VOLKSWAGEN LEASING

GMBH

ANNUAL REPORT

2020

Volkswagen Leasing GmbH

At a Glance[1]

€ million	2020	2019	2018	2017	2016
Investments in lease assets	20,629	20,710	16,038	16,040	14,904
Lease assets	36,033	31,960	27,739	26,049	23,753
Total assets	43,127	39,106	37,486	32,218	27,767
Leasing income	20,679	19,790	17,501	15,848	14,681

Vehicles (thousands)	2020	2019	2018	2017	2016
New contracts	702	769	618	615	590
Existing contracts	1,721	1,674	1,487	1,386	1,281

1 In 2020, the figures for MAN Financial Services GmbH, which was merged with Volkswagen Leasing GmbH as of January 1, 2020, were included for the first time. Prior-year figures include the figures for the branch in Warsaw, which was spun-off in the year under review with retrospective effect as of January 1, 2020.

Fundamental Company Information

Continuous growth confirms Volkswagen Leasing GmbH's business model.

BUSINESS MODEL

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

ORGANIZATION OF VOLKSWAGEN LEASING GMBH

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

Until August 31, 2020, the responsibilities of the Management Board of Volkswagen Leasing GmbH were subdivided into three areas (Board departments). Since September 1, 2020, there have been four such Board departments. Mr. Jens Legenbauer is responsible for Corporate Management and is also the Chairman of the Management Board. Corporate Management brings together the areas of marketing, sales management, product and brand management, and sales strategy. The internal sales and field sales departments of Volkswagen Leasing GmbH as well as fleet services management and administration are combined in the Front Office department in order to give customers a perfectly aligned fleet management and a comprehensive service and mobility offering. This Board department was the responsibility of Mr. Knut Krösche until July 31, 2020. Mr. Jens Legenbauer took over the department from August 1, 2020 in addition to his other responsibilities. In the Front Office department, the Company implemented the first steps toward creating the new structure for the retail and fleet customer business in order to bring about further improvements in customer retention and establish an overarching sales approach focusing on customer and dealer relationship management. In the next year, the aim is to carry out more structural optimization of the Front Office based on further detailed analyses of processes. In conjunction with the integration of the organizational units from MAN Financial Services GmbH following the merger with Volkswagen Leasing GmbH on September 1, 2020, a new Board department referred to as Front Office MAN FS was established under the responsibility of Mr. Frank Czarnetzki. Mr. Hendrik Eggers took over responsibility for the Back Office Board department from Ms. Silke Finger on June 1, 2020. This Board department's activities, which consist of risk management, back office and controlling, were extended from September 1, 2020 to include the risk management and controlling functions from MAN Financial Services GmbH.

BRANCHES

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

INTERNATIONAL BRANCHES

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

INTERNAL MANAGEMENT

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

Reconciliation
€ million

Result from ordinary business activities in accordance with the HGB (legal entity)	–94.3
Of which neg. result from ordinary business activities in accordance with the HGB (Italy branch)	54.8
Variances in operating profit due to classification/measurement differences for leases between HGB and IFRSs	286.9
Variances under HGB compared with IFRSs due to ABS funding	11.8
Other factors	–7.3
Operating result in accordance with IFRSs	251.9

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

CHANGES IN EQUITY INVESTMENTS

Effective May 28, 2020, Volkswagen Leasing GmbH transferred the entire portfolio of its branch in Warsaw, Poland, to the newly established Volkswagen Leasing Polen GmbH, Braunschweig, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig, by means of a spin-off. On May 29, 2020, Volkswagen Leasing Polen GmbH was merged into Volkswagen Financial Services Polska Sp. z o.o., Warsaw, Poland, a wholly owned subsidiary of Volkswagen Financial Services AG. The purpose of the spin-off and merger was to support the internal restructuring of the leasing business in Poland.

On July 31, 2020, MAN Financial Services GmbH, Munich, a wholly owned subsidiary of Volkswagen Financial Services AG, transferred all the shares in MAN Financial Services GesmbH, Eugendorf, Austria, to Volkswagen Financial Services AG. This asset transfer formed part of a reorganization in preparation for the merger of MAN Financial Services GmbH into Volkswagen Leasing GmbH.

On August 31, 2020, MAN Financial Services GmbH, Munich, was merged into Volkswagen Leasing GmbH. The purpose of the merger was to consolidate the Truck & Bus business under the umbrella of Volkswagen Leasing GmbH.

On September 1, 2020, Volkswagen Leasing GmbH established "MAN Financial Services, Regional Office of Volkswagen Leasing GmbH" in Munich.

There were no other changes with respect to equity investments in fiscal year 2020.

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

The global economy was hit by negative growth in 2020 as a consequence of the Covid-19 pandemic. Global demand for vehicles was lower than in the previous year. Volkswagen Leasing GmbH saw continued growth in current contracts and lease assets.

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management Board of Volkswagen Leasing GmbH considers the business to have performed well in 2020 despite the challenges presented by the Covid-19 crisis.

In 2020, Volkswagen Financial Services was able to defend the top ranking that it regained in 2019 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 2020, Volkswagen Leasing GmbH maintained its focus on the digitalization of its core business and on further expansion of its mobility services. Online sales increased by 70% year-on-year across all products. Notably, disproportionately high growth was generated from the leasing product, which has been partially digitalized, and from the fully digitalized servicing and inspection product. In addition, the Company further accelerated its collaboration with dealers and the digitalization in dealerships. A vast number of dealers can now submit financing and lease applications digitally to Volkswagen Leasing GmbH. One advantage for dealers and customers is that faster application processing can be guaranteed. The self-service portal launched in 2019 (allowing customers to notify a change of address, for example) now has over 61,000 registered users and is gradually being expanded to include further services, ranging from advice to online sales of financial and mobility services.

The objective of all the digitalization activities still 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.

The Covid-19 pandemic has again underlined the increasing importance of digitalization and given further impetus to the efforts in this regard. However, dealerships remain the most important pillar of the sales organization. Despite restrictions caused by the pandemic, which even included the temporary closure of dealerships, Volkswagen Leasing GmbH still acquired a total of just under 600,000 new servicing agreements in the reporting year. There was an increase in the sales of the servicing and inspection package, which enjoys huge popularity especially among retail customers, with as many as 264,000 or so new contracts added in the year. The popularity of servicing products is still growing, particularly in the used vehicle segment. Tire services represent another key product in Volkswagen Leasing GmbH's portfolio of services alongside servicing products. Because of the circumstances described above, it was not possible to repeat the record level of new contracts in 2019. However, the processes in connection with the tire services are being constantly streamlined, for example with customized solutions for the ID range. Sales are also being focused in this area of activity with a view to achieving a marked rise in new contracts again in 2021.

Against all the odds, the number of current contracts in the core business of leasing was expanded. Almost 9% growth was achieved. The retail customer business was the main driver behind this growth. The foundations were laid in the previous year with a product sales drive in this segment and the momentum was boosted by further measures in the reporting year.

With a view to pooling fueling and other services in the Volkswagen Group, Volkswagen Leasing GmbH has also been operating fuel card business in cooperation with LogPay Transport Services GmbH (LogPay) since the previous year. LogPay, a business owned by Volkswagen Financial Services, issues fuel/service cards that can be used throughout Europe to obtain fuel and toll services on a cashless basis. The aim is to continue to expand the range of new and existing innovative mobility services.

LogPay offers a number of products, including the Charge&Fuel card and app, which can be used throughout Europe to pay for charging and fuel for electric and plug-in hybrid vehicles from Volkswagen Group brands or mixed fleets. Customers with electric and plug-in hybrid vehicles can charge their vehicles at around 145,000 charging points and buy fuel at 17,000 filling stations accepting LogPay in Europe as well as obtain other vehicle-related services such as the use of car-wash facilities.

Back in 2019, Volkswagen Financial Services AG made a 60% equity investment in FleetCompany GmbH in order to expand its range of services in international fleet and mobility management. FleetCompany GmbH 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.

In a further addition to the range of mobility services for fleet customers and business travel management services, Volkswagen Financial Services has taken over Voya, a business travel start-up based in Hamburg. Voya offers a digital travel assistant for businesses, available as a smartphone app or in a desktop version. The integration between online platform and service from a physical travel agent enables business travelers to arrange and book their trips within a few minutes. As fleet management and travel management are gradually being merged in many businesses, Voya can provide fleet customers with an appropriate range of services.

In addition, MAN Financial Services GmbH, Munich, was merged into Volkswagen Leasing GmbH at the end of August 2020. The merger applied retroactively from January 1, 2020. All activities and employees were retained at the Munich offices. Financial services for the MAN Truck & Bus and Neoplan brands are offered under the brand name MAN Financial Services (a regional office of Volkswagen Leasing GmbH). In order to take into account this new division of the business, the previous managing director of MAN Financial Services GmbH, Frank Czarnetzki, was appointed as a further regular member of the Management Board of Volkswagen Leasing GmbH on September 1, 2020 where he holds corresponding responsibility for the Truck & Bus business.

Following this merger, Volkswagen Leasing GmbH is now in a position to serve as a one-stop shop, offering customers mobility services covering a range of vehicles from small cars to heavy goods vehicles. MAN Financial Services performed well in 2020 despite the Covid-19 pandemic. The number of new contracts declined compared with the previous year but expansion based on the high level of collaboration with the MAN brand continued. Automated decisions on lending became operational for large parts of the business right at the beginning of 2020; this was followed in the fall by automated contract transmission. In a new document and workflow management system, the sales office now uses an online facility to transfer contract documents directly to the contract system and various activities are automated.

EURO-Leasing GmbH, since 2014 a wholly owned subsidiary of Volkswagen Financial Services AG and therefore a sister company of Volkswagen Leasing GmbH, became the brand vehicle hire company in the Volkswagen Group at the end of 2019 as a result of its merger with Euromobil Autovermietung GmbH. The company offers mobility that is precisely matched with the needs of retail or business customers in both the passenger car and truck segments, with vehicles ranging from small cars to 40-tonne trucks. In 2020, the comprehensive rental portfolio was extended with the launch of the car subscription model VW FS | Auto Abo, a future-oriented product in collaboration with Volkswagen Financial Services. The foundations were also put in place for closer collaboration with MAN Truck & Bus Germany: January 2021 saw the launch of joint marketing under the name MAN Rental. In this arrangement, truck rental solutions are integrated into the MAN portfolio as a product of equal value alongside outright sales and leasing, and are actively promoted by MAN. Furthermore, two appointments during the year brought about greater dovetailing between the companies in the German market. Gerhard Künne became the new CEO in mid-2020 and Jens Legenbauer, Chairman of the Management Board of Volkswagen Leasing GmbH, was appointed Chairman of the Supervisory Board.

