VOLKSWAGEN BANK

GMBH

ANNUAL REPORT

German GAAP

2022

Fundamental Information about the Group

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

BUSINESS MODEL

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

Financing

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

Leasing

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

Direct Banking

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

Broking

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

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

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

ORGANIZATION OF VOLKSWAGEN BANK GMBH

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

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

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

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

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

MOBILITY2030 STRATEGY

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

REPORT ON THE SUBSIDIARIES AND BRANCHES

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

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

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

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

INTERNAL MANAGEMENT

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

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

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

CHANGES IN EQUITY INVESTMENTS

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

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

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

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

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

Report on Economic Position

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

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

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

Europe

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

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

Germany

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

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

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

Sector-Specific Environment

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

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

Europe

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

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

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

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

Germany

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

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

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management Board of Volkswagen Bank GmbH considers the course of business in the year 2022 to have been satisfactory. Profit before tax for the reporting period amounted to €751.9 million, which was lower than the figure for the corresponding prior-year period (previous year: €1,106.7 million). Interest income remained stable, leaving the absence of the positive nonrecurring items from the prior year in the area of risk provisions and the very strong increase in funding costs as the key drivers behind the development of earnings.

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

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

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

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

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

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

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

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

FINANCIAL PERFORMANCE

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

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

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

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

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

The required provision for credit risks rose to €461.9 million (previous year: €327.1 million) as a result of the growth in dealer financing. Income from the reversal of valuation allowances no longer required and income from loans and receivables previously written off was down €176.2 million year on year at €328.7 million. The total net addition to provisions for credit risks was thus €133.3 million (previous year: net reversal of provisions for credit risks €177.8 million).

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

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

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

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

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

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

NET ASSETS AND FINANCIAL POSITION

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

Lending Business

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

Retail financing

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

Dealer financing

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

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

Leasing business

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

Marketable securities

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

Equity-accounted investments

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

Long-term financial assets

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

CURRENT CONTRACTS AND NEW CONTRACTS

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

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

NEW AND EXISTING CONTRACTS AS OF DECEMBER 31
In thousands

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

CUSTOMER DEPOSITS AS OF DEC. 31
€ million

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

Deposit Business and Borrowings

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

DEPOSIT BUSINESS

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

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

EQUITY

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

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

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

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

CAPITAL ADEQUACY ACCORDING TO REGULATORY REQUIREMENTS

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

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

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

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

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

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

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

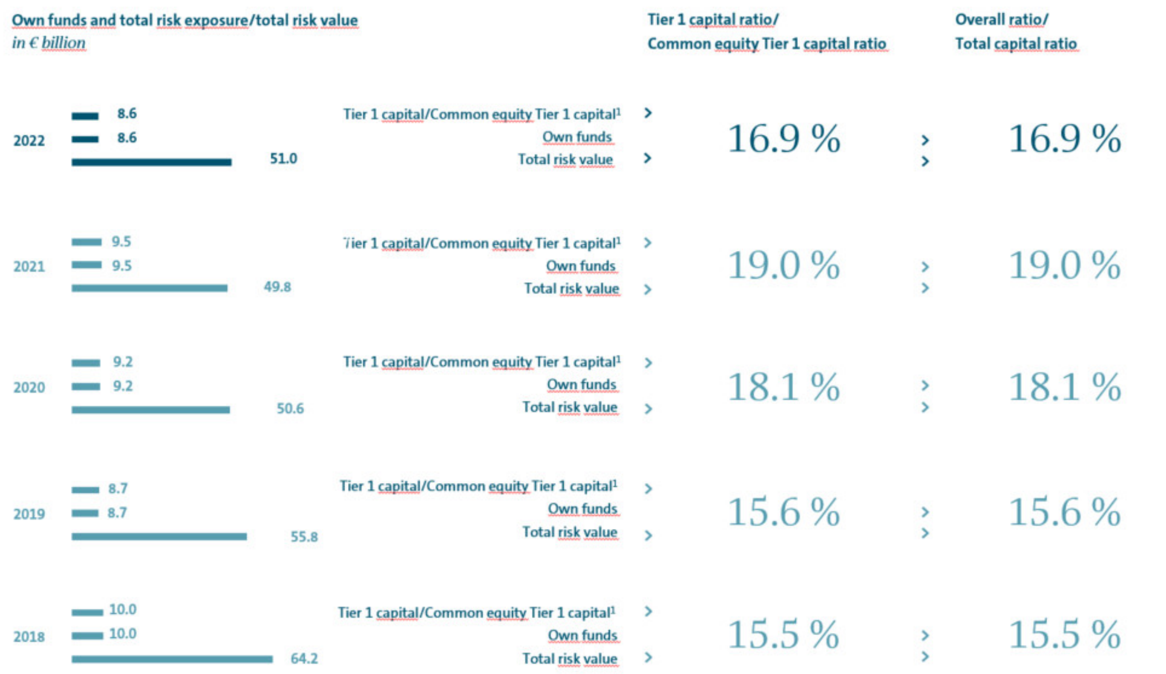
The Standardized Approach as specified in Article 317 of the CRR is used to calculate the own funds requirements for operational risk. The own funds requirements for the CVA charge are determined using the standardized method specified in Article 384 of the CRR. The own funds requirements for market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

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

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

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

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



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

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

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

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

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

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

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

CHANGES IN OFF-BALANCE-SHEET LIABILITIES

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

LIQUIDITY ANALYSIS

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

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

The requirement under the *Mindestanforderungen an das Risikomanagement* (MaRisk – German Minimum Requirements for Risk Management) for the Volkswagen Bank GmbH Group to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and 30-day time horizons was also satisfied at all times, even under various stress scenarios. Compliance with this requirement is determined and continuously monitored by the liquidity risk management department. In this process, the cash flows for the coming twelve months are projected and compared against the potential funding available in each maturity band. Adequate potential funding to cover the liquidity requirements was available at all times, both in the normal scenario and in the stress tests required by MaRisk. The survival period recovery indicator remained within the stipulated limits through the 2022 reporting year.

REFINANCING

Strategic Principles

In terms of funding, the Volkswagen Bank GmbH Group generally pursues a strategy of diversification with the aim of achieving the best possible balance of cost and risk. This means accessing the widest possible variety of funding sources with the objective of safeguarding funding on a long-term basis and using this funding on optimum terms.

Implementation

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

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

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

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

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

Ratings

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

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

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

Volkswagen Bank GmbH

(Condensed, in accordance with the HGB)

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

BUSINESS PERFORMANCE 2022

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

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

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

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

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

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

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

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

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

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

€46.5 billion). Loans to and receivables from dealers in connection with purchase financing rose by €3.5 billion while loans to and receivables from retail customers fell by €1.9 billion.

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

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

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

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

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

INCOME STATEMENT OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

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

BALANCE SHEET STRUCTURE OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

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

NUMBER OF EMPLOYEES

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

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

OPPORTUNITIES AND RISKS FACING VOLKSWAGEN BANK GMBH

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

Report on Opportunities and Risks

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

RISKS AND OPPORTUNITIES

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

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

MACROECONOMIC OPPORTUNITIES

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

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

STRATEGIC OPPORTUNITIES

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

OPPORTUNITIES FROM CREDIT RISK

Opportunities may arise in connection with credit risks if the losses actually incurred on lending transactions turn out to be lower than the prior calculations of expected loss and the associated provisions recognized on the basis thereof. A situation in which the incurred losses are lower than the expected losses can occur particularly in individual countries in which economic uncertainty resulted in the need for a higher provision for credit risks but in which the economic circumstances then stabilize, resulting in an improvement in the credit quality of the borrowers concerned.

OPPORTUNITIES FROM RESIDUAL VALUE RISK

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

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

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

> The Management Board of Volkswagen Bank GmbH is the governing body with responsibility for the executive management of the business. In this role, the Management Board has set up accounting, treasury, risk management, controlling and compliance divisions, each with clearly distinct functions and clearly defined areas of responsibility and authority, to ensure that the accounting and financial reporting processes are legally compliant and in line with the relevant standards.
> Group-wide rules and regulations have been put in place as the basis for a standardized, proper and continuous financial reporting process.
> For example, the accounting policies applied by the domestic and foreign entities included in the consolidated financial statements of Volkswagen Bank GmbH are governed by the Volkswagen Group’s accounting policies, including the accounting requirements specified in the International Financial Reporting Standards (IFRSs).
> The Volkswagen Bank GmbH Group’s accounting standards also set out the specific formal requirements for the consolidated financial statements. The standards determine the basis of consolidation and also describe in detail the components of the reporting packages to be prepared by the Group companies. The formal requirements include the mandatory use of a complete, standardized set of forms. The accounting standards also define, for example, specific details relating to the recognition and processing of intragroup transactions and the associated reconciliation of balances.
> At Group level, specific control activities aimed at ensuring that the consolidated financial reporting provides a true and fair view include the analysis and any necessary adjustment of single-entity financial statements submitted by the consolidated entities, taking into account the reports submitted by the auditor and the related discussions concerning the financial statements.
> These activities are supplemented by the clear delineation of areas of responsibility and by various monitoring and review mechanisms. The overall aim is to ensure that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.

> These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT processing controls account for a significant proportion of the integrated process activities alongside manual process controls, such as double-checking by a second person. These controls are enhanced by specific Group functions at the parent company Volkswagen AG, for example functions within the responsibility of the Group tax department.
> Internal auditing is a key component of the Volkswagen Bank GmbH Group's monitoring and control system. The Internal Audit department carries out regular audits of accounting-related processes in Germany and abroad as part of its risk-oriented auditing activities and reports on these audits directly to the Management Board of Volkswagen Bank GmbH.

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

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

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

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

The Volkswagen Bank GmbH Group has put a risk management system into place to identify, assess, manage, monitor and communicate risks. The risk management system comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risks. The individual elements are aligned with the activities of the individual divisions. This structure is intended to ensure early detection of any trends that could represent a risk to the business as a going concern so that appropriate countermeasures can then be initiated.

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

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

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

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

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

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

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

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

RISK STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Management Board of Volkswagen Bank GmbH.

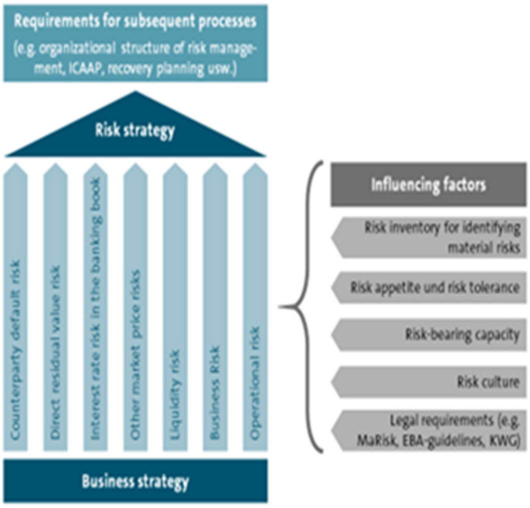
As part of this overall responsibility, the Management Board of Volkswagen Bank GmbH has introduced a MaRisk-compliant strategy process and implemented a business and risk strategy. The ROUTE2025 business strategy sets out the fundamental views of the Management Board of Volkswagen Bank GmbH on key matters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

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

The risk strategy includes all material quantifiable and non-quantifiable risks. Further details and specifics for the individual risk categories are set out in risk sub-strategies and included in operational requirements during the process of business and risk planning.

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

RISK STRATEGY PROCESS



RISK INVENTORY

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

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

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

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

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

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

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

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

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

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

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

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

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

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

CHANGES IN RISK CATEGORY APPORTIONMENT[1]

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

1 The confidence level is 99.9% as standard.

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

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

RISK CONCENTRATIONS

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

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

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

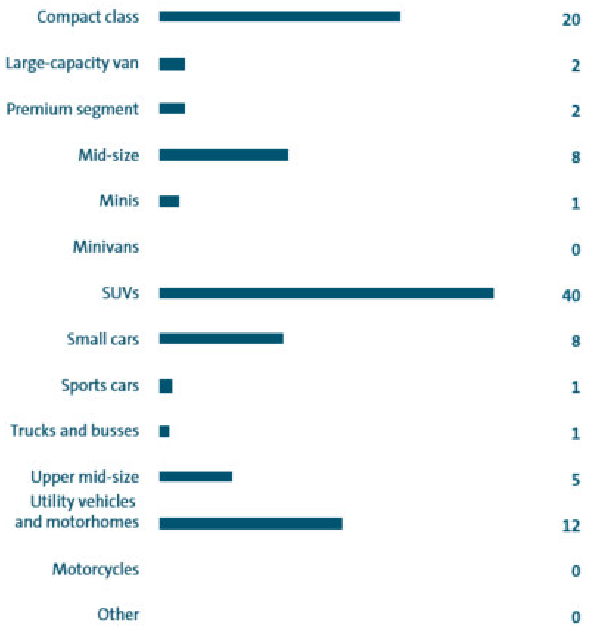
One of the objectives of the Volkswagen Bank GmbH Group's risk policy in its business model is to reduce such concentrations by means of broad diversification.

