VOLKSWAGEN BANK

GMBH

ANNUAL REPORT

IFRS

2022

Volkswagen Bank GmbH Group

Key Figures (IFRS)

€ million (as of Dec. 31)	2022	2021
Total assets	61,225	67,253
Loans and receivables attributable to		
Retail financing	28,864	31,073
Dealer financing	12,523	9,026
Leasing business	3,054	2,928
Customer deposits	26,226	26,489
Equity	10,909	10,861
Operating result	761	1,137
Profit before tax	752	1,107
Income tax expense	–290	–328
Profit after tax	462	779

Percent (as of Dec. 31)	2022	2021
Equity ratio	17.8	16.1
Common Equity Tier 1 capital ratio[1]	16.9	19.0
Tier 1 capital ratio[1]	16.9	19.0
Total capital ratio[1]	16.9	19.0

Number (as of Dec. 31)	2022	2021
Employees	1,506	1,906

RATING (AS OF DEC. 31)		STANDARD & POOR'S			MOODY'S INVESTORS SERVICE		
		Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Volkswagen Bank GmbH		A–2	BBB+	stable	P–1	A1	stable

1 Regulatory ratio in accordance with Article 92(1) of the CRR.

COMBINED MANAGEMENT REPORT

5 Fundamental Information about the Group
8 Report on Economic Position
23 Volkswagen Bank GmbH (Condensed, in accordance with the HGB)
26 Report on Opportunities and Risks
61 Human Resources Report
67 Report on Expected Developments

CONSOLIDATED FINANCIAL STATEMENTS

73 Income Statement
74 Statement of Comprehensive Income
75 Balance Sheet
77 Statement of Changes in Equity
78 Cash Flow Statement
79 Notes to the Consolidated Financial Statements

FURTHER INFORMATION

191 Responsibility Statement
192 Country-by-Country Reporting of Volkswagen Bank GmbH
194 Independent Auditor's Report
204 Report of the Supervisory Board

COMBINED MANAGEMENT REPORT

5 Fundamental Information about the Group
8 Report on Economic Position
23 Volkswagen Bank GmbH (Condensed, in accordance with the HGB)
26 Report on Opportunities and Risks
61 Human Resources Report
67 Report on Expected Developments

Fundamental Information about the Group

Within the Financial Services division of the Volkswagen Group as a whole, the Volkswagen Bank GmbH Group is responsible for performing banking transactions for retail and business customers.

BUSINESS MODEL

Within the Financial Services division of the Volkswagen Group as a whole, the Volkswagen Bank GmbH Group is responsible for the operating activities required to perform banking transactions for retail and business customers. The individual activities include those described below.

Financing

The Volkswagen Bank GmbH Group provides financing for retail customers, business customers and authorized dealers. The principal activity is automotive financing.

Leasing

At the Bank's branch in Portugal, the Volkswagen Bank GmbH Group operates the finance leasing business. The branch in France is also involved in the operating lease business in addition to finance leasing activities.

Direct Banking

The Volkswagen Bank GmbH Group offers retail customers the entire range of direct banking services, including account management, consumer finance, savings plans and investment products. The facilities provided for business customers by the Volkswagen Bank GmbH Group include instant-access accounts, fixed-term deposits and saving certificates as well as a comprehensive range of payment services.

Broking

The Volkswagen Bank GmbH Group acts as an insurance broker in the context of automotive financing for retail customers. As part of its direct banking operations, it arranges loans secured by charges entered in the land register.

One of the ways in which the Volkswagen Bank GmbH Group pursues its objectives is joint customer relationship management with other companies in the Financial Services division of the Volkswagen Group; this has led to continuous improvement in customer loyalty, service quality and the range of products offered.

The business operations of the Volkswagen Bank GmbH Group are closely interlinked with those of the manufacturers and the dealer organizations in the Volkswagen Group.

ORGANIZATION OF VOLKSWAGEN BANK GMBH

Generally speaking, the aim of all structural measures implemented by Volkswagen Bank GmbH is to improve the quality offered to both customers and dealerships, make processes more efficient and leverage synergies. The motivation and satisfaction of employees are key factors that enable the Bank to defend its position as a leading employer of choice.

Corporate Management is responsible for the Corporate Strategy & Market, Direct Bank Sales, Human Resources & Organization, Internal Audit, International Business and Legal & Compliance functions. Responsibility for Corporate Management rests with Dr. Michael Reinhart, Chair of the Management Board of Volkswagen Bank GmbH.

The Accounting, Controlling, Treasury & Investor Relations, Payments and Regulatory Requirements functions have been pooled under the Finance division. Mr. Oliver Roes is responsible for this division.

Risk Management, which is the responsibility of Christian Löbke, encompasses the functions Financial & Nonfinancial Risks, Credit & Residual Value Risk Management, Back Office, Strategic Risk Management, Special Customer Care, and Applications & Risk Reporting.

Dr. Volker Stadler is responsible for Operations, which encompasses IT Governance & Management, Direct Bank Customer Service and Direct Bank Process Management.

MOBILITY2030 STRATEGY

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

REPORT ON THE SUBSIDIARIES AND BRANCHES

The Volkswagen Bank GmbH Group has a presence in numerous countries within the European market. Each of the Volkswagen Bank GmbH's international branches in France, Greece, Italy, the Netherlands, Poland, Portugal, Spain and the United Kingdom operate their own local business.

Please refer to the section of this report covering equity investments for further information on changes in this regard.

The brand-related branches of the Volkswagen Bank GmbH Group (Audi Bank, SEAT Bank, ŠKODA Bank, AutoEuropa Bank and ADAC Finance Service) are intended to provide specific support for the financing of the corresponding vehicles. The Ducati Bank branch supports the financing of motorcycles.

In Braunschweig, Emden, Hanover, Ingolstadt, Kassel, Neckarsulm, Salzgitter and Wolfsburg, the Volkswagen Bank GmbH Group maintains branches offering customers counter services, advisory support and, in some cases, ATMs.

INTERNAL MANAGEMENT

The key performance indicators used by the Group are determined on the basis of IFRSs and are presented as part of the internal reporting system. The most important nonfinancial performance indicators are penetration, current contracts and new contracts. The financial key performance indicators are the volume of business, deposit volume and the operating result. Return on equity (RoE) and the cost/income ratio (CIR) are used as further key performance indicators in the Volkswagen Bank GmbH Group.

	Definition
Nonfinancial performance indicators	
Penetration	Amount of new contracts for new Group vehicles under retail financing and leasing business as a proportion of deliveries of Group vehicles, based on the Volkswagen Bank GmbH Group's relevant markets
Current contracts	Contracts recognized as of the reporting date
New contracts	Contracts recognized for the first time in the reporting period
Financial performance indicators	
Volume of business	Loans to and receivables from customers arising from retail financing, dealership financing (incl. factoring), leasing business and direct banking
Volume of deposits	Loans to and receivables from customers arising from retail financing, dealership financing (incl. factoring), leasing business and direct banking
Operating result	Interest income from lending transactions and marketable securities, net income from leasing transactions, interest expense, net income from service contracts, net income from insurance business, provision for credit risks, net fee and commission income, net gain or loss on hedges, net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income, general and administrative expenses and net other operating income/expenses
Return on equity	Return on equity before tax is calculated by dividing profit before tax by average equity
Cost/income ratio	Personnel expenses, material overheads and accounting depreciation and amortization minus income from services rendered / financial income and sales revenue net of risk costs, fee and commission payments, funding costs and other direct costs[1]

1 The earnings and cost elements are part of the management strategy of Volkswagen AG and are not reflected in the IFRS income statement presented in this annual report.

CHANGES IN EQUITY INVESTMENTS

Volkswagen Bank GmbH, Braunschweig, increased its stake in Credi2 GmbH, Vienna, Austria from 20% to 28.34% effective August 18, 2022.

Fintech Credi2 GmbH provides “white label” financing solutions in the buy now, pay later segment for banks, PSPs, issuers and their brokers. A highly scalable “product as a service” approach allows clients to provide financing solutions for e-commerce and over-the-counter business in their own name quickly with no direct development or operating costs.

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

The Volkswagen Bank GmbH Group has made use of the option under section 340a(1a) sentence 3 of the HGB in conjunction with section 289b(2) of the HGB and in accordance with section 340i(5) sentence 2 of the HGB in conjunction with section 315b(2) of the HGB exempting it from submission of a nonfinancial statement and nonfinancial group statement and refers to the combined separate nonfinancial report of Volkswagen AG for fiscal year 2022, which will be available on the website https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainabilityreport/2022/Nonfinancial_Report_2022_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainabilityreport/2022/Nonfinancial_Report_2022_e.pdf in English from April 30, 2023.

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

Report on Economic Position

The global economy recorded positive growth in fiscal year 2022. Global demand for vehicles was on a level with the previous year. Profit before tax generated by the Volkswagen Bank GmbH Group below the prior-year figure.

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

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

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

Europe

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

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

Germany

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

The European passenger car market was still affected by parts supply shortages in the reporting period; vehicle deliveries were down on the prior-year period. By contrast, the share of financial services products in the new vehicle business grew positively and exceeded the 2021 figure. The main drivers of this trend were positive changes in the sales mix that benefited the private customer business, which lends itself particularly to financing, and an increased share of leasing contracts in the fleet business. The positive trend in the financing of used vehicles continued in 2022; in particular, the sale of after-sales products such as servicing, maintenance and spare parts agreements increased. In Germany, the continuing challenges presented by the faltering parts supply in vehicle production impacted on vehicle sales and the financial services business. The decrease in deliveries of new vehicles led to fewer new leasing and financing contracts being concluded in the reporting period than a year earlier. New vehicle penetration was down slightly on 2021. Overall, the level of new contracts for used vehicles continued to be in the range of the previous year. The number of new after-sales contracts was up in the second half of the year and ended the reporting period only slightly down on 2021 levels.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

Sector-Specific Environment

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

In the reporting year, the sector-specific environment for European banks was characterized by the interest-rate turnaround initiated by the European Central Bank. The key interest rate hikes in July and December 2022 and the decision to gradually reduce the Asset Purchase Programme (APP) from March 2023 serve in particular to combat inflation.

Europe

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

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

After the slight recovery in the prior year, the volume of the passenger car market in the Central and Eastern Europe region fell very sharply in the 2022 fiscal year and was down by 37.2% at 1.8 million vehicles. The number of sales was also on an overall downtrend in the individual markets. In Central Europe, the decline in new registrations was smaller at –6.0 % in Poland and –7.1 % in the Czech Republic.

The market volume of light commercial vehicles in Central and Eastern Europe was sharply below the prior-year level (–28.6%).

Germany

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

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

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management Board of Volkswagen Bank GmbH considers the course of business in the year 2022 to have been satisfactory. Profit before tax for the reporting period amounted to €751.9 million, which was lower than the figure for the corresponding prior-year period (previous year: €1,106.7 million). Interest income remained stable, leaving the absence of the positive nonrecurring items from the prior year in

the area of risk provisions and the very strong increase in funding costs as the key drivers behind the development of earnings.

Performance in fiscal year 2022 continued to be impacted by the shortage of supplier parts and the associated supply problems on the part of the Volkswagen Group brands. The Russia-Ukraine conflict exacerbated the shortage of supplier parts. The Volkswagen Bank GmbH Group nevertheless managed to increase the volume of loans and receivables in its credit risk portfolio relative to December 2021. The quality of the lending portfolio remained stable and there was no sign to this point of direct negative effects on credit risk from the Russia-Ukraine conflict, increases in the price of energy and the cost of living or high inflation. Direct residual value risk in the Volkswagen Bank GmbH Group moved in a positive direction overall. The persistent shortage of new vehicles actually led to a positive trend in the used vehicle market, as a result of which the Bank was once again able to increase gains from the remarketing of used vehicles significantly year on year (2022: €94.5 million, previous year: €27.1 million).

Interest expense rose from €133.6 million in the prior year to €216.0 million as a result of the general rise in interest rates following the European Central Bank’s key interest rate hikes. This rise affected interest expense with respect to banks and to other companies of the Volkswagen Group in particular. The reduction of excess liquidity helped to offset some of this change. The cash reserve was reduced from €11.0 billion to €3.5 billion by means of actions such as the partial return of liquidity made available by the ECB (TLTRO III).

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

Demand for new vehicles was strong but the availability of vehicles from the Group brands was limited by shortages and ongoing disruption in global supply chains. The potential market for new vehicle financing consequently remained at the same low level seen in the prior year. To add to this, there was an evident continuation in the trend among customers to switch from financing to leasing in some European countries, especially in Germany.

The figures for penetration, new contracts and current contracts consequently fell short of the forecasts. A rise in demand for used vehicles and for associated customer financing products did not fully offset this trend because the availability of used vehicles in the market also became limited. Business volume reflected this trend in the customer financing area. However, the dealer financing and factoring areas saw a recovery set in, as a result of which the expectation for total business volume for 2022 was almost met.

Customer deposits, which serve as a source of funding for lending, were initially deliberately maintained at the 2021 level through business policy measures, contrary to the original forecast, because an alternative, less expensive source of funding was available to Volkswagen Bank GmbH in the form of the ECB’s TLTRO III program. Access to this more attractive alternative meant that the forecast increase in the volume of deposits to cover funding requirements was no longer necessary.

The operating result for 2022 was predicted to be down very sharply from its 2021 level, which was affected by very substantial positive one-time effects. This prediction was borne out by events. Return on equity and the cost/income ratio follow the same pattern and are accordingly also as predicted.

	Actual 2021	Forecast 2022	Actual 2022
Nonfinancial performance indicators			
Penetration (percent)	17.9	At the level of 2021	16.2
Current contracts (thousands)	3,431	Slightly above the level achieved in 2021	3,213
New contracts (thousands)	1,046	Very significantly above the level achieved in 2021	1,033
Financial performance indicators			
Volume of business (€ million)	45,585	Noticeably above the level achieved in 2021	47,475
Volume of deposits (€ million)	26,489	Significantly above the level achieved in 2021	26,226
Operating result (€ million)	1,137	Drastically below the level achieved in 2021	761
Return on equity (percent)	10.5	Drastically below the level achieved in 2021	6.9
Cost Income Ratio (percent)	40.1	Very significantly above the level achieved in 2021	51.1

FINANCIAL PERFORMANCE

The earnings performance of the Volkswagen Bank GmbH Group in fiscal year 2022 was not as strong as in the prior year.

At €760.8 million, the operating result was below the level of the previous year (€1,137.3 million). Profit before tax decreased by €354.9 million year-on-year to €751.9 million. The share accounted for by the international branches and companies was €628.4 million (previous year: €849.1 million) or 83.6%.

Interest income from lending and securities transactions was essentially unchanged from the prior year at €1,357.8 million. Net income from leasing business decreased by 15.6% to €311.0 million (previous year: €269.1 million).

The interest expenses of Volkswagen Bank GmbH rose from €133.6 million to €216.0 million as a result of the change in market interest rates.

Net income from service contracts is generated exclusively in the branches that also conduct leasing business. In this case, the net income fell by €9.6 million to a net expense of €6.6 million (previous year: net income of €3.0 million).

The required provision for credit risks rose to €461.9 million (previous year: €327.1 million) as a result of the growth in dealer financing. Income from the reversal of valuation allowances no longer required and

income from loans and receivables previously written off was down €176.2 million year on year at €328.7 million. The total net addition to provisions for credit risks was thus €133.3 million (previous year: net reversal of provisions for credit risks €177.8 million).

Net fee and commission income was in positive territory in 2022 with net income at €104.2 million (previous year: €116.3 million), most of which was accounted for by Volkswagen Bank Germany and at the branches in Spain and France.

The net gain or loss on hedges amounted to a net loss of €15.8 million (previous year: net loss of €30.1 million), whereas the net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income came to a net gain of €11.8 million (previous year: net gain of €7.4 million). Both figures were largely determined by activities at Volkswagen Bank GmbH, Germany.

General and administrative expenses were slightly down on the prior-year level and amounted to €784.7 million (previous year: €807,8 million).

Other operating income amounted to €168.9 million (previous year: €241.6 million). This also included income from the reversal of provisions and accrued liabilities of €113.9 million (previous year: €187.1 million). Other operating expenses fell by €47.4 million to €36.5 million. This resulted mainly from a reduction of €15.1 million in losses on the measurement of foreign currency and the absence of a €16.5 million one-time effect from an impairment loss for goodwill.

Including the other components of financial gains or losses, the Volkswagen Bank GmbH Group generated profit after tax of €461.8 million (previous year: €778.8 million).

The profit of Volkswagen Bank GmbH determined in accordance with the HGB (after deduction of taxes) amounting to €182.0 million (previous year: €562.8 million) will be transferred to the parent company, Volkswagen AG, under the existing profit-and-loss transfer agreement.

NET ASSETS AND FINANCIAL POSITION

The Management Board of Volkswagen Bank GmbH deems the net assets and financial position to be satisfactory.

Lending Business

The lending business of the Volkswagen Bank GmbH Group mainly consists of vehicle-related loans granted to retail customers, business customers and dealers. The volume of these loans and receivables increased by €1.4 billion to €44.4 billion.

Retail financing

In the Volkswagen Bank GmbH Group, the total number of current customer financing contracts fell to 2.3 million (previous year: 2.6 million). A total of 704 thousand new contracts were concluded in fiscal year 2022 (previous year: 711 thousand). As of December 31, 2022, the volume of loans and receivables in retail financing amounted to €28.9 billion (previous year: €31.1 billion). Of this total, €10.6 billion (previous year: €11.0 billion) was accounted for by European countries other than Germany.

Dealer financing

The lending volume in dealer financing – which comprises loans to and receivables from dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – rose by 38.7% or €3.5 billion to €12.5 billion.

The volume of loans and receivables related to the international branches and international subsidiaries came to €6.3 billion (previous year: €4.8 billion) as of the balance sheet date.

Leasing business

Receivables from leasing transactions amounted to €3.0 billion (previous year: €2.9 billion). Leasing business is offered exclusively in European countries other than Germany.

Marketable securities

The Volkswagen Bank GmbH Group's portfolio mainly consists of fixed-income securities from public-sector issuers amounting to €3.6 billion (previous year: €4.1 billion).

Equity-accounted investments

The investments in DFM N.V., Amersfoort, Netherlands, Volkswagen Finančné služby Slovensko, s.r.o., Bratislava, Slovakia, and Volkswagen Financial Services Digital Solutions GmbH continue to be reported as equity-accounted investments.

Long-term financial assets

As of December 31, 2022, Volkswagen Bank GmbH held 1% of the equity in OOO Volkswagen Bank RUS, Moscow, and around 28% of the shares in Credi2 GmbH, Vienna, Austria.

CURRENT CONTRACTS AND NEW CONTRACTS

in thousands[1]	Volkswagen Bank Group	of which: Germany	of which: Italy	of which: France	of which: Spain	of which: other branches/ subsidiaries
Current contracts[2]	3,213	1,283	396	895	387	252
Automotive retail financing	2,209	1,159	391	114	379	166
Consumer retail financing	130	118	–	–	8	4
Leasing business	299	–	–	282	0	17
Service/insurance	575	5	5	498	–	67
New contracts[2]	1,033	359	135	362	76	101
Automotive retail financing	671	327	135	54	76	79
Consumer retail financing	33	32	–	–	0	1
Leasing business	103	–	–	95	–	8
Service/insurance	226	0	–	213	-	13
€ million						
Loans to and receivables from customers attributable to						
Retail financing	28,864	18,275	5,075	747	3,951	816
Direct banking	356	333	–	0	1	22
Dealer financing	12,523	6,199	986	1,727	902	2,710
Leasing business	3,054	–	–	2,872	0	182
Assets leased out	2,677	1	–	2,677	–	–
Percent						
Penetration rates[3]	16.2	5.9	38.7	51.1	30.4	9.2

1 All figures shown are rounded; so minor discrepancies may arise from addition of these amounts.
2 Current contracts and new contracts in each case in relation to the markets shown for the Volkswagen Bank GmbH Group
3 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles in each case in relation to the markets shown for the Volkswagen Bank GmbH Group

NEW AND EXISTING CONTRACTS AS OF DEC. 31
In thousands

DIRECT BANK CUSTOMERS AS OF DEC. 31
Lending and deposit business and borrowings (in thousands)

CUSTOMER DEPOSITS AS OF DEC. 31
€ million

Since January 1, 2019, the volume of deposits has been calculated without cash deposits from Group companies.

Deposit business and borrowings

The main items on the equity and liabilities side of the balance sheet, other than equity, are liabilities to customers, which decreased by €2.0 billion to €32.4 billion (previous year: €34.3 billion), liabilities to banks in the amount of €11.2 billion (previous year: €13.2 billion) and notes and commercial paper issued in the amount of €4.1 billion (previous year: €5.7 billion).

DEPOSIT BUSINESS

Deposit business in the Volkswagen Bank GmbH Group was almost unchanged from the prior year. As of the reporting date, the volume of customer deposits amounted to €26.2 billion (previous year: €26.5 billion). The deposit business is thus a significant contributing factor in helping the Volkswagen Group retain its customers.

In addition to the security provided by statutory deposit guarantees, Volkswagen Bank GmbH is also covered by its ongoing membership in the Deposit Protection Fund of the Association of German Banks (Bundesverband deutscher Banken e.V.).

EQUITY

The subscribed capital of Volkswagen Bank GmbH remained unchanged at €318.3 million in fiscal year 2022.

The capital reserves of Volkswagen Bank GmbH stood at €8.9 billion (previous year: €8.9 billion) as of December 31, 2022.

The profit in accordance with the HGB to be transferred to Volkswagen AG under the existing profit-and-loss transfer agreement amounted to €182.0 million (previous year: €562.8 million).

Equity in accordance with the IFRSs was €10.9 billion (previous year: €10.9 billion). This resulted in an equity ratio (equity divided by total assets) of 17.8% (previous year: 16.1%) based on total assets of €61.2 billion.

CAPITAL ADEQUACY ACCORDING TO REGULATORY REQUIREMENTS

Under regulatory requirements, Volkswagen Bank GmbH must comply with the provisions in Regulation (EU) No. 575/2013 (Capital Requirements Regulation, CRR) and satisfy the minimum capital requirements. In this context, Volkswagen Bank GmbH must comply with the minimum capital ratios as specified in Article 92(1) of the CRR, both at the individual bank level (HGB) and at consolidated level (IFRS). The minimum ratio under the CRR for Common Equity Tier 1 (CET1) capital is 4.5%, for Tier 1 capital 6% and for total capital 8%.

In addition, Volkswagen Bank GmbH must satisfy the combined capital buffer requirement specified in section 10i of the *Kreditwesengesetz* (KWG – German Banking Act), i.e. the requirements for the capital conservation buffer and the institution-specific countercyclical capital buffer.

In its capacity as the competent supervisory authority for Volkswagen Bank GmbH, the European Central Bank (ECB) can decide in the Supervisory Review and Evaluation Process (SREP) to impose a capital add-on that must be satisfied in addition to the statutory minimum ratios and the capital buffer requirements. The legal basis for this capital add-on, or Pillar 2 requirement (P2R), is Article 16 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions. The decision of the ECB requires Volkswagen Bank GmbH to satisfy, at consolidated level, a total SREP capital requirement (TSCR) of at least 10.25% and a Pillar 2 requirement of 2.25%. The ECB decision specifies that the Pillar 2 requirement must be satisfied in the form of CET1 capital. However, the ECB has granted a relaxation of the capital requirements for a limited period of time in response to the Covid-19 pandemic, as a result which the Pillar 2 requirement no longer has to be covered by CET1 capital in full, but with only a minimum proportion of 56.25%. The remainder of the Pillar 2 requirement can be met with Additional Tier 1 (AT1) capital and Tier 2 (T2) capital.

Volkswagen Bank GmbH complied with all minimum requirements at all times in the reporting period, both at individual bank level and at consolidated level.

The total capital ratio (ratio of own funds to total risk exposure) was 16.9% at the end of the reporting period (previous year: 19.0%), significantly above the statutory minimum ratio.

The Tier 1 capital ratio and Common Equity Tier 1 capital ratio were each 16.9% (previous year: 19.0%) at the end of the reporting period, and thus also significantly above the respective minimum ratios specified in the CRR.

Total risk exposure is calculated on the basis of credit risks, market risks, operational risks and risks arising from credit valuation adjustment (CVA charge). Volkswagen Bank GmbH uses the Standardized Approach for Credit Risk (CRSA) to quantify credit risk and to determine risk-weighted exposures.

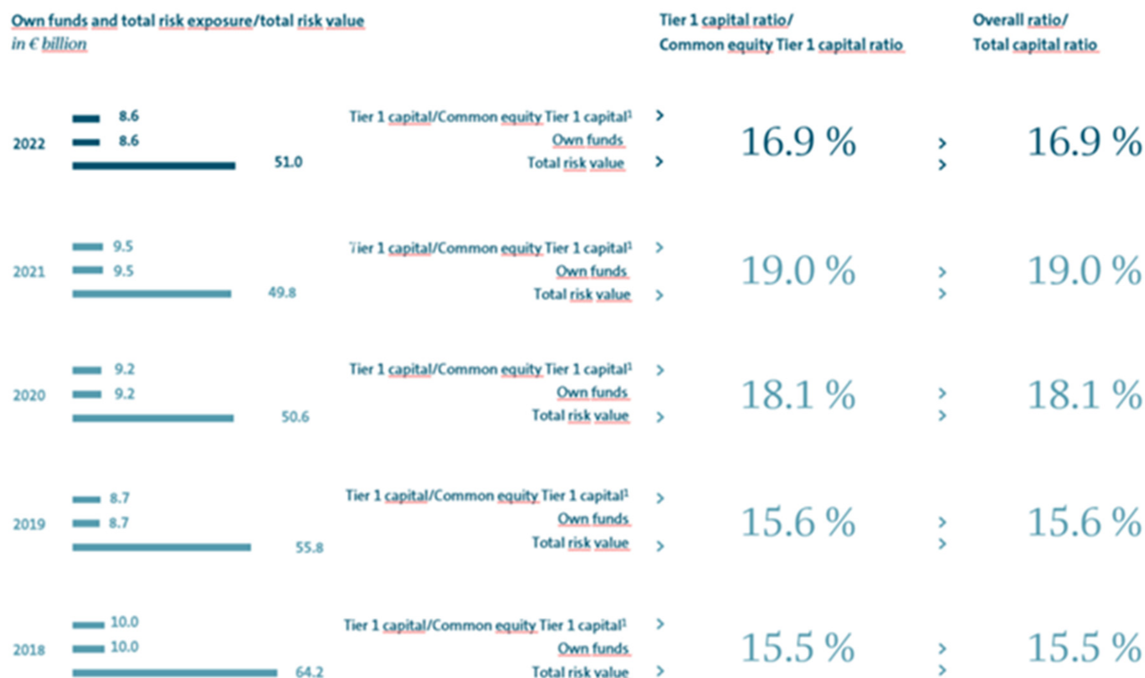
The Standardized Approach as specified in Article 317 of the CRR is used to calculate the own funds requirements for operational risk. The own funds requirements for the CVA charge are determined using the standardized method specified in Article 384 of the CRR. The own funds requirements for market risk are calculated as specified in Article 351 of the CRR in accordance with the Standardized Approach for foreign exchange risk.

The following overview shows a breakdown of total risk exposure and own funds:

		Dec. 31, 2022		Dec. 31, 2021
Total risk exposure[1] (€ million)		50,999		49,770
of which risk-weighted exposure amounts for credit risk	47,109		45,696	
of which own funds requirements for market risk * 12,5	335		210	
of which own funds requirements for operational risk * 12.5	3,528		3,789	
of which own funds requirements for credit valuation adjustments * 12.5	27		75	
Own funds (€ million)		8,614		9,474
of which Common Equity Tier 1 capital	8,608		9,461	
of which Additional Tier 1 capital	-		-	
of which Tier 2 capital	6		13	
Common Equity Tier 1 capital ratio[2] (percent)		16.9		19.0
Tier 1 capital ratio[2] (percent)		16.9		19.0
Total capital ratio[2] (percent)		16.9		19.0

1 According to Article 92(3) of the CRR
2 According to Article 92(1) of the CRR

REGULATORY RATIOS OF THE VOLKSWAGEN BANK GMBH GROUP AS OF DECEMBER 31



1 The amounts of Tier 1 capital and Common Equity Tier 1 capital are the same because Volkswagen Bank GmbH has not issued any Additional Tier 1 capital instruments.

The year-on-year reduction in the regulatory capital ratios (CET1 capital ratio, Tier 1 capital ratio and total capital ratio) is largely attributable to the combination of an increase in the total risk exposure and a reduction in own funds.

Total risk exposure rose by €1.2 billion principally as a result of an increase in the volume of corporate business.

Own funds decreased by €0.8 billion largely as a result of the current non-inclusion of share capital in the amount of €0.3 billion, a €0.2 billion reduction in accumulated other comprehensive income and an increase of €0.3 billion in the deduction amount for deferred taxes stemming from temporary differences.

TIER 1 CAPITAL RATIO/COMMON EQUITY TIER 1 CAPITAL RATIO
In %

Year	Value
2022	16,9
2021	19,0
2020	18,1
2019	15,6
2018	15,5

OVERALL RATIO/TOTAL CAPITAL RATIO (CRR/SOLVV)
In %

Year	Value
2022	16,9
2021	19,0
2020	18,1
2019	15,6
2018	15,5

Volkswagen Bank GmbH has a capital planning process, the aim of which is to ensure that the regulatory minimum capital ratios are satisfied, even when the volume of business grows. In addition to making additions to capital reserves and using Tier 2 capital proportionately in the form of subordinated liabilities, the Bank can also make use of ABS transactions to optimize its capital management. Volkswagen Bank GmbH therefore has the benefit of a sound foundation for further expansion of the financial services business.

CHANGES IN OFF-BALANCE-SHEET LIABILITIES

The off-balance-sheet liabilities relate mainly to irrevocable credit commitments. In the Volkswagen Bank GmbH Group, they amounted to €11,870 million as of December 31, 2022 (previous year: €14,249 million).

LIQUIDITY ANALYSIS

The Volkswagen Bank GmbH Group is funded largely through capital market and asset-backed security programs, and through direct banking deposits. The sources of funding are supplemented on an ad hoc basis by utilizing liquidity made available by the ECB in open market operations (TLTRO III). Volkswagen Bank GmbH holds liquidity reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. Proactive management of the operational safe custody account, which allows Volkswagen Bank GmbH to participate in funding facilities, has proven to be an efficient liquidity reserve approach. In addition to bonds from various countries, German federal states (Länder bonds), supranational institutions and multilateral development banks plus Pfandbriefe (mortgage bonds), all totaling €3.9 billion, Volkswagen Bank GmbH holds senior ABS bonds issued by special purpose entities of Volkswagen Bank GmbH in an amount of €13.5 billion that can be deposited as collateral in the operational safe custody account. These senior ABS bonds are not reported in the consolidated financial statements of Volkswagen Bank GmbH because these special purpose entities are themselves consolidated.

In conjunction with various ILAAP metrics, the normative and economic perspectives of liquidity adequacy are assessed over short-, medium- and long-term time horizons. The Volkswagen Bank GmbH Group ensures that it has appropriate liquidity adequacy at all times by measuring and limiting the ILAAP metrics. A significant ILAAP metric used by Treasury to manage short-term liquidity at Volkswagen Bank GmbH and in the entities within the regulatory basis of consolidation of the Volkswagen Bank GmbH Group is the liquidity coverage ratio (LCR). From January to December in the year under review, this ratio varied between 196% and 316% for the Volkswagen Bank GmbH Group and was therefore significantly above the lower regulatory limit of 100% at all times. The changes in the liquidity ratio are continuously monitored and proactively managed by issuing a lower limit for internal

management purposes. Highly liquid assets for the purposes of the LCR include central bank balances and government bonds plus other securities such as Länder bonds, supranational bonds and Pfandbriefe.

The requirement under the *Mindestanforderungen an das Risikomanagement* (MaRisk – German Minimum Requirements for Risk Management) for the Volkswagen Bank GmbH Group 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 monitored by the liquidity risk management department. In this process, the cash flows for the coming twelve months are projected and compared against the potential funding available in each maturity band. Adequate potential funding to cover the liquidity requirements was available at all times, both in the normal scenario and in the stress tests required by MaRisk. The survival period recovery indicator remained within the stipulated limits through the 2022 reporting year.

REFINANCING

Strategic Principles

In terms of funding, the Volkswagen Bank GmbH Group 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 with the objective of safeguarding funding on a long-term basis and using this funding on optimum terms.

Implementation

In the reporting year, Volkswagen Bank GmbH did not issue any unsecured bonds under its €10 billion capital market program. No public securitization transactions were carried out in the reporting period. ECB funding instruments and deposits constituted additional sources of funding.

Customer deposit business amounted to €26.2 billion (previous year: €26.5 billion) in the reporting year.

The Bank continued to implement its strategy of mainly obtaining maturity-matched funding by borrowing on terms with matching maturities and by using derivatives. Currency risks were eliminated by using derivatives.

The Volkswagen Bank GmbH Group was able to meet its payment obligations when due at all times in the reporting period. A high level of liquidity was maintained on a permanent basis during the reporting period and the minimum regulatory ratio (LCR) was therefore satisfied.

In the opinion of the Management Board, Volkswagen Bank GmbH will continue to remain solvent at all times in the future owing to its diversified funding structure and its proactive management of liquidity. No liquidity commitments have been issued to special purpose entities.

Ratings

Volkswagen Bank GmbH is a wholly owned subsidiary of Volkswagen AG and, as such, its credit ratings with both Moody's Investors Service (Moody's) and Standard & Poor's Global Ratings (S&P) are closely associated with those of the Group's parent company.

Rating agency Standard & Poor's confirmed its long-term rating of BBB+ for Volkswagen Bank GmbH in November 2022. The outlook is "stable".

Rating agency Moody's affirmed its P-2 (short term) and A3 (long term) ratings for Volkswagen AG in June and December 2022. The short-term and long-term ratings for Volkswagen Bank GmbH were considered in June and likewise left unchanged at P–1 and A1. The outlook remains "stable". This confirmation of the ratings and outlooks reflects the stability of Volkswagen Bank GmbH through current crises including the semiconductor shortage and the Russia-Ukraine conflict.

Volkswagen Bank GmbH

(Condensed, in accordance with the HGB)

As the parent company, Volkswagen Bank GmbH accounts for a significant share of the business performance of the Volkswagen Bank GmbH Group. Please refer to the previous section for a presentation of the business performance of the Group in accordance with the IFRSs. In the section below, information is provided on the changes in the net assets, financial position and results of operations of Volkswagen Bank GmbH in accordance with the HGB.

BUSINESS PERFORMANCE 2022

The result from ordinary activities amounted to €182.0 million compared with €843.6 million in the prior year. The net interest income earned by Volkswagen Bank GmbH, including interest anomalies from negative interest and net income from leasing transactions, came to €2,162.6 million compared with €2,047.8 million in the prior year.

As in the prior year, interest income from lending and money market transactions including finance leases arose predominantly from financing business with end customers and from vehicle and capital investment financing with dealerships in the Volkswagen Group, decreasing by €90.5 million year-on-year to €1,473.2 million. Of this amount, €774.1 million (previous year: €825.8 million) was attributable to retail financing and €291.7 million (previous year: €226.3 million) to dealer financing.

Net income from leasing business amounted to €844.8 million (previous year: €732.8 million). Within this figure, income from leasing transactions, which rose by €89.9 million or 6.8%, is set against expenses from leasing transactions, which were down by €22.1 million or 3.7%.

Fee and commission income amounted to €325.7 million, which equated to a decrease of €38.8 million compared with the prior-year level. Fee and commission expenses came to €383.1 million (previous year: €519.9 million). Net fee and commission income was in negative territory in the year under review, with a net expense of €57.4 million (previous year: net expense of €155.5 million).

Other operating income fell by €155.4 million to €275.7 million, which was mainly attributable to the decreased reversal of provisions for litigation risk and reduced cost allocations.

General and administrative expenses increased by €8.3 million to €801.5 million (previous year: €793.2 million). Personnel expenses increased by €9.3 million to €212.9 million.

Expenses arising from cost transfers from affiliated companies went up by €2.8 million to €306.0 million. Fees for services provided by third parties decreased by €12.5 million to €23.5 million.

Depreciation and write-downs on lease assets amounted to €755.6 million (previous year: €662.3 million). Other operating expenses rose by €7.4 million to €77.5 million.

The provision for credit risks came to a net addition of €512.6 million in the reporting year (previous year: net reversal of €54.9 million). The profit after tax of €182.0 million (previous year: €562.8 million) will be transferred to Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

Total assets decreased by €8.5 billion to €73.3 billion (previous year: €81.8 billion) essentially as a result of the reduction of excess liquidity. The customer loans and receivables reported in the balance sheet increased by €1.7 billion and amounted to €48.2 billion as of the reporting date (previous year: €46.5

billion). Loans to and receivables from dealers in connection with purchase financing rose by €3.5 billion while loans to and receivables from retail customers fell by €1.9 billion.

The cash reserve decreased by €10.3 billion to €0.7 billion (previous year: €11.0 billion).

Most of Volkswagen Bank GmbH's portfolio comprises securities from ABS transactions, of which €14.0 billion (previous year: €16.6 billion) is attributable to securities from own-account transactions. For investment purposes, the portfolio also included ABSs with a total value of €0.5 billion (previous year: €0.5 billion) issued by special purpose entities of Volkswagen Financial Services (UK) Ltd., Milton Keynes.

The main items on the equity and liabilities side of the balance sheet are liabilities to customers (including direct banking business) of €32.4 billion (previous year: €34.5 billion), other liabilities of €15.2 billion (previous year: €18.6 billion), notes and commercial paper issued of €4.1 billion (previous year: €5.1 billion) and liabilities to banks of €11.2 billion (previous year: €13.2 billion).

The other provisions mainly comprised provisions to cover costs associated with litigation and legal risks. These provisions reflected the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealerships and other customers. They relate primarily to proceedings in relation to design aspects of loan agreements with customers that may obstruct the processing of statutory cancellation periods and provisions for legal disputes in connection with customer financing broking claims.

The equity of Volkswagen Bank GmbH amounted to €9.2 billion (previous year: €9.2 billion) as of the reporting date.

INCOME STATEMENT OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	2022	2021
Net interest income	1,318	1,315
Net leasing income	845	733
Net fee and commission income	–57	–155
Administrative expenses	802	793
Other comprehensive income	–609	–311
Provision for credit risks	513	–55
Result from ordinary business activities	**182**	**844**
Tax expense	–	281
Profits transferred under a profit transfer agreement	182	563
Net income for the year	**0**	**0**
Retained profits brought forward	0	0
Net retained profits	**0**	**0**

BALANCE SHEET STRUCTURE OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	Dec. 31, 2022	Dec. 31, 2021
Assets		
Cash reserve	673	11,022
Loans to and receivables from banks	3,104	381
Loans to and receivables from customers	48,233	46,549
Marketable securities	18,122	21,300
Equity investments and shares in affiliated companies	174	217
Lease assets	2,489	2,121
Other assets	496	243
Total assets	**73,291**	**81,833**
Equity and liabilities		
Liabilities to banks	11,242	13,193
Liabilities to customers	32,435	34,514
Notes, commercial paper issued	4,096	5,087
Provisions	448	525
Subordinated liabilities	30	30
Funds for general banking risks	26	26
Equity	9,224	9,224
Other liabilities	15,789	19,235
Total equity and liabilities	**73,291**	**81,833**
Balance sheet disclosures		
Contingent liabilities	294	268
Other obligations	11,870	14,249

NUMBER OF EMPLOYEES

Volkswagen Bank GmbH employed 1,098 people (previous year: 1,114) in Germany at the end of 2022.

A total of 408 people (previous year: 792) were employed at the international branches of Volkswagen Bank GmbH.

OPPORTUNITIES AND RISKS FACING VOLKSWAGEN BANK GMBH

The business performance of Volkswagen Bank GmbH is largely subject to the same opportunities and risks as those faced by the Volkswagen Bank GmbH Group. These opportunities and risks are described in the report on opportunities and risks in the following sections of this management report.