Volkswagen Leasing GmbH has implemented a program referred to as "Blaue Flotte" (Blue Fleet), which it is using 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 has been delivered to fleet customers (including special customers and public authorities) via Volkswagen Leasing GmbH from January 1, 2020 onward is part of the Blaue Flotte (blaueflotte.vwfs.de). The Blaue Flotte initiative also bundles 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.

Volkswagen Leasing GmbH's sister company, Mobility Trader GmbH (heycar Deutschland), has continued to grow over the past year with its used vehicle platform www.heycar.de. Currently, the platform features more than

300,000 vehicles at approximately 3,200 affiliated dealer sites, which means that heycar Deutschland 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). The enhancement of financial services products to include leases and the option of buying and financing vehicles online mean that a further innovative milestone has been reached in the coalescence of financial services and customer needs. In a short time, it will also be possible to acquire vehicles online using leasing. The overall positive development of the www.heycar.de used vehicle platform is also clear from the steady rise in the number of pre-qualified customer inquiries and the resulting higher volume of contracts.

The global, intercompany efficiency program referred to as Operational Excellence (OPEX), which was launched in fiscal year 2017, is becoming even more important because of the current situation (Covid-19 pandemic).

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

The expansion of the multibrand business and thus the further development of Volkswagen Leasing GmbH toward becoming a multibrand captive is progressing on schedule. 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. Our customers continue to respond very positively to our ability to offer the entire range of brands, including brands outside the Volkswagen Group, on a competitive basis. In the reporting year, the multibrand portfolio of existing contracts expanded significantly and numbered 33,204 contracts as of December 31, 2020. This growth underlines the role played by Volkswagen Leasing GmbH as a leading mobility service provider for all market segments. Additional improvements in processes and systems are planned so that the Company can continue to enhance the effectiveness and efficiency of the multibrand-strategy activities.

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. In this context, integrity means employees choosing the right course of action based on their own personal conviction and conducting themselves in accordance with the basic principles and ethics of the Volkswagen Group in compliance with the rules, even if there is economic or social pressure to do otherwise. 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 since then, in 2019 and 2020, has been extended to cover the entire Volkswagen Financial Services Group and which will continue to be implemented in 2021. Volkswagen Leasing GmbH and its Italian branch were included in this program rollout. In Germany, 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 2020 COMPARED WITH PRIOR-YEAR FORECASTS

In the German market, a slightly higher operating result in accordance with IFRSs had been anticipated for fiscal year 2020 compared with the prior year. Despite the Covid-19 crisis, the IFRS operating result generated by Volkswagen Leasing GmbH in the German market amounted to €251.9 million, which was well above the corresponding prior-year figure of €140.4 million. Of this figure, €24.0 million was generated by MAN Financial Services GmbH, which was merged with Volkswagen Leasing GmbH with retroactive effect from January 1, 2020.

Because of the Covid-19 pandemic and the associated restrictions, deliveries of Group vehicles did not match the projections and were well below the prior-year figure. As a consequence, new leases were significantly down on the prior-year level and thus below the forecast figure. On the other hand, the volume of leases in the portfolio expanded slightly, as expected. The penetration rate in relation to Volkswagen Leasing GmbH in the German market rose significantly and therefore exceeded the forecast.

In Italy, new contracts increased very significantly compared with the forecast. This upturn also had a corresponding impact on the volume of existing contracts, which also saw a very significant expansion compared with the projection. Because the portfolio expansion was combined with a deterioration in residual value risk, the operating result in accordance with IFRSs amounted to €11.9 million, which was very substantially below the prior-year figure of €25.3 million, as forecast. Despite a contraction in unit sales (deliveries to customers), the penetration rate rose slightly compared with the projected figure because of the encouraging positive trend in new leasing business.

GLOBAL ECONOMIC DEVELOPMENT

GLOBAL SPREAD OF CORONAVIRUS (SARS-COV-2)

At the end of 2019, initial cases of a potentially fatal respiratory disease became known in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also appeared outside China from mid-January 2020. In Europe, the number of people infected rose continuously in the course of February, and especially in March and April 2020. While many European countries recorded declining numbers of new infections as the second quarter of 2020 progressed, the rate of new infections continued to rise in North, Central and South America, Africa and parts of Asia. In the second quarter, many of the measures taken to contain the Covid-19 pandemic were gradually eased, especially in Europe. This included partially lifting border controls and travel restrictions and easing lockdowns as well as the reopening of businesses and public facilities. In addition, the European Commission and numerous European governments approved aid packages to support the economy. In other regions, too, governments introduced measures aimed at shoring up the economy to counteract the enormous disruption to everyday life and economic activity caused by the Covid-19 pandemic. During the third quarter, and particularly during the fourth quarter of 2020, many regions outside China around the world saw a renewed – and in some cases very rapid – increase in new infections, which led to the easing of restrictions being reversed in certain situations.

Throughout the whole of 2020, the global spread of the SARS-CoV-2 virus brought enormous disruption to all areas of everyday life and the economy.

GLOBAL ECONOMY

The global spread of the SARS-CoV-2 virus, the associated restrictions, and the resulting downturn in demand and supply meant that growth in the world economy was negative in 2020, at –4.0 (2.6)%. The average rate of expansion of gross domestic product (GDP) was far below the previous year's level in both the advanced economies and the emerging markets. At country level, performance in the reporting period depended on the extent to which the negative impact of the Covid-19 pandemic was already materializing. The governments and central banks of numerous countries responded in some cases with substantial fiscal and monetary policy measures. This meant cuts in the already relatively low interest rates. There was a significant drop in prices for energy resources, while other commodity prices increased slightly year-on-year on average. On a global average, consumer prices rose at a slower pace than in 2019, and global trade in goods declined in the reporting period.

Europe

At –7.2 (1.3)%, the economies of Western Europe as a whole, recorded a sharp fall in growth in 2020. This trend was seen in nearly all countries in Northern and Southern Europe. The impact of national measures to contain the pandemic, including border closures and physical distancing, caused deep cuts. In some states, the measures severely restricted everyday life and also had grave economic consequences. Governments of many countries in this region subsequently started to lift some of the restrictions imposed, spawning a gradual economic recovery. Due to the renewed increase in case numbers in many countries as the year went on, several of these measures were tightened again, or at least left in place. In addition, the uncertain outcome of the Brexit negotiations between the United Kingdom and the European Union (EU) generated uncertainty in fiscal year 2020, as did the related question of what form this relationship would take in the future.

The economies in Central and Eastern Europe reported a marked decline in the real absolute GDP in 2020 at –3.7 (2.5)%, with economic output falling by –3.4 (2.9)% in Central Europe and by –4.0 (2.0)% in Eastern Europe.

Germany

Germany's economic output showed a significantly negative trend in the reporting year at –5.3 (0.6)%. The labor market was in a favorable situation at the start of the year, but the pandemic led many companies to introduce short-time working (Kurzarbeit) throughout the course of the year. The temporary easing of restrictions in everyday life and economic activity as well as government assistance packages enacted to support the economy led to improved confidence among consumers and companies as the year progressed. However, it only occasionally matched the previous years' levels.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services were in high demand in 2020, particularly in the first three months of the year. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas. Nevertheless, the reporting period saw the Covid-19 pandemic exert downward pressure on the demand for financial services in virtually every region. The impact from the Covid-19 pandemic was noticeable around the globe, especially in the second quarter of 2020. Markets for automotive financial services staged a partial recovery in the third and fourth quarters.

The European passenger car market was affected by the Covid-19 pandemic especially in the second quarter of 2020, a downturn that unleashed a significant decline in demand in the automotive business over the reporting period as a whole. In these challenging market conditions, the proportion of vehicle sales accounted for by leases and financing agreements continued to rise in European markets, even though the absolute figures for signed contracts fell short of the level achieved in the previous year.

In Germany, the number of new vehicles financed by loans or leases in 2020 went down compared with the previous year, reflecting the challenges presented by the Covid-19 pandemic. In the leasing business with individual customers, the shift from financing to leases, which had begun in 2019, continued in the reporting year.

The Covid-19 pandemic also led to a substantial drop in demand for new and used commercial vehicles in 2020. This gave rise to an equivalent fall in the number of leases and financing agreements in Europe.

TRENDS IN THE PASSENGER CAR AND LIGHT COMMERCIAL VEHICLES MARKETS

In fiscal year 2020, the global market volume of passenger cars fell significantly below the prior-year level due to the Covid-19 pandemic, decreasing to 67.7 million vehicles (–15.2%). This marked a decline for the third year in a row. All regions were affected by this slump. The overall markets of Western Europe, South America and Africa recorded above-average losses, while the decline in Asia-Pacific and the Middle East was smaller in percentage terms.

Global demand for light commercial vehicles in the reporting period was down significantly 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 industries made the movement of vehicles, parts and components more difficult.

Europe

In Western Europe, the number of new passenger car registrations in the reporting period was down substantially by as much as –24.5% on the prior-year figure, at 10.9 million. The negative impact from the spread of the SARS-CoV-2 virus was noticeable in all countries in the region as early as March. After the drastic decline at the beginning of the second quarter, recovery set in the months that followed, and by the end of the third quarter, figures even matched those of the prior year. The fourth quarter of 2020 witnessed a lateral movement in the market, keeping volumes noticeably below the previous year's level. New registrations saw declines on a similar scale in all major individual markets and were in negative territory at year-end: France (–25.4%), Italy (–27.9%), the UK (–29.4%) and Spain (–32.1%).

The volume of new registrations of light commercial vehicles in Western Europe fell significantly below the prior-year figure, essentially due to the pandemic.

Germany

New passenger car registrations in Germany in fiscal year 2020 fell significantly short of the previous year's high level, declining to 2.9 million units (–19.1%). Exacerbated by the Covid-19 pandemic and its fallout, demand for passenger cars fell to its lowest level since German reunification despite a temporary reduction in value-added tax and higher purchase premiums for electric vehicles.

Owing to the mandated temporary shutdowns driven by the pandemic and weak demand in important foreign markets, domestic production and exports in the reporting period again fell short of the comparable prior-year figures: passenger car production decreased by –24.6% to 3.5 million vehicles, largely due to the –24.1% drop in passenger car exports to 2.6 million units.

Demand for light commercial vehicles in Germany in the reporting period was significantly lower than in 2019.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was down substantially year-on-year in fiscal year 2020 due to the spread of the SARS-CoV-2 virus: 460 thousand new vehicles were registered (–20.1%). Despite the ongoing uncertainty generated by the Covid-19 pandemic, a recovery could be seen in almost all of the markets that are relevant for the Volkswagen Group in the second half of 2020 compared with the first six months.

