VOLKSWAGEN LEASING

GMBH

HALF-YEARLY FINANCIAL REPORT

JANUARY – JUNE

2022

INTERIM MANAGEMENT REPORT

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED)

Key Figures

€ million	June 30, 2022	Dec. 31, 2021	Jan. 01, 2021
Total assets	50,614	50,659	46,039
Loans to and receivables from customers attributable to			
Dealer financing	9	9	9
Leasing business	17,836	18,215	19,182
Lease assets	24,399	23,298	18,955
Equity	5,323	4,631	3,858

€ million	H1 2022	H1 2021
Operating profit	987	194
Profit before tax	987	194

in %	June 30, 2022	Dec. 31, 2021	Jan. 1, 2021
Equity ratio[1]	10.5	9.1	8.4

in thousand vehicles	H1 2022	H1 2021	H1 2020	H1 2019	H1 2018
New contracts	296	361	304	381	326
Current contracte	1,833	1,792	1,582	1,593	1,449

[1] Equity divided by total assets

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.

Report on Economic Position

GLOBAL SPREAD OF CORONAVIRUS (SARS-COV-2)

Regionally, the global spread of the Omicron variant of the SARS-CoV-2 virus had a substantial impact on society and the economy in the reporting period. In China especially, local outbreaks of infections in the first half of 2022 led to strict restrictions under the zero-Covid strategy being pursued there, resulting in adverse economic impacts and disruption to supply chains.

RUSSIA-UKRAINE CONFLICT

In the first six months of 2022, the Russia-Ukraine conflict led to a humanitarian crisis and global market upheaval. Prices rose substantially, particularly on energy and commodity markets. In addition, parts supply shortages, especially for wire harnesses intensified in this context. The Russia-Ukraine conflict led to increased uncertainty in respect of developments in the global economy and prompted large sections of the community of Western states to impose sanctions on Russia, ranging from extensive trade embargoes to the exclusion of Russia from the global financial system.

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

The difficult economic conditions, which have persisted since the coronavirus crisis, have further deteriorated significantly since the start of the Russia-Ukraine conflict so that Volkswagen Leasing GmbH was faced with growing challenges in the first half of 2022. Despite this, the Company's positive performance has continued, and the Management Board considers the course of business to have been successful so far this year.

At 1,833 thousand units, the volume of existing contracts was up moderately on the 1,792 units as of June 30, 2021 (of which MAN FS branch, Munich: 43 thousand units).

The penetration rate based on all new leasing contracts in the German market amounted to 59.4% in the first half of the year, moderately down on the penetration rate on the same date in the previous year (June 30, 2021: 60.1%), and therefore still at a high level.

CHANGES IN EQUITY INVESTMENTS

There were no changes in equity investments.

GENERAL ECONOMIC DEVELOPMENT

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 exclusion of Russia from the global financial system. The resulting higher commodity prices and supply shortages are reinforcing the threat of persistently high inflation.

In the first half of 2022, the restrictive measures put in place to protect the population from the SARS-CoV-2 virus were lifted to a large extent in many countries. The progress made by many countries in administering vaccines to their populations had a positive effect, while the emergence of the new Omicron variant led to renewed sharp rises in infections on a national scale, mostly causing milder symptoms but increased rates of sick leave.

Following the slump in global economic output in 2020 and the incipient recovery due to base and catch-up effects in 2021, economic growth in both the advanced economies and the emerging markets remained on course for recovery on average, albeit with diminishing momentum. At national level, developments in the reporting period depended on the one hand on the scale of the negative impact of the Covid-19 pandemic and the intensity with which measures were taken to contain it, and on the other on the extent to which national economies were affected by the consequences of the Russia-Ukraine conflict. In response to the further rise of inflation rates around the world, many countries shifted to a more restrictive monetary policy, which led central banks to increase their key interest rates and reduce bond purchases during the reporting period. The resulting recession fears caused major losses on key stock markets in the first half of the year. On average, prices for energy and many other commodities rose significantly year-on-year and shortages of intermediates and commodities remained high. Global trade in goods increased in the reporting period.

The economy in Western Europe recorded positive year-on-year growth in the reporting period, albeit with slowing momentum. This trend was seen in almost all countries in Northern and Southern Europe. The reasons for this included increased economic resilience in the face of high infection rates in many countries, and the associated easing of the measures taken to contain the pandemic.

At the same time, national inflation rates rose significantly during the first half of the year and adversely affected consumer sentiment.

Germany registered positive economic growth during the reporting period. Compared with the same period of the prior year, unemployment fell on average, and the number of employees affected by *Kurzarbeit* (short-time working) decreased further from the high levels seen in the previous years. Meanwhile, monthly inflation rates reached their highest levels since reunification.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Demand for automotive financial services was buoyant in the first half of 2022 due, among other things, to the persistently low key interest rates in the main currency areas. Nevertheless, the Covid-19 pandemic and the vehicle availability, which continued to be limited due to parts supply shortages, put pressure on the demand for financial services in almost all regions.

The European passenger car market was still affected in the reporting period by parts supply shortages; vehicle deliveries were down on the prior-year period. By contrast, the share of financial services products in the new vehicle business developed positively and exceeded the 2021 figure. The main drivers of this development were mix effects in the private customer business, which lends itself particularly to financing, and an increased share of leasing contracts in the fleet business.

In Germany, faltering parts supply in production continued to have a significantly negative effect on the delivery situation and the financial services business. As a result, the number of new contracts for new vehicle leases and new vehicle financing were below the prior-year figures. However, the penetration rate remained at a high level.

In the first half of 2022, the financial services business in the market for heavy commercial vehicles was slightly up on the prior-year level, also affecting financing and leasing contracts in Europe.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

Between January and June 2022, the volume of the passenger car market worldwide significantly declined overall year-on-year (–10.1%), impacted primarily by bottlenecks and disruption in the global supply chains as a consequence of the semiconductor shortage, the coronavirus pandemic and the repercussions of the Russia-Ukraine conflict. The Western Europe region recorded a considerably weaker sales volume.

The global volume of new registrations of light commercial vehicles between January and June 2022 was distinctly lower than the prior-year level.

In Western Europe, the number of new registrations of passenger cars in the reporting period fell significantly short of the prior-year level. Parts supply shortages, especially for semiconductors, and the resulting limited vehicle availability led to a decline in new registrations in the first half of 2022 with uneven rates of change in all major individual markets; the passenger car market in Italy lost more than 20% of its volume, thus recording the highest loss ahead of France, Spain and the UK.

In the first six months of 2022, the volume of new registrations of light commercial vehicles in Western Europe was significantly lower than the prior-year figure.

New passenger car registrations in Germany between January and June 2022 were also significantly down on the figure for the first six months of the previous year. The prior-year figure was already comparatively low at the beginning of 2021 owing to the expiry of the – temporary – reduction in value-added tax at the end of 2020. In particular, the deterioration in the supply situation as a result of the lack of intermediates continued to have a dampening effect.

The volume of new registrations of light commercial vehicles in Germany in the reporting period was significantly lower than in the same period of 2021.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was slightly lower in the reporting period than in the prior year. Truck markets globally were much weaker than in the previous year, which was primarily due to the fall in demand on the Chinese market as a result of the zero-Covid strategy in place there.

Demand in the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3), was down slightly on the previous year's level in the first six months of 2022. This decline is attributable to limited availability of vehicles as a result of parts supply shortages.

In the first six months of 2022, there was a moderate rise in demand overall in the bus markets that are relevant for the Volkswagen Group compared with the same period of the prior year. Demand for buses in the EU27+3 markets in the reporting period was distinctly higher than the weak level of the previous year, with the picture varying from country to country.

FINANCIAL PERFORMANCE

The following disclosures on the financial performance of the Volkswagen Leasing GmbH Group are based on International Financial Reporting Standards and relate to changes compared with the corresponding prior-year period.

In the first half of 2022, leasing income rose by €720 million to €5,874 million. Depreciation, impairment losses and other expenses from leasing transactions amounted to €4,882 million, a rise of €238 million compared with the prior-year period.

Net income from service contracts increased to €123 million (previous year: €81 million). The net gain/loss on financial instruments measured at fair value rose to €296 million (previous year: €10 million).

The operating result of the Volkswagen Leasing GmbH Group stood at €987 million (previous year: €194 million).

NET ASSETS AND FINANCIAL POSITION

The following disclosures on the net assets and financial position of the Volkswagen Leasing GmbH Group are based on International Financial Reporting Standards and relate to changes compared to the December 31, 2021 reporting date.

Lending Business

Loans to and receivables from customers declined from €24.7 billion to €23.5 billion. Conversely, lease assets grew from €23.3 billion to €24.4 billion.

The volume of current contracts increased compared with the reporting date of December 31, 2021, from 1,814 thousand units to 1,833 thousand units. Of this total, approximately 95 thousand contracts were attributable to the Italian branch in Milan and approximately 43 thousand contracts to the MAN FS branch, Munich. The increase in the portfolio was the net effect from the addition of 296 thousand new units and the disposal of 277 thousand vehicles in the first six months of 2022.

