VOLKSWAGEN BANK

GMBH

ANNUAL REPORT
IFRS

2021

Volkswagen Bank GmbH Group

Key Figures (IFRS)

€ million (as of Dec. 31)	2021	2020
Total assets	67,253	66,942
Loans and receivables attributable to		
Retail financing	31,073	33,808
Dealer financing	9,026	11,549
Leasing business	2,928	2,814
Customer deposits	26,489	28,694
Equity	10,861	10,268
Operating result	1,137	804
Profit before tax	1,107	808
Income tax expense	–328	–160
Profit after tax	779	648

in percent (as of Dec. 31)	2021	2020
Equity ratio	16.1	15.3
Common Equity Tier 1 capital ratio[1]	19.0	18.1
Tier 1 capital ratio[1]	19.0	18.1
Total capital ratio[1]	19.0	18.1

Number (as of Dec. 31)	2021	2020
Employees	1,906	1,931

RATING (AS IF 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 ratios in accordance with Article 92(1) of the CRR.

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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 and 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, Chairman 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. From January 1, 2021 to January 31, 2021, Oliver Roes was responsible for these functions in his role as Executive Vice President. During this period, Oliver Roes reported to Management Board members Dr. Michael Reinhart (Group Treasury & Investor Relations only) and Christian Löbke (Finances excluding Group Treasury & Investor Relations). The clear assignment of responsibilities in this context ensures that the functions are separated. Since February 1, 2021, Oliver Roes has been the member of the Management Board responsible for the Finance 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 and Special Customer Care. Until February 27, 2021 it also included Big Data & Analytics. On March 1, 2021, the Big Data & Analytics organizational unit was renamed Strategic Data Management & Applications. At the same time, its reporting units were restructured to bring about a further streamlining of the organizational structure.

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

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	Total 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, 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, which 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

Effective March 24, 2021, paydirekt Beteiligungsgesellschaft privater Banken mbH, Berlin, was removed from the commercial register following liquidation, as a result of which Volkswagen Bank derecognized its 2.02% equity investment in the entity.

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 2021, which will be available on the website https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2021/Nonfinancial_Report_2021_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2021/Nonfinancial_Report_2021_e.pdf in English from April 30, 2022.

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

Report on Economic Position

The global economy recorded positive growth in fiscal year 2021 as it recovered from the disruption caused by the Covid-19 pandemic. Global demand for vehicles was up on the previous year. Profit before tax generated by the Volkswagen Bank GmbH Group exceeded the prior-year figure.

GLOBAL SPREAD OF THE CORONAVIRUS (SARS-COV-2)

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

The mostly dynamic increase in the rate of infection continued in many places throughout the first quarter of 2021. This was accompanied by ongoing disruption – such as contact and mobility restrictions or limitations on business activities – in many parts of the world. With the increased availability of testing capacities and vaccines, some countries have permitted the extensive reopening of everyday life and the economy. In China in particular, the measures taken resulted in a removal of restrictions. In most of the world, infection rates initially declined in the second quarter of 2021, leading to further easing of the measures taken to contain the pandemic. From the middle of the year, however, some countries recorded a renewed increase in infection rates, which was mainly due to new variants of the SARS-CoV-2 virus. Some restrictions returned in response to the situation. Most regions of the world saw a declining rate of new infections in the third quarter of 2021. Against this backdrop, many countries largely lifted their restrictions on everyday life and the economy, depending on the progress of their vaccination campaigns. Temporary increases in case numbers – primarily associated with increased travel – only rarely resulted in the measures being tightened again. Mainly due to new variants of the SARS-CoV-2 virus, numerous countries around the world again recorded some very dynamic increases in infection rates in the fourth quarter, which, depending particularly on the country's vaccination progress, resulted in renewed restrictions.

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

Europe

The economy in Western Europe recorded significantly positive overall growth of 5.4 (–6.5)% in 2021. This trend was seen in all countries in Northern and Southern Europe. The rea-

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

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

In the economies of Central and Eastern Europe, real absolute GDP increased significantly by 5.6 (–2.4)% in 2021. Economic output increased by 6.4 (–2.1)% in Central Europe and 4.2 (–2.8)% in Eastern Europe.

Germany

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

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

During 2021, the financial services business in Germany increasingly had to cope with the challenges presented by the shortage of semiconductors in addition to the impact of the Covid-19 pandemic. New vehicle deliveries declined, which consequently also led to a fall in vehicles available on the used vehicle market. On the other hand, new financing agreements for new and used vehicles as well as direct business contracted compared with the previous year. The penetration rate for new vehicles was higher than the very good level achieved in the previous year. With a few exceptions, the number of new contracts for services and insurance products declined year-on-year.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

Sector-Specific Environment

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

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

The sector-specific conditions in the European banking environment were impacted in the reporting period by legal and regulatory interventions in response to the pandemic and its economic fallout. They include, for example, schemes for granting trust loans and legally mandated payment holidays to support borrowers. The European Central Bank's targeted longer-term refinancing operations (TLTRO III) to provide liquidity to banks also continue to be in force.

Europe

In Western Europe, the number of new passenger car registrations in the reporting period was slightly down on the previous year's weak level, declining by 2.0% to 10.7 million vehicles. The continuing restrictions aimed at containing the Covid-19 pandemic led to a year-on-year decline in deliveries

in the first two months of 2021. From March to June, demand in each of the individual months exceeded that of the previous year, which had been affected by the pandemic as of the last third of the first quarter and particularly in the second quarter of 2020. In the second half of 2021, the number of new passenger cars registered declined month-on-month, in some cases substantially. This was due on the one hand to the market recovery that had been experienced the previous year, and on the other to the semiconductor shortage which reduced vehicle availability. Nevertheless, with the exception of Spain (–0.9%), the performance of the large individual passenger car markets was positive on the whole in fiscal year 2021: France (+0.5%), United Kingdom (+1.0%) and Italy (+5.6%).

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

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2021 stood at 2.9 million vehicles, a modest 2.8% more than in the previous year, which had been strained by the pandemic. Here, the development of demand in the reporting period differed from market to market. In Central Europe, the number of new registrations saw a slower rate of increase on the whole, with a rise of 1.4% to 1.1 million units. By contrast, sales of passenger cars in Eastern Europe rose at a somewhat faster pace (+3.8%) to 1.8 million units.

The market volume of light commercial vehicles in Central and Eastern Europe was significantly higher year-on-year (+12.1%).

Germany

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

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

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

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management Board of Volkswagen Bank GmbH considers the course of business in the year 2021 to have been positive. Profit before tax for the reporting period amounted to €1,106.7 million, which was higher than the figure for the corresponding prior-year period (previous year restated: €808.3 million). Risk costs were considerably lower than in the previous year and the funding situation remained favorable. Together with the initiatives to increase efficiency, these factors were key drivers behind the growth in earnings.

Performance in the reporting period was dominated by the semiconductor chip shortage and associated supply problems for the brands in the Volkswagen Group. Consequently, the volume of loans to and receivables from customers was markedly below the level of the previous year, which led to a corresponding cut in the provision for credit risks. Overall, the Volkswagen Bank GmbH Group established that its credit risk had remained stable. Residual value risk also generally remained steady. The shortage of new vehicles actually led to a positive trend in the used vehicle market, as a result of which the Bank was able to generate gains from the marketing of used vehicles.

Favorable funding conditions were provided by the general low level of interest rates and liquidity made available by the ECB in open market operations (TLTRO III).

The positive trend in the performance of the business was boosted by the Operational Excellence (OPEX) efficiency program – part of which involves the harmonization of IT systems – and increasing digitalization of the business model.

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

Despite high demand for new vehicles, the semiconductor shortage limited the availability of vehicles from the Group brands. This reduced both the market for new vehicle financing and demand from dealerships for inventory finance. 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 ongoing Covid-19 pandemic also continued to have an adverse effect on economic activity in most European countries. The temporary restrictions on social contact and business activity at the beginning of the reporting year were detrimental to demand for automotive financial service products.

These factors meant that the figures for penetration, new contracts and current contracts fell short of the forecasts. A rise in demand for used vehicles and for associated customer financing products did not fully offset this trend. The effect on business volume in 2021 was the same in both customer and dealer financing.

Customer deposits, which serve as a source of funding for lending, were deliberately reduced as a matter of business policy because a less expensive source of funding was available to Volkswagen Bank GmbH in the form of the ECB's TLTRO III program, plus the Bank had a lower need for funding due

to the decrease in business volume. The action taken meant it was possible to avoid costs caused by excess liquidity. The volume of deposits was therefore below the level of 2020.

The operating result for 2021 was predicted to be significantly below the level of 2020. However, it was possible to revise this forecast in 2021 because of positive non-recurring items, particularly in the risk costs. The operating result, return on equity and cost/income ratio therefore turned out to be better than forecast.

	Actual 2020 [1]	Forecast 2021	Actual 2021
Nonfinancial performance indicators			
Penetration (percent)	18.9	At the level of 2020	17.9
Current contracts (thousands)	3,700	Moderately above the level achieved in 2020	3,431
New contracts (thousands)	1,074	Moderately above the level achieved in 2020	1,046
Financial performance indicators			
Volume of business (€ million)	48,486	At the level of 2020	45,585
Volume of deposits (€ million)	28,694	At the level of 2020	26,489
Operating result (€ million)	804	Significantly below the level achieved in 2020	1,137
Return on equity (percent)	8.0	Significantly below the level achieved in 2020	10.5
Cost/income ratio (percent)	51.4	Significantly above the level achieved in 2020	40.1

1 The prior-year income statement has been restated to reflect the corrections to the provision for credit risks in respect of credit commitments. For details, please refer to the Changes to Prior-Year Figures section in the notes.

FINANCIAL PERFORMANCE

The earnings performance of the Volkswagen Bank GmbH Group in fiscal year 2021 was better than in fiscal year 2020.

At €1,137.3 million, the operating result was above the level of the previous year (€804.4 million). Profit before tax increased by €298.5 million year-on-year to €1,106.7 million. The share accounted for by the international branches and companies was €849.1 million (previous year: €577.1 million) or 76.7%.

Interest income from lending and securities transactions fell by €59.3 million to €1,377.5 million (previous year: €1,436.8 million). Net income from leasing business decreased by 11.4% to €269.1 million (previous year: €241.5 million).

The interest expenses of Volkswagen Bank GmbH declined from €152.6 million to €133.6 million.

Net income from service contracts is generated exclusively in the branches that also conduct leasing business. In this case, the net income rose by €9.0 million to €3.0 million (previous year: net expense of €6.0 million).

The required provision for credit risks fell to €327.1 million (previous year: €643.8 million). Income from the reversal of valuation allowances no longer required and income from loans and receivables previously written off totaled €504.9 million and was hence up on the prior-year figure (restated: €378.8 million). This resulted in a net reversal of provisions for credit risks in an amount of €177.8 million (previous year restated: net addition of €264.9 million). The main factors behind this change were the stable risk situation and the reversal of provisions for credit risks as a consequence of the decline in the volume of loans and receivables.

Net fee and commission income was in positive territory in 2021 with net income at €116.3 million (previous year: €105.1 million), which was mainly attributable to higher fee and commission income at Volkswagen Bank Germany and at the branch in Spain.

The net gain or loss on hedges amounted to a net loss of €30.1 million (previous year: net loss of €8.0 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 €7.4 million (previous year: net gain of €4.4 million). Both figures were largely determined by activities at Volkswagen Bank GmbH, Germany.

General and administrative expenses were up on the prior-year level and amounted to €807.8 million (previous year:

€762.5 million). The primary reasons were the rise in personnel expenses by €9.2 million and the rise in IT costs by €22.3 million.

Other operating income amounted to €241.6 million (previous year: €270.0 million). This also included income from the reversal of provisions in an amount of €187.1 million (previous year: €122.4 million) and other sales revenue in the amount of €23.5 million (previous year: €20.5 million). Other operating expenses amounted to €83.8 million (previous year: €59.3 million). This figure included impairment losses on goodwill amounting to €16.5 million (previous year: €0.0 million). Including the other components of financial gains or losses, the Volkswagen Bank GmbH Group generated profit after tax of €778.8 million (previous year: €648.0 million).

The profit of Volkswagen Bank GmbH determined in accordance with the HGB (after deduction of taxes) amounting to €562.8 million (previous year: €382.9 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 deems the net assets and financial position to be generally positive.

Lending Business

The lending business of the Volkswagen Bank GmbH Group mainly consists of vehicle-related loans granted to retail customers, business customers and dealerships. The volume of these loans and receivables went down by €5.1 billion to €43.0 billion.

Retail Financing

In the Volkswagen Bank GmbH Group, the total number of current customer financing contracts fell to 2.6 million (previous year: 2.8 million). 711 thousand new contracts were entered into in fiscal year 2021 (previous year: 779 thousand). As of December 31, 2021, the volume of loans and receivables in retail financing amounted to €31.1 billion (previous year: €33.8 billion). Of this total, €11.0 billion (previous year: €10.7 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 – fell by 21.8% or €2.5 billion to €9.0 billion.

The volume of loans and receivables related to the international branches and international subsidiaries came to €4.8 billion (previous year: €6.5 billion) as of the balance sheet date.

Leasing Business

Receivables from leasing transactions amounted to €2.9 billion (previous year: €2.8 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 €4.1 billion (previous year: €3.3 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, Braunschweig, Germany, continue to be reported as equity-accounted investments.

Long-Term Financial Assets

As of December 31, 2021, Volkswagen Bank GmbH held 1% of the equity in OOO Volkswagen Bank RUS, Moscow, Russia, and 20% of the shares in Credi2 GmbH, Vienna, Austria. These holdings had remained unchanged year-on-year.

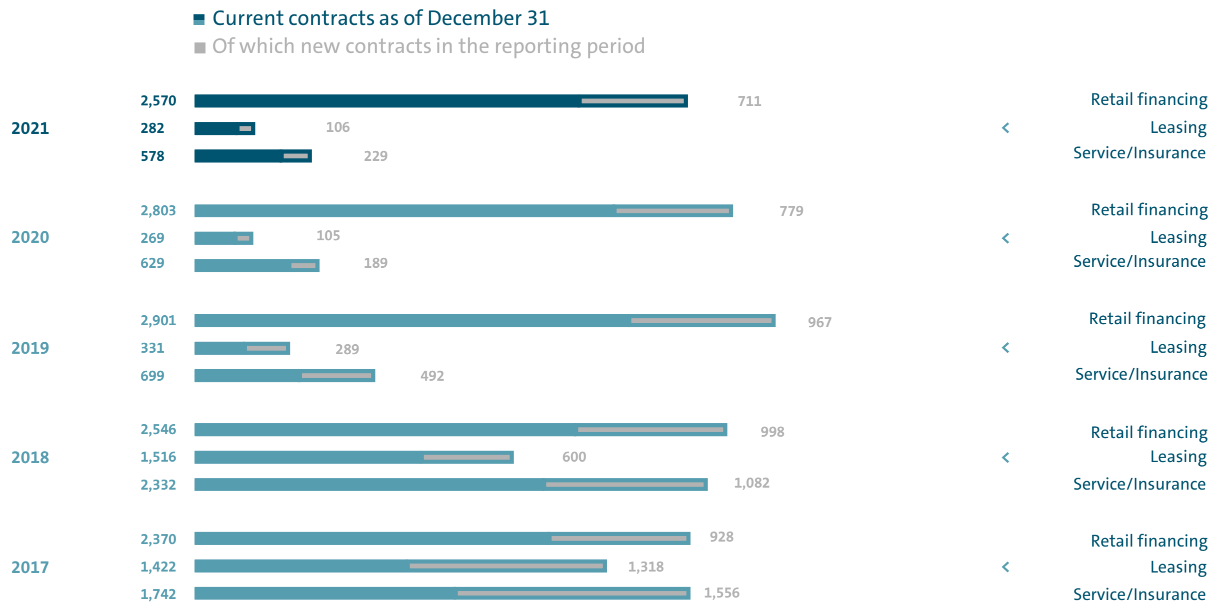
CURRENT CONTRACTS AND NEW CONTRACTS

in thousand [1]	Volkswagen Bank Group	of which: Germany	of which: Italy	of which: France	of which: Spain	of which: other branches/subsidiaries
Current contracts[2]	3,431	1,456	427	863	436	249
Automotive retail financing	2,452	1,334	408	121	428	160
Consumer retail financing	118	107	–	–	8	3
Leasing business	282	–	–	268	0	14
Service/insurance	578	15	19	473	–	72
New contracts[2]	1,046	332	142	376	92	103
Automotive retail financing	686	309	142	63	91	80
Consumer retail financing	25	23	–	–	0	2
Leasing business	106	–	–	100	–	6
Service/insurance	229	0	–	213	–	16
€ million						
Loans to and receivables from customers attributable to						
Retail financing	31,073	20,118	5,025	773	4,303	853
Direct banking	322	304	–	0	1	17
Dealer financing	9,026	4,266	576	1,419	635	2,130
Leasing business	2,928	–	–	2,801	0	126
Assets leased out	2,236	1	–	2,235	–	–
Percent						
Penetration rates[3]	17.9	7.0	41.2	50.0	30.1	8.9

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

DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31

In thousands

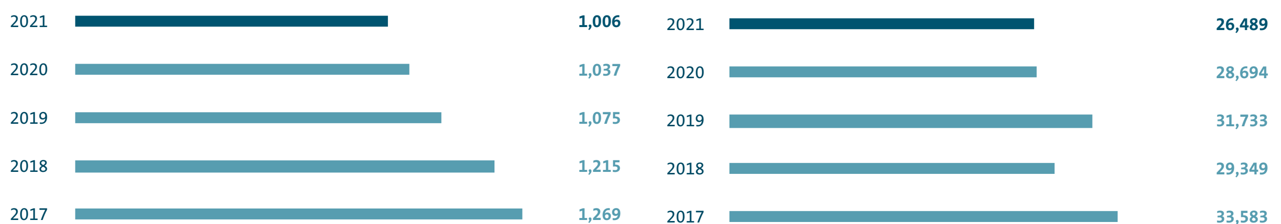


DIRECT BANK CUSTOMERS AS OF DECEMBER 31

Lending and deposit business and borrowings (in thousands)

CUSTOMER DEPOSITS AS OF DECEMBER 31

in € 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 €1.1 billion to €34.3 billion (previous year: €35.4 billion), liabilities to banks in the amount of €13.2 billion (previous year: €9.7 billion) and notes and commercial paper issued in the amount of €5.7 billion (previous year: €8.7 billion).

DEPOSIT BUSINESS

Deposit business in the Volkswagen Bank GmbH Group contracted compared with the prior year. As of the reporting date, the volume of customer deposits amounted to €26.5 billion, which equated to a year-on-year decrease of 7.7% (previous year: €28.7 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 2021.

The capital reserves of Volkswagen Bank GmbH stood at €8.9 billion (previous year: €8.5 billion) as of December 31, 2021.

The profit in accordance with the HGB to be transferred to Volkswagen AG under the existing profit-and-loss transfer agreement amounted to €562.8 million (previous year: €382.9 million).

Equity in accordance with the IFRSs was €10.9 billion (previous year: €10.3 billion). This resulted in an equity ratio (equity divided by total assets) of 16.1% (previous year: 15.3%) based on total assets of €67.3 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% and a Pillar 2 requirement of 2%. 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 19.0% at the end of the reporting period (previous year restated: 18.1%), significantly above the statutory minimum ratio.

The Tier 1 capital ratio and Common Equity Tier 1 capital ratio were each 19.0% (previous year restated: 18.1%) 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.

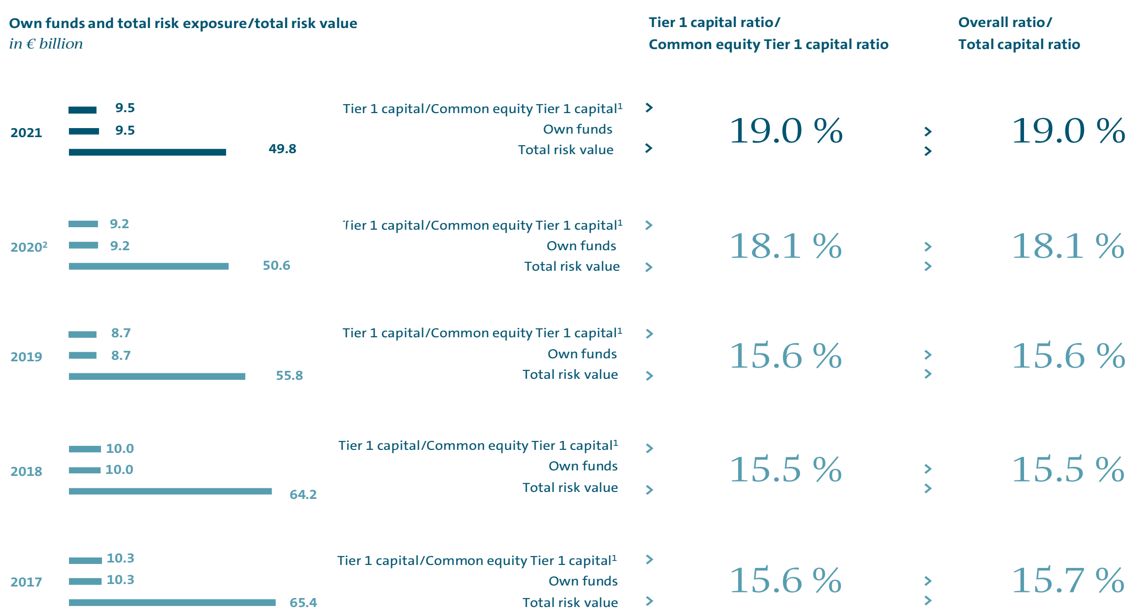
The Standardized Approach as specified in Article 317 of the CRR is used to calculate the own funds requirements for operational risk. The own funds requirements for the CVA charge are determined using the standardized method specified in Article 384 of the CRR.

