabilities to banks	0	1	0	0	1	0	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities to custom-ers	18,962	12,017	12,168	17,671	10,901	11,221	–	–	–	–	–	–	13	16	18	1,278	1,101	928
Notes, commercial pa-per issued	25,121	28,963	25,626	25,121	28,963	25,626	–	–	–	–	–	–	–	–	–	–	–	–
Derivative financial instruments	966	90	41	–	–	–	237	38	41	729	52	–	–	–	–	–	–	–
Current tax liabilities	44	58	21	8	29	19	–	–	–	–	–	–	–	–	–	36	29	2
Other liabilities	1,475	1,449	935	83	106	47	–	–	–	–	–	–	–	–	–	1,392	1,343	888
Subordinated capital	183	2,903	2,929	183	2,903	2,929	–	–	–	–	–	–	–	–	–	–	–	–
Total	**46,751**	**45,481**	**41,720**	**43,067**	**42,902**	**39,843**	**237**	**38**	**41**	**729**	**52**	**–**	**13**	**16**	**18**	**2,706**	**2,473**	**1.818**

47. Fair Values of Financial Assets and Liabilities

The following table shows the fair values of financial instruments in the classes “measured at amortized cost”, “measured at fair value” and “derivative financial instruments designated as hedges”, together with the fair values of receivables from customers relating to the leasing business classified as “not allocated to any measurement category”. The fair value is the amount at which financial assets or liabilities could be sold on fair terms as of the reporting date. Where market prices were available, Volkswagen Leasing GmbH has used these prices without modification for measuring fair value. If no market prices were available, the fair values for loans/receivables and liabilities were calculated by discounting using a maturity-matched discount rate appropriate to the risk. The discount rate was determined by adjusting risk-free yield curves, where appropriate, by relevant risk factors and taking into account capital and administrative costs. For reasons of materiality, the fair values of loans/receivables and liabilities due within one year were deemed to be the same as the carrying amount.

€ million	FAIR VALUE Dec. 31, 2022	FAIR VALUE Dec. 31, 2021	FAIR VALUE Jan. 01, 2021	CARRYING AMOUNT Dec. 31, 2022	CARRYING AMOUNT Dec. 31, 2021	CARRYING AMOUNT Jan. 01, 2021	DIFFERENCE Dec. 31, 2022	DIFFERENCE Dec. 31, 2021	DIFFERENCE Jan. 01, 2021
Assets									
Measured at fair value									
Derivative financial instruments	349	64	26	349	64	26	–	–	–
Measured at amortized cost		–	–						
Loans to and receivables from banks	621	1,094	150	621	1,094	150	–	–	–
Loans to and receivables from customers	6,855	6,466	5,503	6,800	6,445	5,487	55	21	16
Current tax assets	70	–	–	70	–	–	–	–	–
Other assets	440	536	520	440	536	520	–	–	–
Derivative financial instruments designated as hedges	515	224	376	515	224	376	–	–	–
Not allocated to any measurement category									
Loans to and receivables from customers	18,224	18,627	19,690	18,932	18,215	19,182	–708	412	508
Value adjustment on portfolio fair value hedges	–	–	–	–123	–	–	123	–	–
Equity and liabilities									
Measured at fair value									
Derivative financial instruments	237	38	41	237	38	41	–	–	–
Measured at amortized cost									
Liabilities to banks	0	1	0	0	1	0	–	–	–
Liabilities to customers	17,662	11,054	11,400	17,671	10,901	11,221	–9	154	178
Notes, commercial paper issued	25,496	29,088	25,794	25,121	28,963	25,626	375	125	168
Current tax liabilities	8	29	19	8	29	19	–	–	–
Other liabilities	83	106	47	83	106	47	–0	0	0
Subordinated capital	186	2,976	3,032	183	2,903	2,929	2	73	103
Derivative financial instruments designated as hedges	729	52	–	729	52	–	–	–	–

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

%	Dec. 31, 2022
Interest rate for six months	2.732
Interest rate for one year	3.027
Interest rate for five years	3.186
Interest rate for ten years	3.151

48. Measurement Levels of Financial Assets and Liabilities

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. The following table shows the hierarchy breakdown for financial instruments in the classes “measured at amortized cost”, “measured at fair value” and “derivative financial instruments designated as hedges”. Classification to the individual levels is dictated by the extent to which the main inputs used in determining the fair value are or are not observable in the market.

Level 1 is used to report the fair value of financial instruments such as notes and commercial paper issued for which a quoted price is directly observable in an active market.

Level 2 fair values are measured on the basis of inputs observable in the markets, such as yield curves, using market-based valuation techniques. Fair values measured in this way include those for derivatives and liabilities to customers.

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not directly observable in an active market. The fair values of loans to and receivables from customers measured at amortized cost are largely allocated to Level 3 because these fair values are measured using inputs that are not observable in active markets (see note 46).