This package of measures ensured that Volkswagen Leasing GmbH had adequate liquidity at all times during the first six months of 2022.

KEY FIGURES BY SEGMENT AS OF JUNE 30, 2022

in thousands	Retail	Fleet	Segments total	Reconciliation	Group
Current contracts	**2,166**	**3,054**	**5,220**	**–**	**5,220**
Leasing business	814	1,019	1,833	–	1,833
Service	1,353	2,035	3,388	–	3,388
New contracts	**299**	**465**	**764**	**–**	**764**
Leasing business	109	188	296	–	296
Service	190	277	468	–	468
€ million					
Loans to and receivables from customers attributable to					
Dealer financing	–	9	9	–	9
Leasing business	7,701	10,135	17,836	–	17,836
Lease assets	10,824	13,556	24,380	–	24,380
Investment[1]	2,049	2,651	4,700	–	4,700
Operating result	205	547	752	235	987

1 Corresponds to additions to lease assets classified as noncurrent assets.

Deposit Business and Borrowings

The significant liability items were liabilities to customers in the amount of €16.7 billion (+38.7%) and commercial paper issued in the amount of €25.4 billion (–12.4%). The Company is funded largely through issuing bonds and loans from affiliated companies. As of the end of June 2022, the volume of bonds issued amounted to €24.8 billion (December 31, 2021: €27.5 billion). Loans from affiliated companies amounted to €14.5 billion as of June 30, 2022 compared with €12.7 billion as of December 31, 2021.

As of June 30, 2022, the volume of future lease receivables sold amounted to €5.0 billion (December 31, 2021: €5.0 billion). The volume of future lease residual values sold amounted to €11.1 billion as of June 30, 2022 (December 31, 2021: €10.7 billion).

Equity

The subscribed capital remained unchanged at €76 million in the reporting period. Equity in accordance with IFRSs was €5.3 billion (December 31, 2021: 4.6 billion) . This resulted in an equity ratio of 10.5% based on total assets of €50.6 billion.

Report on Opportunities and Risks

REPORT ON OPPORTUNITIES

Macroeconomic Opportunities

At present, global economic growth depends in particular on future developments in the Russia-Ukraine conflict and Western sanctions imposed in this context, as well as the effects on the energy market. Moreover, a material influencing factor on the global economy arises from the inflation and interest rate trend as well as from shortages in global supply chains.

This tense macroeconomic environment could also give rise to opportunities for Volkswagen Leasing GmbH if actual trends turn out to be better than forecast.

Strategic Opportunities

Volkswagen Leasing GmbH has identified other opportunities in restructuring and enhancing the current product portfolio by aligning it consistently with changing customer requirements (e.g. e-mobility): development of new products, optimization of existing ones and removal of obsolete products. Other opportunities arise from considering the entire vehicle lifecycle and, in this context, offering matching services and insurance policies – especially in the electric vehicles sector.

The consistent enhancement of Volkswagen Leasing GmbH's digital capabilities on the basis of the complete customer lifecycle continues to represent an important strategic opportunity.

RISK REPORT

The credit, residual value and earnings risk situation of Volkswagen Leasing GmbH is influenced by the Russia-Ukraine conflict and its economic consequences (supply chain problems and the threat of energy shortages). In addition, since the beginning of 2022, VW Leasing GmbH has faced sharp interest rate rises, leading to increased interest rate risk. Risk-minimizing measures to cushion the effects are in place. The risk situation continues to be very closely monitored.

Other than the above, there were no material changes in the reporting period to the details set out in the report on opportunities and risks in the 2021 Annual Report.

Compared to the last published HGB single-entity financial statements, there were no changes in risk types or risk management methods in the IFRS consolidated financial statements published for the first time, since corporate management had already been conducted in accordance with IFRSs in the past.

Human Resources Report

The structure of the German legal entities in the Volkswagen Financial Services AG Group is such that the employees of Volkswagen Financial Services AG may be assigned to carry out their duties in the subsidiaries. As a result of this structure, 898 employees of Volkswagen Financial Services AG were assigned to the units of Volkswagen Leasing GmbH under staff leasing arrangements as of June 30, 2022 (December 31, 2021: 966).

The reduction in staff at Volkswagen Leasing GmbH results from organizational changes within the VW FS Group.

Because of local legal requirements, employees of the Italian branches in Milan and Verona continue to hold employment contracts directly with Volkswagen Leasing GmbH. Currently, 51 people are employed in those branches (December 31, 2021: 69).

The reduction in staff at the Italian leasing branches results from organizational changes within the Italian VW FS market.

Report on Expected Developments

The Management Board of Volkswagen Leasing GmbH expects the supply-side restrictions in the production chain and the associated supply bottlenecks, as well as upward pressure on prices to persist in the coming months and – particularly in combination with the war in Ukraine – to cause a renewed slowdown in the economy, which was recovering from the coronavirus waves. Moreover, the lockdowns that have recurred repeatedly in parts of Asia since March will have an increasingly noticeable effect on supply chains.

Our planning is based on the assumption that global economic output will continue to grow in 2022, albeit at a lower level overall, after the recovery observed in the past fiscal year – provided that the Covid-19 pandemic does not flare up and that shortages of intermediates and commodities become less intense. We believe that risks will arise from protectionist tendencies, turbulence in the financial markets, structural deficits in individual countries and the effects of high inflation and rising interest rates worldwide on the economy. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts, with risks arising especially from the Russia-Ukraine conflict, including in relation to the security of supply of energy resources in Europe. We anticipate that both the advanced economies and the emerging markets will experience declining yet positive momentum.

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2022. Overall, the global volume of new vehicle sales is expected to be on a par with the previous year without reaching the pre-pandemic level. This prediction assumes that the Covid-19 pandemic does not flare up and that shortages of intermediates, especially semiconductors, and commodities become less intense. For 2022, we anticipate that the volume of new passenger car registrations in Western Europe will be in the same range as the previous year's figure. In the German passenger car market, we expect the volume of new registrations in 2022 to also match the prior-year figure.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed; on the whole, we anticipate a sales volume for 2022 in the range of the previous year. This assumes that the Covid-19 pandemic does not flare up and that shortages of intermediates, especially semiconductors, and commodities become less intense.

For 2022, we expect an overall slightly positive development in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year, with variations from region to region, in the markets that are relevant for the Volkswagen Group. A distinct increase in overall demand, with regional variations, is expected for 2022 in the bus markets relevant for the Volkswagen Group.

We anticipate that automotive financial services will continue to prove highly important to global vehicle sales in 2022.

As a consequence of the current crises, we expect a rising interest rate trend in the eurozone. Interest rate risk is monitored continuously. Potential changes in interest rates are simulated if necessary to determine their effect on profits.

The other types of risk are currently categorized as stable.

Risks will continue to arise first and foremost from the consequences of the Russia-Ukraine conflict and other geopolitical tensions. These conflicts are having a severely adverse effect on the growth outlook. In general, both risks and economic growth of individual countries and regions depend to a large extent on the mentioned factors.

In this context, risk costs have a significant impact. These costs depend on the development of the conflict between Russia and Ukraine and the associated economic consequences. Expectations are that risk costs will be substantially down on the prior-year level.

The other types of risk are continuously monitored, particularly in light of current economic and political developments.

For fiscal year 2022, the Management Board of Volkswagen Leasing GmbH expects the IFRS operating result to improve significantly compared with the previous year.

Despite the many challenges that continue to persist, the volume of existing contracts at Volkswagen Leasing GmbH is forecast to be again slightly up on the prior-year level at the end of the year. The penetration rate is anticipated to be high, although moderately down on the prior-year figure. It is assumed in this context that deliveries of new vehicles to Volkswagen Group customers will be similar to the numbers reached in 2021.

This report contains forward-looking statements on the future business development of Volkswagen Leasing GmbH. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and of the financial and automotive markets, which we have made on the basis of the available information and which we currently consider to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of our business. The same applies should the actual effects of the Covid 19 pandemic differ from the scenario assumend in this report. In addition, expected business performance may vary if the key performance indicators and risks and opportunities presented in the 2021 Annual Report turn out to be different from our current expectations, or additional risks and opportunities or other factors emerge that affect the development of the business.

