VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

ANNUAL REPORT

IFRS

2023

Key Figures

VOLKSWAGEN FINANCIAL SERVICES AG

€ million (as of Dec. 31)	2023	2022
Total assets	146,340	133,367[1]
Loans to and receivables from customers attributable to		
Retail financing	23,517[2]	23,907
Dealer financing	7,210[2]	5,536
Leasing business	46,679[2]	41,235
Lease assets	39,352[2]	34,927
Equity	22,891	17,607[1]
Operating profit[2]	1,736	3,222[1]
Profit before tax[2]	1,802	3,040[1]

1 Prior-year figures restated.
2 The total value indicated for the Group is the sum of the items for continuing operation and for discontinued operation presented in the consolidated financial statements.

in percent (as of Dec. 31)	2023	2022
Cost/income ratio[1]	47[2]	43
Equity ratio[3]	15.6	13.2
Return on equity[4]	8.9[2]	19.0[5]

1 General and administrative expenses, adjusted for expenses passed on to other entities in the Volkswagen Group / interest income from lending transactions and marketable securities, net income from leasing transaction, interest expenses, net income from service contracts, net income from insurance business, provision for credit risks and net fee and commission income.
2 The calculation is based on the total values for the Group obtained by adding the items presented in the consolidated financial statements for continuing operation to those for discontinued operation.
3 Equity / total assets
4 Profit before tax / average equity.
5 Prior-year figures restated.

Number (as of Dec. 31)	2023	2022
Employees	12,009	11,457
Germany	5,577	5,980
International	6,432	5,477

RATING (AS OF DEC. 31)	STANDARD & POOR'S			MOODY'S INVESTORS SERVICE		
	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Volkswagen Financial Services AG	A-2	BBB+	stable	P-2	A3	stable

All figures shown in the report are rounded, so minor discrepancies may arise when amounts are added together. The comparative figures from the previous fiscal year are shown in parentheses directly after the figures for the current fiscal year.

COMBINED MANAGEMENT REPORT

Fundamental Information about the Group

Volkswagen Financial Services AG and its companies are providers of a wide range of mobility services.

BUSINESS MODEL

The companies of the Volkswagen Financial Services AG Group together provide a wide range of mobility services, offering products such as car subscriptions and a variety of services as well as traditional financing and leasing options. The key objectives of Volkswagen Financial Services AG are:

> To promote sales of Group products for the benefit of the Volkswagen Group brands and their distribution partners
> To strengthen customer loyalty to Volkswagen Financial Services AG and the Group brands along the automotive industry value chain, including through the targeted use of digital products and mobility solutions
> To create synergies for the Group by combining Group and brand requirements in the finance and mobility services areas
> To generate and sustain a high level of return on equity for the Group

ORGANIZATION OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

The companies of the Volkswagen Financial Services AG Group provide financial services to private, corporate and fleet customers and to the dealer organization of the Volkswagen brands. The close integration of marketing, sales and customer service focused on customers' needs is of central importance for the establishment of lean processes and the efficient implementation of the sales strategy.

RESTRUCTURING OF THE VOLKSWAGEN FINANCIAL SERVICES AG AND VOLKSWAGEN BANK GMBH SUBGROUPS

The Board of Management of Volkswagen Financial Services AG and the Management Board of Volkswagen Bank GmbH commenced work on the implementation of a comprehensive restructuring program in 2023.

This will involve the German and European entities, including the respective subsidiaries and equity investments, being consolidated under a new financial holding company supervised by the European Central Bank (ECB), a move intended to create a clearer focus on geographical regions. This reorganization of legal entities, which is scheduled to be complete by the middle of 2024, will include staffing movements. The associated employee-related provisions will be assigned to the receiving entities.

Initial steps to establish the aforementioned European financial holding company were completed during the reporting year and the company is currently operating as Volkswagen Financial Services Europe AG. It will be renamed Volkswagen Financial Services AG once the restructuring program has been completed. The steps planned for 2024 include transferring all shares in the Volkswagen Leasing GmbH subsidiary to Volkswagen Bank GmbH, which will then become part of the European financial holding company.

The existing Volkswagen Financial Services AG and subsequently the future Volkswagen Financial Services Overseas AG will control the non-European subsidiaries as a holding company. As wholly owned subsidiary of Volkswagen AG, this company will remain an integral part of the Volkswagen Group, but with a focus on the international markets outside Europe.

By pooling its activities in a European financial services provider, the refinancing strength of Volkswagen Bank GmbH can be used in the best possible way for the growth of the leasing business in Germany and Europe. The Volkswagen Group is thus laying the foundation for the successful implementation of the Group's strategy in the mobility sector, taking into account the regulatory framework. The number of companies to be consolidated under regulatory requirements will increase as a result of the restructuring, and regulatory reporting requirements will become more comprehensive.

Numerous workstreams and subprojects have been established within the company-wide restructuring program to complete all of the steps necessary in time and mitigate the risks that arise.

The major risks associated with the restructuring include the possibility that implementation of the new structure under company law will be delayed together with the resulting specific requirements from the ECB regarding company processes and capital structure. There is also a risk that various administrative, legal and regulatory requirements might not be satisfied, which could potentially have negative implications for funding options and the Company's reputation in the market.

The restructuring activities additionally entail potential tax risks, which are mitigated by taking appropriate steps wherever possible (for example obtaining advance rulings). What is more, a continuous, transparent dialog with the supervisory authorities is maintained to counteract any delay in the granting of regulatory special approvals and exemptions or in the ownership control procedure.
Other measures implemented to mitigate risks arising from the restructuring include the adoption of a focused management approach to the restructuring program centering on priorities and the arrangement of additional external support to assist with compliant and timely implementation of the program.

MOBILITY2030 STRATEGY

Building on the MOBILITY2030 strategy we introduced in 2022, we are working constantly to expand on the Volkswagen Group's mobility service provider mission and to be as well prepared as possible for changes in customer requirements as a result of digitalization.

The core mission of Volkswagen Financial Services AG is to develop and make available a comprehensive mobility platform, together with the brands of the Volkswagen Group, and thus to give customers rapid, digital and flexible access to mobility – from financing and leasing options to car sharing and the Auto Abo car subscription product.

As a provider of mobility solutions, we have formulated a clear growth plan in our MOBILITY2030 strategy and intend to extend our relationship with customer and vehicle throughout the automotive value chain.

Five strategic dimensions for the practical implementation of this growth plan are defined in MOBILITY2030:

> **Customer loyalty:** "We maximize the loyalty of our customers to our Group brands."
> **Vehicle:** "We develop business potential along the entire vehicle cycle together with the Group brands."
> **Performance:** "We act in an entrepreneurial manner and strive for the greatest possible success ."
> **Data and technology:** "We use data and technology as the mainstays of our success."
> **Sustainability:** "We drive the transition to zero-emissions mobility in line with the Volkswagen Group's ESG principles."

The aforementioned reorganization of the entities of Volkswagen Financial Services AG puts us in a position to expand our mobility service provider business model effectively in compliance with the prevailing regulatory regime. This expansion is a key element of our MOBILITY2030 strategy and supports our particular focus on the customer loyalty and vehicle dimensions.

INTERNAL MANAGEMENT

The Company's key performance indicators 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, number of current contracts and new contracts concluded. The financial key performance indicators are the volume of business, operating result, return on equity and the cost/income ratio.

KEY PERFORMANCE INDICATORS

	Definition
Nonfinancial performance indicators	
Penetration	Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles, based on Volkswagen Financial Services AG's consolidated entities.
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, dealer financing, leasing business and lease assets.
Operating result	Interest income from lending transactions and marketable securities, net income from leasing transactions, interest expense, net income from service contracts, net income from insurance business, provision for credit risks, net fee and commission income, net gain or loss on hedges, net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income, general and administrative expenses and net other operating income/expenses
Return on equity	Return on equity before tax, which is calculated by dividing profit before tax by average equity.
Cost/income ratio	General and administrative expenses, adjusted for expenses passed on to other entities in the Volkswagen Group / interest income from lending transactions and marketable securities, net income from leasing transaction, interest expenses, net income from service contracts, net income from insurance business, provision for credit risks and net fee and commission income.

Owing to the aforementioned restructuring program, the key performance indicators mentioned here for the 2023 reporting period are reported as overall figures and also as separate figures for continuing operation for the non-European business activities in Volkswagen Financial Services AG as it currently stands. The total values for the Group for fiscal year 2023 are obtained by totaling the items on the balance sheet and income statement, and the items on the balance sheet and income statement for discontinued operation (encompassing the German and European business activities) that are explained in the notes to the consolidated financial statements in note 3 “Disclosures concerning disposal groups held for distribution, disposal groups held for sale and discontinued operation (IFRS 5)”.

OTHER NONFINANCIAL PERFORMANCE INDICATORS

Customer satisfaction and external employer ranking are measured in addition to the nonfinancial indicators mentioned.

Customer satisfaction

The primary objective of Volkswagen Financial Services AG is to ensure that our customers are satisfied. This applies equally for new customers and existing customers. The Company has conducted surveys to determine the level of both external and internal customer satisfaction in its markets over the last few years. As our business model becomes ever more highly digitalized, so the volume of direct interaction we have with our end customers in the markets continues to grow. We use the opportunity these interactions present to obtain customer feedback in the form of a star rating (Trusted Shops) and to respond appropriately. We also make it a priority to build long-term relationships with our existing customers. This approach is being steadily extended to all markets.

External employer ranking

Volkswagen Financial Services AG undergoes an external benchmarking process, generally every two years, to obtain an external employer ranking.

The Company's aim is to position itself as an attractive employer and determine appropriate measures that will enable it to become one of the top 20 employers, not just in Europe, but globally. Volkswagen Financial Services AG thus appeared on a number of national and international lists of the best employers to work for in 2023. In the "Great Place to Work" employer awards, the Company was once again among the leaders in Europe, achieving its target of a top-20 ranking.

SIGNIFICANT CHANGES IN EQUITY INVESTMENTS

Volkswagen Financial Services AG completed the establishment (by means of a name change) and carve-out of Volkswagen Financial Services Europe AG in Braunschweig. This involved the transfer of its wholly owned subsidiary Volkswagen Financial Services Europe AG (formerly carmobility GmbH and Volkswagen Group Mobility GmbH), including the current control and profit-and-loss transfer agreement, to Volkswagen AG. The transfer was entered in the commercial register at the Braunschweig Local Court on August 30, 2023. Volkswagen Financial Services Europe AG will serve in future as the new European financial holding company.

Volkswagen Financial Services AG established Volkswagen Finance Europe B.V. in Amsterdam, Netherlands, on June 1, 2023. The share capital of the entity amounts to €18,000. This entity will in future operate as the Dutch intermediate holding company in the European holding company subgroup.

Volkswagen AG increased the capital of Volkswagen Financial Services AG by approximately €3.8 billion in the second half of the year in connection with the reorganization. Some of this capital was then passed on, with Volkswagen Finance Europe B.V. receiving approximately €1 billion as part of the reorganization.

Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, sold and transferred its equity investments in Volkswagen Financial Services France S.A., Collect Car B.V., Softbridge-Projectos Tecnológicos S.A, Staymo S.A.S., Volkswagen D'Ieteren Finance S.A., Volkswagen Pon Financial Services B.V., Volkswagen Møller Bilfinans A/S, Volkswagen Semler Finans Danmark A/S and movon AG to its sister entity Volkswagen Finance Europe B.V. in October 2023.

These transfers serve to lay the groundwork for the reorganization in 2024.

The objective for 2024 is to transfer Volkswagen Leasing GmbH – provided with additional capital – to Volkswagen Bank GmbH, to transfer Volkswagen Bank GmbH to Volkswagen Financial Services Europe

AG and to transfer Volkswagen Finance Europe B.V. and other European equity investments to Volkswagen Financial Services Europe AG via carve-outs.

In addition, the following material changes in equity investments have occurred: Volkswagen Finance Overseas B.V., a wholly owned subsidiary of Volkswagen Financial Services AG, acquired 50% of the shares in movon AG, Cham, Switzerland, from Amag Leasing AG, Cham, Switzerland with effect from July 3; 2023. Together with Amag Leasing AG, the fleet business in the Swiss market will be expanded by offering vehicle leasing and vehicle fleets in combination with an extensive range of services.

TRATON SE, Munich, Germany, TRATON Financial Services AB, Södertälje, Sweden, Volkswagen Financial Services AG and Volkswagen Bank GmbH signed a framework agreement concerning the acquisition of substantial parts of the worldwide financial services business of MAN and Volkswagen Truck & Bus (VWTB) on July 12, 2023. The transaction includes the sale and transfer of rights to provide financing solutions to customers of MAN and VWTB. Business is being transferred country by country to ensure a seamless transition. It is intended that integration into TRATON Financial Services be completed by the second quarter of 2025.

Volkswagen Finance Overseas B.V., a wholly owned subsidiary of Volkswagen Financial Services AG, sold all shares in PayByPhone Technologies Inc., Vancouver, Canada, to the Fleetcor Group with effect from September 15, 2023. The sale was effected for strategic reasons.

Europcar Mobility Group, Paris, France, acquired 51% of the shares in Euromobil GmbH, Sittensen, Germany, from EURO-Leasing GmbH, Sittensen, Germany, a wholly owned subsidiary of Volkswagen Financial Services AG, with effect from October 30, 2023. EURO-Leasing GmbH retains the remaining 49% of the shares. Euromobil GmbH is active in the car rental and car subscription business for the Volkswagen Group's brands and dealers in Germany.

There were no other significant changes with respect to equity investments. Detailed disclosures can be found in the list of all shareholdings in accordance with section 313(2) of the *Handelsgesetzbuch* (HGB – German Commercial Code) and in accordance with IFRS 12.10 and IFRS 12.21, which is included in the notes to the consolidated financial statements.

CORPORATE GOVERNANCE DECLARATION

Increase in the proportion of women

Women accounted for 47.4% of the workforce of Volkswagen Financial Services AG in Germany and 50.7% internationally as of December 31, 2023. Women are still not represented to such a high level in the Company's management structures, however. The Company has formally committed to achieving a permanent increase in the proportion of female managers. The target rates for female managers in Germany, which were first defined in 2010, were updated in 2022 and have been approved by the Board of Management. Global target rates for Volkswagen Financial Services were defined in the same year.

PROPORTION OF WOMEN – TARGET AND ACTUAL VALUES FOR GERMANY

	Target 2025	Actual 2023
Second management level	27.3	25.2
First management level	19.7	17.8

The target proportion of female representation at management level will also apply to the continuing operation of Volkswagen Financial Services AG following the carve-outs implemented under the restructuring program.

The target figures for female representation across the first and second tiers of management in Germany are valid until 2025. The progress made on increasing the proportion of women in management relative to the targets adopted by Volkswagen Financial Services is monitored regularly both in Germany and internationally. The global target for women in management is set at 26.0%. Women occupied 26.4% of management positions at Volkswagen Financial Services in the 2023 reporting year.

The Supervisory Board has set the following targets for the proportion of women to be achieved by the end of 2026: 25.0% for the Supervisory Board and 20.0% for the Board of Management. In the reporting year, the proportion of women on the Supervisory Board was 41.7%; the equivalent figure for the Board of Management was 40.0%.

The Board of Management maintains the necessary transparency by means of regular progress reports. A particular effort is made to ensure that female candidates are considered during succession planning to help establish compliance with the relevant targets. The targets are also discussed regularly, together with pertinent tools and best practices for achieving them, at the meetings of HR managers around the world.

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

Pursuant to section 289b(2) of the HGB and section 315b(2) of the HGB, Volkswagen Financial Services AG has decided to make use of the option not to submit a nonfinancial report or a nonfinancial report for the Group. Please refer to the separate combined nonfinancial report of Volkswagen AG for fiscal year 2023, which will be available in German at https://www.volkswagen-group.com/de/publikationen/weitere/nichtfinanzieller-bericht-2023-2575 and in English at https://www.volkswagen-group.com/en/publications/more/nonfinancial-report-2023-2575 from April 30, 2024.

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

Report on Economic Position

The global economy recorded positive growth in fiscal year 2023. Global demand for vehicles increased noticeably as compared with the previous year. Volkswagen Financial Services AG's operating result was down very sharply on the previous year's level.

OVERALL ASSESSMENT OF THE COURSE OF BUSINESS AND THE GROUP'S ECONOMIC POSITION

The restructuring program discussed above and the planned transfer of the shares in Volkswagen Leasing GmbH, Volkswagen Finance Europe B.V. and the European equity investments of Volkswagen Financial Services AG planned under this program necessitate an adjustment to the presentation of the consolidated financial statements of Volkswagen Financial Services AG in accordance with IFRS 5. Material changes in the key performance indicators and the items on the income statement and balance sheet for the operation continuing within Volkswagen Financial Services AG after the carve-outs are therefore presented separately in addition to the total values for the Group. The following total values for the Group relate to the change in the values of key performance indicators and of performance indicators for continuing operation and discontinued operation. These values for fiscal year 2023 are obtained by totaling the items on the income statement and balance sheet and the items on the income statement and balance sheet for discontinued operation that are explained in the notes to the consolidated financial statements in note 3 "Disclosures concerning disposal groups held for distribution, disposal groups held for sale and discontinued operation (IFRS 5)".

The overall operating result was down very sharply on the prior year in fiscal year 2023. The operating result for continuing operation, however, was up very sharply on the prior year.

Global new business rose slightly year-on-year overall but fell slightly for continuing operation. The previous year's figures, however, are lower than they would otherwise be because of the shortage of semiconductors and bottlenecks in global supply chains.

Volkswagen Financial Services AG increased its business volume year-on-year, particularly in Germany and the United Kingdom.

The share of financed and leased vehicles in the Group's worldwide deliveries (penetration) stood at 24.6 (25.6)% at the end of 2023. The corresponding figure for continuing operation following the aforementioned carve-outs in the next fiscal year is just 16.0%.

Funding costs were much higher than in the previous year, while the volume of business increased. Funding costs were also up very sharply year-on-year for continuing operation.

Margins were noticeably below the level of the previous year (–9.9%), but remained unchanged from the previous year for continuing operation (–1.0%).

The credit risk situation arising from Volkswagen Financial Services AG's overall portfolio was largely shaped by macroeconomic factors (chiefly rising consumer prices and key interest rates) in fiscal year 2023. The Company nevertheless managed to achieve robust growth in the portfolio in 2023 while maintaining portfolio quality and was also able to reverse a significant proportion of the additional valuation allowances recognized on a country-specific basis at the end of the year.

Vehicle remarketing performance was again very strong for the expanding residual value portfolio but much weaker than the previous year's level. The ratio of opportunity contracts to risk contracts in the existing portfolio deteriorated at the same time, leading to a very strong increase in valuation allowances. Changes in residual value risk continue to be closely monitored on an ongoing basis, leading to corresponding measures where required. Residual value risk is of lesser significance in continuing operation owing to the planned carve-out of Volkswagen Leasing GmbH.

The liquidity risk for the Volkswagen Financial Services AG Group was essentially on a level with the previous year in fiscal year 2023. The existing sources of funding were adequate to enable the growth achieved in the fiscal year. A wide range of funding instruments were used in a number of different currency areas, regions and countries.

The funding structure remained diversified in terms of the instruments used. The Group's main sources of funding, comprising capital markets, ABSs, funding through banks and deposits in individual markets, continued to be available at Group level and could still be used as required.

The Board of Management of Volkswagen Financial Services AG considers the course of business to have been positive in 2023 despite the expected year-on-year fall in earnings.

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

	Actual 2022	Forecast for 2023		Actual 2023
Nonfinancial performance indicators				
Penetration (percent)	25.6	> 25,6	Slightly up on previous year	24.6
Current contracts (thousands)[1]	16,085	> 16.085	Noticeably up on previous year	16,388
New contracts (thousands)[1]	5,732	> 5.732	Much stronger up on previous year	6,444
Financial performance indicators				
Volume of business (€ million)	105,605	> 105.605	significantly up on previous year	116,757
Operating result (€ million)	3,222	< 3.207	Much stronger lower than in the previous year	1,736
Return on Equity in (percent)	19.0	< 18,7	Much stronger below the previous year's level	8.9
Cost/income ratio (percent)	43	> 43	Much stronger up on previous year	47

1 Without the insurance products CPI (Creditor Protection Insurance) & GAP (Guaranteed Asset Protection) in the current contract and new contract portfolio.

DEVELOPMENTS IN THE GLOBAL ECONOMY

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 shortage of supply led particularly in 2022 to rising prices on energy and commodity markets. While prices dropped in the reporting year as a result of weakening momentum in the global economy, they remain at a relatively high level in some cases. Furthermore, salary trends in the overheated labor markets, among other factors, pose the threat of continued high inflation.

After the slump in global economic output in 2020 and the incipient recovery due to baseline and catch-up effects in 2021, followed by a further normalization of economic activity in 2022 despite the Russia-Ukraine conflict, the global economy recorded positive overall growth of +2.7 (+3.1)% in 2023. The slowdown in economic momentum versus the previous year was mainly due to weaker growth in the advanced economies, whereas the overall rate of change in the emerging markets increased somewhat. At national level, developments depended on the one hand on the intensity with which central banks had to tighten monetary policy to curb the higher inflation – mainly by raising interest rates and reducing bond holdings – which had a negative impact on consumer spending and investment activity. On the other hand, the extent to which national economies were affected by the consequences of the Russia-Ukraine conflict was a decisive factor. Prices for energy and many other raw materials were lower than in the previous year, and shortages of intermediate products and commodities eased somewhat. Global trade in goods expressed in nominal terms decreased in the reporting year.

Europe/Other Markets

The economy in Western Europe recorded positive, yet low overall growth of +0.4 (+3.5)% in 2023. This trend was seen in many countries in Northern and Southern Europe. The main reasons for this were the momentary and in some cases significant increases in energy and commodity prices, which had substantially pushed up inflation rates in the previous year and thus had a negative impact on consumer confidence. Business sentiment also deteriorated on average across all sectors. In addition, the restrictive monetary policy measures taken to rein in inflation impacted both consumer spending and investment.

The economies in Central and Eastern Europe recorded real growth in absolute gross domestic product (GDP) of +2.6 (+1.1)% in the reporting year. While economic output in Central Europe saw positive, albeit less dynamic growth of +1.7 (+4.5)%, GDP in the Eastern Europe region rose again in 2023 compared with the prior year for the first time since the outbreak of the Russia-Ukraine conflict, with a growth rate of +3.6 (–2.8)%. Inflation rates across the entire Central and Eastern Europe region declined on average in the reporting year, but remained at a high level.

In Turkey, economic output for the year 2023 as a whole rose by +3.8 (+5.3)% amid very high inflation and a fall in the value of the local currency. South Africa saw slight GDP growth of +0.6 (+1.9)% in the reporting year, amid persistent structural deficits and political challenges.

Germany

Germany's economic output recorded a negative growth rate of –0.2 (+1.9)% in the reporting year. Compared with the prior year, the seasonally adjusted unemployment figures rose on average. After reaching historically high levels in 2022, monthly inflation rates fell on average over the year, but remained relatively high.

North America

US economic output grew by +2.4 (+1.9)% in the reporting year. In view of high inflation and the tight labor market, the US Federal Reserve maintained its restrictive monetary policy and raised its key interest rate four times over the course of the reporting year. Unemployment remained at a low level in the reporting year. GDP rose by +1.1 (+3.8)% in neighboring Canada and by +3.3 (+3.9)% in Mexico.

South America

Brazil's economy posted GDP growth of +3.0 (+3.1)% in 2023. Argentina registered a negative economic performance with a year-on-year decline in GDP of –1.7 (+5.0)% amid very high inflation and continued depreciation of the local currency.

Asia-Pacific

China's economic output rose faster in the reporting year at + 5.4 (+ 3.0)% compared with the previous year, positively influenced by the revocation of the zero-Covid strategy by the Chinese government. India registered strong growth of +6.9 (+7.3)%. Japan recorded positive growth of +1.9 (+0.9)% year-on-year.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Demand for automotive financial services was at a high level in fiscal year 2023; however, higher interest rates put pressure on demand for financial services in almost all regions.

The European passenger car market was still affected by shortages in the reporting year. Vehicle deliveries nevertheless increased and were up on the prior-year period. Demand for financial services products also grew; however, as a percentage of vehicle deliveries, the figure was down on the equivalent figure for 2022. The positive trend in the financing of used vehicles continued. The sale of after-sales products such as servicing, maintenance and spare parts agreements continued to expand.

In Germany, the persistent challenges presented by parts supply in vehicle production and by logistics chains continued to impact vehicle sales and the financial services business. Nevertheless, the increase in deliveries of new vehicles led to a higher volume of contracts in 2023. New vehicle penetration was down on the comparative figure for 2022, however. New contracts for used vehicles were on a level with the previous year. The number of new after-sales contracts increased and in the reporting year was above the level seen in 2022.

The Turkish market experienced considerable volatility. A combination of sharp interest rate hikes, the weak currency, persistently high inflation and a refinancing environment that continued to be challenging kept lending practices restrictive. Used cars continued to command high prices, despite the first signs of a decline.

In South Africa, financed vehicle purchases remained at a comparatively low level due to the subdued economic conditions, higher vehicle prices and increased energy prices. However, inflation eased, and after increasing interest rates ten times in succession from November 2021 onwards, the South African Reserve Bank did not raise interest rates again.

Compared with the previous year, the markets in the North America region developed positively on the whole in 2023, with demand for vehicles rising. Despite higher interest rates, new vehicle penetration in the USA and Canada was also above the previous year's level, particularly in the leasing business. In Mexico, meanwhile, the penetration of leasing and financing contracts declined. The number of new contracts for after-sales products was up year-on-year throughout the entire region.

In the South America region, the positive growth trend in the volume of new vehicle sales continued. The market for financial services benefited from increased deliveries and growth was registered in the number of financing contracts. In Argentina, the level of financing contracts was stable in spite of challenging macroeconomic conditions. In Brazil, the number of new contracts rose thanks to the range of attractive financial services offered. The number of car subscriptions entered into also rose.

The Chinese automotive market witnessed a rise in demand for electrified and used vehicles. This in turn also affected demand for automotive financial services. At the same time, banks with attractive products are gaining a foothold in the market. In Japan, there was a positive trend in demand for automotive financial services thanks to a rise in vehicle availability. Interest rates that were relatively low by international comparison and attractive financial service offerings in many places were key features of this market.

The financial services business in the market for heavy commercial vehicles was slightly up on the prior-year level in fiscal year 2023. The lengthy delivery times for commercial vehicles are gradually beginning to return to normal. The borrowing habits of commercial vehicle customers changed due to the rise in interest rates: the decision on financing is moving closer to the time of vehicle delivery because customers are counting on falling interest rates.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2023, the volume of the passenger car market worldwide was noticeably higher than in the prior year at 76.6 million vehicles. Most markets registered growth, which together with weak prior-year figures was attributable to the fact that shortages and disruption in global supply chains eased restricting vehicle availability to a lesser extent. While the supply situation for intermediates improved compared with 2022, the trend in new registrations in individual markets dampened at the end of the previous year, partly as a consequence of the Russia-Ukraine conflict and pull-forward effects generated by state subsidies expiring.

Significant or strong growth was recorded in the overall markets of the Western Europe, Central and Eastern Europe, Middle East and North America regions. The markets of the South America region were slightly higher and the markets of the Asia-Pacific region noticeably higher than the prior-year level. The market in Africa fell slightly short of the prior-year volume.

In the reporting year, the global volume of new registrations for light commercial vehicles was on a level with the previous year (–0.2%).

Sector-specific environment

Along with fiscal policy measures, the sector-specific environment was considerably affected by the economic situation, which contributed to the mixed trends in unit sales in the markets in the fiscal year now ended. While real purchasing power fell in many places and vehicle prices stagnated at a high level, it was possible to reduce the backlog of orders on a large scale due to increased vehicle availability worldwide. The fiscal policy measures included tax cuts or increases, the introduction, expiry and adjustment of incentive programs and sales incentives, as well as import duties. In addition, non-tariff trade barriers to protect the respective domestic automotive industries made the movement of vehicles, parts and components more difficult.

Europe/Other Markets

In Western Europe, the number of new passenger car registrations in the reporting year was significantly higher than the previous year’s weak level, increasing by 13.8% to 11.6 million vehicles. The performance of the large individual passenger car markets was consistently positive in fiscal year 2023: France (+16.1%), the United Kingdom (+17.9%), Italy (+18.8%) and Spain (+15.8%) significantly exceeded their respective prior-year levels.

The volume of new registrations for light commercial vehicles in Western Europe was significantly higher than in the previous year, increasing by 16.3%.

The passenger car market volume in the Central and Eastern Europe region increased strongly by 23.6% in fiscal year 2023 to 2.3 million vehicles after a very strong dip in the previous year. The number of sales was also predominantly positive in the individual markets of Central Europe. The Czech Republic and Poland recorded significant growth of 15.3% and 13.0%, respectively.

The market volume of light commercial vehicles in Central and Eastern Europe in the reporting year was noticeably higher than the previous year’s figure (+7.3%).

The volume of the passenger car market in Turkey in the reporting year was up more than 50% on the prior-year level. In South Africa, the growth trend that had persisted since 2021 came to an end, with the number of passenger car sales falling slightly by 3.8%.

The volume of new registrations of light commercial vehicles in Turkey was very strongly (+38.1%) and in South Africa significantly (+16.5%) higher in the reporting year than the 2022 level.

Germany

At 2.8 million units, the total number of new passenger car registrations in Germany in fiscal year 2023 was noticeably higher than the weak prior-year level (+7.3%). Shortages and disruption in global supply chains eased, improving vehicle availability and allowing the backlog of orders from the previous year to be cleared. The number of passenger cars produced rose by 18.3% to 4.1 million vehicles and exports of passenger cars grew by 17.5% to 3.1 million units.

The number of sales of light commercial vehicles in Germany in the reporting year was significantly up on the 2022 figure (+15.7%).

North America

At 18.6 million vehicles, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North America region in fiscal year 2023 were significantly higher than in the prior year (+13.1%). Market growth in the USA, which increased by 12.3 % to 15.6 million units, was slightly below the average for this region. The Canadian automotive market also registered a significant increase in sales figures to 1.7 million units (+12.5%) in the reporting year, while new registrations of passenger cars and light commercial vehicles in Mexico saw a strong rise of 25.1% year-on-year to 1.4 million vehicles.

South America

In the South America region, the volume of new passenger car and light commercial vehicle registrations in the reporting year was slightly higher than the prior-year level at 3.7 million units, continuing the positive growth trend that had begun in 2021. In Brazil, the number of new vehicle registrations was significantly higher than the prior-year figure at 2.2 million units (+11.0%). In the Argentinian market, demand for passenger cars and light commercial vehicles in the reporting year also rose significantly by 11.7% to 425 thousand units.

Asia-Pacific

In the Asia-Pacific region, the volume of the passenger car market in fiscal year 2023 was noticeably higher than the previous year's figure at 36.2 million units (+6.6%). The increased demand for passenger cars in the region was primarily determined by the trend in the Chinese passenger car market. Here, state subsidies and incentive programs expired at the end of 2022, causing pull-forward effects in vehicle purchases and consequently reducing the number of vehicle registrations at the beginning of 2023. Since then, demand has recovered, partly as a result of discounts and continuing regional incentive programs, while competition has intensified. Overall, the volume of demand in China totaled 22.2 million units (+5.5%), noticeably higher than the previous year's level. In India, passenger car sales also rose noticeably by 9.9% year-on-year to 4.0 million units. New registrations in the Japanese passenger car market in the reporting year were significantly up on the prior-year level at 4.0 million units (+15.4%).

The volume of demand for light commercial vehicles in the Asia-Pacific region in 2023 was noticeably lower than the previous year's level (–7.1%). Registration volumes in China, the region's dominant market and the largest market worldwide, experienced a slight rise of 1.4% compared to the prior year. The number of new vehicle registrations in India was slightly below the prior-year level (–3.8%); in Japan this figure was slightly higher than in the previous year (+4.2%).

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, demand for mid-sized and heavy trucks with a gross weight of more than six tonnes experienced noticeable growth in fiscal year 2023 versus the comparison period (+8.5%). Global truck markets grew significantly, due in particular to a recovery of the Chinese market following the end of the country's zero-Covid strategy.

In the 27 EU states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was significantly up on the prior-year level, increasing by 15.1% to a total of 387 thousand vehicles. Growth could be observed in many truck markets in the region, albeit to differing degrees. The noticeable market recovery seen in 2022 accelerated during the reporting year to a significant level of growth. New registrations in Germany, the largest market in this region, were up strongly on the previous year (+23.6%). The United Kingdom recorded a significant increase of 13.6%, and demand in France was also significantly higher than in the previous year (+10.7%). Turkey recorded a strong rise in new registrations of 17.8%. In the South African market, demand rose noticeably (+9.3%). The truck market in North America is divided into weight classes 1 to 8. The truck market in North America is divided into weight classes 1 to 8. In the segments relevant for Volkswagen – Class 6 to 8 (8.85 tonnes or heavier) – new registrations were noticeably higher (+9.7%) than the previous year's figure. In Brazil, the largest market in the South America region, demand for trucks in the reporting year was significantly down on the previous year (–16.5%) due to the introduction of a new emissions standard at the beginning of 2023.

Demand in the bus markets relevant for the Volkswagen Group was strongly higher than in the previous year (+23.2%). Total demand for buses in the EU27+3 markets in the reporting year was up significantly on the previous year (+18.7%), with the picture varying from country to country. The school bus segment in the USA and Canada recorded a strong increase (+22.6%) compared with the prior year. Demand for buses in Mexico was even much stronger than in the previous year (+70.3%). In Brazil, demand was significantly higher than the prior-year level (+17.7%).

GLOBAL DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP

	DELIVERIES OF VEHICLES		
	2023	2022	Change in percent
Deliveries of passenger cars worldwide[1]	**8,901,338**	**7,957,274**	**+11.9**
Volkswagen Passenger Cars	4,866,803	4,563,327	+6.7
ŠKODA	866,820	731,262	+18.5
SEAT	519,176	385,591	+34.6
Volkswagen Commercial Vehicles	409,406	328,572	+24.6
Audi	1,895,240	1,614,231	+17.4
Lamborghini	10,112	9,233	+9.5
Bentley	13,560	15,174	–10.6
Porsche	320,221	309,884	+3.3
Deliveries of commercial vehicles worldwide[2]	**338,174**	**305,487**	**+10.7**
Scania	96,568	85,232	+13.3
MAN	115,653	84,372	+37.1
Navistar	88,880	81,892	+8.5
Volkswagen Truck & Bus	37,073	53,991	–31.3

1 The delivery figures of the previous year have been updated following statistical updates. Including Chinese joint ventures.
2 The delivery figures for the prior year have been restated following statistical updates.

FINANCIAL PERFORMANCE

The course of business was positive for the companies of Volkswagen Financial Services AG in fiscal year 2023 despite the fall in earnings, which had been anticipated.

The operating result fell very sharply year-on-year to €1,736 (3,222[1]) million. Continuing operation account for €754 (515) million of this figure. The reduced operating result is due in particular to positive one-time items in the prior year attributable to the fair value measurement of financial instruments and the remarketing of used vehicles. The result for the reporting period was also negatively impacted by the interest-margin situation.

Profit before tax was down very sharply year-on-year at €1,802 (3,040[1]) million. Continuing operation account for €915 (499) million of this figure.

Return on equity amounted to 8.9 (19.0[1])%. Return on equity for continuing operation was 19.8%[2].

Interest income from lending transactions and marketable securities was €3,226 million (+30.6%), which represented a very strong year-on-year increase. Continuing operation account for €2,571 (2,299) million of this figure.

Net income from leasing transactions amounted to €5,229 (4,406) million and was therefore significantly higher than in the previous year. Continuing operation account for €373 (177) million of this figure. The impairment losses on lease assets of €742 (90) million included in net income from leasing transactions were attributable to current market fluctuations and expectations. Continuing operation account for €6 (6) million of this figure.

Interest expenses were up very sharply year-on-year to €5,041 (2,167) million as a result in particular of the higher level of interest rates. Continuing operation account for €1,652 (1,110) million of this figure.

Net income from service contracts amounted to €213 (233) million and was noticeably below the prior-year figure. Continuing operation account for €16 (2) million of this figure.

1 Prior year figures restated.
2 The figure for continuing operation was determined using calculated equity for continuing operation at December 31, 2023 (equity – assets of discontinued operation + liabilities of discontinued operation) in place of average equity.

Net income from insurance business amounting to €130 (145[1]) million was noticeably below the previous year's level. No insurance business is conducted in continuing operation.

The provision for credit risks fell very sharply year-on-year to a net reversal of €183 million (net addition of €703 million). Continuing operation account for a reversal of €76 million (addition of €481 million) of this figure. Additional valuation allowances were required on a country-specific basis in the provision for credit risks for the Volkswagen Financial Services AG Group because, in some instances, the standard models and processes implemented, including the credit risk parameters used, did not fully capture the risks from global economic uncertainties and critical situations. These valuation allowances decreased by a very sharp €658 million year on year to €209 million. Continuing operation account for €209 (648) million of the valuation allowances at the end of the reporting period.

Net fee and commission income amounted to €249 (178) million, a very strong increase on the prior-year figure. Continuing operation account for €58 (54) million of this figure.

The net gain/loss on financial instruments measured at fair value amounted to €–350 (810) million. Continuing operation account for €–8 (1) million of this figure. The positive fair values from prior periods gradually reduce with time to maturity. This effect and the trend in market interest rates led to measurement losses in the reporting period.

General and administrative expenses were at the previous year's level at €2,508 (2,459[1]) million. Continuing operation account for €469 (440) million of this figure. This figure also includes costs associated with services for other entities in the Volkswagen Group. Accordingly, costs of €550 (518) million were recharged to other entities in the Volkswagen Group and reported under net other operating income/expenses. Continuing operation account for €1 (2) million of this figure.

At 47 (43)%, the cost/income ratio had deteriorated noticeably compared to the previous year. The cost/income ratio for continuing operation was 32 (47)%.

Net other operating income/expense recorded a very strong increase year-on-year at €458 (341[1]) million (+34.3%). This includes net other operating expenses of €217 million (net other operating income of €22 million) from continuing operation. An amount of €49 (94) million was added to the provisions for legal risks and recognized through profit or loss in net other operating income/expenses. Continuing operation account for €21 (24) million of this figure.

The share of profits and losses of equity-accounted joint ventures saw a strong increase year-on-year to €125 (96[1]) million. Continuing operation account for €50 (41) million of this figure.

In the reporting year, the net gain/loss on miscellaneous financial assets amounted to a net loss of €27 (259) million (with continuing operation accounting for a net gain of €103 (net loss of €67) million and included impairment losses of €119 million for unconsolidated subsidiaries (continuing operation account for €4 million of this figure) and €62 million for equity-accounted joint ventures (continuing operation account for €58 million of this figure).

On the basis of these figures, together with the other income and expense components, the Volkswagen Financial Services AG Group generated a profit net of tax of €1,174 (1,847[1]) million. Profit from continuing operation net of tax was €552 (309) million.

Under Volkswagen Financial Services AG's current control and profit-and-loss transfer agreement, a loss of €323 million reported by Volkswagen Financial Services AG in its single-entity financial statements prepared in accordance with the HGB was absorbed by the sole shareholder Volkswagen AG.

The German companies continued to account for the highest business volumes with 30.6% of all contracts. The Brazilian companies account for the largest share of the business volume in continuing operation (28.2%).

1 Prior year figures restated.

Despite the difficult environment, Volkswagen Leasing GmbH expanded its portfolio of leases moderately compared with the previous year. The operating result was substantially below the prior year.

Volkswagen Autoversicherung AG was able to consolidate and slightly improve its position in a market shaped by premium increases and persistently intensive competition. Volkswagen Autoversicherung AG holds a portfolio of 549 thousand vehicle insurance policies, which represents a year-on-year increase of 24 thousand policies.

In 2023, Volkswagen Versicherung AG was operating primary and reinsurance business in 16 international markets, complementing the core business in Germany.

Volkswagen-Versicherungsdienst GmbH, which operates as the sales partner in the German market for both Volkswagen Autoversicherung AG and Volkswagen Versicherung AG, played a part in the successful performance of these companies. Overall, the activities of Volkswagen-Versicherungsdienst GmbH made a steady contribution to the earnings of Volkswagen Financial Services AG.

NET ASSETS AND FINANCIAL POSITION

Lending business

At €133.8 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Financial Services AG Group – accounted for approximately 91% of the Group’s total assets. Continuing operation account for €30.3 (27.8) billion of this figure.

The volume of retail financing lending overall decreased by €0.4 billion to €23.5 billion (–1.6%). Continuing operation account for €21.8 (22.3) billion of this figure.

The number of new retail financing contracts came to 948 thousand, which was below the prior-year level (982 thousand). The number of current contracts stood at 2,461 thousand at the end of the year. For continuing operation, the number of new contracts came to 827 thousand and the number of current contracts stood at 2,207 thousand as of the end of the reporting year.

The overall lending volume in dealer financing – which comprises loans to and receivables from Group dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – increased to €7.2 billion (+30.2%). Continuing operation account for €4.9 (3.7) billion of this figure.

Overall, receivables from leasing transactions were significantly above the previous year’s level at €46.7 billion (+13.2%). Continuing operation account for €1.1 (0.8) billion of this figure. Lease assets recorded an overall growth of €4.4 billion to €39.4 billion (+12.7%). Continuing operation account for €2.3 (0.8) billion of this figure.

A total of 1,536 thousand new leases were entered into in the reporting period. There were 3,854 thousand lease vehicles in the contract portfolio as of December 31, 2023. As in the previous year (1,834 thousand), the largest contribution again came from Volkswagen Leasing GmbH, which had a contract portfolio of 1,872 thousand lease vehicles. For continuing operation, the number of new contracts came to 127 thousand and the number of current contracts stood at 167 thousand as of the end of the reporting year.

Total assets of the Volkswagen Financial Services AG Group rose to €146.3 billion year-on-year (+9.7%). This growth resulted primarily from the increase in loans to and receivables from customers and in lease assets and hence reflects business expansion over the past fiscal year. The assets of discontinued operation amounted to €112.9 billion and accounted for approximately 77% of the assets of the Volkswagen Financial Services AG Group.

There were 10,073 thousand service and insurance contracts at the end of the year. The new business volume of 3,959 thousand contracts was up on the prior-year figure (3,448 thousand). For continuing operation, the number of new contracts came to 731 thousand and the number of current contracts stood at 1,514 thousand as of the end of the reporting year.

Deposit business and borrowings

In terms of capital structure, the significant liability items included liabilities to banks in the amount of €20.8 billion (+20.8%), liabilities to customers amounting to €27.1 billion (+11.9%) and notes, commercial paper issued in the amount of €65.0 billion (+3.0%). The significant liability items for continuing operation included liabilities to banks in the amount of €16.3 (13.9) billion, liabilities to customers amounting to €3.4 (3.6) billion and notes and commercial paper issued in the amount of €7.9 (8.6) billion. Further details on the funding and hedging strategy can be found in the sections Liquidity Analysis and Funding and in the risk report within the disclosures on interest-rate risk and liquidity risk.

Subordinated capital

The subordinated capital was on a level with the previous year at €2.9 billion (+0.4%). Continuing operation account for €0.1 (0.2) billion of this figure.

Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at €441 million in fiscal year 2023. Equity in accordance with the IFRSs was €22.9 (17.6) billion. This resulted in an equity ratio (equity divided by total assets) of 15.6% based on total assets of €146.3 billion.

Volkswagen Financial Services AG's capital reserves increased by approximately €3.8 billion as a result of the capital injection by Volkswagen AG within the scope of the restructuring program. Boosting capital reserves in this way ensures there will be adequate capital available for the planned carve-outs in fiscal year 2024.

Changes in off-balance-sheet liabilities

Off-balance-sheet liabilities increased by a total of €235 million year-on-year to €1,132 million as of December 31, 2023. Continuing operation account for €741 (704) million.

KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2023

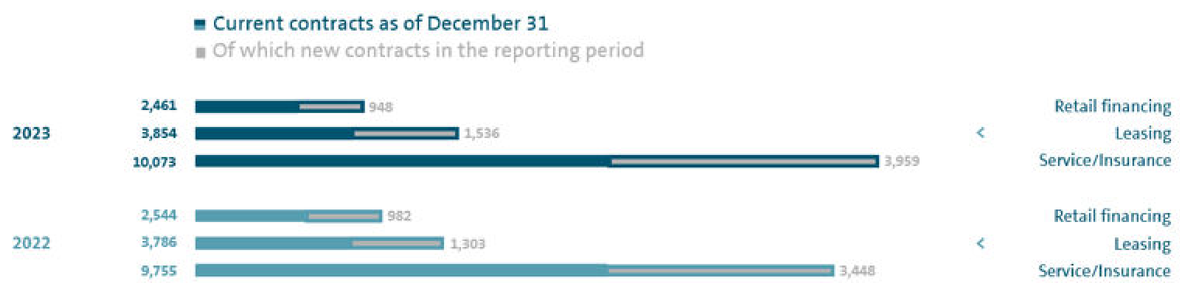
in thousands	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other companies[1]	VW FS AG Group
Current contracts	**5,010**	**2,453**	**582**	**1,097**	**806**	**550**	**5,889**	**16,388**
Retail financing	1	9	77	1,096	434	142	702	2,461
of which: consolidated	1	9	77	1,096	434	142	398	2,157
Leasing business	1,767	951	120	1	70	47	898	3,854
of which: consolidated	1,767	951	120	–	70	47	571	3,526
Service/insurance	3,242	1,493	385	–	303	361	4,289	10,073
of which: consolidated	3,242	1,493	217	–	303	361	2,456	8,072
New contracts	**1,850**	**1,208**	**191**	**387**	**476**	**236**	**2,096**	**6,444**
Retail financing	–	14	32	387	196	57	263	948
of which: consolidated	–	14	32	387	196	57	160	845
Leasing business	688	398	40	–	83	22	304	1,536
of which: consolidated	688	398	40	–	83	22	191	1,424
Service/insurance	1,162	795	119	–	197	157	1,529	3,959
of which: consolidated	1,162	795	61	–	197	157	840	3,211
€ million								
Loans to and receivables from customers attributable to								
Retail financing	–	256	943	8,063	6,173	1,529	6,553	23,517
Dealer financing	12	0	145	1,195	419	848	4,590	7,210
Leasing business	21,313	18,081	1,264	0	70	648	5,302	46,679
Lease assets	25,184	3,856	1,778	0	1,545	150	6,838	39,352
Investment[2]	10,987	1,891	660	2	1,077	16	2,635	17,267
Operating result	70	272	117	170	159	156	791	1,736
Percent								
Penetration[3]	55.3	43.2	47.8	9.8	41.5	41.1	20.6	24.6
of which: consolidated	55.3	43.2	47.8	9.8	41.5	41.1	13.4	22.7

1 The Other Companies segment covers the following markets: Australia, Belgium, the Czech Republic, France, India, Ireland, Italy, Japan, Korea, Luxembourg, Poland, Portugal, Russia and Spain. Relating to the number of contracts and penetration, it also covers the following markets: Argentina, the Netherlands, Norway, Switzerland, South Africa, Taiwan and Turkey. It also includes the Volkswagen Financial Services AG holding company, the holding and financing companies in Belgium and the Netherlands, the EURO-Leasing companies in Denmark and Germany, Volkswagen Insurance Brokers GmbH, Volkswagen Versicherung AG, Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH and consolidation effects.
2 Corresponds to additions to lease assets classified as noncurrent assets.
3 Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles

Modifications to segment reporting will be needed in 2024 as a result of the changes made under the aforementioned restructuring program.