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

€ million	Level 1 Dec. 31, 2022	Level 1 Dec. 31, 2021	Level 1 Jan. 01, 2021	Level 2 Dec. 31, 2022	Level 2 Dec. 31, 2021	Level 2 Jan. 01, 2021	Level 3 Dec. 31, 2022	Level 3 Dec. 31, 2021	Level 3 Jan. 01, 2021
Assets									
Measured at fair value									
Loans to and receivables from banks	–	–	–	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	349	64	26	–	–	–
Measured at amortized cost									
Loans to and receivables from banks	1	13	5	620	1,082	146	–	–	–
Loans to and receivables from customers	–	–	–	548	253	514	6,307	6,213	4,988
Current tax assets	–	–	–	70	–	–	–	–	–
Other assets	–	–	–	440	536	520	–	–	–
Derivative financial instruments designated as hedges	–	–	–	515	224	376	–	–	–
Total	**1**	**13**	**5**	**2,541**	**2,159**	**1,581**	**6,307**	**6,213**	**4,988**
Equity and liabilities									
Measured at fair value									
Derivative financial instruments	–	–	–	237	38	41	–	–	–
Measured at amortized cost									
Liabilities to banks	–	–	–	0	1	0	–	–	–
Liabilities to customers	–	–	–	17,662	11,061	11,400	–	–	–
Notes, commercial paper issued	22,630	26,209	23,190	2,866	2.880	2,604	–	–	–
Current tax liabilities	–	–	–	8	29	19	–	–	–
Other liabilities	–	–	–	83	106	47	–	–	–
Subordinated capital	–	–	–	186	2,976	3,032	–	–	–
Derivative financial instruments designated as hedges	–	–	–	729	52	–	–	–	–
Total	**22,630**	**26,209**	**23,190**	**21,771**	**17,142**	**17,143**	**–**	**–**	**–**

49. Offsetting of Financial Assets and Liabilities

The table below contains information about the effects of offsetting in the consolidated balance sheet and the financial effects of offsetting in the case of instruments that are subject to a legally enforceable master netting agreement or a similar arrangement.

The “Financial instruments” column shows the amounts that are subject to a master netting agreement but have not been netted because the relevant criteria have not been satisfied. Most of the amounts involved are positive and negative fair values of derivatives entered into with the same counterparty.

The “Collateral received/pledged” column shows the cash collateral amounts and collateral in the form of financial instruments received or pledged in connection with the total sum of assets and liabilities. It includes such collateral relating to assets and liabilities that have not been offset against each other. These items primarily consist of collateral received from customers in the form of cash deposits, together with collateral pledged in the form of cash collateral from ABS transactions.

										AMOUNTS NOT OFFSET IN THE BALANCE SHEET								
	Gross amount of recognized financial assets/liabilities			Gross amount of recognized financial assets/liabilities offset in the balance sheet			Net amount of financial assets/liabilities reported in the balance sheet			Financial Instruments			Collateral received/pledged			Net amount		
€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Assets							–	–	–	–	–	–						
Loans to and receivables from banks	621	1,094	150	–	–	–	621	1,094	150	–	–	–	–	–	–	621	1.094	150
Loans to and receivables from customers	25,732	24,660	24,669	–	–	–	25,732	24,660	24,669	–	–	–	–	–	–	25,732	24.660	24,669
Derivative financial instruments	863	288	401	–	–	–	863	288	401	–647	–62	–28	–	–	–	217	227	373
Income tax assets	70	–	–	–	–	–	70	–	–	–	–	–	–	–	–	70	–	–
Other assets	440	536	520	–	–	–	440	536	520	–	–	–	–	–	–	440	536	520
Total	**27,726**	**26,579**	**25,741**	**–**	**–**	**–**	**27,726**	**26,579**	**25,741**	**–647**	**–62**	**–28**	**–**	**–**	**–**	**27,079**	**26,518**	**25,712**
Equity and liabilities																		
Liabilities to banks	0	1	0	–	–	–	0	1	0	–	–	–	–	–	–	0	1	0
Liabilities to customers	17,684	10,916	11,240	–	–	–	17,684	10,916	11,240	–	–	–	–	–	–	17,684	10.916	11,240
Notes, commercial paper issued	25,121	28,963	25,626	–	–	–	25,121	28,963	25,626	–	–	–	–374	–479	–438	24,747	28,484	25,188
Derivative financial instruments	966	90	41	–	–	–	966	90	41	–647	–62	–28	–	–	–	319	28	12
Income tax liabilities	8	29	19	–	–	–	8	29	19	–	–	–	–	–	–	8	29	19
Other liabilities	83	106	47	–	–	–	83	106	47	–	–	–	–	–	–	83	106	47
Subordinated capital	183	2,903	2,929	–	–	–	183	2,903	2,929	–	–	–	–	–	–	183	2.903	2,929
Total	**44,045**	**43,008**	**39,902**	**–**	**–**	**–**	**44,045**	**43,008**	**39,902**	**–647**	**–62**	**–28**	**–374**	**–479**	**–438**	**43,025**	**42,467**	**39,436**

50. Default Risk

The default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the amount of the claims against the counterparty concerned arising from recognized carrying amounts.

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

In the case of financial assets with an objective indication of impairment as of the reporting date, the collateral reduced the risk by €130 million (Dec. 31, 2021: €175 million/Jan. 1; 2021: €229 million).

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

For financial assets on which impairment losses were recognized during the fiscal year and that are subject to enforcement measures, the contractually outstanding amounts total €29 million (Dec. 31, 2021: €32 million/Jan. 1; 2021: €34 million).

As derivatives are only entered into with counterparties demonstrating strong credit ratings, and limits are set for each counterparty as part of the risk management system, the actual default risk arising from derivative transactions is deemed to be low.

For qualitative information, please refer to the disclosures on counterparty default risk (pages 23 – 26) in the management report risk report.

PROVISION FOR CREDIT RISKS

Please refer to the provision for credit risks section in note (6) for disclosures on the accounting policies relating to the provision for credit risks.