Interim Consolidated Financial Statements (Condensed)

Income Statement of the Volkswagen Leasing GmbH Group

€ million	Note	Jan. 1 – June 30, 2022	Jan. 1 – June 30, 2021	Change in percent
Interest income from lending transactions and marketable securities		8	7	6.2
Income from leasing transactions		5,874	5,154	14.0
Depreciation, impairment losses and other expenses from leasing transactions		–4,882	–4,644	5.1
Net income from leasing transactions	11	992	509	9.9
Interest expense		–85	–121	–29.7
Income from service contracts		862	766	12.6
Expenses from service contracts		–739	–684	8.0
Net income from service contracts		123	81	50.8
Provision for credit risks	12	–1	–10	–93.9
Fee and commission income		0	7	–96.6
Fee and commission expenses		–95	–5	X
Net fee and commission result	13	–95	3	X
Net gain or loss on hedges	14	6	–9	X
Net gain/loss on financial instruments measured at fair value	15	296	10	X
General and administrative expenses	16	–287	–299	–4.1
Other operating income		48	56	–13.4
Other operating expenses		–19	–35	–45.7
Net other operating income/expenses	17	29	21	38.1
Operating result		**987**	**194**	**X**
Other financial gains or losses		0	0	X
Profit before tax		**987**	**194**	**X**
Income tax expense		–299	–31	X
Profit after tax		**689**	**163**	**X**
Profit after tax attributable to Volkswagen Financial Services AG		689	163	X
German GAAP profit/loss attributable to Volkswagen Financial Services AG in the event of loss absorption/profit transfer.		–3	–144	–97.6

Statement of Comprehensive Income of the Volkswagen Leasing GmbH Group

€ million	Jan. 1 – June 30, 2022	Jan. 1 – June 30, 2021
Profit after tax	**689**	**163**
Items that will not be reclassified to profit or loss	**–**	**–**
Items that may be reclassified to profit or loss	**–**	**–**
Other comprehensive income, net of tax	**–**	**–**
Total comprehensive income	**689**	**163**
Total comprehensive income attributable to Volkswagen Financial Services AG	689	163

Balance Sheet
of the Volkswagen Leasing GmbH Group

€ million	Note	June 30, 2022	Dec. 31, 2021	Jan. 01, 2021	Change in percent
Assets					
Loans to and receivables from banks		872	1,094	150	–20.4
Loans to and receivables from customers attributable to					
Dealer financing		9	9	9	–0.4
Leasing business		17,836	18,215	19,182	–2.1
Other loans and receivables		5,615	6,436	5,478	–12.8
Total loans to and receivables from customers	18	23,460	24,660	24,669	– 4.9
Derivative financial instruments	19	584	288	401	X
Intangible assets		0	0	2	–95.8
Property and equipment		5	7	10	–33.4
Lease assets	20	24,380	23,273	18,929	4.8
Investment property		25	31	33	–19.4
Deferred tax assets		51	223	290	–77.3
Current tax assets		330	17	0	X
Other assets	21	908	1,064	1,556	–14.7
Total		**50,614**	**50,659**	**46,039**	**–0.1**

€ million	Note	June 30, 2022	Dec. 31, 2021	Jan. 01, 2021	Change in percent
Equity and Liabilities					
Liabilities to banks	22	50	1	0	X
Liabilities to customers	22	16,664	12,017	12,168	38.7
Notes, commercial paper issued	23, 24	25,372	28,963	25,626	–12.4
Derivative financial instruments	25	650	90	41	X
Provisions for pensions and other post-employment benefits		1	2	3	–22.0
Other provisions	26	91	90	78	1.5
Deferred tax liabilities		858	456	382	88.1
Current tax liabilities		40	58	21	–30.7
Other liabilities	27	1,381	1,449	935	–4.7
Subordinated capital	24	183	2,903	2,929	–93.7
Equity	28	5,323	4,631	3,858	14.9
Subscribed capital		76	76	76	–
Capital reserves		361	361	361	–
Retained earnings		4,887	4,194	3,421	16.5
Total		**50,614**	**50,659**	**46,039**	**–0.1**

Statement of Changes in Equity of the Volkswagen Leasing GmbH Group

€ million	Subscribed capital	Capital reserves	Retained earnings	Total equity
As of Jan. 1, 2021	**76**	**361**	**3,421**	**3,858**
Profit after tax	–	–	163	163
Total comprehensive income	**–**	**–**	**163**	**163**
Other changes[1]	–	–	144	144
As of June 30, 2021	**76**	**361**	**3,727**	**4,164**
As of Jan. 1, 2022	**76**	**361**	**4,194**	**4,631**
Profit after tax	–	–	689	689
Total comprehensive income	**–**	**–**	**689**	**689**
Other changes1	–	–	3	3
As of June 30, 2022	**76**	**361**	**4,887**	**5,323**

1 Includes German GAAP (HGB) profit/loss attributable to Volkswagen Financial Services AG in the event of loss absorption/profit transfer.

Cash Flow Statement of the Volkswagen Leasing GmbH Group

€ million	Jan. 1 – June 30, 2022	Jan. 1 – June 30, 2021
Profit before tax	**987**	**194**
Depreciation, amortization, impairment losses and reversals of impairment losses	1,681	1,567
Change in provisions	1	1
Change in other noncash items	264	104
Loss on disposal of financial assets and items of property and equipment	5	0
Net interest expense and dividend income	–210	–184
Other adjustments	–	240
Change in loans to and receivables from banks	223	–2,070
Change in loans to and receivables from customers	978	–1,038
Change in lease assets	–2,802	–4,248
Change in other assets related to operating activities	157	–17
Change in liabilities to banks	50	0
Change in liabilities to customers	4,648	24
Change in notes, commercial paper issued	–3,592	4,947
Change in other liabilities related to operating activities	–68	318
Interest received	295	305
Interest paid	–85	–121
Income taxes paid	–55	–19
Cash flows from operating activities	**2,478**	**2**
Proceeds from disposal of other assets	0	0
Acquisition of other assets	0	0
Cash flows from investing activities	**0**	**0**
Loss assumed by Volkswagen Financial Services AG	242	128
Change in cash funds attributable to subordinated capital	–2,720	–129
Repayment of liabilities arising from leases	0	–2
Cash flows from financing activities	**–2,478**	**–3**
Cash and cash equivalents at end of prior period	**–**	**–**
Cash flows from operating activities	2,478	2
Cash flows from investing activities	0	0
Cash flows from financing activities	–2,478	–3
Cash and cash equivalents at end of period	**–**	**–**

1 The change in the reporting period results from the amortization of the subordinated loan previously issued by Volkswagen Financial Services AG to VCL Master Residual Value SA, which is now issued by Volkswagen Leasing GmbH since the first half of 2022 and therefore an intragroup transaction in Volkswagen Leasing GmbH Group which is thus eliminated in the consolidated financial statement. The compensation of the negative cash flow from financing activities is included in the cash flow from operating activities.
See note (32) for disclosures on the cash flow statement.

Notes to the Interim Consolidated Financial Statements

of the Volkswagen Leasing GmbH Group as of June 30, 2022

General Information

Volkswagen Leasing GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung*, GmbH) under German law. It has its registered office at Gifhorner Strasse, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 1858).

The object of the Company is to develop, sell and process financial services with a focus on the leasing business with retail and business customers as well as on the fleet management / services business in Germany and Italy.

Volkswagen Financial Services AG, Braunschweig, is the sole shareholder of the parent company, Volkswagen Leasing GmbH. Volkswagen Financial Services AG and Volkswagen Leasing GmbH have entered into a control and profit-and-loss transfer agreement.

Due to a modification in the refinancing of an existing ABS transaction in the first half of 2022, the parent company, Volkswagen Leasing GmbH, is now exposed to most of the risks and rewards of the special purpose entity affected by the modification, VCL Master Residual Value S.A., Luxembourg, and therefore exercises a controlling influence on the special purpose entity in accordance with section 290(2) no. 4 of the *Handelsgesetzbuch* (HGB – German Commercial Code). As a result, the parent company, Volkswagen Leasing GmbH, is required to prepare consolidated financial statements in accordance with section 290(1) of the HGB. The condensed financial statements contained in the half-yearly financial report as of June 30, 2022 have therefore been prepared as interim consolidated financial statements based on International Financial Reporting Standards in accordance with section 117(2) of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act). Contrary to previous interim financial statements of Volkswagen Leasing GmbH, condensed half-yearly financial statements in accordance with German GAAP are no longer prepared.

The annual financial statements of the companies in the Volkswagen Leasing GmbH Group are included in the consolidated financial statements of Volkswagen Financial Services AG, Braunschweig, and of Volkswagen AG, Wolfsburg, which are published in the electronic German Federal Gazette and Companies Register.

Basis of Presentation

Volkswagen Leasing GmbH prepared interim consolidated financial statements in accordance with IAS 34 and IFRS 1 for the first time as of June 30, 2022. These interim consolidated financial statements have not been reviewed by an auditor.

In compliance with the guidance of IFRS 1, the Volkswagen Leasing GmbH Group is applying IFRSs and the accounting policies based on these standards for the first time retrospectively as of the date of transition to IFRS-based reporting, January 1, 2021, and for all subsequent reporting periods presented. As Volkswagen Leasing GmbH became a first-time adopter of IFRSs later than its parent, Volkswagen Financial Services AG, the option provided by IFRS 1.D16 a) to retain the carrying amounts of assets and liabilities that would previously have been recognized without consolidation adjustments in the parent's consolidated financial statements has been applied.