NEW AND EXISTING CONTRACTS AS OF DECEMBER 31

As of December 31, 2023



Liquidity analysis

The companies of Volkswagen Financial Services AG are funded primarily through capital market and ABS (asset-backed securities) programs. Committed and uncommitted credit facilities with external banks and with companies of the Volkswagen AG Group are also available to protect against unexpected fluctuations in the liquidity position. Use is generally made of the credit lines. An additional confirmed line of credit with Volkswagen AG serves solely as a liquidity backup; its utilization is not intended in the normal course of business.

To ensure there is appropriate liquidity management, Treasury prepares liquidity maturity balances, carries out cash flow forecasts and takes action as required. In these calculations, the legally determined cash flows are assumed for funding instruments, whereas estimated cash flows are used for other factors that affect liquidity.

The internal control system (ICS) at Volkswagen Financial Services AG is used to measure liquidity risk individually for significant companies. The liquidity risk is managed using a maturity structure for Treasury liabilities. This approach includes a limit system covering the subsequent 12 months. The limits are reviewed each month in a process that acts as an early warning indicator. Reports are submitted centrally on a quarterly basis. In addition, Group limit for Volkswagen Financial Services AG is also measured and managed; 68.9% of this limit was utilized as of December 31, 2023.

Various subsidiaries of Volkswagen Financial Services AG must fulfill a variety of regulatory liquidity requirements at local level. For example, Volkswagen Leasing GmbH has to satisfy the *Mindestanforderungen an das Risikomanagement* (MaRisk – German Minimum Requirements for Risk Management). Compliance with these requirements is determined and continuously monitored by the liquidity risk management department. Additionally, the cash flows for the coming 12 months are projected and compared against the potential funding available in each maturity bucket.

In this context, there is a strict secondary regulatory requirement that any liquidity requirements identified in institution-specific stress scenarios must be covered with an adequate liquidity buffer over a time horizon of seven and 30 days. From a regulatory perspective, there was no immediate need to take action for Volkswagen Leasing GmbH in the reporting year.

FUNDING

Strategic principles

In terms of funding, Volkswagen Financial Services AG generally pursues a strategy of diversification with the aim of achieving the best possible balance of cost and risk. This means accessing the widest possible variety of funding sources in the various regions and countries with the objective of safeguarding funding at optimum terms at all times.

This strategy remains valid in the context of the wide-ranging restructuring program launched in 2023.

With customers increasingly preferring to lease vehicles rather than seek finance for their purchase, and with business expected to grow, the new Group structure will extend not only to the placement of bonds and ABS transactions, but also to the use of funding opportunities of Volkswagen Bank GmbH, such as customer deposits for the entities of the European financial holding company Volkswagen Financial Services Europe AG.

As described in the section entitled “Fundamental Information about the Group”, the German and other European entities, including their respective branches, subsidiaries and equity investments, are to be consolidated under a financial holding company supervised by the ECB, which is currently operating as “Volkswagen Financial Services Europe AG”. It will be renamed Volkswagen Financial Services AG once the restructuring program has been completed. The existing Volkswagen Financial Services AG and subsequently the future Volkswagen Financial Services Overseas AG will incorporate and control the non-

European subsidiaries as a holding company. The reorganization of the legal entities is scheduled to be complete by the middle of 2024.

The intention is to transfer the outstanding bonds and guarantees that are commercially attributable to the European market to the newly created European financial holding company on July 1, 2024. Bonds of the European issuers such as Volkswagen Financial Services N.V. and Volkswagen Leasing GmbH will remain with the entities that issued them.

Bonds of non-European issuers of the future Volkswagen Financial Services Overseas AG will also remain with the entities that issued them.

It is intended that funding for the non-European entities also largely be procured locally. The strategic funding instruments for this purpose are bank credit lines, ABSs and unsecured capital market bonds.

Implementation

Volkswagen Financial Services AG and its subsidiaries issued 29 bonds in different currencies during the year under review. In addition to euro bonds, bonds denominated in pounds sterling, Swedish krona and Japanese yen were issued under Volkswagen Financial Services AG's debt issuance program. Bonds based on local documentation requirements were also issued in Poland, Australia, Brazil and Turkey.

Volkswagen Financial Services AG published its first Green Finance Framework, which covers the financing and funding of financial products for battery electric vehicles (BEV) only, in August 2023. Volkswagen Leasing GmbH placed the first three green bonds (total volume €2 billion) under this framework in the capital market in September. Volkswagen Financial Services N.V. additionally issued bonds for 1.5 billion Swedish krona and 1 billion Norwegian krone based on the Green Finance Framework in December.

In addition, asset-backed securities (ABSs) were issued. Volkswagen Financial Services AG was active in global markets with various ABS transactions; along with the issuance of bonds in euros, securities were also issued in the United Kingdom, Australia, Japan and Brazil.

The issuance of commercial paper and the use of bank credit lines together with borrower's note loans completed the funding mix.

The company continued to implement its strategy of mainly obtaining maturity-matched funding by borrowing on terms with matching maturities and by using derivatives. A currency-matched funding approach was taken by borrowing liquidity in local currency, and currency risks were largely eliminated by using derivatives.

The following tables show the transaction details:

CAPITAL MARKET TRANSACTIONS IN THE 2023 REPORTING PERIOD

Issuer	Month	Volume and currency	Maturity
Volkswagen Financial Services AG, Braunschweig	January	300 million EUR	1,25 years
Volkswagen Financial Services Japan Ltd., Tokio	January	4,1 billion JPY	1 year
VDF Filo Kiralama A.Ş., Istanbul	January	450 million TRY	1 year
Volkswagen Doğuş Finansman A.Ş., Istanbul	March	100 million TRY	2 years
Volkswagen Financial Services Australia Pty. Ltd., Chullora	April	250 million AUD	3 years
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	April	640 million PLN	1 year
Volkswagen Financial Services Japan Ltd., Tokio	May	2 billion JPY	2 years
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	May	355 million PLN	1 year
Volkswagen Financial Services N.V., Amsterdam	May	300 million GBP	6 years
LM Transportes Interestaduais Serviços e Comércio S.A., Salvador	June	500 million BRL	3 years
Volkswagen Financial Services Korea Co., Ltd., Seoul	June	100 billion KRW	3 years
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	August	340 million PLN	3 years
Volkswagen Financial Services N.V., Amsterdam	September	450 million GBP	4 years
Volkswagen Financial Services Australia Pty. Ltd., Chullora	September	125 million AUD	3 years
Volkswagen Financial Services Australia Pty. Ltd., Chullora	September	175 million AUD	5 years
Volkswagen Leasing GmbH, Braunschweig	September	800 million EUR	2,5 years
Volkswagen Leasing GmbH, Braunschweig	September	500 million EUR	5,5 years
Volkswagen Leasing GmbH, Braunschweig	September	700 million EUR	8 years
Banco Volkswagen S.A., São Paulo	October	557,75 million BRL	2 years
Banco Volkswagen S.A., São Paulo	October	283,55 million BRL	3 years
Banco Volkswagen S.A., São Paulo	October	158,70 million BRL	4 years
Volkswagen Financial Services N.V., Amsterdam	October	850 million SEK	2 years
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	October	600 million PLN	3 years
Volkswagen Financial Services N.V., Amsterdam	December	650 million SEK	2 years
Volkswagen Financial Services N.V., Amsterdam	December	550 million SEK	3 years
Volkswagen Financial Services N.V., Amsterdam	December	300 million SEK	3 years
Volkswagen Financial Services N.V., Amsterdam	December	1 billion NOK	5,25 years
Volkswagen Financial Services N.V., Amsterdam	December	5 billion JPY	3 years
LM Transportes Interestaduais Serviços e Comércio S.A., Salvador	December	800 million BRL	3 years

ABS TRANSACTIONS IN THE 2023 REPORTING PERIOD

Originator	Transaction name	Month	Country	Volume and currency
Volkswagen Financial Services Japan Ltd., Tokio	Driver Japan twelve	February	Japan	JPY 53,5 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 38	March	Germany	EUR 1,25 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 39	June	Germany	EUR 750 million
Banco Volkswagen S.A., São Paulo	Driver Brazil six	July	Brazil	BRL 700 million
Volkswagen Financial Services (UK) Ltd., Milton Keynes	Driver UK seven	October	United Kingdom	GBP 500 million
Volkswagen Leasing GmbH, Braunschweig	VCL 40	October	Germany	EUR 750 million
Volkswagen Financial Services Australia Pty. Ltd., Chullora	Driver Australia eight	October	Australia	AUD 750 million

Ratings

Volkswagen Financial Services AG 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 Volkswagen Group. The S&P rating agency affirmed its A-2 (short term) and BBB+ (long term) ratings for Volkswagen AG and Volkswagen Financial Services AG in November 2023. The outlook for Volkswagen AG and Volkswagen Financial Services AG remains "stable". Moody's affirmed its P-2 (short term) and A3 (long term) ratings for Volkswagen AG in July 2023 and for Volkswagen Financial Services AG in October 2023. The outlook remains "stable". This confirmation of the ratings and outlooks reflects the overall stability of the Volkswagen Group during the current transition phase to electromobility.

Volkswagen Financial Services AG

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2023

Volkswagen Financial Services AG reported a result from ordinary activities after tax amounting to a loss of €–323 million for fiscal year 2023.

Sales revenue amounted to €766 (759) million, with cost of sales coming to €751 (750) million. These items include the income from cost allocations to Group companies and the expenses related to personnel and administrative costs.

Other operating income came to €122 (26) million, with other operating expenses amounting to €54 (83) million. Other operating income included income from the reversal of provisions amounting to €57 million and income from reversals of impairment losses on assets applied in prior years of €56 million. Other operating expenses included issue and rating costs of €1 million.

Net investment income improved by €652 million to give a net income of €179 (–473) million. This is due to a combination of lower expenses from the transfer and absorption of losses amounting to €533 (1,083) million and higher income from equity investments amounting to €302 (107) million. The expenses from the transfer and absorption of losses stem largely from the transfer and absorption of the loss of €524 (1,077) million made by Volkswagen Leasing GmbH. Income under profit-and-loss transfer agreements increased to €410 (503) million after VTI GmbH managed to improve its earnings by €127 million to €226 (353) million. Income from equity investments increased by €195 million to €302 million as a result of dividends distributed by Volkswagen Leasing S.A. de C.V., Mexico, (€127 million) and Volkswagen Financial Services Australia Pty. Ltd. (€54 million).

The loss after tax of €323 million will be absorbed by Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

Long-term financial assets increased by 56.6% to €12,440 million, primarily as a result of the €4,344 million increase in shares in affiliated companies stemming from the increase by Volkswagen Financial Services AG of the capital of Volkswagen Leasing GmbH (€3,000 million) and Volkswagen Finance Europe B.V., Netherlands (€1,326 million). Reported equity investments increased by €35 million. Write-downs of €193 million and reversals of write-downs amounting to €18 million were recognized in respect of shares in affiliated companies and equity investments.

Receivables from affiliated companies fell by €3,600 million (–24.1%). This reduction was mainly attributable to time deposits. Loans to and receivables from other investees or investors increased by €1,138 million (18.3%) and were also mainly attributable to time deposits.

The increase in provisions of €6 million (0.6%) reflects slightly higher provisions for pensions.

Bonds declined year-on-year by €2,450 million, or 22.0%, to €8,700 million.

Liabilities to banks in connection with borrower's note loans increased by €572 million, or 34.3%, to €2,242 million. Liabilities to affiliated companies increased by €777 million (7.3%).

The equity ratio was 22.7 (11.5)%. The year-on-year increase resulted primarily from the injection of capital in the amount of €3.8 billion by Volkswagen AG in the reporting year. Total assets at the end of the reporting period amounted to €31,421 million.

MANAGEMENT, AND OPPORTUNITIES AND RISKS RELATING TO THE BUSINESS PERFORMANCE OF VOLKSWAGEN FINANCIAL SERVICES AG

Volkswagen Financial Services AG operates almost exclusively as a holding company and is integrated into the internal management concept of the Volkswagen Financial Services Group. It is thus subject to the same key performance indicators and the same opportunities and risks as the Volkswagen Financial Services Group. The legal requirements governing the management of Volkswagen Financial Services AG as a legal entity are observed using key performance indicators such as net assets, net income and liquidity. This internal management concept and these opportunities and risks are described in the section on the fundamental information about the Volkswagen Financial Services Group as well as in the report on opportunities and risks in this management report.

INCOME STATEMENT OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, FOR FISCAL YEAR 2023

€ million	2023	2022
Sales	766	759
Cost of sales	–751	–750
Gross profit on sales	**15**	**9**
General and administrative expenses	–273	–274
Other operating income	122	26
Other operating expenses	–54	–83
Net income from long-term equity investments	179	–473
of which income under profit and loss transfer agreements	410	503
of which expenses from absorption of losses	–533	–1,083
Financial result	**–303**	**–713**
of which income from affiliated companies	–	166
of which expenses from affiliated companies	–	–112
Income tax expense	–9	–188
Profit after tax	**–323**	**–1,697**
Profits transferred under a profit-and-loss transfer agreement	–	–
Losses absorbed under a profit-and-loss transfer agreement	323	1,697
Net income	–	–
Profit brought forward	2	2
Net retained profits	**2**	**2**

BALANCE SHEET OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS OF DECEMBER 31, 2023

€ million	31.12.2023	31.12.2022
Assets		
A. Fixed assets		
I. Financial assets	12,440	7,942
	12,440	**7,942**
B. Current assets		
I. Receivables and other assets	18,959	21,262
II. Cash-in-hand and bank balances	3	1
	18,962	**21,263**
C. Prepaid expenses	**19**	**25**
Total assets	**31,421**	**29,230**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441	441
II. Capital reserves	6,589	2,816
III. Retained earnings	100	100
IV. Net retained profits	2	2
	7,132	**3,359**
B. Provisions	**904**	**898**
C. Liabilities	**23,384**	**24,972**
D. Deferred income	**1**	**1**
Total equity and liabilities	**31,421**	**29,230**

Report on Opportunities and Risks

The active management of opportunities and risks is a fundamental element of the successful business model used by Volkswagen Financial Services AG.

OPPORTUNITIES AND RISKS

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

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

Specific overarching opportunities and risks associated with the restructuring program are described above in the section entitled “Fundamental Information about the Group”.

Macroeconomic opportunities and risks

In a challenging market environment, the Board of Management of Volkswagen Financial Services AG anticipates that deliveries to customers by the Volkswagen Group in 2024 will increase by up to 3% compared to the previous year. Volkswagen Financial Services AG supports sales of vehicles by supplying financial services products.

Global economic growth will depend to a large extent on how inflation develops in the various currency areas. Although overall inflation fell back as compared with recent years, core inflation remained above the target range defined by the central banks. Key interest rates are believed either to have peaked already or to be close to peaking in most economies, particularly the USA and the eurozone. Were core inflation to remain high, however, this could lead to a further tightening of monetary policy and economic growth could weaken in some regions as a result.

Global economic growth could also be further dampened by geopolitical tensions, should these give rise to shortages and delays in global supply chains, for example, or help to drive a renewed upward trend in inflation. This, in turn, could also impact negatively on both consumption and the investment climate.

The macroeconomic environment could, however, also create opportunities for Volkswagen Financial Services AG if inflation takes a more positive path than anticipated, for example, or if geopolitical tensions ease and economic growth proves stronger as a result.

Strategic opportunities and risks

In addition to maintaining its international focus by tapping into new markets, Volkswagen Financial Services AG believes that developing innovative products that are tailored to customers’ changing mobility requirements offers additional opportunities. Growth areas such as mobility products and service offerings are being systematically developed and expanded. Further opportunities may be created by launching established products in new markets.

Volkswagen Financial Services AG expects to be presented with opportunities arising from the digitalization of its business. The aim is to make all key products also available online around the world and to expand the Company's role as the Volkswagen Group's central mobility platform provider. This will create opportunities to tap into new customer groups, develop new sales channels and open up new ways to boost efficiency and grow revenue.

By expanding digital sales channels, Volkswagen Financial Services AG is promoting direct sales to complement its dealership business. Changing customer needs are thus addressed and the competitive position of Volkswagen Financial Services AG reinforced.

Opportunities from credit risk

Opportunities may arise in connection with credit risk if the losses actually incurred on lending transactions or in the lease business turn out to be lower than the prior calculations of expected loss and the associated provisions recognized on the basis thereof. Particularly in those countries in which we take a conservative approach to risk due to the uncertain economic situation, the realized losses may be lower than the expected losses if the economy stabilizes and borrowers' credit ratings improve as a result.

Opportunities from residual value risk

When vehicles are remarketed, Volkswagen Financial Services AG may be presented with the opportunity to achieve a price that is higher than the calculated residual value if prices actually achieved from remarketing rise more than anticipated because of an increase in demand for used vehicles or other factors causing supply bottlenecks for new vehicles.

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

The internal control system (ICS) that is relevant to the accounting system and used for the consolidated and annual financial statements is the sum of all principles, procedures and activities aimed at ensuring the effectiveness and propriety of the financial reporting and compliance with the relevant legal requirements. The internal risk management system as regards the accounting process relates to the risk of misstatement in the bookkeeping at a Company and Group level, as well as in external financial reporting. The sections below describe the principal elements of the systems as they relate to the financial reporting process of Volkswagen Financial Services AG.

> The Board of Management of Volkswagen Financial Services AG is the governing body with responsibility for the executive management of the business. In this role, the Board has set up Accounting, Treasury Controlling, Risk Management, Controlling and Compliance & Integrity divisions, each with clearly separated functions and clearly assigned areas of responsibility and authority, to ensure that accounting and financial reporting processes are carried out properly.
> Group-wide rules and accounting regulations have been put in place to ensure a standardized, proper and continuous financial reporting process for all domestic and foreign entities included in the consolidated financial statements in accordance with the International Financial Reporting Standards. The rules and regulations define which companies are included in the consolidation along with the mandatory use of a standardized, comprehensive set of forms for mapping and processing intragroup transactions.
> Analyses and any adjustments to single-entity financial statements prepared by the consolidated entities are complemented by the audited and approved financial statements at Group level, taking into account specific control activities aimed at ensuring that the consolidated financial reporting

provides a true and fair view. The clear definition of areas of responsibility accompanied by various monitoring and review mechanisms ensures that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.
> These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT processing controls account for a significant proportion of the integrated process activities alongside manual process controls, such as double-checking by a second person.
> The Internal Audit department is a key component of the monitoring and control system. It 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 Board of Management of Volkswagen Financial Services AG.

In summary, the existing internal monitoring and control system of the Volkswagen Financial Services AG Group is intended to ensure that the financial position of the individual entities and of the Volkswagen Financial Services AG Group as of the reporting date December 31, 2023 has been based on information that is reliable and has been properly recognized. No material changes were made to the internal monitoring and control system of Volkswagen Financial Services AG after the reporting date.

No material changes to the aforementioned components of the internal control and risk management system that relate to financial reporting are expected in connection with the restructuring program.

ORGANIZATIONAL STRUCTURE OF THE RISK MANAGEMENT SYSTEM

At Volkswagen Financial Services AG, risk is defined as the danger of loss or damage that could occur if an expected future development turns out to be less favorable than planned. Volkswagen Financial Services AG, including its subsidiaries and equity investments, is exposed to a large number of risks typical for the financial services sector within the scope of its primary operating activities. It accepts these risks in a responsible manner to ensure that it can exploit any resulting market opportunities.

The organizational structure of the Volkswagen Group’s Risk Management System/Internal Control System is based on the internationally recognized COSO Enterprise Risk Management Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management (COSO-ERM). The structure of the Risk Management System/Internal Control System in accordance with the COSO ERM Integrated Framework also ensures that potential areas of risk in the Volkswagen Financial Services AG Group are comprehensively covered by the risk management processes. Risk is managed using a risk management system based on a three-lines model. This structure functions as a monitoring and control system for risk. The system comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risks. The individual elements are tightly focused on the activities of the individual divisions. This structure makes it possible to identify at an early stage any trends that could represent a risk to the business as a going concern so that appropriate corrective action can then be initiated.

Appropriate procedures are in place to ensure that risk management is adequate. The relevant risk owner for individual risk categories continuously monitors and manages risks, which are pooled and reported to the Board of Management by Risk Management. The individual elements in the system are regularly verified on a risk-oriented basis by Internal Audit.

The Chief Financial Officer is responsible within Volkswagen Financial Services AG for overall risk monitoring. In this role, he submits regular reports to the Supervisory Board and Board of Management on the overall risk position of Volkswagen Financial Services AG.

An important feature of the risk management system at Volkswagen Financial Services AG is the clear, unequivocal separation of tasks and areas of responsibility, both organizationally and in terms of personnel, between the holding company (Risk Management division) and the markets (local risk management) to ensure that the system is fully functioning at all times and regardless of the personnel involved.

One of the functions of the Risk Management division is to provide frameworks for the organization of the Risk Management System. This function includes drawing up and coordinating risk policy guidelines (to be carried out by the risk owner) and developing and maintaining methodologies and processes relevant to risk management, as well as issuing internal framework standards for the procedures to be used around the world.

Risk Management, which is a neutral and independent division, reports directly to the Chief Financial Officer and thus to the full Board of Management of Volkswagen Financial Services AG. Local risk management ensures that the requirements applicable to the international subsidiaries are implemented and complied with. On-site local risk management is responsible for the detailed design of models and procedures for measuring and managing risks, and carries out local implementation of processes and technical features.

No material changes to the aforementioned fundamental elements of the risk management system of Volkswagen Financial Services AG and the future Volkswagen Financial Services Overseas AG are expected as a result of the changes introduced under the aforementioned restructuring program.

BUSINESS STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Board of Management. As part of this overall responsibility, the Board of Management has introduced a strategy process and drawn up a business strategy.

The MOBILITY2030 business strategy sets out the fundamental views of the Board of Management of Volkswagen Financial Services AG on key matters relating to business policy. It includes the objectives for each major business activity and the strategic areas for action to achieve the relevant objectives.

The main risk management goals and measures for each category of risk provide direction for the business policy and risk appetite.

The focus of the strategy, which is adopted and communicated by the Board of Management and applies throughout the Group, is based on risk appetite and the steering approach for each risk category and risk process. Risk appetite and the steering approach are defined on a regular basis for all categories of risk that have been deemed material by the Board of Management. They have an impact on the extent to which risk management measures are implemented by the risk owner for the individual risk categories. Further details and specifics of the individual risk categories are set out in operational requirements as part of the planning round in accordance with management requirements. The attainment of goals is reviewed on a regular basis and any variances are analyzed to establish the causes.

RISK-BEARING CAPACITY

Volkswagen Financial Services AG has established a system for determining risk-bearing capacity, in which risk is compared with the risk-taking potential. The outcome of an analysis of substantial risks that could jeopardize the continued existence of the business as a going concern forms the basis for inclusion in the calculation of risk-bearing capacity. The Company is deemed to have maintained its risk-bearing capacity if, as a minimum, the substantial risk categories are covered by the risk-taking potential. Risks are quantified using methodologies that reflect an unexpected loss within a certain period of time.

In accordance with the risk tolerance level laid down by the Board of Management of Volkswagen Financial Services AG, only a portion of the risk-taking potential is specified as the maximum risk that can be assumed (overall risk limit).

PRODUCT TRANSPARENCY AND NEW MARKETS PROCESS

Before launching new financial services products or commencing activities in new markets, Volkswagen Financial Services AG carries out processes – with the involvement of departments such as Controlling and Reporting – to ensure that the Company is aware of the requirements and effects relating to the new product or market concerned and that an informed decision can then be made on this basis at an appropriate level of organizational authority.

RISK CONCENTRATIONS

Volkswagen Financial Services AG is a captive financial services provider in the automotive sector. The business model, which focuses on promoting vehicle sales for the various Volkswagen Group brands, results in concentrations of risk, which can take a variety of 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)
- Residual values subject to risk are limited to a small number of vehicle segments or models (residual value concentrations), or
- Volkswagen Financial Services AG's income is generated from just a few sources (income concentrations).

One of the objectives of Volkswagen Financial Services AG's risk policy is to reduce such concentrations by means of broad diversification.

Counterparty concentrations from customer financing are only of minor significance because of the large proportion of business accounted for by retail lending. In terms of regional distribution, the Company aims for broadly based diversification of business across regions.

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.

Likewise, a captive cannot avoid collateral concentrations because the vehicle is the predominant collateral asset by virtue of the business model. A broad vehicle diversification means that there is no residual value concentration. Income concentration arises from the very nature of the business model. The special constellation in which the Company serves to promote Volkswagen Group sales results in certain dependencies that directly affect income growth.

SUBSTANTIAL RISK CATEGORIES AND RISK REPORTING

Based on the annual validation of the risk inventory the following risk categories have been assessed as material to Volkswagen Financial Services AG: credit risk, residual value risk, shareholder risk, liquidity risk, interest rate risk, risks of insurance companies, operational risk, strategic risk and reputational risk. The product transparency process, business continuity management, the procurement process, project risks and compliance and integrity risks also receive particular attention as risk processes. The risk categories and the processes involving material risk provide the basis for the earnings risk, which is transparently presented in the planning and management process. Country risk is essentially covered by shareholder risk. Cross-border finance and intercompany loans are of only minor significance for Volkswagen Financial Services AG.

Risks are regularly reported to the Board of Management in the form of a management report. This includes key financial performance indicators and key risk data for selected substantial risk categories. The presentation of aggregated quantitative data for the Volkswagen Financial Services AG Group is accompanied by a presentation of the changes by market.

Ad hoc reports at risk-category level are generated as needed to supplement the system of regular reporting. These reports are used to ensure that the Board of Management is informed of any impending negative trends.

OVERVIEW OF SUBSTANTIAL RISK CATEGORIES

Financial risks	Nonfinancial risks
Credit risk	Operational risk
Residual value risk	Strategic risk
Shareholder risk	Reputational risk
Liquidity risk	
Interest rate risk	
Risks of insurance companies	

A validation of the substantial risk categories will be completed in the first half of 2024 within the aforementioned restructuring program to account for possible changes in the risk landscape. The substantial risks identified in the risk inventory in the next fiscal year may be different from those identified for financial year 2023 due to the significant carve-outs to be implemented in 2024.

FINANCIAL RISKS

Credit risk

Credit risk describes the risk of losses due to defaults in customer transactions, specifically by 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.

The aim of systematic credit risk monitoring by the international subsidiaries is to identify potential borrower or lessee insolvencies at an early stage, initiate any corrective action to prevent a potential default in good time and anticipate possible losses by recognizing appropriate write-downs or provisions. Significant borrowers or borrower units are also monitored by Risk Management.

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.

Lending or credit decisions at Volkswagen Financial Services AG are made primarily on the basis of the borrower credit check. In the local entities, 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 guidelines outlines the requirements for developing and maintaining the rating models. Another set of guidelines specifies the parameters for developing, using and validating the scoring systems in the retail business.

Rating systems for corporate customers
Volkswagen Financial Services AG uses rating systems to assess the creditworthiness 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, market and industry environment, 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 creditworthiness. 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. The models in use are largely centrally validated and monitored on a regular basis, and are adjusted if required.

Scoring systems in the retail business
Scoring systems are used in the processes for credit approval and for evaluating the existing portfolio to determine the creditworthiness of the retail customers. 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 simplified estimation procedures are used, depending on portfolio size and the risk inherent in the portfolio. The models and systems in use are regularly monitored, validated, adjusted (where required) and refined at local level.

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. Local collateral guidelines with specific values take these rules into account. The values in the collateral policies are based on historical data and experience accumulated by experts over many years. As the operating activities of Volkswagen Financial Services AG are focused on retail financing, dealer financing and the leasing of vehicles, the vehicles themselves are hugely important as collateral assets. For this reason, trends in the market values of vehicles are locally monitored and analyzed; the collateral values based on this data are adjusted, where required.

Provisions
The calculation of provisions is based on the expected loss model in accordance with IFRS 9. Provisions are determined as a function of the results of the rating and scoring processes applied.

Risk Management sets fundamental parameters in the form of golden rules and guidelines 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). Credit risk is also managed using reporting limits determined by Volkswagen Financial Services AG and specified separately for each individual company. Regular reporting and the yearly planning process are used to monitor credit risk at portfolio level.

CHANGES IN CREDIT RISK

Credit risk[1]	Dec. 31, 2023	Dec. 31, 2022
Amount utilized (€ million)	126,907	116,861
Default rate in %	1.9	1.4
Impairment ratio in %	1.7	1.7

1 Including joint ventures (full inclusion) and subsidiaries recognized at cost.

The rating and scoring processes on which the impairment ratio is based include default probabilities of future events. As of the reporting date, the provisions exceeded the actual losses incurred.

Residual value risk

Residual value risk arises from the fact that the actual market value for a lease asset at the time of remarketing could be lower than the residual value calculated at the inception of the lease. On the other hand, there is an opportunity in that the remarketing could generate proceeds greater than the calculated residual value.

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 Volkswagen Financial Services AG (contractually determined). An indirect residual value risk arises if the residual value risk has been transferred to a third party (such as a dealer) on the basis of a residual value guarantee. In such cases, the initial risk is a counterparty default risk in respect of the residual value guarantor. If the residual value guarantor defaults, the residual value risk reverts to Volkswagen Financial Services AG.

If a residual value risk materializes, it may be necessary to recognize an impairment loss or a loss on disposal of the asset concerned. This could have a negative impact on financial performance. 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.

Direct residual value risk is quantified using expected loss, which equates to the difference between the latest forecast as per the remeasurement date of the remarketing proceeds on expiry of the contract and the contractual residual value specified for each vehicle. Other parameters such as remarketing costs are also taken into account in the calculation. The expected loss for the portfolio 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 in 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 risk exposure. The results from the quantification of the expected loss and risk exposure are considered in the assessment of the risk situation.

In the case of indirect residual value risk, the risk arising from the determination of residual value is generally quantified using a methodology similar to that applied to direct residual value risk, but the methodology also takes into account further risk parameters (dealer default and other factors specific to this risk category).

CHANGES IN DIRECT RESIDUAL VALUE RISK

Direct residual value risk[1]	Dec. 31, 2023	Dec. 31, 2022
Number of contracts	2,638,353	2,570,602
Guaranteed residual values (€ million)	44,496	39,306
Risk exposure in %	4.9	1.7

1 Including joint ventures (full inclusion) and subsidiaries recognized at cost

As part of the management of residual value risk, Volkswagen Financial Services AG has firstly specified rules for managing residual value. The processes for this include the calculation of the risk exposures of forward-looking residual value forecasts. Secondly, it has established uniform requirements for the Group, which reflect the accounting standards governing the recognition of provisions for credit risks. On the basis of this mandatory outer framework, the divisions/markets monitor and control their business policy activities, planning and decisions in compliance with their assigned authority. Residual value risk is monitored at portfolio level by means of regular reporting and the annual planning process.

Shareholder risk

Shareholder risk refers to the risk that equity investments made by Volkswagen Financial Services AG could potentially lead to losses in connection with capital provided (as a result of lack of dividends, write-downs to going-concern value, losses on disposal or decrease in hidden reserves), profit-and-loss transfer agreements (loss absorption) or liability risks (for example, in the case of letters of comfort).

In principle, Volkswagen Financial Services AG only makes such equity investments to help it achieve its corporate objectives. The investments must therefore support its own operating activities and are intended to be held on a long-term basis.

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 of Volkswagen Financial Services AG would be adversely affected by write-downs recognized in profit or loss.

Equity investments are integrated into the annual strategy and planning process of Volkswagen Financial Services AG. 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 business units themselves.

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. If liquidity risk were to materialize, higher costs and lower selling prices for assets could lead to a negative impact on financial performance. The consequence of liquidity risk in the worst-case scenario is insolvency caused by illiquidity. Liquidity risk management ensures that this situation does not arise. The analysis and management of liquidity risk at the entities belonging to Volkswagen Financial Services AG are outsourced to the Treasury division of Volkswagen Bank GmbH.

The primary objective of liquidity management is to safeguard the ability of the Company to meet its payment obligations at all times. This can be guaranteed through the use of drawdowns under credit facilities available with third-party banks and with Volkswagen AG. To measure liquidity risk, Volkswagen Financial Services AG has set up a system of limits throughout the Group. This system restricts funding-related cash outflows over a time horizon of 12 months. A broad diversification of funding maturities is therefore necessary to ensure compliance with the limits. To manage liquidity, the Operational Liquidity Committee (OLC) meets at least every four weeks to monitor the current liquidity situation and the range of liquidity coverage. It decides on funding measures and prepares any necessary decisions for the decision-makers. Risk Management communicates the main risk management information and relevant early warning indicators relating to liquidity risk. As of December 31, 2023, 68.9% of the limit was utilized.

Interest rate risk

Interest rate risk refers to potential losses that could arise as a result of changes in market interest rates. It occurs because of interest rate mismatches between asset and liability items in a portfolio or on the balance sheet. Volkswagen Financial Services AG 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. Interest rate risk is managed on the basis of limits using interest rate derivatives as part of the risk strategy defined by the Board of Management of Volkswagen Financial Services AG. Monitoring is performed by Treasury on the basis of a service agreement with Volkswagen Bank GmbH. A report on interest rate risk at Volkswagen Financial Services AG is submitted to the Board of Management each quarter. As of December 31, 2023, 65.1% of the limit was utilized.

Risks of insurance companies

The mission of the insurance companies belonging to Volkswagen Financial Services AG is to support sales of the Volkswagen Group’s products. This is achieved by operating various primary insurance business models and inward reinsurance.

Underwriting risk is one of the key types of risks for insurance companies. Within Volkswagen Financial Services AG, this risk arises in the subsidiaries Volkswagen Versicherung AG, Volkswagen Insurance Company DAC and Volkswagen Reinsurance Company DAC. It arises if the cash flows that are material to the insurance company differ from their expected value. One source of this risk is the uncertainty as to whether the total amount of actual payments for claims matches the total amount of expected payments for claims. A key feature of the risk position faced by insurance companies is that premiums are collected at the beginning of an insurance period but the associated contracted benefits are of a random nature. Depending on the insurance business operated by the company concerned, underwriting risk can be subdivided in accordance with the regulatory requirements into the risks associated with three different classes of insurance: non-life underwriting risk, life underwriting risk and health underwriting risk.

The purpose of managing underwriting risk is not to avert such risk in its entirety but to manage the risk systematically in accordance with the objectives. In principle, risks are not accepted unless they can be calculated and borne by the company.

The materiality of underwriting risks is assessed through a qualitative evaluation of the risks based on the magnitude of the potential loss and the associated probability that the risks will materialize. The risks are quantified using the standard formula specified in Solvency II. The risks are managed by the independent risk control function in each insurance company. The results are then reported to the relevant units.

The management of risk at the insurance companies includes, in addition to underwriting risk, other risks that are not subsumed under the risk categories described above and below because of regulatory definitions that differ to some extent. Depending on the insurance business involved, these risks may include the following:

> Counterparty default risk
> Market risk
> Inflation risk
> Liquidity risk
> Miscellaneous non-quantifiable risks

The risks of insurance companies in the Volkswagen Financial Services AG Group and the documented overarching operational risk therefore represent the entire risk profile of the insurance companies.

NONFINANCIAL RISKS

Operational risk

Operational risk (OpR) is defined as the risk of loss that could result from inadequate or failed internal processes (process risk), people (HR risk), systems (technological risk), projects (project risk), legal positions or contracts (legal risk), or from external events (catastrophe risk).

The objective of operational risk management is to present operational risks transparently and initiate precautionary and corrective measures with a view to 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 net assets, financial position or financial performance, depending on the amount of the loss. Processes and responsibilities are set out in the operational risk manual.

The annual risk self-assessment is used to determine a forward-looking monetary assessment of potential risks. A standardized risk questionnaire is provided for this purpose. The local experts use these questionnaires to determine and record the potential level of risk and the probability that a risk could materialize. The central loss database is used to ensure that information about monetary operational losses is collected in house on an ongoing basis and the relevant data is stored. A standardized loss form is made available to the local experts to aid this process. The experts use this form to determine and record the relevant data, including the amount and cause of the loss.

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. To this end, local management decides whether future risks or losses are to be ruled out (risk prevention), mitigated (risk mitigation), consciously accepted (risk acceptance) or transferred to third parties (risk transfer).

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 the integration of all relevant operational risk units.

Details of operational risk are reported regularly as part of the financial analysis report to the Board of Management. Ad hoc reports are issued in addition to the ongoing reports if the criteria specified for these are met.

Actual losses from operational risk amounted to €100.5 (249.6) million in the year under review.

Strategic risk

Strategic risk (also referred to as the risk from general business activities) is the risk of a direct or indirect loss arising from strategic decisions that are flawed or based on false assumptions. Strategic risk also includes all risks that result from the integration/reorganization of technical systems, personnel or corporate culture (integration/reorganization risk). These risks may be caused by fundamental decisions about the structure of the business made by the management in relation to the positioning of the Company in the market.

The objective of Volkswagen Financial Services AG is to manage its acceptance of strategic risk enabling it to systematically leverage earnings potential. In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern.

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

SELECTED OTHER RISKS AND RISK PROCESSES

Compliance and integrity risks

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

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

The separate category of integrity risk encompasses all risks that arise from a failure of employees to conduct themselves in an ethically acceptable manner or act in accordance with the corporate principles and values of Volkswagen Financial Services AG, thereby presenting an obstacle to the long-term success of the business.

Volkswagen Financial Services AG 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, the compliance function is committed to ensuring compliance with laws, other legal requirements, internal rules and the organization's own stated values and to creating and fostering 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, the 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. Compliance risk and integrity risk are accordingly treated not as separate risk categories, but rather as an inherent risk process of relevance to all risk categories.

The role of the Chief Compliance & Integrity Officer within the Compliance and Integrity function is to work toward implementing effective procedures to ensure compliance with legal rules and requirements, and toward establishing appropriate controls. This is carried out mainly by stipulating binding requirements at Group level. In turn, these then provide a framework for specifying detailed requirements for which local compliance & integrity officers are responsible. Local companies are independently responsible for implementing the centrally defined requirements. Responsibility for complying with any further rules and ethical principles lies with the company concerned. 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 Chief Compliance & Integrity Officer.

Overall, the emergence of a compliance and integrity culture is being nurtured by constantly promoting the Volkswagen Group's Code of Conduct and by raising employees' risk-oriented awareness (for example tone from the top, tone at the middle, face-to-face training, e-learning programs, other media-based activities). The compliance and integrity culture is also being consolidated by communication measures, including the distribution of guidelines and other information media, as well as employee participation in compliance and integrity programs.

The Chief Compliance & Integrity Officer supports and advises the Board of Management in matters relating to the avoidance of compliance and integrity risks and reports to the Board at regular intervals. For its part, the Board of Management has entered into its own voluntary undertaking regarding compliance and integrity. This ensures that compliance and integrity aspects will also be discussed and taken into account in all decisions made by the Board of Management.

Environmental, social and governance (ESG) risks

The increasing emphasis placed on sustainability and the need to manage ESG risks are changing the financial system.

Volkswagen Financial Services AG regards ESG matters as a business responsibility and critical strategic success factor for a captive such as itself operating in the automotive and personal mobility spheres. It actively chooses not to assess ESG risks as a separate category of significant risk in the risk inventory process, however, because their highly heterogeneous nature means they have potential impacts across a large number of risk categories.

Volkswagen Financial Services AG continues to work intensively on ESG matters, the various aspects of which affect all areas of our business model, and has a separate Governance responsibility within the Board of Management's Finance function under the MOBILITY2030 strategy.

Examples of Volkswagen Financial Services AG's activities under the environmental dimension of ESG include its longstanding involvement in the restoration of wetlands as part of a cooperation agreement with German conservation charity NABU. Financing options for the charging infrastructure and e-bicycles and for energy-efficient construction and renovation are also being expanded consistently.

Within the social dimension, Volkswagen Financial Services AG supports a number of social projects through the "Unsere Kinder in Braunschweig" (Our Children in Braunschweig) foundation. Established in 2008, the foundation has delivered numerous projects for the benefit of children in the areas of education, physical activity, nutrition and music. It marked its 15th anniversary with a series of special initiatives, one of which saw around 300 boys and girls from three primary schools experience an exciting two-week project with Braunschweig-based circus Dobbelino. Volkswagen Financial Services AG is also very involved in social projects outside of its own foundation and regularly works with other foundations such as Stiftung Neuerkerode, with which we have been cooperating to support the provision of daily work and educational opportunities for people with special needs ("Tagesförderung"), supported-living groups in Neuerkerode (WUB) and the "Herzenswünsche" campaign to make 130 wishes come true for patients and residents of the Bethanien organization's St. Vinzenz senior citizens' center and care home.

SUMMARY

Vehicle remarketing performance returned to more normal levels in fiscal year 2023 after an extraordinarily positive year in 2022. Residual value risk nevertheless remains low by historical standards and credit, interest rate and liquidity risk are still stable.

Report on Expected Developments

The global economy is expected to grow in 2024, albeit at a slower pace. Global demand for passenger cars will probably vary from region to region and increase slightly year-on-year. With our broad product range and services, we believe we are well prepared for the future challenges in the mobility business.

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

Effects from the restructuring program mentioned above are considered insofar as forecasts are provided for both Volkswagen Financial Services AG as a whole and for continuing operation (excluding the Russian subsidiaries for forecasting purposes) and the business of the future Volkswagen Financial Services Overseas AG respectively.

The 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 2024 compared with 2023, albeit at a slower pace. The persistently high inflation in major economic regions and the resulting restrictive monetary policy measures taken by central banks are expected to continue to dampen consumer demand. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, continuing geopolitical tensions and conflicts are weighing on growth prospects; risks are associated in particular with the Russia-Ukraine conflict and the confrontations in the Middle East. We assume that both the advanced economies and the emerging markets will show positive momentum on average, but with below-average growth in gross domestic product (GDP).

We also expect the global economy to recover in 2025 and continue a path of stable growth until 2028.

Europe/Other Markets

In Western Europe, we expect a comparatively low rate of economic growth in 2024. The relatively high overall level of inflation, albeit projected to taper off further as the year goes on, poses a major challenge for consumers and companies alike, as do the relatively high interest rates. It is therefore possible that the European Central Bank (ECB) might make the first cuts in key rates of interest as early as 2024 to support the eurozone economy.

We likewise anticipate a higher growth rate compared with the prior year in Central Europe in 2024 with continuing but less dynamic price increases. Meanwhile, economic output in Eastern Europe should recover further following the heavy slump in 2022 as a result of the Russia Ukraine conflict and the relatively strong increase in 2023.

For Turkey we expect positive, albeit slower GDP growth than in the reporting year given high inflation and a weak local currency. The South African economy will probably be characterized by political uncertainty and social tensions again in 2024 resulting from high unemployment, among other factors. Growth is expected to be higher than in the previous year but remain at a low level.

Germany

We expect only low growth in GDP in Germany in 2024. Meanwhile, averaged over the year, we anticipate that inflation will fall further but remain relatively high. The labor market situation is likely to deteriorate.

North America

We anticipate subdued economic growth in the USA in 2024, accompanied by a worsening labor market situation. Similarly to the ECB, it is possible that the US Federal Reserve might start cutting its key interest rate as early as 2024. Further inflationary trends will play a decisive role in possible adjustments to the key rate, as will developments in the labor market and in the general economic situation. Economic growth in Canada is likely to be at a relatively low level, while economic output in Mexico is expected to expand at a somewhat faster pace by comparison.

South America

In all probability, the Brazilian economy will record a slightly positive rate of growth in 2024. In Argentina, economic output is likely to deteriorate further with very high and rising inflation levels and depreciation of the local currency.

Asia-Pacific

The Chinese economy is expected to grow at a relatively high level in 2024, albeit at a somewhat lower rate than in the reporting year. We likewise expect a relatively high rate of positive GDP growth for the Indian economy in 2024. Japan is expected to post only low growth in economic output.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We assume that automotive financial services will prove highly important to global vehicle sales in 2024. The continuing shortages of intermediates and commodities may generate uncertainty, exacerbated by the consequences of the Russia-Ukraine conflict and the confrontations in the Middle East. Furthermore, the increased interest rates could 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 established automotive financial services markets will probably see a continuation of the trend towards achieving mobility at the lowest possible total cost. The shift from financing to lease contracts that has begun in the European financial services business with individual customers will continue. 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. Additionally, we expect that demand will increase for new forms of mobility, such as rental and car subscription services, and for integrated mobility services, for example parking, refueling and charging. 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 become increasingly important in the promotion of this type of business. We estimate that this trend will also persist in the years 2025 to 2028.

In the mid-sized and heavy commercial vehicles category, we are seeing rising demand for financial services products in the emerging markets. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In the developed markets, we expect to see increased demand for telematics services and services aimed at reducing total cost of ownership in 2024. This trend is also expected to persist in the period 2025 to 2028.

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. Crisis-related disruption to the global supply chain and the resulting impact on vehicle availability may weigh on the volume of new registrations. Uncertainty may also arise from shortages of intermediates and commodities. These may be further exacerbated by the consequences of the Russia-Ukraine conflict and the confrontations in the Middle East and may, in particular, lead to rising prices for materials and a declining availability of energy.

We predict that trends in the markets for passenger cars in the individual regions will be mixed but predominantly positive in 2024. Overall, the global volume of new car sales is expected to be slightly higher than in the previous year. We are forecasting growing demand for passenger cars worldwide in the period from 2025 to 2028.

Trends in the markets for light commercial vehicles in the individual regions will be mixed; on the whole, we expect the sales volume for 2024 to be slightly above the previous year's figure. For the years 2025 to 2028, we expect demand for light commercial vehicles to increase globally.

Europe/Other Markets

For 2024, we anticipate that the volume of new passenger car registrations in Western Europe will be slightly higher than that recorded in the reporting year. Limited vehicle availability as a result of the shortages of intermediates and commodities may continue to weigh on the volume of new registrations. For the major individual markets of France, the United Kingdom, Italy and Spain, we expect growth in 2024 to varying degrees between slight and noticeable.

For light commercial vehicles, we expect the volume of new registrations in Western Europe in 2024 to be noticeably 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 expect a noticeable to significant increase in France and the United Kingdom. In Italy, we anticipate that registrations will fall slightly, whereas we expect slight growth in Spain.

Sales of passenger cars in 2024 are expected to significantly exceed the prior-year figures overall in markets in Central and Eastern Europe – subject to the further development of the Russia-Ukraine conflict. We expect a mixed development in the major markets of this region.

Subject to the further development of the Russia-Ukraine conflict, registrations of light commercial vehicles in the markets of Central and Eastern Europe are expected to fall slightly short of the prior-year figures in 2024.

The volume of new registrations for passenger cars in Turkey in 2024 is projected to fall considerably short of the previous year's high level. In South Africa, the market volume is likely to be up noticeably year-on-year.

The volume of new registrations for light commercial vehicles in 2024 is expected to fall very sharply in Turkey but to be noticeably above the prior-year figure in South Africa.

Germany

In the German passenger car market, we expect the volume of new registrations in 2024 to be slightly up on the prior-year level.

We anticipate that the number of registrations of light commercial vehicles in 2024 will also be slightly up on the previous year's figure.

North America

The sales volume in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America overall and in the USA in 2024 is forecast to be slightly higher than the level seen in the previous year. Demand will probably remain highest for models in the SUV and pickup segments. New registrations of all-electric vehicles are also expected to increase strongly. In Canada, too, a slight increase is expected in the number of new registrations compared to the previous year. For Mexico, we also expect a slight increase in new registrations compared with the reporting year.