The following tables show a reconciliation of the provision for credit risks relating to financial assets measured at amortized cost:

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

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance of Jan. 1, 2021	**10**	**2**	**–**	**15**	**–**	**28**
Newly extended/purchased financial assets (additions)	8	–	–	0	–	8
Other changes within a stage	–	–	–	–	–	–
Transfers to						
Stage 1	–	–	–	–	–	–
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	–5	–0	–	–8	–	–13
Utilizations	–	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–	–
Balance of Dec. 31, 2021	**13**	**2**	**–**	**8**	**–**	**23**

The following tables show a reconciliation of the gross carrying amounts of financial assets measured at amortized cost:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance of Jan. 1, 2022	**7,802**	**28**	**–**	**270**	**–**	**8,099**
Newly extended/purchased financial assets (additions)	–1,034	425	–	470	–	**–140**
Other changes within a stage	–1	–	–	–	–	**–1**
Transfers to						
Stage 1	–	–	–	–	–	**–**
Stage 2	–	–	–	–	–	**–**
Stage 3	–	–	–	–	–	**–**
Balance of Dec. 31, 2022	**6,767**	**452**	**–**	**740**	**–**	**7,959**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance of Jan. 1, 2021	**5,675**	**32**	**–**	**477**	**–**	**6,185**
Other changes within a stage	2,121	–5	–	–202	–	1,914
Transfers to	5	–	–	–5	–	0
Stage 1	–	–	–	–	–	–
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Balance of Dec. 31, 2021[1]	**7,802**	**28**	**–**	**270**	**–**	**8,099**

The “Changes” line relates to changes in gross carrying amounts that are not allocated to the other lines in the reconciliation of the gross carrying amounts from the beginning to the end of the reporting period concerned. These changes include the addition and derecognition of financial assets during the reporting period.

The following table shows a reconciliation for the provision for credit risks relating to lease receivables in the class “Not allocated to any measurement category”:

€ million	SIMPLIFIED APPROACH 2022	SIMPLIFIED APPROACH 2021
Balance as of Jan. 1	**352**	**485**
Newly extended/purchased financial assets (additions)	124	139
Other changes	27	–4
Financial instruments derecognized during the period (derecognitions)	–146	–233
Utilizations	–26	–25
Model or risk parameter changes	–	–11
Balance as of Dec. 31	**332**	**352**

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

€ million	SIMPLIFIED APPROACH 2022	SIMPLIFIED APPROACH 2021
Balance as of Jan. 1	**18,567**	**19,656**
Newly extended/purchased financial assets (additions)	572	–1,090
Other changes	1	1
Balance as of Dec. 31	**19,141**	**18,567**

The “Changes” line relates to the addition and derecognition of lease receivables during the repoting period.

MODIFICATIONS

During the reporting period and the prior-year period, there were contractual modifications of financial assets that did not lead to a derecognition of the asset concerned. These modifications were caused by either changes in credit ratings or adjustments agreed retrospectively that did not stem from customer credit quality (market-induced adjustments).

In the case of financial assets for which the provision for credit risks was measured in the amount of the lifetime expected credit losses, the amortized cost before contractual modifications amounted to €20 million (Dec. 31, 2021: €11 million/Jan. 1; 2021: €76 million). In the reporting period, the contractual modifications of these financial assets gave rise to an overall net gain of €1 million (previous year: €1 million). In the case of trade receivables and lease receivables, which are all included in the simplified approach, the only modifications that are taken into account are those in which the underlying receivables are more than 30 days past due.

MAXIMUM CREDIT RISK

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

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Financial assets measured at amortized cost	7,931	8,076	6,157
Not allocated to any measurement category	18,809	18,215	18,710
Total	**26,740**	**26,291**	**24,867**

The Volkswagen Leasing GmbH Group intends to recover the following collateral accepted in the reporting period for financial assets:

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Vehicles	10	2	32
Real estate	–	–	–
Other movable assets	–	–	–
Total	**10**	**2**	**32**

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

DEFAULT RISK RATING CLASSES

The Volkswagen Leasing GmbH Group uses internal risk management and control systems to evaluate the credit quality of the borrower before entering into any lease. In the retail business, this evaluation is carried out by using scoring systems, whereas rating systems are used for fleet customers. In addition, the gross carrying amounts of the financial assets are broken down into three default risk rating classes so that default risk exposures can be presented on a uniform basis throughout the Group. Loans and receivables for which the credit quality is classified as “good” are allocated to default risk rating class 1. Loans to and receivables from customers whose credit quality has not been classified as “good” but who have not yet defaulted are included under default risk rating class 2. Accordingly, all loans and receivables in default are allocated to default risk rating class 3.

The following tables present the gross carrying amounts of financial assets by default risk rating class:

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

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€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1	7,802	10	–	18,351	–
Default risk rating class 2	0	18	–	198	–
Default risk rating class 3	–	–	–	288	–
Total1	**7,802**	**28**	**–**	**18,837**	**–**

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€ million	Stage 1	Stage 2	Stage 3	Simplified ap-proach	Stage 4
Default risk rating class 1	5,717	244	–	18,670	–
Default risk rating class 2	0	23	–	322	–
Default risk rating class 3	–	–	–	384	–
Total	**5,718**	**267**	**–**	**19,376**	**–**

51. Liquidity Risk

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

Further details on the funding and hedging strategy can be found in the management report in the sections Liquidity Analysis (pages 9 and 10) and Funding (page 10) as well as in the risk report within the disclosures on interest rate risk (pages 27 and 28) and liquidity risk (pages 28 and 29).

