VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

ANNUAL REPORT

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Fundamental Information about the Group

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

BUSINESS MODEL

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

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

ORGANIZATION OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

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

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

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

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

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

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

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

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

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

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

MOBILITY2030 STRATEGY

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

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

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

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

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

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

INTERNAL MANAGEMENT

The Company's key performance indicators are determined on the basis of IFRSs and are presented as part of the internal reporting system. The most important nonfinancial performance indicators are penetration, number of current contracts and new contracts concluded. The financial key performance indicators are the volume of business, operating result, return on equity and the cost/income ratio.

KEY PERFORMANCE INDICATORS

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

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

OTHER NONFINANCIAL PERFORMANCE INDICATORS

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

Customer satisfaction

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

External employer ranking

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

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

SIGNIFICANT CHANGES IN EQUITY INVESTMENTS

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

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

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE DECLARATION

Increase in the proportion of women

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

PROPORTION OF WOMEN – TARGET AND ACTUAL VALUES FOR GERMANY

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

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

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

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

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

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

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

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

Report on Economic Position

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

The Russia-Ukraine conflict led to increased uncertainty in respect of developments in the global economy and prompted large sections of the community of Western states to impose sanctions on Russia, ranging from extensive trade embargoes to the partial exclusion of Russia from the global financial system. Russia itself, in its role as an energy exporter, restricted gas deliveries to Europe. The resulting shortage of supply led particularly in 2022 to rising prices on energy and commodity markets. While prices dropped in the reporting year as a result of weakening momentum in the global economy, they remain at a relatively high level in some cases. Furthermore, salary trends in the overheated labor markets, among other factors, pose the threat of continued high inflation.

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

Ukraine conflict was a decisive factor. Prices for energy and many other raw materials were lower than in the previous year, and shortages of intermediate products and commodities eased somewhat. Global trade in goods expressed in nominal terms decreased in the reporting year.

Europe/Other Markets

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

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

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

Germany

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

North America

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

South America

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

Asia-Pacific

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

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

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

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

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

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

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

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

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

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

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

Sector-specific environment

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

Europe/Other Markets

In Western Europe, the number of new passenger car registrations in the reporting year was significantly higher than the previous year’s weak level, increasing by 13.8% to 11.6 million vehicles. The performance of the large individual passenger car markets was consistently positive in fiscal year 2023: France (+16.1%), the United Kingdom (+17.9%), Italy (+18.8%) and Spain (+15.8%) significantly exceeded their respective prior-year levels.
The volume of new registrations for light commercial vehicles in Western Europe was significantly higher than in the previous year, increasing by 16.3%.

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

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

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

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

Germany

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

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

North America

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

South America

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

Asia-Pacific

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

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

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

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

GLOBAL DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP

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

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

FINANCIAL PERFORMANCE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 Prior year figures restated.

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

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

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

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

NET ASSETS AND FINANCIAL POSITION

Lending business

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

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

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

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

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

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

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

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

Deposit business and borrowings

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

Subordinated capital

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

Equity

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

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

Changes in off-balance-sheet liabilities

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

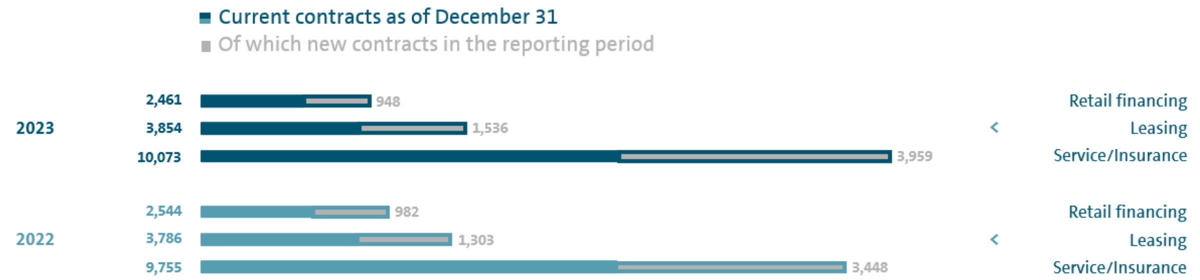
KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2023

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

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

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

NEW AND EXISTING CONTRACTS AS OF DECEMBER 31
As of December 31, 2023



Liquidity analysis

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

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

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

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

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

FUNDING

Strategic principles

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

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

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

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

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

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

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

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

Implementation

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

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

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

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

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

The following tables show the transaction details:

CAPITAL MARKET TRANSACTIONS IN THE 2023 REPORTING PERIOD

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

ABS TRANSACTIONS IN THE 2023 REPORTING PERIOD

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

Ratings

Volkswagen Financial Services AG is a wholly owned subsidiary of Volkswagen AG and, as such, its credit ratings with both Moody's Investors Service (Moody's) and Standard & Poor's Global Ratings (S&P) are closely associated with those of the Volkswagen Group. The S&P rating agency affirmed its A-2 (short term) and BBB+ (long term) ratings for Volkswagen AG and Volkswagen Financial Services AG in November 2023. The outlook for Volkswagen AG and Volkswagen Financial Services AG remains "stable". Moody's affirmed its P-2 (short term) and A3 (long term) ratings for Volkswagen AG in July 2023 and for Volkswagen Financial Services AG in October 2023. The outlook remains "stable". This confirmation of the ratings and outlooks reflects the overall stability of the Volkswagen Group during the current transition phase to electromobility.

Volkswagen Financial Services AG

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2023

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

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

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

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

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

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

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

The increase in provisions of €6 million (0.6%) reflects slightly higher provisions for pensions.
Bonds declined year-on-year by €2,450 million, or 22.0%, to €8,700 million.

Liabilities to banks in connection with borrower's note loans increased by €572 million, or 34.3%, to €2,242 million. Liabilities to affiliated companies increased by €777 million (7.3%).
The equity ratio was 22.7 (11.5)%. The year-on-year increase resulted primarily from the injection of capital in the amount of €3.8 billion by Volkswagen AG in the reporting year. Total assets at the end of the reporting period amounted to €31,421 million.

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

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

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

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

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

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

Report on Opportunities and Risks

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

OPPORTUNITIES AND RISKS

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

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

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

Macroeconomic opportunities and risks

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

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

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

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

Strategic opportunities and risks

In addition to maintaining its international focus by tapping into new markets, Volkswagen Financial Services AG believes that developing innovative products that are tailored to customers’ changing mobility requirements offers additional opportunities. Growth areas such as mobility products and

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

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

Opportunities from credit risk

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

Opportunities from residual value risk

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

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

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

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

provides a true and fair view. The clear definition of areas of responsibility accompanied by various monitoring and review mechanisms ensures that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.

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

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

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

ORGANIZATIONAL STRUCTURE OF THE RISK MANAGEMENT SYSTEM

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

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

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

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

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

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

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

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

BUSINESS STRATEGY AND RISK MANAGEMENT

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

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

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

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

RISK-BEARING CAPACITY

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

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

PRODUCT TRANSPARENCY AND NEW MARKETS PROCESS

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

RISK CONCENTRATIONS

Volkswagen Financial Services AG is a captive financial services provider in the automotive sector. The business model, which focuses on promoting vehicle sales for the various Volkswagen Group brands, results in concentrations of risk, which can take a variety of forms.

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

> Just a few borrowers/contracts account for a large proportion of the loans (counterparty concentrations)
> A small number of sectors account for a large proportion of the loans (sector concentrations)
> Many of the loans are to businesses within a defined geographical area (regional concentrations)
> Loans/receivables are secured by just one type of collateral or by a limited range of collateral types (collateral concentrations)
> Residual values subject to risk are limited to a small number of vehicle segments or models (residual value concentrations), or
> Volkswagen Financial Services AG’s income is generated from just a few sources (income concentrations).

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

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

In contrast, sector concentrations in the dealership business are a natural part of the business for a captive and these concentrations are therefore individually analyzed.

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

SUBSTANTIAL RISK CATEGORIES AND RISK REPORTING

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

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

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

OVERVIEW OF SUBSTANTIAL RISK CATEGORIES

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

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

FINANCIAL RISKS

Credit risk

Credit risk describes the risk of losses due to defaults in customer transactions, specifically by the borrower or lessee. Loans to and receivables from Volkswagen Group companies are also included in the analysis. Default occurs when the borrower or lessee is unable or unwilling to make the payments due. This includes late or partial payment of interest and principal on the part of the contracting party.

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

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

Lending or credit decisions at Volkswagen Financial Services AG are made primarily on the basis of the borrower credit check. In the local entities, these credit checks use rating or scoring systems, which provide the relevant departments with an objective basis for reaching a decision on a loan or a lease.

A set of guidelines outlines the requirements for developing and maintaining the rating models. Another set of guidelines specifies the parameters for developing, using and validating the scoring systems in the retail business.

Rating systems for corporate customers

Volkswagen Financial Services AG uses rating systems to assess the creditworthiness of corporate customers. This evaluation takes into account both quantitative factors (mainly data from annual financial statements) and qualitative factors (such as the prospects for future business growth, quality of management, market and industry environment, and the customer's payment record). When the credit assessment has been completed, the customer is assigned to a rating class, which is linked to a probability of default. A centrally maintained, workflow-based rating application is used for the most part to support this analysis of creditworthiness. The rating determined for the customer serves as an important basis for decisions on whether to grant or renew a loan and for decisions on provisions. The models in use are largely centrally validated and monitored on a regular basis, and are adjusted if required.

Scoring systems in the retail business

Scoring systems are used in the processes for credit approval and for evaluating the existing portfolio to determine the creditworthiness of the retail customers. These scoring systems provide an objective basis for credit decisions. The systems use information about the borrower available internally and externally and estimate the probability of default for the requested loan, generally with the help of statistical methods based on historical data covering a number of years. An alternative approach adopted for smaller or low-risk portfolios also uses generic, robust scorecards and expert systems to assess the risk involved in credit applications. To classify the risk in the credit portfolio, both behavioral scorecards and simplified estimation procedures are used, depending on portfolio size and the risk inherent in the portfolio. The models and systems in use are regularly monitored, validated, adjusted (where required) and refined at local level.

Collateral

The general rule is that credit transactions are secured by collateral to an extent that is commensurate with the risk. In addition, overarching rules specify the requirements that must be satisfied by collateral, the evaluation procedures and the evaluation bases. Local collateral guidelines with specific values take these rules into account. The values in the collateral policies are based on historical data and experience accumulated by experts over many years. As the operating activities of Volkswagen Financial Services AG are focused on retail financing, dealer financing and the leasing of vehicles, the vehicles themselves are hugely important as collateral assets. For this reason, trends in the market values of vehicles are locally monitored and analyzed; the collateral values based on this data are adjusted, where required.