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

	Dec. 31, 2021		December 31, 2020[3]	
Total risk exposure amount[1] (€ million)		49,770		50,557
of which risk-weighted exposure amounts for credit risk	45,696		46,480	
of which own funds requirements for market risk * 12.5	210		308	
of which own funds requirements for operational risk * 12.5	3,789		3,755	
of which own funds requirements for credit valuation adjustments * 12.5	75		14	
Eligible own funds (€ million)		9,474		9,169
Own funds (€ million)		9,474		9,169
of which Common Equity Tier 1 capital	9,461		9,150	
of which Additional Tier 1 capital	–		–	
of which Tier 2 capital	13		19	
Common Equity Tier 1 capital ratio[2] (%)		19.0		18.1
Tier 1 capital ratio[2] (%)		19.0		18.1
Total capital ratio[2] (%)		19.0		18.1

1 According to Article 92(3) of the CRR.
2 According to Article 92(1) of the CRR.
3 Retrospective update in accordance with EBA Q&A 2018_4085 taking into account balance sheet figures from the approved consolidated financial statements.

REGULATORY RATIOS OF THE VOLKSWAGEN BANK GMBH AS OF DECEMBER 31



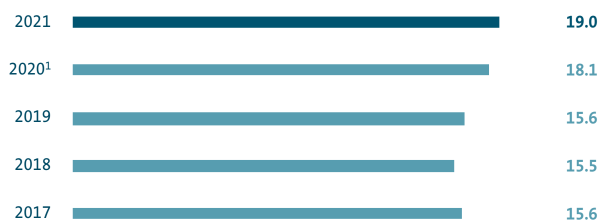
1 The amounts of Tier 1 capital and Common Equity Tier 1 capital are the same because Volkswagen Bank GmbH has not issued any Additional Tier 1 capital instruments.
2 Retrospective update in accordance with EBA Q&A 2018_4085 taking into account balance sheet figures from the approved consolidated financial statements.

The year-on-year increase in the regulatory capital ratios (CET1 capital ratio, Tier 1 capital ratio and total capital ratio) is largely attributable to the slight fall in total risk exposure. This fall was caused mainly by a lower volume of retail and corporate business and a reduction in credit risk in an amount of €2.1 billion.

Own funds changed slightly compared with the previous year, largely because of a payment of €383 million into the capital reserves of Volkswagen Bank GmbH.

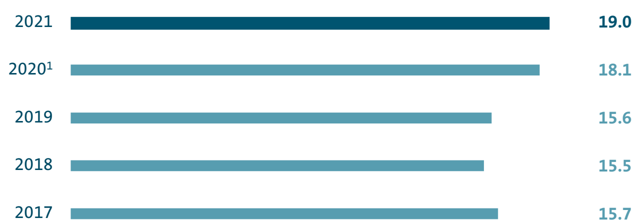
TIER 1 CAPITAL RATIO/COMMON EQUITY TIER 1 CAPITAL RATIO

figures in %



OVERALL RATIO/TOTAL CAPITAL RATIO

figures in %



1 Retrospective update in accordance with EBA Q&A 2018_4085 taking into account balance sheet figures from the approved consolidated financial statements.

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 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 revocable and irrevocable credit commitments. In the Volkswagen Bank GmbH Group, they amounted to €14,249 million as of December 31, 2021 (previous year restated: €11,358 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 €4.0 billion, Volkswagen Bank GmbH holds senior ABS bonds issued by special purpose entities of Volkswagen Bank GmbH in an amount of €16.0 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 157% and 274% 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. Over the whole of the reporting year, the survival period recovery indicator showed a survival period of more than 12 months at all times.

FUNDING

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 €26.5 billion (previous year: €28.7 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.

In June 2021, Standard & Poor's completed a review of its ratings within the German banking sector due to structural changes in the banking business. As a result, Volkswagen Bank GmbH's long-term rating was downgraded by one notch from A– to BBB+ with a stable outlook.

In March 2021, Moody's Investors Service revised the outlook for Volkswagen AG from negative to stable and affirmed the short-term and long-term ratings at P–2 and A3 respectively in response to the ongoing recovery in global automotive sales and in expectation of an improvement in credit metrics. At the same time, the short-term and long-term ratings for Volkswagen Bank GmbH were likewise left unchanged at P–1 and A1. The outlook was revised from negative to stable.

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 2021

The result from ordinary activities amounted to €843.6 million compared with €554.3 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 €2,047.8 million compared with €2,012.4 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 €160.4 million year-on-year to €1,382.7 million. Of this amount, €825.8 million (previous year: €971.1 million) was attributable to retail financing and €226.3 million (previous year: €285.0 million) to dealer financing.

Net income from leasing business amounted to €732.8 million (previous year: €609.3 million). Within this figure, income from leasing transactions, which rose by €227.0 million or 20.7%, is set against expenses from leasing transactions, which were up by €103.4 million or 21.1%.

Fee and commission income amounted to €364.5 million, which equated to a decrease of €0.2 million compared with the prior-year level. Fee and commission expenses came to €519.9 million (previous year: €536.8 million). Net fee and commission income was in negative territory in 2021, with a net expense of €155.5 million (previous year: net expense of €172.2 million).

Other operating income rose by €75.1 million to €431.2 million, which was mainly attributable to the reversal of provisions for litigation risk.

General and administrative expenses increased by €23.4 million to €793.2 million (previous year: €769.9 million). Personnel expenses increased by €12.9 million to €203.6 million.

Expenses arising from cost transfers from affiliated companies went up by €28.8 million to €303.2 million. Fees for services provided by third parties decreased by €38.6 million to €36.0 million.

Depreciation and write-downs on lease assets at the French branch amounted to €662.3 million (previous year: €541.6 million). Other operating expenses fell by €23.0 million to €70.0 million.

The provision for credit risks came to a net reversal of €54.9 million in the reporting year (previous year: net addition of €227.9 million). The profit after tax of €562.8 million (previous year: €382.9 million) will be transferred to Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

Total assets rose by €0.2 billion to €81.8 billion (previous year: €81.6 billion). The customer loans and receivables reported in the balance sheet declined by €5.0 billion and amounted to €46.5 billion as of the reporting date (previous year: €51.6 billion). Private and business customers accounted equally for this year-on-year change in loans and receivables.

The cash reserve increased by €4.0 billion to €11.0 billion (previous year: €7.1 billion).

Most of Volkswagen Bank GmbH's portfolio comprises securities from ABS transactions, of which €16.6 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 €34.5 billion (previous year: €35.4 billion), other liabilities of €18.6 billion (previous year: €19.1 billion), notes and commercial paper issued of €5.1 billion (previous year: €7.0 billion) and liabilities to banks of €13.2 billion (previous year: €9.7 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 concerning 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: €8.9 billion) as of the reporting date.

INCOME STATEMENT OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	2021	2020
Net interest income	1,315	1,403
Net leasing income	733	609
Net fee and commission expense	–155	–172
Administrative expenses	793	770
Other net income/expense	–311	–288
Provision for credit risks	–55	228
Result from ordinary business activities	**844**	**554**
Extraordinary result	0	1
Tax expense	281	172
Profits transferred under a profit transfer agreement	563	383
Net income for the year	**0**	**0**
Retained profits brought forward	0	0
Asset transfer	0	0
Amount withdrawn from capital reserves	0	0
Net retained profits	**0**	**0**

BALANCE SHEET STRUCTURE OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	Dec. 31, 2021	Dec. 31, 2020
Assets		
Cash reserve	11,022	7,056
Loans to and receivables from banks	381	349
Loans to and receivables from customers	46,549	51,573
Marketable securities	21,300	20,363
Equity investments and shares in affiliated companies	217	219
Lease assets	2,121	1,778
Other assets	243	247
Total assets	**81,833**	**81,584**
Equity and liabilities		
Liabilities to banks	13,193	9,690
Liabilities to customers	34,514	35,432
Notes, commercial paper issued	5,087	7,048
Provisions	525	596
Subordinated liabilities	30	30
Funds for general banking risks	26	26
Equity	9,224	8,842
Other liabilities	19,235	19,920
Total equity and liabilitiess	**81,833**	**81,584**
Balance sheet disclosures		
Contingent liabilities	268	200
Other obligations	14,249	1,924

NUMBER OF EMPLOYEES

Volkswagen Bank GmbH employed 1,114 people (previous year: 1,138) in Germany at the end of 2021.

A total of 792 people (previous year: 793) 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

In the present challenging business environment, Volkswagen Bank GmbH's proactive management of opportunities and risks remains a key factor in maintaining the successful performance of the business.

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 an increase in deliveries to Volkswagen Group customers in 2022 compared with the previous year despite ongoing challenging market conditions, provided that the Covid-19 pandemic does not worsen again and the supply problems affecting commodities and intermediate products such as semiconductors improve. Fiscal year 2022 will continue to be adversely impacted by supply chain difficulties because of the structural shortage of semiconductor chips. However, these difficulties are expected to ease over the course of the year. 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 also 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 individual entities within the Group and the Volkswagen Bank GmbH Group itself is based on information that is reliable and has been properly recognized as of the reporting date December 31, 2021. 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 activitied, 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 % (to date 2.00%) for the Volkswagen Bank GmbH Group, applicable from March 1, 2022. The Pillar 2 requirement must be satisfied in addition to the minimum capital requirements under Pillar 1 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.

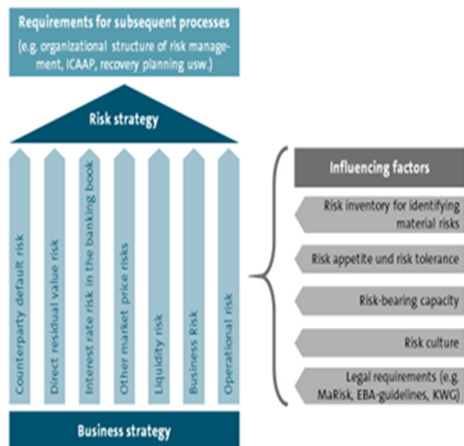
As part of this overall responsibility, the Management Board of Volkswagen Bank GmbH has introduced a MaRisk-compliant strategy process and implemented a business and risk strategy. The ROUTE2025 business strategy sets out the fundamental views of the Management Board of Volkswagen Bank GmbH on key matters relating to business policy. 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), 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 risk inventory carried out as per December 31, 2020 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.

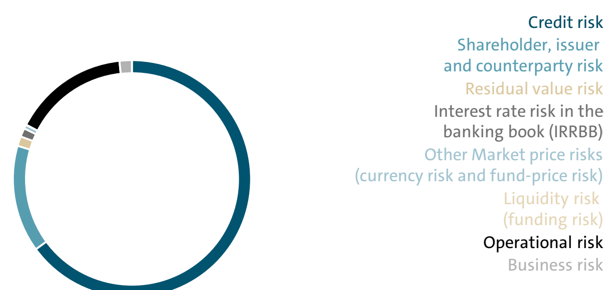
Risk-taking potential is determined from the available equity and earnings components subject to deductions (such as undisclosed liabilities). In accordance with a moderate, overarching risk appetite, only a portion (a maximum of 90%) of this risk-taking potential is specified as a risk ceiling or overall 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, 2021 amounted to €2.4 billion. The apportionment of this total risk by individual risk category was as follows:

DISTRIBUTION OF RISKS BY TYPE OF RISK
as of December 31, 2021



CHANGES IN RISK CATEGORY APPORTIONMENT[1]

	€ MILLION		SHARE IN PERCENT	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Risk category				
Credit risk	1,546	1,737	65	63
Shareholder, issuer and counterparty risk	347	330	15	12
Residual value risk	32	34	1	1
Interest rate risk in the banking book (IRRBB)	27	31	1	1
Other market risk (currency and fund price risk)	13	12	1	0
Liquidity risk (funding risk)	1	16	0	1
Operational risk	375	491	16	18
Business risk	40	100	2	4
Total	**2,381**	**2,752**	**100**	**100**

1 The confidence level is 99.9% as standard.

As of December 31, 2021, risk-taking potential amounted to €9.5 billion and comprised CET1 capital (€9.5 billion) plus accumulated earnings after dividend deduction (€0.4 billion) less hidden charges and loss allowance shortfalls (€0.3 billion in total). As of December 31, 2021, 25% of risk-taking potential was utilized by the risks outlined above. In the period January 1, 2021 to December 31, 2021, the maximum utilization of the risk-taking potential in the economic perspective was 29%. 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 historical scenarios (such as a repeat of the financial crisis in the years 2008 to 2010) and hypothetical scenarios (including an economic downturn in Europe or a sharp drop in sales in the Volkswagen Group). In 2021, an ad hoc stress test investigating a contraction in business volume was also carried out. In addition, 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.

In 2021, 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.

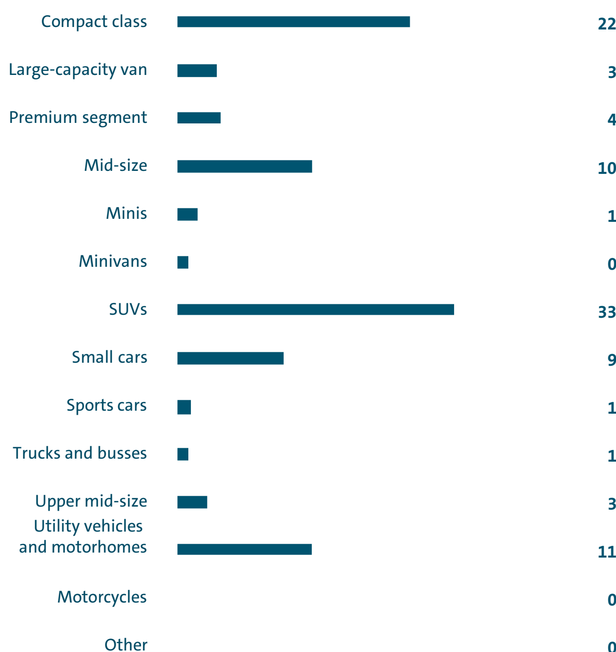
Counterparty concentrations from customer business are only of minor significance in the Volkswagen Bank GmbH Group because of the large proportion of business accounted for by retail lending. From a regional perspective, the Volkswagen Bank GmbH Group has a concentration of business in the German market, 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 finance company 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. As of December 31, 2021, the default rate in dealer financing was 4.6% compared with 4.9% as of December 31, 2020 and 4.6% as of December 31, 2019.

Likewise, a captive finance company 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, 2021

figures 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

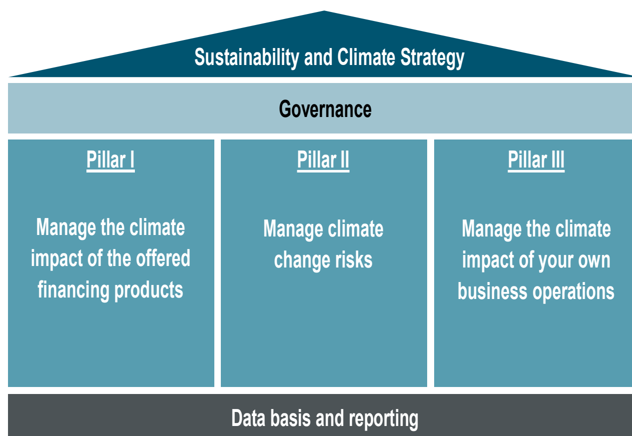
intends to be proactively involved in these changes and make the most of the opportunities that arise.

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, the Management Board believes that 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 ECB's supervisory expectations published in its guide on climate-related and environmental risks are also being incorporated.

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 particular 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. In addition, the Bank is responding to changing customer needs. These needs are manifested in increasing demand for environmentally friendly and climate-neutral products, and for businesses to behave in a sustainable manner.

Going forward, the risk drivers specific to climate and the environment will play a significant role in the risk category structure and will be included in the risk assessment and management system. Various approaches are being pursued in this regard. For example, the plans include scenario analyses, reviews to establish whether risk models and risk assessment methods can be appropriately refined and risk management via KPIs.

Volkswagen Bank GmbH is a captive finance company and its vehicle financing business is specifically aimed at the retail customer market and dealership financing. The Bank's business model thus does not cover especially emissions-intensive industries. One of Volkswagen Bank GmbH's declared objectives is to provide stewardship for an environmentally friendly transformation process at dealerships and also among retail customers. In this way, the Bank aims to provide the best possible support for the turn towards electric mobility in the Volkswagen Group.

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 from now on. Sustainability criteria will also be included in the Bank's own investment guidelines.

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.

In addition, the Bank constantly examines factors, particularly those of an environmental nature, that could constitute a potential hazard for employees, buildings or technologies, investigates ways to minimize such risks and includes them in its impact analyses.

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 2021, 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 2021 focused in particular on an analysis of the Group's ability to recover based on two adverse scenarios. One of the scenarios simulated a serious pandemic and the second scenario assumed a massive cyber attack during a pandemic.

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 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 2021.

REGULATORY ISSUES IN RISK MANAGEMENT

As already observed in the past, it is likely that there will continue to be an uninterrupted flow of new regulatory requirements in the future.

The regulatory requirements on nonperforming loans (NPLs) are currently of particular relevance to risk management at Volkswagen Bank GmbH. The supervisory expectations for an appropriate level of loss allowances in accordance with the supplementary guidance from the ECB on NPLs are especially noteworthy in this regard in addition to the basic ECB expectations and EBA requirements for the management of NPLs. The Prudential Backstop Regulation also has implications for risk management. Volkswagen Bank GmbH is continually refining and optimizing its recovery and resolution processes, taking into account the regulations referred to above.

The Bank has updated its standards for assessing and granting lending in response to the new EBA guidelines on loan origination and monitoring. Some of the procedural aspects tailored to the particular needs of Volkswagen Bank GmbH were implemented for new loans by June 30, 2021. The aim was to generate added value in the sense of an improvement to the credit risk management system. The other requirements, including the necessary IT, are scheduled for gradual implementation by June 30, 2024 in accordance with the EBA's transitional provisions.

The requirements arising from the EBA guidelines on outsourcing arrangements must also be incorporated into the risk management system. The guidelines include detailed requirements for due diligence, risk analysis and documentation for outsourcing arrangements. There are also additional requirements relating to the terms and conditions in outsourcing agreements and their monitoring as well as relating to the extension of termination rights. These requirements concern in particular compliance with IT security standards and outsourcing to cloud service providers. Under the EBA guidelines, the requirements relating to sub-outsourcing are also substantially expanded. The EBA guidelines on outsourcing will require modification of existing contracts; there was be a transition period up to December 31, 2021 for these changes. Outsourcing is also subject to further requirements as a result of the Finanzmarktintegritätsstärkungsgesetz (FISG – Financial Market Integrity Strengthening Act), which provided for implementation by January 1, 2022. These requirements mainly concern an obligation to notify an inten-

tion to establish material outsourcing arrangements or make material changes to significant existing outsourcing arrangements and notify the implementation of such arrangements or changes. In this regard, the German Federal Financial Supervisory Authority (BaFin) launched a consultation process in December of the reporting year on the changes to the notification requirements.

Supervisory authorities are also increasingly focusing on information and communication technology (ICT) risk. Relevant requirements have been issued in the EBA guidelines on ICT risk assessment and in BaFin's supervisory requirements for IT in financial institutions (BAIT), which were most recently revised on August 16, 2021 and form the basis for Volkswagen Bank GmbH's approach. Against the background of the increasing risk of cyber attacks, the draft published by the European Commission in 2020 for an EU regulation on digital operational resilience for the financial sector (DORA), the aim of which is to achieve a uniform high level of digital operational resilience, is of particular significance with regard to harmonized requirements for the security of network and information systems. However, most of these requirements are already known from the EBA's guidelines on ICT and security risk management and BAIT.

Further adjustment requirements arose from the revised MaRisk published on August 16, 2021, although the vast majority of the requirements had already been issued in EBA guidelines. Key aspects of the revised MaRisk were requirements relating to nonperforming loans, outsourcing arrangements, business continuity management (undoubtedly a response to the experience garnered during the Covid-19 pandemic) and operational risk, the management and prevention of which is becoming increasingly important for banks. With regard to the expansion of the data management requirements to include significant institutions, BaFin has clarified that this does not involve any extension of the requirements beyond the expectations communicated by the ECB in 2019. Volkswagen Bank GmbH is continuing to develop its data management systems with reference to regulatory expectations.

Regarding operational risk, the Basel Committee has in the last year extended its principles for managing operational risk to include ICT risk. The Basel Committee has also published a paper focusing on the principles for operational resilience at banks. For the purposes of creating a forward-looking risk management system, Volkswagen Bank GmbH has used these publications as a stimulus for further development as part of a preliminary study.

To add to this, regulatory requirements to include climate and environmental risks, including transition risk, as part of ESG risks will become more important over the next few years. These risks will need to be included when identifying, assessing, monitoring and controlling risk if they are determined as material drivers behind known categories of risk. In this regard, it is particularly worth mentioning the ECB's guide on climate-related and environmental risks for banks published on November 27, 2020. Volkswagen Bank GmbH is taking the guide's requirements into account going forward and has produced a related action plan, which is being continually refined and implemented in stages.

At the end of October in the reporting year, the European Commission published its Banking Package with its draft amendments to the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR). The aim is largely to implement Basel IV, which the Basel Committee also refers to as the completion of Basel III. The main requirements are to be implemented by January 1, 2025. One of the other key aspects in the draft CRD VI – which would still have to be transposed into German law after completion of the European legislative procedure – is the issue of ESG risks, including transition risks, that could arise if a business model is inadequately adjusted or upgraded. The Commission's draft for CRD VI therefore provides that banks should draw up transition plans for the future to counter these risks. Volkswagen Bank GmbH is a captive provider and its support for the transition to a low-carbon economy by offering appropriate financing arrangements is likely to depend to a large extent on the transition at Volkswagen AG and at the other brand manufacturers in the Volkswagen Group.

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	

IMPACT OF THE COVID-19 PANDEMIC ON RISK CATEGORIES

The Covid-19 pandemic continued to present challenges for both employees and customers of Volkswagen Bank GmbH in 2021.