The maturity profile of assets held to manage liquidity risk is as follows:

€ million	ASSETS			REPAYABLE ON DEMAND			UP TO 3 MONTHS			3 MONTHS TO 1 YEAR			1 TO 5 YEARS			MORE THAN 5 YEARS		
	Dec. 31, 2022	Dec. 31, 2021	Jan.01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan.01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan.01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan.01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan.01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan.01, 2021
Loans to and receivables from banks	621	1,094	150	621	1,095	150	–0	–0	–0	–	–	–	–	–	–	–	–	–
Total	**621**	**1,094**	**150**	**621**	**1,095**	**150**	**–0**	**–0**	**–0**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

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

€ million	Cash outflows			REMAINING CONTR ACTUAL MATURITIES: up to 3 months			3 months to 1 year			1 to 5 yers			more than 5 years		
	Dec. 31, 2022	Dec. 31, 2021	Jan.01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan.01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan.01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan.01, 2021	Dec. 31, 2022	Dec. 31, 2021	Jan.01, 2021
Liabilities to banks	0	1	0	0	1	0	–	–	–	–	–	–	–	–	–
Liabilities to customers	18,616	11,087	11,465	2,559	1,089	1,500	7,761	3,826	3,448	6,905	5,749	6,079	1,390	424	438
Notes, commercial paper issued	26,800	29,332	25,954	2,526	1,976	2,397	4,768	7,152	5,297	17,983	18,672	17,595	1,523	1,533	666
Derivative financial instruments	811	77	63	72	16	16	245	31	28	444	30	19	50	–	–
Other liabilities	83	106	47	77	101	43	2	2	2	4	3	3	–	–	–
Subordinated capital	191	2,987	3,047	22	204	248	73	726	713	96	2,057	2,086	0	0	0
Total	**46,501**	**43,590**	**40,577**	**5,257**	**3,386**	**4,203**	**12,849**	**11,736**	**9,489**	**25,431**	**26,511**	**25,781**	**2,963**	**1,956**	**1,104**

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

52. Market Risk

For qualitative information, please refer to the disclosures on interest rate risk (pages 27 and 28) in the management report risk report.

For quantitative risk measurement as part of monthly operational control, interest rate risk is measured by means of a value-at-risk (VaR) model. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 60 days, measured at a confidence level of 99%. The model is based on a historical simulation and calculates potential profits and losses taking into account 1,460 historical market fluctuations (volatilities).

This approach has produced the following values:

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 1, 2021
Interest rate risk	150	44	35
Total market risk	**150**	**44**	**35**

53. Hedging Policy Disclosures

HEDGING POLICY AND FINANCIAL DERIVATIVES

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

MARKET RISK

Market risk arises when changes in prices on financial markets (interest rates) have a positive or negative effect on the value of traded products. The fair values listed in the tables in the notes were determined using the market information available on the reporting date and represent the fair values of the financial derivatives. They were determined on the basis of standardized techniques using generally applicable market risk variables, such as yield curves.

Interest rate risk

Changes in the level of interest rates in the money and capital markets represent an interest rate risk if the funding is not maturity-matched. Interest rate risk is managed based on an overall interest rate risk limit set for the entire Group. Interest rate risk is quantified using interest rate gap analyses to which various scenarios involving changes in interest rates are applied. The calculations take into account uniform risk ceilings applicable throughout the Group.

The hedging contracts entered into by the Group mainly comprise interest rate swaps. Interest rate risk is hedged using fair value hedges at micro level and fair value hedges at portfolio level (portfolio fair value hedges). Fixed-income liabilities included in micro fair value hedges are recognized with the addition of a hedge adjustment based on the hedged fair value of the hedged item rather than at amortized cost, the method used in their original subsequent measurement. The resulting effects in the income statement are generally offset by the opposite effects from the corresponding gains and losses on the interest rate hedging instruments (swaps).

DESCRIPTION OF HEDGES AND METHODOLOGIES FOR MONITORING HEDGE EFFECTIVENESS

If possible, the hedge strategy aims to recognize hedges for suitable underlying transactions (hedged items) on an individual or portfolio basis. The vast majority of hedged items are assets or liabilities on the balance sheet.

In the Volkswagen Leasing GmbH Group, hedges to which micro-hedge accounting is applied are normally held to maturity. Hedge effectiveness in the Volkswagen Leasing GmbH Group is measured prospectively using the critical terms match method. Hedge effectiveness is analyzed retrospectively by testing for ineffectiveness using the dollar offset method. The dollar offset method compares the changes in the value of the hedged item expressed in monetary units with the changes in the value of the hedging instrument expressed in monetary units. The volume represented by the hedging instruments is generally the same as the volume represented by the designated hedged items. Hedge ineffectiveness in micro-hedge accounting largely results from differences between the mark-to-market (fair value) measurement of hedged items and that of hedging instruments. Individual yield curves are used when determining forward interest rates and also when discounting future cash flows for hedged items and hedging instruments in order to obtain a measurement in line with the market. Other factors (e.g. in relation to counterparty risk) are only of minor significance as regards hedge ineffectiveness.

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

DISCLOSURES ON GAINS AND LOSSES FROM FAIR VALUE HEDGES

In fair value hedges, the transactions hedge the risk of changes in the fair value of financial assets and financial liabilities. Changes in fair value that arise from the recognition of hedging instruments at fair value and those from the recognition of the associated hedged items at the hedged fair value generally have an offsetting effect and are reported under the net gain or loss on hedges.