In the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was sharply down on the prior-year figure, dropping –27.4% to a total of 273 thousand registrations in Germany, the largest market in this region, fell substantially year-on-year. The previously anticipated downturn in the market for 2020 was amplified by the Covid-19 pandemic, especially in the second quarter of the year.

Demand for buses in the markets that are relevant for the Volkswagen Group was much lower than in the previous year as a consequence of the pandemic. All key markets within the EU27+3 contributed to this trend, with the market for coaches in particular virtually grinding to a halt.

RESULTS OF OPERATIONS

The branch of Volkswagen Leasing GmbH in Warsaw was spun off with retroactive effect from January 1, 2020. MAN Financial Services GmbH was merged into Volkswagen Leasing GmbH, likewise with retroactive effect from January 1, 2020. These transactions have affected comparability with the previous year.

In the reporting period, leasing income rose by €0.9 billion to €20.7 billion. The increase in income arose mainly from current lease installments (€6.9 billion), which were up by €0.5 billion compared with the previous year, and from the other leasing business (€0.7 billion), which went up by €0.4 billion. The larger portfolio of leases will lift revenue in the coming years.

Leasing expenses went down by €0.1 billion year-on-year to €11.2 billion. This item mainly consists of the residual carrying amounts of remarketed vehicles and the expenses from service leasing. As a result of the Covid-19-related lockdown, customers temporarily made fewer vehicle journeys, leading to a fall in expenditure on maintenance and servicing contracts, which declined by €0.3 billion compared with the previous year.

General and administrative expenses increased by €6 million to €578 million (previous year: €572 million), mainly as a consequence of higher IT costs and allocated administrative expenses.

Depreciation and write-downs of lease assets amounted to €7.9 billion (previous year: €7.0 billion). This figure includes write-downs of €0.3 billion (previous year: €0.3 billion).

A higher funding requirement driven by business growth and a temporary rise in spreads, largely caused by the uncertainty in money and capital markets due to the Covid-19 pandemic, led to an increase in interest expenses. Consequently, the net interest expense amounted to €482 million, which equated to a deterioration of €46 million compared with the prior-year net expense figure of €436 million.

Write-downs of and valuation allowances on receivables and additions to provisions in the leasing business rose by €24 million year-on-year and as of December 31, 2020 amounted to €476 million (previous year: €452 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 €257 million (previous year: €271 million).

Other operating income amounted to €300 million, which was up by €45 million compared with the prior-year figure of €255 million.

Notably, the absence of expenses from currency translation following the spin-off of the branch in Poland led to a fall of €35 million in other operating expenses in the reporting year to €28 million.

The differences between the HGB and IFRS financial reporting frameworks produce significant differences in the results of Volkswagen Leasing GmbH under each framework, especially when business is expanding. The sharp rise in new business at Volkswagen Leasing GmbH 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.

The result from ordinary business activities in accordance with the HGB amounted to a loss of €95.5 million, which was a significant improvement on the corresponding prior-year figure of a loss of €189.0 million.

The IFRS operating result in the German market amounted to €251.9 million, similarly a substantial improvement on the corresponding prior-year operating result of €140.4 million. This year-on-year increase arose from a number of positive factors in addition to the continued business growth in 2020, in particular reversals of provisions for settlement and other contractual risks. MAN Financial Services GmbH, which was merged into Volkswagen Leasing GmbH with effect from January 1, 2020, also contributed €24.0 million to this operating result.

The IFRS operating result for the Italy branch amounted to €11.9 million, which was substantially below the prior-year figure of €25.3 million. This decrease arose because the portfolio expansion was combined with a significant deterioration in residual value risk.

NET ASSETS AND FINANCIAL POSITION

The branch of Volkswagen Leasing GmbH in Warsaw was spun off with retroactive effect from January 1, 2020. MAN Financial Services GmbH was merged into Volkswagen Leasing GmbH, likewise with retroactive effect from January 1, 2020. These transactions have affected comparability with the previous year.

Total assets rose by €4.0 billion to €43.1 billion. Lease assets, which represent the core business of Volkswagen Leasing GmbH, amounted to a total of €36.0 billion and therefore accounted for approximately 83.5% of total assets.

Acquisitions of lease assets declined slightly compared with the previous year and amounted to €20.6 billion (previous year: €20.7 billion). The gross carrying amount of lease assets increased from €43.3 billion to €48.8 billion. The net carrying amount as of the reporting date was €36.0 billion (previous year: €32.0 billion), equating to a rise of €4.0 billion or 12.5%.

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 1,721,000 units compared with approximately 1,674,000 as of the prior-year reporting date. Of this figure, the Italian branches accounted for approximately 72,000 vehicles (previous year: 59,000 vehicles). The increase in the portfolio was due to the net effect from the addition of approximately 702,000 new units and the disposal of around 555,000 vehicles. The merger of MAN Financial Services GmbH and the spin-off of the Warsaw branch with effect from January 1, 2020 reduced the portfolio by 100,000 units.

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)

2020		2019		2018		2017		2016	
Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance
702	1,721	769	1,674	618	1,487	615	1,386	590	1,281

In terms of capital structure, the main liability items are the liabilities to customers of €19.7 billion (previous year: €15.0 billion) and the notes and commercial paper issued amounting to €13.4 billion (previous year: €14.8 billion).

EQUITY

Volkswagen Leasing GmbH’s subscribed capital remained unchanged at €76 million in fiscal year 2020.

The equity of Volkswagen Leasing GmbH amounted to €270.7 million as of the reporting date. Based on the total assets of €43.1 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 there is appropriate liquidity management, Treasury prepares liquidity maturity balances, carries out cash flow forecasts and takes action as required. In these calculations, the legally determined cash flows are assumed for funding instruments, whereas estimated cash flows are used for other factors that affect liquidity. The requirement under the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements for Risk Management) for Volkswagen Leasing GmbH to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and 30-day time horizons was also satisfied at all times, 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 12 months are projected and compared against the potential funding available in each maturity band. A further strict requirement imposed under banking regulations is that any liquidity requirements identified in institution-specific stress scenarios must be covered by providing an adequate liquid cash buffer over seven-day and 30-day time horizons. No immediate need to take action was identified for Volkswagen Leasing GmbH in the reporting year from a regulatory perspective.

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 2020 overall, Volkswagen Leasing GmbH issued one bond with a total value of €500 million 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 March 2020 in the form of “Volkswagen Car Lease 30” (VCL 30) and in November 2020 with VCL 31. The transactions had a volume of €1.0 billion and €1.1 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 worldwide spread of SARS-CoV-2 is having a substantial adverse impact throughout society and across all areas of economic life. In particular, it is not possible at present to make a reliable assessment of the consequences for further growth in individual national economies or the global economy as a whole. Providing that the Covid-19 pandemic is successfully contained, the Management Board of Volkswagen Leasing GmbH predicts that deliveries to customers of the Volkswagen Group in Germany in 2021 will significantly exceed those of the previous year, although market conditions will remain challenging.

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

STRATEGIC OPPORTUNITIES

Volkswagen Leasing GmbH believes that the main source of opportunities lies in developing innovative products tailored to customers' changing mobility requirements. Growth areas such as mobility products and service offerings are being systematically developed and expanded. Further opportunities may be created by launching established products in markets where these products have not previously been offered.

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

OPPORTUNITIES FROM CREDIT RISK

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

OPPORTUNITIES FROM RESIDUAL VALUE RISK

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

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

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 clear definition of areas of responsibility accompanied by various monitoring and review mechanisms ensures that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.
> These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT processing controls account for a significant proportion of the integrated process activities alongside manual process controls, such as double-checking by a second person. These controls are supplemented with specific Group-level functions at the parent company Volkswagen AG, for example the Group Tax department.
> Internal Audit in the Volkswagen Financial Services AG subgroup is a key component of Volkswagen Leasing GmbH's monitoring and control system. As an outsourcee, it carries out regular audits of accounting-related processes as part of its risk-oriented auditing activities and reports on these audits directly to the Management Board of Volkswagen Leasing GmbH.

In sum, the existing internal monitoring and control system of Volkswagen Leasing GmbH is intended to ensure that the financial position of Volkswagen Leasing GmbH as of the reporting date December 31, 2020 has been based on information that is reliable and has been properly recognized. No material changes were made to the internal monitoring and control system of Volkswagen Leasing GmbH after the reporting date.

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

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

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

Volkswagen Leasing GmbH has implemented a risk management system to identify, assess, manage, monitor and communicate risks. The Risk Management System comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risks. The individual elements are tightly focused on the activities of the individual divisions. This structure 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.

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

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

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

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

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

RISK CULTURE, RISK STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Management Board of Volkswagen Leasing GmbH. It is also responsible for the subsequent implementation of the overall risk strategy at Volkswagen Leasing GmbH.

As part of this overall responsibility, the Management Board of Volkswagen Leasing GmbH has introduced a MaRisk-compliant strategy process and 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 sub-strategies and included in operational requirements as part of the planning round.

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 June 30, 2020 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk, earnings risk, direct residual value risk, market risk, liquidity risk and operational risk; it also concluded that reputational risk and strategic risk, which are not quantifiable, should also be considered material. Indirect residual value risk was classified as immaterial because it accounted for a low proportion of the overall risk.

Other existing subcategories of risk are taken into account within the categories specified above.

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

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

A system has been set up to determine the risk-bearing capacity of Volkswagen Leasing GmbH. 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.

Since January 1, 2020, risk-bearing capacity has been calculated in accordance with the principles set out in the guidance on risk-bearing capacity published in May 2018 by the German Federal Financial Supervisory Authority (BaFin). Volkswagen Leasing GmbH uses the economic perspective alone based on the exemptions available for financial services institutions. This relates to the internal process for ensuring capital adequacy using internal economic risk assessment models (measured on the basis of the internal risk-bearing capacity ratio). The aim is to ensure that the Company will continue to operate as a going concern indefinitely. The confidence level for determining risk-bearing capacity has been increased from 90% to 95%. As a result of this change, the risk values for the individual risk categories have also increased compared with the previous year.

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.