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

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

Likewise, a captive cannot avoid collateral concentrations because the vehicle is the predominant collateral asset by virtue of the business model. Risks can arise from concentrations of collateral if downward pricing trends in used vehicle markets or segments lead to lower proceeds from the recovery of assets and, as a consequence, there is a fall in the value of the collateral. Nevertheless, in terms of the vehicles used as collateral, the Volkswagen Bank GmbH Group enjoys a broad diversification across all vehicle segments (see following diagram) based on a large range of vehicles from the different brands in the Volkswagen Group.

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2022
In %



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

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

MODEL RISK

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

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

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

ESG RISKS

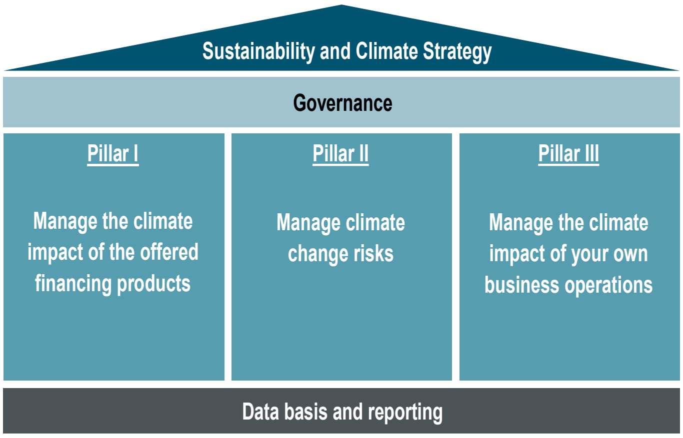
The trend toward sustainability and the management of ESG risks is currently changing the financial system. The Bank intends to be proactively involved in these changes and make the most of the opportunities that arise.

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

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

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

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



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

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

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

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

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

Volkswagen Bank GmbH is making major efforts to ensure that its own banking operations are largely climate-neutral and prevent the danger of serious environmental damage. For example, high priority is being accorded to environmental protection measures such as reducing energy, water and paper consumption, cutting carbon emissions and generating less waste.

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

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

RISK REPORTING

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

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

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

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

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

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

RECOVERY AND RESOLUTION PLANNING

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

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

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

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

CURRENT REGULATORY FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

NEW PRODUCT AND NEW MARKET PROCESS

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

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

CHANGES TO OPERATING PROCESSES OR STRUCTURES

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

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

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

OVERVIEW OF RISK CATEGORIES

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

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

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

The Volkswagen Bank GmbH Group has no business operations in Ukraine or Russia. Volkswagen Bank GmbH has done nothing more in Russia for many years than issue two bank guarantees for OOO Volkswagen Bank RUS, Moscow, which are fully secured by cash deposits of Volkswagen Financial Services AG and Volkswagen AG. Volkswagen Bank GmbH also has a one percent equity investment, accounted for at cost, in Russian international subsidiary Volkswagen Bank RUS, Moscow. The carrying amount of this equity investment was written down to €1 as of December 2022, further greatly reducing the low shareholder risk of Volkswagen Bank GmbH.

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

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

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

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

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

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

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

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

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

FINANCIAL RISKS

Counterparty Default Risk

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

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

Credit Risk

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

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

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

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

Risk identification and assessment

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

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

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

Rating 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 at risk pool level are used, depending on portfolio size and the risk inherent in the portfolio.

Supervision and review of retail and corporate systems

The models and systems supervised by Risk Management are regularly validated and monitored using standardized procedural models for validating and monitoring risk classification systems. The models and systems are adjusted and refined as required. These review procedures are applied to models and systems for assessing credit quality and estimating the probability of default (such as rating and scoring systems) and to models used for estimating loss given default and estimating credit conversion factors.

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

Collateral

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

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

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

Provisions

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

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

Risk monitoring and control

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

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

Trends

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

Retail portfolio

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

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

Corporate portfolio

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

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

BREAKDOWN OF LENDING VOLUME BY REGION[1]

€ million

1 Figures before application of consolidation effects

2 Europe excluding Germany

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

€ million

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

1 Figures before application of consolidation effects

Counterparty/Issuer Risk

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

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

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

Risk identification and assessment

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

Risk monitoring and control

To establish effective monitoring and control, volume limits are specified for each counterparty and issuer. The Treasury Backoffice, in its role as a subsidiary function of Risk Management, is responsible for monitoring compliance with these limits. The volume limit is set at an appropriate level based on the needs of the market and the credit assessment. The Back Office department is responsible for the initial classification and then regular reviews. The relevant credit applications are then submitted to the decision-makers for a decision. Risk Management analyzes counterparty and issuer risks quarterly as part of the calculation of risk-bearing capacity. Counterparty and issuer risk is reported to the Management Board in the quarterly risk management report.

Country Risk

Country risk refers to risks in international transactions that are not attributable to the counterparty itself but that arise because of the counterparty's domicile in a country outside Germany. The Volkswagen Bank GmbH Group has to take into account country risk particularly in connection with funding and equity investment activities involving foreign companies and in connection with the lending business. Given the focus of business activities in the Volkswagen Bank GmbH Group, only limited country risks could arise as the Group is not usually involved in cross-border lending business, with the exception of intercompany loans. Cross-border activities account for less than 1% of lending business in retail financing. The conventional country risk analysis is not applicable to intercompany lending because, if the difficulties described above were to occur, the funding of the entities through lending could be extended if necessary, thereby ensuring that the entities could continue to operate in the strategic market concerned. For these reasons, there has been no need to establish limits related to the overall level of business for countries or regions, for example, to limit transfer risk.

Shareholder Risk

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

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

Risk identification and assessment

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

Risk monitoring and control

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

Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book (IRRBB) consists of potential losses arising as a result of changes in market interest rates. It occurs because of interest rate mismatches between asset and liability items in a portfolio or on the balance sheet. The Volkswagen Bank GmbH Group is exposed to interest rate risk in its banking book.

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

The objective of interest rate risk management is to keep the financial losses arising from this category of risk as low as possible. With this in mind, the Management Board has agreed limits for this category of risk. If limits are exceeded, the situation is escalated on an ad hoc basis to the Management Board and the Asset Liability Management Committee (ALM Committee). Action to reduce risk is discussed and initiated by the ALM Committee.

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

Risk identification and assessment

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

The model is based on a historical simulation and calculates potential losses taking into account 1,460 historical market fluctuations (volatilities). Negative interest rates can also be processed in the historical simulation and are factored into the risk assessment.

The VaR calculated for operational management purposes estimates potential losses under historical market conditions, but stress tests are also carried out for forward-looking situations in which interest rate exposures are subject to exceptional changes in interest rates and worst-case scenarios. The results from the simulations are analyzed to assess whether any of the situations could represent a serious potential risk. This process also includes the monthly quantification and monitoring of the changes in present value resulting from the interest rate shock scenarios of +200 basis points and –200 basis points as specified by the German Federal Financial Supervisory Authority (BaFin) and from the scenarios relating to interest rate risk in the banking book specified by the ECB and the Basel Committee on Banking Supervision.

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

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

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

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

Other Market Risk (Currency and Fund Price Risk)

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

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

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

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

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

Liquidity Risk

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

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

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

If liquidity risk were to materialize, funding risk would result in higher costs and market liquidity risk would result in lower selling prices for assets, both of which would have a negative impact on financial performance. The consequence of illiquidity risk in the worst-case scenario is insolvency caused by illiquidity. Liquidity risk management in the Volkswagen Bank GmbH Group ensures that this situation does not arise.

Risk identification and assessment

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

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

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

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

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

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

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

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

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

Residual Value Risk

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

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

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

Risk identification and assessment

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

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

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

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

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

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

Risk monitoring and control

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

As part of risk management procedures, the adequacy of the provision for risks and the potential residual value risk are regularly reviewed in respect of direct residual value risk; residual value opportunities are disregarded in the recognition of the provision for risks. The preparation of the risk management report includes a review of adequacy in which the level of existing direct residual value risk is compared against the level of the recognized provisions for risks.

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

As part of risk management activities, Risk Management regularly reviews the potential indirect residual value risk and the adequacy of the associated provision for risks. If necessary, it takes measures to limit the indirect residual value risk.

Trends

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

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

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

Business Risk

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

> Earnings risk
> Reputational risk
> Strategic risk
> Business model risk

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

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

Earnings Risk (Specific Profit or Loss Risk)

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

> Unexpectedly low fees and commissions (fee and commission risk)
> Unexpectedly high costs (cost risk)
> Excessively high income targets for new and existing business volume (sales risk); and
> Unexpectedly low investment income

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

Risk identification and assessment

The Volkswagen Bank GmbH Group quantifies earnings risk using a parametric earnings at risk (EaR) model with the confidence level specified in the calculation of risk-bearing capacity and a one-year forecast period.

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

Risk monitoring and control

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

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

Reputational Risk

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

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

Strategic Risk

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

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

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

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

Business Model Risk

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

NONFINANCIAL RISKS

Operational Risk

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

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

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

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

Risk identification and assessment

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

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

The central loss database is used to ensure that information about monetary operational losses is collected internally on an ongoing basis and the relevant data is stored. The local experts use this form to determine and record the relevant data, including the amount and cause of the loss.

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

Risk monitoring and control

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

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

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

Trends

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

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

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

Compliance, Conduct and Integrity Risk

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

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

In addition, integrity risk encompasses all risks that arise from a failure of employees to conduct themselves in an ethically acceptable manner or to act in accordance with the Group's principles or the FS values, thereby presenting an obstacle to the sustained success of the business.

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

To counter compliance and conduct risks, it is the responsibility of the compliance function to ensure compliance with laws, other legal requirements, internal rules and self-proclaimed values, and to create and foster an appropriate compliance culture. It is also the responsibility of the integrity function, on the basis of an integrity management system, to raise awareness of the ethical principles, code of conduct and the need for compliance, and to help employees choose the right course of action, responsibly and steadfastly, driven by their own personal conviction.

As a component of the compliance function, the role of the compliance officer is to work toward implementing effective procedures to ensure compliance with key and core legal rules and regulations for the institution and toward establishing appropriate controls. This is achieved, in particular, by specifying mandatory compliance requirements for legal stipulations classified as material. These requirements include documenting responsibilities and processes, establishing controls to the extent required and raising employee awareness of pertinent rules so that employees comply with the rules as a matter of course, reflecting a fully functioning compliance culture.

Further regular activities also nurture a compliance and integrity culture. These activities include, in particular, constantly promoting the Volkswagen Group's Code of Conduct, raising employee awareness on a risk-oriented basis (e.g. tone from the top, tone at the middle, face-to-face training, e-learning programs, other media-based activities), carrying out communication initiatives, including distributing guidelines and other information media, and participating in compliance and integrity programs.

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

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

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

The internal Compliance Committee conducts a regular materiality analysis on the basis of the outcomes of this legal monitoring. After taking into account the evaluated compliance risks, the Compliance Committee makes a decision on the materiality of new legal requirements applicable to the Bank. Compliance risk primarily includes the risk of a loss of reputation vis-à-vis the general public or supervisory authorities and the risk of material financial loss.

Currently, the following specific legal fields have been determined as being fundamentally material from the perspective of the Group:

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

The compliance requirements for the Volkswagen Bank GmbH Group are specified centrally and must be implemented autonomously in the local companies. Any deviation from the minimum requirements or guidelines is only possible if accompanied by a description of the reasons (such as local statutory requirements) and only in consultation with, and with the consent of, the Compliance Officer at the institution concerned.