Provisions

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

Risk Management sets fundamental parameters in the form of golden rules and guidelines for the management of credit risk. These constraints form the mandatory outer framework of the central risk management system, within which the divisions/markets can operate in terms of their business policy activities, planning, decisions, etc. in compliance with their assigned authority. Appropriate processes are used to monitor all lending in relation to financial circumstances, collateral and compliance with limits, contractual obligations and internal and external conditions. As such, commitments are managed according to the degree of risk involved (standard, intensified and problem loan management). Credit risk is also managed using reporting limits determined by Volkswagen Financial Services AG and specified separately for each individual company. Regular reporting and the yearly planning process are used to monitor credit risk at portfolio level.

CHANGES IN CREDIT RISK

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

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

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

Residual value risk

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

Referring to the bearer of residual value risk, a distinction is made between direct and indirect residual value risks. Direct residual value risk refers to residual value risk borne directly by Volkswagen Financial Services AG (contractually determined). An indirect residual value risk arises if the residual value risk has been transferred to a third party (such as a dealer) on the basis of a residual value guarantee. In such cases, the initial risk is a counterparty default risk in respect of the residual value guarantor. If the residual value guarantor defaults, the residual value risk reverts to Volkswagen Financial Services AG.

If a residual value risk materializes, it may be necessary to recognize an impairment loss or a loss on disposal of the asset concerned. This could have a negative impact on financial performance. As stated in the accounting policies for leases described in the notes to the consolidated financial statements, the impairment losses generally lead to a subsequent adjustment of future depreciation rates.

Direct residual value risk is quantified using expected loss, which equates to the difference between the latest forecast as per the remeasurement date of the remarketing proceeds on expiry of the contract and the contractual residual value specified for each vehicle. Other parameters such as remarketing costs are also taken into account in the calculation. The expected loss for the portfolio is determined by aggregating the individual expected losses for all vehicles. The expected losses arising from contracts subject to risk relate to the losses expected at the end of the term of the contracts concerned. These losses are recognized in profit or loss in the consolidated financial statements for the current period or in prior periods. The ratio of the expected losses from contracts subject to risk to the contractually fixed residual values in the overall portfolio is expressed as risk exposure. The results from the quantification of the expected loss and risk exposure are considered in the assessment of the risk situation.

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

CHANGES IN DIRECT RESIDUAL VALUE RISK

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

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

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

Shareholder risk

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

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

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

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

Liquidity risk

Liquidity risk is the risk of a negative variance between actual and expected cash inflows and outflows. Liquidity risk is defined as the risk of not being able to meet payment obligations in full or when due, or – in the event of a liquidity crisis – the risk of only being able to raise funding at higher market rates or only being able to sell assets at a discount to market prices. If liquidity risk were to materialize, higher costs and lower selling prices for assets could lead to a negative impact on financial performance. The consequence of liquidity risk in the worst-case scenario is insolvency caused by illiquidity. Liquidity risk management ensures that this situation does not arise. The analysis and management of liquidity risk at the entities belonging to Volkswagen Financial Services AG are outsourced to the Treasury division of Volkswagen Bank GmbH.

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

Interest rate risk

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

Risks of insurance companies

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

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

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

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

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

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

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

NONFINANCIAL RISKS

Operational risk

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

The objective of operational risk management is to present operational risks transparently and initiate precautionary and corrective measures with a view to preventing or, when this is not possible, mitigating the risks or losses. If an operational risk materializes, this represents an operational loss with the resulting loss of a business asset, which has a negative impact on net assets, financial position or financial performance, depending on the amount of the loss. Processes and responsibilities are set out in the operational risk manual.

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

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

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

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

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

Strategic risk

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

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

Reputational risk

Reputational risk refers to the risk that an event or several successive events could cause reputational damage (in the eyes of the general public), which in turn could limit current and future business opportunities or activities (potential earnings), thereby leading to an indirect adverse financial impact (customer base, sales, funding costs) and direct financial losses such as penalties or litigation costs. The responsibilities of the Corporate Communications division include avoiding negative reports in the press or similar announcements that could inflict damage on the reputation of the Company. If this is unsuccessful, the division is then responsible for assessing the situation and initiating appropriate communications aimed at specific target groups to limit the reputational damage as far as possible. The strategic objective is therefore to prevent or reduce any negative variance between actual reputation and the level of reputation the Company expects. A loss of reputation or damage to the Company's image could have a direct impact on financial performance.

SELECTED OTHER RISKS AND RISK PROCESSES

Compliance and integrity risks

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

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

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

Volkswagen Financial Services AG addresses the three categories of risk by means of a local compliance and integrity function whose task is to specify and implement risk-mitigating measures in the role of a governance function. To counter compliance and conduct risks, the compliance function is committed to ensuring compliance with laws, other legal requirements, internal rules and the organization’s own stated values and to creating and fostering an appropriate compliance culture. It is also the responsibility of the integrity function, on the basis of an integrity management system, to raise awareness of the ethical principles, the code of conduct and the need for compliance, and to help employees choose the right course of action, responsibly and steadfastly, driven by their own personal conviction. Compliance risk and integrity risk are accordingly treated not as separate risk categories, but rather as an inherent risk process of relevance to all risk categories.

The role of the Chief Compliance & Integrity Officer within the Compliance and Integrity function is to work toward implementing effective procedures to ensure compliance with legal rules and requirements, and toward establishing appropriate controls. This is carried out mainly by stipulating binding requirements at Group level. In turn, these then provide a framework for specifying detailed requirements for which local compliance & integrity officers are responsible. Local companies are independently responsible for implementing the centrally defined requirements. Responsibility for complying with any further rules and ethical principles lies with the company concerned. Any deviation from the minimum requirements or guidelines is only possible if accompanied by a description of the reasons (such as local statutory requirements) and only in consultation with, and with the consent of, the Chief Compliance & Integrity Officer.

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

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

Environmental, social and governance (ESG) risks

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

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

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

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

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

SUMMARY

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

Report on Expected Developments

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

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

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

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

Europe/Other Markets

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

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

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

Germany

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

North America

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

South America

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

Asia-Pacific

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We assume that automotive financial services will prove highly important to global vehicle sales in 2024. The continuing shortages of intermediates and commodities may generate uncertainty, exacerbated by the consequences of the Russia-Ukraine conflict and the confrontations in the Middle East. Furthermore, the increased interest rates could put pressure on the demand for financial services. We expect demand to rise in emerging markets where market penetration has so far been low. Regions with established automotive financial services markets will probably see a continuation of the trend towards achieving mobility at the lowest possible total cost. The shift from financing to lease contracts that has begun in the European financial services business with individual customers will continue. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, are likely to become increasingly important. Additionally, we expect that demand will increase for new forms of mobility, such as rental and car subscription services, and for integrated mobility services, for example parking, refueling and charging. We anticipate an increase in the importance of direct business between manufacturers and customers. The seamless integration of financial services into the online vehicle offering will become increasingly important in the promotion of this type of business. We estimate that this trend will also persist in the years 2025 to 2028.

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

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

The trend in the automotive industry closely follows global economic developments. We assume that competition in the international automotive markets will intensify further. Crisis-related disruption to the global supply chain and the resulting impact on vehicle availability may weigh on the volume of new registrations. Uncertainty may also arise from shortages of intermediates and commodities. These may be further exacerbated by the consequences of the Russia-Ukraine conflict and the confrontations in the Middle East and may, in particular, lead to rising prices for materials and a declining availability of energy.

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

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

Europe/Other Markets

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

For light commercial vehicles, we expect the volume of new registrations in Western Europe in 2024 to be noticeably up on the previous year's level. Limited vehicle availability as a result of the shortages of intermediates and commodities may continue to weigh on the volume of new registrations. We expect a noticeable to significant increase in France and the United Kingdom. In Italy, we anticipate that registrations will fall slightly, whereas we expect slight growth in Spain.

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

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

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

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

Germany

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

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

North America

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

South America

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

Asia-Pacific

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

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

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

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

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

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

INTEREST RATE TRENDS

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

Interest rate trends are generally factored into pricing.

MOBILITY CONCEPTS

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

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

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

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

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

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

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

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

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

NEW MARKETS/INTERNATIONALIZATION/NEW SEGMENTS

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

SUMMARY OF EXPECTED DEVELOPMENTS

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

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

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

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

Forecast for credit and residual value risk

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

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

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

Forecast for liquidity risk

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

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

OUTLOOK FOR 2024

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

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

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

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

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

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

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

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

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

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

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

Braunschweig, February 19, 2024

Volkswagen Financial Services AG
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Frank Fiedler

Dr. Alena Kretzberg

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

Balance Sheet

of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2023

€ million	Dec. 31, 2023	Dec. 31, 2022
Assets		
A. Fixed Assets		
I. Financial Assets	12,440,201	7,941,603
	12,440,201	7,941,603
B. Current Assets	–	–
I. Receivables and other assets	18,959,434	21,262,727
II. Cash-in-hand and bank balances	2,891	706
	18,962,325	21,263,433
C. Prepaid expenses	18,476	24,827
Total Assets	**31,421,002**	**29,229,863**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441,280	441,280
II. Capital reserves	6,589,340	2,816,213
III. Retained earnings	99,469	99,469
IV. Net retained profits	1,704	1,704
	7,131,793	3,358,666
B. Provisions	903,922	898,197
C. Liabilities	23,384,633	24,972,276
D. Net retained profits	654	724
Total equity and liabilities	**31,421,002**	**29,229,863**

Income Statement

of Volkswagen Financial Services AG, Braunschweig, for the period January 1 to December 31, 2023

€ thousand	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
Sales	766,233	758,925
Cost of sales	751,357	750,380
Gross profit on sales	**14,876**	**8,545**
General and administrative expenses	272,971	273,741
Other operating income	121,726	26,435
Other operating expenses	53,683	83,073
Net income from long-term equity investments	179,162	–473,421
of which income under profit and loss transfer agreements	409,530	502,695
of which expenses from absorption of losses	532,728	–1,082,873
Financial result	–303,315	–713,220
of which income from affiliated companies	502,091	165,770
of which expenses from affiliated companies	258,952	111,979
Taxes on income (charged by parent € 8,800 thousand; previous year: € 187,995 thousand)	9,011	188,114
Result after tax	**–323,216**	**–1,696,589**
Other taxes	–	–
Profits transferred under a profit and loss transfer agreement	–	–
Losses absorbed under a profit and loss transfer agreement	**323,216**	**1,696,589**
Net income	**–**	**–**
Profit brought forward	1,704	1,704
Net retained profits	**1,704**	**1,704**

Notes

to the Annual Financial Statements of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2023

1. General Information

The Company is classified as a large corporation as defined by section 267(3) sentences 1 and 2 of the *Handelsgesetzbuch* (HGB – German Commercial Code). The annual financial statements have therefore been prepared in accordance with the financial reporting framework specified for large corporations by the HGB.