The following table shows the degree of hedge ineffectiveness from fair value hedges broken down by type of risk, equating to the differences between the gains or losses on hedging instruments and those on hedged items:

€ million	2022	2021
Interest rate risk hedging	12	–14

NOTIONAL AMOUNTS OF DERIVATIVE FINANCIAL INSTRUMENTS

The following tables present a maturity analysis of the notional amounts of hedging instruments reported under the hedge accounting rules and those of derivatives to which hedge accounting is not applied:

DECEMBER 31, 2022

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

DECEMBER. 31, 2021

	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
€ million	Up to 1 year	1 – 5 years	More than 5 years	Dec. 31, 2021
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	2,350	8,900	1,500	12,750
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	11,755	25,000	–	36,755

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	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
€ million	Up to 1 year	1–5 years	More than 5 years	Jan. 01, 2021
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	3,071	14,230	650	17,951
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	8,498	18,193	–	26,691

DISCLOSURES ON HEDGING INSTRUMENTS USED IN HEDGE ACCOUNTING

The Volkswagen Leasing GmbH Group regularly uses hedging instruments to hedge changes in the fair value of financial assets and financial liabilities.

The following overviews show the notional amounts, fair values and changes in fair value used to determine ineffectiveness in hedging instruments used in fair value hedges to hedge the risk arising from changes in fair value:

DECEMBER 31, 2022

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	23,340	515	729	–612

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€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	12,750	224	52	105

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€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	17,951	376	27	274

DISCLOSURES ON HEDGED ITEMS TO WHICH HEDGE ACCOUNTING IS APPLIED

Disclosures on hedged items, broken down by risk category and type of designation, are required in addition to the disclosures on hedging instruments.

The tables below show the hedged items hedged in fair value hedges:

DECEMBER. 31, 2022:

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging				
Loans to and receivables from customers	6,758	–123	–123	0
Liabilities to customers	491	–9	–15	–
Notes, commercial paper issued	9,157	–743	–819	–

DECEMBER. 31, 2021

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging				
Loans to and receivables from customers	–	–	–	–
Liabilities to customers	507	7	–6	–
Notes, commercial paper issued	12,334	84	–191	–

JANUARY. 1, 2021:

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging				
Loans to and receivables from customers	–	–	–	0
Liabilities to customers	513	13	–	–
Notes, commercial paper issued	8,525	275	–	–

Segment Reporting

54. Breakdown by Customer Category

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

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

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

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

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

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

FISCAL YEAR 2022

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

FISCAL YEAR 2021

€ million	Retail	Wholesale	Segments total	Reconciliation	Group
Interest income from cash and loans	–	–	–	15	15
Income from leasing transactions	3,492	7,253	10,746	–9	10,737
Depreciation, impairment losses and other expenses from leasing transactions	–3,127	–6,416	–9,543	26	–9,517
Net income from leasing transactions	365	837	1,203	17	1,220
Interest expense	–95	–99	–195	–46	–241
Income from service contracts	502	1,007	1,509	4	1,513
Expenses from service contracts	–442	–925	–1,367	–4	–1,371
Net income from service contracts	60	82	142	1	142
Provision for credit risks	–28	–55	–82	–5	–88
Fee and commission income	26	1	28	–	28
Fee and commission expenses	–	–8	–8	–11	–18
Net fee and commission income	26	–6	20	–11	9
Net gain or loss on hedges	–	–	–	–14	–14
Net gain/loss on financial instruments measured at fair value	–	–	–	–41	–41
General and administrative expenses	–156	–258	–414	–203	–618
Other operating income	28	43	70	124	195
Other operating expenses	–7	–15	–22	–71	–93
Net other operating income/expenses	21	28	49	53	102
Operating result	**248**	**638**	**887**	**–142**	**745**

Information on the main products (leasing and service contracts) can be taken directly from the income statement.

The breakdown of noncurrent assets in accordance with IFRS 8 and of the additions to noncurrent lease assets by customer category is shown in the following tables:

	JAN. 1 – DEC. 31, 2022	
€ million	Retail	Fleet
Noncurrent Assets	12,613	13,529
Additions to lease assets classified as noncurrent assets	4,777	5,313

	JAN. 1 – DEC. 31, 2021	
€ million	Retail	Fleet
Noncurrent Assets	11,444	12,276
Additions to lease assets classified as noncurrent assets	5,133	5,734

Investment recognized under other assets was of minor significance.

Other Disclosures

55. Leases

LESSOR ACCOUNTING FOR FINANCE LEASES

In the reporting year, interest income from the net investment in the lease amounting to €633 million (previous year: €605 million) was generated from finance leases. There was no income from variable lease payments that was not taken into account in the measurement of the net investment in the lease where finance leases were concerned.

The following table shows a reconciliation of the undiscounted lease payments under finance leases to the net investment in the leases.

€ million	Dec. 31, 2022	Dec. 31, 2021	Jan. 01, 2021
Non-discounted lease payments	19,641	18,930	20,025
Unearned interest income	–750	–572	–598
Loss allowance on lease receivables	–309	–329	–444
Net investment	**18,582**	**18,029**	**18,983**

In the Volkswagen Leasing GmbH Group, net investment equates to the net receivables from finance leases.

In the year under review, the following payments are anticipated over the next few years from expected, outstanding, non-discounted lease payments under finance leases.

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

As of December 31, 2021, the following payments had been anticipated over the subsequent years from expected, outstanding, non-discounted lease payments under finance leases.

€ million	2022	2023	2024	2025	2026	From 2027	Total
Finance lease payments	8,176	5,392	3,853	1,273	182	53	18,930

As of January 1, 2021, the following payments had been anticipated over the subsequent years from expected, outstanding, non-discounted lease payments under finance leases.

€ million	2021	2022	2023	2024	2025	2026 or later	Total
Lease payments	7,973	6,033	4,478	1,324	162	54	20,025

LESSOR ACCOUNTING FOR OPERATING LEASES

Income generated from operating leases is included in the income from leasing transactions and other operating income line items in the income statement.

