VOLKSWAGEN LEASING

GMBH

ANNUAL REPORT

2019

Volkswagen Leasing GmbH

At a glance

€ million	2019	2018	2017	2016	2015
Lease asset acquisitions	20,710	16,038	16,040	14,904	13,728
Lease assets	31,960	27,739	26,049	23,753	21,141
Total equity and liabilities	39,106	37,486	32,218	27,767	24,549
Leasing income	19,790	17,501	15,848	14,681	14,001

Thousand vehicles	2019	2018	2017	2016	2015
New leases	769	618	615	590	555
Lease portfolio	1,674	1,487	1,386	1,281	1,181

Fundamental Company Information

Continuous growth confirms Volkswagen Leasing GmbH's business model.

BUSINESS MODEL

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

ORGANIZATION OF VOLKSWAGEN LEASING GMBH

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

The responsibilities of the Management Board of Volkswagen Leasing GmbH are subdivided into three areas (Board departments). Mr. Anthony Bandmann was responsible for Corporate Management and held the function of Chairman of the Management Board until June 30, 2019. He was succeeded by Mr. Jens Legenbauer on July 1, 2019. Corporate Management brings together the areas of marketing, sales management, 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 unit in order to give customers a perfectly aligned fleet management and comprehensive service and mobility offering. This Board department has been assigned to Mr. Knut Krösche. To bring about further improvements in customer retention and continue to broaden the fleet customer business as well as establish an overarching sales approach, the structures and distribution of responsibilities in these areas of activity have been extensively analyzed. On the basis of this analysis, a reorganization of the unit has been planned from January 1, 2020 with a focus on customer and dealer relationship management. As part of the reorganization, business customer relationship management will be relocated to Volkswagen Bank GmbH. Ms. Silke Finger is responsible for the Back Office Board department, the activities of which include risk management, back office and controlling.

BRANCHES

> Audi Leasing, Braunschweig
> SEAT Leasing, Braunschweig
> ŠKODA Leasing, Braunschweig
> AutoEuropa Leasing, Braunschweig
> Ducati Leasing, Braunschweig

INTERNATIONAL BRANCHES

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

INTERNAL MANAGEMENT

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

Reconciliation
€ million

Result from ordinary business activities in accordance with the HGB (legal entity)	-189,0
Result from ordinary business activities in accordance with the HGB (branches)	21,2
Variances in operating profit due to classification/measurement differences for leases between HGB and IFRSs	289,7
Variances under HGB compared with IFRSs due to ABS funding	19,0
Other factors	-0,5
Operating profit in accordance with IFRSs	140,4

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

CHANGES IN EQUITY INVESTMENTS

There were no changes in equity investments in fiscal year 2019.

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

Report on Economic Position

Global economic growth remained robust in 2019, albeit with weakening momentum. Worldwide demand for vehicles fell below the prior-year level. Volkswagen Leasing GmbH saw sharp growth in current contracts and lease assets.

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

In the opinion of the Management Board of Volkswagen Leasing GmbH, the business performed well in 2019.

In 2019, Volkswagen Financial Services regained top ranking in the AUTOHAUS BankenMonitor awards in the category for German volume products. Volkswagen Financial-Services AG again received the special award for financing from AUTOMOBILWOCHE magazine.

In 2019, Volkswagen Leasing GmbH maintained its focus on the digitalization of its core business and on further expansion of its mobility services. Online sales of servicing and inspection products in core markets increased more than fourfold within one year. In addition, the Company stepped up its collaboration with dealers and partners in respect of digital services, as a result of which Volkswagen Leasing GmbH continued to be involved to a greater degree in projects with Group brands (e.g. Volkswagen WE, Volkswagen Connect). A new customer self-service portal was launched in 2019 to give customers the option of managing their contracts independently themselves. Customers can use the portal to notify a change of address, report loss/damage or claims and access other services. The portal will be gradually expanded to include other services such as advice and online sales of financial and mobility services. During the start-up phase in 2019, the customer portal quickly attracted more than 4,000 registrations, generating a 43% usage ratio for the digital self-service options.

The objective of all the digitalization activities is to transform Volkswagen Financial Services, and therefore also Volkswagen Leasing, into a digital multibrand captive with omnichannel sales capability covering all customer needs. To this end, dealer sales workstations are being constantly upgraded, key products are being made available for sale online and the expansion of new customer contact points and platforms (such as www.heycar.de) is being driven forward. At the same time, existing contract management systems are being fundamentally rebuilt and manual processes increasingly automated.

Despite the growing digitalization activities, dealerships remain the core sales channel. For example, through dealers, Volkswagen Leasing GmbH acquired a total of more than 600,000 new servicing agreements in the reporting period. In private customer business, the popularity of supplementary service packages covering aspects such as servicing and inspection and replacement of wearing parts continues to grow. More than 200,000 new contracts were added for the servicing and inspection package alone. The popularity of servicing products also continues to grow in the used vehicle segment. Aside from servicing products, tire services represent a further central pillar of the range of services provided by Volkswagen Leasing GmbH. The volume of new contracts was once again significantly increased in 2019 as a result of the ongoing optimization of tire service processes and the high level of commitment from sales departments. In the vehicle insurance business, Volkswagen Financial Services also generated year-on-year growth of around 25% in the business for Volkswagen Autoversicherung AG, the joint venture with Allianz.

In the core business of leasing, the expansion of the lease portfolio, which is increasingly attributable to the growing private leasing business in addition to the traditionally strong fleet business, is being sustained. The growth in private leasing business is largely explained by the product sales drive in 2019. Further sales activities are also planned going forward to boost this trend.

In 2019, Volkswagen Leasing GmbH also continued to expand its range of new and existing innovative mobility services. Volkswagen Leasing GmbH's Charge&Fuel Card and the accompanying Charge&Fuel App enable electric and plug-in hybrid vehicles to stay on the road throughout Germany. Customers with electric vehicles from the Volkswagen, Audi and Volkswagen Commercial Vehicles brands can charge their vehicles at around 10,000 charging points throughout Germany and buy fuel at 9,800 UTA-affiliated filling stations as well as obtain other vehicle-related services such as the use of car-wash facilities.

In 2019, Volkswagen Financial Services also broadened its range of services in international fleet and mobility management by entering into a strategic partnership with TÜV SÜD. To this end, Volkswagen Financial Services AG made a 60% equity investment in FleetCompany GmbH, which operates in more than 70 countries around the globe under the brand name FleetLogistics. The other 40 % of the company's shares are held by the Munich-based former sole shareholder TÜV SÜD Auto Service GmbH, a wholly owned subsidiary of TÜV SÜD AG. Together, the partners are aiming to create an international non-captive platform, bringing together travel and fleet management. The platform is intended to give customers the ability to process and track all transactions relevant to fleet management and business travel within one application.

The year 2019 saw the development of "Blaue Flotte" (Blue Fleet), a program that is being used by Volkswagen Leasing GmbH to actively ramp up the use of electric vehicles in the market. At the core of the initiative is investment in climate-related wetlands protection projects operated by Naturschutzbund Deutschland e.V. (NABU – Nature And Biodiversity Conservation Union) in line with the use of electric vehicles during the lease term, ideally to achieve a carbon positive balance during the lease terms of the vehicles concerned. Every battery electric vehicle (BEV) from the Volkswagen Group that is delivered to fleet customers (including special customers and public authorities) via Volkswagen Leasing GmbH from January 1, 2020 onward will be part of the Blaue Flotte (blaueflotte.vwfs.de). Going forward, the Blaue Flotte label will also be used to bring together all the e-mobility services provided by Volkswagen Financial Services, for example: initial advisory services and analysis of the potential of a company's facilities for e-mobility solutions; integrated charging solutions such as the Charge&Fuel Card.

Over the last year, Volkswagen Leasing GmbH's sister company, Mobility Trader GmbH, has achieved further significant growth in its www.heycar.de used vehicle platform in terms of the number of vehicle advertisements and participating dealers. Currently, the platform features more than 415,000 vehicles at approximately 4,000 affiliated dealer sites, which means that heycar has already attracted the bulk of the estimated total potential used vehicles in the German market for which a warranty can be issued (vehicles no older than eight years with a maximum of 150,000 km on the clock). Alongside the improved presentation and broader range of financial services products, these products have also continued to be tailored in line with the latest customer needs. The introduction of a budget-based search is a good example of the way in which financial services have been blended with customer needs. The overall positive development of the www.heycar.de used vehicle platform is also clear from the steady sharp rise in the number of pre-qualified customer inquiries.

The global, intercompany efficiency program referred to as Operational Excellence (OPEX), which was launched in fiscal year 2017, has been a success and is currently being continued.

OPEX is focused on achieving further cost savings by 2025 in addition to the requirements under current planning. The main components are action plans to enhance productivity (among other things by streamlining processes), the optimization of selling costs and the harmonization of IT systems through the global introduction of standardized systems.

Following successful pilot projects for the restructuring of fleet sales and customer advisory services in three regions at the end of 2018, the restructuring was rolled out across Germany in 2019. An increased number of skilled key account managers are operating locally to ensure that advice is tailored to the specific needs of this target group and provided on the entire range of products and services from Volkswagen Financial Services AG. Clear assignment to specific regions and dedicated back-office contacts enhance transparency. A new management system to implement individual customer process requirements has been developed to take into account the importance of smooth collaboration over the term of the contract.

The implementation of the structural changes described above also provides a foundation for the further expansion of the multibrand business. In this process, Volkswagen Leasing GmbH is extending its range of products and services beyond the Volkswagen Group brands, but at the same time is continuing to focus on its responsibility as a mobility service provider for the group. In 2019, Volkswagen Leasing GmbH increased its multibrand-relevant portfolio of existing contracts by more than 150%, thereby creating a platform for further growth. Additional improvements in processes and systems are planned so that the Company can continue to enhance the effectiveness and efficiency of the multibrand-strategy components.

Integrity is one issue that affects all employees equally. Every employee has a responsibility not to look away and to address matters that are not morally acceptable. This is where the Together4Integrity (T4I) program comes in – a program in which all brands and companies in the Volkswagen Group are involved. At the end of 2018, Volkswagen Financial Services launched the national and international rollout of the T4I program, which continued throughout 2019.

Volkswagen Leasing GmbH and its Italian branch were included in this program rollout. In Germany, the program was accompanied by numerous initiatives and events, including at Volkswagen Leasing GmbH. In particular, measures were taken to increase the awareness of integrity among managers, who were then responsible for assimilating the program content into their teams. Overall, the T4I program is making an important contribution to the risk culture at Volkswagen Leasing GmbH.