South America

Owing to their dependence on demand for raw materials worldwide, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. We anticipate a slight increase overall in new registrations in the South American markets in 2024 compared with the previous year. The market volume in Brazil is expected to increase noticeably compared with 2023. We anticipate that the volume of new registrations in Argentina will be slightly higher year-on-year.

Asia-Pacific

The passenger car markets in the Asia-Pacific region are expected to be slightly up on the prior-year level in 2024. We estimate that the market volume in China will also be slightly higher than the comparative figure for 2023. Plug-in hybrid models with long ranges are likely to be increasingly in demand. A weaker than expected economic recovery or worsening geopolitical tensions may have adverse effects. In particular, the trade dispute between China and the United States is likely to continue to weigh on business and consumer confidence, as long as there is no resolution in sight. We project that the Indian and Japanese markets will remain at the prior-year level.

The volume of new registrations for light commercial vehicles in the Asia-Pacific region in 2024 will probably be slightly higher than the previous year's figure. We are expecting demand in the Chinese market to be slightly lower than the prior-year level. For India, we are forecasting that the volume in 2024 will be on a level with the reporting year. In the Japanese market, we estimate that volumes will be slightly lower year-on-year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

For 2024, we expect to see a noticeable downward trend in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year in the markets that are relevant for the Volkswagen Group, with variations from region to region.

A noticeable decline in the market is expected in the 27 EU countries excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+ 3). A large part of the pent-up demand for trucks from recent years was already met in the reporting year, meaning that demand will return to normal in 2024. We anticipate that Turkey will see a significant drop in demand. In South Africa, we expect demand to be on a level with the previous year. The truck market in North America is divided into weight classes 1 to 8. We expect a noticeable decrease in new registrations in the segments relevant for Volkswagen – Class 6 to 8 (8.85 tonnes or heavier). After a weak 2023 impacted by new emissions legislation, we estimate that demand in Brazil will pick up again and be noticeably higher than in the previous year.

On average, we anticipate that the relevant truck markets will remain at a steady level for the years 2025 to 2028.

A noticeable year-on-year increase in demand is anticipated for 2024 in the bus markets relevant for the Volkswagen Group, whereby this will vary depending on the region. In the EU27+ 3 region, we expect demand on a level with the previous year. We forecast a significant increase in demand for school buses in the USA and Canada. For the bus market in Mexico, we anticipate a significant decline in volumes on account of the very strong trend in the reporting year. New registrations in Brazil will probably be on a level with the prior-year figure.

Overall, we expect demand for buses to be steady on average across the relevant markets for the period from 2025 to 2028.

INTEREST RATE TRENDS

Interest rates rose strongly again in Europe and across much of the rest of the world in fiscal year 2023. Some central banks did stop raising interest rates in the second half of the year, and no further significant interest rate hikes are anticipated in 2024. It is expected instead that the first cuts in interest rates could start to be made from the middle of the year.

Interest rate trends are generally factored into pricing.

MOBILITY CONCEPTS

Social and political factors have an increasing impact on many people's individual mobility behavior. Among the general public, environmental and climate protection has grown immensely in importance over the last few years and is attracting increasing attention from lawmakers. Especially in large metropolitan areas, new challenges are appearing in connection with the design of an intelligent mobility mix consisting of public transport combined with motorized and non-motorized private transport. In addition, new mobility solutions will change the traditional perception of owning a vehicle. As a result, mobility is being redefined in many respects.

Volkswagen Financial Services AG closely monitors developments in the mobility market and is working on new models to support alternative marketing approaches and establish new mobility concepts with the goal of securing and expanding its business model. Simple, convenient, transparent, safe, reliable, flexible – these are the standards that the Company has set for itself.

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

From traditional financing and leasing to long- and short-term rental business and car subscription services, Volkswagen Financial Services AG is already able to meet a large proportion of customer mobility needs through its subsidiaries.

Under the VW FS | Auto Abo product name, Volkswagen Financial Services AG offers customers a flexible car subscription through its equity investment in Euromobil GmbH as an alternative to leasing and credit financing. It covers several brands of the Volkswagen Group and enables customers to use a vehicle without any long-term commitment. The VW FS | Auto Abo allows customers to gather initial experience in the use of an electric vehicle as a way of overcoming assumed entry barriers.

Volkswagen Financial Services AG is also responsible for the car subscription offerings of other Group brands, such as Volkswagen, Audi, CUPRA and Skoda in Germany and, with partner Europcar, for Volkswagen in France, thus providing an additional boost to the Volkswagen Group's electrification strategy.

The company has taken a huge step towards becoming a mobility service provider with the expansion of vehicle-related mobility services. In addition, Volkswagen Financial Services AG already offers a supporting portfolio of services fulfilling the customers' desire for convenience and flexibility. Efforts are focused on the global expansion of payment solutions for digital business models in the Volkswagen Group and the ongoing development of electric vehicle charging and fuel card services in Europe. Together with the charging network of the Group brand Elli, Volkswagen Financial Services AG provides access to around 600,000 public charging points and another 22,000 fueling stations in 28 European countries through the Charge&Fuel Card.

Volkswagen Financial Services AG partners with the Volkswagen Group brands in the marketing for vehicles with internal combustion engines as well as for electric vehicles. An important role in the marketing of the Volkswagen Group's e-vehicles is played in particular by attractive leasing products, supplemented by maintenance and wear-and-tear packages.

In this context, Volkswagen Financial Services AG continues to serve as a one-stop shop for its customers, remaining true to the essence of its company slogan "The Key to Mobility" in future, too.

NEW MARKETS/INTERNATIONALIZATION/NEW SEGMENTS

The finance, leasing, insurance and mobility services areas are essential for attracting customers and developing loyal, long-term customer relationships worldwide. Volkswagen Financial Services AG investigates market entry concepts through which to establish these business areas in new markets meticulously in its role as financial services provider and strategic partner for the Volkswagen Group brands. Its aim in so doing is always to create a robust foundation for profitable growth in the volume of business.

SUMMARY OF EXPECTED DEVELOPMENTS

The business performance of Volkswagen Financial Services AG will again remain essentially dependent on the unit sales of the Volkswagen Group in 2024. The intention is to step up sales efforts with the brands of the Volkswagen Group, in particular via joint strategic projects. Volkswagen Financial Services AG also plans to continue its efforts to make optimal use of the potential available along the automotive value chain.

Volkswagen Financial Services AG aims to meet the requirements and desires of its customers as effectively as possible working together with the Group brands. It is providing the type of flexible mobility services that customers expect through products such as its leasing and car subscription (Auto-Abo) services. The ongoing spread of digitalization should deliver a boost to this area of business.

The successful product packages and mobility solutions of recent years will be refined in line with customer needs. Volkswagen Financial Services AG's position in the global competitive environment will continue to be strengthened not only through efforts targeting the market, but also through strategic investments in IT projects and continuous process optimization.

The process completed under the aforementioned restructuring program to bring the German and European entities together in a newly established European financial holding company and the non-European entities together in Volkswagen Financial Services Overseas AG will be particularly effective in enabling a clearer focus on the geographic markets and promoting closer collaboration within the relevant regions.

Forecast for credit and residual value risk

The risk situation will remain challenging given the very pronounced economic risks and global political tensions anticipated for 2024. The specific risk situation of Volkswagen Financial Services AG's portfolios will depend very much on how inflation and purchasing power develop in the various markets.

The Company continues to monitor the risk situation closely so that it can respond proactively to any potential developments by initiating targeted corrective measures.

The volume of contracts in the residual value portfolio is essentially projected to continue to grow in fiscal year 2024. In this case too, the main drivers will be the growth programs implemented by the Company, further expansion in the fleet business and the ongoing shift from finance to leasing. The residual value risk situation is expected to continue moving back towards a more normal status.

Forecast for liquidity risk
The risk situation is considered to be stable. The established sources of funding remain available despite the prevailing global political uncertainties. Funding diversification continues to be extended and existing sources of funding are being expanded.

It should be noted that the degree of risk for the risk categories forecast may differ from the current risk portfolio once the restructuring program has been implemented.

OUTLOOK FOR 2024
Volkswagen Financial Services AG's Board of Management expects global economic growth in 2024 to be at the previous year's level. The primary source of risk is inflation, the future course of which will determine the development of interest rates to a very significant extent. In addition, growth prospects will be affected by geopolitical tensions and conflicts.

In view of the underlying conditions described here and the trends evident in the market, the overall picture is as follows: expectations assume there will be greater levels of cooperation with the individual Group brands, increased investment in digitalization for the future, potential effects of geopolitical upheaval, and continued uncertainty about macroeconomic conditions in the real economy.

The Company's forecast for 2024 is that current contracts and business volume will be slightly higher than their respective levels in fiscal year 2023.

New contracts are expected to be noticeably above the level of the previous year while penetration is expected to be significantly above the level of the previous year.

Considering the effects described above, operating result for fiscal year 2024 is projected to be up strongly year-on-year.

Return on equity is expected to be up significantly year-on-year in 2024 as a result of the forecast earnings performance and stable capital adequacy situation. It is likely that there will be a strong year-on-year rise in the cost/income ratio in 2024.

The outlook for 2024 presented above relates to Volkswagen Financial Services AG in its current form. Volkswagen Financial Services AG will, however, be carving out large parts of its operation in 2024 and transferring them to the newly established European financial holding company as part of the restructuring program now underway. The following table therefore shows the key performance indicators both from the perspective of the present Volkswagen Financial Services AG and from the perspective of continuing operation of Volkswagen Financial Services AG and the future Volkswagen Financial Services Overseas AG respectively after the carve-out.

FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2024 COMPARED WITH PRIOR-YEAR FIGURES

	Actual 2023		Forecast for 2024			
	In Total	Continuing operation	In Total		Continuing operation	
Nonfinancial performance indicators						
Penetration (percent)	24.6	15.8	> 24,6	significantly up on previous year	> 15,8	significantly up on previous year
Current contracts (thousands)[1]	18,397	4,573	> 18.397	slightly up on previous year	> 4.573	significantly up on previous year
New contracts (thousands)[1]	7,075	1,977	> 7.075	noticeably up on previous year	> 1.977	significantly up on previous year
Financial performance indicators						
Volume of business (€ million)	116,757	30,189	> 116.757	slightly up on previous year	> 30.189	slightly up on previous year
Operating result (€ million)	1,736	754	> 1.736	stronger up on previous year	< 754	noticeably below previous year
Return on equity (percent)	8.9	19.8[2]	> 8,9	significantly up on previous year	< 19,8	stronger below previous year
Cost/income ratio (percent)	47	32	> 47	stronger up on previous year	> 32	much stronger up on previous year

1 From the 2024 financial year the insurance products CPI (Creditor Protection Insurance) & GAP (Guaranteed Asset Protection) will also be included in the current contract and new contract portfolio.

2 The figure for continuing operation was determined using calculated equity for continuing operation as of December 31, 2023 (equity – assets of discontinued operation + liabilities of discontinued operation) in place of average equity.

Braunschweig, February 19, 2024

Volkswagen Financial Services AG
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Frank Fiedler

Dr. Alena Kretzberg

This Annual Report contains forward-looking statements on the future business development of Volkswagen Financial Services AG 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 Financial Services AG 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 the most important sales markets vary from the assumptions, or material changes arise from the exchange rates, commodities or supply of parts relevant to the Volkswagen Group, 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.

CONSOLIDATED FINANCIAL STATEMENTS

FURTHER INFORMATION

Income Statement

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1. – Dec. 31, 2023	Jan. 1. – Dec. 31, 2022 restated[1]	Change in percent
Interest income from lending transactions and marketable securities	6, 9, 56	2,571	2,299	11.8
Income from leasing transactions		1,117	692	61.4
Depreciation, impairment losses and other expenses from leasing transactions		–744	–515	44.5
Net income from leasing transactions	6, 9, 12 – 15, 20, 67	373	177	X
Interest expense	6, 9, 21, 56	–1,652	–1,110	48.8
Income from service contracts		100	9	X
Expenses from service contracts		–84	–7	X
Net income from service contracts	6, 22	16	2	X
Provision for credit risks	9, 23, 56	76	–481	X
Fee and commission income		130	115	13.0
Fee and commission expenses		–72	–60	20.0
Net fee and commission income	6, 24	58	54	7.4
Net gain or loss on hedges	9, 25	6	–9	X
Net gain/loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	9, 26, 56	–8	1	X
Net gain/loss on derecognition of financial assets measured at amortized cost		2	–	X
General and administrative expenses	6, 12 – 14, 16, 18, 27	–469	–440	6.6
Other operating income		79	72	9.7
Other operating expenses		–297	–50	X
Net other operating income/expenses	6, 28	–217	22	X
Operating result		**754**	**515**	**46.4**
Share of profits and losses of equity-accounted joint ventures		50	41	22.0
Net gain/loss on miscellaneous financial assets	11, 29	103	–67	X
Other financial gains or losses	30	9	10	–10.0
Profit before tax		**915**	**499**	**83.4**
Income tax expense	7, 31	–363	–190	91.1
Profit from continuing operation, net of tax		**552**	**309**	78.6
Profit from discontinued operation, net of tax	3	622	1,538	–59.6
Profit after tax		**1,174**	**1,847**	**–36.4**
Profit after tax attributable to noncontrolling interests		14	0	X
Profit after tax attributable to Volkswagen AG		1,160	1,847	–37.2

1 Prior-year restated as explained under “Changes to Prior-Year Figures”.

Statement of Comprehensive Income

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022 restated[1]
Profit after tax		**1,174**	**1,847**
Pension plan remeasurements recognized in other comprehensive income	16, 48	–	–
Pension plan remeasurements recognized in other comprehensive income, before tax		–30	275
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	7, 31	11	–87
Pension plan remeasurements recognized in other comprehensive income, net of tax		–18	188
Fair value valuation of equity instruments that will not be reclassified to profit or loss, net of tax	9	–	–
Share of other comprehensive income of equity--accounted investments that will not be reclassified to profit or loss, net of tax		0	1
Items that will not be reclassified to profit or loss		**–19**	**189**
Exchange differences on translating foreign operation	5		
Gains/losses on currency translation recognized in other comprehensive income		–87	–125
Transferred to profit or loss		51	–
Exchange differences on translating foreign operation, before tax		–37	–125
Deferred taxes relating to exchange differences on translating foreign operation	7, 31	–	–
Exchange differences on translating foreign operation, net of tax		–37	–125
Hedging transactions	9		
Fair value changes recognized in other comprehensive income (OCI I)		–6	28
Transferred to profit or loss (OCI I)		–76	–55
Cash flow hedges (OCI I), before tax		–83	–26
Deferred taxes relating to cash flow hedges (OCI I)	7, 31	37	8
Cash flow hedges (OCI I), net of tax		–46	–18
Fair value changes recognized in other comprehensive income (OCI II)		–	–
Transferred to profit or loss (OCI II)		–	–
Cash flow hedges (OCI II), before tax		–	–
Deferred taxes relating to cash flow hedges (OCI II)	7, 31	–	–
Cash flow hedges (OCI II), net of tax		–	–
Fair value valuation of debt instruments that may be reclassified to profit or loss	9		
Fair value changes recognized in other comprehensive income		13	–22
Transferred to profit or loss		–	0
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax		13	–22
Deferred taxes relating to fair value valuation of debt instruments that may be reclassified to profit and loss	7, 31	–4	7
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax		9	–15
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax		–18	12
Items that may be reclassified to profit or loss		**–91**	**–147**
Other comprehensive income, before tax		–154	114
Deferred taxes relating to other comprehensive income		44	–72
Other comprehensive income, net of tax		**–109**	**42**
Total comprehensive income		**1,064**	**1,890**
Total comprehensive income attributable to noncontrolling interests		18	0
Total comprehensive income attributable to Volkswagen AG		1,046	1,889

1 Prior-year restated as explained under “Effects of IFRS 17 Insurance Contracts” in Effects of New and Revised IFRSs.

€ million	Dec. 31, 2023	Dec. 31, 2022
Breakdown of total comprehensive income attributable to Volkswagen AG	**1,046**	1,889
Continuing operation	329	376
Discontinued operation	717	1,513

Balance Sheet

of the Volkswagen Financial Services AG Group

€ million	Note	Dec. 31, 2023	Dec. 31, 2022 restated[1]	Change in percent
Assets				
Cash reserve	8, 33, 56 – 60, 63 – 64	2	2	0.0
Loans to and receivables from banks	9, 56 - 64	953	3,406	–72.0
Loans to and receivables from customers attributable to				
Retail financing		21,822	23,907	–8.7
Dealer financing		4,918	5,536	–11.2
Leasing business		1,102	41,235	–97.3
Other loans and receivables		153	16,177	–99.1
Total loans to and receivables from customers	9, 14, 35, 56 – 62, 64	27,995	86,855	– 67.8
Value adjustment on portfolio fair value hedges	10, 36	–	–156	X
Derivative financial instruments	9, 37, 56 – 60, 64 – 65	58	1,488	–96.1
Marketable securities	9, 56 – 62, 64	0	268	–100.0
Equity-accounted joint ventures	2, 38, 57	99	722	–86.3
Miscellaneous financial assets	9, 11, 56 – 60	99	626	–84.2
Intangible assets	12, 39	273	105	X
Property and equipment	13 – 14, 40	57	364	–84.3
Lease assets	12 – 14, 67	2,347	34,927	–93.3
Investment property	12 – 15, 41, 67	1	71	–98.6
Deferred tax assets	7, 42	612	1,226	–50.1
Current tax assets	7, 56 – 60	164	278	–41.0
Other assets	14, 43, 56 – 60	659	2,607	–74.7
Assets held for sale (IFRS 5)	4	113,020	577	X
Total		**146,340**	**133,367**	**9.7**

1 Prior-year restated as explained under “Effects of IFRS 17 Insurance Contracts” in Effects of New and Revised IFRSs.

€ million	Note	Dec. 31, 2023	Dec. 31, 2022 restated[1]	Change in percent
Equity and Liabilities				
Liabilities to banks	9, 45, 56 – 60, 63 – 64	16,343	17,242	–5.2
Liabilities to customers	9, 44, 56 – 60, 63 – 64	3,450	24,219	–85.8
Notes, commercial paper issued	9, 46, 56 – 60, 61, 63 – 64	7,901	63,078	–87.5
Derivative financial instruments	9, 47, 56 – 60, 63 – 65	104	2,424	–95.7
Provisions for pensions and other post-employment benefits	16, 48	8	291	–97.3
Underwriting provisions and other provisions	17 – 18, 49, 68	184	983	–81.3
Deferred tax liabilities	7, 50	91	980	–90.7
Current tax liabilities	7, 56 – 60	252	767	–67.1
Other liabilities	52, 56 – 60, 63	267	2,388	–88.8
Subordinated capital	9, 52, 56 – 60, 61, 63 – 64	146	2,909	–95.0
Liabilities associated with assets held for sale (IFRS 5)	4	94,703	478	X
Equity	54	22,891	17,607	30.0
Subscribed capital		441	441	–
Capital reserves		6,589	2,816	X
Retained earnings		16,934	15,462	9.5
Other reserves		–1,189	–1,115	6.6
Equity attributable to noncontrolling interests		115	3	X
Total		**146,340**	**133,367**	**9.7**

1 Prior-year restated as explained under “Effects of IFRS 17 Insurance Contracts” in Effects of New and Revised IFRSs.

Statement of Changes in Equity

of the Volkswagen Financial Services AG Group

				OTHER RESERVES						
					Hedging transactions					
€ million	Subscribed capital	Capital reserves	Retained earnings	Currency translation	Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)	Equity and debt instruments	Equity-accounted investments	Non-controlling interests	Total equity
Balance as of Jan. 1, 2022	**441**	**2,816**	**12,148**	**–908**	**9**	**–**	**2**	**–77**	**2**	**14,433**
Adjustments resulting from the retrospective application of IFRS 17[1]	–	–	–39	–	–	–	–	1	–	–39
Balance as of Jan. 1, 2022 after corrections	**441**	**2,816**	**12,109**	**–908**	**9**	**–**	**2**	**–76**	**2**	**14,395**
Profit after tax	–	–	1,847	–	–	–	–	–	0	1,847
Other comprehensive income, net of tax	–	–	188	–125	–18	–	–15	12	0	42
Total comprehensive income	**–**	**–**	**2,035**	**–125**	**–18**	**–**	**–15**	**12**	**0**	**1,890**
Distribution	–	–	–400	–	–	–	–	–	–	–400
Profit transferred to/loss assumed by Volkswagen AG	–	–	1,697	–	–	–	–	–	–	1,697
Other changes	–	–	21	6	–	–	–	–	–	26
Balance as of Dec. 31, 2022	**441**	**2,816**	**15,462**	**–1,028**	**–9**	**–**	**–14**	**–64**	**3**	**17,607**
Balance as of Jan. 1, 2023	**441**	**2,816**	**15,473**	**–1,028**	**–9**	**–**	**–14**	**–58**	**3**	**17,625**
Adjustments resulting from the retrospective application of IFRS 17[1]	–	–	–11	–	–	–	–	–7	–	–18
Balance as of Jan. 1, 2023 after corrections	**441**	**2,816**	**15,462**	**–1,028**	**–9**	**–**	**–14**	**–64**	**3**	**17,607**
Profit after tax	–	–	1,160	–	–	–	–	–	14	1,174
Other comprehensive income, net of tax	–	–	–18	–41	–46	–	9	–18	4	–109
Total comprehensive income	**–**	**–**	**1,142**	**–41**	**–46**	**–**	**9**	**–18**	**18**	**1,064**
Capital increases	–	3,773	–	–	–	–	–	–	3	3,777
Profit transferred to/loss assumed by Volkswagen AG	–	–	323	–	–	–	–	–	–	323
Other changes	–	0	7	21	–	–	–	0	91	119
Balance as of Dec. 31, 2023	**441**	**6,589**	**16,934**	**–1,048**	**–55**	**–**	**–4**	**–82**	**115**	**22,891**

1 Prior-year restated as explained under "Effects of IFRS 17 Insurance Contracts" in Effects of New and Revised IFRSs.
Further information on equity is presented in note (58).

Cash Flow Statement

of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022 restated[1]
Profit before tax	**1,802**	**3,040**
Depreciation, amortization, impairment losses and reversals of impairment losses	5,503	5,405
Change in provisions	71	–75
Change in other noncash items	–300	1,703
Loss on disposal of financial assets and items of property and equipment	–118	0
Net interest expense and dividend income	–1,249	–2,308
Other adjustments	–3	–5
Change in loans to and receivables from banks	–357	1,631
Change in loans to and receivables from customers	–8,659	–5,830
Change in lease assets	–9,125	–7,857
Change in other assets related to operating activities	–1,469	–56
Change in liabilities to banks	2,933	3,310
Change in liabilities to customers	2,506	5,927
Change in notes, commercial paper issued	1,966	–4,743
Change in other liabilities related to operating activities	14	58
Interest received	6,272	4,471
Dividends received	18	5
Interest paid	–5,041	–2,167
Income taxes paid	–424	–521
Cash flows from operating activities	**–5,659**	**1,988**
Proceeds from disposal of investment property	–	–
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	358	35
Acquisition of subsidiaries and joint ventures	–293	–143
Proceeds from disposal of other assets	8	16
Acquisition of other assets	–77	–70
Change in investments in marketable securities	–179	27
Cash flows from investing activities	**–183**	**–136**
Proceeds from changes in capital	3,773	–
Distribution to Volkswagen AG	–	–400
Profit transferred to/loss assumed by Volkswagen AG	1,697	–771
Change in cash funds attributable to subordinated capital	0	–79
Repayment of liabilities arising from leases	–23	–18
Cash flows from financing activities	**5,447**	**–1,269**
Cash and cash equivalents at end of prior period	**559**	**33**
Cash flows from operating activities	–5,659	1,988
Cash flows from investing activities	–183	–136
Cash flows from financing activities	5,447	–1,269
Effect of exchange rate changes	–94	–58
Cash and cash equivalents at end of period[2]	**69**	**559**

1 Prior-year restated as explained under “Changes to Prior-Year Figures”.
2 The cash reserve contains cash and cash equivalents attributable to disposal groups (IFRS 5).

Disclosures on the cash flow statement are presented in note (69).

Notes to the Consolidated Financial Statements

of the Volkswagen Financial Services AG Group as of December 31, 2023

General Information

Volkswagen Financial Services Aktiengesellschaft (VW FS AG) has the legal structure of a stock corporation. It has its registered office at Gifhorner Strasse, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 3790).

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

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

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

Basis of Presentation

VW FS AG has prepared its consolidated financial statements for the year ended December 31, 2023 in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315e(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code). All IFRSs issued by the International Accounting Standards Board (IASB) up to December 31, 2023 for which mandatory application was required in fiscal year 2023 in the EU have been taken into account in these consolidated financial statements.

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

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

The Board of Management completed the preparation of these consolidated financial statements on February 19, 2024 and released them for forwarding to the Supervisory Board for approval and subsequent publication. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Effects of New and Revised IFRSs

VW FS AG has applied all financial reporting standards adopted by the EU and subject to mandatory application from fiscal year 2023.

Amendments to IAS 12 resulting from almost 140 countries having agreed on a global minimum level of taxation (Pillar 2) had to be applied from January 1, 2023. A temporary exemption under which deferred taxes need not be recognized if they result from the implementation of Pillar 2 by the countries concerned was incorporated into IAS 12. Further information is provided in note (7) Income taxes in the accounting policies.

Amendments to IAS 12 pertaining to deferred taxes relating to lease arrangements and decommissioning and restoration liabilities also had to be applied from January 1, 2023. These require that deferred taxes be recognized, in certain circumstances, when such assets and liabilities are first recognized.

Amendments to IAS 1 also had to be applied from January 1, 2023. These are primarily intended to make the disclosure of accounting policies information more specific to the company concerned – and thus of greater use in decision-making – by adopting a tighter definition of the term “material”. The information provided in the VW FS AG Group’s disclosure of accounting policies has been revised in response. The changes made specifically include wording generalized statements derived from the IFRSs so that they reflect the specific circumstances of the VW FS AG Group.

Amendments to IAS 8 intended to make clear the difference between changes in accounting policies and changes in accounting estimates also had to be applied from January 1, 2023. The amended provisions referred to above do not materially affect the VW FS AG Group’s financial position and financial performance.

EFFECTS OF IFRS 17 INSURANCE CONTRACTS

IFRS 17 revises the requirements for insurance contract accounting. In the VW FS AG Group, IFRS 17 is being applied for the first time as of January 1, 2023 and affects insurance and reinsurance contracts. All obligations entered into by Volkswagen Versicherung AG in insurance and reinsurance business are measured in accordance with IFRS 17. This includes warranty insurance products as per the supervisory categories 9 (Warranty insurance for end customers) and 16j (Repair cost insurance for dealers, importers etc.). Obligations also exist in the active reinsurance business from automobile liability insurance, GAP insurance, comprehensive insurance and residual debt insurance. Obligations of other Group companies for which there was an option to apply IFRS 17 are, however, measured according to the relevant IFRS.

The changeover is made by applying the fully retrospective approach, unless this is not feasible. This is the case when not all the necessary historical information is available without undue cost or effort, especially for multi-year contracts. In these cases, the VW FS AG Group applies the modified retrospective approach. The VW FS AG Group implemented IFRS 17 functionally and technically as part of a project set up for the purpose. The retrospective application of IFRS 17 required that values also be determined for comparison periods, therefore the figures for January 1, 2022 were also adjusted accordingly.

Net of deferred taxes, initial application results in a change in equity of €–18 million as of January 1, 2023 and €–38 million as of January 1, 2022. These changes stem principally from the amendment of the system for determining underwriting items. Prior to the application of IFRS 17, insurance contracts were accounted for in accordance with IFRS 4 and, to the extent permitted by local accounting regulations, also in accordance with sections 341ff. of the HGB and the German Accounting Regulation for Insurance Companies (*Verordnung über die Rechnungslegung von Versicherungsunternehmen*, “RechVersV”) on a prudential basis. The application of IFRS 17 involves a move to a different methodology intended to give a best estimate for insurance contracts and thus present a true and fair view of the actual situation. In addition, the netting of cash flows in measuring the amount of provisions likewise leads to a reduction in insurance business assets and provisions.

The table below shows the changes in the balance sheet resulting from the first-time application of IFRS 17 on January 1, 2023:

€ million	Jan. 1, 2023 before adjustments	Adjustments resulting from the application of IFRS 17	Jan. 1, 2023 after adjustments resulting from the application of IFRS 17
Assets			
Loans to and receivables from customers attributable to			
Other loans and receivables	16,215	–38	16,177
Total loans to and receivables from customers	86,893	–38	86,855
Deferred tax assets	1,143	83	1,226
Other assets	2,627	–20	2,607
Total	**133,341**	**25**	**133,367**

€ million	Jan. 1, 2023 before adjustments	Adjustments resulting from the application of IFRS 17	Jan. 1, 2023 after adjustments resulting from the application of IFRS 17
Equity and Liabilities			
Liabilities to customers	24,228	–9	24,219
Underwriting provisions and other provisions	1,006	–23	983
Deferred tax liabilities	903	77	980
Other liabilities	2,390	–2	2,388
Equity	17,625	–18	17,607
Retained earnings	15,473	–11	15,462
Other reserves	–1,108	–7	–1,115
Total	**133,341**	**25**	**133,367**

The previous year's income statement was adjusted as follows as a result of the first-time application of IFRS 17:

€ million	Jan. 1 – Dec. 31, 2022 before adjustments	Adjustments resulting from the application of IFRS 17	Jan. 1 – Dec. 31, 2022 after adjustments resulting from the application of IFRS 17
Profit and loss			
Income from insurance transactions	307	–36	271
Expenses from service contracts	–165	39	–127
Net income from insurance business	142	3	145
General and administrative expenses	–2,476	17	–2,459
Other operating income	1,003	–3	1,000
Other operating expenses	–658	–2	–660
Net other operating income/expenses	346	–4	341
Operating result	**3,207**	**15**	**3,222**
Share of profits and losses of equity-accounted joint ventures	89	7	96
Other financial gains or losses	–34	15	–19
Profit before tax	**3,003**	**38**	**3,040**
Income tax expense	–1,183	–10	–1,193
Profit after tax	**1,819**	**28**	**1,847**

The contractual service margin (CSM) determined from the first-time application of IFRS 17 was €147 million as of January 1, 2023 and €159 million as of January 1, 2022.

The effects of the change in measurement methods used for insurance contracts in terms of the contractual service margin for the insurance contracts issued are as follows:

€ million	New issues and measurement using the retrospective method at changeover	Measurement using the modified retrospective method at changeover	Total
Income from insurance transactions	154	109	263
Contractual service margin (CSM) as of Jan. 1, 2023	**77**	**70**	**147**
Changes relating to current services	–49	–39	–88
Recognized in profit or loss	–49	–39	–88
Changes relating to future services	61	–4	58
Changes in accounting estimates that affect the CSM	–45	–4	–49
Contracts recognized for the first time	106		106
Technical insurance result	**12**	**–42**	**–30**
Finance income and expenses	**4**	**0**	**4**
Currency translation	**1**	**0**	**1**
Result from the statement of comprehensive income	**17**	**–42**	**–26**
Other changes	–	–	–
Contractual service margin (CSM) as of Dec. 31, 2023	**93**	**28**	**121**

The contractual service margin for reinsurance contracts held that were included using only the fully retrospective method at changeover is not materially significant and is thus not reconciled.

New and Revised IFRSs Not Applied

VW FS AG has not applied in its 2023 consolidated financial statements the following financial reporting standards that have been issued by the IASB as of December 31, 2023 but were not yet subject to mandatory application in the year under review.

Standard / interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IFRS 16	Sale-and-Leaseback-transactions	September 22, 2022	January 1, 2024	No	No material impact
IAS 1	Classification of liabilities	January 23, 2020	January 1, 2024	No	No material impact
IAS 1	Non-current Liabilities with covenants	October 31, 2022	January 1, 2024	No	No material impact
IFRS 7	Supplier Finance Arrangements	May 25, 2023	January 1, 2024	No	No material impact
IAS 21	Lack of Exchangeability	August 15, 2023	January 1, 2025	No	No material impact

1 Requirement for initial application from the VW FS AG perspective

Changes to Prior-Year Figures

The previous year's income statement was adjusted as a result of the application of IFRS 17 for insurance contract accounting (see subsection "Effects of New and Revised Standards") and the presentation of discontinued operation (see subsection 3 "Disclosures concerning disposal groups held for distribution, disposal groups held for sale and discontinued operation (IFRS 5)"). The following table shows a reconciliation of the previous year's income statement based on the adjustments from the application of IFRS 17 with the adjustments necessary in connection with the presentation of discontinued operation.

€ million	Jan. 1 – Dec. 31, 2022 after adjustments resulting from the application of IFRS 17	Adjustments resulting from the application of IFRS 5	Jan. 1 – Dec. 31, 2022 after adjustments resulting from the application of IFRS 5
Interest income from lending transactions and marketable securities	2,471	–172	2,299
Income from leasing transactions	21,031	–20,340	692
Depreciation, impairment losses and other expenses from leasing transactions	–16,626	16,111	–515
Net income from leasing transactions	4,406	–4,229	177
Interest expense	–2,167	1,057	–1,110
Income from service contracts	2,414	–2,406	9
Expenses from service contracts	–2,181	2,174	–7
Net income from service contracts	233	–231	2
Income from insurance transactions	271	–271	–
Expenses from insurance transactions	–127	127	–
Net income from insurance business	145	–145	–
Provision for credit risks	–703	222	–481
Fee and commission income	562	–447	115
Fee and commission expenses	–384	323	–60
Net fee and commission income	178	–124	54
Net gain or loss on hedges	–33	25	–9
Net gain/loss on financial instruments measured at fair value	810	–809	1
Net gain/loss on derecognition of financial assets measured at amortized cost	–	–	–
General and administrative expenses	–2,459	2,019	–440
Other operating income	1,001	–929	72
Other operating expenses	–659	609	–50
Net other operating income/expenses	341	–319	22
Operating result	**3,222**	**–2,707**	**515**
Share of profits and losses of equity-accounted joint ventures	96	–55	41
Net gain or loss on miscellaneous financial assets	–259	192	–67
Other financial gains or losses	–19	29	10
Profit before tax	**3,040**	**–2,541**	**499**
Income tax expense	–1,193	1,003	–190
Profit/loss from continuing operation, net of tax	**1,847**	**–1,538**	**309**
Profit/loss from discontinued operation, net of tax	–	1,538	1,538
Profit after tax	**1,847**	**–**	**1,847**

Accounting Policies

1. Basic principles

All entities included in the basis of consolidation have prepared their annual financial statements as of the reporting date of December 31, 2023.

Financial reporting in the VW FS AG Group complies with IFRS 10 and is on the basis of standard Group-wide accounting policies.

Unless otherwise stated, amounts are shown in millions of euros (€ million). All amounts shown are rounded, so minor discrepancies may arise when amounts are added together.

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

2. Basis of consolidation

In addition to VW FS AG, the consolidated financial statements cover all significant German and non-German subsidiaries, including all structured entities, controlled directly or indirectly by VW FS AG. This is the case if VW FS AG has power over potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and has the ability to use its power to influence those returns. In the case of the structured entities consolidated in the VW FS AG Group, VW FS AG holds no equity investment but nevertheless determines the main relevant activities remaining after the structure is created and thereby influences its own variable returns. The purpose of the structured entities is to facilitate asset-backed-securities transactions to fund the financial services business. The VW FS AG Group does not have any business relationships with unconsolidated structured entities.

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

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

COMPOSITION OF THE VW FS AG GROUP

The composition of the VW FS AG Group is shown in the following table:

	2023	2022
VW FS AG and consolidated subsidiaries		
Germany	8	8
International	59	50
Subsidiaries recognized at cost		
Germany	5	6
International	36	42
Associates, equity-accounted joint ventures		
Germany	2	3
International	5	6
Associates, joint ventures and equity investments recognized at cost		
Germany	6	5
International	11	10
Total	**132**	**130**

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

The following consolidated German subsidiaries with the legal form of a corporation have satisfied the criteria in section 264(3) of the HGB and have elected not to publish annual financial statements:

> Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig
> Volkswagen-Versicherungsdienst GmbH, Braunschweig
> Volkswagen Insurance Brokers GmbH, Braunschweig
> EURO-Leasing GmbH, Sittensen
> Vehicle Trading International (VTI) GmbH, Braunschweig

The changes in the composition of the VW FS AG Group in the reporting year that are shown in the table above are explained below.

The Brazilian subsidiaries LM Transportes Interestaduais Serviços e Comércio S.A., Salvador and Simple Way Locações e Serviços Ltda., Curitiba, Brazil, which had previously not been consolidated for reasons of materiality, were consolidated. LM Transportes Serviços e Comércio Ltda., Salvador, a wholly owned subsidiary of LM Transportes Interestaduais Serviços e Comércio S.A., was merged with the parent company in the reporting year.

Two new Dutch subsidiaries, Volkswagen Finance Europe B.V., Amsterdam, and Volkswagen Finance Overseas HoldCo B.V., Amsterdam, were established and consolidated in the reporting year as part of the restructuring program to establish a European financial holding company (see note 3). The subsidiary carmobility GmbH, Braunschweig, which had previously not been consolidated for reasons of materiality, was renamed Volkswagen Financial Services Europe AG, Braunschweig, and then carved out to Volkswagen AG, Wolfsburg, in the reporting year with no purchase price paid. Once the restructuring has been completed, Volkswagen Financial Services Europe AG will serve as the new European financial holding company.

The passenger car business of EURO-Leasing GmbH, Sittensen, a consolidated subsidiary of Volkswagen Financial Services AG, was classified as a disposal group held for sale in the first half of 2023 in accordance with the provisions of IFRS 5. This passenger car business was then transferred to an off-the-shelf company acquired in the reporting year as planned in the second half of 2023. This entity was then renamed Euromobil GmbH, Sittensen, and 51% of its shares were sold to the Europcar Mobility Group, Paris, France. The removal of Euromobil GmbH from the scope of consolidation, the sale of 51% of the shares and the revaluation of the remaining 49% of the shares resulted in income of €51 million, which is included in the profit after tax of discontinued operation. For reasons of materiality, the remaining equity investment in the now-associated company Euromobil GmbH are not accounted for using the equity method.

Consolidated subsidiary Volkswagen Finance Pvt. Ltd., Mumbai, had no active financing business following the sale or expiry of the finance portfolio and was deconsolidated in the reporting year for reasons of materiality. This action, in particular the associated reclassification of foreign exchange differences in the income statement, resulted in a loss in the amount of €69 million, which is reported in the income statement under Other operating expenses.

The subsidiary Rent-X GmbH, Braunschweig, which had previously not been consolidated for reasons of materiality, was merged with Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig, in the reporting year. Both of these entities are wholly owned subsidiaries of Volkswagen Financial Services AG, Braunschweig.

Having acquired additional shares and injected a disproportionately high amount of capital in 2023, Volkswagen Financial Services AG now holds 70.91% of the shares in former joint venture Mobility Trader Holding GmbH, Berlin. VW FS AG thus now controls Mobility Trader Holding GmbH, which has ceased to be accounted for using the equity method with no material effects for the VW FS AG Group.

The subsidiary Mobility Trader Holding GmbH and its five subsidiary companies in France, Germany, Spain and the UK were not consolidated for reasons of materiality.

Volkswagen Financial Services AG sold its 50% of the shares in joint venture MAN Financial Services (SA) (RF) (Pty) Ltd., Johannesburg, to TRATON Financial Services Aktiebolag, Södertälje, an entity of the Volkswagen Group, on July 31, 2023 in connection with the already agreed sale of the financial services business of MAN and Volkswagen Truck & Bus. The sale resulted in a loss of €5 million, which is included under “Share of profits and losses of equity-accounted joint ventures” in the income statement.

Volkswagen Finance Overseas B.V., Amsterdam, sold the shares in subsidiary PayByPhone Technologies Inc., Vancouver, which was not previously consolidated for reasons of materiality, and its six subsidiaries in Canada, the USA, the UK, France, Switzerland and Germany, to FleetCor, Atlanta, USA, in September of the reporting year. The derecognition resulted in income of €134 million, which is included in Net gain or loss on miscellaneous financial assets in the income statement.

Together with Sopra Steria SE, Hamburg, Volkswagen Financial Services AG established , the joint venture MyDigitalCar GmbH in Braunschweig. The company operates a digital vehicle-registration platform for Germany. For reasons of materiality, the 50% interest is not accounted for using the equity method.

Volkswagen Finance Overseas B.V., Amsterdam, a subsidiary of Volkswagen Financial Services AG, has acquired 50% of the shares in movon AG, Cham, Switzerland, which specializes in fleet leasing for business customers. For reasons of materiality, the joint venture with AMAG Leasing AG, Cham, Switzerland, is not accounted for using the equity method.

In a transaction between entities of the Volkswagen Group, Volkswagen Finance Overseas B.V., Amsterdam, acquired 100% of the shares in São Bernardo Administradora de Créditos Ltda., São Bernardo do Campo, from Fundação Volkswagen and Volkswagen do Brasil Ltda., São Bernardo do Campo. For reasons of materiality, the entity is not consolidated.

The unconsolidated Chinese subsidiaries Volkswagen Leasing (Suzhou) Co., Ltd., Suzhou, and Volkswagen Leasing (Wuxi) Co., Ltd., Wuxi, were liquidated in the reporting year.

VTXRM - Factory Lda., Porto Salvo, an unconsolidated subsidiary from Portugal, established the subsidiary VTXRM Software Factory US LLC, Wilmington, USA. For reasons of materiality, the entity is not consolidated.

EURO-Leasing GmbH, Sittensen, sold its 49% equity investment in associated entity PosernConnect GmbH, Sittensen. For reasons of materiality, the entity was not accounted for using the equity method.

The additions and disposals of special purpose entities in 2023 were as follows:

Additions:
- - Driver Brasil Six Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco
- - Driver Australia seven Trust, Chullora
- - Driver Australia eight Trust, Chullora
- - Driver Australia Master Trust, Chullora
- - Private Driver Australia 2023-1 Trust, Chullora
- - VCL Master Poland DAC, Dublin
- - VCL Master Sweden S.A., Luxembourg

Disposals:
- - Driver China Ten Auto Loan Securitization Trust, Beijing

The aforementioned changes in the composition of the VW FS AG Group as of the reporting date did not have any material impact on the financial position or financial performance of the Group. The presentation of disposal groups held for distribution and of continued operation and discontinued operation did have a material impact on the financial position or financial performance of the Group as explained in note (3) below.

Some subsidiaries hold assets in the form of cash or securities, usability of which within the Group is limited on account of contractual or regulatory provisions. These assets are reported on the balance sheet under Assets held for sale (IFRS 5) and, as “Restricted cash”, under Other assets.

JOINT VENTURE DISCLOSURES PURSUANT TO IFRS 12

From a Group perspective, the following three entities among the equity-accounted joint ventures require separate presentation because they were deemed material on the reporting date because of the size of the entity concerned. They run the financial services business in the respective countries and thus help to promote vehicle sales in the Volkswagen Group. The three joint ventures are part of discontinued operation in Europe. The carrying amounts of the equity shares on the reporting date were therefore reclassified on the balance sheet to Assets held for sale (IFRS 5). The strategic importance of these three joint ventures is unaffected by the restructuring program to establish a European financial holding company.

Volkswagen Pon Financial Services B.V.

The Volkswagen Pon Financial Services B.V. Group, with registered office in Amersfoort in the Netherlands, is a financial services provider offering leasing and insurance products for Volkswagen Group vehicles to business and private customers in the Netherlands. The VW FS AG Group and its partner in this joint venture, Pon Holdings B.V., have entered into an agreement for a long-term strategic partnership that is to be continued by the European financial holding company following completion of the restructuring program.

Volkswagen D’Ieteren Finance S.A.

Volkswagen D’Ieteren Finance S.A. and its subsidiary D’Ieteren Lease S.A., with registered offices in Brussels, Belgium, are financial services providers offering financing and leasing products for Volkswagen Group vehicles to business and private customers in Belgium. The VW FS AG Group and joint venture partner D’Ieteren S.A. have a long-term strategic partnership agreement that is to be continued by the European financial holding company following completion of the restructuring program.

Volkswagen Møller Bilfinans A/S

Volkswagen Møller Bilfinans A/S, with registered office in Oslo, Norway, is a financial services provider offering financing and leasing products for Volkswagen Group vehicles to business and private customers, predominantly in Norway. The VW FS AG Group and joint venture partner, Møllergruppen A/S, have entered into a long-term strategic partnership agreement that is to be continued by the European financial holding company following completion of the restructuring program.

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

€ million	VOLKSWAGEN PON FINANCIAL SERVICES B. V. (NETHERLANDS) 2023	2022	VOLKSWAGEN D'IETEREN FINANCE S.A. (BELGIUM) 2023	2022	VOLKSWAGEN MØLLER BILFINANS A/S (NORWAY) 2023	2022
Shareholding (percent)	60%	60%	50%	50%	51%	51%
Loans to and receivables from banks	43	5	146	126	1	12
Loans to and receivables from customers	1,296	1,175	2,300	1,925	1,642	1,889
Lease assets	2,696	2,467	916	773	–	–
Other assets	197	198	163	100	12	18
Total	**4,231**	**3,846**	**3,526**	**2,925**	**1,655**	**1,919**
of which: noncurrent assets	3,199	3,382	1,995	1,808	1,455	1,602
of which: current assets	1,033	464	1,530	1,116	200	317
of which: cash	43	5	146	126	1	12
Liabilities to banks	–	–	2,644	2,033	1,143	1,408
Liabilities to customers	2,846	2,593	159	168	23	28
Notes, commercial paper issued	890	826	503	503	–	–
Other liabilities	171	194	12	11	103	100
Equity	324	233	209	209	385	383
Total	**4,231**	**3,846**	**3,526**	**2,925**	**1,655**	**1,919**
of which: noncurrent liabilities	2,247	2,189	1,624	1,331	367	616
of which: noncurrent financial liabilities	2,200	2,160	1,618	1,326	267	519
of which: current liabilities	1,660	1,424	1,693	1,384	903	920
of which: current financial liabilities	1,507	1,218	1,528	1,211	876	889
Revenue	1,371	1,232	618	540	136	120
of which: interest income	186	137	84	44	134	117
Expenses	–1,252	–1,109	–606	–512	–100	–86
of which: interest expense	–86	–36	–76	–14	–61	–39
of which: depreciation and amortization	–546	–491	–151	–139	–11	–13
Profit/loss from continuing operation, before tax	**119**	**123**	**12**	**28**	**36**	**34**
Income tax expense or income	–27	–30	–3	–8	–9	–9
Profit/loss from continuing operation, net of tax	**91**	**93**	**9**	**20**	**27**	**25**
Profit/loss from discontinued operation, net of tax	–	–	–	–	–	–
Other comprehensive income, net of tax	–	–	–	1	–	–
Total comprehensive income	**91**	**93**	**9**	**21**	**27**	**25**
Dividends received	48	40	5	5	–	–

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

€ million	Volkswagen Pon Financial Services B.V. (Netherlands)	Volkswagen D'Ieteren Finance S.A. (Belgium)	Volkswagen Møller Bilfinans A/S (Norway)
2022			
Equity of the joint venture as of Jan. 1, 2022	207	197	377
Profit/loss	93	20	25
Other comprehensive income	–	1	–
Change in share capital	–	–	–
Exchange differences on translating foreign operation	–	–	–19
Dividends	67	9	–
Equity of the joint venture as of Dec. 31, 2022	**233**	**209**	**383**
Share of equity	140	105	195
Goodwill/other	41	0	0
Carrying amount of the share of equity as of Dec. 31, 2022	**180**	**105**	**195**
2023			
Equity of the joint venture as of Jan. 1, 2023	233	209	383
Profit/loss	91	9	27
Other comprehensive income	–	0	–
Change in share capital	80	–	–
Exchange differences on translating foreign operation	–	–	–25
Dividends	80	10	–
Equity of the joint venture as of Dec. 31, 2023	**324**	**209**	**385**
Share of equity	195	104	197
Goodwill/other	41	0	0
Carrying amount of the share of equity as of Dec. 31, 2023	**235**	**104**	**197**

The financial information for the joint ventures that are immaterial when considered individually includes figures for joint ventures belonging to discontinued operation. The carrying amount of the equity shares on the reporting date was therefore reclassified on the balance sheet to Assets held for sale (IFRS 5).