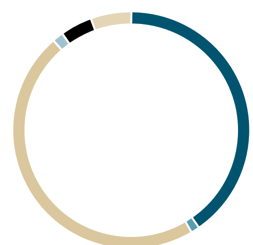
The establishment of the risk limit system as a core component of capital allocation limits the risk at different levels, thereby safeguarding the economic risk-bearing capacity of Volkswagen Leasing GmbH. Risk-taking potential is determined from the available equity and earnings components subject to 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, 2020



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

As of December 31, 2020, the overall economic risk of Volkswagen Leasing GmbH amounted to €1,733 million. The apportionment of this total risk by individual risk category was as follows:

CHANGES IN RISK, BY RISK CATEGORY

	DEC. 31, 2020		DEC. 31, 2019	
	€ million	Percent	€ million	Percent
Risk category				
Credit risk	699	40	478	38
Issuer and counterparty risk	20	1	2	0
Residual value risk	817	47	489	38
Net earnings risk	0	0	150	12
Market risk	26	2	18	1
Liquidity risk (funding risk)	0	0	0	0
Operational risk	75	4	70	6
Other risks[1]	96	6	63	5
Total	**1,733**	**100**	**1,270**	**100**

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

As of December 31, 2020, the risk-taking potential amounted to €3.7 billion and consisted of the balance sheet equity including the current net income, adjusted for hidden reserves and liabilities. 47% of the risk-taking potential was utilized by the risks described above. In the period January 1, 2020 to December 31, 2020 the maximum utilization of risk-taking potential in accordance with MaRisk was 55%.

Volkswagen Leasing GmbH not only determines its risk-bearing capacity in a normal scenario, but also carries out stress tests throughout the Company, the results of which are reported directly to the Management Board in the risk management report. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of Volkswagen Leasing GmbH. The purpose of these scenarios is to facilitate early identification of those risks that would be particularly likely to materialize in the scenarios, so that any necessary corrective action can be initiated in good time. The stress tests include both historical scenarios (such as the financial crisis in the years 2008 to 2010) and hypothetical scenarios (global economic downturn, a sharp drop in sales in the Volkswagen Group and a combination of institution-related and market-wide scenarios). In addition, reverse stress tests are used to identify what events could represent a threat to the ability of Volkswagen Leasing GmbH to continue as a going concern. In response to the Covid-19 pandemic, a further ad hoc stress test has been used. This test is constantly monitored as the pandemic situation changes.

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

RISK CONCENTRATIONS

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

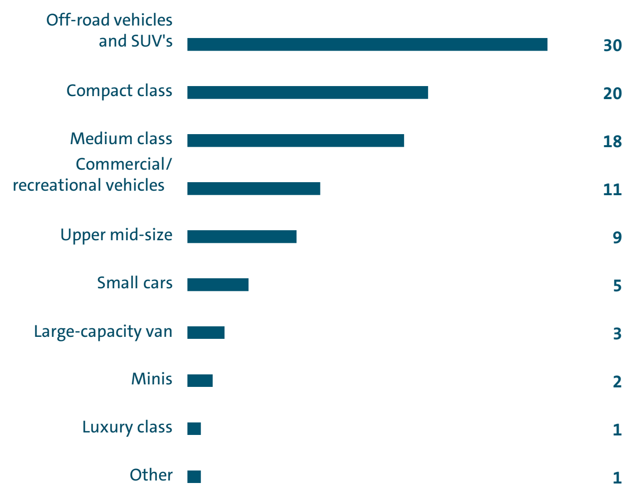
Concentrations of risk can arise from an uneven distribution of activity in which

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

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

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

COLLATERAL STRUCTURE AS OF DECEMBER 31, 2020
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 of Volkswagen Leasing GmbH without Truck & Bus business) based on a large range of vehicles from the different brands in the Volkswagen Group.

This broad vehicle diversification also means that there is no residual value concentration at Volkswagen Leasing GmbH. A concentration of income does arise from the nature of the business model because this model is predominantly based on vehicle leasing and associated services. The special constellation in which the Company serves to promote Volkswagen Group sales results in certain dependencies that directly affect income growth.

RISK REPORTING

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

OVERVIEW OF RISK CATEGORIES

Financial risks	Nonfinancial risks
Counterparty default risk	Operational risk
Residual value risk	Strategic risk
Market risk	Reputational risk
Liquidity risk	
Earnings risk	

FINANCIAL RISKS

Counterparty Default Risk

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

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

Credit Risk

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

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

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

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

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

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

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

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

Risk monitoring and control
Risk Management sets 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 compliance with their assigned authority.

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
In 2020, the volume of receivables at Volkswagen Leasing GmbH continued to grow despite the ongoing Covid-19 pandemic. This growth was mainly attributable to the established sales promotion programs and continuous expansion of the fleet business. Credit risk at Volkswagen Leasing GmbH only increased moderately, in spite of the pandemic. Alongside statutory assistance, inter-

nal support measures implemented by the Group mitigated effects from the Covid-19 pandemic.

As of December 31, 2020, 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 12 months: PD 3.2% (previous year-end figure: 3.1%) and LGD 33.6% (previous year-end figure: 34.7%); the total volume of receivables based on the active portfolio amounted to €36.4 billion (previous year-end figure: €33.3 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 branch. Given the focus of business activities at Volkswagen Leasing GmbH, there is little chance that country risks (such as legal risk) will arise.

Residual Value Risk

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

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

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

Risk identification and assessment

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

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

The UL is calculated by multiplying the latest projected residual value by the markdown. This value is calculated at individual lease level for each vehicle in the portfolio. As in the calculation of the EL, the 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 risk arising in connection with determining residual value is generally quantified using a methodology similar to that applied for direct residual value risk, but the methodology also takes into account further risk parameters (dealer default and other factors specific to this risk category).

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

Risk monitoring and control

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

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

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

Based on the resulting potential residual value risk, various measures are initiated as part of a proactive risk management approach to limit the residual value risk. Residual value recommendations for new lease 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. Despite the pandemic, risk per vehicle in relation to the contractual residual value per vehicle remained steady year-on-year 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.

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

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

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

Interest Rate Risk

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

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

Risk identification and assessment

Interest rate risk for Volkswagen Leasing GmbH is determined as part of the 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.

Market risk trend
Overall, interest rate 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 at least 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 30-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.

From the perspective of insolvency, the early warning indicator was activated in the reporting months of January, July and August. In response, the Company initiated various measures to increase potential funding, thereby eliminating the projected liquidity squeeze.

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 (gross 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.
Following the switch in the calculation of risk-bearing capacity to the economic approach, the net earnings risk is now used in this calculation rather than the gross earnings risk. To this end, the gross earnings risk is subtracted from the planned earnings for the next 12 months. If this results in a negative difference, the difference is deducted from the risk-taking potential. The results are monitored by Risk Management.

NON-FINANCIAL RISKS

Operational Risk

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

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

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

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

Risk identification and assessment

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

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

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

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

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

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

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

Risks are also managed on the basis of the specified limit and quarterly monitoring of the limit utilization in the risk-bearing capacity assessment. Operational risks are communicated on a quarterly basis as part of the risk management reports. The quarterly details are supplemented by an annual operational risk report in which the main events 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
Actual operational risk and losses remained stable in 2020 despite the pandemic.

Risk from Outsourcing Activities

Outsourcing describes a situation in which another entity (the outsourcee) is engaged to carry out activities and processes in connection with the provision of services that would otherwise be carried out by the outsourcing entity itself.
A distinction needs to be made between outsourcing and one-time or occasional procurement from third parties of goods or services or services that are typically obtained from a supervised entity and, because of the actual circumstances or legal requirements, cannot usually be supplied by the buying entity itself, either at the time of the purchase from the third party or in the future.

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

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

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

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

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

Compliance and Conduct Risk

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

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

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

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

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

As in the case of the compliance unit, the central integrity unit 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 and Integrity officer receives regular reports and carries out on-site visits on a risk-oriented basis to ensure that the local Compliance and Integrity units are meeting their responsibilities.

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

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

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

Strategic Risk

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

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

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

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

SUMMARY

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

Countermeasures were initiated and risk management activities were stepped up in response to the Covid-19 pandemic. As a result, the risk values for residual value risk and credit risk remained stable or only went up moderately compared with the previous year, despite the pandemic. The risk-bearing capacity was assured at all times in 2020. Volkswagen Leasing GmbH does not believe that there are any risks to the continuation of the business as a going concern.

Human Resources Report

HR modernization – focus on the customer

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, 2020, Volkswagen Leasing GmbH had 1,017 staff members (previous year: 798) in Germany. The increase in headcount compared with the previous year was attributable for the most part to the transfer of employees from MAN Financial Services GmbH in connection with this company's merger into Volkswagen Leasing GmbH in Germany.

The branches in Milan and Verona (Italy) had 63 employees (previous year: 63) as of December 31, 2020. As part of the restructuring of the Volkswagen Financial Services Group in 2020, the employees of the Volkswagen Leasing branch in Poland were taken over by a Volkswagen Financial Services company in Poland.

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.

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Human Resources Strategy

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

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

The HR unit was fundamentally restructured in the reporting year. Until now, administrative tasks have accounted for a high proportion of HR activities. Going forward, HR will be expected to be more proactive in influencing corporate strategy. The requirement is for an innovative partner capable of providing the impetus for the continued strategic development of various topics. At the same time, the focus is on supporting employees and providing advice for managers. A further requirement from now on is for HR to provide advisory expertise rather than an administrative service.

The HR unit has clearly oriented itself around customer needs with a structure based on a business partner model. The provision of strategic advice for managers on HR issues has been taken over by the customer function, whereas the new employee service center now looks after all employee-related matters. The two functions are backed by a broad range of specialist expertise in other components of the structure, enabling all matters to be treated on a holistic and long-term basis. The aim is thus to ensure that HR supports all customers efficiently and effectively and that it is involved in forward-looking issues for the business as appropriate for the right target group.

Another key aspect of HR activities has been the need to deal with the Covid-19 pandemic and the associated new requirements for managers and employees to work remotely.

Because of the pandemic, the vast majority of employees have been working from home. To facilitate this, processes have been transformed and technical requirements put in place in the shortest possible time. Employees have been equipped with laptops and the necessary access authorizations established. In this context, a large number of initiatives for digitalizing HR products and processes have been implemented. For example, seminars and mandatory training sessions are offered online and events are held using Skype. Job interviews and employee appraisal sessions are also conducted remotely. In addition, the Occupational Health & Safety department conducted work station approvals and hygiene protocols have been implemented. These measures aim to ensure that employees who can only do their jobs at the Company's offices are provided with the best possible protection. Necessary measures are regularly discussed, decided upon and then communicated by the crisis team with the involvement of appropriate experts. In order to ensure employees and managers were informed quickly and comprehensively, a total of 55 HR bulletins were sent to the entire workforce and 44 special notices to managers in 2020 via e-mail.