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

CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2019 COMPARED WITH PRIOR-YEAR FORECASTS

In the German market, a slightly lower operating result in accordance with IFRSs had been anticipated for fiscal year 2019 compared with the prior year. The IFRS operating result generated by Volkswagen Leasing GmbH in the German market amounted to €140.4 million, which was well below the corresponding prior-year figure of €222.0 million.

As a consequence of the WLTP issue in 2018, deliveries of group vehicles were higher than in the previous year, as anticipated. Likewise, there were increases in both new contracts and the volume of existing contracts. Strong growth was particularly noticeable in new leases.

At 61.8%, the penetration rate based on all Volkswagen Bank GmbH and Volkswagen Leasing GmbH financing and leasing contracts in the German market was higher than the prior-year figure and the forecast, despite the rise in vehicle deliveries. The penetration rate solely in respect of Volkswagen Leasing GmbH also increased in the German market compared with the prior year to 48.9%.

At the branch in Italy, new contracts grew substantially compared with 2018, confounding the forecasts. This upturn also had a corresponding impact on the volume of existing contracts, which also rose significantly year-on-year, as projected. As a result of the significant portfolio growth, the IFRS operating result of €25.3 million was well above the prior-year operating result of €17.8 million, contrary to expectations. The encouraging trend in new leases also helped to push up the penetration rate substantially.

As regards the branch in Poland, the volume of new contracts had been expected to be at the level of 2018, and existing contracts significantly higher than the prior-year level. In contrast to the projections, the volume of new contracts grew substantially compared to 2018. This upturn also had a corresponding impact on the volume of existing contracts, which also rose significantly year-on-year, as forecast. The IFRS operating result had been expected to be significantly higher year-on-year, while a slight decrease in the penetration rate had been forecast. As a result of the significant growth in the volume of existing contracts, the IFRS operating result of €28.8 million was well above the corresponding prior-year figure of €17.7 million. The encouraging trend in new contracts also helped to push up the penetration rate slightly.

GLOBAL ECONOMY

Global Economic Development

The global economy sustained its robust growth in 2019 with a decrease in momentum: global gross domestic product (GDP) rose by 2.6 (3.2)%. Economic momentum weakened compared with the previous year, both in advanced economies and emerging markets. With interest rates remaining comparatively low and prices for energy and other commodities falling year-on-year on the whole, consumer prices also declined worldwide. Growing upheaval in trade policy at international level and continuing geopolitical tensions led to much greater economic uncertainty and resulted in a wane in the international trade of goods.

Europe

GDP growth in Western Europe slowed to 1.2 (1.8) % as the year went on. The rate of change in nearly all countries in northern and southern Europe declined compared with the previous year. The uncertain outcome of the Brexit negotiations between the United Kingdom and the European Union (EU) continued to generate uncertainty, as did the related question of what form this relationship would take in the future. The unemployment rate in the eurozone continued to decrease, falling to an average of 7.5 (8.1) %.

At 2.3 (3.3) %, the Central and Eastern Europe region also recorded a slower growth rate in the reporting period than in the previous year. In Central Europe, GDP growth tapered off at a relatively high level. Economic growth in Eastern Europe was also weaker. Lower prices for energy and other commodities led to a deterioration in the economic situation of the individual countries from this region that export raw materials. At 1.1 (2.2) %, the growth of the Russian economy, the region's largest economy, halved compared with the previous year.

Germany

Germany's GDP continued to grow in 2019 on the back of the strong labor market, though momentum diminished markedly year-on-year to 0.5 (1.5) %. Both business and consumer sentiment darkened further as the year progressed.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services were once again in high demand in 2019, despite a contraction in the overall market. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas. Service products such as maintenance and servicing agreements and insurance were especially popular, as customers in more advanced automotive financial services markets are putting greater focus on reducing total cost of ownership. In the fleet segment, more customers made use of support from automotive financial service providers in order to optimize their entire mobility management beyond mere fleet operation. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than ownership.

The European market saw a slight increase in demand for new vehicles overall in 2019. As a consequence, the recognition of new leases and financing agreements also increased marginally, but the volume of vehicles in this category rose sharply in Italy. Used vehicle sales in Europe went up slightly, although new leases and financing agreements for used vehicles contracted a little. Demand for after-sales products such as inspection, maintenance and spare parts agreements went up in the year under review. Automotive-related insurance also saw a small increase.

In Germany, the number of new vehicles that were leased or financed by loans continued to rise in the reporting period. After-sales products and integrated mobility solutions in the business customer segment were also the subject of greater demand.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2019, the global market volume of passenger cars fell below the prior-year level for the second year in a row, decreasing to 79.6 million vehicles (–4.0%). While new registrations in Western Europe and in Central and Eastern Europe exceeded the prior-year figure, the overall markets in the Middle East, North America, South America and especially Asia-Pacific recorded a dip in demand.

Global demand for light commercial vehicles in the reporting period was down moderately on the previous year.

Sector-Specific Environment

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

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

Europe

In Western Europe, the number of new passenger car registrations was up 0.6% on the prior-year figure at a total of 14.4 million vehicles. New vehicle registrations were mixed in the largest single markets. Italy stagnated (+0.3%). The share of diesel vehicles (passenger cars) in Western Europe slipped to 32.0 (36.4)% in the reporting year.

Despite the uncertain outcome of the Brexit negotiations between the EU and UK, new light commercial vehicle registrations in Western Europe in the reporting period slightly exceeded the prior-year level; WLTP-related pull-forward effects provided a degree of stimulus.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2019 rose slightly by 2.7% year-on-year to 3.6 million vehicles. New passenger car registrations in the EU member states of Central Europe increased further by 5.8% to 1.5 million units.

Registration volumes of light commercial vehicles in Central and Eastern Europe were at the same level as the previous year.

Germany

New passenger car registrations in Germany in the reporting period exceeded the previous year's high level, rising to 3.6 million units (+5.0%). In addition to the strong labor market and the rise in commercial demand, sales incentives, particularly in the form of an environmental bonus, underpinned the positive trend.

However, domestic production and exports once again fell short of the comparable prior-year figures in 2019: passenger car production decreased by 9.0% to 4.7 million vehicles, mainly due to the 12.8% drop in passenger car exports to 3.5 million units. This was primarily a result of the slowdown in global market growth and markedly lower exports of passenger cars fitted with diesel engines.

Demand for light commercial vehicles in Germany in the reporting period was perceptibly higher than in 2018.

RESULTS OF OPERATIONS

In the reporting period, leasing income rose by €2.3 billion to €19.8 billion. Of this rise in income, €1.5 billion was attributable to increased proceeds from the disposal of former lease vehicles (which accounted for €10.8 billion of the total leasing income) in particular. Ongoing lease installments rose by €0.4 billion and income from services by €0.2 billion. The larger portfolio of leases will lift revenue in the coming years.

Leasing expenses went up by €1.3 billion year-on-year to €11.3 billion. This item mainly consists of the residual carrying amounts of remarketed vehicles and the expenses from service leasing.

General and administrative expenses increased by €71 million to €572 million (previous year: €501 million), mainly as a consequence of higher IT costs, staffing costs and allocated administrative expenses.

Depreciation and write-downs of lease assets amounted to €7.0 billion (previous year: €6.3 billion). This figure includes write-downs of €0.3 billion (previous year: €0.3 billion).

Net interest income/expense came to a net expense of €436 million (previous year: net income of €59 million). In the previous year, net interest income/expense had been positively impacted by an interest income amount of €461 million arising from the restructuring of ABS transactions (clean-up call and contractual switch).

Write-downs of and valuation allowances on receivables and additions to provisions in the leasing business came to €452 million (previous year: €485 million).

Income from the reversal of write-downs and of valuation allowances on receivables and from the reversal of provisions in the leasing business declined to €271 million (previous year: €294 million).

Other operating income amounted to €255 million, which was down by €13 million compared with the prior-year figure of €268 million.

Other operating expenses in the reporting period declined by €3 million to €63 million.

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

Ordinary business activities in accordance with the HGB resulted in a loss of €189.0 million, a significant decline on the prior-year profit of €281.1 million.

The IFRS operating result in the German market amounted to €140.4 million, similarly below the corresponding prior-year operating result of €222.0 million. The decrease compared with the prior year was largely attributable to a rise in overhead costs.

In Italy, the operating result in accordance with IFRSs rose by €7.5 million, amounting to €25.3 million for the reporting period (previous year: €17.8 million). In Poland, the Company also generated an increase in the IFRS operating result of €28.8 million (previous year: €17.7 million).

NET ASSETS AND FINANCIAL POSITION

Total assets rose by €1.6 billion to €39.1 billion. Lease assets, which represent the core business of Volkswagen Leasing GmbH, amounted to a total of €32.0 billion and therefore accounted for approximately 81.4% of total assets.

Acquisitions of lease assets rose sharply compared with the previous year and amounted to €20.7 billion (previous year: €16.0 billion). The gross carrying amount of lease assets increased from €38.4 billion to €43.3 billion. The net carrying amount as of the reporting date was €32.0 billion (previous year: €27.7 billion), equating to a rise of €4.3 billion or 15.5%.

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

As of the reporting date, the portfolio of vehicles had increased to approximately 1,674,000 units compared with approximately 1,487,000 as of the prior-year reporting date. Of this figure, the Italian branches accounted for approximately 59,000 vehicles (previous year: 39,000) and the Polish branch for 138,000 vehicles (previous year: 109,000). The increase in the portfolio was due to the net effect from the addition of approximately 769,000 new units and the disposal of around 582,000 vehicles.

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

GROWTH IN THE VOLUME OF VEHICLE LEASES (THOUSANDS)

2019		2018		2017		2016		2015	
Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance
769	1.674	618	1.487	615	1.386	590	1.281	555	1.181

In terms of capital structure, the main liability items are the liabilities to customers of €15.0 billion (previous year: €16.7 billion) and the notes and commercial paper issued amounting to €14.8 billion (previous year: €12.2 billion).

EQUITY

Volkswagen Leasing GmbH's subscribed capital remained unchanged at €76 million in fiscal year 2019.

The equity of Volkswagen Leasing GmbH amounted to €222.4 million as of the reporting date. Based on the total assets of €39.1 billion, the equity ratio was 0.6% (previous year: 0.6%).

Liquidity Analysis

Volkswagen Leasing GmbH is funded primarily through capital market and ABS programs as well as lines of credit provided by external banks and Volkswagen AG. Unexpected fluctuations are compensated by Volkswagen Financial Services AG.