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

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

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

In addition, the Management Board receives an annual compliance report, although this can be updated during the year if required. The annual compliance report contains a presentation of the appropriateness and effectiveness of the compliance requirements implemented to ensure compliance with key and core legal regulations and requirements.

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

Risk from Outsourcing Activities

Outsourcing describes a situation in which another entity (the outsourcee) is engaged to carry out activities and processes in connection with the provision of banking activities, financial services or other typical banking-related services that would otherwise be carried out by the outsourcing entity itself.

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

A distinction needs to be made between outsourcing and one-time or occasional procurement from third parties of goods or services, or services that are typically obtained from a supervised entity and, because of the actual circumstances involved or legal requirements, cannot usually be supplied by the buying entity itself, either at the time of the purchase from the third party or in the future.

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

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

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

Risk identification and assessment

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

Risk monitoring and control

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

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

SUMMARY

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

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

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

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

Forecast of Material Risks

Credit Risk Forecast

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

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

Interest Rate Risk in the Banking Book Forecast

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

Liquidity Risk Forecast

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

Residual Value Risk Forecast

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

Operational Risk Forecast

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

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

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

Human Resources Report

**Realignment of HR:
Business Driven – People Focused.**

EMPLOYEES

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

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

HUMAN RESOURCES STRATEGY

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

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

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

The coronavirus pandemic had a huge impact on the world of work once again in the reporting year, forcing the associated requirements for new and different forms of collaboration and management onto the HR agenda. While, due to the pandemic, most employees were still working from home in the first half of the year, over half of them were back in the office in the second half of the year. Seminars and mandatory training sessions continued to be offered both online and in person and many events were delivered using hybrid formats or as blended learning. For employees working at the Bank's offices, the best possible protection continues to be provided by implementing hygiene protocols.

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

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

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

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

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

IMPLEMENTATION OF THE CORPORATE STRATEGY

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

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

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

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

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

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

REGULATORY REQUIREMENTS RELATING TO REMUNERATION SYSTEMS

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

HUMAN RESOURCES PLANNING AND DEVELOPMENT

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

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

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

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

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

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

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

CORPORATE GOVERNANCE DECLARATION
INCREASE IN THE PROPORTION OF WOMEN

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

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

PROPORTION OF WOMEN – TARGET AND ACTUAL VALUES FOR GERMANY

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

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

DIVERSITY

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

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

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

WORK-LIFE BALANCE

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

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

Report on Expected Developments

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

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

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

Europe

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

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

Germany

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

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

Europe

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

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

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

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

Germany

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

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

INTEREST RATE TRENDS

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

SUMMARY OF EXPECTED DEVELOPMENTS

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

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

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

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

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

OUTLOOK FOR THE COMING YEAR

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

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

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

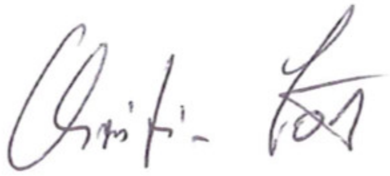
FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2023 COMPARED WITH PRIOR-YEAR FIGURES

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

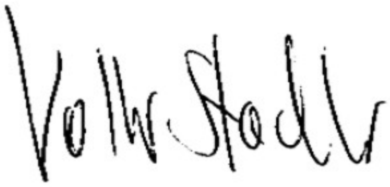
Braunschweig, February 17, 2023
The Management Board

Dr. Michael Reinhart

Oliver Roes



Christian Löbke



Dr. Volker Stadler

Balance Sheet

of Volkswagen Bank GmbH, Braunschweig, for the Year Ended December 31, 2022

€ thousand			Dec. 31, 2022	Dec. 31, 2021
Assets				
1.	Cash reserve			
	a) Cash-in-hand	1,506		1,423
	b) Central bank balances	671,126		11,020,765
	of which:			
	at Deutsche Bundesbank € 450,537 thousand			(10,970,812)
			672,631	11,022,188
2.	Loans to and receivables from banks			
	a) Repayable on demand	3,053,900		292,154
	b) Other receivables	50,203		88,690
			3,104,103	380,844
3.	Loans to and receivables from customers		48,232,536	46,549,103
	of which:			
	mortgages			
	€ 309,887 thousand			360,234
4.	Bonds and other fixed-income securities			
	a) Bonds			
	aa) From public-sector issuers	2,165,908		2,513,330
	of which:			
	eligible as collateral at Deutsche Bundesbank € 2,165,908 thousand			(2,513,330)
	ab) From other issuers	15,956,590		18,786,372
	of which:			
	eligible as collateral at Deutsche Bundesbank € 15,465,322 thousand			(18,243,485)
			18,122,499	21,299,702
5.	Equities and other variable-yield securities		0	0
6.	Long-term equity investments		91,050	91,022
7.	Shares in affiliated companies		83,035	125,506
	of which:			
	in banks € 0 thousand			(2,228)
8.	Trust assets		1,605	1,672
	of which:			
	Trust loans € 1,605 thousand			(1,672)
9.	Intangible fixed assets			
	a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	4,103		6,239
	c) Prepayments	180		–
			4,283	6,239
10.	Property and equipment		7,996	9,625
11.	Lease assets		2,489,329	2,121,203
12.	Other assets		472,885	213,839
13.	Prepaid expenses		9,068	11,937
Total assets			**73,291,019**	**81,832,879**

€ thousand				Dec. 31, 2022	Dec. 31, 2021
Equity and liabilities					
1.		Liabilities to banks			
	a)	Repayable on demand	28,389		5,593
	b)	With agreed maturity or notice period	11,213,581		13,187,074
				11,241,970	13,192,667
2.		Liabilities to customers			
	a)	Other liabilities			
	aa)	Repayable on demand	24,209,216		25,967,402
	ab)	With agreed maturity or notice period	8,225,726		8,546,617
				32,434,942	34,514,019
3.		Notes, commercial paper issued			
	a)	Bonds issued	3,782,583		5,086,592
	b)	Other notes, commercial paper issued	313,785		–
		of which:			
		Commercial paper € 313,785 thousand			–
				4,096,368	5,086,592
4.		Trust liabilities		1,605	1,672
		of which:			
		Trust loans € 1,605 thousand			(1,672)
5.		Other liabilities		15,215,398	18,581,533
6.		Deferred income		572,371	651,492
7.		Provisions			
	a)	Provisions for pensions and similar obligations	157,366		124,796
	b)	Provisions for taxes	6,006		31,806
	c)	Other provisions	284,950		368,260
				448,322	524,862
8.		Subordinated liabilities		30,000	30,000
9.		Fund for general banking risks		25,565	25,565
10.		Equity			
	a)	Subscribed capital	318,279		318,279
	b)	Capital reserves	8,880,595		8,880,595
	c)	Revenue reserves			
		ca) Other revenue reserves	25,604		25,604
	d)	Net retained profits	–		–
				9,224,479	9,224,479
Total equity and liabilities				**73,291,019**	**81,832,879**
1.		Contingent liabilities			
	a)	Liabilities under guarantees and indemnity agreements		294,210	268,451
		of which:			
		to affiliated companies		155,779	139,955
2.		Other obligations			
	a)	Irrevocable credit commitments		11,869,727	14,248,687
		of which:			
		to affiliated companies		1,061,843	1,189,844

Income Statement

of Volkswagen Bank GmbH, Braunschweig, for the period January 1 to December 31, 2022

€ thousand			2022	2021
1. Interest income from				
a) Lending and money market transactions	1,335,085			1,322,049
b) Fixed-income securities and debt register claims	138,142			60,638
		1,473,227		1,382,688
2. Interest expense		181,659		125,716
3. Interest anomalies				
a) Positive interest from banking business (collateral deposits)	51,531			90,840
b) Negative interest from money market transactions	25,245			32,806
		26,286		58,034
			1,317,854	1,315,006
4. Current income from				
a) Equities and other variable-yield securities		92		79
			92	79
5. Leasing income		1,416,080		1,326,177
6. Leasing expenses		571,284		593,345
			844,796	732,832
7. Fee and commission income		325,667		364,459
8. Fee and commission expense		383,050		519,942
			–57,383	–155,483
9. Other operating income			275,740	431,168
10. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	156,073			162,506
ab) Social security, post-employment and other employee benefit costs	56,876			41,118
of which:		212,949		203,624
in respect of post-employment benefits € 30,383 thousand				(13,314)
b) Other administrative expenses		588,594		589,615
			801,543	793,239
11. Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment and lease assets				
a) Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment		4,364		6,690
b) Depreciation and write-downs of lease assets		755,573		662,268
			759,937	668,958
12. Other operating expenses			77,541	70,058
13. Amortization and write-downs of receivables and certain securities, and additions to provisions in the lending business			512,637	–
14. Income from reversals of write-downs of receivables and certain securities and from reversals of provisions in the lending business			–	54,934
15. Write-downs of long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			47,471	3,000

€ thousand				2022	2021
16.	Income from reversals of write-downs of long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			–	301
17.	Result from ordinary activities			181.970	843.580
18.	Income tax expense			–127	275.009
19.	Other taxes, unless reported under item 12			133	5.803
20.	Profits transferred under a profit-and-loss transfer agreement			181.964	562.768
21.	Net income			–	–
22.	**Net retained profits**			–	–

Notes

to the Annual Financial Statements of Volkswagen Bank GmbH, Braunschweig, for the Year Ended December 31, 2022
Registration Court: Braunschweig
Commercial Register Number: HRB 1819

1. General Information

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

As of December 31, 2022, both a control agreement and a profit-and-loss transfer agreement have been in place with Volkswagen AG.

Under section 285 no. 21 of the HGB, Volkswagen Bank GmbH is subject to an obligation to disclose material related-party transactions that have not been conducted on an arm's-length basis. All transactions with related parties have been conducted at arm's length.

2. Accounting Policies

Assets and liabilities are measured in accordance with the provisions in section 252ff. of the HGB and additionally in accordance with those in section 340ff. of the HGB. Unless otherwise stated, the other accounting policies are the same as those applied in the prior year.

Foreign currency transactions in the non-trading portfolio are measured in accordance with section 340h in conjunction with section 256a of the HGB. In compliance with Volkswagen Bank GmbH's risk strategy, the portfolio of assets, liabilities and forward contracts specifically hedged in accordance with section 340h of the HGB includes all material transactions denominated in foreign currency. These items are measured using the middle spot rate at the reporting date. Income and expenses arising from the translation of foreign currency exposures specifically hedged in the same currency are recognized in net other operating income/expense.

Foreign currency assets and liabilities that are not specifically hedged in the same currency are translated at the middle spot rate at the reporting date in accordance with section 256a sentence 1 of the HGB and in compliance with the historical cost convention and the principle of imparity (whereby unrealized losses are recognized but unrealized gains are not). If the items have a residual maturity of one year or less, the net gains or losses from translation are recognized in full in the income statement in accordance with section 256a sentence 2 of the HGB.

Currency forwards in the non-trading portfolio that are intended to hedge interest-bearing balance sheet items and that have not yet been settled as of the reporting date are measured and recognized by applying a split forward rate method. In this method, the forward rate in the contract is broken down into its two components of spot rate and swap rate, the latter being the forward premium or forward discount. The forward premium or discount is allocated and recognized over the term of the forward contract in the same way as interest. It is measured by comparing the spot basis in the forward contract with the middle spot rate at the reporting date. Positive and negative spot rate differences within the same

currency are offset against each other. The net amount is reported as an adjustment item from foreign exchange transactions under the “Other assets” or “Other liabilities” item.
Interest rate and currency derivative transactions entered into by Volkswagen Bank GmbH are used as part of general economic hedges. The Bank does not make use of the option to apply specific hedge accounting arrangements in accordance with section 254 of the HGB.

The cash reserve is carried at the nominal amount.

Receivables are recognized at their principal amounts, net of provisions for credit risks. The expected credit loss model of IFRS 9 is applied to determine specific valuation allowances. Global valuation allowances are recognized to cover risks arising in connection with receivables for which no specific valuation allowances have been recognized. In this regard, Volkswagen Bank GmbH applies accounting principle IDW AcP BFA 7, using the expected credit loss model of IFRS 9 to determine global valuation allowances.

