

VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

ANNUAL REPORT

IFRS

2019

Key Figures

VOLKSWAGEN FINANCIAL SERVICES AG

€ million (as of Dec. 31)	2019	2018
Total assets	112,444	80,462
Loans to and receivables from customers attributable to		
Retail financing	20,712	16,676
Dealer financing	5,413	4,062
Leasing business	39,951	19,760
Lease assets	22,776	13,083
Equity	12,029	8,016
Operating profit	1,223	844
Profit before tax	1,264	818

in percent (as of Dec. 31)	2019	2018
Cost/income ratio ¹	54	59
Equity ratio ²	10.7	10.0
Return on equity ³	12.6	10.5

Number (as of Dec. 31)	2019	2018
Employees	10,773	8,603
Germany	5,763	5,340
International	5,010	3,263

1 General and administrative expenses, adjusted for expenses passed on to other entities in the Volkswagen Group / interest income from lending transactions and marketable securities, net income from leasing transaction, interest expenses, net income from service contracts, net income from insurance business, provision for credit risks and net fee and commission income.

2 Equity/total assets.

3 Profit before tax / average equity.

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

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

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COMBINED MANAGEMENT REPORT

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Fundamental Information about the Group

Steady international growth continues to confirm the business model of Volkswagen Financial Services AG.

BUSINESS MODEL

Over the years, the companies in the Volkswagen Financial Services AG Group have evolved increasingly dynamically into providers of comprehensive mobility services. The key objectives of Volkswagen Financial Services AG are:

- > to promote Group product sales for the benefit of the Volkswagen Group brands and the partners appointed to distribute these products;
- > to strengthen customer loyalty to Volkswagen Financial Services AG and the Volkswagen Group brands along the automotive value chain (among other things, by targeted use of digital products and mobility solutions);
- > to create synergies for the Group by pooling Group and brand requirements in relation to finance and mobility services;
- > 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. The close integration of marketing, sales and customer service focused on customers' needs goes a long way toward keeping the processes lean and implementing the sales strategy efficiently.

The reorganization initiated in 2016, aiming at a systematic separation of the European lending and deposits business from the other activities of Volkswagen Financial Services AG, was completed during the course of the year.

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 non-financial performance indicators are penetration, current contracts and new contracts. 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 profit/loss	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.

OTHER NONFINANCIAL PERFORMANCE INDICATORS

Customer satisfaction and external employer ranking are also measured.

Customer Satisfaction

The satisfaction of Volkswagen Financial Services AG's customers results from a customer-oriented product range and the service focus of the staff.

In the annual assessment, these two aspects serve as suitable indicators for critically evaluating whether the customer satisfaction target of 90% will be attained in 2025.

In 2019, the satisfaction rate of 83% was within the expected range.

The aspiration of Volkswagen Financial Services AG is to provide customers with total satisfaction. To this end, suitable action plans are drawn up at country level.

External Employer Ranking

A strategic key performance indicator has been specified for financial services activities: external employer ranking.

This involves Volkswagen Financial Services AG submitting itself to external benchmarking, generally on a two-year cycle.

The Company's aim is to position itself as an attractive employer and determine appropriate measures that will enable it to become a top-20 employer by 2025, not just in Europe, but globally. For example, Volkswagen Financial Services AG was represented in various national and international best-employer rankings the last time it participated in 2019. Coming in eleventh place, it was among the top Euro-

pean employers in the "Great Place to Work" employer competition.

CHANGES IN EQUITY INVESTMENTS

The transfers referred to below were part of the further reorganization of Volkswagen Financial Services' legal entities.

On March 29, 2019, Volkswagen Financial Services AG took over the following entities from Volkswagen Bank GmbH:

- > Volkswagen Financial Services S.p.A., Milan, Italy,
- > Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom, incl. its subsidiaries MAN Financial Services Ltd. and Volkswagen Insurance Service (Great Britain) Ltd.,
- > Volkswagen Financial Ltd., Milton Keynes, United Kingdom,
- > ŠkoFIN s.r.o., Prague, Czech Republic, and
- > Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw, Poland.

On May 31, 2019, Volkswagen Finance 2 S.L.U., Alcobendas (Madrid), Spain, including its three subsidiaries Volkswagen Renting S.A., Alcobendas (Madrid), Spain, Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat (Barcelona), Spain, and MAN Financial Services España S.L., Coslada (Madrid), Spain, were merged into Volkswagen Financial Services AG.

On July 31, 2019, Volkswagen Financial Services AG took over Volkswagen Finans Sverige AB, Södertälje, Sweden, including its wholly owned subsidiary Volkswagen Service

Sverige AB, Södertälje, Sweden, by way of a spinoff from Volkswagen Bank GmbH.

In addition, the following further material changes in equity investments have occurred:

Volkswagen Losch Financial Services S.A., whose registered office is located in Howald, Luxembourg, commenced its operating activities on January 2, 2019 as planned. The company offers leasing products in the Luxembourg market, mainly for retail customers and small fleets. The company will also offer financeings through a local provider from 2020 onward. Volkswagen Losch Financial Services S.A. is a joint venture, with 60% of the shares held by Volkswagen Financial Services AG, Braunschweig, and 40% by Losch Services S.à.r.l.

On January 30, 2019, PayByPhone Technologies Inc., Vancouver, Canada, established PayByPhone US Inc., Wilmington, DE, USA, as a wholly owned second-tier subsidiary of Volkswagen Financial Services AG. The purpose of establishing this company was to expand the operating activities of the PayByPhone Group in North America.

With effect from February 1, 2019, Volkswagen Financial Services AG transferred all the shares in Volkswagen Finance Belgium S.A., Brussels, Belgium, to Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, by means of a contribution in kind.

Effective March 21, 2019, LEONIE FS DVB GmbH, Stuttgart, a wholly owned subsidiary of Daimler AG, Stuttgart, made an equity investment of 20% in Mobility Trader Holding GmbH, Berlin, by way of a capital increase. Mobility Trader Holding GmbH acts as a holding company for local companies off the heycar Group.

On April 1, 2019, Volkswagen Financial Services AG transferred all the shares in ŠkoFin s.r.o., Prague, Czech Republic, and Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw, Poland, by means of a contribution in kind to Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG.

On April 10, 2019, Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, in which Volkswagen Financial Services AG, Braunschweig, holds a 60% equity investment, acquired through its wholly owned subsidiary Volkswagen Leasing B.V., Amersfoort, Netherlands, the leasing company Maas Leasing B.V., Nieuwkoop, Netherlands, from J. Maas Holding B.V., Nieuwkoop, Netherlands, thereby expanding its portfolio by approximately 1,475 contracts.

Effective May 24, 2019, Maas Leasing B.V. acquired the portfolio of the leasing company Lease Connection B.V., Gouda, Netherlands, by means of an asset deal, thereby expanding the portfolio of Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, by approximately 1,215 contracts.

Mobility Trader UK Ltd., London, United Kingdom, was established as a wholly owned subsidiary of Mobility Trader Holding GmbH, Berlin, on May 24, 2019.

Effective June 28, 2019, Volkswagen Financial Services AG, Braunschweig, acquired 75.1% of the shares in PTV Truckparking B.V., Utrecht, Netherlands, from PTV Planung Transport Verkehr AG, Karlsruhe. In the course of the transaction, the company was renamed as Truckparking B.V. Truckparking B.V. operates an online platform that enables truck drivers and schedulers to plan routes, find parking lots, make reservations, and communicate with other drivers. Based on this majority stake, Volkswagen Financial Services AG is continuing to expand its presence in the strategic business area of parking.

On July 4, 2019, PayByPhone Ltd., Hatfield, United Kingdom, a subsidiary of PayByPhone Technologies Inc., Vancouver, Canada, acquired all of the shares in Mirada Connect Ltd., Liverpool, United Kingdom. Similarly to PayByPhone, the acquired company offers products for processing parking-related payments and enables consumers to use an app, SMS or telephone speech recognition to pay for parking tickets. On completion of the acquisition, the company was renamed as Connect Cashless Parking Ltd. It is planned to merge the product ranges of PayByPhone and Connect in the United Kingdom and Ireland over the medium term in order to offer the broadest parking-place coverage as possible to customers.

Effective August 1, 2019, Volkswagen Financial Services AG, Braunschweig, transferred the following equity investments to Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, by means of a contribution in kind:

- > its 60% equity investment in Collect Car B.V., Rotterdam, Netherlands, including the wholly owned subsidiaries Greenwheels GmbH, Dortmund, and Greenwheels Shared Services B.V., Rotterdam, Netherlands,
- > its 50.01% equity investment in Volkswagen D'Ieteren Finance S.A., Brussels, Belgium,
- > its 51% equity investment in Volkswagen Møller Bilfinans A/S, Oslo, Norway.

Euromobil Autovermietung GmbH, Isernhagen, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig, was merged into EURO-Leasing GmbH, Sittensen, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig, on August 31, 2019. The pooling of the rental business in one entity facilitates the leveraging of process synergies and safeguards future growth in the strategic business area of vehicle renting. As a provider of a full range of services for the renting of passenger cars and trucks, the company is able to offer both individuals and business customers perfectly tailored mobility solutions based on short- and long-term rentals.

On September 12, 2019, Volkswagen Financial Services AG established Volkswagen Financial Services Polska Sp. z o.o., Warsaw, Poland.

Volkswagen Financial Services AG also established Volkswagen Leasing Polen GmbH, Braunschweig, on September 16, 2019.

On September 16, 2019, Volkswagen Financial Services AG, Braunschweig, signed a contract to acquire 26% of the shares in Glinicke Leasing GmbH, Kassel, from Glinicke Finanz Holding GmbH & Co. KG, Kassel. One of the aims of this equity investment is to include business bike leasing in the range of products offered to German fleet customers. Final completion of the deal is still subject to consent from the antitrust authorities.

Effective September 30, 2019, Volkswagen Financial Services AG increased its majority share in the mobility service provider Truckparking B.V., Utrecht, Netherlands, to approximately 78.7%.

Effective October 10, 2019, Volkswagen Finance Pvt. Ltd., Mumbai, India, a joint venture in which Volkswagen Financial Services AG, Braunschweig, holds 91% of the shares and Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, 9% of the shares, acquired 25% of the shares in Kuwy Technologies Private Limited, Chennai, India, as part of a capital increase. Kuwy Technologies Private Limited has an app-based brokering platform for vehicle finance and acts as an interface between the trade and finance providers.

Volkswagen Semler Finans Danmark A/S., based in Søborg, Denmark, was established on October 11, 2019. Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, holds 51% of the shares in this joint venture, with the Semler Gruppen A/S, Brøndby, Denmark, holding the other 49%. The company will offer a broad range from the captive product portfolio (leasing, financing, insurance) in the Danish market from March 2021.

Effective October 15, 2019, MAN Financial Services Ltd., Swindon, UK, was liquidated after all assets were transferred from this company to Volkswagen Financial Services (UK) Ltd., Milton Keynes, UK.

On October 30, 2019, Volkswagen Financial Services AG, Braunschweig, acquired all of the shares in LogPay Financial Services GmbH (LPFS), Eschborn, from DVB Bank SE, Frankfurt. This acquisition represents a further strengthening of Volkswagen Financial Services AG's commitment to automotive mobility business, allowing the company to centralize the fuel card and toll charging business while opening up considerable additional market potential in connection with payment processing related to local public transport via LogPay Mobility Services, Eschborn, a wholly owned subsidiary of LPFS. Going forward, it is also planned that LPFS will, under the new ownership structure, process transactions related to DVB Bank's freight settlement system.

On October 30, 2019, DutchLease B.V., Amersfoort, Netherlands, was merged into Volkswagen Leasing B.V., Amersfoort, Netherlands, a wholly owned subsidiary of Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands.

Effective October 31, 2019, Volkswagen Financial Services AG, Braunschweig, acquired 60% of the shares in Fleet Company GmbH, Oberhaching, from TÜV SÜD Auto Service GmbH, Munich, a wholly owned subsidiary of TÜV SÜD AG, Munich. This strategic partnership broadens Volkswagen Financial Services AG's offering in international fleet and mobility management and consolidates these services under the FleetLogistics brand name.

Effective November 1, 2019, Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, a 60% equity investment of Volkswagen Financial Services AG, Braunschweig, was merged into Volkswagen Leasing B.V., Amersfoort, Netherlands. Immediately after this merger, Volkswagen Leasing B.V. was renamed Volkswagen Pon Financial Services B.V.

Effective November 1, 2019, Volkswagen Financial Services AG, Braunschweig, transferred the following entities to Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, by means of a contribution in kind:

- > its 60% equity investment in Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands,
- > its 100% equity investment in Volkswagen Insurance Services Correduria de Seguros, S.L., El Prat de Llobregat (Barcelona), Spain,
- > its 100% equity investment in MAN Financial Services Espana S.L., Coslada (Madrid), Spain,
- > its 100% equity investment in Volkswagen Renting S.A., Alcobendas (Madrid), Spain,
- > its 100% equity investment in Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom,
- > its 100% equity investment in Volkswagen Financial Ltd., Milton Keynes, United Kingdom.

Effective November 7, 2019, Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, a 60% equity investment of Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, purchased the portfolio of the leasing company 2Lease B.V., Hilversum, Netherlands, via an asset deal, thereby expanding its portfolio by around 450 contracts.

Effective November 11, 2019, Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, a 60% equity investment of Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, purchased the portfolio of the leasing company Auto Borchwerf Lease B.V., Roosendaal, Netherlands, via an asset deal, thereby expanding its portfolio by around 165 contracts.

Effective November 20, 2019, OOO MAN Financial Services, Moscow, Russia, was merged into OOO Volkswagen Group Finanz, Moscow, Russia, as the portfolio of OOO MAN Financial Services had been run off.

Effective November 29, 2019, Volkswagen Financial Services AG, Braunschweig, transferred VW Finans Sverige AB, Södertälje, Sweden, to Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, by means of a contribution in kind.

Effective December 9, 2019, Volkswagen Financial Services Singapore Ltd., Singapore, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig, was liquidated following the run-off of its finance portfolio.

As part of the corporate action approved in 2018, Volkswagen Financial Services AG paid €1 billion from its retained earnings to Volkswagen AG. During the first half of 2019, Volkswagen Financial Services AG's additional paid-in capital was increased by means of a payment of €1 billion made by Volkswagen AG.

In the year under review, Volkswagen Financial Services AG increased the equity of the following companies to strengthen their capital resources:

- > Volkswagen New Mobility Services Investment Co., Ltd., Beijing, by roughly €77 million
- > Volkswagen Financial Services South Africa (Pty) Ltd., Sandton, by roughly €11 million
- > PayByPhone Technologies Inc., Vancouver, by roughly €22 million
- > Rent-X GmbH, Braunschweig, by roughly €6 million

There were no further significant capital increases.

These measures served to expand the business and support the shared growth strategy with the brands of the Volkswagen Group.

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 HGB (HGB – German Commercial Code) and in accordance with IFRS 12.10 and IFRS 12.21, which can be accessed at www.vwfsag.com/listofholdings2019.

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

The summarized separate non-financial report of Volkswagen AG and the Volkswagen Group in accordance with sections 289 b and 315 b of the HGB for fiscal year 2019 will be available at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainabilityreport/2019/Nichtfinanzieller_Bericht_2019_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainabilityreport/2019/Nonfinancial_Report_2019_e.pdf in English from April 30, 2020.

Report on Economic Position

Global economic growth remained robust in 2019, albeit with weakening momentum. Worldwide demand for vehicles fell below the prior-year level. The profit before tax generated by Volkswagen Financial Services AG was further consolidated, significantly exceeding the prior-year figure.

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

In fiscal year 2019, profit before tax was significantly higher than in the previous year. New business worldwide recorded positive growth over the reporting period.

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

The share of financed and leased vehicles in the Group's worldwide deliveries (penetration) stood at 26.1 (22.3)% at the end of 2019.

Funding costs were higher than the prior-year level, although the volume of business was also higher.

The provision for credit risks was higher in the reporting period than in the previous year; the margins remained stable.

The credit risk situation in Volkswagen Financial Services AG's overall portfolio improved slightly in fiscal year 2019 as a result of the reorganization of the legal entities and portfolio growth. The established sales promotion programs with the brands, continuous expansion of the fleet business and the integration of Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom, ŠkoFIN s.r.o., Prague, Czech Republic, Volkswagen Financial Services S.p.A., Milan, Italy, Volkswagen Renting S.A. Alcobendas (Madrid), Spain, and Volkswagen Finans Sverige AB, Södertälje, Sweden, led to significant growth in the volume of loans and receivables. This growth was also boosted by the stable economic environment in the European markets and the economic recovery trend in Brazil.

The residual value portfolio continued to expand in fiscal year 2019 as a result of the portfolio transfers referred to above (particularly by Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom). This had a posi-

tive impact on the risk position. These trends were supported by the solid global economic environment.

Changes in residual value risk continue to be closely monitored on an ongoing basis, leading to corresponding measures where required.

At the level of the Volkswagen Financial Services AG Group overall, liquidity risk remained stable. In 2019, the liquidity situation was significantly impacted by the transfer of portfolios and entities from the sister entity of Volkswagen Bank GmbH (Group) to the Volkswagen Financial Services AG Group.

The funding structure remained well diversified in terms of the instruments used. The main sources of funding, comprising capital markets, ABSs, funding through banks and deposits in individual markets developed stable at Group level.

The global, intercompany efficiency program referred to as Operational Excellence (OPEX), which was launched in fiscal year 2017, has been a success and is currently being continued.

OPEX is focused on achieving further cost savings by 2025 in addition to the requirements under current planning.

The main components are initiatives to enhance productivity (amongst other things by streamlining processes), optimization of distribution costs and the harmonization of IT systems through the global introduction of standardized systems.

Events after the balance sheet date are reported in the notes to the consolidated financial statements of Volkswagen Financial Services AG in note 72 (page 157).

The Board of Management of Volkswagen Financial Services AG considers the course of business in 2019 to have been positive.

CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2019 COMPARED WITH PRIOR-YEAR FORECASTS

	Actual 2018		Forecast for 2019	Actual 2019
Nonfinancial performance indicators¹				
Penetration (percent)	22.3	> 22.3	Slightly higher than in the previous year	26.1
Current contracts (thousands)	10,164	> 10,164	Significantly higher than in the previous year	14,813
New contracts (thousands)	4,019	> 4,019	Significantly higher than in the previous year	5,655
Financial performance indicators				
Volume of business (€ million)	53,581	> 53,581	Significantly higher than in the previous year	88,852
Operating profit (€ million)	844	> 844	Significantly higher than in the previous year	1,223
Return on equity (percent)	10.5	> 10.5	Slightly higher than in the previous year	12.6
Cost/income ratio (percent)	59	= 59	At prior-year level	54

DEVELOPMENTS IN THE GLOBAL ECONOMY

The global economy sustained its robust growth in 2019 with a decrease in momentum: global gross domestic product (GDP) rose by 2.6 (3.2)%. Economic momentum weakened compared with the previous year, both in advanced economies and emerging markets. With interest rates remaining comparatively low and prices for energy and other commodities falling year-on-year on the whole, consumer prices also declined worldwide. Growing upheaval in trade policy at international level and continuing geopolitical tensions led to much greater economic uncertainty and resulted in a wane in the international trade of goods.

Europe/Other Markets

GDP growth in Western Europe slowed to 1.2 (1.8)% as the year went on. The rate of change in nearly all countries in northern and southern Europe declined compared with the previous year. The uncertain outcome of the Brexit negotiations between the United Kingdom and the European Union (EU) continued to generate uncertainty, as did the related question of what form this relationship would take in the future. The unemployment rate in the eurozone continued to decrease, falling to an average of 7.5 (8.1)%, though rates remained considerably higher – albeit declining – in Greece and Spain.

At 2.3 (3.3)%, the Central and Eastern Europe region also recorded a slower growth rate in the reporting period than in the previous year. In Central Europe, GDP growth tapered off at a relatively high level. Economic growth in Eastern Europe was also weaker. Lower prices for energy and other commodities led to a deterioration in the economic situation of the individual countries from this region that export raw materials. At 1.1 (2.2)%, the growth of the Russian economy, the region's largest economy, halved compared with the previous year.

The Turkish economy showed a slightly positive rate of change of 0.5 (2.9)%. Increased tariffs along with the depreciation of the Turkish lira, which is accompanied by very high inflation, led to a decline in purchasing power. South Africa's GDP rose by just 0.2 (0.8)% in the reporting period, down further on the already low figure for the prior period. Ongoing structural deficits, social unrest and political challenges weighed on the economy.

Germany

Germany's GDP continued to grow in 2019 on the back of the strong labor market, though momentum diminished markedly year-on-year to 0.5 (1.5)%. Both business and consumer sentiment darkened further as the year progressed.