To ensure appropriate liquidity management, Treasury prepares liquidity maturity balances, carries out cash flow forecasts and takes pertinent measures as required. In these calculations, the legally determined cash flows are assumed for funding instruments, whereas estimated cash flows are used for other factors that affect liquidity. The requirement under the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements for Risk Management) for Volkswagen Leasing GmbH to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and thirty-day time horizons was also satisfied at all times, even under various stress scenarios. Compliance with this requirement is determined and continuously reviewed as part of the liquidity risk management system. In this process, the cash flows for the coming twelve months are projected and compared against the potential funding available in each maturity band. Adequate potential funding to cover the liquidity requirements was available at all times, both in the normal scenario and in the stress tests required by MaRisk.

FUNDING

Strategic Principles

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

Implementation

In 2019 overall, Volkswagen Leasing GmbH issued five bonds with a total value of €3.5 billion via its status as an issuer under Volkswagen Financial Services AG's debt issuance program.

Volkswagen Leasing GmbH was also active in the market with its ABS program. German lease receivables were securitized in April 2019 in the form of "Volkswagen Car Lease 28" (VCL 28) and in November 2019 with VCL 29. The transactions each had a volume of €1.0 billion.

This package of measures ensured that Volkswagen Leasing GmbH had adequate liquidity at all times during the reporting period.

Report on Opportunities and Risks

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

RISKS AND OPPORTUNITIES

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

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

MACROECONOMIC OPPORTUNITIES

The Management Board of Volkswagen Leasing GmbH expects that, with further anticipated economic growth in the vast majority of markets, there will be a moderate increase in deliveries to customers of the Volkswagen Group and thus a sustained consolidation of the position in global markets. Volkswagen Leasing GmbH supports this positive trend by providing financial services products designed to promote sales.

The probability of a global recession is considered to be low overall. However, diminished rates of global economic growth or a period of below-average growth rates cannot be ruled out. The macroeconomic environment could also give rise to opportunities for Volkswagen Leasing GmbH if actual trends turn out to be better than forecast.

STRATEGIC OPPORTUNITIES

Volkswagen Leasing GmbH believes that the main source of opportunities lies in developing innovative products tailored to customers' changing mobility requirements. Growth areas such as mobility products and service offerings (parking and payment) are being systematically leveraged and expanded. Further opportunities may be created by launching established products in new markets.

The digitalization of its business represents a significant opportunity for Volkswagen Leasing GmbH. The aim is to ensure that all key products are also available online in 2020, thereby enabling the Company to enhance efficiency. By expanding digital sales channels, Volkswagen Leasing GmbH is addressing the changing needs of its customers and strengthening its competitive position. Volkswagen Leasing GmbH believes that an additional source of opportunities lies in developing innovative products tailored to customers' changing mobility requirements (parking, payments, e-mobility).

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 IN RELATION TO THE FINANCIAL REPORTING PROCESS

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

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

In sum, the existing internal monitoring and control system of Volkswagen Leasing GmbH is intended to ensure that the financial position of Volkswagen Leasing GmbH as of the reporting date December 31, 2019 has been based on information that is reliable and has been properly recognized. No material changes were made to the internal monitoring and control system of Volkswagen Leasing GmbH after the reporting date.

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

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

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

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

Appropriate procedures are in place to ensure the adequacy of the Risk Management System. Firstly, Volkswagen Leasing GmbH's Risk Management unit continuously monitors the system. Secondly, the individual elements in the system are regularly tested on a risk-oriented basis by Internal Audit and as part of the audit of the annual financial statements by the auditor.

Within Volkswagen Leasing GmbH, responsibility for risk management and back office is assigned to a particular member of the Management Board. 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.

Volkswagen Leasing GmbH's Risk Management is divided into Strategic and Operational Risk Management in Germany (hereinafter collectively referred to as "Risk Management") and the branches in Italy and Poland (local risk management). Risk Management in Germany sets out the framework for the organization of risk management and also performs the local risk management tasks for the German market. This function includes drawing up risk policy guidelines, developing and maintaining methodologies and processes relevant to risk management as well as issuing 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 and Polish branches ensures the risk management system is implemented and its requirements complied with; Risk Management in Germany does the same for the German market.

For Italy and Poland, local risk management is responsible for the detailed design of local structures for the models and procedures used for risk measurement and management, and carries out local implementation from process and technical perspectives; Risk Management in Germany performs the corresponding function in its local market. There is a direct line of reporting from local risk management to Risk Management in Germany.

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.

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

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

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

The risk strategy includes all material quantifiable and non-quantifiable risks. Further details and specifics for the individual risk categories are set out in risk substrategies and included in operational requirements as part of the planning round.

The Management Board of Volkswagen Leasing GmbH is responsible for specifying and subsequently implementing the overall risk strategy at Volkswagen Leasing GmbH.

RISK INVENTORY

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

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

The risk inventory carried out using the base data as of December 31, 2018 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk, earnings risk, direct residual value risk, market risk, liquidity risk and operational risk; it also concluded that reputational risk and strategic risk, which are not quantifiable, should also be considered material. Indirect residual value risk was classified as immaterial because it accounted for a low proportion of the overall risk. Other existing subcategories of risk are taken into account within the categories specified above.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

A system has been set up to determine the risk-bearing capacity of Volkswagen Leasing GmbH. This system compares the economic risk against available financial resources referred to as the "risk-taking potential". 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. 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.

The main risks are quantified as part of the risk-bearing capacity analysis (which is relevant to the management of risks) using a going concern approach with a standard confidence level of 90% and a time horizon of one year. In addition to the going concern approach, risk-bearing capacity is analyzed using the gone concern approach.

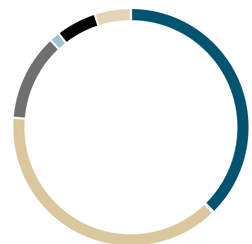
In addition, Volkswagen Leasing GmbH uses a system of limits derived from the overall risk appetite. These limits are compared against the risk-taking potential in the risk-bearing capacity analysis and specifically used by the Management Board for control purposes.

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

In a second step, the limits for the risk categories are further subdivided for the customer business credit risk, residual value risk and operational risk at branch level.

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

DISTRIBUTION OF RISKS BY TYPE OF RISK
as of December 31, 2019



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

As of December 31, 2019, the overall economic risk of Volkswagen Leasing GmbH amounted to €1,270 million. The apportionment of this total risk by individual risk category was as follows:

CHANGES IN RISK, BY RISK CATEGORY

	31.12.2019		31.12.2018	
	€ milion	Percent	€ milion	Percent
Risk category				
Credit risk	478	38	478	42
Issuer and counterparty risk	2	0	1	0
Residual value risk	489	38	347	30
Earnings risk	150	12	201	17
Market risk	18	1	16	1
Liquidity risk (funding risk)	0	0	0	0
Operational risk [1]	70	6	55	5
Other risks [2]	63	5	58	5
Total	**1.270**	**100**	**1.156**	**100**

1 Global amount for material non-quantifiable risks: reputational risk and strategic risk. Due to a correction of the risk value after publication, the figure fell from €73 million to €55 million.
2 Global amount for material non-quantifiable risks: reputational risk and strategic risk.

As of December 31, 2019, the risk-taking potential amounted to €3.7 billion and consisted of the balance sheet equity including the current net income plus the projected net income for the subsequent twelve months. 34% of the risk-taking potential was utilized by the risks described above. In the period January 1, 2019 to December 31, 2019 the maximum utilization of risk-taking potential in accordance with MaRisk was 36%.

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. 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 affected by the trends simulated 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 (such as a global economic downturn, a sharp drop in sales in the Volkswagen Group and a combination of institution-related and market-wide scenarios). In addition, inverse stress tests are used to identify what events could represent a threat to the ability of Volkswagen Leasing GmbH to continue as a going concern.

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

RISK CONCENTRATIONS

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

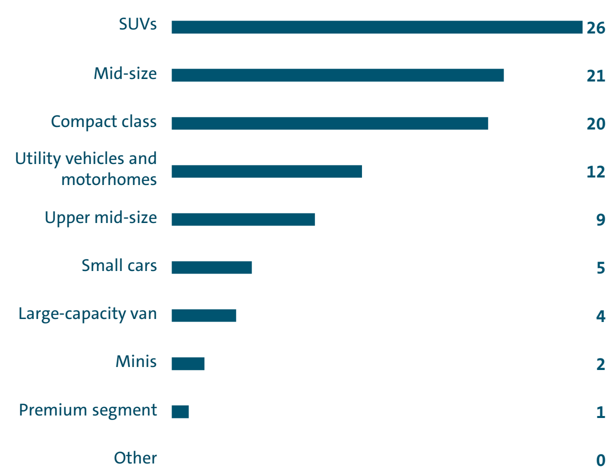
Concentrations of risk can arise from an uneven distribution of activity in which

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

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

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

COLLATERAL STRUCTURE AS OF DECEMBER 31, 2019
figures in %



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

A concentration of income does arise from the nature of the business model because this model is predominantly based on vehicle leasing and associated services. Volkswagen Leasing GmbH's particular role, in which it helps to promote sales in the Volkswagen Group, gives rise to certain dependencies that directly affect income growth.

RISK REPORTING

A detailed risk management report is submitted to the Management Board of Volkswagen Leasing GmbH and to the supervisory body on a quarterly basis. The 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 of Volkswagen Financial Services AG has to be completed.

OVERVIEW OF RISK CATEGORIES

Financial risks	Non-financial risks
Counterparty default risk	Operational risk
Residual value risk	Strategic risk
Market risk	Reputational risk
Liquidity risk	
Earnings risk	

FINANCIAL RISKS

Counterparty Default Risk

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

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

Credit Risk

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

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

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

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

Risk Identification and Assessment

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

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

To quantify credit risk, an expected loss (EL) and an unexpected loss (UL) are determined 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 quality. 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, the evaluation procedures and the evaluation bases. Further local regulations (collateral policies) set out specific values and special regional requirements that must be observed.

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

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

Risk Monitoring and Control

Risk Management sets framework constraints for the management of credit risk. These constraints form the mandatory outer framework of the central Risk Management System, within which the divisions/markets can operate in terms of their business policy activities, planning, decisions, etc. in line with the competences assigned to them.

Appropriate processes are used to monitor all leasing transactions in relation to financial circumstances, collateral and 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

Further growth in the volume of receivables was achieved in fiscal year 2019 in all Volkswagen Leasing's markets. This growth was mainly attributable to the established sales promotion programs and continuous expansion of the fleet business. Overall, the credit risk of Volkswagen Leasing GmbH remained stable.

As of December 31, 2019, the following average values were determined for the aggregate active portfolio (i.e. portfolio of receivables not in default) based on a time horizon of twelve months: PD 3.1% (previous year-end figure: 3.4%) and LGD 34.7% (previous year-end figure: 34.6%); the total volume of receivables based on the active portfolio amounted to €33.3 billion (previous year-end figure: €29.2 billion).