The interim consolidated financial statements have been prepared in accordance with the 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 HGB. All financial reporting standards adopted by the EU and subject to mandatory application as of January 1, 2022 have been complied with in the preparation of the interim consolidated financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the interim consolidated financial statements also include the statement of changes in equity, the cash flow statement and condensed notes. In the consolidated balance sheet, items are additionally presented as of the date of retrospective initial application of the IFRSs, January 1, 2021.

All estimates and assumptions necessary as part of recognition and measurement in accordance with the IFRSs 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 are explained in detail in the disclosures on material estimates and assumptions by management.

Additional Disclosures in the First-Time Publication of Consolidated Interim Financial Statements in Accordance with IFRSs

In previous publications, the annual and interim financial statements of Volkswagen Leasing GmbH had been prepared in accordance with the provisions of the HGB and the *Verordnung über die Rechnungslegung der Kreditinstitute* (RechKredV – German Bank Accounting Regulation), as well as the additional disclosures required under the *Verordnung über die Rechnungslegung der Zahlungsinstitute und E-Geld-Institute* (RechZahlV – German Regulation on the Accounting of Payment Institutions and E-Money Institutions). These will subsequently be referred to collectively as commercial law requirements. Volkswagen Leasing GmbH did not publish financial statements in accordance with IFRSs in prior periods. Nevertheless, consolidated financial statements based on IFRSs were prepared for consolidation purposes at Volkswagen Financial Services AG and Volkswagen AG in prior periods. Therefore, IFRS consolidated financial statements were already available for the consolidated companies of the Volkswagen Leasing GmbH Group and they formed the basis for the first-time preparation of the Volkswagen Leasing GmbH consolidated interim financial statements as of June 30, 2022 and provided prior-period comparable figures as of January 1, 2021 and December 31, 2021.

The main differences in accounting policies applied for the annual financial statements prepared for the last time in accordance with German GAAP as of December 31, 2021, and the interim consolidated financial statements prepared for the first time in accordance with IFRSs as of June 30, 2022, are explained below. Due to the lack of comparative financial statements for reconciliation purposes, there is no quantitative reconciliation of items from previous reporting dates to the IFRS interim consolidated financial statements, as there was no basis for preparing consolidated financial statements in accordance with the requirements of German commercial law as of the previous reporting dates.

LEASING BUSINESS

Significant differences between the IFRS consolidated financial statements and the HGB financial statements result from the inclusion of all leases in the balance sheet item “Lease assets” in the HGB financial statements compared with the breakdown of leases into the balance sheet items “Receivables from customers: Leasing business” (finance leases) and “Lease assets” (operating leases) in the IFRS financial statements.

In addition, material measurement differences between the IFRS consolidated financial statements and the HGB annual financial statements result from:

> The classification of leases, according to which most leases in the HGB financial statements are consistently recognized as non-financial assets, while in the IFRS financial statements they are recognized either as finance leases and therefore financial assets or as operating leases and therefore as non-financial assets and measured in accordance with the appropriate accounting policy;

> Agency commissions, which in the HGB financial statements are recognized fully as direct expenses at the inception of the lease, while in the IFRS consolidated financial statements they are spread over the lease term through the effective interest rate of the finance lease receivables, or as initial direct costs of the lease assets in operating leases;

- Underlying depreciation and amortization periods, as in the HGB financial statements depreciation and amortization are carried out to a residual value of 0 based on normal useful lives due to tax requirements, and in the IFRS financial statements depreciation and amortization are carried out over the expected useful life to the expected residual value at the end of the useful life.
- Different policies for dealing with credit risk on financial assets, which entail the recognition of specific and global valuation allowances in the HGB financial statements, compared with allowances for expected credit losses in accordance with IFRS 9 in the IFRS financial statements.

BUY-BACK AGREEMENTS AND OTHER FINANCIAL ASSETS

Material differences between the IFRS consolidated financial statements and the HGB financial statements result from the fact that, in the latter, contracts with buy-back agreements are included in the lease assets item, whereas in the IFRS financial statements they are recognized as financial assets under other receivables from customers.

Material measurement differences between the IFRS consolidated financial statements and the HGB annual financial statements also result from the different approaches to accounting for default risks of financial assets through write-downs and valuation allowances in the HGB financial statements and through loss allowances for expected credit losses in accordance with IFRS 9 in the IFRS financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS

For derivative financial instruments, there are material recognition, measurement and disclosure differences between the IFRS consolidated financial statements and the HGB annual financial statements.

In the IFRS financial statements, derivative financial instruments are recognized either as free derivatives or derivatives in hedging relationships, measured at fair value through profit or loss and reported in the balance sheet item “Derivative financial instruments” with positive or negative fair values.

In the HGB financial statements, by contrast, only derivatives with negative fair values are reflected by recognizing them in provisions for anticipated losses. In addition, receivables/liabilities from interest payments for derivatives are recognized with positive and negative fair values in the HGB financial statements.

DEFERRED TAXES

In contrast to the HGB financial statements, in which deferred tax assets are not recognized, deferred tax assets and liabilities are recognized and subsequently measured in the IFRS consolidated financial statements in accordance with IAS 12.

HEDGE ACCOUNTING

The application of hedge accounting in accordance with IFRS 9 to hedge interest rate risks for corporate bonds issued results in valuation differences from hedge adjustments that are recognized in the IFRS financial statements under the “Notes, commercial paper issued” balance sheet item.

ASSET-BACKED SECURITIES

In the IFRS consolidated financial statements, ABS special purpose entities used by Volkswagen Leasing GmbH for refinancing purposes are consolidated as subsidiaries in accordance with IFRS 10. Prepaid expenses, deferred income and liabilities from transactions with ABS special purpose entities are recognized in the HGB single-entity financial statements, but eliminated as intercompany transactions in the IFRS consolidated financial statements. Restricted bank balances, notes, commercial paper issued and subordinated loans of ABS special purpose entities are recognized in the IFRS consolidated financial statements, but they are not presented in the HGB single-entity financial statements.

Russia-Ukraine Conflict / Covid-19 Pandemic / Semiconductor Shortage

In the first six months of 2022, the Russia-Ukraine conflict led to a humanitarian crisis and global market upheaval. Prices rose substantially, particularly on energy and commodity markets. In addition, bottlenecks in the supply of parts, especially wire harnesses, intensified (temporarily) in this context. The Russia-Ukraine conflict led to increased uncertainty in respect of developments in the global economy and prompted large sections of the community of Western states to impose sanctions on Russia, ranging from extensive trade embargoes to the exclusion of Russia from the global financial system.

Regionally, the global spread of the Omicron variant of the SARS-CoV-2 virus continued to have a substantial impact on society and the economy in the first half of 2022, particularly in the first three months. In China especially, local outbreaks of infections led to tight restrictions under the zero-Covid strategy being pursued there, resulting in economic constraints and disruption to supply chains.

In the first half of 2022, the trend in new business continued to be shaped by the semiconductor shortage and the associated supply bottlenecks on the part of the Volkswagen Group brands. As a result of lower vehicle deliveries, new business in the Volkswagen Leasing GmbH Group declined in the first half of 2022 and was down on the prior-year level. At the same time, the shortage of new vehicles led to a positive trend in the used vehicle market so that higher marketing gains were generated from returned lease vehicles than in the prior-year period.

Effects of New and Revised IFRSs

Volkswagen Leasing GmbH has complied with all financial reporting standards adopted by the EU and subject to mandatory application as of January 1, 2022.

None of the financial reporting standards adopted by the EU and subject to mandatory application as of January 1, 2022 materially affects the Volkswagen Leasing GmbH Group’s net assets, financial position and results of operations.

New and Amended IFRSs Not Applied

Standard		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IFRS 17	Insurance Contracts	May 18, 2017	January 1, 2023	Yes[2]	No impact
IFRS 17	Insurance Contracts – Amendments to IFRS 17	June 25, 2020	January 1, 2023	Yes[2]	No impact
IAS 1	Classification of liabilities	January 23, 2020	January 1, 2023	No	No material impact
IAS 1	Disclosure of accounting policies	February 12, 2021	January 1, 2023	Yes	Some changes to disclosures in the notes based on the amended requirements
IAS 8	Definition of accounting estimates	February 12, 2021	January 1, 2023	Yes	No material impact
IAS 12	Deferred taxes on leases and decommissioning and restoration liabilities	May 7, 2021	January 1, 2023	No	No material impact

1 Effective date from Volkswagen Leasing GmbH’s perspective

2 The EU’s endorsement includes an option that exempts companies from applying a valuation requirement in certain cases

Accounting Policies

1. Basic Principles

Financial reporting in the Volkswagen Leasing GmbH Group complies with IFRS 10 and is based on Group-wide standard accounting policies.