Volkswagen Bank GmbH has acquired all of its own Driver Master Compartment 2, Private Driver Italia 2020-1 and Private Driver España 2020-1 asset-backed securities (ABSs). Under the principles specified in IDW AcP HFA 8, significant credit risks thus remain with Volkswagen Bank GmbH. There has been no transfer of the beneficial ownership in the receivables underlying these ABS transactions, and these receivables therefore continue to be reported under loans to and receivables from customers. A miscellaneous liability is recognized in the amount of the purchase price received. When the payments from the sold receivables are forwarded, this liability is reduced on a pro rata basis in the amount of the change in the present value of the underlying receivables. The difference compared with the payments received is recognized as an interest expense. No subsequent measurement is carried out for the securities because the risks are already factored into the measurement of the receivables themselves. They are recognized at cost, net of any redemptions, during the term of the deals.

Other current bonds and other fixed and variable-income securities held in the liquidity reserve and measured using parameters derived from the market are recognized at historical cost, applying the strict lower of cost or market principle and the requirement to reverse write-downs when the reasons for them no longer exist (section 340e(1) sentence 2 in conjunction with section 253(4) sentence 1 of the HGB and section 253(5) sentence 1 of the HGB).

Equities, long-term equity investments and shares in affiliated companies are measured at the lower of cost and fair value.

Trust loans are granted in the name and for the account of KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main. The receivable from the dealer is recognized at its principal amount. KfW grants a 100% exemption from liability for the refinancing loan for the entire term of the loan.

Items of property and equipment with finite useful lives are depreciated, and intangible assets with finite useful lives are amortized on a straight-line basis over the course of their useful lives. They are initially recognized at cost.

Straight-line depreciation is applied to vehicles reported under the “Lease assets” item in accordance with their expected useful lives. They are initially recognized at cost. If property and equipment, intangible assets, or lease assets are identified as impaired and this impairment is likely to be permanent, the carrying amounts of the assets concerned are written down to fair value. When vehicles recognized as lease assets are sold, the proceeds are recognized under leasing income and the derecognized residual carrying amounts are reported under leasing expenses.

Differences between the amount received and the nominal amount are recognized in prepaid expenses or deferred income and then amortized over the maturity of the liability concerned.

Liabilities are recognized at the settlement amount.

Provisions are measured using the best estimate of the amount required to settle the obligations concerned.

Some of the pension commitments are direct pension commitments, while others are funded through Volkswagen Pension Trust e. V. The commitments funded through Volkswagen Pension Trust e. V. are unit-linked pension commitments. Their amount is determined on the basis of the fair values of the associated securities in accordance with section 253(1) sentence 3 of the HGB. The fair value of the securities is offset against the funded provisions in accordance with section 246(2) of the HGB.

Other pension obligations (time asset bonds) are also linked to securities funds. Time asset bonds provide the opportunity to save for early retirement by acquiring time asset bond units. The securities measured at fair value are offset as plan assets against the corresponding provisions.

The pension provision that is not externally funded is recognized at present value.

The 2018 G mortality tables published by Professor Klaus Heubeck are used to measure pension obligations. The provisions for pension obligations are discounted using an average discount rate in accordance with section 253(2) sentence 1 of the HGB, whereby it is assumed that the obligations have a general residual maturity of 15 years. The recognized provisions for pensions equate to the pension obligations net of the associated plan assets, which are measured at fair value. If the value of the plan assets is higher than that of the pension provisions, the difference is reported as an excess of plan assets over pension liability.

For reasons of materiality, individual provisions with a maturity of more than one year are not discounted as would be required in accordance with section 253(2) of the HGB. The materiality assessment is continually reviewed.

The banking book of Volkswagen Bank GmbH was reviewed in accordance with IDW ACP BFA 3 to assess whether there was any need to recognize a provision for expected losses. The discounted cash flow method was used for the evaluation. The discount rate used to discount the cash flows included a component to cover risk costs still expected to be incurred together with a risk costs premium and administrative expenses. The present value determined in this way was then compared against the carrying amounts recognized in the HGB financial statements for the assets in the banking book. There was no indication that a provision for expected losses was required.

All identifiable risks have been adequately provided for in the annual financial statements by the recognition of specific valuation allowances and provisions. Latent risk in the lending business is covered by global valuation allowances.

In the reporting period, the negative interest from financial assets and the positive interest from financial obligations are reported separately in the income statement as interest anomalies. This method of presentation makes the composition of net interest income more transparent.

3. Balance Sheet Disclosures

LOANS TO AND RECEIVABLES FROM BANKS

Loans to and receivables from banks include loans to and receivables from affiliated companies amounting to €72 thousand (previous year: €12 thousand).

The maturity analysis of loans to and receivables from banks is as follows:

- Repayable on demand €3,053,900 thousand (previous year: €292,154 thousand)
- Up to three months: €50,202 thousand (previous year: €88,690 thousand)
- More than three months and up to one year: €0 thousand (previous year: €0 thousand)
- More than one year and up to five years: €0 thousand (previous year: €0 thousand)
- More than five years: €0 thousand (previous year: €0 thousand)

No loans to or receivables from banks are evidenced by certificates.

LOANS TO AND RECEIVABLES FROM CUSTOMERS

This item includes loans to and receivables from affiliated companies amounting to €3,326,944 thousand (previous year: €2,644,896 thousand).

The maturity analysis of the total amount of loans to and receivables from customers, none of which are evidenced by certificates, is as follows:

- Up to three months: €10,597,659 thousand (previous year: €8,747,783 thousand)
- More than three months and up to one year: €10,026,974 thousand (previous year: €10,651,417 thousand)
- More than one year and up to five years: €23,855,084 thousand (previous year: €24,006,651 thousand)
- More than five years: €711,459 thousand (previous year: €743,552 thousand)

Loans to and receivables from customers include receivables with an indefinite maturity (in accordance with the disclosure requirements in section 9(3) no. 1 of the RechKredV) amounting to €3,041,360 thousand (previous year: €2,399,800 thousand).

Loans to and receivables from customers include subordinated loans and receivables of €279,073 thousand (previous year: €932,250 thousand), of which €279,073 thousand (previous year: €932,250 thousand) is attributable to subordinated receivables arising from ABS transactions entered into by Volkswagen Bank GmbH.

The receivables from leasing business included in loans to and receivables from customers amount to €3,101,022 thousand (previous year: €3,044,500 thousand), of which €2,891,282 thousand (previous year: €2,893,666 thousand) is attributable to the Bank's branch in France.

Receivables from retail financing amounting to €734,753 thousand (previous year: €765,560 thousand) are attributable to the Bank's branch in France.

As of the reporting date, loans to and receivables from the sole shareholder, Volkswagen AG, Wolfsburg, amounted to €41,855 thousand (previous year: €603 thousand).

BONDS AND OTHER FIXED-INCOME SECURITIES

To help safeguard the supply of liquidity, Volkswagen Bank GmbH has set up ABS structures in Germany and in the branches in Italy and Spain. However, the securities issued by the special purpose entities purchasing the assets concerned have not been sold to investors but have instead been purchased by Volkswagen Bank GmbH and pledged as collateral for its participation in the open market operations of Deutsche Bundesbank. The total portfolio of these securities amounts to €13,990,300 thousand (previous year: €16,630,700 thousand). All the securities involved are allocated to the liquidity reserve.

To accumulate collateral for participation in open market operations and to ensure that requirements in accordance with the liquidity coverage ratio are satisfied in the future, the Bank made repeated purchases of fixed-income securities with strong credit ratings. As of the reporting date, these bonds amounted to a total of €3,638,124 thousand (previous year: €4,125,785 thousand). The securities are allocated to the liquidity reserve and measured at market prices, applying the strict lower of cost or market principle under the HGB.

The securities and bonds reported under this balance sheet item – all of which are marketable, listed securities – total €18,122,499 thousand (previous year: €21,299,702 thousand).

As of the reporting date, securities within the portfolio amounting to €13,064,823 thousand (previous year: €15,256,356 thousand) had been deposited in the operational safe custody account maintained with Deutsche Bundesbank. These securities serve as collateral for funding transactions. There were open market loans of €10,909,771 thousand (previous year: €12,975,137 thousand) as of the reporting date.

Of the bonds and other fixed-income securities, a nominal amount of €4,664,834 thousand (previous year: €4,575,113 thousand) was due to mature in the fiscal year following the reporting date.

LONG-TERM EQUITY INVESTMENTS AND SHARES IN AFFILIATED COMPANIES

An overview of long-term equity investments and information on shares in affiliated companies can be found in the list of shareholdings in these annual financial statements.

The shares in affiliated companies and other long-term equity investments held by Volkswagen Bank GmbH are neither marketable nor listed.

TRUST ASSETS

This item includes trust loans to dealers amounting to €1,605 thousand (previous year: €1,672 thousand).

INTANGIBLE FIXED ASSETS

Intangible fixed assets increased by €1,956 thousand to €4,283 thousand (previous year: €6,239 thousand).

PROPERTY AND EQUIPMENT

The total value of buildings and properties used for the Bank's own operations amounts to €5,244 thousand (previous year: €6,011 thousand). The amount within property and equipment attributable to other equipment, operating and office equipment is €823 thousand (previous year: €1,524 thousand).

LEASE ASSETS

This item comprises vehicles leased out as part of the leasing business operated by the branches in France and Italy and amounts to €2,489,329 thousand (previous year: €2,121,203 thousand).

OTHER ASSETS

This item includes receivables from interest rate hedging transactions amounting to €34,785 thousand (previous year: €36,803 thousand) and tax receivables of €106,133 thousand (previous year: €40,067 thousand), of which €43,492 thousand relates to tax receivables at the Bank's branch in Italy and €36,501 thousand to tax receivables at the Bank's branch in France. A significant component of the remaining other assets comprises receivables of €21,480 thousand (previous year: €46,539 thousand) from the ABS special purpose entities relating to the return of pledged collateral (not yet due) and service fees.

Derivatives to hedge currency risk gave rise to a currency adjustment item of €48,591 thousand (previous year: €0 thousand), which has been recognized under other assets.

PREPAID EXPENSES

This item contains deferred discounts of €4,057 thousand (previous year: €6,427 thousand), advance insurance premiums of €1 thousand (previous year: €1 thousand) and advance fees and commissions amounting to €1,856 thousand (previous year: €1,952 thousand) paid in connection with a rise in the level of new business at the Bank's branches.

LIABILITIES TO BANKS

The maturity analysis of the liabilities to banks, all of which comprise deposits or other liabilities not evidenced by certificates, is as follows:

- Repayable on demand €28,389 thousand (previous year: €5,592 thousand)
- Up to three months: €2,868 thousand (previous year: €6,736 thousand)
- More than three months and up to one year: €1,524,652 thousand (previous year: €23,158 thousand)
- More than one year and up to five years: €9,634,031 thousand (previous year: €13,100,269 thousand)
- More than five years: €52,030 thousand (previous year: €56,911 thousand)

Liabilities to banks include liabilities to an affiliated company in the amount of €0 thousand (previous year: €0 thousand).

Liabilities to Deutsche Bundesbank amounting to €11,000,000 thousand (previous year: €13,000,000 thousand) have been secured by collateral in the same amount in the form of securities.

LIABILITIES TO CUSTOMERS

This item includes liabilities to affiliated companies not evidenced by certificates amounting to €5,799,033 thousand (previous year: €7,663,056 thousand).

Customer deposits amount to €26,226,394 thousand (previous year: €26,488,757 thousand).

The item also includes accrued liabilities to dealers, customers and other creditors, i.e. incurred liabilities still to be billed.

The maturity breakdown of sub-item "ab) With agreed maturity or notice period" is as follows:

- Up to three months: €5,091,752 thousand (previous year: €5,687,266 thousand)
- More than three months and up to one year: €515,183 thousand (previous year: €355,012 thousand)
- More than one year and up to five years: €1,660,638 thousand (previous year: €1,576,607 thousand)
- More than five years: €958,153 thousand (previous year: €927,432 thousand)

As of the reporting date, liabilities to the sole shareholder, Volkswagen AG, Wolfsburg, amounted to €2,844,367 thousand (previous year: €3,365,762 thousand).

NOTES, COMMERCIAL PAPER ISSUED

This item comprises bonds and commercial paper.