Counterparty Risk

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

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

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

Risk Identification and Assessment

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

Risk Monitoring and Control

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

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

Country Risk

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

Residual Value Risk

Residual value risk arises from the fact that the actual market value for a lease asset at the time of remarketing can be lower than the residual value calculated at the inception of the lease. On the other hand, it is possible for remarketing to generate proceeds greater than the calculated residual value.

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

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

Risk Identification and Assessment

Direct residual value risks are quantified on the basis of expected loss (EL) and unexpected loss (UL). The EL equates to the difference between the latest forecast remarketing proceeds 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 portfolio EL is calculated by aggregating the individual ELs for all the vehicles.

To determine the UL, the change is measured 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). In a first step, the change in value is determined for each individual lease for each period. However, given the size of the portfolio and the huge number of vehicles, systematic risk is significant and therefore, in a second step, the average change in value compared with projected residual values is determined over several periods.

The resulting markdown is calculated using the quantile function of the normal distribution with a specified confidence level.

The UL is calculated by multiplying the latest projected residual value by the markdown. This value is calculated independently of the EL and at individual lease level for each vehicle in the portfolio. As in the calculation of the EL, the portfolio UL 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 method used to quantify the risk is generally similar to that used for direct residual value risk but also takes into account further risk parameters (dealer default and other factors specific to this category of risk).

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

Risk Monitoring and Control

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

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

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

Based on the resulting potential residual value risk, various measures are initiated as part of a proactive risk management approach to limit the residual value risk. Residual value recommendations for new lease originations 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. These stress tests are carried out by experts with the involvement of risk specialists at head office and in the local units.

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

Trends

Compared with the previous year, a continuous 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. Average risk per vehicle declined because of the expiry of contracts with high risk in the German portfolio and adjustments to residual values in the new business.

Market Risk

Market risk refers to the potential loss arising from adverse changes in market prices or parameters that influence prices. At Volkswagen Leasing GmbH, it comprises interest rate risk.

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.

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 results of operations.

Risk Identification and Assessment

Interest rate risk for Volkswagen Leasing GmbH is determined as part of the monthly monitoring process using the VaR method with a 40-day holding period and a confidence level of 99%. The model is based on a historical simulation and calculates potential losses taking into account 1,000 historical market fluctuations (volatilities). Negative interest rates can also be processed in the historical simulation and are factored into the risk assessment.

The VaR calculated for operational management purposes estimates potential losses under historical market conditions, but stress tests are also carried out for forward-looking situations in which interest rate exposures are subject to exceptional changes in interest rates and worst-case scenarios. The results from the simulations are analyzed to assess whether any of the situations could represent a serious potential risk.

This process also includes the monthly quantification and monitoring of the changes in present value resulting from the interest rate shock scenarios of +200 basis points and – 200 basis points, as specified by the German Federal Financial Supervisory Authority (BaFin).

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

Risk Monitoring and Control

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

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

Currency Risk

Currency risk arises from mismatches between the amounts of asset and liability items denominated in foreign currency. However, open-ended foreign currency exposures of this nature are only permitted in individual cases.

If currency risks were to materialize, this could lead to losses in all items affected by a foreign currency.

Market Risk Trend

Overall, market risk remained stable during the reporting period. The quantified risk remained within the specified limits at all times.

Liquidity Risk

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

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

If liquidity risk were to materialize, funding risk would result in higher costs and market liquidity risk would result in lower selling prices for assets, both of which would have a negative impact on results of operations. The worst consequence carried by 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 every four weeks 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 regulation is the need to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and thirty-day time horizons. For this reason, a contingency plan with an appropriate list of action points for obtaining liquidity has already been drawn up so that it can be implemented in the event of any liquidity squeeze. The Management Board and Risk Management of Volkswagen Leasing GmbH are given an up-to-date report on the liquidity position on a monthly basis.

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

Earnings Risk (Specific Profit or Loss Risk)

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

> unexpectedly low fees and commissions (fee and commission risk);
> unexpectedly high costs (cost risk); and
> excessively high income targets for new and existing business volume (sales risk).

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

Risk Identification and Assessment
Volkswagen Leasing GmbH quantifies earnings risk using a parametric earnings at risk (EaR) model that takes into account the confidence level specified in the calculation of risk-bearing capacity and a one-year forecast period.

Risk Monitoring and Control
During the course of the year, changes in the actual values at market level for the earnings risk exposures are compared against the forecast values. This comparison is included in the standard reporting procedure carried out by Controlling.

The results from the quarterly quantification of earnings risk are fed into the calculation of risk-bearing capacity as a deduction from risk-taking potential. The results are monitored by Risk Management.

NON-FINANCIAL RISKS

Operational Risk

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

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

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

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

Risk Identification and Assessment
Operational risks or losses are identified and assessed by local experts working in pairs (assessor and approver) with the help of two operational risk tools: a risk self-assessment and a loss database.

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. The experts use this form to determine and record the relevant data, including the amount and cause of the loss.

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

Operational risks are communicated on a quarterly basis as part of the risk management reports. The quarterly details are supplemented by an annual operational risk report in which the main events in the year are presented and assessed again on a coherent basis. Ad hoc reports are issued in addition to the regular reports provided that the relevant specified criteria are satisfied.

Trends

The increase in operational risk and losses in the past was based on factors includinggrowth in the business at Volkswagen Leasing GmbH, also taking into account legal risks.

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

Risk 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 arising in connection with outsourced activities are identified 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 or FS Values, thereby presenting an obstacle to the long-term success of the business.

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

To counter compliance and conduct risks, it is the responsibility of the compliance unit to ensure compliance with laws, other legal requirements, internal rules and self-proclaimed values, 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 continue to 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, other media-based activities), carrying out 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 being appointed for all key and core rules and regulations. The coordinator is responsible for adhering to and implementing the defined compliance requirements (such as documenting responsibilities, setting up controls, raising awareness and training employees).

Using the control plans and control documentation as a basis, the compliance unit checks whether the implemented controls are appropriate. In addition, the findings from various audit activities will be 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 key and core legal rules and regulations for 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 institution's compliance requirements are specified centrally and must be implemented autonomously at the local branches. 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 specifies the basic framework only. Responsibility for raising employee awareness of the ethical principles remains with the local entities and their respective integrity officers.

The compliance officer receives regular reports and carries out on-site visits on a risk-oriented basis to ensure that the local compliance 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 key and core legal regulations and requirements.

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

Strategic Risk

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

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

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

Reputational Risk

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

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

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

Model Risk

Model risk arises from inaccuracies in the risk values 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 following criteria: "simple", "transparent", "conservative". If a model risk is identified, the model risk drivers are evaluated using a further qualitative assessment. A review is then carried out to establish whether the risk drivers can be minimized with appropriate action and/or whether quantitative backing with own funds is required.

SUMMARY

Volkswagen Leasing GmbH is aware of its responsibility in the acceptance of risks as part of its operating activities. This approach is based on a comprehensive system for identifying, measuring, analyzing, monitoring and controlling risks, which is part of a comprehensive risk- and return-oriented management system. The risk-bearing capacity was assured at all times in 2019. Volkswagen Leasing GmbH does not believe that there are any risks to the continuation of the business as a going concern.

The process of continuous refinement in the system was maintained in 2019, for example by adjusting methodologies and models, systems, processes and IT.

Volkswagen Leasing GmbH will also continue to invest in optimizing the comprehensive control cystem and risk management systems in order to satisfy the statutory and business management requirements for risk management and control.

Human Resources Report

Strengthening leadership and management in the digital transformation and fostering a willingness to change.

Staffing Numbers

The operating activities of Volkswagen Leasing GmbH in Germany are carried out by employees of Volkswagen Financial Services AG. These employees are assigned to Volkswagen Leasing GmbH under staff leasing arrangements. As of December 31, 2019, Volkswagen Leasing GmbH had 798 staff members (previous year: 794) in Germany.

The branches in Milan and Verona (Italy) had 63 employees (previous year: 273) as of December 31, 2019. The reduction in the number of employees compared with the previous year resulted from the restructuring of Volkswagen Financial Services in Italy. The branch in Warsaw had 354 employees (previous year: 318) as of December 31, 2019.

Employees

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

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

Human Resources Strategy

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

The ROUTE2025 program has created new areas of focus in terms of HR strategy. Six strategic areas for action are listed under the heading “Top Employer/Top Employees”. These areas for action are helping Volkswagen Financial Services AG to position itself as “The Key to Mobility”. With the support of the best employees, the objective is to continue to drive development forward around the other strategic cornerstones of customers, volume, profitability and operational excellence. Based on specific activities to develop and retain personnel, coupled with profit-sharing arrangements commensurate with the work performed, Volkswagen Financial Services AG aims to encourage the highest level of performance, providing outstanding customer service with first-rate employees and taking its excellent globally recognized reputation as a top employer to yet another level.

In the reporting period, the strategic focus was on strengthening employee willingness to embrace change and on reinforcing leadership and management in the digital revolution.

The Company assesses the extent to which it has achieved its objective of being a top employer by regularly taking part in external employer competitions. The aim is to enhance working conditions and implement appropriate measures with a view to Volkswagen Financial Services AG becoming one of the top 20 employers in the Great Place to Work employer ranking by 2025, not only in Europe, but worldwide. A further step on the road to this objective was taken in 2019. Volkswagen Financial Services was ranked number one in the relevant category by company size in both the “Best Employer in Lower Saxony-Bremen 2019” and “Best Employer in Germany 2019” competitions.

Customer satisfaction with the work of employees is given top priority at Volkswagen Financial Services AG. The results of external and internal customer satisfaction surveys are used as indicators of target achievement.

Staff Development

“Success needs competence”: this is the motto that drove Volkswagen Financial Services AG to establish the FS Academy for the financial services job family in 2013. The FS Academy aims to provide systematic, professional training for employees. The training needs of the various departments are assessed regularly. The results are used as a basis to expand training activities with a view to future viability.

The FS Academy training portfolio relating to electric mobility and digitalization is being constantly expanded in response to the ever-increasing significance of environmentally friendly and digital mobility concepts in the Volkswagen Group. The FS Academy is thereby making a significant contribution to the digital transformation within the Company. Using a variety of approaches, managers and employees are being trained in digital and agile concepts, technologies and methods, and are being prepared for the shifting requirements presented by day-to-day work in the digital age. Efforts are focused on imparting practical knowledge with a high degree of participant involvement and by means of digital learning formats, which can be used at any time in any location.

The FS Academy has also been focusing on expanding the development program geared toward building skills in classical and agile project management methods, with a view to establishing these as a strong point within the Company. The program also gives employees the opportunity to attain product owner and scrum master certification, enabling them to assume overall leadership responsibility in agile projects.