North America

Economic growth in the USA declined in the reporting period, reaching 2.3 (2.9)%. The economy was supported mainly by domestic consumer demand. The unemployment rate in the United States was at 3.7 (3.9)%. Given the global uncertainty, the US Federal Reserve lowered its key rate amid relatively steady inflation, thus reversing the tightening of monetary policy it had initiated in the meantime. The US dollar gained strength against the euro in the course of the year. Growth in Canada decreased to 1.6 (2.0)%, while the Mexican economy stagnated at a rate of 0.1 (2.1)%.

South America

Brazil's economy once again recorded only slight growth, at 1.1 (1.3)%. The situation in South America's largest economy remained tense due to political uncertainty, among other factors. The economic situation in Argentina deteriorated further as the year went on. Amid continuing high inflation and at the same time considerable devaluation of the local currency, the country remained in recession, with GDP falling by 2.6 (–2.5)%.

Asia-Pacific

At 6.2 (6.6)%, China's economy recorded a growth rate at a high level in 2019, but its rate of expansion was slightly lower than in the previous year. Government support provided in response to the trade policy dispute between China and the US continued in the course of 2019. The Indian economy saw growth of 4.8 (6.8)% in the reporting period. Japan's GDP grew by only 1.1 (0.3)%.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services were once again in high demand in 2019, despite a contraction in the overall market. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas. Service products such as maintenance and servicing agreements and insurance were especially popular, as customers in more advanced automotive financial services markets are putting greater focus on reducing total cost of ownership. In the fleet segment, more customers made use of support from automotive financial service providers in order to optimize their entire mobility management beyond mere fleet operation. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than ownership.

The European market saw a slight increase in demand for new vehicles overall in 2019. As a consequence, the recognition of new leases and financing agreements also increased marginally.

In France and Spain, the proportion of new vehicles that were financed or leased remained steady, but the volume of vehicles in this category rose sharply in Italy. Used vehicle sales in Europe went up slightly, although new leases and financing agreements for used vehicles contracted a little. Demand for after-sales products such as inspection, maintenance and spare parts agreements went up in the year under review. Automotive-related insurance also saw a small increase.

In Germany, the number of new vehicles that were leased or financed by loans continued to rise in the reporting period. After-sales products and integrated mobility solutions in the business customer segment were also the subject of greater demand.

Demand for financing and insurance products in South Africa declined slightly.

In the US and Mexican markets, automotive financial services remained very popular in fiscal year 2019. In the USA, the most notable feature was that the demand for leasing services through captive financial services providers remained high.

In Brazil, the consumer credit business was in line with the restrained positive trend seen in 2018. However, the country-specific financial services product Consorcio, a lottery-style savings plan, saw falling sales. In the period under review, almost half of the unit sales of new vehicles were accompanied by sales of financial services products.

In the Argentinian market, the sharp rise in interest rates following the recent economic crisis presented a challenge as far as sales of financing and leasing products were concerned.

Demand for automotive financial services across the Asia-Pacific region was mixed in fiscal year 2019. In China, the growth in new contracts slackened as a result of the contraction in passenger car sales. The easing of existing restrictions on registrations in metropolitan areas, combined with demand in the interior of the country and in the used vehicle market, creates considerable potential for selling automotive-related financial services to new customers. In India and Japan, demand for financial services products was slightly weaker.

The demand for financial services in the Commercial Vehicles Business Area also varied from region to region.

In Europe, financial services including after-sales registrations saw a slight increase compared to 2018.

In Brazil, the truck and bus business, together with the associated financial services market, enjoyed strong growth.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2019, the global market volume of passenger cars fell below the prior-year level for the second year in a row, decreasing to 79.6 million vehicles (-4.0%). While new registrations in Western Europe and in Central and Eastern Europe exceeded the prior-year figure, the overall markets in the Middle East, North America, South America and especially Asia-Pacific recorded a dip in demand.

Global demand for light commercial vehicles in the reporting period was down moderately on the previous year.

Sector-Specific Environment

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

In addition, non-tariff trade barriers to protect the respective domestic automotive industry 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 period was up 0.6% on the prior-year figure, at 14.4 million. New vehicle registrations were mixed in the largest single markets. France (+1.6%) slightly exceeded the previous year's figure.

While Italy stagnated (+0.3%), Spain recorded a moderate (-4.7%) decline. The UK passenger car market saw a weaker continuation of the negative trend from the previous years (-2.4%). This was due, among other things, to the uncertain outcome of the Brexit negotiations with the EU. The share of diesel vehicles (passenger cars) in Western Europe slipped to 32.0 (36.4)% in the reporting year.

Despite the uncertain outcome of the Brexit negotiations between the EU and UK, new light commercial vehicle registrations in Western Europe in the reporting period slightly exceeded the prior-year level; WLTP-related pull-forward effects provided a degree of stimulus.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2019 rose slightly by 2.7% year-on-year to 3.6 million vehicles. New passenger car registrations in the EU member states of Central Europe increased further by 5.8% to 1.5 million units. In Eastern Europe, passenger car sales matched the level of the previous year (+0.2%). Following a solid start in spite of the value-added tax increase as of January 1, 2019, the Russian passenger car market weakened as the year went on and was down the prior-year figure at the end of the reporting period (-2.2%).

Registration volumes of light commercial vehicles in Central and Eastern Europe were at the same level as the previous year, while the number of vehicles sold in Russia in the reporting period was distinctly lower than in the prior year.

The Turkish passenger car market recorded a substantial drop in demand of 20.4%, largely due to the deteriorating macroeconomic situation. In South Africa (-2.7%), the number of new passenger car registrations in the reporting period was below the comparatively low level seen in recent years, also due to slow macroeconomic momentum.

Germany

New passenger car registrations in Germany in the reporting period exceeded the previous year's high level, rising to 3.6 million units (+5.0%). In addition to the strong labor market and the rise in commercial demand, sales incentives, particularly in the form of an environmental bonus, underpinned the positive trend.

However, domestic production and exports once again fell short of the comparable prior-year figures in 2019: passenger car production decreased by 9.0% to 4.7 million vehicles, mainly due to the 12.8% drop in passenger car exports to 3.5 million units. This was primarily a result of the slowdown

in global market growth and markedly lower exports of passenger cars fitted with diesel engines.

Demand for light commercial vehicles in Germany in the reporting period was perceptibly higher than in 2018.

North America

At 20.2 million vehicles, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North America region in fiscal year 2019 were down slightly on the prior-year figure (-2.3%). The market volume in the USA also fell somewhat short of the level in 2018 at 17.0 million units (-1.6%). The shift in demand from traditional passenger cars (-10.1%) to light commercial vehicles such as SUVs and pickup models (+2.6%) also continued in the reporting period. In the Canadian automotive market, the downward trend that had begun in the previous year continued during the reporting period (-4.3%). In Mexico, sales of passenger cars and light commercial vehicles fell short of the prior-year figure (-8.2%) for the third year in a row.

South America

In the markets of the South America region, new registrations for passenger cars and light commercial vehicles decreased on the whole in 2019 to 4.3 million units (-5.0%). While in Brazil the recovery in the demand for automobiles continued, providing for a growth rate of 7.7%, new registrations, at 2.7 million, remained much lower than the record level achieved in 2012. Exports of vehicles manufactured in Brazil continued to decline, falling by 31.9% to 428 thousand units. In the Argentinian market, the deterioration in the macroeconomic situation once again had a negative impact on demand for passenger cars and light commercial vehicles, with sales figures declining drastically by 43.0%.

Asia-Pacific

Following slight decreases in 2018, the market volume of passenger cars in the Asia-Pacific region weakened further to stand at 34.0 million units at the end of the reporting period (-6.0%). This was largely due to falling demand in China and India. The trade dispute with the United States weighed on the Chinese market, leading to a distinct reduction (-6.4%). On the Indian market, passenger car sales dropped 11.9% in total compared with the previous year. The Japanese passenger car market fell 2.4% short of the prior-year volume.

Demand for light commercial vehicles in the Asia-Pacific region declined distinctly as against the previous year. Registration volumes in China, the region's dominant market and the largest market worldwide, fell markedly year-on-year. The number of new vehicle registrations in India saw a noticeable decrease versus the prior year, while in Thailand the number was on a level with the previous year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in fiscal year 2019 than in the previous year, with 609 thousand new vehicle registrations (+2.8%).

In Western Europe, the number of new truck registrations was up 3.1% on the prior-year figure at a total of 306 thousand vehicles. In Germany, Western Europe's largest market, the previous year's level was exceeded moderately. While demand in the United Kingdom rose markedly due to pull-forward effects caused by the uncertain outcome of the Brexit negotiations with the EU, demand in Italy decreased perceptibly.

The Central and Eastern Europe region saw demand recede by 6.7% to 159 thousand units owing to the deterioration in the economic climate. The Russian market contracted further as the year progressed, recording a distinct year-on-year de-

crease. New registrations there were down 6.9% to 73 thousand vehicles.

In fiscal year 2019, the market volume in South America rose markedly compared with the previous year, with the number of new vehicle registrations climbing 15.1% to 145 thousand units. In Brazil, the region's largest market, demand for trucks grew very sharply compared with the relatively low figure for the prior-year period as a consequence of the economic recovery. By contrast, Argentina saw new registrations fall substantially. This was due to weak economic performance with a related weakening of the peso and rising interest rates.

Demand for buses in the markets that are relevant for the Volkswagen Group was much higher than in the previous year. The markets in Brazil as well as in Western Europe contributed in particular to this growth. Demand in Central and Eastern Europe was moderately higher year-on-year.

GLOBAL DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP¹

	DELIVERIES OF VEHICLES		Change in percent
	2019	2018	
Deliveries of passenger cars worldwide	10,732,415	10,601,014	+ 1.2
Volkswagen Passenger Cars	6,278,345	6,244,888	+ 0.5
Audi	1,845,573	1,812,485	+ 1.8
ŠKODA	1,242,767	1,253,741	- 0.9
SEAT	574,078	517,627	+ 10.9
Bentley	11,006	10,494	+ 4.9
Lamborghini	8,205	5,750	+ 42.7
Porsche	280,800	256,255	+ 9.6
Bugatti	82	76	+ 7.9
Volkswagen Commercial Vehicles	491,559	499,698	- 1.6
Deliveries of commercial vehicles worldwide	242,221	232,994	+ 4.0
Scania	99,457	96,477	+ 3.1
MAN	142,764	136,517	+ 4.6

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

FINANCIAL PERFORMANCE

The significant changes were largely attributable to the reorganization of the legal entities previously stated.

In 2019, the global economy continued to enjoy robust expansion, although the pace of growth waned. Following the reorganization, Volkswagen Financial Services AG reported stable growth overall.

The operating result improved by a substantial 44.9% to €1,223 (844) million.

Profit before tax amounted to €1,264 (818) million, a significant improvement on the prior-year level.

Return on equity amounted to 12.6 (10.5)%.

Interest income from lending transactions and marketable securities was higher compared to the previous year and amounted to €2,116 million (+7.6%).

Net income from leasing transactions came to €1,926 (835) million, a significant increase compared with the equiv-

alent prior-year figure. The impairment losses on lease assets of €324 (216) million included here were attributable to normal market fluctuations and expectations.

Interest expenses were significantly higher than in the previous year at €1,352 million (+26.4%).

Net income from service contracts amounted to €190 (170) million and was above the prior-year figure.

Net income from insurance business was slightly higher than the prior-year figure at €155 million (+4.7%).

The provision for credit risks of €294 (221) million was significantly above the prior-year level. Credit risks to which the Volkswagen Financial Services AG Group is exposed, as a result of various critical situations (Brexit, economic crises) in the United Kingdom, Russia, Brazil, Mexico, India and the Republic of Korea, were accounted for in the reporting period by recognizing valuation allowances. These valuation allowances were decreased by €37 million year-on-year to €628 million.

The net fee and commission income amounted to €125 (220) million, significantly below prior-year levels. This decrease was attributable to a number of factors, most notably the higher expenses in China, for business expansion, and in Mexico.

General and administrative expenses were up on the previous year at €2,006 (1,632) million. This figure also includes costs associated with services for other entities in the Volkswagen Group. Accordingly, costs of €464 (421) million were passed on to other entities in the Volkswagen Group and reported under net other operating income/expenses. At 54 (59)%, the cost/income ratio was better than in the previous year.

At €482 million (+11.0%), net other operating income/expenses were above the previous year figure. An amount of €86 (95) million was recognized through profit or loss in net other operating income/expenses and added to the provisions for legal risks. The share of profits and losses of equity-accounted joint ventures rose year-on-year to €65 (51) million.

The net loss on miscellaneous financial assets of €14 (net loss of 76) million included impairment losses of €83 million in the reporting period in respect of an unconsolidated subsidiary in China. Together with the other income and expense components, these figures indicated that the Volkswagen Financial Services AG Group generated a profit from continuing operations, net of tax, of €890 million (+62.5%).

Under Volkswagen Financial Services AG's current control and profit-and-loss transfer agreement, a loss of €268 million reported by Volkswagen Financial Services AG in its single-entity financial statements prepared in accordance with HGB was absorbed by the sole shareholder Volkswagen AG.

The German companies continued to account for the highest business volumes with 32% of all contracts, forming a strong and solid foundation.

Once again in 2019, Volkswagen Leasing GmbH was able to increase the number of leases compared with the previous year, despite tough conditions. The operating result fell short of the level achieved in the previous year.

In the vehicle insurance segment, Volkswagen Autoversicherung AG continued to expand its activities in 2019. Volkswagen Autoversicherung AG's portfolio now consists of well over half a million policies (528 thousand vehicle insurance and guaranteed asset protection insurance policies) and at the end of the reporting year was above the prior-year level. Notably, the new vehicle insurance business saw a significant year-on-year increase.

In 2019, Volkswagen Versicherung AG was operating primary and reinsurance business in 14 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 Versicher-

ung AG, has contributed to the successful performance of these companies. Overall, the activities of Volkswagen-Versicherungsdienst GmbH help to support the earnings of Volkswagen Financial Services AG on a steady basis.

NET ASSETS AND FINANCIAL POSITION

Lending Business

At €102.0 billion in total, loans to and receivables from customers and lease assets – which makes up the core business of the Volkswagen Financial Services AG Group – accounted for approximately 91% of the Group's total assets.

The volume of retail financing lending rose by €4.1 billion to €20.7 billion (+24.2%).

The number of new contracts came to 1,268 thousand, above the prior-year level (1,140 thousand). The number of current contracts stood at 2,915 thousand at the end of the year.

The 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 €5.4 billion (+33.3%).

Receivables from leasing transactions amounted to €40.0 billion and were €20.2 billion up on the previous year.

Lease assets recorded growth of €9.7 billion to €22.8 billion (+74.1%).

A total of 1,300 thousand new leases were entered into in the reporting period. The number of lease vehicles as of December 31, 2019 was 3,359 thousand. As in the previous year (1,436 thousand), the largest contribution to business growth again came from Volkswagen Leasing GmbH, which had a contract portfolio for 1,455 thousand lease vehicles (+1.3%). Total assets of the Volkswagen Financial Services AG Group rose to €112.4 billion (+39.7%). This increase arose largely as a consequence of the reorganization of the legal entities referred to earlier as well as growth in the loans to and receivables from customers and in the lease assets of the entities previously forming part of the basis of consolidation in the Volkswagen Financial Services AG Group, thereby reflecting the expansion in business over the reporting year.

The number of service and insurance contracts at the year-end was 8,539 thousand. The new business volume of 3,087 thousand contracts was up on the prior-year figure (2,081 thousand).

Deposit Business and Borrowings

In terms of capital structure, the significant liability items included liabilities to banks in the amount of €14.5 billion (+17.7%), liabilities to customers amounting to €15.7 billion (+27.5%) and notes, commercial paper issued of €60.9 billion (+48.5%). Information on the funding and hedging strategy is provided in a separate section of the management report.

Subordinated Capital

The subordinated capital increased by 63.6% year-on-year to €4.9 billion.

Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at €441 million in fiscal year 2019. Equity in accordance with IFRSs was €12.0 (8.0) billion. This resulted in an equity ratio of 10.7% (equity divided by total assets) based on total assets of €112.4 billion.

Changes in Off-Balance-Sheet Liabilities

Off-balance-sheet liabilities increased by a total of €110 million year-on-year to €812 million as of December 31, 2019.

KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2019

in thousands	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other companies ¹	VW FS AG Group
Current contracts	4,701	1,809	639	1,274	575	705	5,111	14,813
Retail financing	–	9	84	1,236	414	231	941	2,915
of which: consolidated	–	9	84	1,236	414	231	518	2,492
Leasing business	1,439	996	148	38	16	66	657	3,359
of which: consolidated	1,439	996	148	–	2	66	441	3,092
Service/insurance	3,262	803	408	–	145	408	3,513	8,539
of which: consolidated	3,262	760	223	–	73	408	1,772	6,497
New contracts	1,895	638	115	637	323	244	1,802	5,655
Retail financing	–	16	12	612	224	72	333	1,268
of which: consolidated	–	16	12	612	224	72	195	1,130
Leasing business	682	271	33	25	11	34	244	1,300
of which: consolidated	682	271	33	–	0	34	161	1,182
Service/insurance	1,213	351	70	–	89	138	1,225	3,087
of which: consolidated	1,213	339	38	–	44	138	601	2,373
€ million								
Loans to and receivables from customers attributable to								
Retail financing	–	234	957	8,250	3,238	1,376	6,657	20,712
Dealer financing	9	5	261	941	568	614	3,015	5,413
Leasing business	19,018	15,894	1,256	–	18	514	3,251	39,951
Lease assets	13,940	3,110	1,477	–	7	135	4,107	22,776
Investment ²	6,737	940	236	–	0	1	1,851	9,765
Operating profit/loss	232	235	20	186	131	128	291	1,223
Percent								
Penetration ³	48.5	44.7	60.4	14.0	42.0	49.0	–	26.1
of which: consolidated	48.5	44.7	60.4	13.7	39.7	49.0	–	24.0

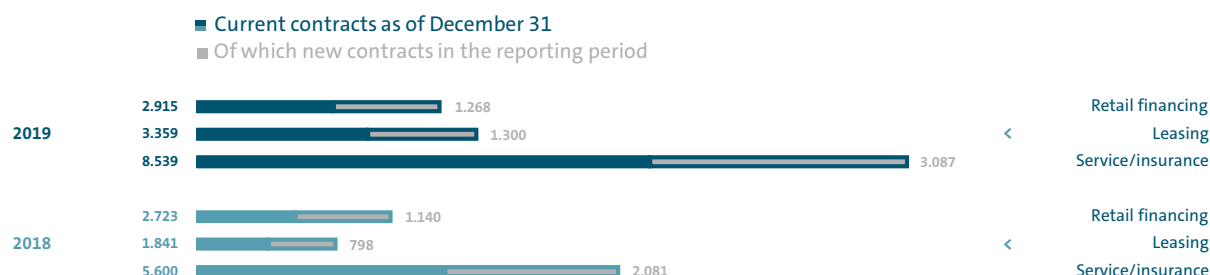
1 The Other Companies segment covers the following markets: Australia, Belgium, France, India, Italy, Japan, Korea, Poland, Portugal, and Russia. Relating to the number of contracts and penetration, it also covers the following markets: Argentina, the Netherlands, Norway, Switzerland, South Africa, Taiwan and Turkey. It also includes the Volkswagen Financial Services AG holding company, the holding and financing companies in Belgium, France and the Netherlands, EURO-Leasing companies in Denmark, Germany and Poland, Volkswagen Insurance Brokers GmbH, Volkswagen Versicherung AG 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, based on Volkswagen Financial Services AG's consolidated entities.

DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31

in thousands



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 other banks and with Volkswagen AG are also available to protect against unexpected fluctuations in cash flows. It is generally expected that credit facilities will be used. The purpose of the committed credit facilities with Volkswagen AG is solely to provide liquidity backup; they are not expected to be utilized 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 twelve 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. A Group limit for Volkswagen Financial Services AG is also determined and managed appropriately; 77% of this limit was utilized as of December 31, 2019.

Various subsidiaries of Volkswagen Financial Services AG must satisfy a range 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 reviewed as part of the liquidity risk management system. Additionally, the cash flows for the coming twelve months are projected and compared against the potential funding available in each maturity band.

A further strict requirement imposed under banking regulations is that any liquidity requirements identified in institu-

tion-specific stress scenarios must be covered by providing an adequate liquid cash buffer over seven-day and thirty-day time horizons. No immediate need to take action was identified for Volkswagen Leasing GmbH in the reporting year from a regulatory or economic perspective.

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 on a long-term basis at optimum terms.