Summarized pro-rated financial information for the joint ventures that are immaterial when considered individually:

€ million	2023	2022
Carrying amount of the share of equity as of Dec. 31 on the balance sheet under Equity-accounted joint ventures	**99**	**242**
Profit/loss from continuing operation, net of tax	58	43
Other comprehensive income, net of tax	2	0
Total comprehensive income	**60**	**43**
Carrying amount of the share of equity as of Dec. 31 on the balance sheet under Assets held for sale (IFRS 5)	**150**	**–**
Profit/loss from discontinued operation, net of tax	9	–25
Other comprehensive income, net of tax	10	–23
Total comprehensive income	**18**	**–48**

The disclosures on joint ventures that are immaterial when considered individually include the joint venture VDF Servis ve Ticaret A.S., Turkey, the equity of which as defined by the IFRSs at December 31, 2023 and December 31, 2022 was determined in line with the provisions of IAS 29.

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

Cash attributable to joint ventures amounting to €150 million (previous year: €172 million) was pledged as collateral in connection with ABS transactions and was therefore not available to the VW FS AG Group.

Financial guarantees to joint ventures amounted to €82 million (previous year: €82 million). In addition, certain articles of incorporation or partnership agreements specify obligations to individual joint ventures to provide loans for the funding of the entities, where required. The exact amount of the obligations depends on the future funding requirements of each entity and may therefore vary from the loan amounts recognized on the balance sheet as of the reporting date.

3. Disclosures concerning disposal groups held for distribution, disposal groups held for sale and the discontinued operation (IFRS 5)

RESTRUCTURING PROGRAM TO ESTABLISH A EUROPEAN FINANCIAL HOLDING COMPANY

The Board of Management of Volkswagen Financial Services AG and the Management Board of Volkswagen Bank GmbH commenced work on the implementation of a comprehensive restructuring program in 2023.

This will involve the German and European entities, including the respective subsidiaries and equity investments, being consolidated under a new financial holding company supervised by the European Central Bank (ECB), a move intended to create a clearer focus on geographical regions. This reorganization of legal entities, which is scheduled to be complete by the middle of 2024, will include staffing movements. The associated employee-related provisions recognized will be assigned to the receiving entities.

Initial steps to establish the aforementioned European financial holding company were completed during the reporting year and the company is currently operating as Volkswagen Financial Services Europe AG. It will be renamed Volkswagen Financial Services AG once the restructuring program has been completed. The steps planned for 2024 include transferring all shares in the Volkswagen Leasing GmbH subsidiary to Volkswagen Bank GmbH, which will then become part of the European financial holding company.

The existing Volkswagen Financial Services AG and subsequently the future Volkswagen Financial Services Overseas AG will control the non-European subsidiaries as a holding company. As a wholly owned subsidiary of Volkswagen AG, this company will remain an integral part of the Volkswagen Group, but with a focus on the international markets outside Europe.

By pooling its activities in a European financial services provider, the refinancing strength of Volkswagen Bank GmbH can be used in the best possible way for the growth of the leasing business in Germany and Europe. The Volkswagen Group is thus laying the foundation for the successful implementation of the Group's strategy in the mobility sector, taking into account the regulatory framework. The number of companies to be consolidated under regulatory requirements will increase as a result of the restructuring, and regulatory reporting requirements will become stricter.

Carve-outs of shares in subsidiary companies, equity investments and other assets and liabilities by Volkswagen Financial Services AG are envisaged in connection with the planned implementation of the restructuring program. Specifically, carve-outs of the following core elements of Volkswagen Financial Services AG are planned:

a) Carve-out of the company shares in the subsidiary Volkswagen Leasing GmbH to Volkswagen Bank GmbH.
b) Carve-out of the European operation of Volkswagen Financial Services AG, including shares in European subsidiaries and equity investments plus other assets and liabilities, to the new financial holding company, Volkswagen Financial Services Europe AG.

It is planned for all the aforementioned carve-outs to be completed with legal effect from July 1, 2024.

The Volkswagen Financial Services AG Group will lose control of the subsidiaries, joint control of the joint ventures, significant influence of the associated companies and dispose the equity investment on the planned completion date.

It is intended that the planned carve-outs each proceed with no purchase price paid to Volkswagen Financial Services AG by Volkswagen Bank GmbH or Volkswagen Financial Services Europe AG. The planned transfers are thus to be accounted for on the completion date as distributions of non-cash assets to the parent company Volkswagen AG in accordance with IFRIC 17.

The subsidiaries and equity investments whose shares are to be carved out by Volkswagen Financial Services AG and the subsidiaries and equity investments of the subsidiaries and equity investments concerned (jointly referred to as “entities”) are recognized in the consolidated financial statements of Volkswagen Financial Services AG. Specifically, entities are consolidated either as subsidiaries, with their assets and liabilities, or as joint ventures using the equity-accounting method. Other entities are recognized as non-consolidated subsidiaries, joint ventures, associated companies or equity investments under Miscellaneous financial assets. The entities of the Volkswagen Financial Services AG Group listed below fall within the scope of planned carve-out activities:

Consolidated subsidiaries and ABS special purpose entities:
- Autofinance S.A., Luxembourg
- Driver UK Master S.A., Luxembourg
- Driver UK Multi-Compartment S.A., Luxembourg
- Euro-Leasing A/S, Padborg
- EURO-Leasing GmbH, Sittensen
- MAN Financial Services España S.L., Alcobendas (Madrid)
- MAN Financial Services GesmbH, Eugendorf
- MAN Financial Services Poland Sp. z o.o., Nadarzyn
- MAN Location & Services S.A.S., Evry
- ŠkoFIN s.r.o., Prague
- Trucknology S.A., Luxembourg
- VCL Master Residual Value S.A., Luxembourg
- VCL Master Poland DAC, Dublin
- VCL Master S.A., Luxembourg
- VCL Master Sweden S.A., Luxembourg
- VCL Multi-Compartment S.A., Luxembourg

- Vehicle Trading International (VTI) GmbH, Braunschweig
- Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig
- Volkswagen Finance Belgium S.A., Brussels
- Volkswagen Finance Europe B.V., Amsterdam
- Volkswagen Financial Services France S.A., Villers-Cotterêts
- Volkswagen Financial Services Ireland Ltd., Dublin
- Volkswagen Financial Services N.V., Amsterdam
- Volkswagen Financial Services Polska Sp. z o.o., Warsaw
- Volkswagen Financial Services S.p.A., Milan
- Volkswagen Financial Services (UK) Ltd., Milton Keynes
- Volkswagen Finans Sverige AB, Södertälje
- Volkswagen Insurance Brokers GmbH, Braunschweig
- Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat
- Volkswagen Leasing GmbH, Braunschweig
- Volkswagen Mobility Services S.p.A., Bolzano
- Volkswagen Renting, S.A., Alcobendas (Madrid)
- Volkswagen Renting, Unipessoal, Lda., Amadora
- Volkswagen Versicherung AG, Braunschweig
- Volkswagen-Versicherungsdienst GmbH, Braunschweig

Equity-accounted joint ventures:
- Volkswagen Autoversicherung Holding GmbH, Braunschweig
- Volkswagen D'Ieteren Finance S.A., Brussels
- Volkswagen Financial Services Digital Solutions GmbH, Braunschweig
- Volkswagen Møller Bilfinans A/S, Oslo
- Volkswagen Pon Financial Services B.V., Amersfoort

Non-consolidated subsidiaries:
- Carizy S.A.S., Puteaux
- LOGPAY Charge & Fuel Slovakia s.r.o., Bratislava
- LOGPAY Consorzio, Bolzano
- LOGPAY Financial Services GmbH, Eschborn
- LogPay Fuel Czechia s.r.o., Prague
- LOGPAY Fuel Italia S.r.l., Bolzano
- LogPay Fuel Spain S.L., Barcelona
- LogPay Mobility Services GmbH, Eschborn
- LOGPAY Transport Services GmbH, Eschborn
- Mobility Trader GmbH, Berlin
- Mobility Trader Holding GmbH, Berlin
- Mobility Trader France S.A.S., Neuilly-sur-Seine
- Mobility Trader Spain S.L., Barcelona
- Mobility Trader UK Ltd., London
- Softbridge - Projectos Tecnológicos S.A., Porto Salvo
- Volkswagen Financial Services Hellas A.E., Athens
- Volkswagen Financial Services Schweiz AG, Wallisellen

- Volkswagen Insurance Company DAC, Dublin
- Volkswagen Insurance Service (Great Britain) Ltd., Milton Keynes
- Volkswagen Reinsurance Company DAC, Dublin
- Volkswagen Service Sverige AB, Södertälje
- Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw
- VTXRM - Software Factory Lda., Porto Salvo

Non-consolidated joint ventures, associated companies and equity investments:
- Allianz für die Region GmbH, Braunschweig
- Collect Car B.V., Rotterdam
- Digital Mobility Leasing GmbH, Kassel
- Euromobil GmbH, Sittensen
- FleetCompany GmbH, Oberhaching
- J.P. Morgan Mobility Payments Solutions S.A., Strassen
- movon AG, Cham
- MyDigitalCar GmbH, Hannover
- Shuttel B.V., Leusden
- Staymo S.A.S., Boulogne-Billancourt
- Verimi GmbH, Berlin
- Volkswagen Losch Financial Services S.A., Howald
- Volkswagen Semler Finans Danmark A/S, Bröndby

The carve-out process regarding b) the European operation referred to above includes the carve-out of other assets and liabilities, such as receivables from refinancing activities and pro rata pension obligations of Volkswagen Financial Services AG, in addition to the aforementioned entities.

The two carve-out processes referred to above, covering a) the company shares in the subsidiary Volkswagen Leasing GmbH and b) the European operation of Volkswagen Financial Services AG, comprising the shares in European subsidiaries and equity investments, and other assets and liabilities, create two disposal groups within the Volkswagen Financial Services AG Group that are considered further in the following.

The necessary conditions defined in IFRS 5 for classification as disposal groups held for distribution are cumulatively satisfied for the two disposal groups from the planned carve-out processes as of the December 31, 2023 reporting date and the entities to be carved out and the other assets and liabilities are accordingly classified as disposal groups held for distribution on the reporting date. Preparatory steps paving the way for the planned carve-out processes, which are to be reported on completion as distributions, have already been initiated as part of the restructuring program described and will be continued over the coming months. The carve-out processes are planned for completion with legal effect from July 1, 2024, moreover, and there was no indication as of the reporting date that their implementation would be delayed to any significant extent.

Neither of the two disposal groups identified constitutes in its entirety a reportable segment in the Volkswagen Financial Services AG Group. The assets and liabilities of the disposal group resulting from the carve-out of the company shares in Volkswagen Leasing GmbH are included in the Germany segment. The assets and liabilities of the disposal group resulting from the carve-out of the European operation are allocated to the Germany, UK, Sweden and Other segments. The two disposal groups thus encompass the whole of the Germany, Sweden and UK reportable segments plus parts of the Other segments segment and parts of the Reconciliation.

The entities to be carved out as part of the disposal groups and the other assets and liabilities of Volkswagen Financial Services AG nevertheless constitute an overarching “Europe” discontinued operation. Presentation in the form of a “Europe” discontinued operation creates an adequate distinction between the continuing operation and the discontinued operation of the Volkswagen Financial Services AG Group. The “Europe” discontinued operation thus encompasses the two disposal groups in full.

The discontinued operation and the associated disposal groups held for distribution are reported in accordance with the provisions described in the standard, with the income statement items divided between the continuing operation and the discontinued operation, assets and liabilities of the disposal groups reclassified as of the reporting date to the separate items “Assets held for sale (IFRS 5)” and “Liabilities associated with assets held for sale (IFRS 5)” on the balance sheet and necessary notes presented in the present section.

Consolidation between the continuing operation and the discontinued operation is allocated in the income statement to either the items for the continuing operation or the profit after tax for the discontinued operation with the objective of ensuring the continuing operation is presented properly.

The income statement for the discontinued operation is presented in the following table:

€ million	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
Interest income from lending transactions and marketable securities	655	172
Income from leasing transactions	24,620	20,340
Depreciation, impairment losses and other expenses from leasing transactions	–19,764	–16,111
Net income from leasing transactions	4,856	4,229
Interest expense	–3,388	–1,057
Income from service contracts	2,571	2,406
Expenses from service contracts	–2,374	–2,174
Net income from service contracts	197	231
Income from insurance transactions	262	271
Expenses from insurance transactions	–132	–127
Net income from insurance business	130	145
Provision for credit risks	107	–222
Fee and commission income	533	447
Fee and commission expenses	–342	–323
Net fee and commission income	191	124
Net gain or loss on hedges	–61	–25
Net gain/loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	–342	809
General and administrative expenses	–2,038	–2,019
Other operating income	1,125	929
Other operating expenses	–450	–609
Net other operating income/expenses	675	319
Operating result from the discontinued operation	**983**	**2,707**
Share of profits and losses of equity-accounted joint ventures	76	55
Net gain/loss on miscellaneous financial assets	–130	–192
Other financial gains or losses	–41	–29
Profit before tax from the discontinued operation	**887**	**2,541**
Income tax expense	–265	–1,003
Profit from the discontinued operation, net of tax	**622**	**1,538**
Profit after tax attributable to Volkswagen AG	622	1,538

The disposal groups classified as held for distribution that are reported in the separate balance sheet asset and liability items together comprise the following balance sheet items.

€ million	Dec. 31, 2023
Assets	
Cash reserve	0
Loans to and receivables from banks	2,805
Loans to and receivables from customers attributable to	–
Retail financing	1,694
Dealer financing	2,293
Leasing business	45,577
Other loans and receivables	16,863
Total loans to and receivables from customers	66,426
Value adjustment on portfolio fair value hedges	263
Derivative financial instruments	903
Marketable securities	467
Equity-accounted joint ventures	686
Miscellaneous financial assets	240
Intangible assets	62
Property and equipment	319
Lease assets	37,005
Investment property	69
Deferred tax assets	569
Current tax assets	66
Other assets	3,053
Total	**112,935**

€ million	Dec. 31, 2023
Liabilities	
Liabilities to banks	4,481
Liabilities to customers	23,652
Notes, commercial paper issued	57,078
Derivative financial instruments	1,873
Provisions for pensions and other post-employment benefits	318
Underwriting provisions and other provisions	838
Deferred tax liabilities	959
Current tax liabilities	535
Other liabilities	2,166
Subordinated capital	2,776
Total	**94,677**

The disposal groups classified as held for distribution together include obligations under off-balance-sheet irrevocable credit commitments and financial guarantees amounting to €952 million.

Cumulative expenses of €229 million included in “Other reserves” of equity through other comprehensive income relate to the disposal groups classified as held for distribution as of the reporting date.

The cash flows shown in the Volkswagen Financial Services AG Group cash flow statement include the discontinued operation. The condensed cash flow statement below shows the cash flows of the discontinued operation.

€ million	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
Cash flows from operating activities	–4,998	2,949
Cash flows from investing activities	–1,308	–20
Cash flows from financing activities	6,306	–2,928

The planned carve-out processes at Volkswagen Financial Services AG as described above are to be regarded as transactions under common control, as the subsidiaries to be transferred will still be controlled by the ultimate parent company, Volkswagen AG, and are therefore not subject to the provisions of IFRS 3. The planned carve-out processes, moreover, are to be reported as distributions of non-cash assets to the parent company, Volkswagen AG, making use of the exemption for transactions under common control in accordance with IFRIC 17.5, meaning that the assets to be transferred will be derecognized from retained earnings. IAS 8.10 specifies that an accounting policy must be applied to ensure such matters that are exempted from the IFRSs and thus not covered by the regulations are presented in a way that is relevant and reliable. It is intended to use the predecessor accounting method for the planned transfer of entities. The same method is to be applied analogously to the transfers of joint ventures and associated companies so that the planned carve-out of these entities is also presented properly.

It is in principle the case that the income statement disclosures relate only to continuing operation and the information in the disclosures concerning balance sheet items as of the reporting date relates only to the relevant line items after the reclassification of the disposal groups. Any instances in which this principle is not followed are identified clearly. Changes have been made to the structure of the notes to the consolidated financial statements in response to the application of IFRS 5 in the interests of clarity. The disclosures concerning insurance contracts relate solely to contracts that are shown separately on the balance sheet as part of a disposal group. These disclosures are therefore also presented in a separate note (68) “Insurance contract disclosures” under Other Disclosures. The disclosures concerning ABS transactions have been moved to the Financial Instrument Disclosures. The information concerning lessor accounting and lessee accounting for lease buyback transactions in the disclosures regarding leases treats leases in disposal groups separately from leases not in disposal groups.

Disposal group “VW FS AG Entities in Russia”

In accordance with the provisions of IFRS 5, the consolidated subsidiaries OOO Volkswagen Bank RUS, Moscow/Russia, OOO Volkswagen Group Finanz, Moscow/Russia and OOO Volkswagen Financial Services RUS, Moscow/Russia were still classified at December 31, 2023 as a disposal group held for sale. The implementation of the disposal plan, which commenced already in 2022 and was expected to conclude in 2023, could not be completed due to a required approval from the Russian authorities that was still outstanding as of December 31, 2023. The expectation now is that the outstanding approval will be granted and the disposal process concluded in the first half of 2024. The disposal group as a whole is subject to the measurement provisions of IFRS 5 because it contains assets that fall within the scope of IFRS 5. The disposal group as a whole is measured at the lower of the carrying amount and fair value less costs to sell. Impairment losses of €186 million resulting from the IFRS 5 measurement provisions were recognized through December 31, 2023. Figures for the disposal group are reported on the balance sheet in the separate balance sheet items "Assets held for sale (IFRS 5)" and "Liabilities associated with assets held for sale (IFRS 5)".

The main groups of assets classified as held for sale and liabilities of the disposal group are presented below after recognition and allocation of IFRS 5 impairment losses.

€ million	Dec. 31, 2023	Dec. 31, 2022
Financial assets	73	562
Miscellaneous assets	12	15
Assets held for sale (IFRS 5)	**85**	**577**
Financial liabilities	18	465
Miscellaneous liabilities	8	13
Liabilities associated withs assets held for sale (IFRS 5)	**26**	**478**

Accumulated losses from foreign exchange differences (RUB to EUR) in the amount of €235 million are recognized in other comprehensive income in relation to the disposal group. The disposal group is not presented as a separate IFRS 8 operating segment. The disposal group is instead included in segment reporting under "Other segments".

The assets and liabilities of the disposal Group "VW FS AG Entities in Russia" are part of the continuing operation. The disposal group is not part of Volkswagen Financial Services AG's "European operation" and is thus not allocated to the discontinued operation under the restructuring program to establish a European financial holding company.

4. Consolidation methods

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

When subsidiaries are consolidated for the first time, the assets and liabilities, together with contingent consideration, are recognized at fair value on the date of acquisition. Subsequent changes in the fair value of contingent consideration do not generally result in an adjustment of the acquisition-date measurement. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries.

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

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

Intragroup transactions are conducted on an arm's-length basis. Any resulting intercompany profits or losses are eliminated.

5. Currency translation

Transactions in foreign currencies are translated in the single-entity financial statements of VW FS AG and its consolidated subsidiaries at the rates prevailing at the transaction date. Foreign currency monetary items are reported in the balance sheet using the middle rate at the closing date and the resulting gains or losses are recognized in profit or loss. The foreign companies which form part of the VW FS AG Group are independent subunits whose financial statements are translated using the functional currency principle. Under this principle, assets and liabilities, but not equity, are translated at the closing rate. With the exception of income and expenses recognized directly in equity, equity is translated at historical rates. Until the disposal of the subsidiary concerned, the resulting exchange differences on translating foreign operation are recognized in other comprehensive income and are presented as a separate item in equity.

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

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

Rates supplied by an external market data provider are used for translation throughout the whole of the VW FS AG Group. The following table shows the closing date middle spot rates used and, for information purposes, the unweighted average rates for the year derived from the monthly average rates used.

		Balancesheet, middle spot rate on Dec. 31		Income statement, average rate	
	€1 =	2023	2022	2023	2022
Australia	AUD	1.62920	1.57060	1.62859	1.51749
Brazil	BRL	5.37495	5.64440	5.40306	5.44441
Denmark	DKK	7.45300	7.43685	7.45098	7.43967
United Kingdom	GBP	0.86910	0.88680	0.87001	0.85256
India	INR	92.11700	88.16400	89.33732	82.73456
Japan	JPY	156.79000	140.66500	151.93821	138.02361
Mexico	MXN	18.76890	20.88790	19.19575	21.21209
Poland	PLN	4.34090	4.68600	4.54402	4.68566
Republic of Korea	KRW	1,440.71500	1,338.29500	1,413.50465	1,358.19726
Russia	RUB	99.96610	76.28680	92.29940	73.27417
Sweden	SEK	11.08735	11.07865	11.47160	10.62776
Taiwan	TWD	33.92110	32.70475	33.69924	32.47688
Czech Republic	CZK	24.71800	24.14500	24.00353	24.55830
People’s Republic of China	CNY	7.87000	7.36605	7.65984	7.08135

6. Revenue and expense recognition

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

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

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

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

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

A trade receivable is recognized for the period between revenue recognition and receipt of payment. Any financing component included in the transaction is not recognized because the period between the transfer of the goods and the payment of consideration is generally less than a year. In the VW FS AG Group, contract origination costs are capitalized and amortized on a straight-line basis over the term of the contract only if the underlying contract has a term of at least one year and these costs would not have been incurred if the contract concerned had not materialized.

Fee and commission income from brokering insurance contracts is recognized in accordance with contractual arrangements with the insurers when the entitlement arises, i.e. when the related premium is charged to the policyholder.

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

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

7. Income taxes

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

Deferred tax assets are recognized if it is probable that in the future sufficient taxable profits will be generated in the same tax unit against which the deferred tax assets can be utilized. If it is no longer likely that it will be possible to recover deferred tax assets within a reasonable period, valuation allowances are applied.

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

The model rules concerning a global minimum level of taxation (Pillar 2) published by the OECD have been adopted, either in full or in large part, in a number of countries in which the VW FS AG Group operates. The legislation in Germany enters into force for the VW FS AG Group fiscal year beginning January 1, 2024. The VW FS AG Group, which falls within the scope of the legal provisions adopted or largely adopted, has assessed the potential risk for the Group in relation to the global minimum level of taxation based on the most recent available country reports and annual financial statements for the business units of the VW FS AG Group. It found that the effective Pillar 2 tax rates in most of the countries in which the VW FS AG Group operates are over 15%. There are, however, a small number of countries in which the temporary safe harbor simplification does not apply and the effective Pillar 2 tax rate is below 15%. The VW FS AG Group does not anticipate any material income tax risk associated with Pillar 2 in these countries. The exemption introduced in May 2023 with the amendments to IAS 12 means that deferred taxes linked to taxes on income resulting from applicable or announced tax regulations for the implementation of the Pillar 2 model rules are neither recognized nor reported in the VW FS AG Group.

8. Cash reserve

The cash reserve is carried at the nominal amount.

9. Financial instruments

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

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

IFRS 9 breaks down financial assets into the following categories:

> Financial assets measured at fair value through profit or loss
> Financial assets measured at fair value through other comprehensive income (debt instruments)
> Financial assets measured at fair value through other comprehensive income (equity instruments), and
> Financial assets measured at amortized cost

Financial liabilities are classified using the following categories:

> Financial liabilities measured at fair value through profit or loss, and
> Financial liabilities measured at amortized cost.

In the VW FS AG Group, the categories shown above are allocated to the classes “financial assets and liabilities measured at amortized cost” and “financial assets and liabilities measured at fair value”.

The fair value option for financial assets and financial liabilities is not applied in the VW FS AG Group. Financial assets and financial liabilities are generally reported with their unnetted gross values. Offsetting is only applied if, at the present time, the offsetting of the amounts is legally enforceable by the VW FS AG Group and there is an intention to settle on a net basis in practice.

FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTIZED COST

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

Financial liabilities other than derivatives are allocated to the measurement category of financial liabilities measured at amortized cost.

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

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

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

Changes in fair value that extend beyond the changes in the amortized cost of these financial assets are recognized in other comprehensive income (taking into account deferred taxes) until the financial asset concerned is derecognized. Only then are the accumulated gains or losses reclassified to profit or loss. Changes due to specific changes in fair value, such as impairment losses, interest determined in accordance with the effective interest method and foreign currency gains or losses, are immediately recognized in profit or loss.

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

The financial assets measured at fair value through profit or loss encompasses financial assets (debt instruments) measurement category for which the cash flow criterion is not satisfied, or that are managed within a business model that aims to sell these assets in order to realize cash flows ("sell" business model). In addition, derivatives are allocated to the financial assets measured at fair value through profit or loss and financial liabilities measured at fair value through profit or loss.

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

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

The VW FS AG Group recognizes financial assets that represent an equity instrument and are not held for trading purposes in the financial assets measured at fair value through other comprehensive income (equity instruments) measurement category. Equity instruments are measured at fair value through other comprehensive income in exercise of the fair-value-through-OCI option. The accumulated gains or losses from remeasurement are transferred on derecognition to retained earnings and not to the income statement (i.e. they are not reclassified to profit or loss).

LOANS AND RECEIVABLES

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

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

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

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

The accounting policies relating to receivables from customers attributable to the leasing business in the VW FS AG Group are described in note (14) Leases.

MARKETABLE SECURITIES

The "Marketable securities" balance sheet item largely comprises investments of resources in the form of fixed-income securities from public- and private-sector issuers as well as investment fund shares/units within the framework specified by the investment policy issued by Volkswagen Versicherung AG.

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

Shares/units in investment funds are allocated to the category of financial assets measured at fair value through profit or loss. Gains and losses arising from the remeasurement of shares/units in investment funds are recognized in profit or loss under gains and losses on financial instruments measured at fair value.

EQUITY INVESTMENTS

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

If, in the case of non-material equity investments, there is no active market and there is no evidence that the fair values are significantly different from cost, such equity investments are accounted for at cost and reported under financial assets measured at fair value.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments comprise derivatives designated as hedging instruments and derivatives not designated as hedging instruments. All derivatives are measured at fair value and are presented separately in notes (37) and (47).

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

In the VW FS AG Group, entities enter into derivative transactions solely for hedging purposes as part of the management of interest rate and/or currency risk.

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

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

Portfolio fair value hedge accounting reports transactions to hedge the risk of changes in the interest rates of hedged items (receivables from finance leases) on a portfolio basis. The hedged interest rate risk for the hedged items is based on the 3-month EURIBOR/SONIA. The VW FS AG Group exercises the option afforded in the provisions of IAS 39 regarding hedge accounting in its portfolio fair value hedge accounting treatment. As part of the accounting treatment of hedges in portfolio fair value hedge accounting, the hedged fair value changes for hedged items are recognized in a separate asset item in the balance sheet (“Change in fair value from portfolio fair value hedges”).

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

Changes in the fair values of derivatives that do not satisfy the IFRS 9 or IAS 39 criteria for hedge accounting and are therefore accounted for in the measurement category of financial assets and financial liabilities measured at fair value through profit or loss are recognized in profit or loss under net gain or loss on financial instruments measured at fair value. Fair values are also reported for derivatives arising from early termination rights in the form of derivatives embedded in finance leases.

Interest income or interest expense related to derivatives is reported in the income statement item in which the interest income or interest expense related to the hedged item is presented.

PROVISION FOR CREDIT RISKS

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

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

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

In the case of financial assets already impaired on initial recognition (POCI) and classified as Stage 4 for the purposes of the disclosures, the provision for credit risks is recognized in subsequent measurement on the basis of the cumulative changes in the expected credit loss for the entire life of the asset concerned.

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

In the VW FS AG Group, the provision for credit risks relating to trade receivables and to operating and finance lease receivables accounted for in accordance with IFRS 16 is uniformly determined using the simplified approach. The valuation allowance for trade receivables is calculated according to the extent to which the receivable is past due using a valuation allowance table (provision matrix).

Both historical information, such as average historical default probabilities for each portfolio, and forward-looking information, such as macroeconomic factors and trends (e.g. rate of change for gross domestic product, unemployment rate), linked to expected credit losses, are used to determine the measurement parameters for calculating the provision for credit risks. To model the measurement parameters, calculations are carried out for various probability-weighted scenarios using region-specific macroeconomic factors.

The calculation to determine whether the credit risk has increased significantly at the reporting date generally takes into account the maturity of the agreement. The credit risk expected for the reporting date on the date of initial recognition is compared against the actual credit risk on the reporting date on the basis of the 12-month probability of default (PD). For the purposes of the comparison, the expected PD for the reporting date is determined by taking into account the maturity. Depending on the internal risk management models applied, threshold values are specified for expected credit risk using statistical methods and expert assessments, taking into account transaction-specific variables (such as maturity, payment record and credit process). A credit risk higher than the threshold value indicates a significant increase in credit risk. Depending on specific regional circumstances, qualitative factors may also be used to determine a significant increase in credit risk. This includes the addition of contracts to a watchlist for customers with loans subject to intensified loan management. Generally speaking, credit risk is assumed to have increased significantly, at the latest, if payments are past due by more than 30 days unless the financial assets have already been allocated to Stage 3 because of other objective evidence of impairment or, as a consequence of a substantial contractual modification, they are added to Stage 1 again at the reporting date despite payments being past due.

A financial asset for which the credit risk is determined to be very low at the reporting date can normally be allocated to Stage 1. In the VW FS AG Group, largely in the capital markets business, a very low credit risk can be assumed if the financial asset is classified as investment grade.

According to the definition of default used by the VW FS AG Group, there is deemed to be objective evidence of impairment if a number of situations arise, such as payment delayed by more than 90 days, the initiation of enforcement measures, the threat of insolvency or over-indebtedness, application for or the initiation of insolvency proceedings, or the failure of restructuring measures.

Additional valuation allowances (post-model adjustments) are recognized on a country-specific basis in the provision for credit risks where the standard models and processes implemented do not fully cover the uncertainties in the global economy and management judges it appropriate to include other aspects in making assessments about the future. All available sufficiently reliable information and the macroeconomic factors relevant to the assessment are factored in to establish the additional valuation allowances due to global economic uncertainties.

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

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

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

Disclosures relating to the provision for credit risks are presented separately in notes (23) and (62).

MODIFICATIONS

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

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

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

LIABILITIES

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

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

10. Value adjustment on portfolio fair value hedges

This assets-side line item on the balance sheet recognizes changes in the hedged fair value in relation to the hedged interest rate risk for the hedged items covered by portfolio fair value hedge accounting. The effects arising from the amortization of changes in fair value recognized for hedged items (changes in hedged fair value) in portfolio fair value hedges are reported in the interest income from hedged financial assets.

11. Miscellaneous financial assets

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

Investments in unconsolidated subsidiaries are recognized at cost taking into account any necessary impairment losses. Impairment losses are recognized in profit or loss if there are country-specific indications of significant or permanent impairment (e.g. imminent payment difficulties or economic crises). Subsidiaries or joint ventures not consolidated for reasons of materiality do not fall within the scope of IFRS 9 and are therefore not included in the disclosures required by IFRS 7.

The accounting policies applicable to equity investments are set out in note (9) Financial Instruments.

12. Intangible assets

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

Subject to the conditions specified in IAS 38, internally developed software is capitalized. Amortization is on a straight-line basis over the useful life of three to five years from the start of use and is reported under general and administrative expenses.

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

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

Goodwill is tested for impairment once a year and also if relevant events or changes in circumstances occur. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized.

The recoverable amount of goodwill is derived from the value in use for the relevant cash-generating unit, which is determined using the discounted cash flow method. The basis is the latest planning data prepared by management for a planning period of five years, with growth in subsequent years estimated using a flat rate percentage. This planning is based on expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and on assumptions derived from these trends about financial services, taking into account market penetration, risk costs and margins. Information about the assumptions made in the detailed planning period is presented in the disclosures regarding management's material estimates and assumptions. Additional details are included in the report on expected developments, which forms part of the management report. Planning assumptions are adjusted in line with the latest available information.

The calculation of cash flows is based on the forecast growth rates for the relevant markets. Cash flows after the end of the planning period are generally estimated using a growth rate of 1% p.a. (previous year: 1% p.a.).

The interest rate used is based on the long-term market interest rate relevant to each cash-generating unit (regions or markets). If necessary, the standard cost of equity rate for the Group is also adjusted using discount factors specific to the country and business concerned. The interest rates used are disclosed in note (39).

13. Property and equipment

Property and equipment (land and buildings plus operating and office equipment) is recognized in accordance with the cost model. Depreciation is applied on a straight-line basis over the estimated useful life.

Depreciation on assets reported under property and equipment is based mainly on the following useful lives:

Property and equipment	Useful lives
Buildings and property facilities	10 to 50 years
Operating and office equipment	3 to 15 years

At every reporting date, property and equipment are tested to establish whether there are any indications of impairment, for example as a result of relevant events or changes in circumstances. The recoverable amount for the asset is compared against its carrying amount in such cases. If the recoverable amount of the asset concerned has fallen below its carrying value, an impairment loss is recognized in accordance with IAS 36.

Depreciation expense and impairment losses are reported within general and administrative expenses. Income from the reversal of impairment losses is recognized in net other operating income/expenses.

The property and equipment line item on the balance sheet also includes right-of-use assets in connection with leases in which the VW FS AG Group is the lessee. The accounting policies for these right-of-use assets are set out in note (14) Leases within the subsection covering the Group as lessee.

14. Leases

GROUP AS LESSOR

The VW FS AG Group conducts both finance lease and operating lease business. The leases are mainly vehicle leases, but to a lesser extent also involve land, buildings and dealer equipment.

Lease income and lease expenses that the Group generates or incurs as a lessor are recognized under income from leasing transactions and depreciation, impairment losses and other expenses from leasing transactions in the income statement and are explained in note (20) Net Income from Leasing Transactions. Net income from leasing transactions largely consists of the following components: revenue from operating leases, interest income from finance leases, gains and expenses from the disposal of used ex-lease vehicles, net interest income/expense from derivatives used for hedging of finance leases, and depreciation and impairment losses in respect of lease assets. Interest income from finance leases includes the effects arising from the amortization of changes in fair value recognized for hedged items (changes in hedged fair value) resulting from finance lease receivables in portfolio fair value hedge accounting.

A finance lease is a lease that transfers substantial risks and rewards to the lessee. Where residual value guarantees are agreed, residual value risks are passed to the residual value guarantor. In the consolidated balance sheet, receivables from finance leases are reported within loans to and receivables from customers and the net investment in the lease generally equates to the cost of the lease asset. Interest income from these transactions is reported under leasing income in the income statement. The interest paid by the customer is allocated so as to produce a constant periodic rate of interest on the remaining balance of the lease receivable. The net interest income or expense from derivatives held for interest rate hedging in connection with some of the finance lease receivables is recognized under income from leasing transactions. This net interest income or expense from derivatives is reported within the income from leasing transactions in order to present hedged interest income from finance leases, including the net interest income or expense from derivatives held for interest rate hedging, as it accrues to the VW FS AG Group.

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

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

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

GROUP AS LESSEE

The right-of-use asset for leases in which the VW FS AG Group is the lessee is depreciated on a straight-line basis over the term of the lease. The depreciation expense is reported under general and administrative expenses. The allocation of the depreciation amounts for right-of-use assets to the categories "Right of use on land, land rights and buildings incl. buildings on third party land" and "Right of use on other equipment, operating and office equipment" is shown in note (67) Leases. In the subsequent measurement of the lease liability, the carrying amount is updated using the effective interest method and taking into account the lease payments made. The interest expenses arising from the application of the effective interest method are reported under interest expenses in the income statement.

The right-of-use assets recognized in the balance sheet for leases are reported under those line items in which the lease's underlying assets would have been reported if these assets had been in the beneficial ownership of the VW FS AG Group. The right-of-use assets are therefore reported as of the reporting date under property and equipment.

Lease liabilities are carried at the present value of the lease payments.

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

Leases of the VW FS AG Group may include extension or termination options that are taken into account when determining the lease term.

BUYBACK TRANSACTIONS

The VW FS AG Group enters into vehicle purchase contracts in which there is a fixed buyback agreement with the vehicle sellers, who are entities in the Volkswagen Group. Ultimately, these contracts entitle the Group solely to use the vehicles during an agreed timeframe, the contracts being accounted for as leases. The Group is the lessee in the primary lease and uses the vehicles made available under the lease to conduct leasing business with customers. The leases with customers are treated as subleases linked to the right of use received for the period of use and are classified as finance leases or operating leases according to the classification criteria. The vast majority of buyback transactions are classified as finance leases and the values arising from the transfer of the right of use are consequently presented as receivables from finance leases in the balance sheet. To a lesser extent, some transactions are classified as operating leases and the values arising from the transfer of the right of use are thus in this case accounted for as lease assets.

In connection with buyback transactions, buyback receivables are also recognized under loans to and receivables from customers within other loans and receivables in the amount of the buyback values agreed at the inception of the lease. In the case of noncurrent leases (maturity of more than one year), the agreed buyback value is discounted at the inception of the lease. The unwinding of the discount during the term of the lease is recognized in interest income.

15. Investment property

Land and buildings held to earn rentals are reported under the Investment property line item in the balance sheet and recognized in accordance with the cost model. This item largely consists of data processing centers leased out to a joint venture and real estate assets leased to dealer businesses. The fair values disclosed in the notes are determined by discounting the estimated future cash flows using the relevant long-term market discount rate. Depreciation is applied on a straight-line basis over useful lives of nine to 33 years. Any impairment identified as a result of an impairment test in accordance with IAS 36 is taken into account by recognizing an impairment loss.

16. Provisions for pensions and other post-employment benefits

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

The VW FS AG Group provides occupational pensions in the form of both defined contribution and defined benefit plans. In the case of defined contribution plans, the Company makes contributions to state or private pension schemes based on statutory or contractual requirements, or on a voluntary basis. Once the contributions have been paid, the VW FS AG Group has no further obligations. Current contributions are recognized as pension expenses of the period concerned. In 2023, they amounted to a total of €52 million (previous year: €50 million) in the VW FS AG Group. Contributions to the compulsory state pension system in Germany amounted to €41 million (previous year: €39 million).

Pension schemes in the VW FS AG Group are predominantly defined benefit plans in which there is a distinction between pensions funded by provisions (without plan assets) and externally funded plans (with plan assets).

The pension provisions for defined benefit commitments are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19. This means that the future obligations are measured on the basis of the proportionate benefit entitlements earned as of the reporting date. The measurement of pension provisions takes into account actuarial assumptions regarding discount rates, salary and pension trends, life expectancy and employee turnover rates, which are determined for each Group company depending on the economic environment.

Detailed disclosures on provisions for pensions and other post-employment benefits are set out in note (48).

17. Insurance business

Inward reinsurance and direct insurance operation are accounted for in the period in which the reinsurance or insurance arises without any time delay.

Insurance contracts are accounted for in accordance with IFRS 17 (see explanatory notes regarding the effects of IFRS 17 insurance contracts under "Effects of New and Revised IFRSs").

Underwriting items are measured using the general measurement model. Measurement proceeds at the level of groups of insurance contracts rather than at the level of individual contracts. This involves grouping insurance contracts with similar risks that are managed together into portfolios and then subdividing them into specific measurement groups by profitability and contracts concluded per quarter. Annual cohorts, which are used to avoid contracts issued more than one year apart being included in the same group, are created using the date on which the contract was accepted by the insurance company as the date of issue.

Measurement proceeds on the basis of expected future discounted cash flows and a risk component for nonfinancial risks plus a contractual service margin. For groups of insurance contracts categorized as profitable at the date of initial recognition, the expected profit is recognized in this service margin and realized over the coverage period as services are provided. For groups of insurance contracts for which the sum of the present value of cash outflows and the risk adjustment for nonfinancial risk exceeds the present value of expected cash inflows, in contrast, the loss expected on the date of initial recognition is immediately expensed in full.

The risk margin for nonfinancial risks is the insurer's compensation for assuming the nonfinancial risks associated with the cash flows. Nonfinancial risks in this context specifically include underwriting risk as well as other nonfinancial risks to be allocated to the underlying insurance contracts, such as cancellation risk and cost risks. The risk margin is determined on the basis of the value at risk. The risk adjustment for nonfinancial risks corresponds to a confidence level of 80%. The reversal of the risk margin comes entirely within the Technical insurance result.

Investment components are measured in line with the applicable cases by determining the payments to be made to the policyholder – currently always with direct insurance companies covered by reinsurance – given an entirely claim-free term.

The individual measurement components are measured separately on both initial recognition and subsequent measurement. A distinction is drawn in the subsequent measurement between the liability for remaining coverage (LRC) and the liability for incurred claims (LIC). The liability for incurred claims is the fulfillment cash flow for claims payments including costs for the allocated measurement group at this time, while the liability for remaining coverage is the fulfillment cash flow for the remaining coverage of the allocated group at this time plus the contractual service margin of this group. The contractual service margin is amortized according to a profile based on the coverage provided in the various periods.

Provisions for outstanding claims in inward reinsurance business are recognized on the basis of the information provided by the cedants. They are measured on the basis of each claim in accordance with the estimated requirement. The chain ladder method or modified chain ladder method is generally used to determine the expected payments for loss events that are not yet known. A risk adjustment for nonfinancial risk is also applied. Liabilities are determined by an actuarial department using actuarial methods and expert judgment. These methods incorporate the best possible estimates of cash flows (for example for claims, premiums and costs) based on historical data for the portfolios concerned or similar portfolios. The estimates of future cash flows include all cash flows that are likely to occur in connection with the fulfillment of the insurance contract.

One of the main features of the insurance business is underwriting risk, which comprises primarily premium risk, reserve risk, cancellation risk and catastrophe risk. VW FS AG counters these risks by constantly monitoring the basis of computations, making appropriate additions to provisions and applying a restrictive underwriting policy. This business is predominantly short term in nature and most longer-lasting risks are transferred to large reinsurance companies, so the risks enumerated dominate the overall risk profile in respect of underwriting liabilities and are therefore a particular priority. Credit risk in insurance business stems largely from transfers to reinsurance companies and existing receivables from direct insurers, primarily, but also brokers and end customers. Default risk is monitored continuously for risk management purposes. Liquidity risk results principally from unexpected payment obligations or unexpectedly high claims payments that can potentially lead to the premature disposal of investments at a discount to market prices. Management takes the form of regular monitoring, the definition of liquidity categories for investments and the maintenance of liquidity buffers. Market risk from insurance liabilities arises within the VW FS AG Group in the shape of interest rate, spread, exchange rate and equity risks. These are managed in accordance with the prudent person principle by means of Volkswagen Versicherung AG's investment policy, which contains a substantial number of stipulations regarding permitted investments and the nature of the portfolio. These stipulations are monitored constantly with reference to defined limits. Risk monitoring activities specifically include the standardized quarterly and annual calculations prescribed by the supervisory authorities for the solvency capital requirement, and overall solvency needs, and the preparation of the associated reports for general publication, for the supervisory authorities and for management.

For contracts, the primary object of which is the performance of services for fixed remuneration (fixed fee service contracts as described in IFRS 17.8), the VW FS AG Group exercises the option to treat these contracts as contracts for services in accordance with IFRS 15.
It is mandatory to discount reserves. The VW FS AG Group uses the bottom-up approach to calculate the discount rate. The risk-free yield curve for insurance business is in principle derived from overnight index swaps for the currency in which the underlying insurance contracts are concluded.

The table below sets out the interest rates used to discount the cash flows from insurance contracts:

	UP TO 1 YEAR		1 – 5 YEARS		MORE THAN 5 YEARS		MORE THAN 10 YEARS	
Percent	from	to	from	to	from	to	from	to
EUR	3.34	3.49	2.42	2.57	2.29	2.44	2.39	2.55
GBP	4.82	4.82	–	–	–	–	–	–
JPY	0.23	0.23	0.44	0.44	0.61	0.61	–	–
TRY	49.87	49.87	30.78	30.78	25.97	25.97	–	–
SEK	3.58	3.58	2.60	2.60	2.34	2.34	–	–
CZK	5.34	5.34	3.82	3.82	3.56	3.56	–	–
PLN	5.43	5.51	4.48	4.55	4.21	4.29	–	–
CHF	1.49	1.57	1.18	1.25	1.16	1.24	–	–

The costs incurred in concluding contracts are allocated in full to the new contracts concluded in an existing or new contract group. Costs are not divided between new contracts concluded and follow-up contracts expected in the future.
The VW FS AG Group uses the year-to-date method for the treatment of accounting estimates made in previous quarters. Estimates from previous quarters are therefore revised and recognized in full in profit or loss.

18. Other provisions

Under IAS 37, provisions are recognized if a present legal or constructive obligation to a third party has arisen as a result of a past event, it is probable that settlement in the future will result in an outflow of resources embodying economic benefits and the amount of the obligation can be estimated reliably. If an outflow of resources is neither probable nor improbable, the amount concerned is deemed to be a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note (70).

The share-based remuneration within Other provisions and within Other liabilities includes performance share plans, that is to say remuneration plans that are implemented by means of cash settlement based on Volkswagen AG preferred shares and accounted for in accordance with IFRS 2. The remuneration expense is treated as part of personnel expenses within general and administrative expenses reported in the income statement.

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

Income from the reversal of other provisions is generally recognized in the income statement item or net income item in which the associated expense was recognized in previous fiscal years.

Provisions that are not associated with an outflow of resources within one year are recognized at their settlement amount discounted to the reporting date using market discount rates. An average discount rate of 2.87% (previous year: 3.16%) has been used for the provisions in the eurozone under Other provisions. The settlement amount also includes expected cost increases.

19. Estimates and assumptions by management

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

Assumptions and estimates are based on the latest available information. The circumstances prevailing at the time the consolidated financial statements are prepared and future trends in the global and sector environment considered to be realistic are taken into account in the projected future performance of the business. Management’s estimates and judgments have been made on the basis of assumptions relating, in particular, to macroeconomic trends as well as trends in automotive markets, financial markets and the legal framework.

The planning assumption in respect of global economic development is that global economic output will grow at a slower rate in 2024 than in 2023. The persistently high level of inflation in important economic regions and the resulting restrictive monetary policy measures taken by central banks are expected to continue dampening consumer spending. In addition, growth prospects will be impacted by ongoing geopolitical tensions and conflicts, with the Russia-Ukraine conflict and the fighting in the Middle East particular sources of risk. It is assumed that both the advanced economies and the emerging markets will show positive momentum on average, albeit with below-average growth in gross domestic product (GDP). The general expectation is that the global economy will recover in 2025 and continue on a path of stable growth through 2028.

These assumptions suggest that automotive financial services will prove highly important to global vehicle sales in 2024. 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. Demand is expected to rise in emerging markets where market penetration has so far been low. Regions with established automotive financial services markets will probably see a continuation of the trend towards enabling mobility at the lowest possible total cost. The shift from financing in favor of lease contracts will also continue, as was initiated in European financial services business with individual customers. Integrated end-to-end solutions that include mobility-related service modules such as insurance and innovative packages of services are likely to become increasingly important. Additionally, demand is expected to increase for new forms of mobility, such as rental and car subscription (Auto-Abo) services, and for integrated mobility services including parking, refueling and charging.