The registered office of Volkswagen Financial Services AG is Braunschweig. The Company is registered in the commercial register at the Local Court of Braunschweig (commercial register number HRB 3790).

Volkswagen Financial Services AG provides personnel to the German Group companies under staff leasing arrangements in return for an agreed remuneration.

Any cross-functional departments are located within Volkswagen Financial Services AG. The associated administrative expenses are charged to Group companies via an internal cost allocation system. To a minor extent, Volkswagen Financial Services AG also provides IT services for Group companies. The costs of these services are also allocated according to usage.

The costs that are allocated in connection with staff leasing and the provision of IT services, together with the administrative expenses for the cross-functional departments, are recognized under cost of sales. The income derived from the allocation of staff leasing costs is reported under sales revenue.

Individual line items have been aggregated in the balance sheet and income statement to improve the clarity of presentation. These items are presented separately in the notes.

The income statement has been prepared using the cost of sales format – the standard method used in the Volkswagen Group – to facilitate better international comparability.

2. Accounting Policies

The accounting policies applied in the previous year have been retained.

Shares in affiliated companies and other equity investments are measured at the lower of cost and fair value. Fair value is primarily determined using the discounted cash flow method on the basis of existing corporate plans or, if they are not available, on the basis of observable market prices. Under the discounted cash flow method, fair value is determined on the basis of management’s current planning, which is based on expectations regarding future economic trends. The planning period generally covers five years. The discount rate used for the expected cash flows is the WACC (weighted average cost of capital).

Loans to affiliated companies and loans to other long-term investees and investors are measured at cost. Write-downs are recognized if the loans measured in accordance with these principles are identified as impaired on the reporting date, i.e. their fair values are found to be lower than their carrying amounts, and this impairment is expected to be permanent.

Receivables and other assets are reported at their nominal amounts. Cash-in-hand and bank balances are recognized at their nominal values.

Prepaid expenses contain payments incurred before the reporting date if they represent expenses relating to a specified period after that date.

The Company has various pension commitments, which differ in terms of their structure. Some of these pension commitments are not externally funded, while others are funded through Volkswagen Pension Trust e.V.

The commitments funded through Volkswagen Pension Trust e.V. and MAN Pension Trust e.V. are measured at the fair value of the securities in the fund in accordance with section 253(1) sentence 3 of the HGB because the amount of the pension scheme obligations is determined exclusively by this value. The fair value of the securities is offset against the funded provisions in accordance with section 246(2) of the HGB.

Any other pension obligations are also linked to securities funds. The securities measured at fair value are offset as plan assets against the corresponding provisions.

The pension provision that is not externally funded is recognized at present value. The Heubeck 2018 G mortality tables (latest version) are used as the basis for the calculations.

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

Pension obligations are discounted using the discount rate based on the past ten years determined in accordance with section 253(2) of the HGB.

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €4,553 thousand for the pension provision not funded externally, €10,539 thousand for the commitments funded through Volkswagen Pension Trust e.V. and €33 thousand for the commitments funded through MAN Pension Trust e.V. There is no restriction on distribution due to the profit and loss transfer agreement with Volkswagen AG.

The main measurement assumptions and actuarial parameters applied in the calculation of the pension provisions were as follows:

Discount rate:	1.82%
Expected rate of salary increases:	3.47%
Expected rate of pension increases:	2.20%
Employee turnover rate:	1.10%

The share-based payment recorded in provisions relates to performance shares granted on the basis of preferred shares of Volkswagen AG. The obligations from share-based payments are accounted for as a cash-settled plan. These types of remuneration plans are measured at fair value during the plan term. Fair value is determined using recognized valuation techniques. The remuneration expense is part of the personnel expenses recorded under general and administrative expenses and is allocated over the vesting period.

Adequate provisions in the amount required to settle the estimated obligation are recognized to cover contingent liabilities and existing risks. Other long-term provisions were discounted using a discount rate determined on the basis of the average market interest rates of the past seven years published by Deutsche Bundesbank.

Liabilities are recognized at the settlement amount.

Foreign currency assets and liabilities are translated at the middle spot rate on the reporting date in accordance with section 256a sentence 1 of the HGB and in compliance with the historical cost convention and the principle of imparity (under which unrealized losses are recognized but unrealized gains are not). For items with a residual maturity of one year or less, the net gains or losses from translation are recognized in full in the income statement in accordance with section 256a sentence 2 of the HGB. The hedge rate is used in the case of hedges.

Derivative financial instruments are used exclusively for hedging purposes. Derivative financial instruments (interest rate swaps) are measured in accordance with general HGB measurement requirements and hedge accounting is applied to the extent permissible.

The model rules on global minimum taxation (Pillar Two) published by the OECD have been enacted or substantively enacted in certain countries where Volkswagen Financial Services AG operates. In Germany, the legislation enters into force for the fiscal year of Volkswagen Financial Services AG beginning on January 1, 2024. Volkswagen Financial Services AG falls within the scope of the legislation that has been enacted or substantively enacted and has begun to assess the potential risk to which Volkswagen Financial Services AG is exposed in relation to the global minimum tax rate.

The assessment of the potential risk from the minimum tax rate is based on the latest available country-by-country reporting and annual financial statements for the business entities of Volkswagen Financial Services AG. Based on the assessment, the effective Pillar Two tax rates are higher than 15% in most of the countries in which Volkswagen Financial Services AG operates. There is, however, a small number of countries where the transitional safe harbor exemption does not apply and the effective Pillar Two tax rate is below 15%. Volkswagen Financial Services AG does not expect any material Pillar Two income tax risk in these countries.

The exemption introduced in section 274(3) of the HGB means that deferred taxes in connection with income taxes arising from tax rules that are applicable or have been announced to implement the Pillar Two model rules are neither recognized nor disclosed at Volkswagen Financial Services AG.

3. Balance Sheet Disclosures

The breakdown of the fixed assets aggregated in the balance sheet and the changes in these assets in the reporting period are shown in the statement of changes in fixed assets. The list of the Company's shareholdings is enclosed as an appendix.

None of the loans to affiliated companies and other long-term equity investments amounting to €2,719,918 thousand are subordinated loans.

The other loans amounting to €211,948 thousand are subordinated.

On the basis of an existing profit and loss transfer agreement, deferred taxes are recognized by Volkswagen AG, Wolfsburg, the controlling entity in the tax group.

The breakdown of receivables and other assets is as follows:

€ thousand	Dec. 31, 2023	Dec. 31, 2022
Receivables from affiliated companies	**11,345,319**	**14,945,015**
of which from the shareholder	336,611	1,763,660
of which due in more than 1 year	4,317,404	3,275,508
Receivables from other long-term investees and investors	**7,371,422**	**6,233,005**
of which due in more than 1 year	2,438,957	2,237,274
Other assets	**242,693**	**84,707**
of which due in more than 1 year	–	–
Total	**18,959,434**	**21,262,727**

The receivables from affiliated companies include loan receivables and interest of €7,129,007 thousand, receivables from fixed-term deposits and interest of €2,849,933 thousand, receivables under existing profit and loss transfer agreements of €601,247 thousand, receivables from tax allocations of €145,605 thousand, receivables from cash deposits of €50,000 thousand, and receivables from current account deposits of €508,402 thousand.

The receivables from other long-term investees and investors include loans and interest receivables of €4,852,402 thousand as well as fixed-term and overnight deposits and interest receivables amounting to €2,518,540 thousand.

Other assets largely relate to receivables from interest rate and cross currency swap contracts in an amount of €147,718 thousand.

Prepaid expenses include prepayments of guarantee insurance and currency forward swap premiums of €4,146 thousand relating to the subsequent year. Prepaid expenses also include a difference of €14,330 thousand determined in accordance with section 250(3) of the HGB.

In the year under review, contributions to capital reserves (section 272(2) no. 4 of the HGB) by the parent company amounted to €3,773,167 thousand and withdrawals from capital reserves resulting from carve-outs amounted to €40 thousand. Capital reserves now stand at €6,589,340 thousand.

The revenue reserves remain unchanged, consisting of legal reserves of €44,128 thousand and other revenue reserves of €55,341 thousand. Net retained profits include profit brought forward of €1,704 thousand (previous year: €1,704 thousand).

The provisions comprise the following items:

€ thousand	Dec. 31, 2023	Dec. 31, 2022
Provisions for pensions and similar obligations	538,263	529,503
including the offsetting of the unit-linked pension obligation:	–	–
Provisions for pensions, funded	500,231	428,869
Fund assets as plan assets (cost €304,116 thousand)	–293,682	–228,556
Other provisions	365,659	368,694
including the offsetting of the employee time asset bond:	–	–
Provision for time asset bond	150,749	124,851
Fund assets as plan assets (cost € 169,003 thousand)	–150,749	–124,851
Total	**903,922**	**898,197**

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €4,553 thousand for the pension provision not funded externally, €10,539 thousand for the commitments funded through Volkswagen Pension Trust e.V. and €33 thousand for the commitments funded through MAN Pension Trust e.V. There is no restriction on distribution due to the profit and loss transfer agreement with Volkswagen AG.

The main items recognized within other provisions are provisions for personnel expenses amounting to €272,951 thousand (previous year: €272,820 thousand) and provisions for outstanding invoices of €19,879 thousand (previous year: €23,621 thousand).