Implementation

Volkswagen Financial Services AG and its subsidiaries issued a number of bonds in different currencies during the year under review. In addition to euro bonds, bonds denominated in pound sterling, Swedish krona, Norwegian krone and Japanese yen were issued under Volkswagen Financial Services AG's debt issuance program. Bonds based on local documentation requirements were also issued in local capital markets outside Europe, such as Australia, Brazil, Mexico, India and Russia. In addition, the placement of asset-backed securities (ABSs) was very successful.

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 China, Australia, Japan and Brazil.

The issuance of commercial paper and the use of bank credit lines 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 eliminated by using derivatives.

The following tables show the transaction details:

CAPITAL MARKET

Issuer	Month	Country	Volume and currency	Maturity
Volkswagen Financial Services N.V., Amsterdam	January	Germany	EUR 520 million	3 years
OOO Volkswagen Bank RUS, Moskau	February	Russia	RUB 10 billion	3 years
Volkswagen Financial Services N.V., Amsterdam	February	United Kingdom	GBP 350 million	4.4 years
Volkswagen Financial Services AG, Braunschweig	February	Germany	EUR 500 million	2 years
Banco Volkswagen S.A., São Paulo	February	Brazil	BRL 500 million	2 years
Volkswagen Financial Services AG, Braunschweig	April	Germany	EUR 2.75 billion	3, 4.5 and 7.5 years
Volkswagen Financial Services N.V., Amsterdam	April	Norway	NOK 1 billion	3 years
Volkswagen Financial Services N.V., Amsterdam	April	Schweden	SEK 1 billion	2 years
Volkswagen Financial Services Australia Pty. Ltd., Chullora	April	Australia	AUD 500 million	4 years
Volkswagen Leasing GmbH, Braunschweig	May	Germany	EUR 750 million	1.5 years
Volkswagen Leasing GmbH, Braunschweig	June	Germany	EUR 400 million	3 years
Volkswagen Leasing GmbH, Braunschweig	June	Germany	EUR 1.75 billion	3 and 7 years
Volkswagen Leasing Mexico S.A. de C.V., Puebla	June	Mexico	MXN 2.5 billion	2 years
Volkswagen Financial Services N.V., Amsterdam	June	Schweden	SEK 500 million	2 years
Volkswagen Financial Services N.V., Amsterdam	June	United Kingdom	GBP 350 million	5 years
Volkswagen Financial Services N.V., Amsterdam	July	Norwegen	NOK 500 million	3 years
Volkswagen Leasing GmbH, Braunschweig	August	Germany	EUR 600 million	2 years
Volkswagen Financial Services Australia Pty. Ltd., Chullora	August	Australia	AUD 350 million	5 years
Volkswagen Financial Services N.V., Amsterdam	August	United Kingdom	GBP 300 million	3.3 years
Volkswagen Finance Pvt. Ltd., Mumbai	August	India	INR 3 billion	1.5 and 1.7 years
Volkswagen Financial Services N.V., Amsterdam	September	Schweden	SEK 500 million	3 years
Volkswagen Financial Services Japan Ltd., Tokio	September	Japan	JPY 4.5 billion	3 years
Volkswagen Financial Services Japan Ltd., Tokio	September	Japan	JPY 2.1 billion	3 years
Banco Volkswagen S.A., São Paulo	October	Brazil	BRL 530 million	2 years
Banco Volkswagen S.A., São Paulo	October	Brazil	BRL 220 million	3 years
Volkswagen Financial Services N.V., Amsterdam	November	Norway	NOK 1 billion	3 years
Volkswagen Financial Services N.V., Amsterdam	December	United Kingdom	GBP 350 million	5 years
Volkswagen Leasing Mexico S.A. de C.V., Puebla	December	Mexico	MXN 2.5 billion	3.5 years
Volkswagen Financial Services Japan Ltd., Tokio	December	Japan	JPY 2 billion	3 years

ABS

Issuer	Transaction name	Month	Country	Volume and currency
Volkswagen Financial Services Japan Ltd., Tokio	Driver Japan eight	February	Japan	JPY 69.5 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 28	April	Germany	EUR 1.0 billion
Banco Volkswagen S.A., São Paulo	Driver Brasil four	July	Brazil	BRL 1.0 billion
Volkswagen Financial Services Australia Pty. Ltd., Chullora	Driver Australia six	October	Australia	AUD 1.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 29	November	Germany	EUR 1.0 billion
Volkswagen Finance China Co. Ltd., Beijing	Driver China nine	November	China	CNY 6.0 billion

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. Following the transfer of Volkswagen Bank GmbH to become a direct subsidiary of Volkswagen AG in 2017, this association between ratings has become even closer.

In September 2019, S&P confirmed its short-term and long-term ratings for Volkswagen Financial Services AG at A-2 and BBB+ respectively. The outlook was classed as stable throughout the year. Moody's left the short- and long-term credit ratings for Volkswagen Financial Services AG unchanged at P-2 and A3 respectively; the most recent confirmation of the ratings was in July 2019. The stable outlook applied to the whole of 2019.

Volkswagen Financial Services AG

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2019

Volkswagen Financial Services AG reported a result from ordinary activities amounting to a loss of €268 million for fiscal year 2019.

Sales revenue amounted to €612 (538) million, with cost of sales coming to €606 (538) 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 €8 (15) million, with other operating expenses amounting to €17 (59) million. Other operating income included income from the reversal of provisions amounting to €4 million. Other operating expenses included issue and rating costs of €10 million.

Net investment income declined by €468 million to a net expense of €4 (net income of 464) million. This decrease arose primarily because of Volkswagen Leasing GmbH's loss of €212 (profit of 211) million and a fall in Volkswagen-Versicherungsdienst GmbH's earnings by €31 million to €27 million.

The loss after tax of €268 million will be absorbed by Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

Long-term financial assets rose by 10.1% to €9,023 million. This change was caused by the increase of €942 million in shares in affiliated companies. Some of this increase was offset by a contraction in equity investments of €204 million. Other changes in long-term financial assets resulted from loan increases of €91 million. Write-downs of €82 million and reversals of write-downs amounting to €34 million were recognized in respect of shares in affiliated companies and equity investments.

Receivables from affiliated companies rose by €3,827 million (86.5%). This increase was predominantly attributable to time deposits and loans as well as to cash deposits. Loans to and receivables from other investees or

investors increased by €775 million (17.9%), and were mainly attributable to time deposits and loans.

The increase in provisions of €79 million (16.8%) arose mainly from higher provisions for pensions of €50 million.

Bonds rose year-on-year by €2,250 million to €8,350 million, an increase of 36.9%.

Liabilities to banks in connection with borrower's note loans rose by €500 million or 38.5% to €1,798 million. Liabilities to affiliated companies went up by €1,498 million (28.9%), largely as a result of a new fixed-rate loan from Volkswagen AG. A sum of €1,000 million was distributed to Volkswagen AG from the previous year's net retained profits. Volkswagen AG paid an amount of €1,000 million into the capital reserves. Capital reserves also increased by €617 million as a result of the contribution of shares in affiliated companies by Volkswagen AG and Volkswagen Bank GmbH.

The equity ratio was 16.7 (18.5)%. Total assets at the end of the reporting period amounted to €22,440 million.

NUMBER OF EMPLOYEES

Volkswagen Financial Services AG had a total of 5,275 (5,163) employees as of December 31, 2019. Employee turnover of less than 1.0% was significantly below the industry average.

The employees of Volkswagen Financial Services AG also work for the subsidiaries because of the structure of the German legal entities in the Volkswagen Financial Services AG Group. At the close of 2019, 798 (794) employees were leased to Volkswagen Leasing GmbH. In addition, 170 (148) employees were leased to Volkswagen Insurance Brokers GmbH, 82 (86) employees to Volkswagen Versicherung AG, 10 (8) employees to Volkswagen Autoversicherung AG, 161 (163) employees to MAN Financial Services GmbH and 2,713 (2,658) employees to Volkswagen Financial Services Digital Solutions GmbH.

Volkswagen Financial Services AG employed 131 (132) vocational trainees as of December 31, 2019.

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 specified under commercial law, 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 (pages 3 and 4) as well as in the report on opportunities and risks (pages 21 to 29) of this annual report.

INCOME STATEMENT OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, FOR FISCAL YEAR 2019

€ million	2019	2018
Sales	612	538
Cost of sales	-606	-538
Gross profit on sales	6	0
General and administrative expenses	-200	-200
Other operating income	8	15
Other operating expenses	-17	-59
Net income from long-term equity investments	-4	464
of which income under profit and loss transfer agreements	231	440
of which expenses from absorption of losses	-236	-15
Financial result	-75	-228
of which income from affiliated companies	53	36
of which expenses from affiliated companies	-19	-14
Taxes on income	14	-141
Result after tax	-268	-149
Profits transferred under a profit-and-loss transfer agreement	-	-
Losses absorbed under a profit-and-loss transfer agreement	268	149
Net income	-	-
Profit brought forward	2	2
Amount withdrawn from capital reserves	0	1,000
Net retained profits	2	1,002

BALANCE SHEET OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS OF DECEMBER 31, 2019

€ million	Dec. 31, 2019	Dec. 31, 2018
Assets		
A. Fixed assets		
I. Financial assets	9,023	8,194
	9,023	8,194
B. Current assets		
I. Receivables and other assets	13,401	8,785
II. Cash-in-hand and bank balances	1	0
	13,402	8,785
C. Prepaid expenses	15	9
Total assets	22,440	16,988
Equity and liabilities		
A. Equity		
I. Subscribed capital	441	441
II. Capital reserves	3,216	1,600
III. Retained earnings	100	100
IV. Net retained profits	2	1,002
	3,759	3,143
B. Provisions	547	468
C. Liabilities	18,127	13,376
D. Deferred income	7	1
Total assets	22,440	16,988

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 the risk report presents a detailed description of the risks.

Macroeconomic Opportunities and Risks

The Board of Management of Volkswagen Financial Services AG anticipates that deliveries to customers of the Volkswagen Group in 2020 will be around the level of the previous year as there is unlikely to be any change in the challenging market conditions. Volkswagen Financial Services AG supports this positive trend by providing financial services products designed to promote sales.

The probability of a global recession is considered to be low overall. However, diminished rates of global economic growth or a period of below-average growth rates cannot be ruled out. The macroeconomic environment could also give rise to opportunities for Volkswagen Financial Services AG if actual trends turn out to be better than the forecast.

Strategic Opportunities

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 (long-term rental, car sharing) are being systematically developed and expanded. Further opportunities may be created by launching established products in new markets.

The digitalization of its business represents a significant opportunity for Volkswagen Financial Services AG. The aim is to ensure that all key products are also available online around the world by 2020, thereby enabling the Company to enhance efficiency. By expanding digital sales channels, Volkswagen Financial Services AG is promoting direct sales and facilitating the extension of the used vehicle financing platform. In this way, changing customer needs are 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. A situation in which the incurred losses are lower than the expected losses can occur particularly in individual countries where economic uncertainty dictates a conservative risk approach but the economic circumstances then stabilize, resulting in an improvement in the credit quality of the borrowers concerned.

Opportunities from Residual Value Risk

When vehicles are remarketed, Volkswagen Financial Services AG may be presented with the opportunity to achieve a price that is higher than the calculated residual value if increasing demand pushes up market values more than expected.

KEY FEATURES OF THE INTERNAL CONTROL SYSTEM AND THE INTERNAL 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, efficiency and propriety of the financial reporting and the compliance with the relevant legal requirements. The internal risk management system (IRMS) as regards the accounting process refers to the risk of misstatement in the bookkeeping at the Company and Group level as well as in external financial reporting. The sections below describe the key elements of the ICS/IRMS as they relate to the financial reporting process of 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, ICS Steering, Compliance & Integrity (ICS Steering) and Controlling units, 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 requirements 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. What companies are included in the consolidation has been defined along with a mandatory requirement to use 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 reports submitted at Group level by the auditor, 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. These controls are supplemented with specific Group-level functions at the parent company Volkswagen AG, for example the Group Tax department.

- > 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, 2019 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.

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 as part of its primary operating activities. It accepts risks in a responsible manner so that it can exploit any resulting market opportunities.

An internal control system based on a Three-Lines-of-Defense model has been implemented to manage risks in the Volkswagen Financial Services AG Group. 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 the adequacy of the risk management. Firstly, the relevant risk owner for individual types of risk continuously monitors and manages risks, which are pooled by the ICS Steering unit and reported to the Board of Management. Secondly, the individual elements in the system are regularly verified on a risk-oriented basis by Internal Audit and by external auditors as part of the audit of the annual financial statements.

The Chairman of the Board is responsible for risk monitoring and credit analysis within Volkswagen Financial Services AG. In this role, the Chairman of the Board 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 (ICS Steering unit) 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 ICS Steering unit is to provide framework constraints 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), developing and maintaining methodologies and processes relevant to risk management as well as issuing international framework standards for the procedures to be used around the world.

ICS Steering is a neutral, independent unit that reports directly to the Chairman of the 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. The 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.

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 ROUTE2025 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 attainment of goals is reviewed annually and any variances are analyzed to establish the causes.

The focus of the risk strategy, which is adopted and communicated by the Board of Management and applies throughout the Group, is based on risk appetite and the management requirements for each risk category and risk process. The risk appetite and management requirements are defined on a regular basis for all categories of risk that have been deemed material by the Board of Management. Risk appetite and management requirements 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 for the individual risk categories are set out in operational requirements as part of the planning round in accordance with management requirements.

PRODUCT TRANSPARENCY AND NEW MARKET PROCESS

Before launching new products or commencing activities in new markets, Volkswagen Financial Services AG carries out processes – with the involvement of departments such as controlling and IT – to ensure that the Company is aware of the effects and requirements 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 different Volkswagen Group brands, results in concentrations of risk, which can take various forms.

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

- > just a few borrowers/contracts account for a large proportion of the loans (counterparty concentrations)
- > a small number of sectors account for a large proportion of the loans (sector concentrations)
- > many of the loans are to businesses within a defined geographical area (regional concentrations)
- > loans/receivables are secured by just one type of collateral or by a limited range of collateral types (collateral concentrations)
- > 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 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 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 also 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.

MATERIAL RISK CATEGORIES AND RISK REPORTING

A risk survey has identified the following risk categories as material to Volkswagen Financial Services AG: credit risk, residual value risk, earnings risk, shareholder risk, operational risk, liquidity risk, interest rate risk, strategic risk, reputational risk, risks of insurance companies, compliance and integrity risks.

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 RISK CATEGORIES

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

FINANCIAL RISKS

Credit Risk

Credit risk is defined as the danger of incurring losses as a result of defaults in customer business, specifically the default of the borrower or lessee. Loans to and receivables from Volkswagen Group companies are also included in the analysis. The default is caused by the borrower’s or lessee’s insolvency or unwillingness to pay. This includes a situation in which the counterparty does not make interest payments or repayments of principal on time or does not pay the full amounts.

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 ICS Steering.

If a loan default materializes, this represents the loss of a business asset, which has a negative impact on financial position and financial performance, depending on the

amount of the loss. 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 procedural instructions outlines the requirements for developing and maintaining the local rating systems. Similarly, “golden rules” specify 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 credit worthiness 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 credit worthiness. The rating determined for the customer serves as an important basis for decisions on whether to grant or renew a loan and for decisions on provisions. The models in use are largely centrally validated and monitored on a regular basis, and are adjusted and refined as required.

Scoring systems in the retail business

For the purposes of determining the credit quality of retail customers, scoring systems are incorporated into the processes for credit approval and for evaluating the existing portfolio. These scoring systems provide an objective basis for credit decisions. The systems use information about the borrower available internally and externally and estimate the probability of default for the requested loan, generally with the help of statistical methods based on historical data covering a number of years. An alternative approach adopted for smaller or low-risk portfolios also uses generic, robust scorecards and expert systems to assess the risk involved in credit applications. To classify the risk in the credit portfolio, both behavioral scorecards and straightforward estimation procedures at risk pool level are used, depending on portfolio size and the risk inherent in the portfolio. 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, analyzed and adapted.

Provisions

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

With regard to impaired loans and receivables, a distinction is also made between significant and insignificant loans and receivables. Specific provisions are recognized for significant impaired loans and receivables, whereas specific provisions evaluated on a group basis are recognized for insignificant impaired loans and receivables. Portfolio (global) provisions are recognized to cover impaired loans or receivables for which no specific provisions have been recognized.

ICS Steering 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. To this end, exposures are transferred to a suitable form of supervision or support depending on risk content (normal, intensified or problem loan). Credit risk is also managed using reporting limits determined by Volkswagen Financial Services AG and specified separately for each individual company in accordance with the support strategy for the international subsidiaries. Regular reporting, business financial reviews and the yearly planning process are used to monitor credit risk at portfolio level.

CHANGES IN CREDIT RISK

Credit risk ¹	Dec. 31, 2019	Dec. 31, 2018
Amount utilized (€ million)	100,962	65,995
Default rate in %	1.6	2.3
Impairment ratio in %	1.8	2.3

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. The provisions exceed the actual losses incurred.

Country Risk

Country risk refers to risks in international transactions that are not attributable to the counterparty itself but that arise because of the counterparty's domicile in a country outside Germany. For example, political or economic trends caused by a crisis or difficulties affecting the entire financial system in the country concerned may mean that cross-border services involving the movement of capital cannot be carried out because of transfer problems attributable to action implemented by the foreign government in question. Country risk would need to be taken into particular account when in connection with funding and equity investment activities involving foreign companies and with the lending and leasing business operated by the local companies. Given the focus of business activities in the Group, there is little chance that country risk (such as foreign exchange risks or legal risks) will arise. In addition, the causes of country risk are inevitably reflected in the other direct and indirect risk categories involved (e.g. credit risk).

Volkswagen Financial Services AG does not generally have any significant cross-border loans to borrowers outside the basis of consolidation. The conventional country risk analysis is not applicable to intercompany lending because, if the difficulties described above were to occur, the funding of the Group entities through lending could be extended if necessary, thereby ensuring that the entities could continue to operate in the strategic market concerned.

In 2019, the Brexit negotiations in the United Kingdom did not have any impact on the risk situation of Volkswagen Financial Services AG. Nevertheless, the risk situation continues to be closely monitored so that the Company can respond proactively to any emerging developments. Various scenarios were analyzed in 2019 in connection with the approach of Brexit, allowing the Company to be prepared for all eventualities.

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.

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, 2019, 77% of the limit was utilized.

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.

A distinction is made between direct and indirect residual value risk in relation to the bearer of this risk. Direct residual

value risk refers to residual value risk borne directly by 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 of the remeasurement date of the remarketing proceeds on expiration 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 a 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 in connection with determining residual value is generally quantified using a methodology similar to that applied for 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, 2019	Dec. 31, 2018
Number of contracts	2,134,455	848,538
Guaranteed residual values (€ million)	27,678	11,062
Risk exposure in % ²	3.9	6.3

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

² Prior-year figures adjusted.

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 risks. On the basis of this mandatory outer framework, the division/markets monitor and control their business policy activities, planning, decisions, etc. in compliance with their assigned authority. Regular reporting, business financial reviews and the yearly planning process are used to monitor residual value risk at portfolio level.

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 expected cash flows at Volkswagen Financial Services AG are brought together and evaluated in operations serviced by the Treasury unit 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 twelve months. A broad diversification of funding maturities is therefore necessary to ensure compliance with the limits. To manage liquidity, the Operational Liquidity Committee (OLC) holds meetings every four weeks at which it monitors the current liquidity situation and the range of liquidity coverage. It decides on funding measures and prepares any necessary decisions for the decision-makers. ICS Steering communicates the main risk management information and relevant early warning indicators relating to liquidity risk. As of December 31, 2019, 77% of the limit was utilized.

Earnings Risk

Earnings risk refers to the risk that actual figures will vary from the budgeted income statement earnings in the management strategy for the Volkswagen Financial Services AG Group. It is derived from any variance in the actual income (negative variance) and actual expenses (positive variance) in comparison with the budgeted figures.

The risk is largely determined by the business strategy and internal business planning as well as by changes in general operating parameters (such as the level of sales in the Volkswagen Group, business volume, technical processes, competitive environment).

Earnings risk is quantified on the basis of the anticipated deviation of the operating result from the budget. To this end, the trends in actual figures compared with forecasts are monitored at market level during the course of the year. This comparison is included in the standard reporting procedure carried out by Controlling.

Risks of Insurance Companies

The mission of the insurance companies in the Volkswagen Financial Services AG Group is to support sales of the Volkswagen Group's products. This is achieved in a number of ways, but mainly by offering guarantee insurance as a primary insurer 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 requirements of the European Insurance and Occupational Pensions Authority (EIOPA) 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.

If claims are excessive relative to the premium calculation, the risk situation of the portfolio must be reviewed.