Report on Opportunities and Risks

The Russia-Ukraine conflict, significantly increased energy prices and cost of living, high inflation, rising interest rates: Volkswagen Bank GmbH's active management of opportunities and risks plays a central part in its commercial success in a rather challenging operating environment.

RISKS AND OPPORTUNITIES

In this section, the risks and opportunities that arise in connection with the Bank's business activities are presented. The risks and opportunities are grouped into various categories.

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

MACROECONOMIC OPPORTUNITIES

The Management Board of Volkswagen Bank GmbH anticipates that with challenging market conditions prevailing, deliveries to Volkswagen Group customers will amount to around 9.5 million vehicles in 2023 provided that the supply problems affecting intermediate products and commodities and the delays affecting logistics operations improve. Volkswagen Bank GmbH supports this generally positive trend by providing financial services products designed to promote sales.

The macroeconomic environment could also give rise to further opportunities for the Volkswagen Bank GmbH Group if actual trends turn out to be better than forecast.

STRATEGIC OPPORTUNITIES

The Volkswagen Bank GmbH Group is continuing to pursue a strategy that focuses on the digitalization and optimization of its product portfolio. It is leveraging the opportunities for growth more and more in the areas of mobility-related consumer credit and used vehicle finance. Particular attention is being given to the continuous, dynamic streamlining of all processes and systems in order to improve productivity and respond to customer needs. This will continue to lay the foundations for Volkswagen Bank GmbH to impress its customers over the coming years with innovative, country-specific financial products, thereby helping to nurture long-term customer loyalty.

OPPORTUNITIES FROM CREDIT RISK

Opportunities may arise in connection with credit risks if the losses actually incurred on lending transactions turn out to be lower than the prior calculations of expected loss and the associated provisions recognized on the basis thereof. A situation in which the incurred losses are lower than the expected losses can occur particularly in individual countries in which economic uncertainty resulted in the need

for a higher provision for credit risks but in which the economic circumstances then stabilize, resulting in an improvement in the credit quality of the borrowers concerned.

OPPORTUNITIES FROM RESIDUAL VALUE RISK

When vehicles are remarketed, the Volkswagen Bank GmbH Group may generally be presented with the opportunity to obtain a price that is higher than the contractually guaranteed residual value if, for example, increasing demand raises market values higher than expected. This positive trend in market values would also be reflected in the continuous adjustment of projected residual values in line with the prevailing market conditions.

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

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

- The Management Board of Volkswagen Bank GmbH is the governing body with responsibility for the executive management of the business. In this role, the Management Board has set up accounting, treasury, risk management, controlling and compliance divisions, each with clearly distinct functions and clearly defined areas of responsibility and authority, to ensure that the accounting and financial reporting processes are legally compliant and in line with the relevant standards.
- 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 applied by the domestic and foreign entities included in the consolidated financial statements of Volkswagen Bank GmbH are governed by the Volkswagen Group’s accounting policies, including the accounting requirements specified in the International Financial Reporting Standards (IFRSs).
- The Volkswagen Bank GmbH Group’s accounting standards also set out the specific formal requirements for the consolidated financial statements. The standards determine the basis of consolidation and also describe in detail the components of the reporting packages to be prepared by the Group companies. The formal requirements include the mandatory use of a complete, standardized set of forms. The accounting standards also define, for example, specific details relating to the recognition and processing of intragroup transactions and the associated reconciliation of balances.
- At Group level, specific control activities aimed at ensuring that the consolidated financial reporting provides a true and fair view include the analysis and any necessary adjustment of single-entity financial statements submitted by the consolidated entities, taking into account the reports submitted by the auditor and the related discussions concerning the financial statements.
- These activities are supplemented by the clear delineation of areas of responsibility and by various monitoring and review mechanisms. The overall aim is to ensure 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 enhanced by specific Group functions at the parent company Volkswagen AG, for example functions within the responsibility of the Group tax department.
> Internal auditing is a key component of the Volkswagen Bank GmbH Group's monitoring and control system. The Internal Audit department carries out regular audits of accounting-related processes in Germany and abroad as part of its risk-oriented auditing activities and reports on these audits directly to the Management Board of Volkswagen Bank GmbH.

To summarize, the aim of the existing internal monitoring and control system of the Volkswagen Bank GmbH Group is to ensure that the financial position of the single entity and the Volkswagen Bank GmbH Group is based on information that is reliable and has been properly recognized as of the December 31, 2022 reporting date. No material changes were made to the internal monitoring and control system of the Volkswagen Bank GmbH Group after the reporting date.

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

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

In the realm of its primary operating activities, the Volkswagen Bank GmbH Group is exposed to a large number of risks typical for the financial services sector. The Group takes on these risks within the limits of the approved risk strategy so that it can target and exploit any resulting market opportunities.

The Volkswagen Bank GmbH Group has put a risk management system into place 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 aligned with the activities of the individual divisions. This structure is intended to ensure early detection of any trends that could represent a risk to the business as a going concern so that appropriate countermeasures can then be initiated.

The Volkswagen Bank GmbH Group has implemented suitable procedures to make sure that the risk management system is fit for purpose. Firstly, Risk Management continuously monitors the system. Secondly, the individual elements in the system are regularly reviewed on a risk-oriented basis by the Internal Audit department, the ECB (European Central Bank), the ESF (Deposit Protection Fund) and by the external auditor as part of the audit of the annual financial statements.

In the 2021 Supervisory Review and Evaluation Process (SREP), the ECB banking supervisor set a Pillar 2 requirement of 2.25% (previously 2.00%) for the Volkswagen Bank GmbH Group, applicable from March 1, 2022. The Pillar II requirement must be satisfied in addition to the minimum capital requirements under Pillar I and covers risks that are underestimated or not covered by the minimum capital requirements.

The entire Management Board is responsible for risk management in the Volkswagen Bank GmbH Group, although responsibility for operational implementation lies with the Chief Risk Officer (CRO). In this function, the CRO submits regular reports on the overall risk position in the Volkswagen Bank GmbH Group to the other members of the Management Board and to the Supervisory Board.

An important feature of the risk management system in the Volkswagen Bank GmbH Group is the clear, unequivocal separation of tasks and areas of responsibility, both organizationally and in terms of personnel. This is intended to ensure that the system is fully functioning at all times and regardless of the personnel involved.

The risk management departments at the headquarters are responsible for providing guidelines for the organization of risk management. This function includes drawing up risk policy guidelines, developing and maintaining methodologies and processes relevant to risk management, and issuing and monitoring international framework standards for the procedures to be used across Europe.

In particular, these activities involve providing models for carrying out credit assessments, quantifying the different categories of risk, determining risk-bearing capacity and evaluating collateral. Risk Management is therefore responsible for identifying possible risks, analyzing, quantifying and evaluating risks, and for determining the resulting measures to respond to the risks.

Local risk management units ensure that the requirements specified by Volkswagen Bank GmbH Group Risk Management are implemented and complied with in their respective market.

To summarize, continuous monitoring of risks, open and direct communication with the Management Board and the integration of all findings into the operational risk management system together form the basis, in the view of the Management Board, for the best possible leveraging of market potential based on conscious, effective management of the overall risk faced by the Volkswagen Bank GmbH Group.

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 Bank GmbH.

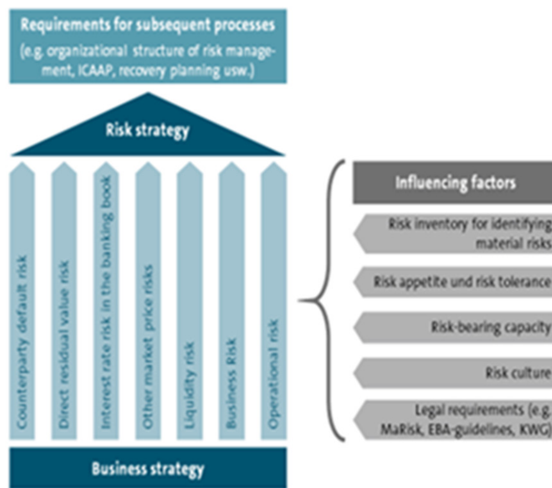
As part of this overall responsibility, the Management Board of Volkswagen Bank GmbH has introduced a MaRisk-compliant strategy process and implemented a business and risk strategy. The ROUTE2025 business strategy sets out the fundamental views of the Management Board of Volkswagen Bank GmbH on key matters relating to business policy. The new MOBILITY2030 business strategy, which was drawn up during the reporting year, was factored into the updating of the business and risk strategy for 2023 as appropriate. It includes the objectives for each major business activity and the strategic areas for action to achieve the relevant objectives. The business strategy also serves as the starting point for creating an associated risk strategy.

The risk strategy is reviewed each year and whenever required on the basis of a risk inventory, risk-bearing capacity and legal requirements. It is adjusted where appropriate and discussed with the Supervisory Board of Volkswagen Bank GmbH. The risk strategy describes the main risk management goals and action plans for each category of risk, taking into account the business policy focus, risk tolerance and risk appetite. A review is carried out annually to establish whether the goals in the risk strategy have been attained. The causes of any variances are analyzed and then discussed with the Supervisory Board of Volkswagen Bank 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 during the process of business and risk planning.

The Management Board of Volkswagen Bank GmbH is responsible for specifying and subsequently implementing the overall risk strategy in the Volkswagen Bank GmbH Group.

RISK STRATEGY PROCESS



RISK INVENTORY

The objective of the risk inventory, which has to be carried out at least once a year, is to identify the main categories of risk. To this end, all known categories of risk are examined to establish whether they arise and are relevant in the Volkswagen Bank GmbH Group. In the risk inventory, the relevant categories of risk are examined in greater detail, quantified or, if they cannot be quantified, assessed by experts, and then evaluated to determine whether they are material for the Volkswagen Bank GmbH Group. In accordance with the requirements set out in the ECB Guide to the internal capital adequacy assessment process (ICAAP) and the ECB Guide to the internal liquidity adequacy assessment process (ILAAP), the risk inventory is carried out using both the economic and normative perspectives and, in addition, a gross approach (i.e. an analysis of the risks that does not take into account specific techniques designed to mitigate the underlying risks). The Volkswagen Bank GmbH Group also has an ILAAP-specific framework for risk identification in place as required by the ILAAP guide.

The risk inventory carried out as per December 31, 2021 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk (credit risk, shareholder risk, issuer risk and counterparty risk), direct residual value risk, interest rate risk in the banking book, other market risk, business risk (earnings risk, strategic risk, reputational risk and business model risk), liquidity risk and operational risk. Other existing subcategories of risk are taken into account within the categories specified above.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

The Volkswagen Bank GmbH Group has set up a system for calculating risk-bearing capacity in accordance with the requirements specified in the ECB Guide to the internal capital adequacy assessment process (ICAAP). In the opinion of the Management Board, the system ensures that the Group maintains risk-bearing capacity from both economic and normative perspectives.

In the economic risk-bearing capacity analysis, the overall economic risk is compared against the risk-taking potential. An institution has the capacity to bear its risk if, as a minimum, all material risks to which the institution are exposed are covered at all times by the institution’s risk-taking potential.

The main risks are quantified as part of the economic risk-bearing capacity analysis with a confidence level of 99.9% and a time horizon of one year.

The objective of the normative perspective is to ensure that the Volkswagen Bank GmbH Group meets all relevant regulatory capital ratio requirements (in particular, the requirements for the total capital ratio and CET1 capital ratio) in the planning period. To this end, the Volkswagen Bank GmbH Group analyzes a baseline scenario and a multidimensional adverse scenario over a forward-looking time horizon of three years beyond the current year and constantly monitors its compliance with the regulatory capital requirements and its internally specified early warning thresholds.

In addition, the Volkswagen Bank GmbH Group uses a system of limits derived from the economic risk-bearing capacity analysis to specifically manage risk-cover capital in accordance with the level of risk tolerance determined by the Management Board.

Building on the Bank's risk appetite framework, the risk limit system that has been put in place limits the risk at different levels, thereby aiming to safeguard the economic risk-bearing capacity of the Volkswagen Bank GmbH Group.

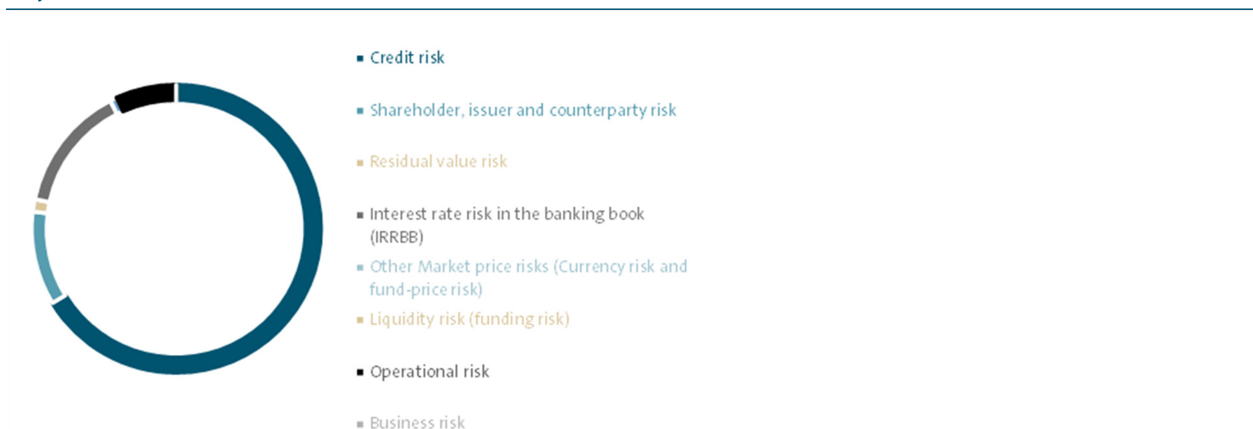
Risk-taking potential is determined from the available equity and earnings components subject to deductions (such as undisclosed liabilities). In accordance with a moderate, overarching risk appetite, only a portion (a maximum of 90%) of this risk-taking potential is specified as a risk ceiling or overall risk limit. The overall risk limit is apportioned according to the relevant specific risk appetite to counterparty default risk, direct residual value risk, interest rate risk in the banking book, other market 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, shareholder risk, issuer risk and counterparty risk. From a qualitative perspective, the specific risk appetite for each category of risk is set at moderate to low based on the business model and risk strategy of Volkswagen Bank GmbH.

In a second step, the limits for the risk categories (with the exception of those for shareholder risk, issuer risk and counterparty risk) are broken down and allocated at the level of the branches and subsidiaries.

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

The overall economic risk of the Volkswagen Bank GmbH Group as of December 31, 2022 amounted to €3.1 billion. The apportionment of this total risk by individual risk category was as follows:

DISTRIBUTION OF RISKS BY RISK CATEGORY
As of December 31, 2022



CHANGES IN RISK CATEGORY APPORTIONMENT[1]

	€ MILLION		SHARE IN PERCENT	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Risk category				
Credit risk	2,049	1,546	66	65
Shareholder, issuer and counterparty risk	326	347	11	15
Residual value risk	43	32	1	1
Interest rate risk in the banking book (IRRBB)	437	27	14	1
Other market risk (currency and fund price risk)	24	13	1	1
Liquidity risk (funding risk)	0	1	0	0
Operational risk	209	375	7	16
Business risk	0	40	0	2
Total	**3,088**	**2,381**	**100**	**100**

1 The confidence level is 99.9% as standard.

As of December 31, 2022, risk-taking potential amounted to €8.3 billion and comprised CET1 capital (€8.7 billion) plus accumulated earnings after dividend deduction (€0.6 billion) less hidden charges and loss allowance shortfalls (€1.0 billion in total). As of December 31, 2022, 37% of risk-taking potential was utilized by the risks outlined above. In the period January 1, 2022 to December 31, 2022, the maximum utilization of the risk-taking potential in the economic perspective was 37%. In addition to determining the risk-bearing capacity in a normal scenario, the Volkswagen Bank GmbH Group also conducts bank-wide stress tests and reports the results to the Management Board. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of Volkswagen Bank GmbH Group. The purpose of these scenarios is to facilitate early identification of those risks that would be particularly affected by the trends simulated in the scenarios so that any necessary corrective action can be initiated in good time. The stress tests include both a historical scenario (a repeat of the financial crisis in the years 2008 to 2010) and a hypothetical scenario (a sharp drop in sales in the Volkswagen Group). These scenarios, which cover all categories of risk, are supplemented by sensitivity analyses specific to risk categories. Appended to these analyses are regular stress test analyses with a multi-year time horizon for the normative perspective. In addition, annual reverse stress tests are used to identify what events could represent a threat to the ability of the Volkswagen Bank GmbH Group to continue as a going concern. Stress tests using a multi-year time horizon (for example an economic downturn) are also prepared annually.

In 2022, the calculations of risk-bearing capacity confirmed that all material risks that could adversely impact the financial position or financial performance were adequately covered by the available risk-taking potential at all times. The stress tests did not indicate any need for action.

RISK CONCENTRATIONS

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

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

- Just a few borrowers/contracts account for a large proportion of the loans (counterparty concentrations)
- A small number of sectors account for a large proportion of the loans (sector concentrations)
- Many of the loans are to businesses within a defined geographical area (regional concentrations)
- Loans/receivables are secured by just one type of collateral or by a limited range of collateral types (collateral concentrations)
- Volkswagen Bank GmbH's income is generated from just a few sources (income concentrations)

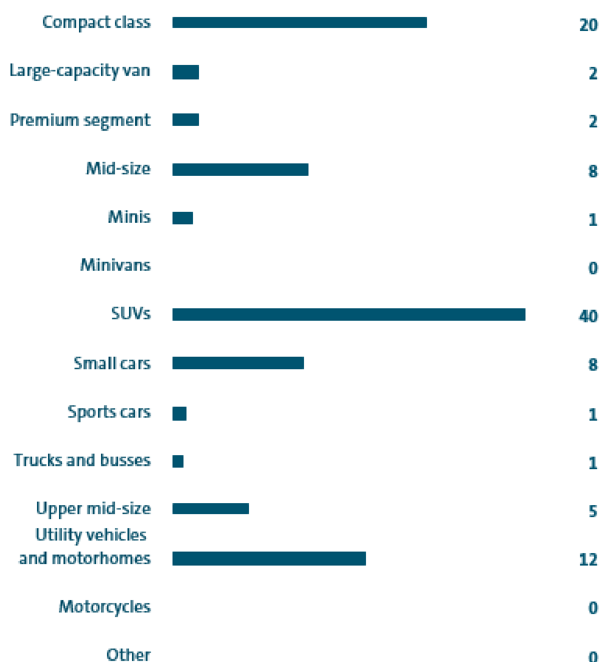
One of the objectives of the Volkswagen Bank GmbH Group's risk policy in its business model is to reduce such concentrations by means of broad diversification.

Counterparty concentrations from customer business are only of minor significance in the Volkswagen Bank GmbH Group because of the large proportion of business accounted for by retail lending. From a regional perspective, the Volkswagen Bank GmbH Group has a concentration of business in the German market, but looks to achieve broad nationwide diversification within the country.

In contrast, sector concentrations in the dealership business are a natural part of the business for a captive and these concentrations are therefore individually analyzed. Overall, no noticeable impact has been identified, even in periods of economic downturn such as that caused by the Covid-19 pandemic.

Likewise, a captive cannot avoid collateral concentrations because the vehicle is the predominant collateral asset by virtue of the business model. 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, the Volkswagen Bank GmbH Group enjoys a broad diversification across all vehicle segments (see following diagram) based on a large range of vehicles from the different brands in the Volkswagen Group.

COLLATERAL STRUCTURE AS OF DECEMBER 31, 2022
In %



This vehicle diversification also means that there is no residual value concentration in the Volkswagen Bank GmbH Group.

Income concentration arises from the very nature of the business model. The special constellation in which the Bank serves to promote Volkswagen Group sales results in certain dependencies that directly affect income growth.

MODEL RISK

Model risk arises from inaccuracies in the modeling of risk values and must be taken into account, particularly in complex models.

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

Potential model risks relating to the risk models used for the risk-bearing capacity analysis are qualitatively assessed both in the original model development process and as part of regular independent model validation. The objective is to examine the need for additional cover in relation to such risks in the form of own funds.

ESG RISKS

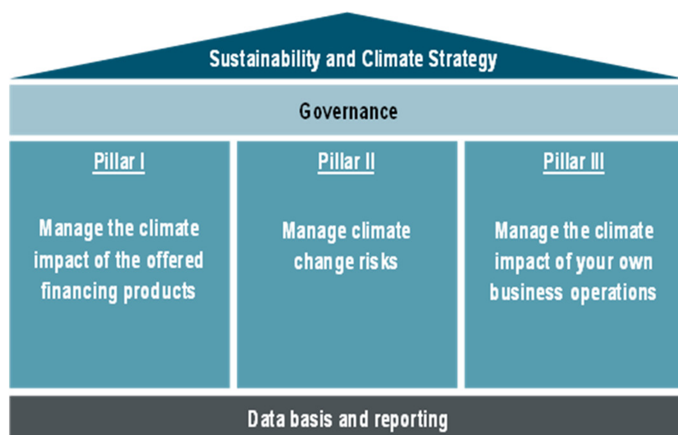
The trend toward sustainability and the management of ESG risks is currently changing the financial system. The Bank intends to be proactively involved in these changes and make the most of the opportunities that arise.

In this context, Volkswagen Bank GmbH, in its role as a provider of financial products across Europe serving the automotive and individual mobility markets, sees sustainability as a business responsibility and critical strategic success factor.

Against this backdrop, Volkswagen Bank GmbH is taking a broadly based and in-depth approach to the whole issue of sustainability, the various aspects of which touch all areas of the Bank's business. An overarching project has been established to manage relevant activities. Climate and the environment are key areas of focus.

The expectations published by the ECB banking supervisor in its guide on climate-related and environmental risks are also being incorporated (see "Guide on climate-related and environmental risks, November 2020").

The Sustainability project is structured according to the following three-pillar model.



The business and risk strategies set out the fundamental understanding of the focus area and, together with the risk strategy guidelines, describe the operational framework for addressing it.

Volkswagen Bank GmbH attaches high importance to the treatment of sustainability risks that could have negative consequences for the financial position, financial performance and reputation of the Bank if such risks were to materialize. Demand for environmentally friendly and climate-neutral products is growing too, and customers have ever higher expectations of companies, including financial sector companies, in terms of sustainable operations and behavior.

Going forward, the risk drivers specific to climate and the environment will play an increasingly significant role in the risk category structure and will need to be included in the risk assessment and management system. Various approaches are being pursued in this regard (including the refinement of risk models and risk assessment methods, the development and application of scenario analyses, and identification and management using suitable KPIs/KRIs).

Volkswagen Bank GmbH is a captive finance company that exists to provide vehicle financing for retail customers and finance for corporate customers (especially vehicle dealers). One of Volkswagen Bank GmbH's declared objectives is accordingly to provide stewardship for an environmentally friendly transformation process at dealerships. Financing options for charging infrastructure and e-bicycles and for energy-efficient construction and renovation are also being expanded consistently. The Bank aims to support the Volkswagen Group's electric mobility transformation as effectively as possible with a wide range of products for retail and corporate customers.

More attention is also being paid to sustainability principles from a funding perspective. In this case, the objective is to base funding to a greater extent on sustainability criteria.

Volkswagen Bank GmbH is making major efforts to ensure that its own banking operations are largely climate-neutral and prevent the danger of serious environmental damage. For example, high priority is

being accorded to environmental protection measures such as reducing energy, water and paper consumption, cutting carbon emissions and generating less waste.

Potential hazards to employees, buildings or technology (particularly from environmental factors) and the means used to protect against them are also analyzed continuously and included in the impact analyses so that remedial actions can be defined and implemented if necessary.

Furthermore, Volkswagen Bank GmbH has a tradition of supporting specific social and environmental protection projects through donations and sponsorship (such as wetlands restoration projects run by NABU [Nature And Biodiversity Conservation Union in Germany]).

RISK REPORTING

A detailed risk management report is submitted to the Management Board and to the Supervisory Board of Volkswagen Bank GmbH on a quarterly basis. The following information is included in the risk management report:

> Overall commentary on the risk position
> Results of the risk-bearing capacity analysis using the economic and normative perspectives
> Key figures for credit risk and residual value risk at the level of the Volkswagen Bank GmbH Group, currently, over time and by market
> Presentation and evaluation of other counterparty default risks (shareholder risk, issuer risk and counterparty risk)
> Presentation and evaluation of liquidity risk, interest rate risks in the banking book, other market risks and operational risk
> Overview of outsourcing activities and business continuity management
> Overview of ad hoc cases and newly authorized products

The following information is also presented to the Management Board in the quarterly ICAAP report:

> Presentation and evaluation of stress test results in various scenarios (historical and hypothetical)
> Sensitivity analyses (by risk category)
> Normative/economic reconciliation of capital requirement (for each risk category)
> Commentary on the changes in risk-bearing capacity in the individual perspectives and scenarios

Ad hoc reports and specific risk category reports are generated as needed to supplement the system of regular reporting.

Volkswagen Bank GmbH strives to maintain the high quality of the information contained in the risk reports about structures and trends in the portfolios by mean of a process of constant refinement and ongoing adjustment in line with current circumstances.

RECOVERY AND RESOLUTION PLANNING

During the course of fiscal year 2022, the Volkswagen Bank GmbH Group updated its Group-wide recovery plan and submitted it to the ECB (the competent supervisory authority).
The recovery plan covers matters including a system to ensure that adverse developments are identified promptly, and the possible measures that could be used by the Group in different stress scenarios to safeguard or restore a robust financial footing. The update to the recovery plan in 2022 focused in particular on an analysis of the Group's ability to recover based on four different adverse scenarios.

The recovery plan also sets out the responsibilities and the processes to be followed in the management of a crisis and specifies a Group-wide set of recovery indicators to support ongoing monitoring. The recovery indicators are spread over different corporate units so that a broad range of indicators is covered. The range includes capital, liquidity, profitability and market-based indicators, all of which are continually monitored. The Management Board and the Supervisory Board are notified on a quarterly basis of the status of the recovery indicators as of the reporting date in question in the risk management report.

Volkswagen Bank GmbH has additionally assisted the competent resolution authorities with the preparation of a group resolution plan during the current fiscal year. The objective of the resolution plan is to safeguard the resolution capability of the Bank. This involves Volkswagen Bank GmbH providing the resolution authorities with information and analyses for this purpose in accordance with its supporting duties as defined in Section 42 of the SAG.

Volkswagen Bank GmbH complied with the applicable bank-specific minimum requirement for own funds and eligible liabilities (MREL) at all times in 2022.

CURRENT REGULATORY FACTORS

The experiences of the last financial market crisis have led to permanently more stringent regulatory ground rules for banks and ever more granular regulations. More and more powers to issue statutory instruments are being granted in the context of European regulations and directives and this is likely to result in a large quantity of new and revised delegated regulations and directives from the European banking supervisory authority over the next few years. Volkswagen Bank GmbH will scrutinize these new stipulations and take the actions necessary to comply with them.

The European Commission presented drafts of a CRR III and a CRD IV in October 2021. Now being discussed in the legislative procedure, these may well have implications for the Volkswagen Bank Group. While the CRR III draft is concerned primarily with the implementation of Basel IV (also referred to by the Basel Committee as the completion of Basel III), the draft CRD VI also addresses the subject of sustainability risks. Its intention is that institutions should in future be required to create transition plans for their transition to sustainable operation.

Volkswagen Bank GmbH is considered to be a significant institution and is thus subject to the direct supervision of the ECB. This means that it must comply with the EBA guidelines, the requirements of the ECB and the requirements of the German Federal Financial Supervisory Authority (BaFin) insofar as the latter has not limited the scope of its requirements to less significant institutions. Volkswagen Bank GmbH is also subject to the ECB's Supervisory Review and Evaluation Process (SREP). The EBA has published guidelines concerning SREP implementation and assessment and updates them from time to time. The EBA published its most recent set of revised guidelines on SREP and supervisory stress testing, which are due to come into effect from January 1, 2023, on March 18, 2022. The revised SREP guidelines serve largely to implement requirements of CRD V, incorporate the stipulations of various new and revised EBA guidelines and are intended to help refine supervisory practice. Among the changes being introduced are that ESG risks are in future to be incorporated into business model analysis. The intention is that ESG risks and their consequences will be assessed in this context with regard to the viability and sustainability of the business model and the long-term resilience of the bank. This assessment will probably affect the level of the overall SREP score determined by the ECB.

Once the SREP has been completed, Volkswagen Bank GmbH, like other significant institutions, will be notified of the additional equity requirements and expectations in relation to Pillar II along with recommendations for implementation. Volkswagen Bank GmbH is bound to respect that notification.

The provisions of the Prudential Backstop Regulation for nonperforming loans as described in Article 47a of the CRR, which entered into force on April 26, 2019, also have a regulatory effect on the capital requirement for credit risk. Regulatory minimum capital requirements for risk exposures that have been nonperforming for more than two years have been in force since 2021. Failure to comply in full with the regulatory minimum capital requirement necessitates a deduction from the Common Equity Tier 1 capital. The regulator does not currently allow CRSA institutions like Volkswagen Bank GmbH to recognize collateral in the form of vehicles, which means that deductions from equity are a possibility. Such a deduction from equity would result in a reduction in the available equity in Pillar II.

The expectations of the ECB set out in its addendum to the guidance on nonperforming loans (prudential provisioning backstop for nonperforming exposures), most recently updated by the expectations regarding adequate prudential minimum provisioning published on August 22, 2019, also have a regulatory impact. Volkswagen Bank GmbH must also ensure that its management of nonperforming loans complies with the EBA Guidelines on the management of nonperforming and forborne exposures, the ECB's Guidance to banks on nonperforming loans and the revised MaRisk published in August 2021. More significant implications for the credit risk strategy can arise should the proportion of nonperforming risk exposures reach or exceed 5% at the level of the Volkswagen Bank GmbH Group or at the level of the single entity. Volkswagen Bank GmbH must additionally comply with the EBA Guidelines on loan origination and monitoring, which define wide-ranging requirements for the assessment of lending operations and thus have implications for credit decisions. The necessary IT is scheduled for gradual implementation at Volkswagen Bank GmbH by June 30, 2024 in accordance with the EBA's transitional provisions.

Other regulatory effects on risk management in Pillar II stem in particular from the supervisory requirements for IT in financial institutions (BAIT), the EBA Guidelines on ICT and security risk management and the EBA Guidelines on outsourcing arrangements, which are also considered in the MaRisk published in August 2021. The Regulation on digital operational resilience for the financial sector (DORA), which has now entered into force and will apply from January 17, 2025, is also of relevance in this connection, although many of the requirements it defines are already familiar and have already been satisfied on account of the requirements in the aforementioned EBA Guidelines on ICT and security risk management, EBA Guidelines on outsourcing arrangements, BAIT and MaRisk. What the regulation does, in effect, is elevate many requirements that are already known onto a statutory footing. It also contains a series of mandates. It will not be possible to determine conclusively what action is still required until the delegated acts springing from this regulation have been published and a detailed gap analysis has been completed.

The importance of factoring in climate and environmental risks, including transition risk, in risk management continues to grow in light of the stricter regulatory requirements anticipated. Particularly significant in this connection is the ECB's Guide on climate-related and environmental risks. Volkswagen Bank GmbH has established a special project to address activities defined in this guide and is reporting to the ECB regularly on their implementation. The requirements of Commission Implementing Regulation (EU) 2022/2453 concerning Article 449a CRR regarding the disclosure of environmental, social and governance risks, which has now been published and has entered into force, are being implemented as part of the same project. This regulation describes the disclosure of extensive sustainability-related information at staggered intervals, with the initial set of ESG information being published in the December 31, 2022 disclosure report, the green asset ratio being disclosed as of December 31 2023 and

Scope 1, 2, and 3 $C0_2$ emissions being disclosed as of June 30, 2024. The green asset ratio expresses the proportion of loans and receivables that satisfy the taxonomy criteria in the Taxonomy Regulation and the current associated Delegated Regulation (EU) 2021/2139. It is to be expected that the green asset ratio will rise over the next few years as the proportion of battery-powered vehicles financed and leased rises. Th opposite effect will be seen in the area of emissions intensity, with an increase in the proportion of battery-powered vehicles financed and leased causing $C0_2$ emissions to fall relative to the portfolio of loans and receivables over the next few years. Vehicles with combustion engines will still be financed in the future, so measures to offset these emissions are currently being investigated.

Volkswagen Bank GmbH is currently involved in a general intensive review of climate-related and environmental risks that could be drivers of existing categories of risk and that are considered in the identification, assessment, monitoring and management of the categories of risk. A large quantity of data has to be collected in this process for internal risk management and, in future, for disclosure purposes as well.

Further increasing the importance of this subject, a revised draft for the 7th MaRisk amendment published by BaFin on September 26, 2022 provides for the comprehensive consideration of ESG risks and their consequences in risk management for all categories of risk and in all relevant risk management processes. The draft proposes that as part of this, strategy development will have to be based on a thorough, forward-looking analysis of the business model. Changed environmental conditions and the transition to sustainable operation will also be factored in over an appropriately long period, taking account of possible developments, when defining and adapting the business strategy in future. The requirements of the revised MaRisk draft as they relate to climate and environmental risks overlap in many respects with the expectations expressed in the ECB guide and the feedback received following the ECB's thematic review. The implementation of the EBA Guidelines on loan origination and monitoring mentioned above represents another central aspect of this MaRisk amendment. Volkswagen Bank GmbH Risk Management is of the opinion that at the moment, there are no additional requirements to be anticipated in this area above and beyond those of the EBA guides already discussed.

Finally, the Corporate Sustainability Reporting Directive has entered into force and is now to be implemented in national law. Like similar institutions, Volkswagen Bank GmbH, a large subsidiary active in the capital markets, will as a result have to disclose extensive sustainability-related information for the Volkswagen Bank Group and Volkswagen Bank GmbH as a single entity in future. This includes the required disclosure in accordance with Article 8 of the Taxonomy Regulation and the Delegated Regulation (EU) 2021/2178. The sustainability and transformation strategy and the transition plans with defined target dates for reducing C02 emissions will also be covered by the disclosure requirements. It is intended that the details be set down in a delegated regulation, and EFRAG submitted comprehensive drafts of what are being referred to as European Sustainability Reporting Standards to the European Commission on November 22 in this regard. The intention now is for the European Commission, having consulted with the Member States, to adopt a corresponding delegated regulation by June 2023 that will then have to go forward for approval by the Council and the European Parliament under the “silent procedure”. Based on the current situation, Volkswagen Bank GmbH and the associated group anticipate that the date of the mandatory initial disclosure will be December 31, 2024.

NEW PRODUCT AND NEW MARKET PROCESS

Before launching new products or commencing activities in new markets, the Volkswagen Bank GmbH Group first runs through its new product and new market process. All the units involved (such as Risk Management, Controlling, Accounting, Legal Affairs, Compliance, Treasury, IT) 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 associated with the new product or market and a description of the possible implications for management posed by the risks. Responsibility for approval or rejection lies with the relevant members of the Management Board of Volkswagen Bank GmbH or those with delegated authority from the Management Board, and, in the case of new markets, also with the members of the Supervisory Board.

The Bank maintains a product manual containing details of all products and markets intended to form part of the business activities.

CHANGES TO OPERATING PROCESSES OR STRUCTURES

A materiality analysis must be carried out before any changes are made to the operational and organizational structure or to IT systems.

The degree to which a change is material is determined on the basis of answers to a questionnaire, thereby analyzing the impact of planned changes on control procedures and on the extent of such controls.

The organizational units that will be involved in the future workflows are included in the preliminary stages of any proposed changes. The Risk Management and Compliance units also give their opinion and details of proposed changes are passed to Internal Audit, which provides implementation advice on a case-by-case basis.

OVERVIEW OF RISK CATEGORIES

Financial risks	Nonfinancial risks
Counterparty default risk	Operational risk
Interest rate risk in the banking book (IRRBB)	Compliance, conduct and integrity risk
Other market risk (currency and fund price risk)	Outsourcing risk
Liquidity risk	
Residual value risk	
Business risk	

IMPACTS OF THE RUSSIA-UKRAINE CONFLICT ON THE CATEGORIES OF RISK

The Russia-Ukraine conflict gave rise to an elevated level of uncertainty in the financial markets in fiscal year 2022 and had an impact on the risk situation of banks. The risk profile of the Volkswagen Bank GmbH Group, however, did not show any sign of effects directly attributable to the Russia-Ukraine conflict in the reporting period.

The Volkswagen Bank GmbH Group has no business operations in Ukraine or Russia. Volkswagen Bank GmbH has done nothing more in Russia for many years than issue two bank guarantees for OOO Volkswagen Bank RUS, Moscow, which are fully secured by cash deposits of Volkswagen Financial Services AG and Volkswagen AG. Volkswagen Bank GmbH also has a one percent equity investment, accounted for at cost, in Russian international subsidiary Volkswagen Bank RUS, Moscow. The carrying

amount of this equity investment was written down to €1 as of December 2022, further greatly reducing the low shareholder risk of Volkswagen Bank GmbH.

The Russia-Ukraine conflict and the associated high inflation (including increased energy prices and a higher cost of living) had no negative effects on the quality of the credit risk portfolio or the direct residual value risk of the Volkswagen Bank GmbH Group in fiscal year 2022. Whether that will remain the case is uncertain at the moment though and depends to a large extent on the Russia-Ukraine conflict and its effects on energy prices, the cost of living, inflation and interest rates. The scenarios relating to the recognition of provisions for credit risk in accordance with the IFRS 9 requirements were accordingly adjusted and applied for the forward-looking recognition of provisions. This resulted in an increased provision for credit risk as of the end of 2022.

Ukraine is a supplier of cable harnesses for Volkswagen AG, so the Russia-Ukraine conflict exacerbated the shortage of supplier parts in fiscal year 2022. The reduced availability of new vehicles impacted positively on the direct residual value risk and led to a significant increase in remarketing performance (remarketing gains).

The course of the Russia-Ukraine conflict and its impact on credit risk, residual value risk and other categories of risk will be monitored closely once again in 2023 and Volkswagen Bank GmbH Risk Management will respond proactively if required.

IMPACT OF THE COVID-19 PANDEMIC AND THE SHORTAGE OF SUPPLIER PARTS ON RISK CATEGORIES

The Covid-19 pandemic continued to present challenges for both employees and customers of Volkswagen Bank GmbH in 2022.

Fiscal year 2022 was significantly impacted by the persistent shortage of supplier parts, which was further exacerbated in some instances by the Russia-Ukraine conflict (for further information about the Russia-Ukraine conflict and its impact on the on the risk situation, refer to the section headed “Impacts of the Russia-Ukraine Conflict on the Categories of Risk”). The impact of the supplier parts shortage was reflected in lower new vehicle production and therefore fewer opportunities for the Volkswagen Bank GmbH Group to offer its financing solutions. The volume of loans and receivables in lending business was increased again nevertheless in fiscal year 2022 (year-on-year increase of €3.1 billion as of December 2022). The principal driver is the increased utilization of credit lines for dealer financing (year-on-year increase of €3.8 billion as of December 2022). The retail portfolio, in contrast, has seen a persistent fall in the volume of loans and receivables (year-on-year decrease of €1.5 billion as of December 2022).

The quality of the lending portfolio remained at a stable level in 2022. The default rate rose slightly to 3.1% as of December 2022 (previous year: 2.9%). The percentage provision for credit risks remained steady and was still at 2.1% as of December 2022 (previous year: 2.1%). Using various scenario calculations, the Volkswagen Bank GmbH Group has factored the general economic conditions into the provision for credit risks recognized as of the end of 2022 and should be prepared for potentially conceivable developments in 2023.

The shortage of supplier parts and the consequent reduced availability of new vehicles in fiscal year 2022 generated an uptrend in the used vehicle market and a sustained gain for the Volkswagen Bank GmbH Group from the remarketing of vehicles. This trend had a positive impact on direct residual value risks.

We have not identified any implications of the Covid-19 pandemic in the other categories of risk. In 2023, we will continue to monitor developments in the Covid-19 pandemic and the impact thereof on credit risk and other risk categories very closely, and will respond proactively as required.