"a) Bonds issued" comprises: bonds: €3,782,583 thousand (previous year: €5,086,592 thousand)

Residual maturities:

> Up to three months: €32,583 thousand (previous year: €36,592 thousand)
> More than three months and up to one year: €750,000 thousand (previous year: €1,300,000 thousand)
> More than one year and up to five years: €3,000,000 thousand (previous year: €3,750,000 thousand)
> More than five years: €0 thousand (previous year: €0 thousand)

"b) Other notes, commercial paper issued" comprises: commercial paper €313,785 thousand (previous year: €0 thousand)

Residual maturities:

> Up to three months: €294,067 thousand (previous year: €0 thousand)
> More than three months and up to one year: €19,718 thousand (previous year: €0 thousand)
> More than one year and up to five years: €0 thousand (previous year: €0 thousand)

Notes, commercial paper issued does not include any liabilities to an affiliated company.

Of the total bonds issued, an amount of €750,000 thousand matures in the subsequent year.

TRUST LIABILITIES

This item includes trust liabilities to KfW Kreditanstalt für Wiederaufbau amounting to €1,605 thousand (previous year: €1,672 thousand).

OTHER LIABILITIES

Of the total liabilities, liabilities in an amount of €14,271,741 thousand (previous year: €17,525,661 thousand) are backed by collateral. These liabilities have arisen from ABS transactions in which Volkswagen Bank GmbH has retained beneficial ownership of the sold receivables after the sale.

The following are also reported under this item: outstanding debt servicing amounts in connection with ABS transactions amounting to €797,110 thousand (previous year: €817,801 thousand), liabilities from interest rate hedging transactions amounting to €19,419 thousand (previous year: €8,651 thousand), liabilities to tax authorities of €53,222 thousand (previous year: €54,530 thousand) and accrued interest liabilities related to subordinated bonds and profit-sharing rights amounting to €597 thousand (previous year: €597 thousand).

Derivatives to hedge currency risk gave rise to a currency adjustment item of €0 thousand (previous year: €42,016 thousand), which has been recognized under other liabilities.

DEFERRED INCOME

This item largely comprises deferred income in connection with manufacturer and partner participation in sales promotion campaigns amounting to €535,345 thousand (previous year: €614,191 thousand), which will be recognized in the income statement over the term of the relevant agreements.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The pension obligations are determined annually by an independent actuary using the projected unit credit method.

The main measurement assumptions and parameters applied in the actuarial calculations by Volkswagen Bank GmbH were as follows:

	Germany	Other countries
Discount rate	1.78%	1.78%
Expected rate of salary increases	3.28%	0.00–0.00%
Expected rate of pension increases	2.20%	0.00–2.90%
Employee turnover rate	1.10%	0.00%

For Germany, the discount rate applied was the discount rate of 1.78% published by Deutsche Bundesbank for December 2022 in accordance with section 253(2) of the HGB (average market interest rate for the past ten years).

Discounting at the average market interest rate of the past seven years (1.44%) resulted in a difference of €15,410 thousand, which is subject to restrictions on distribution.

For reasons of materiality, the actuarial assumptions used for other countries are reported as a range of values.

Pension funds with a value equivalent to a settlement amount of €55,078 thousand and fair value funds with a corresponding value of €50,511 thousand were offset against the liabilities for pensions and similar obligations. The cost of the pension fund securities amounted to €63,506 thousand and the cost of the fair value fund securities amounted to €56,366 thousand. The fair value of the pension fund totaled €55,078 thousand and that of the fair value fund was €50,511 thousand at the reporting date. The securities were measured at closing prices as of the reporting date.

Expenses of €9,845 thousand from the measurement of the fund at fair value were offset against interest income from provisions of €9,845 thousand as part of the netting of the obligation (measured at the fair value of the securities) and of the securities fund for the fair value securities.

In the year under review, the amount of the difference for Germany determined in accordance with section 253(6) of the HGB is €5,947 thousand for the pension provisions not funded externally and €9,463 thousand for the commitments funded through Volkswagen Pension Trust e. V. The amount of the difference determined in accordance with section 253(6) of the HGB is €22 thousand for the Bank's branch in Italy and €406 thousand for the Bank's branch in the UK.

OTHER PROVISIONS

Other provisions mainly comprise provisions to cover costs associated with litigation and legal risks. 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, and provisions for legal disputes in connection with dealer financing agreements as well as customer financing broking claims. In total, provisions for litigation and legal risks amounted to €30,450 thousand (previous year: €139,738 thousand).

SUBORDINATED LIABILITIES

The total portfolio of subordinated liabilities amounts to €30,000 thousand (previous year: €30,000 thousand).

Subordinated liabilities amounting to €5,776 thousand (previous year: €11,702 thousand) are deemed to be a component of equity under the provisions of article 62(a) of the Capital Requirements Regulation (CRR).

The overall portfolio includes subordinated bonds in the amount of €30,000 thousand (previous year: €30,000 thousand), which have been placed on public capital markets.

There are no early repayment obligations for the subordinated liabilities.

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. Volkswagen Bank GmbH has entered into derivative contracts to mitigate interest rate risk. The expenses incurred in connection with raising subordinated loans and issuing subordinated bonds amounted to €1,630 thousand (previous year: €1,630 thousand).

There are no subordinated liabilities to affiliated companies (previous year: €0 thousand).

SUBORDINATED BONDS

AS OF:	DEC. 31, 2022	LISTED ON A STOCK EXCHANGE			
Dated date	€ million	Coupon	Valid until	New coupon agreement based On	Maturity date
Sept. 26, 2003	20.0	5.40000%	Sept. 26, 2023	Fixzinssatz	Sept. 26, 2023
June 7, 2004	10.0	5.50000%	June 7, 2024	Fixzinssatz	June 7, 2024

Both of the subordinated bonds exceed 10% of the total amount of the subordinated liabilities. If the issuer is wound up, liquidated, or files for insolvency, the liabilities under these bonds will rank behind the claims of all the non-subordinated third-party creditors of the issuer such that no amount will be repayable in connection with these bonds until the claims of all these non-subordinated third-party creditors of the issuer have been satisfied in full. No agreement may be made retrospectively to limit the subordination or shorten the maturity of these bonds. The bonds may be redeemed early, but no earlier than five years after the issue date, and the issuer must first call the bond in question before any such redemption can take place. The issuer is only permitted to call the bond concerned if one of the following two requirements is satisfied: an equivalent amount of liable capital within the meaning of the *Kreditwesengesetz* (KWG – German Banking Act) and the CRR has been paid in to replace the redemption amount; or, the German Federal Financial Supervisory Authority (BaFin) and the European Banking Authority have consented to the early redemption. The bonds may also be called and redeemed early as a result of changes in the tax laws or regulations in the Federal Republic of Germany or as a result of a change in the official interpretation of these laws and regulations.

EQUITY

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

CHANGES IN FIXED ASSETS OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG, IN THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2022

€ thousand	Long-term equity investments	Shares in affiliated companies	Purchased concessions and similar rights	Payments on account for intangible fixed assets	Land, land rights and buildings on third-party land	Other equipment, operating and office equipment	Prepayments and assets under construction	Lease assets
Cost as of Dec. 31, 2021	**94,022**	**125,906**	**48,680**	**–**	**34,527**	**18,600**	**1,554**	**3,229,560**
Additions in 2022	5,028	–	625	180	10	147	–	1,563,436
Disposals in 2022	–	–	8,027	–	136	6,152	–	948,072
Reclassifications in 2022	–	–	–	–	–	–	–	–
Currency translation	–	–	234	–	–	–	–	–
Cost as of Dec. 31, 2022	**99,050**	**125,906**	**41,512**	**180**	**34,401**	**12,595**	**1,554**	**3,844,924**
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2021	**3,000**	**400**	**42,441**	**–**	**27,980**	**17,077**	**–**	**1,108,357**
Additions in 2022	5,000	42,471	2,708	–	873	422	–	755,823
Reversals of write-downs in 2022	–	–	–	–	–	–	–	–
Disposals in 2022	–	–	7,974	–	71	5,726	–	508,585
Reclassifications in 2022	–	–	–	–	0	0	–	–
Currency translation	–	–	–234	–	–	–	–	–
Accumulated depreciation, amortization and write-downs as of Dec. 31,2022	**8,000**	**42,871**	**37,409**	**–**	**28,782**	**11,773**	**–**	**1,355,595**
Carrying amount as of Dec. 31, 2022	**91,050**	**83,035**	**4,103**	**180**	**5,619**	**823**	**1,554**	**2,489,329**
Carrying amount as of Dec. 31, 2021	**91,022**	**125,506**	**6,239**	**–**	**6,547**	**1,524**	**1,554**	**2,121,203**

4. Income Statement Disclosures

INTEREST INCOME FROM LENDING AND MONEY MARKET TRANSACTIONS

The proportion of interest income generated in the foreign branches is 62.1% (previous year: 53.5%). The branches in Italy and France account for the largest share of this foreign income.

Interest income from lending and money market transactions includes income from finance leases amounting to €223,958 thousand (previous year: €213,619 thousand).

INTEREST ANOMALIES

The negative interest from money market transactions results 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 positive interest from banking transactions results from the recharged negative interest on deposits of affiliated companies, the provision of short-term collateral for derivatives by banks and the participation in the tender operations of Deutsche Bundesbank.

LEASING INCOME

Income from leasing transactions comprises net income from operating leases and is generated primarily by the Bank's branch in France. The total amount of this income is €1,416,080 thousand (previous year: €1,326,177 thousand).

LEASING EXPENSES

The expenses from leasing transactions amount to €571,284 thousand (previous year: €593,345 thousand).

NET FEE AND COMMISSION INCOME

The proportion of fee and commission income generated in the foreign branches is 50.8% (previous year: 50.9%). The branches in Spain and France account for the largest share of this foreign income.

Fee and commission income is derived largely from insurance broking, especially in connection with credit protection insurance, from the administration and collection of receivables sold as part of ABS transactions and from miscellaneous fees relating to the retail business.

It includes prior-period income of €326 thousand (previous year: €556 thousand) largely generated from special fees for credit protection insurance, from the card payment system and from the credit card business.

Most of the fee and commission expenses are fees and commissions paid to dealers in connection with consumer credit business.

OTHER OPERATING INCOME

Other operating income amounted to €275,740 thousand (previous year: €431,168 thousand) and comprises mainly cost reimbursements from Group companies of €25,256 thousand (previous year: €25,912 thousand). The decrease is due to the fact that the options for recharging overheads to affiliated companies has been curtailed as a result of the reorganization of the corporate structure.

The proportion of other operating income generated in the foreign branches is 30.5% (previous year: 82.0%). The branches in Italy and France account for the largest share of this foreign income.

This item includes prior-period income of €119,516 thousand (previous year: €191,831 thousand), of which €117,482 thousand (previous year: €190,247 thousand) is income from the reversal of provisions. Other income includes the effects from the discounting of provisions amounting to €2,674 thousand (previous year: €172 thousand).

This item also includes income from the premature termination of ABS transactions amounting to €27,914 thousand (previous year: €138,834 thousand) and income from currency translation amounting to €1,912 thousand (previous year: €14,128 thousand).

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amount to €801,543 thousand (previous year: €793,239 thousand). Significant elements are personnel expenses of €212,949 thousand (previous year: €203,624 thousand) and cost allocations from Group companies amounting to €306,004 thousand (previous year: €303,222 thousand). These cost allocations were mainly attributable to staff leasing arrangements. The fee for financial audit services paid to the auditor in the current fiscal year was mostly attributable to the audit of the annual and consolidated financial statements of Volkswagen Bank GmbH as well as to reviews of interim financial statements. Further assurance services related primarily to other audit services, such as the audit of the safe custody and securities services business pursuant to section 89 of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act). The tax advisory services relate to the assessment of an impact analysis in connection with withholding tax. The other services performed by the auditor in the reporting period mainly consisted of issues relating to banking supervisory law, consulting services on process optimization and IT services. For further disclosures of the total fee charged by the auditor for the fiscal year, please refer to the notes to the consolidated financial statements of Volkswagen Bank GmbH.

AMORTIZATION AND WRITE-DOWNS OF INTANGIBLE FIXED ASSETS, AND DEPRECIATION AND WRITE-DOWNS OF PROPERTY AND EQUIPMENT AND LEASE ASSETS

Depreciation and write-downs of lease assets amounting to €755,573 thousand (previous year: €662,268 thousand) are reported within this line item as a separate sub-item.