The materiality of non-life, life and health 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 partially differing regulatory definitions. Depending on the insurance business involved, these risks may include the following:

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

The risks of insurance companies in the Volkswagen Financial Services AG Group therefore reflect the entire risk profile of the insurance companies and allow the risks to be managed using a dedicated system appropriate to the business mission.

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 financial position and 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 internally on an ongoing basis and the relevant data is stored. A standardized loss form is made available to the local experts to aid this process. The experts use this form to determine and record the relevant data, including the amount and cause of the loss.

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).

The ICS Steering unit checks the plausibility of the information provided by the companies/divisions in the risk self-assessments, reviews the reported loss events and then initiates any necessary corrective action, reviews the operational risk system to ensure it is fully functioning and 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, provided that the relevant specified criteria are satisfied.

The actual losses incurred as a result of operational risks amounted to €43.7 (69.8) million as of December 31, 2019.

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, litigation costs, etc. The responsibilities of the Corporate Communications unit 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 unit is then responsible for assessing the situation and initiating appropriate communications aimed at specific target groups to limit the reputational damage as far as possible. The strategic objective is therefore to prevent or reduce any negative variance between actual reputation and the level of reputation the Company expects. A loss of reputation or damage to the Company's image could have a direct impact on financial performance.

Compliance and Integrity Risks

At Volkswagen Financial Services AG, compliance risk refers to risks that could arise from non-compliance with statutory rules and regulations or internal requirements.

Separately, 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 Group's principles or the values of Volkswagen Financial Services, thereby presenting an obstacle to the long-term success of the business. Such risk can also result from inadequate conduct by the Company toward the customer, unreasonable treatment of the customer or provision of advice where products that are not suitable for the customer are used.

To counter these risks, the Compliance and Integrity function is committed to ensuring compliance with laws, other legal requirements, internal rules and self-proclaimed values, and fostering an appropriate compliance and integrity culture.

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. Responsibilities also include the development of an integrity management system with the aim of raising awareness of the ethical principles and code of conduct and helping employees to choose the right course of action in a responsible and resolute manner, based on their own personal conviction. 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.

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. The main instruments used to foster this culture are a tone-from-the-top approach, classroom training, and e-learning programs. 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. The Board of Management has also entered into a 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.

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 its core business. In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern.

SUMMARY

Risks remained at a constant level during the reporting year.

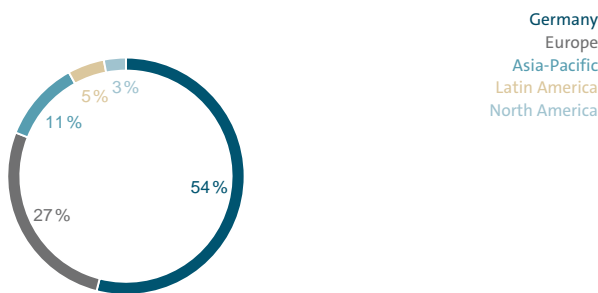
Human Resources Report

Strengthening leadership and management in digital times and fostering a willingness to change.

EMPLOYEES

The Volkswagen Financial Services AG Group had a total workforce of 10,773 (8,603) employees as of December 31, 2019. Of these, 5,763 (5,340), or 54%, were employed in Germany and 5,010 (3,263), or 46%, at international sites. Owing to economic considerations, 336 (364) employees of Volkswagen Servicios, S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures. The year-on-year increase in the number of employees resulted for the most part from restructuring within Volkswagen Financial Services and the associated reallocation of entities to the Volkswagen Financial Services AG Group.

EMPLOYEES BY REGION as of December 31, 2019



HUMAN RESOURCES STRATEGY

The ROUTE2025 program has created new areas of focus in terms of HR strategy. Five strategic areas of activity are listed under the heading “Top Employer/Top Employees”. These areas of activity are helping Volkswagen Financial Services AG to position itself as “The Key to Mobility”. With the support of the best employees, the objective is to continue to drive forward development around the other strategic cornerstones of customers, volume, profitability and operational excellence. Through the use of specific activities to develop and retain

personnel, coupled with performance-based profit sharing, the Company aims to encourage top performance, with the objective of ensuring outstanding customer service provided by top employees and still further improving its excellent globally recognized reputation as a top employer.

Responsibility for implementing the employee strategy at an international level lies with the international subsidiaries themselves, supported by the international HR unit at the head office. The Human Resources Strategy Card remains the most important management tool for implementing the HR strategy. The objectives and definitions set out in the tool provide local companies with a uniform basis to be applied around the globe. The local entities hold regular meetings with the head office – at least once a year – to report on their progress and share detailed information on this. Depending on the situation, support measures are agreed and/or highly positive examples are presented and discussed for the benefit of other branches in regional workshops and at the annual HR conference so that synergies can also be leveraged between the different local companies.

In the year under review, the strategic focus both in Germany and at the international sites was on strengthening employee willingness to change and on reinforcing leadership and management in times of digital transformation.

In 2019, the transformation office was set up in the Company as part of the internal labor market in Germany; its function is to assist the change process in the internal labor market. The transformation office, which is managed centrally at the Braunschweig facilities, makes appointments to vacant positions, primarily with existing employees whose previous function has been discontinued. This ensures that there is a transparent procedure at the site. The employees concerned receive assistance from the FS Academy in the form of special training, such as job application training and “QualiQuick” sessions. They are also given short motivational briefings. This is intended to promote employee willingness to change. The transformation office holds information events in the various departments and maintains continuous contact with employees and managers. It is a source of detailed advice and support in connection with all issues related

to the internal labor market. There are similar approaches at the international facilities.

In the context of leadership and management in times of digital transformation, a global program entitled “Leadership in Transformation” has been initiated. The objective is to provide managers with the skills they need to deal with the process of digital transformation. The three words “Learn – Inspire – Transfer” are intended to sum up the approach. To this end, in 2019, a global online platform was provided to deliver the learning content; leadership days were also organized, involving presentations to offer ideas and stimulus.

Furthermore, initial results were obtained from a voluntary pilot project to analyze language using the Precire system, which is based on artificial intelligence. This project raised awareness among the participants of the language that they use and of the impact of this language. It is also planned to extend the use of language analysis as a development tool. The aim is to help managers find the right way of communicating in times of change so that there is optimum support and engagement from employees.

In addition, many of the international subsidiaries arranged a variety of discussion sessions and workshops for managers and experts (for example in Spain, the United Kingdom, the Netherlands) as well as integrating the topic into the General Management Program – the professional development scheme for prospective managing directors.

The Company assesses the extent to which it has achieved its objective of being a top employer by regularly taking part in external employer competitions. The aim is to continue to enhance working conditions and implement corresponding action in an effort to be included in the list of TOP20 employers in the “Great Place to Work” employer ranking by 2025, not just in Europe but worldwide. A further step on the road to this objective was taken in 2019.

Volkswagen Financial Services AG was ranked number one in the relevant category by company size in both the “Best Employer in Lower Saxony-Bremen 2019” and “Best Employer in Germany 2019” competitions.

In a comparison within Europe, the Company was placed eleventh in a ranking of the top 25 European employers, which was an improvement on the twelfth place achieved in 2016. These results were based on the rankings in each country, for example sixth place in Norway and 28th place in Spain.

Customer satisfaction with the work of the employees is given top priority at Volkswagen Financial Services AG. The results of external and internal customer satisfaction surveys are used as indicators of target achievement. The internal customer feedback system, which analyses internal collaboration, has now been introduced in 22 countries.

Volkswagen Financial Services AG already offers competitive, performance-related remuneration. Performance appraisals are conducted as part of the annual staff dialogs in almost all international subsidiaries.

IMPLEMENTATION OF THE CORPORATE STRATEGY

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

Together4Integrity (T4I), an integrity and compliance program for the entire Group launched in the second half of 2018, was introduced in further countries in 2019, including the United Kingdom, China, Brazil, Russia and Mexico. The program focuses on the strategic issues of compliance, culture and integrity in relation to processes, structures, attitudes and conduct. It contributes to the refinement and improvement of the corporate culture at Volkswagen Financial Services AG by organizing and tracking integrity and compliance initiatives throughout the Group.

The HR unit is using its processes, tools, rules and policies to make a significant contribution to the creation of a working environment in which the values and conduct requirements of Volkswagen Financial Services AG are taken seriously. The objectives of the T4I initiatives assigned to the HR unit are to enshrine the issues of integrity and compliance in key HR processes (recruitment, professional development, remuneration, disciplinary processes and employee retention), giving these issues greater focus. The implementation of initiatives will continue throughout 2020 and in subsequent years in accordance with the framework plan for the Group.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

In 2019, 44 new vocational trainees/dual vocational training students started their professional careers at Volkswagen Financial Services AG in Braunschweig, focusing on specialist professional IT qualifications in application development and professional banking qualifications. The dual approach combines vocational training with study for a university degree. The Bachelor of Arts in Business Administration focusing on digital marketing & sales and financial services management is offered in collaboration with Welfenakademie e. V. and was initiated in a partnership with Volkswagen Financial Services AG. The combination of vocational training and studies for a Bachelor of Science in Business Informatics is offered in collaboration with Leibniz University of Applied Sciences. In 2019, vocational trainees

were once again recruited predominantly to train for specialist professional IT qualifications in application development, and dual vocational training students mainly to become business informatics specialists, with a view to designing vocational training on a forward-looking basis and incorporating the topic of digitalization. A degree study program in computer science is also offered at the Braunschweig University of Technology.

At EURO-Leasing GmbH, Sittensen, 2019 saw two vocational trainees begin their training for professional qualifications in fleet and international business, while one trainee commenced training for professional qualifications in office communications.

As of December 31, 2019, a total of 131 vocational trainees and dual vocational training students were employed in Germany across all levels and professions. In Germany, a total of 44 vocational trainees were offered permanent positions in the reporting period.

The company in Brazil also continues to offer young people the opportunity to receive vocational training.

Skilled, committed employees are the cornerstones of the success of Volkswagen Financial Services AG as a business. To ensure that the Company is structured to deal with future challenges, Volkswagen Financial Services AG is recruiting specialists and experts to complement what is already a strong workforce. It is hugely important for the Company to continuously analyze its own business, competitors and target groups, especially in view of the shortage of specialists in the IT sector.

Candidates are supported by a well-designed application process, which is quick, efficient and transparent, referred to as the Candidate Journey. An application using the e-recruiting tool takes less than five minutes and clears the administrative hurdle. This applies to both external and internal applications. The usual cover letter is no longer required. The selection procedure focuses on candidates and whether they are a suitable match for Volkswagen Financial Services AG and the position in question. On Match Day, applicants are provided with information on their intended area of employment and meet their potential colleagues. This is an opportunity for both sides to gain a first impression of working together in the future.

Volkswagen Financial Services AG also pursues a rigorous policy aimed at recruiting and retaining young talent. In addition to the 44 vocational trainees and dual vocational training students referred to above, who are recruited annually, there is a twelve-month trainee program for digital talents, which takes place both in Germany and abroad. This is another part of the foundations that help the Company to safeguard its future viability. The development program for young graduates is complemented by a three-year doctoral program. Collaboration agreements with universities, such as Hildesheim University, offer departments and students the opportunity to transfer knowledge from research to practice and vice versa, thereby facilitating regular information-

sharing on new methods and applications. In the area of data science and artificial intelligence (AI), such cooperation enables, for example, the Company to use state-of-the-art scientific methods for optimizing the calculation of vehicle residual values in the portfolio and for forecasting free parking places for the users of Volkswagen Financial Services AG's mobile parking apps.

"Success needs competence": this is the motto that drove Volkswagen Financial Services AG to establish the FS Academy for the financial services job family in 2013. The FS Academy aims to provide systematic, professional training for employees. The training needs of the various departments are assessed regularly. The results are used as a basis to expand training activities with a view to future viability.

The close relationship with the job family academies in the Volkswagen Group broadens the selection of available training opportunities and leverages synergies across the different job families.

The FS Academy training portfolio relating to electric mobility and digitalization is being constantly expanded in response to the ever-increasing significance of environmentally friendly and digital mobility concepts in the Volkswagen Group. The FS Academy is thereby making a significant contribution to the digital transformation within the Company. Using a variety of approaches, managers and employees are being trained in digital and agile concepts, technologies and methods, and are being prepared for the shifting requirements presented by day-to-day work in the digital age. Efforts are focused on imparting practical knowledge with a high degree of participant involvement and by means of digital learning formats, which can be used at any time in any location.

The FS Academy has also been focusing on expanding the development program geared toward building skills in classic and agile project management methods, with a view to establishing these as a strong point within the Company. The program also gives employees the opportunity to attain product owner and scrum master certification, enabling them to assume overall leadership responsibility in agile projects.

All information on training offered by the FS Academy (list of courses, specialist forums, lectures/presentations and e-learning sessions) is available centrally (with a booking option) via FS Academy Online, the Academy's dedicated digital learning platform. The learning platform supports the entire training process for employees, including the search for a suitable learning opportunity, registration, participation and, subsequently, the digital provision of materials, such as photographic material, handouts and participation certificates. In addition, employees can use FS Academy Online to participate in different types of digital learning formats such as e-learning. Thus, the new learning platform – which has been introduced in Germany, the Netherlands and Japan so far, and is gradually being rolled out to other countries –

provides the basis for a new learning culture that encourages employees to take on personal responsibility for learning.

The strategic approaches of FS values have been incorporated at Volkswagen Financial Services AG in Germany as part of the comprehensive training program for new and experienced managers; which is aimed at developing effective leadership and management skills. In addition to the mandatory and modular program “Erfolgreich durchstarten” (hit the ground running) for new and newly appointed managers, there are advanced modules for enhancing the management know-how of experienced managers, as well as the option of an individual review to assess the current level of a manager’s skills. The program is complemented by the “Boxenstopp Führung” (management pit stop), which gives all managers the opportunity to get information on current issues. Here they can obtain support for specific management situations; internal and external facilitators help them analyze and enhance their leadership skills.

Volkswagen Financial Services AG thus ensures consistent quality standards of management conduct and know-how, as well as a shared understanding of the leadership culture as set out by the FS Way for more than 350 employees with line management responsibilities.

The international subsidiaries also attach great importance to continuously enhancing management skills. The international leadership license standard, comprising training modules and a concluding assessment center event, has now been introduced in all international subsidiaries.

Furthermore, professional development has become internationally established as an integral part of management. Some international subsidiaries take care of management assessment centers (MAC) themselves or in collaboration with the Group brands in the country concerned. Alternatively, managers can participate in cross-regional MACs offered once or twice a year.

To promote an entrepreneurial spirit in Volkswagen Financial Services AG, an internal program known as FS.Start.Up has been running since 2018. In 2019, the program was once again open to any employees who wished to contribute business ideas, such as new business models, new product suggestions or process improvements, that are in line with the ROUTE2025 corporate strategy. The ideas were initially made accessible to anyone throughout the Company using a web-based platform. A shortlist was then drawn up, after which the employees were required to briefly pitch their ideas to a selection panel comprising members of the Board of Management and senior managers. The teams that were able to make a convincing presentation to the panel received supplementary funding for the support needed to take their ideas to the next stage.

CORPORATE GOVERNANCE DECLARATION

Increase in the Proportion of Women

As of December 31, 2019, women accounted for 48.1% of the workforce of Volkswagen Financial Services AG in Germany,

but this is not yet reflected in the percentage of women in management positions. Volkswagen Financial Services AG is striving to meet the targets it set itself in 2010 and revised in 2016 in line with the Gesetz zur gleichberechtigten Teilhabe von Frauen und Männern in Führungspositionen (FührungsGleichberG – German Act on the Equal Representation of Women and Men in Management Positions) with regard to the proportion of women in management, on the Board of Management and on the Supervisory Board. The Company has set itself the objective of increasing the proportion of women in management positions over the long term. As part of succession planning, female candidates are systematically considered with the aim of complying with the relevant targets.

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

Proportion of Women – Target and Actual Values for Germany

	Target 2023	Target 2019	Actual 2019
Second management level	27.8	26.0	24.7
First management level	16.8	13.3	13.2
Board of Management	16.7	–	25.0
Supervisory Board	25.0	–	41.7

Therefore, the target for the first management level in Germany was not quite met.

The Supervisory Board has set the following targets for the proportion of women to be achieved by the end of 2021: 25.0% for the Supervisory Board and 16.7% for the Board of Management. At the end of 2019, the proportion of women on the Supervisory Board was 41.7%; the equivalent figure for the Board of Management was 25.0%.

Volkswagen Financial Services AG also pays close attention to diversity, and therefore to the proportion of women, at an international level. In 2019, women held 21.5% of management positions globally. The proportion of women at the upper management level was 18.0%. Internationally, the overall proportion of women at Volkswagen Financial Services AG was 48.4% in 2019.

The Board of Management maintains the necessary transparency through regular progress reports.

DIVERSITY

In addition to the advancement of women, the concept of diversity has been an integral component of the corporate culture at Volkswagen Financial Services AG since 2002. Volkswagen Financial Services AG sent a clear signal with its corporate initiative, the Diversity Charter, which was signed in 2007. Under this initiative, the Company has pledged to respect and value diver-

sity, and to promote it in accordance with skills and ability. In 2018, Volkswagen Financial Services AG adopted a Diversity Policy to reinforce this approach and enshrined the policy in its organizational manual. The Diversity Policy ensures that diversity is recognized as the norm rather than an exception. Diversity becomes a strength through the conscious appreciation of the workforce. Volkswagen Financial Services AG operates at an international level and thus workforce diversity is a substantial factor in the successful performance of the business.

The Diversity wins@Volkswagen program, which is binding for all managers throughout the Group, makes a further contribution to fostering the concept of diversity. The aim of the program is to raise awareness of diversity and equal opportunities, to ensure that the added value of diversity is recognized and learned, and to develop an understanding of

the obstacles that need to be overcome on the way to diversity in the Company.

Volkswagen Financial Services AG promotes a family-friendly environment and offers numerous and continuously expanding initiatives and programs aimed at achieving the right work-life balance, such as various work-time models and company childcare facilities. "Frech Daxe", the company childcare facility of Volkswagen Financial Services AG, which is operated by Impuls Soziales Management GmbH & Co. KG, is in close proximity to the Company's offices. It has capacity for 180 children and offers flexible hours of care, as well as care for schoolchildren during school holidays, thus making a substantial contribution to helping employees achieve a work-life balance.

Report on Expected Developments

Global economic growth in 2020 is expected to continue at the prior-year level. Global demand for passenger cars will probably vary from region to region and remain at the 2019 level on the whole.

The main opportunities and risks arising from the operating activities having been set out 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.

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 forecasts are based on the assumption that global economic growth in 2020 will be at the same level as in the preceding year. We still believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by continuing geopolitical tensions and conflicts. We anticipate that momentum in both the advanced economies and the emerging markets will be similar to that seen in 2019. We expect to see the strongest rates of expansion in Asia's emerging economies.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2021 to 2024.

Europe/Other Markets

In Western Europe, economic growth in 2020 is likely to decline slightly compared to the reporting year. Resolving structural problems continues to pose a major challenge, as does the uncertain impact of the United Kingdom's exit from the EU.

In Central Europe, we estimate that growth rates in 2020 will remain approximately level with those for the past fiscal year. The economic situation in Eastern Europe should stabilize, providing the conflict between Russia and Ukraine does

not worsen. The Russian economy is expected to see only muted growth.

For Turkey, we anticipate a rising growth rate amid higher inflation. The South African economy will probably be dominated by political uncertainty and social tensions again in 2020 resulting, in particular, from high unemployment. Growth should therefore increase only slightly.

Germany

We expect that gross domestic product (GDP) in Germany will increase only at a low rate in 2020. The situation in the labor market will probably remain stable and bolster consumer spending.

North America

We assume that the economic situation in the USA will continue to be stable in 2020. GDP growth should be lower than in the reporting period, however. The US Federal Reserve could further reduce the key interest rate during 2020. Economic growth is likely to remain more or less stable in Canada. In Mexico, we expect it to increase slightly following stagnation in the previous year.

South America

The Brazilian economy will most likely stabilize in 2020 and record somewhat more dynamic growth than in the reporting period. Amid sustained high inflation, the economic situation in Argentina is expected to stay very tense.

Asia-Pacific

In 2020, the Chinese economy is expected to continue growing at a relatively high level, but will lose some of its momentum compared with prior years. The agreement on trade matters with the United States and fiscal policy by the government are likely to have a stabilizing impact, whereas a

further spread of the coronavirus may have a dampening effect on the economic development. For India, we anticipate an expansion rate on a similar scale to the previous years. In Japan, growth is forecast to remain weak.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We believe that automotive financial services will be extremely important for vehicle sales worldwide in 2020. We expect demand to continue rising in emerging markets where market penetration has so far been low, such as in China. Regions that already benefit from developed automotive financial services markets will see a continuation of the trend toward customers requiring mobility at the lowest possible total cost. Integrated end-to-end solutions, comprising mobility-related service modules such as insurance and innovative packages of services, will become increasingly important in this regard. Additionally, we expect demand to increase for new forms of mobility, such as car sharing, and for integrated mobility services including parking, refueling and charging. We anticipate that this trend will continue in the period from 2021 to 2024.