Trends in the markets for passenger cars in 2024 are expected to be positive overall, but with some variation from region to region. Overall, the global volume of new car sales is expected to be slightly higher than in the previous year. Uncertainty may arise from the continued shortage of intermediates and commodities. These could be further exacerbated by the impacts of the Russia-Ukraine conflict and fighting in the Middle East, the consequences of which could specifically include rising prices and a reduction in the availability of energy. Growing demand for passenger cars is forecast worldwide in the period from 2025 to 2028. Trends in the markets for light commercial vehicles are also likely to vary from region to region, with 2024 bringing a slight year-on-year increase in sales volume overall and demand for light commercial vehicles growing worldwide in the period 2025 through 2028. New registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes are expected to decrease noticeably in 2024 as compared with the prior year in the markets of relevance for the Volkswagen Group, with some regions experiencing a bigger change than others.

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

The mix of drive types in the Volkswagen Financial Services AG’s portfolio will change over time as the transition to zero-emissions mobility progresses. The implications of this transition for residual values in the portfolio are monitored continuously using an appropriate method for the analysis and evaluation of ESG factors, including technological and regulatory changes and CO_2 transition costs. The defined residual values of vehicles of different drive types are updated in line with the results of this monitoring at regular intervals for the purposes of both new business and residual value forecasting. Customer behavior and the structure of the market are also key determining factors in this context alongside the aforementioned elements. No additional estimation uncertainty arising from ESG/sustainability considerations that would materially affect existing estimates, for example of the recoverable amount of leased assets, in the consolidated financial statements is apparent as of the current reporting date. Possible future effects of ESG/sustainability factors on existing estimates are considered continuously. The assumptions and estimates largely relate to the items set out below.

RECOVERABLE AMOUNT OF LEASE ASSETS

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

LEASE TERM IN LESSEE ACCOUNTING

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

FINANCIAL INSTRUMENTS

The procedure for determining the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. When possible, these estimates take into account the latest market data as well as rating classes and scoring information derived from empirical values and combined with forward-looking parameters. Estimates and assumptions by management of future events are required in particular for the determination of country-specific additional valuation allowances due to global economic uncertainties. Further information on determining valuation allowances can be found in the disclosures on the provision for credit risks (note 9).

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

INCOME FROM SERVICE CONTRACTS

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

PROVISIONS

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

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

In the case of other provisions, expected values are used as the basis for measurement, which means that changes are made on a regular basis, involving either additions to the provisions or the reversal of unused provisions. Changes in the estimates of the amounts for other provisions are always recognized in profit or loss. The recognition and measurement of provisions for litigation and legal risks included within other provisions requires making predictions with regard to court decisions and the outcome of legal proceedings. Each case is individually assessed on its merits based on developments in the proceedings, the company's past experience in comparable situations and evaluations made by experts and lawyers.

INSURANCE BUSINESS

The measurement of underwriting items (see note (17)) depends to a certain extent on the use of estimates and/or assumptions. This of course applies in particular to future events that have to be considered in calculating the liabilities, but also to the aggregation and simplification steps necessary to make the calculations feasible. The use of estimates and judgment-based decisions thus has a material impact on the measurement of insurance liabilities, appropriate aggregation to create calculation groups and the allocation of cash flows occurring. This is particularly true of new business taken on for which there is no historical data and for liabilities grouped in less refined calculation units in compliance with the standards that were created prior to the transition to IFRS 17.

RECOVERABLE AMOUNT OF NONFINANCIAL ASSETS, JOINT VENTURES AND EQUITY INVESTMENTS

The impairment tests applied to nonfinancial assets (particularly goodwill and brand names), equity-accounted joint ventures and equity investments measured at cost require assumptions related to the future cash flows in the planning period and, where applicable, beyond. The assumptions about the future cash flows factor in expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and expectations derived from these trends about financial services, taking into account market penetration, risk costs, margins and regulatory requirements. The assumptions are based on current estimates by third-party institutions, which include economic research institutes, banks, multinational organizations and consulting firms. The discount rates used in the discounted cash flow method applied when testing goodwill for impairment are based on specified cost of equity rates, taking into account historical experience and appropriate assumptions regarding macroeconomic trends. In particular the forecasts for short- and medium-term cash flows, and the discount rates used, are subject to uncertainty outside the control of the group.

DEFERRED TAX ASSETS AND UNCERTAIN INCOME TAX ITEMS

When determining deferred tax assets, there is a need to make assumptions about future taxable income and the timings for any recovery of the deferred tax assets. The measurement of deferred tax assets for tax loss carryforwards is generally based on future taxable income within a planning horizon of five fiscal years.

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

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

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

The pricing of individual services is particularly complex in contracts for cross-border intragroup services because, in many cases, there are no observable market prices or the application of market prices for similar services is subject to some uncertainty because the services are not comparable. In such cases – and for tax purposes – the pricing is determined using uniform measurement methods applied in generally accepted business practice.

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

Income Statement Disclosures

The income statement disclosures in principle relate to the income statement items that are allocated to continuing operation in the income statement. Any disclosures relating to both continuing operation and discontinued operation are clearly identified as such.

20. Net income from leasing transactions

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

€ million	2023	2022 restated[1]
Leasing income from operating leases	448	202
Interest income from finance leases	128	127
Gains from the disposal of used ex-lease vehicles	527	337
Net interest income/expense from finance lease hedging derivatives	–	–
Miscellaneous income from leasing transactions	13	25
Income from leasing transactions	**1,117**	**692**
Lease assets depreciation and impairment losses	–208	–170
Expenses from the disposal of used ex-lease vehicles	–511	–323
Miscellaneous expenses from leasing transactions	–25	–21
Depreciation, impairment losses and other expenses from leasing transactions	**–744**	**–515**
Total	**373**	**177**

1 Prior-year restated as explained under “Changes to Prior-Year Figures”.

21. Interest expense

Interest expenses include funding expenses for lending and leasing business. Interest income and expenses on derivatives not designated as hedging instruments for hedging financial liabilities amount to €3 million (previous year restated: €1 million).

The disclosures relating to the interest expenses for lease liabilities reported under the interest expenses line item in the income statement can be found in note (67) Leases.

22. Net income from service contracts

Of the total income recognized for service contracts from continuing operation in the reporting period, an amount of €100 million (previous year restated: €9 million) related to service contracts requiring the recognition of income at a specific time, and €0 million (previous year restated: €0 million) related to service contracts requiring the recognition of income over a period of time.

Of the income from service contracts from continuing operation recognized in the reporting period, income of €12 million had been included in the contractual liabilities for service contracts as of January 1, 2023. Of the income from continuing operation recognized in the prior year, income of €1 million had been included in the contractual liabilities for service contracts as of January 1, 2022.

23. Provision for credit risks

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

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

€ million	2023	2022 restated[1]
Additions to provision for credit risks	–498	–695
Reversals of provision for credit risks	690	299
Direct write-offs	–165	–137
Income from loans and receivables previously written off	50	52
Net gain or loss from significant modifications	0	0
Total	**76**	**–481**

1 Prior-year restated as explained under “Changes to Prior-Year Figures”.

Additional valuation allowances were required on a country-specific basis in the provision for credit risks for the VW FS AG Group because, in some instances, the standard models and processes implemented, including the credit risk parameters used, did not fully capture the risks from global economic uncertainties and critical situations. Income of €439 million (previous year restated: expenses of €228 million) was recognized in the reporting period as a result of reversals of additional valuation allowances.

24. Net fee and commission income

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

€ million	2023	2022 restated[1]
Fee and commission income	130	115
of which commissions from insurance broking	87	78
Fee and commission expenses	–72	–60
of which sales commission from financing business	–51	–38
Total	**58**	**54**

1 Prior-year restated as explained under “Changes to Prior-Year Figures”.

25. Net gain or loss on hedges

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

The details of the gains and losses are as follows:

€ million	2023	2022 restated[1]
Fair value hedges		
Gains/losses from micro fair value hedges		
Gains/losses on hedging instruments	41	–16
Gains/losses on hedged items	–36	7
Gains/losses from micro fair value hedges	6	–9
of which ineffectiveness of micro fair value hedges	6	–9
Total	**6**	**–9**

1 Prior-year restated as explained under "Changes to Prior-Year Figures".

26. Net gain/loss on financial instruments measured at fair value

The net gains or losses on derivatives not designated as hedging instruments, net gains or losses on marketable securities and loans/receivables measured at fair value through profit or loss, and net gains or losses on derecognition of marketable securities measured at fair value through other comprehensive income are reported under this item. Gains and losses arising from changes in the fair value of derivatives that do not satisfy the requirements of IFRS 9 for hedge accounting at the micro level or of IAS 39 for portfolio hedging are recognized under gains and losses on derivatives not designated as hedging instruments.

The details of the gains and losses are as follows:

€ million	2023	2022 restated[1]
Gains/losses on derivatives not designated as hedging instruments	–8	14
Gains/losses on marketable securities measured at fair value through profit/loss	–	–
Gains/losses on loans/receivables measured at fair value through profit/loss	0	–12
Gains/losses on the derecognition of marketable securities measured at fair value through OCI	–	–
Total	**–8**	**1**

1 Prior-year restated as explained under "Changes to Prior-Year Figures".

27. General and administrative expenses

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

€ million	2023	2022 restated[1]
Personnel expenses	–147	–138
Non-staff operating expenses	–274	–253
Advertising, public relations and sales promotion expenses	–8	–15
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–40	–33
Other taxes	–9	–10
Income from the reversal of provisions and accrued liabilities	8	9
Total	**–469**	**–440**

1 Prior-year restated as explained under "Changes to Prior-Year Figures".

Personnel expenses comprise wages and salaries of €106 million (previous year restated: €101 million) as well as social security, post-employment and other employee benefit costs of €41 million (previous year restated: €38 million).

The disclosures relating to the expenses from the depreciation of right-of-use assets included in general and administrative expenses and to the expenses from short-term leases and leases in which the underlying asset is of low value can be found in note (67) Leases.

The table below shows the total fees charged in the reporting year by the auditor of the consolidated financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, in accordance with the requirements specified in section 314(1) no. 9 of the HGB.

€ million	2023	2022
Financial statement audit services	4	3
Other attestation services	0	0
Tax consulting services	–	–
Other services	0	1
Total	**4**	**4**

The fees paid to the auditor for audit services in the year under review were mostly attributable to the audit of the consolidated financial statements of VW FS AG and of the annual financial statements of German Group companies, as well as to reviews of the interim financial statements of German Group companies.

These expenses are included in the income statement under Profit/loss from discontinued operation, net of tax.

28. Net other operating income/expenses

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

€ million	2023	2022 restated[1]
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	2	4
Income from cost allocations to other entities in the Volkswagen Group	1	2
Income from the reversal of provisions and accrued liabilities	25	31
Income from claims for damages	0	0
Income from the disposal of vehicles under loan agreements and finance leases	0	4
Income from non-significant modifications	13	7
Miscellaneous operating income	38	24
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	–2	–4
Litigation and legal risk expenses	–21	–24
Expenses from the disposal of vehicles under loan agreements and finance leases	0	–2
Expenses from non-significant modifications	–10	–5
Miscellaneous operating expenses	–263	–15
Total	**–217**	**22**

1 Prior-year restated as explained under “Changes to Prior-Year Figures”.

29. Net gain or loss on miscellaneous financial assets

The net gain/loss on miscellaneous financial assets includes dividend income, income and expenses arising from profit or loss transfers, income and expenses from disposals and net gains or losses arising from the recognition of impairment losses and reversals on shares in unconsolidated subsidiaries, joint ventures and associated companies.

30. Other financial gains or losses

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

31. Income tax expense

Income tax expense includes the taxes charged in respect of the Volkswagen AG tax group, taxes for which VW FS AG and its consolidated subsidiaries are the taxpayers, and deferred taxes. The components of the income tax expense for continuing operation and discontinued operation are as follows:

€ million	2023	2022 restated[1]
Current tax income/expense, Germany	–17	–188
Current tax income/expense, foreign	–475	–351
Current income tax expense	**–492**	**–540**
of which income (+)/expense (–) related to prior periods	–20	13
Deferred tax income (+)/expense (–), Germany	55	–480
Deferred tax income (+)/expense (–), foreign	–190	–173
Deferred tax income (+)/expense (–)	**–136**	**–653**
Income tax expense	**–628**	**–1,193**
thereof: Income tax expense from continuing operation	–363	–190
thereof: Income tax expense from discontinued operation	–265	–1,003

1 Prior-year restated as explained under “Changes to Prior-Year Figures”.

The reported tax expense for continuing and discontinued operation in 2023 of €628 million (previous year restated: €1,193 million) is €88 million higher (previous year restated: €281 million) than the expected tax expense of €541 million (previous year restated: €912 million) calculated by applying the tax rate of 30.0% (previous year: 30.0%) to the consolidated profit before tax.

The following reconciliation shows the relationship between the income tax expense and the profit before tax for the reporting period for continuing operation and for discontinued operation.

€ million	2023	2022 restated[1]
Profit before tax from continuing operation	915	499
Profit before tax from discontinued operation	887	2,541
Profit before tax	**1,802**	**3,040**
multiplied by the domestic income tax rate of 30.0 % (previous year: 30.0 %)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**–541**	**–912**
+ Effects from different foreign tax rates	60	131
+ Effects from tax-exempt income	105	49
+ Effects from non-deductible operating expenses	–103	–74
+ Effects from loss carryforwards	9	–12
+ Effects from permanent differences	–140	–68
+ Effects from tax credits	4	10
+ Taxes attributable to prior periods	–10	–288
+ Effects from changes in tax rates	–8	–17
+ Effects from non-deductible withholding taxes	–1	0
+ Other variances	–4	–13
= Current income tax expense	**–628**	**–1,193**
Effective tax rate in %	34.9	39.2

1 Prior-year restated as explained under “Changes to Prior-Year Figures”.

The statutory corporation tax rate in Germany for the 2023 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 30.0%.

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

The effects from different income tax rates outside Germany arise because of the different income tax rates in the individual countries in which the Group companies are domiciled compared with the rates in Germany. These rates outside Germany vary between 12.5% and 45.0% (previous year: 12.5% and 45.0%).

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

	UNUSED TAX LOSS CARRYFORWARDS		OF WHICH UNUSABLE TAX LOSS CARRYFORWARDS	
€ million	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Usable indefinitely	150	165	147	155
Usable within the next 5 years	20	52	15	15
Usable within 5 – 10 years	65	4	–	1
Usable within more than 10 years	0	2	–	–
Total	**236**	**223**	**163**	**171**
thereon deferred tax assets recognized	25	11	–	–

The tax credits granted by various countries led to the recognition of a tax benefit in an amount of €3 million (previous year: €14 million).

The income taxes for continuing and discontinued operation were reduced by €4 million (previous year: €1 million) using previously unrecognized tax losses and tax credits. The deferred tax expense arising from impairment losses on deferred tax assets for continuing and discontinued operation amounted to €3 million (previous year: €14 million). Deferred tax income from the reversal of impairment losses on deferred tax assets for continuing and discontinued operation in the reporting year amounted to €14 million (previous year: €1 million). No deferred tax assets were recognized in respect of deductible temporary differences of €71 million (previous year: €62 million).

The Group has recognized deferred tax assets of €82 million (previous year: €23 million) against which there are no deferred tax liabilities in an equivalent amount. The companies involved are expecting to generate profits in the future following losses in the reporting or in the prior period.

In accordance with IAS 12.39, deferred tax liabilities of €52 million (previous year: €39 million) have not been recognized for temporary differences and undistributed profits of subsidiaries because VW FS AG has the relevant control.

Of the deferred taxes recognized in the balance sheet, an amount of €67 million (previous year: €23 million) relates to transactions reported in other comprehensive income. A breakdown of the changes in deferred taxes is presented in the statement of comprehensive income.

32. Further income statement disclosures

The following table shows both fee and commission income and expenses related to trust business and fee and commission income and expenses related to financial assets and financial liabilities not measured at fair value and not measured using the effective interest method. Income and expenses relate to continuing operation.

€ million	2023	2022 restated[1]
Income from fees and commissions	30	23
Expenses from fees and commissions	–	–
Total	**30**	**23**

1 Prior-year restated as explained under “Changes to Prior-Year Figures”.

Income of €30 million (previous year restated: €23 million) that had been included in the contractual liabilities as of January 1 of the reporting period was recognized in the reporting year.

Balance Sheet Disclosures

33. Cash reserve

The cash reserve includes credit balances of €2 million (previous year: €2 million) held with foreign central banks.

34. Loans to and receivables from banks

Loans to and receivables from banks include credit balances and time deposits with banks and receivables from banks attributable to loans of €260 million (previous year: €722 million).

35. Loans to and receivables from customers

The "Loans to and receivables from customers" item includes deductions arising from the provision for credit risks recognized to cover the expected credit risk. The provision for credit risks is presented in note (62).

Loans to and receivables from customers arising from retail financing generally comprise loans to private and commercial customers for the financing of vehicles. The vehicle itself is normally pledged to us as collateral for the financing of vehicles. Dealer financing encompasses floor plan financing as well as loans to the dealer organization for operating equipment and investment. Again, assets are pledged as collateral, but guarantees and charges on real estate are also used as security. Receivables from leasing transactions include receivables from finance leases and receivables due in connection with lease assets. The other loans and receivables largely consist of loans and receivables from entities within the Volkswagen Group and receivables from leasing transactions with a buyback agreement.

Receivables from leasing transactions include due receivables amounting to €101 million (previous year: €574 million).

As of the reporting date, receivables from operating leases amounted to €73 million (previous year: €332 million).

At the end of the fiscal year, additional valuation allowances for credit risks on a country-specific basis of €209 million (previous year: €868 million) were recognized on the balance sheet under Loans to and receivables from customers and Assets held for sale (IFRS 5) because in some instances, the standard models and processes implemented did not fully capture the risks from global economic uncertainties and critical situations.

36. Value adjustment on portfolio fair value hedges

This assets-side line item on the balance sheet recognizes changes in the hedged fair value in relation to the hedged interest rate risk for the hedged items covered by portfolio fair value hedge accounting. The value adjustments were transferred in full on the balance sheet to “Assets held for sale (IFRS 5)” as of December 31, 2023.

€ million	Dec. 31, 2023	Dec. 31, 2022
Value adjustment on portfolio fair value hedges	–	–156

37. Derivative financial instruments

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

€ million	Dec. 31, 2023	Dec. 31, 2022
Transactions to hedge against		
currency risk on assets using fair value hedges	–	18
currency risk on liabilities using fair value hedges	9	–5
interest-rate risk using fair value hedges	5	855
of which hedges against interest-rate risk using portfolio fair value hedges	–	822
interest-rate risk using cash flow hedges	27	59
currency risk on future cash flows using cash flow hedges	–	30
Hedging transactions	**41**	**957**
Assets arising from derivatives not designated as hedges	17	531
Total	**58**	**1,488**

38. Equity-accounted joint ventures and miscellaneous financial assets

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2023	**989**	**855**	**1,844**
Foreign exchange differences	–	–4	–4
Changes in basis of consolidation	–8	–77	–86
Additions	70	192	262
Reclassifications	–	–	–
Assets held for sale (IFRS 5)	–839	–516	–1,355
Disposals	8	239	248
Changes/remeasurements recognized in profit or loss	130	–	130
Dividends	–74	–	–74
Other changes recognized in other comprehensive income	–21	–	–21
Balance as of Dec. 31, 2023	**238**	**210**	**448**
Impairment losses as of Jan. 1, 2023	**267**	**228**	**496**
Foreign exchange differences	–	–1	–1
Changes in basis of consolidation	–8	95	86
Additions	62	146	208
Reclassifications	–	–	–
Assets held for sale (IFRS 5)	–153	–275	–429
Disposals	–	74	74
Reversal of impairment losses	30	7	36
Balance as of Dec. 31, 2023	**138**	**111**	**250**
Net carrying amount as of Dec. 31, 2023	**99**	**99**	**198**
Net carrying amount as of Jan. 1, 2023	**722**	**626**	**1,348**

The reclassifications shown in the “Assets held for sale (IFRS 5)” lines are the result of the reclassification of assets on the balance sheet to Assets held for sale (IFRS 5).

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2022	**926**	**778**	**1,704**
Foreign exchange differences	–	–3	–3
Changes in basis of consolidation	–	–24	–24
Additions	–	143	143
Reclassifications	–	–	–
Disposals	–	40	40
Changes/remeasurements recognized in profit or loss	96	–	96
Dividends	–45	–	–45
Other changes recognized in other comprehensive income	12	–	12
Balance as of Dec. 31, 2022	**989**	**855**	**1,844**
Impairment losses as of Jan. 1, 2022	**139**	**104**	**243**
Foreign exchange differences	–	–1	–1
Changes in basis of consolidation	–	–	–
Additions	145	131	276
Reclassifications	–	–	–
Disposals	–	6	6
Reversal of impairment losses	17	–	17
Balance as of Dec. 31, 2022	**267**	**228**	**496**
Net carrying amount as of Dec. 31, 2022	**722**	**626**	**1,348**
Net carrying amount as of Jan. 1, 2022	**787**	**674**	**1,460**

In the reporting year, impairment losses were recognized in an amount of €119 million (previous year: €74 million) for unconsolidated subsidiaries included on the balance sheet under Miscellaneous financial assets and Assets held for sale (IFRS 5).

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

39. Intangible assets

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost as of Jan. 1, 2023	**91**	**23**	**5**	**209**	**328**
Foreign exchange differences	0	–1	–5	–6	–13
Changes in basis of consolidation	–	52	171	–1	222
Additions	24	–	–	24	48
Reclassifications	–	–	–	–	–
Assets held for sale (IFRS 5)	–61	–9	–	–101	–170
Disposals	25	11	–	3	39
Balance as of Dec. 31, 2023	**29**	**54**	**171**	**122**	**376**
Amortization and impairment losses as of Jan. 1, 2023	**35**	**22**	**–**	**166**	**223**
Foreign exchange differences	0	1	–	–5	–5
Changes in basis of consolidation	–	1	–	–2	–1
Additions to cumulative amortization	8	5	–	14	27
Additions to cumulative impairment losses	6	–	–	–	6
Reclassifications	–	–	–	–	–
Assets held for sale (IFRS 5)	–11	–9	–	–89	–108
Disposals	25	11	–	2	38
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2023	**13**	**9**	**–**	**82**	**103**
Net carrying amount as of Dec. 31, 2023	**16**	**46**	**171**	**40**	**273**
Net carrying amount as of Jan. 1, 2023	**56**	**1**	**5**	**43**	**105**

The reclassifications shown in the "Assets held for sale (IFRS 5)" lines are the result of the reclassification of assets on the balance sheet to Assets held for sale (IFRS 5).

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost as of Jan. 1, 2022	**64**	**24**	**16**	**218**	**321**
Foreign exchange differences	0	0	0	0	–1
Changes in basis of consolidation	–	–	–	3	3
Additions	27	–	–	24	51
Reclassifications	–	–	–	–	–
Assets held for sale (IFRS 5)	–	–	–	–27	–27
Disposals	0	–	11	9	20
Balance as of Dec. 31, 2022	**91**	**23**	**5**	**209**	**328**
Amortization and impairment losses as of Jan. 1, 2022	**31**	**7**	**–**	**170**	**208**
Foreign exchange differences	1	0	0	–1	0
Changes in basis of consolidation	–	–	–	3	3
Additions to cumulative amortization	2	–	–	18	21
Additions to cumulative impairment losses	–	15	11	–	26
Reclassifications	–	–	–	–	–
Assets held for sale (IFRS 5)	–	–	–	–22	–22
Disposals	–	–	11	2	12
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2022	**35**	**22**	**–**	**166**	**223**
Net carrying amount as of Dec. 31, 2022	**56**	**1**	**5**	**43**	**105**
Net carrying amount as of Jan. 1, 2022	**32**	**17**	**16**	**48**	**113**

Goodwill of €5 million and a brand name of €1 million recognized in Germany in the previous year were derecognized in fiscal year 2023 due to the sale of Euromobil GmbH, Sittensen.

The goodwill of €171 million in Brazil included on the balance sheet under Intangible assets on the reporting date has an indefinite useful life. The indefinite useful life arises because the goodwill is linked to the relevant cash-generating unit and will therefore remain in existence for as long as this unit remains in existence.

The impairment test for the reported goodwill is based on the value in use.

The value in use determined in the impairment test for the reported goodwill in Brazil exceeded the corresponding carrying amount, so no impairment loss requirement was identified. The VW FS AG Group also carried out sensitivity analyses as part of the impairment test. No change in certain material assumptions would lead to the recognition of an impairment loss for goodwill.

An interest rate of 16.1% was used for Brazil in the impairment test in the reporting year.

The customer base in Brazil in the amount of €46 million is being amortized over a useful life of eleven years. The remaining amortization period for the customer base in Brazil is nine years.

40. Property and equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost as of Jan. 1, 2023	**513**	**139**	**651**
Foreign exchange differences	–3	0	–4
Changes in basis of consolidation	6	–3	3
Additions	43	18	61
Reclassifications	–1	1	0
Assets held for sale (IFRS 5)	–440	–93	–533
Disposals	29	10	**40**
Balance as of Dec. 31, 2023	**88**	**51**	**139**
Depreciation and impairment losses as of Jan. 1, 2023	**193**	**95**	**288**
Foreign exchange differences	–2	–1	–3
Changes in basis of consolidation	–1	–2	–3
Additions to cumulative depreciation	29	14	43
Additions to cumulative impairment losses	0	–	0
Reclassifications	–	–	–
Assets held for sale (IFRS 5)	–151	–62	–213
Disposals	23	7	30
Reversal of impairment losses	0	–	0
Balance as of Dec. 31, 2023	**45**	**37**	**82**
Net carrying amount as of Dec. 31, 2023	**44**	**13**	**57**
Net carrying amount as of Jan. 1, 2023	**320**	**44**	**364**

The reclassifications shown in the "Assets held for sale (IFRS 5)" lines are the result of the reclassification of assets on the balance sheet to Assets held for sale (IFRS 5).

€ million	Land and buildings	Operating and office equipment	Total
Cost as of Jan. 1, 2022	**540**	**144**	**684**
Foreign exchange differences	–4	1	–3
Changes in basis of consolidation	4	3	6
Additions	16	14	30
Reclassifications	–1	1	0
Assets held for sale (IFRS 5)	–5	–9	–14
Disposals	37	15	52
Balance as of Dec. 31, 2022	**513**	**139**	**651**
Depreciation and impairment losses as of Jan. 1, 2022	**179**	**95**	**274**
Foreign exchange differences	–2	0	–2
Changes in basis of consolidation	1	2	3
Additions to cumulative depreciation	31	17	47
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Assets held for sale (IFRS 5)	–4	–6	–10
Disposals	13	13	26
Reversal of impairment losses	0	–	0
Balance as of Dec. 31, 2022	**193**	**95**	**288**
Net carrying amount as of Dec. 31, 2022	**320**	**44**	**363**
Net carrying amount as of Jan. 1, 2022	**361**	**49**	**410**

Land charges of €0 million (previous year: €49 million) serve as collateral for financial liabilities in connection with land and buildings reported on the balance sheet under Property and equipment.

Assets under construction with a carrying amount of €0 million (previous year: €7 million) are included in land and buildings.

41. Investment property

The following table shows the changes in investment property assets:

€ million	2023	2022
Cost		
as of Jan. 1	**107**	**107**
Foreign exchange differences	0	0
Changes in basis of consolidation	4	–
Additions	–	–
Reclassifications	–	–
Assets held for sale (IFRS 5)	–109	–
Disposals	–	–
Balance as of Dec. 31	**2**	**107**
Depreciation and impairment losses		
as of Jan. 1	**36**	**31**
Foreign exchange differences	0	0
Changes in basis of consolidation	0	–
Additions to cumulative depreciation	5	5
Additions to cumulative impairment losses	–	–
Reclassifications	–	–
Assets held for sale (IFRS 5)	–40	–
Disposals	–	–
Reversal of impairment losses	–	–
Balance as of Dec. 31	**1**	**36**
Net carrying amount as of Dec. 31	**1**	**71**
Net carrying amount as of Jan. 1	**71**	**76**

The reclassifications shown in the "Assets held for sale (IFRS 5)" lines are the result of the reclassification of assets on the balance sheet to Assets held for sale (IFRS 5).

The fair value of investment property amounts to €1 million (previous year: €89 million). The fair value is determined using an income approach based on internal calculations (Level 3 of the fair value hierarchy). The main input for the calculation is the cost of capital. Operating expenses in an immaterial amount were incurred for the maintenance of investment property for continuing operation in both the reporting period and the previous year.

Rental income from investment property for continuing operation amounted in the reporting year to €1 million (previous year: €1 million).

42. Deferred tax assets

The breakdown of the deferred tax assets is as follows:

€ million	Dec. 31, 2023	Dec. 31, 2022 restated[1]
Deferred tax assets	8,709	7,881
of which noncurrent	5,714	5,200
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	31	11
of which noncurrent	31	11
Offset (with deferred tax liabilities)	–7,553	–6,665
Total	**1,187**	**1,226**
of which: Deferred tax assets on the balance sheet	612	1,226
of which: Assets held for sale (IFRS 5) on the balance sheet	575	–

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

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

€ million	Dec. 31, 2023	Dec. 31, 2022 restated[1]
Loans, receivables and other assets	548	928
Held for sale (IFRS 5)	7,001	61
Marketable securities and cash	–	10
Intangible assets/property and equipment	5	361
Lease assets	130	5,443
Liabilities and provisions	143	1,094
Liabilities associated with assets held for sale (IFRS 5)	900	–
Valuation allowances for deferred assets on temporary differences	–18	–15
Total	**8,709**	**7,881**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

43. Other assets

The details of other assets are as follows:

€ million	Dec. 31, 2023	Dec. 31, 2022 restated[1]
Vehicles returned for disposal	51	588
Restricted cash	84	688
Prepaid expenses and accrued income	130	296
Other tax assets	145	346
Miscellaneous	250	689
Total	**659**	**2,607**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section "Effects of New and Revised IFRSs".

Contract origination costs of €0 million (previous year: €81 million) were capitalized and reported on the balance sheet under Other assets as of December 31, 2023. In 2023, amortization charges on capitalized contract origination costs reported under Other assets on the balance sheet amounted to €0 million (previous year: €0 million). No impairment losses were recognized in 2022 and 2023 in respect of the capitalized contract origination costs.

44. Noncurrent assets

Mio. €	Dec. 31, 2023	of which noncurrent	Dec. 31, 2022 restated[1]	of which noncurrent restated[1]
Cash reserve	2	–	2	–
Loans to and receivables from banks	953	38	3,406	178
Loans to and receivables from customers	27,995	13,654	86,855	44,850
Value adjustment on portfolio fair value hedges	–	–	–156	–68
Derivative financial instruments	58	57	1,488	1,138
Marketable securities	0	–	268[2]	–
Equity-accounted joint ventures	99	99	722	722
Miscellaneous financial assets	99	99	626	626
Intangible assets	273	273	105	105
Property and equipment	57	57	364	364
Lease assets	2,347	2,204	34,927	32,788
Investment property	1	1	71	71
Current tax assets	164	69	278	50
Other assets	659	363	2.607	558
Total	**32,707**	**16,914**	**131,564**	**81,383**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section "Effects of New and Revised IFRSs".
2 Adjustment of the previous year as part of an error correction.

45. Liabilities to banks and customers

To cover the capital requirements for the leasing and financing activities, the entities in the VW FS AG Group make use of, among other things, credit and loans provided by the entities in the Volkswagen Group. These items are included in the liabilities to banks and liabilities to customers.

The following table shows the changes in the contractual liabilities from service contracts and other contracts that are included in the liabilities to customers balance sheet item:

€ million	2023	2022
Contractual liabilities at Jan. 1	1,663	1,400
Additions and disposals	303	272
Changes in consolidated Group	–	3
Foreign exchange differences	12	–12
Liabilities associated with assets held for sale (IFRS 5)	–1,935	–
Contractual liabilities at Dec. 31	**43**	**1,663**

It is expected that income will be realized under contractual liabilities in the amount of €43 million (previous year: €958 million) in the next fiscal year and in the amount of €0 million (previous year: €705 million) in the subsequent fiscal years.

46. Notes, commercial paper issued

This item comprises bonds and commercial papers.

€ million	Dec. 31, 2023	Dec. 31, 2022
Bonds issued	4,806	55,991
Commercial paper issued	3,094	7,087
Total	**7,901**	**63,078**

47. Derivative financial instruments

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

€ million	Dec. 31, 2023	Dec. 31, 2022
Transactions to hedge against		
currency risk on assets using fair value hedges	–	9
currency risk on liabilities using fair value hedges	34	2
interest-rate risk using fair value hedges	27	1,939
of which hedges against interest-rate risk using portfolio fair value hedges	–	0
interest-rate risk using cash flow hedges	33	53
currency risk on future cash flows using cash flow hedges	–	2
Hedging transactions	**95**	**2,005**
Liabilities arising from derivatives not designated as hedges	10	418
Total	**104**	**2,424**

48. Provisions for pensions and other post-employment benefits

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

€ million	Dec. 31, 2023	Dec. 31, 2022
Present value of funded obligations	382	301
Fair value of plan assets	328	262
Funded status (net)	**54**	**39**
Present value of unfunded obligations	271	250
Amount not recognized as an asset because of the ceiling in IAS 19	0	0
Net liability recognized in the balance sheet	**326**	**290**
of which provisions for pensions	8	291
of which provisions for pensions in liabilities related to assets held for sale (IFRS 5)	318	–
of which provisions for pensions in assets held for sale (IFRS 5)	0	1

The following information relates to total provisions for pensions and other post-employment benefits irrespective of the fact that some are presented as of December 31, 2023 as part of an IFRS 5-classified disposal group.

Key pension arrangements in the VW FS AG Group:
For the period after the active working life of employees, the VW FS AG Group offers its employees benefits under attractive, state-of-the-art occupational pension arrangements. Most of the arrangements in the VW FS AG Group are pension plans for employees in Germany classified as defined benefit plans under IAS 19. The majority of these obligations are funded by provisions recognized in the balance sheet. These plans are now closed for new members. To reduce the risks associated with defined benefit plans, in particular longevity, salary increases and inflation, the VW FS AG Group has introduced new defined benefit plans in recent years in which the benefits are funded by appropriate external plan assets.

The risks referred to above have been significantly reduced in these pension plans. The proportion of the total defined benefit obligation attributable to pension obligations funded by plan assets will continue to rise in the future. The main pension commitments are described below.

German pension plans funded solely by recognized provisions

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

German pension plans funded by external plan assets

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

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

The present value of the obligation is reported as the maximum of the present value of the guaranteed obligation and of the plan assets. If the value of the plan assets falls below the present value of the guaranteed obligation, a provision must be recognized for the difference. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk.

In the case of lifelong pension payments, the VW FS AG Group bears the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the "Heubeck 2018 G" mortality tables – which already reflect future increases in life expectancy. In addition, the independent actuaries carry out annual risk monitoring as part of the review of the assets administered by the trusts.

To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

The calculation of the present value of the defined benefit obligations was based on the following actuarial assumptions:

	GERMANY		INTERNATIONAL	
Percent	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Discount rate	3.30	3.70	4.38	4.49
Pay trend	3.46	3.26	3.08	2.97
Pension trend	2.20	2.20	2.80	2.90
Staff turnover rate	1.10	1.10	4.13	4.15

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

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

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

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

€ million	2023	2022
Net liability recognized in the balance sheet as of January 1	**290**	**529**
Current service cost	28	66
Net interest expense	10	6
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	47	–342
Actuarial gains (–)/losses (+) arising from experience adjustments	–3	19
Income/expenses from plan assets not included in interest income	14	–49
Change in amount not recognized as an asset because of the ceiling in IAS 19	0	0
Employer contributions to plan assets	24	31
Employee contributions to plan assets	–	–
Pension payments from company assets	7	6
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–1
Changes in basis of consolidation	0	0
Other changes	0	1
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**326**	**289**

The change in the amount not recognized as an asset because of the ceiling in IAS 19 includes an interest component, some of which is recognized in profit or loss under general and administrative expenses and some of which is recognized in other comprehensive income.

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

€ million	2023	2022
Present value of obligations as of January 1	**551**	**809**
Current service cost	28	66
Interest cost (unwinding of discount on obligations)	20	10
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	47	–342
Actuarial gains (–)/losses (+) arising from experience adjustments	–3	19
Employee contributions to plan assets	–	–
Pension payments from company assets	7	6
Pension payments from plan assets	3	3
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–1
Changes in basis of consolidation	0	0
Other changes	20	1
Foreign exchange differences from foreign plans	0	–2
Present value of obligations as of December 31	**653**	**551**

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

Present value of defined benefit obligation if		DEC. 31, 2023		DEC. 31, 2022	
		€ million	Change in percent	€ million	Change in percent
Discount rate	is 0.5 percentage points higher	595	−8.87	503	−8.64
	is 0.5 percentage points lower	720	10.20	605	9.88
Pension trend	is 0.5 percentage points higher	676	3.58	571	3.78
	is 0.5 percentage points lower	632	−3.26	532	−3.46
Pay trend	is 0.5 percentage points higher	655	0.33	554	0.54
	is 0.5 percentage points lower	650	−0.52	548	−0.51
Longevity	increases by one year	669	2.49	564	2.39

The sensitivity analysis shown above considers the change in one assumption at a time, leaving the other assumptions unchanged versus the original calculation. In other words, any correlation effects between the individual assumptions are ignored.

To examine the sensitivity of the present value of the defined benefit obligation to a change in assumed longevity, the estimates of mortality were reduced as part of a comparative calculation by a measure that was roughly equivalent to an increase in life expectancy of one year.

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 20 years (previous year: 20 years).

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

€ million	2023	2022
Active members with pension entitlements	446	379
Members with vested entitlements who have left the Company	46	38
Retirees	161	134
Total	**653**	**551**

The maturity profile of payments attributable to the defined benefit obligation is presented in the following table, which classifies the present value of the obligation by the maturity of the underlying payments:

€ million	2023	2022
Payments due within the next fiscal year	10	10
Payments due between two and five years	59	51
Payments due in more than five years	584	490
Total	**653**	**551**

Changes in plan assets are shown in the following table:

€ million	2023	2022
Fair value of plan assets as of January 1	**262**	**281**
Interest income on plan assets determined using the discount rate	10	4
Income/expenses from plan assets not included in interest income	14	–49
Employer contributions to plan assets	24	31
Employee contributions to plan assets	–	–
Pension payments from plan assets	3	3
Gains (+) or losses (–) arising from plan settlements	–	–
Changes in basis of consolidation	–	0
Other changes	21	–1
Foreign exchange differences from foreign plans	1	–1
Fair value of plan assets as of December 31	**328**	**262**

The investment of the plan assets to cover future pension obligations resulted in a net result of €24 million (previous year: net result of €–45 million).

Employer contributions to plan assets are expected to amount to €23 million (previous year: €22 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

€ million	DEC. 31, 2023			DEC. 31, 2022		
	Quoted prices in active markets	No quoted prices in active markets	**Total**	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	8	–	**8**	10	–	10
Equity instruments	–	–	**–**	–	–	–
Debt instruments	–	–	**–**	12	–	12
Direct investments in real estate	–	0	**0**	–	0	0
Derivatives	2	0	**2**	2	1	3
Equity funds	120	–	**120**	91	–	91
Bond funds	155	–	**155**	122	–	122
Real estate funds	6	–	**6**	4	–	4
Other funds	22	0	**22**	17	0	17
Asset-backed securities	–	–	**–**	–	–	–
Structured debt	–	–	**–**	–	–	–
Other	13	2	**15**	–	2	2

Of the total plan assets, 48% (previous year: 52%) are invested in German assets, 15% (previous year: 12%) in other European assets and 37% (previous year: 36%) in assets in other regions. Investments of plan assets in debt instruments issued by the Volkswagen Group are of minor significance.

The following amounts have been recognized in the income statement:

€ million	**2023**	2022
Current service cost	28	66
Net interest on the net defined benefit liability	10	6
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	**38**	**72**

49. Underwriting provisions and other provisions

€ million	Dec. 31, 2023	Dec. 31, 2022 restated[1]
Underwriting provisions	–	363
Other provisions	184	620
Total	**184**	**983**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

The underwriting provisions were reclassified in full on the balance sheet to “Liabilities associated with assets held for sale (IFRS 5)” on December 31, 2023.

In the reporting period, other provisions were broken down into provisions for employee expenses, provisions for litigation and legal risks, and miscellaneous provisions.

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

€ million	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of Jan. 1, 2022	**138**	**174**	**86**	**397**
Foreign exchange differences	0	14	0	14
Changes in basis of consolidation	–	–	–	–
Utilization	59	14	34	106
Additions/new provisions	100	108	187	395
Unwinding of discount/effect of change in discount rate	–14	7	–	–8
Liabilities associated with assets held for sale (IFRS 5)	–1	–	–2	–3
Reversals	9	44	16	69
Balance as of Dec. 31, 2022	**154**	**245**	**220**	**620**
of which current	83	78	182	343
of which noncurrent	71	168	38	277
Balance as of Jan. 1, 2023	**154**	**245**	**220**	**620**
Foreign exchange differences	0	10	0	9
Changes in basis of consolidation	–1	1	3	3
Utilization	67	21	106	195
Additions/new provisions	74	45	149	268
Unwinding of discount/effect of change in discount rate	4	4	–	8
Liabilities associated with assets held for sale (IFRS 5)	–140	–93	–226	–459
Reversals	9	47	15	71
Balance as of Dec. 31, 2023	**15**	**144**	**25**	**184**
of which current	13	3	19	35
of which noncurrent	1	141	5	148

The reclassification of other provisions on the balance sheet to Liabilities in connection with assets held for sale (IFRS 5) is presented in the table in the line of the same name.

Provisions for employee expenses are recognized primarily for annually recurring bonuses such as long-term-service awards and other employee expenses.

The provisions for litigation and legal risks reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers. Based on analysis of the individual matters covered by the provisions, the VW FS AG Group believes that the disclosure of further detailed information on individual proceedings, legal disputes or legal risks could seriously prejudice the course or initiation of proceedings.

The timing of the cash outflows in connection with other provisions is expected to be as follows: 19% in the next year, 80% in the years 2025 to 2028 and 1% thereafter.

50. Deferred tax liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2023	Dec. 31, 2022 restated[1]
Deferred tax liabilities	8,603	7,646
of which noncurrent	5,818	5,158
Offset (with deferred tax assets)	–7,553	–6,665
Total	1,050	980
of which: Deferred tax liabilities on the balance sheet	91	980
of which: Liabilities associated with assets held for sale (IFRS 5) on the balance sheet	960	–

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

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

€ million	Dec. 31, 2023	Dec. 31, 2022 restated[1]
Loans, receivables and other assets	237	5,562
Held for sale (IFRS 5)	6,711	–
Marketable securities and cash	–	1
Intangible assets/property and equipment	25	41
Lease assets	73	476
Liabilities and provisions	13	1,567
Liabilities associated with assets held for sale (IFRS 5)	1,544	–
Total	**8,603**	**7,646**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

51. Other liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2023	Dec. 31, 2022 restated[1]
Prepaid expenses and accrued income	57	1,753
Other tax liabilities	145	260
Social security and payroll liabilities	27	214
Miscellaneous	38	162
Total	**267**	**2,388**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

52. Subordinated capital

The subordinated capital of €146 million (previous year: €2,909 million) was issued and raised by Banco Volkswagen S.A.

53. Noncurrent liabilities

€ million	Dec. 31, 2023	of which noncurrent	Dec. 31, 2022 restated[1]	of which noncurrent restated[1]
Liabilities to banks	16,343	6,242	17,242	6,764
Liabilities to customers	3,450	1,855	24,219	10,708
Notes, commercial paper issued	7,901	2,355	63,078	43,795
Derivative financial instruments	104	55	2,424	2,267
Current tax liabilities	252	140	767	530
Other liabilities	267	18	2,388	1,086
Subordinated capital	146	112	2,909	2,871
Total	**28,463**	**10,777**	**113,027**	**68,021**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

54. Equity

The subscribed capital of VW FS AG is divided into 441,280,000 fully paid up no-par-value bearer shares, each with a notional value of €1, which are all held by Volkswagen AG, Wolfsburg. There are no preferential rights or restrictions in connection with the subscribed capital.

The capital contributions made by the sole shareholder, Volkswagen AG, are reported under the capital reserves of VW FS AG.

The retained earnings comprise the profits from previous fiscal years that have not been distributed. The retained earnings include a legal reserve of €44 million (previous year: €44 million).

On the basis of the control and profit-and-loss transfer agreement with the sole shareholder, Volkswagen AG, the loss of €323 million (previous year: €1,697 million) generated by VW FS AG has been reported as an increase of equity.

EQUITY ATTRIBUTABLE TO NONCONTROLLING INTERESTS

Equity attributable to noncontrolling interests amounted to €115 million (previous year: €3 million) as of December 31, 2023. The equity attributable to noncontrolling interests was accounted for mainly by Brazilian entity LM Transportes Interestaduais Serviços e Comércio S.A., Salvador, which was included in the VW FS AG Group for the first time in the reporting year (see note (2)).

The table below presents summarized financial information for LM Transportes Interestaduais Serviços e Comércio S.A.

€ million	Dec. 31, 2023
Noncontrolling interests in %	40.00
Noncontrolling interests	109
Loans to and receivables from banks	298
Loans to and receivables from customers	62
Intangible assets	222
Lease assets	1,545
Other assets	188
Total	**2,315**
Liabilities to banks	1,212
Liabilities to customers	520
Other liabilities	145
Equity	437
Total	**2,315**
Profit after tax	33
Other comprehensive income, net of tax	20
Dividend paid to noncontrolling interest shareholders	17
Cash flows from operating activities	49
Cash flows from investing activities	–4
Cash flows from financing activities	–44

55. Capital management

In this context, capital is generally defined as equity in accordance with the IFRSs. The aims of capital management in the VW FS AG Group are to support the Company's credit rating by ensuring that the Group has adequate capital backing and is able to obtain capital for the planned growth over the next few years. Generally speaking, corporate action implemented by the parent company of VW FS AG has an impact on VW FS AG's equity in accordance with the IFRSs. The parent company implemented corporate action in the amount of €3,773 million in the reporting year.

As of December 31, 2023, the equity ratio was 15.6% (previous year: 13.2%).

Financial Instrument Disclosures

56. Carrying amounts, gains or losses and income or expenses in respect of financial instruments, by measurement category

The carrying amounts of financial instruments (excluding hedge derivatives) broken down by measurement category, as specified in IFRS 9, are shown in the following table:

€ million	Dec. 31, 2023	Dec. 31, 2022 restated[1]
Financial assets measured at fair value through profit or loss	574	756
Financial assets measured at fair value through other comprehensive income (debt instruments)	441	245
Financial assets measured at fair value through other comprehensive income (equity instruments)	0	0
Financial assets measured at amortized cost	52,500	50,276
Financial liabilities measured at fair value through profit or loss	476	418
Financial liabilities measured at amortized cost	114,071	106,558

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

Receivables from leasing transactions amounting to €46,679 million (previous year: €41,235 million) and the associated changes in fair value from portfolio fair value hedges for receivables from finance leases amounting to €263 million (previous year: €–156 million) are not allocated to any category.