The Company assesses the extent to which it has achieved its objective of being a top employer by regularly taking part in external employer competitions. The aim is to continue to enhance working conditions and implement corresponding action in an effort to be included in the list of TOP20 employers in the "Great Place to Work" employer ranking by 2025, not just in Europe but worldwide.

In 2019, Volkswagen Financial Services AG 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. In a comparison within Europe, the Company was placed eleventh in a ranking of the top 25 European employers, which was an improvement on the twelfth place achieved in 2016. These results were based on the rankings in each country, for example sixth place in Norway and 28th place in Spain. The Company entered the competition again in 2020. The rankings in the German, European and wider international competitions are expected to be announced during the course of 2021.

Customer satisfaction with the work of the employees is given top priority at Volkswagen Financial Services AG. The results of external and internal customer satisfaction surveys are used as indicators of target achievement. The internal customer feedback system, which analyses internal collaboration, has now been introduced in 22 countries.

Staff Development

As part of the reorganization, all HR professional development and qualification matters have been restructured from a strategic perspective and assigned to one of two units in the business partner model (Leadership, Culture and Change on the one hand, and Skills and Qualifications Management on the other).

The range of skills development options is concentrated mainly on issues connected with preparing for change as part of the business and cultural transformation. Key areas are skills and vocations of the future alongside social and methodological know-how, for example in an agile working environment. 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.

Knowledge and experience in the field of digitalization is steadily growing in importance. In order to ensure that employees have the capability to adapt to changing job requirements, HR and the digital program have together developed a joint offering targeted at all employees who wish to receive professional development in connection with digitalization. In 2020, digitalization study programs and courses lasting a number of months were offered for the first time, with 20 places being allocated. This development opportunity is presented entirely online and can therefore be completed at any time or place at the convenience of the employee concerned.

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

Growth in the global economy is expected to recover overall in 2021. Global demand for passenger cars will probably vary from region to region and increase noticeably year-on-year. With its brand diversity, broad product range, technologies and services, we believe the Volkswagen Group 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 planning is based on the assumption that global economic output will recover overall in 2021, provided lasting containment of the Covid-19 pandemic is achieved. This growth will most likely be sufficient for the economy to recover to approximately its pre-pandemic level. The Management Board continues to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. The Company therefore anticipates that both the advanced economies and the emerging markets will experience positive momentum.

Furthermore, it is anticipated that the global economy will also continue to grow in the period from 2022 to 2025.

Europe

In Western Europe, moderate economic growth is expected for 2021 after the downturn in the last fiscal year. The impact of the Covid-19 pandemic and the uncertain consequences of the United Kingdom's withdrawal from the EU will fundamentally pose major challenges.

Germany

The Company expects gross domestic product (GDP) in Germany to grow at a relatively robust pace in 2021 but to remain short of its pre-pandemic level. The labor market situation is likely to deteriorate somewhat depending, among other things, on a delayed increase in corporate insolvencies following the suspension of the obligation to file for insolvency during the pandemic.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Volkswagen Financial Services AG believes that automotive financial services will play a significant role in global vehicle sales in 2021, particularly because of the ongoing challenges resulting from the Covid-19 pandemic. We expect demand to rise in emerging markets where market penetration has so far been low. Regions that already benefit from developed automotive financial services markets will 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, we expect demand to increase for new forms of mobility, such as rental services, and for integrated mobility services, for example parking, refueling and charging and that the initiated shift from financing to lease contracts will continue in the leasing business. We anticipate that this trend will continue in the period from 2022 to 2025.

In the mid-sized and heavy commercial vehicles category, rising demand for financial services products in emerging markets is expected. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In mature markets, Volkswagen Leasing GmbH is projecting increased demand in 2021 for telematics services and services aimed at reducing total operating costs. This trend is also expected to continue in the period 2022 to 2025.

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 2021. Overall, the volume of demand worldwide for new vehicles is expected to be noticeably up on the reporting year, but will not reach the pre-pandemic level, provided successful containment of the Covid-19 pandemic is achieved. The Company is forecasting growing demand for passenger cars worldwide in the period from 2022 to 2025.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2021; on the whole, a moderate rise in demand for 2021 is anticipated, assuming a successful containment of the Covid-19 pandemic. For the years 2022 to 2025, the Company expects demand for light commercial vehicles to increase globally.

The Company believes it is well prepared overall for the future challenges pertaining to automobility business activities and for the mixed development of the regional automotive markets. Brand diversity, presence in all major world markets, the broad and selectively expanded product range, and 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. It 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 2021, Volkswagen Leasing GmbH expects that the volume of new passenger car registrations in Western Europe will be distinctly above the level recorded in the reporting period. At the same time, however, possible consequences of the pandemic and the uncertain impact of the United Kingdom's exit from the EU may result in ongoing uncertainty among consumers and dampen demand. In Italy, Spain and France, the Company nevertheless expects the markets to significantly exceed the level seen in the reporting year.

For light commercial vehicles, Volkswagen Leasing GmbH anticipates demand in Western Europe in 2021 to be noticeably up on the previous year's level despite the possible consequences of the pandemic and the uncertain impact of the United Kingdom's exit from the EU. A moderate to large increase is expected in Italy, France, Spain and the United Kingdom.

Germany

In the German passenger car market, a moderate year-on-year increase in demand is expected in 2021.

Registrations of light commercial vehicles are also expected to be noticeably up on the previous year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

For 2021, Volkswagen Leasing GmbH expects a significantly positive development in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year, with variations from region to region, in the markets that are relevant for the Volkswagen Group.

Significant market growth is expected for the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3).

On average, moderate growth rates in the relevant truck markets for the years 2022 to 2025 are expected.

Volkswagen Leasing GmbH expects a moderate increase in overall demand with regional variations for 2021 in the bus markets relevant for the Volkswagen Group. A slight year-on-year decline in the market is expected in the EU27+3 countries.

Overall, a noticeable increase in the demand for buses on the relevant markets is expected for the period from 2022 to 2025.

INTEREST RATE TRENDS

The period of low interest rates continued in Europe, the USA and numerous other economies in 2020, and also at the beginning of the current fiscal year. The outbreak of the pandemic in the spring of 2020 led to economic setbacks, to which central banks around the globe responded by further loosening monetary policy. Interest rates are still at historic lows. There is currently no end to the period of low interest rates in sight.

MOBILITY CONCEPTS

Social and political factors have an increasing impact on many people's individual mobility behavior. New challenges are appearing in connection with the design of an intelligent mobility mix consisting of public transport combined with motorized and non-motorized personal transport, especially in large metropolitan areas. In addition, new mobility solutions will change the traditional perception of owning a vehicle. As a result, mobility is being redefined in many respects.

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

In collaboration with the automotive brands within the Volkswagen Group, Volkswagen Financial Services AG is aiming to be the leader 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 and car subscription, 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 transactions was integrated into the services for business customers. Further activities will focus on driving forward the 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. Such marketing includes an attractive range of leasing services complemented by packages covering maintenance and wear-and-tear repairs. Those services play a key role in the marketing of electric vehicles produced by the Volkswagen Group.

Volkswagen Financial Services AG is also a partner of AUDI AG in the implementation of the e-tron Charging Service, which provides customers buying the new Audi e-tron with access to more than 184,000 public charging stations in Europe.

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

BUSINESS DEVELOPMENT OF VOLKSWAGEN LEASING GMBH

In the coming fiscal year, Volkswagen Leasing GmbH predicts that, while Volkswagen Group unit sales will rise again, the penetration rate will fall slightly, although it will still be significantly higher than the level prior to the Covid-19 pandemic. The Company expects to generate growth by expanding online sales and by leveraging its product ranges 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.

FORECAST OF MATERIAL RISKS

Credit Risk Forecast

As far as credit risk is concerned, it is anticipated that the risk will be slightly higher in 2021 as a consequence of the ongoing Covid-19 pandemic (for example, because of the suspended requirement to apply for the initiation of insolvency proceedings in Germany). The effects very much depend on how the pandemic develops and on the macroeconomic impact. Nevertheless, the volume of business is projected to grow. The Company continues to monitor the risk situation closely so that it can respond proactively to any potential developments by initiating targeted corrective measures.

Residual Value Risk Forecast

Because of the projected growth in business, we are anticipating the overall risk to increase. The e-mobility sales drive in connection with the German federal government’s Climate Action Program 2030, together with the ongoing Covid-19 pandemic, could also have an impact on the residual value portfolio in 2021.

Market Risk Forecast

The Company is forecasting a generally stable risk situation for fiscal year 2021, based on the expectation of a relatively stable interest rate environment.

Liquidity Risk Forecast

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

Operational Risk Forecast

Any change in operational risk going forward will generally be shaped by the growth in the Company's business. Nevertheless, it is not anticipated that there will be any rise in operational risk.

OUTLOOK FOR 2021

Volkswagen Leasing GmbH's Management Board expects global economic growth in 2021 to be higher than the previous year's level. Risks will arise first and foremost from the consequences of the Covid-19 pandemic. In addition, growth prospects will be hurt by geopolitical tensions and conflicts. The emerging economies of Asia will probably record the highest rates of growth. We expect growth in the major industrialized nations to be stronger than in 2020. Growth in individual countries and regions is heavily dependent on the local course of the pandemic going forward.

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

Based on the effects described above and assuming that the margin in the coming year remains stable, the operating result for fiscal year 2021 is projected to be significantly below the prior-year level. New contracts are forecast to be slightly above the level of the previous year and the volume of existing contracts is expected to be significantly above the prior-year level. While vehicle deliveries are projected to rise, Volkswagen Leasing GmbH expects to see a slight fall in its penetration rates in the German market compared with the previous year.

For the coming year, the Italy branch predicts that there will be a very substantial recovery in unit sales (deliveries to customers), a considerable rise in new leasing business and a modest expansion in the portfolio of existing contracts, although the penetration rate is likely to decline moderately. Volkswagen Leasing GmbH forecasts that there will be a very considerable rise in the operating result in 2021 compared with the previous year, not least also because of the expansion in the service and insurance business.

Braunschweig, February 10, 2021

The Management Board

Jens Legenbauer Hendrik Eggers Frank Czarnetzki

This report contains forward-looking statements on the future business development of Volkswagen Leasing GmbH. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and financial and automotive markets, which have been made on the basis of the information available and which Volkswagen Leasing GmbH currently considers to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of the business. The same applies in the event of material changes in exchange rates against the euro. The same applies should the actual effects of the Covid-19 pandemic differ from the scenario assumed in this report. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2020 Annual Report do not develop in line with current expectations, or additional risks and opportunities or other factors emerge that affect the development of the business.