All information on training offered by the FS Academy (list of courses, specialist forums, lectures/presentations and e-learning sessions) is available centrally (with a booking option) via FS Academy Online, the Academy’s dedicated digital learning platform.

Report on Expected Developments

Global economic growth in 2020 is expected to continue at the prior-year level. Global demand for passenger cars will probably vary from region to region and remain at the 2019 level on the whole. With its brand diversity, broad product range, technologies and services, the Company is well prepared for the future challenges in the mobility business.

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

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

Volkswagen Leasing GmbH's forecasts are based on the assumption that global economic growth in 2020 will be at the same level as in the preceding year. The Company still believes that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by continuing geopolitical tensions and conflicts as well as epidemics spanning countries and regions, such as the current spread of the coronavirus. The Company anticipates that momentum in both the advanced economies and the emerging markets will be similar to that seen in 2019. The strongest rates of expansion is expected in Asia's emerging economies.

Furthermore, the global economy is anticipated to continue to grow in the period from 2021 to 2024.

Europe

In Western Europe, economic growth in 2020 is likely to decline compared to the reporting year. Resolving structural problems continues to pose a major challenge, as does the uncertain impact of the United Kingdom's planned exit from the EU.

In Central Europe, the Company estimates that growth rates in 2020 will remain approximately level with those for the past fiscal year. The economic situation in Eastern Europe should stabilize, providing the conflict between Russia and Ukraine does not worsen.

Germany

The Company expects that gross domestic product (GDP) in Germany will increase only at a low rate in 2020. The situation in the labor market will probably remain stable and bolster consumer spending.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Volkswagen Leasing GmbH believes that automotive financial services will be extremely important for vehicle sales worldwide in 2020. Regions that already benefit from developed automotive financial services markets will see a continuation of the trend toward customers requiring mobility at the lowest possible total cost. Integrated end-to-end solutions, comprising mobility-related service modules such as insurance and innovative packages of services, will become increasingly important in this regard. Additionally, the Company expects demand to increase for new forms of mobility, such as car sharing, and for integrated mobility services including parking, refueling and charging. The Company anticipates that this trend will continue in the period from 2021 to 2024.

In mature markets, the Company is projecting increased demand in 2020 for telematics services and services aimed at reducing total operating costs. This trend is also expected to continue in the period 2021 to 2024.

TRENDS IN THE PASSENGER CAR AND LIGHT COMMERCIAL VEHICLES MARKETS

Volkswagen Leasing GmbH expects trends in the markets for passenger cars in the individual regions to be mixed in 2020. Overall, the global demand for new vehicles will probably match the 2019 level. The Company is forecasting growing demand for passenger cars worldwide in the period from 2021 to 2024.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2020; on the whole, the Company anticipates a slight dip in demand in 2020 and expects a return to the growth trajectory for the years 2021 to 2024.

The Volkswagen Group is well prepared for the future challenges pertaining to the automotive mobility business and the mixed developments in regional automotive markets. Its brand diversity, its presence in all major world markets, its broad and selectively expanded product range, and its technologies and services put the Volkswagen Group in a good competitive position worldwide. With electric drives, digital connectivity and autonomous driving, the Volkswagen Group wants to make the automobile cleaner, more quiet, more intelligent and safer. The Volkswagen Group has set itself the goal of continuing to excite its customers in future and meeting their diverse needs with an appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions.

Europe

For 2020, Volkswagen Leasing GmbH anticipates that the volume of new passenger car registrations in Western Europe will be distinctly below that recorded in the reporting period. The uncertain impact of the United Kingdom's planned exit from the EU is likely to further exacerbate the ongoing uncertainty among consumers, continuing to dampen demand.

The Company expects a moderate decline on the Italian market in 2020.

For light commercial vehicles, Volkswagen Leasing GmbH expects demand in Western Europe in 2020 to be distinctly lower than the prior-year level owing to the uncertain impact of the United Kingdom's planned exit from the EU and the pull-forward effect on sales of the WLTP in 2019. In Italy it is forecasting a marked drop.

Sales of passenger cars in 2020 are expected to slightly fall short of the prior-year figures in markets in Central and Eastern Europe. Registrations of light commercial vehicles in the Central and Eastern European markets in 2020 will probably be noticeably lower than in the previous year.

Germany

After a positive performance overall in recent years, Volkswagen Leasing GmbH assumes that demand in the German market will fall noticeably year-on-year in 2020.

The Company anticipates that registrations of light commercial vehicles will be up slightly on the previous year's level.

INTEREST RATE TRENDS

The period of low interest rates continued in Europe and the USA in 2019, and also at the beginning of the current fiscal year. Worries about a deterioration in the economic climate resulted in a number of central banks renewing or extending the easing of their monetary policy. Interest rates are still close to or at historic lows. There is currently no end to the period of low interest rates in sight, not least because concerns about a trade dispute between the USA and its trading partners have not yet been fully eliminated.

MOBILITY CONCEPTS

Social and political factors are increasingly having an impact on many people's individual mobility behavior. New challenges in connection with the design of an intelligent mobility mix comprising public transport combined with motorized and non-motorized personal transport are appearing, primarily in large metropolitan areas. In addition, new mobility solutions will enhance the traditional idea of owning a vehicle. For these reasons, 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 aim of safeguarding and expanding its existing business model. Simple, convenient, transparent, safe, reliable, flexible – these are the key requirements that the business must satisfy. Volkswagen Leasing GmbH plays a key role in this regard.

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

With traditional leasing, long-term rentals, car and truck hire as well as car sharing, Volkswagen Leasing GmbH and other subsidiaries of Volkswagen Financial Services AG can already cover a large proportion of the mobility needs of their customers. The Company has taken a huge step towards becoming a mobility service provider with the expansion of vehicle-related mobility services. Volkswagen Financial Services AG already offers its customers an attractive portfolio of services covering the customer desire for convenience and flexibility. Efforts are focusing on the global expansion of innovative payment solutions for digital business models in the Volkswagen Group, the further expansion of cashless and mobile settlement of parking charges in North America and Europe and the further development of the electric vehicle charging and fuel card offers in Europe. In this context, Volkswagen Financial Services AG intends to continue to serve as a one-stop shop for its customers. In addition, the

Europe-wide processing of toll business was integrated into the services for business customers. Other activities will focus on driving forward the further expansion of the fleet business.

As in the case of vehicles with conventional petrol/diesel engines, Volkswagen Leasing GmbH closely partners the Volkswagen Group brands in the marketing of electric vehicles. An attractive range of leasing services in particular – complemented by packages covering maintenance and wear-and-tear repairs – plays a key role in the marketing of electric vehicles produced by the Volkswagen Group.

Volkswagen Financial Services AG is also, for example, a partner of AUDI AG in the implementation of the recently launched e-tron charging service, which provides customers buying the new Audi e-tron with access to more than 90,000 public charging points in Europe. EURO-Leasing GmbH (a subsidiary of Volkswagen Financial Services AG), together with Volkswagen, provides Volkswagen e-Golf customers with access to alternative transport so that, for example, these customers are able to use petrol/diesel vehicles for longer trips, should the need arise.

In this context, Volkswagen Financial Services AG intends to continue to serve as a one-stop shop for its customers, remaining true to the essence of its brand promise “The Key to Mobility” going forward.

BUSINESS DEVELOPMENT OF VOLKSWAGEN LEASING GMBH

Assuming that the trend in sales in the Volkswagen Group remains unchanged in the coming fiscal year, Volkswagen Leasing GmbH expects the penetration rate will be similar to that in the previous year. There are no changes to the Company’s aim of generating growth by expanding the range of products in existing markets.

Volkswagen Leasing GmbH plans to step up its collaboration with the Volkswagen Group brands in order to add more depth to joint sales activities and meet the wishes and needs of customers more efficiently. End customers are looking, in particular, for mobility with predictable fixed costs. Existing product packages and mobility services are therefore being continuously upgraded with these customer needs in mind.

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

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

Restructuring within Volkswagen Financial Services AG will also continue in 2020. The plans for 2020 include a reorganization, whereby the branch in Warsaw will be separated and merged with another subsidiary of Volkswagen Financial Services AG.

FORECAST OF MATERIAL RISKS

Credit Risk Forecast

Overall, Volkswagen Leasing GmbH anticipates that the volume of receivables will continue to grow and the risk position will remain stable in 2020, reflecting the benefit from the established sales promotion programs and from the expected stability in the German labor market, which is likely to boost consumer spending.

Residual Value Risk Forecast

The volume of contracts is projected to continue to grow steadily in fiscal year 2020. The main drivers behind this remain the implemented growth programs, the continuing positive economic environment and further expansion in the fleet business. The e-mobility sales drive in connection with the German federal government’s Climate Action Program 2030, together with the ongoing debate about a prohibition on the use of diesel vehicles, could have an impact on the residual value portfolio in 2020.

Market Risk Forecast

The Company is forecasting a generally stable market risk situation for fiscal year 2020, based on the expectation of a relatively stable interest rate environment.

Liquidity Risk Forecast

In general, the liquidity situation is expected to be stable. However, the future risk trend also depends on uncertain factors, such as the Brexit negotiations and rising political tensions around the world, and these may affect the availability and prices of funding instruments.

Operational Risk Forecast

Based on future business growth and the trend in operational risk as described in the risk report, a constant to moderately rising level of risk is anticipated. In this context, the Company expects the effectiveness of fraud protection to remain stable and the high level of quality in processes and in staff skills and qualifications to be maintained.

OUTLOOK FOR 2020

Volkswagen Leasing GmbH’s Management Board expects global economic growth in 2020 to be at the level of the previous year. The financial markets continue to be the source of some risk, primarily because of the challenging level of indebtedness in many countries. In addition, growth prospects will be hurt by geopolitical tensions and conflicts. The emerging economies of Asia will probably record the highest rates of growth. The Company expects to see a slightly weaker pace of growth in the major industrialized nations than in 2019.

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 and the impact of this uncertainty on factors such as risk costs, as well as the potential effects of geopolitical upheaval.

Based on the effects described above and assuming that the margin in the coming year remains stable, the operating result for fiscal year 2020 is projected to be slightly higher than the prior-year level.

New contracts in 2020 are forecast to be at the level of the previous year, but the volume of existing contracts is likely to be slightly higher than the prior-year level. Based on an unchanged volume of vehicle deliveries, the penetration rate in the German market and for the Volkswagen Leasing GmbH legal entity (legal entity Germany) will probably be roughly at the level of 2019.