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

€ million	2023	2022 restated'[1]
Financial instruments measured at fair value through profit or loss	–274	777
Financial assets measured at amortized cost	3,225	2,063
Financial assets measured at fair value through other comprehensive income (debt instruments)	4	2
Financial liabilities measured at amortized cost	–4,224	–2,312

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

The net gains/losses and income/expenses are determined as follows:

Measurement category	Measurement method
Financial instruments measured at fair value through profit or loss	Fair value in accordance with IFRS 9 in conjunction with IFRS 13, including interest and effects from currency translation
Financial assets measured at amortized cost	Interest income using the effective interest method and expenses/income from the recognition of valuation allowances in accordance with IFRS 9 and effects from currency translation
Financial assets measured at fair value through other comprehensive income (debt instruments)	Fair value valuation in accordance with IFRS 9 in conjunction with IFRS 13, interest income using the effective interest method and expenses/income from the recognition of valuation allowances in accordance with IFRS 9 and effects from currency translation
Financial liabilities measured at amortized cost	Interest expense using the effective interest method in accordance with IFRS 9 and effects from currency translation

The interest income from financial assets measured at amortized cost or at fair value through other comprehensive income included in interest income from lending transactions and marketable securities is calculated using the effective interest method and amounted to €3,306 million (previous year: €2,519 million).

The interest expenses in an amount of €4,984 million (previous year: €2,150 million) related to financial instruments not measured at fair value through profit or loss.

Expenses that arise from the direct write-off of uncollectible financial assets previously measured at amortized cost are reported and explained as a component of the provision for the credit risks line item in the income statement. Income recovered in respect of financial assets already written off is also reported and explained as a component of the provision for the credit risks line item in the income statement. After recognizing the income and expenses referred to above, the VW FS AG Group did not for the most part generate or incur any gains, losses, income or expenses from the derecognition of financial assets measured at amortized cost that resulted from the elimination of a contractual right to cash flows or from a transfer subject to the fulfillment of the derecognition conditions.

Furthermore, the Group did not generate or incur any material gains, losses, income or expenses from the derecognition of financial assets measured at amortized cost as a consequence of substantial contractual modifications (see disclosures on the provision for the credit risks line item in the income statement).

57. Classes of financial instruments

Financial instruments are divided into the following classes in the VW FS AG Group:

- Measured at fair value
- Measured at amortized cost
- Derivative financial instruments designated as hedges
- Not allocated to any measurement category
- Credit commitments and financial guarantees (off-balance-sheet)

The table below shows a reconciliation between the balance sheet items in which financial instruments are reported and the classes of financial instruments listed above. This includes financial instruments that are assigned to the IFRS 9 measurement categories and financial instruments that are not assigned to any IFRS 9 measurement category at all (such as finance lease receivables) and are therefore reported under the “Not allocated to any measurement category” class. The assets and liabilities not constituting financial instruments that are contained in the balance sheet items are included in the “Not allocated to any class of financial instruments” column so that the reconciliation is complete.

Loans to and receivables from customers in the “Total loans to and receivables from customers” balance sheet item are reconciled to the “Measured at fair value”, “Measured at amortized cost”, “Not allocated to any measurement category” and “Not allocated to any class of financial instruments” classes. The “Not allocated to any measurement category” class consists of the receivables from customers attributable to the leasing business. Receivables from insurance contracts are recognized in the “Not allocated to any class of financial instruments” column.

Loans/receivables and liabilities designated as hedges with derivative financial instruments are included in the class “Measured at amortized cost”.

Within Miscellaneous financial assets, subsidiaries and joint ventures that are not consolidated for reasons of materiality are not deemed financial instruments in accordance with IFRS 9 and therefore do not fall within the scope of IFRS 7. For the purposes of reconciling the balance sheet item, they are shown in the “Not allocated to any class of financial instruments” class. Equity investments forming part of miscellaneous financial assets are reported as financial instruments in accordance with IFRS 9 in the class “Measured at fair value”.

The “Current tax assets” and “Current tax liabilities” balance sheet line items contain assets and liabilities arising from taxes under civil law due to or from entities in the Volkswagen Group. These receivables from and liabilities to Volkswagen Group companies are classified as financial instruments in the class “Measured at amortized cost”. Most “Current tax assets” and “Current tax liabilities” relate to the tax authorities, do not constitute financial instruments and are as a result shown in the “Not allocated to any class of financial instruments” class.

Liabilities to customers are reported in the “Measured at amortized cost” class, but the amount of lease liabilities (as a lessee) within the overall figure is shown in the “Not allocated to any measurement category” class. The “Not allocated to any class of financial instruments” column consists mainly of advance payments received from service contracts.

Financial instruments that are part of disposal groups are shown in the table below as of December 31, 2023 in the Assets held for sale (IFRS 5) and Liabilities associated with assets held for sale (IFRS 5) balance sheet items.

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

	Balance sheet item		Class of financial instruments: Measured at amortized cost		Measured at fair value		Derivative financial instruments designated as hedges		Not allocated to any measurement category		Not allocated to any class of financial instruments	
€ million	**Dec. 31, 2023**	Dec. 31, 2022 restated[1]	**Dec. 31, 2023**	Dec. 31, 2022 restated[1]	**Dec. 31, 2023**	Dec. 31, 2022	**Dec. 31, 2023**	Dec. 31, 2022	**Dec. 31, 2023**	Dec. 31, 2022	**Dec. 31, 2023**	Dec. 31, 2022 restated[1]
Assets												
Cash reserve	2	2	2	2	–	–	–	–	–	–	–	–
Loans to and receivables from banks	953	3,406	953	3,406	–	–	–	–	–	–	–	–
Loans to and receivables from customers	27,995	86,855	26,785	45,418	108	202	–	–	1,102	41,235	0	0
Value adjustment on portfolio fair value hedges	–	–156	–	–	–	–	–	–	–	–156	–	–
Derivative financial instruments	58	1,488	–	–	17	531	41	957	–	–	–	–
Marketable securities	0	268	–	–	0	268	–	–	–	–	–	–
Miscellaneous financial assets	99	626	–	–	–	0	–	–	–	–	99	626
Current tax assets	164	278	–	64	–	–	–	–	–	–	164	214
Other assets	659	2,607	113	824	–	–	–	–	–	–	547	1,783
Assets held for sale (IFRS 5)	113,020	577	24,647	562	890	–	502	–	45,839	0	41,141	15
Total	**142,950**	**95,951**	**52,500**	**50,276**	**1,015**	**1,002**	**543**	**957**	**46,942**	**41,079**	**41,950**	**2,638**
Equity and liabilities												
Liabilities to banks	16,343	17,242	16,343	17,242	–	–	–	–	–	–	–	–
Liabilities to customers	3,450	24,219	3,372	22,139	–	–	–	–	32	152	45	1,928
Notes, commercial paper issued	7,901	63,078	7,901	63,078	–	–	–	–	–	–	–	–
Derivative financial instruments	104	2,424	–	–	10	418	95	2,005	–	–	–	–
Current tax liabilities	252	767	–	502	–	–	–	–	–	–	252	265
Other liabilities	267	2,388	41	225	–	–	–	–	–	–	226	2,163
Subordinated capital	146	2,909	146	2,909	–	–	–	–	–	–	–	–
Liabilities associated with assets held for sale (IFRS 5)	94,703	478	86,269	463	466	–	1,407	–	87	1	6,474	13
Total	**123,166**	**113,505**	**114,072**	**106,558**	**476**	**418**	**1,502**	**2,005**	**119**	**153**	**6,997**	**4,370**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section "Effects of New and Revised IFRSs".
2 Receivables from customers and liabilities to customers as well as securitized liabilities also include transactions that have been designated as hedged items of a hedge (fair value hedge).

The "Credit commitments and financial guarantees" class contains obligations under off-balance-sheet irrevocable credit commitments and financial guarantees amounting to €1,905 million (previous year: €1,507 million).

58. Fair values of financial assets and liabilities

The following table shows the fair values of financial instruments in the classes “Measured at amortized cost”, “Measured at fair value” and “Derivative financial instruments designated as hedges”, together with the fair values of receivables from customers relating to the leasing business classified as “Not allocated to any measurement category”. The fair value is the amount at which financial assets or liabilities could be sold on fair terms as of the reporting date. Where market prices (e.g. for marketable securities) were available, VW FS AG has used these prices without modification for measuring fair value. If no market prices were available, the fair values for loans/receivables and liabilities were calculated by discounting using a maturity-matched discount rate appropriate to the risk. The discount rate was determined by adjusting risk-free yield curves, where appropriate, by relevant risk factors and taking into account capital and administrative costs. For reasons of materiality, the fair values of loans/receivables and liabilities due within one year were deemed to be the same as the carrying amount.

The fair value of the unlisted equity investment reported under miscellaneous financial assets was determined using a measurement model based on strategic planning.

€ million	FAIR VALUE Dec. 31, 2023	FAIR VALUE Dec. 31, 2022 restated[1]	CARRYING AMOUNT Dec. 31, 2023	CARRYING AMOUNT Dec. 31, 2022 restated[1]	DIFFERENCE Dec. 31, 2023	DIFFERENCE Dec. 31, 2022
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	108	202	108	202	–	–
Derivative financial instruments	17	531	17	531	–	–
Marketable securities	0	268	0	268	–	–
Miscellaneous financial assets	–	0	–	0	–	–
Assets held for sale (IFRS 5)	890	–	890	–	–	–
Measured at amortized cost						
Cash reserve	2	2	2	2	–	–
Loans to and receivables from banks	953	3,401	953	3,406	–	–5
Loans to and receivables from customers	27,094	45,493	26,785	45,418	309	75
Current tax assets	–	64	–	64	–	–
Other assets	113	824	113	824	–	–
Assets held for sale (IFRS 5)	24,692	562	24,647	562	45	–
Derivative financial instruments designated as hedges						
Derivative financial instruments	41	957	41	957	–	–
Assets held for sale (IFRS 5)	502	–	502	–	–	–
Not allocated to any measurement category						
Loans to and receivables from customers	1,235	40,280	1,102	41,235	133	–954
Change in fair value from portfolio fair value hedges	–	–	–	–156	–	156
Assets held for sale (IFRS 5)	45,492	0	45,839	0	–347	–
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	10	418	10	418	–	–
Liabilities associated with assets held for sale (IFRS 5)	466	–	466	–	–	–
Measured at amortized cost						
Liabilities to banks	16,341	17,203	16,343	17,242	–3	–39
Liabilities to customers	3,355	21,935	3,372	22,139	–17	–204
Notes, commercial paper issued	7,920	63,172	7,901	63,078	20	94
Current tax liabilities	–	502	–	502	–	–
Other liabilities	41	225	41	225	–	0
Subordinated capital	138	1,917	146	2,909	–7	–992
Liabilities associated with assets held for sale (IFRS 5)	85,678	463	86,269	463	–590	–
Derivative financial instruments designated as hedges						
Derivative financial instruments	95	2,005	95	2,005	–	–
Liabilities associated with assets held for sale (IFRS 5)	1,407	–	1,407	–	–	–

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

The fair value of irrevocable credit commitments is affected by changes in the credit quality of the borrower and in the market conditions for the relevant credit product between the commitment date and the measurement date. Because of the short period between commitment and drawdown and the variable interest rate tied to the market interest rate, market conditions only have a very minor impact. The fair value of irrevocable credit commitments was therefore largely determined by the change in the credit quality of the borrower, which was established as part of the process for calculating expected credit losses from irrevocable credit commitments and reported on the balance sheet as a liability in the amount of €0 million (previous year: €0 million) under Other liabilities and Liabilities associated with assets held for sale (IFRS 5). The fair value of financial guarantees also largely reflects the amount of expected credit losses and was reported on the balance sheet as a liability in the amount of €0 million (previous year: €1 million) under Other liabilities and Liabilities associated with assets held for sale (IFRS 5). Both expected credit losses are disclosed as a consolidated figure in note (62) Default Risk in the "Credit commitments and financial guarantees" class.

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

Percent	EUR	GBP	JPY	BRL	MXN	SEK	CZK	AUD	CNY	PLN	INR	RUB	KRW	DKK
Interest rate for six months	3.683	5.135	0.018	10.794	12.065	4.160	6.163	4.361	2.377	5.981	6.710	15.046	3.770	3.586
Interest rate for one year	3.208	4.745	0.071	10.019	11.524	3.794	6.362	4.206	2.310	5.564	6.620	15.532	3.598	3.358
Interest rate for five years	2.181	3.382	0.450	10.066	9.380	2.387	3.535	3.928	2.570	4.420	6.190	10.740	3.003	2.604
Interest rate for ten years	2.274	3.300	0.844	–	9.013	2.353	3.495	4.183	2.770	4.495	6.250	9.780	2.990	2.644

59. Measurement levels of financial assets and liabilities

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. The following table shows the hierarchy breakdown for financial instruments in the classes "Measured at amortized cost", "Measured at fair value" and "Derivative financial instruments designated as hedges". Classification to the individual levels is dictated by the extent to which the main inputs used in determining the fair value are or are not observable in the market.

Level 1 is used to report the fair value of financial instruments such as marketable securities or notes and commercial paper issued for which a quoted price is directly observable in an active market.

Level 2 fair values are measured on the basis of inputs observable in the markets, such as exchange rates or yield curves, using market-based valuation techniques. Fair values measured in this way include those for derivatives and liabilities to customers.

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not directly observable in an active market. The fair values of loans to and receivables from customers measured at amortized cost and at fair value through profit or loss are largely allocated to Level 3 because these fair values are measured using inputs that are not observable in active markets (see note 58). An equity investment measured at fair value through other comprehensive income and using inputs that are not observable in the market is also reported under Level 3. The main inputs used to measure this equity investment are strategic planning and cost of equity rates.

Level 3 also includes the fair values of separately recognized derivatives in connection with early termination rights embedded in finance leases. Inputs for determining the fair value of derivatives in connection with the risk of early termination are forecasts and estimates of used vehicle residual values for the models concerned as well as yield curves.

The following table shows the allocation of financial instruments to the three-level fair value hierarchy by class:

€ million	LEVEL 1 Dec. 31, 2023	LEVEL 1 Dec. 31, 2022	LEVEL 2 Dec. 31, 2023	LEVEL 2 Dec. 31, 2022 restated[1]	LEVEL 3 Dec. 31, 2023	LEVEL 3 Dec. 31, 2022
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	108	202
Derivative financial instruments	–	–	17	531	–	–
Marketable securities	0	196	–	73	–	–
Miscellaneous financial assets	–	–	–	–	–	0
Assets held for sale (IFRS 5)	385	–	484	–	21	–
Measured at amortized cost						
Cash reserve	2	2	–	–	–	–
Loans to and receivables from banks	691	924	262	2,477	–	–
Loans to and receivables from customers	–	–	128	1,729	26,966	43,763
Current tax assets	–	–	–	64	–	–
Other assets	–	–	113	824	–	0
Assets held for sale (IFRS 5)	488	–	5,149	–	19,055	–
Derivative financial instruments designated as hedges						
Derivative financial instruments	–	–	41	957	–	–
Assets held for sale (IFRS 5)	–	–	502	–	–	–
Total	**1,566**	**1,122**	**6,696**	**6,655**	**46,150**	**43,966**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	10	334	–	84
Liabilities associated with assets held for sale (IFRS 5)	–	–	371	–	94	–
Measured at amortized cost						
Liabilities to banks	–	–	16,341	17,203	–	–
Liabilities to customers	–	–	3,355	21,935	–	–
Notes, commercial paper issued	163	41,883	7,758	21,289	–	–
Current tax liabilities	–	–	–	502	–	–
Other liabilities	–	–	21	211	20	14
Subordinated capital	–	–	138	1,917	–	–
Liabilities associated with assets held for sale (IFRS 5)	43,859	–	41,819	–	0	–
Derivative financial instruments designated as hedges						
Derivative financial instruments	–	–	95	2,005	–	–
Liabilities associated with assets held for sale (IFRS 5)	–	–	1,407	–	–	–
Total	**44,022**	**41,883**	**71,316**	**65,396**	**115**	**98**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

The following table shows the changes in the loans to and receivables from customers measured at fair value, which are recognized on the balance sheet under Loans to and receivables from customers and Assets held for sale (IFRS 5), and equity investments allocated to Level 3.

€ million	2023	2022
Balance as of Jan. 1	**202**	**316**
Foreign exchange differences	–7	3
Changes in basis of consolidation	–	–
Portfolio changes	–66	–104
Measured at fair value through profit or loss	0	–12
Measured at fair value through other comprehensive income	–	–
Balance as of Dec. 31	**129**	**202**

The amounts recognized in profit or loss for receivables of €0 million (previous year: net loss of €12 million) are reported in the income statement under Net gain or loss on financial instruments measured at fair value and Profit/loss from discontinued operation, net of tax. Of the remeasurements recognized in profit or loss, a net gain of €0 million (previous year: net loss of €12 million) was attributable to receivables as of the reporting date.

The risk variables relevant to the fair value of the receivables are risk-adjusted interest rates. A sensitivity analysis is used to quantify the impact from changes in risk adjusted interest rates on profit or loss after tax.

If risk-adjusted interest rates as of December 31, 2023 had been 100 basis points higher, profit after tax would have been €3 million (previous year: €7 million) lower. If risk-adjusted interest rates as of December 31, 2023 had been 100 basis points lower, profit after tax would have been €2 million (previous year: €4 million) higher.

The risk variables relevant to the fair value of the equity investment are the growth rate within strategic planning and the cost of equity rates. If a 10% change were applied to the financial performance (which takes into account the relevant risk variables) of the equity investment measured at fair value through other comprehensive income, there would be no material change to equity.

The table below shows the changes in the derivative financial instruments measured at fair value, which are recognized on the balance sheet under Liabilities associated with assets held for sale (IFRS 5), based on Level 3 measurement.

€ million	2023	2022
Balance as of Jan. 1	**84**	**132**
Foreign exchange differences	2	–6
Changes in basis of consolidation	–	–
Portfolio changes	–	–
Measured at fair value through profit or loss	8	–41
Measured at fair value through other comprehensive income	–	–
Balance as of Dec. 31	**94**	**84**

The amounts recognized in profit or loss resulting in a net gain of €8 million (previous year: net loss of €41 million) are reported in the income statement under Profit/loss from discontinued operation, net of tax. Of the remeasurements recognized in profit or loss, a net profit of €8 million (previous year: net loss of €41 million) was attributable to derivatives held as of the reporting date.

Early termination rights can arise from country-specific consumer protection legislation, under which customers may have the right to return used vehicles for which a lease has been signed. The impact on earnings arising from market-related fluctuations in residual values and interest rates is borne by the VW FS AG Group.

The market prices of used vehicles are the main risk variable applied to the fair value of derivatives recognized in connection with the risk of early termination. A sensitivity analysis is used to quantify the impact of changes in used vehicle prices on profit or loss after tax. If the used vehicle prices of the vehicles included in the derivatives in connection with the risk of early termination had been 10% higher as of the reporting date, profit after tax would have been €36 million (previous year: €40 million) higher. If the used vehicle prices of the vehicles included in the derivatives in connection with the risk of early termination had been 10% lower as of the reporting date, profit after tax would have been €67 million (previous year: €74 million) lower.

60. Offsetting of financial assets and liabilities

The table below contains information about the effects of offsetting in the consolidated balance sheet and the financial effects of offsetting in the case of instruments that are subject to a legally enforceable master netting agreement or a similar arrangement.

The “Financial instruments” column shows the amounts that are subject to a master netting agreement but have not been netted because the relevant criteria have not been satisfied. Most of the amounts involved are positive and negative fair values of derivatives entered into with the same counterparty.

The “Collateral received/pledged” column shows the cash collateral amounts and collateral in the form of financial instruments received or pledged in connection with the total sum of assets and liabilities. It includes such collateral relating to assets and liabilities that have not been offset against each other. These items primarily consist of collateral received from customers in the form of cash deposits, together with collateral pledged in the form of cash collateral from ABS transactions.

							AMOUNTS NOT OFFSET IN THE BALANCE SHEET					
	Gross amount of recognized financial assets/liabilities		Gross amount of recognized financial assets/liabilities offset in the balance sheet		Net amount of financial assets/liabilities reported in the balance sheet		Financial Instruments		Collateral received/pledged		Net amount	
€ million	Dec. 31, 2023	Dec. 31, 2022 restated[1]	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022 restated[1]	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022 restated[1]
Assets					–	–	–	–				
Cash reserve	2	2	–	–	2	2	–	–	–	–	2	2
Loans to and receivables from banks	953	3,406	–	–	953	3,406	–	–	–	–	953	3,406
Loans to and receivables from customers	27,995	86,862	–	–7	27,995	86,855	–	–	–68	–81	27,927	86,773
Value adjustment on portfolio fair value hedges	–	–156	–	–	–	–156	–	–	–	–	–	–156
Derivative financial instruments	58	1,488	–	–	58	1,488	–14	–873	–	–	44	615
Marketable securities	0	268	–	–	0	268	–	–	–	–	0	268
Miscellaneous financial assets	–	0	–	–	–	0	–	–	–	–	–	0
Income tax assets	–	64	–	–	–	64	–	–	–	–	–	64
Other assets	113	824	–	–	113	824	–	–	–	–	113	824
Assets held for sale (IFRS 5)	71,886	562	–8	–	71,878	562	–741	–	–	–	71,137	562
Total	**101,007**	**93,320**	**–8**	**–7**	**100,999**	**93,313**	**–755**	**–873**	**–68**	**–81**	**100,176**	**92,359**
Equity and liabilities												
Liabilities to banks	16,343	17,242	–	–	16,343	17,242	–	–	–	–52	16,343	17,189
Liabilities to customers	3,405	22,298	–	–7	3,405	22,291	–	–	–	–	3,405	22,291
Notes, commercial paper issued	7,901	63,078	–	–	7,901	63,078	–	–	–67	–634	7,833	62,444
Derivative financial instruments	104	2,424	–	–	104	2,424	–14	–873	–	–	91	1,551
Income tax liabilities	–	502	–	–	–	502	–	–	–	–	–	502
Other liabilities	41	225	–	–	41	225	–	–	–	–	41	225
Subordinated capital	146	2,909	–	–	146	2,909	–	–	–	–	146	2,909
Liabilities associated with assets held for sale (IFRS 5)	88,237	465	–8	–	88,229	465	–741	–	–680	–	86,807	465
Total	**116,177**	**109,142**	**–8**	**–7**	**116,169**	**109,135**	**–755**	**–873**	**–748**	**–686**	**114,666**	**107,576**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

61. ABS transactions

The VW FS AG Group uses ABS transactions for funding purposes. The related liabilities are recognized in the following balance sheet items:

€ million	Dec. 31, 2023	Dec. 31, 2022
Bonds issued	2,992	26,348
Subordinated liabilities	–	0
Liabilities associated with assets held for sale (IFRS 5)	26,676	–
Total	**29,668**	**26,348**

The following information relates to total liabilities and corresponding assets from ABS transactions irrespective of the fact that some are presented as of December 31, 2023 as part of an IFRS 5-classified disposal group.

Of the total amount of liabilities arising in connection with ABS transactions, an amount of €20,460 million (previous year: €19,181 million) is accounted for by ABS transactions with financial assets. The corresponding carrying amount of loans/receivables from retail financing and leasing business is €25,888 million (previous year: €24,371 million). As of December 31, 2023, the fair value of the liabilities amounted to €20,536 million (previous year: €19,259 million). The fair value of the assigned loans/receivables, which continued to be recognized, amounted to €25,727 million as of December 31, 2023 (previous year: €23,578 million).

Collateral totaling €39,057 million (previous year: €34,857 million) has been pledged in connection with ABS transactions, of which €26,358 million (previous year: €24,784 million) is accounted for by collateral in the form of financial assets. In these arrangements, the expected payments are assigned to special purpose entities and the ownership of the collateral in the financed vehicles is transferred. The assigned loans/receivables cannot be assigned again to anyone else or used in any other way as collateral. The rights of the bond holders are limited to the assigned loans/receivables, and the payment receipts arising from these loans/receivables are used to repay the corresponding liability.

These asset-backed security transactions did not lead to a derecognition of the loans or receivables from the financial services business because the credit risk and timing risk were retained in the Group. The difference between the amount of the assigned loans/receivables and the associated liabilities results from the different terms and conditions and from the proportion of the ABSs held by the VW FS AG Group itself.

The bulk of the public and private ABS transactions in the VW FS AG Group can be repaid early (with a clean-up call) when less than 10% of the original transaction volume remains outstanding.

62. Default risk

The default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the amount of the claims against the counterparty concerned arising from recognized carrying amounts and irrevocable credit commitments.

The maximum default risk is reduced by collateral and other credit enhancements. The collateral held relates to loans to and receivables from banks and customers in the classes "Measured at amortized cost", "Measured at fair value" and "Not allocated to any measurement category". The types of collateral held include vehicles, vehicles pledged as collateral, financial guarantees, marketable securities, cash collateral and charges on real estate.

In the case of financial assets with an objective indication of impairment as of the reporting date, the collateral reduced the risk by €465 million (previous year: €341 million). For financial assets in the "Measured at fair value" class to which the IFRS 9 impairment requirements are not applied, the maximum credit and default risk was reduced by collateral with a value of €0 million (previous year: €154 million).

For financial assets on which impairment losses were recognized during the fiscal year and that are subject to enforcement measures, the contractually outstanding amounts total €175 million (previous year: €220 million).

As a consequence of the global distribution of business activities and the resulting diversification, there are no material concentrations of default risk in individual counterparties or individual markets. Sector concentrations in the dealership business are a natural part of the business for a captive financial services provider in the automotive industry and these concentrations are individually analyzed in the existing risk management processes. The loans and receivables from dealership business subject to the inherent sector concentrations described above are included in the loans to and receivables from customers arising from dealer financing and in the loans and receivables within the Assets held for sale (IFRS 5) balance sheet item.

As derivatives are only entered into with counterparties demonstrating strong credit ratings, and limits are set for each counterparty as part of the risk management system, the actual default risk arising from derivative transactions is deemed to be low.

For further qualitative information, please refer to the "Risk concentrations" and "Credit risk" sections of the risk report, which forms part of the management report.

PROVISION FOR CREDIT RISKS

Please refer to the provision for credit risks section in note (9) for disclosures on the accounting policies relating to the provision for credit risks.

The following tables show a reconciliation of the provision for credit risks relating to financial assets measured at amortized cost:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance of Jan. 1, 2023	**626**	**361**	**333**	**38**	**25**	**1,381**
Exchange differences on translating foreign operation	–5	2	12	0	1	11
Changes in basis of consolidation	0	–	–	0	–	0
Newly extended/purchased financial assets (additions)	218	–	–	13	9	241
Other changes within a stage	–189	–158	48	–1	6	–293
Transfers to						
Stage 1	7	–40	–5	–	–	–38
Stage 2	–48	119	–10	–	–	62
Stage 3	–15	–18	140	–	–	107
Financial instruments derecognized during the period (derecognitions)	–104	–37	–46	–7	–6	–199
Utilizations	–	–	–150	0	0	–151
Model or risk parameter changes	11	33	4	–	–	48
Balance of Dec. 31, 2023	**502**	**263**	**327**	**43**	**35**	**1,169**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach restated[1]	Stage 4	Total restated[1]
Balance of Jan. 1, 2022	**556**	**278**	**417**	**24**	**13**	**1,288**
Exchange differences on translating foreign operation	9	8	31	0	1	50
Changes in basis of consolidation	4	–	–	0	–	4
Newly extended/purchased financial assets (additions)	180	–	–	21	9	210
Other changes within a stage	–9	58	83	0	6	139
Transfers to						
Stage 1	6	–42	–23	–	–	–59
Stage 2	–22	103	–36	–	–	45
Stage 3	–19	–14	142	–	–	109
Financial instruments derecognized during the period (derecognitions)	–106	–39	–69	–8	–3	–226
Utilizations	–	–	–212	–1	–3	–216
Model or risk parameter changes	28	8	0	–	–	36
Balance of Dec. 31, 2022	**626**	**361**	**333**	**38**	**25**	**1,381**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

The following tables show a reconciliation of the gross carrying amounts of financial assets measured at amortized cost:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance of Jan. 1, 2023	**44,176**	**3,375**	**510**	**3,539**	**57**	**51,657**
Exchange differences on translating foreign operation	–915	44	21	–5	3	–852
Changes in basis of consolidation	–56	–	–	–5	–	–61
Changes	3,360	–757	–264	738	31	3,109
Modifications	3	0	0	–	0	2
Transfers to						
Stage 1	426	–424	–2	–	–	0
Stage 2	–1,521	1,526	–5	–	–	0
Stage 3	–160	–84	244	–	–	0
Balance of Dec. 31, 2023	**45,314**	**3,680**	**503**	**4,267**	**91**	**53,855**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach restated[1]	Stage 4	Total restated[1]
Balance of Jan. 1, 2022	**41,312**	**2,785**	**562**	**1,725**	**34**	**46,418**
Exchange differences on translating foreign operation	–213	130	43	23	2	–15
Changes in basis of consolidation	333	–	–	57	–	390
Changes	3,217	162	–271	1,733	22	4,864
Modifications	1	0	0	0	–1	0
Transfers to						
Stage 1	695	–682	–13	–	–	0
Stage 2	–1,022	1,067	–45	–	–	0
Stage 3	–148	–86	234	–	–	0
Balance of Dec. 31, 2022[1]	**44,176**	**3,375**	**510**	**3,539**	**57**	**51,657**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

The “Changes” line relates to changes in gross carrying amounts that are not allocated to the other lines in the reconciliation of the gross carrying amounts from the beginning to the end of the reporting period concerned. These changes include the addition and derecognition of financial assets during the reporting period.

The undiscounted expected credit losses on the initial recognition of purchased or originated credit-impaired financial assets that were recognized for the first time in the reporting period amounted to €20 million (previous year: €0 million).

The provision for credit risks in respect of financial assets measured at fair value through other comprehensive income is allocated to Stage 1 and was subject to change in the reporting period only as part of other changes within Stage 1. The amount of the provision for these financial assets both in terms

of the balance as of the reporting date and the prior-year reporting date and in terms of the changes in the reporting year is not material and is therefore not presented in a separate table.
In 2023, the gross carrying amount of assets measured at fair value through other comprehensive income reduce by €196 million (previous year: €-26 million) to €441 million (previous year: €245 million). As in the previous year, these assets were allocated to Stage 1 in the reporting year.

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

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance as of Jan. 1, 2023	**1**	**0**	**0**	**–**	**1**
Exchange differences on translating foreign operation	0	0	0	–	**0**
Changes in basis of consolidation	0	–	–	–	**0**
Newly extended/purchased financial assets (additions)	0	–	–	–	0
Other changes within a stage	0	0	–	–	**0**
Transfers to					
Stage 1	–	–	–	–	**–**
Stage 2	–	–	–	–	**–**
Stage 3	–	–	–	–	**–**
Financial instruments derecognized during the period (derecognitions)	0	–	0	–	**0**
Utilizations	–	–	–	–	**–**
Model or risk parameter changes	–	–	–	–	**–**
Balance as of Dec. 31, 2023	**1**	**0**	**–**	**–**	**1**

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance as of Jan. 1, 2022	**1**	**0**	**–**	**–**	**1**
Exchange differences on translating foreign operation	0	0	–	–	**0**
Changes in basis of consolidation	–	–	–	–	**–**
Newly extended/purchased financial assets (additions)	0	–	–	–	**0**
Other changes within a stage	0	0	–	–	**0**
Transfers to					
Stage 1	–	–	–	–	**–**
Stage 2	–	–	–	–	**–**
Stage 3	–	0	0	–	**0**
Financial instruments derecognized during the period (derecognitions)	0	–	–	–	**0**
Utilizations	–	–	–	–	**–**
Model or risk parameter changes	–	–	–	–	**–**
Balance as of Dec. 31, 2022	**1**	**0**	**0**	**–**	**1**

The following tables present a reconciliation of default risk exposures arising from credit commitments and financial guarantees:

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance of Jan. 1, 2023	**1,503**	**2**	**2**	**–**	**1,508**
Foreign exchange differences	–12	0	0	–	**–12**
Changes in consolidated group	–135	–	–	–	**–135**
Changes	547	0	–2	–	**545**
Modifications	–	–	–	–	**–**
Transfers to					
Stage 1	–	–	–	–	**–**
Stage 2	–	–	–	–	**–**
Stage 3	–	–	–	–	**–**
Balance of Dec. 31, 2023	**1,904**	**2**	**–**	**–**	**1,906**

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance of Jan. 1, 2022	**1,319**	**4**	**–**	**–**	**1,323**
Foreign exchange differences	–29	0	0	–	**–29**
Changes in consolidated group	–	–	–	–	**–**
Changes	214	–	–	–	**214**
Modifications	–	–	–	–	**–**
Transfers to					
Stage 1	–	–	–	–	**–**
Stage 2	–	–	–	–	**–**
Stage 3	–	–3	3	–	**–**
Balance of Dec. 31, 2022	**1,503**	**2**	**2**	**–**	**1,508**

The following table shows a reconciliation for the provision for credit risks relating to lease receivables in the class “Not allocated to any measurement category”:

	SIMPLIFIED APPROACH	
€ million	2023	2022
Balance as of Jan. 1	**1,184**	**943**
Exchange differences on translating foreign operation	15	–4
Changes in basis of consolidation	0	0
Newly extended/purchased financial assets (additions)	379	255
Other changes	–349	272
Financial instruments derecognized during the period (derecognitions)	–246	–241
Utilizations	–64	–41
Model or risk parameter changes	–47	0
Balance as of Dec. 31	**871**	**1,184**

The following table shows a reconciliation of the gross carrying amounts of lease receivables in the class “Not allocated to any measurement category”:

€ million	SIMPLIFIED APPROACH 2023	2022
Balance as of Jan. 1	**42,263**	**41,843**
Exchange differences on translating foreign operation	488	–942
Changes in basis of consolidation	–25	3
Newly extended/purchased financial assets (additions)	5,079	1,355
Other changes	8	3
Balance as of Dec. 31	**47,813**	**42,263**

MODIFICATIONS

During the reporting period and the prior-year period, there were contractual modifications of financial assets that did not lead to a derecognition of the asset concerned. These modifications were caused by either changes in credit ratings or adjustments agreed retrospectively that did not stem from customer credit quality (market-induced adjustments).

In the case of financial assets for which the provision for credit risks was measured in the amount of the lifetime expected credit losses, the amortized cost before contractual modifications amounted to €87 million (previous year: €126 million). In the reporting period, the contractual modifications of these financial assets gave rise to an overall net gain of €2 million (previous year: net expense of €3 million). In the case of trade receivables and lease receivables, which are all included in the simplified approach, the only modifications that are taken into account are those in which the underlying receivables are more than 30 days past due.

At the reporting date, the gross carrying amount of financial assets that had been modified since initial recognition and that, in the reporting period, had also been transferred from Stage 2 or Stage 3 to Stage 1 amounted to €57 million (previous year: €9 million). As a consequence, the measurement of the provision for credit risks for these financial assets was switched from the lifetime expected credit loss to a twelve-month expected credit loss.

MAXIMUM CREDIT RISK

The following table shows the maximum credit risk, broken down by class, to which the VW FS AG Group was exposed as of the reporting date and to which the impairment model was applied.

€ million	Dec. 31, 2023	Dec. 31, 2022 restated[1]
Financial assets measured at fair value	441	245
Financial assets measured at amortized cost	52,500	50,267
Financial guarantees and credit commitments	1,905	1,507
Not allocated to any measurement category	46,942	41,079
Total	**101,788**	**93,097**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

The assets disclosed as belonging to the class “Financial assets measured at fair value” are allocated to the measurement category “Financial assets measured at fair value through other comprehensive income (debt instruments)”.

The VW FS AG Group intends to recover the following collateral accepted in the reporting period for financial assets:

€ million	Dec. 31, 2023	Dec. 31, 2022
Vehicles	98	76
Real estate	–	–
Other movable assets	–	–
Total	**98**	**76**

The vehicles are remarketed to Volkswagen Group dealers through direct sales and auctions.

DEFAULT RISK RATING CLASSES

The VW FS AG Group uses internal risk management and control systems to evaluate the credit quality of the borrower before entering into any lending contract or lease. In the retail business, this evaluation is carried out by using scoring systems, whereas rating systems are used for fleet customers and dealer financing transactions. In addition, the gross carrying amounts of the financial assets are broken down into three default risk rating classes so that default risk exposures can be presented on a uniform basis throughout the Group. Loans and receivables for which the credit quality is classified as “good” are allocated to default risk rating class 1. Receivables whose credit quality has not been classified as “good” but who have not yet defaulted are included under default risk rating class 2. Accordingly, all loans and receivables in default are allocated to default risk rating class 3.

The following tables present the gross carrying amounts of financial assets by default risk rating class:

FISCAL YEAR 2023

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1	44,148	2,501	–	50,003	7
Default risk rating class 2	1,607	1,179	–	1,403	12
Default risk rating class 3	–	–	503	673	73
Total	**45,755**	**3,680**	**503**	**52,080**	**91**

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€ million	Stage 1	Stage 2	Stage 3	Simplified approach restated[1]	Stage 4
Default risk rating class 1	43,754	2,381	–	44,045	4
Default risk rating class 2	667	995	–	1,149	10
Default risk rating class 3	–	–	510	607	44
Total1	**44,421**	**3,375**	**510**	**45,802**	**57**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

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

FISCAL YEAR 2023

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1	1,904	2	–	–
Default risk rating class 2	0	–	–	–
Default risk rating class 3	–	–	–	–
Total	**1,904**	**2**	**–**	**–**

FISCAL YEAR 2022

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1	1,503	2	–	–
Default risk rating class 2	0	0	–	–
Default risk rating class 3	–	–	2	–
Total	**1,503**	**2**	**2**	**–**

63. Liquidity risk

Liquidity risk is defined primarily as the risk of not being able to meet payment obligations in full or when due. The companies of the VW FS AG Group are funded primarily through capital market and ABS (asset-backed securities) programs. In addition, a rolling liquidity planning system and a liquidity reserve in the form of cash and confirmed lines of credit that can be accessed at any time at short notice ensure that the VW FS AG Group remains solvent and has an adequate supply of liquidity.

Local cash funds in certain countries (e.g. China, Korea) are only available to the Group for cross-border transactions subject to exchange controls. Foreign exchange controls are not relevant to liquidity risk because the cash from credit lines subject to exchange controls is not used in the VW FS AG Group to safeguard the supply of liquidity other than within the countries concerned. There are otherwise no significant restrictions.

Further details on the funding and hedging strategy can be found in the management report in the sections Liquidity Analysis and Funding and in the risk report within the disclosures on interest-rate risk and liquidity risk.

The maturity profile of assets held to manage liquidity risk is as follows:

	ASSETS		REPAYABLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS	
€ million	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Cash reserve	2	2	2	2	–	–	–	–	–	–	–	–
Loans to and receivables from banks	953	3,406	691	2,551	224	656	–	20	38	53	–	125
Assets held for sale (IFRS 5)	3,059	557	2,788	557	116	–	59	–	92	–	3	–
Total	**4,014**	**3,965**	**3,481**	**3,111**	**341**	**656**	**59**	**20**	**130**	**53**	**3**	**125**

The following table shows the maturity profile of undiscounted cash outflows from financial liabilities:

			REMAINING CONTRACTUAL MATURITIES							
	Cash outflows		up to 3 months		3 months to 1 year		1 to 5 yers		more than 5 years	
€ million	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Liabilities to banks	17,762	18,514	3,885	4,009	6,881	7,118	6,827	7,386	170	1
Liabilities to customers[1]	3,689	23,432	956	5,328	654	7,319	1,698	9,031	382	1,754
Notes, commercial paper issued	8,341	67,547	2,145	6,285	3,606	13,986	2,591	42,181	–	5,095
Derivative financial instruments	704	9,183	52	3,438	304	1,641	348	3,401	–	702
Other liabilities	41	225	16	203	25	17	–	4	0	0
Subordinated capital	211	3,025	8	10	41	51	163	207	–	2,758
Liabilities associated with assets held for sale (IFRS 5)	103,817	470	15,124	402	20,586	43	57,876	25	10,230	–
Irrevocable credit commitments	537	458	479	395	58	63	–	–	–	–
Total	**135,103**	**122,854**	**22,666**	**20,071**	**32,153**	**30,238**	**69,502**	**62,235**	**10,783**	**10,310**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section “Effects of New and Revised IFRSs”.

The derivatives include both cash outflows relating to derivatives with negative fair values and cash outflows relating to derivatives with positive fair values in connection with which gross settlement has been agreed.

Financial guarantees with a maximum possible drawdown of €783 million (previous year: €876 million) are always assumed to be payable on demand.

64. Market risk

For qualitative information, please refer to the disclosures on interest-rate risk in the management report risk report.

For quantitative risk measurement, interest rate and foreign currency risks are measured using a value-at-risk (VaR) model on the basis of a historical simulation. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 60 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from non-derivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in determining value at risk covers a period of four years.

This approach has produced the following values:

€ million	Dec. 31, 2023	Dec. 31, 2022
Interest rate risk	759	476
Currency translation risk	122	58
Total market risk	**703**	**469**

65. Hedging policy disclosures

HEDGING POLICY AND FINANCIAL DERIVATIVES

Given its international financial activities, the VW FS AG Group is exposed to fluctuations in interest rates and foreign exchange rates on international money and capital markets. The general rules governing the Group-wide currency and interest rate hedging policy are specified in internal Group guidelines. The partners used by the Group when entering into appropriate financial transactions are national and international banks with strong credit ratings whose credit quality is continuously monitored by leading rating agencies. The Group enters into suitable hedging transactions to limit currency and interest rate risks. Regular derivative financial instruments are used for this purpose.

MARKET RISK

Market risk arises when changes in prices on financial markets (interest rates and exchange rates) have a positive or negative effect on the value of traded products. The fair values listed in the tables in the notes were determined using the market information available on the reporting date and represent the fair values of the financial derivatives. They were determined on the basis of standardized techniques using generally applicable market risk variables, such as yield curves and exchange rates.

Interest rate risk

Changes in the level of interest rates in the money and capital markets represent an interest rate risk if the funding is not maturity-matched. Interest rate risk is managed at the level of the individual company based on an overall interest rate risk limit set for the entire Group and broken down into specific limits for each company. Interest rate risk is quantified using interest rate gap analyses to which various scenarios involving changes in interest rates are applied. The calculations take into account uniform risk ceilings applicable throughout the Group.

The hedging contracts entered into by the Group mainly comprise interest rate swaps and cross-currency interest rate swaps. Interest rate risk is hedged using fair value hedges and cash flow hedges at micro level and fair value hedges at portfolio level (portfolio fair value hedges). Fixed-income assets and liabilities included in micro fair value hedges are recognized with the addition of a hedge adjustment based on the hedged fair value of the hedged item rather than at amortized cost, the method used in their original subsequent measurement. The resulting effects in the income statement are generally offset by the opposite effects from the corresponding gains and losses on the interest rate hedging instruments (swaps).

Currency risk

The VW FS AG Group avoids currency risk by entering into currency hedging contracts, which may be currency forwards or cross-currency interest rate swaps. Generally speaking, all cash flows in foreign currency are hedged.

DESCRIPTION OF HEDGES AND METHODOLOGIES FOR MONITORING HEDGE EFFECTIVENESS

If possible, the hedge strategy aims to recognize hedges for suitable underlying transactions (hedged items) on an individual or portfolio basis. The vast majority of hedged items are assets or liabilities on the balance sheet. Future transactions are only used as hedged items in exceptional cases.

In the VW FS AG Group, hedges to which micro-hedge accounting is applied are normally held to maturity. Hedge effectiveness in the VW FS AG Group is measured prospectively using the critical terms match method. Hedge effectiveness is analyzed retrospectively by testing for ineffectiveness using the dollar offset method. The dollar offset method compares the changes in the value of the hedged item expressed in monetary units with the changes in the value of the hedging instrument expressed in monetary units. The volume represented by the hedging instruments is generally the same as the volume represented by the designated hedged items. Hedge ineffectiveness in micro-hedge accounting largely results from differences between the mark-to-market (fair value) measurement of hedged items and that of hedging instruments. Individual yield curves are used when determining forward interest rates and prices and also when discounting future cash flows for hedged items and hedging instruments in order to obtain a measurement in line with the market. Other factors (e.g. in relation to counterparty risk) are only of minor significance as regards hedge ineffectiveness. Some of the hedges existing as of the reporting date to which micro-hedge accounting is applied, taking account of hedged items and hedging instruments, are shown separately on the balance sheet in a disposal group and some are recognized on the balance sheet outside of disposal groups.

In portfolio hedge accounting, derivatives for interest rate hedging are designated in a quarterly cycle. Effectiveness is checked by maturity band as part of this process. The designation proportions for the derivatives are determined on the basis of the volumes of the hedged item portfolios in the maturity bands. Derivatives are only considered for a hedging period in portfolio hedge accounting if a high prospective and retrospective effectiveness level is determined using regression tests. Ineffectiveness in portfolio hedge accounting is usually the result of changes in the fair values of hedging instruments and the hedged fair values of hedged items that do not fully offset each other. All hedges existing as of the reporting date to which portfolio hedge accounting is applied are shown separately on the balance sheet in disposal groups.

DISCLOSURES ON GAINS AND LOSSES FROM FAIR VALUE HEDGES

In fair value hedges, the transactions hedge the risk of changes in the fair value of financial assets and financial liabilities. Changes in fair value that arise from the recognition of hedging instruments at fair value and those from the recognition of the associated hedged items at the hedged fair value generally have an offsetting effect and are reported under the net gain or loss on hedges.

The following table shows the degree of hedge ineffectiveness from fair value hedges broken down by type of risk, equating to the differences between the gains or losses on hedging instruments and those on hedged items:

€ million	2023	2022
Interest rate risk hedging	–43	–24
Currency risk hedging	–17	–6
Combined interest rate and currency risk hedging:	1	–1

Continuing operation account for €6 million (previous year: €–9 million) of the total ineffectiveness in interest rate risk hedging, discontinued operation for €–48 million (previous year: €–15 million). All of the total ineffectiveness of €–17 million (previous year: €–6 million) in currency risk hedging is accounted for by discontinued operation. All of the €1 million (previous year: €–1 million) total ineffectiveness in combined interest rate and currency risk hedging is accounted for by discontinued operation.

DISCLOSURES ON GAINS AND LOSSES FROM CASH FLOW HEDGES

Cash flow hedges are recognized with the aim of hedging risks arising from changes in future cash flows. These cash flows can arise from a recognized asset or a recognized liability.

The following table covering gains and losses from cash flow hedges shows the gains and losses on hedges recognized in other comprehensive income, the hedge ineffectiveness recognized under net gain or loss on hedges, and the gains or losses arising from the reclassification of cash flow hedge reserves recognized under net gain or loss on hedges:

€ million	2023	2022
Hedging interest rate risk		
Gains or losses from changes in fair value of hedging instruments within hedge accounting		
Recognized in equity	–54	4
Recognized in profit or loss	0	0
Reclassification from the cash flow hedge reserve to profit or loss		
Due to early discontinuation of the hedging relationships	–	–
Due to realization of the hedged item	0	–1
Hedging currency risk		
Gains or losses from changes in fair value of hedging instruments within hedge accounting		
Recognized in equity	–12	–3
Recognized in profit or loss	4	–4
Reclassification from the cash flow hedge reserve to profit or loss		
Due to early discontinuation of the hedging relationships	–	–
Due to realization of the hedged item	4	2
Combined interest rate and currency risk hedging		
Gains or losses from changes in fair value of hedging instruments within hedge accounting		
Recognized in equity	72	20
Recognized in profit or loss	–	0
Reclassification from the cash flow hedge reserve to profit or loss		
Due to early discontinuation of the hedging relationships	–	–
Due to realization of the hedged item	–56	–40

In the table, effects recognized directly in equity are presented net of deferred taxes.