€ million	2022	2021
Lease income	4,575	4,020
Total	**4,575**	**4,020**

The impairment losses recognized as a result of the impairment test on lease assets amounted to €67 million (previous year: €190 million) and are included in the depreciation, impairment losses and other expenses from leasing transactions. Impairment losses are based on continuously updated internal and external information, which is then fed into the forecasts of residual values for vehicles.

Income from reversals of impairment losses on lease assets applied in prior years amounted to €90 million (previous year: €97 million) and is included in income from leasing transactions.

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

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

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

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

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

€ million	Movable lease assets
Cost as of Jan. 1, 2021	**23,701**
Changes in basis of consolidation	–238
Additions	12,784
Disposals	6,800
Balance as of Dec. 31, 2021	**29,446**
Depreciation and impairment losses as of Jan. 1, 2021	**4,746**
Additions to cumulative depreciation	3,135
Additions to cumulative impairment losses	190
Disposals	1,826
Reversal of impairment losses	97
Balance as of Dec. 31, 2021	**6,148**
Net carrying amount as of Dec. 31, 2021	**23,298**
Net carrying amount as of Jan. 1, 2021	**18,955**

In the case of subleases that are classified as operating leases, right-of-use assets recognized in connection with buyback transactions are reported, from the perspective of the Volkswagen Leasing GmbH Group as lessor, under lease assets in the balance sheet and in the reconciliation showing the changes in movable lease assets.

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

€ million	2022	2023	2024	2025	2026	From 2027	Total
Lease payments	2,849	1,630	610	103	4	3	5,199

LESSEE ACCOUNTING

The Volkswagen Leasing GmbH Group is a party to leases as a lessee in various aspects of the business. These leases mainly involve the leasing of land and buildings and operating and office equipment. The accounting treatment of buyback transactions as leases also means that the Volkswagen Leasing GmbH Group is the lessee in the primary leases with the vehicle sellers, who are entities in the Volkswagen Group.

In the reporting year, interest expenses of €0 million (previous year: €0 million) were recognized under the interest expenses line item in the income statement in respect of lease liabilities reported under liabilities to customers on the balance sheet.

In the reporting year, subleases mainly in connection with buyback transactions gave rise to income of €1 million (previous year: €1 million); this income was derived from both finance leases and operating leases.

No right-of-use assets are recognized for short-term leases or leases in which the underlying asset is of low value. In the reporting year, expenses for leases in which the underlying assets are of low value amounted to €0 million (previous year: €1 million). Expenses for short-term leases were €0 million (previous year: €1 million). There were no variable lease expenses in the reporting year or in the previous year that were not taken into account in the measurement of the lease liabilities.

Right-of-use assets derived from leases are reported in the balance sheet of the Volkswagen Leasing GmbH Group within property and equipment under the following items:

€ million	Land and buildings	Operating and office equipment	Total
Gross carrying amount (or cost) as of Jan. 1, 2022	**6**	**0**	**6**
Additions	10	–	10
Disposals	12	–	12
Balance as of Dec. 31, 2022	**4**	**0**	**5**
Depreciation and impairment losses as of Jan. 1, 2022	**1**	**0**	2
Additions to cumulative depreciation	0	0	1
Balance as of Dec. 31, 2022	**2**	**0**	**2**
Net carrying amount as of Dec. 31, 2022	**2**	**0**	**2**
Net carrying amount as of Jan. 1, 2022	**5**	**0**	**5**

€ million	Land and buildings	Operating and office equipment	Total
Gross carrying amount (or cost) as of Jan. 1, 2021	**10**	**0**	**10**
Changes in basis of consolidation	–3	–	–3
Additions	0	–	0
Balance as of Dec. 31, 2021	**6**	**0**	**6**
Depreciation and impairment losses as of Jan. 1, 2021	**3**	**0**	**3**
Changes in basis of consolidation	–2	–	–2
Additions to cumulative depreciation	1	0	1
Balance as of Dec. 31, 2021	**1**	**0**	**2**
Net carrying amount as of Dec. 31, 2021	**5**	**0**	**5**
Net carrying amount as of Jan. 1, 2021	**7**	**0**	**7**

Depending on the classification of the subleases, the right-of-use assets recognized from primary leases as part of buyback transactions are reported either as finance leases and therefore as receivables from finance leases or as operating leases and therefore as lease assets. Disclosures on buyback transactions are thus not included in the above disclosures on right-of-use assets recognized by the Group as a lessee. When assessing the lease term underlying a lease liabilities, the Volkswagen Leasing GmbH Group makes a best estimate as to whether an extension option will be exercised or a termination option will not be exercised. In the event of a material change in the general parameters used for this estimate or a modification of the lease, this estimate is updated.

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

€ million	REMAINING CONTRACTUAL MATURITIES			
	Up to 1 year	1 – 5 years	more than 5 years	Total
Lease liabilities as of Dec. 31, 2022	2	9	2	14
Lease liabilities as of Dec. 31, 2021	2	9	5	16
Lease liabilities as of Jan. 01, 2021	3	9	7	20

Overall, leases in which the VW FS AG Group is a lessee gave rise to total cash outflows of €0 million (previous year: €0 million) in the reporting year. In the case of assets leased in as part of buyback transactions, the total cash outflows were reported in an amount equating to the value of the right of use recognized in the reporting year.

56. Cash Flow Statement

Volkswagen Leasing GmbH Group’s cash flow statement documents changes in cash and cash equivalents attributable to cash flows from operating, investing and financing activities. Cash flows from investing activities comprise purchase payments and disposal proceeds relating to other assets. Cash flows from financing activities reflect all cash flows arising from transactions involving equity, subordinated capital and other financing activities. All other cash flows are classified as cash flows from operating activities in accordance with standard international practice for financial services companies.