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

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

2. Basis of Consolidation

In addition to Volkswagen Leasing GmbH, the interim consolidated financial statements cover all international subsidiaries taking the form of structured entities that are controlled directly or indirectly by Volkswagen Leasing GmbH. This is the case if Volkswagen Leasing GmbH has direct or indirect power over the entity, is exposed to or has rights to positive or negative variable returns from its involvement with the entity, and has the ability to use its power to influence those returns. In the case of the structured entities consolidated in the Volkswagen Leasing GmbH Group, Volkswagen Leasing GmbH holds no equity investment but nevertheless determines the main relevant activities remaining after the structure is created and thereby influences its own variable returns. The purpose of the structured entities is to facilitate asset-backed-securities transactions to fund the financial services business. The Volkswagen Leasing GmbH 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 this control no longer exists.

COMPOSITION OF THE VOLKSWAGEN LEASING GMBH GROUP

The composition of the Volkswagen Leasing GmbH Group is as follows:

> Volkswagen Leasing GmbH, Braunschweig
> VCL Multi-Compartment S.A., Luxembourg
> VCL Master S.A., Luxembourg
> VCL Master Residual Value S.A., Luxembourg
> Trucknology S.A., Luxemburg

3. Consolidation Methods

The assets and liabilities of the domestic and international entities included in the consolidated financial statements are reported in accordance with the accounting policies applicable as standard throughout the Volkswagen Leasing GmbH Group.

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

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

4. Recognition of Revenue and Expenses

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

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.

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

Gains from the sale of used ex-lease vehicles are recognized when the buyer has acquired title to the vehicle concerned. 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.

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

Fee and commission income for services at a particular point in time is recognized on the date of performance. In the case of services that are provided over a particular period of time, income is recognized at the reporting date according to the stage of completion.

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

5. 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 not offset. Liabilities are recognized for potential tax risks using best estimates.

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

These deferred tax assets and liabilities are recognized in the amount of the expected tax refund or expense in subsequent fiscal years on the basis of the tax rate expected to apply at the time the asset is recovered or the liability settled. Deferred tax assets are recognized if it is probable that taxable profits will be generated in the same tax unit in the future. 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 offset.

6. Financial Instruments

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

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

Financial assets are classified and measured on the basis of the entity's business model and the structure of its cash flows.

In the Volkswagen Leasing GmbH Group, financial assets are classified into the following categories in accordance with IFRS 9:

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

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

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

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

Financial assets and financial liabilities are generally reported at their gross amounts and not offset. They are currently only offset if the Volkswagen Leasing GmbH Group has a legally enforceable right to set off the amounts and intends to settle on a net basis.

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

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

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

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

> At which the financial asset or financial liability is measured on initial recognition
> Minus any repayments of principal
> Adjusted, in the case of financial assets, for any recognized valuation allowances, impairment losses due to uncollectibility, and
> Plus or minus the cumulative amortization of any difference between the initial amount and the amount repayable at maturity (premium, discount), amortized using the effective interest method over the term of the financial asset.

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

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

Derivatives are measured at fair value through profit and loss.

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

LOANS AND RECEIVABLES

Originated loans to and receivables from banks, and loans to and receivables from customers are recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost, including the effects from changes in exchange rates, are recognized in profit or loss.

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 is no indication that loans/receivables from ABS transactions carried out by the Group must be derecognized.

The accounting policies relating to receivables from customers attributable to the Volkswagen Leasing GmbH Group's leasing business are described in note (8) Leases.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments comprise derivatives in effective hedges and derivatives not designated as hedging instruments. All derivatives are measured at fair value and are presented separately in notes (19) and (25).

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

In the Volkswagen Leasing GmbH Group, entities enter into hedging transactions solely to manage interest rate risk.

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

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

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

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

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, generally encompasses all financial assets measured at amortized cost, finance lease receivables and receivables related to payments due under operating leases that fall within the scope of IFRS 16. The calculation of the provision for credit risks generally takes into account the exposure at default, the probability of default and the loss given default, determined on the basis of parameters.

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 non-impaired financial assets and financial assets with objective evidence of impairment. 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), unless there was already objective evidence of impairment on initial recognition. Financial assets are broken down into three stages in the general approach. Stage 1 consists of financial assets that are being recognized for the first time or that have not demonstrated any significant increase in default risk since initial recognition. In this stage, the model requires the calculation of an expected credit loss for the next 12 months. Stage 2 consists of financial assets for which the risk of default has increased significantly since initial recognition. Financial assets demonstrating objective indications of impairment are allocated to Stage 3. In Stages 2 and 3, an expected credit loss is calculated for the entire remaining maturity of the asset.

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

The provision for credit risks is calculated on the basis of the individual financial asset. The parameters required for this calculation are established by assessing portfolios in which individual financial assets of a similar type are brought together.

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

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

To determine whether the credit risk on assets accounted for under the general approach has increased significantly as of the reporting date, the credit risk expected for the reporting date on the date of initial recognition is in all cases compared to the credit risk on the reporting date. Assets accounted for under the general approach relate in particular to receivables from VW Group companies where the expected loss is estimated on the basis of a loss rate approach. Internal and external rating information is used in the measurement of credit risk. Moreover, credit risk can always be assumed to have increased significantly if payments past due by more than 30 days have been identified.

According to the Volkswagen Leasing GmbH Group's definition of default, objective indications of impairment are based on a variety of factors. Examples include payment that is more than 90 days past due, the initiation of enforcement measures, the threat of insolvency or overindebtedness, application for or the initiation of insolvency proceedings, or the failure of recovery measures.

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

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

Loans and receivables are reported in the balance sheet at the net carrying amount.

MODIFICATIONS

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

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

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

LIABILITIES

Liabilities to banks and customers, notes and commercial paper issued, and subordinated capital liabilities are recognized at amortized cost using the effective interest method.

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.

7. Impairment of Non-Financial Assets

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

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

If the reasons for the recognition of an impairment loss in prior years now no longer apply, an appropriate reversal of the impairment loss is recognized.

8. Leases

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

GROUP AS LESSOR

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

Income and expenses from leasing transactions that the Group generates or incurs as lessor are presented in the income statement items "Income from leasing transactions" and "Depreciation, impairment losses and other expenses from leasing transactions"; they are explained in note (11) "Net income from leasing transactions". Net income from leasing transactions relates primarily to leasing revenue from operating leases, interest income from finance leases, gains and losses on the sale of used ex-lease vehicles, net interest income/expense from derivatives for economic finance lease hedging, and lease asset depreciation and impairment losses.

A finance lease is a lease that transfers the material risks and rewards to the lessee. Under residual value guarantee agreements, residual value risk is transferred to the residual value guarantor. In the consolidated balance sheet, receivables from finance leases are reported within loans to and receivables from customers, whereby 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 collected in such a way as to produce a constant periodic rate of interest on the remaining balance of the lease receivable. Net interest income/expense from derivatives held for the economic interest rate hedging of certain finance lease receivables is presented in income from leasing transactions. Net interest income/expense is presented under income from leasing transactions to show hedged interest income from finance leases as generated by the Volkswagen Leasing GmbH Group, including net interest income/expense from economic interest rate hedging.

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

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

The Volkswagen Leasing GmbH Group takes full account of the credit risk arising in connection with lease receivables by recognizing loss allowances in accordance with the provisions specified in IFRS 9. The accounting policies covering loss allowances for the credit risk on lease receivables are described in the subsection addressing the provision for credit risks in note (6) "Financial Instruments".

GROUP AS LESSEE

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

BUY-BACK TRANSACTIONS

The Volkswagen Leasing GmbH Group enters into vehicle purchase contracts that include a fixed buy-back agreement with the seller of the vehicle, a Volkswagen Group company. As a result, these contracts only give the Group the right to use the vehicles for an agreed period and are therefore accounted for as leases. The Group conducts leasing transactions with its customers using the vehicles available for use by the Group as the lessee in the principal lease. The leasing transactions with customers are classified as subleases in view of the right-of-use asset granted for the usage period; they are accounted for as finance or operating leases in accordance with the classification criteria. Buy-back transactions are classified as finance leases, and the right-of-use assets are consequently recognized as finance lease receivables in the balance sheet.

In addition, buy-back receivables are recognized in connection with buy-back transactions; they are presented in loans to and receivables from customers under other receivables at the buy-back values agreed at the inception of the lease. In the case of noncurrent leases (maturity more than one year), the agreed buy-back value is discounted at the inception of the lease. The unwinding of the discounts during the term of the lease is recognized in interest income.

9. Other Provisions

As required by IAS 37, provisions are recognized if a current legal or constructive obligation to third parties has arisen as a result of a past event, it is probable that settlement in the future will result in an outflow of economic resources, and the amount of the obligation can be estimated reliably. If an outflow of resources is neither probable nor improbable, the amount concerned is deemed to be a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note (33).

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

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

Provisions not related to an outflow of resources likely to take place in the subsequent year are recognized at their settlement amount discounted to the reporting date using market discount rates. The settlement amount also includes expected cost increases.

Provisions are not offset against claims for reimbursement.