In the mid-sized and heavy commercial vehicles category, we expect rising demand for financial services products in emerging markets. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In mature markets, we are projecting increased demand in 2020 for telematics services and services aimed at reducing total operating costs. This trend is also expected to continue in the period 2021 to 2024.

TRENDS IN THE PASSENGER CAR AND LIGHT COMMERCIAL VEHICLES MARKETS

We expect trends in the markets for passenger cars in the individual regions to be mixed in 2020. Overall, the volume of global demand for new vehicles will probably match the 2019 level. We are forecasting growing demand for passenger cars worldwide in the period from 2021 to 2024.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2020; on the whole, we anticipate a slight dip in demand in 2020. We expect a return to the growth trajectory for the years 2021 to 2024.

The Volkswagen Group is well prepared for the future challenges pertaining to the automotive mobility business and the mixed developments in regional automotive markets. Our brand diversity, our presence in all major world markets, our broad and selectively expanded product range, and our technologies and services put us in a good competitive position worldwide. With electric drives, digital connectivity and autonomous driving, we want to make the automobile cleaner, more quiet, more intelligent and safer. We have set ourselves the goal of continuing to excite our customers in future and meeting their diverse needs with an

appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions.

Europe/Other Markets

For 2020, we anticipate that the volume of new passenger car registrations in Western Europe will be distinctly below that recorded in the reporting period. The uncertain impact of the United Kingdom's exit from the EU is likely to further exacerbate the ongoing uncertainty among consumers, continuing to dampen demand. We expect a moderate decline on the British and Italian markets in 2020. In France and Spain, the markets are likely to fall perceptibly short of the level seen in the reporting year.

For light commercial vehicles, we expect demand in Western Europe in 2020 to be distinctly lower than the prior-year level owing to the uncertain impact of the United Kingdom's exit from the EU and the pull-forward effect on sales of the WLTP in 2019. In France, the United Kingdom, Italy and Spain we are forecasting a marked drop in some cases.

Sales of passenger cars in 2020 are expected to slightly fall short of the prior-year figures in markets in Central and Eastern Europe. In Russia, we anticipate a market volume that is slightly higher than in the previous year. The number of new registrations should recede in most of the other markets in this region.

Registrations of light commercial vehicles in the Central and Eastern European markets in 2020 will probably be noticeably lower than in the previous year. We expect a distinct decline in market volume for Russia.

The Turkish passenger car market is projected to record a sharp increase in 2020 in contrast to the weak preceding year. The volume of new registrations in South Africa in 2020 is likely to match the figure for the previous year.

Germany

After a positive performance overall in recent years, we assume that demand in the German passenger car market will fall noticeably year-on-year in 2020.

We anticipate that registrations of light commercial vehicles will be up slightly on the previous year's level.

North America

The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America as a whole and in the USA in 2020 is likely to fall slightly short of the previous year. Demand will probably remain highest for models in the SUV and pickup segments. In Canada, the number of new registrations is projected to be also slightly lower than the previous year's level. For Mexico, we expect a moderate fall in demand 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 expect to see an overall moderate increase in new registrations in the South American markets in 2020 compared with the previous year. In Brazil, demand volume is expected to rise perceptibly again in 2020 following the increase in the reporting period. However, we anticipate that demand in Argentina will be slightly lower year-on-year.

Asia-Pacific

In 2020, the passenger car markets in the Asia-Pacific region are expected to be at the prior-year level. We expect, subject to a further spread of the demand in China to be slightly up on the previous year's level. Attractively priced entry-level models in the SUV segment in particular should still see strong demand. For as long as there is no resolution in sight, the trade dispute between China and the United States will continue to weigh on business and consumer confidence. We anticipate a slight decrease in the Indian market compared with the previous year. By contrast, Japan's market volume is forecast to record a distinct decrease in 2020.

The market volume for light commercial vehicles in 2020 will probably fall moderately short of the previous year's figure. We are expecting demand in the Chinese market to be distinctly below that of the prior year. For India, we are forecasting a moderately higher volume in 2020 than in the reporting period. In the Japanese market, demand is likely to be markedly lower than the previous year's level.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Starting in fiscal year 2020, we are redefining the relevant markets of the Volkswagen Group for trucks and buses based on our core countries. Our relevant truck markets are the 28 EU member states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU28+2), as well as Brazil, Russia, Turkey and South Africa. The bus markets relevant for the Volkswagen Group are the (EU28+2) Brazil and Mexico.

For 2020, we expect new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes to be distinctly lower than the 2019 level in markets that are relevant for the Volkswagen Group. We regard the declining incoming orders seen in 2019 and the anticipated drop in transport volumes as a sign of a downturn in the European truck market. For the EU28+2 countries, we expect a 10 to 20% downturn in the market in 2020. Russia will probably witness a distinct rebound in demand. In Turkey we are forecasting a very sharp recovery of demand, starting from a very low level. For South Africa, we are forecasting a moderate decrease. We estimate that demand in Brazil will be much higher than in the previous year.

On average, we anticipate solid growth rates in the relevant truck markets for the years 2021 to 2024.

A slight year-on-year increase in overall demand for 2020 is likely in the bus markets relevant for the Volkswagen Group. We anticipate a moderate decline in the market in the EU28+2 countries, a moderate increase in Mexico and new registrations in Brazil will probably be much higher than the prior-year level.

Overall, we expect a noticeable decrease in the demand for buses on the relevant markets for the period from 2021 to 2024.

INTEREST RATE TRENDS

The period of low interest rates continued in Europe and the USA in 2019, and also at the beginning of the current fiscal year. Worries about a deterioration in the economic climate resulted in a number of central banks renewing or extending the easing of their monetary policy. Interest rates are still close to or at historic lows. There is currently no end to the period of low interest rates in sight, not least because concerns about a trade dispute between the USA and its trading partners have not yet been fully eliminated.

MOBILITY CONCEPTS

Social and political factors have an increasing impact on many people's individual mobility behavior. New challenges are appearing in connection with the design of an intelligent mobility mix consisting of public transport combined with motorized and non-motorized personal transport, especially in large metropolitan areas. 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 existing business model. Simple, convenient, transparent, safe, reliable, flexible – these are the standards that the company set itself.

In collaboration with the automotive brands within the Volkswagen Group, Volkswagen Financial Services AG is aiming to be the leader in the development of new mobility services, as has been the case in the conventional automotive business for many years.

Thanks to its subsidiaries, Volkswagen Financial Services AG already covers a large proportion of the mobility needs of its customers ranging from traditional leasing, car and truck rental to car sharing. The company has taken a huge step towards becoming a mobility service provider with the expansion of vehicle-related mobility services. Volkswagen Financial Services AG already offers an attractive portfolio of services fulfilling the customers' desire for convenience and flexibility. Efforts focus on the global expansion of innovative payment solutions for digital business models within the

Volkswagen Group, the further expansion of cashless and mobile payment for parking in North America and Europe as well as the development of the electric vehicle charging and fuel card services in Europe. In addition, the Europe-wide processing of toll transactions was integrated into the services for business customers. Further activities will focus on driving forward the expansion of the fleet business.

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. Such marketing includes an attractive range of leasing services complemented by packages covering maintenance and wear-and-tear repairs. Those services play a key role in the marketing of electric vehicles produced by the Volkswagen Group.

Volkswagen Financial Services AG is also a partner of AUDI AG in the implementation of the e-tron Charging Service, which provides customers buying the new Audi e-tron with access to more than 90,000 public charging points in Europe. Together with Volkswagen, EURO-Leasing GmbH (a subsidiary of Volkswagen Financial Services AG) provides Volkswagen e-Golf customers with access to replacement mobility should they need to use petrol/diesel vehicles for longer trips.

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

NEW MARKETS/INTERNATIONALIZATION/NEW SEGMENTS

The financing, leasing, insurance and mobility services businesses are essential for attracting customers and developing loyal, long-term customer relationships globally. Volkswagen Financial Services AG, as financial services provider and strategic partner for the Volkswagen Group brands, specifically reviews the implementation of these business areas in new markets by developing market entry concepts in order to lay the foundations for profitable business volume growth there.

SUMMARY OF EXPECTED DEVELOPMENTS

Volkswagen Financial Services AG expects its growth in the next fiscal year to be linked to the growth in unit sales of Volkswagen Group vehicles. The Company aims to boost its business volume and enhance its international focus by expanding the product range in existing markets, taking over portfolios from Volkswagen Bank GmbH and by developing new markets.

Sales activities related to the Volkswagen Group brands will be further intensified, particularly through joint strategic projects. Furthermore, Volkswagen Financial Services AG intends to continue enhancing the leveraging of potential along the automotive value chain.

Our aim is to satisfy the wishes and needs of our customers to the full in cooperation with the Group brands. Our end

customers are looking in particular for mobility with predictable fixed costs. In addition, we intend to further expand the digitalization of our business.

The product packages and mobility solutions successfully launched in the last few years will be refined in line with customer needs.

In parallel with the Company’s market-based activities, the position of Volkswagen Financial Services AG vis-à-vis its global competitors will be further strengthened through strategic investment in structural projects as well as through process optimization and productivity gains.

Forecast for Credit and Residual Value Risk

As regards credit risk, Volkswagen Financial Services AG anticipates that the risk position will remain stable in 2020, but the volume of loans and receivables will grow. This growth is likely to be driven by the established sales promotion programs with the brands, the continuous expansion of the fleet business and the increase in the used vehicle business. However, a slowdown in the growth of the global economy in 2020 will probably also have an impact. Certain markets (such as Brazil, Russia and Turkey) are already being monitored; this will be continued in 2020 so that, if required, suitable measures can be implemented to reach the defined goals for the current year.

In the residual value portfolio, the volume of contracts is projected to continue to grow in fiscal year 2020. In this case too, the main drivers will be the growth programs implemented by the Company and further expansion in the fleet business.

Forecast for Liquidity Risk

The risk development is categorized as stable. Established sources of funding remain available. To ensure that this situation is maintained in the long term, funding diversification continues to be extended in individual markets and existing sources of funding are being expanded.

OUTLOOK FOR 2020

Volkswagen Financial Services AG’s Board of Management expects global economic growth in 2020 to be at the previous year’s level. The financial markets continue to be a source of risk, primarily because of the challenging level of indebtedness in many countries. In addition, growth prospects will be hurt by geopolitical tensions and conflicts. The emerging economies of Asia will probably record the highest rates of growth. We expect growth in the major industrialized nations to be slightly weaker than in 2019.

When the aforementioned factors and the market trends are considered, the overall picture is as follows: earnings expectations assume a slight increase in funding costs, greater levels of cooperation with the individual Group brands, increased investment in digitalization for the future and continued uncertainty about macroeconomic conditions in the real economy

and the impact of this uncertainty on factors such as risk costs, as well as the potential effects of geopolitical upheaval. We forecast that current contracts and business volume in 2020 will be moderately above the level of fiscal year 2019. The transfer of portfolios and entities from Volkswagen Bank GmbH during 2019 as a result of the restructuring of the Group means that new contracts and penetration are expected to be slightly above the level of the previous year. Based on the effects described

above and assuming that the margin in the coming year remains stable, the operating result for fiscal year 2020 is projected to be on a level with the previous year.

The forecast earnings performance and stable capital adequacy will probably result in a return on equity in 2020 that is on a level with the previous year. Similarly, we anticipate the cost/income ratio in 2020 to be at the level of the prior year.

FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2020 COMPARED WITH PRIOR-YEAR FIGURES

	Actual 2019		Forecast for 2020
Nonfinancial performance indicators			
Penetration (percent)	26.1	> 26.1	Slightly higher than in the previous year
Current contracts (thousands)	14,813	> 14,813	moderately above the prior-year level
New contracts (thousands)	5,655	> 5,655	Slightly higher than in the previous year
Financial performance indicators			
Volume of business (€ million)	88,852	> 88,852	moderately above the prior-year level
Operating profit (€ million)	1,223	= 1,223	At prior-year level
Return on equity (percent)	12.6	= 12.6	At prior-year level
Cost/income ratio (percent)	54	= 54	At prior-year level

Braunschweig, February 10, 2020
The Board of Management



Lars Henner Santelmann



Dr. Mario Daberkow



Frank Fiedler



Christiane Hesse

This report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and financial and automotive markets, which have been made on the basis of the information available and which Volkswagen Financial Services AG currently considers to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any unexpected fall in demand or economic

stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of the business. The same applies in the event of material changes in exchange rates against the euro. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2019 Annual Report do not develop in line with current expectations, or additional risks and opportunities or other factors emerge that affect the development of the business.

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Income Statement

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018	Change in percent
Interest income from lending transactions and marketable securities	5, 8, 53	2,116	1,967	7.6
Income from leasing transactions		14,304	8,813	62.3
Depreciation, impairment losses and other expenses from leasing transactions		–12,378	–7,978	55.2
Net income from leasing transactions	5, 13, 63	1,926	835	X
Interest expense	5, 8, 18, 53	–1,352	–1,070	26.4
Income from service contracts		1,738	1,359	27.9
Expenses from service contracts		–1,548	–1,188	30.3
Net income from service contracts	5, 19	190	170	11.8
Income from insurance transactions		318	308	3.2
Expenses from insurance transactions		–163	–161	1.2
Net income from insurance business	15, 20	155	148	4.7
Provision for credit risks	8, 21, 53	–294	–221	33.0
Fee and commission income		514	423	21.5
Fee and commission expenses		–389	–203	91.6
Net fee and commission income	5, 22	125	220	–43.2
Net gain/loss on hedges	8, 23	–18	–12	50.0
Net gain/loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	8, 24, 53	–100	4	X
General and administrative expenses	5, 10 - 14, 16, 25	–2,006	–1,632	22.9
Other operating income		1,442	731	97.3
Other operating expenses		–960	–297	X
Net other operating income/expenses	5, 26	482	434	11.1
Operating result		1,223	844	44.9
Share of profits and losses of equity-accounted joint ventures		65	51	27.5
Net gain/loss on miscellaneous financial assets	9, 27	–14	–76	–81.6
Other financial gains/losses	28	–9	–1	X
Profit before tax		1,264	818	54.5
Income tax expense	6, 29	–374	–270	38.5
Profit after tax		890	548	62.4
Profit after tax attributable to noncontrolling interests		0	0	–
Profit after tax attributable to Volkswagen AG		890	548	62.4

Statement of Comprehensive Income

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 01-Dec. 31, 2019	Jan. 01-Dec. 31, 2018
Profit after tax		890	548
Pension plan remeasurements recognized in other comprehensive income	14, 45		
Pension plan remeasurements recognized in other comprehensive income, before tax		-126	8
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	6, 29	36	-3
Pension plan remeasurements recognized in other comprehensive income, net of tax		-90	5
Fair Value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	8	-3	-
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax		0	0
Items that will not be reclassified to profit or loss		-94	5
Exchange differences on translating foreign operations	4		
Gains/losses on currency translation recognized in other comprehensive income		101	-127
Transferred to profit or loss		-	-
Exchange differences on translating foreign operations, before tax		101	-127
Deferred taxes relating to exchange differences on translating foreign operations	6, 29	-	-
Exchange differences on translating foreign operations, net of tax		101	-127
Hedging	8		
Fair value changes recognized in other comprehensive income (OCI I)		-17	10
Transferred to profit or loss (OCI I)		5	-15
Cash flow hedges (OCI I), before tax		-12	-5
Deferred taxes relating to cash flow hedges (OCI I)	6, 29	4	1
Cash flow hedges (OCI I), net of tax		-7	-4
Fair value changes recognized in other comprehensive income (OCI II)		0	-
Transferred to profit or loss (OCI II)		0	-
Cash flow hedges (OCI II), before tax		0	-
Deferred taxes relating to cash flow hedges (OCI II)	6, 29	0	-
Cash flow hedges (OCI II), net of tax		0	-
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss	8		
Fair value changes recognized in other comprehensive income		4	-2
Transferred to profit or loss		1	1
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax		5	-1
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	6, 29	-1	0
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax		3	-1
Share of other comprehensive income of equity-accounted investments that may be reclassified to subsequently profit or loss, net of tax		2	-25
Items that may be reclassified to profit or loss		99	-157
Other comprehensive income, before tax		-34	-150
Deferred taxes relating to other comprehensive income		39	-1
Other comprehensive income, net of tax		5	-151
Total comprehensive income		895	396
Profit/loss after tax attributable to noncontrolling interests		0	0
Total comprehensive income attributable to Volkswagen AG		895	396

Balance Sheet

of the Volkswagen Financial Services AG Group

€ million	Note	Dec. 31, 2019	Dec. 31, 2018	Change in percent
Assets				
Cash reserve	7, 31, 53 - 57, 59 - 60	106	54	96.3
Loans to and receivables from banks	8, 53 - 60	2,477	1,819	36.2
Loans to and receivables from customers attributable to				
Retail financing		20,712	16,676	24.2
Dealer financing		5,413	4,062	33.3
Leasing business		39,951	19,760	X
Other loans and receivables		13,119	18,514	-29.1
Total loans to and receivables from customers	8, 13, 32, 53 - 58, 60	79,195	59,012	34.2
Derivative financial instruments	8, 33, 53 - 57, 60 - 61	736	582	26.5
Marketable securities	8, 53 - 58, 60	305	290	5.2
Equity-accounted joint ventures	34, 54	737	671	9.8
Miscellaneous financial assets	8, 9, 53 - 57	591	404	46.3
Intangible assets	10, 12, 35	91	64	42.2
Property and equipment	11, 12, 13, 36	498	295	68.8
Lease assets	12, 13, 63	22,776	13,083	74.1
Investment property	12, 13, 63	17	10	70.0
Deferred tax assets	6, 38	1,513	1,539	-1.7
Current tax assets	6, 53 - 57	125	122	2.5
Other assets	13, 39, 53 - 57	3,276	2,517	30.2
Total		112,444	80,462	39.7

€ million	Note	Dec. 31, 2019	Dec. 31, 2018	Change in percent
Equity and Liabilities				
Liabilities to banks	8, 41, 53 - 57, 59 -60	14,472	12,291	17.7
Liabilities to customers	8, 41, 53 - 57, 59 -60	15,740	12,345	27.5
Notes, commercial paper issued	8, 42, 43, 53 - 57, 59 - 60	60,943	41,029	48.5
Derivative financial instruments	8, 44, 53 - 57, 59-61	427	105	X
Provisions for pensions and other post-employment benefits	14, 45	505	366	38.0
Underwriting and other provisions	15, 16, 46	940	909	3.4
Deferred tax liabilities	6, 47	655	783	-16.3
Current tax liabilities	6, 53 - 57	373	420	-11.2
Other liabilities	48, 53 - 57, 59	1,413	1,176	20.2
Subordinated capital	8, 43, 49, 53 - 57, 59 - 60	4,947	3,023	63.6
Equity	51	12,029	8,016	50.1
Subscribed capital		441	441	-
Capital reserves		3,216	1,600	X
Retained earnings		9,228	6,812	35.5
Other reserves		-859	-839	2.4
Equity attributable to noncontrolling interests		2	2	-
Total		112,444	80,462	39.7

Statement of Changes in Equity

of the Volkswagen Financial Services AG Group

€ million	OTHER RESERVES									Total equity	
	Subscribed capital	Capital reserves	Retained earnings	Currency translation	Hedging transactions			Equity and debt instruments	Equity-accounted investments		Non-controlling interests
					Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)					
Balance before adjustment on Jan. 1, 2018	441	2,600	5,264	-633	7	-	2	-59	2	7,624	
Changes in accounting treatment as a result of IFRS 9	-	-	-152	-	-	-	0	-	0	-152	
Balance as of Jan. 1, 2018	441	2,600	5,112	-633	7	-	2	-59	2	7,472	
Profit after tax	-	-	547	-	-	-	-	-	0	548	
Other comprehensive income, net of tax	-	-	5	-126	-4	-	-1	-25	0	-151	
Total comprehensive income	-	-	553	-126	-4	-	-1	-25	0	396	
Capital increases	-	0	-	-	-	-	-	-	-	0	
Loss assumed by Volkswagen AG	-	-	149	-	-	-	-	-	-	149	
Other changes ¹	-	-1,000	999	-	-	-	-	-	-	-1	
Balance as of Dec. 31, 2018	441	1,600	6,812	-759	3	-	1	-84	2	8,016	
Balance as of Jan. 1, 2019	441	1,600	6,812	-759	3	-	1	-84	2	8,016	
Profit after tax	-	-	890	-	-	-	-	-	0	890	
Other comprehensive income, net of tax	-	-	-90	100	-7	0	0	2	0	5	
Total comprehensive income	-	-	799	100	-7	0	0	2	0	895	
Changes due to contribution in kind by the shareholder Volkswagen AG ²	-	617	2,261	-114	0	0	-	-	-	2,763	
Capital increases	-	1,000	-	-	-	-	-	-	-	1,000	
Distribution of retained earnings	-	-	-1,000	-	-	-	-	-	-	-1,000	
Loss assumed by Volkswagen AG	-	-	268	-	-	-	-	-	-	268	
Other changes ³	-	-	87	0	-	-	-	-	-	87	
Balance as of Dec. 31, 2019	441	3,216	9,228	-772	-5	0	1	-82	2	12,029	

1 The "Other changes" item includes an amount of €1 billion transferred from capital reserves to retained earnings

2 Changes due to contribution in kind by the shareholder Volkswagen AG (see notes to the group of consolidated companies)

3 Mainly effects of full consolidation Vehicle Trading International (VTI) GmbH and merger of Euromobil Autovermietung GmbH
Further information on equity is presented in note (51).