The “Depreciation and write-downs of lease assets” sub-item is mainly used to recognize the depreciation and impairment of lease vehicles at the branch in France. Depreciation is calculated on a straight-line basis.

AMORTIZATION AND WRITE-DOWNS OF RECEIVABLES AND CERTAIN SECURITIES, AND ADDITIONS TO PROVISIONS IN THE LENDING BUSINESS

Amortization and write-downs increased by €526.5 million to €1,040.8 million. Income from the reversal of valuation allowances no longer required and income from loans and receivables previously written off totaled €528.1 million and was hence down on the prior-year figure (€569.3 million). This resulted in a net addition to provisions for credit risk, amounting to €512.6 million in the reporting year (previous year: net reversal of €54.9 million).

WRITE-DOWNS OF LONG-TERM EQUITY INVESTMENTS, SHARES IN AFFILIATED COMPANIES, AND SECURITIES TREATED AS FIXED ASSETS

In fiscal year 2022, write-downs of long-term equity investments amounted to €5,000 thousand (previous year: €3,000 thousand) and write-downs of shares in affiliated companies totaled €42,471 thousand (previous year: €0 thousand).

OTHER OPERATING EXPENSES

This item is essentially the aggregation of a large number of individual items. These include prior-period expenses of €3,638 thousand (previous year: €3,600 thousand), of which €1,236 thousand (previous year: €551 thousand) relate to the branch in Italy and €1,816 thousand (previous year: €2,679 thousand) to the branch in France. Other operating expenses include expenses from currency translation amounting to €13,044 thousand (previous year: €1,605 thousand). Expenses of €6 thousand (previous year: €20,771 thousand) were recognized for identifiable litigation risks. The item also comprises the effects from the discounting of provisions amounting to €10,077 thousand (previous year: €19,967 thousand).

INCOME TAX EXPENSE

This item comprises domestic and foreign taxes on income. The domestic income taxes for the reporting period amounting to €–27,057 thousand (previous year: €46,336 thousand) were recharged to Volkswagen Bank GmbH within the existing tax group by Volkswagen AG, the controlling entity in the tax group.

The income taxes item includes prior-period expenses of €698 thousand (previous year: €91,235 thousand) and tax refunds for prior years amounting to €50,461 thousand (previous year: €2,414 thousand).

The deferred taxes of the independently taxable branches are determined separately in a dedicated statement using the appropriate local tax rates of between 15.00% and 33.07% in accordance with local tax laws. The deferred tax liabilities of the branch in France, most of which are attributable to lease assets, are offset against deferred tax assets of the other branches arising from receivables. The option not to recognize the resulting total excess of assets over liabilities of €73,842 thousand (previous year: €93,377 thousand) is exercised in accordance with section 274(1) sentence 2 of the HGB.

In Germany, deferred taxes are determined using a tax rate of 30%. Due to the tax group with Volkswagen AG, the resulting net deferred tax assets of €183,856 thousand (previous year: €229,079 thousand) are attributable to Volkswagen AG.

PROFITS TRANSFERRED UNDER A PROFIT-AND-LOSS TRANSFER AGREEMENT

The profit remaining after tax, which amounts to €182.0 million (previous year: €562.8 million), is transferred to Volkswagen AG pursuant to the existing profit and loss transfer agreement.

5. Other Disclosures

REPORT ON POST-BALANCE SHEET DATE EVENTS

In February 2023, the Board of Management of Volkswagen AG, following a previous decision by the Management Board of Volkswagen Bank GmbH in September 2022, approved the sale of the new financing business of MAN Financial Services in selected markets (mainly those without joint venture investments) to TRATON Financial Services AB against the payment of a selling price. In determining the selling price, the different dates of transferring the new financing business in the respective markets were taken into account. The completion of the transaction is subject to outstanding governing body approvals. The transaction is relevant to Volkswagen Bank GmbH only to a small extent in the Bank's branches in Portugal and Italy where new financing business of MAN Financial Services is currently being provided.

No significant events had occurred by February 17, 2023 that would have required a significantly different presentation of the net assets, financial position and results of operations.

GROUP ACCOUNTING

The annual financial statements of Volkswagen Bank GmbH, Braunschweig, are included in the consolidated financial statements of Volkswagen Bank GmbH, Braunschweig, which are prepared in accordance with the International Financial Reporting Standards. The consolidated financial statements of Volkswagen Bank GmbH are included in the consolidated financial statements of Volkswagen AG, Wolfsburg (smallest and largest consolidated group within the meaning of section 285 no. 14 and no. 14a of the HGB). The annual financial statements of Volkswagen Bank GmbH, the consolidated financial statements of Volkswagen Bank GmbH and those of Volkswagen AG are all published in the Company Register.

CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

The irrevocable credit commitments are commitments that have arisen as part of the general banking business. The agreed credit amounts can be drawn down at any time. Once drawn down, the loans concerned are subject to the general rules and regulations for credit monitoring.

The contingent liabilities amounting to €294,210 thousand (previous year: €268,451 thousand) consist exclusively of guarantees. Of these guarantees, an amount of €260,210 thousand (previous year: €241,032 thousand) is secured by collateral in the form of deposits. Volkswagen Bank GmbH is therefore not exposed to any loss risk up to this amount if the guarantees were to be called upon.

OFF-BALANCE-SHEET TRANSACTIONS AND OTHER FINANCIAL OBLIGATIONS

Derivative Financial Instruments

Volkswagen Bank GmbH has entered into derivative contracts to mitigate interest rate and currency risks. The derivatives used are interest rate swaps, cross-currency swaps, cross-currency interest rate swaps and currency forwards, all of which are used solely for hedging purposes. The fair values of interest rate swaps, cross-currency swaps and currency forwards are determined with the help of suitable IT-based valuation techniques (discounted cash flow method) based on market swap rates; the levels vary in line with changes in interest or exchange rates. The fair values are not reported in the balance sheet. In the case of interest rate swaps, the interest is allocated and recognized over the maturity of the instrument.

The breakdown of derivative financial instruments in accordance with section 285 no. 19 of the HGB is as follows:

€ MILLION	NOTIONAL VALUES Dec. 31, 2021	NOTIONAL VALUES Dec. 31, 2022	POSITIVE FAIR VALUES[1] Dec. 31, 2021	POSITIVE FAIR VALUES[1] Dec. 31, 2022	NEGATIVE FAIR VALUES[1] Dec. 31, 2021	NEGATIVE FAIR VALUES[1] Dec. 31, 2022
Interest rate risks						
Interest rate swaps	8,320.4	6,463.6	90.5	44.9	3.2	168.1
Currency risks						
Currency forwards	470.3	532.6	0.0	4.3	15.2	0.5
Cross-currency swaps	1,794.0	2,143.2	1.6	31.6	36.2	5.3
Cross-currency interest rate risks						
Cross-currency interest rate swaps	350.0	210.0	7.5	6.6	0.0	0.0
Total derivatives	10,934.7	9,349.4	99.6	87.4	54.6	173.9

1 Fair value including accrued interest is shown for all contracts.

The maturity analysis for the derivatives is as follows:

NOMINAL VALUES € million	INTEREST RATE RISKS Dec. 31, 2021	INTEREST RATE RISKS Dec. 31, 2022	CURRENCY RISKS Dec. 31, 2021	CURRENCY RISKS Dec. 31, 2022	CROSS-CURRENCY INTEREST RATE RISKS Dec. 31, 2021	CROSS-CURRENCY INTEREST RATE RISKS Dec. 31, 2022
Residual maturities						
<= 3 months	1,109.2	33.0	925.2	974.2	140.00	210.0
<= 1 year	3,260.8	901.8	868.9	509.9	0.0	0.0
<= 5 years	3,950.3	5,500.0	0.0	659.1	210.0	0.0
> 5 years	0.0	0.0	–	–	–	–

OTHER FINANCIAL OBLIGATIONS

Other financial obligations amount to €9,145 thousand (previous year: €14,190 thousand).

FOREIGN CURRENCIES

As of the reporting date, the total amount of assets denominated in foreign currency (translated into euros) amounted to €3,709,914 thousand (previous year: €3,343,457 thousand); liabilities in foreign currency (translated into euros) came to €580,635 thousand (previous year: €472,886 thousand).

The volume of spot exchange transactions not yet settled as of the reporting date was €0 thousand (previous year: €0 thousand), while the volume of currency forwards was €532,595 thousand (previous year: €470,284 thousand). The notional value of cross-currency swaps was €2,143,194 thousand (previous year: €1,794,024 thousand); that of cross-currency interest rate swaps amounted to €210,000 thousand (previous year: €350,000 thousand).

All currency forwards and the cross-currency swaps and cross-currency interest rate swaps of Volkswagen Bank GmbH were exclusively entered into to hedge interest and exchange rate fluctuations. There were no trading transactions as of the balance sheet date.

GOVERNING BODIES DISCLOSURES

Since fiscal year 2022, the members of the Management Board have received their remuneration from Volkswagen Bank GmbH. The total remuneration of the members of the Management Board amounted to €2,822 thousand.

In accordance with a resolution passed by the Annual General Meeting, the members of the Supervisory Board who are not employees of the Volkswagen Group are entitled to annual remuneration. This remuneration is independent of the performance of the Bank. The members of the Supervisory Board who are employees of the Volkswagen Group receive flat-rate remuneration from Volkswagen Bank GmbH. If they are also members of other supervisory boards of Group companies of Volkswagen AG, remuneration received for these functions is deducted from their entitlement. As a result, a total amount of less than €0.09 million was granted 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. These salaries are based on the provisions in the *Betriebsverfassungsgesetz* (BetrVG – German Works Constitution Act) and correspond to the remuneration of comparable employees with a professional background typical of the business. The representative of the senior executives on the Supervisory Board receives an appropriate remuneration for the relevant function or activity in the Bank.

The members of the Management Board in the reporting year were as follows:

DR. MICHAEL REINHART

Chair of the Management Board
Corporate Management, Volkswagen Bank GmbH

OLIVER ROES

Finance, Volkswagen Bank GmbH

CHRISTIAN LÖBKE

Risk Management, Volkswagen Bank GmbH

DR. VOLKER STADLER

Operations, Volkswagen Bank GmbH

The Supervisory Board had the following members as of the reporting date, December 31, 2022:

DR. INGRUN-ULLA BARTÖLKE

Chair
Head of Group Accounting and External Reporting Volkswagen AG

BJÖRN BÄTGE

Deputy Chair (as of March 10, 2022)
Group Treasury – Head of Global Markets of Volkswagen AG

SILVIA STELZNER
Deputy Chair
Member of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

SARAH AMELING-ZAFFIRO (AS OF FEBRUARY 1, 2022)
Member of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

MARKUS BIEBER
General Secretary of the Joint Works Council of Volkswagen AG

DR. CHRISTIAN DAHLHEIM (AS OF FEBRUARY 1, 2022)
Chair of the Board of Management of Volkswagen Financial Services AG

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

PROF. DR. SUSANNE HOMÖLLE
Chair of Banking and Finance, University of Rostock

MARKUS KONRADT (AS OF MAY 1, 2022)
Member of the Board of the Management Association of Volkswagen Financial Services AG and Volkswagen Bank GmbH

KATRIN ROHMANN (AS OF MARCH 9, 2022)
Public auditor

CONNY SCHÖNHARDT
Head of the Mobility and Vehicle Construction Unit on the IG Metall Executive Board

MIRCO THIEL (AS OF OCTOBER 1, 2022)
Member of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

In addition, the Supervisory Board had the following members in 2022:

JÜRGEN ROSEMANN (UNTIL JANUARY 31, 2022)
Member of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

LARS HENNER SANTELMANN (UNTIL JANUARY 31, 2022)
Chair of the Board of Management of Volkswagen Financial Services AG

LUTZ MESCHKE (UNTIL MARCH 9, 2022)
Deputy Chair
Deputy Chair and Member of the Management Board of Dr. Ing. h.c. F. Porsche AG
Finance and IT

REINHARD MATHIEU (UNTIL APRIL 30, 2022)
Head of Basic Regulatory Issues & Reporting at Volkswagen Bank GmbH

THOMAS KÄHMS (UNTIL SEPTEMBER 30, 2022)
Member of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

The composition of the committees of the Supervisory Board of Volkswagen Bank GmbH was as follows as of the reporting date, December 31, 2022:

MEMBERS OF THE AUDIT COMMITTEE
Katrin Rohmann (Chair) (as of March 10, 2022)
Prof. Dr. Susanne Homölle (Deputy Chair)
Frank Fiedler
Silvia Stelzner

In addition, the following person was a member of the Audit Committee in 2022:
Lutz Meschke (Chair) (until March 9, 2022)

MEMBERS OF THE RISK COMMITTEE
Prof. Dr. Susanne Homölle (Chair)
Björn Bätge (Deputy Chair)
Sarah Ameling-Zaffiro (as of October 1, 2022)
Frank Fiedler

In addition, the following person was a member of the Risk Committee in 2022:
Silvia Stelzner (until September 30, 2022)

MEMBERS OF THE NOMINATION COMMITTEE
Dr. Ingrun-Ulla Bartölke (Chair)
Silvia Stelzner (as of October 1, 2022) (Deputy Chair) (as of December 6, 2022)
Dr. Christian Dahlheim (as of February 1, 2022)

In addition, the Nomination Committee had the following members in 2022:
Lars Henner Santelmann (until January 31, 2022)
Thomas Kähms (Deputy Chair) (until September 30, 2022)

MEMBERS OF THE REMUNERATION COMMITTEE
Dr. Ingrun-Ulla Bartölke (Chair)
Björn Bätge (Deputy Chair)
Dr. Christian Dahlheim (as of February 1, 2022)
Silvia Stelzner (as of October 1, 2022)

In addition, the Remuneration Committee had the following members in 2022:
Lars Henner Santelmann (until January 31, 2022)
Thomas Kähms (until September 30, 2022)

Provisions of €3,632 thousand (previous year: €3,057 thousand) were recognized for pensions and similar obligations in favor of former members of the Management Board or their surviving dependants. In the reporting period, payments to these individuals amounted to €232 thousand (previous year: €214 thousand).