The situation was compounded in 2021 by the semiconductor bottlenecks caused by a number of factors, such as lockdowns to cope with the Covid-19 pandemic, simultaneous heightened demand for semiconductors, especially in the consumer electronics industry, and logistics problems. The impact of the semiconductor shortage was reflected in lower new vehicle production and therefore fewer opportunities for the Volkswagen Bank GmbH Group to offer its financing solutions, leading to a sustained contraction in the volume of loans and receivables in 2021 (down by €5.5 billion as of December 2021 compared with December 2020). The shortage of new vehicles, and therefore of new vehicle financing, was only partially offset by the used vehicle business. To add to this, dealers sharply reduced their use of credit facilities in 2021 because of the lack of available new vehicles. Currently, manufacturers are unable to satisfy the high demand for new vehicles because of the persistent semiconductor bottlenecks and dealers are also unable to restock their inventories after selling vehicles.

Despite the volume challenges, the quality of the lending portfolio remained at a stable level in 2021. The default rate remained steady and was still at 2.9% as of December 2021 (previous year: 2.9%). The percentage provision for credit risks declined slightly to 2.1% as of December 2021 (previous year: 2.3%). Any credit risks were taken into account in the recognition of the provision for credit risks in 2021. Based on various scenario calculations, the Volkswagen Bank GmbH Group should be prepared for potentially conceivable developments and has factored the current circumstances into the provision for credit risks recognized as of the end of 2021.

In the reporting year, the semiconductor bottlenecks and thus the lower availability of new vehicles generated an uptrend in the used vehicle market and a 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 2022, 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. The default is caused by the borrower's or lessee's insolvency or unwillingness to pay. This includes a situation in which the counterparty does not make interest payments or repayments of principal on time or does not pay the full amounts.

Credit risk, which also includes counterparty default risk in connection with leases, accounts 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 Systems 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 management 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 are used at risk pool level, 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 derived from the results of the rating and scoring processes.

The following average values have been determined for the aggregate active portfolio (i.e. portfolio of loans and receivables not in default) based on a time horizon of twelve

months: probability of default (PD) of 2.7% (previous year: 3.0%); loss given default (LGD) of 21.2% (previous year: 29.2%) and total volume of loans and receivables based on the total portfolio less exposures in default of €47.5 billion (previous year: €52.8 billion).

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. To this end, exposures are transferred to a suitable form of supervision or support depending on risk content (normal, intensified or problem loan). 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

Following an initial moderate trend in credit risk, the risk level was shaped by the sustained semiconductor supply bottlenecks over the rest of fiscal year 2021. The shortage of semiconductor chips led to a significant fall in the volume of loans and receivables in the credit risk portfolio (down by €5.5 billion year-on-year as of December 2021).

Retail Portfolio

The semiconductor shortage and the associated slump in new business led to a contraction in the volume of loans and receivables in the Volkswagen Bank GmbH Group's retail portfolio in 2021 because the level of new business was no longer sufficient to offset the existing business that matured during the year. The lack of available new vehicles particularly affected new business and only some of the shortfall was offset by the growth in used vehicle business. As of December 2021, the volume of loans and receivables in the retail portfolio had contracted by €3.5 billion year-on-year. The fall in the volume of loans and receivables was attributable to the trend in the German retail portfolio (down by €4.2 billion year-on-year as of December 2021), although persistently strong demand for the retail products in Italy and France in 2021 did generate a slight rise in the volume of loans and receivables. In Italy, the volume of loans and receivables went up by €463 million as of December 2021 compared with December 2020 and in France the equivalent figure rose by €411 million year-on-year. In Italy and France, the shortage of semiconductors and thus new vehicle business has been partially offset by the used vehicle business as yet.

Overall, credit risk in the Volkswagen Bank GmbH Group's retail portfolio has remained stable. In 2021, the default rate saw just a marginal rise from 2.2% as of December 2020 to 2.3% as of December 2021. The percentage provision for credit risks declined from 1.7% as of December 2020 to 1.6% as of December 2021.

Corporate Portfolio

The volume of loans and receivables in the corporate portfolio of the Volkswagen Bank GmbH Group likewise declined considerably in fiscal year 2021 (year-on-year decrease of €2.0 billion as of December 2021). This was attributable to a contraction in the dealer financing portfolio (down by €2.6 billion as of December 2021 compared with December 2020) as dealers made less use of their credit facilities due to the semiconductor shortage.

Risk in the corporate portfolio remained stable with a slight fall in the default rate (from 4.9% as of December 2020 to 4.5% as of December 2021) and a slight decrease in the percentage provision for credit risks (from 4.2% as of December 2020 to 3.8% as of December 2021).

BREAKDOWN OF CREDIT VOLUME BY REGION
in € million

Data as of Dec. 31, 2021
Data as of Dec. 31, 2020

1 Figures before application of consolidation effects
2 Europe excluding Germany

BREAKDOWN OF LENDING VOLUME BY PD BAND AND PORTFOLIO1
€ million

PD band	Retail	Corporate	Total
< = 1%	14,965	4,612	19,576
	30.6%	9.4%	40.0%
> 1% < 100%	20,773	7,138	27,912
	42.5%	14.6%	57.1%
100%	841	554	1,395
	1.7%	1.1%	2.9%
Total	**36,579**	**12,304**	**48,883**
	74.8%	25.2%	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. 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 could have a negative impact on results of operations.

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

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
The changes in interest rate risk in the banking book at the level of the Volkswagen Bank GmbH Group were within the set limits.

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 shortage of semiconductors nor the Covid-19 pandemic caused any unexpected liquidity outflows whatsoever. 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.

A distinction is made between direct and indirect residual value risk in relation to the bearer of this risk. Direct residual value risk refers to residual value risk borne directly by 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. Residual value recommendations for new lease origination must take into account prevailing market circumstances and future influences. Various stress tests for direct residual value risks are also in place to create a comprehensive picture of the risk sensitivity of residual values. 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

In 2021, the branch in Germany became subject to direct residual value risk from new variants of the Autokredit product launched on July 1, 2021. The residual value risk results from two vehicle credit product variants, namely the residual value guarantee (for the Audi brand) and the residual value option (for the Volkswagen Passenger Cars brand) offered to dealerships in the new vehicle business. At consolidated level, the Volkswagen Bank GmbH Group was therefore exposed to direct residual value risk as of December 31, 2021 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 98%

of the total direct residual value risk and around 67% 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 saw a further rise and remained at a high level, reflecting the conservative evaluation of the residual value situation maintained by the branch.

The semiconductor shortage in 2021 led to an uptrend in used vehicle prices and ultimately to gains on the remarketing of vehicles in the reporting year. The gain from remarketing vehicles in the Volkswagen Bank GmbH Group in the year ended December 2021 amounted to €27.1 million, with €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 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. The results are monitored by Risk Management.

Reputational Risk

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

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

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.

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. A standardized loss form is made available to the local experts to aid this process. The experts use this form to determine and record the relevant data, including the amount and cause of the loss.

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. 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). To this end, 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).

The Risk Management unit 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 initiates appropriate modifications as required. This includes, in particular, the integration of all operational risk units, a review to check compliance with the risk sub-strategies for operational risks and a review of the methods and procedures used for risk measurement.

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.

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 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 Group as a going concern.

As of December 31, 2021, the regulatory own funds requirements amounted to €4.0 billion. The actual available own funds amounted to €9.5 billion and therefore exceeded the regulatory requirements.

Forecast of Material Risks

Credit Risk Forecast

Overall, it is anticipated that the risk situation will remain challenging in 2022 because of the persistent Covid-19 pandemic and the ongoing semiconductor chip shortage. Nevertheless, the volume of loans and receivables is projected to grow (by 14% compared with December 2021 based on the 2022 budget). The risk situation in the Volkswagen Bank GmbH Group will continue to be closely monitored in 2022 so that the Bank can respond proactively to any developments that may occur.

Interest Rate Risk in the Banking Book Forecast

A cycle of interest rate hikes has been detected outside the eurozone, leading to higher interest and higher associated interest expenses. Within the eurozone, interest rates are expected to remain stable and interest rate risk low.

Liquidity Risk Forecast

Volkswagen Bank GmbH predicts that its funding instruments will still be permanently available in 2022, though the year will continue to be affected by the Covid-19 pandemic. In the current year, it is likely that growth in the asset portfolio will follow a lower trajectory because of the ongoing shortage of semiconductors. 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 2022 overall (by 22% compared with December 2021 based on the 2022 budget).

Operational Risk Forecast

The year 2021 has demonstrated that we can effectively manage potential operational risk despite the pandemic in such a way that this risk does not materialize to any significant extent.

We predict that our management will be equally successful in 2022 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 the actual developments may differ from those forecast. If material parameters relating to key sales markets vary from the assumptions, or material changes arise from the exchange rates, commodities or supply of parts (in particular, semiconductors) relevant to the Volkswagen Group, or the actual impact of the Covid-19 pandemic deviates from the scenario assumed in this report, the performance of the business will be affected accordingly. In addition, expected business performance may vary if the key performance indicators and risks and opportunities presented in this annual report turn out to be different from current expectations, or additional risks and opportunities or other factors emerge that affect the development of the business.

Human Resources Report

Realignment of HR: Business Driven – People Focused.

EMPLOYEES

Volkswagen Bank GmbH employed 1,114 people (previous year: 1,138) in Germany at the end of 2021.

A total of 792 people (previous year: 793) were employed at the international branches of Volkswagen Bank GmbH.

HUMAN RESOURCES STRATEGY

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

Responsibility for implementing the employee strategy at an international level lies with the branches and the international subsidiaries themselves, supported by the international HR unit at the head office in Braunschweig. The branches and local entities hold individual and overarching meetings on a regular basis with the head office in Braunschweig to report on their progress and share detailed related information. For example, notable positive trends and activities are presented and discussed at the annual HR conference so that synergies can also be leveraged between the different branches and local entities.

The new business driven – people focused reorientation began in the reporting year, serving to guide all the activities in the HR unit.

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

To ensure the best possible structure and have the ability to meet the needs of customers in future, the HR unit has started to develop a new HR strategy in 2021. This covers predominantly issues that support the transformation of the Bank while enabling the HR unit to function to an even greater extent in a digital, data-driven system. The HR strategy is to be completed in 2022.

Another key aspect of HR activities continued to be the need to cope with the Covid-19 pandemic and the associated new requirements for managers and for working remotely, both in Germany and in the international offices. While, due to the pandemic, most employees were still working from home at the beginning and the end of the year, roughly half of them were back in the office during the middle of the year. The greatest challenge therefore was to allow for new hybrid formats for working together. Seminars and mandatory training sessions continue to be offered online, and many events are held in hybrid formats. For employees working at the Bank's offices, the best possible protection continues to be provided by the implemented hygiene protocols.

The HR Transformation program was set up in 2018. HR Transformation means everything involving the employees who are shaping or who are affected by the transformation process.

The HR Transformation program sets the framework in which all employees can make an individual contribution to the success of the transformation ,regardless of the extent to which they are affected by it. In addition to placing employees in new roles, the program also establishes the basic conditions, addresses key questions, sets out processes and specifies the skills and qualifications required. The importance of knowledge and experience is growing in the field of digitalization. Since 2020, HR has each year offered 20 sponsored online degree programs and other online training courses related to the areas of data, digitalization and cyber security.

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 employees concerned receive assistance in the form of training geared to their individual needs. 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. The Internal Labor Market has become an attractive option and managers now proactively seek applications via the transformation process. There are similar approaches at the international facilities.

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. 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 of an individual review to assess the current level of a manager's skills. 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 a top employer 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 2021competitions. In a comparison within Europe, the Bank 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 next plans to participate in the competition for Best Employer 2023. Customer satisfaction with the work of the employees is given top priority at Volkswagen Bank GmbH.

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

IMPLEMENTATION OF THE CORPORATE STRATEGY

The ROUTE2025 strategy is complemented by The FS Way and the associated leadership and management principles. The FS Way describes the company's corporate and leadership culture, i.e. the way in which the objectives of the five strategic areas for action – customers, employees, operational excellence, profitability and volume – can be achieved to enable the company, as an automotive financial services provider, to live up to its strategic vision of being The Key to Mobility. The FS Way is anchored in the theme of integrity and the five FS values: living commitment to customers, responsibility, trust, courage and enthusiasm, combined with an attitude of continuously looking to improve and proactively making the changes this requires. The FS values are complemented by the basic principles of the Volkswagen Group, known as the Essentials. The FS values are repeatedly explored and discussed at events for managers and employees, especially in terms of digital transformation, and then put into practice.

Together4Integrity (T4I), an integrity and compliance program for the entire Group launched in the second half of 2018, was continued in 2021 at both national and international levels. The program focuses on the strategic issues of compliance, culture and integrity in relation to processes, structures, attitudes and conduct. It contributes to the refinement and improvement of the corporate culture at Volkswagen Bank GmbH by organizing and tracking integrity and compliance initiatives throughout the Group. Following the successful completion of the U.S. Compliance Monitorship in September 2020, the program will be continued in 2022 and thereafter in accordance with the Group's master plan.

The HR unit aims to use its processes, tools, rules and policies to make a significant contribution to the creation of a working environment in which the values and conduct requirements of Volkswagen Financial Services AG are taken seriously. The objectives of the T4I initiatives assigned to the HR unit are to refine and enshrine the issues of integrity and compliance in key HR processes (recruitment, professional development, remuneration, disciplinary processes and employee retention). The Group's minimum standards underlying the initiatives have been set down in an organizational policy.

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 August 4, 2017, last amended by Article 1 of the Regulation of April 15, 2019. 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 and enhanced in fiscal year 2021. Furthermore, special governance functions (Remuneration Committee and Remunera-

tion Officer) were used to ensure that the adequacy of the remuneration systems was continuously monitored.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

Again in 2021, 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. The dual approach combines vocational training with study for a university degree. The Bachelor of Arts in Business Administration focusing on digital marketing & sales and financial services management is offered in collaboration with WelfenAkademie e. V.; the Bachelor of Science in Business Informatics and the Bachelor of Science in IT Security are offered in collaboration with Leibniz University of Applied Sciences. In 2021, 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 training offering has been expanded to include the vocational field of media design. 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.

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, the aim is to recruit specialists and experts to complement the existing workforce.

Volkswagen Bank GmbH is also pursuing a rigorous approach to recruiting and retaining young talent. 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 further developing its employees' skills in growth areas to ensure that they have the capability to adapt to changing job requirements. An offering targeted at all employees who wish to receive professional development in connection with digitalization was developed. Degree programs and courses lasting several months have been offered in the field of digitalization since 2020. This development opportunity is presented entirely online and can therefore be completed at any time or place at the convenience of the employee.

To promote employee engagement with the transformation and thereby support the transformation processes at the Bank, Volkswagen Bank GmbH continued to implement its ideas and innovation management system known as FS.IDEAS in the reporting year. All employees are encouraged to submit their ideas for conventional improvements or innovative changes.

INCREASE IN THE PROPORTION OF WOMEN

As of December 31, 2021, women accounted for 56.2% 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 2023	Target 2021	Actual 2021
Second management level	26.1	22.7	15.4
First management level	10.3	8.6	10.7
Management Board	20.0	–	0.0
Supervisory Board	30.0	–	33.3

DIVERSITY

In addition to the advancement of women, the concept of diversity has been an integral component of the corporate culture at Volkswagen Bank GmbH. 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 it in accordance with 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.

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.

Report on Expected Developments

The global economy is expected to continue growing in 2022, albeit at a somewhat lower level overall. Global demand for passenger cars will probably vary from region to region and increase moderately year-on-year. With 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 continue to grow in 2022, albeit at a somewhat lower level overall, on the heels of the recovery observed in the past fiscal year – provided that the Covid-19 pandemic does not flare up again and that shortages of intermediates and commodities become less intense. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. We anticipate that both the advanced economies and the emerging markets will experience positive momentum.

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

Europe

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

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

Germany

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Volkswagen Financial Services AG believes that automotive financial services will play a significant role in global vehicle sales in 2022, particularly because of the ongoing challenges resulting from the Covid-19 pandemic and the limited vehicle availability arising from the semiconductor shortage. We expect demand to rise in emerging markets where market penetration has so far been low. Regions that already benefit from developed automotive financial services markets will presumably see a continuation of the trend toward customers requiring mobility at the lowest possible total cost. Integrated end-to-end solutions, comprising mobility-related service modules such as insurance and innovative packages of services, will probably become increasingly important in

this regard. It is also likely that demand for new forms of mobility, such as rental services or car subscription models, and for integrated mobility services, such as parking, refueling and charging, will increase and that the shift from financing to lease contracts that has already begun in the European leasing business will continue. We anticipate that this trend will continue in the period from 2023 to 2026.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

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

Europe

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

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

Sales of passenger cars in 2022 are expected to distinctly exceed the prior-year figures in markets in Central and Eastern Europe.

Registrations of light commercial vehicles in 2022 are expected to slightly exceed the prior-year figures in markets in Central and Eastern Europe.

Germany

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

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

INTEREST RATE TRENDS

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

SUMMARY OF EXPECTED DEVELOPMENTS

The Volkswagen Bank GmbH Group predicts that the volume of business in the current fiscal year will be noticeably above the level of 2021. 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 2022

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: our earnings expectations assume stable funding costs, greater levels of cooperation with the individual Group brands and continuing optimization of costs as part of our efficiency program. In addition, our earnings forecasts take into account a continued high degree of uncertainty about macroeconomic conditions in the real economy due to the ongoing Covid-19 pandemic and the impact of this uncertainty on factors such as risk costs.

For 2022, we predict that the penetration rate will be at the level of the previous year, although a return to growth in deliveries is anticipated. New contracts and current contracts are expected to be substantially and slightly higher than the prior-year level, respectively. Business volume is therefore projected to be at a level noticeably higher than in 2021; we also expect the volume of deposits to be significantly above the prior-year level. In view of the major positive nonrecurring items in 2021, especially in the risk costs, we expect the operating result and return on equity for fiscal year 2022 to be drastically below the level of the previous year. The cost/income ratio is likely to reflect this change and we predict that the figure will be significantly higher than the prior-year figure despite a slight fall in overhead costs in 2022.

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

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

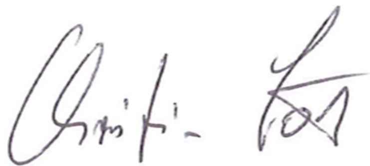
	Actual 2020 [1]	Actual 2021	Forecast for 2022
Nonfinancial performance indicators			
Penetration (percent)	18.9	17.9	At the level of 2021
Current contracts (thousands)	3,700	3,431	Slightly above the level achieved in 2021
New contracts (thousands)	1,074	1,046	Very significantly above the level achieved in 2021
Financial performance indicators			
Volume of business (€ million)	48,486	45,585	Noticeably above the level achieved in 2021
Volume of deposits (€ million)	28,694	26,489	Significantly above the level achieved in 2021
Operating result (€ million)	804	1,137	Drastically below the level achieved in 2021
Return on equity (percent)	8.0	10.5	Drastically below the level achieved in 2021
Cost/income ratio (percent)	51.4	40.1	Very significantly above the level achieved in 2021

1 The prior-year income statement has been restated to reflect the corrections to the provision for credit risks in respect of credit commitments. For details, please refer to the Changes to Prior-Year Figures section in the notes.