In view of the completion of restructuring in the Italian market, there is likely to be a significant contraction in new business. The volume of existing contracts will reflect the trend in new business. A significant year-on-year decline in the penetration rate is anticipated for 2020. The IFRS operating result is forecast to be substantially lower than in the previous year.

As scheduled, the business of the branch in Warsaw will be transferred in the coming year and merged with another subsidiary of Volkswagen Financial Services AG.

Braunschweig, February 7, 2020

The Management Board

Jens Legenbauer

Silke Finger

Knut Krösche

Balance Sheet

of Volkswagen Leasing GmbH, Braunschweig, as of December 31, 2019

€ thousand		Dec. 31, 2019	Dec. 31, 2018
Assets			
1. Loans to and receivables from banks			
a) Repayable on demand	74,824		7,988
		74,824	7,988
2. Receivables from customers		5,346,064	8,156,459
3. Lease assets		31,960,487	27,739,373
4. Intangible fixed assets			
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	3,932		4,003
b) Prepayments	236		807
		4,168	4,810
5. Property and equipment			
a) Land and buildings	35,783		33,809
b) Operating and office equipment	6,492		5,139
		42,275	38,948
6. Other assets		1,081,916	951,245
7. Prepaid expenses		595,948	587,559
Total assets		**39,105,682**	**37,486,382**

€ thousand		Dec. 31, 2019	Dec. 31, 2018
Equity and liabilities			
1. Liabilities to banks			
a) Repayable on demand	44,705		88,966
b) With agreed maturity or notice period	801,105		891,979
		845,810	980,945
2. Liabilities to customers		15,003,562	16,716,105
3. Notes, commercial paper issued			
a) Bonds issued	14,348,181		12,084,292
b) Commercial paper	484,508		94,077
		14,832,689	12,178,369
4. Other liabilities		736,218	606,844
5. Deferred income		6,609,248	5,939,743
6. Provisions			
a) Provisions for pensions and other post-employment benefits	955		2,576
b) Provisions for taxes	4,886		1,213
c) Other provisions	848,954		837,168
		854,795	840,957
7. Special tax-allowable reserve		1,001	1,060
8. Equity			
a) Subscribed capital	76,004		76,004
b) Capital reserves	145,706		145,706
c) Net retained profits	649		649
		222,359	222,359
Total equity and liabilities		**39,105,682**	**37,486,382**
1. Contingent liabilities			
Liability arising from the provision of collateral for third-party liabilities		67,740	71,838
2. Other obligations			
Irrevocable leasing commitments		2,969,173	3,032,424

Income Statement

of Volkswagen Leasing GmbH, Braunschweig, for the period January 1 to December 31, 2019

€ thousand				Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018
1.	Leasing income		19,790,020		17,508,774
2.	Leasing expenses		11,337,225		9,986,389
				8,452,795	7,522,385
3.	Interest income from lending and money market transactions		44,675		1,228,080
4.	Interest expense		480,847		1,169,415
	thereof: unwinding of discount on provisions		2,684		1,935
				–436,172	58,665
5.	Fee and commission income		78,664		192,053
6.	Fee and commission expenses		719,140		647,928
				–640,476	–455,875
7.	Other operating income			254,758	267,676
8.	Income from the reversal of special tax-allowable reserve			59	69
9.	General and administrative expenses				
	a) Personnel expenses				
	aa) Wages and salaries	20,746			25,418
	ab) Social security, post-employment and other employee benefit costs of which: for post-employment benefits €290 thousand	4,512			6,355
			25,258		31,773
	b) Other administrative expenses		546,610		469,582
				571,868	501,355
10.	Depreciation, amortization and writedowns				
	a) Depreciation and writedowns of lease assets		6,998,381		6,348,351
	b) Amortization and writedowns of intangible fixed assets, and depreciation and writedowns of property and equipment		5,186		4,764
				7,003,567	6,353,115
11.	Other operating expenses			62,902	65,500
12.	Writedowns of and valuation allowances on receivables and additions to provisions in the leasing business			452,415	485,424
13.	Income from the reversal of writedowns of and valuation allowances on receivables and from the reversal of provisions in the leasing business			270,783	293,547
14.	**Result from ordinary business activities**			**–189,005**	**281,073**
15.	Income tax expense			–16,172	199,875
16.	Income from profit transfer and absorption of losses			172,833	0
17.	Profit transferred on the basis of an exisitng profit-and-loss transfer agreement			0	–81,198
18.	**Net income for the year**			**0**	**0**
19.	Retained profits brought forward			649	649
20.	**Net retained profits**			**649**	**649**

Cash Flow Statement

of Volkswagen Leasing GmbH, Braunschweig, for the period January 1 to December 31, 2019

€ thousand	Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018
Net loss for the year (before profit transfer) (previous year: net income)	–172,833	81,198
Depreciation and writedowns of fixed assets	7,003,567	6,353,116
Change in provisions	13,838	222,687
Gain on disposal of lease assets	–1,282,385	–1,252,455
Net interest income/expense	436,172	–58,665
Other adjustments	106,906	–123,936
Change in loans to and receivables from banks	–66,837	163,861
Change in receivables from customers	2,983,228	–4,324,399
Change in other assets related to operating activities	–311,892	61,703
Change in liabilities to banks	–135,135	–223,357
Change in liabilities to customers	–1,458,511	3,151,947
Change in notes, commercial paper issued	2,654,320	1,689,679
Change in other liabilities related to operating activities	798,818	345,879
Interest and dividends received	44,675	1,228,080
Interest paid	–480,847	–1,169,415
Income taxes paid (previous year: income taxes refunded)	–106,905	123,936
I. Cash flows from operating activities	**10,026,179**	**6,269,859**
Proceeds from disposal of lease assets	10,791,993	9,270,452
Payments to acquire lease assets	–20,724,240	–16,055,262
Payments to acquire property and equipment/intangible fixed assets used by the Company itself	–12,734	–8,382
II. Cash flows from investing activities	**–9,944,981**	**–6,793,192**
Proceeds from transfer and absorption of losses by Volkswagen Financial Services AG	–81,198	523,333
III. Cash flows from financing activities	**–81,198**	**523,333**
Net change in cash funds (total of I., II. and III.)	0	0
Cash funds at beginning of period	0	0
Cash funds at end of period	0	0

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

Statement of Changes in Equity

of Volkswagen Leasing GmbH, Braunschweig, for the period January 1 to December 31, 2019

€ thousand	Subscribed capital	Capital reserves	Net retained profits	Equity
Balance as of December 31, 2018 (no change in current year)	76,004	145,706	649	222,359
Change	–	–	–	–
Balance as of December 31, 2019	76,004	145,706	649	222,359

Notes

to the Annual Financial Statements of Volkswagen Leasing GmbH, Braunschweig, for the period ended December 31, 2019

1. General Information

The annual financial statements of Volkswagen Leasing GmbH have been prepared in accordance with the requirements of the Handelsgesetzbuch (HGB – German Commercial Code) and the Verordnung über die Rechnungslegung der Kreditinstitute (RechKredV – German Bank Accounting Regulation).

Volkswagen Leasing GmbH provides IT and other internal services for companies in the Volkswagen Financial Services AG Group. An internal cost allocation system is used to charge these services to the German group companies according to the costs-by-cause principle.

The income derived from the allocation of these costs is reported under other operating income/expenses.

2. Accounting Policies

The accounting policies applied in the prior year have been retained without change.

Intangible fixed assets, property and equipment, and lease assets are carried at cost less depreciation and less impairment losses, if the impairment is expected to be permanent, taking existing collateral into account.

The office buildings are depreciated on a straight-line basis (useful life of 50 years for old buildings and 25 years for new buildings). Operating and office equipment is depreciated on a straight-line basis over its typical useful life of three to seven years. Lease assets are depreciated on a straight-line basis over their typical useful life. The useful life of a passenger car is six years, of a truck nine years, and of other leased items, which mainly comprise movable lease assets at dealerships (workshop equipment), three to 13 years. Intangible assets are amortized on a straight-line basis over three years.

Receivables and other assets are recognized at their principal amounts. Appropriate valuation allowances are recognized to take into account any default risk.

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

Liabilities are recognized at the settlement amount.

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

Pension provisions are recognized in the Italy branch. The pension provisions are determined annually by an independent actuary.

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

On the basis of an existing profit-and-loss transfer agreement, deferred taxes are generally recognized by Volkswagen AG, the controlling entity in the tax group. Deferred taxes are recognized for all temporary differences between the carrying amounts in accordance with the HGB and those in the tax base using the specific company tax rate of 29.79%. No deferred tax liabilities were recognized separately in fiscal year 2019, as the Company exercised the option to offset deferred tax assets and deferred tax liabilities. The Italy branch, which is taxed separately, mainly recognizes deferred tax assets relating to lease assets and to provisions and liabilities. The deferred tax liabilities on receivables arising in the Poland branch, which is also taxed separately, are offset with the deferred tax assets relating to lease assets for this branch. Beyond this, the Company does not exercise the option to recognize deferred tax assets provided for in section 274 of the HGB.

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

Equity is recognized at the nominal amount. Irrevocable lease commitments are reported at their present value. Interest rate derivatives entered into by Volkswagen Leasing GmbH are used as part of general economic hedges. The Company does not make use of the option to apply specific hedge accounting arrangements. The interest rate portfolio of Volkswagen Leasing GmbH was reviewed in accordance with IDW AcP BFA 3 to assess whether there was any need to recognize a provision for expected losses. The discounted cash flow method was used for the evaluation. The discount rate used to discount the cash flows included a component to cover risk costs still expected to be incurred together with a risk costs premium and administrative expenses. The present value determined in this way was then compared against the carrying amounts recognized in the HGB financial statements for the assets in the interest rate portfolio. There were no indications that the recognition of a provision for expected losses was required.

In accordance with section 256a sentence 1 of the HGB, foreign currency assets and liabilities are translated at the middle spot rate as of the reporting date and in compliance with the historical cost convention and the principle of imparity (whereby unrealized losses are recognized but unrealized gains are not recognized). In the case of maturities of one year or less, currency translation gains and losses are recognized in their entirety in the income statement in accordance with section 256a sentence 2 of the HGB.