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.

In the Volkswagen Bank GmbH Group, counterparty default risk encompasses the following risk categories: credit risk, counterparty risk, issuer risk, country risk and shareholder risk.

Credit Risk

Credit risk is defined as the danger of incurring losses as a result of defaults in customer business (retail and corporate), specifically the default of the borrower or lessee. Loans to and receivables from Volkswagen Group companies are also included in the analysis. Default occurs when the borrower or lessee is unable or unwilling to make the payments due. This includes late or partial payment of interest and principal on the part of the contracting party.

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

The aim of a systematic credit risk monitoring system is to identify potential borrower or 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 financial position and financial performance. If, for example, an economic downturn leads to a higher number of insolvencies or greater unwillingness of borrowers or lessees to make payments, the recognition of a higher write-down expense is required. This in turn has an adverse effect on the operating result.

Risk identification and assessment

Lending or credit decisions in the Volkswagen Bank GmbH Group are made primarily on the basis of the borrower credit check. These credit checks use rating or scoring systems, which provide the relevant departments with an objective basis for reaching a decision on a loan or a lease.

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

To quantify credit risk, an expected loss (EL) and an unexpected loss (UL) are determined at portfolio level for each entity. The UL is the value at risk (VaR) less the EL. The calculations use an asymptotic single risk factor model (ASRF model) in accordance with the capital requirements specified by the Basel Committee on Banking Supervision (Gordy formula) taking into account the credit quality assessments from the individual rating and scoring systems used.

Rating aystems for corporate customers

The Volkswagen Bank GmbH Group uses rating systems to assess the credit quality of corporate customers. This evaluation takes into account both quantitative factors (mainly data from annual financial statements) and qualitative factors (such as the prospects for future business growth, quality of manage-

ment and the customer's payment record). When the credit assessment has been completed, the customer is assigned to a rating class, which is linked to a probability of default. A centrally maintained, workflow-based rating application is used for the most part to support this analysis of credit worthiness. The rating determined for the customer serves as an important basis for decisions on whether to grant or renew a loan and for decisions on provisions.

Scoring systems in the retail business

For the purposes of determining the credit quality of retail customers, scoring systems are incorporated into the processes for credit approval and for evaluating the existing portfolio. These scoring systems provide an objective basis for credit decisions. The systems use information about the borrower available internally and externally and estimate the probability of default for the requested loan, generally with the help of statistical methods based on historical data covering a number of years. An alternative approach adopted for smaller or low-risk portfolios also uses generic, robust scorecards and expert systems to assess the risk involved in credit applications.

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

Supervision and review of retail and corporate systems

The models and systems supervised by Risk Management are regularly validated and monitored using standardized procedural models for validating and monitoring risk classification systems. The models and systems are adjusted and refined as required. These review 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 and estimating credit conversion factors.

In the case of the retail models and systems for credit assessment supervised by local risk management units outside Germany, Risk Management reviews the quality of these models and systems on the basis of the locally implemented validation processes, determines action plans in collaboration with the local risk management units if a need for action is identified and monitors the implementation of those action plans. In the validation process, particular attention is paid to a review of the discriminant power of the models and an assessment of whether the model calibration is appropriate to the risk. The models and systems for corporate customers are handled in the same way, although a centralized approach is used for the supervision and validation thereof.

Collateral

The general rule is that credit transactions are secured by collateral to an extent that is commensurate with the risk. In addition, overarching rules specify the requirements that must be satisfied by collateral, the evaluation procedures and the evaluation bases. 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 the Volkswagen Bank GmbH Group focus on retail and dealership financing, the vehicles themselves are hugely 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 quality assurance tests on local collateral policies on a regular basis. This includes a review of collateral values and implementation of any necessary adjustments.

Provisions

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

The provision for risk in accordance with IFRS 9 is determined on the basis of the credit risk parameters used in the internal risk calculations (see also “Risk Identification and Assessment”).

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 lending in relation to financial circumstances, collateral and compliance with limits, contractual obligations and internal and external conditions. As such, commitments are managed according to the degree of risk involved (standard, intensified and problem loan management). Approval or reporting limits determined by (the) Volkswagen Bank GmbH (Group) are also used to manage credit risk. These limits are specified separately for each individual branch and subsidiary.

Trends

Credit risk remained largely stable in fiscal year 2022 under the effects of the persistent shortage of supplier parts and the associated supply problems on the part of the Volkswagen Group brands. The Volkswagen Bank GmbH Group nevertheless managed to increase the volume of loans and receivables in its credit risk portfolio relative to December 2021 (year-on-year increase of €3.1 billion as of December 2022).

Retail portfolio

The supplier parts shortage and the associated reduced availability of new vehicles led to a contraction in the volume of loans and receivables in the Volkswagen Bank GmbH Group’s retail portfolio in 2022 because the level of new business was not sufficient to offset the existing business that matured during the year. The volume of loans and receivables in the retail portfolio as of December 2022 was down by €1.5 billion year on year. The fall in the volume of loans and receivables is largely attributable to the trend in the German retail portfolio (year-on-year decrease of €1.7 billion as of December 2022). The volume of loans and receivables in the French retail portfolio, in contrast, was up by €431 million year on year as of December 2022 because the shortage of new vehicles was partially offset by used vehicle business.

Credit risk in the Volkswagen Bank GmbH Group’s retail portfolio changed to a moderate degree in the prevailing circumstances. In 2022, the default rate saw a rise from 2.3% as of December 2021 to 2.9% as of December 2022. The percentage provision for credit risks slightly increased from 1.6% as of December 2021 to 1.9% as of December 2022.

Corporate portfolio
The volume of loans and receivables in the corporate portfolio of the Volkswagen Bank GmbH Group increased significantly in fiscal year 2022 (year-on-year decrease of €4.6 billion as of December 2022). This was attributable to the expansion of the dealer financing portfolio (year-on-year increase of €3.8 billion as of December 2022) caused by dealers drawing heavily on their credit lines once more after having made little use of them in the prior year due to the shortage of supplier parts.

Risk in the corporate portfolio was shaped in 2022 by a fall in the default rate (from 4.5% as of December 2021 to 3.5% as of December 2022) and a slight decrease in the percentage provision for credit risks (from 3.8% as of December 2021 to 2.5% as of December 2022).

BREAKDOWN OF LENDING VOLUME BY REGION[1]
€ million

1 Figures before application of consolidation effects

2 Europe excluding Germany

BREAKDOWN OF LENDING VOLUME BY PD BAND AND PORTFOLIO[1]
€ million

PD band	Retail	Corporate	Total
< = 1 %	14,041	8,643	22,684
	27.0%	16.6%	43.6%
> 1% < 100%	19,994	7,716	27,710
	38.5%	14.8%	53.3%
100%	1,019	584	1,602
	2.0%	1.1%	3.1%
Total	**35,054**	**16,942**	**51,996**
	67.4%	32.6%	100.0%

1 Figures before application of consolidation effects

Counterparty/Issuer Risk
Counterparty risk arises in connection with interbank investments, derivatives and pension funds. Counterparty risk is a subcategory of counterparty default risk and describes the risk that a counterparty may be unable to make payments of interest and/or repayments of principal as contractually required. Similarly, issuer risk is the risk that the issuer of a security could become insolvent during the maturity of the product and, as a consequence, some or all of the invested capital, including the expected interest payments, has to be written off. Issuer risk results from the purchase of securities to optimize liquidity management and to fulfill statutory and/or regulatory requirements.

The objective in the management of counterparty and issuer risk is to identify potential defaults in a timely manner, so that corrective action can be initiated at an early stage as far as possible. Another important objective is to ensure that the Bank only takes on risks within the approved limits.

If a counterparty or issuer risk were to materialize, this would represent the potential loss of a business asset, which would have a negative impact on financial position and financial performance.

Risk identification and assessment

Both counterparty risk and issuer risk are recorded as components of counterparty default risk. Counterparty and issuer risks are determined by estimating the portfolio loss distribution using a Monte Carlo simulation and quantified in terms of the value-at-risk or unexpected loss thus calculated.

Risk monitoring and control

To establish effective monitoring and control, volume limits are specified for each counterparty and issuer. The Treasury Backoffice, in its role as a subsidiary function of Risk Management, is responsible for monitoring compliance with these limits. The volume limit is set at an appropriate level based on the needs of the market and the credit assessment. The Back Office department is responsible for the initial classification and then regular reviews. The relevant credit applications are then submitted to the decision-makers for a decision. Risk Management analyzes counterparty and issuer risks quarterly as part of the calculation of risk-bearing capacity. Counterparty and issuer risk is reported to the Management Board 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. The Volkswagen Bank GmbH Group has to take into account country risk particularly in connection with funding and equity investment activities involving foreign companies and in connection with the lending business. Given the focus of business activities in the Volkswagen Bank GmbH Group, only limited country risks could arise as the Group is not usually involved in cross-border lending business, with the exception of intercompany loans. Cross-border activities account for less than 1% of lending business in retail financing. The conventional country risk analysis is not applicable to intercompany lending because, if the difficulties described above were to occur, the funding of the entities through lending could be extended if necessary, thereby ensuring that the entities could continue to operate in the strategic market concerned. For these reasons, there has been no need to establish limits related to the overall level of business for countries or regions, for example, to limit transfer risk.

Shareholder Risk

Shareholder risk refers to the risk that after contributions of capital or loans regarded as equity are made to a company, losses with negative effects on the carrying amount of the shareholding might occur (e.g. silent contributions). In principle, the Volkswagen Bank GmbH Group only makes such equity investments to help achieve its corporate objectives. The investments must therefore support the Bank's own operating activities and be as intended a long-term holding.

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

Risk identification and assessment

Shareholder risk is quantified on the basis of the carrying amounts of the equity investments and a probability of default and loss given default assigned to each equity investment using an ASRF model. Simulations are also carried out involving stress scenarios with rating migrations (upgrades and downgrades) or complete loss of equity investments.

Risk monitoring and control

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

Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book (IRRBB) consists of potential losses arising 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. The Volkswagen Bank GmbH Group is exposed to interest rate risk in its banking book.

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

The objective of interest rate 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 situation is escalated on an ad hoc basis to the Management Board and the Asset Liability Management Committee (ALM Committee). Action to reduce risk is discussed and initiated by the ALM Committee.

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 the Volkswagen Bank GmbH Group, and recommendations for targeted measures to manage the risk.

Risk identification and assessment

Operating interest rate risk for the Volkswagen Bank GmbH Group is determined as part of the monthly monitoring process using the value at risk (VaR) method with a 60-day holding period and a confidence level of 99%.

The model is based on a historical simulation and calculates potential losses taking into account 1,460 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) and from the scenarios relating to interest rate risk in the banking book specified by the ECB and the Basel Committee on Banking Supervision.

The calculation of interest rate risk uses notional maturities to take into account early repayments under termination rights. The behavior of investors with indefinite deposits is analyzed using internal models and methods for managing and monitoring interest rate risk.

Risk monitoring and control

Treasury is responsible for the management of this risk on the basis of decisions made by the ALM Committee. Interest rate risk is managed on the basis of limits using interest rate derivatives. The hedging contracts entered into by the Group mainly comprise interest rate swaps and cross-currency interest rate swaps. Hedged banking book items are assigned to each individual swap (micro hedges). Fair value hedges and cash flow hedges are thus used at micro level to hedge interest rate risk. Hedge ineffectiveness in micro-hedge accounting results from differences between the mark-to-market (fair value) measurement of hedged items and that of hedging instruments. Other factors (e.g. in relation to counterparty risk) are only of minor significance as regards hedge ineffectiveness. Individual yield curves are used when determining forward interest rates and prices and also when discounting future cash flows for hedged items and hedging instruments in order to obtain a measurement in line with the market. Risk Management is responsible for monitoring and reporting on interest rate risk.

The Management Board of Volkswagen Bank GmbH receives a separate report on the latest interest rate risk position in the Volkswagen Bank GmbH Group each month.

Trends

Interest rate risk in the banking book at the level of the Volkswagen Bank GmbH Group increased significantly year on year due to the sharp rise in interest rates and the resulting high interest rate volatility. The operating limits adopted were complied with overall.

Other Market Risk (Currency and Fund Price Risk)

Currency risk arises from foreign exchange exposures and potential changes in the corresponding exchange rates. The Volkswagen Bank GmbH Group is exposed to structural currency risks. These risks arise from the equity investments in the relevant local currency in the foreign branches in the UK and Poland.

The risk in connection with fund investments arises from possible changes in market prices. Fund price risk describes the risk relating to changes in market prices which can cause the value of portfolios of securities to fall, thereby giving rise to a loss.

The Volkswagen Bank GmbH Group is exposed to fund price risk solely from its employee post-employment benefit arrangements that are funded by pension plan assets consisting of fund investments (pension fund price risk). The Volkswagen Bank GmbH Group has undertaken to meet these pension obligations to employees if the employees’ guaranteed entitlements can no longer be satisfied from the pension trust and covers these obligations by recognizing pension provisions.

The objective of currency and fund price risk management is to keep the financial losses arising from these categories of risk as low as possible. With this in mind, the Management Board has agreed limits for this category of risk. As part of risk management activities, currency risk and fund price risk are included in the quarterly risk report with a transparent analysis based on value at risk (VaR), a calculation offsetting the risk against the loss ceiling set for the Volkswagen Bank GmbH Group.

The level of currency risk and fund price risk is not material in relation to the total portfolio of the Volkswagen Bank GmbH Group.

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 in the Volkswagen Bank GmbH Group is to safeguard the ability of the Group to meet its payment obligations at all times. To this end, the Volkswagen Bank GmbH Group holds liquidity reserves in the form of securities deposited in its operational safe custody account with a number of banks, including Deutsche Bundesbank.

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 financial performance. The consequence of illiquidity risk in the worst-case scenario is insolvency caused by illiquidity. Liquidity risk management in the Volkswagen Bank GmbH Group ensures that this situation does not arise.

Risk identification and assessment

In line with the requirements of the ECB’s Supervisory Review and Evaluation Process (SREP), the Volkswagen Bank GmbH Group has a sound and effective internal liquidity adequacy assessment process (ILAAP). In addition, the Volkswagen Bank GmbH Group has a comprehensive range of tools appropriate to its business model and business strategy to enable it to measure, monitor and control liquidity risk and the relevant risk subcategories.

In conjunction with various ILAAP metrics, the normative and economic perspectives of liquidity adequacy are assessed over short-, medium- and long-term time horizons. The Volkswagen Bank GmbH Group ensures that it has appropriate liquidity adequacy at all times by measuring and limiting the ILAAP metrics. In the normative perspective, the liquidity coverage ratio (LCR) is used to assess the short-term liquidity risk; this approach is complemented by an analysis of the net stable funding ratio (NSFR), which is a longer-term structural liquidity ratio. The economic perspective also distinguishes between the analysis time horizons. For the purposes of safeguarding solvency at all times, utilization limits are specified for potential funding over the short- and medium-term time horizons. In this regard, the survival period functions as a key indicator as part of the recovery plan. Unexpected funding risks are quantified in order to manage the medium- to long-term funding structure. Liquidity adequacy is evaluated using a baseline scenario and multiple adverse scenarios, and is complemented by reverse stress tests. Stress tests are applied to funding matrices using a scenario approach with scenario triggers from the Bank itself or the market, or a combination of the two. Two approaches are used 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. A risk assessment is a key component in the system to ensure appropriate liquidity adequacy at all times. All ILAAP metrics are linked with other elements of the ILAAP (including liquidity contingency plan, recovery plan) to ensure that an effective overall process is in place. Funding risk is also included in the calculation of risk-bearing capacity for the Volkswagen Bank GmbH Group.

In addition to ensuring appropriate liquidity management, the Group prepares funding matrices, carries out cash flow forecasts and uses this information to determine the relevant range of liquidity coverage.

Risk monitoring and control

To manage liquidity, the Operational Liquidity Committee (OLC) holds meetings every two weeks to monitor the current liquidity situation and the range of liquidity coverage. It prepares any necessary decisions (such as those on funding measures) for the decision-makers.

Risk Management communicates the main risk management information and relevant early warning indicators relating to illiquidity risk and funding risk. As far as illiquidity risk is concerned, these indicators involve appropriate threshold values for determined degrees of utilization over various time horizons, taking into account access to relevant sources of funding. The indicators relating to funding risk are based on potential funding costs, which are monitored using a system of limits.

A further strict requirement imposed under banking regulations is the need to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and 30-day time horizons. For this reason, a contingency plan with an appropriate list of measures for obtaining liquidity has already been drawn up so that it can be implemented in the event of a liquidity squeeze.

Risk communication

The ILAAP is a permanent component of the management framework. This means there is regular reporting on all key elements of the ILAAP to the Management Board.

The members of the Management of Volkswagen Bank GmbH are informed on a daily basis of outstanding funding and the value of the securities in the operational safe custody account held with Deutsche Bundesbank.

Trends

Liquidity risk at the level of the Volkswagen Bank GmbH Group remained stable. Neither the disruption in global supply chains as a result of the Covid-19 pandemic nor the Russia-Ukraine conflict caused any unanticipated liquidity outflows. Funding instruments remained available and stable at all times. The main ILAAP metrics remained within the specified limits at all times.

Residual Value Risk

Residual value risk arises from the fact that the predicted market value for an asset leased or financed could turn out to be lower upon remarketing at the end of the contract than the residual value calculated when the contract was concluded, or that the sales revenue realized could be less than the carrying amount of the vehicle in the event of the contract ending early if legal contract termination options are exercised. On the other hand, there is an possibility that remarketing could generate proceeds greater than the calculated residual value or carrying amount.

Referring to the bearer of residual value risk, a distinction is made between direct and indirect residual value risks. Direct residual value risk refers to residual value risk borne directly by the Volkswagen Bank GmbH Group. An indirect residual value risk arises if the residual value risk has been transferred to a third party (such as a dealership) on the basis of a contractual agreement. In such cases, there is a counterparty default risk in respect of the bearer of the residual value risk. If the bearer of the residual value risk defaults, the Volkswagen Bank GmbH Group’s indirect residual value risk becomes relevant in that the indirect residual value risk passes back to the Volkswagen Bank GmbH Group and becomes a direct residual value risk. In other words, the Volkswagen Bank GmbH Group re-assumes responsibility for remarketing the vehicles.

The objective of residual value risk management is to keep the risks within the agreed limits. The net assets and financial performance of the Volkswagen Bank GmbH Group would be adversely affected by losses on disposal or impairment losses if the residual value risk were to materialize. As stated in the accounting policies for leases described in the notes to the consolidated financial statements, the impairment losses generally lead to a subsequent adjustment of future depreciation rates.

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 as of the measurement date of the remarketing proceeds on expiration of the contract 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 determined by aggregating the individual expected losses for all vehicles.

The expected losses arising from contracts subject to risk relate to the losses expected at the end of the term of the contracts concerned. These losses are recognized in profit or loss in the consolidated financial statements for the current period or prior periods. The ratio of the expected losses from contracts subject to risk to the contractually fixed residual values in the overall portfolio is expressed as a risk exposure. The results from the quantification of the expected loss and risk exposure are considered in the assessment of the risk situation.

To determine the UL, the change is measured between the projected residual value one year before the sale and the actual selling price achieved (adjusted for damage and mileage variances). In a first step, the change in value is determined for each individual lease for each period. However, given the size of the portfolio and the huge number of vehicles, systematic risk is significant and a second step is therefore carried out in which the average change in value compared with projected residual values is determined over several periods. The resulting markdown is calculated using the quantile function of the normal distribution with a specified confidence level.

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

In the case of indirect residual value risk, the method used to quantify residual value risk is generally similar to that used for direct residual value risk. When the risk is quantified, the calculation also takes into account the probability of default for the bearer of the residual value risk (the dealership, for example), because this represents the likelihood that the risk will revert, and any other factors specific to this category of risk.

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

Risk monitoring and control

Risk Management monitors residual value risk within the Volkswagen Bank GmbH Group.

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 preparation of the risk management report includes a review of adequacy in which the level of existing direct residual value risk is compared against the level of the recognized provisions for risks.

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. With regard to new business, the residual value recommendation must take into account current market circumstances and factors that might have an influence in future. Various sensitivities for direct residual value risks are also in place to create a comprehensive picture of the risk sensitivity of residual values. These sensitivities are applied under expert leadership with the involvement of the central and local risk specialists. Indirect residual value risks faced by the Volkswagen Bank GmbH Group are subject to plausibility checks and are assessed from the perspectives of risk amount and significance.

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. If necessary, it takes measures to limit the indirect residual value risk.

Trends

At consolidated level, the Volkswagen Bank GmbH Group was exposed to direct residual value risk as of December 31, 2022 at the branches in France, Spain, Portugal and Germany as well as in the international subsidiary Volkswagen Finančné služby Slovensko s.r.o. The direct residual value risk is only material in the France branch (which accounts for approximately 96% of the total direct residual value risk and around 70% of contracts) because the volumes in the other entities either remain very low or the residual values are set in such a way that the risk assessment can assume that the customers will take over the vehicle at the end of the contract term.

Steady year-on-year growth in the number of contracts was evident, driven by growth strategies such as the expansion of the fleet business at the France branch. Direct residual value risk at the branch in France fell slightly (based on a conservative evaluation of the residual value situation).

The persistent shortage of supplier parts in 2022 led to a lasting uptrend in used vehicle prices and ultimately to a significant increase in gains on the remarketing of vehicles in fiscal year 2022. The gain from remarketing vehicles in the Volkswagen Bank GmbH Group in the year ended December 2022 amounted to €94.5 million (previous year: €27.1 million), with €92.6 million (previous year: €26.6 million) accounted for by the branch in France.

Business Risk

The Volkswagen Bank GmbH Group defines business risk as the risk of direct or indirect loss from adverse changes in economic conditions, particularly in the financial services sector (equates to sector risk). Business risk includes the following risk subcategories:

- Earnings risk
- Reputational risk
- Strategic risk
- Business model risk

All four risk subcategories relate to earnings drivers (e.g. business volume, margin, overheads, fees and commissions).

With respect to business risk, the planned profit before tax is deducted as a risk mitigation technique. In the economic perspective, business risk is included in risk management as a material category of risk.

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)
> Excessively high income targets for new and existing business volume (sales risk); and
> Unexpectedly low investment income

The objective of quantification is to regularly analyze and monitor the potential risks associated with earnings risk to ensure that values at variance 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
The Volkswagen Bank GmbH Group quantifies earnings risk using a parametric earnings at risk (EaR) model with the confidence level specified in the calculation of risk-bearing capacity and a one-year forecast period.

The relevant income statement items provide the basis for these calculations. The estimates for earnings risk are then based on two perspectives: firstly, the observed, relative variances between target and actual values; secondly, the volatility and interdependencies among the individual items. Both components are incorporated into the EaR calculation.

Risk monitoring and control
During the course of the year, changes in the actual values for the earnings risk exposures are compared with the forecast values. This comparison is included in the standard reporting procedure carried out by Controlling.

The results from the quarterly quantification of earnings risk are included in the calculation of business risk.

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.

Reputational risk is recognized quantitatively in the calculation of risk-bearing capacity by applying a flat-rate markdown as part of business risk. This global approach is reassessed each year from a qualitative perspective.

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 Management in relation to the positioning of the Bank in the market.

The objective of the Volkswagen Bank GmbH Group is to manage its 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 Bank as a going concern.

Strategic risk is included in the calculation of risk-bearing capacity as part of business risk.

Business Model Risk

Business model risk arises as a result of the economic dependency of an entity on its group parent. The value for business model risk is derived from the capital requirement simulated in a scenario analysis that would be necessary in the event of insolvency of the Volkswagen Group to satisfy all creditor claims against the Volkswagen Bank GmbH Group. An analysis of business model risk is carried out annually and the value of this risk is currently assessed at €0 (previous year: €0).

NONFINANCIAL RISKS

Operational Risk

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

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

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

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

Risk identification and assessment

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

The risk self-assessment is used to determine a monetary assessment of future 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 monetary operational losses is collected internally on an ongoing basis and the relevant data is stored. The local experts use this form to determine and record the relevant data, including the amount and cause of the loss.

The risk value for operational risk is simulated quarterly on the basis of a loss distribution approach (LDA). The results from the annual risk self-assessment and actual losses incurred by the Volkswagen Bank GmbH Group are factored into the distribution amount and frequency. The simulation outputs the risk value as a value-at-risk at the relevant confidence level at Group level. This risk value is then distributed to the individual branches and subsidiaries using an allocation key.

Risk monitoring and control

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

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

Communications relating to operational risks are provided quarterly 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 in one coherent report. Ad hoc reports are issued in addition to the regular reports, provided that the relevant specified criteria are satisfied.

Trends

Operational risk at the level of the Volkswagen Bank GmbH Group was within the set limits. Legal risk continued to account for the greatest proportion within the overall operational risk exposure in the Volkswagen Bank GmbH Group.

The Volkswagen Bank GmbH Group attaches great importance to operational risk factors and the active management thereof. As regards cyber risks, a general rise in the number of cyber attacks on businesses and their customers was evident. The nature of these attacks changes constantly (examples being ransomware attacks, supply chain attacks). Consequently, the Volkswagen Bank GmbH Group is constantly implementing and refining preventive action and countermeasures to safeguard the availability, integrity, confidentiality and authenticity of data.

In addition, a rolling program of training and briefing sessions ensures that awareness of operational risk continues to grow. Experience and information gained about past loss events also means that future risks can be assessed more thoroughly and more accurately.

Compliance, Conduct and Integrity Risk

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

This differs from 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 conduct themselves in an ethically acceptable manner or to act in accordance with the Group's principles or the FS values, thereby presenting an obstacle to the sustained success of the business.

The Volkswagen Bank GmbH Group addresses the three categories of risk by means of a local compliance and integrity function whose task is to specify and implement risk-mitigating measures in the role of a governance function.

To counter compliance and conduct risks, it is the responsibility of the compliance function to ensure compliance with laws, other legal requirements, internal rules and self-proclaimed values, and to create and foster an appropriate compliance culture. It is also the responsibility of the integrity function, 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 choose the right course of action, responsibly and steadfastly, driven by their own personal conviction.

As a component of the compliance function, 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.

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, tone at the middle, face-to-face training, e-learning programs, other media-based activities), carrying out communication initiatives, including distributing guidelines and other information media, and participating in compliance and integrity programs.

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

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

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. For their part, the compliance theme coordinators must work in collaboration with the legal department and the various other departments to implement measures aimed at identifying new or amended regulations and requirements relevant to their areas of responsibility at an early stage and, if such relevance is established, furnishing an analysis of materiality for the Bank. The respective compliance officer is notified of any identified regulations and requirements in accordance with the process description.

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 Bank. 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 fundamentally material from the perspective of the Group:

- Prevention of money laundering and terrorist financing
- Prevention of corruption and other criminal acts
- Data protection
- Consumer protection
- Capital market law
- Market abuse regulation
- Banking supervisory law
- Antitrust law and
- IT security law

The compliance requirements for the Volkswagen Bank GmbH Group are specified centrally and must be implemented autonomously in the local companies. Any deviation from the minimum requirements or guidelines is 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 Compliance Officer at the institution concerned.

As in the case of the compliance function, the central integrity function only specifies the framework for the Group. The “Together4Integrity” (T4I) program, the largest change program in the history of the Volkswagen Group, and the internal compliance risk assessment (ICRA), which also covers human rights issues, play a particularly prominent role in helping to ensure the Bank’s companies and branches take proper account of compliance and integrity matters. The responsibility for implementing the requirements, for example by raising awareness of the ethical principles among employees, remains with the local entity concerned.

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).

In addition, the Management Board receives an annual compliance report, although this can be updated during the year if 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 to ensure that compliance and integrity issues are always discussed and taken into account in connection with all decisions made by the Management Board.

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 banking activities, financial services or other typical banking-related services that would otherwise be carried out by the outsourcing entity itself.

Arrangements for support services in relation to software that are utilized for the identification, assessment, management, monitoring and communication of risks or that are of material significance for the performance of banking tasks also constitute outsourcing.

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 involved 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 procurement of software without accompanying services or activities is also generally to be classified as other procurement from third parties.

The objective of risk management for outsourcing is to identify and minimize the risks arising from all cases of outsourcing. If an elevated level of risk is identified in the course of outsourcing management or from supervisory activities, measures may be initiated, where appropriate, to restore the risk situation associated with an outsourced activity to the original level.

A significant increase in risk can necessitate a change of service provider or, if possible and strategically desirable, termination of the outsourcing arrangement. In this case, the activities may be performed by the Bank itself or may be eliminated entirely. The legal bases are derived mainly from the KWG, MaRisk and the EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02).

Risk identification and assessment

Risks arising in connection with outsourced activities are identified by examining the circumstances with a focus on risk. In the first step, an examination of the circumstances is used to establish whether the planned activity constitutes outsourcing, other procurement from a third-party supplier, or other procurement of IT services from a third-party supplier. A further check is carried out to establish whether the activity to be outsourced is permitted outsourcing or prohibited for regulatory reasons. In the case of outsourcing, the related risk content is then determined using a risk assessment based on various criteria, the outcome of which is the classification of the arrangement as one of the following: outsourcing with medium risk, outsourcing with high risk or critical outsourcing. Depending on the level of risk, the arrangement may be subject to more stringent levels of monitoring and control as well as special and stricter contractual provisions.

Risk monitoring and control

The risks from outsourcing activities are documented as part of operational risk. To ensure effective management of outsourcing risk in accordance with the EBA guidelines, the Volkswagen Bank GmbH Group has issued a framework policy specifying the constraints that outsourcing arrangements must observe. Before any activity is outsourced, the circumstances must be examined with a focus on risk to determine the risk in each case. This analysis procedure is one of the components of the constraints and is intended to help ensure that an adequate level of monitoring and control is applied. In this regard, the specialist outsourcing officer carries out checks mainly to establish whether the quality of performance is in line with the contractually agreed targets and, where appropriate, initiates corrective measures to ensure such quality of performance is delivered. The framework policy also specifies that all outsourced activities must be agreed with the Outsourcing Coordination unit. This coordination unit is therefore informed of all outsourcing activities and the associated risks, and communicates these risks to the Management Board on a regular basis.

In addition, all risks arising from outsourcing activities are subject to risk monitoring and control using the operational risk loss database and the annual risk self-assessment.

SUMMARY

The Volkswagen Bank GmbH Group strives to handle risks in a responsible manner as part of its operating activities. This approach is based on a multifaceted system for identifying, measuring, analyzing, monitoring and controlling risks, which is part of a comprehensive risk- and return-oriented management system.

The Volkswagen Bank GmbH Group will continue to invest in optimizing its control system and risk management systems in order to meet the business and statutory requirements for the management and control of risks.

As is clear from the above details in the risk report, there is currently no evidence of any risks that could jeopardize the continued existence of the Volkswagen Bank GmbH Group as a going concern.

As of December 31, 2022, the regulatory own funds requirements amounted to €4.1 billion. The actual available own funds amounted to €8.6 billion and therefore exceeded the regulatory requirements.

Forecast of Material Risks

Credit Risk Forecast

The Russia-Ukraine conflict and its implications for inflation (especially energy prices and the cost of living) and interest rates will remain the most influential factors affecting underlying economic conditions. It is also clear that supply chains remain fragile and the shortage of supplier parts in the automotive industry has yet to be completely resolved.

The risk situation for the Volkswagen Bank GmbH Group will therefore be challenging once again in 2023 and will remain subject to intensive monitoring. The approach taken aims to ensure there is a proactive response to possible negative developments in underlying conditions so as to minimize any impact on the quality of the lending portfolio.

Interest Rate Risk in the Banking Book Forecast

There is no sign yet of interest rates settling and no such development is anticipated until the end of the Russia-Ukraine conflict at the earliest.

Liquidity Risk Forecast

Volkswagen Bank GmbH predicts that its funding instruments will still be permanently available in 2023 despite the effects of ongoing global political uncertainty (including elements such as the Russia-Ukraine conflict, the energy crisis, the consequences of the Covid-19 pandemic, the debt crisis and trade disputes). In the current year, it is likely that growth in the asset portfolio will follow a lower trajectory because of the ongoing disruption to supply chains. Accordingly, liquidity risk will probably also remain at the level of the previous year.

Residual Value Risk Forecast

We expect the volume of contracts with direct residual value risk to continue to grow in fiscal year 2023 overall (by 28% compared with December 2022 based on the 2023 budget).

Operational Risk Forecast

The year 2022 has demonstrated that we can effectively manage potential operational risk in such a way that this risk does not materialize to any significant extent.

We predict that our management will be equally successful in 2023 and we do not therefore anticipate any significant rise in operational risk. In this context, we expect the effectiveness of fraud protection to remain stable and the high level of quality in processes, staff skills and qualifications, and IT systems to be maintained.

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

Human Resources Report

Realignment of HR: Business Driven – People Focused.

EMPLOYEES

Volkswagen Bank GmbH employed 1,098 people (previous year: 1,114) in Germany at the end of 2022.

A total of 408 people (previous year: 792) were employed at the international branches of Volkswagen Bank GmbH.

HUMAN RESOURCES STRATEGY

The HR unit adopted a new HR strategy aligned with the principle "Business Driven – People Focused" in March of the reporting year. Human resources operations were significantly affected over the course of the year ended by a wide range of factors including the ongoing advance of digitalization, sustained competition for the best people in the labor market and changing expectations of companies among the younger generation. The Covid-19 pandemic only added impetus to these trends. The HR strategy aims to master these challenges by focusing in particular on targeted actions to provide support through the transformation and help to achieve the corporate objectives. Human Resources considers itself an equal partner of the business divisions in this context and regards the new HR strategy and its focus on key HR activities such as talent acquisition, personnel development, future working culture and modes of working, HR planning and analysis, and HR digitalization as part of its contribution to implementing the higher-level MOBILITY2030 strategy. The 17 specific initiatives set out in the strategy are to be pursued in combination with the overarching priorities of diversity, integrity, compliance and international mindset.

Steps have been taken to help ensure the HR strategy is implemented effectively at the international level. These include the involvement of various international branches and subsidiaries in conceptual design phases, for example in the reporting year in connection with the development of an international recruiting strategy with an employer value proposition and a corresponding employer branding strategy. The strategic HR objectives are being implemented worldwide through the rollout of various (Group) standards, such as standardized development and career paths and digital HR systems (Degreed, SAP SF etc.). Local responsibility for the implementation of the strategic measures rests with the branches and international subsidiaries, which are supported by the international HR Business Partners at the head office in Braunschweig. Notable positive developments and actions are presented and discussed at an annual HR conference, for example, so that best practices can also be shared and utilized across the different branches and international subsidiaries.

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

The coronavirus pandemic had a huge impact on the world of work once again in the reporting year, forcing the associated requirements for new and different forms of collaboration and management onto

the HR agenda. While, due to the pandemic, most employees were still working from home in the first half of the year, over half of them were back in the office in the second half of the year. Seminars and mandatory training sessions continued to be offered both online and in person and many events were delivered using hybrid formats or as blended learning. For employees working at the Bank's offices, the best possible protection continues to be provided by implementing hygiene protocols.

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

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

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

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

is offered according to need. The branches and international subsidiaries also attach great importance to continuously enhancing management skills in line with prevailing requirements.

The Bank assesses the extent to which it has achieved its objective of being regarded as an employer of renown by regularly taking part in external employer competitions. In 2021, Volkswagen Financial Services was ranked number one in the relevant category by company size in both the "Best Employer in Lower Saxony-Bremen 2021" and "Best Employer in Germany 2021" competitions. In a comparison within Europe, the company was in 20th place in a ranking of the top 25 European employers. These results were based on the rankings in each country, for example 18th place in the UK and 30th place in Spain. The Bank plans to participate in the competition for Best Employer once again in 2023 having already completed the corresponding employee survey in 2022.

IMPLEMENTATION OF THE CORPORATE STRATEGY

Building on the ROUTE2025 strategy, the new MOBILITY2030 corporate strategy reinforces the objective of leveraging a mobility platform to play a central role in the Volkswagen Group as the "Key to Mobility" as a provider of a wide range of mobility services. MOBILITY2030 sets out to realize this vision by focusing on the strategic dimensions of customer loyalty, vehicles, performance, data and technology, and sustainability.

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

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

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

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

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

REGULATORY REQUIREMENTS RELATING TO REMUNERATION SYSTEMS

In the reporting year, Volkswagen Bank GmbH was subject to direct supervision by the ECB and implemented, throughout the Group, the *Institutsvergütungsverordnung* (IVV – German Regulation Governing Remuneration at Institutions) of September 20, 2021, last amended by Article 2 of the Regulation of November 10, 2022. The special regulatory requirements relating to remuneration systems applied in addition to the general requirements. Strategies and instruments already introduced, such as the Works Council agreement on variable remuneration, the variable remuneration ceiling, national and international risk-taker identification and the reporting system using a remuneration report, continued to be applied, adapted in line with the new version of the IVV where necessary and enhanced in fiscal year 2022. Furthermore, special governance functions (Remuneration Committee and Remuneration Officer) were used to ensure that the adequacy of the remuneration systems was continuously monitored.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

Again in 2022, 44 new vocational trainees/dual vocational training students started their professional careers at Volkswagen Financial Services AG in Braunschweig, focusing on specialist professional IT qualifications in application development and professional e-commerce qualifications. Under a training collaboration agreement between Volkswagen Financial Services AG and Volkswagen Bank GmbH, vocational trainees, dual vocational training students and IT students will have the opportunity to obtain their professional qualifications in departments at Volkswagen Bank GmbH.

The Bachelor of Arts in Business Administration specializing in digital marketing & sales and financial services management is offered in collaboration with WelfenAkademie e. V. and was initiated in a partnership with Volkswagen Financial Services AG. The Bachelor of Arts in Business Administration focusing on leasing is offered by the Ostfalia University of Applied Sciences in Wolfenbüttel. The combination of vocational training and studies for a Bachelor of Science in Business Informatics and Bachelor of Science in IT Security is offered in collaboration with Leibniz University of Applied Sciences. In 2022, vocational trainees were once again recruited predominantly to train for specialist professional IT qualifications in application development, and dual vocational training students were hired mainly to become business informatics specialists, with the aim of designing vocational training on a forward-looking basis and incorporating the topic of digitalization. A degree study program in computer science is also offered at the Braunschweig University of Technology. The offering has also been expanded to include the vocational field of media design.

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

All HR professional development and qualification matters have been assigned to one of three units in the business partner model (either Development, Culture and Change or Skills and Qualifications Management). The objective is to ensure that all activities are centered around the business of Volkswagen Bank GmbH with a strategic focus on professional development and qualification as a primary component of the HR core business. Volkswagen Bank GmbH offers a wide range of development opportunities for its employees. Specialist development pathways into management positions, such as through project work or the agile environment, are becoming increasingly important alongside the traditional hierarchical pathways.

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

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

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

CORPORATE GOVERNANCE DECLARATION
INCREASE IN THE PROPORTION OF WOMEN

As of December 31, 2022, women accounted for 56.6% of the workforce of Volkswagen Bank GmbH in Germany, but this is not yet reflected in the percentage of women at all management levels. Volkswagen Bank GmbH is working toward achieving the targets for women at all levels. The Bank has set itself the objective of increasing the proportion of women in management positions over the long term. In succession planning, female candidates are systematically considered with the aim of complying with the relevant targets.

In 2018, the targets to be achieved by 2023 were redefined as a result of the separation of Volkswagen Bank GmbH from Volkswagen Financial Services AG and were then approved by the Management Board.

PROPORTION OF WOMEN – TARGET AND ACTUAL VALUES FOR GERMANY

	Target 2025	Target 2022	Actual 2022
Second management level	26.1	24.4	19.0
First management level	10.3	8.6	8.7
Management Board	20.0	–	0.0
Supervisory Board	30.0	–	50.0

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

DIVERSITY

In addition to the advancement of women, the concept of diversity has been an integral component of the corporate culture at Volkswagen Financial Services AG since 2002. The Bank sent a clear signal with its Diversity Charter corporate initiative, which was signed in 2007. Under this initiative, Volkswagen Bank GmbH has pledged to respect and value diversity, and to promote employees according to their skills and ability. In 2018, Volkswagen Bank GmbH adopted a Diversity Policy to reinforce this approach and enshrined the policy in its organizational manual. The Diversity Policy ensures that diversity is recognized as the norm rather than an exception. Diversity becomes a strength through the conscious appreciation of the workforce. The Bank operates at an international level and thus workforce diversity is a substantial factor in the successful performance of the business.