Braunschweig, February 22, 2022
The Management Board

Dr. Michael Reinhart

Oliver Roes



Christian Löbke

Dr. Volker Stadler

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Income Statement

of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020 restated[1]	Change in percent
Interest income from lending transactions and marketable securities	19	1,377	1,437	–4.1
Income from leasing transactions		1,152	965	19.4
Depreciation, impairment losses and other expenses from leasing transactions		–883	–723	22.0
Net income from leasing transactions	21, 65	269	241	11.4
Interest expense	20	–134	–153	–12.5
Income from service contracts		60	74	–18.0
Expenses from service contracts		–57	–80	–27.9
Net income from service contracts	22	3	–6	X
Provision for credit risks	8, 23	178	–265	X
Fee and commission income		160	188	–14.8
Fee and commission expenses		–44	–83	–47.0
Net fee and commission income	24	116	105	10.7
Net gain or loss on hedges	8, 25	–30	–8	X
Net gain or loss on financial instruments measured at fair value	26	7	4	70.0
General and administrative expenses	27	–808	–763	5.9
Other operating income		242	270	–10.5
Other operating expenses		–84	–59	41.4
Net other operating income/expenses	28	158	211	–25.1
Operating result		**1,137**	**804**	**41.4**
Share of profits and losses of equity-accounted joint ventures		30	33	–10.1
Net gain/loss on miscellaneous financial assets	29	–26	–1	X
Other financial gains or losses	30	–34	–29	18.8
Profit before tax		**1,107**	**808**	**36.9**
Income tax expense	6, 31	–328	–160	X
Profit after tax		**779**	**648**	**20.2**
Profit after tax attributable to Volkswagen AG		779	648	20.2

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

Statement of Comprehensive Income

of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020 restated[1]
Profit after tax		**779**	**648**
Pension plan remeasurements recognized in other comprehensive income	48		
Pension plan remeasurements recognized in other comprehensive income, before tax		28	–12
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	6, 31	–8	4
Pension plan remeasurements recognized in other comprehensive income, net of tax		19	–8
Fair value valuation of equity instruments that will not be reclassified to profit or loss, net of tax		1	0
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		**20**	**–8**
Exchange differences on translating foreign operations	4		
Gains/losses on currency translation recognized in other comprehensive income		13	–23
Transferred to profit or loss		–	–
Exchange differences on translating foreign operations, before tax		13	–23
Deferred taxes relating to exchange differences on translating foreign operations		–	–
Exchange differences on translating foreign operations, net of tax		13	–23
Hedging transactions	8		
Fair value changes recognized in other comprehensive income (OCI I)		2	3
Transferred to profit or loss (OCI I)		–2	–2
Cash flow hedges (OCI I), before tax		–1	0
Deferred taxes relating to cash flow hedges (OCI I)	6, 31	0	0
Cash flow hedges (OCI I), net of tax		0	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	8	–	–
Fair value changes recognized in other comprehensive income		–56	38
Transferred to profit or loss		0	0
Fair value valuation of debt instruments that may be reclassified to profit or loss, before tax		–56	38
Deferred taxes relating to fair value valuation of debt instruments that may be reclassified to profit and loss	6, 31	17	–11
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax		–39	26
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		**–26**	**4**
Other comprehensive income, before tax		–15	3
Deferred taxes relating to other comprehensive income		9	–8
Other comprehensive income, net of tax		**–7**	**–4**
Total comprehensive income		**772**	**644**
Total comprehensive income attributable to noncontrolling interests		–	–
Total comprehensive income attributable to Volkswagen AG		772	644

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

Balance Sheet

of the Volkswagen Bank GmbH Group

€ million	Note	Dec. 31, 2021	Dec. 31, 2020 restated[1]	Change in percent	Jan. 1, 2020 restated[2]
Assets					
Cash reserve	7, 33	11,022	7,056	56.2	3,471
Loans to and receivables from banks	8	340	348	–2.3	444
Loans to and receivables from customers attributable to					
Retail financing		31,073	33,808	–8.1	35,307
Dealer financing		9,026	11,549	–21.8	13,588
Leasing business		2,928	2,814	4.0	2,752
Other loans and receivables		3,047	3,077	–1.0	3,635
Total loans to and receivables from customers	8, 34	46,074	51,249	–10.1	55,282
Derivative financial instruments	8, 35	10	48	–78.6	51
Marketable securities	8, 36	4,704	3,806	23.6	3,556
Equity-accounted joint ventures	37	284	278	2.2	245
Miscellaneous financial assets	9, 37	5	8	–33.2	9
Intangible assets	10, 38	6	33	–81.2	39
Property and equipment	11, 39	24	27	–12.1	25
Lease assets	14, 65	2,236	1,788	25.0	1,657
Investment property	14, 40	0	0	–25.9	1
Deferred tax assets	6, 41	1,999	1,720	16.2	1,871
Income tax assets	6	4	17	–76.7	51
Other assets	42	543	563	–3.4	549
Assets held for sale (IFRS 5)		–	–	–	1,195
Total		**67,253**	**66,942**	**0.5**	**68,445**

€ million	Note	Dec. 31, 2021	Dec. 31, 2020 restated[1]	Change in percent	Jan. 1, 2020 restated[2]
Equity and liabilities					
Liabilities to banks	44	13,177	9,744	35.2	7,478
Liabilities to customers	44	34,342	35,404	–3.0	38,247
Notes, commercial paper issued	45, 46	5,708	8,702	–34.4	9,563
Derivative financial instruments	8, 47	52	24	X	70
Provisions	15, 16, 48	348	534	–34.8	453
Deferred tax liabilities	6, 49	2,155	1,831	17.7	1,986
Income tax liabilities	6	312	155	X	139
Other liabilities	50	262	233	12.7	396
Subordinated capital	46, 51	35	49	–27.0	105
Equity	53	10,861	10,268	5.8	10,007
Subscribed capital		318	318	–	318
Capital reserves		8,881	8,498	4.5	8,498
Retained earnings		1,701	1,466	16.1	1,203
Other reserves		–39	–13	X	–12
Total		**67,253**	**66,942**	**0.5**	**68,445**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

2 January 1, 2020 is the same as December 31, 2019 after corrections as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

Statement of Changes in Equity

of the Volkswagen Bank GmbH Group

				OTHER RESERVES						
					Hedging transactions					
€ million	Subscribed capital	Capital reserve	Retained earnings	Currency translation	Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)	Equity and debt instruments	Equity-accounted investments	Non-controlling interests	Total equity
Balance as of Jan. 1, 2020 before corrections	**318**	**8,498**	**1,223**	**–48**	**0**	**–**	**35**	**0**	**–**	**10,027**
Adjustment due to corrected provision for credit risks in respect of credit commitments[1]	–	–	–19	–	–	–	–	–	–	–19
Balance as of Jan. 1, 2020 after corrections	**318**	**8,498**	**1,203**	**–48**	**0**	**–**	**35**	**0**	**–**	**10,007**
Profit after tax[1]	–	–	648	–	–	–	–	–	–	648
Other comprehensive income, net of tax	–	–	–8	–23	0	–	26	–	–	–4
Total comprehensive income[1]	**–**	**–**	**640**	**–23**	**0**		**26**	**–**	**–**	**644**
Capital increase	–	–	–	–	–	–	–	–	–	–
Profit transfer to Volkswagen AG[2]	–	–	–383	–	–	–	–	–	–	–383
Other changes[3]	–	–	5	0	–	–	–5	0	–	0
Balance as of Dec. 31, 2020[1]	**318**	**8,498**	**1,466**	**–70**	**1**	**–**	**56**	**–**	**–**	**10,268**
Balance as of Jan. 1, 2021	**318**	**8,498**	**1,466**	**–70**	**1**	**–**	**56**	**–**	**–**	**10,268**
Profit after tax	–	–	779	–	–	–	–	–	–	779
Other comprehensive income, net of tax	–	–	19	13	0	–	–39	–	–	–7
Total comprehensive income	**–**	**–**	**798**	**13**	**0**	**–**	**–39**	**–**	**–**	**772**
Capital increase	–	383	–	–	–	–	–	–	–	383
Profit transfer to Volkswagen AG[2]	–	–	–563	–	–	–	–	–	–	–563
Other changes	–	–	0	–	–	–	0	–	–	0
Balance as of Dec. 31, 2021	**318**	**8,881**	**1,701**	**–57**	**0**	**–**	**18**	**–**	**–**	**10,861**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.
2 The figures show the share of HGB profit attributable to Volkswagen AG.
3 Prior-year figures restated due to editorial oversight. In connection with the derecognition of equity instruments in 2020, the reclassification of the effect of €5 million included in OCI that was applied in 2020 is now reported under retained earnings.

Further information on equity is presented in note (53).

Cash Flow Statement

of the Volkswagen Bank GmbH Group

€ million	Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020 restated[1]
Profit before tax	**1,107**	**808**
Depreciation, amortization, impairment losses and reversals of impairment losses	190	431
Change in provisions	–186	81
Change in other noncash items	–64	26
Gain on disposal of financial assets and items of property and equipment	3	1
Net interest expense and dividend income	–1,371	–1,431
Other adjustments	–2	0
Change in loans to and receivables from banks	12	93
Change in loans to and receivables from customers	5,624	3,725
Change in lease assets	–890	–517
Change in other assets related to operating activities	21	–18
Change in liabilities to banks	3,433	2,266
Change in liabilities to customers	–1,256	–2,815
Change in notes, commercial paper issued	–2,994	–855
Change in other liabilities related to operating activities	30	–163
Interest received	1,504	1,583
Dividends received	0	0
Interest paid	–134	–153
Income taxes paid	–104	–121
Cash flows from operating activities	**4,923**	**2,942**
Proceeds from disposal of investment property	–	–
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	–	–
Acquisition of subsidiaries and joint ventures	–	0
Proceeds from disposal of other assets	2	1,328
Acquisition of other assets	–3	–5
Change in investments in marketable securities	–937	–243
Cash flows from investing activities	**–939**	**1,080**
Proceeds from changes in capital	383	–
Distribution to Volkswagen AG	–383	–365
Loss assumed by Volkswagen AG	–	–
Change in cash funds attributable to subordinated capital	–13	–57
Repayment of lease liabilities	–2	–2
Cash flows from financing activities	**–15**	**–424**
Cash and cash equivalents at end of prior period	**7,056**	**3,471**
Cash flows from operating activities	4,923	2,942
Cash flows from investing activities	–939	1,080
Cash flows from financing activities	–15	–424
Effect of exchange rate changes	–3	–13
Cash and cash equivalents at end of period	**11,022**	**7,056**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

Further information on the cash flow statement is presented in note (66).

Notes

to the Consolidated Financial Statements of the Volkswagen Bank GmbH Group as of December 31, 2021

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 services both in Germany and abroad, the purpose of such financial 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 electronic German Federal Gazette and Company Register.

Basis of Presentation

Volkswagen Bank GmbH has prepared its consolidated financial statements for the year ended December 31, 2021 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, 2021 for which mandatory application was required in fiscal year 2021 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. 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 22, 2022. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Changes to Prior-Year Figures

CHANGES TO PRIOR-YEAR FIGURES DUE TO CORRECTION OF ERRORS

DISCLOSURES ON CREDIT COMMITMENTS AND THE RELATED PROVISION FOR CREDIT RISKS

The Volkswagen Bank GmbH Group has re-evaluated the treatment of revocable credit commitments. Generally speaking, the Bank does not make any use of the legal option to revoke such credit commitments or it is unable to prevent the drawdown of the commitments without some delay. For these reasons, Volkswagen Bank treats legally revocable credit commitments in the same way as irrevocable credit commitments under IFRS 9 (together referred to as “credit commitments” below). In substance, the Group would not have been previously able to prevent a drawdown of these credit commitments, which is why a provision for credit risks ought to have been recognized in previously published consolidated financial statements in application of IFRS 9.5.5.1. The error has therefore been corrected retrospectively, affecting the balance sheet, income statement and also some disclosures, mainly those on classes of financial instruments (note 56), fair values of financial assets and liabilities (note 57) and default risk (note 60).

The prior-year income statement has been restated as follows to reflect the corrections to the provision for credit risks in respect of credit commitments:

€ million	Jan. 1 – Dec. 31, 2020 before corrections	Adjustments due to corrected recognition of provision for credit risks in respect of credit commitments	Jan. 1 – Dec. 31, 2020 after corrections
Provision for credit risks	–229	–36	–265
Operating result	**840**	**–36**	**804**
Profit before tax	**844**	**–36**	**808**
Income tax expense	–170	10	–160
Profit after tax	**674**	**–26**	**648**
Profit after tax attributable to Volkswagen AG	674	–26	648

The balance sheet as of January 1, 2020 has been restated as follows to reflect the corrections to the provision for credit risks in respect of credit commitments:

€ million	Jan. 1, 2020 before corrections	Adjustments due to corrected recognition of provision for credit risks in respect of credit commitments	Jan. 1, 2020 after corrections
Assets			
Deferred tax assets	1,870	0	1,871
Total	**68,445**	**0**	**68,445**

€ million	Jan. 1, 2020 before corrections	Adjustments due to corrected recognition of provision for credit risks in respect of credit commitments	Jan. 1, 2020 after corrections
Equity and liabilities			
Deferred tax liabilities	1,992	–7	1,986
Other liabilities	370	26	396
Equity	10,027	–19	10,007
Retained earnings	1,223	–19	1,203
Total	**68,445**	**0**	**68,445**

The balance sheet as of December 31, 2020 has been restated as follows to reflect the corrections to the provision for credit risks in respect of credit commitments:

€ million	Dec. 31, 2020 before corrections	Adjustments due to corrected recognition of provision for credit risks in respect of credit commitments	Dec. 31, 2020 after corrections
Assets			
Deferred tax assets	1,719	1	1,720
Total	**66,941**	**1**	**66,942**

€ million	Dec. 31, 2020 before corrections	Adjustments due to corrected recognition of provision for credit risks in respect of credit commitments	Dec. 31, 2020 after corrections
Equity and liabilities			
Deferred tax liabilities	1,847	–16	1,831
Other liabilities	171	62	233
Equity	10,313	–45	10,268
Retained earnings	1,511	–45	1,466
Total	**66,941**	**1**	**66,942**

The prior-year cash flow statement has been restated as follows to reflect the corrections to the provision for credit risks in respect of credit commitments:

€ million	Jan. 1 – Dec. 31, 2020 before corrections	Adjustments due to corrected recognition of provision for credit risks in respect of credit commitments	Jan. 1 – Dec. 31, 2020 after corrections
Profit before tax	**844**	**–36**	**808**
Change in other liabilities related to operating activities	–199	36	–163
Cash flows from operating activities	**2,942**	**–**	**2,942**
Cash and cash equivalents at end of prior period	**3,471**	**–**	**3,471**
Cash flows from operating activities	2,942	–	2,942
Cash and cash equivalents at end of period	**7,056**	**–**	**7,056**

DISCLOSURES ON STAGE TRANSFERS WITHIN THE RECONCILIATION OF GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST, FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, CREDIT COMMITMENTS AND FINANCIAL GUARANTEES

To improve clarity in the reconciliation of the gross carrying amounts in note (60) Default Risk, only the portfolios at the time of the transfer are now used as a basis for the presentation of the figures in the transfers to Stage 1, Stage 2 and Stage 3 lines. Other portfolio changes, such as additions and derecognitions, are presented in separate lines. Accordingly, the prior-year figures in the reconciliation of gross carrying amounts have been adjusted as described below.

In the case of the assets measured at amortized cost, the gross carrying amounts in the portfolios at Stage 1 declined by €10,313 million in the previous year. This figure comprised the following: €7,926 million relating to other portfolio changes within Stage 1, €3,708 million relating to a net change from the transfer of gross carrying amounts from Stage 1 to the other stages (adjustment of the prior-year figures in each case by €+/–304 million) and €1,475 million relating to changes in the basis of consolidation. The increase of €9,010 million in the gross carrying amounts at Stage 2 arose from the net effect of €5,884 million related to other portfolio changes within Stage 2 and €3,209 million arising from the transfer of gross carrying amounts into Stage 2 from other stages (adjustment of the prior-year figures in each case by €+/–557 million). At Stage 3, the gross carrying amounts rose by €16 million, which was attributable to the net effect of transfers into Stage 3 of €499 million and other portfolio changes of €483 million (adjustment of the prior-year figures in each case by €+/–124 million).

In the case of the assets measured at fair value through other comprehensive income, the gross carrying amounts in the portfolios at Stage 1 increased by €1,181 million in the previous year. This figure comprised the following: €1,257 million relating to other portfolio changes within Stage 1 and €76 million relating to a net change from the transfer of gross carrying amounts from Stage 1 to the other stages (adjustment of the prior-year figures in each case by €+/–75 million). The decrease of €780 million in the gross carrying amounts at Stage 2 comprised the net effect of €856 million related to other portfolio changes within Stage 2 and €76 million arising from the transfer of gross carrying amounts into Stage 2 from other stages (adjustment of the prior-year figures in each case by €+/–177 million).

In the case of the gross carrying amounts of credit commitments and financial guarantees, the adjustment at Stage 1 amounted to €1 million and that at Stage 3 €1 million.

CHANGES TO PRIOR-YEAR FIGURES DUE TO REVISED ACCOUNTING POLICIES

ADDITIONS TO DEFAULT RISK RATING CLASSES

To improve transparency with regard to the requirements in IFRS 7.35M, more detail has been added to the presentation of default risk rating classes. To complement the presentation based on three default risk categories, which is used within the Volkswagen Group, the reporting now also includes the more extensive presentation of the 16 risk classes on the master scale. The probability of default, which is the relevant criterion for classification purposes, is also disclosed. This change in accounting policy is also reflected in the disclosures set out in note (60) Default Risk.

Impact of the Covid-19 Pandemic

Overall, the global spread of SARS-COV-2 continued to have a substantial detrimental impact in all areas of society and the economy in 2021 even though the increasing availability of testing capacity and vaccines meant that some restrictions and measures could be lifted (at least for a while).

Because of the Covid-19 pandemic, regular reports continued to be generated in 2021 on new business, the credit risk situation, realized residual values and payment deferrals. Particular attention was paid to the impact of the Covid-19 pandemic on the risk and liquidity situation in the dealer organization.

In terms of the Group's overall portfolio, the credit risk situation in 2021 was again shaped by the Covid-19 pandemic. The measures introduced in the previous year to avert and cushion the economic impact of the Covid-19 pandemic for customers, such as payment deferrals and joint support with the brands for the dealer organization, had the desired lasting effect and were gradually withdrawn in the first half of the reporting year. The action taken mitigated potential effects of the Covid-19 pandemic on the Group's credit risk. The generally higher level of estimation uncertainty caused by the pandemic relates primarily to projected credit quality, taking into account forward-looking factors.

Liquidity risk at the level of the Volkswagen Bank GmbH Group remained stable. Funding instruments remained available and stable at all times.

The ECB has made additional liquidity available on favorable terms under its TLTRO III program in order to encourage banks to lend to consumers and businesses during the Covid-19 pandemic. Volkswagen Bank GmbH believes that this support constitutes a government grant. It therefore recognizes the income from this government grant within the meaning of IAS 20 under net interest income. A market interest rate of 0.00 % has been assumed for the scenario in which the existence of a government grant has been identified. This is based on the alternative funding options available to Volkswagen Bank GmbH on the capital market.

The following two benefits have been identified as government grants. The special interest rate of –0.5% p.a. and the bonus for lending growth within specified periods. The growth requirements linked to the granting of the bonus will be satisfied with a reasonable degree of certainty or have already been confirmed for the Bank. Please refer to notes (32) and (44) for details.

The mandatory annual impairment tests for goodwill, brand names and other intangible assets with indefinite useful lives identified the need to recognize impairment losses because of the reduced earnings expectations due to the Covid-19 pandemic. Please refer to note (38).

For further information on the effects of the Covid-19 pandemic, please refer to the details set out in the Report on Economic Position and in the Report on Opportunities and Risks in the Management Report.

Effects of Global Supply Shortages

Performance in 2021 was dominated by the semiconductor chip shortage and associated supply problems for the brands in the Volkswagen Group. Consequently, the volume of loans to and receivables from customers was markedly below the level of the previous year, which led to a corresponding cut in the provision for credit risks. Overall, the Volkswagen Bank GmbH Group established that its credit risk had remained stable. Residual value risk also generally remained steady. The shortage of new vehicles actually led to a positive trend in the used vehicle market, as a result of which the Bank was able to generate gains from the marketing of used vehicles.

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 2021.

Since January 1, 2021, it has been mandatory to apply Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The phase 2 amendments address financial reporting issues that might arise when an interest rate benchmark is replaced with an alternative rate. The amendments introduce practical expedients or exemptions for modifications of financial assets, financial liabilities, lease liabilities and hedges. If contractual cash flows are modified by replacing the existing interest rate benchmark on an economically equivalent basis as a direct consequence of the interest rate benchmark reform, such modifications must be accounted for by adjusting the effective interest rate without direct modification gains or losses. A similar practical expedient has been introduced through amendments to IFRS 16 to cover the accounting treatment of lease liabilities. In addition, under the amendments to the standards, a hedge relationship does not need to be discontinued following an economically equivalent switch to a new interest rate benchmark; the hedge may continue, provided that the hedge documentation is appropriately updated and the hedge continues to satisfy the other hedge accounting requirements.

The VW Bank GmbH Group has been affected by the interest rate benchmark reform largely because of the switch from GBP LIBOR to SONIA. In fiscal year 2021, the Volkswagen Bank GmbH Group successfully completed the switch to the SONIA interest rate benchmark for the transactions in existence at the reporting date. Overall, there was no material impact on the consolidated financial statements from the switch from GBP LIBOR to SONIA.

In addition, an amendment to IFRS 16 Leases extended the option for lessees to apply practical expedients in assessing whether rent concessions in connection with the Covid-19 pandemic represented lease modifications. As in the previous year, the Volkswagen Bank GmbH Group is not making use of this option.

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 2021.

Standard/interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IFRS 3	Updating of references to the Conceptual Framework	May 14, 2020	January 1, 2022	Yes	No material impact
IFRS 17	Insurance Contracts	May 18, 2017	January 1, 2023	Yes[2]	Detailed description following the overview in the table
IFRS 17	Insurance Contracts – Amendments to IFRS 17	June 25, 2020	January 1, 2023	Yes[2]	Detailed description following the overview in the table
IAS 1	Classification of liabilities	January 23, 2020	January 1, 2023	No	No material impact
IAS 1	Disclosure of accounting policies	February 12, 2021	January 1, 2023	No	Some changes to disclosures in the notes based on the amended requirements
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
IAS 16	Property, Plant and Equipment – Proceeds before Intended Use	May 14, 2020	January 1, 2022	Yes	No material impact
IAS 37	Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract	May 14, 2020	January 1, 2022	Yes	No material impact
	Annual Improvements to International Financial Reporting Standards 2018-2020[3]	May 14, 2020	January 1, 2022	Yes	No material impact

1 Pflicht zur erstmaligen Anwendung aus Sicht der Volkswagen Bank GmbH
2 The EU's endorsement includes an option that exempts companies from applying a valuation requirement in certain cases.
3 Minor changes to a range of IFRSs (IFRS 1, IFRS 9 and IAS 41)

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, 2021.

Financial reporting in the Volkswagen Bank GmbH Group complies with IFRS 10 and is based on standard 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:

	2021	2020
Volkswagen Bank GmbH and consolidated subsidiaries		
Germany	1	1
International[1]	6	9
Subsidiaries recognized in financial assets		
Germany	–	–
International[2]	1	1
Equity-accounted associates and joint ventures		
Germany	1	1
International	2	2
Associates, joint ventures and equity investments recognized in financial assets		
Germany	–	1
International	2	2
Total	**13**	**17**

1 These are the structured entities. The prior-year figure has been added.
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, six (previous year: nine) structured entities were consolidated in the consolidated financial statements; together they included eight (previous year: eleven) 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 France FCT in Liquidation, Pantin, was deleted from the list of shareholdings in the reporting year. Driver España Four, in Liquidation, Fondo de Titulización, Madrid, and Driver España Five, Fondo de Titulización, Madrid, were also wound up on June 7, 2021 and December 10, 2021 respectively. Driver Italia One S.r.l., Milan, has been in liquidation since March 22, 2021.

EQUITY INVESTMENTS

Effective March 24, 2021, paydirekt Beteiligungsgesellschaft privater Banken mbH in Liquidation, Berlin, an entity in which Volkswagen Bank GmbH held an equity investment of 2.02%, was liquidated.