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

3. Balance Sheet Disclosures

The breakdown of receivables from banks is as follows:

€ thousand	Dec. 31, 2019	Dec. 31, 2018
1. Loans to and receivables from banks	74,824	7,988
(of which from affiliated companies €74,528 thousand; previous year: €1,489 thousand)		
Gesamt	**74,824**	**7,988**

The breakdown of receivables from customers is as follows:

€ thousand	Dec. 31, 2019	Dec. 31, 2018
1. Trade receivables	1,596,289	1,165,940
2. Receivables from affiliated companies	3,739,572	6,979,538
(of which from the shareholder €1,112,918 thousand; previous year: €401,443 thousand)		
(of which trade payables €126,654 thousand; previous year: €78,959 thousand)		
3. Other receivables	10,203	10,981
Total	**5,346,064**	**8,156,459**

The following table shows the maturity analysis for the receivables:

€ thousand	Dec. 31, 2019	Dec. 31, 2018
1. Loans to and receivables from banks	74,824	7,988
of which due in 0 – 3 months	74,824	7,988
2. Trade receivables	1,596,289	1,165,940
of which due in 0 – 3 months	232,086	246,409
of which due in 3 – 12 months	559,866	369,259
of which due in 12 – 60 months	804,337	550,272
3. Receivables from affiliated companies	3,739,572	6,979,538
of which due in 0 – 3 months	2,839,572	6,579,538
of which due in 3 – 12 months	0	0
of which due in 12 – 60 months	715,000	400,000
of which due in > 60 months	185,000	0
4. Other receivables	10,203	10,981
of which due in 0 – 3 months	10,203	10,981
Total	**5,420,888**	**8,164,447**

The breakdown of the fixed assets aggregated in the balance sheet and the changes in these assets in the reporting period are shown in the statement of changes in fixed assets. Assets under construction amounting to €2,193 thousand (previous year: €196 thousand) are included in the land and buildings shown under fixed assets.

Other assets relate primarily to available-for-sale lease returns amounting to €604,985 thousand (previous year: €394,408 thousand), receivables from the processing of ABS transactions amounting to €189,333 thousand (previous year: €204,559 thousand) and accrued swap interest of €101,961 thousand (previous year: €89,561 thousand).

Prepaid expenses include discounts on purchased bonds and ABS transactions amounting to €494,144 thousand (previous year: €496,389 thousand); these discounts are amortized over the relevant maturity. Prepaid vehicle taxes of €12,994 thousand (previous year: €19,087 thousand), insurance payments in connection with service leases in the amount of €85,879 thousand (previous year: €71,648 thousand) and other prepaid expenses are also recognized under this item.

Assets amounting to €1,438.1 million were held in foreign currency by the branch in Poland.

The breakdown of liabilities is as follows:

€ thousand	Dec. 31, 2019	Dec. 31, 2018
1. Liabilities to banks	845,810	980,945
(of which to affiliated companies €29,351 thousand; previous year: €89,100 thousand)		
2. Liabilities to customers	15,003,562	16,716,105
(of which to affiliated companies €6,788,923 thousand; previous year: €8,580,840 thousand)		
(of which to the shareholder €1,453,399 thousand; previous year: €1,768,299 thousand)		
(of which trade payables €584,490 thousand; previous year: €528,364 thousand)		
3. Notes, commercial paper issued	14,832,689	12,178,369
4. Other liabilities	736,218	606,844
Total	**31,418,279**	**30,482,263**

The following table shows the maturity analysis for the liabilities:

€ thousand	Dec. 31, 2019	Dec. 31, 2018
1. Liabilities to banks	845,810	980,945
of which due in 0 – 3 months	142,371	194,825
of which due in 3 – 12 months	231,630	632,403
of which due in 12 – 60 months	471,809	153,717
2. Liabilities to customers	15,003,562	16,716,105
of which due in 0 – 3 months	4,059,152	3,207,539
of which due in 3 – 12 months	4,647,534	5,092,375
of which due in 12 – 60 months	6,296,876	8,271,191
of which due in > 60 months	0	145,000
3. Notes, commercial paper issued	14,832,689	12,178,369
of which due in 0 – 3 months	268,364	134,336
of which due in 3 – 12 months	3,064,325	1,294,033
of which due in 12 – 60 months	9,100,000	6,750,000
of which due in > 60 months	2,400,000	4,000,000
4. Other liabilities	736,218	606,844
of which due in 0 – 3 months	225,347	131,987
of which due in 3 – 12 months	330,391	333,715
of which due in 12 – 60 months	180,480	141,142
Total	**31,418,279**	**30,482,263**

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

A total nominal amount of €2.8 billion (previous year: €1.3 billion) of the notes and commercial paper issued is due in the next fiscal year.

Other liabilities include liabilities for outstanding repair invoices under servicing and wear-and-tear agreements amounting to €711,808 thousand (previous year: €583,219 thousand) and swap interest liabilities amounting to €11,809 thousand (previous year: €10,964 thousand).

The provisions comprise pension provisions for the Italy branch amounting to €955 thousand (previous year: €2,576 thousand), tax provisions of €4,886 thousand (previous year: €1,213 thousand) and other provisions of €848,954 thousand (previous year: €837,168 thousand).

The other provisions include provisions for the risks arising in connection with existing leases. The provisions for residual value risks amount to €9,747 thousand (previous year: €7,098 thousand). Further notable recognized items include expenses from service leases and expenses for outstanding invoices in an amount of €97,048 thousand (previous year: €123,219 thousand). Provisions totaling €488,889 thousand (previous year: €411,742 thousand) have also been recognized for dealer bonuses and other bonus payments.

The provision recognized for risks arising from the terms and conditions of leases amounts to €127,300 thousand before discounting (previous year: €138,700 thousand). The discount amount is €818 thousand (previous year: €1,260 thousand).

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

Liabilities amounting to €1,926.3 million were held in foreign currency by the branch in Poland.

Statement of changes in fixed assets:

€ thousand						Gross carrying amounts
	Brought forward January 1, 2019	Additions	Disposals	Re-classifications	Currency translation differences	Balance December 31, 2019
I. Intangible fixed assets						
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	11,447	2,361	107	0	10	13,711
Prepayments	806	1878	2449	0	1	236
	12,253	4,239	2,556	0	11	13,947
II. Property and equipment						
Land and buildings	51,277	0	0	143	13	51,433
Operating and office equipment	7,231	4,976	3,200	0	19	9,026
Assets under construction	196	3,519	18	–143	0	3,554
	58,704	8,495	3,218	0	32	64,013
III. Lease assets						
Vehicles, technical equipment and machinery	38,334,896	20,533,687	15,826,632	112,885	17,385	43,172,221
Prepayments	113,296	176,312	410	–112,885	0	176,313
	38,448,192	20,709,999	15,827,042	0	17,385	43,348,534
Total fixed assets	**38,519,149**	**20,722,733**	**15,832,816**	**0**	**17,428**	**43,426,494**

Depreciation, amortization and write-downs					Net carrying amounts	
Brought forward January 1, 2019	Additions	Disposals	Currency translation differences	Balance December 31, 2019	Balance December 31, 2019	Balance December 31, 2018
7,443	2,304	0	32	9,779	3,932	4,004
0	0	0	0	0	236	806
7,443	2,304	0	32	9,779	4,168	4,810
17,664	1,529	0	11	19,204	32,229	33,613
2,092	1,353	933	22	2,534	6,492	5,139
0	0	0	0	0	3,554	196
19,756	2,882	933	33	21,738	42,275	38,948
10,708,819	6,998,381	6,322,276	3,123	11,388,047	31,784,174	27,626,077
0	0	0	0	0	176,313	113,296
10,708,819	6,998,381	6,322,276	3,123	11,388,047	31,960,487	27,739,373
10,736,018	**7,003,567**	**6,323,209**	**3,188**	**11,419,564**	**32,006,930**	**27,783,131**

4. Income Statement Disclosures

Leasing income amounts to €19,790,020 thousand. The leasing expense amounts to €11,337,225 thousand and includes the expenses necessary to generate the income. These expenses largely comprise the net carrying amounts of lease assets for which the leases have expired, and expenses from the services business. Net leasing income is €8,452,795 thousand.

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

€ thousand	Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018
1. Interest income from lending and money market transactions (of which from affiliated companies €4,729 thousand; previous year: €5,865 thousand)	44,675	1,228,080
2. Interest expense (of which to affiliated companies €50,958 thousand; previous year: €40,876 thousand)	480,847	1,169,415
Total	**–436,172**	**58,665**

The net interest income/expense included expenses of €736 million and income of €1,195 million relating to the restructuring of ABS transactions in the previous year. This restructuring included a clean-up call for the VCL Master RV SA Compartment 1 ABS transaction and a contractual switch in the VCL Master RV SA Compartment 2 transaction, which had a significant impact on net interest income/expense.

Fee and commission income declined substantially as a result of a fall in income from additional sales services.

Net other operating income is €254,758 thousand, of which €212,258 thousand is attributable to the leasing business and €42,500 thousand to the allocation of overheads to other entities. Net other operating income includes income from administration and brokerage services provided for third parties amounting to €126,724 thousand (previous year: €109,963 thousand) and income from currency translation amounting to €20,993 thousand (previous year: €60,528 thousand). Income related to prior periods is also included in the amount of €5,325 thousand (previous year: €2,293 thousand). Income from the reversal of special tax-allowable reserve amounts to €59 thousand.

The personnel expenses for employees at the branches in Milan, Verona and Poland total €25,258 thousand, of which €20,746 thousand relates to wages and salaries and €4,512 thousand to social security costs.

Other administrative expenses amount to €546,610 thousand. These relate, in particular, to internal charges from other group companies in connection with workplace costs, staff leasing and IT services, and to charges for services provided by third parties.

Depreciation and write-downs on lease assets are reported separately, the recognized amount for this item being €6,998,381 thousand. This figure includes write-downs to fair value amounting to €336,679 thousand (previous year: €334,387 thousand). Lease assets have been written down by an additional amount of €12,872 thousand (previous year: €7,413 thousand) to account for risks arising from the early remarketing of vehicles following the default of a lessee (latent credit risk).

Other operating expenses amounted to €62,902 thousand in the reporting period. This figure includes issuance and rating expenses of €6,181 thousand and expenses from currency translation of €36,454 thousand (previous year: €35,549 thousand).

Expenses for write-downs of, and valuation allowances on, receivables and additions to provisions in the leasing business amounting to €452,416 thousand are offset by corresponding income of €270,783 thousand.

The above figures resulted in a loss before tax for the reporting period of €189.0 million (previous year: profit before tax of €281.1 million).

Income tax expense includes tax allocations amounting to €–39,460 thousand (previous year: €130,193 thousand).

Under the existing profit-and-loss transfer agreement, the loss after tax of €172,833 thousand is absorbed by Volkswagen Financial Services AG.