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

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

WORK-LIFE BALANCE

Volkswagen Bank GmbH promotes a family-friendly environment and offers numerous continuously expanding initiatives and programs aimed at achieving the right work-life balance, such as various work-time models, company childcare facilities and the FlexWork company agreement.

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

Report on Expected Developments

The global economy is expected to grow in 2023, albeit at a slower pace. Global demand for passenger cars will probably vary from region to region and increase noticeably year-on-year. With its brand diversity, broad product range, technologies and services, the Volkswagen Group believes it is well prepared for the future challenges in the mobility business.

Since the main opportunities and risks arising from the operating activities have been set out in the report on opportunities and risks, we would like to outline the expected future developments in the following. These developments give rise to opportunities and potential benefits that are included in our planning process on an ongoing basis so that we can act on them as soon as possible.

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

Europe

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

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

Germany

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

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

Europe

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

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

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

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

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

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

INTEREST RATE TRENDS
Interest rate trends are generally factored into pricing. We expect the interest rate hikes to come to an end or at least weaken significantly in the course of 2023.

SUMMARY OF EXPECTED DEVELOPMENTS
The Volkswagen Bank GmbH Group predicts that the volume of business in the current fiscal year will be slightly above the level of 2022. Please refer to the statements in the opportunities and risks report for information on the trends in credit risk, liquidity risk, and residual value risk.

Sales activities related to the Volkswagen Group brands and our sales partner Volkswagen Financial Services AG will be further intensified, particularly through joint strategic projects.

Furthermore, the Volkswagen Bank GmbH Group intends to continue enhancing the leveraging of potential along the automotive value chain. Our aim is to satisfy the wishes and needs of our customers in the most efficient manner in cooperation with the Group brands. Our end customers are looking, in particular, for mobility with predictable fixed costs. In addition, we intend to further expand the digitalization of our business.

The product packages that the Bank believes it has successfully launched in the last few years will be refined in line with customer needs.

In parallel with its market-based activities, the Volkswagen Bank GmbH Group aims to further strengthen its position vis-à-vis its European competitors through strategic investment in structural projects as well as through the OPEX program focusing on process optimization and productivity gains.

OUTLOOK FOR THE COMING YEAR
When the above factors and the market trends are considered, the following overall picture emerges for Volkswagen Bank GmbH, from both single entity and Group perspectives: earnings expectations assume rising funding costs, greater levels of cooperation with the individual Group brands and continuing optimization of costs as part of our efficiency program. In addition, earnings forecasts take into account a continued high degree of uncertainty about macroeconomic conditions in the real economy due to the ongoing Russia-Ukraine conflict and persistent new vehicle shortages.

For 2023, the penetration rate is predicted to increase noticeably year on year in step with a strong increase in deliveries. New contracts are projected to exceed the prior-year level significantly, which will result in the contract portfolio remaining stable at the level of the current year. Business volume is projected to be at a level slightly higher than in 2022; we also expect the volume of deposits to be significantly above the prior-year level. The operating result and return on equity for fiscal year 2023 are expected to be down significantly year on year. The cost/income ratio, in contrast, is expected to be noticeably higher in 2023 than in the prior year.

Looking ahead to subsequent years, the maintenance of the current business strategy is expected to enable performance to recover to the pre-crisis level from 2024/2025.

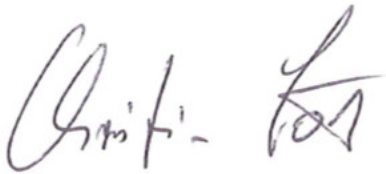
FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2023 COMPARED WITH PRIOR-YEAR FIGURES

	Actual 2021	Actual 2022	Forecast for 2023
Nonfinancial performance indicators			
Penetration (percent)	17.9	16.2	Noticeably above the level achieved in 2022
Current contracts (thousands)	3,431	3,213	At the level of 2022
New contracts (thousands)[1]	1,046	1,033	Significantly above the level achieved in 2022
Financial performance indicators			
Volume of business (€ million)	45,585	47,475	Slightly above the level achieved in 2022
Volume of deposits (€ million)[2]	26,489	26,226	Significantly above the level achieved in 2022
Operating result (€ million)[3]	1,137	761	Significantly below the level achieved in 2022
Return on equity (percent)	10.5	6.9	Significantly below the level achieved in 2022
Cost/income ratio (percent)	40.1	51.1	Noticeably above the level achieved in 2022

Braunschweig, February 17, 2023
The Management Board

Dr. Michael Reinhart

Oliver Roes



Christian Löbke

Dr. Volker Stadler

CONSOLIDATED FINANCIAL STATEMENTS

73 Income Statement
74 Statement of Comprehensive Income
75 Balance Sheet
77 Statement of Changes in Equity
78 Cash Flow Statement

79 Notes to the Consolidated Financial Statements

79 General Information
79 Basis of Presentation
80 Effects of the Russia-Ukraine Conflict
80 Effects of New and Revised IFRSs
81 New and Revised IFRSs Not Applied
82 Accounting Policies
106 Income Statement Disclosures
113 Balance Sheet Disclosures
136 Financial Instrument Disclosures
169 Segment Reporting
173 Other Disclosures
188 Shareholdings

FURTHER INFORMATION

191 Responsibility Statement
192 Country-by-Country Reporting of Volkswagen Bank GmbH
194 Independent Auditor’s Report
204 Report of the Supervisory Board

Income Statement

of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021	Change in percent
Interest income from lending transactions and marketable securities	19	1,358	1,377	–1.4
Income from leasing transactions		1,149	1,152	–0.2
Depreciation, impairment losses and other expenses from leasing transactions		–838	–883	–5.1
Net income from leasing transactions	21, 66	311	269	15.6
Interest expense	20	–216	–134	61.7
Income from service contracts		79	60	31.0
Expenses from service contracts		–86	–57	49.3
Net income from service contracts	22	–7	3	X
Provision for credit risks	8, 23	–133	178	X
Fee and commission income		150	160	–6.4
Fee and commission expenses		–46	–44	4.3
Net fee and commission income	24	104	116	–10.4
Net gain or loss on hedges	8, 25	–16	–30	–47.5
Net gain or loss on financial instruments measured at fair value	26	12	7	59.0
General and administrative expenses	27	–785	–808	–2.9
Net other operating income		169	242	–30.1
Other operating expenses		–36	–84	–56.5
Net other operating income	28	132	158	–16.1
Operating result		**761**	**1,137**	**–33.1**
Share of profits and losses of equity-accounted joint ventures		14	30	–53.8
Net gain/loss on miscellaneous financial assets	29	–60	–26	X
Other financial gains or losses	30	37	–34	X
Profit before tax		**752**	**1,107**	**–32.1**
Income tax expense	6, 31	–290	–328	–11.6
Profit after tax		**462**	**779**	**–40.7**
Profit after tax attributable to Volkswagen AG		462	779	–40.7

Statement of Comprehensive Income

of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
Profit after tax		**462**	**779**
Pension plan remeasurements recognized in other comprehensive income	49		
Pension plan remeasurements recognized in other comprehensive income, before tax		66	28
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	6, 31	–20	–8
Pension plan remeasurements recognized in other comprehensive income, net of tax		46	19
Fair value valuation of equity instruments that will not be reclassified to profit or loss, net of tax		0	1
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax		–	–
Items that will not be reclassified to profit or loss		**47**	**20**
Exchange differences on translating foreign operations	4		
Gains/losses on currency translation recognized in other comprehensive income		–12	13
Transferred to profit or loss		–	–
Exchange differences on translating foreign operations, before tax		–12	13
Deferred taxes relating to exchange differences on translating foreign operations		–	–
Exchange differences on translating foreign operations, net of tax		–12	13
Hedging transactions		–	–
Fair value changes recognized in other comprehensive income (OCI I)		22	2
Transferred to profit or loss (OCI I)		–32	–2
Cash flow hedges (OCI I), before tax		–10	–1
Deferred taxes relating to cash flow hedges (OCI I)	6, 31	3	0
Cash flow hedges (OCI I), net of tax		–7	0
Fair value changes recognized in other comprehensive income (OCI II)		–	–
Transferred to profit or loss (OCI II)		–	–
Cash flow hedges (OCI II), before tax		–	–
Deferred taxes relating to cash flow hedges (OCI II)		–	–
Cash flow hedges (OCI II), net of tax		–	–
Fair value valuation of debt instruments that may be reclassified to profit or loss		–	–
Fair value changes recognized in other comprehensive income		–370	–56
Transferred to profit or loss		–	0
Fair value valuation of debt instruments that may be reclassified to profit or loss, before tax	8	–370	–56
Deferred taxes relating to fair value valuation of debt instruments that may be reclassified to profit and loss	6, 31	111	17
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax		–259	–39
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax		–	–
Items that may be reclassified to profit or loss		**–278**	**–26**
Other comprehensive income, before tax		–325	–15
Deferred taxes relating to other comprehensive income		94	9
Other comprehensive income, net of tax		**–231**	**–7**
Total comprehensive income		**231**	**772**
Total comprehensive income attributable to noncontrolling interests		–	–
Total comprehensive income attributable to Volkswagen AG		231	772

Balance Sheet

of the Volkswagen Bank GmbH Group

€ million	Note	Dec. 31, 2022	Dec. 31, 2021	Change in percent
Assets				
Cash reserve	7, 33	3,543	11,022	–67.9
Loans to and receivables from banks	8, 34	233	340	–31.5
Loans to and receivables from customers attributable to				
Retail financing		28,864	31,073	–7.1
Dealer financing		12,523	9,026	38.7
Leasing business		3,054	2,928	4.3
Other loans and receivables		3,744	3,047	22.9
Total loans to and receivables from customers	8, 35	48,186	46,074	4.6
Derivative financial instruments	8, 36	51	10	X
Marketable securities	8, 37	4,131	4,704	–12.2
Equity-accounted joint ventures	38	245	284	–13.7
Miscellaneous financial assets	9, 38	3	5	–40.5
Intangible assets	10, 39	4	6	–31.3
Property and equipment	11, 40	23	24	–5.6
Lease assets	14, 66	2,677	2,236	19.7
Investment property	14, 41	0	0	–35.0
Deferred tax assets	6, 42	1,559	1,999	–22.0
Income tax assets	6	91	4	X
Other assets	43	480	543	–11.6
Total		**61,225**	**67,253**	**–9.0**

€ million	Note	Dec. 31, 2022	Dec. 31, 2021	Change in percent
Equity and liabilities				
Liabilities to banks	45	11,185	13,177	–15.1
Liabilities to customers	45	32,351	34,342	–5.8
Notes, commercial paper issued	46, 47	4,099	5,708	–28.2
Derivative financial instruments	8, 48	15	52	–72.2
Provisions	15, 16, 49	171	348	–50.8
Deferred tax liabilities	6, 50	1,910	2,155	–11.3
Income tax liabilities	6	200	312	–35.9
Other liabilities	51	354	262	35.0
Subordinated capital	47, 52	31	35	–13.2
Equity	54	10,909	10,861	0.4
Subscribed capital		318	318	–
Capital reserves		8,881	8,881	–
Retained earnings		2,027	1,701	19.2
Other reserves		–317	–39	X
Total		**61,225**	**67,253**	**–9.0**

Statement of Changes in Equity

of the Volkswagen Bank GmbH Group

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES					Non-controlling interests	Total equity
					Hedging transactions					
				Currency translation	Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)	Equity and debt instruments	Equity-acounted investments		
Balance on Jan. 1,2021	**318**	**8,498**	**1,466**	**–70**	**1**	**–**	**56**	**–**	**–**	**10,268**
Profit after tax	–	–	779	–	–	–	–	–	–	779
Other comprehensive income, after tax	–	–	19	13	0	–	–39	–	–	–7
Total comprehensive income	**–**	**–**	**798**	**13**	**0**	**–**	**–39**	**–**	**–**	**772**
Capital increases	–	383	–	–	–	–	–	–	–	383
Profit transfer to Volkswagen AG[1]	–	–	–563	–	–	–	–	–	–	–563
Other changes	–	–	0	–	0	–	0	–	–	0
Balance as of Dec. 31, 2021	**318**	**8,881**	**1,701**	**–57**	**0**	**–**	**18**	**–**	**–**	**10,861**
Balance on Jan. 1,2022	**318**	**8,881**	**1,701**	**–57**	**0**	**–**	**18**	**–**	**–**	**10,861**
Profit after tax	–	–	462	–	–	–	–	–	–	462
Other comprehensive income, after tax	–	–	46	–12	–7	–	–259	–	–	–231
Total comprehensive income	**–**	**–**	**508**	**–12**	**–7**	**–**	**–259**	**–**	**–**	**231**
Capital increases	–	–	–	–	–	–	–	–	–	–
Profit transfer to Volkswagen AG[1]	–	–	–182	–	–	–	–	–	–	–182
Other changes	–	–	–	–	0	–	–	–	–	0
Balance as of Dec. 31, 2022	**318**	**8,881**	**2,027**	**–69**	**–7**	**–**	**–241**	**–**	**–**	**10,909**

1 The figures show the share of HGB profit attributable to Volkswagen AG.

Further information on equity is presented in note (54).

Cash Flow Statement

of the Volkswagen Bank GmbH Group

€ million	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
Profit before tax	**752**	**1,107**
Depreciation, amortization, impairment losses and reversals of impairment losses	504	190
Change in provisions	–177	–186
Change in other noncash items	125	–64
Loss on disposal of financial assets and items of property and equipment	0	3
Net interest expense and dividend income	–1,258	–1,371
Other adjustments	**–2**	–2
Change in loans to and receivables from banks	106	12
Change in loans to and receivables from customers	–2,237	5,624
Change in lease assets	–871	–890
Change in other assets related to operating activities	63	21
Change in liabilities to banks	–1,989	3,433
Change in liabilities to customers	–1,589	–1,256
Change in notes, commercial paper issued	–1,609	–2,994
Change in other liabilities related to operating activities	92	30
Interest received	1,474	1,504
Dividends received	**0**	**0**
Interest paid	–216	–134
Income taxes paid	–199	–104
Cash flows from operating activities	**–7,031**	**4,923**
Proceeds from disposal of investment property	**–**	**–**
Acquisition of investment property	**–**	**–**
Proceeds from disposal of subsidiaries, joint ventures and associated companies	**–**	**–**
Acquisition of subsidiaries, joint ventures and associated companies	**–5**	–
Proceeds from disposal of other assets	0	2
Acquisition of other assets	–1	–3
Change in investments in marketable securities	128	–937
Cash flows from investing activities	**122**	**–939**
Proceeds from changes in capital	**–**	**383**
Dividend payment/profit transfer to Volkswagen AG	–563	–383
Loss assumed by Volkswagen AG	**–**	**–**
Change in cash funds attributable to subordinated capital	–5	–13
Repayments of lease liabilities	–4	–2
Cash flows from financing activities	**–572**	**–15**
Cash and cash equivalents at end of prior period	**11,022**	**7,056**
Cash flows from operating activities	–7,031	4,923
Cash flows from investing activities	122	–939
Cash flows from financing activities	–572	–15
Effect of exchange rate changes	1	–3
Cash and cash equivalents at end of period	**3,543**	**11,022**

Further information on the cash flow statement is presented in note (67).

Notes to the Consolidated Financial Statements

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

General Information

Volkswagen Bank GmbH is a limited liability company (Gesellschaft mit beschränkter Haftung, GmbH) under German law. It has its registered office at Gifhorner Strasse, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 1819).

The object of the Bank is to develop, sell and process its own and third-party financial and mobility services both in Germany and abroad, the purpose of such services being to support the business of Volkswagen AG and of Volkswagen AG's affiliated companies.

Volkswagen AG, Wolfsburg, is the sole shareholder of the parent company, Volkswagen Bank GmbH. Volkswagen AG and Volkswagen Bank GmbH have entered into a control and profit-and-loss transfer agreement.

The annual financial statements of the companies in the Volkswagen Bank GmbH Group are included in the consolidated financial statements of Volkswagen AG, Wolfsburg, which are published in the Company Register.

Basis of Presentation

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

In addition to the income statement, the statement of comprehensive income and the balance sheet, the IFRS consolidated financial statements also include the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks associated with future development (report on opportunities and risks in accordance with section 315(1) of the HGB) can be found in the combined management report on pages 26-60. This includes the qualitative disclosures on the nature and scope of risk from financial instruments required under IFRS 7.

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

The Management Board completed the preparation of these consolidated financial statements on February 17, 2023 and released them to the Supervisory Board for approval and subsequent publication. Approval by the Supervisory Board marks the end of the period in which adjusting events after the reporting period are recognized.

Effects of the Russia-Ukraine Conflict

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

Significantly higher interest rates led to a sharp increase in funding costs in the reporting period. Other areas impacted by this marked change in the market environment included measurements of derivatives arranged for interest rate hedging, the weighted average cost of capital used for impairment tests and actuarial gains/losses in connection with pension provisions.

Effects of New and Revised IFRSs

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

As of January 1, 2022, a number of new rules entered into force following the publication of Annual Improvements to International Financial Reporting Standards in 2020. They include amendments clarifying IFRS 1, IFRS 9, IFRS 16 and IAS 41 (Annual Improvements to IFRSs 2018-2020 Cycle). Since IFRS 1 governs the first-time adoption of IFRSs and IAS 41 deals with accounting in agriculture, these amendments to standards do not have any effect on the Consolidated Financial Statements of Volkswagen Bank GmbH. The change in IFRS 9 makes clear the fees that companies are to include when assessing whether the terms of a new or modified financial liability differ significantly from the terms of the original financial liability. An example regarding leasehold improvements was deleted from the Illustrative Examples for IFRS 16.

There have also been amendments made to IAS 16 that had to be applied from January 1, 2022. Pursuant to these amendments, net proceeds from the sale of goods produced in the testing phase of property, plant and equipment are recognized in profit or loss rather than as a deduction from cost. This means that costs and revenue resulting from the production of products during the testing phase of property, plant and equipment are now recognized separately in expense and income.

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

Finally, in amendments to IFRS 3, a reference to the Conceptual Framework was updated and clarifications added to ensure that the accounting practice pursuant to IFRS 3 can essentially remain unchanged.

The provisions mentioned above and the other amended provisions do not materially affect the Volkswagen Bank GmbH Group's financial position and financial performance.

New and Revised IFRSs Not Applied

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

Standard/ Interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IFRS 16	Sale and Leaseback Transactions	September 22, 2022	January 1, 2024	No	No material impact
IFRS 17	Insurance Contracts	May 18, 2017	January 1, 2023	Yes[2]	No material impact
IFRS 17	Insurance Contracts – Amendments to IFRS 17	June 25, 2020	January 1, 2023	Yes[2]	No material impact
IAS 1	Classification of liabilities	January 23, 2020	January 1, 2024	No	No material impact
IAS 1	Disclosure of accounting policies	February 12, 2021	January 1, 2023	Yes	Some changes to disclosures in the notes based on the amended requirements
IAS 1	Long term liabilities with specific credit terms	October 31, 2022	January 1, 2024	No	No material impact
IAS 8	Definition of accounting estimates	February 12, 2021	January 1, 2023	No	No material impact
IAS 12	Deferred tax relating to assets and liabilities arising from a single transaction	May 7, 2021	January 1, 2023	No	No material impact

1 Initial appllication requirement from Volkswagen Bank GmbH's perspective
2 The EU endorsement contains an exemption that allows entities to elect, in certain cases, not to apply a valuation guidance exempt.

Accounting Policies

1. Basic Principles

All entities included in the basis of consolidation have prepared their annual financial statements as of the reporting date of December 31, 2022.
Financial reporting in the Volkswagen Bank GmbH Group complies with IFRS 10 and is based on standard Group accounting policies.
Unless otherwise stated, amounts are shown in millions of euros (€ million). All amounts shown are rounded, so minor discrepancies may arise when amounts are added together. Amounts smaller than €0.5 million are rounded to 0, whereas "–" is used if there is no applicable figure.

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

2. Basis of Consolidation

In addition to Volkswagen Bank GmbH, the consolidated financial statements cover all significant German and non-German subsidiaries, including all structured entities, that are controlled directly or indirectly by Volkswagen Bank GmbH. This is the case if Volkswagen Bank GmbH has power over potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and has the ability to use its power to influence those returns. In the case of the structured entities consolidated in the Volkswagen Bank GmbH Group, Volkswagen Bank GmbH holds no equity investment but nevertheless determines the main relevant activities remaining after the structure is created and thereby influences its own variable returns. The purpose of the structured entities is to facilitate asset-backed-securities transactions to fund the financial services business.

Subsidiaries are included in the consolidation from the date on which control comes into existence; they cease to be consolidated when control no longer exists. Subsidiaries in which activities are dormant or of low volume and that, individually and jointly, are of minor significance in the presentation of a true and fair view of the financial position, financial performance and cash flows of the Volkswagen Bank GmbH Group are not consolidated. They are recognized in the consolidated financial statements under financial assets at cost, taking into account any necessary impairment losses or reversals of impairment losses.

The equity method is used to account for material entities in which Volkswagen Bank GmbH has the opportunity, directly or indirectly, to exercise significant influence over financial and operating policy decisions (associates) or in which Volkswagen Bank GmbH directly or indirectly shares control (joint ventures). Joint ventures also include entities in which the Volkswagen Bank GmbH Group controls a majority of the voting rights but whose partnership agreements or articles of association specify that key decisions may only be made unanimously. Associates and joint ventures of minor significance are not accounted for using the equity method but are reported under financial assets at cost, taking into account any necessary impairment losses or reversals of impairment losses.

COMPOSITION OF THE VW BANK GMBH GROUP

The composition of the Volkswagen Bank GmbH Group is shown in the following table:

	2022	2021
Volkswagen Bank GmbH and consolidated subsidiaries		
Germany	1	1
International[1]	5	6
Subsidiaries recognized in financial assets		
Germany	–	–
International[2]	1	1
Equityaccounted associates and joint ventures		
Germany	1	1
International	2	2
Associates, joint ventures and equity investments recognized in financial assets		
Germany	–	–
International	2	2
Total	**12**	**13**

[1] These are the structured entities.
[2] This relates to Volkswagen Bank RUS, Moscow, a company fully consolidated in the consolidated financial statements of Volkswagen AG, Wolfsburg.

The list of all shareholdings in accordance with section 313(2) of the HGB and in accordance with IFRS 12.10 and IFRS 12.21 is included as an annex to the notes to the consolidated financial statements.

Volkswagen Bank GmbH maintains eight (previous year: eight) branches abroad. As of the balance sheet date, five (previous year: six) structured entities were consolidated in the consolidated financial statements; together they included four (previous year: eight) compartments.

The following sections present the disclosures on the changes in the composition of the Volkswagen Bank GmbH Group.

SUBSIDIARIES

The changes in the subsidiaries related solely to the structured entities. Driver Italia ONE S.R.L., in liquidation, Milan, was dissolved on February 9, 2022.

The changes described above did not have any material impact on the financial position or financial performance of the Volkswagen Bank GmbH Group in the reporting year.

JOINT VENTURE DISCLOSURES PURSUANT TO IFRS 12

From a Group perspective, the equity-accounted joint ventures require separate presentation because they were deemed material on the reporting date due to their size. These joint ventures are strategically important to the Volkswagen Bank GmbH Group.

Volkswagen Financial Services Digital Solutions GmbH, Braunschweig

Volkswagen Financial Services Digital Solutions GmbH, which is headquartered in Braunschweig, is a service provider specializing in information technology, particularly the development and operation of systems.

DFM N.V., Amersfoort

DFM N.V., whose registered office is situated in Amersfoort, Netherlands, is a financial institution that offers financing products for Volkswagen Group vehicles to business and private customers in the Netherlands and thus helps to promote vehicle sales in the Volkswagen Group. Volkswagen Bank GmbH and its partner in this joint venture, Pon-Holdings B.V., have entered into an agreement for a long-term strategic partnership.

Volkswagen Financné služby Slovensko s.r.o., Bratislava

Volkswagen Financné služby Slovensko s.r.o. and its subsidiary Volkswagen Finančné služby Maklérska s.r.o., which are registered in Bratislava, Slovakia, are financial services providers that carry out sales and processing work in connection with the financial services products of other entities and therefore help to promote vehicle sales in the Volkswagen Group. Volkswagen Bank GmbH and its partner in this joint venture, Porsche Bank AG, Salzburg, have entered into an agreement for a long-term strategic partnership.

Summarized financial information for the joint ventures on a 100% basis:

€ million	DFM N.V. (NETHERLANDS)		VOLKSWAGEN FINANCIAL SERVICES DIGITAL SOLUTIONS GMBH (GERMANY)		VOLKSWAGEN FINANČNÉ SLUŽBY SLOVENSKO S.R.O. (SLOVAKIA)	
	2022	2021	2022	2021	2022	2021
Shareholding (percent)	60%	60%	51%	51%	58%	58%
Loans to and receivables from banks	–	–	43	58	3	1
Loans to and receivables from customers	2,880	2,120	31	28	484	409
Lease assets	–	–	–	–	50	48
Other assets	36	68	151	159	9	9
Total	**2,916**	**2,188**	**226**	**245**	**546**	**467**
of which: noncurrent assets	755	636	132	139	371	349
of which: current assets	2,161	1,552	93	106	175	118
of which: cash	–	–	25	38[1]	3	1
Liabilities to banks	2,504	1,829	–	–	450	365
Liabilities to customers	114	95	72	78	8	14
Notes, commercial paper issued	–	–	–	–	–	–
Miscellaneous liabilities	9	2	0	7	4	4
Equity	289	261	153	160	85	84
Total	**2,916**	**2,188**	**226**	**245**	**546**	**467**
of which: noncurrent liabilities	851	270	0	1	148	92
of which: current liabilities	1,776	1,657	72	84	313	292
of which: noncurrent financial liabilities	851	270	–	–	146	90
of which: current financial liabilities	1,767	1,655	72	78	312	288
Revenue	72	54	783	884[1]	60	85
of which: interest income	67	51	0	–	14	16
Expenses	–35	–20	–762	–866[1]	–57	–70
of which: interest expense	–13	–2	–1	–1	–3	–1
of which: depreciation and amortization	–	–1	–25	–30	–10	–11
Profit/loss from continuing operations, before tax	**37**	**35**	**22**	**18**	**2**	**15**
Income tax expense or income	–9	–8	–29	–8	–1	–3
Profit/loss from continuing operations, net of tax	**28**	**27**	**–7**	**10**	**1**	**12**
Profit/loss from discontinued operations, net of tax	–	–	–	–	–	–
Other comprehensive income, after tax	–	–	–	–	–	–
Total comprehensive income	**28**	**27**	**–7**	**10**	**1**	**12**
Dividends received	–	–	–	–	–	–

1 Adjustment of the allocation of assets to cash at Volkswagen Financial Services Digital Solutions GmbH, so that the previous year's figure has changed from €0 million to €38 million. Furthermore, the allocation to income and expenses was adjusted so that the previous year's figures for income increased from €878 million to €884 million and for expenses from €860 million to €866 million. The changes described have no effect on the overall result.

Reconciliation from the financial information to the carrying amount of the equity-accounted investment:

€ million	DFM N.V. (Netherlands)	Volkswagen Financial Services Digital Solutions GmbH (Germany)	Volkswagen Finančné služby Slovensko s.r.o. (Slovakia)
2021			
Equity of the joint venture as of Jan. 1, 2021	**234**	**150**	**72**
Profit/loss	27	10	12
Other comprehensive income	–	–	–
Change in share capital	–	–	–
Change due to spin-offs	–	–	–
Exchange differences on translating foreign operations	–	–	–
Dividend	–	–	–
Equity of the joint venture as of Dec. 31, 2021	**261**	**160**	**84**
Share of equity	156	82	49
Other	0	0	–3
Carrying amount of the share of equity as of Dec. 31,2021	**156**	**82**	**46**
2022			
Equity of the joint venture as of Jan. 1, 2022	**261**	**160**	**84**
Profit/loss	28	–7	1
Other comprehensive income	–	–	–
Change in share capital	–	–	–
Change due to spin-offs	–	–	–
Exchange differences on translating foreign operations	–	–	–
Dividend	–	–	–
Equity of the joint venture as of Dec. 31, 2022	**289**	**153**	**85**
Share of equity	173	78	49
Other	–11	–16	–28
Carrying amount of the share of equity as of Dec. 31,2022	**162**	**62**	**21**

There were no unrecognized losses relating to interests in joint ventures. There are no contingent liabilities to joint ventures.

DISCLOSURES RELATING TO ASSOCIATES

Fintech Credi2 GmbH, Vienna, Austria, provides “white label” financing solutions in the buy now, pay later segment for banks, PSPs, issuers and their brokers. A highly scalable “product as a service” approach allows clients to provide financing solutions for e-commerce and over-the-counter business in their own name quickly with no direct development or operating costs. This equity investment in Credi2 GmbH accelerates Volkswagen Bank GmbH’s digitalization of its business model. Volkswagen Bank GmbH, Braunschweig, increased its stake in Credi2 GmbH, Vienna, Austria from 20% to 28.34% effective August 18, 2022.

The subsidiary C2 Circle GmbH, Munich, develops and manages business models focusing in particular on selling, rolling out, renting out and financing smartphones, tablets, laptops, watches and other electronic devices, together with accessories and associated services, for end customers in collaboration with trading companies and manufacturers.

Effective March 8, 2022, Credi2 GmbH, Vienna, Austria, acquired all shares in C2 Loop GmbH, Munich. C2 Loop GmbH develops and manages business models for selling, rolling out, renting out and financing consumer goods together with accessories and associated services, for business customers in collaboration with trading companies and manufacturers, as well as for providing other business services to companies in this context.

3. Consolidation Methods

The assets and liabilities of the German and international entities included in the consolidated financial statements are reported in accordance with the uniform accounting policies applicable throughout the Volkswagen Bank GmbH Group. In the case of the equity-accounted investments, the pro rata equity is determined on the basis of the same accounting policies. The relevant figures are taken from the most recently audited annual financial statements of the entity concerned.

Acquisitions are accounted for by offsetting the carrying amounts of the equity investments with the proportionate amount of the remeasured equity of the subsidiaries on the date of acquisition or initial inclusion in the consolidated financial statements and in subsequent periods.

When subsidiaries are consolidated for the first time, the assets and liabilities, together with contingent consideration, are recognized at fair value on the date of acquisition. Subsequent changes in the fair value of contingent consideration do not generally result in an adjustment of the acquisition-date measurement. Acquisition-related costs that are not equity transaction costs are not added to the purchase price, but instead recognized as expenses. Goodwill arises when the purchase price of the investment exceeds the fair value of the identified assets less liabilities. Please refer to note (12) for information on the subsequent recognition of goodwill. If the purchase price of the investment is less than the net value of the identified assets and liabilities, the difference is recognized in profit or loss in the year of acquisition. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries.

The net assets recognized at fair value as part of an acquisition transaction are depreciated or amortized over their relevant useful lives. If the useful life is indefinite, any requirement for the recognition of an impairment loss is determined at individual asset level using a procedure similar to that used for goodwill. Where hidden reserves and charges in the recognized assets and liabilities are uncovered during the course of purchase price allocation, these items are amortized over their remaining maturities.

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

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

4. Currency Translation

Transactions in foreign currencies are translated in the single-entity financial statements of Volkswagen Bank GmbH and its consolidated subsidiaries at the rates prevailing on the transaction date. Foreign currency monetary items are reported in the balance sheet using the middle rate at the closing date and the resulting gains or losses are recognized in profit or loss.
The foreign branches and subsidiaries which form part of the Volkswagen Bank GmbH Group are independent subunits whose financial statements are translated using the functional currency principle. Assets and liabilities, but not equity, must therefore be translated at the closing rate. With the exception of income and expense items recognized in other comprehensive income, equity is translated at historical rates. Until the disposal of the subsidiary concerned, the resulting exchange differences on translating foreign operations are recognized in other comprehensive income and are presented as a separate item in equity.

The transaction data in the statement of changes in noncurrent assets is translated into euros using the monthly average rates for the relevant months of underlying transactions. A separate “Foreign exchange differences” line is reported to reconcile the carryforwards translated at the middle spot rate on the prior-year reporting date and the transaction data translated at average rates with the final balances translated at the middle spot rate on the reporting date.

The income statement line items are translated into euros using the monthly average rates for the relevant months of underlying transactions.

The following table shows the closing date middle spot rates used and, for information purposes, the unweighted average rates for the year derived from the monthly average rates used.

		BALANCE SHEET, MIDDLE SPOT RATE ON DEC. 31		INCOME STATEMENT, AVERAGE RATE	
	1 € =	2022	2021	2022	2021
United Kingdom	GBP	0.88680	0.84000	0.85265	0.85964
Poland	PLN	4.68600	4.59425	4.68700	4.56647

5. Recognition of Revenue and Expenses

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

Interest income is recognized in the income statement using the effective interest method. Income from financing activities is included in the interest income from lending and securities transactions; leasing income is reported in the income statement under income from leasing transactions. The leasing revenue from operating lease contracts is recognized on a straight-line basis over the lease term. Contingent payments under finance leases and operating leases are recognized when the conditions for the contingent payments are satisfied.

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

Contract origination costs that would have arisen even if the relevant contract had not been signed are expensed as incurred.

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

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

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

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

Net fee and commission income includes income and expenses from insurance brokerage as well as fees and commissions from the financing and financial services businesses. Fee and commission income from brokering insurance policies is recognized in accordance with contractual arrangements with the insurers when the entitlement arises, i.e. when the related premium is charged to the policyholder. Other fee and commission income for services at a particular point in time is recognized on the date of performance. In the case of services that are provided over a particular period of time, income is recognized at the reporting date according to the stage of completion.

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

Dividends are reported on the date on which the legal entitlement is established, i.e. generally the date on which a dividend distribution resolution is approved.

GOVERNMENT GRANTS

The Volkswagen Bank GmbH Group recognizes income from government grants if there is reasonable assurance that the Group will comply with the conditions attaching to the grants and that the grants will be received. The Group regards the ECB as a government agency or similar institution for the purposes of IAS 20. The ECB's TLTRO III funding program is intended to stimulate borrowing in the eurozone by creating an incentive for participating banks to lend to the real economy. Volkswagen Bank GmbH believes that this support constitutes a government grant. The Volkswagen Bank GmbH Group recognizes the benefit in the accounting period in which the grant compensates the Group for the corresponding costs and reports the grant as a reduction in the related expense. The level of the benefit depends on the amount borrowed and on which of a number of lending thresholds are satisfied. Further information about the Volkswagen Bank GmbH Group's recognition of income in the context of the benefit from the TLTRO III funding program can be found in note (32).

6. Income Taxes

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

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

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

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

7. Cash Reserve

The cash reserve is carried at the nominal amount.

8. Financial Instruments

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

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

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

IFRS 9 breaks down financial assets into the following categories:
- Financial assets measured at fair value through profit or loss
- Financial assets measured at fair value through other comprehensive income (debt instruments)
- Financial assets measured at fair value through other comprehensive income (equity instruments), and
- Financial assets measured at amortized cost

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

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

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

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

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

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

Financial liabilities are measured at amortized cost unless these liabilities are derivatives.

The amortized cost of a financial asset or financial liability is the amount:

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

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (DEBT INSTRUMENTS) CATEGORY

Financial assets (debt instruments) measured at fair value through other comprehensive income are held within a business model whose objective is to collect contractual cash flows and sell financial assets ("to collect and sell" business model). The contractual cash flows of these financial assets consist solely of payments of principal and interest on the principal amount outstanding.

Changes in fair value of these financial assets are recognized in other comprehensive income (taking into account deferred taxes) until the financial asset concerned is derecognized. Only then are the accumulated gains or losses reclassified to profit or loss.

The changes in amortized cost, such as impairment losses, interest determined in accordance with the effective interest method and foreign currency gains or losses, are immediately recognized in profit or loss.

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

Financial assets (debt instruments) for which the cash flow criterion is not satisfied, or that are managed within a business model whose objective is to sell these assets in order to realize cash flows ("sell" business model), together with derivatives, are measured at fair value through profit or loss.

The same applies to financial liabilities that are not measured at amortized cost.

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (EQUITY INSTRUMENTS) CATEGORY

In the Volkswagen Bank GmbH Group, financial assets that represent an equity instrument are measured at fair value through other comprehensive income in exercise of the fair-value-through-OCI option unless they are held for trading purposes. The accumulated gains or losses from remeasurement are transferred on derecognition to retained earnings and not to the income statement (i.e. they are not reclassified to profit or loss).

LOANS AND RECEIVABLES

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

In individual cases, some loans to and receivables from customers are recognized at fair value through profit or loss because the cash flow criterion is not satisfied. Gains and losses arising from changes in fair value are recognized in profit or loss under net gain or loss on financial instruments measured at fair value.

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

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

The accounting policies relating to receivables from customers attributable to the leasing business are described in note (13) Leases.

MARKETABLE SECURITIES

The “Marketable securities” balance sheet item largely comprises investments of resources in the form of fixed-income securities from public- and private-sector issuers and asset-backed securities issued by unconsolidated special-purpose entities.

Asset-backed securities are allocated to the category of financial assets measured at fair value through profit or loss.

The fixed-income securities are allocated to the category of financial assets (debt instruments) measured at fair value through other comprehensive income. Valuation allowances for marketable securities are recognized in profit or loss under the “Provision for credit risks” line item. Interest determined in accordance with the effective interest method and effects from changes in exchange rates are also recognized in profit or loss. In addition, the differences between the amortized cost and fair value arising from the remeasurement of fixed-income securities are recognized in other comprehensive income, taking into account deferred taxes.

EQUITY INVESTMENTS

The equity investments included in the “Miscellaneous financial assets” balance sheet item are measured as equity instruments generally at fair value through other comprehensive income in exercise of the fair-value-through-OCI option. As the equity investments are strategic financial investments, this classification provides a more meaningful presentation of the investments.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments comprise derivatives in effective hedges and derivatives not designated as hedging instruments. All derivatives are measured at fair value and are presented separately in notes (36) and (48).

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

In the Volkswagen Bank GmbH Group, entities enter into hedging transactions solely as part of their management of interest rate risk and/or currency risk.

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

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

In the case of derivatives that are designated as hedges of future cash flows in cash flow hedges and that satisfy the relevant criteria, the changes in the fair value of the derivative are recognized in separate items of other comprehensive income. The designated effective portion is recognized within other comprehensive income in OCI I. Effects on profit or loss under net gain or loss on hedges arise from the ineffective portion of the change in fair value as well as from the reclassification (on recognition of the hedged item) of changes in fair value previously recognized in other comprehensive income. The measurement of the hedged item remains unchanged.

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

Interest income or interest expense related to derivatives is reported in the income statement item in which the interest income or interest expense related to the hedged item is presented, as was also the case in the previous year.

PROVISION FOR CREDIT RISKS

The provision for credit risks, which is recognized in accordance with the expected credit loss model specified by IFRS 9 and in accordance with uniform standards applied throughout the Group, encompasses all financial assets measured at amortized cost, financial assets in the form of debt instruments measured at fair value through other comprehensive income, finance lease receivables and receivables related to payments due under operating leases that fall within the scope of IFRS 16, and credit risks from off-balance-sheet credit commitments and financial guarantees. The calculation of the provision for credit risks takes into account the exposure at default, the probability of default and the loss given default.

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

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

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

The provision for credit risks is calculated on the basis of the individual financial asset. The parameters required for this calculation are established by assessing portfolios in which individual financial assets of a similar type are brought together. Such homogeneous portfolios are created, for example, on the basis of customer group (e.g. dealer), product (e.g. financing or leasing), or type of collateral (e.g. vehicle). In the case of significant financial assets (e.g. dealer financing loans/receivables and fleet customer business loans/receivables) with objective evidence of impairment, the measurement parameters are determined on the basis of the individual contract.