Balance Sheet

of Volkswagen Leasing GmbH, Braunschweig, as of December 31, 2020

€ thousand		Dec. 31, 2020	Dec. 31, 2019[1]
Assets			
1. Loans to and receivables from banks			
b) from other activities			
aa) Repayable on demand	150,012		74,824
		150,012	74,824
2. Receivables from customers			
a) from payment services	0		0
aa) from fees and commissions	337		500
b) from other activities	5,052,460		5,345,564
		5,052,797	5,346,064
3. Lease assets			
aa) from other activities		36,033,215	31,960,487
4. Intangible fixed assets			
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	2,430		3,932
b) Prepayments	0		236
		2,430	4,168
5. Property and equipment			
a) Land and buildings			
ab) from other activities	34,458		35,783
b) Operating and office equipment			
ab) from other activities	1,267		6,492
		35,725	42,275
6. Other assets			
b) from other activities		1,161,632	1,081,916
7. Prepaid expenses			
b) from other activities		690,076	595,948
8. Excess of plan assets over pension liability		800	0
Total assets		**43,126,687**	**39,105,682**

1 The figures for the Poland branch are included in the prior-year comparative figures. The main figures for the Poland branch as of December 31, 2019 were as follows: loans to and receivables from customers €1,401.6 million, lease assets €597.0 million.
The figures for the MAN Financial Services branch are not included in the prior-year figures. The main figures for the branch as of December 31, 2019 were as follows: loans to and receivables from customers €1,139.5 million, lease assets €958.1 million.

€ thousand		Dec. 31, 2020	Dec. 31, 2019[1]
Equity and liabilities			
1. Liabilities to banks			
b) from other activities			
aa) Repayable on demand	141		44,705
bb) With agreed maturity or notice period	0		801,105
		141	845,810
2. Liabilities to customers			
b) from other activities		19,710,437	15,003,562
3. Notes, commercial paper issued			
a) Bonds issued	12,095,215		14,348,181
b) Commercial paper	1,257,992		484,508
		13,353,207	14,832,689
4. Other liabilities			
b) from other activities		632,975	736,218
5. Deferred income			
b) from other activities		8,279,564	6,609,248
6. Provisions			
a) Provisions for pensions and other post-employment benefits			
bb) from other activities	1,070		955
b) Provisions for taxes			
bb) from other activities	1,682		4,886
c) Other provisions			
bb) from other activities	869,957		848,954
		872,709	854,795
7. Special tax-allowable reserve		942	1,001
8. Fund for general banking risks		6,000	0
9. Equity			
a) Subscribed capital	76,004		76,004
b) Capital reserves	194,059		145,706
c) Net retained profits	649		649
		270,712	222,359
Total equity and liabilities		**43,126,687**	**39,105,682**
1. Contingent liabilities			
Liability arising from the provision of collateral for third-party liabilities		55,243	67,740
2. Other obligations			
Irrevocable leasing commitments		3,987,648	2,969,173

1 The figures for the Poland branch are included in the prior-year comparative figures. The main figures for the Poland branch as of December 31, 2019 were as follows: liabilities to banks €816.5 million, liabilities to customers €1,010.0 million, deferred income €190.3 million, equity €5.2 million.
The figures for the MAN Financial Services branch are not included in the prior-year figures. The main figures for the branch as of December 31, 2019 were as follows: liabilities to customers €2,060.1 million, equity €53.5 million.

Income Statement

of Volkswagen Leasing GmbH, Braunschweig, for the period January 1 to December 31, 2020

€ thousand				Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019[1]
1.	Leasing income		20,679,464		19,790,020
2.	Leasing expenses		11,245,631		11,337,225
				9,433,833	8,452,795
3.	Interest income				
	b) from other activities				
	aa) Lending and money market transactions		44,844		44,675
4.	Interest expense				
	b) from other activities		526,412		480,847
	thereof: unwinding of discount on provisions		2,928		2,684
				–481,568	–436,172
5.	Fee and commission income				
	a) from payment services and the issuance of e-money		287		244
	b) from other activities		46,496		78,420
6.	Fee and commission expenses				
	b) from other activities		696,546		719,140
				–649,763	–640,476
7.	Other operating income				
	b) from other activities			300,167	254,758
8.	Income from the reversal of special tax-allowable reserve			59	59
9.	General and administrative expenses				
	a) from payment services and the issuance of e-money				
	bb) Other administrative expenses	2,625			2,431
	b) from other activities				
	aa) Personnel expenses				
	aaa) Wages and salaries	4,051			20,746
	bbb) Social security, post-employment and other employee benefit costs of which: for post-employment benefits €22 thousand	1,366			4,512
			8,042		25,258
	bb) Other administrative expenses		570,440		544,179
				578,482	571,868
10.	Depreciation, amortization and write-downs				
	a) Depreciation and write-downs of lease assets				
	ab) from other activities		7,868,173		6,998,381
	b) Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment				
	bb) from other activities		4,216		5,186
				7,872,389	7,003,567
11.	Other operating expenses				
	b) from other activities			28,069	62,902

€ thousand				Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019[1]
12.	Write-downs of and valuation allowances on receivables and additions to provisions in the leasing business				
	b) from other activities			476,137	452,415
13.	Income from the reversal of write-downs of and valuation allowances on receivables and from the reversal of provisions in the leasing business				
	b) from other activities			256,892	270,783
14.	Result from ordinary business activities			–95,457	–189,005
	a) from payment services and the issuance of e-money			–2,338	–2,187
	b) from other activities			–93,119	–186,818
15.	Income tax expense			32,776	–16,172
	a) from payment services and the issuance of e-money			–803	–187
	b) from other activities			33,579	–15,985
16.	Income from the absorption of losses			128,233	172,833
	a) from payment services and the issuance of e-money			–1,535	–2,000
	b) from other activities			129,768	174,833
17.	Net income for the year			0	0
18.	Retained profits brought forward			649	649
	a) from payment services and the issuance of e-money			0	0
	b) from other activities			0	0
19.	Net retained profits			649	649

1 The figures for the Poland branch are included in the prior-year comparative figures. The main figures for the Poland branch in fiscal year 2019 were as follows: net leasing income €232.6 million, write-downs and valuation allowances €187.1 million, result from ordinary activities €–28.3 million, net loss for the year €46.3 million.
The figures for the MAN Financial Services branch are not included in the prior-year figures. The main figures for the branch in fiscal year 2019 were as follows: net leasing income €318.4 million, net interest income €27.3 million, general and administrative expenses €30.7 million, write-downs and valuation allowances €281.3 million, result from ordinary activities €27.9 million.

Cash Flow Statement

of Volkswagen Leasing GmbH, Braunschweig, for the period January 1 to December 31, 2020

€ thousand	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019
Net loss for the year (before profit transfer)	–128,233	–172,833
Depreciation and write-downs of fixed assets	8,120,501	7,003,567
Change in provisions	17,914	13,838
Gain on disposal of lease assets	–1,670,842	–1,282,385
Net interest income/expense	481,568	436,172
Other adjustments	–672,100	106,906
Change in loans to and receivables from banks	–75,188	–66,837
Change in loans to and receivables from customers	248,668	2,983,228
Change in other assets related to operating activities	–130,045	–311,892
Change in liabilities to banks	–845,670	–135,135
Change in liabilities to customers	4,662,275	–1,458,511
Change in notes, commercial paper issued	–1,479,482	2,654,320
Change in other liabilities related to operating activities	1,621,368	798,818
Interest and dividends received	44,844	44,675
Interest paid	–526,412	–480,847
Income taxes refunded (previous year: income taxes paid)	62,237	–106,905
I. Cash flows from operating activities	**9,731,403**	**10,026,179**
Proceeds from disposal of lease assets	10,728,877	10,791,993
Payments to acquire lease assets	–20,629,354	–20,724,240
Payments to acquire property and equipment/intangible fixed assets used by the Company itself	–3,759	–12,734
II. Cash flows from investing activities	**–9,904,236**	**–9,944,981**
Proceeds/losses from profit transfer and absorption of losses by Volkswagen Financial Services AG	172,833	–81,198
III. Cash flows from financing activities	**172,833**	**–81,198**
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, 2020

€ thousand	Subscribed capital	Capital reserves[1]	Net retained profits	Equity
Balance as of December 31, 2019 (no change in current year)	76,004	145,706	649	222,359
Change	–	48,353	–	–
Balance as of December 31, 2020	76,004	194,059	649	270,712

1 €53,543 thousand of the change in capital reserves is attributable to the merger of MAN Financial Services GmbH and €–5,190 thousand to the demerger of the Poland branch.

Notes

to the Annual Financial Statements of Volkswagen Leasing GmbH, Braunschweig, for the period ended December 31, 2020

1. General Information

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

The Poland branch was spun off into a separate company in Poland in 2020. The sister company, MAN Financial Services GmbH, was merged with Volkswagen Leasing GmbH effective January 1, 2020.

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 previous year have been amended in such a way that, due to the performance of payment services, the accounting is now conducted in accordance with the RechZahlV.

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 trucks and buses between five and nine years, and of other leased items, which mainly comprise movable lease assets at dealerships (workshop equipment), three to 13 years. 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. Lease purchase agreements that specify the transfer of ownership of the vehicle from VWL (MAN Financial Services branch) to the customer on payment of the last installment are recognized under receivables from customers at the present value of receivables outstanding less any valuation allowances.

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

Liabilities are recognized at the settlement amount.

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

Pension provisions are recognized at present values at the MAN Financial Services and Italy branches. The pension obligations are determined annually by an independent actuary using the projected unit credit method. In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €800 thousand for the pension provision. Since an excess of plan assets over pension liability remains after the required offsetting of pension obligations (€2,964 thousand) against assets measured at fair value (pension assets of €3,764 thousand), this difference must be recognized in a separate line item in the balance sheet in accordance with section 246(2) sentence 3 in conjunction with section 266(2) E. of the HGB. The assets are irrevocably protected from access by the Group companies and are subject to a restriction on distribution.

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 29.97%. No deferred tax liabilities were recognized separately in fiscal year 2020, as the Company exercised the option to offset deferred tax assets and deferred tax liabilities. The Italy branch, which is taxed separately, mainly recognizes deferred tax assets relating to lease assets and to provisions and liabilities. Beyond this, the Company does not exercise the option to recognize deferred tax assets provided for in section 274 of the HGB.

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

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

Equity is recognized at the nominal amount. Irrevocable lease commitments are reported at their present value. Interest rate derivatives entered into by Volkswagen Leasing GmbH are used as part of general economic hedges. The Company does not make use of the option to apply specific hedge accounting arrangements. The interest rate 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.