The breakdown of liabilities is as follows:

€ thousand	Dec. 31, 2023	Dec. 31, 2022
Bonds	**8,700,000**	**11,150,000**
of which due within 1 year	1,300,000	2,750,000
of which due in more than 1 year	6,650,000	8,400,000
of which due in more than 5 years	750,000	2,550,000
Liabilities to banks	**2,241,845**	**1,669,890**
of which due within 1 year	895,845	429,890
of which due in more than 1 year	1,346,000	1,240,000
of which due in more than 5 years	–	–
Trade payables (due within 1 year)	**3,844**	**8,009**
Liabilities to affiliated companies	**11,398,312**	**10,621,244**
of which to the shareholder	3,266,547	4,889,082
of which due within 1 year	3,500,798	4,095,135
of which due in more than 1 year	7,897,514	6,526,109
of which due in more than 5 years	4,963,575	3,290,715
Liabilities to other long-term investees and investors (due within 1 year)	**6,523**	**544**
Other liabilities	**1,034,109**	**1,522,589**
of which taxes	8,059	7,990
of which relating to social security and similar obligations	2,732	2,926
of which due within 1 year	1,034,109	1,447,589
of which due in more than 1 year	–	75,000
of which due in more than 5 years	–	–
Total	**23,384,633**	**24,972,276**

The bonds comprise listed bonds issued under Volkswagen Financial Services AG’s debt issuance program.

The liabilities to the shareholder relate mainly to loans of €2,745,000 thousand.

Other liabilities include commercial paper liabilities amounting to €746,724 thousand and promissory note loan liabilities amounting to €75,840 thousand.

Statement of changes in fixed assets of Volkswagen Financial Services AG, Braunschweig, for 2023

€ thousand	Shares in affiliated companies	Loans to affiliated companies	Other long-term equity investments	Loans to other long-term investees and investors	Other loans	Total Financial Assets	Total fixed assets
Gross carrying amount Balance brought forward as of Jan. 1, 2023	**5,466,781**	**2,037,904**	**329,128**	**590,743**	**183,293**	**8,607,849**	**8,607,849**
Additions	4,558,316	1,056,359	45,704	122,490	225,545	6,008,414	6,008,414
Disposals	49,963	1,049,962	10	37,616	196,890	1,334,441	1,334,441
Transfers	57,710	–	–57,710	–	–	–	–
Balance as of Dec. 31, 2023	**10,032,844**	**2,044,301**	**317,112**	**675,617**	**211,948**	**13,281,822**	**13,281,822**
Write-Downs Balance brought forward as of Jan. 1, 2023	**487,268**	**–**	**178,979**	**–**	**–**	**666,247**	**666,247**
Additions	171,001	–	22,073	–	–	193,074	193,074
Disposals	–	–	–	–	–	–	–
Transfers	51,509	–	–51,509	–	–	–	–
Write-ups	–	–	17,700	–	–	17,700	17,700
Balance as of Dec. 31, 2023	**709,778**	**–**	**131,843**	**–**	**–**	**841,621**	**841,621**
Net carrying amount as of Dec. 31, 2023	**9,323,066**	**2,044,301**	**185,269**	**675,617**	**211,948**	**12,440,201**	**12,440,201**
Net carrying amount as of Jan. 01, 2023	**4,979,513**	**2,037,904**	**150,149**	**590,743**	**183,293**	**7,941,603**	**7,941,603**

Additions to shares in affiliated companies relate primarily to capital increases at Volkswagen Leasing GmbH (€3,000 million) and at Volkswagen Finance Europe B.V., the Netherlands (€1,326 million). Write-downs and reversals of write-downs of the carrying amounts of investments in affiliated companies and other long-term equity investments were recognized in the reporting period. The income and expenses are included in the financial result.

4. Income Statement Disclosures

Volkswagen Financial Services AG reports sales of €766,233 thousand (previous year: €758,925 thousand) in accordance with section 277(1) of the HGB. Of this amount, €691,675 thousand (previous year: €701,185 thousand) was generated in Germany and €74,558 thousand (previous year: €57,740 thousand) abroad.

An amount of €751,357 thousand is reported under cost of sales (previous year: €750,380 thousand).

Cost of materials within the meaning of section 275(2) no. 5 of the HGB was incurred for purchased services in an amount of €305,930 thousand (previous year: €245,615 thousand).

The breakdown of personnel expenses is as follows:

€ thousand	2023	2022
Salaries	579,525	553,776
Social security, post-employment and other employee benefit costs	150,438	190,198
of which for post-employment benefits	69,152	107,568
Total	**729,963**	**743,974**

Other operating income includes income from the reversal of provisions of €57,497 thousand (previous year: €19,140 thousand) and reversals of asset impairment losses recognized in prior years amounting to €56,219 thousand (previous year: €0 thousand). In addition, currency translation accounts for other operating income of €309 thousand (previous year: €50 thousand) and other operating expenses of €2,297 thousand (previous year: €3,666 thousand).

Other operating expenses also include issue and rating costs of €1,428 thousand for bonds issued (previous year: €5,039 thousand).

The breakdown of net income from long-term equity investments is as follows:

€ thousand	2023	2022
Expenses from absorption of losses	532,728	1,082,873
Income under profit and loss transfer agreements (from affiliated companies)	409,530	502,695
Income from other long-term equity investments	302,360	106,757
of which from affiliated companies	280,452	106,125
of which from investments in joint ventures	21,908	632
Total	179,162	–473,421

The expenses from the transfer and absorption of losses stem largely from the transfer and absorption of the loss of €524 million (previous year: €1,077 million) made by Volkswagen Leasing GmbH. Income under profit-and-loss transfer agreements decreased to €410 million (previous year: €503 million) due to the fall in earnings at VTI GmbH of €127 million to €226 million (previous year: €353 million). Due to dividend distributions by Volkswagen Leasing S.A. de C.V., Mexico (€127 million) and Volkswagen Financial Services Australia Pty. Ltd. (€54 million), income from equity investments increased by €195 million to €302 million.

The following table shows the breakdown of the financial result:

€ thousand	2023	2022
Income from other securities and long-term loans	122,207	57,097
of which from affiliated companies	102,974	46,738
Other interest and similar income	617,080	178,296
of which from affiliated companies	399,117	119,032
of which interest income from discounting	1	–
Interest and similar expenses	867,228	394,048
of which to affiliated companies	258,952	111,979
of which from unwinding discount on provisions	1,031	62,255
Write-downs of financial assets (write-downs for permanent impairment at affiliated companies)	193,074	573,965
Write-ups of financial assets (from affiliated companies)	17,700	19,400
Total	**–303,315**	**–713,220**

Interest expenses for funded pension provisions amounting to €23,060 thousand (previous year: €4,974 thousand) were offset against income of the same amount arising from the associated plan assets. The interest expense from unwinding discount on the provision for time asset bonds in the amount of €11,372 thousand (previous year: €24,981 thousand) was offset against income of the same amount from the scheme fund assets.

Net income for the year includes prior-period income of €58,389 thousand (previous year: €22,838 thousand), which is largely attributable to the reversal of provisions. Prior-period income is recognized under other operating income.

5. Other Disclosures

Volkswagen Financial Services AG has entered into derivative contracts to mitigate interest rate risk and currency risk. These derivatives are used solely for hedging purposes. The fair values are determined using market information as of the reporting date and with the help of suitable IT-based valuation techniques.

The breakdown of nominal values and market values is as follows:

	NOMINAL VALUES		MARKET VALUES			
€ thousand	31.12.2023	31.12.2022	31.12.2023		31.12.2022	
			positive	negative	positive	negative
Interest rate swaps	9,393,135	9,550,000	80,331	555,481	606	849,032
Cross-currency/currency swaps	2,151,829	1,561,733	50,917	16,396	18,143	21,660
Currency forward contracts	1,726,357	1,185,132	3,338	6,704	2,262	9,437

The following table shows the amount of hedged items as of December 31, 2023 to which hedge accounting has been applied, together with the level of risk mitigated by this hedge accounting:

T. €		Assets	Liabilities	Total	Amount of hedged risks
Interest rate risks	Micro hedge	–	9,393,135	9,393,135	345,096
Currency risks	Micro hedge	3,878,186	–	3,878,186	20,975
Currency risks	Macro hedge	–	–	–	–
Total		**3,878,186**	**9,393,135**	**13,271,321**	**366,071**

The Company has been applying hedge accounting in accordance with the *Bilanzrechtsmodernisierungsgesetz* (BilMoG – German Accounting Law Modernization Act) since January 1, 2010. The net hedge presentation method is used for hedge accounting.

The interest rate risk arising from issuing loans to Group companies is mitigated by micro hedges based on receiver swaps, whereby the changes in the value of the hedged item are offset by the changes in the value of the swap. Currency risk that arises from issuing foreign currency loans to FS companies outside the eurozone is generally hedged with currency forwards, cross-currency swaps, or cross-currency interest rate swaps in micro and macro hedges. Hedge accounting is generally applied over the entire duration of the hedge. The Company therefore always satisfies the hedge accounting criterion, which requires an intention to maintain hedge accounting until the final maturity date. The prospective effectiveness test is performed using the critical term match method. Retrospective effectiveness tests are based on the cumulative dollar offset method.

As of December 31, 2023, a provision for expected losses of €19,504 thousand (previous year €15,554 thousand) had been recognized in connection with interest rate and currency risks.

The contingent liabilities under guarantees amount to €24,252,608 thousand and are largely attributable to guarantees to creditors of affiliated companies and investees in the amount of €24,086,047 thousand relating to short- and medium-term bonds (money and capital market) issued by these companies. The other contingent liabilities are attributable to a guarantee to a creditor of an affiliated company for future rental payments in the amount of €151,949 thousand and a letter of support and one comfort letter in favor of affiliated companies in the amount of €14,612 thousand. The probability of these guarantees being called upon is generally low because the companies involved form part of the Group. Provisions of €14,600 thousand were recognized for existing risks. Contingent liabilities under guarantees to affiliated companies amount to €7,197 thousand. The cash deposit of €50,000 thousand reported under receivables has been pledged as collateral for lines of credit of an affiliated company in Russia (€50,000 thousand). A credit risk provision of €22,500 thousand has been recognized to cover the associated risks.

Other financial obligations (purchase order obligations) as specified in section 285 no. 3a of the HGB amount to €21,821 thousand.

The share capital of €441,280 thousand is divided into 441,280,000 no-par-value shares. All the shares are held by Volkswagen AG, Wolfsburg.

A control and profit and loss transfer agreement has been in place between Volkswagen AG and Volkswagen Financial Services AG since January 1, 1995.

Volkswagen Financial Services AG also has control and profit and loss transfer agreements with Volkswagen Leasing GmbH, Volim Volkswagen Immobilien Vermietgesellschaft für VW/Audi-Händlerbetriebe mbH, Volkswagen Versicherung AG, Volkswagen-Versicherungsdienst GmbH, Volkswagen Insurance Brokers GmbH, Vehicle Trading International (VTI) GmbH and LogPay Financial Services GmbH.

The annual financial statements of Volkswagen Financial Services AG are published in the German Federal Gazette.