Cash Flow Statement

of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018
Profit after tax	890	548
Depreciation, amortization, impairment losses and reversals of impairment losses	3,422	2,187
Change in provisions	135	46
Change in other noncash items	102	106
Loss on disposal of financial assets and items of property and equipment	0	-29
Net interest expense and dividend income	-2,253	-1,613
Other adjustments	4	5
Change in loans to and receivables from banks	-171	-404
Change in loans to and receivables from customers	-4,891	-10,131
Change in lease assets	-6,555	-3,668
Change in other assets related to operating activities	-507	212
Change in liabilities to banks	186	1,466
Change in liabilities to customers	-124	2,717
Change in notes, commercial paper issued	8,413	8,756
Change in other liabilities related to operating activities	-95	-430
Interest received	3,598	2,680
Dividends received	7	3
Interest paid	-1,352	-1,070
Income taxes paid	-462	-314
Cash flows from operating activities	347	1,067
Proceeds from disposal of investment property	0	-
Acquisition of investment property	-	-
Proceeds from disposal of subsidiaries and joint ventures ¹	27	32
Acquisition of subsidiaries and joint ventures	-215	-142
Proceeds from disposal of other assets	27	6
Acquisition of other assets	-115	-81
Change in investments in marketable securities	-8	-39
Cash flows from investing activities	-284	-224
Proceeds from changes in capital	1,000	0
Distribution to Volkswagen AG	-1,000	-
Loss absorption by/profit transfer to Volkswagen AG	149	478
Change in cash funds attributable to subordinated capital	-166	-1,302
Cash flows from financing activities	-17	-824
Cash and cash equivalents at end of prior period	54	40
Cash flows from operating activities	347	1,067
Cash flows from investing activities	-284	-224
Cash flows from financing activities	-17	-824
Effect of exchange rate changes	6	-5
Cash and cash equivalents at end of period	106	54

1 Prior-year figures include effects from the derecognition of the cash and cash equivalents and net assets relating to the companies in the discontinued operations (European lending and deposits business) on the derecognition date (September 1, 2017). Disclosures on the cash flow statement are presented in note (64)

Notes to the Consolidated Financial Statements

of the Volkswagen Financial Services AG Group as of December 31, 2019

General Information

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

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

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

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

Basis of Presentation

VW FS AG has prepared its consolidated financial statements for the year ended December 31, 2019 in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315e(1) of the Handelsgesetzbuch (HGB – German Commercial Code). All IFRSs issued by the International Accounting Standards Board (IASB) up to December 31, 2019 for which mandatory application was required in fiscal year 2019 in the EU have been taken into account in these consolidated financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the IFRS consolidated financial statements include the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks associated with future development (risk report in accordance with section 315(1) of the HGB) can be found in the management report on pages 21 – 29. This includes the qualitative disclosures on the nature and scope of risk from financial instruments required under IFRS 7.

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

The Board of Management completed the preparation of these consolidated financial statements on February 10, 2020. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Effects of New and Revised IFRSs

VW FS AG has applied all financial reporting standards adopted by the EU and subject to mandatory application from fiscal year 2019.

Various rules introduced under the Annual Improvements to IFRS Standards 2015–2017 Cycle came into force on January 1, 2019. These rules included clarification of provisions in IAS 12, IAS 23, IFRS 3 and IFRS 11. A clarification was added to IAS 12 Income Taxes to the effect that the income tax consequences of dividends must be recognized where the transactions or events that generated the distributable profits are recognized. Details clarifying the calculation of the weighted borrowing cost rate were also added to IAS 23 Borrowing Costs. Additions to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements clarify that when an entity obtains control of a business previously recognized as a joint operation the principles relating to a step acquisition must be applied.

The amendments to IAS 28 (Investments in Associates and Joint Ventures) clarify that, with effect from January 1, 2019, long-term financial instruments that are a net investment in an associate or joint venture and are not accounted for using the equity method should be accounted for using the impairment rules of IFRS 9 (Financial Instruments).

Since January 1, 2019, there has also been a requirement to apply clarifications to the provisions in IFRS 9 Financial Instruments. As a result of the amendments, certain financial instruments that include prepayment features with negative compensation can be measured at amortized cost or at fair value through other comprehensive income.

In addition, IFRIC 23 Uncertainty over Income Tax Treatments applies. This interpretation specifies that tax risks must be recognized if it is probable that the tax authorities will not accept aspects of the tax calculation.

In another amendment, a clarification has been added to IAS 19 Employee Benefits, specifying that actuarial assumptions must be updated when there is a plan event (amendment, curtailment or settlement).

The provisions mentioned above and the other amended provisions do not materially affect the VW FS AG Group's financial position and financial performance.

The VW FS AG Group decided in favor of the early application of the interest rate benchmark reform amendments to IFRS 9, IAS 39 and IFRS 7 (published on September 26, 2019). These amendments would only have been subject to mandatory application from January 1, 2020. The amendments affect hedges in existence at the beginning of the reporting period or designated thereafter. In the context of the accompanying exceptions available under the amendments, the VW FS AG Group is assuming that the IBOR reform will not have an adverse impact on the effectiveness of recognized hedges and that therefore no hedges will have to be discontinued.

IFRS 16 – LEASES

IFRS 16 amends the provisions governing the accounting treatment of leases and supersedes the previously applicable IAS 17 and the associated interpretations.

The core objective of IFRS 16 is to ensure that all leases are recognized in the balance sheet. Accordingly, the previous requirement for lessees to classify a lease as either a finance lease or operating lease has been eliminated. Instead, for all leases, lessees must generally recognize both a right-of-use asset and a lease liability in their balance sheet. At the VW FS AG Group, the lease liability is measured at the present value of the outstanding lease payments, whereas the right-of-use asset is generally measured at the amount of the lease liability plus any direct costs. During the term of the lease, the right-of-use asset must be depreciated and the lease liability measured using the effective interest method, taking into account the lease payments. IFRS 16 provides for exemptions for short-term leases and leases in which the underlying asset is of low value. The VW FS AG Group has elected to apply these exemptions and therefore does not recognize any right-of-use asset or lease liability for such leases. The associated lease payments continue to be recognized as an expense in the income statement. On the date of initial application, leases in which the lease term was due to expire before January 1, 2020 were classified as short-term leases regardless of the commencement date of the lease concerned. In addition, existing leases were not reassessed on the date of initial application to establish whether they represented a lease on the basis of the criteria specified in IFRS 16. Instead, contracts that were already classified as a lease under IAS 17 or IFRIC 4 continued to be classified as such. Contracts that had already been deemed not to be a lease under IAS 17 or IFRIC 4 were retained in the same classification.

Lessors are required to account for leases largely in the same way as under the previous rules in accordance with IAS 17. Lessors still have to classify a lease as either a finance lease or an operating lease based on the allocation of opportunities and risks from the asset.

On January 1, 2019, the VW FS AG Group accounted for leases in accordance with the requirements specified in IFRS 16 using the modified retrospective method (within the meaning of IFRS 16.C5(b)). In this method, prior-year periods have not been adjusted as the lease liability is recognized on the changeover date at the present value of the outstanding lease payments. The present value was calculated using incremental borrowing rates as of January 1, 2019. In the VW FS AG Group, the weighted average discount rate in this regard amounted to 3.7%. The initial recognition of right-of-use assets and lease liabilities had the following effects as of January 1, 2019:

- > In the opening balance sheet, right-of-use assets amounting to €118 million were recognized under property and equipment. The classification of assets was adjusted as part of the introduction of IFRS 16. As a result, property and equipment in an amount of €3 million was reclassified to investment property.
- > Lease liabilities of €118 million were recognized in the opening balance sheet and reported under liabilities to customers.
- > There were no effects on equity from the initial application.

In contrast to the current procedure, in which operating lease expenses are reported in full under general and administrative expenses, only the depreciation charge in respect of the right-of-use assets is posted in general and administrative expenses under IFRS 16. Interest expense from unwinding the discount on lease liabilities is recognized under interest expenses.

The change in recognition of operating lease expenses only had a minor impact on the cash flow statement.

As part of the introduction of IFRS 16, the presentation of right-of-use assets in connection with long-term leases with a return agreement were reclassified from other assets to lease assets. This takes into account the procedure described above whereby right-of-use assets are recognized under the same item utilized for equivalent assets owned by VW FS AG.

New and Revised IFRSs Not Applied

VW FS AG has not applied in its 2019 consolidated financial statements the following financial reporting standards that have already been issued by the IASB but were not yet subject to mandatory application in fiscal year 2019.

Standard/interpretation	Published by the IASB	Application requirement ¹	Adopted by EU	Expected impact
IFRS 3 Business Combinations: Definition of a Business	October 22, 2018	January 1, 2020	No	No material impact
IFRS 17 Insurance Contracts	May 18, 2017	January 1, 2020 ²	No	The professional and technical implementation of IFRS 17 is being completed by the VW FS AG Group as part of a project. The future accounting for insurance contracts in accordance with IFRS 17 should, according to the current status, only be based on the "general measurement model" approach. The changed reporting and valuation methods as a whole are not expected to have a material effects on the VW FS AG Group's financial position. After the introduction of the standard, more extensive disclosures will be required.
IFRS 1 and IAS 8 Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material	October 31, 2018	January 1, 2020	Yes	No material impact
IAS 1 Classification of liabilities	January 23, 2020	January 1, 2022	No	Cannot be reliably estimated at this time

¹ Requirement for initial application from the VW FS AG perspective

² The IASB proposed postponing the first-time application to 01/01/2022

Accounting Policies

1. Basic Principles

All entities included in the basis of consolidation have prepared their annual financial statements as of the reporting date of December 31, 2019.

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

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

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

2. Basis of Consolidation

In addition to VW FS AG, the consolidated financial statements cover all significant German and non-German subsidiaries, including all structured entities, controlled directly or indirectly by VW FS AG. This is the case if VW FS AG has power over potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and has the ability to use its power to influence those returns. In the case of the structured entities consolidated in the VW FS AG Group, VW FS AG holds no equity investment but nevertheless determines the main relevant activities remaining after the structure is created and thereby influences its own variable returns. The purpose of the structured entities is to facilitate asset-backed-securities transactions to fund the financial services business.

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

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

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

	2019	2018
VW FS AG and consolidated subsidiaries		
Germany	9	8
International	43	37
Subsidiaries recognized at cost		
Germany	8	8
International	50	39
Associates, equity-accounted joint ventures		
Germany	2	2
International	7	7
Associates, joint ventures and equity investments recognized at cost		
Germany	5	4
International	9	7
Total	133	112

The list of all shareholdings in accordance with section 313(2) of the HGB and in accordance with IFRS 12.10 and IFRS 12.21 can be accessed at www.vwfs.com/listofholdingsvwfsag19.

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

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

SUBSIDIARIES

The following significant changes occurred at subsidiaries in the reporting period.

The VW FS AG Group's basis of consolidation expanded in fiscal year 2019 as a consequence of three intragroup restructuring projects that continued the work begun in 2016 to reorganize Volkswagen financial services. As part of this restructuring, the European lending and deposits business was pooled in Volkswagen Bank GmbH and systematically separated from the other activities at Volkswagen Financial Services AG.

As of March 29, 2019, all the shares in the following nine entities were transferred from Volkswagen Bank GmbH to Volkswagen Financial Services AG. The entities were transferred to Volkswagen Financial Services AG without payment of consideration and therefore represented a non-cash capital contribution by the shareholder Volkswagen AG. As the transactions were under the common control of Volkswagen AG, the transferred assets and liabilities were measured using the existing group carrying amounts on the date of initial recognition (known as predecessor accounting).

Consolidated subsidiaries:

- > ŠkoFIN s.r.o., Prague
- > Volkswagen Financial Services S.p.A., Milan
- > Volkswagen Financial Services (UK) Ltd., Milton Keynes

Consolidated structured entities:

- > Driver UK Master S.A., Luxembourg
- > Driver UK Multi-Compartment S.A., Luxembourg

The following transferred subsidiaries are not consolidated for reasons of materiality:

- > MAN Financial Services Ltd., Swindon
- > Volkswagen Financial Ltd., Milton Keynes
- > Volkswagen Insurance Service (Great Britain) Ltd., Milton Keynes
- > Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw

The transferred entities sell financial services products for Volkswagen Group vehicles in their home markets.

As of May 31, 2019, the Spanish company Volkswagen Finance 2 S.L.U., a direct subsidiary of Volkswagen AG, was merged into Volkswagen Financial Services AG. As part of this cross-border merger, all the shares in each of the following entities (former subsidiaries of Volkswagen Finance 2 S.L.U.) were transferred to Volkswagen Financial Services AG:

- > MAN Financial Services España S.L., Coslada
- > Volkswagen Renting, S.A., Alcobendas (Madrid)
- > Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat

The entities were merged into Volkswagen Financial Services AG without payment of consideration and therefore represented a non-cash capital contribution by the shareholder Volkswagen AG. As the transaction was under the common control of Volkswagen AG, the transferred assets and liabilities were measured using the existing group carrying amounts on the date of initial recognition (known as predecessor accounting).

The entities sell financial services products for Volkswagen Group vehicles in Spain. For reasons of materiality, Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat, is not consolidated.

As of July 31, 2019, all the shares in the Swedish entities Volkswagen Finans Sverige AB, Södertälje, and Volkswagen Service Sverige AB, Södertälje, were transferred from Volkswagen Bank GmbH to Volkswagen Financial Services AG. The entities were transferred to Volkswagen Financial Services AG without payment of consideration and therefore represented a non-cash capital contribution by the shareholder Volkswagen AG. As the transaction was under the common control of Volkswagen AG, the transferred assets and liabilities were measured using the existing group carrying amounts on the date of initial recognition

(known as predecessor accounting). The structured entity Autofinance, S.A., Luxembourg, was also included in the VW FS AG Group's basis of consolidation as part of this transaction.

The two entities sell financial services products for Volkswagen Group vehicles in their home market. Volkswagen Service Sverige AB, Södertälje, is not consolidated for reasons of materiality.

The following table shows the transferred assets and liabilities of these entities:

€ million	IFRS CARRYING AMOUNTS ON THE DATE OF INITIAL RECOGNITION		
	VW FS UK ¹	Other companies	Total
Loans to and receivables from banks	196	220	416
Loans to and receivables from customers	15,735	5,579	21,314
Lease assets	3,190	2,843	6,033
Other assets	518	573	1,091
Total assets	19,640	9,215	28,855
Liabilities to banks	0	1,801	1,802
Liabilities to customers	5,893	4,355	10,248
Notes, commercial paper issued	9,400	1,869	11,269
Other liabilities	2,488	286	2,774
Total liabilities	17,781	8,312	26,092
Net assets	1,859	904	2,763

¹ VW FS UK includes the following companies: Volkswagen Financial Services (UK) Ltd., Milton Keynes, Driver UK Master S.A., Luxembourg sowie Driver UK Multi-Compartment S.A., Luxembourg

The following changes were made in respect of subsidiaries in addition to the three intragroup restructuring measures described above.

After it had been previously not consolidated for reasons of materiality, Vehicle Trading International (VTI) GmbH, Braunschweig, a wholly owned subsidiary of Volkswagen Financial Services AG, was consolidated in August 2019. Also in August 2019, the wholly owned subsidiary Euromobil Autovermietung GmbH, Isernhagen, which had previously not been consolidated for reasons of materiality, was merged into the consolidated subsidiary EURO-Leasing GmbH, Sittensen. The resulting inclusion of the entity in the consolidated financial statements of VW FS AG was applied in 2019.

In November 2019, the consolidated Russian subsidiary ooo MAN Financial Services, Moscow, was merged into the consolidated Russian subsidiary ooo Volkswagen Group Finanz, Moscow.

The subsidiary Mobility Trader Holding GmbH, which is not consolidated for reasons of materiality, carried out a capital increase in March 2019. This was subscribed by Leonie FS DVB GmbH, Stuttgart. VW FS AG lost control of the subsidiary following this transaction as a result of a contractual blocking minority, for which reason the remaining 80% equity investment is accounted for as a joint venture. The equity investment, which is classified as a joint venture, is not accounted for using the equity method for reasons of materiality.

In March 2019, the Malaysian wholly owned subsidiary Volkswagen Capital Advisory Sdn. Bhd., Kuala Lumpur, was liquidated. The entity had already discontinued its operations.

In June 2019, VW FS AG acquired 75% of the shares in PTV Truckparking B.V., Utrecht, which operates the Truck Parking Europe web platform. The entity is not consolidated for reasons of materiality.

Currently, the subsidiaries Volkswagen Leasing Polen GmbH, Braunschweig, and Volkswagen Financial Services Polska Sp.z.o.o., Warsaw, which were established in August 2019, have not yet commenced business operations and are therefore not consolidated for reasons of materiality.

All of the shares in LogPay Financial Services GmbH, Eschborn, were acquired from DVB Bank SE in October 2019. The principal activity of the entity is the processing of payments for local public transport on behalf of local authorities. The entity is not consolidated for reasons of materiality.

These additional changes did not have a material impact on the financial position and financial performance of the VW FS AG Group.

JOINT VENTURES

From a Group perspective, the following three entities among the equity-accounted joint ventures require separate presentation because they were deemed material on the reporting date because of the size of the entity concerned. These three joint ventures are strategically important to the VW FS AG Group. They run the financial services business in the respective countries and thus help to promote vehicle sales in the Volkswagen Group.

Volkswagen Pon Financial Services B.V.

The Volkswagen Pon Financial Services B.V. Group, whose registered office is situated in Amersfoort in the Netherlands, is a financial services provider offering leasing and insurance products for Volkswagen Group vehicles to business and private customers in the Netherlands. The VW FS AG Group and its partner in this joint venture, Pon Holdings B.V., have entered into an agreement for a long-term strategic partnership.

Volkswagen D'Ieteren Finance S.A.

Volkswagen D'Ieteren Finance S.A. and its subsidiary D'Ieteren Lease S.A., whose registered offices are situated in Brussels, Belgium, are financial services providers offering financing and leasing products for Volkswagen Group vehicles to business and private customers in Belgium. The VW FS AG Group and joint venture partner D'Ieteren S.A. have a long-term strategic partnership agreement.

Volkswagen Møller Bilfinans A/S

Volkswagen Møller Bilfinans A/S, whose registered office is situated in Oslo, Norway, is a financial services provider offering financing and leasing products for Volkswagen Group vehicles to business and private customers, predominantly in Norway. The VW FS AG Group and joint venture partner, Møllergruppen A/S, have entered into a long-term strategic partnership agreement.