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

JOINT VENTURE 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 joint ventures on a 100% basis:

€ million	DFM N.V. (NETHERLANDS) 2021	DFM N.V. (NETHERLANDS) 2020	VOLKSWAGEN FINANCIAL SERVICES DIGITAL SOLUTIONS GMBH (GERMANY) 2021	VOLKSWAGEN FINANCIAL SERVICES DIGITAL SOLUTIONS GMBH (GERMANY) 2020	VOLKSWAGEN FINANČNÉ SLUŽBY SLOVENSKO S.R.O. (SLOVAKIA) 2021	VOLKSWAGEN FINANČNÉ SLUŽBY SLOVENSKO S.R.O. (SLOVAKIA) 2020
Shareholding (percent)	60%	60%	51%	51%	58%	58%
Loans to and receivables from banks	–	–	58	34	1	2
Loans to and receivables from customers	2,120	2,010	28	48	409	457
Lease assets	–	–	–	–	48	49
Other assets	68	30	159	151	9	16
Total	**2,188**	**2,040**	**245**	**233**	**467**	**525**
of which: noncurrent assets	636	583	139	130	349	365
of which: current assets	1,552	1,457	106	103	118	159
of which: cash	–	–	0	0	1	2
Liabilities to banks	1,829	1,702	–	8	365	441
Liabilities to customers	95	89	78	64	14	8
Other liabilities	2	14	7	12	4	4
Equity	261	234	160	150	84	72
Total	**2,188**	**2,040**	**245**	**233**	**467**	**525**
of which: noncurrent liabilities	270	116	1	3	92	132
of which: current liabilities	1,657	1,689	84	81	292	320
of which: noncurrent financial liabilities	270	116	–	–	90	131
of which: current financial liabilities	1,655	1,675	78	71	288	317
Revenue	54	54	878	831	85	79
of which: interest income	51	51	–	–	16	17
Expenses	–20	–22	–860	–794	–70	–79
of which: interest expense	–2	–3	–1	–1	–1	–1
of which: depreciation and amortization	–1	–1	–30	–35	–11	–12
Profit/loss from continuing operations, before tax	**35**	**32**	**18**	**37**	**15**	**–1**
Income tax expense or income	–8	–8	–8	2	–3	–1
Profit/loss from continuing operations, net of tax	**27**	**24**	**10**	**38**	**12**	**–1**
Profit/loss from discontinued operations, net of tax	–	–	–	–	–	–
Other comprehensive income, net of tax	–	–	–	–	–	–
Total comprehensive income	**27**	**24**	**10**	**38**	**12**	**–1**
Dividends received	–	–	–	–	–	–

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)
2020			
Equity of the joint venture as of Jan. 1, 2020	**210**	**94**	66
Profit/loss	24	38	–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, 2020	**234**	**150**	**72**
Share of equity	140	76	42
Goodwill	19	0	–
Carrying amount of the share of equity as of Dec. 31, 2020	**160**	**76**	**42**
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
Goodwill	0	0	–3
Carrying amount of the share of equity as of Dec. 31, 2021	**156**	**82**	**46**

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

ASSOCIATES

Credi2 GmbH, Vienna, Austria, develops software applications for processing lending products and digital procedures enabling customers to submit product applications/requests online. This equity investment in Credi2 GmbH accelerates Volkswagen Bank GmbH's digitalization of its business model. The subsidiary Credit2 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.

DISPOSAL GROUP

In the previous year, the branch of Volkswagen Bank GmbH in Dublin, Ireland, was closed with effect from June 30, 2020. Beforehand, on March 31, 2020, the non-regulated business (mainly comprising finance leases and dealer financing) of Volkswagen Bank GmbH, Ireland Branch, Dublin, Ireland, was sold to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig, in return for a consideration of €1,328 million and the branch's other business was transferred to Volkswagen Bank GmbH on March 1, 2020.

The following table shows the carrying amounts of the assets and liabilities as of the derecognition date (March 31, 2020):

€ million	IFRS carrying amounts as of the derecognition date
Loans to and receivables from customers attributable to	1,244
Dealer financing	185
Leasing business	1,039
Other loans and receivables	20
Other assets	3
Total assets	**1,247**
Liabilities to customers	6
Income tax liabilities	2
Total liabilities	**8**
Net assets	**1,239**

A gain of €89 million was realized on the sale and this amount was recognized under other operating income in the previous year.

The disposal formed part of the intragroup restructuring projects and continued the work begun in 2016 to reorganize Volkswagen's Financial Services division. As part of this restructuring, the European lending and deposits business was pooled in Volkswagen Bank GmbH and systematically separated from the other activities at Volkswagen Financial Services AG.

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.

	€1 =	BALANCE SHEET, MIDDLE SPOT RATE ON DEC. 31		INCOME STATEMENT, AVERAGE RATE	
		2021	2020	2021	2020
United Kingdom	GBP	0.84000	0.89925	0.85964	0.88932
Poland	PLN	4.59425	4.55615	4.56647	4.44411

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.

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.

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 ("hold 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 Bank 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 (35) and (47).

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 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, infla-

tion, 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.
To take account of the current production chain disruption (semiconductor chip shortage), the Volkswagen Bank GmbH Group has included a fourth scenario in the calculations. This scenario reflects a shift in all active risk classes of one level for all rating models and represents a deterioration in the customer group most seriously affected by the supply problems, namely the dealers. The shortage of semiconductor chips is continuing to cause demand for vehicles to outstrip supply. Consequently, the Volkswagen Bank Group does not anticipate any additional negative effect on remarketing proceeds (LGD).

Compared with the baseline scenario, the probability of default is reduced by 12% on average in the positive scenario, but is increased by an average of 11% in the negative scenario. The average increase in the probability of default for financial instruments affected by the semiconductor scenario is 97%.
When the scenarios are taken into account, there is a rise in the provision for credit risks of €37 million (3.7%).

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. This includes the addition of contracts to a watchlist for customers with loans subject to intensified loan management. 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. The Volkswagen Bank GmbH Group classifies contracts that satisfy the watchlist criterion but were not impaired on initial recognition (Stage 4 or POCI assets) to Stage 2. The watchlist comprises customers with loans subject to intensified loan management (rating classes 7 – 9). 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 classified as investment grade.

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 are 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 (60).

MODIFICATIONS

Modifications falling within the scope of IFRS 9 are adjustments of an individual financial instrument such that 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 VW 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. Such financial assets are not transferred between stages in subsequent measurement. In other words, they remain in Stage 4 (POCI assets). A change in the provision for credit risks is recognized in profit or loss, depending on the change in credit risk. Financial assets that are not posted as credit-impaired in the scope 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 or 3 if any increase in credit risk is identified.

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, notes and commercial paper issued, and subordinated capital liabilities 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 country-specific 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 and customer relationships, which are generally amortized over three or five years for software or ten years for customer relationships.

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 (13)).

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 Non-Financial 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 8.5% (previous year: 8.1%). 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.

A more detailed presentation of leases in the Volkswagen Bank GmbH Group is shown below for the first time. This is simply to improve transparency and does not reflect any greater materiality compared with the previous year.

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.

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. The value of a lease is treated as low 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 2021, 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 (47).

16. Other Provisions

Under IAS 37, provisions are recognized if a present legal or constructive obligation to third parties has arisen as a result of a past event, it is probable that settlement in the future will result in an outflow of economic resources, 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 (67).

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 –0.04% (previous year: –0.2%) 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 as well as trends in automotive markets, financial markets and the legal framework. 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 section Impact of the Covid-19 Pandemic for information on the estimation uncertainty resulting from the effects of the Covid-19 pandemic.

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. These estimates take into account as far as possible the latest market data as well as rating classes and scoring information based on experience combined with forward-looking macroeconomic scenarios. Further information on determining valuation allowances can be found in the disclosures on the provision for credit risks in note (60).

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

RECOVERABLE AMOUNT OF NON-FINANCIAL ASSETS, JOINT VENTURES AND EQUITY INVESTMENTS

The impairment tests applied to non-financial 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 non-cancelable 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 experience. The parameters used in the calculation of contractual service rates are regularly reviewed. During the term of contracts, income from service contracts is recognized on the basis of expenses incurred, plus a margin derived from the contractual service rates.

PROVISIONS

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

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

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 predictions with regard to decisions to be made by the courts and the outcome of legal proceedings. Each case is individually assessed on its merits based on developments in the proceedings, the company’s past experience in comparable situations and evaluations made by experts and lawyers.

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 €1,382 million (previous year: €1,427 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 income of €10 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 €134 million (previous year: €147 million) to financial instruments not measured at fair value through profit or loss. Of this amount, €0 million (previous year: €6 million) was offset against the net expense arising from interest income and expenses on derivatives not designated as hedges in the reporting period.

Interest expenses included negative interest on money market transactions in an amount of €34 million (previous year: €31 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 (65) Leases.

21. Net Income from Leasing Transactions

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

€ million	2021	2020
Leasing income from operating leases	423	365
Interest income from finance leases	127	146
Gains from the disposal of used ex-lease vehicles	490	347
Net interest income/expense from finance lease hedging derivatives	–	–
Miscellaneous income from leasing transactions	112	107
Income from leasing transactions	**1,152**	**965**
Lease assets depreciation and impairment losses	450	390
Expenses from the disposal of used ex-lease vehicles	382	286
Miscellaneous expenses from leasing transactions	51	47
Depreciation, impairment losses and other expenses from leasing transactions	**883**	**723**
Total	**269**	**241**

22. Net Income from Service Contracts

Of the total income recognized for service contracts, an amount of €59 million (previous year: €57 million) related to service contracts requiring the recognition of income at a specific time, and €1 million (previous year: €16 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 €23 million had been included in the contractual liabilities for service contracts within liabilities to customers as of January 1, 2021. Of the income recognized in the prior year, income of €16 million had been included in the contractual liabilities for service contracts as of January 1, 2020.

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	2021	2020
Additions to provision for credit risks[1]	–244	–499
Reversals of provision for credit risks	478	363
Direct write-offs	–84	–145
Income from loans and receivables previously written off	27	16
Net gain or loss from significant modifications	–	–
Total[1]	**178**	**–265**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

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 and financial services business. The breakdown is as follows:

€ million	2021	2020
Fee and commission income	160	188
of which commissions from insurance broking	99	119
Fee and commission expenses	–44	–83
of which sales commission from financing business	–20	–58
Total	**116**	**105**

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	2021	2020
Fair value hedges		
Gains/losses from micro fair value hedges		
Gains/losses on hedging instruments[1]	–215	171
Gains/losses on hedged items	187	–179
Gains/losses from the ineffective portion of hedging instruments	–28	–8
Cash flow hedges		
Gains/losses from the reclassification of reserves	–5	38
Gains/losses from translation of foreign currency loans/receivables and liabilities	5	–38
Gains/losses from the ineffective portion of hedging instruments	–2	0
Total	**–30**	**–8**

1 Prior year restated to show the total change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness for the period in accordance with IFRS 7.24A(c).

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 for hedge accounting are recognized under gains and losses on derivatives not designated as hedging instruments.

The details of the gains and losses are as follows:

€ million	2021	2020
Gains/losses on derivatives not designated as hedging instruments	12	0
Gains/losses on marketable securities measured at fair value through profit/loss	–5	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	0
Total	**7**	**4**

27. General and Administrative Expenses

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

€ million	2021	2020
Personnel expenses	–207	–198
Non-staff operating expenses	–568	–546
Advertising, public relations and sales promotion expenses	–12	–8
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–16	–12
Other taxes	–7	–1
Income from the reversal of provisions and accrued liabilities	3	3
Total	**–808**	**–763**

Personnel expenses comprise wages and salaries of €162 million (previous year: €155 million) as well as social security, post-employment and other employee benefit costs of €46 million (previous year: €43 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 (65) 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	2021	2020
Financial statement audit services	2	1
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 interim financial statements of German Group companies. Other attestation services related primarily to other mandatory audits. The other services performed by the auditor in the reporting period mainly consisted of topics relating to change management.

28. Net Other Operating Income/Expenses

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

€ million	2021	2020
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	2	9
Income from cost allocations to other entities in the Volkswagen Group	28	26
Income from the reversal of provisions and accrued liabilities	187	122
Income from claims for damages	–	–
Income from the disposal of vehicles under loan agreements and finance leases	14	7
Income from non-significant modifications	1	0
Miscellaneous operating income	10	106
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	–18	–8
Litigation and legal risk expenses	–22	–25
Expenses from the disposal of vehicles under loan agreements and finance leases	–15	–8
Expenses from non-significant modifications	–1	–3
Miscellaneous operating expenses	–28	–14
Total	**158**	**211**

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	2021	2020
Current tax income/expense, Germany	136	81
Current tax income/expense, foreign	139	91
Current income tax expense	**275**	**172**
of which income (–)/expense (+) related to prior periods[1]	–1	–1
Deferred tax income (–)/expense (+), Germany[1]	77	–32
Deferred tax income (–)/expense (+), foreign	–24	20
Deferred tax income (–)/expense (+)[1]	53	–12
Income tax expense[1]	**328**	**160**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

The reported tax expense in 2021 of €328 million (previous year restated: €160 million) is €4 million lower (previous year restated: €82 million lower) than the expected tax expense of €332 million (previous year restated: €242 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	2021	2020
Profit before tax[1]	**1,107**	**–808**
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[1]	**–332**	**–242**
+ Effects from different foreign tax rates	26	8
+ Effects from tax-exempt income	9	11
+ Effects from non-deductible operating expenses	–91	–77
+ Effects from loss carryforwards	–	0
+ Effects from permanent differences	32	–10
+ Effects from tax credits	0	0
+ Taxes attributable to prior periods	16	115
+ Effects from changes in tax rates	19	20
+ Effects from non-deductible withholding taxes[2]	0	0
+ Other variances	–7	15
= Income tax expense[1]	**–328**	**–160**
Effective tax rate in %	29.63	19.83

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.
2 To improve clarity, the table structure has been adjusted compared with the previous year and the effects from non-deductible withholding taxes added.

The statutory corporation tax rate in Germany for the 2021 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: 19.0% and 32.0%).

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, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Usable indefinitely	–	1	–	–
Usable within the next 5 years	–	–	–	–
Limit on utilization between 5 and 10 years	–	–	–	–
Usable within more than 10 years	–	0	–	–
Total	**–**	**1**	**–**	**–**
thereon deferred tax assets recognized	–	0	–	–

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 material 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 €–19 million (previous year: €–20 million) arose throughout the Group in 2021 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 2021.

Of the deferred taxes recognized in the balance sheet, an amount of €17 million (previous year: €8 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 2020 and 2021 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 €96 million on the basis of the amount of €13,000 million drawn down as of the reporting date. Of this amount, €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 €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 €10,971 million (previous year: €6,990 million) held with Deutsche Bundesbank.

34. 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 €57 million (previous year: €64 million). Of this amount, €47 million (previous year: €58 million) is attributable to finance leases and €10 million (previous year: €6 million) to operating leases. The due lease receivables are payable within one year.

35. Derivative Financial Instruments

This item comprises the positive fair values from hedges and from derivatives not designated as a hedging instrument. The breakdown is as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020
Transactions to hedge against		
currency risk on assets using fair value hedges	–	30
currency risk on liabilities using fair value hedges	–	–
interest-rate risk using fair value hedges	1	1
interest-rate risk using cash flow hedges	–	4
currency and pricing risk on future cash flows using cash flow hedges	2	–1
Total hedging transactions	**2**	**34**
Assets arising from derivatives not designated as hedges	8	14
Total	**10**	**48**

36. Marketable Securities

The marketable securities mainly consisted of fixed-income bonds from public-sector issuers amounting to €4,144 million (previous year: €3,277 million) and asset-backed securities from Volkswagen Financial Services (UK) Ltd., Milton Keynes, amounting to €548 million (previous year: €517 million).

Marketable securities amounting to €330 million (previous year: €412 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 €12 million (previous year: €11 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.

37. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2021	**287**	**9**	**296**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	–	–
Reclassifications	–	–	–
Disposals	–	–	–
Changes recognized in profit or loss	30	–	30
Dividends	–	–	–
Other changes recognized in other comprehensive income	–	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**

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2020	**254**	**9**	**262**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	0	0
Reclassifications	–	–	–
Disposals	–	–	–
Changes/remeasurements recognized in profit or loss	33	–	33
Dividends	–	–	–
Other changes recognized in other comprehensive income	–	–	–
Balance as of Dec. 31, 2020	**287**	**9**	**296**
Impairment losses as of Jan. 1, 2020	**9**	**–**	**9**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	1	1
Reclassifications	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2020	**9**	**1**	**10**
Net carrying amount as of Dec. 31, 2020	**278**	**8**	**286**
Net carrying amount as of Jan. 1, 2020	**245**	**9**	**253**

In the reporting year, impairment losses were recognized in an amount of €24 million for joint ventures measured using the equity method and in an amount of €3 million for the associate included in miscellaneous financial assets.

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) to determine impairment losses on goodwill.

38. Intangible Assets

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost as of Jan. 1, 2021	**0**	**19**	**16**	**79**	**114**
Foreign exchange differences	0	0	0	0	0
Changes in basis of consolidation	0	–	–	–	–
Additions	0	–	–	3	3
Reclassifications	0	–	–	–	–
Disposals	–	–	–	37	37
Balance as of Dec. 31, 2021	**0**	**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	0	–	–	36	36
Reversal of impairment losses	0	–	–	–	–
Balance as of Dec. 31, 2021	**–**	**18**	**16**	**39**	**73**
Net carrying amount as of Dec. 31, 2021	**0**	**–**	**–**	**6**	**6**

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost as of Jan. 1, 2020	**0**	**20**	**18**	**77**	**115**
Foreign exchange differences	0	–1	–1	–1	–4
Changes in basis of consolidation	0	–	–	0	0
Additions	0	–	–	4	4
Reclassifications	0	–	–	–	–
Disposals	–	–	–	0	0
Balance as of Dec. 31, 2020	**0**	**19**	**16**	**79**	**114**
Amortization and impairment losses as of Jan. 1, 2020	**–**	**12**	**–**	**64**	**75**
Foreign exchange differences	–	–1	–	–1	–2
Changes in basis of consolidation	–	–	–	0	0
Additions to cumulative amortization	–	1	–	7	8
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	0	–	–	0	0
Reversal of impairment losses	0	–	–	–	–
Balance as of Dec. 31, 2020	**–**	**12**	**–**	**69**	**81**
Net carrying amount as of Dec. 31, 2020	**0**	**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 in the previous year were written off in full in the reporting year as a result of impairment tests. The lower year-on-year earnings expectations combined with higher capital requirements resulted in a reduction of the fair value for the cash-generating unit.

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 completed in the reporting year. It was amortized over a period of ten years. In the previous year, the remaining amortization period for the customer base had been one year.

As of the reporting date, intangible assets with indefinite useful lives amounted to €1 million (previous year: €23 million).

39. Property and Equipment

€ 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**

€ million	Land and buildings	Operating and office equipment	Total
Cost as of Jan. 1, 2020	**31**	**25**	**56**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–1	–1
Additions	11	1	12
Reclassifications	0	0	–
Disposals	5	5	10
Balance as of Dec. 31, 2020	**37**	**19**	**56**
Depreciation and impairment losses as of Jan. 1, 2020	**9**	**21**	**30**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	0	0
Additions to cumulative depreciation	3	1	4
Additions to cumulative impairment losses	–	–	–
Reclassifications	0	0	–
Disposals	1	5	5
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2020	**12**	**17**	**29**
Net carrying amount as of Dec. 31, 2020	**25**	**2**	**27**
Net carrying amount as of Jan. 1, 2020	**22**	**4**	**25**

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

40. Investment Property

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

€ million	Investment property	Total
Cost as of Jan. 1, 2021	**3**	**2,440**
Foreign exchange differences	–	–
Changes in basis of consolidation	–	–
Additions	–	1,198
Reclassifications	–	–
Disposals	–	676
Balance as of Dec. 31, 2021	**3**	**2,962**
Depreciation and impairment losses as of Jan. 1, 2021	**2**	**651**
Foreign exchange differences	–	–
Changes in basis of consolidation	–	–
Additions to cumulative depreciation	0	430
Additions to cumulative impairment losses	–	20
Reclassifications	–	–
Disposals	–	369
Reversal of impairment losses	–	8
Balance as of Dec. 31, 2021	**2**	**725**
Net carrying amount as of Dec. 31, 2021	**0**	**2,237**
Net carrying amount as of Jan. 1, 2021	**0**	**1,789**

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

€ million	Investment property	Total
Cost as of Jan. 1, 2020	**3**	**2,228**
Foreign exchange differences	–	–
Changes in basis of consolidation	–	–
Additions	–	785
Reclassifications	–	–
Disposals	–	572
Balance as of Dec. 31, 2020	**3**	**2,440**
Depreciation and impairment losses as of Jan. 1, 2020	**2**	**570**
Foreign exchange differences	–	–
Changes in basis of consolidation	–	–
Additions to cumulative depreciation	0	381
Additions to cumulative impairment losses	–	9
Reclassifications	–	–
Disposals	–	305
Reversal of impairment losses	–	4
Balance as of Dec. 31, 2020	**2**	**651**
Net carrying amount as of Dec. 31, 2020	**0**	**1,789**
Net carrying amount as of Jan. 1, 2020	**1**	**1,658**

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.

41. Deferred Tax Assets

The breakdown of the deferred tax assets is as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020
Deferred tax assets[1]	5,223	5,254
of which noncurrent	738	699
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	–	0
of which noncurrent	–	0
Offset (with deferred tax liabilities)	–3,224	–3,534
Total[1]	**1,999**	**1,720**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

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

€ million	Dec. 31, 2021	Dec. 31, 2020
Loans, receivables and other assets	485	531
Marketable securities and cash	4,053	4,029
Intangible assets/property and equipment	33	36
Lease assets	625	638
Liabilities and provisions[1]	27	19
Valuation allowances for deferred assets on temporary differences	–	–
Total[1]	**5,223**	**5,254**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

42. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020
Vehicles returned for disposal	96	117
Restricted cash	311	302
Prepaid expenses and accrued income	52	47
Other tax assets	36	22
Miscellaneous	49	75
Total	**543**	**563**

43. Noncurrent Assets

€ million	Dec. 31, 2021	of which noncurrent	Dec. 31, 2020	of which noncurrent
Cash reserve	11,022	–	7,056	–
Loans to and receivables from banks	340	–	348	–
Loans to and receivables from customers	46,074	24,223	51,249	26,136
Derivative financial instruments	10	6	48	4
Marketable securities	4,704	–	3,806	–
Equity-accounted joint ventures[1]	284	284	278	278
Miscellaneous financial assets	5	5	8	8
Intangible assets	6	6	33	33
Property and equipment	24	24	27	27
Lease assets	2,236	2,236	1,788	1,788
Investment property	0	0	0	0
Income tax assets	4	–	17	–
Other assets	543	2	563	5
Total[1]	**65,254**	**26,788**	**65,222**	**28,280**

1 Prior year restated.

44. 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 a provisional term of three years.
Three tranches in a total amount of €11,500 million and with a provisional term of three years were drawn down in the reporting year. In the same period, three tranches in a total amount of €6,000 million were repaid early. The total amount drawn down as of the reporting date was €13,000 million.