The fee paid to the auditor is disclosed in the notes to the consolidated financial statements of Volkswagen AG, Wolfsburg, and in the consolidated financial statements of Volkswagen Financial Services AG.

The fee paid to the auditor for audit services in 2023 was mostly attributable to the audit of the consolidated financial statements of Volkswagen Financial Services AG and of annual financial statements of German Group companies as well as to reviews of interim financial statements of German Group companies. The auditor performed other services only to a very minor extent in the reporting period.

The annual financial statements of the Company are included in the consolidated financial statements of Volkswagen Financial Services AG, Braunschweig, which are prepared in accordance with the International Financial Reporting Standards and published in the German Federal Gazette.

The annual financial statements of Volkswagen Financial Services AG are also included in the consolidated financial statements of Volkswagen AG, Wolfsburg, which are published in the German Federal Gazette.

Volkswagen Financial Services AG had 5,365 employees, including 20 senior executives (previous year: 5,299, including 21 senior executives) and 124 vocational trainees (previous year: 126) on average in the reporting period. The 5,365 employees comprised 3,840 full-time and 1,525 part-time employees.

The Board of Management of Volkswagen Financial Services AG received remuneration of €7,045 thousand in 2023. 15,900 performance shares were granted in the reporting period. The fair value at the grant date was €1,834 thousand. Advances granted to members of the Board of Management under the performance share plan amounted to €0 thousand as of December 31, 2023 (previous year: €68 thousand). In the year under review, a total of €84 thousand (previous year: €0 thousand) of the advances granted to members of the Board of Management was deducted from the payment under the performance share plan. The total payments made to former members of the Board of Management and their surviving dependants amounted to €1.0 million. The provisions recognized for this group of individuals to cover current pensions and pension entitlements amounted to €28.2 million.

The remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of an annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (share-based payment).

Since the end of 2018, the beneficiaries of the performance share plan have included other top management members in addition to the members of the Board of Management. At the end of 2019, the group of beneficiaries was extended to include all other members of management as well as selected beneficiaries below management level. Top management members were granted performance shares for the first time at the beginning of 2019. All other beneficiaries were granted benefits on the basis of performance shares for the first time at the beginning of 2020. The principles of the performance share plan for top management and other beneficiaries are essentially the same as those of the performance share plan that applies to members of the Board of Management. The performance period for beneficiaries below the Board of Management is also three years. When the performance share plan was launched, the members of top management were guaranteed a minimum bonus for the first three years on the basis of their remuneration in 2018, while all other beneficiaries were given a guarantee for the first three years on the basis of their remuneration in 2019.

Each performance period of the performance share plan has a term of three years. For members of the Board of Management and top management, the annual target amount under the LTI is converted at the time of granting into performance shares on the basis of the initial reference price of Volkswagen preferred shares. This annual target amount is allocated to the respective beneficiaries as a pure calculation position. Based on the degree of target achievement for the annual earnings per Volkswagen preferred share, the number of performance shares is definitively determined on the basis of a three-year, forward-looking performance period. After the end of the performance period, a cash settlement is made. The payment amount corresponds to the number of performance shares stipulated, multiplied by the closing reference price at the end of the period plus a dividend equivalent. For all other beneficiaries, the payment amount is determined by multiplying the target amount by the degree of target achievement for the annual earnings per Volkswagen preferred share and the ratio of the closing reference price at the end of the period, plus a dividend equivalent, to the initial reference price. Target achievement is determined on the basis of a three-year performance period with a forward-looking horizon of one year. For all beneficiaries, the payment amount under the performance share plan is limited to 200% of the target amount; the payment amount is reduced by 20% if the average ratio of capex to sales revenue or the R&D ratio in the Automotive Division is smaller than 5% during the performance period.

The Company paid the members of the Supervisory Board a total allowance of €47 thousand.

6. Report on Post-Balance Sheet Date Events

The entities OOO Volkswagen Financial Services RUS, Moscow, and OOO Volkswagen Group Finanz, Moscow~~,~~ were sold on January 18, 2024.

There were no other significant events in the period between December 31, 2023 and February 19, 2024.

7. Governing bodies of Volkswagen Financial Services AG

The members of the Board of Management are as follows:

DR. CHRISTIAN DAHLHEIM
Chair of the Board of Management
Corporate Management of Volkswagen Financial Services AG
China region, South America region
International region, Mexico region (as of December 1, 2023)

ANTHONY BANDMANN
Sales and Marketing
Europe region (incl. German)
International region, Mexico region (until November 30, 2023)

DR. ALEXANDRA BAUM-CEISIG
Human Resources and Organization

DR. MARIO DABERKOW (UNTIL MARCH 15, 2023)
Information Technology and Processes, Operations

DR. ALENA KRETZBERG (AS OF MARCH 16, 2023)
Information Technology and Processes, Operations

FRANK FIEDLER
Finance, Purchase and Risk Management

The members of the Supervisory Board of VW FS AG are as follows as of the reporting date, December 31, 2023:

DR. ARNO ANTLITZ
Chairman
Member of the Board of Management of Volkswagen AG Finance

DANIELA CAVALLO
Deputy Chairwoman
Chairwoman of the General and Group Works Council of Volkswagen AG

DR. HANS PETER SCHÜTZINGER
Deputy Chairman
Chief Executive Officer of Porsche Holding GmbH, Salzburg

GARNET ALPS
Principal Representative of IG Metall Braunschweig

SARAH AMELING-ZAFFIRO (SINCE AUGUST 01,2023)
Deputy Chairwoman of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

DIRK HILGENBERG
Head of Group Digital Car & Services of Volkswagen AG

ANDREAS KRAUß
Chairman of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

SIMONE MAHLER (UNTIL JUNE 30, 2023)
Chairwoman of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

PATRIK ANDREAS MAYER (SINCE FEBRUARY 15, 2023)
Member of the Volkswagen Brand Board of Management, Finance

PETRA REINHEIMER (UNTIL JUNE 30, 2023)
Deputy Chairwoman of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

LIESBETH RIGTER
Strategic Business and Leadership Consultant at One Soul Community Cooperative U.A.

HOLGER SIEDENTOPF
Head of Data & Analytics, Group Data Officer of Volkswagen Financial Services AG

MIRCO THIEL (SINCE AUGUST 01, 2023)
Executive Director of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

HILDEGARD WORTMANN
Member of the Board of Management of AUDI AG Sales and Marketing

The composition of the committees of the Supervisory Board of Volkswagen Financial Services AG was as follows as of the reporting date, December 31, 2023:

MEMBERS OF THE AUDIT COMITTEE
Dr. Hans Peter Schützinger (Chairman)
Andreas Krauß
Patrik Andreas Mayer (since 08. August 2023)
Petra Reinheimer (until 30. June 2023)

MEMBERS OF THE CREDIT COMITTEE
Dr. Arno Antlitz (Chairman)
Liesbeth Rigter
Holger Siedentopf

8. Shareholdings

Shareholdings of Volkswagen Financial Services AG and the Volkswagen Financial Services AG Group in accordance with sections 285 and 313 of the HGB and presentation of the companies included in the consolidated financial statements of the Volkswagen Financial Services AG Group in accordance with IFRS 12 as of December 31, 2023.

		EXCHANGE RATE (1 EURO =)	VW FS AG'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/LOSS IN THOUSANDS		
Name and registered office of company	Currency	Dec. 31, 2023	Direct	Indirect	Total	local currency	local currency	Footnote	Year
I. PARENT COMPANY									
VOLKSWAGEN FINANCIAL SERVICES AG, Braunschweig									
II. SUBSIDIARIES									
A. Consolidated companies									
1. Germany									
EURO-Leasing GmbH, Sittensen	EUR	–	100.00	–	100.00	35,814	12,531	1)	2022
Vehicle Trading International (VTI) GmbH, Braunschweig	EUR	–	100.00	–	100.00	2,763	–	1)	2023
Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig	EUR	–	100.00	–	100.00	57,051	–	1) 10)	2023
Volkswagen Insurance Brokers GmbH, Braunschweig	EUR	–	100.00	–	100.00	54,829	–	1)	2023
Volkswagen Leasing GmbH, Braunschweig	EUR	–	100.00	–	100.00	3,269,912	–	1)	2023
Volkswagen Versicherung AG, Braunschweig	EUR	–	100.00	–	100.00	97,055	–	1)	2023
Volkswagen-Versicherungsdienst GmbH, Braunschweig	EUR	–	100.00	–	100.00	54,369	–	1)	2023
2. International									
Autofinance S.A., Luxembourg	SEK	11.0874	–	–	–	350	–	11)	2022
Banco Volkswagen S.A., São Paulo	BRL	5.3750	–	100.00	100.00	3,222,080	155,697		2022
Consórcio Nacional Volkswagen - Administradora de Consórcio Ltda., Santana de Parnaíba	BRL	5.3750	–	100.00	100.00	443,189	72,057		2022
Driver Australia eight Trust, Chullora	AUD	1.6292	–	–	–	–	–	5) 11)	2023
Driver Australia Master Trust, Chullora	AUD	1.6292	–	–	–	39,138	13,793	11)	2022
Driver Australia seven Trust, Chullora	AUD	1.6292	–	–	–	14,327	13,200	11)	2022
Driver Brasil five Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco	BRL	5.3750	–	–	–	467,145	69,116	11)	2022
Driver Brasil Six Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco	BRL	5.3750	–	–	–	–	–	4) 5) 11)	2023
Driver China Eleven Auto Loan Securitization Trust, in liquidation, Beijing	CNY	7.8700	–	–	–	2,426,380	262,929	2) 11)	2022
Driver China Fourteen Auto Loan Securitization Trust, Beijing	CNY	7.8700	–	–	–	7,171,775	–68,739	4) 11)	2022
Driver China Thirteen Auto Loan Securitization Trust, Beijing	CNY	7.8700	–	–	–	3,918,627	155,492	11)	2022
Driver China Twelve Auto Loan Securitization Trust, in liquidation, Beijing	CNY	7.8700	–	–	–	1,609,832	144,297	2) 11)	2022
Driver UK Master S.A., Luxembourg	GBP	0.8691	–	–	–	29	–	3) 11)	2022
Driver UK Multi-Compartment S.A., Luxembourg	GBP	0.8691	–	–	–	29	–	3) 11)	2022
Euro-Leasing A/S, Padborg	DKK	7.4530	–	100.00	100.00	29,382	14,058		2022