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

€ million	VOLKSWAGEN PON FINANCIAL SERVICES B.V. (NETHERLANDS)		VOLKSWAGEN D'IETEREN FINANCE S.A. (BELGIUM)		VOLKSWAGEN MØLLER BILFINANS A/S (NORWAY)	
	2019	2018	2019	2018	2019	2018
Shareholding (percent)	60%	60%	50%	50%	51%	51%
Loans to and receivables from banks	8	7	5	0	33	2
Loans to and receivables from customers	900	844	1,746	1,628	1,997	1,973
Lease assets	1,775	1,466	654	540	–	–
Other assets	276	280	146	116	17	11
Total	2,959	2,598	2,550	2,284	2,046	1,986
of which: noncurrent assets	2,560	2,214	1,556	1,354	1,597	1,624
of which: current assets	398	384	994	931	449	363
of which: cash	8	7	5	0	33	2
Liabilities to banks	–	0	2,203	2,002	1,599	1,571
Liabilities to customers	2,121	1,768	163	114	51	57
Notes, commercial paper issued	587	575	–	–	–	–
Other liabilities	74	83	15	15	67	56
Equity	177	173	170	153	329	302
Total	2,959	2,598	2,550	2,284	2,046	1,986
of which: noncurrent liabilities	1,654	1,463	896	1,014	516	1,002
of which: current liabilities	1,129	962	1,484	1,117	1,201	682
of which: noncurrent financial liabilities	1,641	1,461	0	1,005	437	924
of which: current financial liabilities	1,067	881	0	997	1,162	647
Revenue	914	773	675	569	100	96
of which: interest income	103	67	34	31	101	93
Expenses	882	738	651	539	68	63
of which: interest expense	20	11	9	6	35	27
of which: depreciation and amortization	373	315	117	106	4	1
Profit/loss from continuing operations, before tax	33	35	24	30	31	33
Income tax expense or income	9	10	7	10	7	6
Profit/loss from continuing operations, net of tax	24	25	17	20	24	27
Profit/loss from discontinued operations, net of tax	–	–	–	–	–	–
Other comprehensive income, net of tax	0	0	–1	0	–	–
Total comprehensive income	24	25	16	20	24	27
Dividends received	–	–	–	–	–	–

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

€ million	Volkswagen Pon Financial Services B.V. (Netherlands)	Volkswagen D'leteren Finance S.A. (Belgium)	Volkswagen Møller Bilfinans A/S (Norway)
2018			
Equity of the joint venture as of Jan. 1, 2018	147	133	238
Profit/loss	25	20	27
Other comprehensive income	0	0	-
Change in share capital	-	-	41
Exchange differences on translating foreign operations	-	-	-4
Dividends	-	-	-
Equity of the joint venture as of Dec. 31, 2018	173	153	302
Share of equity	104 ¹	77	154
Goodwill	41	-	-
Carrying amount of the share of equity as of Dec. 31, 2018	144	77	154
2019			
Equity of the joint venture as of Jan. 1, 2019	173	153	302
Profit/loss	24	17	24
Other comprehensive income	0	-1	-
Change in share capital	-	-	-
Exchange differences on translating foreign operations	-	-	2
Dividends	-20	-	-
Equity of the joint venture as of Dec. 31, 2019	177	170	329
Share of equity	106	85	168
Goodwill	41	0	0
Carrying amount of the share of equity as of Dec. 31, 2019	146	85	168

1 Adjusted last year

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

€ million	2019	2018
Carrying amount of the share of equity as of Dec. 31	338	296
Profit/loss from continuing operations, net of tax	25	10
Profit/loss from discontinued operations, net of tax	-	-
Other comprehensive income, net of tax	2	-1
Total comprehensive income	27	9

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

Cash attributable to joint ventures amounting to €276 million (previous year: €268 million) was pledged as collateral in connection with ABS transactions and was therefore not available to the VW FS AG Group. Individual joint ventures are also subject to some restrictions, as a result, they are only able to transfer funds in the form of dividends after taking into account statutory and company-law requirements relating to capital adequacy in these joint ventures.

Financial guarantees to joint ventures amounted to €134 million (previous year: €146 million). In addition, certain articles of incorporation or partnership agreements specify obligations to individual joint ventures to provide loans for the funding of the entities, where required. The exact amount of the obligations depends on the future funding requirements of each entity and may therefore vary from the loan amounts recognized on the balance sheet as of the reporting date.

In October 2019, the joint venture Volkswagen Semler Finans Danmark A/S, Gladsaxe, was established in partnership with Semler Gruppen A/S. For reasons of materiality, the 51% equity investment in this joint venture is not accounted for using the equity method.

The 51% equity investment in LogPay Transport Services GmbH, Eschborn, previously classified as a joint venture was reclassified as an affiliated company in October 2019 as a consequence of the acquisition of LogPay Financial Services GmbH, Eschborn. The company continues not to be accounted for using the equity method.

Also in October, Volkswagen Financial Services AG acquired 60% of the shares in FleetCompany GmbH, Oberhaching, a company providing fleet management services. For reasons of materiality, the company is accounted for as a joint venture without using the equity method.

3. Consolidation Methods

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

Acquisitions are accounted for by offsetting the carrying amounts of the equity investments with the proportionate amount of the remeasured equity of the subsidiaries on the date of acquisition or initial inclusion in the consolidated financial statements and in subsequent periods.

When subsidiaries are consolidated for the first time, the assets and liabilities, together with contingent consideration, are recognized at fair value on the date of acquisition. Subsequent changes in the fair value of contingent consideration do not generally result in an adjustment of the acquisition-date measurement. Acquisition-related costs that are not equity transaction costs are not added to the purchase price, but instead recognized as expenses. Goodwill arises when the purchase price of the investment exceeds the fair value of the identified assets less liabilities. Goodwill is tested for impairment at least once a year and additionally if relevant events or changes in circumstances occur (impairment-only approach) to determine whether its carrying amount is recoverable. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized. If this is not the case, there is no change in the carrying amount of goodwill compared with the previous year. If the purchase price of the investment is less than the net value of the identified assets and liabilities, the difference is recognized in profit or loss in the year of acquisition. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries.

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

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

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

Investments in subsidiaries that are not consolidated because they are of minor significance are reported, together with other equity investments, under miscellaneous financial assets.

4. Currency Translation

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

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

The income statement items are translated into euros using weighted average rates.

The following table shows the rates applied in currency translation:

	1 € =	BALANCE SHEET, MIDDLE SPOT RATE ON DEC. 31		INCOME STATEMENT, AVERAGE RATE	
		2019	2018	2019	2018
Australia	AUD	1.60080	1.62240	1.61071	1.58021
Brazil	BRL	4.51350	4.44485	4.41485	4.30729
Denmark	DKK	7.47120	7.46705	7.46609	7.45304
United Kingdom	GBP	0.84995	0.89690	0.87744	0.88476
India	INR	80.15450	79.90650	78.86396	80.71466
Japan	JPY	121.89500	125.91000	122.08649	130.40158
Mexico	MXN	21.24340	22.52035	21.56326	22.71496
Poland	PLN	4.25970	4.29780	4.29784	4.26098
Republic of Korea	KRW	1,296.35000	1,276.90000	1,304.89265	1,299.41384
Russia	RUB	69.84685	79.83765	72.46709	74.08214
Sweden	SEK	10.44505	10.25070	10.58593	10.25830
Czech Republic	CZK	25.40650	25.72450	25.66983	25.64308
People's Republic of China	CNY	7.81470	7.87725	7.73444	7.80766

5. Recognition of Revenue and Expenses

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

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

In the VW FS AG Group, contract origination costs are capitalized and amortized on a straight-line basis over the term of the contract only if they are material, the underlying contract has a term of at least one year and these costs would not have been incurred if the contract concerned had not materialized.

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

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

Fee and commission income from insurance brokerage is normally recognized in accordance with contractual arrangements when the entitlement arises, i.e. when the policyholder pays the related premium.

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

6. Income Taxes

Current income tax assets and liabilities are measured using the tax rates expected to apply in respect of the refund from or payment to the tax authorities concerned. Current income taxes are generally reported on an unnetted basis. Potential tax risks are recognized within the current tax liabilities item in the balance sheet.

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and those in the tax base and in respect of tax loss carryforwards. This gives rise to expected income tax income or expense effects in the future (temporary differences). Deferred taxes are measured using the domicile-specific income tax rates expected to apply in the period in which the tax benefit is recovered or liability paid.

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

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

The tax expense attributable to the profit before tax is reported in the Group's income statement under the "Income tax expense" item and a breakdown into current and deferred taxes for the fiscal year is disclosed in the notes.

Other non-income-related taxes are reported as a component of general and administrative expenses.

7. Cash Reserve

The cash reserve is carried at the nominal amount.

8. Financial Instruments

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

In the case of regular way purchases or sales, financial instruments are normally recognized on the settlement date, i.e. the date on which the asset is delivered.

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

IFRS 9 breaks down financial assets into the following categories:

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

Financial liabilities are classified using the following categories:

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

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

The fair value option for financial assets and financial liabilities is not applied in the VW FS AG Group.

Financial assets and financial liabilities are generally reported with their gross values. Offsetting is only applied if, at the present time, the offsetting of the amounts is legally enforceable by the VW FS AG Group and there is an intention to settle on a net basis in practice.

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

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

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

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

- > at which the financial asset or financial liability is measured on initial recognition,
- > minus any repayments of principal,
- > adjusted, in the case of financial assets, for any recognized valuation allowances, impairment losses or uncollectibility and
- > plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount (premium, discount) using the effective interest method.

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

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

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

Changes in fair value that extend beyond the changes in the amortized cost of these financial assets are recognized in other comprehensive income (taking into account deferred taxes) until the financial asset concerned is derecognized. Only then are the accumulated gains or losses reclassified to profit or loss.

The changes in amortized cost, such as impairment losses, interest determined in accordance with the effective interest method and foreign currency gains or losses, are immediately recognized in profit or loss.

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

Financial assets (debt instruments) for which the cash flow criterion is not satisfied, or that are managed within a business model that aims to sell these assets in order to realize cash flows ("sell" business model), together with derivatives, are measured at fair value through profit or loss.

The same applies to financial liabilities that are not measured at amortized cost.

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

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

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

LOANS AND RECEIVABLES

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

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

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

Some of the loans to and receivables from customers are included in portfolio hedges. Loans to and receivables from customers assigned to portfolio hedges are measured at hedged fair value.

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

MARKETABLE SECURITIES

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

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

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

EQUITY INVESTMENTS

The equity investments included in the "Miscellaneous financial assets" balance sheet item are measured as equity instruments generally at fair value through other comprehensive income in exercise of the fair-value-

through-OCI option. As the equity investments are strategic financial investments, this classification provides a more meaningful presentation of the investments.

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments comprise derivatives in effective hedges and derivatives not designated as hedging instruments. All derivatives are measured at fair value and are presented separately in notes (33) and (44).

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

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

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

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

IFRS 9 allows entities to apply the provisions of IAS 39 to the hedging of the fair value of a portfolio of financial assets or financial liabilities (portfolio hedge accounting). In the reporting period, the VW FS AG Group used portfolio-based fair value hedges to hedge interest-rate risks and accounted for these hedges in accordance with the requirements of IAS 39. In portfolio-based hedging, the accounting treatment of changes in fair value is the same as in fair value hedging at micro level.

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

Changes in the fair values of derivatives that do not satisfy the IFRS 9 criteria for hedge accounting and are therefore accounted for in the category of financial assets and financial liabilities measured at fair value through profit or loss are recognized in profit or loss under net gain or loss on financial instruments measured at fair value. In fiscal year 2019, the fair values of derivative financial instruments in connection with the risk of early termination have also been reported as part of liabilities arising from derivatives not designated as hedges.

PROVISION FOR CREDIT RISKS

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

Financial assets are subject to credit risks, which are taken into account by recognizing valuation allowances in the amount of the expected loss; such valuation allowances are recognized for both financial assets with

objective evidence of impairment and non-impaired financial assets. These allowances are posted to separate valuation allowance accounts.

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

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

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

Both historical information, such as average historical default probabilities for each portfolio, and forward-looking information is used to determine the measurement parameters for calculating the provision for credit risks. Insignificant loans/receivables and significant individual loans/receivables with no indication of impairment are grouped together into homogeneous portfolios using comparable credit risk features and broken down by risk category. In the case of significant individual impaired loans or receivables (e.g. dealer financing loans/receivables and fleet customer business loans/receivables), specific valuation allowances are recognized in the amount of the expected loss.

Impairment arises in a number of situations, such as delayed payment over a certain period, the initiation of enforcement measures, the threat of insolvency or over-indebtedness, application for or the initiation of insolvency proceedings, or the failure of restructuring measures.

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

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

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

Disclosures relating to the provision for credit risks are presented separately in note (58).

LIABILITIES

Liabilities to banks and customers (note 41), notes and commercial paper issued (note 42), and subordinated capital liabilities (note 49) are recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates.

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

9. Miscellaneous Financial Assets

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

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

The accounting policies applicable to equity investments are set out in note (8) Financial Instruments.

10. Intangible Assets

Purchased intangible assets with finite useful lives are recognized at cost and amortized on a straight-line basis over their useful lives. These assets mainly consist of software, which is amortized over three to five years.

Subject to the conditions specified in IAS 38, internally developed software and all the direct and indirect costs that are directly attributable to the development process are capitalized. When assessing whether the development costs associated with internally generated software are to be capitalized or not, VW FS AG takes into account not only the probability of a future inflow of economic benefits but also the extent to which the costs can be reliably determined. Research costs are not capitalized. Amortization is on a straight-line basis over the useful life of three to five years and is reported under general and administrative expenses.

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

Intangible assets with indefinite useful lives are not amortized. An annual review is carried out to establish whether an asset has an indefinite useful life. In accordance with IAS 36, these assets are tested for impairment by comparing the carrying amount and recoverable amount at least once a year and additionally if relevant events or changes in circumstances should occur. If required, an impairment loss is recognized to reduce the carrying amount to a lower recoverable amount (see note 12).

Goodwill is tested for impairment once a year and also if relevant events or changes in circumstances occur. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized. There can be no subsequent reversal of such impairment losses.

The recoverable amount of goodwill is derived from the value in use for the relevant cash-generating unit, which is determined using the discounted cash flow method. The basis is the latest planning data prepared by management for a planning period of five years, with growth in subsequent years estimated using a flat rate percentage. This planning is based on expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and on assumptions derived from these trends about financial services, taking into account market penetration, risk costs and margins. Planning assumptions are adjusted in line with the latest available information. The interest rate used is based on the long-term market interest rate relevant to each cash-generating unit (regions or markets). The calculations use a standard Group cost of equity of 6.6% (previous year: 6.8%). If necessary, the cost of equity rate is also adjusted using discount factors specific to the country and business concerned. The calculation of cash flows is based on the forecast growth rates for the relevant markets. Cash flows after the end of the planning period are generally estimated using a growth rate of 1% p.a. (previous year: 1% p.a.).

11. Property and Equipment

Property and equipment (land and buildings plus operating and office equipment) is reported at cost less depreciation and, if necessary, any impairment losses. Depreciation is applied on a straight-line basis over the estimated useful life. Useful lives are reviewed at every reporting date and adjusted where appropriate.

Depreciation is based mainly on the following useful lives:

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

An impairment loss is recognized in accordance with IAS 36 if the recoverable amount of the asset concerned has fallen below its carrying value (see note 12).

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

The property and equipment line item on the balance sheet also includes right-of-use assets in connection with leases in which the VW FS AG Group is the lessee. The accounting policies for these right-of-use assets are set out in note (13) Leases within the subsection covering the Group as lessee.

12. Impairment of Non-Financial Assets

Assets with an indefinite useful life are not depreciated or amortized; they are tested for impairment once a year and additionally if relevant events or changes in circumstances occur. Assets subject to depreciation and amortization are tested for impairment if relevant events or changes in circumstances indicate that the recoverable amount of the asset concerned is lower than its carrying amount.

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

If the reasons for the recognition of an impairment loss in prior years now no longer apply, an appropriate reversal of the impairment loss is recognized. This does not apply to impairment losses recognized in respect of goodwill.

13. Leases

Since January 1, 2019, the VW FS AG Group has accounted for leases in accordance with IFRS 16. This standard defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

The accounting policies for leases in accordance with IAS 17, on which the prior-year comparative figures are based, have not been amended. In this context, please refer to the notes provided in the 2018 Annual Report.

GROUP AS LESSOR

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

A finance lease is a lease that transfers substantial risks and rewards to the lessee. In the consolidated balance sheet, receivables from finance leases are reported within loans to and receivables from customers and the net investment in the lease generally equates to the cost of the lease asset. Interest income from these transactions is reported under leasing income in the income statement. The interest paid by the customer is allocated so as to produce a constant periodic rate of interest on the remaining balance of the lease receivable.

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

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

The VW FS AG Group takes full account of the credit risk arising in connection with lease receivables by recognizing loss allowances in accordance with the provisions specified in IFRS 9. The accounting policies covering loss allowances for the credit risk on lease receivables are included in note (8) Financial Instruments in the subsection addressing the provision for credit risks.

Land and buildings held to earn rentals are reported under the "Investment property" item in the balance sheet and measured at amortized cost. The land and buildings involved are generally leased out to dealer businesses. The fair values disclosed in the notes are determined by the relevant entity by discounting the estimated future cash flows using the relevant long-term market discount rate. Depreciation is applied on a straight-line basis over useful lives of ten to 33 years. Any impairment identified as a result of an impairment test in accordance with IAS 36 is taken into account by recognizing an impairment loss.

GROUP AS LESSEE

Where the VW FS AG Group is a party to leases as a lessee, the Group generally recognizes a right-of-use asset and a lease liability in its balance sheet. At the VW FS AG Group, the lease liability is measured at the present value of the outstanding lease payments, whereas the right-of-use asset is generally measured at the amount of the lease liability plus any direct costs.

The right-of-use asset is depreciated on a straight-line basis over the term of the lease. The depreciation expense is reported under general and administrative expenses. In the subsequent measurement of the lease liability, the carrying amount is updated using the effective interest method and taking into account the lease payments made. The interest expenses arising from the application of the effective interest method are reported under interest expenses in the income statement.

The right-of-use assets recognized in the balance sheet are reported under those line items in which the lease's underlying assets would have been reported if these assets had been in the beneficial ownership of the VW FS AG Group. The right-of-use assets are therefore reported as of the reporting date under property and equipment and lease assets and included in the impairment tests for property and equipment carried out in accordance with the requirements of IAS 36.

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

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

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

BUYBACK TRANSACTIONS

Leases in which the VW FS AG Group has a firm agreement with the lessor regarding the return of the leased asset are recognized under other loans and receivables within loans to and receivables from customers at the amount of the resale value agreed at the inception of the lease and are also recognized in the amount equating to the right of use under lease assets (in the case of long-term (noncurrent) leases) or under other assets (in the case of short-term leases). In the case of noncurrent leases (maturity of more than one year), the agreed resale value is discounted at the inception of the lease. The unwinding of the discount during the term of the lease is recognized in interest income. The value of the right of use recognized under other assets is depreciated on a straight-line basis over the term of the lease. This depreciation is reported under depreciation, impairment losses and other expenses from leasing transactions. Lease payments received under subleases are reported as income from leasing business.

14. Provisions for Pensions and Other Post-Employment Benefits

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

The VW FS AG Group provides occupational pensions in the form of both defined contribution and defined benefit plans. In the case of defined contribution plans, the Company makes contributions to state or private pension schemes based on statutory or contractual requirements, or on a voluntary basis. Once the contributions have been paid, the VW FS AG Group has no further obligations. In 2019, the total contributions made by the VW FS AG Group came to €46 million (previous year: €37 million). Contributions to the compulsory state pension system in Germany amounted to €37 million (previous year: €33 million).

Pension schemes in the VW FS AG Group are predominantly defined benefit plans in which there is a distinction between pensions funded by provisions (without plan assets) and externally funded plans (with plan assets). The pension provisions for defined benefit commitments are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19. This means that the future obligations are measured on the basis of the proportionate benefit entitlements earned as of the reporting date. The measurement of pension provisions takes into account actuarial assumptions as to discount rates, salary and pension trends, and employee turnover rates, which are determined for each Group company depending on the economic environment. Actuarial gains or losses arise from differences between actual trends and prior-year assumptions as well as from changes in assumptions. These gains and losses are recognized in the period in which they arise in other comprehensive income (taking into account deferred taxes) and have no impact on profit or loss. Detailed disclosures on provisions for pensions and other post-employment benefits are set out in note (45).

15. Insurance Business Provisions

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

Insurance contracts are accounted for in accordance with IFRS 4 and, to the extent permitted by local accounting regulations, also in accordance with sections 341ff. of the HGB and the Verordnung über die Rechnungslegung von Versicherungsunternehmen (RechVersV – German Accounting Regulation for Insurance Companies).

Unearned premiums for direct insurance business are generally determined on the basis of each individual contract using the 1/act method.

Provisions for claims outstanding in direct insurance operations are normally determined and measured on the basis of each claim in accordance with the estimated requirement. The chain ladder method or modified chain ladder method is generally used to determine the provision for incurred but not reported (IBNR) losses. The partial loss provision for claims settlement expenses is calculated in accordance with the requirements set out in the coordinated regulations issued by the German federal states on February 2, 1973.

The provision performance-related and non-performance-related premium refunds contains only obligations in connection with non-performance related refunds and is estimated on the basis of contract-specific claims experience.

The other underwriting provisions include the cancellation provision for direct insurance business, which is based on historical cancellation rates.

An equalization provision was not recognized because it is prohibited under IFRS 4.