The comparative figures as of December 31, 2019 (together with the “of which” details) presented in the financial statements and notes still include the figures of the Poland branch, but not those of the merged MAN Financial Services GmbH. If material, these figures are disclosed beneath the breakdown concerned.

3. Balance Sheet Disclosures

The breakdown of receivables from banks is as follows:

€ thousand	Dec. 31, 2020	Dec. 31, 2019[1]
1. Loans to and receivables from banks	150,012	74,824
(of which from affiliated companies €149,070 thousand; previous year: €74,528 thousand)		
Total	**150,012**	**74,824**

1 As of December 31, 2019, the receivables of the Poland branch amounted to €11.7 million, of which an amount of €11.5 million was due from affiliated companies.
The receivables of the MAN Financial Services branch amounted to €35.6 million as of December 31, 2019, including €35.6 million from affiliated companies.

The breakdown of receivables from customers is as follows:

€ thousand	Dec. 31, 2020	Dec. 31, 2019[1]
1. Trade receivables	1,305,204	1,596,289
2. Receivables from affiliated companies	3,737,978	3,739,572
(of which from the shareholder €1,030,352 thousand; previous year: €1,112,918 thousand)		
(of which trade payables €209,236 thousand; previous year: €126,654 thousand)		
3. Other receivables	9,615	10,203
Total	**5,052,797**	**5,346,064**

1 As of December 31, 2019, the receivables of the Poland branch amounted to €1,401.6 million, €1,358.1 million of which was not due until a later date.
The receivables of the MAN Financial Services branch totaled €1,139.5 million as of December 31, 2019, €1,009.5 million of which was not due until a later date.

The following table shows the maturity analysis for the receivables:

€ thousand	Dec. 31, 2020	Dec. 31, 2019
1. Loans to and receivables from banks	150,012	74,824
of which due in 0 – 3 months	150,012	74,824
2. Trade receivables	1,305,204	1,596,289
of which due in 0 – 3 months	305,483	232,086
of which due in 3 – 12 months	289,241	559,866
of which due in 12 – 60 months	710,480	804,337
3. Receivables from affiliated companies	3,737,978	3,739,572
of which due in 0 – 3 months	2,819,116	2,839,572
of which due in 3 – 12 months	6,051	0
of which due in 12 – 60 months	727,770	715,000
of which due in > 60 months	185,041	185,000
4. Other receivables	9,615	10,203
of which due in 0 – 3 months	9,615	10,203
Total	**5,202,809**	**5,420,888**

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 €0 thousand (previous year: €2,193 thousand) are included in the land and buildings shown under fixed assets.

Other assets relate primarily to available-for-sale lease returns amounting to €663,148 thousand (previous year: €604,985 thousand), receivables from the processing of ABS transactions amounting to €167,871 thousand (previous year: €189,333 thousand), accrued swap interest of €100,700 thousand (previous year: €101,961 thousand) and value added tax receivables of the Italy branch in an amount of €124,663 thousand (previous year: €109,717 thousand). As of December 31, 2019, the other assets of the Poland branch amounted to €43.7 million. The other assets of the MAN Financial Services branch totaled €44.6 million as of December 31, 2019.

Prepaid expenses include discounts on purchased bonds and ABS transactions amounting to €636,370 thousand (previous year: €494,144 thousand); these discounts are amortized over the relevant maturity. Prepaid vehicle taxes of €13,759 thousand (previous year: €12,994 thousand), insurance payments in connection with service leases in the amount of €24,357 thousand (previous year: €85,879 thousand) and other prepaid expenses are also recognized under this item. As of December 31, 2019, prepaid expenses of the Poland branch amounted to €65.8 million. Prepaid expenses of the MAN Financial Services branch totaled €0.1 million as of December 31, 2019.

In the previous year, 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, 2020	Dec. 31, 2019[1]
1. Liabilities to banks	141	845,810
(of which to affiliated companies €0 thousand; previous year: €29,351 thousand)		
2. Liabilities to customers	19,710,437	15,003,562
(of which to affiliated companies €10,011,878 thousand; previous year: €6,788,923 thousand)		
(of which to the shareholder €5,014,883 thousand; previous year: €1,453,399 thousand)		
(of which trade payables €490,859 thousand; previous year: €584,490 thousand)		
3. Notes, commercial paper issued	13,353,207	14,832,689
4. Other liabilities	632,975	736,218
Total	**33,696,760**	**31,418,279**

1 As of December 31, 2019, liabilities to banks recognized by the Poland branch amounted to €816.5 million, of which liabilities of €0.1 million were due to affiliated companies; liabilities to customers totaled €1,010.0 million, of which liabilities of €986.3 million were due to affiliated companies. Liabilities to customers of the MAN Financial Services branch amounted to €2,060.1 million as of December 31, 2019.

The following table shows the maturity analysis for the liabilities:

€ thousand	Dec. 31, 2020	Dec. 31, 2019
1. Liabilities to banks	141	845,810
of which due in 0 – 3 months	0	142,371
of which due in 3 – 12 months	141	231,630
of which due in 12 – 60 months	0	471,809
2. Liabilities to customers	19,710,437	15,003,562
of which due in 0 – 3 months	738,921	4,059,152
of which due in 3 – 12 months	5,149,445	4,647,534
of which due in 12 – 60 months	13,422,071	6,296,876
of which due in > 60 months	400,000	0
3. Notes, commercial paper issued	13,353,207	14,832,689
of which due in 0 – 3 months	1,779,012	268,364
of which due in 3 – 12 months	2,424,195	3,064,325
of which due in 12 – 60 months	8,500,000	9,100,000
of which due in > 60 months	650,000	2,400,000
4. Other liabilities	632,975	736,218
of which due in 0 – 3 months	125,341	225,347
of which due in 3 – 12 months	320,597	330,391
of which due in 12 – 60 months	187,037	180,480
Total	**33,696,760**	**31,418,279**

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

A total nominal amount of €4.2 billion (previous year: €2.8 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 €610,041 thousand (previous year: €711,808 thousand) and swap interest liabilities amounting to €11,798 thousand (previous year: €11,809 thousand).

The provisions comprise pension provisions for the Italy branch amounting to €1,070 thousand (previous year: €955 thousand), tax provisions of €1,682 thousand (previous year: €4,886 thousand) and other provisions of €869,957 thousand (previous year: €848,954 thousand).

The other provisions include provisions for the risks arising in connection with existing leases. The provisions for residual value risks amount to €10,448 thousand (previous year: €9,747 thousand). Further notable recognized items include expenses from service leases and expenses for outstanding invoices in an amount of €143,555 thousand (previous year: €97,048 thousand). Provisions totaling €545,484 thousand (previous year: €488,889 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 €42,500 thousand before discounting (previous year: €127,300 thousand). The discount amount is €225 thousand (previous year: €818 thousand).

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

Subscribed capital did not change in the year under review. As a result of the merger of MAN Financial Services with Volkswagen Leasing GmbH and the spin-off of the Poland branch, capital reserves increased by €48,353 thousand.

In the previous year, liabilities amounting to €1,926.3 million were held in foreign currency by the branch in Poland.

Changes in fixed assets:

€ thousand	Brought forward Jan. 1, 2020	Spin-off of Poland branch, Jan. 1, 2020	Addition of MAN FS, Jan. 1, 2020	Additions	Disposals	Reclassifications	Balance as of Dec. 31, 2020
							Gross carrying amounts
I. Intangible fixed assets							
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	13,711	5,465	32,482	109	845	0	39,992
Prepayments	236	236	0	0	0	0	0
	13,947	5,701	32,482	109	845	0	39,992
II. Property and equipment							
Land and buildings	51,433	1,482	0	2,683	1,392	2,193	53,435
Operating and office equipment	9,026	8,030	497	967	464	0	1,996
Assets under construction	3,554	0	0	0	1,361	–2,193	0
	64,013	9,512	497	3,650	3,217	0	55,431
III. Lease assets							
Vehicles, technical equipment and machinery	43,172,221	936,044	1,528,142	20,508,924	15,717,330	172,366	48,728,279
Prepayments	176,313	0	0	120,428	3,928	–172,366	120,447
	43,348,534	936,044	1,528,142	20,629,352	15,721,258	0	48,848,726
Total fixed assets	**43,426,494**	**951,257**	**1,561,121**	**20,633,111**	**15,725,320**	**0**	**48,944,149**

					Depreciation, amortization and write-downs		Net carrying amounts	
	Brought forward Jan. 1, 2020	Spin-off of Poland branch, Jan. 1, 2020	Addition of MAN FS, Jan. 1, 2020	Additions	Disposals	Balance as of Dec. 31, 2020	Balance as of Dec. 31, 2020	Balance as of Dec. 31, 2019
	9,779	3,649	29,880	2,396	845	37,561	2,431	3,932
	0	0	0	0	0	0	0	236
	9,779	3,649	29,880	2,396	845	37,561	2,431	4,168
	19,204	1,287	0	1,576	518	18,975	34,460	32,229
	2,534	2,274	444	244	218	730	1,266	6,492
	0	0	0	0	0	0	0	3,554
	21,738	3,561	444	1,820	736	19,705	35,726	42,275
	11,388,047	345,008	570,006	7,868,173	6,665,705	12,815,513	35,912,766	31,784,174
	0	0	0	0	0	0	120,447	176,313
	11,388,047	345,008	570,006	7,868,173	6,665,705	12,815,513	36,033,213	31,960,487
	11,419,564	**352,218**	**600,330**	**7,872,389**	**6,667,286**	**12,872,779**	**36,071,370**	**32,006,930**

4. Income Statement Disclosures

Leasing income amounts to €20,679,464 thousand. In fiscal year 2019, the Poland branch's leasing income amounted to €365.1 million. The leasing income of the MAN Financial Services branch amounted to €1,046.5 million in fiscal year 2019. The leasing expense amounts to €11,245,631 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 €9,433,833 thousand. In fiscal year 2019, the Poland branch's leasing expense amounted to €132.5 million. The leasing expense of the MAN Financial Services branch totaled €728.1 million in fiscal year 2019.

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

€ thousand	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019[1]
1. Interest income from lending and money market transactions (of which from affiliated companies €9,680 thousand; previous year: €4,729 thousand)	44,844	44,675
2. Interest expense (of which to affiliated companies €63,325 thousand; previous year: €50,958 thousand)	526,412	480,847
Total	**–481,568**	**–436,172**

1 In fiscal year 2019, the net interest income/expenses of the Poland branch amounted to a net expense of €4.4 million. The net leasing income of the MAN Financial Services branch amounted to €27.3 million in fiscal year 2019.