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LM Transportes Interestaduais Serviços e Comércio S.A., Salvador	BRL	5.3750	–	60.00	60.00	2,286,762	140,897	7) 10)	2022
MAN Financial Services España S.L., Alcobendas (Madrid)	EUR	–	–	100.00	100.00	29,304	2,589		2022
MAN Financial Services GesmbH, Eugendorf	EUR	–	–	100.00	100.00	35,641	2,996		2022
MAN Financial Services Poland Sp. z o.o., Nadarzyn	PLN	4.3409	–	100.00	100.00	153,232	35,108	9)	2022
MAN Location & Services S.A.S., Evry	EUR	–	100.00	–	100.00	4,978	3,099		2022
OOO Volkswagen Bank RUS, Moscow	RUB	99.9661	99.00	–	99.00	20,081,839	1,353,290	9)	2022
OOO Volkswagen Financial Services RUS, Moscow	RUB	99.9661	99.99	0.01	100.00	8,104,665	194,813		2022
OOO Volkswagen Group Finanz, Moscow	RUB	99.9661	99.99	0.01	100.00	3,229,001	311,525		2022
Private Driver Australia 2023-1 Trust, Chullora	AUD	1.6292	–	–	–	–	–	4) 5) 11)	2023
Simple Way Locações e Serviços S.A., São Paulo	BRL	5.3750	–	100.00	100.00	1,102,810	1,700		2022
ŠkoFIN s.r.o., Prague	CZK	24.7180	–	100.00	100.00	6,684,000	888,000		2022
Trucknology S.A., Luxembourg	EUR	–	–	–	–	31	–	11)	2022
VCL Master Poland DAC, Dublin	EUR	–	–	–	–	–	–	5) 11)	2023
VCL Master Residual Value S.A., Luxembourg	EUR	–	–	–	–	31	–	11)	2022
VCL Master S.A., Luxembourg	EUR	–	–	–	–	31	–	11)	2022
VCL Master Sweden S.A., Luxembourg	SEK	11.0874	–	–	–	–	–	5) 11)	2023
VCL Multi-Compartment S.A., Luxembourg	EUR	–	–	–	–	31	–	11)	2022
Volkswagen Bank S.A., Institución de Banca Múltiple, Puebla	MXN	18.7689	100.00	–	100.00	2,737,000	294,000		2022
Volkswagen Corretora de Seguros Ltda., São Paulo	BRL	5.3750	–	100.00	100.00	45,549	33,804		2022
Volkswagen Finance (China) Co., Ltd., Beijing	CNY	7.8700	100.00	–	100.00	16,242,834	1,847,240		2022
Volkswagen Finance Belgium S.A., Bruxelles	EUR	–	–	100.00	100.00	14,546	4,880		2022
Volkswagen Finance Europe B.V., Amsterdam	EUR	–	100.00	–	100.00	–	–	4) 5)	2023
Volkswagen Finance Overseas B.V., Amsterdam	EUR	–	100.00	–	100.00	3,122,553	8,247		2022
Volkswagen Finance Overseas HoldCo B.V., Amsterdam	EUR	–	–	100.00	100.00	–	–	4) 5)	2023
Volkswagen Financial Leasing (Tianjin) Co., Ltd., Tianjin	CNY	7.8700	–	98.85	98.85	1,734,566	35,579		2022
Volkswagen Financial Services (UK) Ltd., Milton Keynes	GBP	0.8691	–	100.00	100.00	2,689,092	580,380		2022
Volkswagen Financial Services Australia Pty. Ltd., Chullora	AUD	1.6292	100.00	–	100.00	437,360	69,898	7)	2022
Volkswagen Financial Services France S.A., Villers-Cotterêts	EUR	–	–	100.00	100.00	197,964	1,270		2022
Volkswagen Financial Services Ireland Ltd., Dublin	EUR	–	–	100.00	100.00	–59,862	18,010		2022
Volkswagen Financial Services Japan Ltd., Tokyo	JPY	156.7900	–	100.00	100.00	24,989,606	3,065,505		2022
Volkswagen Financial Services Korea Co., Ltd., Seoul	KRW	1,440.7150	100.00	–	100.00	364,929,000	21,838,000		2022
Volkswagen Financial Services N.V., Amsterdam	EUR	–	–	100.00	100.00	1,138,129	11,995		2022
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	PLN	4.3409	–	100.00	100.00	2,213,438	304,185	9)	2022
Volkswagen Financial Services S.p.A., Milan	EUR	–	100.00	–	100.00	122,067	–2,619		2022
Volkswagen Financial Services Taiwan Ltd., Taipei	TWD	33.9211	–	100.00	100.00	1,491,817	143,393		2022
Volkswagen Finans Sverige AB, Södertälje	SEK	11.0874	–	100.00	100.00	2,199,861	1,265,602		2022
Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat	EUR	–	–	100.00	100.00	44,566	8,002		2022
Volkswagen Leasing S.A. de C.V., Puebla	MXN	18.7689	100.00	–	100.00	14,768,234	2,019,895		2022
Volkswagen Mobility Services S.p.A., Bolzano	EUR	–	–	100.00	100.00	3,009	–8,907		2022

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Volkswagen New Mobility Services Investment Co., Ltd., Beijing	CNY	7.8700	100.00	–	100.00	1,966,590	–36,263		2022
Volkswagen Participações Ltda., São Paulo	BRL	5.3750	–	100.00	100.00	3,462,303	242,045		2022
Volkswagen Renting S.A., Alcobendas (Madrid)	EUR	–	–	100.00	100.00	133,715	76,783		2022
Volkswagen Renting, Unipessoal, Lda., Amadora	EUR	–	–	100.00	100.00	2,699	2,076		2022
Volkswagen Serviços Ltda., São Paulo	BRL	5.3750	–	100.00	100.00	33,600	27,870		2022
B. Unconsolidated companies									
1. Germany									
LOGPAY Financial Services GmbH, Eschborn	EUR	–	100.00	–	100.00	12,674	–	1)	2023
LOGPAY Transport Services GmbH, Eschborn	EUR	–	–	100.00	100.00	3,312	–	1)	2022
Mobility Trader GmbH, Berlin	EUR	–	–	100.00	100.00	–8,047	–22,087		2021
Mobility Trader Holding GmbH, Berlin	EUR	–	70.91	–	70.91	373,218	–9,025		2021
The Key to Mobility Services GmbH, Eschborn	EUR	–	–	100.00	100.00	20	–	1)	2022
2. International									
Carizy S.A.S., Puteaux	EUR	–	–	100.00	100.00	–23	–2,258		2022
INIS International Insurance Service s.r.o., Mladá Boleslav	CZK	24.7180	–	100.00	100.00	40,181	34,681		2022
Kuwy Technology Service Pvt. Ltd., Chennai	INR	92.1170	–	84.02	84.02	–745,000	–581,400	3)	2023
LM Comércio de Veículos Seminovos Ltda., Salvador	BRL	5.3750	–	100.00	100.00	–	–	8)	2022
LOGPAY Charge & Fuel Slovakia s.r.o., Bratislava	EUR	–	–	100.00	100.00	–22	–15		2022
LOGPAY Consorzio, Bolzano	EUR	–	–	68.70	68.70	–9	–16		2022
LogPay Fuel Czechia s.r.o., Prague	CZK	24.7180	–	100.00	100.00	710	–488		2022
LOGPAY Fuel Italia S.r.l., Bolzano	EUR	–	–	100.00	100.00	–	–		2022
LogPay Fuel Spain S.L., Barcelona	EUR	–	–	100.00	100.00	621	–12		2022
Mobility Trader France S.A.S., Neuilly-sur-Seine	EUR	–	–	100.00	100.00	–902	–20,429		2022
Mobility Trader Spain S.L., Barcelona	EUR	–	–	75.10	75.10	10,393	–11,131		2022
Mobility Trader UK Ltd., London	GBP	0.8691	–	100.00	100.00	10,881	–30,343		2022
São Bernardo Administradora de Créditos Ltda., São Bernardo do Campo	BRL	5.3750	–	100.00	100.00	4,083	1,208		2022
Softbridge - Projectos Tecnológicos S.A., Porto Salvo	EUR	–	–	70.00	70.00	6,816	6,454		2022
VAREC Ltd., Tokyo	JPY	156.7900	–	100.00	100.00	865,524	58,316		2022
Volkswagen Administradora de Negócios Ltda., São Paulo	BRL	5.3750	–	100.00	100.00	45,559	–2,757		2022
Volkswagen Brokers Argentina S.A., Buenos Aires	ARS	894.9939	–	96.00	96.00	910,509	46,558		2022
VOLKSWAGEN COMPANY DAC, Dublin	EUR	–	100.00	–	100.00	6,386	–1,251		2022
Volkswagen Finance Pvt. Ltd., Mumbai	INR	92.1170	91.00	9.00	100.00	9,278,126	124,480	3)	2023
Volkswagen Financial Services Hellas A.E., Athens	EUR	–	100.00	–	100.00	4,178	532		2022
Volkswagen Financial Services Holding Argentina S.R.L., Buenos Aires	ARS	894.9939	99.99	–	99.99	4,211,561	–625,195		2022
Volkswagen Financial Services Schweiz AG, Wallisellen	CHF	0.9264	–	100.00	100.00	12,538	1,981		2022
Volkswagen Insurance Brokers, Agente de Seguros y de Fianzas, S.A. de C.V., Puebla	MXN	18.7689	–	100.00	100.00	–59,934	–7,753		2022
Volkswagen Insurance Company DAC, Dublin	EUR	–	100.00	–	100.00	60,290	–33,411		2022
Volkswagen Insurance Service (Great Britain) Ltd., Milton Keynes	GBP	0.8691	–	100.00	100.00	2,719	491		2022
Volkswagen Insurance Services Korea Co., Ltd., Seoul	KRW	1,440.7150	–	100.00	100.00	4,964,745	1,544,515		2022
Volkswagen International Insurance Agency Co., Ltd., Taipei	TWD	33.9211	–	100.00	100.00	161,437	75,926		2022
Volkswagen Leasing (Beijing) Co., Ltd., Beijing	CNY	7.8700	–	100.00	100.00	6,948	7,356		2022