10. 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 expected future performance of the business was based on the circumstances prevailing at the time the consolidated financial statements were prepared and a realistic assessment of the future development of the global and sector-specific environment. The estimates and assumptions used by management in this regard were based in particular on assumptions relating to macroeconomic trends, trends in the automotive and financial markets, and the legal environment. These and other assumptions are explained in detail in the report on expected developments, which is part of the management report.

As future business performance is subject to unknown factors that, in part, lie outside the control of the Group, our assumptions and estimates continue to be subject to a high degree of uncertainty. Developments in this environment that differ from our assumptions and that cannot be influenced by management could result in amounts that differ from the original estimates. If actual developments differ from the expected developments, the assumptions and, where necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

The assumptions and estimates relate largely to the matters described below.

RECOVERABLE AMOUNT OF LEASE ASSETS

The recoverability of the Group's lease assets depends mainly on the residual value of the leased vehicles when the lease expires because this value represents a considerable portion of the expected cash inflows. The residual value forecasts are based on internal and external information on trends in residual values that is continuously updated and draws on specific local factors and experience gained in the marketing of used 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 within the company, such as 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 non-cancelable period of the lease plus an assessment of whether existing extension and termination options will be exercised.

FINANCIAL INSTRUMENTS

The procedure for determining the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. These estimates take into account as far as possible the latest market data, as well as rating classes and scoring information based on experience, and are used in combination with forward-looking parameters. Further information on determining valuation allowances can be found in the disclosures on the provision for credit risks (note 7).

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 types of input used in the valuation, 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 inputs are observable. Level 3 fair values are determined with recognized valuation techniques relying on certain inputs that cannot be observed in an active market. Management judgment is required here when selecting the valuation techniques and determining the inputs to be used. These inputs are developed using the best available information. If Volkswagen Leasing GmbH 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 the contract; these assumptions are based on past experience. The parameters used in the calculation of contractual service rates are regularly reviewed. During the term of a service contract, income from that contract is recognized on the basis of expenses incurred, plus a margin derived from the contractual service rates.

PROVISIONS

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

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

DEFERRED TAX ASSETS AND UNCERTAIN INCOME TAX ITEMS

When identifying deferred tax assets, there is a need to make assumptions about future taxable income and the timing of the 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 companies of the Volkswagen Leasing GmbH Group have operations in Germany and abroad and are audited on an ongoing basis by the local tax authorities. Changes to tax legislation, decisions by the courts and their interpretation by the tax authorities in the countries concerned could give rise to tax payments that are different from the estimates made in the financial statements.

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

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

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

Disclosures on the interim consolidated financial statements

11. Net Income from Leasing Transactions

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

€ million	Jan. 1 – June 30, 2021	Jan. 1 – June 30, 2020
Leasing income from operating leases	2,228	1,912
Interest income from finance leases	288	298
Gains from the disposal of used ex-lease vehicles	3,162	2,831
Net interest income/expense from finance lease hedging derivatives	–15	–11
Miscellaneous income from leasing transactions	211	124
Income from leasing transactions	5,874	5,154
Lease assets depreciation and impairment losses	1,780	1,606
Expenses from the disposal of used ex-lease vehicles	2,795	2,762
Miscellaneous expenses from leasing transactions	307	276
Depreciation, impairment losses and other expenses from leasing transactions	4,882	4,644
Total	**992**	**509**

12. 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 and other assets.

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

€ million	Jan. 1 – June 30, 2022	Jan. 1 – June 30, 2021
Additions to provision for credit risks	–127	–149
Reversals of provision for credit risks	135	156
Direct write-offs	–19	–25
Income from loans and receivables previously written off	10	8
Net gain or loss from significant modifications	0	0
Total	**–1**	**–10**

13. Net Fee and Commission Expense

Net fee and commission expense relates mainly to expenses from brokering leases to customers.

14. 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	Jan. 1 – June 30, 2022	Jan. 1 – June 30, 2021
Gains/losses on hedging instruments in fair value hedges	–533	–81
Gains/losses on hedged items in fair value hedges	533	81
Gains/losses from the ineffective portion of hedging instruments in fair value hedges	6	–9
Total	**6**	**–9**

15. Net Gain/Loss on Financial Instruments Measured at Fair Value

The net gains or losses on derivatives not designated as hedging instruments are reported under this item. Gains and losses arising from changes in the fair value of derivatives that do not satisfy the requirements for hedge accounting are recognized under gains and losses on derivatives not designated as hedging instruments.

16. General and Administrative Expenses

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

€ million	Jan. 1 – June 30, 2022	Jan. 1 – June 30, 2021
Personnel expenses	–3	–3
Non-staff operating expenses	–280	–291
Advertising, public relations and sales promotion expenses	–2	–3
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–1	–1
Other taxes	0	0
Income from the reversal of provisions and accrued liabilities	0	–
Total	**–287**	**–299**

Non-staff operating expenses relate primarily to the allocation of cost for staff leased from Volkswagen Financial Services AG and for IT-related services provided by Volkswagen Financial Services Digital Solutions GmbH.

17. Net Other Operating Income/Expenses

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

€ million	Jan. 1 – June 30, 2022	Jan. 1 – June 30, 2021
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	0	0
Income from cost allocations to other entities in the Volkswagen Group	9	13
Income from the reversal of provisions and accrued liabilities	6	17
Income from claims for damages	15	15
Income from non-significant modifications	1	1
Miscellaneous operating income	18	10
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	0	0
Litigation and legal risk expenses	–5	–17
Expenses from non-significant modifications	0	0
Miscellaneous operating expenses	–14	–18
Total	**29**	**21**

18. 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.

Receivables from leasing transactions include receivables from finance leases and receivables due in connection with lease assets. Other loans and receivables relate primarily to loans to and receivables from Volkswagen Group entities and to receivables from leasing transactions with a buy-back agreement.

19. Derivative Financial Instruments

This item comprises the positive fair values from hedges and from derivatives not designated as a hedging instrument.

€ million	Jun. 30, 2022	Dec. 31, 2021	Jan. 01, 2021
Transactions to hedge against			
interest-rate risk using fair value hedges	54	224	376
interest-rate risk using cash flow hedges	0	–	–
Hedging transactions	**54**	**224**	**376**
Assets arising from derivatives not designated as hedges	530	64	26
Total	**584**	**288**	**401**

20. Lease Assets

€ million	Leased vehicles	Other equipment, operating and office equipment	Total
Cost as of Jan. 1, 2022	**29,405**	**1**	**29,406**
Additions	5,582	–	5,582
Disposals	3,812	0	3,812
Balance as of June 30, 2022	**31,175**	**1**	**31,177**
Depreciation and impairment losses as of Jan. 1, 2022	**6,133**	**1**	**6,133**
Additions to cumulative depreciation	1,732	0	1,732
Additions to cumulative impairment losses	48	–	48
Disposals	1,032	0	1,032
Reversal of impairment losses	85	–	85
Balance as of June 30, 2022	**6,796**	**1**	**6,796**
Net carrying amount as of June 30, 2022	**24,380**	**1**	**24,380**
Net carrying amount as of January 1, 2022	**23,272**	**1**	**23,273**

€ million	Leased vehicles	Other equipment, operating and office equipment	Total
Cost as of Jan. 1, 2021	**23,658**	**2**	**23,660**
Changes in basis of consolidation	–238	–	–238
Additions	12,784	0	12,784
Disposals	6,799	0	6,799
Balance as of December 31, 2021	**29,405**	**1**	**29,406**
Depreciation and impairment losses as of Jan. 1, 2021	**4,731**	**1**	**4,732**
Additions to cumulative depreciation	3,133	0	3,134
Additions to cumulative impairment losses	190	–	190
Disposals	1,825	0	1,825
Reversal of impairment losses	97	0	97
Balance as of December 31, 2021	**6,133**	**1**	**6,133**
Net carrying amount as of December 31, 2021	**23,272**	**1**	**23,273**
Net carrying amount as of January 01, 2021	**18,928**	**1**	**18,929**

21. Other assets

The details of other assets are as follows:

€ million	Jun. 30, 2022	Dec. 31, 2021	Jan. 1, 2021
Vehicles returned for disposal	195	198	663
Restricted cash	451	479	435
Prepaid expenses and accrued income	37	60	48
Other tax assets	98	122	127
Miscellaneous	125	206	282
Total	**908**	**1,064**	**1,556**

22. Liabilities to Banks and Customers

To cover its capital requirements, Volkswagen Leasing GmbH uses, among other instruments, loans made available by the Volkswagen Group, which are included in liabilities to banks and customers.

23. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Jun. 30, 2022	Dec. 31, 2021	Jan. 1, 2021
Bonds issued	24,847	27,517	24,369
Commercial paper issued	524	1,446	1,257
Total	**25,372**	**28,963**	**25,626**

24. ABS Transactions

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

€ million	Jun. 30, 2022	Dec. 31, 2021	Jan. 01, 2021
Bonds issued	12,856	12,725	12,032
Subordinated liabilities	183	2,903	2,929
Total	**13,040**	**15,628**	**14,961**

Under ABS transactions, collateral is provided in the form of financial assets, among other things. 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.