The liabilities to customers include customer deposits of €26,489 million (previous year: €28,694 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.

45. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Dec. 31, 2021	Dec. 31, 2020
Bonds issued	5,708	8,692
Commercial paper issued	–	11
Total	**5,708**	**8,702**

46. 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, 2021	Dec. 31, 2020
Bonds issued	573	1,539
Subordinated liabilities	4	16
Total	**577**	**1,556**

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 €534 million (previous year: €1,444 million). As of December 31, 2021, the fair value of the liabilities amounted to €578 million (previous year: €1,561 million). The fair value of the assigned loans/receivables that continued to be recognized amounted to €583 million as of December 31, 2021 (previous year: €1,594 million). Collateral is provided in the form of loans and receivables from retail financing and cash collateral, together amounting to €608 million (previous year: €1,558 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.

47. Derivative Financial Instruments

This item comprises the negative fair values from hedges and from derivatives not designated as a hedging instrument. The breakdown is as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020
Transactions to hedge against		
currency risk on assets using fair value hedges	51	19
currency risk on liabilities using fair value hedges	–	–
interest-rate risk using fair value hedges	–	–
interest-rate risk using cash flow hedges	–	–
currency and pricing risk on future cash flows using cash flow hedges	0	0
Total hedging transactions	**51**	**20**
Liabilities arising from derivatives not designated as hedges	1	4
Total	**52**	**24**

48. Provisions

The provisions break down as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020
Provisions for pensions and other post-employment benefits	153	176
Other provisions	195	358
of which provisions for litigation and legal risks	143	310
of which for staff	40	37
of which other	12	10
Total	**348**	**534**

PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

€ million	Dec. 31, 2021	Dec. 31, 2020
Present value of funded obligations	106	112
Fair value of plan assets	60	52
Funded status (net)	**46**	**60**
Present value of unfunded obligations	107	116
Amount not recognized as an asset because of the ceiling in IAS 19	–	–
Net liability recognized in the balance sheet	**153**	**176**
of which provisions for pensions	153	176
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 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:

	GERMANY		INTERNATIONAL	
Percent	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Discount rate	1.20	0.70	0.90 – 2.00	0.50 – 1.40
Pay trend	3.30	3.40	0.00 – 2.00	0.00 – 2.00
Pension trend	1.70	1.50	0.00 – 3.10	0.00 – 2.70
Staff turnover rate	1.10	1.10	0.00 – 3.50	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	2021	2020
Net liability recognized in the balance sheet as of January 1	**176**	**158**
Current service cost	13	11
Net interest expense	1	2
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–21	19
Actuarial gains (–)/losses (+) arising from experience adjustments	–4	–5
Income/expenses from plan assets not included in interest income	3	3
Change in amount not recognized as an asset because of the ceiling in IAS 19	–	–
Employer contributions to plan assets	5	4
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	–2	0
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**153**	**176**

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

€ million	2021	2020
Present value of obligations as of January 1	**228**	**203**
Current service cost	13	11
Interest cost (unwinding of discount on obligations)	2	2
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–21	19
Actuarial gains (–)/losses (+) arising from experience adjustments	–4	–5
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	–1	0
Foreign exchange differences from foreign plans	0	0
Present value of obligations as of December 31	**213**	**228**

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, 2021		DEC. 31, 2020	
		€ million	Change in percent	€ million	Change in percent
Discount rate	is 0.5 percentage points higher	191	–10.20	203	–10.80
	is 0.5 percentage points lower	238	11.93	257	12.70
Pension trend	is 0.5 percentage points higher	222	4.12	238	4.29
	is 0.5 percentage points lower	205	–3.74	219	–3.91
Pay trend	is 0.5 percentage points higher	214	0.59	230	0.69
	is 0.5 percentage points lower	212	–0.55	226	–0.64
Longevity	increases by one year	220	3.39	236	3.53

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 23 years (previous year: 24 years).

The following table shows a breakdown of the present value of the defined benefit obligation by category of plan member:

€ million	2021	2020
Active members with pension entitlements	154	172
Members with vested entitlements who have left the Bank	13	12
Retirees	46	44
Total	**213**	**228**

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	2021	2020
Payments due within the next fiscal year	3	3
Payments due between two and five years	15	14
Payments due in more than five years	195	211
Total	**213**	**228**

Changes in plan assets are shown in the following table:

€ million	2021	2020
Fair value of plan assets as of January 1	**52**	**45**
Interest income on plan assets determined using the discount rate	0	1
Income/expenses from plan assets not included in interest income	3	3
Employer contributions to plan assets	5	4
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	0	0
Foreign exchange differences from foreign plans	0	0
Fair value of plan assets as of December 31	**60**	**52**

The investment of the plan assets to cover future pension obligations resulted in a net income of €3 million (previous year: €3 million). Employer contributions to plan assets are expected to amount to €4 million (previous year: €5 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

	DEC. 31, 2021			DEC. 31, 2020		
€ million	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	1	–	1	1	–	1
Debt instruments	3	–	3	3	–	3
Direct investments in real estate	–	–	–	–	–	–
Derivatives	0	0	0	0	0	0
Equity funds	22	–	22	16	–	16
Bond funds	29	–	29	29	–	29
Real estate funds	0	–	0	0	–	0
Other funds	3	–	3	0	–	0
Asset-backed securities	–	–	–	–	–	–
Structured debt	–	–	–	–	–	–
Other	–	0	0	–	0	0

Of the total plan assets, 52% (previous year: 56%) are invested in German assets, 12% (previous year: 13%) in other European assets and 36% (previous year: 31%) in assets in other regions.

The following amounts have been recognized in the income statement:

€ million	2021	2020
Current service cost	13	11
Net interest on the net defined benefit liability	1	2
Past service cost (including plan curtailments)	0	0
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	**14**	**13**

OTHER PROVISIONS

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

	Sales business obligations	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of Jan. 1, 2020	**–**	**35**	**245**	**15**	**295**
Foreign exchange differences	–	0	–	0	0
Changes in basis of consolidation	–	0	–	0	0
Utilization	–	19	6	10	35
Additions/new provisions	–	22	191	6	219
Unwinding of discount/effect of change in discount rate	–	–	–1	–	–1
Reversals	–	0	119	0	120
Balance as of Dec. 31, 2020	**–**	**37**	**310**	**10**	**358**
of which current	–	22	197	10	229
of which noncurrent	–	16	113	1	129
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

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 €143 million (previous year: €310 million).

The timing of the cash outflows in connection with other provisions is expected to be as follows: 51% in the following year, 44% in the years 2023 to 2026 and 5% from 2027.

49. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020
Deferred tax liabilities[1]	5,379	5,365
of which noncurrent	2,656	2,349
Offset (with deferred tax assets)	–3,224	–3,534
Total[1]	**2,155**	**1,831**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

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

€ million	Dec. 31, 2021	Dec. 31, 2020
Loans, receivables and other assets	1,045	1,139
Marketable securities and cash	2	–5
Intangible assets/property and equipment	1	5
Lease assets	24	32
Liabilities and provisions[1]	4,307	4,196
Total[1]	**5,379**	**5,365**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

50. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020
Prepaid expenses and accrued income	76	49
Other tax liabilities	36	45
Social security and payroll liabilities	51	41
Miscellaneous[1]	98	97
Total[1]	**262**	**233**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

51. Subordinated Capital

The breakdown of subordinated capital is as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020
Subordinated liabilities	35	49
of which: to other Volkswagen Group companies	4	16
Total	**35**	**49**

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.

52. Noncurrent Liabilities

€ million	Dec. 31, 2021	of which noncurrent	Dec. 31, 2020	of which noncurrent
Liabilities to banks	13,177	13,136	9,744	7,687
Liabilities to customers	34,342	2,641	35,404	2,522
Notes, commercial paper issued	5,708	3,988	8,702	5,837
Derivative financial instruments	52	0	24	1
Income tax liabilities	312	–	155	–
Other liabilities[1]	262	50	233	7
Subordinated capital	35	32	49	34
Total[1]	**53,890**	**19,846**	**54,309**	**16,089**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

53. 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: €8,498 million).

Retained earnings comprise undistributed profits from prior years and relate primarily to other revenue reserves. The correction of errors in the previous year resulted in a total adjustment of €45 million in retained earnings as of December 31, 2020.

The HGB profit of €563 million (previous year: €383 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 €17 million (previous year: €8 million).

54. 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, 2021	December 31, 2020[3]
Total risk exposure amount (€ million)[1]	49,770	50,557
of which risk-weighted exposure amounts for credit risk	45,696	46,480
of which own funds requirements for market risk * 12.5	210	308
of which own funds requirements for operational risk * 12.5	3,789	3,755
of which own funds requirements for credit valuation adjustments * 12.5	75	14
Eligible own funds (€ million)	9,474	9,169
Own funds (€ million)	9,474	9,169
of which Common Equity Tier 1 capital	9,461	9,150
of which Additional Tier 1 capital	–	–
of which Tier 2 capital	13	19
Common Equity Tier 1 capital ratio[2]	19.0	18.1
Tier 1 capital ratio[2]	19.0	18.1
Total capital ratio[2]	19.0	18.1

1 According to Article 92(3) of the CRR.
2 According to Article 92(1) of the CRR.
3 Retrospective update in accordance with EBA Q&A 2018_4085 taking into account balance sheet figures from the approved consolidated financial statements.

Financial Instrument Disclosures

55. 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, 2021	Dec. 31, 2020
Financial assets measured at fair value through profit or loss	563	537
Financial assets measured at fair value through other comprehensive income (debt instruments)	4,144	3,277
Financial assets measured at fair value through other comprehensive income (equity instruments)	6	5
Financial assets measured at amortized cost	54,866	56,219
Financial liabilities measured at fair value through profit or loss	1	4
Financial liabilities measured at amortized cost[1]	53,552	54,069

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

Receivables from leasing transactions amounting to €2,928 million (previous year: €2,814 million) and liabilities from leasing transactions amounting to €17 million (previous year: €19 million) are not allocated to any category.

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

€ million	2021	2020
Financial instruments measured at fair value through profit or loss	3	9
Financial assets measured at amortized cost	1,374	1,221
Financial assets measured at fair value through other comprehensive income (debt instruments)	–2	2
Financial liabilities measured at amortized cost[1]	–8	–210
Total[1]	**1,366**	**1,022**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

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 instruments measured at fair value through profit or loss	Fair value in accordance with IFRS 9 in conjunction with IFRS 13, including interest and effects from currency translation
Financial assets measured at amortized cost	Interest income using the effective interest method and expenses/income from the recognition of valuation allowances in accordance with IFRS 9 and effects from currency translation
Financial 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 €1,378 million (previous year: €1,434 million).

The interest expenses in an amount of €134 million (previous year: €147 million) related to financial instruments not measured at fair value through profit or loss.

56. 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.

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 mainly 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 shown in the “Not allocated to any measurement category” class. 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”.

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.

If the balance sheet items contain assets and liabilities that do not constitute financial instruments, the amounts concerned are included in the “Not allocated to any measurement category” class so that the reconciliation is complete.

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

€ million	Balance sheet item		Measured at fair value		Measured at amortized cost		Derivative financial instruments designated as hedges		Not allocated to any measurement category	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Assets										
Cash reserve	11,022	7,056	–	–	11,022	7,056	–	–	–	–
Loans to and receivables from banks	340	348	–	–	340	348	–	–	–	–
Loans to and receivables from customers	46,074	51,249	–	–	43,146	48,434	–	–	2,928	2,814
Derivative financial instruments	10	48	8	14	–	–	2	34	–	–
Marketable securities	4,704	3,806	4,704	3,806	–	–	–	–	–	–
Equity-accounted joint ventures	284	278	–	–	–	–	–	–	284	278
Miscellaneous financial assets	5	8	0	0	–	–	–	–	5	8
Income tax receivables	4	17	–	–	–	9	–	–	4	9
Other assets	543	563	–	–	358	372	–	–	186	191
Total	**62,988**	**63,373**	**4,713**	**3,820**	**54,866**	**56,219**	**2**	**34**	**3,407**	**3,300**
Equity and liabilities										
Liabilities to banks	13,177	9,744	–	–	13,177	9,744	–	–	–	–
Liabilities to customers	34,342	35,404	–	–	34,248	35,317	–	–	94	87
Notes, commercial paper issued	5,708	8,702	–	–	5,708	8,702	–	–	–	–
Derivative financial instruments	52	24	1	4	–	–	51	20	–	–
Income tax liabilities	312	155	–	–	283	151	–	–	29	5
Other liabilities[1]	262	233	–	–	100	107	–	–	162	126
Subordinated capital	35	49	–	–	35	49	–	–	–	–
Total[1]	**53,890**	**54,309**	**1**	**4**	**53,552**	**54,069**	**51**	**20**	**286**	**217**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

The “Credit commitments and financial guarantees” class contains obligations under credit commitments and financial guarantees amounting to €14,517 million (previous amended year: €11,558 million).

57. 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 (without recycling) in exercise of the fair-value-through-OCI option.

€ million	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	–	–
Derivative financial instruments	8	14	8	14	–	–
Marketable securities	4,704	3,806	4,704	3,806	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	11,022	7,056	11,022	7,056	–	–
Loans to and receivables from banks	340	348	340	348	–	–
Loans to and receivables from customers	44,068	49,928	43,146	48,434	922	1,494
Income tax assets	–	9	–	9	–	–
Other assets	358	372	358	372	–	–
Derivative financial instruments designated as hedges	2	34	2	34	–	–
Not allocated to any measurement category						
Lease receivables	2,863	2,776	2,928	2,814	–64	–38
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	1	4	1	4	–	–
Measured at amortized cost						
Liabilities to banks	13,098	9,622	13,177	9,744	–79	–122
Liabilities to customers	34,386	35,466	34,248	35,317	137	149
Notes, commercial paper issued	5,708	8,704	5,708	8,702	–	2
Income tax liabilities	283	151	283	151	–	–
Other liabilities[1]	100	107	100	107	0	0
Subordinated capital	37	51	35	49	2	2
Derivative financial instruments designated as hedges	51	20	51	20	–	–

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

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 €54 million (previous year: €72 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 €8

million (previous year: €1 million) under other liabilities. Both expected credit losses are disclosed as a consolidated figure in note (60) Default Risk in the “Credit commitments and financial guarantees” class.

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

Percent	EUR	GBP	PLN	SEK	CZK
Interest rate for six months	–0.576	0.494	3.326	–0.022	3.786
Interest rate for one year	–0.510	0.758	3.770	0.045	3.902
Interest rate for five years	0.016	1.051	3.757	0.710	3.845
Interest rate for ten years	0.303	0.954	3.570	0.968	3.255

58. 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 57). 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:

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	–	–
Derivative financial instruments	–	–	8	14	–	–
Marketable securities	4,156	3,288	–	–	548	517
Miscellaneous financial assets	–	–	–	–	0	0
Measured at amortized cost						
Cash reserve	11,022	7,056	–	–	–	–
Loans to and receivables from banks	252	348	89	0	–	–
Loans to and receivables from customers	–	–	111	103	43,957	49,825
Income tax assets	–	–	–	9	–	–
Other assets	–	–	358	372	–	0
Derivative financial instruments designated as hedges	–	–	2	34	–	–
Not allocated to any measurement category						
Lease receivables	–	–	–	–	2,863	2,776
Total	**15,430**	**10,693**	**568**	**532**	**47,369**	**53,118**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	1	4	–	–
Measured at amortized cost						
Liabilities to banks	–	–	13,098	9,622	–	–
Liabilities to customers[2]	–	–	34,386	35,447	–	–
Notes, commercial paper issued	–	–	5,708	8,704	–	–
Income tax liabilities	–	–	283	151	–	–
Other liabilities[1]	–	–	98	107	2	–
Subordinated capital	–	–	37	51	–	–
Derivative financial instruments designated as hedges	–	–	51	20	–	–
Total[1,2]	**–**	**–**	**53,663**	**54,105**	**2**	**–**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.
2 Prior year restated.

The following table shows the changes in marketable securities and miscellaneous financial assets measured at fair value and allocated to Level 3.

€ million	2021	2020
Balance as of Jan. 1	**517**	**664**
Foreign exchange differences	36	–37
Changes in basis of consolidation	–	–
Portfolio changes	0	–114
Measured at fair value through profit or loss	–5	4
Measured at fair value through other comprehensive income	–	–
Balance as of Dec. 31	**548**	**517**

The remeasurements recognized in profit or loss amounting to €5 million (previous year: €4 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, 2021 had been 100 basis points higher, profit after tax would have been €0 million (previous year: €0 million) lower. If risk-adjusted interest rates as of December 31, 2021 had been 100 basis points lower, profit after tax would have been €0 million (previous year: €0 million) higher.

59. 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.

	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	
€ million	Dec. 31 2021	Dec. 31 2020	Dec. 31 2021	Dec. 31 2020	Dec. 31 2021	Dec. 31 2020	Dec. 31 2021	Dec. 31 2020	Dec. 31 2021	Dec. 31 2020	Dec. 31 2021	Dec. 31 2020
Assets												
Cash reserve	11,022	7,056	–	–	11,022	7,056	–	–	–	–	11,022	7,056
Loans to and receivables from banks	340	348	–	–	340	348	–	–	–	–	340	348
Loans to and receivables from customers	46,074	51,249	–	–	46,074	51,249	–	–	–	–	46,074	51,249
Derivative financial instruments	100	213	–89	–165	10	48	–3	–12	–7	–35	–	2
Marketable securities	4,704	3,806	–	–	4,704	3,806	–	–	–543	–507	4,162	3,299
Miscellaneous financial assets	0	0	–	–	0	0	–	–	–	–	–	0
Income tax assets	–	9	–	–	–	9	–	–	–	–	–	9
Other assets	358	372	–	–	358	372	–	–	–	–	358	372
Total	**62,598**	**63,053**	**–89**	**–165**	**62,509**	**62,888**	**–3**	**–12**	**–550**	**–542**	**61,956**	**62,334**
Equity and liabilities												
Liabilities to banks	13,264	9,901	–87	–157	13,177	9,744	–	–	–335	–570	12,842	9,174
Liabilities to customers	34,265	35,336	–	–	34,265	35,336	–	–	–	–	34,265	35,336
Notes, commercial paper issued	5,708	8,702	–	–	5,708	8,702	–	–	–229	–273	5,480	8,429
Derivative financial instruments	55	31	–3	–8	52	24	–3	–12	–19	–2	30	10
Income tax liabilities	283	151	–	–	283	151	–	–	–	–	283	151
Other liabilities[1]	100	107	–	–	100	107	–	–	–	–	100	107
Subordinated capital	35	49	–	–	35	49	–	–	–	–	35	49
Total[1]	**53,710**	**54,276**	**–89**	**–165**	**53,621**	**54,111**	**–3**	**–12**	**–583**	**–845**	**53,035**	**53,254**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

60. 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 €699 million (previous year: €685 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 €550 million (previous year: €556 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 €7 million (previous year: €12 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, 2021	**182**	**296**	**383**	**57**	**76**	**995**
Exchange differences on translating foreign operations	0	2	0	0	0	2
Changes in basis of consolidation	–	–	–	–	–	–
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**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2020	**269**	**233**	**384**	**27**	**69**	**982**
Exchange differences on translating foreign operations	–1	–2	–1	0	0	–4
Changes in basis of consolidation	1	–	–	0	–	1
Newly extended/purchased financial assets (additions)	102	–	–	38	18	159
Other changes within a stage	–36	43	–85	13	2	–62
Transfers to						
Stage 1	16	–44	–4	–	–	–32
Stage 2	–31	141	–35	–	–	74
Stage 3	–96	–22	268	–	–	150
Financial instruments derecognized during the period (derecognitions)	–50	–64	–101	–22	–1	–239
Utilizations	–	–	–41	0	–14	–56
Model or risk parameter changes	7	12	0	–	2	21
Balance as of Dec. 31, 2020	**182**	**296**	**383**	**57**	**76**	**995**

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, 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**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount as of Jan. 1, 2020	**46,274**	**7,614**	**959**	**2,521**	**425**	**57,792**
Exchange differences on translating foreign operations	–154	–80	–2	0	0	–235
Changes in basis of consolidation	1,475	–	–	12	–	1,487
Changes[1]	–7,926	5,884	–481	715	–16	–1,824
Modifications	–1	–2	0	–	0	–3
Transfers to						
Stage 1[1]	1,694	–1,688	–6	–	–	–
Stage 2[1]	–5,050	5,173	–123	–	–	–
Stage 3[1]	–352	–276	628	–	–	–
Carrying amount as of Dec. 31, 2020	**35,960**	**16,624**	**974**	**3,247**	**409**	**57,215**

1 Anpassung des Vorjahres gemäß den Erläuterungen im Unterabschnitt "Angaben zum Stufentransfer innerhalb der Überleitung von Bruttobuchwerten von finanziellen Vermögenswerten, die zu fortgeführten Anschaffungskosten bewertet werden" des Abschnitts "Änderungen von Vorjahreswerten"

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 €0 million (previous year: €3 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, 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**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2020	**2**	**1**	**–**	**–**	**–**	**3**
Exchange differences on translating foreign operations	–	–	–	–	–	–
Changes in basis of consolidation	–	–	–	–	–	–
Newly extended/purchased financial assets (additions)	0	–	–	–	–	0
Other changes within a stage	0	0	–	–	–	–1
Transfers to						
Stage 1	0	0	–	–	–	0
Stage 2	0	0	–	–	–	0
Stage 3	–	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	0	0	–	–	–	0
Utilizations	–	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–	–
Balance as of Dec. 31, 2020	**2**	**1**	**–**	**–**	**–**	**3**

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, 2021	**2,501**	**785**	**–**	**–**	**–**	**537**	**3,822**
Exchange differences on translating foreign operations	–	–	–	–	–	36	36
Changes in basis of consolidation	–	–	–	–	–	–	–
Changes	811	–	–	–	–	–18	793
Modifications	–	–	–	–	–	–	–
Transfers to							
Stage 1	290	–290	–	–	–	–	–
Stage 2	–1,376	1,376	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–
Carrying amount as of Dec. 31, 2021	**2,226**	**1,871**	**–**	**–**	**–**	**555**	**4,652**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	No provision for credit risks	Total
Carrying amount as of Jan. 1, 2020	**1,320**	**1,565**	**–**	**–**	**–**	**–**	**2,884**
Exchange differences on translating foreign operations	–	–	–	–	–	–	–
Changes in basis of consolidation	–	–	–	–	–	–	–
Changes[1]	1,257	–856	–	–	–	–	401
Modifications	–	–	–	–	–	–	–
Transfers to							
Stage 1[1]	366	–366	–	–	–	–	–
Stage 2[1]	–442	442	–	–	–	–	–
Stage 3	–	–	–	–	–	–	–
Carrying amount as of Dec. 31, 2020	**2,501**	**785**	**–**	**–**	**–**	**–**	**3,285**

1 Prior year adjusted as explained in the Changes to Prior-Year Figures section under the disclosures on stage transfers within the reconciliation of gross carrying amounts of financial assets measured at amortized cost.