The narrow definition of cash and cash equivalents comprises only the cash reserve, which consists of cash-in-hand.

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

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

€ million	Balance as of Jan. 1, 2021	Cash changes	NONCASH TRANSACTIONS Exchange rate changes	Changes in basis of consolidation	Measurement changes	Balance as of Dec. 31,2021
Subordinated capital	2,929	–26	–	–	–	2,903

57. Off-Balance-Sheet Liabilities

OTHER FINANCIAL OBLIGATIONS

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

€ million	DUE 2022	DUE 2023- 2026	DUE From 2027	TOTAL Dec. 31, 2021
Obligations from				
Long-term leasing and rental contracts	3	–	–	3
Miscellaneous financial obligations	53	–	–	53

€ million	DUE 2021	DUE 2022 – 2025	DUE From 2026	TOTAL 01/01/2021
Obligations from				
Leasing and rental contracts	–	–	–	–
Miscellaneous financial obligations	39	–	–	39

58. Average Number of Employees During the Reporting Period

Volkswagen Leasing GmbH does not use its own personnel for its operating activities in Germany. The employees are deployed at Volkswagen Leasing GmbH as part of staff leasing arrangements. In addition, the Company had an annual average of 53 (68) salaried employees at its branches in Milan and Verona.

59. Related Party Disclosures

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

Volkswagen Financial Services AG, Braunschweig, is the sole shareholder of Volkswagen Leasing GmbH. Porsche Automobil Holding SE, Stuttgart, held the majority of the voting rights in Volkswagen AG, Wolfsburg, which is the sole shareholder of Volkswagen Financial Services AG, Braunschweig, as of the reporting date. The Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved the creation of rights of appointment for the State of Lower Saxony. As a result, Porsche SE cannot elect, via the Annual General Meeting, all the shareholder representatives on the Volkswagen AG Supervisory Board as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore deemed to be a related party as defined by IAS 24. According to a notification dated January 9, 2023, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hannover, held 20.00% of the voting rights in Volkswagen AG on December 31, 2022 and therefore indirectly had significant influence over the Volkswagen Leasing GmbH Group. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment). The sole shareholder, Volkswagen Financial Services AG, and Volkswagen Leasing GmbH have entered into a control and profit-and-loss transfer agreement.

Volkswagen Financial Services AG and other related parties in Volkswagen AG's group of consolidated entities provide the Volkswagen Leasing GmbH Group with funding on an arm's-length basis. As part of funding transactions, Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities sold vehicles to Volkswagen Leasing GmbH on an arm's-length basis. These transactions are presented in the "Goods and services received" column.

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

The two tables below show the transactions with related parties.

FISCAL YEAR 2022

€ million	Audit Committee	Management Board	Volkswagen Financial Services AG	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities
Loans and Receivables	–	–	2,272	3,151	0	2,907
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–
Obligations	–	–	7,726	1,492	–	8,693
Interest income	–	–	11	8	–	4
Interest expense	–	–	–93	–20	–	–77
Goods and services provided	–	–	14	818	0	5,992
Goods and services received	–	–	236	10,181	–	3,391

FISCAL YEAR 2021

€ million	Audit Committee	Management Board	Volkswagen Financial Services AG	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities
Loans and Receivables	–	–	2,143	2,735	1	3,315
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–
Obligations	–	–	8,077	338	–	5,338
Interest income	–	–	8	–	–	–0
Interest expense	–	–	–139	–14	–	–23
Goods and services provided	–	–	11	722	0	3,190
Goods and services received	–	–	187	8,764	–	2,790

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

Volkswagen Leasing GmbH did not receive any capital contributions from Volkswagen Leasing GmbH in the fiscal year under review or in the previous year.

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

MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH IAS 24

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

€ million	2022	2021
Short-term benefits	1	1
Termination benefits	–	–
Post-employment benefits	–	–

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

AUDIT COMMITTEE REMUNERATION

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

60. Governing Bodies of Volkswagen Leasing GmbH

The members of the Management Board are as follows:

JENS LEGENBAUER (UNTIL JUNE 30, 2022)
Chair of the Management Board
Corporate Management of Volkswagen Leasing GmbH
Front Office, Volkswagen Leasing GmbH

ARMIN VILLINGER (AS OF JULY 1, 2022)
Chair of the Management Board
Corporate Management of Volkswagen Leasing GmbH
Front Office, Volkswagen Leasing GmbH
Front Office, MAN FS (as of February 1, 2023)

FRANK CZARNETZKI (UNTIL JANUARY 31, 2023)
Front Office, MAN FS

HENDRIK EGGERS
Back Office, Volkswagen Leasing GmbH

MANUELA VOIGT (AS OF AUGUST 1, 2022)
Operations, Volkswagen Leasing GmbH

The members of the Audit Committee are as follows:

WERNER FLÜGGE
Chair

HELMUT STREIFF
Deputy Chair

FRANK FIEDLER

Basis of Consolidation

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2022	VOLKSWAGEN LEASING GMBH'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
I. PARENT COMPANY									
VOLKSWAGEN LEASING GMBH, Braunschweig									
II. SUBSIDIARIES									
A. Consolidated companies									
1. International									
Trucknology S.A., Luxemburg	EUR	–	–	–	–	31.00	30.00	1)	2022
VCL Master Residual Value S.A., Luxemburg	EUR	–	–	–	–	31.00	–	1)	2022
VCL Master S.A., Luxemburg	EUR	–	–	–	–	31.00	–	1)	2022
VCL Multi-Compartment S.A., Luxemburg	EUR	–	–	–	–	31.00	–	1)	2022

1) Strukturiertes Unternehmen gemäß IFRS 10 und 12

61. Events After the Balance Sheet Date

In February 2023, following a prior decision by the Board of Management of Volkswagen Financial Services AG in July 2022, the Board of Management of Volkswagen AG approved the sale of the new funding business of MAN Financial Services in selected markets (primarily those without joint venture holdings) to TRATON Financial Services AB against payment of a selling price. The different times at which the new funding business will be transferred to the respective markets were taken into account in the determination of the selling price. The conclusion of the transaction is subject to of the still-outstanding approval of governing bodies.