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

Both historical information, such as average historical default probabilities for each portfolio, and forward-looking information, such as macroeconomic factors and trends (e.g. the rate of change for gross domestic product or the unemployment rate), linked to expected credit losses, is used to determine the measurement parameters for calculating the provision for credit risks.

To model the measurement parameters, calculations are carried out for various probability-weighted scenarios using region-specific macroeconomic factors. The scenarios assume different economic trends and reflect their impact on credit risk and the provision for credit risks. In this regard, VW Bank analyzes macroeconomic factors that are also used in internal management. These factors include gross domestic product, inflation, interest rates (long-term and short-term) and exchange rates. If statistical methods demonstrate that macroeconomic factors have an impact on credit risk, then the relevant forecast macroeconomic factors and their effects on credit risk are taken into account in the scenarios.

The Volkswagen Bank GmbH Group normally analyzes three scenarios: a baseline scenario, a positive scenario and a negative scenario.

The baseline scenario uses validated risk parameters as also used in the internal risk calculations. The positive scenario assumes a more positive trend in probabilities of default and remarketing proceeds for the next 12 months compared with the baseline scenario, whereas the negative scenario assumes a rise in default probabilities and lower remarketing proceeds.

The Volkswagen Bank GmbH Group included a fourth scenario in the calculations to account for the geopolitical effects of the Russia-Ukraine conflict and the resulting uncertainty surrounding energy supplies. This scenario reflects a shift in all active risk classes of one level for all risk models.

Compared with the baseline scenario, the probability of default is reduced by –20% on average in the positive scenario, but is increased by an average of +13% in the negative scenario. The average increase in the probability of default for financial instruments affected by the semiconductor scenario is +56%.

When the scenarios are taken into account, there is a rise in the provision for credit risks of €64 million (4.8%).

The calculation to determine whether the credit risk has increased significantly at the reporting date generally takes into account the maturity of the agreement. The credit risk expected for the reporting date on the date of initial recognition is compared against the actual credit risk on the reporting date on the basis of the 12-month probability of default. This procedure is also used in the event of insignificant modifications between the date of initial recognition and the reporting date. Depending on the internal risk management models applied, threshold values are specified for expected credit risk using statistical methods and expert assessments, taking into account transaction-specific variables (such as maturity, payment record and credit process). A credit risk higher than the threshold value indicates a significant increase in credit risk. Depending on specific regional circumstances, qualitative factors may also be used to determine a significant increase in credit risk. Credit risk is assumed to have increased significantly, at the latest, if payments are past due by more than 30 days unless the financial assets have already been allocated to Stage 3 because of other objective evidence of impairment or, as a consequence of a substantial contractual modification, they are added to Stage 1 again at the reporting date despite payments being past due. A financial asset for which the credit risk is determined to be very low at the reporting date can normally be allocated to Stage 1. In the Volkswagen Bank GmbH Group, a very low credit risk can be assumed if the financial asset is assigned a one-year probability of default of less than 0.3%.

Objective evidence of impairment is identified in the Volkswagen Bank GmbH Group using the definition of default specified in Article 178 of the CRR. The existence of a variety of factors could be decisive in determining whether a default has occurred. Examples of such factors include payment more than 90 days past due, the initiation of enforcement measures, the threat of insolvency or overindebtedness, application for or the initiation of insolvency proceedings, or the failure of restructuring measures. The Volkswagen Bank GmbH Group uses the EBA's amended guidelines on the application of the definition of default under Article 178 of the CRR. If the reason for the recognition of a default (e.g. disruption to payments) has been eliminated, this must then be followed immediately by a cure period of several months before the financial instrument can no longer be considered in default.

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

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

Loans and receivables are reported in the balance sheet at the net carrying amount. The provision for credit risks relating to off-balance sheet credit commitments and financial guarantees is recognized within other liabilities.

Disclosures relating to the provision for credit risks are presented separately in note (61).

MODIFICATIONS

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

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

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

LIABILITIES

Liabilities to banks and customers (note 45), notes and commercial paper issued (note 46), and subordinated capital liabilities (note 52) are recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates.

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

9. Miscellaneous Financial Assets

Investments in subsidiaries that are not consolidated, other equity investments and investments in associates are reported as miscellaneous financial assets.

Investments in unconsolidated subsidiaries and associates are recognized at cost taking into account any necessary impairment losses. Impairment losses are recognized in profit or loss if there are indications of significant or permanent impairment (e.g. imminent payment difficulties or economic crises).

The accounting policies applicable to equity investments are set out in note (8) Financial Instruments.

10. Intangible Assets

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

Research costs are not capitalized.

Subject to the conditions specified in IAS 38, internally developed software and all the direct and indirect costs that are directly attributable to the development process are capitalized. When assessing whether the development costs associated with internally generated software are to be capitalized or not, Volkswagen Bank GmbH takes into account not only the probability of a future inflow of economic benefits but also the extent to which the costs can be reliably determined. Amortization is on a straight-line basis over the useful life of three to five years and is reported under general and administrative expenses. If one or more of the criteria for capitalization are not satisfied, the costs are expensed in the year they are incurred.

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

Intangible assets with indefinite useful lives are not amortized. An annual review is carried out to establish whether an asset has an indefinite useful life. In accordance with IAS 36, these assets are tested for impairment by comparing the carrying amount and recoverable amount at least once a year and additionally if relevant events or changes in circumstances should occur. If required, an impairment loss is recognized to reduce the carrying amount to a lower recoverable amount (see note (12)).

11. Property and Equipment

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

Depreciation is based on the following useful lives:

Property and equipment	Useful lives
Buildings and property facilities	10 to 33 years
Operating and office equipment	3 to 23 years

An impairment loss is recognized in accordance with IAS 36 if the recoverable amount of the asset concerned has fallen below its carrying value (see note (12)).

Depreciation expense and impairment losses are reported within general and administrative expenses. Income from the reversal of impairment losses is recognized in net other operating income/expenses. No reversals of impairment losses were recognized in the reporting period.

The property and equipment line item on the balance sheet also includes right-of-use assets recognized on the balance sheet in connection with leases in which the Volkswagen Bank GmbH Group is the lessee. The accounting policies for these right-of-use assets are set out in note (13) Leases within the subsection covering the Group as lessee.

12. Impairment of Nonfinancial Assets

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

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

Assets, such as goodwill or brand names, with an indefinite useful life are not depreciated or amortized; they are tested for impairment once a year and additionally if relevant events or changes in circumstances occur.

If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized.

The recoverable amount of goodwill is derived from the value in use for the relevant cash-generating unit, which is determined using the discounted cash flow method. The basis is the latest planning data prepared by management for a planning period of five years, with growth in subsequent years estimated using a flat rate percentage. This planning is based on expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and on assumptions derived from these trends about financial services, taking into account market penetration, risk costs and margins. Planning assumptions are adjusted in line with the latest available information. The interest rate used is based on the long-term market interest rate relevant to each cash-generating unit (regions or markets). The calculations use a standard Group cost of equity of 11.2% (previous year: 8.5%).

If necessary, the standard cost of equity rate for the Group is also adjusted using discount factors specific to the country and business concerned. The calculation of cash flows is based on the forecast growth rates for the relevant markets. Cash flows after the end of the planning period are generally estimated using a growth rate of 1% p.a. (previous year: 1% p.a.).

If the reasons for the recognition of an impairment loss in prior years now no longer apply, an appropriate reversal of the impairment loss is recognized. This does not apply to impairment losses recognized in respect of goodwill.

13. Leases

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

GROUP AS LESSOR

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

Lease income and lease expenses that the Group generates or incurs as a lessor are recognized under income from leasing transactions and depreciation, impairment losses and other expenses from leasing transactions in the income statement and are explained in note (21) Net Income from Leasing Transactions. Net income from leasing transactions largely consists of the following components: revenue from operating leases, interest income from finance leases and depreciation and impairment losses in respect of lease assets.

A finance lease is a lease that transfers substantial risks and rewards to the lessee. In the consolidated balance sheet, receivables from finance leases are reported within loans to and receivables from customers and the net investment in the lease generally equates to the cost of the lease asset. Interest income from these transactions is reported under leasing income in the income statement. The interest paid by the customer is allocated so as to produce a constant periodic rate of interest on the remaining balance of the lease receivable.

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

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

The Volkswagen Bank GmbH Group takes full account of the credit risk arising in connection with lease receivables by recognizing loss allowances in accordance with the provisions specified in IFRS 9. The accounting policies covering loss allowances for the credit risk on lease receivables are included in note (8) Financial Instruments in the subsection addressing the provision for credit risks.

GROUP AS LESSEE

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

The right-of-use asset is depreciated on a straight-line basis over the term of the lease. The depreciation expense is reported under general and administrative expenses. In the subsequent measurement of the lease liability, the carrying amount is updated using the effective interest method and taking into account the lease payments made. The interest expenses arising from the application of the effective interest method are reported under interest expenses in the income statement.

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

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

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

14. Investment Property

Land and buildings held to earn rentals are reported under the "Investment property" item in the balance sheet and measured at amortized cost. The fair values disclosed in the notes are determined by the relevant entity by discounting the estimated future cash flows using the relevant long-term market discount rate. Depreciation is applied on a straight-line basis over useful lives of nine to 33 years. Any

impairment identified as a result of an impairment test in accordance with IAS 36 is taken into account by recognizing an impairment loss.

15. Provisions for Pensions and Other Post-Employment Benefits

Provisions are recognized for commitments in the form of retirement, invalidity and surviving dependants' benefits payable under pension plans. The benefits provided by the Group vary according to the legal, tax and economic circumstances of the country concerned, and usually depend on the length of service and remuneration of the employees.

The Volkswagen Bank GmbH Group provides occupational pensions in the form of both defined contribution and defined benefit plans. In the case of defined contribution plans, the Bank makes contributions to state or private pension schemes based on statutory or contractual requirements, or on a voluntary basis. Once the contributions have been paid, the Volkswagen Bank GmbH Group has no further obligations. In 2022, the total contributions made by the Volkswagen Bank GmbH Group came to €8 million (previous year: €8 million). This amount included contributions to the compulsory state pension system in Germany in an amount of €8 million (previous year: €8 million).

Pension schemes in the Volkswagen Bank GmbH Group are predominantly defined benefit plans in which there is a distinction between pensions funded by provisions (without plan assets) and externally funded plans (with plan assets). The pension provisions for defined benefit commitments are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19. This means that the future obligations are measured on the basis of the proportionate benefit entitlements earned as of the reporting date. The measurement of pension provisions takes into account actuarial assumptions regarding discount rates, salary and pension trends, life expectancy and employee turnover rates, which are determined for each Group company depending on the economic environment. Actuarial gains or losses arise from differences between actual trends and prior-year estimates as well as from changes in assumptions. These gains and losses are recognized in the period in which they arise in other comprehensive income (taking into account deferred taxes). Detailed disclosures on provisions for pensions and other post-employment benefits are set out in note (49).

16. Other Provisions

Under IAS 37, provisions are recognized if a present legal or constructive obligation to a third party has arisen as a result of a past event, it is probable that settlement in the future will result in an outflow of resources embodying economic benefits and the amount of the obligation can be estimated reliably. If an outflow of resources is neither probable nor improbable, the amount concerned is deemed to be a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note (68).

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

Income from the reversal of other provisions is generally recognized in the income statement item or net income item in which the associated expense was recognized in previous fiscal years. Provisions not related to an outflow of resources likely to take place in the subsequent year are recognized at their settlement amount discounted to the reporting date using market discount rates. An average discount rate of 3.16% (previous year: –0.04%) has been used for the eurozone. The settlement amount also includes expected cost increases.

Any rights of recourse are not offset against provisions.

17. Trust Transactions

Volkswagen Bank GmbH acts as a trustee in some of its lending business. As the pass-through criteria specified in IFRS 9.3.2.4(b) and IFRS 9.3.2.5 are satisfied, the asset, which only needs to be recognized for the briefest of periods, and the matching liability are derecognized in full. The upshot is that trust business does not need to be reported on the balance sheet. The extent of this business is not material.

18. Estimates and Assumptions by Management

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

Assumptions and estimates are based on the latest available information. The circumstances prevailing at the time the consolidated financial statements are prepared and future trends in the global and sector environment considered to be realistic are taken into account in the projected future performance of the business. The estimates and assumptions used by management have been made, in particular, on the basis of assumptions relating to macroeconomic trends (including energy prices and inflation) and developments in the automotive markets, financial markets (specifically including interest rate trends) and underlying legal conditions.

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

These assumptions suggest that automotive financial services will prove highly important to global vehicle sales in 2023. The continuing shortages of intermediates and commodities may generate uncertainty, exacerbated by the fallout from the Russia-Ukraine conflict.

Demand for solutions that provide access to mobility at the lowest possible total cost is expected to continue to grow in the markets of Volkswagen Bank GmbH Group’s markets. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, are likely to become increasingly important for this. Additionally, it is expected that demand will increase for new forms of mobility, such as rental and car subscription (*Auto-Abo*) services, and for integrated mobility services, for example parking, refueling and charging, and that the shift initiated in the European financial services business with individual customers from financing to lease contracts will continue.

Trends in the markets for passenger cars in 2023 are expected to vary from region to region. Overall, the global volume of new car sales is expected to be noticeably higher than in the previous year. The continuing shortages of intermediates and commodities may generate uncertainty, exacerbated by the

fallout from the Russia-Ukraine conflict. Growing demand for passenger cars is forecast worldwide in the period from 2024 to 2027.

These and other assumptions are explained in detail in the report on expected developments, which is part of the management report.

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

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

There is currently no sign of additional estimation uncertainty arising from ESG/sustainability considerations that would materially affect existing estimates, for example loans and receivables from customers, in the consolidated financial statements.

Possible future effects of ESG/sustainability factors on existing estimates are considered continuously.

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

FINANCIAL INSTRUMENTS

The procedure for determining the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. When possible, these estimates take into account the latest market data as well as rating classes and scoring information derived from empirical values and combined with forward-looking parameters. Estimates and assumptions by management of future events are required in particular for the determination of additional valuation allowances due to global economic uncertainties. Further information on determining valuation allowances can be found in the disclosures on the provision for credit risks in notes (8) and (61).

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

RECOVERABLE AMOUNT OF NONFINANCIAL ASSETS, JOINT VENTURES AND EQUITY INVESTMENTS

The impairment tests applied to nonfinancial assets (particularly goodwill and brand names), equity-accounted joint ventures and equity investments measured at cost require assumptions related to the future cash flows in the planning period and, where applicable, beyond. The assumptions about the future cash flows factor in expectations regarding future global economic trends, trends in the overall

markets for passenger cars and commercial vehicles and expectations derived from these trends about financial services, taking into account market penetration, risk costs, margins and regulatory requirements. The assumptions are based on current estimates by third-party institutions, which include economic research institutes, banks, multinational organizations and consulting firms. The discount rates used in the discounted cash flow method applied when testing goodwill for impairment are based on specified cost of equity rates, taking into account historical experience and appropriate assumptions regarding macroeconomic trends. In particular the forecasts for short- and medium-term cash flows, and the discount rates used, are subject to uncertainty outside the control of the group.

RECOVERABLE AMOUNT OF LEASE ASSETS

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

LEASE TERM IN LESSEE ACCOUNTING

Under IFRS 16, the term of a lease is determined on the basis of the fundamental noncancelable term of the lease plus an assessment of whether any option to extend the lease will be exercised or whether any option to terminate the lease will not be exercised. The lease term determined in this way and the discount rates used affect the amounts recognized for the right-of-use assets and the lease liabilities.

DEFERRED TAX ASSETS AND UNCERTAIN INCOME TAX ITEMS

When determining deferred tax assets, there is a need to make assumptions about future taxable income and the timings for any recovery of the deferred tax assets. The measurement of deferred tax assets for tax loss carryforwards is generally based on future taxable income within a planning horizon of five fiscal years. In the recognition of uncertain income tax items, the expected tax payment is used as the basis for the best estimate.

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

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

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

The pricing of individual services is particularly complex in contracts for cross-border intragroup services because, in many cases, there are no observable market prices or the application of market prices for similar services is subject to some uncertainty because the services are not comparable. In such cases

– and for tax purposes – the pricing is determined using uniform measurement methods applied in generally accepted business practice.

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

INCOME FROM SERVICE CONTRACTS

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

PROVISIONS

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

The measurement of pension provisions is based on actuarial assumptions regarding discount rates, salary and pension trends, and employee turnover rates, which are determined for each group company depending on the economic environment. Further information about the assumptions applied in relation to provisions for pensions and other post-employment benefits can be found in notes (15) and (49).

Other provisions are measured on the basis of expected values, which often results in changes involving either additions to the provisions or the reversal of unused provisions. Changes in the estimates of the amounts for other provisions are always recognized in profit or loss. The recognition and measurement of provisions for litigation and legal risks included within other provisions requires making predictions with regard to court decisions and the outcome of legal proceedings. Each case is individually assessed on its merits based on developments in the proceedings, the company’s past experience in comparable situations and evaluations made by experts and lawyers. Further information about the assumptions applied in relation to other provisions can be found in note (16).

Income Statement Disclosures

19. Interest Income from Lending Transactions and Marketable Securities

The interest income from financial assets measured at amortized cost or at fair value through other comprehensive income included in interest income from lending transactions and marketable securities amounted to €1,362 million (previous year: €1,382 million). In the reporting year, financial assets measured at fair value through profit or loss accounted for a net expense of €5 million arising from interest income and expenses (previous year: net expense of €5 million from interest income and expenses).

20. Interest Expense

Interest expenses include funding expenses for lending and leasing business and relate in an amount of €216 million (previous year: €134 million) to financial instruments not measured at fair value through profit or loss.

Interest expenses included negative interest on money market transactions in an amount of €26 million (previous year: €34 million). This resulted primarily from the Bank's reserve balance at the ECB in excess of the minimum reserve requirement and from short-term deposits with domestic banks.

The disclosures relating to the interest expenses for lease liabilities reported under the interest expenses line item in the income statement can be found in note (66) Leases.

21. Net Income from Leasing Transactions

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

€ million	2022	2021
Leasing income from operating leases	504	423
Interest income from finance leases	116	127
Gains from the disposal of used ex-lease vehicles	408	490
Net interest income/expense from finance lease hedging derivatives	–	–
Miscellaneous income from leasing transactions	121	112
Income from leasing transactions	**1,149**	**1,152**
Lease assets depreciation and impairment losses	–429	–450
Expenses from the disposal of used ex-lease vehicles	–354	–382
Miscellaneous expenses from leasing transactions	–55	–51
Depreciation, impairment losses and other expenses from leasing transactions	**–838**	**–883**
Total	**311**	**269**

22. Net Income from Service Contracts

Of the total income recognized for service contracts, an amount of €79 million (previous year: €59 million) related to service contracts requiring the recognition of income at a specific time, and €0 million

(previous year: €1 million) related to service contracts requiring the recognition of income over a period of time.

Of the income from service contracts recognized in the reporting period, income of €26 million had been included in the contractual liabilities for service contracts within liabilities to customers as of January 1, 2022. Of the income recognized in the prior year, income of €23 million had been included in the contractual liabilities for service contracts as of January 1, 2021.

23. Provision for Credit Risks

The provision for credit risks relates to the following balance sheet items: loans to and receivables from banks, loans to and receivables from customers, marketable securities and other assets; in the context of the provision for credit risks in respect of credit commitments and financial guarantees, it also relates to the "Other liabilities" balance sheet item.

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

€ million	**2022**	2021
Additions to provision for credit risks	–411	–244
Reversals of provision for credit risks	299	478
Direct write-offs	–51	–84
Income from loans and receivables previously written off	30	27
Net gain or loss from significant modifications	–	–
Total	**–133**	**178**

24. Net Fee and Commission Income

Net fee and commission income largely comprises income and expenses from insurance brokerage, together with fees and commissions from the financing business. The breakdown is as follows:

€ million	**2022**	2021
Fee and commission income	150	160
of which commissions from insurance broking	83	99
Fee and commission expenses	–46	–44
of which sales commission from financing business	–21	–20
Total	**104**	**116**

25. Net Gain or Loss on Hedges

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

The details of the gains and losses are as follows:

€ million	2022	2021
Fair value hedges		
Gains/losses from micro fair value hedges		
Gains/losses on hedging instruments[1]	–167	–216
Gains/losses on hedged items	150	187
Gains/losses from the ineffective portion of hedging instruments	–17	–28
Cash flow hedges		
Gains/losses from the reclassification of reserves	30	–5
Gains/losses from translation of foreign currency loans/receivables and liabilities	–30	5
Gains/losses from the ineffective portion of hedging instruments	2	–2
Total	**–16**	**–30**

[1] The previous year’s rounding was corrected.

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

The net gains or losses on derivatives not designated as hedging instruments, net gains or losses on marketable securities and loans/receivables measured at fair value through profit or loss, and net gains or losses on derecognition of marketable securities measured at fair value through other comprehensive income are reported under this item. Gains and losses arising from changes in the fair value of derivatives that do not satisfy the requirements of IFRS 9 for hedge accounting at the micro level are recognized under gains and losses on derivatives not designated as hedging instruments.

The details of the gains and losses are as follows:

€ million	2022	2021
Gains/losses on derivatives not designated as hedging instruments	44	12
Gains/losses on marketable securities measured at fair value through profit/loss	–32	–5
Gains/losses on loans/receivables measured at fair value through profit/loss	–	–
Gains/losses on the derecognition of marketable securities measured at fair value through OCI	–	0
Total	**12**	**7**

27. General and Administrative Expenses

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

€ million	2022	2021
Personnel expenses	–201	–207
Non-staff operating expenses	–563	–568
Advertising, public relations and sales promotion expenses	–10	–12
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–8	–16
Other taxes	–6	–7
Income from the reversal of provisions and accrued liabilities	3	3
Total	**–785**	**–808**

Personnel expenses comprise wages and salaries of €157 million (previous year: €162 million) as well as social security, post-employment and other employee benefit costs of €44 million (previous year: €46 million).

The disclosures relating to the expenses from the depreciation of right-of-use assets included in general and administrative expenses and to the expenses from short-term leases and leases in which the underlying asset is of low value can be found in note (66) Leases.

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

€ million	2022	2021
Financial statement audit services	2	2
Other attestation services	0	0
Tax consulting services	–	–
Other services	0	0
Total	**2**	**2**

The fee paid to the auditor for audit services in the year under review was mostly attributable to the audit of the consolidated financial statements of Volkswagen Bank GmbH and of the annual financial statements of German Group companies, as well as to reviews of the reporting packages of German Group companies. Other attestation services related to the issue of a letter of comfort and the analysis of a notification.

28. Net Other Operating Income/Expenses

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

€ million	2022	2021
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	2	2
Income from cost allocations to other entities in the Volkswagen Group	30	28
Income from the reversal of provisions and accrued liabilities	114	187
Income from claims for damages	–	–
Income from the disposal of vehicles under loan agreements and finance leases	6	14
Income from nonsignificant modifications	3	1
Miscellaneous operating income	15	10
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	–3	–18
Litigation and legal risk expenses	–4	–22
Expenses from the disposal of vehicles under loan agreements and finance leases	–5	–15
Expenses from non-significant modifications	–2	–1
Miscellaneous operating expenses	–22	–28
Total	**132**	**158**

29. Net Gain/Loss on Miscellaneous Financial Assets

The net gain/loss on miscellaneous financial assets mainly consists of gains and losses relating to impairment losses in respect of joint ventures.

30. Other Financial Gains or Losses

Other financial gains or losses mainly consist of interest income and interest expenses in connection with tax-related issues, pensions and other provisions.

31. Income Tax Expense

Income tax expense includes the taxes charged in respect of the Volkswagen AG tax group and taxes for which the international subsidiaries and branches are the taxpayers, as well as deferred taxes. The components of the income tax expense are as follows:

€ million	2022	2021
Current tax income/expense, Germany	–74	136
Current tax income/expense, foreign	74	139
Current income tax expense	**0**	**275**
of which income (–)/expense (+) related to prior periods	–51	–1
Deferred tax income (–)/expense (+), Germany	214	77
Deferred tax income (–)/expense (+), foreign	76	–24
Deferred tax income (–)/expense (+)	290	53
Income tax expense	**290**	**328**

The reported tax expense in 2022 of €290 million (previous year restated: €328 million) is €64 million higher (previous year: €4 million lower) than the expected tax expense of €226 million (previous year: €332 million) calculated by applying the tax rate of 30.0% (previous year: 30.0%) to the consolidated profit before tax.

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

€ million	2022	2021
Profit before tax	**752**	**1,107**
multiplied by the domestic income tax rate of 30.0 % (previous year: 30.0 %)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**–226**	**–332**
+ Effects from different foreign tax rates	17	26
+ Effects from tax-exempt income	–3	9
+ Effects from non-deductible operating expenses	–25	–91
+ Effects from loss carryforwards	–	–
+ Effects from permanent differences	20	32
+ Effects from tax credits	–	0
+ Taxes attributable to prior periods	–67	16
+ Effects from changes in tax rates	2	19
+ Effects from non-deductible withholding taxes	–	–
+ Other variances	–8	–7
= Income tax expense	**–290**	**–328**
Effective tax rate in %	-38.7	-29.6

The statutory corporation tax rate in Germany for the 2022 assessment period was 15.0%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 30.0%.

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

The effects from different income tax rates outside Germany arise because of the different income tax rates in the individual countries in which the Group companies are domiciled compared with the rates in Germany. These rates outside Germany vary between 15.0% and 30.0% (previous year: 15.0% and 30.0%).

The following table shows a breakdown of the as yet unused tax loss carryforwards:

	UNUSED TAX LOSS CARRYFORWARDS		OF WHICH UNUSABLE TAX LOSS CARRYFORWARDS	
€ million	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Usable indefinitely	–	–	–	–
Usable within the next 5 years	–	–	–	–
Limit on utilization between 5 and 10 years	–	–	–	–
Usable within more than 10 years	–	–	–	–
Total	**–**	**–**	**–**	**–**
thereon deferred tax assets recognized	–	–	–	–

The income taxes do not include amounts arising from the use of previously unrecognized tax losses, tax credits or temporary differences from previous periods. In addition, there were no effects from the recognition of impairment losses or reversal of impairment losses in respect of deferred tax assets.

An effect on deferred taxes in an amount of €–2 million (previous year: €–19 million) arose throughout the Group in 2022 as a consequence of changes in tax rates.

As there are no fully consolidated subsidiaries, no deferred tax liabilities for temporary differences or undistributed profits were recognized in 2022.

Of the deferred taxes recognized in the balance sheet, an amount of €111 million (previous year: €17 million) relates to transactions reported in other comprehensive income. A breakdown of the changes in deferred taxes is presented in the statement of comprehensive income.

32. Further Income Statement Disclosures

The figures reported for fiscal years 2021 and 2022 do not include any commission income not accounted for using the effective interest method.

The government grant related to the entire term of the tender transactions amounted to a total of €91 million (previous year: €96 million) on the basis of the amount of €11,000 million (previous year: €13,000 million) drawn down as of the reporting date. Of this amount, €55 million (previous year: €20 million) related to the bonus for achieving the growth targets. This measurement is based on the fact that there is a reasonable degree of certainty that the lending target will be reached in full in the analysis period. Interest income for the reporting year included an additional €37 million (previous year: €76 million) in connection with the government grant involved in the tender drawdown under the targeted longer-term refinancing operations III (TLTRO III). This amount was unrelated to lending growth.

Balance Sheet Disclosures

33. Cash Reserve

The cash reserve primarily includes credit balances of €3,321 million (previous year: €10,971 million) held with Deutsche Bundesbank.

34. Loans to and Receivables from Banks

Loans to and receivables from banks include credit balances and time deposits with banks and receivables from banks attributable to loans of €233 million (previous year: €340 million).

35. Loans to and Receivables from Customers

The “Loans to and receivables from customers” item includes deductions arising from the provision for credit risks recognized to cover the expected credit risk. The provision for credit risks is presented in note (23).

Loans to and receivables from customers largely comprise loans to private and commercial customers for the financing of vehicles. The vehicle itself is normally pledged as collateral for the financing of vehicles. Dealer financing encompasses floor plan financing as well as loans to the dealer organization for operating equipment and investment. Assets are pledged as collateral, but guarantees and charges on real estate are also used as security. Receivables from leasing transactions include receivables from finance leases and receivables due in connection with lease assets. Other loans and receivables primarily relate to lines of credit and overdrafts drawn down by customers as well as loans to and receivables from Volkswagen Group entities.

Receivables from leasing transactions include due receivables amounting to €61 million (previous year: €57 million). Of this amount, €51 million (previous year: €47 million) is attributable to finance leases and €10 million (previous year: €10 million) to operating leases. The due lease receivables are payable within one year.

36. Derivative Financial Instruments

This item comprises the positive fair values from hedges and from derivatives not designated as a hedging instrument. In the presentation within the table, the positive fair values of hedging derivatives are broken down into currency and interest rate components provided that there is an appropriate underlying hedging strategy. This approach has been applied for cross-currency interest rate swaps.

€ million	Dec. 31, 2022	Dec. 31, 2021
Transactions to hedge against		
currency risk on assets using fair value hedges	34	–
currency risk on liabilities using fair value hedges	–	–
interestrate risk using fair value hedges	–	1
interestrate risk using cash flow hedges	–	–
currency and pricing risk on future cash flows using cash flow hedges	2	2
Total hedging transactions	**36**	**2**
Assets arising from derivatives not designated as hedges	15	8
Total	**51**	**10**

37. Marketable Securities

The marketable securities mainly consisted of fixed-income bonds from public-sector issuers amounting to €3,630 million (previous year: €4,144 million) and asset-backed securities from Volkswagen Financial Services (UK) Ltd., Milton Keynes, amounting to €491 million (previous year: €548 million).

Marketable securities amounting to €1,238 million (previous year: €330 million) were pledged as collateral for own liabilities. They are deposited at Deutsche Bundesbank and are furnished as collateral in connection with open market operations.

This item also includes series A and C stocks in VISA Inc., USA, in an amount of €9 million (previous year: €12 million). The series A stocks are classified as equity instruments and are measured through the OCI reserve; the series C stocks are classified as debt instruments and are measured through profit or loss.

38. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2022	**317**	**9**	**325**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	5	5
Reclassifications	–	–	–
Disposals	–	–	–
Changes/remeasurements recognized in profit or loss	14	–	14
Dividends	–	–	–
Other changes recognized in other comprehensive income	–	–	–
Balance as of Dec. 31, 2022	**330**	**14**	**344**
Impairment losses as of Jan. 1, 2022	**33**	**3**	**36**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	53	7	60
Reclassifications	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2022	**85**	**11**	**96**
Net carrying amount as of Dec. 31, 2022	**245**	**3**	**248**
Net carrying amount as of Jan. 1, 2022	**284**	**5**	**289**

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2021	**287**	**9**	**296**
Foreign exchange differences	–	0	0
Changes in basis of consolidation	–	–	–
Additions	–	–	–
Reclassifications	–	–	–
Disposals	–	0	0
Changes/remeasurements recognized in profit or loss	30	–	30
Dividends	–	–	–
Other changes recognized in other comprehensive income	0	0	0
Balance as of Dec. 31, 2021	**317**	**9**	**325**
Impairment losses as of Jan. 1, 2021	**9**	**1**	**10**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	24	3	27
Reclassifications	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	0	0
Balance as of Dec. 31, 2021	**33**	**3**	**36**
Net carrying amount as of Dec. 31, 2021	**284**	**5**	**289**
Net carrying amount as of Jan. 1, 2021	**278**	**8**	**286**

Impairment losses were recognized in an amount of €53 million (previous year: €24 million) for equity-accounted joint ventures in the reporting year. Impairment losses in an amount of €5 million (previous year: €3 million) for the associate included in miscellaneous financial assets and in an amount of €2 million (previous year: €0 million) for the subsidiary recognized in financial assets were also recognized in the reporting year.

The amount of the impairment losses equated to the amount by which the determined recoverable amount fell below the carrying amount before recognition of the impairment losses. The methodology used to determine the recoverable amount was largely the same as the methodology described in note (12).

39. Intangible Assets

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost as of Jan 1, 2022	**–**	**18**	**16**	**45**	**80**
Foreign exchange differences	–	0	–	0	–1
Changes in basis of consolidation	–	–	–	–3	–3
Additions	–	–	–	1	1
Reclassifications	–	–	–	–	–
Disposals	–	–	16	5	22
Balance as of Dec. 31, 2022	**–**	**18**	**–**	**38**	**56**
Amortization and impairment losses as of Jan. 1, 2022	**–**	**18**	**16**	**39**	**73**
Foreign exchange differences	–	0	–	0	–1
Changes in basis of consolidation	–	–	–	–3	–3
Additions to cumulative amortization	–	–	–	3	3
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	–	–	16	5	22
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2022	**–**	**18**	**–**	**33**	**52**
Net carrying amount as of Dec. 31, 2022	**–**	**–**	**–**	**4**	**4**
Net carrying amount as of Jan. 1, 2022	**–**	**–**	**–**	**6**	**6**

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost as of Jan 1, 2021	**–**	**19**	**16**	**79**	**114**
Foreign exchange differences	–	0	0	0	0
Changes in basis of consolidation	–	–	–	–	–
Additions	–	–	–	3	3
Reclassifications	–	–	–	–	–
Disposals	–	–	–	37	37
Balance as of Dec. 31, 2021	**–**	**18**	**16**	**45**	**80**
Amortization and impairment losses as of Jan. 1, 2021	**–**	**12**	**–**	**69**	**81**
Foreign exchange differences	–	0	0	0	0
Changes in basis of consolidation	–	–	–	–	–
Additions to cumulative amortization	–	1	–	5	6
Additions to cumulative impairment losses	–	6	16	–	22
Reclassifications	–	–	–	–	–
Disposals	–	–	–	36	36
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2021	**–**	**18**	**16**	**39**	**73**
Net carrying amount as of Dec. 31, 2021	**–**	**–**	**–**	**6**	**6**
Net carrying amount as of Jan. 1, 2021	**–**	**7**	**16**	**10**	**33**

The goodwill of €16 million and the brand name in the amount of €6 million reported for the Bank's Polish branch were written off in full in the prior year as a result of impairment tests. The goodwill arose from the acquisition of Volkswagen Bank Polska S.A. in 2012. Volkswagen Bank Polska S.A., Warsaw, was merged into Volkswagen Bank GmbH as of September 28, 2018. Since September 28, 2018, the Polish business of Volkswagen Bank GmbH has been operated from the Polish branch.

The full amortization of the acquired customer base of Volkswagen Bank Polska S.A. was also completed in the prior year. It was amortized over a period of ten years.

As of the reporting date, intangible assets with indefinite useful lives amounted to €1 million (previous year: €1 million).

40. Property and Equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost as of Jan 1, 2022	**37**	**19**	**56**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–2	–2
Additions	0	5	5
Reclassifications	–	–	–
Disposals	0	4	4
Balance as of Dec. 31, 2022	**36**	**18**	**54**
Depreciation and impairment losses as of Jan. 1, 2022	**15**	**18**	**32**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–2	–2
Additions to cumulative depreciation	3	2	5
Additions to cumulative impairment losses	–	–	–
Reclassifications	0	0	–
Disposals	0	4	4
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2022	**17**	**14**	**32**
Net carrying amount as of Dec. 31, 2022	**19**	**3**	**23**
Net carrying amount as of Jan. 1, 2022	**22**	**2**	**24**

€ million	Land and buildings	Operating and office equipment	Total
Cost as of Jan 1, 2021	**37**	**19**	**56**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions	0	1	1
Reclassifications	–	–	–
Disposals	0	0	0
Balance as of Dec. 31, 2021	**37**	**19**	**56**
Depreciation and impairment losses as of Jan. 1, 2021	**12**	**17**	**29**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions to cumulative depreciation	3	1	4
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Disposals	0	0	0
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2021	**15**	**18**	**32**
Net carrying amount as of Dec. 31, 2021	**22**	**2**	**24**
Net carrying amount as of Jan. 1, 2021	**25**	**2**	**27**

Assets under construction with a carrying amount of €2 million (previous year: €2 million) are included in land and buildings.

41. Investment Property

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

€ million	Investment property
Cost as of Jan 1, 2022	**3**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions	–
Reclassifications	–
Disposals	–
Balance as of Dec. 31, 2022	**3**
Depreciation and impairment losses as of Jan. 1, 2022	**2**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions to cumulative depreciation	0
Additions to cumulative impairment losses	–
Reclassifications	–
Disposals	–
Reversal of impairment losses	–
Balance as of Dec. 31, 2022	**2**
Net carrying amount as of Dec. 31, 2022	**0**
Net carrying amount as of Jan. 1, 2022	**0**

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

€ million	Investment property
Cost **as of Jan 1, 2021**	**3**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions	–
Reclassifications	–
Disposals	–
Balance as of Dec. 31, 2021	**3**
Depreciation and impairment losses **as of Jan. 1, 2021**	**2**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions to cumulative depreciation	0
Additions to cumulative impairment losses	–
Reclassifications	–
Disposals	–
Reversal of impairment losses	–
Balance as of Dec. 31, 2021	**2**
Net carrying amount as of Dec. 31, 2021	**0**
Net carrying amount as of Jan. 1, 2021	**0**

The fair value of investment property amounts to €0 million (previous year: €0 million). The fair value is determined using an income approach based on internal calculations (Level 3 of the fair value hierarchy). Operating expenses in an immaterial amount were incurred for the maintenance of investment property in both the reporting period and in the previous year.

As in the previous year, the “Income from leasing transactions” line item in the income statement did not include material rental income from investment property in the reporting period.

42. Deferred Tax Assets

The breakdown of the deferred tax assets is as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021
Deferred tax assets	4,481	5,223
of which noncurrent	656	738
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	–	–
of which noncurrent	–	–
Offset (with deferred tax liabilities)	–2,922	–3,224
Total	**1,559**	**1,999**

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

€ million	Dec. 31, 2022	Dec. 31, 2021
Loans, receivables and other assets	540	485
Marketable securities and cash	3,329	4,053
Intangible assets/property and equipment	25	33
Lease assets	581	625
Liabilities and provisions	4	27
Valuation allowances for deferred assets on temporary differences	–	–
Total	**4,481**	**5,223**

43. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021
Vehicles returned for disposal	70	96
Restricted cash	230	311
Prepaid expenses and accrued income	8	52
Other tax assets	71	36
Miscellaneous	101	49
Total	**480**	**543**

44. Noncurrent Assets

€ million	Dec. 31, 2022	of which noncurrent	Dec. 31, 2021	of which noncurrent
Cash reserve	3,543	–	11,022	–
Loans to and receivables from banks	233	–	340	–
Loans to and receivables from customers	48,186	24,398	46,074	24,223
Derivative financial instruments	51	2	10	6
Marketable securities	4,131	–	4,704	–
Equity-accounted joint ventures	245	245	284	284
Miscellaneous financial assets	3	3	5	5
Intangible assets	4	4	6	6
Property and equipment	23	23	24	24
Lease assets	2,677	2,677	2,236	2,236
Investment property	0	0	0	0
Income tax assets	91	–	4	–
Other assets	480	0	543	2
Total	**59,667**	**27,354**	**65,254**	**26,788**

45. Liabilities to Banks and Customers

The liabilities to banks mainly comprise liabilities to Deutsche Bundesbank arising from the tender transactions under the TLTRO III program, which have an initial term of three years.

In the same period, one tranche in a total amount of €2,000 million were repaid early. The total amount drawn down as of the reporting date was €11,000 million.

The liabilities to customers include customer deposits of €26,226 million (previous year: €26,489 million). They comprise call deposits and time deposits, as well as various savings bonds and savings plans. In terms of maturity, the “Direkt-Sparplan” and “Plus Sparbrief” savings products currently offer the longest investment horizon. The maximum maturity is ten years.

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

€ million	Dec. 31, 2022	Dec. 31, 2021
Contractual liabilities at Jan. 1	**77**	**68**
Additions and disposals	–15	9
Changes in consolidated Group	–	–
Foreign exchange differences	–	–
Contractual liabilities at Dec. 31	**62**	**77**

It is expected that income will be realized under contractual liabilities in the amount of €21 million (previous year: €26 million) in the next fiscal year and in the amount of €42 million (previous year: €52 million) in the subsequent fiscal years.

46. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Dec. 31, 2022	Dec. 31, 2021
Bonds issued	3,785	5,708
Commercial paper issued	314	–
Total	**4,099**	**5,708**

47. ABS Transactions

The Volkswagen Bank GmbH Group uses ABS transactions for funding purposes. The related liabilities are recognized in the following items:

€ million	Dec. 31, 2022	Dec. 31, 2021
Bonds issued	186	573
Subordinated liabilities	–	4
Total	**186**	**577**

The asset-backed securities of the Volkswagen Bank GmbH Group are backed exclusively by financial assets. The corresponding carrying amount of the securitized loans and receivables from retail financing is €171 million (previous year: €534 million). As of December 31, 2022, the fair value of the liabilities amounted to €186 million (previous year: €578 million). The fair value of the assigned loans/receivables that continued to be recognized amounted to €178 million as of December 31, 2022 (previous year: €583 million). Collateral is provided in the form of loans and receivables from retail financing and cash collateral, together amounting to €236 million (previous year: €608 million). In these arrangements, the expected payments are assigned to special purpose entities and the ownership of the collateral in the financed vehicles is transferred. The assigned loans/receivables cannot be assigned again to anyone else or used in any other way as collateral. The rights of the bond holders are limited to the assigned loans/receivables, and the payment receipts arising from these loans/receivables are used to repay the corresponding liability.

These asset-backed securities transactions did not lead to a derecognition of the loans or receivables from the financing business because the credit risk and timing risk were retained in the Group. The difference between the amount of the assigned loans/receivables and the associated liabilities results

from the different terms and conditions and from the proportion of the ABSs held by the Volkswagen Bank GmbH Group itself or granted subordinated loans, which reduce the liabilities in the consolidation process.

The Volkswagen Bank GmbH Group is under a contractual obligation to transfer funds in certain circumstances to the structured entities included in its consolidated financial statements. As the loans/receivables are transferred to the special purpose entity by way of undisclosed assignment, it is possible that the loan/receivable has already been reduced in a legally binding manner at the originator, for example if the debtor effectively offsets it against amounts it is owed by the Volkswagen Bank GmbH Group. In this case, collateral must be furnished for the resulting compensation claims against the special purpose entity, for example if the rating of the Group company concerned declines to a contractually agreed reference value.

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

48. Derivative financial instruments

This balance sheet item comprises the negative fair values from hedges and from derivatives not designated as hedging instruments. In the following table, the negative fair values of hedging cross-currency interest rate swaps are broken down into currency and interest rate components provided that there is an appropriate underlying hedging strategy.

€ million	Dec. 31, 2022	Dec. 31, 2021
Transactions to hedge against		
currency risk on assets using fair value hedges	2	51
currency risk on liabilities using fair value hedges	–	–
Interest-rate risk using fair value hedges	5	–
Interest-rate risk using cash flow hedges	–	–
currency and pricing risk on future cash flows using cash flow hedges	3	0
Hedging transactions	**11**	**51**
Liabilities arising from derivatives not designated as hedges	4	1
Total	**15**	**52**

49. Provisions

The provisions break down as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021
Provisions for pensions and other postemployment benefits	92	153
Other provisions	80	195
of which provisions for litigation and legal risks	32	143
of which for staff	39	40
of which other	8	12
Total	**171**	**348**

PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The following amounts have been recognized in the balance sheet for benefit commitments:

€ million	Dec. 31, 2022	Dec. 31, 2021
Present value of funded obligations	67	106
Fair value of plan assets	55	60
Funded status (net)	**12**	**46**
Present value of unfunded obligations	80	107
Amount not recognized as an asset because of the ceiling in IAS 19	–	–
Net liability recognized in the balance sheet	**92**	**153**
of which provisions for pensions	92	153
of which other assets	–	–

Key Pension Arrangements in the Volkswagen Bank GmbH Group

For the period after the active working life of employees, the Volkswagen Bank GmbH Group offers its employees benefits under occupational pension arrangements. Most of the arrangements in the Volkswagen Bank GmbH Group are pension plans for employees in Germany classified as defined benefit plans under IAS 19. The majority of these obligations are funded by provisions recognized in the balance sheet. These plans are now closed for new members. To reduce the risks associated with defined benefit plans, in particular longevity, salary increases and inflation, the Volkswagen Bank GmbH Group has introduced new defined benefit plans in recent years in which the benefits are funded by appropriate external plan assets. The risks referred to above have been significantly reduced in these pension plans. The proportion of the total defined benefit obligation attributable to pension obligations funded by plan assets will continue to rise in the future. The main pension commitments are described below.

German Pension Plans Funded Solely by Provisions

The pension plans funded solely by recognized provisions comprise both defined contribution plans with guarantees and final salary plans. For defined contribution plans, an annual pension expense dependent on income and status is converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlements). The annuity factors include a guaranteed rate of interest.

The modular pension entitlements earned annually are added together at retirement. For final salary plans, the underlying salary is multiplied at retirement by a percentage that depends on the years of service up to the retirement date. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk. The pension system provides for lifelong pension payments. The companies therefore bear the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the "Heubeck 2018 G" mortality tables – which already reflect future increases in life expectancy. To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

German Pension Plans Funded by External Plan Assets

The pension plans funded by external plan assets are defined contribution plans with guarantees. In this case, an annual pension expense dependent on income and status is either converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlement) or paid out in a single lump sum or in installments. In some cases, employees also have the opportunity to provide for their own retirement through deferred compensation. The annuity factors include a guaranteed rate of interest. The modular pension entitlements earned annually are added together at retirement. The pension expense is contributed on an ongoing basis to a separate pool of assets that is administered independently of the Bank in trust and invested in the capital markets. If the plan assets exceed the present value of the obligations calculated using the guaranteed rate of interest, surpluses are allocated (modular pension bonuses). As the assets administered in the trust meet the IAS 19 criteria for classification as plan assets, they are offset against the obligations.

The amount of the pension assets is exposed to general market risk. The investment strategy and its implementation are therefore continuously monitored by the trusts' governing bodies, on which the companies are also represented. For example, investment policies are stipulated in investment guidelines with the aim of limiting market risk and its impact on plan assets. In addition, asset-liability management analyses are conducted at regular intervals so as to ensure that investments are in line with the obligations that need to be covered. The pension assets are currently invested primarily in fixed-income or equity funds. Interest rates and equity prices therefore present the main risks. To mitigate market risk, the pension system also provides for funds to be set aside in an equalization reserve before any surplus is allocated.

The present value of the obligation is reported as the maximum of the present value of the guaranteed obligation and of the plan assets. If the value of the plan assets falls below the present value of the guaranteed obligation, a provision must be recognized for the difference. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk. In the case of lifelong pension payments, the Volkswagen Bank GmbH Group bears the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the "Heubeck 2018 G" mortality tables – which already reflect future increases in life expectancy. In addition, independent actuaries carry out annual risk monitoring as part of the review of the assets administered by the trusts.

To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law. The calculation of the present value of the defined benefit obligations was based on the following actuarial assumptions:

Percent	GERMANY		INTERNATIONAL	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Discount rate	3.70	1.20	3,70-4,80	0,90-2,00
Pay trend	3.28	3.30	0,00-2,20	0,00-2,00
Pension trend	2.20	1.70	0,00-2,90	0,00-3,10
Staff turnover rate	1.10	1.10	0,00-3,60	0,00-3,50
Annual increase in healthcare costs	–	–	–	–

These assumptions are averages that were weighted using the present value of the defined benefit obligation.

With regard to life expectancy, the latest mortality tables in every country are taken into account. For example, in Germany calculations are based on the “2018 G” mortality tables developed by Professor Dr. Klaus Heubeck. The discount rates are generally determined to reflect the yields on prime-rated corporate bonds with matching maturities and currencies. The iBoxx AA 10+ Corporates index was taken as the basis for the obligations of German Group companies. Similar indices were used for foreign pension obligations.

The pay trends cover expected wage and salary trends, which also include increases attributable to career development. The pension trends either reflect the contractually guaranteed pension adjustments or are based on the rules on pension adjustments in force in each country. The employee turnover rates are based on past experience and future expectations.

The following table shows changes in the net defined benefit liability recognized in the balance sheet:

€ million	2022	2021
Net liability recognized in the balance sheet as of January 1	**153**	**176**
Current service cost	14	13
Net interest expense	2	1
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–85	–21
Actuarial gains (–)/losses (+) arising from experience adjustments	8	–4
Income/expenses from plan assets not included in interest income	–10	3
Change in amount not recognized as an asset because of the ceiling in IAS 19	–	–
Employer contributions to plan assets	6	5
Employee contributions to plan assets	–	–
Pension payments from company assets	3	3
Past service cost (including plan curtailments)	0	0
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–	–
Other changes	–1	–2
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**92**	**153**

The change in the present value of the defined benefit obligation is attributable to the following factors:

€ million	2022	2021
Present value of obligations as of January 1	**213**	**228**
Current service cost	14	13
Interest cost (unwinding of discount on obligations)	3	2
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–85	–21
Actuarial gains (–)/losses (+) arising from experience adjustments	8	–4
Employee contributions to plan assets	–	–
Pension payments from company assets	3	3
Pension payments from plan assets	0	0
Past service cost (including plan curtailments)	0	0
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–	–
Other changes	–2	–1
Foreign exchange differences from foreign plans	0	0
Present value of obligations as of December 31	**147**	**213**

Changes in the relevant actuarial assumptions would have had the following effects on the defined benefit obligation:

Present value of defined benefit obligation if		DEC. 31, 2022		DEC. 31, 2021	
		€ million	Change in percent	€ million	Change in percent
Discount rate	is 0.5 percentage points higher	135	–8.21	191	–10.20
	is 0.5 percentage points lower	161	9.36	238	11.93
Pension trend	is 0.5 percentage points higher	152	3.78	222	4.12
	is 0.5 percentage points lower	142	–3.46	205	–3.74
Pay trend	is 0.5 percentage points higher	147	0.43	214	0.59
	is 0.5 percentage points lower	146	–0.40	212	–0.55
Longevity	increases by one year	151	2.70	220	3.39

The sensitivity analysis shown above considers the change in one assumption at a time, leaving the other assumptions unchanged versus the original calculation.

To examine the sensitivity of the present value of the defined benefit obligation to a change in assumed longevity, the estimates of mortality were reduced as part of a comparative calculation by a measure that was roughly equivalent to an increase in life expectancy of one year.

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 18 years (previous year: 23 years).

The following table shows a breakdown of the present value of the defined benefit obligation by category of plan member:

€ million	2022	2021
Active members with pension entitlements	98	154
Members with vested entitlements who have left the Bank	9	13
Retirees	40	46
Total	**147**	**213**

The maturity profile of payments attributable to the defined benefit obligation is presented in the following table, which classifies the present value of the obligation by the maturity of the underlying payments:

€ million	2022	2021
Payments due within the next fiscal year	3	3
Payments due between two and five years	16	15
Payments due in more than five years	127	195
Total	**147**	**213**

Changes in plan assets are shown in the following table:

€ million	2022	2021
Fair value of plan assets as of January 1	**60**	**52**
Interest income on plan assets determined using the discount rate	1	0
Income/expenses from plan assets not included in interest income	–10	3
Employer contributions to plan assets	6	5
Employee contributions to plan assets	–	–
Pension payments from plan assets	0	0
Gains (+) or losses (–) arising from plan settlements	–	–
Changes in basis of consolidation	–	–
Other changes	–1	0
Foreign exchange differences from foreign plans	0	0
Fair value of plan assets as of December 31	**55**	**60**

The investment of the plan assets to cover future pension obligations resulted in a net expense of €10 million (previous year: €3 million). Employer contributions to plan assets are expected to amount to €5 million (previous year: €4 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

€ million	DEC. 31, 2022			DEC. 31, 2021		
	Quoted prices in active markets	No quoted prices in active markets	Total	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	2	–	2	2	–	2
Equity instruments	0	–	0	1	–	1
Debt instruments	2	–	2	3	–	3
Direct investments in real estate	–	–	–	–	–	–
Derivatives	0	0	0	0	0	0
Equity funds	20	–	20	22	–	22
Bond funds	26	–	26	29	–	29
Real estate funds	1	–	1	0	–	0
Other funds	4	–	4	3	–	3
Asset-backed securities	–	–	–	–	–	–
Structured debt	–	–	–	–	–	–
Other	–	0	0	–	0	0

Of the total plan assets, 54% (previous year: 52%) are invested in German assets, 10% (previous year: 12%) in other European assets and 36% (previous year: 36%) in assets in other regions.

The following amounts have been recognized in the income statement:

€ million	2022	2021
Current service cost	14	13
Net interest on the net defined benefit liability	2	1
Past service cost (including plan curtailments)	0	0
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	**15**	**14**

OTHER PROVISIONS

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

€ million	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of Jan. 1,2021	**37**	**310**	**10**	**358**
Foreign exchange differences	0	–	0	0
Changes in basis of consolidation	–	–	–	–
Utilization	20	6	7	33
Additions/new provisions	23	23	11	57
Unwinding of discount/effect of change in discount rate	–	0	–	0
Reversals	0	184	3	187
Balance as of Dec. 31, 2021	**40**	**143**	**12**	**195**
of which current	24	65	11	101
of which noncurrent	16	78	1	95
Balance as of Jan. 1,2022	**40**	**143**	**12**	**195**
Foreign exchange differences	0	–	0	0
Changes in basis of consolidation	0	–	0	0
Utilization	24	5	3	31
Additions/new provisions	26	1	8	35
Unwinding of discount/effect of change in discount rate	–3	–2	–	–6
Reversals	0	104	9	114
Balance as of Dec. 31, 2022	**39**	**32**	**8**	**80**
of which current	23	8	7	39
of which noncurrent	15	24	1	40

Provisions for employee expenses are recognized primarily for annually recurring bonuses such as long-term-service awards and other employee expenses.

The provisions for litigation and legal risks reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers. They relate primarily to proceedings in relation to design aspects of loan agreements with customers that may obstruct the processing of statutory cancelation periods. For these provisions and for provisions for customer financing brokerage claims, Volkswagen Bank GmbH invokes the safeguard clause within the meaning of IAS 37.92 and opts not to disclose in detail any amounts, descriptions, or probability assumptions. As of the reporting date, provisions for litigation and legal risks amounted to €32 million (previous year: €143 million).

The timing of the cash outflows in connection with other provisions is expected to be as follows: 49% in the next year, 42% in the years 2024 to 2027 and 9% thereafter.

50. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021
Deferred tax liabilities	4,832	5,379
of which noncurrent	2,108	2,656
Offset (with deferred tax assets)	–2,922	–3,224
Total	**1,910**	**2,155**

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

€ million	Dec. 31, 2022	Dec. 31, 2021
Loans, receivables and other assets	1,134	1,045
Marketable securities and cash	67	2
Intangible assets/property and equipment	1	1
Assets leased out	18	24
Liabilities and provisions	3,612	4,307
Total	**4,832**	**5,379**

51. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021
Prepaid expenses and accrued income	96	76
Other tax liabilities	49	36
Social security and payroll liabilities	56	51
Miscellaneous	154	98
Total	**354**	**262**

52. Subordinated Capital

The breakdown of subordinated capital is as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021
Subordinated liabilities	31	35
of which: to other Volkswagen Group companies	–	4
Total	**31**	**35**

The Bank has not entered into any agreement to convert these liabilities into equity or another form of debt, nor is it planning any such conversion.

53. Noncurrent Liabilities

€ million	Dec. 31, 2022	of which noncurrent	Dec. 31, 2021	of which noncurrent
Liabilities to banks	11,185	9,545	13,177	13,136
Liabilities to customers	32,351	2,709	34,342	2,641
Notes, commercial paper issued	4,099	2,894	5,708	3,988
Derivative financial instruments	15	7	52	0
Current tax liabilities	200	185	312	–
Other liabilities	354	52	262	50
Subordinated capital	31	10	35	32
Total	**48,235**	**15,402**	**53,890**	**19,846**

54. Equity

Volkswagen Bank GmbH's subscribed capital amounted to €318 million and was fully paid up. The sole shareholder is Volkswagen AG, Wolfsburg. There are no preferential rights or restrictions in connection with the subscribed capital.

The capital contributions made by the sole shareholder, Volkswagen AG, are reported under the capital reserves of Volkswagen Bank GmbH. As of the reporting date, capital reserves stood at €8,881 million (previous year: €8,881 million).

Retained earnings comprise undistributed profits from prior years and relate primarily to other revenue reserves.

The HGB profit of €170 million (previous year: €563 million) will be transferred in accordance with the existing profit-and-loss transfer agreement to the sole shareholder, Volkswagen AG.

The accumulated deferred taxes in equity amounted to €111 million (previous year: €17 million).

55. Capital Management

In this context, capital is defined as equity in accordance with the IFRSs. The aim of capital management in the Volkswagen Bank GmbH Group is to support the Bank's credit rating by ensuring that the Group has adequate capital backing, to obtain capital for the growth planned for the next few years and to satisfy regulatory capital requirements.

Regulatory capital is different from equity as defined by the IFRSs (for the components thereof, see the Statement of Changes in Equity). Regulatory capital consists of capital components referred to as Common Equity Tier (CET) 1 capital, Additional Tier 1 capital and Tier 2 capital net of certain deductions and adjustments and must meet specific requirements defined by law.

Corporate actions implemented by the parent company of Volkswagen Bank GmbH generally have an impact on both IFRS equity and regulatory capital. No corporate action aimed at increasing equity was carried out in the reporting year.

Under the regulatory provisions – the Capital Requirements Regulation (CRR), *Kreditwesengesetz* (KWG – German Banking Act) and *Solvabilitätsverordnung* (SolvV – German Solvency Regulation) – the banking supervisor generally assumes that capital adequacy requirements are satisfied if the entity subject to supervision has a CET1 capital ratio of at least 4.5%, a Tier 1 capital ratio of at least 6.0% and a total capital ratio of at least 8.0%. Furthermore, the capital buffer requirements and the capital requirements from the SREP decision must be fulfilled. In calculating these capital ratios, regulatory capital is measured against the own funds requirements determined in accordance with statutory provisions for counterparty risk, operational risk, market risk and credit value adjustments (CVAs). To ensure compliance with these requirements at all times, the Group has established a planning procedure that is integrated into the internal reporting system. In this procedure, the capital requirement is continuously determined based on actual and forecast business trends. This ensured that the minimum regulatory capital requirements continued to be satisfied at all times in the reporting period.

The following IFRS-based amounts and ratios were determined for Volkswagen Bank GmbH Group under the regulatory requirements:

	Dec. 31, 2022	Dec. 31, 2021
Total risk exposure amount (€ million)[1]	50,999	49,770
of which risk-weighted exposure amounts for credit risk	47,109	45,696
of which own funds requirements for market risk * 12,5	335	210
of which own funds requirements for operational risk * 12.5	3,528	3,789
of which own funds requirements for credit valuation adjustments * 12.5	27	75
Own funds (€ million)	8,614	9,474
of which Common Equity Tier 1 capital	8,608	9,461
of which Additional Tier 1 capital	–	–
of which Tier 2 capital	6	13
Common Equity Tier 1 capital ratio (percent)[2]	16.9	19.0
Tier 1 capital ratio (percent)[2]	16.9	19.0
Total capital ratio (percent)[2]	16.9	19.0

1 According to Article 92(3) of the CRR
2 According to Article 92(1) of the CRR

Financial Instrument Disclosures

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

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

€ million	Dec. 31, 2022	Dec. 31, 2021
Financial assets measured at fair value through profit or loss	510	563
Financial assets measured at fair value through other comprehensive income (debt instruments)	3,630	4,144
Financial assets measured at fair value through other comprehensive income (equity instruments)	6	6
Financial assets measured at amortized cost	49,291	54,866
Financial liabilities measured at fair value through profit or loss	4	1
Financial liabilities measured at amortized cost	47,936	53,552

Receivables from leasing transactions amounting to €3,048 million (previous year: €2,928 million) and liabilities from leasing transactions amounting to €17 million (previous year: €17 million) are not allocated to any category.

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

€ million	2022	2021
Financial instruments measured at fair value through profit or loss	7	3
Financial assets measured at amortized cost	1,172	1,374
Financial assets measured at fair value through other comprehensive income (debt instruments)	3	–2
Financial liabilities measured at amortized cost	–122	–8
Total	**1,060**	**1,366**

The net gain/loss from financial investments in equity instruments is reported in the statement of comprehensive income under fair value valuation of equity instruments that will not be reclassified to profit or loss, net of tax.

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

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

The interest income from financial assets measured at amortized cost or at fair value through other comprehensive income included in interest income from lending transactions and marketable securities is calculated using the effective interest method and amounted to €1,387 million (previous year: €1,378 million).

The interest expenses in an amount of €216 million (previous year: €134 million) related to financial instruments not measured at fair value through profit or loss.

57. Classes of Financial Instruments

Financial instruments are divided into the following classes in the Volkswagen Bank GmbH Group:

- Measured at fair value
- Measured at amortized cost
- Derivative financial instruments designated as hedges
- Not allocated to any measurement category
- Credit commitments and financial guarantees (off-balance-sheet)

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

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

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

Within “Miscellaneous financial assets”, subsidiaries and joint ventures that are not consolidated for reasons of materiality are not deemed financial instruments in accordance with IFRS 9 and therefore do not fall within the scope of IFRS 7. For the purposes of reconciling the balance sheet item, they are now, as described above, shown in “Not allocated to any class of financial instruments” rather than in the “Not allocated to any measurement category” class as they were in the prior year. Equity investments forming part of miscellaneous financial assets are reported as financial instruments in accordance with IFRS 9 in the class “Measured at fair value”.

The “Current tax assets” and “Current tax liabilities” balance sheet line items contain assets and liabilities arising from taxes under civil law due to or from entities in the Volkswagen Group. These receivables from and liabilities to Volkswagen Group companies are classified as financial instruments in the class “Measured at amortized cost”. “Current tax assets” and “Current tax liabilities” mainly relate to the tax authorities and do not constitute financial instruments. Their classification was changed from “Not allocated to any measurement category” in the prior year to “Not allocated to any class of financial instruments” in the reporting year.

Liabilities to customers are reported in the “Measured at amortized cost” class, but the amount of lease liabilities (as a lessee) within the overall figure is shown in the “Not allocated to any measurement category” class.

The “Not allocated to any class of financial instruments” column consists of advance payments received from service contracts that were shown in the “Not allocated to any measurement category” class in the prior year.

The changes to presentation (including for the prior-year figures) explained above have been made to provide greater clarity in respect of the aforementioned classes of financial instruments and their individual constitution.

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

€ million	Balance sheet item		Measured at amortized cost		Measured at fair value		Derivative financial instruments designated as hedges		Not allocated to any measurement category		Not allocated to any class of financial instrumnets	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Assets												
Cash reserve	3,543	11,022	3,543	11,022	–	–	–	–	–	–	–	–
Loans to and receivables from banks	233	340	233	340	–	–	–	–	–	–	–	–
Loans to and receivables from customers	48,186	46,074	45,131	43,146	–	–	–	–	3,054	2,928	0	0
Derivative financial instruments	51	10	–	–	15	8	36	2	–	–	–	–
Marketable securities	4,131	4,704	–	–	4,131	4,704	–	–	–	–	–	–
Equity-accounted joint ventures	245	284	–	–	–	–	–	–	–	–	245	284
Miscellaneous financial assets	3	5	–	–	0	0	–	–	–	–	3	5
Current tax assets	91	4	56	–	–	–	–	–	–	–	35	4
Other assets	480	543	329	358	–	–	–	–	–	–	151	186
Total	**56,962**	**62,988**	**49,291**	**54,866**	**4,146**	**4,713**	**36**	**2**	**3,054**	**2,928**	**434**	**479**
Equity and liabilities												
Liabilities to banks	11,185	13,177	11,185	13,177	–	–	–	–	–	–	–	–
Liabilities to customers	32,351	34,342	32,272	34,248	–	–	–	–	17	17	62	77
Notes, commercial paper issued	4,099	5,708	4,099	5,708	–	–	–	–	–	–	–	–
Derivative financial instruments	15	52	–	–	4	1	11	51	–	–	–	–
Current tax liabilities	200	312	192	283	–	–	–	–	–	–	8	29
Other liabilities	354	262	157	100	–	–	–	–	–	–	197	162
Subordinated capital	31	35	31	35	–	–	–	–	–	–	–	–
Total	**48,235**	**53,890**	**47,936**	**53,552**	**4**	**1**	**11**	**51**	**17**	**17**	**268**	**269**

The "Credit commitments and financial guarantees" class contains obligations under credit commitments and financial guarantees amounting to €12,164 million (previous year: €14,517 million).

58. Fair Values of Financial Assets and Liabilities

The following table shows the fair values of financial instruments in the classes "measured at amortized cost", "measured at fair value", "derivative financial instruments designated as hedges" and the fair values of receivables from customers relating to the leasing business classified as "not allocated to any measurement category". The fair value is the amount at which financial assets or liabilities could be sold on fair terms as of the reporting date. Where available, Volkswagen Bank GmbH used market prices

without modification for measuring fair value. If no market prices were available, the fair values for loans/receivables and liabilities were calculated by discounting using a maturity-matched discount rate appropriate to the risk. The discount rate was determined by adjusting risk-free yield curves, where appropriate, by relevant risk factors and taking into account capital and administrative costs. For reasons of materiality, the fair values of loans/receivables and liabilities due within one year were deemed to be the same as the carrying amount.

The equity investments included in the "Miscellaneous financial assets" balance sheet item are measured as equity instruments generally at fair value through other comprehensive income in exercise of the fair-value-through-OCI option.

	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
€ million	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	–	–
Derivative financial instruments	15	8	15	8	–	–
Marketable securities	4,131	4,704	4,131	4,704	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	3,543	11,022	3,543	11,022	–	–
Loans to and receivables from banks	233	340	233	340	–	–
Loans to and receivables from customers	44,378	44,068	45,131	43,146	–754	922
Income tax assets	56	–	56	–	–	–
Other assets	329	358	329	358	–	–
Derivative financial instruments designated as hedges	36	2	36	2	–	–
Not allocated to any measurement category						
Lease receivables	2,978	2,863	3,054	2,928	–77	–64
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	4	1	4	1	–	–
Measured at amortized cost						
Liabilities to banks	10,930	13,098	11,185	13,177	–256	–79
Liabilities to customers	31,947	34,386	32,272	34,248	–325	137
Notes, commercial paper issued	4,099	5,708	4,099	5,708	–	–
Income tax liabilities	192	283	192	283	–	–
Other liabilities	157	100	157	100	0	0
Subordinated capital	31	37	31	35	1	2
Derivative financial instruments designated as hedges	11	51	11	51	–	–

The fair value of credit commitments is affected by changes in the credit quality of the borrower and in the market conditions for the relevant credit product between the commitment date and the measurement date. Because of the short period between commitment and drawdown and the variable interest rate tied to the market interest rate, market conditions only have a very minor impact. The fair value of credit commitments was therefore largely influenced by the change in the credit quality of the

borrower, which was determined as part of the process for calculating expected credit losses from credit commitments and reported as a liability in the amount of €88 million (previous year: €54 million) under other liabilities. The fair value of financial guarantees also largely reflects the amount of expected credit losses and was reported as a liability in the amount of €4 million (previous year: €8 million) under other liabilities. Both expected credit losses are disclosed as a consolidated figure in note (61) Default Risk in the "Credit commitments and financial guarantees" class.

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

Percent	EUR	GBP	PLN	SEK	CZK
Interest rate for six months	2.732	4.080	7.277	3.144	7.349
Interest rate for one year	3.027	4.460	7.302	3.331	7.348
Interest rate for five years	3.186	4.082	6.175	3.273	5.195
Interest rate for ten years	3.151	3.752	6.155	3.125	4.765

59. Measurement Levels of Financial Assets and Liabilities

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

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

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

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not directly observable in an active market. The fair values of loans to and receivables from customers measured at amortized cost are largely allocated to Level 3 because these fair values are measured using inputs that are not observable in active markets (see note 58). Securities from ABS transactions of unconsolidated structured entities are also allocated to Level 3. Equity investments measured at fair value through other comprehensive income and using inputs that are not observable in the market are also reported under Level 3. The main inputs used to measure this equity investment are strategic planning and cost of equity rates.

There was no need to reclassify instruments to different hierarchy levels in the reporting period.

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

€ million	LEVEL 1		LEVEL 2		LEVEL 3	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	–	–
Derivative financial instruments	–	–	15	8	–	–
Marketable securities	3,640	4,156	–	–	491	548
Miscellaneous financial assets	–	–	–	–	0	0
Measured at amortized cost						
Cash reserve	3,543	11,022	–	–	–	–
Loans to and receivables from banks	183	252	50	89	–	–
Loans to and receivables from customers	–	–	149	111	44,229	43,957
Current tax assets	–	–	56	–	–	–
Other assets	–	–	329	358	0	–
Assets held for sale (IFRS 5)	–	–	–	–	–	–
Derivative financial instruments designated as hedges	–	–	36	2	–	–
Total[1]	**7,365**	**15,430**	**635**	**568**	**44,720**	**44,506**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	4	1	–	–
Measured at amortized cost						
Liabilities to banks	–	–	10,930	13,098	–	–
Liabilities to customers	–	–	31,947	34,386	–	–
Notes, commercial paper issued	–	–	4,099	5,708	–	–
Current tax liabilities	–	–	192	283	–	–
Other liabilities	–	–	154	98	3	2
Subordinated capital	–	–	31	37	–	–
Derivative financial instruments designated as hedges	–	–	11	51	–	–
Total	**–**	**–**	**47,367**	**53,663**	**3**	**2**

1 As of fiscal year 2022, the receivables from customers relating to the leasing business classified as “Not allocated to any measurement category” are no longer presented, because IFRS 13’s measurement and presentation requirements are not applicable to leasing transactions. The total amount was adjusted accordingly.

The following table shows the changes in marketable securities and miscellaneous financial assets measured at fair value and allocated to Level 3.

€ million	2022	2021
Balance as of Jan. 1	**548**	**517**
Foreign exchange differences	–29	36
Portfolio changes	–	–
Changes in basis of consolidation	0	0
Measured at fair value through profit or loss	–29	–5
Measured at fair value through other comprehensive income	–	–
Balance as of Dec. 31	**491**	**548**

The remeasurements recognized in profit or loss amounting to €29 million (previous year: €5 million) have been reported under net gain or loss on financial instruments measured at fair value. In the year under review, the net remeasurement loss was attributable entirely to securities from ABS transactions of unconsolidated structured entities held as of the reporting date.

The risk variables relevant to the fair value of the loans to and receivables from customers or marketable securities are risk-adjusted interest rates. A sensitivity analysis is used to quantify the impact from changes in risk-adjusted interest rates on profit or loss after tax.

If risk-adjusted interest rates as of December 31, 2022 had been 100 basis points higher, profit after tax would have been €30 million (previous year: €0 million) lower. If risk-adjusted interest rates as of December 31, 2022 had been 100 basis points lower, profit after tax would have been €12 million (previous year: €0 million) higher.

60. Offsetting of Financial Assets and Liabilities

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

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

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

€ million	Gross amount of recognized financial assets/liabilities		Gross amount of recognized financial assets/liabilities offset in the balance sheet		Net amount of financial assets/liabilities reported in the balance sheet		AMOUNTS NOT OFFSET IN THE BALANCE SHEET: Financial Instruments		AMOUNTS NOT OFFSET IN THE BALANCE SHEET: Collateral received/pledged		Net amount	
	Dec. 31, 2022	Dec. 31, 2021	**Dec. 31, 2022**	Dec. 31, 2021	**Dec. 31, 2022**	Dec. 31, 2021	**Dec. 31, 2022**	Dec. 31, 2021	**Dec. 31, 2022**	Dec. 31, 2021	**Dec. 31, 2022**	Dec. 31, 2021
Assets												
Cash reserve	3,543	11,022	–	–	3,543	11,022	–	–	–	–	3,543	11,022
Loans to and receivables from banks	360	340	–127	–	233	340	–	–	–	–	233	340
Loans to and receivables from customers	48,186	46,074	–	–	48,186	46,074	–	–	–	–	48,186	46,074
Derivative financial instruments	87	100	–36	–89	51	10	–14	–3	–37	–7	–	0
Marketable securities	4,131	4,704	–	–	4,131	4,704	–	–	–491	–543	3,640	4,162
Miscellaneous financial assets	0	0	–	–	0	0	–	–	–	–	0	0
Current tax assets	56	–	–	–	56	–	–	–	–	–	56	–
Other assets	329	358	–	–	329	358	–	–	–	–	329	358
Total	**56,691**	**62,598**	**–163**	**–89**	**56,528**	**62,509**	**–14**	**–3**	**–528**	**–550**	**55,985**	**61,956**
Equity and liabilities												
Liabilities to banks	11,185	13,264	–	–87	11,185	13,177	–	–	–1,405	–335	9,781	12,842
Liabilities to customers	32,288	34,265	–	–	32,288	34,265	–	–	–	–	32,288	34,265
Notes, commercial paper issued	4,099	5,708	–	–	4,099	5,708	–	–	–193	–229	3,906	5,480
Derivative financial instruments	178	55	–163	–3	15	52	–14	–3	–	–19	0	30
Income tax liabilities	192	283	–	–	192	283	–	–	–	–	192	283
Other liabilities	157	100	–	–	157	100	–	–	–	–	157	100
Subordinated capital	31	35	–	–	31	35	–	–	–	–	31	35
Total	**48,130**	**53,710**	**–163**	**–89**	**47,967**	**53,621**	**–14**	**–3**	**–1,598**	**–583**	**46,355**	**53,035**

61. Default Risk

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

The maximum default risk is reduced by collateral and other credit enhancements. The collateral held relates to loans to and receivables from banks and customers in the classes “Measured at amortized cost”, “Measured at fair value” and “Not allocated to any measurement category”, and to credit commitments and financial guarantees (off balance sheet). The types of collateral held include vehicles, vehicles pledged as collateral, financial guarantees, marketable securities, cash collateral and charges on real estate.

In the case of financial assets with an objective indication of impairment as of the reporting date, the collateral reduced the risk by €685 million (previous year: €699 million). For financial assets in the “Measured at fair value” class to which the IFRS 9 impairment requirements are not applied, the maximum credit and default risk was reduced by collateral with a value of €523 million (previous year: €550 million).

For financial assets on which impairment losses were recognized during the fiscal year and that are subject to enforcement measures, the contractually outstanding amounts total €6 million (previous year: €7 million).

As a consequence of the international distribution of business activities and the resulting diversification, there are no material concentrations of default risk in individual counterparties or individual markets. Sector concentrations in the dealership business are a natural part of the business for a captive financial services provider in the automotive industry and these concentrations are individually analyzed in the existing risk management processes. The loans and receivables from dealership business subject to the inherent sector concentrations described above are included in the loans to and receivables from customers arising from dealer financing.

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

For qualitative information, please refer to the risk report (Credit Risk section), which forms part of the management report.

PROVISION FOR CREDIT RISKS

Please refer to the provision for credit risks section in note (23) for disclosures on the accounting policies relating to the provision for credit risks.

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

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1,.2022	**127**	**224**	**290**	**33**	**33**	**706**
Exchange differences on translating foreign operations	0	–1	0	0	0	–1
Changes in basis of consolidation	–	–	–	–	–	–
Newly extended/purchased financial assets (additions)	126	–	–	5	0	132
Other changes within a stage	18	11	–17	3	–34	–18
Transfers to						
Stage 1	11	–54	–2	–	–	–44
Stage 2	–25	116	–9	–	–	82
Stage 3	–5	–14	118	–	–	98
Financial instruments derecognized during the period (derecognitions)	–49	–55	–75	–13	0	–193
Utilizations	–	–	–65	–	–2	–67
Model or risk parameter changes	–	–	–	–	–	–
Balance as of Dec. 31, 2022	**204**	**227**	**240**	**28**	**–4**	**695**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1,2021	**182**	**296**	**383**	**57**	**76**	**995**
Exchange differences on translating foreign operations	0	2	0	0	0	2
Changes in basis of consolidation	–	–	–	–	0	–
Newly extended/purchased financial assets (additions)	84	–	–	19	–1	102
Other changes within a stage	–25	–22	11	–15	–17	–68
Transfers to						
Stage 1	9	–59	–4	–	–	–53
Stage 2	–38	114	–10	–	–	66
Stage 3	–5	–20	102	–	–	77
Financial instruments derecognized during the period (derecognitions)	–80	–87	–125	–28	–18	–338
Utilizations	–	–	–68	0	–7	–76
Model or risk parameter changes	0	–1	–	–	–	–1
Balance as of Dec. 31, 2021	**127**	**224**	**290**	**33**	**33**	**706**

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

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount as of Jan. 1, 2022	**33,451**	**18,218**	**811**	**2,757**	**335**	**55,572**
Exchange differences on translating foreign operations	–91	–33	0	–8	0	–132
Changes in basis of consolidation	–	–	–	–	–	–
Changes	6,851	–12,448	–314	499	–42	–5,454
Modifications	0	0	0	–	–	1
Transfers to						
Stage 1	1,780	–1,775	–4	–	–	0
Stage 2	–2,959	2,990	–32	–	–	0
Stage 3	–245	–131	376	–	–	–
Carrying amount as of Dec. 31, 2022	**38,787**	**6,821**	**838**	**3,248**	**293**	**49,986**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount as of Jan. 1, 2021	**35,960**	**16,624**	**974**	**3,247**	**409**	**57,215**
Exchange differences on translating foreign operations	63	79	0	4	0	145
Changes in basis of consolidation	–	–	–	–	–	–
Changes	–1,598	1,196	–819	–494	–74	–1,788
Modifications	0	0	0	–	–	0
Transfers to						
Stage 1	2,155	–2,147	–9	–	–	0
Stage 2	–2,951	3,001	–50	–	–	0
Stage 3	–178	–536	714	–	–	0
Carrying amount as of Dec. 31, 2021	**33,451**	**18,218**	**811**	**2,757**	**335**	**55,572**

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

The undiscounted expected credit losses on the initial recognition of purchased or originated credit-impaired financial assets that were recognized for the first time in the reporting period amounted to €2 million (previous year: €0 million).

The following tables show a reconciliation for the provision for credit risks relating to financial assets measured at fair value through other comprehensive income:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2022	**3**	**3**	**–**	**–**	**–**	**7**
Exchange differences on translating foreign operations	–	–	–	–	–	–
Changes in basis of consolidation	–	–	–	–	–	–
Newly extended/purchased financial assets (additions)	2	–	–	–	–	2
Other changes within a stage	1	1	–	–	–	1
Transfers to						
Stage 1	0	0	–	–	–	0
Stage 2	–2	2	–	–	–	0
Stage 3	–	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	–1	–1	–	–	–	–2
Utilizations	–	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–	–
Balance as of Dec. 31, 2022	**3**	**4**	**–**	**–**	**–**	**8**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2021	**2**	**1**	**–**	**–**	**–**	**3**
Exchange differences on translating foreign operations	–	–	–	–	–	–
Changes in basis of consolidation	–	–	–	–	–	–
Newly extended/purchased financial assets (additions)	1	–	–	–	–	1
Other changes within a stage	1	2	–	–	–	3
Transfers to						
Stage 1	0	0	–	–	–	–
Stage 2	–1	1	–	–	–	–
Stage 3	–	–	–	–	–	–
Financial instruments derecognized during The period (derecognitions)	0	0	–	–	–	0
Utilizations	–	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–	–
Balance as of Dec. 31, 2021	**3**	**3**	**–**	**–**	**–**	**7**

The following tables show a reconciliation of the gross carrying amounts of financial assets measured at fair value through other comprehensive income:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	No provision for credit risks	Total
Carrying amount as of Jan. 1, 2022	**2,226**	**1,931**	**–**	**–**	**–**	**555**	**4,712**
Exchange differences on translating foreign operations	–	–	–	–	–	–28	–28
Changes in basis of consolidation	–	–	–	–	–	–	–
Changes	–444	–68	–	–	–	–24	–537
Modifications	0	–	–	–	–	–	–
Transfers to							
Stage 1	0	0	–	–	–	–	–
Stage 2	–905	905	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–
Carrying amount as of Dec. 31, 2022	**876**	**2,768**	**–**	**–**	**–**	**503**	**4,147**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	No provision for credit risks	Total
Carrying amount as of Jan. 1, 2021	**2,501**	**785**	**–**	**–**	**–**	**537**	**3,822**
Exchange differences on translating foreign operations	0	–	–	–	–	36	36
Changes in basis of consolidation	–	–	–	–	–	–	–
Changes	811	60[1]	–	–	–	–18	853[1]
Modifications	0	0	–	–	–	–	–
Transfers to							
Stage 1	290	–290	–	–	–	–	–
Stage 2	–1,376	1,376	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–
Carrying amount as of Dec. 31, 2021	**2,226**	**1,931[1]**	**–**	**–**	**–**	**555**	**4,712[1]**

1 The previous year figure for the changes at Stage 2 was adjusted from €0 million to €60 million after having not been reported in the prior year due to an editorial oversight. As a result of this correction, €60 million was added to both the Stage 2 carrying amount (which increased from €1,871 million to €1,931 million) and the total carrying amount of financial assets measured at fair value through other comprehensive income (which increased from €4,652 million to €4,712 million) as of December 31, 2021.