The asset-backed securities transactions did not lead to a derecognition of the loans or receivables from the leasing transaction because the credit risk and timing risk were retained in the Group. The difference between the assigned loans and receivables and the associated liabilities results from the different terms and conditions and from the proportion of the ABSs held by the Volkswagen Leasing GmbH Group itself.

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

25. Derivative Financial Instruments

This item comprises the negative fair values from hedges and from derivatives not designated as a hedging instrument.

€ million	Jun. 30, 2022	Dec. 31, 2021	Jan. 01, 2021
Transactions to hedge against			
interest-rate risk using fair value hedges	439	52	27
Hedging transactions	**439**	**52**	**27**
Liabilities arising from derivatives not designated as hedges	211	38	14
Total	**650**	**90**	**41**

26. Other Provisions

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

27. Other Liabilities

The details of other liabilities are as follows:

€ million	Jun. 30, 2022	Dec. 31, 2021	Jan. 1, 2021
Prepaid expenses and accrued income	1,300	1,342	887
Other tax liabilities	54	17	12
Social security and payroll liabilities	0	0	0
Miscellaneous	27	90	36
Total	**1,381**	**1,449**	**935**

28. Equity

Volkswagen Leasing GmbH's subscribed capital amounted to €76,004,000.00 and was fully paid up. The sole shareholder is Volkswagen Financial Services AG, Braunschweig. There are no preferential rights or restrictions in connection with the subscribed capital.

The capital contributions made by the sole shareholder, VW FS AG, are reported under the capital reserves of Volkswagen Leasing GmbH.

Retained earnings comprise undistributed profits from prior years.

29. Classes of Financial Instruments

Financial instruments are divided into the following classes in the Volkswagen Leasing GmbH Group:

> Measured at fair value
> Measured at amortized cost
> Derivative financial instruments designated as hedges
> Not allocated to any measurement category

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. They include financial instruments allocated to IFRS 9 measurement categories as well as financial instruments not allocated to any IFRS 9 measurement category (e.g. finance lease receivables) and are therefore included in the “Not allocated to any measurement category” class.

Loans to and receivables from customers in the “Total loans to and receivables from customers” balance sheet item are reconciled to the “Measured at amortized cost” and “Not allocated to any measurement category” classes. The “Not allocated to any measurement category” class mainly consists of the receivables from customers attributable to the leasing business.

Loans/receivables and liabilities designated as hedges with derivative financial instruments are included in the class “Measured at amortized cost”.

The income tax receivables and income tax liabilities on the balance sheet include receivables and liabilities from tax allocations to Volkswagen Group companies made under civil law. These receivables and liabilities are accounted for as financial instruments and allocated to the “Measured at amortized cost” class.

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

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

€ million	BALANCE SHEET ITEM			MEASURED AT FAIR VALUE			MEASURED AT AMORTIZED COST1			DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES			NOT ALLOCATED TO ANY MEASUREMENT CATEGORY		
	June 30, 2022	Dec. 31, 2021	Jan. 1, 2021	**June 30, 2022**	Dec. 31, 2021	Jan. 1, 2021	**June 30, 2022**	Dec. 31, 2021	Jan. 1, 2021	**June 30, 2022**	Dec. 31, 2021	Jan. 1, 2021	**June 30, 2022**	Dec. 31, 2021	Jan. 1, 2021
Assets															
Loans to and receivables from banks	872	1.094	150	–	–	–	872	1,094	150	–	–	–	–	–	–
Loans to and receivables from customers	23,460	24,660	24,669	–	–	–	5,624	6,445	5,487	–	–	–	17,836	18,215	19,182
Derivative financial instruments	584	288	401	530	64	26	–	–	–	54	224	376	–	–	–
Current tax assets	330	17	0	–	–	–	317	–	–	–	–	–	12	17	0
Other assets	908	1,064	1,556	–	–	–	504	536	520	–	–	–	404	528	1,036
Total	**26,154**	**27,125**	**26,777**	**530**	**64**	**26**	**7,317**	**8,076**	**6,157**	**54**	**224**	**376**	**18,252**	**18,760**	**20,218**
Equity and liabilities															
Liabilities to banks	50	1	–	–	–	–	1	1	0	–	–	–	–	–	–
Liabilities to customers	16,664	12,017	12,168	–	–	–	50	10,901	11,221	–	–	–	1,248	1,117	947
Notes, commercial paper issued	25,372	28,963	25,626	–	–	–	15,416	28,963	25,626	–	–	–	–	–	–
Derivative financial instruments	650	90	41	211	38	41	25,372	–	–	439	52	–	–	–	–
Current tax liabilities	40	58	21	–	–	–	–	29	19	–	–	–	19	29	2
Other liabilities	1,381	1,449	935	–	–	–	21	106	47	–	–	–	1,302	1,343	888
Subordinated capital	183	2,903	2,929	–	–	–	79	2,903	2,929	–	–	–	–	–	–
Total	**44,340**	**45,481**	**41,720**	**211**	**38**	**41**	**183**	**42,902**	**39,843**	**439**	**52**	**–**	**2,569**	**2,489**	**1,836**

1 Loans to and receivables from customers and liabilities to customers contain underlying transactions of fair value hedges.

30. Fair Value Disclosures

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. 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 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.

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 are allocated to Level 3 because these fair values are measured using inputs that are not observable in active markets.

The following table shows the allocation of financial instruments measured at fair value and derivative financial instruments designated as hedges to the three-level fair value hierarchy by class:

	LEVEL 1			LEVEL 2			LEVEL 3		
€ million	June 30, 2022	Dec. 31, 2021	Jan. 1, 2021	June 30, 2022	Dec. 31, 2021	Jan. 1, 2021	June 30, 2022	Dec. 31, 2021	Jan. 1, 2021
Assets									
Measured at fair value									
Derivative financial instruments	–	–	–	530	64	26	–	–	–
Derivative financial instruments designated as hedges	–	–	–	54	224	376	–	–	–
Total	**–**	**–**	**–**	**584**	**288**	**401**	**–**	**–**	**–**
Equity and liabilities									
Measured at fair value									
Derivative financial instruments	–	–	–	211	38	41	–	–	–
Derivative financial instruments designated as hedges	–	–	–	439	52	–	–	–	–
Total	**–**	**–**	**–**	**650**	**90**	**41**	**–**	**–**	**–**

The table below shows the fair values of the financial instruments.

€ million	FAIR VALUE			CARRYING AMOUNT			DIFFERENCE		
	June 30, 2022	Dec. 31, 2021	Jan. 01, 2021	June 30, 2022	Dec. 31, 2021	Jan. 01, 2021	June 30, 2022	Dec. 31, 2021	Jan. 01, 2021
Assets									
Measured at fair value									
Derivative financial instruments	530	64	26	530	64	26	–	–	–
Measured at amortized cost									
Loans to and receivables from banks	872	1,094	150	872	1,094	150	–	–	–
Loans to and receivables from customers	5,578	6,466	5,503	5,624	6,445	5,487	–46	21	16
Current tax assets	317	–	–	317	–	–	–	–	–
Other assets	504	536	520	504	536	520	–	–	–
Derivative financial instruments designated as hedges	54	224	376	54	224	376	–	–	–
Not allocated to any measurement category									
Loans to and receivables from customers	17,764	18,627	19,689	17,836	18,215	19,182	–72	412	507
Equity and liabilities									
Measured at fair value									
Derivative financial instruments	211	38	41	211	38	41	–	–	–
Measured at amortized cost									
Liabilities to banks	50	1	0	50	1	0	–	–	–
Liabilities to customers	15,188	11,054	11,400	15,416	10,901	11,221	–229	154	178
Notes, commercial paper issued	25,165	29,088	25,794	25,372	28,963	25,626	–206	125	168
Current tax liabilities	21	29	19	21	29	19	–	–	–
Other liabilities	79	106	47	79	106	47	0	0	0
Subordinated capital	182	2,976	3,032	183	2,903	2,929	–1	73	103
Derivative financial instruments designated as hedges	439	52	–	439	52	–	–	–	–

Segment Reporting

31. Segment Reporting

The delineation between segments follows that used for internal management and reporting purposes in the Volkswagen Leasing GmbH 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.

The internal management and reporting is based on customer groups. These are splitted in retail customers and fleet customers.

The retail customers consist of private customers as well as individual commercial customers. The commercial individual customers are persons or companies who have not concluded a supply agreement on the purchase of new vehicles with the Volkswagen Group. Private customers are customers who have the right to withdraw from a contract.

Within the fleet customers there is a differentiation between corporate customers and special customers.

Corporate customers are companies that purchase at least five Group vehicles per year via a supply agreement and have at least 15 corresponding vehicles in their contract portfolio. Special customers include churches, nursing services and persons with disabilities.

In accordance with IFRS 8, noncurrent assets are reported exclusive of financial instruments, deferred tax assets, post-employment benefits and rights under insurance contracts.