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Volkswagen Leasing (Guangzhou) Co., Ltd., Guangzhou	CNY	7.8700	–	100.00	100.00	1,736	1,696		2022
Volkswagen Leasing (Shanghai) Co., Ltd., Shanghai	CNY	7.8700	–	100.00	100.00	–35,054	1,936		2022
Volkswagen New Mobility Services Consulting (Beijing) Co., Ltd., Beijing	CNY	7.8700	–	100.00	100.00	26,759	710		2022
Volkswagen Service Sverige AB, Södertälje	SEK	11.0874	–	100.00	100.00	35,157	–5,813		2022
Volkswagen Servicios, S.A. de C.V., Puebla	MXN	18.7689	–	100.00	100.00	34,724	1,922		2022
Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw	PLN	4.3409	–	100.00	100.00	73,517	14,061		2022
VTXRM - Software Factory Lda., Porto Salvo	EUR	–	–	90.00	90.00	7,534	7,175		2022
VTXRM Software Factory US LLC, Wilmington / DE	USD	1.1077	–	100.00	100.00	–	–	4) 5)	2023
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Volkswagen Autoversicherung Holding GmbH, Braunschweig	EUR	–	51.00	–	51.00	186,795	13,996		2022
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR	–	49.00	–	49.00	121,864	5,621		2022
2. International									
VDF Servis ve Ticaret A.S., Istanbul	TRY	32.7438	51.00	–	51.00	1,611,680	673,800	7)	2022
Volkswagen D'Ieteren Finance S.A., Bruxelles	EUR	–	–	50.00	50.00	134,226	4,508		2022
Volkswagen Financial Services South Africa (Pty) Ltd., Sandton	ZAR	20.4442	51.00	–	51.00	–1,180,889	186,560		2022
Volkswagen Møller Bilfinans A/S, Oslo	NOK	11.2408	–	51.00	51.00	4,021,517	256,144	9)	2022
Volkswagen Pon Financial Services B.V., Amersfoort	EUR	–	–	60.00	60.00	238,083	93,942	7) 10)	2022
B. Companies accounted for at cost									
1. Germany									
FleetCompany GmbH, Oberhaching	EUR	–	73.65	–	73.65	17,997	–6,600		2022
MyDigitalCar GmbH, Braunschweig	EUR	–	50.00	–	50.00	–	–	4) 5)	2023
2. International									
Collect Car B.V., Rotterdam	EUR	–	–	60.00	60.00	5,772	108		2022
Lenkrad Invest (Pty) Ltd., Sandton	ZAR	20.4442	51.00	–	51.00	28,415	25,632		2022
movon AG, Cham	CHF	0.9264	–	50.00	50.00	–	–	4) 6)	2023
Porsche Volkswagen Servicios Financieros Chile S.p.A., Santiago de Chile	CLP	977.9400	50.00	–	50.00	9,783,661	1,754,728		2022
Shuttel B.V., Leusden	EUR	–	49.00	–	49.00	2,664	95		2022
Staymo S.A.S., Boulogne-Billancourt	EUR	–	–	51.00	51.00	5,356	–1,644	4)	2022
Volkswagen Financial Services Compañia Financiera S.A., Buenos Aires	ARS	894.9939	–	49.00	49.00	6,764,661	–1,257,405		2022
Volkswagen Losch Financial Services S.A., Howald	EUR	–	60.00	–	60.00	8,089	2,770		2022
Volkswagen Semler Finans Danmark A/S, Bröndby	DKK	7.4530	–	51.00	51.00	775,371	39,122		2022

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IV. ASSOCIATED COMPANIES									
A. Equity-accounted associates									
1. Germany									
2. International									
B. Associates accounted for at cost									
1. Germany									
Digital Mobility Leasing GmbH, Kassel	EUR	–	26.00	–	26.00	495	–14,187		2022
Euromobil GmbH, Sittensen	EUR	–	–	49.00	49.00	–	–	4) 5)	2023
Verimi GmbH, Berlin	EUR	–	37.80	–	37.80	5,940	–109,261		2022
2. International									
J.P. Morgan Mobility Payments Solutions S.A., Strassen	EUR	–	25.10	–	25.10	29,758	–15,641		2022
Volkswagen-Versicherungsdienst GmbH, Vienna	EUR	–	–	15.00	15.00	3,669	3,191		2022
V. EQUITY INVESTMENTS									
1. Germany									
Allianz für die Region GmbH, Braunschweig	EUR	–	8.70	–	8.70	877	–149		2022
2. International									

1) Profit-and-loss transfer agreement
2) In Liquidation
3) Different fiscal year
4) Short fiscal year
5) Newly established company/Spin-off
6) Newly acquired company
7) Consolidated financial statements
8) Values are included in the consolidated financial statement of the parent company
9) Figures in accordance with IFRSs
10) Matter within the meaning of section 1 of the UmwG
11) Structured company in accordance with IFRS 10 and IFRS 12

Braunschweig, February 19, 2024

Volkswagen Financial Services AG
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Frank Fiedler

Dr. Alena Kretzberg

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Volkswagen Financial Services AG, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of Volkswagen Financial Services AG.

Braunschweig, February 19, 2024

Volkswagen Financial Services AG
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Frank Fiedler

Dr. Alena Kretzberg

Independent auditor's report[1]

To Volkswagen Financial Services Aktiengesellschaft, Braunschweig

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

OPINIONS

We have audited the annual financial statements of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, which comprise the balance sheet as at 31 December 2023, and the income statement for the fiscal year from 1 January to 31 December 2023, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, which is combined with the group management report, for the fiscal year from 1 January to 31 December 2023. In accordance with German law, we have not audited the content of the sections "*Corporate Governance Declaration*" (disclosure pursuant to Section 289f (4) in conjunction with Section 289f (2) No. 4 of the German Commercial Code (HGB)) and "*Separate Nonfinancial Group Report*" of the Management Report.

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

> the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2023 and of its financial performance for the fiscal year from 1 January to 31 December 2023 in compliance with German legally required accounting principles, and

> the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development We do not express an opinion on the content of the sections "*Corporate Governance Declaration*" (disclosure pursuant to Section 289f (4) in conjunction with Section 289f (2) No. 4 of the German Commercial Code (HGB)) and "*Separate Nonfinancial Group Report*" of the Management Report.

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

[1] Translation of the German independent auditor's report concerning the audit of the consolidated financial statements and the group management report prepared in German

BASIS FOR THE OPINIONS

We conducted our audit of the annual financial statements and of the combined management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2023 to 31 December 2023. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

Valuation of shares in affiliated companies and equity investments

REASONS WHY THE MATTER WAS DETERMINED TO BE A KEY AUDIT MATTER

As a holding company, Volkswagen Financial Services Aktiengesellschaft holds shares in financing and leasing companies in Germany and abroad. The net realizable values of shares in affiliated companies and equity investments are determined using recognized valuation methods, in particular the capitalization of earnings method. The valuation methods applied are subject to judgment with regard to the valuation parameters used and expectations of future business development. They consider assumptions on future market developments and the development of macroeconomic factors as well as the growth rates and risk-adjusted capitalization rates used. The exercise of judgment for the carrying amounts and the assessment of whether permanent impairment exists can have a considerable effect on the amounts stated in the annual financial statements. As a result of the effects of the persistent shortages of intermediates and commodities on vehicle supply, which were additionally amplified by the effects of the Russia-Ukraine conflict, as well as the effects of inflation on vehicle demand, these uncertainties were heightened in the fiscal year.

In light of the uncertainties regarding the parameters used for the valuation and the judgment applied, the valuation of shares in affiliated companies and equity investments as well as the assessment of impairment as likely to be permanent based on this valuation was a key audit matter.

AUDITOR'S RESPONSE

We assessed the company's accounting and valuation requirements for determining the fair values of the shares in affiliated companies and investments and for assessing the existence of a presumably permanent impairment to determine whether they are in line with the professional pronouncements of the Institut der Wirtschaftsprüfer (IDW) on the valuation of companies and investments (IDW RS HFA 10 in conjunction with IDW S1).

Based on the calculations performed by the Company using the capitalization of earnings method and alternative valuation methods, we methodically and arithmetically traced the application of the valuation method and the determination of the material plan assumptions and valuation parameters for a risk-oriented sample of affiliated companies and investments. Where the capitalization of earnings method was used, our focus was on assessing the main planning premises. We compared the business planning with the planning of the previous financial year as well as the actual results achieved and analyzed deviations. We also assessed the consistency of the key assumptions made in the business planning. We also examined the extent to which assumptions about economic development lie within the ranges of externally available forecasts. We have compared the valuation parameters used in the estimation of fair values, such as estimated growth rates, cost of capital ratios and tax rates, with externally available parameters.

To audit the valuation of shares in affiliated companies and equity investments, we consulted internal specialists who have particular expertise in the area of business valuation.

Our audit procedures did not lead to any reservations relating to the valuation of shares in affiliated companies and equity investments.

REFERENCE TO RELATED DISCLOSURES

The Company's disclosures on the valuation of the shares in affiliated companies and equity investments are contained in section 2 "Accounting Policies," section 3 "Balance Sheet Disclosures" and section 4 "Income Statement Disclosures" of the notes to the financial statements.

OTHER INFORMATION

The Supervisory Board is responsible for the Report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. The other information comprises the sections "*Corporate Governance Declaration*" (disclosure pursuant to Section 289f (4) in conjunction with Section 289f (2) No. 4 of the German Commercial Code (HGB)) and "*Separate Nonfinancial Group Report*" of the Management Report as well as the sections "Responsibility Statement", "Human Resources Report" and "Report of the Supervisory Board" to be included in the annual report, of which we obtained a copy prior to issuing this auditor's report, but not the annual financial statements, not the combined management report disclosures whose content is audited and not our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the assurance on the electronic rendering of the annual financial statements and the management report prepared for publication purposes in accordance with Sec. 317 (3a) HGB

OPINION

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the file "Volkswagen Financial Services_AG_JA+LB_ESEF-2023-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the annual financial statements and the combined management report contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying annual financial statements and the accompanying combined management report for the fiscal year from 1 January 2023 to 31 December 2023 contained in the "Report on the audit of the annual financial statements and of the combined management report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

BASIS FOR THE OPINION

We conducted our assurance work on the rendering of the annual financial statements and the management report contained in the file identified above in accordance with Sec. 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410) (06.2022). Our responsibility in accordance therewith is further described in the "Auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ESEF DOCUMENTS

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic rendering of the annual financial statements and the combined management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have determined necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE ASSURANCE WORK ON THE ESEF DOCUMENTS

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

> Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
> Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
> Evaluate the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this file.
> Evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited annual financial statements and to the audited combined management report.

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

We were elected as auditor by the Annual General Meeting on 24 February 2023 and were engaged by the Supervisory Board on 13 October 2023. We have been the auditor of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, without interruption since fiscal year 2020.