The following tables show a reconciliation of the provision for credit risks relating to credit commitments and financial guarantees:

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance as of Jan. 1,2022	**18**	**21**	**19**	**3**	**62**
Exchange differences on translating foreign operations	0	0	0	0	0
Changes in basis of consolidation	–	–	–	–	–
Newly extended/purchased financial assets (additions)	10	–	–	0	10
Other changes within a stage	2	0	0	26	28
Transfers to					
Stage 1	0	–2	–	–	–1
Stage 2	–1	1	–	–	1
Stage 3	0	0	2	–	2
Financial instruments derecognized during the period (derecognitions)	–8	–2	–	0	–10
Utilizations	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–
Balance as of Dec. 31, 2022	**22**	**18**	**22**	**29**	**92**

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance as of Jan. 1,2021	**18**	**19**	**17**	**4**	**58**
Exchange differences on translating foreign operations	0	0	–	0	0
Changes in basis of consolidation	–	–	–	–	–
Newly extended/purchased financial assets (additions)	49	–	–	0	49
Other changes within a stage	–43	2	3	0	–39
Transfers to					
Stage 1	0	0	–	–	0
Stage 2	–1	1	–	–	0
Stage 3	0	0	0	–	0
Financial instruments derecognized during the period (derecognitions)	–5	–1	–	0	–7
Utilizations	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–
Balance as of Dec. 31, 2021	**18**	**21**	**19**	**3**	**62**

The following tables present a reconciliation of default risk exposures arising from credit commitments and financial guarantees:

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Carrying amount as of Jan. 1, 2022	**10,135**	**3,853**	**310**	**218**	**14,517**
Exchange differences on translating foreign operations	–69	–54	0	0	–123
Changes in basis of consolidation	–	–	–	–	–
Changes	–1,923	–314	–3	–4	–2,244
Modifications	–	–	0	0	–
Transfers to					
Stage 1	92	–92	0	–	0
Stage 2	–135	136	–1	–	0
Stage 3	–3	–3	6	–	0
Carrying amount as of Dec. 31, 2022	**8,097**	**3,527**	**312**	**214**	**12,149**

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Carrying amount as of Jan. 1,2021	**8,382**	**2,646**	**281**	**174**	**11,483**
Exchange differences on translating foreign operations	29	41	0	0	70
Changes in basis of consolidation	–	–	–	–	–
Changes	1,753	1,139	28	44	2,964
Modifications	–	–	–	–	–
Transfers to					
Stage 1	115	–115	0	–	0
Stage 2	–142	142	0	–	0
Stage 3	–1	0	1	–	–
Carrying amount as of Dec. 31, 2021	**10,135**	**3,853**	**310**	**218**	**14,517**

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

€ million	SIMPLIFIED APPROACH	
	2022	2021
Balance as of Jan. 1	**103**	**122**
Exchange differences on translating foreign operations	–	–
Changes in basis of consolidation	–	–
Newly extended/purchased financial assets (additions)	13	21
Other changes within a stage	30	–1
Financial instruments derecognized during the period (derecognitions)	–19	–26
Utilizations	–8	–7
Model or risk parameter changes	–	–6
Balance as of Dec. 31	**120**	**103**

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

€ million	SIMPLIFIED APPROACH	
	2022	2021
Carrying amount as of Jan. 1	**3,031**	**2,937**
Exchange differences on translating foreign operations	–	–
Changes in basis of consolidation	–	–
Changes	143	94
Modifications	–	–
Carrying amount as of Dec. 31	**3,174**	**3,031**

MODIFICATIONS

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

In the case of financial assets for which the provision for credit risks was determined in the amount of the lifetime expected credit losses, the amortized cost before contractual modifications amounted to €395 million (previous year: €22 million). In the reporting period, the contractual modifications of these financial assets gave rise to an overall net expense of €1 million (previous year: €1 million). In the case of trade receivables and lease receivables, which are all included in the simplified approach, the only modifications that are taken into account are those in which the underlying receivables are more than 30 days past due.

At the reporting date, the gross carrying amount of financial assets that had been modified since initial recognition and that, in the reporting period, had also been transferred from Stage 2 or Stage 3 to Stage 1 amounted to €310 million (previous year: €2 million). As a consequence, the measurement of the

provision for credit risks for these financial assets was switched from the lifetime expected credit loss to a twelve-month expected credit loss.

MAXIMUM CREDIT RISK

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

€ million	Dec. 31, 2022	Dec. 31, 2021
Financial assets measured at fair value	3,630	4,144
Financial assets measured at amortized cost	49,291	54,866
Financial guarantees and credit commitments	12,058	14,454
Not allocated to any measurement category	3,054	2,928
Total	**68,034**	**76,392**

The assets disclosed as belonging to the class “Financial assets measured at fair value” are allocated to the measurement category “Financial assets measured at fair value through other comprehensive income (debt instruments)”.

The maximum credit risk associated with the financial guarantees in accordance with IFRS 7.B10 amounts to €294 million (previous year: €268 million).

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

€ million	Dec. 31, 2022	Dec. 31, 2021
Vehicles	91	47
Real estate	–	–
Other movable assets	–	–
Total	**91**	**47**

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

DEFAULT RISK RATING CLASSES

The Volkswagen Bank GmbH Group uses internal risk management and control systems to evaluate the credit quality of the borrower before entering into any lending contract or lease. In the retail business, this evaluation is carried out by using scoring systems, whereas rating systems are used for fleet customers and dealer financing transactions. The results of the evaluation are allocated to a master scale based on the probability of default as the relevant criterion. The 16 risk classes in the master scale represent the default risk rating classes and are each defined according to the probabilities of default shown below.

In addition, the gross carrying amounts of the financial assets are broken down into three default risk categories so that default risk exposures can be presented on a uniform basis throughout the Group. Loans and receivables for which the credit quality is classified as "good" are allocated to default risk category 1. Loans to and receivables from customers whose credit quality has not been classified as "good" but who have not yet defaulted are included under default risk category 2. Accordingly, all loans and receivables in default are allocated to default risk category 3.

The following table shows the gross carrying amounts of financial assets by default risk category and by default risk rating class:

FISCAL YEAR 2022

€ million	Default risk rating classes	Probability of default (>=)	Probability of default (<)	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
	1	0.00%	0.06%	863	–	–	219	–
	2	0.06%	0.09%	288	0	–	144	0
	3	0.09%	0.15%	361	3	–	256	0
	4	0.15%	0.23%	914	47	–	192	0
	5	0.23%	0.36%	1,943	244	–	351	0
	6	0.36%	0.56%	4,506	501	–	877	2
	7	0.56%	0.88%	7,950	566	–	1,567	14
	8	0.88%	1.37%	7,609	1,323	–	842	14
	9	1.37%	2.14%	4,875	1,021	–	510	2
	10	2.14%	3.35%	2,594	908	–	518	3
	11	3.35%	5.23%	732	1,094	–	342	3
Default risk category 1 (loans/receivables not at risk of default – normal loans)	12	5.23%	8.18%	3,781	2,165	–	55	50
	13	8.18%	12.79%	540	554	–	120	3
	14	12.79%	20.00%	74	360	–	123	12
Default risk category 2 (loans/receivables at risk of default – loans with intensified loan management)	15	20.00%	100.00%	24	804	–	98	18
Default risk category 3 (loans/receivables in default – nonperforming loans)	D	100.00%	100.00%	–	–	838	208	172
Total				**37,053**	**9,589**	**838**	**6,422**	**293**

FISCAL YEAR 2021

€ million	Default risk rating classes	Probability of default (>=)	Probability of default (<)	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
	1	0.00%	0.06%	1,098	0	–	141	–
	2	0.06%	0.09%	114	0	–	140	0
	3	0.09%	0.15%	99	0	–	59	0
	4	0.15%	0.23%	465	11	–	195	0
	5	0.23%	0.36%	1,473	154	–	304	1
	6	0.36%	0.56%	6,342	84	–	418	0
	7	0.56%	0.88%	8,390	252	–	1,346	1
	8	0.88%	1.37%	8,195	937	–	1,057	1
	9	1.37%	2.14%	5,042	1,394	–	716	17
	10	2.14%	3.35%	2,679	1,142	–	582	7
	11	3.35%	5.23%	738	11,889	–	339	8
Default risk category 1 (loans/receivables not at risk of default – normal loans)	12	5.23%	8.18%	717	2,552	–	43	58
	13	8.18%	12.79%	134	613	–	139	5
	14	12.79%	20.00%	51	223	–	71	2
Default risk category 2 (loans/receivables at risk of default – loans with intensified loan management)	15	20.00%	100.00%	139	898	–	91	31
Default risk category 3 (loans/receivables in default – nonperforming loans)	D	100.00%	100.00%	–	–	811	149	204
Total				**35,677**	**20,149**	**811**	**5,788**	**335**

The following tables show the default risk exposures for credit commitments and financial guarantees by default risk rating class:

FISCAL YEAR 2022

€ million	Default risk rating classes	Probability of default (>=)	Probability of default (<)	Stage 1	Stage 2	Stage 3	Stage 4
	1	0.00%	0.06%	162	9	–	–
	2	0.06%	0.09%	466	52	–	0
	3	0.09%	0.15%	476	215	–	0
	4	0.15%	0.23%	717	15	–	9
	5	0.23%	0.36%	1,086	175	–	7
	6	0.36%	0.56%	1,106	455	–	10
	7	0.56%	0.88%	2,075	354	–	32
	8	0.88%	1.37%	717	409	–	18
	9	1.37%	2.14%	352	279	–	2
Default risk category 1 (loans/receivables not at risk of default – normal loans)	10	2.14%	3.35%	346	478	–	3
	11	3.35%	5.23%	244	131	–	2
	12	5.23%	8.18%	122	282	–	4
Default risk category 2 (loans/receivables at risk of default – loans with intensified loan management)	13	8.18%	12.79%	50	269	–	0
	14	12.79%	20.00%	36	321	–	8
	15	20.00%	100.00%	4	82	–	0
Default risk category 3 (loans/receivables in default – nonperforming loans)	D	100.00%	100.00%	–	–	312	118
Total				**7,960**	**3,527**	**312**	**214**

FISCAL YEAR 2021

€ million	Default risk rating classes	Probability of default (>=)	Probability of default (<)	Stage 1	Stage 2	Stage 3	Stage 4
	1	0.00%	0.06%	102	23	–	–
	2	0.06%	0.09%	328	47	–	0
	3	0.09%	0.15%	397	97	–	1
	4	0.15%	0.23%	619	275	–	0
	5	0.23%	0.36%	1,353	130	–	94
	6	0.36%	0.56%	1,107	210	–	0
	7	0.56%	0.88%	2,365	263	–	1
	8	0.88%	1.37%	1,411	255	–	3
	9	1.37%	2.14%	603	704	–	9
Default risk category 1 (loans/receivables not at risk of default – normal loans)	10	2.14%	3.35%	1,056	643	–	7
	11	3.35%	5.23%	492	153	–	12
	12	5.23%	8.18%	165	229	–	1
Default risk category 2 (loans/receivables at risk of default – loans with intensified loan management)	13	8.18%	12.79%	85	337	–	2
	14	12.79%	20.00%	34	185	–	1
	15	20.00%	100.00%	17	303	–	12
Default risk category 3 (loans/receivables in default – nonperforming loans)	D	100.00%	100.00%	–	–	310	76
Total				**10,135**	**3,853**	**310**	**218**

62. Liquidity Risk

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

Further details on the funding and hedging strategy can be found in the Report on Economic Position in the “Liquidity Analysis” (pages 20-21) and “Refinancing” (pages 21-22) sections and in the risk report within the disclosures on the “Interest Rate Risk in the Banking Book (IRRBB)” (pages 47-48) and the “Liquidity Risk” (pages 49-50) in the management report.

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

€ million	ASSETS		REPAYABLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Cash reserve	3,543	11,022	3,543	11,022	–	–	–	–	–	–	–	–
Loans to and receivables from banks	233	340	183	252	50	89	–	–	–	–	–	–
Marketable securities	3,630	4,144	–	–	3,630	4,144	–	–	–	–	–	–
Total	**7,406**	**15,506**	**3,726**	**11,274**	**3,680**	**4,233**	**–**	**–**	**–**	**–**	**–**	**–**

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

€ million	Cash outflows		REMAINING CONTRACTUAL MATURITIES							
			up to 3 months		3 months to 1 year		1 to 5 years		more than 5 years	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Liabilities to banks	11,622	13,182	122	18	1,537	24	9,909	13,082	53	58
Liabilities to customers	32,311	34,269	29,071	31,307	569	370	1,687	1,583	984	1,009
Notes, commercial paper issued	4,447	5,855	370	148	882	1,605	3,195	4,101	–	–
Derivative financial instruments	3,075	2,693	206	0	2,122	2,484	748	209	–	–
Other liabilities	157	100	50	25	102	66	3	7	1	1
Subordinated capital	32	37	–	4	21	1	11	32	–	–
Credit commitments	11,856	14,249	7,497	7,674	4,359	6,525	–	0	–	50
Total	**63,499**	**70,384**	**37,315**	**39,176**	**9,593**	**11,075**	**15,552**	**19,014**	**1,039**	**1,119**

Financial guarantees with a maximum possible drawdown of €294 million (previous year: €268 million) are always assumed to be payable on demand.

A notable important source of funding for the reporting year and for the subsequent year is Volkswagen Bank GmbH's participation in Deutsche Bundesbank's third series of longer-term refinancing operations.

63. Market Risk

For qualitative information, please refer to the risk report within the disclosures on "Interest Rate Risk in the Banking Book (IRRBB)" (pages 47-48) and "Other Market Risk (Currency and Fund Price Risk)" (page 48) in the management report.

For quantitative risk measurement, interest rate and foreign currency risk are measured using a value-at-risk (VaR) model on the basis of a historical simulation. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 60 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from non-derivative and

derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in determining value at risk covers a period of four years.

This approach has produced the following values:

€ million	Dec. 31, 2022	Dec. 31, 2021
Interest rate risk	197	14
Currency translation risk	1	1
Total market risk[1]	**197**	**15**

1 As a result of correlation effects, the total market risk is not identical to the sum of the individual risks.

64. Hedging Policy Disclosures

HEDGING POLICY AND FINANCIAL DERIVATIVES

Given its international financial activities, the Volkswagen Bank GmbH Group is exposed to fluctuations in interest rates and foreign exchange rates on the international money and capital markets. The general rules governing the Group-wide currency and interest rate hedging policy are specified in internal Group guidelines and satisfy the Minimum Requirements for Risk Management (MaRisk – *Mindestanforderungen an das Risikomanagement*) issued by the German Federal Financial Supervisory Authority (BaFin). The partners used by the Group when entering into appropriate financial transactions are national and international banks with strong credit ratings whose credit quality is continuously monitored by leading rating agencies. The Group enters into suitable hedging transactions to limit currency and interest rate risks. Regular derivative financial instruments are used for this purpose.

MARKET RISK

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

Interest Rate Risk

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

The hedging contracts entered into by the Group mainly comprise interest rate swaps and cross-currency interest rate swaps. Fair value hedges and cash flow hedges are used at micro level to hedge interest rate risk. Fixed-income assets and liabilities included in micro fair value hedges are recognized at fair value rather than at amortized cost, the method used in their original subsequent measurement. The resulting effects in the income statement are generally offset by the opposite effects from the corresponding gains and losses on the interest rate hedging instruments (swaps).

Currency Risk

The Volkswagen Bank GmbH Group avoids currency risk by entering into currency hedging contracts, which may be currency forwards, cross-currency swaps or cross-currency interest rate swaps. Generally speaking, all cash flows in foreign currency are hedged.

DESCRIPTION OF HEDGES AND METHODOLOGIES FOR MONITORING HEDGE EFFECTIVENESS

If possible, the hedge strategy aims to recognize hedges for suitable underlying transactions (hedged items) on an individual basis. The vast majority of hedged items are assets or liabilities on the balance sheet. Future transactions are only used as hedged items in exceptional cases. The volume represented by the hedging instruments is generally the same as the volume represented by the designated hedged items.

In the Volkswagen Bank GmbH Group, hedges to which micro-hedge accounting is applied are normally held to maturity. Individual risk components are not separated out and designated for the purposes of hedge accounting.

Hedge effectiveness in the Volkswagen Bank GmbH is generally measured prospectively using the critical terms match method. Hedge effectiveness is analyzed retrospectively by testing for ineffectiveness using the dollar offset method. The dollar offset method compares the changes in the value of the hedged item expressed in monetary units with the changes in the value of the hedging instrument expressed in monetary units.

Hedge ineffectiveness in micro-hedge accounting results from differences between the mark-to-market (fair value) measurement of hedged items and that of hedging instruments. Individual yield curves are used when determining forward interest rates and prices and also when discounting future cash flows for hedged items and hedging instruments in order to obtain a measurement in line with the market. Other factors (e.g. in relation to counterparty risk) are only of minor significance as regards hedge ineffectiveness.

DISCLOSURES ON GAINS AND LOSSES FROM FAIR VALUE HEDGES

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

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

€ million	2022	2021
Interest rate risk hedging	–10	3
Currency risk hedging	–8	–31
Combined interest rate and currency risk hedging	–	–

DISCLOSURES ON GAINS AND LOSSES FROM CASH FLOW HEDGES

Cash flow hedges are recognized with the aim of hedging risks arising from changes in future cash flows. These cash flows can arise from a recognized asset or a recognized liability.

The following table covering gains and losses from cash flow hedges shows the gains and losses on hedges recognized in other comprehensive income, the hedge ineffectiveness recognized under net gain or loss on hedges and the gains or losses arising from the reclassification of cash flow hedge reserves recognized under net gain or loss on hedges:

€ million	2022	2021
Interest rate risk hedging		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	–	–
Recognized in profit or loss	0	1
Reclassifications from the cash flow hedge reserve to profit or loss		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	0	–1
Currency risk hedging		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	15	1
Recognized in profit or loss	2	–3
Reclassifications from the cash flow hedge reserve to profit or loss		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	–22	–1
Combined interest rate and currency risk hedging		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	–	–
Recognized in profit or loss	–	0
Reclassifications from the cash flow hedge reserve to profit or loss		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	–	0

In the table, effects recognized directly in equity are presented net of deferred taxes.

The gain or loss from changes in the fair value of hedges within hedge accounting equates to the basis for determining hedge ineffectiveness. Those gains or losses on changes in the fair value of hedging instruments that exceed the changes in the fair value of the hedged items constitute the ineffective portion of cash flow hedges. This ineffectiveness within a hedge arises as a result of differences in the parameters applicable to the hedging instrument and the hedged item. These gains or losses are recognized immediately under the gain or loss on hedges.

NOTIONAL AMOUNTS OF DERIVATIVE FINANCIAL INSTRUMENTS

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

FISCAL YEAR 2022

€ million	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
	Up to 1 year	1 to 5 years	more than 5 years	Dec. 31, 2022
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	750	3,000	–	3,750
Currency risk hedging				
Currency forwards/cross-currency swaps GBP	1,682	514	–	2,196
Currency forwards/cross-currency swaps CZK	–	–	–	–
Currency forwards/cross-currency swaps PLN	305	137	–	442
Currency forwards, other currencies	–	–	–	–
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps, other foreign currencies	–	–	–	–
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	370	2,500	–	2,870
Currency risk hedging				
Currency forwards/cross-currency swaps	–	–	–	–
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps, other foreign currencies	201	–	–	201

In the year under review, the average exchange rates used in the measurement of currency hedges were as follows for currencies with significant notional amounts:
PLN 4.6747 (cash flow hedge) and 4.7154 (fair value hedge), GBP 0.8755 (cash flow hedge) and 0.8702 (fair value hedge).

The average interest rate used for cross-currency interest rate swaps (cash flow hedges) in the year under review was 4.481% for PLN (previous year: 4.4999%).

FISCAL YEAR 2021

€ million	RESIDUAL MATURITY Up to 1 year	1 to 5 years	more than 5 years	TOTAL NOTIONAL AMOUNT Dec. 31, 2021
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	500	3,750	–	4,250
Currency risk hedging				
Currency forwards/cross-currency swaps GBP	2,126	–	–	2,126
Currency forwards/cross-currency swaps CZK	30	–	–	30
Currency forwards, other currencies	158	–	–	158
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps, other foreign currencies	–	–	–	–
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	4,240	401	–	4,641
Currency risk hedging				
Currency forwards/cross-currency swaps	–	–	–	–
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps, other foreign currencies	138	205	–	343

In the previous year, the average exchange rates used in the measurement of currency hedges were as follows for currencies with significant notional amounts: CZK 25.44 (cash flow hedge) and 25.8157 (fair value hedge), GBP 0.8548 (cash flow hedge) and 0.8567 (fair value hedge), PLN 4.5180 (cash flow hedge).

The average exchange rates used in the measurement of interest rate/currency hedges in the previous year were as follows for the following currencies with significant nominal amounts: PLN 4.4999 (cash flow hedge).

The timings of the future payments for the hedged items in the cash flow hedges match the maturities of the hedging instruments.

As of the reporting date and the prior-year reporting date, none of the cash flow hedges recognized involved a hedged item whose underlying transaction was no longer expected to occur in the future.

DISCLOSURES ON HEDGING INSTRUMENTS USED IN HEDGE ACCOUNTING

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

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

FISCAL YEAR 2022

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	3,750	–	5	–188
Currency risk hedging				
Currency forwards and option contracts, cross-currency swaps	1,919	34	2	32
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	–	–	–	–

FISCAL YEAR 2021

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	4,250	1	–	63
Currency risk hedging				
Currency forwards and option contracts, cross-currency swaps	2,208	–	51	–51
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	–	–	–	–

The Volkswagen Bank GmbH Group also uses hedging instruments to hedge the risk arising from changes in future cash flows.

The following tables set out the notional amounts, fair values and changes in fair value to determine ineffectiveness in hedging instruments used in cash flow hedges:

FISCAL YEAR 2022

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	–	–	–	–
Currency risk hedging				
Currency forwards/cross-currency swaps	718	2	3	0
Currency option contracts	–	–	–	–
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	–	–	–	–

FISCAL YEAR 2021

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	–	–	–	–
Currency risk hedging				
Currency forwards/cross-currency swaps	106	2	0	2
Currency option contracts	–	–	–	–
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	–	–	–	–

The change in fair value used to determine ineffectiveness equates to the change in the fair value of the designated components of the hedging instruments.

DISCLOSURES ON HEDGED ITEMS TO WHICH HEDGE ACCOUNTING IS APPLIED

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

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

FISCAL YEAR 2022

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/ fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	3,573	–177	–235	–
Subordinated capital	–	–	–	–
Currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–
Combined interest rate and currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–

FISCAL YEAR 2021

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/ fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	4,309	59	–69	–
Subordinated capital	–	–	–	–
Currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	76	4	4	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–
Combined interest rate and currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–

The following tables present the hedged items hedged in cash flow hedges:

FISCAL YEAR 2022

€ million	Fair value change to determine ineffectiveness	RESERVE FOR Existing cash flow hedges	Terminated cash flow hedges
Interest rate risk hedging			
Designated components	–	–	–
Deferred taxes	–	–	–
Total interest rate risk	–	–	–
Currency risk hedging			
Designated components	–1	–9	–
Non-designated components	–	–	–
Deferred taxes	–	3	–
Total hedging currency risk	–1	–7	–
Combined interest rate and currency risk hedging			
Designated components components	–	–	–
Deferred taxes	–	0	–
Total combined interest rate and currency risk	–	–	–

FISCAL YEAR 2021

€ million	Fair value change to determine ineffectiveness	RESERVE FOR Existing cash flow hedges	Terminated cash flow hedges
Interest rate risk hedging			
Designated components	–	–	–
Deferred taxes	–	–	–
Total interest rate risk	–	–	–
Currency risk hedging			
Designated components	2	0	–
Non-designated components	–	–	–
Deferred taxes	–	0	–
Total hedging currency risk	2	0	–
Combined interest rate and currency risk hedging			
Designated components components	–	–	–
Deferred taxes	–	–	–
Total combined interest rate and currency risk	–	–	–

CHANGES IN THE CASH FLOW HEDGE RESERVE

In the accounting treatment of cash flow hedges, the designated effective portion of a hedge is reported in other comprehensive income (in “OCI I”). All changes in the fair value of hedging instruments in excess of the effective portion are reported in profit or loss as hedge ineffectiveness.

The following tables show a reconciliation for the cash flow hedge reserve (OCI I):

€ million	Interest rate risk	Currency risk	Combined interest rate and currency risk	Total
Balance as of Jan. 1,2022	**–**	**0**	**–**	**0**
Gains or losses from effective hedges	–	15	–	15
Reclassification due to changes in whether the hedged item is expected to occur	–	–	–	–
Reclassifications resulting from the recovery of the hedged item	–	–22	–	–22
Balance as of Dec. 31,2022	**–**	**–7**	**–**	**–7**

€ million	Interest rate risk	Currency risk	Combined interest rate and currency risk	Total
Balance as of Jan. 1,2021	**1**	**0**	**0**	**1**
Gains or losses from effective hedges	–	1	–	1
Reclassification due to changes in whether the hedged item is expected to occur	–	–	–	–
Reclassifications resulting from the recovery of the hedged item	–1	–1	0	–2
Balance as of Dec. 31,2021	**–**	**0**	**–**	**0**

The changes in the fair value of non-designated forward components in currency forwards and in currency hedging within cash flow hedges are initially reported in other comprehensive income (hedging costs) in the Volkswagen Bank GmbH Group. Therefore, changes in the fair value of non-designated components (or parts thereof) are reported immediately in profit or loss only if they relate to ineffective portions of the hedge.

As in the previous year, there were no changes in the hedging costs reserve arising from the non-designated components of currency hedges.

LIQUIDITY RISK / FUNDING RISK

The Volkswagen Bank GmbH Group takes precautions to minimize the risk from any potential liquidity squeeze by holding credit lines with Volkswagen AG and by using several debt issuance programs with multicurrency capability. It also holds marketable securities from public-sector issuers that are readily marketable and can be deposited with central banks, and can thus be used to help safeguard liquidity.

Segment Reporting

65. Breakdown by Geographical Market

The presentation of the reportable segments within the meaning of IFRS 8 is based on the internal control and reporting structure of the Volkswagen Bank GmbH Group and is broken down according to the geographical markets in which the Volkswagen Bank GmbH Group operates.

Accordingly, the reportable segments are as follows: Germany, Italy, Spain, France and Other; the branches in the Netherlands, Greece, the United Kingdom, Portugal and Poland are reported on in the "Other" segment. The operating result is reported as the primary key performance indicator to the chief operating decision-makers. The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting.

All business transactions between the segments – where such transactions take place – are conducted on an arm's-length basis.

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

FISCAL YEAR 2022

	JAN. 1 – DEC. 31,2022						
€ million	Germany	Italy	Spain	France	Other	Consoli-dation	Total
Interest income from lending transactions and marketable securities in respect of third parties	718	227	182	47	184	–	1,358
Intersegment interest income from lending transactions and marketable securities	176	0	0	0	0	–176	–
Income from leasing transactions with third parties	–	–	0	1,145	4	–	1,149
of which impairment losses in accordance with IAS 36	–	–	–	0	–	–	0
Intersegment income from leasing transactions	–	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–	–	–	–837	–1	–	–838
of which impairment losses in accordance with IAS 36	–	–	–	–19	–	–	–19
Net income from leasing transactions	–	–	0	307	4	–	311
Interest expense	–207	–39	–26	–41	–78	176	–216
Income from service contracts with third parties	0	–	–	79	–	–	79
of which period-related income	0	–	–	–	–	–	0
of which income related to a point in time	–	–	–	79	–	–	79
Expenses from service contracts	0	–	–	–86	–	–	–86
Net income from service contracts	0	–	–	–7	–	–	–7
Provision for credit risks	–64	–18	0	–57	9	–2	–133
Fee and commission income from third parties	30	12	40	39	29	–	150
Fee and commission expenses	12	–14	–17	–17	–10	–	–46
Net fee and commission income	42	–2	23	22	19	–	104
Net gain or loss on hedges	–15	–	–	–	–	–1	–16
Net gain or loss on financial instruments measured at fair value	–202	–	0	–	–29	243	12
General and administrative expenses	–506	–43	–59	–127	–51	1	–785
Other operating income	138	5	16	8	4	–1	169
Other operating expenses	–8	–2	–19	–3	–2	–2	–36
Net other operating income/expenses	130	3	–4	5	1	–3	132
Operating result	**71**	**128**	**116**	**149**	**59**	**238**	**761**

FISCAL YEAR 2021

€ million	Germany	Italy	Spain	France	Other	Consoli-dation	Total
	JAN. 1 – DEC. 31,2021						
Interest income from lending transactions and marketable securities in respect of third parties	792	226	197	36	127	–	1,377
Intersegment interest income from lending transactions and marketable securities	93	0	0	–	–	–93	–
Income from leasing transactions with third parties	–	–	0	1,148	3	–	1,152
of which impairment losses in accordance with IAS 36	–	–	–	8	–	–	8
Intersegment income from leasing transactions	–	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–	–	–	–882	–1	–	–883
of which impairment losses in accordance with IAS 36	–	–	–	–20	–	–	–20
Net income from leasing transactions	–	–	0	267	2	–	269
Interest expense	–130	–31	–20	–27	–18	93	–134
Income from service contracts with third parties	1	–	–	59	–	–	60
of which period-related income	1	–	–	–	–	–	1
of which income related to a point in time	–	–	–	59	–	–	59
Expenses from service contracts	–1	–	–	–56	–	–	–57
Net income from service contracts	0	–	–	3	–	–	3
Provision for credit risks	103	11	–4	23	40	6	178
Fee and commission income from third parties	29	23	44	40	25	–	160
Fee and commission expenses	26	–18	–23	–13	–17	–	–44
Net fee and commission income	55	5	21	27	8	–	116
Net gain or loss on hedges	–33	–	1	–	–	1	–30
Net gain or loss on financial instruments measured at fair value	–30	0	–2	–	–5	44	7
General and administrative expenses	–523	–47	–55	–130	–54	2	–808
Other operating income	46	167	18	8	3	–2	242
Other operating expenses	–35	–2	–18	–4	–18	–7	–84
Net other operating income/expenses	11	166	0	4	–15	–9	158
Operating result	**338**	**329**	**139**	**202**	**85**	**44**	**1,137**

The reported impairment losses and reversals of impairment losses in accordance with IAS 36 related to lease assets.

The breakdown of “Income from service contracts with third parties” into “of which over-time income” and “of which at a point in time income” described in the “Net income from service contracts” note has been carried over to the tables above.

Information on the main products can be taken directly from the income statement.

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

€ million	DEC. 31, 2022						
	Germany	Italy	Spain	France	Other	Consolidation	Total
Noncurrent assets	251	4	4	2,687	7	–	2,953
Additions to noncurrent lease assets	–	–	–	1,307	–	–	1,307

€ million	DEC. 31, 2021						
	Germany	Italy	Spain	France	Other	Consolidation	Total
Noncurrent assets	288	5	4	2,249	10	–	2,556
Additions to noncurrent lease assets	–	–	–	1,198	–	–	1,198

Investment recognized under other assets was of minor significance.

The following table shows the reconciliation to consolidated revenue, consolidated operating result and consolidated profit before tax.

€ million	2022	2021
Segment revenue	**2,912**	**2,843**
Other companies	–	–
Consolidation	–176	–93
Group revenue	**2,736**	**2,750**
Segment profit or loss (operating result)	**523**	**1,093**
Other companies	–	–
Consolidation	238	44
Operating result	**761**	**1,137**
Share of profits and losses of equity-accounted joint ventures	14	30
Net gain or loss on miscellaneous financial assets	–60	–26
Other financial gains or losses	37	–34
Profit before tax	**752**	**1,107**

Other Disclosures

66. Leases

LESSOR ACCOUNTING FOR FINANCE LEASES

In the reporting year, interest income from the net investment in the lease amounting to €116 million (previous year: €127 million) was generated from finance leases. There was no income from variable lease payments that was not taken into account in the measurement of the net investment in the lease where finance leases were concerned.

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

€ million	Dec. 31,2022	Dec. 31,2021
Non-discounted lease payments	3,190	3,053
Non-guaranteed residual value	0	0
Unearned interest income	–46	–46
Loss allowance on lease receivables	–100	–90
Other	–	–
Net investment	**3,044**	**2,917**

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

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

€ million	2023	2024	2025	2026	2027	From 2028	Total
Lease payments	1,200	788	585	390	200	27	3,190

In the previous year, the following payments were anticipated over the subsequent years from expected, outstanding, non-discounted lease payments under finance leases.

€ million	2022	2023	2024	2025	2026	From 2027	Total
Lease payments	1,124	746	571	384	205	22	3,053

LESSOR ACCOUNTING FOR OPERATING LEASES

Income generated from operating leases is included in the income from leasing transactions and other operating income line items in the income statement. The following table shows a breakdown between income from leases without variable lease payments and income from leases with variable lease payments.

€ million	2022	2021
Lease income	505	424
Income from variable lease payments	–	–
Total	**505**	**424**

The impairment losses recognized as a result of the impairment test on lease assets amounted to €19 million (previous year: €20 million) and are included in the depreciation, impairment losses and other expenses from leasing transactions. Impairment losses are based on continuously updated internal and external information, which is then fed into the forecasts of residual values for vehicles.

Income from reversals of impairment losses on lease assets applied in prior years amounted to €0 million (previous year: €8 million) and is included in income from leasing transactions.

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

€ million	Movable lease assets
Cost as of Jan. 1,2022	**2,959**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions	1,307
Reclassifications	–
Disposals	770
Balance as of Dec. 31, 2022	**3,495**
Amortization and impairment losses as of Jan. 1, 2022	**723**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions to cumulative depreciation	410
Additions to cumulative impairment losses	19
Reclassifications	–
Disposals	334
Reversal of impairment losses	0
Balance as of Dec. 31, 2022	**818**
Net carrying amount as of Dec. 31, 2022	**2,677**
Net carrying amount as of Jan. 1, 2022	**2,236**

In the case of subleases that are classified as operating leases, right-of-use assets recognized in connection with buyback transactions are reported, from the perspective of the Volkswagen Bank GmbH

Group as lessor, under lease assets in the balance sheet and in the reconciliation showing the changes in movable lease assets.
In the reporting year, the outstanding, undiscounted lease payments from operating leases expected for subsequent years were as follows:

€ million	2023	2024	2025	2026	2027	From 2028	Total
Lease payments	371	85	85	92	95	16	744

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

€ million	Movable lease assets
Cost as of Jan. 1,2021	**2,438**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions	1,198
Reclassifications	–
Disposals	676
Balance as of Dec. 31, 2021	**2,959**
Amortization and impairment losses as of Jan. 1, 2021	**649**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions to cumulative depreciation	430
Additions to cumulative impairment losses	20
Reclassifications	–
Disposals	369
Reversal of impairment losses	8
Balance as of Dec. 31, 2021	**723**
Net carrying amount as of Dec. 31, 2021	**2,236**
Net carrying amount as of Jan. 1, 2021	**1,788**

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

€ million	2022	2023	2024	2025	2026	From 2027	Total
Lease payments	318	73	75	81	84	17	647

LESSEE ACCOUNTING

The Volkswagen Bank GmbH Group is a party to leases as a lessee in various aspects of the business. These leases mainly involve the leasing of land and buildings and operating and office equipment.

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

No right-of-use assets are recognized for short-term leases or leases in which the underlying asset is of low value.

In the reporting year, expenses for leases in which the underlying assets are of low value amounted to €2 million (previous year: €3 million). In the reporting year, expenses for short-term leases amounted to €1 million (previous year: €3 million). There were no variable lease expenses in the reporting year or in the previous year that were not taken into account in the measurement of the lease liabilities.

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

€ million	Right of use on land, land rights and buildings incl. buildings on third party land	Right of use on other equipment, operational and office equipment	Total
Gross carrying amount (or cost)			
Balance as of Jan. 1, 2022	**22**	**1**	**23**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions	–	4	4
Reclassifications	–	–	–
Disposals	–	0	–
Balance as of Dec. 31, 2022	**22**	**5**	**27**
Depreciation and impairment losses as of Jan. 1, 2022	**6**	**1**	**7**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions to cumulative amortization	2	2	4
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Disposals	0	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2022	**8**	**3**	**11**
Net carrying amount as of Dec. 31, 2022	**13**	**3**	**16**

€ million	Right of use on land, land rights and buildings incl. buildings on third party land	Right of use on other equipment, operational and office equipment	Total
Gross carrying amount (or cost)			
Balance as of Jan. 1, 2021	**22**	**1**	**22**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions	–	0	0
Reclassifications	–	–	–
Disposals	0	0	0
Balance as of Dec. 31, 2021	**22**	**1**	**23**
Depreciation and impairment losses as of Jan. 1, 2021	**4**	**0**	**4**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions to cumulative amortization	2	0	3
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Disposals	0	0	0
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2021	**6**	**1**	**7**
Net carrying amount as of Dec. 31, 2021	**15**	**0**	**16**

When assessing the lease term underlying a lease liability, the Volkswagen Bank GmbH Group makes a best estimate as to whether an extension option will be exercised or a termination option will not be exercised. In the event of a material change in the general parameters used for this estimate or a modification of the lease, this estimate is updated.

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

	REMAINING CONTRACTUAL MATURITIES			
€ million	Up to 1 year	1 – 5 years	more than 5 years	Total
Lease liabilities as of Dec. 31, 2022	5	9	6	19
Lease liabilities as of Dec. 31, 2021	3	9	8	20

Overall, leases in which the Volkswagen Bank GmbH Group is a lessee gave rise to total cash outflows of €0 million (previous year restated: €0 million) in the reporting year.

The following table shows an overview of the potential future cash outflows that have not been included in the measurement of the lease liabilities.

€ million	2022	2021
Future cash outflows to which the lessee is potentially exposed		
Variable lease payments	–	–
Residual value guarantees	–	–
Extension options	2	2
Termination options	0	–
Obligations under leases not yet commenced (contractual obligations)	–	–
Total	**2**	**2**

67. Cash Flow Statement

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

The narrow definition of cash and cash equivalents comprises the cash reserve, which mainly consists of credit balances at Deutsche Bundesbank.

The changes in the balance sheet items used to determine the changes in the cash flow statement cannot be derived directly from the balance sheet because effects from the changes in the basis of consolidation have no impact on cash and are eliminated.

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

			NONCASH TRANSACTIONS			
€ million	Balance as of Jan. 1,2022	Cash changes	Exchange rate changes	Changes in basis of consolidation	Measurement changes	Balance as of Dec. 31,2022
Subordinated capital	35	–5	–	–	–	31

€ million	Balance as of Jan. 1,2021	Cash changes	NONCASH TRANSACTIONS Exchange rate changes	Changes in basis of consolidation	Measurement changes	Balance as of Dec. 31,2021
Subordinated capital	49	–13	–	–	–	35

68. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

The amount of other contingent liabilities as of the reporting date was not material. No disclosures have therefore been provided on their financial impact, uncertainty or potential reimbursement.