Responsibility Statement

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

Braunschweig, February 14, 2023

Volkswagen Leasing GmbH
The Management Board

Armin Villinger | Hendrik Eggers | Manuela Voigt

Independent auditor's report

To Volkswagen Leasing GmbH, Braunschweig

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

OPINIONS

We have audited the consolidated financial statements of Volkswagen Leasing GmbH, Braunschweig, and its subsidiaries (the Group), which comprise the consolidated income statement and consolidated statement of comprehensive income for the fiscal year from 1 January 2022 to 31 December 2022, and the consolidated balance sheet as at 31 December 2022, consolidated statement of changes in equity and consolidated cash flow statement for the fiscal year from 1 January 2022 to 31 December 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Volkswagen Leasing GmbH, Braunschweig, which is combined with the Company's management report, for the fiscal year from 1 January 2022 to 31 December 2022.

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

> the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2022 and of its financial performance for the fiscal year from 1 January 2022 to 31 December 2022,

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

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

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2022 to 31 December 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

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

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

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

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

AUDITOR'S RESPONSE

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

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

Reference to related disclosures

The Company's disclosures on the accounting policies applied for lease assets are contained in note "11. Leases" and note "55. Leases" and the disclosures on the determination of the residual values of lease assets in note "15. Estimates and assumptions by management" of the notes to the consolidated financial statements.

OTHER INFORMATION

The Audit Committee is responsible for the Report of the Audit Committee. In all other respects, the executive directors are responsible for the other information. The other information comprises the Responsibility Statement section to be included in the annual report, of which we obtained a copy prior to issuing this auditor's report, but not the consolidated financial statements, not the group management report disclosures whose content is audited and not our auditor's report thereon. In addition, the other information comprises the Report of the Audit Committee, which we expect to be provided with after issuing our auditor's report.

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

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

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

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

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Opinion

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the file "Volkswagen Financial Services_AG_KA+KLB_ESEF-2022-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from 1 January 2022 to 31 December 2022 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the file identified above in accordance with Sec. 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410) (06.2022)). Our responsibility in accordance therewith is further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

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

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the group management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Sec. 328 (1) Sentence 4 No. 2 HGB.

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

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

GROUP AUDITOR'S RESPONSIBILITIES FOR THE ASSURANCE WORK ON THE ESEF DOCUMENTS

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

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this file.
- Evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Arts. 4 and 6 of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

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

We were elected as auditor by the Annual General Meeting on 25 February 2022 and were engaged by the Management Board on 30 September 2022. We have been the auditor of Volkswagen Leasing GmbH without interruption since fiscal year 2020.

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

- Review of the reporting packages for the reporting dates 31 March, 30 June and 30 September 2022 in accordance with the instructions of the group auditor
- Audit of section 1 "Calculation of own funds" of the "Reporting form for the calculation of own funds requirements in accordance with Sec. 15 ZAG ["Zahlungsdiensteaufsichtsgesetz": German Payment Services Oversight Act]" (annex to Sec. 12 (1) of the ZIEV ["ZAG-Instituts-Eigenmittelverordnung": German Ordinance Governing the Capital Adequacy and Required

Security in the Event of Institutions Being Held Liable Under the ZAG] as of the reporting date 31 December 2021
- Agreed-upon procedures relating to the investor reports of VCL Master S.A., VCL Master Residual Value S.A., VCL Multi-Compartment S.A. and Trucknology S.A. as of 31 December 2021.

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

OTHER MATTER – USE OF THE AUDITOR'S REPORT

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Matthias Koch.

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

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

Report of the Audit Committee

of Volkswagen Leasing GmbH

Volkswagen Leasing GmbH is a publicly traded corporation within the meaning of section 264d of the HGB.
In accordance with the provisions of section 324 of the HGB, the Company has established an Audit Committee, which concerns itself in particular with the tasks described in section 107(3) sentence 2 of the Aktiengesetz (AktG – German Stock Corporation Act). The Audit Committee has three members. There were no changes to the committee membership compared with the prior year. The members of the Audit Committee are listed in the disclosures on governing bodies. The Audit Committee held two regular meetings in the reporting year. There were no extraordinary meetings. 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 23, 2022, the Audit Committee reviewed the annual financial statements and the management report of Volkswagen Leasing GmbH for the fiscal year 2021. 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 17, 2022, the Audit Committee mainly discussed audit planning, key areas of emphasis for the audit and the obligations of the auditor to provide certain information. As part of this, the Audit Committee also paid particular attention to the quality of the audit. 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, progress in the Volkswagen Group-wide Together4Integrity program were presented among other things. 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 14, 2023

Werner Flügge Chair	Helmut Streiff Deputy Chair

Frank Fiedler
Member

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INVESTOR RELATIONS

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This annual report is also available in German at https://www.vwfs.com/gbvwfsag22.