Assets include receivables of €63 thousand (previous year: €31 thousand) relating to loans falling within the scope of section 15(1) nos. 1 and 3 of the KWG. Of this amount, receivables of €35 thousand (previous year: €13 thousand) are due from members of the Supervisory Board and an amount of €28 thousand (previous year: €18 thousand) is due from the members of the Management Board.

Average number of employees during the reporting period:

	2022	2021
Salaried employees	1,646	1,849
of which senior managers	37	41
of which part time	413	423
Vocational trainees	19	31

BRANCHES

Audi Bank, Braunschweig
SEAT Bank, Braunschweig
ŠKODA Bank, Braunschweig
AutoEuropa Bank, Braunschweig
ADAC FinanzService, Braunschweig
Ducati Bank, Braunschweig
Volkswagen Bank, Braunschweig
Volkswagen Bank, Emden
Volkswagen Bank, Hannover
Volkswagen Bank, Kassel
Volkswagen Bank, Salzgitter
Volkswagen Bank, Wolfsburg
Audi Bank, Ingolstadt
Audi Bank, Neckarsulm
Volkswagen Bank GmbH, St. Denis-Paris, France
Volkswagen Bank GmbH, Glyfada-Athen, Greece
Volkswagen Bank GmbH, Milton Keynes, United Kingdom
Volkswagen Bank GmbH, Milan, Italy
Volkswagen Bank GmbH, Verona, Italy
Volkswagen Bank GmbH, Amersfoort, Netherlands
Volkswagen Bank GmbH, Warsaw, Poland
Volkswagen Bank GmbH, Lisbon, Portugal
Volkswagen Bank GmbH, Alcobendas-Madrid, Spain

Appointments to Supervisory Bodies – Disclosures in Accordance with Section 340a(4) of the HGB

DR. MICHAEL REINHART

> Volkswagen Finančné služby Slovensko s.r.o., Bratislava, Slovakia
> Chair of the Supervisory Board
> DFM N.V., Amersfoort, Netherlands
> Chair of the Supervisory Board

OLIVER ROES

> Volkswagen Finančné služby Slovensko s.r.o., Bratislava, Slovakia
> Member of the Supervisory Board

ROMAN ROSENBERG

> Volkswagen Financial Services N.V., Amsterdam, Netherlands
> Member of the Supervisory Board

Shareholdings

Shareholdings of Volkswagen Bank GmbH and the Volkswagen Bank GmbH Group in accordance with sections 285 and 313 of the HGB and presentation of the companies included in the consolidated financial statements of the Volkswagen Bank Group in accordance with IFRS 12 as of December 31, 2022.

		EXCHANGE RATE (1 EURO =)	VW BANK GMBH'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/LOSS IN THOUSANDS		
Name and registered office of the company	Currency	Dec. 31, 2022	Direct	Indirect	Total	local currency	local currency	Footnote	Year
I. PARENT COMPANY									
Volkswagen Bank GmbH, Braunschweig									
II. SUBSIDIARIES									
A. Consolidated companies									
1. Germany									
2. International									
Driver España six, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	3)	2021
Driver Master S.A., Luxembourg	EUR		–	–	–	31	–	3)	2021
Driver MultiCompartment S.A., Luxembourg	EUR		–	–	–	30	14.00	3)	2021
Private Driver España 2020-1, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	3)	2021
Private Driver Italia 2020-1 S.r.l., Milan	EUR		–	–	–	10	–	3)	2021
B. Unconsolidated companies									
1. Germany									
2. International									
OOO Volkswagen Bank RUS, Moscow	RUB	76.2868	1.00	–	1.00	18,284,055	999,741	2)	2021

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2022	VW BANK GMBH'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOU-SANDS local currency	PROFIT/LOSS IN THOUS-ANDS local currency	Footnote	Year
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR		51.00	–	51.00	116,446	13,355		2021
2. International									
DFM N.V., Amersfoort	EUR		60.00	–	60.00	262,613	27,761	2)	2021
Volkswagen Financné služby Slovensko s.r.o., Bratislava	EUR		58.00	–	58.00	84,346	11,051	2)	2021
B. Companies accounted for at cost									
1. Germany									
2. International									
IV. ASSOCIATES									
A. Equity-accounted companies									
1. Germany									
2. International									
B. Associates accounted for at cost									
1. Germany									
2. International									
Credi2 GmbH, Vienna	EUR		28.34	–	28.34	102	–4,231		2021
V. EQUITY INVESTMENTS									
1. Germany									
2. International									
Society for Worldwide Interbank Financial Telecommunications SCRL, La Hulpe	EUR		0.01	–	0.01	616,152	52,234	1)2)	2021

1) In liquidation
2) Different fiscal year
3) Short fiscal year

Braunschweig, February 17, 2023
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 annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Volkswagen Bank GmbH, and the management report includes a fair review of the development and performance of the business and the position of Volkswagen Bank GmbH, together with a description of the material opportunities and risks associated with the expected development of Volkswagen Bank GmbH.

Braunschweig, February 17, 2023
The Management Board

Dr. Michael Reinhart

Oliver Roes

Christian Löbke

Dr. Volker Stadler

Independent Auditor´s Report

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

To Volkswagen Bank GmbH, Braunschweig

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

OPINIONS

We have audited the annual financial statements of Volkswagen Bank GmbH, Braunschweig, which comprise the balance sheet as at 31 December 2022, and the income statement for the fiscal year from 1 January 2022 to 31 December 2022, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Volkswagen Bank GmbH, which is combined with the group management report, for the fiscal year from 1 January 2022 to 31 December 2022. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration pursuant to Sec. 289f (4) in conjunction with Sec. 289f (2) No. 4 HGB ["Handelsgesetzbuch": German Commercial Code] included in the Human Resources Report section of the management report (disclosures on the quota for women on executive boards).

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2022 and of its financial performance for the fiscal year from 1 January 2022 to 31 December 2022 in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. We do not express an opinion on the content of the statement on the group corporate governance declaration referred to above.

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

Basis for the opinions

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

Key audit matters in the audit of the annual financial statements

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

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

IDENTIFICATION OF IMPAIRED LOANS AND DETERMINATION OF SPECIFIC VALUATION ALLOWANCES IN DEALER FINANCING

The identification of impaired loans and the determination of specific valuation allowances in dealer financing are significant areas in which the executive directors of Volkswagen Bank exercise judgment. The identification of impaired loans and the determination of an appropriate specific valuation allowance entail uncertainties, which include various assumptions and estimation inputs, particularly regarding the dealers’ financial performance, expected future cash flows and the valuation of collateral. As a result of the Russia-Ukraine war, the resulting rise in energy prices, inflation and the persistent supply bottlenecks in the automotive industry, these uncertainties are significantly elevated in the fiscal year. Even minimal changes in the assumptions and estimation inputs can lead to significant variation in values.

In view of Volkswagen Bank’s business model and the significance of dealer financing for its assets and financial performance, we determined the identification of impaired loans and the determination of specific valuation allowances 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 specific valuation allowances to check for the consideration of relevant risk factors. We tested the operating effectiveness of the controls implemented in these processes for identifying impaired loans and determining specific valuation allowances. Our audit procedures focused on the processes for evaluating the borrowers’ economic situation, monitoring early warning indicators, applying impairment triggers and thus for applying internal risk classification procedures and for valuing collateral.

In addition, we performed substantive audit procedures on a sample basis and assessed the existence of any acute default risks and the determination of the specific valuation allowances. We selected our sample applying a risk-based approach, using criteria such as the inclusion of loans on watch lists for increased default risks, rating class, the level of exposure and specific valuation allowances 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 specific valuation allowances determined.

Our audit procedures did not lead to any reservations relating to the identification of impaired loans and the determination of specific valuation allowances 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" of the notes to the financial statements as well as in the section "Report on Opportunities and Risks," subsection "Credit Risk," passages "Collateral" and "Provisions" of the management report, which is combined with the group 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 provisions for litigation and legal risks are contained in section "3. Balance Sheet Disclosures," subsection "Other Provisions" of the notes to the financial statements and in the "Business Performance 2022" section of the management report, which is combined with the group management report.

MACROECONOMIC SCENARIOS AND THE SPECIFIC CREDIT RISK PARAMETERS DERIVED THEREFROM IN CONNECTION WITH THE DETERMINATION OF THE GLOBAL VALUATION ALLOWANCE FOR FORESEEABLE BUT NOT INDIVIDUALLY IDENTIFIED COUNTERPARTY DEFAULT RISKS RELATING TO 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 global valuation allowance for foreseeable but not individually identified counterparty default risks relating to loans to and receivables from customers are significant areas in which the executive directors exercise judgment.

In accordance with the Accounting Principle "Risk provision for foreseeable but not yet individually specified counterparty default risks in banks' lending business ("global valuation allowances") (IDW AcP BFA 7)," the Bank uses for the sake of simplification the approach specified by International Financial Reporting Standard 9 Financial Instruments ("IFRS 9") to determine the global valuation allowance. Consequently, the model-based determination of the global valuation allowance according to the IFRS 9 impairment approach uses four macroeconomic scenarios to meet the requirements for an unbiased and probability-weighted estimate. The four scenarios (base, positive, negative, energy shortage) differ in terms of the assumptions and estimates of future macroeconomic developments and are reflected in the different specific credit risk parameters underlying the calculation of the global valuation allowance (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 non-defaulted loans to and receivables from customers underlying the model-based determination of the global valuation allowance as well as the increased uncertainty and judgment involved in the macroeconomic scenarios due to possible (consequential) effects of the worldwide supply shortages, the energy crisis and inflation, we consider the macroeconomic scenarios and the specific credit risk parameters derived therefrom in connection with the determination of the global valuation allowance for foreseeable but not yet individually specified counterparty default risks relating to 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 global valuation allowance 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.

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 global valuation allowance for non-defaulted loans to and receivables from customers of Volkswagen Bank GmbH.

Reference to related disclosures

Disclosures on the model-based determination of the global valuation allowance for loans to and receivables from customers including the presentation of the different macroeconomic scenarios are included in the section “2. Accounting policies – Loans to and receivables from banks and customers” section of the notes to the financial statements and in the management report, which is combined with the group 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 annual financial statements, not the management report disclosures whose content is audited and not our auditor’s report thereon.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the assurance on the electronic rendering of the annual financial statements and the 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 annual financial statements and the management report (hereinafter the "ESEF documents") contained in the file "Volkswagen Bank_GmbH_JA+LB_ESEF-2022-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the 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 annual financial statements and the 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 annual financial statements and the accompanying management report for the fiscal year from 1 January 2022 to 31 December 2022 contained in the "Report on the audit of the annual financial statements and of the 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 annual financial statements and the management report contained in the file identified above in accordance with Sec. 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410 (06.2022)). Our responsibility in accordance therewith is further described in the "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 annual financial statements and the management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have 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.