The gain or loss from changes in the fair value of hedges within hedge accounting equates to the basis for determining hedge ineffectiveness. Those gains or losses on changes in the fair value of hedging instruments that exceed the changes in the fair value of the hedged items constitute the ineffective portion of cash flow hedges. This ineffectiveness within a hedge arises as a result of differences in the parameters applicable to the hedging instrument and the hedged item. These gains or losses are recognized immediately in the income statement under the net gain or loss on hedges.

NOTIONAL AMOUNTS OF DERIVATIVE FINANCIAL INSTRUMENTS

The following tables present a maturity analysis of the notional amounts of hedging instruments reported under the hedge accounting rules and those of derivatives to which hedge accounting is not applied:

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	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
€ million	Up to 1 year	1 – 5 years	More than 5 years	Dec. 31, 2023
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	8,721	32,439	4,292	45,452
Currency risk hedging				
Currency forwards/cross-currency swaps DKK	986	255	–	1,241
Currency forwards/cross-currency swaps PLN	609	162	–	771
Currency forwards/cross-currency swaps CZK	535	174	–	709
Currency forwards/cross-currency swaps other currencies	893	125	86	1,104
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	723	267	–	990
Cross-currency interest rate swaps, other foreign currencies	451	622	–	1,073
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	15,149	30,435	15,859	61,443
Currency risk hedging				
Currency forwards/cross-currency swaps	422	19	0	441
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	50	980	–	1,030

FISCAL YEAR 2022

€ million	RESIDUAL MATURITY Up to 1 year	1 – 5 years	More than 5 years	TOTAL NOTIONAL AMOUNT Dec. 31, 2022
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	7,221	36,139	5,009	48,368
Currency risk hedging				
Currency forwards/cross-currency swaps DKK	687	81	–	768
Currency forwards/cross-currency swaps PLN	71	221	–	292
Currency forwards/cross-currency swaps GBP	410	–	–	410
Currency forwards/cross-currency swaps other currencies	525	85	–	610
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	689	424	–	1,113
Cross-currency interest rate swaps, other foreign currencies	30	386	–	416
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	9,363	25,147	16,197	50,707
Currency risk hedging				
Currency forwards/cross-currency swaps	1,440	3	–	1,443
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	468	813	–	1,281

The timings of the future payments for the hedged items in the cash flow hedges match the maturities of the hedging instruments.

As of the reporting date and the prior-year reporting date, none of the cash flow hedges recognized involved a hedged item whose underlying transaction was no longer expected to occur in the future.

In the reporting period, the average exchange rates used in the measurement of hedging instruments were as follows for the following currencies with significant notional amounts: NOK 11.0003, CZK 24.3063, PLN 4.4842 and DKK 7.4491. The average interest rates used for interest rate swaps and cross-currency interest rate swaps in cash flow hedges in the reporting year were as follows for the following currencies: NOK 3.06%, DKK 1.33%, EUR 3.79%, AUD 5.52% and BRL 12.35%. In the previous year, the average exchange rates used in the measurement of hedging instruments were as follows for the following currencies with significant notional amounts: NOK 10.2360, GBP 0.8658, PLN 4.6550 and DKK 7.4389. The average interest rates used for interest rate swaps and cross-currency interest rate swaps in cash flow hedges in the previous year were as follows for the following currencies: NOK 1.26%, DKK 1.30%, EUR –0.14% and BRL 11.73%.

DISCLOSURES ON HEDGING INSTRUMENTS USED IN HEDGE ACCOUNTING

The VW FS AG Group regularly uses hedging instruments to hedge changes in the fair value of financial assets and financial liabilities.

The following overviews show the notional amounts, fair values and changes in fair value used to determine ineffectiveness in hedging instruments used in fair value hedges to hedge the risk arising from changes in fair value: The information relates to total financial assets and liabilities from derivative financial instruments irrespective of the fact that some are presented as of December 31, 2023 as part of an IFRS 5-classified disposal group. The allocation of amounts in Derivative financial instruments – assets and Derivative financial instruments – liabilities to balance sheet items and thus in some cases to separate presentation on the balance sheet as part of an IFRS 5-classified disposal group is shown in the classes of financial instruments table in note (57).

FISCAL YEAR 2023

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	41,604	440	1,347	–1,205
Currency risk hedging				
Currency forwards/cross-currency swaps	2,763	9	14	–5
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	790	8	67	–55

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€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	46,660	853	1,941	–1,459
Currency risk hedging				
Currency forwards/cross-currency swaps	1,564	14	9	15
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	174	1	0	0

The VW FS AG Group also uses hedging instruments to hedge the risk arising from changes in future cash flows.

The following tables set out the notional amounts, fair values and changes in fair value used to determine ineffectiveness in hedging instruments used in cash flow hedges: The information relates to total financial assets and liabilities from derivative financial instruments irrespective of the fact that some are presented as of December 31, 2023 as part of an IFRS 5-classified disposal group. The allocation of amounts in Derivative financial instruments – assets and Derivative financial instruments – liabilities to balance sheet items and thus in some cases to separate presentation on the balance sheet as part of an IFRS 5-classified disposal group is shown in the classes of financial instruments table in note (57).

FISCAL YEAR 2023

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	3,848	27	33	–76
Currency risk hedging				
Currency forwards/cross-currency swaps	1,062	10	26	–7
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,273	49	15	26

FISCAL YEAR 2022

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	1,708	66	29	11
Currency risk hedging				
Currency forwards/cross-currency swaps	517	5	9	–5
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,355	18	17	3

The change in fair value used to determine ineffectiveness equates to the change in the fair value of the designated components of the hedging instruments.

DISCLOSURES ON HEDGED ITEMS TO WHICH HEDGE ACCOUNTING IS APPLIED

Disclosures on hedged items, broken down by risk category and type of designation, are required in addition to the disclosures on hedging instruments.

The tables below show the hedged items hedged in fair value hedges:

FISCAL YEAR 2023

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Assets held for sale (IFRS 5) including change in fair value from portfolio fair value hedges	16,807	263	195	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	931	–5	0	–
Subordinated capital	–	–	–	–
Liabilities associated with assets held for sale (IFRS 5)	26,978	–1,047	661	–
Currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Assets held for sale (IFRS 5)	1,169	2	2	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–
Liabilities associated with assets held for sale (IFRS 5)	–	–	–	–
Combined interest rate and currency risk hedging:				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Assets held for sale (IFRS 5)	36	0	0	–
Liabilities to banks	585	33	33	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–
Liabilities associated with assets held for sale (IFRS 5)	446	81	43	–

FISCAL YEAR 2022

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	14,764	–156	–156	–
Liabilities to banks	–	–	–	–
Liabilities to customers	637	–12	–18	–
Notes, commercial paper issued	22,503	–2,051	–2,250	–
Subordinated capital	–	–	–	–
Currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	795	–5	–1	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–
Combined interest rate and currency risk hedging:				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities to customers	38	0	0	–
Notes, commercial paper issued	181	39	39	–
Subordinated capital	–	–	–	–

The following tables present the hedged items hedged in cash flow hedges:

FISCAL YEAR 2023

€ million	Fair value change to determine ineffectiveness	Reserve for: Existing cash flow hedges	Reserve for: Terminated cash flow hedges
Interest rate risk hedging			
Designated components	–82	–82	0
Deferred taxes	–	36	0
Total interest rate risk	–82	–46	0
Currency risk hedging			
Designated components	–11	–7	–
Non-designated components	–	–	–
Deferred taxes	–	2	–
Total hedging currency risk	–11	–5	–
Combined interest rate and currency risk hedging:			
Designated components	26	–7	–
Deferred taxes	–	2	–
Total combined interest rate and currency risk	26	–5	–

FISCAL YEAR 2022

€ million	Fair value change to determine ineffectiveness	Reserve for: Existing cash flow hedges	Reserve for: Terminated cash flow hedges
Interest rate risk hedging			
Designated components	11	13	–
Deferred taxes	–	–5	–
Total interest rate risk	11	8	–
Currency risk hedging			
Designated components	–2	4	–
Non-designated components	–	–	–
Deferred taxes	–	–1	–
Total hedging currency risk	–2	3	–
Combined interest rate and currency risk hedging:			
Designated components	3	–29	–
Deferred taxes	–	9	–
Total combined interest rate and currency risk	3	–21	–

CHANGES IN THE CASH FLOW HEDGE RESERVE

In the accounting treatment of cash flow hedges, the designated effective portion of a hedge is reported in other comprehensive income (in “OCI I”). All changes in the fair value of hedging instruments in excess of the effective portion are reported in profit or loss as hedge ineffectiveness.

The following tables show a reconciliation for the cash flow hedge reserve (OCI I):

€ million	Interest rate risk	Currency risk	Interest rate/ currency risk	Total
Balance at Jan. 1, 2023	**8**	**3**	**–21**	**–9**
Gains or losses from effective hedging relationships	–53	–12	72	7
Reclassifications due to realization of the hedged item	0	4	–56	–53
Balance at Dec. 31, 2023	**–45**	**–5**	**–5**	**–55**

€ million	Interest rate risk	Currency risk	Interest rate/ currency risk	Total
Balance at Jan. 1, 2022	**6**	**4**	**–1**	**9**
Gains or losses from effective hedging relationships	4	–3	20	20
Reclassifications due to realization of the hedged item	–1	2	–40	–38
Balance at Dec. 31, 2022	**8**	**3**	**–21**	**–9**

In the above tables, the effects on equity from the cash flow hedge reserve (OCI I) and hedging costs reserve are reduced by deferred taxes. In the cash flow hedge reserve (OCI I), the deferred taxes on gains or losses from effective hedges amounted to gains of €13 million (previous year: €-7 million) and the deferred taxes on reclassifications resulting from the recovery of the hedged item came to €24 million (previous year: €16 million).

Segment Reporting

66. Breakdown by geographical market

The delineation between segments follows that used for internal management and reporting purposes in the VW FS AG Group. As the primary key performance indicator, the operating result is reported to the chief operating decision-makers. The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting.

Internal management applies a market-based geographical breakdown. Foreign branches of German subsidiaries are allocated to the markets in which they are based. The geographical markets of Germany, the United Kingdom, Sweden, China, Brazil and Mexico are the segments that are subject to reporting requirements under IFRS 8. Subsidiaries in the VW FS AG Group are aggregated within these segments. In line with internal reporting practice, the German market is composed of companies in Germany, Austria and Denmark. All other companies that can be allocated to geographical markets are brought together under “Other Segments”.

Companies that are not allocated to any geographical market are reported in the reconciliation. The reconciliation also includes the VW FS AG holding company, the holding and financing companies in the Netherlands and Belgium, Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Volkswagen Insurance Brokers GmbH and Volkswagen Versicherung AG. In the internal reporting structure, this presentation ensures that there is a separation between market activities on one side and typical holding company or financing functions, industry business, primary insurance business and reinsurance business on the other side. Effects from consolidation between the segments and from the provision for country risks are additionally included in the reconciliation.

All business transactions between the segments – where such transactions take place – are conducted on an arm’s-length basis.

In accordance with IFRS 8, noncurrent assets are reported exclusive of financial instruments, deferred tax assets, post-employment benefits and rights under insurance contracts.

There were no changes to internal management and reporting – and hence no changes to the delineation between segments in segment reporting – at the VW FS AG Group in the reporting year as a result of the restructuring program to establish a European financial holding company. The discontinued operation encompass the whole of the Germany, Sweden and UK reporting segments plus parts of the Other segments and the reconciliation.

BREAKDOWN BY GEOGRAPHICAL MARKET 2023:

€ million	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other segments	Segments total	Recon-ciliation	Group
	JAN. 1 – DEC. 31, 2023									
Interest income from lending transactions and marketable securities in respect of third parties	174	16	70	719	1,043	320	582	2,925	301	3,226
Income from leasing transactions with third parties	15,351	2,896	3,445	3	528	231	3,284	25,738	–1	25,737
of which reversals of impairment losses in accordance with IAS 36	6	–	0	–	–	6	26	38	–	38
Intersegment income from leasing transactions	0	–	–	–	–	–	0	1	–1	–
Depreciation, impairment losses and other expenses from leasing transactions	–13,069	–1,375	–3,184	–3	–337	–108	–2,430	–20,505	–3	–20,508
of which impairment losses in accordance with IAS 36	–633	–37	0	–	–	–4	–68	–742	–	–742
Net income from leasing transactions	2,283	1,521	260	0	191	123	855	5,233	–4	5,229
Interest expense	–1,557	–965	–151	–256	–899	–178	–695	–4,701	–340	–5,041
Income from service contracts with third parties	1,448	252	–	–	92	7	872	2,671	–1	2,670
of which over-time income	139	–	–	–	–	–	488	627	–	627
of which at a point in time income	1,310	252	–	–	92	7	384	2,044	–1	2,043
Intersegment income from service contracts	–	–	–	–	–	–	–	–	–	–
Income from insurance business with third parties	–	–	–	–	–	–	–	–	262	262
Intersegment income from insurance business	–	–	–	–	–	–	–	–	–	–
Fee and commission income from third parties	132	3	6	–	69	48	325	583	80	663
Intersegment fee and commission income	–	–	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–3	–9	0	–16	–10	–1	–28	–67	–14	–81
Operating result	**70**	**273**	**116**	**173**	**158**	**161**	**422**	**1,373**	**363**	**1,736**

BREAKDOWN BY GEOGRAPHICAL MARKET 2022:

€ million	JAN. 1 – DEC. 31, 2022 Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other segments	Segments total	Reconciliation, restated[1]	Group restated[1]
Interest income from lending transactions and marketable securities in respect of third parties[1]	29	11	42	927	744	210	481	2,443	27	2,471
Income from leasing transactions with third parties	12,156	2,528	3,139	0	1	231	2,976	21,031	1	21,031
of which impairment losses in accordance with IAS 36	70	25	6	0	–	11	77	190	–	190
Intersegment income from leasing transactions	0	–	–	–	–	–	1	1	–1	–
Depreciation, impairment losses and other expenses from leasing transactions	–10,213	–1,150	–2,926	–1	0	–119	–2,220	–16,629	3	–16,626
of which impairment losses in accordance with IAS 36	–37	0	0	–	–	–4	–48	–90	–	–90
Net income from leasing transactions	1,943	1,378	213	0	1	111	757	4,403	3	4,406
Interest expense	–357	–403	–43	–329	–527	–88	–375	–2,122	–46	–2,167
Income from service contracts with third parties	1,410	211	–	–	7	1	787	2,415	–1	2,414
of which over-time income	153	–	–	–	–	–	440	592	0	593
of which at a point in time income	1,257	211	–	–	7	1	348	1,823	–1	1,822
Intersegment income from service contracts	–	–	–	–	–	–	–	–	–	–
Income from insurance business with third parties	–	–	–	–	–	–	–	–	271	271
Intersegment income from insurance business	–	–	–	–	–	–	–	–	–	–
Fee and commission income from third parties	128	2	5	–	52	46	271	504	58	562
Intersegment fee and commission income	–	–	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–14	–4	–1	–10	–3	–1	–35	–68	–16	–84
Operating result	**1,526**	**973**	**139**	**319**	**117**	**159**	**523**	**3,757**	**–536**	**3,222**

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the section "Effects of New and Revised IFRSs".

The reported impairment losses and reversals of impairment losses in accordance with IAS 36 related to lease assets.

The breakdown of "Income from service contracts with third parties" into "of which over-time income" and "of which at a point in time income" in note 22 "Net income from service contracts" has been carried over to and continued in the tables above.

Information on the main products (lending and leasing business) can be taken directly from the income statement.

The breakdown of noncurrent assets in accordance with IFRS 8 and of the additions to noncurrent lease assets by geographical market is shown in the following tables:

€ million	JAN. 1 – DEC. 31, 2023					
	Germany	United Kingdom	Sweden	China	Brazil	Mexico
Noncurrent Assets	23,500	3,876	1,444	86	2,181	60
Additions to lease assets classified as noncurrent assets.	10,987	1,891	660	2	1,077	16

€ million	JAN. 1 – DEC. 31, 2022					
	Germany	United Kingdom	Sweden	China	Brazil	Mexico
Noncurrent Assets	22,378	3,215	1,504	82	301	49
Additions to lease assets classified as noncurrent assets.	9,257	1,241	705	2	–	14

Investment recognized under other assets was of minor significance.

The following table shows the reconciliation to consolidated revenue, operating result for continuing operation and profit before tax for continuing operation.

€ million	2023	2022
Segment revenue	**31,917**	**26,393**
Other companies	1,288	515
Consolidation	–908	–430
Group revenue	**32,297**	**26,478**
Segment profit or loss (operating result)	**1,373**	**3,757**
Other companies	–35	–220
Contribution to operating profit by included companies	–13	–47
Consolidation between segments	412	–269
Discontinued operation	–983	–2,707
Operating result from continuing operation	**754**	**515**
Share of profits and losses of equity-accounted joint ventures	50	41
Net gain or loss on miscellaneous financial assets	103	–67
Other financial gains or losses	9	10
Profit before tax from continuing operation	**915**	**499**

Other Disclosures

67. Leases

LESSOR ACCOUNTING FOR FINANCE LEASES

Interest income from the net investment in the lease amounting to €2,437 million (previous year: €1,928 million) was generated from finance leases in the reporting year, of which €128 million (previous year: €127 million) was accounted for by continuing operation and €2,309 million (previous year: €1,800 million) was accounted for by discontinued operation. There was no income from variable lease payments that was not taken into account in the measurement of the net investment in the lease where finance leases were concerned.

The following table shows a reconciliation of the undiscounted lease payments under finance leases to the net investment in the leases.

€ million	Dec. 31, 2023	Dec. 31, 2022
Non-discounted lease payments	51,898	45,184
Non-guaranteed residual value	93	90
Unearned interest income	–4,928	–3,404
Loss allowance on lease receivables	–793	–967
Other	–	–
Net investment	**46,270**	**40,903**
of which under Receivables from customers attributable to the leasing business on the balance sheet	1,030	–
of which under Assets held for sale (IFRS 5) on the balance sheet	45,240	–

In the VW FS AG Group, net investment equates to the net receivables from finance leases.

In the year under review, the following payments are anticipated over the next few years from expected, outstanding, non-discounted lease payments under finance leases.

€ million	2024	2025	2026	2027	2028	From 2029	Total
Finance lease payments	16,889	13,616	12,744	7,902	512	234	51,898
of which from finance leases under Receivables from customers attributable to the leasing business on the balance sheet	487	187	184	214	98	164	1,335
of which from finance leases under Assets held for sale (IFRS 5) on the balance sheet	16,402	13,429	12,559	7,688	414	70	50,563

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

€ million	2023	2024	2025	2026	2027	From 2028	Total
Finance lease payments	15,951	11,859	10,266	6,459	436	213	45,184

LESSOR ACCOUNTING FOR OPERATING LEASES

Income generated from operating leases is included in the income statement in Income from leasing transactions, Other operating income and Profit/loss from discontinued operation, net of tax. The table below shows a breakdown between income from leases without variable lease payments and income from leases with variable lease payments.

€ million	2023	2022
Lease income	7,512	6,543
Income from variable lease payments	–	–
Total	**7,512**	**6,543**

Continuing operation account for €451 million (previous year: €205 million) of the total income generated from operating leases, discontinued operation for €7,061 million (previous year: €6,338 million).

The impairment losses recognized as a result of the impairment test on lease assets amounted to €743 million (previous year: €90 million) and are included in the amount of €6 million (previous year: €6 million) for continuing operation in the depreciation, impairment losses and other expenses from leasing transactions. Discontinued operation accounted for impairment losses of €737 million (previous year: €84 million). Impairment losses are based on continuously updated internal and external information, which is then fed into the forecasts of residual values for vehicles.

Income from reversals of impairment losses on lease assets applied in prior years amounted to €38 million (previous year: €190 million) and is included in the amount of €6 million (previous year: €13 million) for continuing operation in income from leasing transactions. Discontinued operation accounted for impairment losses of €32 million (previous year: €177 million).

The following table shows the changes in the reporting year for assets leased out under operating leases: The reclassifications shown in the Assets held for sale (IFRS 5) lines are the result of the reclassification of lease assets on the balance sheet to Assets held for sale (IFRS 5).

€ million	Movable lease assets
Cost as of Jan. 1, 2023	**44,869**
Foreign exchange differences	108
Changes in basis of consolidation	1,098
Additions	22,904
Reclassifications	0
Assets held for sale (IFRS 5)	–47,566
Disposals	18,580
Balance as of Dec. 31, 2023	**2,833**
Depreciation and impairment losses as of Jan. 1, 2023	**9,942**
Foreign exchange differences	21
Changes in basis of consolidation	92
Additions to cumulative depreciation	5,090
Additions to cumulative impairment losses	742
Reclassifications	–
Assets held for sale (IFRS 5)	–10,561
Disposals	4,801
Reversal of impairment losses	38
Balance as of Dec. 31, 2023	**486**
Net carrying amount as of Dec. 31, 2023	**2,347**
Net carrying amount as of Jan. 1, 2023	**34,927**

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

€ million	2024	2025	2026	2027	2028	From 2029	Total
Lease payments	4,836	3,189	1,686	711	128	10	10,561
of which from operating leases under Lease assets on the balance sheet	215	110	77	30	8	–	440
of which from operating leases under Assets held for sale (IFRS 5) on the balance sheet	4,622	3,079	1,609	680	120	10	10,121

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

€ million	Movable lease assets
Cost	
as of Jan. 1, 2022	**40,571**
Foreign exchange differences	–380
Changes in basis of consolidation	92
Additions	18,366
Reclassifications	–
Disposals	13,780
Balance as of Dec. 31, 2022	**44,869**
Depreciation and impairment losses	
as of Jan. 1, 2022	**8,505**
Foreign exchange differences	–74
Changes in basis of consolidation	36
Additions to cumulative depreciation	4,846
Additions to cumulative impairment losses	90
Reclassifications	–
Disposals	3,271
Reversal of impairment losses	190
Balance as of Dec. 31, 2022	**9,942**
Net carrying amount as of Dec. 31, 2022	**34,927**
Net carrying amount as of Jan. 1, 2022	**32,066**

In the case of subleases that are classified as operating leases, right-of-use assets recognized in connection with buyback transactions are reported, from the perspective of the VW FS AG Group as lessor, under lease assets in the balance sheet and in the reconciliation showing the changes in movable lease assets.

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

€ million	2023	2024	2025	2026	2027	From 2028	Total
Lease payments	4,126	2,644	1,363	587	146	6	8,871

LESSEE ACCOUNTING

The VW FS AG Group is a party to leases as a lessee in various aspects of the business. These leases mainly involve the leasing of land and buildings and operating and office equipment. The accounting treatment of buyback transactions as leases also means that the VW FS AG Group is the lessee in the primary leases with the vehicle sellers, who are entities in the Volkswagen Group.

Leases outside of buyback transactions

Leases outside of buyback transactions are of only minor significance for the VW FS AG Group and the following information accordingly relates exclusively to leases not recognized as part of a disposal group in accordance with IFRS 5 on the reporting date.

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

In the reporting year, as in the previous year, there was no income from subleases for leases outside of buyback transactions.

No right-of-use assets are recognized for short-term leases or leases in which the underlying asset is of low value. In the reporting year, expenses for leases in which the underlying assets are of low value amounted to €7 million (previous year restated: €4 million). Expenses for short-term leases in the reporting year were €0 million (previous year restated: €0 million). There were no variable lease expenses in the reporting year or in the previous year that were not taken into account in the measurement of the lease liabilities.

Right-of-use assets derived from leases are reported on the balance sheet under Property and equipment in the items indicated in the following. The reclassifications shown in the Assets held for sale (IFRS 5) lines are the result of the reclassification of right-of-use assets on the balance sheet to Assets held for sale (IFRS 5).

€ million	Land and buildings	Operating and office equipment	Total
Gross carrying amount (or cost) as of Jan. 1, 2023	**208**	**4**	**212**
Foreign exchange differences	–3	0	–3
Changes in basis of consolidation	–42	0	–42
Additions	33	0	33
Reclassifications	–	–	–
Assets held for sale (IFRS 5)	–108	–1	–109
Disposals	21	0	21
Balance as of Dec. 31, 2023	**68**	**2**	**70**
Depreciation and impairment losses as of Jan. 1, 2023	**75**	**3**	78
Foreign exchange differences	–2	0	–2
Changes in basis of consolidation	–6	–	–6
Additions to cumulative depreciation	19	1	20
Additions to cumulative impairment losses	0	–	0
Reclassifications	–	–	–
Assets held for sale (IFRS 5)	–34	–1	–35
Disposals	17	0	17
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2023	**36**	**2**	**38**
Net carrying amount as of Dec. 31, 2023	**31**	**0**	**32**
Net carrying amount as of Jan. 1, 2023	**133**	**1**	**134**

€ million	Land and buildings	Operating and office equipment	Total
Gross carrying amount (or cost) as of Jan. 1, 2022	**224**	**4**	**228**
Foreign exchange differences	–3	0	–3
Changes in basis of consolidation	4	–	4
Additions	11	0	11
Reclassifications	–	–	–
Assets held for sale (IFRS 5)	–5	–	–5
Disposals	21	0	22
Balance as of Dec. 31, 2022	**208**	**4**	**212**
Depreciation and impairment losses as of Jan. 1, 2022	**62**	**3**	**65**
Foreign exchange differences	–1	0	–1
Changes in basis of consolidation	1	–	1
Additions to cumulative depreciation	22	1	23
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Assets held for sale (IFRS 5)	–4	–	–4
Disposals	5	0	6
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2022	**75**	**3**	**78**
Net carrying amount as of Dec. 31, 2022	**133**	**1**	**134**
Net carrying amount as of Jan. 1, 2022	**162**	**1**	**163**

When assessing the lease term underlying lease liabilities, the VW FS AG Group makes a best estimate as to whether an extension option will be exercised or a termination option will be exercised. In the event of a material change in the general parameters used for this estimate or a modification of the lease, this estimate is updated.

In the balance sheet, lease liabilities are reported under liabilities to customers. The following table shows a breakdown of the undiscounted contractual maturities of lease liabilities:

€ million	REMAINING CONTRACTUAL MATURITIES			
	Up to 1 year	1 – 5 years	more than 5 years	TOTAL
Lease liabilities as of Dec. 31, 2023	10	25	1	35
Lease liabilities as of Dec. 31, 2022	22	103	64	189

Overall, leases in which the VW FS AG Group is a lessee gave rise to total cash outflows of €17 million (previous year: €22 million) in the reporting year.

The following table shows an overview of the potential future cash outflows that have not been included in the measurement of the lease liabilities.

€ million	2023	2022
Future cash outflows to which the lessee is potentially exposed		
Residual value guarantees	–	0
Extension options	–	30
Termination options	–	–
Obligations under leases not yet commenced (contractual obligations)	–	22
Total	**–**	**52**

Leases forming part of buyback transactions

Buyback transactions were accounted for in full by the disposal groups in accordance with IFRS 5.
The right-of-use assets recognized from primary leases as part of buyback transactions are reported either as finance leases, and therefore as receivables from finance leases, or as operating leases, and therefore as lease assets, depending on the classification of the subleases and are covered in the information presented for these balance sheet items.

Subleases in connection with buyback transactions gave rise in the reporting year to income of €220 million (previous year restated: €223 million), which was derived from both finance leases and operating leases and was accounted for in full by discontinued operation.

In the case of assets leased as part of buyback transactions, the total cash outflows were reported in an amount equal to the value of the right of use recognized in the reporting year. Overall, this gave rise to total cash outflows of €37 million (previous year: €43 million) in the reporting year.

68. Insurance contract disclosures

RECONCILIATION OF INSURANCE CONTRACTS

The tables below analyze the changes in the net carrying amount for the insurance contracts issued and for the reinsurance contracts held during the reporting period. The change in the liability for remaining coverage and the liability for incurred claims is analyzed first before the change in the measurement components.

Analysis by remaining coverage and claims incurred

Insurance contracts issued

	LIABILITY FOR REMAINING COVERAGE (LRC)			
€ million	Excluding loss component	Loss component	Liability for incurred claims (LIC)	Total
Balance as of Jan. 1, 2023				
Assets from insurance contracts	0	–	0	0
Liabilities for insurance contracts	–261	–12	–91	–363
Net balance of assets from and liabilities for insurance contracts	**–260**	**–12**	**–91**	**–363**
Insurance income	263			263
Insurance services expenses	–14	–13	–84	–112
Claims expenses and other expenses from insurance contracts		4	–112	–108
Amortization of costs incurred in concluding contracts	–14			–14
Losses and reversals for contracts in deficit		–17		–17
Changes in liability for incurred claims (LIC)			28	28
Investment components	**7**		**–7**	**–**
Technical insurance result	**–11**	**0**	**–2**	**–13**
Finance income and expenses from insurance contracts	–8	0	–2	–10
Currency translation	–3	0	0	–3
Net gain or loss from insurance business	**246**	**–13**	**–94**	**139**
Cash flow	**269**		**–136**	**133**
Premiums received	292			292
Payments for claims and other insurance services			–136	–136
Acquisition costs paid	–24			–24
Other changes	–	–	–20	–20
Balance as of Dec. 31, 2023	**–284**	**–25**	**–68**	**–377**
Assets from insurance contracts	3	–	–1	2
Liabilities for insurance contracts	–287	–25	–68	–379
Net balance of assets from and liabilities for insurance contracts	**–284**	**–25**	**–68**	**–377**

€ million	LIABILITY FOR REMAINING COVERAGE (LRC) Excluding loss component	Loss component	Liability for incurred claims (LIC))	Total
Balance as of Jan. 1, 2022				
Assets from insurance contracts	0	–	0	0
Liabilities for insurance contracts	–316	–6	–93	–415
Net balance of assets from and liabilities for insurance contracts	**–316**	**–6**	**–93**	**–415**
Insurance income	273			273
Insurance services expenses	–6	–6	–121	–133
Claims expenses and other expenses from insurance contracts		3	–136	–133
Amortization of costs incurred in concluding contracts	–6			–6
Losses and reversals for contracts in deficit		–9		–9
Changes in liability for incurred claims (LIC)			15	15
Investment components	**6**		**–6**	**–**
Technical insurance result	**12**	**0**	**10**	**23**
Finance income and expenses from insurance contracts	11	0	10	20
Currency translation	1	1	1	3
Net gain or loss from insurance business	**285**	**–6**	**–117**	**162**
Cash flow	**229**	**–**	**–124**	**106**
Premiums received	249	–		249
Payments for claims and other insurance services		–	–124	–124
Acquisition costs paid	–20	–		–20
Other changes	–	–	–5	–5
Balance as of Dec. 31, 2022	**–260**	**–12**	**–91**	**–363**
Assets from insurance contracts	0	–	0	0
Liabilities for insurance contracts	–261	–12	–91	–363
Net balance of assets from and liabilities for insurance contracts	–260	–12	–91	–363

Reinsurance contracts held

€ million	ASSET FOR REMAINING COVERAGE			
	Excluding loss-recovery component	Loss-recovery component	Asset for incurred claims	Total
Balance as of Jan. 1, 2023				
Assets from reinsurance contracts	3	–	22	25
Liabilities for reinsurance contracts	0	–	–	0
Net balance of assets from and liabilities for reinsurance contracts	**3**	**–**	**22**	**25**
Expenses from reinsurance services	0			**0**
Reimbursable amounts from reinsurance companies	–	–	–2	**–2**
Reimbursable amounts for claims made and other costs in the period	–	–	–	**–**
Loss recovery for losses and reversals from underlying insurance contracts in deficit	–	–	–	**–**
Adjustment to reimbursable amounts for claims made and other costs in prior periods	–	–	–2	–2
Investment components	**–**		**–**	**–**
Changes in credit risk of reinsurance company	–	–	–	–
Net income/expenses from reinsurance contracts held	**0**	**–**	**1**	**1**
Finance income and expenses from reinsurance contracts	0	–	1	1
Currency translation	–	–	–	–
Net gain or loss from reinsurance services	**0**	**–**	**–1**	**–1**
Cash flow	**–**	**–**	**–**	**–**
Paid expenses from outward reinsurance	–	–		–
Reimbursements received		–	–	–
Other changes	–	–	–	–
Balance as of Dec. 31, 2022	**3**	**–**	**21**	**25**
Assets from reinsurance contracts	3	–	21	25
Liabilities for reinsurance contracts	0	–	–	0
Net balance of assets from and liabilities for insurance contracts	**3**	**–**	**21**	**25**

€ million	Asset for remaining coverage: Excluding loss-recovery component	Asset for remaining coverage: Loss-recovery component	Asset for incurred claims	Total
Balance as of Jan. 1, 2022				
Assets from reinsurance contracts	4	–	30	35
Liabilities for reinsurance contracts	0	–	–	0
Net balance of assets from and liabilities for reinsurance contracts	**4**	**–**	**30**	**35**
Expenses from reinsurance services	0			**0**
Reimbursable amounts from reinsurance companies	–	–	–2	**–2**
Reimbursable amounts for claims made and other costs in the period	–	–	–	**–**
Loss recovery for losses and reversals from underlying insurance contracts in deficit	–	–	–	**–**
Adjustment to reimbursable amounts for claims made and other costs in prior periods	–	–	–2	–2
Investment components	**–**		**–**	**–**
Changes in credit risk of reinsurance company	–	–	–	–
Net income/expenses from reinsurance contracts held	**1**	**–**	**7**	**8**
Finance income and expenses from reinsurance contracts	1	–	7	8
Currency translation	–	–	–	–
Net gain or loss from reinsurance services	**–1**	**–**	**–8**	**–9**
Cash flow	**–**		**–**	**–**
Paid expenses from outward reinsurance	–			–
Reimbursements received			–	–
Other changes	–	–	–	–
Balance as of Dec. 31, 2022	**3**	**–**	**22**	**25**
Assets from reinsurance contracts	3	–	22	25
Liabilities for reinsurance contracts	0	–	–	0
Net balance of assets from and liabilities for insurance contracts	**3**	**–**	**22**	**25**

Analysis by measurement components

Insurance contracts issued

€ million	Estimated present value for future cash flows	Risk adjustment for nonfinancial risk	Contractual service margin (CSM)	Total
Balance as of Jan. 1, 2023				
Assets from insurance contracts	0	0	0	0
Liabilities for insurance contracts	–181	–35	–147	–363
Net balance of assets from and liabilities for insurance contracts	**–181**	**–35**	**–147**	**–363**
Changes relating to current services	51	2	88	141
Contractual service margin recognized in profit or loss	–	–	88	88
Risk adjustment for expired risks	–	2	–	2
Experience adjustments	51	–	–	51
Changes relating to future services	64	–24	–58	–17
Contracts recognized for the first time	122	–19	–106	–3
Changes in accounting estimates that affect CSM	–46	–3	49	–
Change in losses and reversals of losses for contracts in deficit	–12	–2	–	–14
Changes relating to past services	6	22	–	28
Technical insurance result	**–9**	**0**	**–4**	**–13**
Finance income and expenses from insurance contracts	–7	–	–4	–10
Currency translation	–2	0	–1	–3
Net gain or loss from insurance business	**113**	**0**	**26**	**139**
Cash flow	**133**	**–**	**–**	**133**
Premiums received	292	–	–	292
Payments for claims and other insurance services	–136	–	–	–136
Acquisition costs paid	–24	–	–	–24
Other changes	–20	–	–	–20
Balance as of Dec. 31, 2023	**–221**	**–35**	**–121**	**–377**
Assets from insurance contracts	9	0	–7	2
Liabilities for insurance contracts	–230	–35	–115	–379
Net balance of assets and liabilities / insurance contracts	**–221**	**–35**	**–121**	**–377**

€ million	Estimated present value for future cash flows	Risk adjustment for nonfinancial risk	Contractual service margin (CSM)	Total
Balance as of Jan. 1, 2022				
Assets from insurance contracts	0	0	0	0
Liabilities for insurance contracts	–225	–31	–159	–415
Net balance of assets from and liabilities for insurance contracts	**–225**	**–31**	**–159**	**–415**
Changes relating to current services	17	–3	120	134
Contractual service margin recognized in profit or loss	–	–	120	120
Risk adjustment for expired risks	–	–3	–	–3
Experience adjustments	17	–	–	17
Changes relating to future services	112	–14	–108	–9
Contracts recognized for the first time	110	–13	–100	–3
Changes in accounting estimates that affect CSM	8	0	–8	–
Change in losses and reversals of losses for contracts in deficit	–7	0	–	–7
Changes relating to past services	3	12	–	15
Technical insurance result	**22**	**0**	**1**	**23**
Finance income and expenses	20	–	0	**20**
Currency translation	2	0	0	**3**
Net gain or loss from insurance business	**154**	**–4**	**12**	**162**
Cash flow	**106**	**–**	**–**	**106**
Premiums received	249	–	–	**249**
Payments for claims and other insurance services	–124	–	–	**–124**
Acquisition costs paid	–20	–	–	**–20**
Other changes	–5	–	–	**–5**
Balance as of Dec. 31, 2022	**–181**	**–35**	**–147**	**–363**
Assets from insurance contracts	0	0	0	**0**
Liabilities for insurance contracts	–181	–35	–147	**–363**
Net balance of assets and liabilities / insurance contracts	–181	–35	–147	–363

Reinsurance contracts held

€ million	Estimated present value for future cash flows	Risk adjustment for nonfinancial risk	Contractual service margin (CSM)	Total
Balance as of Jan. 1, 2023				
Assets from reinsurance contracts	24	1	–	25
Liabilities for reinsurance contracts	0	–	–	0
Net balance of assets from and liabilities for insurance contracts	**24**	**1**	**–**	**25**
Changes relating to current services	0	0	0	0
Contractual service margin recognized in profit or loss	–	–	0	0
Risk adjustment for expired risks	–	0	–	0
Experience adjustments	0	–	–	0
Changes relating to future services	0	0	0	0
Contracts recognized for the first time	0	–	0	–
Changes in accounting estimates that affect CSM	0	–	0	–
Changes in accounting estimates that do not affect CSM	0	0	–	0
Changes in reimbursable amounts relating to past services	–2	0	–	–2
Finance income and expenses from reinsurance contracts	1	–	0	1
Changes in default risk of reinsurance companies	–	–	–	–
Currency translation	–	–	–	–
Net gain or loss from outward reinsurance business	**1**	**0**	**0**	**1**
Cash flow	**–**	**–**	**–**	**–**
Paid expenses from outward reinsurance	–	–	–	–
Reimbursements received	–	–	–	–
Other changes	–	–	–	–
Balance as of Dec. 31, 2023	**23**	**1**	**–**	**25**
Assets from reinsurance contracts	23	1	–	25
Liabilities for reinsurance contracts	0	–	–	0
Net balance of assets from and liabilities for reinsurance contracts	**23**	**1**	**–**	**25**

€ million	Estimated present value for future cash flows	Risk adjustment for nonfinancial risk	Contractual service margin (CSM)	Total
Balance as of Jan. 1, 2022				
Assets from reinsurance contracts	33	2	–	35
Liabilities for reinsurance contracts	0	–	–	0
Net balance of assets from and liabilities for insurance contracts	**33**	**2**	**–**	**35**
Changes relating to current services	0	0	0	0
Contractual service margin recognized in profit or loss	–	–	0	0
Risk adjustment for expired risks	–	0	–	0
Experience adjustments	0	–	–	0
Changes relating to future services	0	0	0	0
Contracts recognized for the first time	0	–	0	–
Changes in accounting estimates that affect CSM	–	–	–	–
Changes in accounting estimates that do not affect CSM	0	0	–	0
Changes in reimbursable amounts relating to past services	–1	0	–	–2
Finance income and expenses from reinsurance contracts	–8	–	0	–8
Changes in default risk of reinsurance companies	–	–	–	–
Currency translation	–	–	–	–
Net gain or loss from outward reinsurance business	**–9**	**0**	**–**	**–9**
Cash flow	**0**	**–**	**–**	**0**
Paid expenses from outward reinsurance	0	–	–	0
Reimbursements received	–	–	–	–
Other changes	–	–	–	–
Balance as of Dec. 31, 2022	**24**	**1**	**–**	**25**
Assets from reinsurance contracts	24	1	–	25
Liabilities for reinsurance contracts	0	–	–	0
Net balance of assets from and liabilities for reinsurance contracts	**24**	**1**	**–**	**25**

EFFECTS OF INSURANCE CONTRACTS RECOGNIZED FOR THE FIRST TIME

The effects on the balance sheet of insurance contracts recognized for the first time as of the December 31, 2023 reporting date are as follows:

	INSURANCE CONTRACTS ISSUED FOR THE FIRST TIME		INSURANCE CONTRACTS ACQUIRED FOR THE FIRST TIME		
€ million	Not in deficit	In deficit	Not in deficit	In deficit	Total
Expected present value of future cash outflows (excluding costs incurred in concluding contracts)	–135	–15	–	–	–149
Expected present value of costs incurred in concluding contracts	–15	–3	–	–	–18
Expected present value of future cash outflows	272	17	–	–	289
Risk adjustment for nonfinancial risk	–16	–3	–	–	–19
Contractual service margin (CSM)	–106	–	–	–	–106
Total	**0**	**–3**	**–**	**–**	**–3**

The insurance contracts recognized for the first time had no material effect on assets from reinsurance contracts held.

EFFECTS OF RISK ON INSURANCE CONTRACTS

Insurance business is subject to underwriting risk and financial risk as explained in the following.

Maximum credit risk

€ million	Dec. 31, 2023	Dec. 31, 2022
Cash and cash equivalents	121	145
Debt instruments (FVOCI)	336	245
Debt instruments (amortized cost)	64	82
Assets from reinsurance contracts held	25	25
Other	2	–
Maximum credit risk	**547**	**498**

All insurance contracts fall within rating class 1.

Insurance risk

€ million	Dec. 31, 2023	Dec. 31, 2022
Catastrophe risk	13	11
Premium risk	290	216
Reserve risk	24	56
Total	**327**	**283**

The effects of insurance risk on equity and on the profit after tax are presented below with a sensitivity analysis:

€ million	Loss ratio (increase of 10 percentage points)	Loss ratio (decrease of 10 percentage points)
Balance of Dec. 31., 2023		
Profit after tax		
Effect before reinsurance	–70	71
Effect after reinsurance	–66	65
Equity		
Effect before reinsurance	71	–70
Effect after reinsurance	66	–65

Insurance risk – claims development

The claims arising in the period are compared in the following against the estimated values in the forecast without factoring in any reinsurance contracts held.

€ million	CLAIM YEAR 2016	2017	2018	2019	2020	2021	2022	2023	Total
At the end of the claim year	134	133	127	122	113	114	110	123	
1 year later	129	127	128	125	117	116	114	–	
2 years later	133	127	128	126	117	117	–	–	
3 years later	133	127	128	126	117	–	–	–	
4 years later	133	127	128	126	–	–	–	–	
5 years later	133	127	128	–	–	–	–	–	
6 years later	133	127	–	–	–	–	–	–	
7 years later	133	–	–	–	–	–	–	–	
Total undiscounted claims payments and other directly attributable costs	133	126	126	124	116	113	107	92	938
Provisions for claim years	0	1	1	1	2	4	7	32	47
Provisions for claim years prior to 2016	–	–	–	–	–	–	–	–	34
Discounting	–	–	–	–	–	–	–	–	–11
Risk adjustment for nonfinancial risk	–	–	–	–	–	–	–	–	–5
LIC for insurance contracts issued	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–68**

Currency risk – sensitivity analysis:

€ million	PROFIT AFTER TAX 10%	PROFIT AFTER TAX –10%	EQUITY 10%	EQUITY –10%
Dec. 31., 2023				
Currency relations				
EUR/GBP	0	0	0	0
EUR/JPY	1	–1	–1	1
EUR/CHF	1	–1	–1	1
EUR/SEK	0	0	0	0
EUR/CZK	0	0	0	0
EUR/PLN	1	–1	–1	1
EUR/TRY	0	0	0	0

Interest rate risk – sensitivity analysis:

€ million	PROFIT AFTER TAX 10%	PROFIT AFTER TAX –10%	EQUITY 10%	EQUITY –10%
Dec. 31., 2023				
Insurance and reinsurance contracts	–5	5	5	–5

The effects of risks in connection with currencies and interest rates have no material impact on equity or profit after tax.

Liquidity risk

The maturity profile of underwriting provisions and the associated liquidity risk are set out below.

As of Dec. 31, 2023

€ million	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years	More than 5 years	Total
Liabilities for insurance contracts issued	–5	13	47	23	85	216	379
Liabilities for reinsurance contracts held	0	–	–	–	–	–	0

As of Dec. 31, 2022

€ million	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years	More than 5 years	Total
Liabilities for insurance contracts issued	1	0	46	64	23	229	363
Liabilities for reinsurance contracts held	0	–	–	–	–	–	0

	2023		2022	
€ million	Amount callable immediately	Carrying amount	Amount callable immediately	Carrying amount
Liabilities for insurance contracts issued	–234	–234	–185	–185
Liabilities for reinsurance contracts held	0	0	0	0

CONTRACTUAL SERVICE MARGIN

The contractual service margin determined on the reporting date is recognized in profit or loss as set out below.

€ million	2024	2025	2026	2027	2028	After 2028	Total
Insurance contracts issued	0	1	6	12	14	88	121
Reinsurance contracts held	–	–	–	–	–	–	–

TECHNICAL INSURANCE INCOME

The table below shows the changes of the technical insurance income.

€ million	2023	2022
Technical insurance income		
Change in liability for remaining coverage	249	267
Contractual service margin recognized in profit or loss	88	120
Risk adjustment for nonfinancial risk (current coverage)	15	13
Other changes	10	5
Expected expenses for claims incurred and other costs	136	129
Amortization of costs incurred in concluding contracts	14	6
Total	**263**	**273**

69. Cash flow statement

The VW FS AG Group's cash flow statement documents changes in cash and cash equivalents attributable to cash flows from operating, investing and financing activities. Cash flows from investing activities comprise purchase payments and disposal proceeds relating to investment property, subsidiaries, joint ventures and other assets. Cash flows from financing activities reflect all cash flows arising from transactions involving equity, subordinated capital and other financing activities. All other cash flows are classified as cash flows from operating activities in accordance with standard international practice for financial services companies.

The narrow definition of cash and cash equivalents comprises only the cash reserve reported on the balance sheet under Cash reserve and Assets held for sale (IFRS 5), which consists of cash-in-hand and central bank balances.

The changes in the balance sheet items used to determine the changes in the cash flow statement cannot be derived directly from the balance sheet because effects from the changes in the basis of consolidation have no impact on cash and are eliminated.

The following tables show the breakdown of the changes in the subordinated capital (as part of financing activities) reported on the balance sheet under Subordinated capital and Liabilities associated with assets held for sale (IFRS 5) into cash and noncash transactions for the reporting year and the prior year.