Breakdown of income by region:

€ thousand					Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018
		Germany	Italy	Poland	Total	Total
1.	Leasing income					
	Lease payments	5,985,816	229,836	154,124	6,369,776	5,942,197
	Maintenance and service income	1,325,292	171,624	52,556	1,549,472	1,304,819
	Used vehicle sales	10,599,448	120,271	72,274	10,791,993	9,270,452
	Other	967,339	25,325	86,115	1,078,779	991,306
		18,877,895	547,056	365,069	19,790,020	17,508,774
3.	Interest income from lending and money market transactions	9,151	725	34,799	44,675	1,228,080
5.	Fee and commission income	73,489	0	5,175	78,664	192,053
7.	Other operating income	209,205	11,262	34,291	254,758	267,676
8.	Income from the reversal of special tax-allowable reserve	59	0	0	59	69
13.	Income from the reversal of writedowns of and valuation allowances on receivables and from the reversal of provisions in the leasing business	213,156	42,852	14,775	270,783	293,547
Total		**19,382,955**	**601,895**	**454,109**	**20,438,959**	**19,490,199**

5. Other Disclosures

Interest rate risk has been hedged by interest rate swaps with a total notional value of €32.7 billion. As of the reporting date, the positive fair values were €402.3 million and the negative fair values €69.7 million. The fair values are determined using market information as of the reporting date and with the help of suitable IT-based valuation methods. In connection with these derivatives, accrued interest of €102.0 million is included in other assets and €11.8 million in other liabilities.

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

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

To fund the lease assets, Volkswagen Leasing GmbH has placed asset-backed securities transactions (ABS transactions) in the market. Two such transactions were carried out in fiscal year 2019. In 2019, Volkswagen Leasing GmbH generated cash inflows totaling €6,408.5 million from the sale of future lease receivables and residual values under these leases. Four further transactions are in place, dating back to prior years. Other than the one-time inflows from each of these transactions, there is no other material impact on the present or future liquidity and financial position of Volkswagen Leasing GmbH.

Volkswagen Leasing GmbH has undertaken to assign an amount of €1.8 billion from future lease receivables to Volkswagen Bank GmbH as collateral for lines of credit. The lines of credit relate to Volkswagen Leasing GmbH and other subsidiaries/investees of Volkswagen Financial Services AG.
The land and buildings belonging to Volkswagen Leasing GmbH are largely used by the other companies in the FS subgroup based in Braunschweig.

The irrevocable leasing commitments relate to confirmed leases for which the vehicle had not yet been delivered on the reporting date and for which the credit limit to which the Company had committed itself had thus not yet been utilized. It is expected that the credit will be drawn down, as the commitments relate to leasing agreements that have been entered into. As of the reporting date, there were some contingent liabilities in connection with the ABS transactions that are not reported in the balance sheet.

These contingent liabilities and obligations arise from ABS transactions VCL 25, VCL 26, VCL 27, VCL 28, VCL 29 and VCL Master RV C2. A market risk reserve serving as collateral for certain risks was paid to investors in connection with these transactions. It is expected that this collateral will not be called upon, as it is assumed that the risk will not materialize.

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

The fees paid to the auditor are disclosed in the notes to the consolidated financial statements of Volkswagen AG, Wolfsburg, and in the consolidated financial statements of Volkswagen Financial Services AG, Braunschweig. In 2019, the fees attributable to Volkswagen Leasing GmbH for audit-related services concerned the audit of the annual financial statements and reviews of interim financial statements prepared during the year.

Other attestation services mainly involved comfort letters and miscellaneous services in connection with ABS transactions.

Other services performed by the auditor mainly consisted of services relating to banking regulations in the reporting year.

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 62 salaried employees including one senior executive at its branches in Milan and Verona (previous year: 264 salaried employees with five senior executives), and 340 salaried employees with no senior executives at its branch in Poland (previous year: 250 salaried employees with no senior executives). The contraction in staff resources in Italy is the result of the reorganization of the group of Volkswagen Financial Services companies. The increase in staff resources in Poland is the result of the reorganization of the group of Volkswagen Financial Services companies, as well as volume growth.

The managing directors do not receive any remuneration from the Company. The expenses borne by the Company for the Management Board amounted to €1,656 thousand.

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

6. Report on Post-Balance Sheet Date Events

There were no significant events affecting Volkswagen Leasing GmbH after the end of fiscal year 2019.

7. Company Information

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

8. Governing Bodies of Volkswagen Leasing GmbH

Management Board as of December 31, 2019

ANTHONY BANDMANN (UNTIL JUNE 30, 2019)
Chairman of the Management Board (until June 30, 2019)
Corporate Management of Volkswagen Leasing GmbH (until June 30, 2019)

JENS LEGENBAUER (AS OF JULY 1, 2019)
Chairman of the Management Board (as of July 1, 2019)
Corporate Management of Volkswagen Leasing GmbH (as of July 1, 2019)

SILKE FINGER
Back Office, Volkswagen Leasing GmbH

KNUT KRÖSCHE
Front Office, Volkswagen Leasing GmbH

Audit Committee of Volkswagen Leasing GmbH

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

WERNER FLÜGGE
Chairman

HELMUT STREIFF
Deputy Chairman

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

9. Responsibility Statement

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

Braunschweig, February 7, 2020

Volkswagen Leasing GmbH
The Management Board

Silke Finger

Knut Krösche

Jens Legenbauer

INDEPENDENT AUDITOR'S REPORT

To Volkswagen Leasing GmbH, Braunschweig

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

Audit Opinions

We have audited the annual financial statements of Volkswagen Leasing GmbH, Braunschweig, which comprise the balance sheet as at December 31, 2019, and the statement of profit and loss, statement of cash flows and statement of changes in equity for the financial year from January 1 to December 31, 2019, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Volkswagen Leasing GmbH for the financial year from January 1 to December 31, 2019.

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

> the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 in compliance with German Legally Required Accounting Principles, and

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

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

❶ Recoverability of lease assets from current and terminated leases

Our presentation of this key audit matter has been structured as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matter:

❶ Recoverability of lease assets from current and terminated leases

① Vehicles from current leases amounting to EUR 31,960.5 million (81.7% of total assets) are reported under the balance sheet item "Lease assets" and from terminated leases amounting to EUR 605.0 million (1.5% of total assets) under the balance sheet item "Other assets" in the annual financial statements of Volkswagen Leasing GmbH as of December 31, 2019. In accordance with German commercial law, lease assets classified as fixed assets are measured on the basis of the lower of cost less amortization and fair value, while other assets classified as current assets are measured at the lower of cost and fair value. Volkswagen Leasing GmbH performs a quarterly impairment test of lease assets from current and terminated leases using internal and external marketing results. The amortized carrying amount of the relevant asset is compared with the corresponding lower fair value in the context of the impairment test. The results of internal and external marketing and the executive directors' estimate of the development of market prices for vehicles are taken into account for this purpose. Write-downs in respect of lease assets amounting in total to EUR 336.7 million were recognized for the two balance sheet items concerned in the financial year on the basis of this valuation.

The measurement of the lease assets from current and terminated leases is, firstly, of great significance for the assets, liabilities, and financial performance of the Company in terms of amount and, secondly, involves a high degree of scope for judgment on the part of the executive directors, since the use of models and assumptions creates a high degree of uncertainty due to the estimates required for the measurement exercise. In addition, despite a declining trend, the ever present public discussion currently ongoing about the development of the residual values of vehicles with diesel engines (possible bans on diesel vehicles in inner cities, shift in demand towards vehicles with petrol engines) contributes further to the uncertainty involved in measuring the vehicles recognized. Against this background, this matter was of particular significance during our audit.

② Our audit included in particular assessing the valuations carried out by the Company with respect to whether these were up to date, as well as the methodology applied and the transparency of the valuation. At the same time, we obtained an understanding of the source data underlying the valuation, the value inputs and the assumptions made, evaluated those factors critically and assessed whether they are within a reasonable range. In addition to this, our assessment of the assumptions made by the executive directors with respect to marketing was based, among other things, on a comparison with general and sector-specific market expectations as well as documentation and explanations from the executive directors relating to the expected marketing results. Furthermore, we verified the classification of the vehicles as fixed or current assets and evaluated the respective accounting policies applicable as a result.

Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures relating to lease assets and to other assets are contained in sections 2 "Accounting Policies" and 3 "Balance Sheet Disclosures" of the notes.

Other Information

The executive directors are responsible for the other information.

The annual report is expected to be made available to us after the date of the auditor's report.

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

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

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

Responsibilities of the Executive Directors and the Audit Committee for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

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

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

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

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

Based on the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements for 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

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the shareholders' meeting on February 13, 2019. We were engaged by the management on July 8, 2019. We have been the auditor of Volkswagen Leasing GmbH, Braunschweig, without interruption since the financial year 1966.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Frank Hübner.

Hanover, February 7, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Frank Hübner	Prof. Dr. Mathias Schellhorn
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Publci Auditor)	(German Public Auditor)

Report of the Audit Committee

of Volkswagen Leasing GmbH

Volkswagen Leasing GmbH is a publicly traded corporation within the meaning of section 264d of the HGB. In accordance with the provisions of section 324 of the HGB, the Company has established an Audit Committee, which concerns itself in particular with the tasks described in section 107(3) sentence 2 of the Aktiengesetz (AktG – German Stock Corporation Act). The Audit Committee has three members. There were no changes to the committee membership compared with the prior year. The members of the Audit Committee are listed in the disclosures on governing bodies. The Audit Committee held two regular meetings in the reporting period. A further meeting was held by conference call. 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. All members of the Audit Committee were present at all the meetings.

At the meeting held on January 30, 2019 and in a conference call on February 11, 2019, the Audit Committee reviewed the annual financial statements and the management report of Volkswagen Leasing GmbH for the fiscal year 2018. 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 the auditor and the Company and/or its governing bodies, the aim being to assess the independence of the 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 and drew up the resolution on the audit engagement in preparation for the Annual General Meeting.

At its meeting held on November 6, 2019, the Audit Committee mainly discussed audit planning, key areas of emphasis for the audit and the obligations of the auditor to provide certain information. The Committee also received updates on the latest funding and liquidity position of Volkswagen Leasing GmbH. In addition, the Committee discussed the Company's risk management system, focusing particularly on the treatment of residual value risk. At the same meeting, the Company's Compliance Officer reported on the risk and security measures in the Company. In this context, changes to the Whistleblower System and progress in the Volkswagen Group-wide Together4Integrity program were presented. The Head of Internal Audit also reported on the department's auditing program and the emphasis of their audits in the reporting year. Key audit activities and findings were discussed in detail.

Braunschweig, March 23, 2020

Werner Flügge Chairman	Helmut Streiff Deputy Chairman
Frank Fiedler Member	

NOTE ON FORWARD-LOOKING STATEMENTS

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

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

PUBLISHED BY

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TYPESETTING

Produced in-house with firesys

This annual report is also available in German at https://www.vwfs.com/gbvwleasing19.

VOLKSWAGEN LEASING GMBH

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