The following tables show a reconciliation for the provision for credit risks relating to financial guarantees and credit commitments:

€ 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**

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance as of Jan. 1, 2020[1]	**13**	**11**	**7**	**3**	**34**
Exchange differences on translating foreign operations	0	0	–	0	0
Changes in basis of consolidation	–	–	–	–	–
Newly extended/purchased financial assets (additions)	5	0	0	0	5
Other changes within a stage[1]	10	14	14	1	39
Transfers to					
Stage 1	0	0	–	–	0
Stage 2	0	1	–	–	1
Stage 3	0	0	0	–	0
Financial instruments derecognized during the period (derecognitions)	–4	–1	–	0	–5
Utilizations	–	–	–1	–	–1
Model or risk parameter changes	–	–	–	–	–
Balance as of Dec. 31, 2020[1]	**22**	**26**	**21**	**4**	**72**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

The following tables present a reconciliation of the gross carrying amounts of credit commitments and financial guarantees:

€ 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	–	–
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**

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Carrying amount as of January 1, 2020[1]	**6,498**	**1,726**	**160**	**108**	**8,491**
Exchange differences on translating foreign operations	–9	–2	0	0	–12
Changes in basis of consolidation	–	–	–	–	–
Changes[1,2]	1,965	856	116	66	3,003
Modifications	–	–	–	–	–
Transfers to					
Stage 1[2]	30	–30	0	–	–
Stage 2[2]	–98	98	0	–	–
Stage 3[2]	–5	–1	6	–	–
Carrying amount as of December 31, 2020[1]	**8,382**	**2,646**	**281**	**174**	**11,483**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.
2 Prior year adjusted as explained in the Changes to Prior-Year Figures section under the disclosures on stage transfers within the reconciliation of gross carrying amounts of financial assets measured at amortized cost.

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 2021	SIMPLIFIED APPROACH 2020
Balance as of Jan. 1	**122**	**108**
Exchange differences on translating foreign operations	–	–
Changes in basis of consolidation	–	–
Newly extended/purchased financial assets (additions)	21	36
Other changes	–1	–6
Financial instruments derecognized during the period (derecognitions)	–26	–11
Utilizations	–7	–11
Model or risk parameter changes	–6	6
Balance as of Dec. 31	**103**	**122**

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 2021	SIMPLIFIED APPROACH 2020
Carrying amount as of Jan. 1	**2,937**	**2,859**
Exchange differences on translating foreign operations	–	–
Changes in basis of consolidation	–	–
Changes	94	78
Modifications	–	–
Carrying amount as of Dec. 31	**3,031**	**2,937**

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 not only by changes in credit ratings but also by targeted action.

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 €22 million (previous year: €48 million). In the reporting period, the contractual modifications of these financial assets gave rise to an overall net expense of €1 million (previous year: €2 million). To simplify matters, in the case of trade receivables and lease receivables, the analysis only takes into account credit-quality-related modifications where the receivables concerned 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 €2 million (previous year: €1 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, 2021	Dec. 31, 2020
Financial assets measured at fair value	4,144	3,277
Financial assets measured at amortized cost	54,866	56,219
Financial guarantees and credit commitments[1]	14,454	11,411
Not allocated to any measurement category	2,928	2,814
Total[1]	**76,392**	**73,722**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

The maximum credit risk associated with the financial guarantees in accordance with IFRS 7.B10 amounts to €268 million (previous year: €200 million).

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

€ million	Dec. 31, 2021	Dec. 31, 2020
Vehicles	47	67
Real estate	–	–
Other movable assets	–	–
Total	**47**	**67**

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 presentation of default risk rating classes for the reporting year and the previous year has been changed from that in previously published consolidated financial statements so that it now includes the 16 master scale risk classes as described above. This revised presentation increases the transparency of the default risk rating class disclosures.

The following table shows the gross carrying amounts of financial assets by default risk category and by default risk rating class:

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**

FISCAL YEAR 2020

€ million	Default risk rating classes[1]	Probability of default (>=) 1[1]	Probability of default (<)[1]	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
	1	0.00%	0.06%	15	–	–	22	0
	2	0.06%	0.09%	119	1	–	154	0
	3	0.09%	0.15%	79	0	–	97	0
	4	0.15%	0.23%	1,656	34	–	153	0
	5	0.23%	0.36%	1,224	196	–	335	1
	6	0.36%	0.56%	6,178	207	–	697	0
	7	0.56%	0.88%	9,601	456	–	1,273	1
	8	0.88%	1.37%	9,075	1,034	–	1,061	1
	9	1.37%	2.14%	5,574	2,196	–	596	3
	10	2.14%	3.35%	2,906	1,525	–	728	8
Default risk category 1 (loans/receivables not at risk of default – normal loans)	11	3.35%	5.23%	1,063	7,955	–	468	38
	12	5.23%	8.18%	540	1,635	–	80	10
	13	8.18%	12.79%	160	779	–	140	8
Default risk category 2 (loans/receivables at risk of default – loans with intensified loan management)	14	12.79%	20.00%	37	336	–	52	1
	15	20.00%	100.00%	232	1,054	–	178	40
Default risk category 3 (loans/receivables in default – nonperforming loans)	D	100.00%	100.00%	–	–	974	151	298
Total				**38,461**	**17,409**	**974**	**6,184**	**409**

1 The prior-year presentation has been adjusted as explained in the Changes to Prior-Year Figures section under the disclosures on additions to default risk rating classes.

The following tables show the default risk exposures for financial guarantees and credit commitments broken down by rating class:

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
	10	2.14%	3.35%	1,056	643	–	7
Default risk category 1 (loans/receivables not at risk of default – normal loans)	11	3.35%	5.23%	492	153	–	12
	12	5.23%	8.18%	165	229	–	1
	13	8.18%	12.79%	85	337	–	2
Default risk category 2 (loans/receivables at risk of default – loans with intensified loan management)	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**

FISCAL YEAR 2020

€ million	Default risk rating classes	Probability of default (>=)	Probability of default (<)	Stage 1	Stage 2	Stage 3	Stage 4
	1	0.00%	0.06%	38	1	–	–
	2	0.06%	0.09%	145	11	–	0
	3	0.09%	0.15%	335	82	–	–
	4	0.15%	0.23%	506	37	–	0
	5	0.23%	0.36%	793	20	–	1
	6	0.36%	0.56%	789	114	–	49
	7	0.56%	0.88%	2,135	265	–	1
	8	0.88%	1.37%	1,383	261	–	3
	9	1.37%	2.14%	606	309	–	0
	10	2.14%	3.35%	752	485	–	37
Default risk category 1 (loans/receivables not at risk of default – normal loans)[1]	11	3.35%	5.23%	657	349	–	27
	12	5.23%	8.18%	159	158	–	1
	13	8.18%	12.79%	57	188	–	0
Default risk category 2 (loans/receivables at risk of default – loans with intensified loan management)[1]	14	12.79%	20.00%	17	60	–	0
	15	20.00%	100.00%	11	309	–	10
Default risk category 3 (loans/receivables in default – nonperforming loans)[1]	D	100.00%	100.00%	–	–	281	45
Total[1]				**8,382**	**2,646**	**281**	**174**

1 The prior-year presentation has been adjusted as explained in the Changes to Prior-Year Figures section under the disclosures on additions to default risk rating classes.
2 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

61. 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 VW 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 management report in the sections Liquidity Analysis (page 16) and Funding (page 17) and in the risk report within the disclosures on interest-rate risk and liquidity risk (page 35).

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, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Cash reserve	11,022	7,056	11,022	7,056	–	–	–	–	–	–	–	–
Loans to and receivables from banks	340	348	252	348	89	0	–	–	–	–	–	–
Marketable securities	4,144	3,277	–	–	4,144	3,277	–	–	–	–	–	–
Total	**15,506**	**10,682**	**11,274**	**7,404**	**4,233**	**3,277**	**–**	**–**	**–**	**–**	**–**	**–**

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, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Liabilities to banks	13,182	9,748	18	2,026	24	28	13,082	7,615	58	79
Liabilities to customers	34,269	35,336	31,307	32,290	370	569	1,583	1,316	1,009	1,161
Notes, commercial paper issued	5,855	8,858	148	393	1,605	2,511	4,101	5,083	–	871
Derivative financial instruments	2,693	3,834	0	1,906	2,484	1,894	209	34	–	–
Other liabilities[1]	100	107	25	30	66	75	7	1	1	1
Subordinated capital	37	51	4	4	1	11	32	36	–	0
Credit commitments[1]	14,249	11,358	7,674	205	6,525	11,153	0	0	50	0
Total[1]	**70,384**	**69,293**	**39,176**	**36,855**	**11,075**	**16,242**	**19,014**	**14,084**	**1,119**	**2,113**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

Financial guarantees with a maximum possible drawdown of €268 million (previous year: €200 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.

62. Market Risk

For qualitative information, please refer to the risk report within 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	2021	2020
Interest rate risk	14	21
Currency translation risk	1	0
Total market risk[1]	**15**	**21**

1 As a result of correlation effects, the total market risk is not identical to the sum of the individual risks.

63. 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 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). 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.

In connection with hedges involving interest rate swaps, cross-currency swaps or cross-currency interest rate swaps, the IBOR reform exposed the Volkswagen Bank GmbH Group to uncertainty in terms of the timing and amount of the IBOR-based cash flows and of the hedged risk relating to the hedged item and hedging instrument. This uncertainty related mainly to the GBP LIBOR interest rate benchmark. In fiscal year 2021, the GBP LIBOR interest rate benchmark used in the hedging transactions that existed in the Volkswagen Bank GmbH Group at the reporting date was fully replaced by the SONIA interest rate benchmark and any new transactions entered into were also based on SONIA. No change to the interest rate benchmark was necessary for GBP LIBOR-based derivatives that had a maturity date in the first quarter of 2022 and no interest rate adjustment date after the reporting date. Overall, there were therefore no hedging relationships that were exposed to uncertainty from the IBOR reform as of December 31, 2021.

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 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	2021	2020
Interest rate risk hedging	3	0
Currency risk hedging	–31	–8
Combined interest rate and currency risk hedging	–	0

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	2021	2020
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	1	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	–1	0
Currency risk hedging:		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	1	–15
Recognized in profit or loss	–3	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	–1	15
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	–	–22
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	23

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 2021

	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
€ million	Up to 1 year	1 to 5 years	more than 5 years	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/cross-currency swaps DKK	–	–	–	–
Currency forwards, other currencies	158	–	–	158
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	–	–	–	–
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 year under review, 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 interest rate used for cross-currency interest rate swaps (cash flow hedges) in the year under review was 4.4999% for PLN (previous year: 4.4490%).

FISCAL YEAR 2020

€ million	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
	Up to 1 year	1 to 5 years	more than 5 years	Dec. 31, 2020
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging:				
Interest rate swaps	2,100	3,400	850	6,350
Currency risk hedging				
Currency forwards/cross-currency swaps CZK	59	29	–	88
Currency forwards/cross-currency swaps GBP	2,545	–	–	2,545
Currency forwards/cross-currency swaps PLN	512	–	–	512
Currency forwards/cross-currency swaps TRY	77	–	–	77
Currency forwards, other currencies	–	–	–	–
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	–	–	–	–
Cross-currency interest rate swaps PLN	78	–	–	78
Cross-currency interest rate swaps, other foreign currencies	–	–	–	–
Notional amounts of other derivatives				
Interest rate risk hedging:				
Interest rate swaps	1,923	4,647	0	6,571
Currency risk hedging				
Currency forwards/cross-currency swaps	398	–	–	398
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps, other foreign currencies	110	–	–	110

In the previous year, the average exchange rates used in the measurement of currency hedges were as follows for the following currencies with significant nominal amounts: CZK 25.44 (cash flow hedge) and 25.966 (fair value hedge), GBP 0.9106 (cash flow hedge) and 0.8987 (fair value hedge), 4.5109 (cash flow hedge) and 4.4864 (fair value 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 4.4490 (cash flow hedge).

The average interest rate used for cross-currency interest rate swaps (cash flow hedges) in the previous year was 0.97% for PLN.

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.

The hedging instruments that were exposed to the uncertainty of the IBOR reform described above became due in the previous year.

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 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	–	–	–	–

FISCAL YEAR 2020

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	6,350	1	–	135
Currency risk hedging				
Currency forwards and option contracts, cross-currency swaps	3,194	30	19	11
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 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	–	–	–	–

FISCAL YEAR 2020

€ 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	27	1	0	1
Currency option contracts	–	–	–	–
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	78	2	–	2

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 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	–	–	–	–

FISCAL YEAR 2020

€ 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	1,506	6	–2	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	4,980	130	5	–
Subordinated capital	–	–	–	–
Currency risk hedging:				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	139	1	1	–
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 2021

€ million	Fair value change to determine ineffectiveness	RESERVE FOR	
		Existing cash flow hedges	Terminated cash flow hedges
Interest rate risk hedging			
Designated components	–	–	–
Non-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	–	–	–
Non-designated components	–	–	–
Deferred taxes	–	–	–
Total combined interest rate and currency risk	–	–	–

FISCAL YEAR 2020

€ million	Fair value change to determine ineffectiveness	Reserve for: Existing cash flow hedges	Reserve for: Terminated cash flow hedges
Interest rate risk hedging			
Designated components	–	–	1
Non-designated components	–	–	–
Deferred taxes	–	–	0
Total interest rate risk	–	–	1
Currency risk hedging			
Designated components	1	0	–
Non-designated components	–	–	–
Deferred taxes	–	0	–
Total hedging currency risk	1	0	–
Combined interest rate and currency risk hedging			
Designated components	2	0	–
Non-designated components	–	–	–
Deferred taxes	–	0	–
Total combined interest rate and currency risk	2	0	–

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, 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**

€ million	Interest rate risk	Currency risk	Combined interest rate and currency risk	Total
Balance as of Jan. 1, 2020	**1**	**1**	**–1**	**0**
Gains or losses from effective hedges	–	0	1	2
Reclassification due to changes in whether the hedged item is expected to occur	–	–	–	–
Reclassifications resulting from the recovery of the hedged item	0	–1	0	–2
Balance as of Dec. 31, 2020	**1**	**0**	**0**	**1**

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

64. 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 branch in Ireland was closed in the previous year. The Ireland Branch, the income it generated and the expenses it incurred up to the date of disposal of its non-regulated business to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, and the transfer of its other business to Volkswagen Bank GmbH was also allocated to the “Other” segment for the presentation of the prior-year figures.

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 2021

€ million	JAN. 1 – DEC. 31, 2021						
	Germany	Italy	Spain	France	Other	Consoli-dation	Total
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 reversal 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
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**

FISCAL YEAR 2020

€ million	JAN. 1 – DEC. 31, 2020						
	Germany	Italy	Spain	France	Other	Consoli-dation	Total
Interest income from lending transactions and marketable securities in respect of third parties	836	205	201	41	154	–	1,437
Intersegment interest income from lending transactions and marketable securities	104	0	0	–	–	–104	–
Income from leasing transactions with third parties	–	–	0	947	18	–	965
of which reversal impairment losses in accordance with IAS 36	–	–	–	4	–	–	4
Intersegment income from leasing transactions	–	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–	–	–	–721	–3	–	–723
of which impairment losses in accordance with IAS 36	–	–	–	–9	–	–	–9
Net income from leasing transactions	–	–	–	226	15	–	241
Interest expense	–134	–23	–29	–29	–41	104	–153
Income from service contracts with third parties	16	–	–	57	–	–	74
Expenses from service contracts	–16	–	–	–63	–	–	–80
Net income from service contracts	0	–	–	–6	–	–	–6
Provision for credit risks[1]	–132	–29	–38	–41	–23	–1	–265
Fee and commission income from third parties	39	38	46	38	28	–	188
Fee and commission expenses	6	–29	–34	–11	–14	–	–83
Net fee and commission income	45	9	12	27	13	–	105
Net gain or loss on hedges	–8	–	0	–	–	–	–8
Net gain or loss on financial instruments measured at fair value	52	0	1	–	5	–53	4
General and administrative expenses	–491	–50	–52	–122	–51	2	–762
Other operating income	151	8	9	7	98	–2	270
Other operating expenses	–37	–6	–10	–3	–4	–	–59
Net other operating income/expenses	114	2	–1	5	94	–2	211
Operating result[1]	**385**	**113**	**94**	**101**	**165**	**–54**	**804**

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

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, 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

€ million	DECEMBER 31, 2020						
	Germany	Italy	Spain	France	Other	Consolidation	Total
Noncurrent assets	285	8	5	1,803	37	–	2,138
Additions to noncurrent lease assets	0	–	–	780	4	–	785

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	2021	2020
Segment revenue[1]	**2,843**	**2,767**
Other companies	–	–
Consolidation[1]	–93	–104
Group revenue[1]	**2,750**	**2,664**
Segment profit or loss (operating result)[2]	**1,093**	**859**
Other companies	–	–
Consolidation	44	–54
Operating result[2]	**1,137**	**804**
Share of profits and losses of equity-accounted joint ventures	30	33
Net gain/loss on miscellaneous financial assets	–26	–1
Other financial gains or losses	–34	–29
Profit before tax[2]	**1,107**	**808**

1 Prior-year figures restated due to editorial oversight. Two items with negligible amounts were included in other operating income in error.
2 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

Other Disclosures

65. Leases

LESSOR ACCOUNTING FOR FINANCE LEASES

In the reporting year, interest income from the net investment in the lease amounting to €127 million (previous year: €146 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, 2021	Dec. 31, 2020
Non-discounted lease payments	3,053	2,985
Non-guaranteed residual value	0	0
Unearned interest income	–46	–69
Loss allowance on lease receivables	–90	–108
Other	–	–
Net investment	**2,917**	**2,808**

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 the next few years from expected, outstanding, non-discounted lease payments under finance leases.

€ million	2,022	2023	2024	2025	2026	2027 or later	Total
Lease payments	1,124	746	571	384	205	22	3,053

In the previous year, the following payments were anticipated over the subsequent years from expected, outstanding, non-discounted lease payments under finance leases.

€ million	2021	2022	2023	2024	2025	2026 or later	Total
Lease payments	1,047	751	570	387	203	28	2,985

LESSOR ACCOUNTING FOR OPERATING LEASES

Income generated from operating leases is included in the income from leasing transactions and other operating income line item 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	2021	2020
Lease income	424	366
Income from variable lease payments	–	–
Total	**424**	**366**

The impairment losses recognized as a result of the impairment test on lease assets amounted to €20 million (previous year: €9 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 €8 million (previous year: €4 million) and is included in income from leasing business.

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

€ million	Movable lease assets
Cost as of Jan. 1, 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**
Depreciation 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 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	2022	2023	2024	2025	2026	2027 or later	Total
Lease payments	318	73	75	81	84	17	647

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

€ million	Movable lease assets
Cost as of Jan. 1, 2020	**2,225**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions	785
Reclassifications	–
Disposals	572
Balance as of Dec. 31, 2020	**2,438**
Depreciation and impairment losses as of Jan. 1, 2020	**568**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions to cumulative depreciation	381
Additions to cumulative impairment losses	9
Reclassifications	–
Disposals	305
Reversal of impairment losses	4
Balance as of Dec. 31, 2020	**649**
Net carrying amount as of Dec. 31, 2020	**1,788**
Net carrying amount as of Jan. 1, 2020	**1,657**

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

€ million	2021	2022	2023	2024	2025	2026 or later	Total
Lease payments	266	54	57	61	64	18	520

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. The accounting treatment of buyback transactions as leases also means that the Volkswagen Bank GmbH Group is the lessee in the primary leases with the vehicle sellers, who are entities in the Volkswagen Group.

In the reporting year, interest expenses of €0 million (previous year: €1 million) were recognized under the interest expenses line item in the income statement in respect of lease liabilities reported under liabilities to customers on the balance sheet.

In the reporting year, subleases related to buyback transactions and classified as finance leases gave rise to interest income of €0 million (previous year: €4 million).

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 €3 million (previous year: €3 million). In the reporting year, expenses for short-term leases amounted to €3 million (previous year: €3 million). There were no variable lease expenses in the reporting 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	Rights of use for technical equipment and machinery	Right of use on other equipment, operating 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 depreciation	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**

€ million	Right of use on land, land rights and buildings incl. buildings on third party land	Rights of use for technical equipment and machinery	Right of use on other equipment, operating and office equipment	Total
Gross carrying amount (or cost)				
Balance as of Jan. 1, 2020	**16**	**–**	**0**	**16**
Foreign exchange differences	0	–	0	0
Changes in basis of consolidation	–	–	–	–
Additions	10	–	1	11
Reclassifications	–	–	–	–
Disposals	4	–	0	4
Balance as of Dec. 31, 2020	**22**	**–**	**1**	**22**
Depreciation and impairment losses as of Jan. 1, 2020	**2**	**–**	**0**	**2**
Foreign exchange differences	0	–	0	0
Changes in basis of consolidation	–	–	–	–
Additions to cumulative depreciation	2	–	0	3
Additions to cumulative impairment losses	–	–	–	–
Reclassifications	–	–	–	–
Disposals	0	–	–	0
Reversal of impairment losses	–	–	–	–
Balance as of Dec. 31, 2020	**4**	**–**	**0**	**4**
Net carrying amount as of Dec. 31, 2020	**18**	**–**	**0**	**18**

Depending on the classification of the subleases, the right-of-use assets recognized from primary leases as part of buyback transactions are reported as finance leases and therefore as receivables from finance leases. Disclosures on buyback transactions are thus not included in the above disclosures on right-of-use assets recognized by the Group as a lessee.