BREAKDOWN BY CUSTOMER CATEGORY FOR THE FIRST HALF OF 2022:

€ million	Retail	Fleet	Segments total	Reconciliation	Group
Interest income from lending transactions and marketable securities	–	–	–	8	8
Income from leasing transactions	2,443	3,446	5,889	–15	5,874
Depreciation, impairment losses and other expenses from leasing transactions	–2,080	–2,808	–4,888	6	–4,882
Net income from leasing transactions	363	638	1,000	–9	992
Interest expense	–45	–40	–85	–	–85
Income from service contracts	284	578	862	0	862
Expenses from service contracts	–235	–504	–739	0	–739
Net income from service contracts	49	74	123	0	123
Provision for credit risks	–2	0	–2	2	–1
Fee and commission income	–	0	0	–	0
Fee and commission expenses	–94	–1	–95	–	–95
Net fee and commission income	–94	–1	–95	–	–95
Net gain or loss on hedges	–	–	–	6	6
Net gain/loss on financial instruments measured at fair value	–	–	–	296	296
General and administrative expenses	–75	–134	–209	–77	–287
Other operating income	10	12	23	26	48
Other operating expenses	0	–2	–2	–17	–19
Net other operating income/expenses	10	11	21	9	29
Operating result	**205**	**547**	**752**	**235**	**987**

BREAKDOWN BY CUSTOMER CATEGORY FOR THE FIRST HALF OF 2021:

€ million	Retail	Fleet	Segments total	Reconciliation	Group
Interest income from lending transactions and marketable securities	–	–	–	7	7
Income from leasing transactions	1,737	3,427	5,164	–11	5,154
Depreciation, impairment losses and other expenses from leasing transactions	–1,501	–3,142	–4,643	–1	–4,644
Net income from leasing transactions	236	285	521	–12	509
Interest expense	–64	–57	–121	–	–121
Income from service contracts	244	518	762	3	766
Expenses from service contracts	–218	–463	–681	–3	–684
Net income from service contracts	27	55	81	0	81
Provision for credit risks	–4	–3	–7	–3	–10
Fee and commission income	7	0	7	–	7
Fee and commission expenses	–	–5	–5	0	–5
Net fee and commission income	7	–4	3	0	3
Net gain or loss on hedges	–	–	–	–9	–9
Net gain/loss on financial instruments measured at fair value	–	–	–	10	10
General and administrative expenses	–82	–103	–185	–114	–299
Other operating income	2	24	26	30	56
Other operating expenses	0	–2	–2	–33	–35
Net other operating income/expenses	2	22	24	–4	21
Operating result	**122**	**196**	**317**	**–123**	**194**

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:

	JAN. 1 – JUNE 30, 2022	
€ million	Retail	Fleet
Noncurrent Assets	10,036	12,705
Additions to lease assets classified as noncurrent assets	1,677	3,022

	JAN. 1 – JUNE 30, 2021	
€ million	Retail	Fleet
Noncurrent Assets	8,586	11,333
Additions to lease assets classified as noncurrent assets	2,165	3,788

Investments recognized under other assets were of minor significance.

Other Disclosures

32. Cash Flow Statement

Volkswagen Leasing GmbH Group's cash flow statement documents changes in cash and cash equivalents attributable to cash flows from operating, investing and financing activities. In line with the definition of cash and cash equivalents as a cash reserve consisting of cash-in-hand and central bank balances, cash and cash equivalents in the Volkswagen Leasing GmbH Group amount to zero.

33. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

There were no contingent liabilities as of the reporting date and no contingent liabilities as of December 31, 2021 and January 1, 2021.

OTHER FINANCIAL OBLIGATIONS

€ million	DUE by June 30, 2023	DUE July 1 2023 – June 30,2027	DUE From July 1, 2027	TOTAL June 30, 2022
Obligations from				
Long-term leasing and rental contracts	–	–	–	–
Miscellaneous financial obligations	19	–	–	19

€ million	DUE 2022	DUE 2023- 2026	DUE From 2027	TOTAL Dec. 31, 2021
Obligations from				
Long-term leasing and rental contracts	3	–	–	3
Miscellaneous financial obligations	53	–	–	53

€ million	DUE 2021	DUE 2022- 2025	DUE From 2026	TOTAL Jan. 1, 2021
Obligations from				
Long-term leasing and rental contracts	0	–	–	0
Miscellaneous financial obligations	39	–	–	39

34. Related Party Disclosures

Related parties as defined by IAS 24 are natural persons and entities that Volkswagen Leasing GmbH has control over or over which it has significant influence, or natural persons and entities that have control over or can exercise significant influence over Volkswagen Leasing GmbH, or who are under the influence of another related party of Volkswagen Leasing GmbH.

Volkswagen Financial Services AG, Braunschweig, is the sole shareholder of Volkswagen Leasing GmbH. The sole shareholder of VW FS AG is Volkswagen AG, Wolfsburg. 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 4, 2022, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft Niedersachsen mbH, Hanover, held 20.00% of the voting rights in Volkswagen AG on December 31, 2021 and therefore indirectly had significant influence over the Volkswagen Leasing GmbH Group. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment). The sole shareholder, VW FS AG, and Volkswagen Leasing GmbH have entered into a control and profit-and-loss transfer agreement.

Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities provide the Volkswagen Leasing GmbH 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 Volkswagen Leasing GmbH on an arm's-length basis. These transactions are presented in the "Goods and services received" line.

The "Goods and services provided" line primarily contains income from the sale of used ex-lease vehicles with VW Group companies.

The two tables below show the transactions with related parties.

	INTEREST INCOME H1		INTEREST EXPENSES H1		GOODS AND SERVICES PROVIDED H1		GOODS AND SERVICES RECIEVED H1	
€ million	2022	2021	2022	2021	2022	2021	2022	2021
Audit Committee	–	–	–	–	–	–	–	–
Management Board	–	–	–	–	–	–	–	–
Volkswagen Financial Services AG	4	4	–33	–73	5	4	75	79
Volkswagen AG	–	–	–11	–3	397	422	4,386	4,766
Porsche SE	–	–	–	–	–	–	–	–
Other related parties in the consolidated entitites	5	4	–10	–10	2,818	1,326	1,480	1,386

€ million	LOANS TO AND RECEIVABLES FROM		VALUATION ALLOWANCES ON IMPAIRED LOANS AND RECEIVABLES		OF WHICH ADDITIONS IN CURRENT YEAR		LIABILITIES TO	
	June 30, 2022	Dec. 31, 2021	June 30, 2022	Dec. 31, 2021	June 30, 2022	Dec. 31, 2021	June 30, 2022	Dec. 31, 2021
Audit Committee	–	–	–	–	–	–	–	–
Management Board	–	–	–	–	–	–	–	–
Volkswagen Financial Services AG	1,508	2,143	–	–	–	–	7,296	8,077
Volkswagen AG	2,732	2,665	–	–	–	–	1,427	338
Porsche SE	0	1	–	–	–	–	–	0
Other related parties in the consolidated entitites	3,097	3,299	–	–	–	–	6,839	5,345

The “Other related parties in the group of consolidated entities” column includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG’s group of consolidated entities but do not directly belong to Volkswagen Leasing GmbH. The relationships with the Audit Committee and the Management Board comprise relationships with the relevant groups of people.

Volkswagen Leasing GmbH did not receive any capital contributions from VW FS AG in the fiscal year under review or in the previous year.

Some Members of the Management Board and Audit Committee of Volkswagen Leasing GmbH are also members of management and supervisory boards of other entities in the Volkswagen Group with which Volkswagen Leasing GmbH sometimes conducts transactions in the normal course of business. All transactions with these related parties are on an arm’s-length basis.

35. Governing Bodies of Volkswagen Leasing GmbH

Management Board

JENS LEGENBAUER (UNTIL JUNE 30, 2022)
Chair of the Management Board
Corporate Management of Volkswagen Leasing GmbH
Front Office, Volkswagen Leasing GmbH

ARMIN VILLINGER (AS OF JULY 1, 2022)
Chair of the Management Board
Corporate Management of Volkswagen Leasing GmbH
Front Office, Volkswagen Leasing GmbH

FRANK CZARNETZKI
Front Office, MAN FS

HENDRIK EGGERS
Back Office, Volkswagen Leasing GmbH

MANUELA VOIGT (AS OF AUGUST 1, 2022)
Operations Volkswagen Leasing GmbH

36. Events After the Balance Sheet Date

There were no significant events after June 30, 2022.

Braunschweig, September 28, 2022

Volkswagen Leasing GmbH
The Management Board

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the condensed interim consolidated financial statements in accordance with generally accepted accounting principles give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim 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 over the rest of the fiscal year.

Braunschweig, September 28, 2022

Volkswagen Leasing GmbH
The Management Board

Armin Villinger

Frank Czarnetzki

Hendrik Eggers

Manuela Voigt

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