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2023	DUE 2024-2027	DUE From 2028	TOTAL Dec. 31, 2022
Purchase commitments in respect of				
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
credit commitments to customers	11,856	–	–	11,856
long-term leasing and rental contracts	1	0	–	2
Miscellaneous financial obligations	7	–	–	7

Drawdowns on credit commitments are possible at any time.

€ million	DUE 2022	DUE 2023-2026	DUE From 2027	TOTAL Dec. 31, 2021
Purchase commitments in respect of				
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
credit commitments to customers	14,199	0	50	14,249
long-term leasing and rental contracts	4	0	–	4
Miscellaneous financial obligations	10	–	–	10

69. Average Number of Employees During the Reporting Period

	2022	2021
Salaried employees	1,646	1,849
of which senior managers	37	41
of which part time	413	423
Vocational trainees	19	31

70. Related Party Disclosures

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

Volkswagen AG, Wolfsburg, is the sole shareholder of Volkswagen Bank GmbH. Porsche Automobil Holding SE, Stuttgart, held the majority of the voting rights in Volkswagen AG as of the reporting date. The Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved the creation of rights of appointment for the State of Lower Saxony. As a result, Porsche SE cannot elect, via the Annual General Meeting, all the shareholder representatives on the Volkswagen AG Supervisory Board as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore deemed to be a related party as defined by IAS 24. According to a notification dated January 9, 2023, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20% of the voting rights in Volkswagen AG on December 31, 2022. They therefore indirectly have significant influence over the Volkswagen Bank GmbH Group. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment).

The sole shareholder, Volkswagen AG, and Volkswagen Bank GmbH have entered into a control and profit-and-loss transfer agreement.

Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities provide the entities in the Volkswagen Bank GmbH Group with funding on an arm's-length basis. Volkswagen AG and its subsidiaries have also furnished collateral in the Bank's favor as part of the operating business.

The production companies and importers in the Volkswagen Group provide the entities in the Volkswagen Bank GmbH Group with financial subsidies to support sales promotion campaigns.

Business transactions with unconsolidated subsidiaries, joint ventures, associates and other related parties in Volkswagen AG's group of consolidated entities are processed at arm's length.

The two tables below show the transactions with related parties. In these tables, the exchange rates used are the closing rate for asset and liability items, and the weighted average rates for the year for income statement items.

FISCAL YEAR 2022

€ million	Supervisory Board	Management Board	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Unconsolidated subsidiaries	Joint ventures	Associates
Loans and Receivables	0	0	43	–	2,306	0	2,412	–
Valuation allowances on impaired loans and receivables	–	–	–	–	–30	–	–	–
of which additions in current year	–	–	–	–	–30	–	–	–
Obligations	3	6	2,863	–	4,209	155	326	1
Interest income	0	0	12	–	–180	–	14	–
Interest expense	0	0	–4	–	–10	–	0	–
Goods and services provided	–	–	30	–	234	0	1	–
Goods and services received	–	–	3	–	219	–	199	0

FISCAL YEAR 2021

€ million	Supervisory Board	Management Board	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Unconsolidated subsidiaries	Joint ventures	Associates
Loans and Receivables	0	0	1	–	1,952	0	2,180	–
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	5	12	3,395	–	5,791	139	196	1
Interest income	0	0	7	–	–160	–	3	–
Interest expense	0	0	–	–	0	–	–	–
Goods and services provided	–	–	8	–	210	0	4	–
Goods and services received	–	–	4	–	335	–	215	0

The “Other related parties in the group of consolidated entities” column includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG’s group of consolidated entities but do not directly belong to Volkswagen Bank GmbH. The relationships with the Supervisory Board and the Management Board/Board of Management comprise relationships with the relevant groups of people at Volkswagen Bank GmbH and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of lesser significance in the reporting year.
“Goods and services received” mainly related to IT and other services in connection with financing transactions. “Goods and services provided” largely arose in connection with income from finance cost subsidies received and from the provision of services.

The Volkswagen Bank GmbH Group did not receive any capital contributions (previous year: €383 million) from Volkswagen AG in the year under review. Furthermore, the Volkswagen Bank GmbH Group made capital contributions to related parties amounting to €6 million (previous year: €0.3 million).

Members of the Management Board and Supervisory Board / Audit Committee of Volkswagen Bank GmbH are members of supervisory boards of other entities in the Volkswagen Group with which the Bank sometimes conducts transactions in the normal course of business. All transactions with these related parties are on an arm's-length basis.

MANAGEMENT BOARD REMUNERATION

The following table shows the remuneration of the members of the Management Board.

€ million	2022	2021
Short-term benefits	2	1
Long-term benefits	1	1
Termination benefits	–	–
Post-employment benefits	1	1

As in the previous year, the total payments made to former members of the Management Board and their surviving dependants amounted to less than €0.5 million in the reporting period. The provisions recognized for this group of people to cover current pensions and pension entitlements amounted to €3 million (previous year: €3 million).

SUPERVISORY BOARD REMUNERATION

In accordance with a resolution passed by the Annual General Meeting, the members of the Supervisory Board who are not employees of the Volkswagen Group are entitled to annual remuneration. This remuneration is independent of the performance of the Bank. The members of the Supervisory Board who are employees of the Volkswagen Group receive flat-rate remuneration from Volkswagen Bank GmbH. If they are also members of other supervisory boards of Group companies of Volkswagen AG, remuneration received for these functions is deducted from their entitlement. As a result, a total amount of less than €0.1 million (previous year: €0.1 million) was paid out to the members of the Supervisory Board in the reporting period.

The employee representatives on the Supervisory Board employed by Volkswagen Bank GmbH also receive their regular salaries under the terms of their employment contracts. This salary is based on the provisions in the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act) and corresponds to the remuneration for equivalent employees with career development typical for the organization. Appropriate remuneration for the representative of the senior executives on the Supervisory Board corresponds to the remuneration for a corresponding function or role within the company.

71. Disclosures Relating to Unconsolidated Structured Entities

A structured entity is normally designed so that voting rights or similar rights are not the deciding factor in determining control over the entity.

Typical features of a structured entity are as follows:

- Limited scope of activities
- Narrowly defined business purpose

> Inadequate equity to finance the business activities
> Financing through a number of instruments that contractually bind investors and that give rise to a concentration of credit risk and other risks.

Volkswagen Bank GmbH maintained business relationships with structured entities in the year under review. These are ABS special purpose entities within Volkswagen AG's group of consolidated entities. The entities carry out a process of securitization by taking assets from lending agreements and leases for vehicles and transforming them into securities (asset-backed securities) on a maturity-matched basis. Volkswagen Bank GmbH has acquired some of these securities with an average term of 8.5 years. In the Volkswagen Bank GmbH Group, the securities have been allocated to the category of assets measured at fair value through profit or loss. The securities give rise to the following items reported in the consolidated income statement: interest income, which is recognized under interest income from lending transactions and marketable securities, and remeasurement effects, which are recognized under net gain or loss on financial instruments measured at fair value.

Under the principles specified in IFRS 10, these entities are not controlled by Volkswagen Bank GmbH and are therefore not included in the consolidated financial statements.

The financial services business of the associated entity in Volkswagen AG's group of consolidated entities is being funded as a result of the purchase of the securities issued by ABS special purpose entities within Volkswagen AG's group of consolidated entities.

The acquisition of the securities gives rise to counterparty default risk (from the assets contained in the issuer's securitized portfolio) and interest rate risk. The maximum risk of Volkswagen Bank GmbH from shares in unconsolidated structured entities is limited to the fair value of the purchased debt instruments reported in the balance sheet, among other things because the purchased securities have senior ranking in their exposure to losses incurred by the unconsolidated structured entities.

The following table contains disclosures on Volkswagen Bank GmbH's assets reported in the balance sheet that are related to unconsolidated structured entities and the maximum risk exposure of the Volkswagen Bank GmbH Group (disregarding collateral). The nominal amount of the securitized assets is also disclosed.

	ABS SPECIAL PURPOSE ENTITIES	
€ million	2022	2021
Reported in the balance sheet as of December 31		
Marketable securities	491	548
Loans to and receivables from customers	–	–
Maximum loss risk	491	548
Nominal volume of securitized assets	697	800

Volkswagen Bank GmbH Group companies did not provide unconsolidated structured entities with any noncontractual support during the reporting period.

72. Governing Bodies of Volkswagen Bank GmbH

The members of the Management Board are as follows:

DR. MICHAEL REINHART
Chair of the Management Board
Corporate Management of Volkswagen Bank GmbH

OLIVER ROES
Member of the Management Board of Volkswagen Bank GmbH. Responsible for Finance.

CHRISTIAN LÖBKE
Member of the Management Board of Volkswagen Bank GmbH. Responsible for Risk Management.

DR. VOLKER STADLER
Member of the Management Board of Volkswagen Bank GmbH. Responsible for Operations.

The members of the Supervisory Board as of the reporting date December 31, 2022 were as follows:

DR. INGRUN-ULLA BARTÖLKE
Chair
Head of Group Accounting and External Reporting of Volkswagen AG

BJÖRN BÄTGE
Deputy Chair (as of March 10, 2022)
Group Treasury – Head of Global Markets of Volkswagen AG

SILVIA STELZNER
Deputy Chair
Executive Director of the Joint Works Council of Volkswagen Financial Services AG and
of Volkswagen Bank GmbH

SARAH AMELING-ZAFFIRO (AS OF FEBRUARY 1, 2022)
Member of the Joint Works Council of Volkswagen Financial Services AG and
of Volkswagen Bank GmbH

MARKUS BIEBER
Managing Director of the General Works Council of Volkswagen AG

DR. CHRISTIAN DAHLHEIM (AS OF FEBRUARY 1, 2022)
Chair of the Board of Management of Volkswagen Financial Services AG

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

PROF. DR. SUSANNE HOMÖLLE
Chair of Banking and Finance, University of Rostock

MARKUS KONRADT (AS OF MAY 1, 2022)
Member of the Management Board of the Management Association
of Volkswagen Financial Services AG and Volkswagen Bank GmbH

KATRIN ROHMANN (AS OF MARCH 9, 2022)
Public auditor

CONNY SCHÖNHARDT
Trade union secretary for the IG Metall Board of Management in the unit for vehicle construction coordination

MIRCO THIEL (AS OF OCTOBER 1, 2022)
Member of the Joint Works Council of Volkswagen Financial Services AG and
of Volkswagen Bank GmbH

The following were also members of the Supervisory Board in 2022:

JÜRGEN ROSEMANN (UNTIL JANUARY 1, 2022)
Member of the Joint Works Council of Volkswagen Financial Services AG and
of Volkswagen Bank GmbH

LARS HENNER SANTELMANN (UNTIL JANUARY 31, 2022)
Chair of the Board of Management of Volkswagen Financial Services AG

LUTZ MESCHKE (UNTIL MARCH 9, 2022)
Deputy Chair
Deputy Chair of the Board of Management and member of the Board of Management of
Dr. Ing. h.c. F. Porsche AG
Finance and IT

REINHARD MATHIEU (UNTIL APRIL 30, 2022)
Head of Basic Regulatory Issues & Reporting at Volkswagen Bank GmbH

THOMAS KÄHMS (UNTIL SEPTEMBER 30, 2022)
Member of the Joint Works Council of Volkswagen Financial Services AG and
of Volkswagen Bank GmbH

The composition of the committees of the Supervisory Board of Volkswagen Bank GmbH was as follows as of the reporting date, December 31, 2022:

MEMBERS OF THE AUDIT COMMITTEE

Katrin Rohmann (Chair) (as of March 10, 2022)
Prof. Dr. Susanne Homölle (Deputy Chair)
Frank Fiedler
Silvia Stelzner

The following were also members of the Audit Committee in 2022:
Lutz Meschke (Chair) (until March 9, 2022)

MEMBERS OF THE RISK COMMITTEE

Prof. Dr. Susanne Homölle (Chair)
Björn Bätge (Deputy Chair)
Sarah Ameling-Zaffiro (as of October 1, 2022)
Frank Fiedler

The following were also members of the Risk Committee in 2022:
Silvia Stelzner (until September 30, 2022)

MEMBERS OF THE NOMINATION COMMITTEE

Dr. Ingrun-Ulla Bartölke (Chair)
Silvia Stelzner (as of October 1, 2022) (Deputy Chair as of December 6, 2022)
Dr. Christian Dahlheim (as of February 1, 2022)

The following were also members of the Nomination Committee in 2022:
Lars Henner Santelmann (until January 31, 2022)
Thomas Kähms (Deputy Chair) (until September 30, 2022)

MEMBERS OF THE REMUNERATION COMMITTEE

Dr. Ingrun-Ulla Bartölke (Chair)
Björn Bätge (Deputy Chair)
Dr. Christian Dahlheim (as of February 1, 2022)
Silvia Stelzner (as of October 1, 2022)

The following were also members of the Remuneration Committee in 2022:
Lars Henner Santelmann (until January 31, 2022)
Thomas Kähms (until September 30, 2022)

73. Letter of Comfort for Our Affiliated Companies

With the exception of political risks, Volkswagen Bank GmbH hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to lenders in the agreed manner. Moreover, Volkswagen Bank GmbH confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders.

74. Events After the Balance Sheet Date

Endorsing the similar decision made by the Management Board of Volkswagen Bank GmbH in September 2022, the Board of Management of Volkswagen AG resolved in February 2023 to sell the new financing business of MAN Financial Services to TRATON Financial Services AB, against payment of a sale price, in selected markets (essentially those with no joint venture investments). The differences in the timing of the transfer of the new financing business in the various markets were factored in when setting the sale price. The conclusion of the transaction is conditional on approvals from relevant bodies that have yet to be obtained. The sale is of limited relevance to Volkswagen Bank GmbH, with only the bank branches in Portugal and Italy currently pursuing new MAN Financial Services financing business.

Up to February 17, 2023, there were no other significant events that would have required a significantly different presentation of the assets, liabilities, financial position and profit or loss.

Shareholdings

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

		EXCHANGE RATE (1 EURO =)	VW BANK GMBH'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/LOSS IN THOUSANDS		
Name and registered office of the company	Currency	Dec. 31, 2022	Direct	Indirect	Total	local currency	local currency	Footnote	Year
I. PARENT COMPANY									
Volkswagen Bank GmbH, Braunschweig									
II. SUBSIDIARIES									
A. Consolidated companies									
1. Germany									
2. International									
Driver España six, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	3)	2021
Driver Master S.A., Luxembourg	EUR		–	–	–	31	–	3)	2021
Driver MultiCompartment S.A., Luxembourg	EUR		–	–	–	30	14.00	3)	2021
Private Driver España 2020-1, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	3)	2021
Private Driver Italia 2020-1 S.r.l., Milan	EUR		–	–	–	10	–	3)	2021
B. Unconsolidated companies									
1. Germany									
2. International									
OOO Volkswagen Bank RUS, Moscow	RUB	76.2868	1.00	–	1.00	18,284,055	999,741	2)	2021

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2022	VW BANK GMBH'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/ LOSS IN THOUSANDS local currency	Footnote	Year
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR		51.00	–	51.00	116,446	13,355		2021
2. International									
DFM N.V., Amersfoort	EUR		60.00	–	60.00	262,613	27,761	2)	2021
Volkswagen Financné služby Slovensko s.r.o., Bratislava	EUR		58.00	–	58.00	84,346	11,051	2)	2021
B. Companies accounted for at cost									
1. Germany									
2. International									
IV. ASSOCIATES									
A. Equity-accounted companies									
1. Germany									
2. International									
B. Associates accounted for at cost									
1. Germany									
2. International									
Credi2 GmbH, Vienna	EUR		28.34	–	28.34	102	–4,231		2021
V. EQUITY INVESTMENTS									
1. Germany									
2. International									
Society for Worldwide Interbank Financial Telecommunications SCRL, La Hulpe	EUR		0.01	–	0.01	616,152	52,234	1)2)	2021

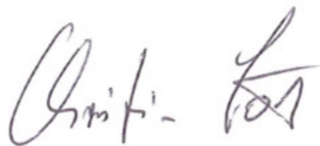
1) In liquidation
2) Different fiscal year
3) Short fiscal year

Braunschweig, February 17, 2023

Volkswagen Bank GmbH
The Management Board

Dr. Michael Reinhart

Oliver Roes



Christian Löbke

Dr. Volker Stadler

Responsibility Statement

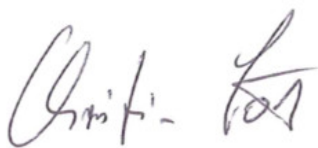
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the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

Braunschweig, February 17, 2023

Volkswagen Bank GmbH
The Management Board

Dr. Michael Reinhart

Oliver Roes



Christian Löbke

Dr. Volker Stadler

Country-by-Country Reporting of Volkswagen Bank GmbH

The requirements of country-by-country reporting laid down in Article 89 of EU Directive 2013/36/EU (Capital Requirements Directive, CRD IV) have been transposed into German law in section 26a(1) sentence 2 of the KWG.

In this country-by-country report, required in accordance with section 26a(1) sentence 2 nos. 1 to 6 of the KWG, the Volkswagen Bank Group makes the disclosures listed below as of December 31, 2022:

> Name, nature of activities and geographical location of branch
> Sales revenue
> Number of employees on a full-time equivalent basis
> Profit or loss before tax
> Tax on profit or loss
> Public subsidies received

The report encompasses the disclosures required for all consolidated entities included in the IFRS consolidated financial statements.

Branches are understood to be the individual subsidiaries and, if appropriate, branches maintained by subsidiaries in individual countries. All figures included in this report were determined on an unconsolidated basis. Revenue has been adjusted for intragroup transactions within the same country.

Revenue is defined as the sum of the following components of the IFRS income statement:

> Interest income from lending transactions less interest expenses
> Income from leasing transactions and service contracts
> Net Fee and Commission Income
> Net gain or loss on hedges
> Net Gain or Loss on Financial Instruments Measured at Fair Value
> Other operating income

The number of employees is reported as an average on a full-time equivalent basis.

Tax on profit or loss is reported as effective income tax expense. Information on how the figure is determined can be found under income tax expense in the notes to the consolidated financial statements of Volkswagen Bank GmbH as of December 31, 2022.

In the country-by-country reporting, only direct EU subsidies are deemed public subsidies received.

Country	Sales revenue (€ million)	Employees	Profit or loss before tax (€ million)	Tax on profit or loss (€ million)	Public subsidies received (€ million)
EU countries					
Germany	715	889	127	–74	–
France	1,300	229	190	1	–
Greece	15	48	8	1	–
United Kingdom	52	34	53	7	–
Italy	230	96	167	30	–
Luxembourg	–	–	–	–	–
Netherlands	0	0	0	0	–
Poland	90	67	68	5	–
Portugal	20	19	3	0	–
Spain	217	58	139	29	–

Company name	Company type	Domicile	Country
EU countries			
Volkswagen Bank GmbH	Bank	Braunschwei	Germany
Volkswagen Bank GmbH, France branch	Bank	Roissy en France	France
Volkswagen Bank GmbH, Greece branch	Bank	GlyfadaAthens	Greece
Volkswagen Bank GmbH, United Kingdom branch	Bank	Milton Keynes	United Kingdom
Private Driver Italia 2020-1 S.r.l.,	SPV	Milan	Italy
Volkswagen Bank GmbH, Italy branch	Bank	Milan	Italy
Driver Master S.A.	SPV	Luxembourg	Luxembourg
Driver Multicompartment S.A.	SPV	Luxembourg	Luxembourg
Volkswagen Bank GmbH, Netherlands branch	Bank	Amersfoort	Netherlands
Volkswagen Bank GmbH, Poland branch	Bank	Warsaw	Poland
Volkswagen Bank GmbH, Portugal branch	Bank	Amadora	Portugal
Volkswagen Bank GmbH, Spain branch	Bank	Alcobendas-Madrid	Spain
DRIVER ESPAÑA six, FONDO DE TITULIZACIÓN	SPV	Madrid	Spain
Private Driver España 2020-1, Fondo de Titulización	SPV	Madrid	Spain

Independent auditor's report

To Volkswagen Bank GmbH

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

OPINIONS

We have audited the consolidated financial statements of Volkswagen Bank GmbH, Braunschweig, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2022, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the fiscal year from 1 January 2022 to 31 December 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies, as well as the segment reporting in the notes to the consolidated financial statements. In addition, we have audited the group management report of Volkswagen Bank GmbH, which is combined with the Company's management report, for the fiscal year from 1 January 2022 to 31 December 2022. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration pursuant to Sec. 289f (4) in conjunction with Sec. 289f (2) No. 4 HGB ["Handelsgesetzbuch": German Commercial Code] included in the Human Resources Report section of the management report (disclosures on the quota for women on executive boards).

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

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

> the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. We do not express an opinion on the content of the group statement on corporate governance referred to above.

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

Basis for the opinions

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

the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

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

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

Identification of impaired loans and determination of the provision for Stage 3 credit risks in dealer financing

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

The identification of impaired loans and the determination of risk provisions for Stage 3 credit risks in dealer financing are significant areas in which the executive directors exercise judgment. The identification of impaired loans and the determination of an appropriate provision for Stage 3 credit risks entail uncertainties, which include various assumptions and estimation inputs, particularly regarding the dealers' financial performance, expected future cash flows and the valuation of collateral. As a result of the Russia-Ukraine war, the resulting rise in energy prices, inflation and the persistent supply bottlenecks in the automotive industry, these uncertainties are significantly elevated in the fiscal year. Even minimal changes in the assumptions and estimation inputs can lead to significant variation in values.

In view of Volkswagen Bank's business model and the significance of dealer financing for its assets and financial performance, we determined the identification of impaired loans and the determination of provisions for Stage 3 credit risks in dealer financing to be a key audit matter.

Auditor's response

During our audit, we analyzed the accounting-related processes for the identification of impaired loans and the determination of the provision for Stage 3 credit risks to check for the consideration of relevant risk factors. We tested the operating effectiveness of the controls implemented in these processes for identifying impaired loans and determining the provision for Stage 3 credit risks. Our audit procedures focused on the processes for evaluating the borrowers' economic situation, monitoring early warning indicators, applying impairment triggers and thus for correctly applying internal risk classification procedures and for valuing collateral.

In addition, we performed substantive audit procedures on a sample basis and assessed the existence of any acute default risks and the determination of the provision for Stage 3 credit risks. We selected our sample applying a risk-based approach, using in particular criteria such as the inclusion of loans on watch

lists for increased default risks, rating class, the level of exposure and the provision for credit risks already recognized.

As part of our risk-based sampling, we assessed whether the significant assumptions and estimates relating to dealers' expected cash flows including the carrying amounts of collateral held are consistent with the borrower's economic situation and market expectations. Furthermore, we checked the arithmetical accuracy of the provision determined for Stage 3 credit risks.

Our audit procedures did not lead to any reservations relating to the identification of impaired loans and the determination of the provision for credit risks in Stage 3 in dealer financing.

Reference to related disclosures

The Company's disclosures on the valuation of the loan portfolios (including the dealer financing portfolio) are contained in the section "Accounting Policies" (note 8) of the notes to the consolidated financial statements as well as in the section "Report on Opportunities and Risks," subsection "Credit Risk," passages "Collateral" and "Provisions" of the group management report, which is combined with the Company's management report.

Recognition and valuation of the provision for legal risks from cancelations of customer loan agreements

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

The Company is exposed to legal risks in relation to certain design aspects of loan agreements with customers that may obstruct the processing of statutory cancelation periods. Due in particular to differing decisions by the courts, the recognition of provisions for the resulting legal risks entails a high level of uncertainty and is thus, in principle and in amount, a significant area in which the executive directors exercise judgment. Against this background, we determined this to be a key audit matter.

Auditor's response

In connection with our audit of the recognition and valuation of the provision for legal risks from cancelations of customer loan agreements, we examined the processes and controls set up by Volkswagen Bank to identify affected agreements and assess the potential future expenses therefrom.

In order to determine whether the estimates by the executive directors of the anticipated cash outflows were appropriate, our audit procedures included making inquiries of the executive directors and the internal Legal department of the Company.

As of the reporting date, we also obtained assessments by an external law firm engaged by the Bank and opinions from experts engaged by the Bank for the valuation of the estimated cash outflows and their probability and, with the assistance of internal lawyers, determined that they were suitable for use in our audit. Furthermore, we inspected and analyzed the court rulings and proceedings concluded in the past. On this basis we formed our own expectations. We analyzed the estimates and assumptions made by the executive directors as to whether they were consistent with the knowledge obtained from using the documents of the external law firm and experts engaged by the Bank and with our expectations. Moreover, we checked the arithmetical accuracy of the provision calculated by the Company.

Our audit procedures did not lead to any reservations relating to the recognition and valuation of the provision for legal risks from cancelations of customer loan agreements.

Reference to related disclosures

The Company's disclosures on the recognition and valuation of the provision for litigation and legal risks are contained in the "Accounting Policies" section (notes 16 and 18) and "Balance Sheet Disclosures" section (note 49) of the notes to the consolidated financial statements as well as in the "Business Performance 2022" section of the group management report, which is combined with the Company's management report.

Macroeconomic scenarios and the specific credit risk parameters derived therefrom in connection with the model-based determination of the provisions for Stage 1 and 2 non defaulted loans to and receivables from customers

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

The valuation of loans to and receivables from customers and the related determination of the provisions for Stage 1 and 2 credit risks are significant areas in which the executive directors exercise judgment. The model-based determination of provisions uses four macroeconomic scenarios to meet the requirements for an unbiased and probability-weighted estimate. The four scenarios (base, positive, negative, energy shortage) differ in terms of the assumptions and estimates of future macroeconomic developments and are reflected in the different specific credit risk parameters underlying the calculation of the provisions (loss given default, probability of default and credit conversion factor).

Minimal changes in the assumptions can lead to significant variation in values.

In light of the significant volume of Stage 1 and 2 non-defaulted loans to and receivables from customers underlying the model-based determination of the provisions as well as the increased uncertainty and judgment involved in the macroeconomic scenarios due to possible (consequential) effects of the worldwide supply shortages, the energy crisis and inflation, we consider the macroeconomic scenarios and the specific credit risk parameters derived therefrom in connection with the determination of the provisions for Stage 1 and 2 non-defaulted loans to and receivables from customers to be a key audit matter.

Auditor's response

As part of our audit, we analyzed the derivation of the scenarios to determine whether they are consistent with the macroeconomic forecasts of leading economic research institutes. We also consulted internal specialists to assess the appropriateness of the derived scenarios on the basis of our expectations of industry performance.

We analyzed the processes implemented by the executive directors of Volkswagen Bank GmbH in connection with the specific credit risk parameters derived from the scenarios and assessed the adequate design and operating effectiveness of the controls implemented in the process.

We examined the method used so as to check that the specific credit risk parameters are consistent with the relevant scenario. To test the adequate design of the credit risk parameters for each scenario, we first assessed the operating effectiveness of the controls implemented in the risk classification process with

regard to the default risk. We also examined the appropriate valuation of the collateral using the recovery rates realized in the past.

We reperformed the calculations of the model-based provisions determined on the basis of the different scenarios and the different specific credit risk parameters and checked whether the Bank correctly included the scenarios in its calculation. In this context, we checked that the specific credit risk parameters relate to the entire term for the relevant derived scenario if there has been a significant increase in the credit risk of the loans to and receivables from customers since initial recognition (Stage 2 of the impairment model).

Our audit procedures did not give rise to any reservations with regard to the macroeconomic scenarios and the specific credit risk parameters derived therefrom in connection with the model-based determination of the provisions for Stage 1 and 2 non-defaulted loans to and receivables from customers of Volkswagen Bank GmbH.

Reference to related disclosures

Disclosures on the model-based determination of the provisions for loans to and receivables from customers including the presentation of the different macroeconomic scenarios are included in the Accounting policies" section (note 8) of the notes to the consolidated financial statements and in the group management report, which is combined with the Company's management report, in the Report on Opportunities and Risks under the heading "Credit Risk" in the passages addressing "Collateral" and "Provisions."

OTHER INFORMATION

The Supervisory Board is responsible for the Report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information.

The other information comprises the corporate governance declaration (disclosures on the quota for women on executive boards). The other information also comprises additional parts of the annual report of which we obtained a version prior to issuing this auditor's report, such as the Report of the Supervisory Board and the Responsibility Statement, but not the consolidated financial statements, not the management report disclosures whose content is audited and not our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are

considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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

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

assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Opinion

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

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

Basis for the opinion

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

responsibilities for the assurance work on the ESEF documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

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

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

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

Group auditor's responsibilities for the assurance work on the ESEF documents

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

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

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

We were elected as group auditor by the Annual General Meeting on 9 March 2022. We were engaged by the Supervisory Board on 25 July 2022. We have been the group auditor of Volkswagen Bank GmbH since fiscal year 2020.

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

Other matter – Use of the auditor’s report

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

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Laura Gundelach.

Hanover, 17 February 2023

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Gundelach	Bühring
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Report of the Supervisory Board

of Volkswagen Bank GmbH

During the reporting period, the Supervisory Board has regularly concerned itself closely with the situation and development of the Bank. The Management Board regularly provided the Supervisory Board with timely and comprehensive information, both written and oral, on the key aspects of planning, on the situation of the Bank, including the risk position and risk management, and on business development. There are regular exchanges between the Chair of the Supervisory Board and the Management Board even outside of meetings. On the basis of the reports by the Management Board, the Supervisory Board continually monitored the conduct of the Bank's business and was thus able to perform the functions entrusted to it by law and under the articles of association without any restrictions. All decisions of fundamental importance to the Bank and other transactions requiring the approval of the Supervisory Board in accordance with the rules of procedure were reviewed and discussed with the Management before a resolution was adopted.

The Supervisory Board has twelve members. The Supervisory Board held six meetings in the reporting year. The average attendance rate was approximately 96%. Three decisions were made by circulation of written resolutions for approval; in the reporting period, there were no decisions made by the Chair of the Supervisory Board using the expedited procedure.

The main issues discussed at the meetings of the Supervisory Board and its committees are presented below.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on March 8, 2022, following a detailed examination, the Supervisory Board recommended to the Annual General Meeting to adopt the annual financial statements of Volkswagen Bank GmbH prepared by the Management Board for 2021, submitted a recommendation regarding the election of the auditor and commented on the consolidated financial statements. The Supervisory Board additionally discussed the key issues for fiscal year 2022 and the bank's IT strategy for 2022 and resolved an amendment to the guidelines concerning the management of conflicts of interest in the Supervisory Board and Management Board of VW Bank GmbH. The Joint Supervisory Team (JST) from the European Central Bank (ECB) also explained the results of the Supervisory Review and Evaluation Process (SREP) in 2021 for the Supervisory Board.

The members of the Supervisory Board were appointed again as scheduled on March 9, 2022 by shareholder resolution. The chairs and deputy chairs of the Supervisory Board and its committees were elected at the meeting on March 10, 2022.

Management Board remuneration was discussed at the meeting on April 22, 2022. The ROE target curve for bonus purposes for fiscal year 2022 was also decided and it was resolved to introduce a modifier for the definition of the brand bonus from fiscal year 2022.

The meeting on June 13, 2022 discussed the schedule of responsibilities and skills profiles of the Management Board. Reports were also presented on the financial performance of the Volkswagen Bank Group, the progress of strategic initiatives, the IT situation in France, new Delegated Regulation EU 2022/676 and the planned amendment of the profit-and-loss transfer agreement. The matter of ESG risk, comprising the Sustainability project and the ECB's 2022 climate stress test and thematic review on

climate-related and environmental risks, was considered as well. The Supervisory Board also gave its consent for the acquisition of additional shares in Credi2 GmbH (Vienna, Austria) by Volkswagen Bank GmbH.

At the meeting on October 14, 2022, the Supervisory Board received a report on the realization of the aforementioned acquisition of shares in Credi2 GmbH and discussed the prerequisites for the reliability of the members of the Supervisory Board, the financial performance of the Volkswagen Bank Group, the progress of strategic initiatives and selected regulatory issues, the current IT situation in France and data management at the Bank. The Supervisory Board also resolved an amendment to the committee rules of procedure that mainly consisted of clarifying rules concerning the holding of meetings and the generation of resolutions.

The Supervisory Board meeting on December 6, 2022 considered the status of the planning round of the Volkswagen Bank Group as well as looking once again at financial performance. It also heard an outlook regarding the risk situation and considered the progress of strategic initiatives, the progress of selected regulatory issues and matters of company law.

The chairs of the respective committees or their deputies reported in detail on the content of their committee meetings in the Supervisory Board meetings.

COMMITTEE ACTIVITIES

The Supervisory Board set up committees in accordance with section 25d of the *Kreditwesengesetz* (KWG – German Banking Act).

Audit Committee

The Audit Committee held four regular meetings in the reporting period. There were no extraordinary meetings or urgent transactions that would have required a decision by circulation of written resolutions for approval. The Committee has four members. The average attendance rate was 100%.

At the meeting held on March 8, 2022, the Committee concerned itself with the annual financial statements and the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH for the year ended December 31, 2021 together with the proposal for the appropriation of profit. As part of this review, the Audit Committee discussed with the auditor the reports on the audit of the annual financial statements, the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH as well as material transactions and issues related to financial reporting. Following a detailed consultation, the Audit Committee requested the Supervisory Board to submit a recommendation to the sole shareholder regarding the election of the auditor and to draw up the resolution covering the issue of the audit engagement in preparation for the Annual General Meeting. The Head of Internal Audit provided further information relating to Internal Audit’s 2021 Annual Report for the Volkswagen Bank Group for the benefit of the Audit Committee. The Committee also considered the amendment of the Audit Committee guidelines for services provided by the auditor’s network.

At its meeting on June 13, 2022, the Committee reviewed the financial performance of the Volkswagen Bank Group. The compliance report was also presented. The Committee additionally considered pending supervisory audits.

At its meeting on October 14, 2022, the Committee addressed the subject of audit planning and key audit matters together with representatives of the auditor. It also received a report on the 2022 half-yearly financial statements and the current business performance of the Volkswagen Bank Group and discussed the quality of the audit of the financial statements.

At its meeting on December 6, 2022, the Audit Committee received reports on the services provided to the Bank by the auditor and the work of the Internet Audit unit.

Risk Committee

The Risk Committee held five meetings in the reporting period. During the reporting period, there were no urgent transactions that would have required a decision by circulation of written resolutions for approval. The Committee has four members. The average attendance rate was 95%.

At its meeting on March 8, 2022, the Risk Committee discussed the auditors' findings relating to risk management in the 2021 audit of the annual financial statements. The Committee then addressed the retrospective analysis of the 2021 risk strategy and the risk strategy and risk limits for 2022. The Committee also heard a report on the current position regarding climate-related and sustainability risks. Eventually, following an appropriate review, the Risk Committee confirmed that the incentives set by the Bank's risk, capital, and liquidity structure and the probability and timing of income take into account.

At its meeting on April 28, 2022, the Committee examined the 2022 internal liquidity adequacy assessment process (ILAAP), the liquidity adequacy statement (LAS) and the 2022 ILAAP gap analysis.

At its meeting on June 13, 2022, the Risk Committee discussed the design and establishment of cross-bank adverse scenarios (ILAAP and ICAAP) and the integration of the scenarios into the Bank's management processes. In addition, the Committee heard a presentation on the narrative and assumptions for the 2022 ICAAP and ILAAP stress tests and a report on the status of the 2022 ECB climate stress test, and discussed the Committee's remaining work program for 2022.

At its meeting on October 14, 2022, the Risk Committee discussed the early warning system for the retail lending portfolio, the future procedure for leveraged transactions and various matters relating to the ECB, including the feedback on the ECB climate stress test and the result of the ECB's 2022 thematic review on climate-related and environmental risks. The Committee also reviewed the current interest rate trend and its implications for interest rate risk as well as receiving an explanation of the "Ad-hoc OPR loss reporting/standard software reporting system of July 15, 2022".

On December 6, 2022, the Risk Committee heard about ICAAP governance (in particular the responsibilities of the Supervisory Board in this connection) and about the results of the 2022 SREP, the result and priorities of resolution planning for 2023 and the latest developments regarding the interest rate risk in the banking book (IRRBB).

Remuneration Committee

The Remuneration Committee held four meetings in the reporting period. The Committee has four members. The attendance rate was approx. 94%. One decision was made by circulation of written resolutions for approval in the reporting period.

At its meeting on March 8, 2022, the Remuneration Committee discussed the constraints for granting variable remuneration, the determination of the bonus pool available for the members of the Management Board and changes in the sustainability component relevant to remuneration. No facts were identified that are relevant to malus provisions within the meaning of section 18 of the *Institutsvergütungsverordnung* (IVV – German Regulation Governing Remuneration at Institutions) were identified.

At its meeting on April 20, 2022, the Committee's main discussion point was variable Management Board remuneration. The Committee also considered the definition of the ROE target curve for bonus purposes for fiscal year 2022 and the introduction of a modifier for the definition of the brand bonus from fiscal year 2022.

At its meeting on October 14, 2022, the Committee considered the remuneration report for fiscal year 2021, the amendment of the company agreement on variable remuneration, the review of remuneration for the monitoring units and the changes to the remuneration systems in response to IVV 4.0.
On December 6, 2022, the Committee heard details of the risk taker analysis and received the Remuneration Officer's presentation of the remuneration control report for fiscal year 2021/2022 and the report on the appropriateness of employee remuneration. The Committee also examined the appropriateness of Management Board remuneration.

Nomination Committee

The Nomination Committee held three meetings in the reporting year, each of which was attended by all members of the Committee. One decision was made by circulation of written resolutions for approval in the reporting period.

At its meeting on March 7, 2022, the Committee discussed the election of the members of the Supervisory Board and the composition of the Audit Committee.

At the meeting on June 3, 2022, the Committee examined the suitability of a member of the Supervisory Board.
At the meeting on November 28, 2022, the Committee reviewed the annual assessment of the Management Board and Supervisory Board in fiscal year 2021/2022. The Committee also discussed the extension of the appointment of two members of the Management Board.

Credit Committee

The Credit Committee is responsible for approving issues that the Supervisory Board has to deal with by law and under the rules of procedure relating to loan commitments, the assumption of sureties, guarantees and similar liabilities, Bank borrowings, the purchasing of receivables and for master agreements governing the assumption of receivables. The Credit Committee is composed of three members of the Supervisory Board and makes its decisions by circulation of written resolutions or on the basis of electronic credit applications.

The members of the committees also consulted each other on several occasions and were in constant contact with the Management Board. The activities of the committees were reported at the plenary meetings of the Supervisory Board.

EDUCATION AND TRAINING

The members of the Supervisory Board took, under their own responsibility, the education and training measures required to perform their tasks. The Supervisory Board also received training on the subject of "Cybercrime and IT security".

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements of the Volkswagen Bank GmbH Group in accordance with the IFRSs and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2022, together with the management reports, were submitted to the Supervisory Board. The auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hanover, audited

these financial statements, including the bookkeeping system and the management reports, and issued an unqualified auditor's opinion in each case.

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

At its meeting on February 23, 2023, the Supervisory Board commented on the consolidated financial statements and annual financial statements of Volkswagen Bank GmbH prepared by the Management Board and recommended to the Annual General Meeting to adopt the annual financial statements for 2022 and to approve the consolidated financial statements.

In accordance with the existing control and profit-and-loss transfer agreement, the profits reported in the financial statements of Volkswagen Bank GmbH for the year ended December 31, 2022 have been transferred to Volkswagen AG.

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

Braunschweig, February 23, 2023

Dr. Ingrun-Ulla Bartölke
Chair of the Supervisory Board

PUBLISHED BY
Volkswagen Bank GmbH
Gifhorner Straße 57
38112 Braunschweig, Germany
Telephone +49 (0) 531 212-0
info@vwfs.com
www.vwfs.com
www.facebook.com/vwfsde

INVESTOR RELATIONS
ir@vwfs.com

This Annual Report are also available in German at https://www.vwfs.com/gbvwbank22.