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

Net other operating income is €300,167 thousand, of which €260,079 thousand is attributable to the leasing business and €40,088 thousand to the allocation of overheads to other entities. Other operating income includes income from administration and brokerage services provided for third parties amounting to €140,713 thousand (previous year: €126,724 thousand), income from currency translation amounting to €1 thousand (previous year: €20,993 thousand) and other income of €68,343 thousand (previous year: €965 thousand). Income related to prior periods is also included in the amount of €10,644 thousand (previous year: €5,325 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, in the previous year, Poland total €5,417 thousand, of which €4,051 thousand relates to wages and salaries and €1,366 thousand to social security costs.

Other administrative expenses amount to €573,065 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 €7,868,173 thousand. This figure includes write-downs to fair value amounting to €322,247 thousand (previous year: €336,679 thousand). Lease assets have been written down by an additional amount of €43,292 thousand (previous year: €12,872 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 €28,069 thousand in the reporting period. This figure includes issuance and rating expenses of €2,460 thousand and expenses from currency translation of €8 thousand (previous year: €36,454 thousand).

Expenses for write-downs of, and valuation allowances on, receivables and additions to provisions in the leasing business amounting to €476,137 thousand are offset by corresponding income of €256,892 thousand.

The above figures resulted in a loss before tax for the reporting period of €95.5 million (previous year: loss before tax of €189.0 million).

Income tax expense includes tax allocations amounting to €19,017 thousand (previous year: €–39,460 thousand).

Under the existing profit-and-loss transfer agreement, the loss after tax of €128,233 thousand is absorbed by Volkswagen Financial Services AG.

Breakdown of income by region

€ thousand

				Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019[1]
		Germany	Italy	Total	Total
1.	Leasing income				
	Lease payments	6,585,236	292,356	6,877,592	6,369,776
	Maintenance and service income	1,280,920	202,492	1,483,412	1,549,472
	Used vehicle sales	10,550,975	177,903	10,728,878	10,791,993
	Other	1,561,564	28,018	1,589,582	1,078,779
		19,978,695	700,769	20,679,464	19,790,020
3.	Interest income from lending and money market transactions	44,686	158	44,844	44,675
5.	Fee and commission income	46,783	0	46,783	78,664
7.	Other operating income	296,839	3,328	300,167	254,758
8.	Income from the reversal of special tax-allowable reserve	59	0	59	59
13.	Income from the reversal of write-downs of and valuation allowances on receivables and from the reversal of provisions in the leasing business	215,010	41,882	256,892	270,783
Total		**20,582,072**	**746,137**	**21,328,209**	**20,438,959**

1 In fiscal year 2019, the Poland branch's leasing income amounted to €365.1 million and its total income to €454.1 million. The income of the MAN Financial Services branch was as follows in fiscal year 2019: leasing income €1,046.5 million, total income €1,089.7 million.

5. Other Disclosures

Interest rate risk has been hedged by interest rate swaps with a total notional value of €33.1 billion. As of the reporting date, the positive fair values were €396.6 million and the negative fair values €32.4 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 €100.7 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 2020. In 2020, Volkswagen Leasing GmbH generated cash inflows totaling €7,976.4 million from the sale of future lease receivables and residual values under these leases. Four further transactions are in place, dating back to prior years. Other than the one-time inflows from each of these transactions, there is no other material impact on the present or future liquidity and financial position of Volkswagen Leasing GmbH.

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

The irrevocable leasing commitments relate to confirmed leases for which the vehicle had not yet been delivered on the reporting date and for which the credit limit to which the Company had committed itself had thus not yet been utilized. It is expected that the credit will be drawn down, as the commitments relate to leasing agreements that have been entered into. 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 27, VCL 28, VCL 29, VCL 30, VCL 31 and VCL Master RV C2. A market risk reserve serving as collateral for certain risks was paid to investors in connection with these transactions. It is expected that this collateral will not be called upon, as it is assumed that the risk will not materialize.

In the year under review, Volkswagen Leasing GmbH executed 190,402 payment transactions with a volume of €6.4 million.

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

The fees paid to the auditor are disclosed in the notes to the consolidated financial statements of Volkswagen AG, Wolfsburg, and in the consolidated financial statements of Volkswagen Financial Services AG, Braunschweig. In 2020, the fees attributable to Volkswagen Leasing GmbH for audit-related services concerned the audit of the annual financial statements and reviews of interim financial statements prepared during the year.

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

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 65 salaried employees, including one senior executive, at its branches in Milan and Verona (previous year: 62 salaried employees with one senior executive), and 340 salaried employees with no senior executives at its branch in Poland.

The managing directors do not receive any remuneration from the Company. The expenses borne by the Company for the Management Board amounted to €1,163 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 2020.

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

Members of the Management Board as of December 31, 2020

JENS LEGENBAUER
Chairman of the Management Board
Corporate Management of Volkswagen Leasing GmbH
Front Office, Volkswagen Leasing GmbH (as of August 1, 2020)

SILKE FINGER (UNTIL MAY 31, 2020)
Back Office, Volkswagen Leasing GmbH

HENDRIK EGGERS (AS OF JUNE 1, 2020)
Back Office, Volkswagen Leasing GmbH

KNUT KRÖSCHE (UNTIL JULY 31, 2020)
Front Office, Volkswagen Leasing GmbH

FRANK CZARNETZKI (AS OF SEPTEMBER 1, 2020)
Front Office, MAN FS

Audit Committee of Volkswagen Leasing GmbH

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

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

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

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

Braunschweig, February 10, 2021

Volkswagen Leasing GmbH
The Management Board

Jens Legenbauer

Hendrik Eggers

Frank Czarnetzki

Responsibility Statement

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

Braunschweig, February 10, 2021

Volkswagen Leasing GmbH
The Management Board

Jens Legenbauer

Hendrik Eggers

Frank Czarnetzki

Independent auditor's report

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

To Volkswagen Leasing GmbH, Braunschweig

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

Opinion

We have audited the annual financial statements of Volkswagen Leasing GmbH, Braunschweig, which comprise the balance sheet as at 31 December 2020, and the income statement, cash flow statement, statement of changes in equity for the fiscal year from 1 January 2020 to 31 December 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Volkswagen Leasing GmbH, Braunschweig, for the fiscal year from 1 January 2020 to 31 December 2020.

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

> the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020 and of its financial performance for the fiscal year from 1 January 2020 to 31 December 2020 in compliance with German legally required accounting principles, and
> the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

Basis for the opinions

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

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

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

Reasons why the matter was determined to be a key audit matter
The lease assets balance sheet item comprises vehicles under current leases. For these vehicles there is a risk that an impairment loss will need to be charged on the lease assets, which is primarily dependent on the residual value expected at the end of the lease. The expected residual value of these vehicles is a significant area which is subject to estimation uncertainty and in which the executive directors of Volkswagen Leasing GmbH exercise judgment.

As part of impairment testing, the expected residual value is reviewed quarterly using internal and external marketing results and on the basis of estimates of future market price development.

In light of the existing estimation uncertainty, the judgment exercised in determining the residual values and the significance of the amount for impairment testing, the determination of expected residual values was a key audit matter. As it is not possible to make a conclusive assessment of the impact of the global COVID-19 pandemic, the estimation uncertainty in relation to the determination of the expected residual values is significantly heightened

Auditor’s response

During our audit, we analyzed the process implemented by the executive directors of Volkswagen Leasing GmbH for monitoring and determining the residual values to identify any risks of material misstatement and obtained an understanding of the process steps and controls. On this basis, we tested the operating effectiveness of the implemented controls over the determination of the expected residual values. To assess the forecasting model used to determine the residual values, we assessed the validation plan on the basis of the model design and analyzed the validation procedures performed as to whether any need for an impairment allowance was identified and whether there had been an unusual number of outliers. Furthermore, we assessed whether the assumptions underlying the forecasting model and the inputs used for determining the expected residual values were clearly documented.

We obtained evidence for the main inputs and assumptions used for age, mileage and lifecycle phase of the vehicles to determine the residual values and examined them for currentness and transparency. We assessed whether the marketing assumptions used reflect current marketing results and industry-specific and general market expectations.

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

Reference to related disclosures

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

Other information

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

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

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

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

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

Responsibilities of the executive directors and the Audit Committee for the annual financial statements and the management report

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

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

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

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

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

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

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

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

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

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Opinion

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the attached electronic file "Volkswagen Leasing_GmbH_JA+LB_ESEF-2020-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the fiscal year from 1 January 2020 to 31 December 2020 contained in the "Report on the audit of the annual financial statements and of the management report" above.

Basis for the opinion

We conducted our assurance work on the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file in accordance with Sec. 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Sec. 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the "Auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the requirements for quality control systems set forth in IDW Standard on Quality Control: "Requirements for Quality Control in Audit Firms" (IDW QS 1).

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

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

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Sec. 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and the audited management report as well as other documents to be published to the operator of the Bundesanzeiger [German Federal Gazette].

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

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

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

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

We were elected as auditor by the Annual General Meeting on 11 February 2020. We were engaged by the Management Board on 20 November 2020. We have served as auditor of Volkswagen Leasing GmbH for the first time for fiscal year 2020.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Hanover, 15 February 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Report of the Audit Committee

of Volkswagen Leasing GmbH

Volkswagen Leasing GmbH is a publicly traded corporation within the meaning of section 264d of the HGB. In accordance with the provisions of section 324 of the HGB, the Company has established an Audit Committee, which concerns itself in particular with the tasks described in section 107(3) sentence 2 of the Aktiengesetz (AktG – German Stock Corporation Act). The Audit Committee has three members. There were no changes to the committee membership compared with the prior year. The members of the Audit Committee are listed in the disclosures on governing bodies. The Audit Committee held two regular meetings in the reporting period. There were no extraordinary meetings. During the reporting period, there were no urgent transactions that would have required a decision by circulation of written resolution for approval. At one meeting, one member of the Audit Committee did not attend in person; the vote was cast in writing.

At the meeting held on February 11, 2020, the Audit Committee reviewed the annual financial statements and the management report of Volkswagen Leasing GmbH for the fiscal year 2019. As part of this review, the Audit Committee discussed with the auditor the reports on the audit of the annual financial statements and the management report of Volkswagen Leasing GmbH, as well as material transactions and issues related to financial reporting. The Audit Committee reported on its review to the sole shareholder.

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

At its meeting held on November 4, 2020, the Audit Committee mainly discussed audit planning, key areas of emphasis for the audit and the obligations of the auditor to provide certain information. In addition, the Audit Committee received an update on the “LeaD” project, which is aimed at introducing a new operational contract system for 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, February 17, 2021

Werner Flügge
Chairman

Helmut Streiff
Deputy Chairman

Frank Fiedler
Member

NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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TYPESETTING

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