			NONCASH TRANSACTIONS			
€ million	Balance as of Jan. 1, 2023	Cash changes	Exchange rate changes	Changes in basis of consolidation	Measurement changes	Balance as of Dec. 31,2023
Subordinated capital	2,909	0	13	–	–	2,922

€ million	Balance as of Jan. 1, 2022	Cash changes	NONCASH TRANSACTIONS Exchange rate changes	Changes in basis of consolidation	Measurement changes	Balance as of Dec. 31,2022
Subordinated capital	2,971	–79	17	–	–	2,909

70. Off-balance-sheet liabilities

CONTINGENT LIABILITIES

Contingent liabilities largely related to legal disputes concerning income tax and other tax matters in which the criteria for the recognition of a provision in accordance with IAS 12 and IAS 37 are not satisfied. There were contingent liabilities in the amount of €373 million in the prior year. There were contingent liabilities in the amount of €374 million outside the IFRS 5 disposal groups in the reporting year. After an analysis of the individual cases covered by the contingent liabilities, it is believed that the disclosure of further detailed information on individual proceedings, legal disputes and legal risks could seriously prejudice the course of those proceedings.

OTHER FINANCIAL OBLIGATIONS

The following information relates to Other financial obligations on the reporting date that were not allocated to IFRS 5 disposal groups.

€ million	DUE 2024	DUE 2025 – 2028	DUE From 2029	TOTAL Dec. 31, 2023
Purchase commitments in respect of				
Property and equipment	–	–	–	–
Intangible assets	0	–	–	0
Investment property	–	–	–	–
Obligations from				
Irrevocable credit commitments to customers	365	–	–	365
Long-term leasing and rental contracts	2	–	–	2
Miscellaneous financial obligations	0	–	–	0

In the case of irrevocable credit commitments, the Company expects the customers to draw down the facilities concerned.

€ million	DUE 2023	DUE 2024 – 2027	DUE From 2028	TOTAL Dec. 31, 2022
Purchase commitments in respect of				
Property and equipment	5	–	–	5
Intangible assets	1	–	–	1
Investment property	1	–	–	1
Obligations from				
Irrevocable credit commitments to customers	458	–	–	458
Long-term leasing and rental contracts	6	4	0	10
Miscellaneous financial obligations	48	1	–	49

71. Benefits based on performance shares (share-based payment)

The remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of an annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term.

Since the end of 2018, the beneficiaries of the performance share plan have included other top management members in addition to the members of the Board of Management. At the end of 2019, the group of beneficiaries was extended to include all other members of management as well as selected beneficiaries below management level. Top management members were granted performance shares for the first time at the beginning of 2019. All other beneficiaries were allocated benefits on the basis of performance shares for the first time at the beginning of 2020. The function of the performance share plan for top management and other beneficiaries is largely identical to the performance share plan that was granted to the members of the Board of Management. At the introduction of the performance share plan, top management members were guaranteed a minimum bonus amount for the first three years on the basis of remuneration in 2018, whereas all other beneficiaries were given a guarantee for the first three years on the basis of remuneration in 2019.

Each performance period of the performance share plan has a term of three years. For the members of the Board of Management and top management, the annual target amount under the LTI is converted, at the time the LTI is granted, on the basis of the initial reference price of Volkswagen's preferred shares into performance shares of Volkswagen AG, which are allocated to the beneficiaries purely for calculation purposes. The number of performance shares is determined definitively on the basis of a three-year forward-looking performance period according to the degree of target attainment for the annual earnings per Volkswagen preferred share. Settlement is in cash at the end of the performance period. The payment amount corresponds to the number of determined performance shares, multiplied by the closing reference price at the end of the period plus a dividend equivalent. For all other beneficiaries, the payout amount is determined by multiplying the target amount by the degree of target attainment for the annual earnings per Volkswagen preferred share and the ratio between the closing reference price at the end of the period (plus a dividend equivalent) and the initial reference price. The target attainment is determined on the basis of a three-year performance period with a one-year forward reference. The payment amount for all beneficiaries under the performance share plan is limited to 200% of the target amount.

MEMBERS OF THE BOARD OF MANAGEMENT AND TOP MANAGEMENT

€ million	Dec. 31, 2023	Dec. 31, 2022
Total expense for the period (Jan. 1 – Dec. 31)	3	4
Total carrying amount of the obligation	7	6
Intrinsic value of the liabilities	3	0
Fair value at grant date	3	3
Number of performance shares granted	61,671	52,797
of which: number granted in the reporting period	24,031	18,663

MANAGEMENT MEMBERS AND SELECTED BENEFICIARIES BELOW MANAGEMENT LEVEL

In the reporting year, all other beneficiaries were granted a target amount, based on target attainment of 100%, of €28 million (previous year: €28 million). As of December 31, 2023, the total carrying amount of the obligation, which equated to the intrinsic value of the liabilities, amounted to €42 million (previous year restated: €36 million). A total expense of €43 million (previous year: €37 million) was recognized in the reporting period for this commitment.

72. Average number of employees during the reporting period

	2023	2022
Salaried employees	11,577	10,993
Vocational trainees	198	180
Sum	11,775	11,173
Employees with the Volkswagen Pon Financial Services B.V., Amersfoort, Volkswagen D'Ieteren Finance S.A., Brussels, Volkswagen Møller Bilfinans A/S, Oslo, joint ventures	800	787
Total	**12,575**	**11,960**

73. Related party disclosures

Related parties within the meaning of IAS 24 are deemed to be individuals or entities who can be influenced by VW FS AG, who can exercise an influence over VW FS AG, or who are under the influence of another related party of VW FS AG.

Volkswagen AG, Wolfsburg, is the sole shareholder of VW FS AG. Porsche Automobil Holding SE, Stuttgart, held the majority of the voting rights in Volkswagen AG as of the reporting date. The Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved the creation of rights of appointment for the State of Lower Saxony. As a result, Porsche SE cannot elect, via the Annual General Meeting, all the shareholder representatives on the Volkswagen AG Supervisory Board as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore deemed to be a related party as defined by IAS 24. According to a notification dated January 8, 2024, the

State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights in Volkswagen AG on December 31, 2023. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment). The sole shareholder, Volkswagen AG, and VW FS AG have entered into a control and profit-and-loss transfer agreement.

Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities provide the entities in the VW FS AG Group with funding on an arm's length basis. As part of funding transactions, Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities sold vehicles to entities in the VW FS AG Group on an arm's length basis. These transactions are presented in the "Goods and services received" line item. Volkswagen AG and its subsidiaries have also furnished collateral for the benefit of VW FS AG within the scope of the operating business.

The "Goods and services provided" line item primarily contains income from leasing transactions. The business transactions with unconsolidated subsidiaries, joint ventures and associates of VW FS AG mainly relate to the provision of funding and services. These transactions are always conducted on an arm's-length basis, e.g. when using the cost plus method for the provision of services.

The two tables below show the transactions with related parties. In these tables, the exchange rates used are the closing rate for asset and liability items, and the weighted average rates for the year for income statement items.

FISCAL YEAR 2023

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Non consolidated subsidiaries	Joint ventures	Associates
Loans and Receivables	–	–	3,712	0	8,647	131	8,467	0
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	–	–	5,591	–	23,284	93	106	–
Interest income	–	–	106	–	310	5	261	–
Interest expense	–	–	–55	–	–808	–2	–3	–
Goods and services provided	0	–	1,099	0	4,923	72	419	1
Goods and services received	–	–	13,080	–	8,919	66	465	0

FISCAL YEAR 2022

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Non consolidated subsidiaries	Joint ventures	Associates
Loans and Receivables	–	–	4,925	0	7,174	236	7,254	0
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	–	–	6,435	–	20,019	545	113	0
Interest income	–	–	13	–	110	5	87	–
Interest expense	–	–	–90	–	–303	–18	–	–
Goods and services provided	–	–	885	0	3,739	29	445	1
Goods and services received	–	–	10,746	–	7,703	50	500	0

The “Other related parties in the group of consolidated entities” column includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG’s group of consolidated entities but do not directly belong to VW FS AG. The relationships with the Supervisory Board and the Board of Management comprise relationships with the relevant groups of people at VW FS AG and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of lesser significance in the reporting year.

VW FS AG received capital contributions of €3,773 million (previous year: €0 million) from Volkswagen AG. However, VW FS AG and its subsidiaries provided capital contributions of €254 million (previous year: €143 million) to related parties.

Members of the Board of Management and Supervisory Board of VW FS AG are also members of management and supervisory boards of other entities in the Volkswagen Group with which VW FS AG sometimes conducts transactions in the normal course of business. All transactions with these related parties are conducted on an arm’s-length basis.

During the course of the reporting period, standard short-term bank loans amounting to an average total of €185 million (previous year: €138 million) were granted to related parties as part of dealer financing.

BOARD OF MANAGEMENT REMUNERATION IN ACCORDANCE WITH IAS 24

The following table shows the remuneration of the members of the Board of Management in accordance with IAS 24.17.

€ million	2023	2022
Short-term benefits	5	6
Benefits based on performance shares	1	–
Termination benefits	–	–
Post-employment benefits	1	–3
Total benefits	**7**	**3**

The post-employment benefits relate to additions to pension provisions for current members of the Board of Management.

BOARD OF MANAGEMENT REMUNERATION

In the reporting year, the total remuneration of the Board of Management in accordance with section 314(1) no. 6 of the HGB amounted to €7 million (previous year: €6 million); 15,900 performance shares were granted in the reporting period (previous year: 12,285), the fair value of which was €2 million (previous year: €2 million) on the grant date.

Advances granted to the members of the Board of Management under the performance share plan amounted to €0.1 million in the previous year. A total of €0.1 million (previous year: none) of the advances paid to the members of the Board of Management was offset against payments under the performance share plan in the reporting year.

The total payments made to former members of the Board of Management and their surviving dependants amounted to €1 million (previous year: €1 million). The provisions recognized for this group of people to cover current pensions and pension entitlements amounted to €23 million (previous year: €21 million).

SUPERVISORY BOARD REMUNERATION

In accordance with a resolution passed by the Annual General Meeting, the members of the Supervisory Board are entitled to an annual allowance. This allowance is independent of the performance of the Company. Various members of the Supervisory Board are also members of the supervisory boards of other Volkswagen AG subsidiaries. The amounts received for these functions are deducted from the allowance entitlement from VW FS AG. As a result, a total amount of less than €0.05 million (previous year: €0.04 million) was paid out to the members of the Supervisory Board in the reporting period.
The employee representatives on the Supervisory Board of Volkswagen Financial Services AG also receive their regular salaries under the terms of their employment contracts. This salary is based on the provisions in the *Betriebsverfassungsgesetz* (BetrVG – German Works Constitution Act) and corresponds to the remuneration for equivalent employees with career development typical for the organization. Appropriate remuneration for the representative of the senior executives on the Supervisory Board corresponds to the remuneration for a corresponding function or role within the company.

74. Governing bodies of Volkswagen Financial Services AG

The members of the Board of Management are as follows:

DR. CHRISTIAN DAHLHEIM
Chair of the Board of Management
Corporate Management of Volkswagen Financial Services AG
China region, South America region
International region, Mexico region (as of December 1, 2023)

ANTHONY BANDMANN
Sales and Marketing
Europe region (incl. German)
International region, Mexico region (until November 30, 2023)

DR. ALEXANDRA BAUM-CEISIG
Human Resources and Organization

DR. MARIO DABERKOW (UNTIL MARCH 15, 2023)
Information Technology and Processes, Operations

DR. ALENA KRETZBERG (AS OF MARCH 16, 2023)
Information Technology and Processes, Operations

FRANK FIEDLER
Finance, Purchase and Risk Management

The members of the Supervisory Board of VW FS AG are as follows as of the reporting date, December 31, 2023:

DR. ARNO ANTLITZ
Chairman
Member of the Board of Management of Volkswagen AG Finance

DANIELA CAVALLO
Deputy Chairwoman
Chairwoman of the General and Group Works Council of Volkswagen AG

DR. HANS PETER SCHÜTZINGER
Deputy Chairman
Chief Executive Officer
of Porsche Holding GmbH, Salzburg

GARNET ALPS
Principal Representative of IG Metall Braunschweig

SARAH AMELING-ZAFFIRO (SINCE AUGUST 01,2023)
Deputy Chairwoman of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

DIRK HILGENBERG
Head of Group Digital Car & Services
of Volkswagen AG

ANDREAS KRAUß
Chairman of the Joint Works Council of Volkswagen Financial Services AG
and Volkswagen Bank GmbH

SIMONE MAHLER (UNTIL JUNE 30, 2023)
Chairwoman of the Joint Works Council
of Volkswagen Financial Services AG and Volkswagen Bank GmbH

PATRIK ANDREAS MAYER (SINCE FEBRUARY 15, 2023)
Member of the Volkswagen Brand Board of Management, Finance

PETRA REINHEIMER (UNTIL JUNE 30, 2023)
Deputy Chairwoman of the Joint Works Council
of Volkswagen Financial Services AG and Volkswagen Bank GmbH

LIESBETH RIGTER
Strategic Business and Leadership Consultant
at One Soul Community Cooperative U.A.

HOLGER SIEDENTOPF
Head of Data & Analytics, Group Data Officer of Volkswagen Financial Services AG

MIRCO THIEL (SINCE AUGUST 01, 2023)
Executive Director of the Joint Works Council of Volkswagen Financial Services AG
and Volkswagen Bank GmbH

HILDEGARD WORTMANN
Member of the Board of Management of AUDI AG Sales and Marketing

The composition of the committees of the Supervisory Board of Volkswagen Financial Services AG was as follows as of the reporting date, December 31, 2023:

MEMBERS OF THE AUDIT COMITTEE
Dr. Hans Peter Schützinger (Chairman)
Andreas Krauß
Patrik Andreas Mayer (since 08. August 2023)
Petra Reinheimer (until 30. June 2023)

MEMBERS OF THE CREDIT COMITTEE
Dr. Arno Antlitz (Chairman)
Liesbeth Rigter
Holger Siedentopf

75. Letter of Comfort of our affiliated companies

With the exception of political risks, Volkswagen Financial Services AG hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to lenders in the agreed manner. Moreover, Volkswagen Financial Services AG confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders. This comfort also applies to holders of unguaranteed bonds issued by the following affiliated companies: Banco Volkswagen S.A., São Paulo, Brazil; LM Transportes Interestaduais Serviços e Comércio S.A., Salvador, Brazil; Volkswagen Finance (China) Co., Ltd., Beijing, China; Volkswagen Doğuş Finansman A.Ş., Istanbul, Turkey; VDF Filo Kiralama A.Ş., Istanbul, Turkey; VDF Faktoring A.Ş., Istanbul, Turkey.

76. Events after the balance sheet date

The entities OOO Volkswagen Financial Services RUS, Moscow, and OOO Volkswagen Group Finanz, Moscow, which were classified on the reporting date as held for sale as part of the “VW FS Entities in Russia” disposal group, were sold on January 18, 2024.

There were no other significant events in the period between December 31, 2023 and February 19, 2024.

77. Shareholdings

Shareholdings of Volkswagen Financial Services AG and the Volkswagen Financial Services AG 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 Financial Services AG Group in accordance with IFRS 12 as of December 31, 2023.

		EXCHANGE RATE (1 EURO =)	VW FS AG'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/ LOSS IN THOUSANDS		
Name and registered office of company	Currency	Dec. 31, 2023	Direct	Indirect	Total	local currency	local currency	Footnote	Year
I. PARENT COMPANY									
VOLKSWAGEN FINANCIAL SERVICES AG, Braunschweig									
II. SUBSIDIARIES									
A. Consolidated companies									
1. Germany									
EURO-Leasing GmbH, Sittensen	EUR	–	100.00	–	100.00	35,814	12,531	1)	2022
Vehicle Trading International (VTI) GmbH, Braunschweig	EUR	–	100.00	–	100.00	2,763	–	1)	2023
Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig	EUR	–	100.00	–	100.00	57,051	–	1) 10)	2023
Volkswagen Insurance Brokers GmbH, Braunschweig	EUR	–	100.00	–	100.00	54,829	–	1)	2023
Volkswagen Leasing GmbH, Braunschweig	EUR	–	100.00	–	100.00	3,269,912	–	1)	2023
Volkswagen Versicherung AG, Braunschweig	EUR	–	100.00	–	100.00	97,055	–	1)	2023
Volkswagen-Versicherungsdienst GmbH, Braunschweig	EUR	–	100.00	–	100.00	54,369	–	1)	2023
2. International									
Autofinance S.A., Luxembourg	SEK	11.0874	–	–	–	350	–	11)	2022
Banco Volkswagen S.A., São Paulo	BRL	5.3750	–	100.00	100.00	3,222,080	155,697		2022
Consórcio Nacional Volkswagen - Administradora de Consórcio Ltda., Santana de Parnaíba	BRL	5.3750	–	100.00	100.00	443,189	72,057		2022
Driver Australia eight Trust, Chullora	AUD	1.6292	–	–	–	–	–	5) 11)	2023
Driver Australia Master Trust, Chullora	AUD	1.6292	–	–	–	39,138	13,793	11)	2022
Driver Australia seven Trust, Chullora	AUD	1.6292	–	–	–	14,327	13,200	11)	2022
Driver Brasil five Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco	BRL	5.3750	–	–	–	467,145	69,116	11)	2022
Driver Brasil Six Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco	BRL	5.3750	–	–	–	–	–	4) 5) 11)	2023
Driver China Eleven Auto Loan Securitization Trust, in liquidation, Beijing	CNY	7.8700	–	–	–	2,426,380	262,929	2) 11)	2022
Driver China Fourteen Auto Loan Securitization Trust, Beijing	CNY	7.8700	–	–	–	7,171,775	–68,739	4) 11)	2022
Driver China Thirteen Auto Loan Securitization Trust, Beijing	CNY	7.8700	–	–	–	3,918,627	155,492	11)	2022
Driver China Twelve Auto Loan Securitization Trust, in liquidation, Beijing	CNY	7.8700	–	–	–	1,609,832	144,297	2) 11)	2022
Driver UK Master S.A., Luxembourg	GBP	0.8691	–	–	–	29	–	3) 11)	2022
Driver UK Multi-Compartment S.A., Luxembourg	GBP	0.8691	–	–	–	29	–	3) 11)	2022
Euro-Leasing A/S, Padborg	DKK	7.4530	–	100.00	100.00	29,382	14,058		2022

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2023	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
LM Transportes Interestaduais Serviços e Comércio S.A., Salvador	BRL	5.3750	–	60.00	60.00	2,286,762	140,897	7) 10)	2022
MAN Financial Services España S.L., Alcobendas (Madrid)	EUR	–	–	100.00	100.00	29,304	2,589		2022
MAN Financial Services GesmbH, Eugendorf	EUR	–	–	100.00	100.00	35,641	2,996		2022
MAN Financial Services Poland Sp. z o.o., Nadarzyn	PLN	4.3409	–	100.00	100.00	153,232	35,108	9)	2022
MAN Location & Services S.A.S., Evry	EUR	–	100.00	–	100.00	4,978	3,099		2022
OOO Volkswagen Bank RUS, Moscow	RUB	99.9661	99.00	–	99.00	20,081,839	1,353,290	9)	2022
OOO Volkswagen Financial Services RUS, Moscow	RUB	99.9661	99.99	0.01	100.00	8,104,665	194,813		2022
OOO Volkswagen Group Finanz, Moscow	RUB	99.9661	99.99	0.01	100.00	3,229,001	311,525		2022
Private Driver Australia 2023-1 Trust, Chullora	AUD	1.6292	–	–	–	–	–	4) 5) 11)	2023
Simple Way Locações e Serviços S.A., São Paulo	BRL	5.3750	–	100.00	100.00	1,102,810	1,700		2022
ŠkoFIN s.r.o., Prague	CZK	24.7180	–	100.00	100.00	6,684,000	888,000		2022
Trucknology S.A., Luxembourg	EUR	–	–	–	–	31	–	11)	2022
VCL Master Poland DAC, Dublin	EUR	–	–	–	–	–	–	5) 11)	2023
VCL Master Residual Value S.A., Luxembourg	EUR	–	–	–	–	31	–	11)	2022
VCL Master S.A., Luxembourg	EUR	–	–	–	–	31	–	11)	2022
VCL Master Sweden S.A., Luxembourg	SEK	11.0874	–	–	–	–	–	5) 11)	2023
VCL Multi-Compartment S.A., Luxembourg	EUR	–	–	–	–	31	–	11)	2022
Volkswagen Bank S.A., Institución de Banca Múltiple, Puebla	MXN	18.7689	100.00	–	100.00	2,737,000	294,000		2022
Volkswagen Corretora de Seguros Ltda., São Paulo	BRL	5.3750	–	100.00	100.00	45,549	33,804		2022
Volkswagen Finance (China) Co., Ltd., Beijing	CNY	7.8700	100.00	–	100.00	16,242,834	1,847,240		2022
Volkswagen Finance Belgium S.A., Bruxelles	EUR	–	–	100.00	100.00	14,546	4,880		2022
Volkswagen Finance Europe B.V., Amsterdam	EUR	–	100.00	–	100.00	–	–	4) 5)	2023
Volkswagen Finance Overseas B.V., Amsterdam	EUR	–	100.00	–	100.00	3,122,553	8,247		2022
Volkswagen Finance Overseas HoldCo B.V., Amsterdam	EUR	–	–	100.00	100.00	–	–	4) 5)	2023
Volkswagen Financial Leasing (Tianjin) Co., Ltd., Tianjin	CNY	7.8700	–	98.85	98.85	1,734,566	35,579		2022
Volkswagen Financial Services (UK) Ltd., Milton Keynes	GBP	0.8691	–	100.00	100.00	2,689,092	580,380		2022
Volkswagen Financial Services Australia Pty. Ltd., Chullora	AUD	1.6292	100.00	–	100.00	437,360	69,898	7)	2022
Volkswagen Financial Services France S.A., Villers-Cotterêts	EUR	–	–	100.00	100.00	197,964	1,270		2022
Volkswagen Financial Services Ireland Ltd., Dublin	EUR	–	–	100.00	100.00	–59,862	18,010		2022
Volkswagen Financial Services Japan Ltd., Tokyo	JPY	156.7900	–	100.00	100.00	24,989,606	3,065,505		2022
Volkswagen Financial Services Korea Co., Ltd., Seoul	KRW	1,440.7150	100.00	–	100.00	364,929,000	21,838,000		2022
Volkswagen Financial Services N.V., Amsterdam	EUR	–	–	100.00	100.00	1,138,129	11,995		2022
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	PLN	4.3409	–	100.00	100.00	2,213,438	304,185	9)	2022
Volkswagen Financial Services S.p.A., Milan	EUR	–	100.00	–	100.00	122,067	–2,619		2022
Volkswagen Financial Services Taiwan Ltd., Taipei	TWD	33.9211	–	100.00	100.00	1,491,817	143,393		2022
Volkswagen Finans Sverige AB, Södertälje	SEK	11.0874	–	100.00	100.00	2,199,861	1,265,602		2022
Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat	EUR	–	–	100.00	100.00	44,566	8,002		2022
Volkswagen Leasing S.A. de C.V., Puebla	MXN	18.7689	100.00	–	100.00	14,768,234	2,019,895		2022
Volkswagen Mobility Services S.p.A., Bolzano	EUR	–	–	100.00	100.00	3,009	–8,907		2022

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2023	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
Volkswagen New Mobility Services Investment Co., Ltd., Beijing	CNY	7.8700	100.00	–	100.00	1,966,590	–36,263		2022
Volkswagen Participações Ltda., São Paulo	BRL	5.3750	–	100.00	100.00	3,462,303	242,045		2022
Volkswagen Renting S.A., Alcobendas (Madrid)	EUR	–	–	100.00	100.00	133,715	76,783		2022
Volkswagen Renting, Unipessoal, Lda., Amadora	EUR	–	–	100.00	100.00	2,699	2,076		2022
Volkswagen Serviços Ltda., São Paulo	BRL	5.3750	–	100.00	100.00	33,600	27,870		2022
B. Unconsolidated companies									
1. Germany									
LOGPAY Financial Services GmbH, Eschborn	EUR	–	100.00	–	100.00	12,674	–	1)	2023
LOGPAY Transport Services GmbH, Eschborn	EUR	–	–	100.00	100.00	3,312	–	1)	2022
Mobility Trader GmbH, Berlin	EUR	–	–	100.00	100.00	–8,047	–22,087		2021
Mobility Trader Holding GmbH, Berlin	EUR	–	70.91	–	70.91	373,218	–9,025		2021
The Key to Mobility Services GmbH, Eschborn	EUR	–	–	100.00	100.00	20	–	1)	2022
2. International									
Carizy S.A.S., Puteaux	EUR	–	–	100.00	100.00	–23	–2,258		2022
INIS International Insurance Service s.r.o., Mladá Boleslav	CZK	24.7180	–	100.00	100.00	40,181	34,681		2022
Kuwy Technology Service Pvt. Ltd., Chennai	INR	92.1170	–	84.02	84.02	–745,000	–581,400	3)	2023
LM Comércio de Veículos Seminovos Ltda., Salvador	BRL	5.3750	–	100.00	100.00	–	–	8)	2022
LOGPAY Charge & Fuel Slovakia s.r.o., Bratislava	EUR	–	–	100.00	100.00	–22	–15		2022
LOGPAY Consorzio, Bolzano	EUR	–	–	68.70	68.70	–9	–16		2022
LogPay Fuel Czechia s.r.o., Prague	CZK	24.7180	–	100.00	100.00	710	–488		2022
LOGPAY Fuel Italia S.r.l., Bolzano	EUR	–	–	100.00	100.00	–	–		2022
LogPay Fuel Spain S.L., Barcelona	EUR	–	–	100.00	100.00	621	–12		2022
Mobility Trader France S.A.S., Neuilly-sur-Seine	EUR	–	–	100.00	100.00	–902	–20,429		2022
Mobility Trader Spain S.L., Barcelona	EUR	–	–	75.10	75.10	10,393	–11,131		2022
Mobility Trader UK Ltd., London	GBP	0.8691	–	100.00	100.00	10,881	–30,343		2022
São Bernardo Administradora de Créditos Ltda., São Bernardo do Campo	BRL	5.3750	–	100.00	100.00	4,083	1,208		2022
Softbridge - Projectos Tecnológicos S.A., Porto Salvo	EUR	–	–	70.00	70.00	6,816	6,454		2022
VAREC Ltd., Tokyo	JPY	156.7900	–	100.00	100.00	865,524	58,316		2022
Volkswagen Administradora de Negócios Ltda., São Paulo	BRL	5.3750	–	100.00	100.00	45,559	–2,757		2022
Volkswagen Brokers Argentina S.A., Buenos Aires	ARS	894.9939	–	96.00	96.00	910,509	46,558		2022
VOLKSWAGEN COMPANY DAC, Dublin	EUR	–	100.00	–	100.00	6,386	–1,251		2022
Volkswagen Finance Pvt. Ltd., Mumbai	INR	92.1170	91.00	9.00	100.00	9,278,126	124,480	3)	2023
Volkswagen Financial Services Hellas A.E., Athens	EUR	–	100.00	–	100.00	4,178	532		2022
Volkswagen Financial Services Holding Argentina S.R.L., Buenos Aires	ARS	894.9939	99.99	–	99.99	4,211,561	–625,195		2022
Volkswagen Financial Services Schweiz AG, Wallisellen	CHF	0.9264	–	100.00	100.00	12,538	1,981		2022
Volkswagen Insurance Brokers, Agente de Seguros y de Fianzas, S.A. de C.V., Puebla	MXN	18.7689	–	100.00	100.00	–59,934	–7,753		2022
Volkswagen Insurance Company DAC, Dublin	EUR	–	100.00	–	100.00	60,290	–33,411		2022
Volkswagen Insurance Service (Great Britain) Ltd., Milton Keynes	GBP	0.8691	–	100.00	100.00	2,719	491		2022
Volkswagen Insurance Services Korea Co., Ltd., Seoul	KRW	1,440.7150	–	100.00	100.00	4,964,745	1,544,515		2022
Volkswagen International Insurance Agency Co., Ltd., Taipei	TWD	33.9211	–	100.00	100.00	161,437	75,926		2022
Volkswagen Leasing (Beijing) Co., Ltd., Beijing	CNY	7.8700	–	100.00	100.00	6,948	7,356		2022

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2023	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/ LOSS IN THOUSANDS local currency	Footnote	Year
Volkswagen Leasing (Guangzhou) Co., Ltd., Guangzhou	CNY	7.8700	–	100.00	100.00	1,736	1,696		2022
Volkswagen Leasing (Shanghai) Co., Ltd., Shanghai	CNY	7.8700	–	100.00	100.00	–35,054	1,936		2022
Volkswagen New Mobility Services Consulting (Beijing) Co., Ltd., Beijing	CNY	7.8700	–	100.00	100.00	26,759	710		2022
Volkswagen Service Sverige AB, Södertälje	SEK	11.0874	–	100.00	100.00	35,157	–5,813		2022
Volkswagen Servicios, S.A. de C.V., Puebla	MXN	18.7689	–	100.00	100.00	34,724	1,922		2022
Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw	PLN	4.3409	–	100.00	100.00	73,517	14,061		2022
VTXRM - Software Factory Lda., Porto Salvo	EUR	–	–	90.00	90.00	7,534	7,175		2022
VTXRM Software Factory US LLC, Wilmington / DE	USD	1.1077	–	100.00	100.00	–	–	4) 5)	2023
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Volkswagen Autoversicherung Holding GmbH, Braunschweig	EUR	–	51.00	–	51.00	186,795	13,996		2022
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR	–	49.00	–	49.00	121,864	5,621		2022
2. International									
VDF Servis ve Ticaret A.S., Istanbul	TRY	32.7438	51.00	–	51.00	1,611,680	673,800	7)	2022
Volkswagen D'Ieteren Finance S.A., Bruxelles	EUR	–	–	50.00	50.00	134,226	4,508		2022
Volkswagen Financial Services South Africa (Pty) Ltd., Sandton	ZAR	20.4442	51.00	–	51.00	–1,180,889	186,560		2022
Volkswagen Møller Bilfinans A/S, Oslo	NOK	11.2408	–	51.00	51.00	4,021,517	256,144	9)	2022
Volkswagen Pon Financial Services B.V., Amersfoort	EUR	–	–	60.00	60.00	238,083	93,942	7) 10)	2022
B. Companies accounted for at cost									
1. Germany									
FleetCompany GmbH, Oberhaching	EUR	–	73.65	–	73.65	17,997	–6,600		2022
MyDigitalCar GmbH, Braunschweig	EUR	–	50.00	–	50.00	–	–	4) 5)	2023
2. International									
Collect Car B.V., Rotterdam	EUR	–	–	60.00	60.00	5,772	108		2022
Lenkrad Invest (Pty) Ltd., Sandton	ZAR	20.4442	51.00	–	51.00	28,415	25,632		2022
movon AG, Cham	CHF	0.9264	–	50.00	50.00	–	–	4) 6)	2023
Porsche Volkswagen Servicios Financieros Chile S.p.A., Santiago de Chile	CLP	977.9400	50.00	–	50.00	9,783,661	1,754,728		2022
Shuttel B.V., Leusden	EUR	–	49.00	–	49.00	2,664	95		2022
Staymo S.A.S., Boulogne-Billancourt	EUR	–	–	51.00	51.00	5,356	–1,644	4)	2022
Volkswagen Financial Services Compañia Financiera S.A., Buenos Aires	ARS	894.9939	–	49.00	49.00	6,764,661	–1,257,405		2022
Volkswagen Losch Financial Services S.A., Howald	EUR	–	60.00	–	60.00	8,089	2,770		2022
Volkswagen Semler Finans Danmark A/S, Bröndby	DKK	7.4530	–	51.00	51.00	775,371	39,122		2022

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2023	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
IV. ASSOCIATED COMPANIES									
A. Equity-accounted associates									
1. Germany									
2. International									
B. Associates accounted for at cost									
1. Germany									
Digital Mobility Leasing GmbH, Kassel	EUR	–	26.00	–	26.00	495	–14,187		2022
Euromobil GmbH, Sittensen	EUR	–	–	49.00	49.00	–	–	4) 5)	2023
Verimi GmbH, Berlin	EUR	–	37.80	–	37.80	5,940	–109,261		2022
2. International									
J.P. Morgan Mobility Payments Solutions S.A., Strassen	EUR	–	25.10	–	25.10	29,758	–15,641		2022
Volkswagen-Versicherungsdienst GmbH, Vienna	EUR	–	–	15.00	15.00	3,669	3,191		2022
V. EQUITY INVESTMENTS									
1. Germany									
Allianz für die Region GmbH, Braunschweig	EUR	–	8.70	–	8.70	877	–149		2022
2. International									

1) Profit-and-loss transfer agreement
2) In Liquidation
3) Different fiscal year
4) Short fiscal year
5) Newly established company/Spin-off
6) Newly acquired company
7) Consolidated financial statements
8) Values are included in the consolidated financial statement of the parent company
9) Figures in accordance with IFRSs
10) Matter within the meaning of section 1 of the UmwG
11) Structured company in accordance with IFRS 10 and IFRS 12

Braunschweig, February 19, 2024

Volkswagen Financial Services AG
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Frank Fiedler

Dr. Alena Kretzberg

Responsibility Statement

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

Braunschweig, February 19, 2024

Volkswagen Financial Services AG
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Frank Fiedler

Dr. Alena Kretzberg

Independent auditor's report[1]

To Volkswagen Financial Services Aktiengesellschaft, Braunschweig

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

OPINIONS

We have audited the consolidated financial statements of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, and its subsidiaries (the Group), which comprise the consolidated income statement and consolidated statement of comprehensive income for the fiscal year from 1 January 2023 to 31 December 2023, and the consolidated balance sheet as at 31 December 2023, consolidated statement of changes in equity and consolidated cash flow statement for the fiscal year from 1 January 2023 to 31 December 2023, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Volkswagen Financial Services Aktiengesellschaft, which is combined with the Company's management report, for the fiscal year from 1 January 2023 to 31 December 2023. In accordance with German law, we have not audited the content of the sections "Corporate Governance Declaration" (disclosure pursuant to Section 289f (4) in conjunction with Section 289f (2) No. 4 of the German Commercial Code (HGB)) and "Separate Nonfinancial Group Report" of the Group Management Report.

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

> the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2023 and of its financial performance for the fiscal year from 1 January 2023 to 31 December 2023, and

> the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. We do not express an opinion on the content of the sections "Corporate Governance Declaration" (disclosure pursuant to Section 289f (4) in conjunction with Section 289f (2) No. 4 of the German Commercial Code (HGB)) and "Separate Nonfinancial Group Report " of the Group Management Report.

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

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

BASIS FOR THE OPINIONS

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

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2023 to 31 December 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

Determination of the expected residual values of assets leased under operating leases during impairment testing

REASONS WHY THE MATTER WAS DETERMINED TO BE A KEY AUDIT MATTER

The lease assets balance sheet item comprises vehicles under operating leases. The recoverability of the lease assets depends in particular on the expected residual value of the leased vehicles after expiration of the contractual term. The expected residual values are reviewed by the Company on a quarterly basis. The forecast residual values are adjusted to include constantly updated internal and external information on residual values, depending on specific local factors and the experiences gained in the marketing of used cars. This requires management to make, in particular, assumptions about vehicle supply and demand in the future, as well as about vehicle price trends.

In 2023, vehicle supply increased due to the normalization of the availability of intermediate products and raw materials, while vehicle demand is influenced by the effects of inflation and higher interest rates in many regions and markets, among other things. The residual values of electric vehicles are also influenced in particular by technological developments in this segment. Due to these factors, the estimation uncertainty in relation to the determination of the expected residual values remained heightened in the fiscal year. In this light, the determination of the expected residual values of assets leased under operating leases during impairment testing was a key audit matter.

AUDITOR'S RESPONSE

During our audit, we analyzed the process implemented by the Company for determining and monitoring the residual values to identify any risks of material misstatement and obtained an understanding of the process steps and controls. On this basis, we tested the operating effectiveness of the implemented controls over the determination and monitoring of the expected residual values. To assess the forecasting models used to determine the residual values, we assessed the validation plans on the basis of the respective model designs to determine whether the validation procedures described in the plans allow an assessment of the models' forecast quality. We investigated whether the validation procedures and the back testing performed led to any indications of model weaknesses or any need to adjust the models. Furthermore, we assessed whether the assumptions underlying the forecasting model and the inputs used for determining the expected residual values were clearly documented. To this end, we obtained evidence for the main inputs and assumptions used for mileage, age and lifecycle phase of the vehicles to determine the residual values and examined them for topicality and transparency. We assessed whether the marketing assumptions used reflect industry specific and general market expectations as well as, in particular, current marketing results.

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

REFERENCE TO RELATED DISCLOSURES

The Company's disclosures on the accounting policies applied for lease assets are contained in note "14. Leases" and note "67. Leases" and the disclosures on the determination of the residual values of lease assets in note "19. Estimates and assumptions by management" of the notes to the consolidated financial statements.

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 sections "Corporate Governance Declaration" (disclosure pursuant to Section 289f (4) in conjunction with Section 289f (2) No. 4 of the German Commercial Code (HGB)) and "Separate Nonfinancial Group Report " of the Group Management Report as well as the sections "Key Figures", "Responsibility Statement", "Human Resources Report" and "Report of the Supervisory Board" to be included in the annual report, of which we obtained a copy prior to issuing this auditor's report, but not the consolidated financial statements, not the group management report disclosures whose content is audited and not our auditor's report thereon.

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

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

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

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

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the assurance on the electronic rendering of the consolidated financial statements and the group management report prepared for publication purposes in accordance with Sec. 317 (3a) HGB

OPINION

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the file "Volkswagen Financial Services_AG_KA+KLB_ESEF-2023-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from 1 January 2023 to 31 December 2023 contained in the “Report on the audit of the consolidated financial statements and of the group management report” above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

BASIS FOR THE OPINION

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the file identified above in accordance with Sec. 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410) (06.2022)). Our responsibility in accordance therewith is further described in the “Group auditor’s responsibilities for the assurance work on the ESEF documents” section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ESEF DOCUMENTS

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the group management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Sec. 328 (1) Sentence 4 No. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have determined necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

GROUP AUDITOR’S RESPONSIBILITIES FOR THE ASSURANCE WORK ON THE ESEF DOCUMENTS

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this file.
- Evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Arts. 4 and 6 of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

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

We were elected as auditor by the Annual General Meeting on 24 February 2023 and were engaged by the Supervisory Board on 13 October 2023. We have been the auditor of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, without interruption since fiscal year 2020.

In addition to the financial statement audit, we have provided the following services that are not disclosed in the annual financial statements or in the management report:

- Review of the reporting packages of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, and of Volkswagen Leasing GmbH, Braunschweig, for the reporting dates 31 March, 30 June and 30 September 2023 in accordance with the instructions of the group auditor
- Issue of comfort letters in accordance with IDW AuS 910 in connection with the updating of the debt issuance programs of Volkswagen Financial Services Aktiengesellschaft, Braunschweig
- Reasonable assurance engagement relating to the system designed to ensure compliance with the requirements under Sec. 32 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, for the period from 1 January 2021 to 31 December 2022
- Project-based review of implementation measures in the Change Management project and the IT Regulatory Review project
- Reasonable assurance engagement relating to the description of internal controls at the service organization of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, regarding the suitability of the criteria applied and the derived control objectives and the design and operating effectiveness of the controls to achieve the control objectives stated in the description in accordance with IDW AsS 951 (Revised) Type 2.
- Agreed-upon procedures for VW Leasing GmbH, Braunschweig, relating to the investor reports of VCL Master S.A., VCL Master Residual Value S.A., VCL Multi-Compartment S.A. and Trucknology S.A. as of 31 December 2022.

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

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Unternehmensregister [German Company Register] – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Matthias Koch.

Eschborn/Frankfurt am Main, 21 February 2024

EY GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft

Koch
Wirtschaftsprüfer
[German Public Auditor]

Hölscher
Wirtschaftsprüfer
[German Public Auditor]

Human Resources Report

Mission HR: business driven – people focused.

EMPLOYEES

The Volkswagen Financial Services AG Group had a total workforce of 12,009 (11,457) employees as of December 31, 2023. Of these, 5,577 (5,980), or 46%, were employed in Germany and 6,432 (5,477), or 54%, at international sites. Owing to economic considerations, 248 (231) employees of Volkswagen Servicios, S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

HUMAN RESOURCES STRATEGY

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

The future success of Volkswagen Financial Services AG 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 centricity – are intended to guide employees in their everyday activities and help motivate them to do their best.

The Human Resources division intends to do its utmost, through a range of different strategic initiatives, to help the Company implement MOBILITY2030 and thereby contribute, with its own targeted actions, to the establishment of an effective high-performance organization. Closely aligned with the principle “business driven – people focused”, the HR strategy focuses on precisely this objective.

Human resources operations were significantly affected over the course of the reporting year 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 younger generations. The HR strategy aims to master these challenges by focusing on the five core HR topics of talent acquisition, personnel development, future working culture and modes of working, HR planning and analysis, and HR digitalization. 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.

Particular priorities for the reporting year in activities to ensure the successful handling of this transformation, which is both structural and cultural in nature, included reskilling, upskilling, leadership and new work.

Skilled, committed employees are the cornerstone of success and Volkswagen Financial Services AG accordingly enables its employees to develop their skills continuously. Knowledge and experience are becoming more critical all the time, especially in the field of digitalization. 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 Company 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.

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 targeted activities that Volkswagen Financial Services AG provides in the area of leadership ensure high quality standards of management conduct and know-how, as well as a shared understanding of the leadership culture for more than 385 employees who have line management responsibilities. Another of the initiatives within the HR strategy in the reporting year targeted the revision and updating of the Company's leadership concept. The newly developed leadership policy, which embodies the organization's corporate values, provides a values compass and guiding light for day-to-day leadership and management.

Volkswagen Financial Services AG continued 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 in the reporting year as well.

Volkswagen Financial Services AG aims to be regarded as an employer of renown and regularly participates in external employer competitions to assess its status in this regard. In 2023, Volkswagen Financial Services was ranked number one in the "Best Employer in Lower Saxony-Bremen 2023" and number five in the "Best Employer in Germany 2023" competitions in the relevant category by company size.

WORK-LIFE BALANCE

Volkswagen Financial Services AG works proactively to provide a family-friendly working environment and is constantly adding new options to help employees improve their work-life balance. Examples include a variety of working time models and the "Frech Daxe" company childcare facility, which is located next to the company's site in Braunschweig and offers both flexible care hours and vacation care. Since 2022 the Company has been collaborating in Germany with voiio, a platform that provides digital solutions for an enhanced work-life balance such as virtual childcare, tutoring and courses in health and wellness.

Report of the Supervisory Board

of Volkswagen Financial Services AG

In the year under review, the Supervisory Board gave regular and thorough consideration to the position and development of Volkswagen Financial Services AG and the Volkswagen Financial Services AG Group.

During the reporting period, the Board of Management informed the Supervisory Board promptly and comprehensively at all times, in writing or verbally, regarding material aspects of the Company's planning and position, including the risk situation and the risk management system, and also regarding business development and any deviations from planning and targets. Based on these reports of the Board of Management, the Supervisory Board constantly monitored the management of the Company's and the Group's business and was thus able to carry out without limitation the functions assigned to it by law and under the articles of association. All decisions of fundamental importance for the Company and other transactions requiring the approval of the Supervisory Board under the rules of procedure were reviewed and discussed with the Board of Management before the relevant resolution was adopted.

The Supervisory Board generally comprises twelve members. Changes in the reporting period are disclosed in the information on governing bodies.

The Supervisory Board held three regular meetings and three extraordinary meeting in the reporting year. The average attendance rate was 93%. Decisions were made on four matters by means of a written resolution circulated to each of the members for approval; the Chair of the Supervisory Board also made one urgent decisions using the written procedure.

COMMITTEE ACTIVITIES

The Audit Committee held two regular meetings and one extraordinary meeting in the reporting year. In this regard, the Audit Committee held detailed discussions in the reporting period, addressing the annual financial statements, the supervision of the internal control, risk management and internal audit systems as well as the monitoring of the financial reporting and auditing process.

The Supervisory Board of Volkswagen Financial Services AG established a Credit Committee on November 28, 2022. The Credit Committee is responsible for approving issues that the Supervisory Board has to deal with by law and under the Articles of Association and rules of procedure relating to loan commitments, the assumption of sureties, guarantees and similar liabilities, Bank borrowings, the purchasing of receivables (factoring) 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.

The Credit Committee decided on nine loan commitments in the reporting year. The activities of the committees were reported at the plenary meetings of the Supervisory Board.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on February 24, 2023, following reports submitted by the auditor, the Supervisory Board examined in detail and then approved both the consolidated financial statements of the Volkswagen Financial Services AG Group prepared by the Board of Management as well as the annual financial statements and management report of Volkswagen Financial Services AG for 2022 prepared by the Board of Management. The Supervisory Board also issued a recommendation regarding the appointment of the auditor for 2023.

The Board of Management also reported to the Supervisory Board on the current status of the wide-ranging internal restructuring program, under which the subgroups of Volkswagen Financial Services Aktiengesellschaft and Volkswagen Bank GmbH are being reorganized to separate European and non-European financial services activities. Under a further agenda item, the Supervisory Board received information on the main topics for 2023 in the various regions and the implementation of the funding strategy.

At the meetings on June 15, 2023, and November 10, 2023, the Board of Management presented the Supervisory Board with comprehensive reports about the economic and financial position of the Company and the Volkswagen Financial Services AG subgroup and the Company's latest position.

The Board of Management also informed the Supervisory Board about the objectives and latest implementation status regarding diversity at the meeting on June 15, 2023.

At the meetings on February 24, 2023 and November 10, 2023, the Audit Committee reported to the Supervisory Board on the contents of its committee meetings. At the meeting on November 10, 2023, the Audit Committee informed the Supervisory Board about the Chief Compliance Officer's report and the actions taken in this connection in relation to the updating of the Code of Conduct, the identification of all requirements arising from the German Act on Corporate Due Diligence Obligations in Supply Chains (*Lieferkettensorgfaltspflichtengesetz*) and the appointment of a Human Rights Officer at Volkswagen Financial Services AG. The Audit Committee also presented the report of the Head of Internal Audit and the key areas of activity in the reporting year for the Supervisory Board. The various reasons for audits were also discussed in this context. The Board of Management also provided an IT status report at the Supervisory Board meeting on November 10, 2023. This mainly consisted of presentations on the IT strategy and the status of key IT projects and IT security.

At the extraordinary meetings on March 1, 2023, May 11, 2023, and September 22, 2023, the Board of Management presented the Supervisory Board with comprehensive reports about the internal restructuring program and other matters of company law, including the strategic alliance between Volkswagen Financial Services AG and Pon Holdings in the bicycle leasing sector in Europe and the USA.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

EY GmbH & Co. KG Wirtschaftsprüfungsgesellschaft was appointed to audit both the consolidated financial statements of the Volkswagen Financial Services AG Group in accordance with the IFRSs and the annual financial statements of Volkswagen Financial Services AG in accordance with the HGB for the year ended December 31, 2023, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Financial Services AG Group completed in accordance with the IFRSs and the annual financial statements of Volkswagen Financial Services AG completed in accordance with HGB for the year ended December 31, 2023 were submitted to the Supervisory Board together with the management reports. The auditor, EY GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, 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 agrees with the findings of these audits. 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, 2024, the Supervisory Board approved both the consolidated financial statements prepared by the Board of Management as well as the annual financial statements of Volkswagen Financial Services AG. The consolidated financial statements and annual financial statements have thus been adopted.

On the basis of the current control and profit-and-loss transfer agreement, the loss reported by Volkswagen Financial Services AG in accordance with the HGB for fiscal year 2023 was absorbed by 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 Board of Management, the Works Council, the managerial staff and all employees of Volkswagen Financial Services AG and its affiliated companies. The high level of commitment from all of you has helped to sustain the ongoing growth of Volkswagen Financial Services AG.

Braunschweig, February 23, 2024

Dr. Arno Antlitz
Chair of the Supervisory Board

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