When assessing the lease term underlying a lease 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:

€ million	REMAINING CONTRACTUAL MATURITIES			
	Up to 1 year	1 – 5 years	more than 5 years	Total
Lease liabilities as of Dec. 31, 2021	3	9	8	20
Lease liabilities as of Dec. 31, 2020[1]	3	9	10	22

1 Prior year restated.

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	2021	2020
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**

66. 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 consists of central bank balances and cash-in-hand.

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.

€ million	Balance as of Jan. 1, 2021	Cash changes	NONCASH TRANSACTIONS			Balance as of Dec. 31, 2021
			Exchange rate changes	Changes in basis of consolidation	Measurement changes	
Subordinated capital	49	–13	–	–	–	35

€ million	Balance as of Jan. 1, 2020	Cash changes	NONCASH TRANSACTIONS			Balance as of Dec. 31, 2020
			Exchange rate changes	Changes in basis of consolidation	Measurement changes	
Subordinated capital	105	–57	–	–	–	49

67. 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. Please refer to note (60) for information on the maximum default risk in respect of financial guarantees.

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2022	DUE 2023 – 2026	DUE 2027 or later	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

Drawdowns on credit commitments are possible at any time.

€ million	DUE 2021	DUE 2022 – 2025	DUE 2026 or later	TOTAL Dec. 31, 2020
Purchase commitments in respect of				
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
credit commitments to customers[1]	11,358	0	0	11,358
long-term leasing and rental contracts	3	0	–	3
Miscellaneous financial obligations	11	–	–	11

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

68. Average Number of Employees During the Reporting Period

	2021	2020
Salaried employees	1,849	1,855
of which senior managers	41	38
of which part time	423	430
Vocational trainees	31	27

69. 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 Volkswagen AG's Supervisory Board for 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 4, 2022, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20% of the voting rights in Volkswagen AG on December 31, 2021 and therefore indirectly had 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 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

FISCAL YEAR 2020

€ 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	2	–	2,054	0	2,202	–
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	4	8	3,032[1]	–	4,781[1]	129	235[1]	1
Interest income	0	0	10	–	–72	–	4	–
Interest expense	0	0	–	–	–1	–	–	–
Goods and services provided	–	–	36	–	324	0	1	–
Goods and services received	–	–	4	–	306	–	220	0

1 Prior year restated as explained in the Changes to Prior-Year Figures section under the disclosures on the corrected recognition of the provision for credit risks in respect of credit commitments.

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 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.

“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.

In the reporting year, the Volkswagen Bank GmbH Group received capital contributions of €383 million (previous year: none) from Volkswagen AG. Furthermore, the Volkswagen Bank GmbH Group made capital contributions to related parties amounting to €0.3 million (previous year: €4 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

€ million	2021	2020
Short-term benefits	1	2
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: €5 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 and the Supervisory Board role undertaken by the person concerned. 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 is an appropriate remuneration for the relevant function or activity in the Bank. The same also applies to the representative of the senior executives on the Supervisory Board.

70. 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 eight 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 and on derecognition of financial assets measured at fair value through other comprehensive income.

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	2021	2020
Reported in the balance sheet as of December 31		
Marketable securities	548	517
Loans to and receivables from customers	–	–
Maximum loss risk	548	517
Nominal volume of securitized assets	800	739

Volkswagen Bank GmbH Group companies did not provide unconsolidated structured entities with any non-contractual support during the reporting period.

71. Governing Bodies of Volkswagen Bank GmbH

The members of the Management Board are as follows:

DR. MICHAEL REINHART (UNTIL JANUARY 31, 2021)
Chairman of the Management Board
Corporate Management of Volkswagen Bank GmbH
Finance, Volkswagen Bank GmbH (Group Treasury & Investor Relations only)

DR. MICHAEL REINHART (AS OF FEBRUARY 1, 2021)
Chairman of the Management Board
Corporate Management of Volkswagen Bank GmbH

OLIVER ROES (AS OF FEBRUARY 1, 2021)
Member of the Management Board of Volkswagen Bank GmbH. Responsible for Finance.

CHRISTIAN LÖBKE (UNTIL JANUARY 31, 2021)
Member of the Management Board of Volkswagen Bank GmbH. Responsible for Risk Management.
Finance, Volkswagen Bank GmbH (excl. Group Treasury & Investor Relations)

CHRISTIAN LÖBKE (AS OF FEBRUARY 1, 2021)
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, 2021 were as follows:

DR. INGRUN-ULLA BARTÖLKE
Chairwoman (as of October 1, 2021)
Deputy Chairwoman (until September 30, 2021)
Head of Group Accounting and External Reporting of Volkswagen AG

LUTZ MESCHKE
Deputy Chairman (as of October 1, 2021)
Deputy Chairman of the Board of Management and member of the Board of Management of
Dr. Ing. h.c. F. Porsche AG
Finance and IT

SILVIA STELZNER
Deputy Chairwoman
Executive Director of the Joint Works Council of Volkswagen Financial Services AG and
Volkswagen Bank GmbH

BJÖRN BÄTGE (AS OF OCTOBER 1, 2021)
Group Treasury – Head of Global Markets of Volkswagen AG

MARKUS BIEBER
Managing Director of the General Works Council of Volkswagen 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

THOMAS KÄHMS
Member of the Joint Works Council of Volkswagen Financial Services AG and
Volkswagen Bank GmbH

REINHARD MATHIEU
Head of Basic Regulatory Issues & Reporting at Volkswagen Bank GmbH

JÜRGEN ROSEMANN
Member of the Joint Works Council of Volkswagen Financial Services AG and
Volkswagen Bank GmbH

LARS HENNER SANTELMANN
Chairman of the Board of Management of Volkswagen Financial Services AG

CONNY SCHÖNHARDT (AS OF JUNE 18, 2021)
Trade Union Secretary at the IG Metall Executive Board, Vehicle-Production department

The following were also members of the Supervisory Board in 2021:

BIRGIT DIETZE (UNTIL APRIL 30, 2021)
District Manager of IG Metall Berlin-Brandenburg-Saxony

DR. MICHAEL REINHART (UNTIL SEPTEMBER 30, 2021)
Chairman
Executive Vice President of Volkswagen AG
Head of Group Treasury

The composition of the committees of the Supervisory Board of Volkswagen Bank GmbH was as follows as of the reporting date, December 31, 2021:

MEMBERS OF THE AUDIT COMMITTEE
Lutz Meschke (Chairman) (as of October 1, 2021)
Prof. Dr. Susanne Homölle (Deputy Chairwoman)
Frank Fiedler
Silvia Stelzner

The following were also members of the Audit Committee in 2021:
Dr. Ingrun-Ulla Bartölke (Chairwoman) (until September 30, 2021)

MEMBERS OF THE RISK COMMITTEE
Prof. Dr. Susanne Homölle (Chairwoman)
Björn Bätge (Deputy Chairman) (as of October 1, 2021)
Frank Fiedler
Silvia Stelzner

The following were also members of the Risk Committee in 2021:
Dr. Jörg Boche (Deputy Chairman) (until September 30, 2021)

MEMBERS OF THE NOMINATION COMMITTEE
Dr. Ingrun-Ulla Bartölke (Chairwoman)
Thomas Kähms (Deputy Chairman)
Lars Henner Santelmann

MEMBERS OF THE REMUNERATION COMMITTEE
Dr. Ingrun-Ulla Bartölke (Chairwoman) (as of October 1, 2021)
Dr. Ingrun-Ulla Bartölke (Deputy Chairwoman) (until September 30, 2021)
Björn Bätge (Deputy Chairman) (as of October 1, 2021)
Thomas Kähms
Lars Henner Santelmann

The following were also members of the Remuneration Committee in 2021:
Dr. Jörg Boche (Chairman) (until September 30, 2021)

72. 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.

73. Events After the Balance Sheet Date

Up to February 22, 2022, there were no significant events that would have required a substantially 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, 2021.

		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, 2021	Direct	Indirect	Total	local currency	local currency	Footnote	Year
I. PARENT COMPANY									
Volkswagen Bank GmbH, Braunschweig									
II. II. SUBSIDIARIES									
A. Consolidated companies									
1. Germany									
2. International									
Driver España six, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	2) 6)	2020
Driver Italia One S.r.l., in Liquidation, Milan	EUR		–	–	–	10	–	1) 3) 6)	2020
Driver Master S.A., Luxembourg	EUR		–	–	–	31	–	6)	2020
Driver Multi-Compartment S.A., Luxembourg	EUR		–	–	–	16	–	6)	2020
Private Driver España 2020-1, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	2) 6)	2020
Private Driver Italia 2020-1 S.r.l., Milan	EUR		–	–	–	10	–	2) 6)	2020
B. Unconsolidated companies									
1. Germany									
2. International									
OOO Volkswagen Bank RUS, Moscow	RUB	84.9779	1.00	–	1.00	17,284,314	1,034,143	5)	2020

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2021	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	103,091	25,943		2020
2. International									
DFM N.V., Amersfoort	EUR		60.00	–	60.00	235,098	26,521	5)	2020
Volkswagen Financné služby Slovensko s.r.o., Bratislava	EUR		58.00	–	58.00	73,294	–1,297	5)	2020
B. Companies accounted for at cost									
1. Germany									
2. International									
IV. ASSOCIATES									
A. Equity-accounted associates									
1. Germany									
2. International									
B. Associates accounted for at cost									
1. Germany									
2. International									
Credi2 GmbH, Vienna	**EUR**		**20.00**	**–**	**20.00**	**1,908**	**–2,399**		**2020**
V. EQUITY INVESTMENTS									
1. Germany									
2. International									
Society for Worldwide Interbank Financial Telecommunications SCRL, La Hulpe	EUR		0.01	–	0.01	487,078	35,824	4) 5)	2020

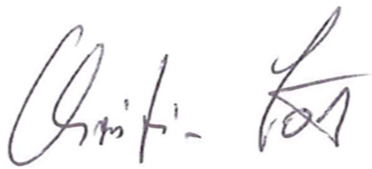
1) In liquidation
2) Short fiscal year
3) Currently not trading
4) Consolidated financial statements
5) Figures in accordance with IFRSs
6) Structured company in acc. with IFRS 10 and 12

Braunschweig, February 22, 2022

Volkswagen Bank GmbH
The Management Board

Dr. Michael Reinhart

Oliver Roes



Christian Löbke

Dr. Volker Stadler

Responsibility Statement

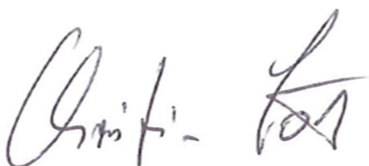
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the 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 22, 2022

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, 2021:

> 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/loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income
> 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, 2021.

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	747	900	252	136	–
France	1,278	424	229	20	–
Greece	16	44	10	2	–
United Kingdom	59	32	75	11	–
Italy	397	99	359	57	–
Luxembourg	–	–	–	–	–
Netherlands	0	0	0	0	–
Poland	41	64	6	4	–
Portugal	19	17	9	1	–
Spain	236	57	160	44	–

COMPANY NAME	COMPANY TYPE	DOMICILE	COUNTRY
EU countries			
Volkswagen Bank GmbH	Bank	Braunschweig	Germany
Volkswagen Bank GmbH, France branch	Bank	Roissy en France	France
Volkswagen Bank GmbH, Greece branch	Bank	Glyfada-Athens	Greece
Volkswagen Bank GmbH, United Kingdom branch	Bank	Milton Keynes	United Kingdom
Driver Italia ONE S.R.L.	SPV	Milan	Italy
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

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

To Volkswagen Bank GmbH, Braunschweig

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

Opinions

We have audited the consolidated financial statements of Volkswagen Bank GmbH, Braunschweig, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2021, 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 2021 to 31 December 2021, 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 2021 to 31 December 2021. 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 2021 and of its financial performance for the fiscal year from 1 January to 31 December 2021, 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. Our opinion on the group management report does not cover the content of the corporate governance declaration referred to above (disclosures on the quota for women on executive boards).

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 respon-

sibilities 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 2021 to 31 December 2021. 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 valuation of loans to dealers, the related identification of impaired loans and the determination of the provision for Stage 3 credit risks 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 dealer's financial performance, expected future cash flows and the valuation of collateral. In addition to the impact of the global Covid-19 pandemic, for which it is not yet possible to make a conclusive assessment, these uncertainties are also significantly increased in the fiscal year as a result of the supply bottlenecks of Group's new vehicles due to the semiconductor shortage. 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. 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 need for any provision for credit 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 48) of the notes to the consolidated financial statements as well as in the "Business Performance in 2021" 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, semiconductor) 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 the ongoing effects of the Covid-19 pandemic and the global supply shortages, 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 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
> Obtain an understanding of internal control relevant to the audit of the 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-2021-12-31.zip (SHA-256 checksum: d211ad877b62aec75ab05002c90163d90499d258827730306675b0eb6b20bbfe) 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 2021 to 31 December 2021 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). 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 1 March 2021. We were engaged by the Supervisory Board on 14 September 2021. 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 *Bundesanzeiger* [German Federal Gazette] – 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.

Hannover, February 22, 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Gundelach	Bühring
Wirtschaftsprüferin	Wirtschaftsprüfer

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 Chairman 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 99%. Two decisions were made by circulation of written resolutions for approval; in the reporting period, there were no decisions made by the Chairman 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 February 18, 2021, 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 2020 and commented on the consolidated financial statements. In addition, in relation to the report on the Bank's current situation, we discussed the current and future risk situation, the financial performance of the VW Bank Group, the key issues for fiscal year 2021 and the status of an ECB tender. Furthermore, we heard a report on the Bank's IT strategy for 2021. Amended provisions in section 15 of the Kreditwesengesetz (KWG – German Banking Act) and other amendments to the KWG were also explained to us and, pursuant to the Risikoreduzierungsgesetz (German Risk Reduction Act), we resolved to amend the rules of procedure of the Management Board, the Risk Committee, the Remuneration Committee, the Nomination Committee and the Audit Committee. There was also a report on the planned increase in the Bank's equity.

At the meeting on April 14, 2021, the communication of the results of the Supervisory Review and Evaluation Process (SREP) was described to the Supervisory Board. We also discussed Management Board remuneration.

The meeting on May 19, 2021 was entirely devoted to the issue of independent directors.

At the meeting on June 17, 2021, we had a report on the equity increase implemented by the Bank, the financial performance of the VW Bank Group, progress with a number of strategic initiatives as well as current regulatory issues. There were also reports on selected IT findings and projects, IT sourcing and on a second European hub for certain IT services. Finally, the Chairwoman of the Audit Committee presented the compliance report.

On September 16, 2021, we resolved amendments to the rules of procedure of the Credit Committee and the Audit Committee. Moreover, in accordance with a succession plan, we elected a new Chairwoman and a new Deputy Chairman. We also resolved to recommend to the Annual General Meeting the appointment of a new Supervisory Board member. Because of these personnel changes, we elected from among our members a new

member and a new Chairman for the Audit Committee as well as a new Chairwoman for the Remuneration Committee. Furthermore, we discussed the results of the annual assessment of the Management and Supervisory Board in accordance with section 25d of the KWG. We also heard a report on the financial performance of the VW Bank Group and a planning outlook. Other topics included progress with the strategic initiatives, current regulatory issues and a report on selected IT findings and projects. A report was also provided on the judgment handed down by the Bundesgerichtshof (BGH – German Federal Court of Justice) on the general terms and conditions of banks as well as an estimate of customer attrition, the flood relief program and the latest legal developments relating to the right to cancel vehicle financing agreements.

At the meeting on December 3, 2021, we passed a resolution to amend the rules of procedure of the Supervisory Board to incorporate new digital options for organizing meetings.

The Remuneration Officer presented the report on the appropriateness of employee remuneration. Further, we concerned ourselves with the risk taker analysis for 2021/2022, and the Remuneration Officer presented the remuneration control report for fiscal year 2020/2021. We also received details of the review of the remuneration systems in the light of regulatory changes.

In addition, we asked the Management Board to report on the current risk situation, the financial performance of the Bank and the Group, and the progress of strategic initiatives. We took note of the planning round and approved the investment planning. We also received information on the effects of the agency model on dealer financing and the back office and an update on the data quality framework. We also heard a report on selected IT findings and projects and on progress of the Together for Integrity project.

At each of the meetings, the chairpersons of the respective committees or their deputies reported in detail on the contents of their committee 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 approximately 94%.

At the meeting held on February 18, 2021, the Audit 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, 2020 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 submitted a recommendation to the sole shareholder regarding the election of the auditor and drew up the resolution covering the issue of the audit engagement in preparation for the Annual General Meeting. In addition, the Head of Internal Audit provided further information relating to Internal Audit's 2020 Annual Report for the benefit of the Audit Committee.

At its meeting on June 17, 2021, the Audit Committee heard a report on the financial situation of the VW Bank Group. The compliance report was also presented. Furthermore, the Committee discussed other transactions with Management Board members and their related parties within the meaning of section 15 (6) of the KWG and gave its approval to some of these transactions.

At its meeting on September 16, 2021, the Audit Committee received information on the 2021 half-yearly financial statements and a status update on an audit by the German Financial Reporting Enforcement Panel. After that, the Committee heard details of a report on external assurance procedures relating to the tax audit. The quality of the audit of the financial statements was also discussed, and approval was given to several other transactions with Management Board members and their related parties within the meaning of section 15 (6) of the KWG. There were also reports on amendments to the rules of procedure of the Audit Committee required because of the Finanzmarktintegritätsstärkungsgesetz (FISG – Financial Market Integrity Strengthening Act) and an update on the profit and loss transfer agreement.

At the meeting held on December 1, 2021, the Audit Committee received reports on the latest business performance and discussed the audit planning, key audit matters and the obligations of the auditor to provide information. The Committee gathered details to establish the extent to which there were relationships of a professional, financial or other nature between the auditor and the Bank and/or its governing bodies with a view to assessing the independence of the auditor. In this regard, the Audit Committee received information on the services that the auditor had provided for the Bank in addition to the auditing activities. In addition, the Committee heard a report on the results of the audit by the German Financial Reporting Enforcement Panel (FREP). Finally, the Head of Internal Audit reported on the auditing activities in the reporting year, outstanding action and the key audit matters for 2022.

Risk Committee

The Risk Committee held four regular 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 approximately 94%.

At its meeting on February 18, 2021, the Risk Committee discussed the auditors' findings relating to risk management in the 2020 annual report. The Committee then addressed the retrospective analysis of the 2020 risk strategy and the risk strategy and risk limits for 2021. In addition, 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 June 17, 2021, the Risk Committee discussed changes in the credit risk of Volkswagen Bank GmbH in the first half of 2021 as well as modifications to the internal capital adequacy assessment process (ICAAP) report for 2021 relating to stress tests and sensitivity analyses. In addition, the Committee heard a presentation of the ICAAP stress test program 2021 and received an update on the 2021 stress tests by the European Banking Authority (EBA). In addition, selected aspects of the risk management report as of March 31, 2021 were explained to the Committee. The Committee's remaining work program for 2021 was also discussed.

At the meeting on September 16, 2021, the Risk Committee concerned itself with the result of the EBA's 2021 stress test as well as current issues relating to interest rate risk in the banking book (IRRBB).

On December 3, 2021, the Risk Committee was informed on operational risks, especially IT risks (internet and cyber risk) and the 2021 business model risk analysis. The Committee also received a report on changes to internal processes on the basis of SREP 2021. Furthermore, the Committee heard the presentation of an outlook on the ECB's climate stress test for 2022.

Remuneration Committee

The Remuneration Committee held five meetings in the reporting period. The Committee has four members. The attendance rate was 95%.

At its meeting on February 18, 2021, 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 (5) of the Institutsvergütungsverordnung (IVV – German Regulation Governing Remuneration at Institutions) were identified. The Committee also approved the appointment of the new Remuneration Officer.

At its meeting on April 14, 2021, the Committee's main discussion point was variable Management Board remuneration.

On June 17, 2021, the Remuneration Officer was introduced. The Committee also reviewed the remuneration of the monitoring units.

At its meeting on September 16, 2021, the Committee dealt with the remuneration report for fiscal year 2020 as well as the adoption of the collective bargaining agreement and the scenario for implementing it for the Management Board. In addition, the Bank's remuneration report for fiscal year 2020 was presented. The Committee also discussed the calculation of a performance-based component of variable remuneration of certain senior managers and received a report on updating the documentation of the Group-wide remuneration strategy.

On December 3, 2021, the Committee concerned itself with the risk taker analysis for 2021/2022. The Remuneration Officer presented the remuneration control report for fiscal year 2020/2021 and the report on the

appropriateness of employee remuneration. The Committee also examined the appropriateness of Management Board remuneration and received details of the review of the remuneration systems in the light of regulatory changes. Moreover, the Committee again discussed the calculation of a performance-based variant of variable remuneration of certain senior managers

Nomination Committee

The Nomination Committee held four 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 meetings on June 3, September 7, September 16 and November 3, 2021, the Committee discussed the extension of a Management Board appointment and the filling of vacancies on the Supervisory Board, and made corresponding recommendations to the Supervisory Board. At its meeting on September 7, 2021, the Committee also discussed the reliability of the members of the Supervisory Board. On November 3, 2021, the Committee concerned itself with the collective suitability of the Supervisory Board and the Management Board and with the analysis of the annual assessment of the Management Board and the Supervisory Board in fiscal year 2020/2021.

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. Training for the entire Supervisory Board was held on customer relationship management and on the Finanzmarktintegritätsstärkungsgesetz (FISG – Financial Market Integrity Strengthening Act).

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, 2021, 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, 2021, 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 March 8, 2022, 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 2021 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, 2021 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, March 8, 2022

Dr. Ingrun-Ulla Bartölke
Chairwoman of the Supervisory Board

NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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