In addition to the financial statement audit, we have provided the following services that are not disclosed in the annual financial statements or in the management report:

> Review of the reporting packages for the reporting dates 31 March, 30 June and 30 September 2023 in accordance with the instructions of the group auditor
> Issue of comfort letters in accordance with IDW AuS 910 in connection with the updating of the debt issuance programs of Volkswagen Financial Services Aktiengesellschaft, Braunschweig
> Reasonable assurance engagement relating to the system designed to ensure compliance with the requirements under Sec. 32 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, for the period from 1 January 2021 to 31 December 2021
> Project-based review of implementation measures in the Change Management and IT Regulatory Review projects

> Reasonable assurance engagement relating to the description of internal controls at the service organization of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, regarding the suitability of the criteria applied and the derived control objectives and the design and operating effectiveness of the controls to achieve the control objectives stated in the description in accordance with IDW AsS 951 (Revised) Type 2.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited annual financial statements and the audited management report as well as the assured ESEF documents. The annual financial statements and the management report converted to the ESEF format – including the versions to be published in the *Unternehmensregister* [German Company Register] – are merely electronic renderings of the audited annual financial statements and the audited management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Matthias Koch.

Eschborn/Frankfurt am Main, 21 February 2024

EY GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft

Koch Wirtschaftsprüfer [German Public Auditor]	Hölscher Wirtschaftsprüfer [German Public Auditor]

Human Resources Report

Mission HR: business driven – people focused.

EMPLOYEES

The Volkswagen Financial Services AG Group had a total workforce of 12,009 (11,457) employees as of December 31, 2023. Of these, 5,577 (5,980), or 46%, were employed in Germany and 6,432 (5,477), or 54%, at international sites. Owing to economic considerations, 248 (231) employees of Volkswagen Servicios, S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

HUMAN RESOURCES STRATEGY

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

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

The Human Resources division intends to do its utmost, through a range of different strategic initiatives, to help the Company implement MOBILITY2030 and thereby contribute, with its own targeted actions, to the establishment of an effective high-performance organization. Closely aligned with the principle "business driven – people focused", the HR strategy focuses on precisely this objective.

Human resources operations were significantly affected over the course of the reporting year by a wide range of factors including the ongoing advance of digitalization, sustained competition for the best people in the labor market and changing expectations of companies among younger generations. The HR strategy aims to master these challenges by focusing on the five core HR topics of talent acquisition, personnel development, future working culture and modes of working, HR planning and analysis, and HR digitalization. The 17 specific initiatives set out in the strategy are to be pursued in combination with the overarching priorities of diversity, integrity, compliance and international mindset.

Particular priorities for the reporting year in activities to ensure the successful handling of this transformation, which is both structural and cultural in nature, included reskilling, upskilling, leadership and new work.

Skilled, committed employees are the cornerstone of success and Volkswagen Financial Services AG accordingly enables its employees to develop their skills continuously. Knowledge and experience are becoming more critical all the time, especially in the field of digitalization. One of the initiatives within the HR strategy covers the design and implementation of a strategic HR planning system that responds to changes in requirements for employees and enables the Company to complete detailed analyses based on job profiles, skills and qualifications – looking at both present and future needs – to predict newly emerging roles and skills requirements in addition to the usual quantitative HR planning activities.

Line managers have a particular responsibility in this regard to enable and encourage the employees under them to contribute their ideas and expertise in a modern, diverse and flexible working environment. The targeted activities that Volkswagen Financial Services AG provides in the area of leadership ensure high quality standards of management conduct and know-how, as well as a shared understanding of the leadership culture for more than 385 employees who have line management responsibilities. Another of the initiatives within the HR strategy in the reporting year targeted the revision and updating of the Company's leadership concept. The newly developed leadership policy, which embodies the organization's corporate values, provides a values compass and guiding light for day-to-day leadership and management.

Volkswagen Financial Services AG continued to pursue a New Work initiative intended to facilitate the necessary changes to the world of work in areas such as tools, technology, space concepts, culture, management, rules and change support in the reporting year as well.

Volkswagen Financial Services AG aims to be regarded as an employer of renown and regularly participates in external employer competitions to assess its status in this regard. In 2023, Volkswagen Financial Services was ranked number one in the "Best Employer in Lower Saxony-Bremen 2023" and number five in the "Best Employer in Germany 2023" competitions in the relevant category by company size.

WORK-LIFE BALANCE

Volkswagen Financial Services AG works proactively to provide a family-friendly working environment and is constantly adding new options to help employees improve their work-life balance. Examples include a variety of working time models and the "Frech Daxe" company childcare facility, which is located next to the company's site in Braunschweig and offers both flexible care hours and vacation care. Since 2022 the Company has been collaborating in Germany with voiio, a platform that provides digital solutions for an enhanced work-life balance such as virtual childcare, tutoring and courses in health and wellness.

Report of the Supervisory Board

of Volkswagen Financial Services AG

In the year under review, the Supervisory Board gave regular and thorough consideration to the position and development of Volkswagen Financial Services AG and the Volkswagen Financial Services AG Group.

During the reporting period, the Board of Management informed the Supervisory Board promptly and comprehensively at all times, in writing or verbally, regarding material aspects of the Company's planning and position, including the risk situation and the risk management system, and also regarding business development and any deviations from planning and targets. Based on these reports of the Board of Management, the Supervisory Board constantly monitored the management of the Company's and the Group's business and was thus able to carry out without limitation the functions assigned to it by law and under the articles of association. All decisions of fundamental importance for the Company and other transactions requiring the approval of the Supervisory Board under the rules of procedure were reviewed and discussed with the Board of Management before the relevant resolution was adopted.

The Supervisory Board generally comprises twelve members. Changes in the reporting period are disclosed in the information on governing bodies.

The Supervisory Board held three regular meetings and three extraordinary meeting in the reporting year. The average attendance rate was 93%. Decisions were made on four matters by means of a written resolution circulated to each of the members for approval; the Chair of the Supervisory Board also made one urgent decisions using the written procedure.

COMMITTEE ACTIVITIES

The Audit Committee held two regular meetings and one extraordinary meeting in the reporting year. In this regard, the Audit Committee held detailed discussions in the reporting period, addressing the annual financial statements, the supervision of the internal control, risk management and internal audit systems as well as the monitoring of the financial reporting and auditing process.

The Supervisory Board of Volkswagen Financial Services AG established a Credit Committee on November 28, 2022. The Credit Committee is responsible for approving issues that the Supervisory Board has to deal with by law and under the Articles of Association and rules of procedure relating to loan commitments, the assumption of sureties, guarantees and similar liabilities, Bank borrowings, the purchasing of receivables (factoring) and for master agreements governing the assumption of receivables. The Credit Committee is composed of three members of the Supervisory Board and makes its decisions by circulation of written resolutions.

The Credit Committee decided on nine loan commitments in the reporting year. The activities of the committees were reported at the plenary meetings of the Supervisory Board.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on February 24, 2023, following reports submitted by the auditor, the Supervisory Board examined in detail and then approved both the consolidated financial statements of the Volkswagen Financial Services AG Group prepared by the Board of Management as well as the annual financial statements and management report of Volkswagen Financial Services AG for 2022 prepared by the Board of Management. The Supervisory Board also issued a recommendation regarding the appointment of the auditor for 2023.

The Board of Management also reported to the Supervisory Board on the current status of the wide-ranging internal restructuring program, under which the subgroups of Volkswagen Financial Services

Aktiengesellschaft and Volkswagen Bank GmbH are being reorganized to separate European and non-European financial services activities. Under a further agenda item, the Supervisory Board received information on the main topics for 2023 in the various regions and the implementation of the funding strategy.

At the meetings on June 15, 2023, and November 10, 2023, the Board of Management presented the Supervisory Board with comprehensive reports about the economic and financial position of the Company and the Volkswagen Financial Services AG subgroup and the Company's latest position.

The Board of Management also informed the Supervisory Board about the objectives and latest implementation status regarding diversity at the meeting on June 15, 2023.

At the meetings on February 24, 2023 and November 10, 2023, the Audit Committee reported to the Supervisory Board on the contents of its committee meetings. At the meeting on November 10, 2023, the Audit Committee informed the Supervisory Board about the Chief Compliance Officer's report and the actions taken in this connection in relation to the updating of the Code of Conduct, the identification of all requirements arising from the German Act on Corporate Due Diligence Obligations in Supply Chains (*Lieferkettensorgfaltspflichtengesetz*) and the appointment of a Human Rights Officer at Volkswagen Financial Services AG. The Audit Committee also presented the report of the Head of Internal Audit and the key areas of activity in the reporting year for the Supervisory Board. The various reasons for audits were also discussed in this context. The Board of Management also provided an IT status report at the Supervisory Board meeting on November 10, 2023. This mainly consisted of presentations on the IT strategy and the status of key IT projects and IT security.

At the extraordinary meetings on March 1, 2023, May 11, 2023, and September 22, 2023, the Board of Management presented the Supervisory Board with comprehensive reports about the internal restructuring program and other matters of company law, including the strategic alliance between Volkswagen Financial Services AG and Pon Holdings in the bicycle leasing sector in Europe and the USA.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

EY GmbH & Co. KG Wirtschaftsprüfungsgesellschaft was appointed to audit both the consolidated financial statements of the Volkswagen Financial Services AG Group in accordance with the IFRSs and the annual financial statements of Volkswagen Financial Services AG in accordance with the HGB for the year ended December 31, 2023, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Financial Services AG Group completed in accordance with the IFRSs and the annual financial statements of Volkswagen Financial Services AG completed in accordance with HGB for the year ended December 31, 2023 were submitted to the Supervisory Board together with the management reports. The auditor, EY GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, audited these financial statements, including the bookkeeping system and the management reports, and issued an unqualified auditor's opinion in each case.

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

At its meeting on February 23, 2024, the Supervisory Board approved both the consolidated financial statements prepared by the Board of Management as well as the annual financial statements of Volkswagen Financial Services AG. The consolidated financial statements and annual financial statements have thus been adopted.

On the basis of the current control and profit-and-loss transfer agreement, the loss reported by Volkswagen Financial Services AG in accordance with the HGB for fiscal year 2023 was absorbed by Volkswagen AG.

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

Braunschweig, February 23, 2024

Dr. Arno Antlitz

Chair of the Supervisory Board

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Volkswagen Financial Services AG
Gifhorner Straße 57
38112 Braunschweig, Germany
Telephone +49 (0) 531 2120
info@vwfs.com
www.vwfs.com
www.facebook.com/vwfsde

INVESTOR RELATIONS
ir@vwfs.com

This annual report is also available in German at https://www.vwfs.com/gbvwfsag23.