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 annual financial statements and to the audited management report.

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

We were elected as auditor by the Annual General Meeting on 9 March 2022. We were engaged by the Supervisory Board on 25 July 2022. We have been the 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 annual financial statements and the audited management report as well as the assured ESEF documents. The annual financial statements and the management report converted to the ESEF format – including the versions to be published in the Unternehmensregister [German Company Register] – are merely electronic renderings of the audited annual financial statements and the audited management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Laura Gundelach.

Hanover, 17. February 2023

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Gundelach	Bühring
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Report of the Supervisory Board

of Volkswagen Bank GmbH

During the reporting period, the Supervisory Board has regularly concerned itself closely with the situation and development of the Bank. The Management Board regularly provided the Supervisory Board with timely and comprehensive information, both written and oral, on the key aspects of planning, on the situation of the Bank, including the risk position and risk management, and on business development. There are regular exchanges between the Chair of the Supervisory Board and the Management Board even outside of meetings. On the basis of the reports by the Management Board, the Supervisory Board continually monitored the conduct of the Bank's business and was thus able to perform the functions entrusted to it by law and under the articles of association without any restrictions. All decisions of fundamental importance to the Bank and other transactions requiring the approval of the Supervisory Board in accordance with the rules of procedure were reviewed and discussed with the Management before a resolution was adopted.

The Supervisory Board has twelve members. The Supervisory Board held six meetings in the reporting year. The average attendance rate was approximately 96%. Three decisions were made by circulation of written resolutions for approval; in the reporting period, there were no decisions made by the Chair of the Supervisory Board using the expedited procedure.

The main issues discussed at the meetings of the Supervisory Board and its committees are presented below.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on March 08, 2022, following a detailed examination, the Supervisory Board recommended to the Annual General Meeting to adopt the annual financial statements of Volkswagen Bank GmbH prepared by the Management Board for 2021, made a recommendation regarding the election of the auditor and commented on the consolidated financial statements. The Supervisory Board additionally discussed the key issues for fiscal year 2022 and the bank's IT strategy for 2022 and resolved an amendment to the guidelines concerning the management of conflicts of interest in the Supervisory Board and Management Board of Volkswagen Bank GmbH. The Joint Supervisory Team (JST) from the European Central Bank (ECB) also explained the results of the Supervisory Review and Evaluation Process (SREP) in 2021 for the Supervisory Board.

The members of the Supervisory Board were appointed again as scheduled on March 9, 2022 by shareholder resolution. The chairs and deputy chairs of the Supervisory Board and its committees were elected at the meeting on March 10, 2022.

Management Board remuneration was discussed at the meeting on April 22, 2022. The ROE target curve for bonus purposes for fiscal year 2022 was also decided and it was resolved to introduce a modifier for the definition of the brand bonus from fiscal year 2022.

The meeting on June 13, 2022 discussed the schedule of responsibilities and skills profiles of the Management Board. Reports were also presented on the financial performance of the Volkswagen Bank GmbH Group, the progress of strategic initiatives, the IT situation in France, new Delegated Regulation EU 2022/676 and the planned amendment of the profit-and-loss transfer agreement. The matter of ESG risk, comprising the Sustainability project and the ECB's 2022 climate stress test and thematic review on climate-related and environmental risks, was considered as well. The Supervisory Board also gave its consent for the acquisition of additional shares in Credi2 GmbH (Vienna, Austria) by Volkswagen Bank GmbH.

At the meeting on October 14, 2022, the Supervisory Board received a report on the realization of the aforementioned acquisition of shares in Credi2 GmbH and discussed the prerequisites for the reliability of the members of the Supervisory Board, the financial performance of the Volkswagen Bank GmbH Group, the progress of strategic initiatives and selected regulatory issues, the current IT situation in France and data management at the Bank. The Supervisory Board also resolved an amendment to the committee rules of procedure that mainly consisted of clarifying rules concerning the holding of meetings and the generation of resolutions.

The Supervisory Board meeting on December 6, 2022 considered the status of the planning round of the Volkswagen Bank GmbH Group as well as looking once again at financial performance. It also heard an outlook regarding the risk situation and considered the progress of strategic initiatives, the progress of selected regulatory issues and matters of company law.

The chairs of the respective committees or their deputies reported in detail on the content of their committee meetings in the Supervisory Board meetings.

COMMITTEE ACTIVITIES

The Supervisory Board set up committees in accordance with section 25d of the *Kreditwesengesetz* (KWG – German Banking Act).

Audit Committee

The Audit Committee held four regular meetings in the reporting period. There were no extraordinary meetings or urgent transactions that would have required a decision by circulation of written resolutions for approval. The Committee has four members. The average attendance rate was 100%.

At the meeting held on March 8, 2022, the Committee concerned itself with the annual financial statements and the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH for the year ended December 31, 2021 together with the proposal for the appropriation of profit. As part of this review, the Audit Committee discussed with the auditor the reports on the audit of the annual financial statements, the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH as well as material transactions and issues related to financial reporting. Following a detailed consultation, the Audit Committee requested the Supervisory Board to submit a recommendation to the sole shareholder regarding the election of the auditor and to draw up the resolution covering the issue of the audit engagement in preparation for the Annual General Meeting. The Head of Internal Audit provided further information relating to Internal Audit’s 2021 Annual Report for the Volkswagen Bank GmbH Group for the benefit of the Audit Committee. The Committee also considered the amendment of the Audit Committee guidelines for services provided by the auditor’s network.

At its meeting on June 13, 2022, the Committee reviewed the financial performance of the Volkswagen Bank GmbH Group. The compliance report was also presented. The Committee additionally considered pending supervisory audits.

At its meeting on October 14, 2022, the Committee addressed the subject of audit planning and key audit matters together with representatives of the auditor. It also received a report on the 2022 half-yearly financial statements and the current business performance of the Volkswagen Bank GmbH Group and discussed the quality of the audit of the financial statements.

At its meeting on December 6, 2022, the Audit Committee received reports on the services provided to the Bank by the auditor and the work of the Internet Audit unit.

Risk Committee

The Risk Committee held five meetings in the reporting period. During the reporting period, there were no urgent transactions that would have required a decision by circulation of written resolutions for approval. The Committee has four members. The average attendance rate was 95%.

At its meeting on March 8, 2022, the Risk Committee discussed the auditors' findings relating to risk management in the 2021 audit. The Committee then addressed the retrospective analysis of the 2021 risk strategy and the risk strategy and risk limits for 2022. The Committee also heard a report on the current position regarding climate-related and sustainability risks. Eventually, following an appropriate review, the Risk Committee confirmed that the incentives set by the Bank's risk, capital, and liquidity structure and the probability and timing of income take into account.

At its meeting on April 28, 2022, the Committee examined the 2022 internal liquidity adequacy assessment process (ILAAP), the liquidity adequacy statement (LAS) and the 2022 ILAAP gap analysis.

At its meeting on June 13, 2022, the Risk Committee discussed the design and establishment of cross-bank adverse scenarios (ILAAP and ICAAP) and the integration of the scenarios into the Bank's management processes. In addition, the Committee heard a presentation on the narrative and assumptions for the 2022 ICAAP and ILAAP stress tests and a report on the status of the 2022 ECB climate stress test, and discussed the Committee's remaining work program for 2022.

At its meeting on October 14, 2022, the Risk Committee discussed the early warning system for the retail lending portfolio, the future procedure for leveraged transactions and various matters relating to the ECB, including the feedback on the ECB climate stress test and the result of the ECB's 2022 thematic review on climate-related and environmental risks. The Committee also reviewed the current interest rate trend and its implications for interest rate risk as well as receiving an explanation of the "Ad-hoc OPR loss reporting/standard software reporting system of July 15, 2022".

On December 6, 2022, the Risk Committee heard about ICAAP governance (in particular the responsibilities of the Supervisory Board in this connection) and about the results of the 2022 SREP, the result and priorities of resolution planning for 2023 and the latest developments regarding the interest rate risk in the banking book (IRRBB).

Remuneration Committee

The Remuneration Committee held four meetings in the reporting period. The Committee has four members. The attendance rate was approx. 94%. One decision was made by circulation of written resolutions for approval in the reporting period.

At its meeting on March 08, 2022, the Remuneration Committee discussed the constraints for granting variable remuneration, the determination of the bonus pool available for the members of the Management Board and changes in the sustainability component relevant to remuneration. No facts were identified that are relevant to malus provisions within the meaning of section 18 of the *Institutsvergütungsverordnung* (IVV – German Regulation Governing Remuneration at Institutions) were identified.

At its meeting on April 20, 2022, the Committee's main discussion point was variable Management Board remuneration. The Committee also considered the definition of the ROE target curve for bonus purposes for fiscal year 2022 and the introduction of a modifier for the definition of the brand bonus from fiscal year 2022.

At its meeting on October 14, 2022, the Committee considered the remuneration report for fiscal year 2021, the amendment of the company agreement on variable remuneration, the review of remuneration for the monitoring units and the changes to the remuneration systems in response to IVV 4.0.

On December 6, 2022, the Committee heard details of the risk taker analysis and received the Remuneration Officer's presentation of the remuneration control report for fiscal year 2021/2022 and the report on the appropriateness of employee remuneration. The Committee also examined the appropriateness of Management Board remuneration.

Nomination Committee

The Nomination Committee held three meetings in the reporting year, each of which was attended by all members of the Committee. One decision was made by circulation of written resolutions for approval in the reporting period.

At its meeting on March 7, 2022, the Committee discussed the election of the members of the Supervisory Board and the composition of the Audit Committee.

At the meeting on June 3, 2022, the Committee examined the suitability of a member of the Supervisory Board.

At the meeting on November 28, 2022, the Committee reviewed the annual assessment of the Management Board and Supervisory Board in fiscal year 2021/2022. The Committee also discussed the extension of the appointment of two members of the Management Board.

Credit Committee

The Credit Committee is responsible for approving issues that the Supervisory Board has to deal with by law and under the rules of procedure relating to loan commitments, the assumption of sureties, guarantees and similar liabilities, Bank borrowings, the purchasing of receivables and for master agreements governing the assumption of receivables. The Credit Committee is composed of three members of the Supervisory Board and makes its decisions by circulation of written resolutions or on the basis of electronic credit applications.

The members of the committees also consulted each other on several occasions and were in constant contact with the Management Board. The activities of the committees were reported at the plenary meetings of the Supervisory Board.

EDUCATION AND TRAINING

The members of the Supervisory Board took, under their own responsibility, the education and training measures required to perform their tasks. The Supervisory Board also received training on the subject of "Cybercrime and IT security".

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hanover, was appointed to audit both the consolidated financial statements of the Volkswagen Bank GmbH Group in accordance with the IFRSs and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2022, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Bank GmbH Group in accordance with the IFRSs and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2022, together with the management reports, were submitted to the Supervisory Board. The auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hanover, audited these financial statements, including the bookkeeping system and the management reports, and issued an unqualified auditor's opinion in each case.

The Supervisory Board had no reservations after its review of the consolidated financial statements and the annual financial statements, including the management reports. The auditors were present when this agenda item was addressed at the Supervisory Board meeting and they reported on the main findings of their audit.

At its meeting on February 23, 2023, the Supervisory Board commented on the consolidated financial statements and annual financial statements of Volkswagen Bank GmbH prepared by the Management Board and recommended to the Annual General Meeting to adopt the annual financial statements for 2022 and to approve the consolidated financial statements.

In accordance with the existing control and profit-and-loss transfer agreement, the profits reported in the financial statements of Volkswagen Bank GmbH for the year ended December 31, 2022 have been transferred to Volkswagen AG.

The Supervisory Board would like to take this opportunity to express its gratitude and appreciation for the work of the members of the Management Board, the members of the Works Council, the managerial staff and all employees of Volkswagen Bank GmbH and its affiliated companies. The high level of commitment from all of them has helped to sustain the ongoing growth of Volkswagen Bank GmbH.

Braunschweig, February 23, 2023

Dr. Ingrun-Ulla Bartölke
Chair of the Supervisory Board

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