The reinsurers' share of provisions is calculated in accordance with the contractual agreements with the retrocessionaires and reported under other assets.

Provisions for outstanding claims in inward reinsurance business are generally recognized on the basis of the information provided by the cedants.

Actuarial methods and systems that guarantee ongoing monitoring and control of all key insurance risks are used to ensure that the level of underwriting provisions is adequate. One of the main features of the insurance business is underwriting risk, which comprises primarily premium/loss risk, reserve risk, cancellation risk and catastrophe risk. The VW FS AG Group counters these risks by constantly monitoring the basis of computations, making appropriate additions to provisions and applying a restrictive underwriting policy.

16. Other Provisions

Under IAS 37, provisions are recognized if a present legal or constructive obligation to a third party has arisen as a result of a past event, it is probable that settlement in the future will result in an outflow of resources and the amount of the obligation can be estimated reliably. If an outflow of resources is neither probable nor improbable, the amount concerned is deemed to be a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note (65).

The share-based payment within other provisions and within other liabilities consists of performance shares based on Volkswagen AG preferred shares. The commitments in relation to share-based payments are accounted for as cash-settled plans in accordance with IFRS 2. These cash-settled plans are measured during the term to maturity at fair value. This fair value is determined using a generally accepted valuation technique. The remuneration expense is treated as part of personnel expenses within general and administrative expenses and is allocated over the vesting period.

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

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

Provisions not related to an outflow of resources likely to take place in the subsequent year are recognized at their settlement amount discounted to the reporting date using market discount rates. An average discount rate of -0.1% (previous year: 0.2%) has been used for the eurozone. The settlement amount also includes expected cost increases.

Any rights of recourse are not offset against provisions.

17. Estimates and Assumptions by Management

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

Assumptions and estimates are based on the latest available information. The circumstances prevailing at the time the consolidated financial statements are prepared and future trends in the global and sector environment considered to be realistic are taken into account in the projected future performance of the business. The estimates and assumptions used by management have been made, in particular, on the basis of assumptions relating to macroeconomic trends as well as trends in automotive markets, financial markets and the legal framework. These and other assumptions are explained in detail in the report on expected developments, which is part of the management report.

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

The assumptions and estimates largely relate to the items set out below.

RECOVERABLE AMOUNT OF LEASE ASSETS

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

LEASE TERM IN LESSEE ACCOUNTING

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

FINANCIAL INSTRUMENTS

The procedure for determining the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. These estimates take into account the latest market data as well as rating classes and scoring information based on experience combined with forward-looking parameters. Further information on determining valuation allowances can be found in the disclosures on the provision for credit risks (note 8).

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

INCOME FROM SERVICE CONTRACTS

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

PROVISIONS

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

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

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

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

The impairment tests applied to non-financial assets (particularly goodwill and brand names), equity-accounted joint ventures and equity investments measured at cost require assumptions related to the future cash flows in the planning period and, where applicable, beyond. The assumptions about the future cash flows factor in expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and expectations derived from these trends about financial services, taking into account market penetration, risk costs, margins and regulatory requirements. For further information on the assumptions relating to the detailed planning period, please refer to the report on expected developments, which forms part of the management report. The discount rates used in the discounted cash flow method applied when testing goodwill for impairment are based on specified cost of equity rates, taking into account historical experience and appropriate assumptions regarding macroeconomic trends. In particular the forecasts for short- and medium-term cash flows, and the discount rates used, are subject to uncertainty outside the control of the group.

DEFERRED TAX ASSETS AND UNCERTAIN INCOME TAX ITEMS

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

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

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

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

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

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

Income Statement Disclosures

18. Interest Expense

Interest expenses include funding expenses for lending and leasing business. The net expense arising from interest income and expenses in the reporting period on derivatives not designated as hedging instruments amounts to €19 million (previous year: €6 million).

The disclosures relating to the interest expenses for lease liabilities reported under the interest expenses line item in the income statement can be found in note (63) Leases.

19. Net Income from Service Contracts

Of the total income recognized for service contracts, an amount of €1,350 million (previous year: €1,064 million) related to service contracts requiring the recognition of income at a specific time, and €388 million (previous year: €295 million) related to service contracts requiring the recognition of income over a period of time.

Of the income from service contracts recognized in the reporting period, income of €442 million had been included in the contractual liabilities for service contracts as of January 1, 2019. Of the income recognized in the prior year, income of €347 million had been included in the contractual liabilities for service contracts as of January 1, 2018.

20. Net Income from Insurance Business

The following table shows the net income from insurance business:

€ million	2019	2018
Insurance premiums earned	318	308
Insurance claims expenses	-119	-113
Reinsurance commissions and with-profits expenses	-45	-48
Other underwriting expenses	0	0
Total	155	148

21. Provision for Credit Risks

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

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

€ million	2019	2018
Additions to provision for credit risks	-819	-749
Reversals of provision for credit risks	627	575
Direct write-offs	-160	-86
Income from loans and receivables previously written off	59	39
Net gain or loss from significant modifications	-	-
Total	-294	-221

Additional credit risks to which the VW FS AG Group is exposed as a result of various critical situations (Brexit, economic crises) in the United Kingdom, Russia, Brazil, India, Mexico and the Republic of Korea were accounted for in the reporting period. Overall this gave rise to a net reversal (income) of €37 million in the reporting year (previous year: expense of €8 million). Additions to the provision for credit risks in respect of the United Kingdom were offset by reversals for Brazil, Russia and the Republic of Korea.

22. Net Fee and Commission Income

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

€ million	2019	2018
Fee and commission income	514	423
of which commissions from insurance broking	308	266
Fee and commission expenses	-389	-203
of which sales commission from financing business	-204	-138
Total	125	220

23. Net Gain or Loss on Hedges

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

The details of the gains and losses are as follows:

€ million	2019	2018
Gains/losses on hedging instruments in fair value hedges	78	239
Gains/losses on hedged items in fair value hedges	-78	-239
Gains/losses from the ineffective portion of hedging instruments in fair value hedges	-17	-12
Gains/losses from the reclassification of cash flow hedge reserves	1	13
Gains/losses from translation of foreign currency loans/receivables and liabilities in cash flow hedges	-1	-13
Gains/losses from the ineffective portion of hedging instruments in cash flow hedges	-1	0
Total	-18	-12

24. 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

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

The details of the gains and losses are as follows:

€ million	2019	2018
Gains/losses on derivatives not designated as hedging instruments	-104	4
Gains/losses on marketable securities measured at fair value through profit/loss	2	-1
Gains/losses on loans/receivables measured at fair value through profit/loss	1	2
Gains/losses on the derecognition of marketable securities measured at fair value through OCI	-	-
Total	-100	4

25. General and Administrative Expenses

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

€ million	2019	2018
Personnel expenses	-902	-744
Non-staff operating expenses	-1,000	-820
Advertising, public relations and sales promotion expenses	-49	-42
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	-70	-34
Other taxes	-12	-11
Income from the reversal of provisions and accrued liabilities	27	20
Total	-2,006	-1,632

Personnel expenses comprise wages and salaries of €743 million (previous year: €606 million) as well as social security, post-employment and other employee benefit costs of €160 million (previous year: €138 million).

The disclosures relating to the expenses from the depreciation of right-of-use assets included in general and administrative expenses and to the expenses from short-term leases and leases in which the underlying asset is of low value can be found in note (63) Leases.

In accordance with the requirements specified in section 314(1) no. 9 of the HGB, the general and administrative expenses include the total fees charged in the reporting year by the auditor of the consolidated financial statements as shown in the following table.

€ million	2019	2018
Financial statement audit services	2	2
Other attestation services	0	0
Tax consulting services	-	-
Other services	2	1
Total	4	3

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

The other services performed by the auditor in the reporting period consisted mainly of services related to IT system issues.

26. Net Other Operating Income/Expenses

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

€ million	2019	2018
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	105	95
Income from cost allocations to other entities in the Volkswagen Group	464	421
Income from the reversal of provisions and accrued liabilities	82	73
Income from claims for damages	25	25
Income from the disposal of vehicles under loan agreements and finance leases	590	7
Income from non-significant modifications	2	8
Miscellaneous operating income	174	101
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	-5	-103
Litigation and legal risk expenses	-86	-95
Expenses from the disposal of vehicles under loan agreements and finance leases	-651	-9
Expenses from non-significant modifications	-1	-6
Other operating expenses	-217	-84
Total	482	434

27. Net Gain or Loss on Miscellaneous Financial Assets

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

28. Other Financial Gains or Losses

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

29. Income Tax Expense

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

€ million	2019	2018
Current tax income/expense, Germany	13	-141
Current tax expense, foreign	-373	-269
Current income tax expense	-360	-410
of which income (+)/expense (-) related to prior periods	(5)	(4)
Deferred tax income (+)/expense (-), Germany	-68	60
Deferred tax income (+)/expense (-), foreign	53	80
Deferred tax income (+)/expense (-)	-14	140
Income tax expense	-374	-270

The reported tax expense in 2019 of €374 million (previous year: €270 million) is €3 million lower (previous year: €25 million higher) than the expected tax expense of €377 million (previous year: €245 million) calculated by applying the tax rate of 29.8% (previous year: 29.9%) to the consolidated profit before tax.

The following reconciliation shows the relationship between the income tax expense and the profit before tax for the reporting period:

€ million	2019	2018
Profit/loss before tax	1,264	818
multiplied by the domestic income tax rate of 29.8% (previous year: 29.9%)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	-377	-245
+ Effects from domestic/foreign tax rates	5	14
+ Effects from tax-exempt income	56	44
+ Effects from non-deductible operating expenses	-56	-29
+ Effects from loss carryforwards	-8	-1
+ Effects from permanent differences	-2	-8
+ Effects from tax credits	0	0
+ Taxes attributable to prior periods	8	5
+ Effects from changes in tax rates	6	-36
+ Effects from non-deductible withholding taxes	-2	-7
+ Other variances	-5	-7
= Current income tax expense	-374	-270
Effective tax rate in %	29.6	33.0

The statutory corporation tax rate in Germany for the 2019 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.79%.

In the German tax group, a tax rate of 29.8% (previous year: 29.8%) was used to measure deferred taxes.

The effects from different income tax rates outside Germany arise because of the different income tax rates in the individual countries in which the Group companies are domiciled compared with the rates in Germany. These rates outside Germany vary between 19.0% and 45.0% (previous year: 19.0% and 40.0%).

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

€ million	UNUSED TAX LOSS CARRYFORWARDS		OF WHICH UNUSABLE TAX LOSS CARRYFORWARDS	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Usable indefinitely	-160	-97	-154	-62
Usable within the next 5 years	-14	-15	-	-1
Usable within 5-10 years	-	-	-	-
Usable within more than 10 years	-	-	-	-
Total	-174	-112	-154	-63
thereon deferred tax assets recognized	-6	-13	-	-

The tax credits granted by various countries led to the recognition of a tax benefit in an amount of € 1.2 million (previous year: € 0.4 million).

The income taxes do not include any material amounts arising from the use of previously unrecognized tax losses, tax credits or temporary differences from previous periods. In addition, there were no material effects from the recognition of impairment losses or reversal of impairment losses in respect of deferred tax assets.

An effect on deferred taxes in an amount of €6 million (previous year: €-36 million) arose throughout the Group in 2019 as a consequence of changes in tax rates.

The Group has recognized deferred tax assets of €64 million (previous year: €50 million) against which there are no deferred tax liabilities in an equivalent amount. The companies involved are expecting to generate profits in the future following losses in the reporting or in the prior period.

In accordance with IAS 12.39, deferred tax liabilities of €26 million (previous year: €28 million) have not been recognized for temporary differences and undistributed profits of subsidiaries because VW FS AG has the relevant control.

Of the deferred taxes recognized in the balance sheet, an amount of €104 million (previous year: €64 million) relates to transactions reported in other comprehensive income. A breakdown of the changes in deferred taxes is presented in the statement of comprehensive income.

30. Further Income Statement Disclosures

Fee and commission income and expenses related to fiduciary activities and to financial assets or financial liabilities not measured at fair value and not measured using the effective interest method:

€ million	2019	2018
Income from fees and commissions	44	51
Expenses from fees and commissions	0	0
Total	44	51

Balance Sheet Disclosures

31. Cash Reserve

The cash reserve includes credit balances of €106 million (previous year: €54 million) held with foreign central banks.

32. Loans to and Receivables from Customers

The “Loans to and receivables from customers” item includes deductions arising from the provision for credit risks recognized to cover the expected credit risk. The provision for credit risks is presented in note (58).

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

Some of the fixed-income exposures associated with finance lease receivables have been hedged against fluctuations in the risk-free based interest rate using a portfolio hedge. Receivables from operating leases are excluded from this hedging strategy because they do not satisfy the definition of a financial instrument within the meaning of IFRS 9 and in conjunction with IAS 32.

The reconciliation to the balance sheet values is as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Receivables from customers	79,195	59,012
Fair value adjustment from portfolio hedging	2	-10
Loans to and receivables from customers, net of fair value adjustment from portfolio hedging	79,194	59,022

Receivables from leasing transactions include due receivables amounting to €495 million (previous year: €371 million).

As of the reporting date, receivables from operating leases amounted to €233 million (previous year: €135 million).

At the end of the reporting period, a valuation allowance of €628 million (previous year: €666 million) was recognized in regards to loans to and receivables from customers in the United Kingdom, Russia, Brazil, India, Mexico and the Republic of Korea, which are affected by various crises (Brexit, economic crises).

33. Derivative Financial Instruments

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

The breakdown is as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Transactions to hedge against		
currency risk on assets using fair value hedges	9	24
currency risk on liabilities using fair value hedges	–	51
Interest-rate risk using fair value hedges	580	396
of which hedges against interest-rate risk using portfolio fair value hedges	6	0
Interest-rate risk using cash flow hedges	1	8
currency and pricing risk on future cash flows using cash flow hedges	22	32
Hedging transactions	611	510
Assets arising from derivatives not designated as hedges	125	71
Total	736	582

34. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

€ million	Equity- accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2018	642	376	1,018
Foreign exchange differences	–	–1	–1
Changes in basis of consolidation	–	5	5
Additions	21	121	142
Reclassifications	–	–	–
Disposals	–	9	9
Changes/remeasurements recognized in profit or loss	51	–	51
Dividends	–	–	–
Other changes recognized in other comprehensive income	–25	–	–25
Balance as of Dec. 31, 2018	689	492	1,181
Impairment losses Balance as of Jan. 1, 2018	17	3	20
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	88	88
Reclassifications	–	–	–
Disposals	–	3	3
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2018	17	88	105
Net carrying amount as of Dec. 31, 2018	671	404	1,075
Net carrying amount as of Jan. 01, 2018	625	373	997

€ million	Equity- accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2019	689	492	1,181
Foreign exchange differences	–	0	0
Changes in basis of consolidation	–	–5	–5
Additions	11	204	215
Reclassifications	–	–	–
Disposals	–	5	5
Changes/remeasurements recognized in profit or loss	65	–	65
Dividends	–12	–	–12
Other changes recognized in other comprehensive income	2	–3	–1
Balance as of Dec. 31, 2019	754	683	1,437
Impairment losses			
Balance as of Jan. 1, 2019	17	88	105
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	9	9
Reclassifications	–	–	–
Disposals	–	5	5
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2019	17	92	109
Net carrying amount as of Dec. 31, 2019	737	591	1,328
Net carrying amount as of Jan. 01, 2019	671	404	1,075

35. Intangible Assets

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2018	35	20	12	104	171
Foreign exchange differences	-1	0	0	-2	-4
Changes in basis of consolidation	-	-	-	-1	-1
Additions	1	-	-	26	27
Reclassifications	-	-	-	0	0
Disposals	-	-	-	4	4
Balance as of Dec. 31, 2018	35	20	12	122	188
Amortization and impairment losses					
Balance as of Jan. 1, 2018	30	3	-	79	113
Foreign exchange differences	0	0	-	-2	-2
Changes in basis of consolidation	-	-	-	-1	-1
Additions to cumulative amortization	1	0	-	11	13
Additions to cumulative impairment losses	-	-	-	2	2
Reclassifications	-	-	-	-	-
Disposals	-	-	-	0	0
Reversal of impairment losses	-	-	-	-	-
Balance as of Dec. 31, 2018	31	3	-	90	124
Net carrying amount as of Dec. 31, 2018	4	17	12	32	64
Net carrying amount as of Jan. 01, 2018	4	18	12	24	59

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2019	35	20	12	122	188
Foreign exchange differences	0	0	0	4	4
Changes in basis of consolidation	1	4	5	36	45
Additions	1	–	–	27	28
Reclassifications	–	–	–	–	–
Disposals	–	–	–	6	6
Balance as of Dec. 31, 2019	36	24	17	182	259
Amortization and impairment losses					
Balance as of Jan. 1, 2019	31	3	–	90	124
Foreign exchange differences	0	0	–	2	2
Changes in basis of consolidation	1	2	–	23	26
Additions to cumulative amortization	1	1	–	16	18
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	–	–	–	2	2
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2019	33	6	–	129	168
Net carrying amount as of Dec. 31, 2019	4	18	17	52	91
Net carrying amount as of Jan. 01, 2019	4	17	12	32	64

The goodwill of €17 million (previous year: €12 million) and brand names of €17 million (previous year: €16 million) in Poland and Germany reported on the balance sheet as of the reporting date have an indefinite useful life. The indefinite useful life arises because goodwill and brand names are linked to the relevant cash-generating unit and will therefore remain in existence for as long as this unit remains in existence. The customer base in Poland and Germany is being amortized over a period of ten years.

Of the total recognized goodwill, €12 million (previous year: €12 million) was attributable to Poland and €5 million to Germany. Of the total recognized brand names, €6 million (previous year: €6 million) was attributable to Poland and €11 million (previous year: €10 million) to Germany. The discount rates used in the impairment tests were 9.4% (previous year: 9.5%) for Poland and 6.6% for Germany.

The impairment tests for the reported goodwill and brand names are based on the value in use. The value in use determined for the reported goodwill and brand names in the impairment test for Poland exceeded the corresponding carrying amount, so no impairment loss requirement was identified for the reported goodwill or brand names. The VW FS AG Group also carried out sensitivity analyses as part of the impairment tests. In Poland, no conceivable change in a material assumption would lead to the recognition of an impairment loss for goodwill and brand names.

36. Property and Equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2018	319	95	413
Foreign exchange differences	1	-2	0
Changes in basis of consolidation	-	-2	-2
Additions	16	38	54
Reclassifications	1	1	1
Disposals	1	10	10
Balance as of Dec. 31, 2018	336	120	456
Depreciation and impairment losses			
Balance as of Jan. 1, 2018	95	54	149
Foreign exchange differences	0	-1	0
Changes in basis of consolidation	-	-2	-2
Additions to cumulative depreciation	9	11	20
Additions to cumulative impairment losses	-	-	-
Reclassifications	1	0	1
Disposals	0	7	7
Reversal of impairment losses	-	-	-
Balance as of Dec. 31, 2018	105	55	160
Net carrying amount as of Dec. 31, 2018	230	65	295
Net carrying amount as of Jan. 1, 2018	224	41	265

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2019	435	131	566
Foreign exchange differences	2	2	3
Changes in basis of consolidation	59	38	96
Additions	66	21	87
Reclassifications	-1	-1	-2
Disposals	16	18	34
Balance as of Dec. 31, 2019	545	172	717
Depreciation and impairment losses			
Balance as of Jan. 1, 2019	99	55	154
Foreign exchange differences	0	1	1
Changes in basis of consolidation	2	20	23
Additions to cumulative depreciation	32	21	53
Additions to cumulative impairment losses	-	0	0
Reclassifications	-	0	0
Disposals	1	10	11
Reversal of impairment losses	0	0	0
Balance as of Dec. 31, 2019	131	87	218
Net carrying amount as of Dec. 31, 2019	413	85	498
Net carrying amount as of Jan. 1, 2019	337	76	412

1 The opening carrying amount has been adjusted (see IFRS 16 disclosures)

In connection with land and buildings, land charges of €13 million (previous year: €13 million) serve as collateral for financial liabilities.

Assets under construction with a carrying amount of €13 million (previous year: €4 million) are included in land and buildings.

37. Investment Property

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

€ million	Investment property
Cost	
Balance as of Jan. 1, 2018	18
Foreign exchange differences	0
Changes in basis of consolidation	–
Additions	–
Reclassifications	–1
Disposals	–
Balance as of Dec. 31, 2018	17
Depreciation and impairment losses	
Balance as of Jan. 1, 2018	7
Foreign exchange differences	0
Changes in basis of consolidation	–
Additions to cumulative depreciation	1
Additions to cumulative impairment losses	–
Reclassifications	–1
Disposals	–
Reversal of impairment losses	–
Balance as of Dec. 31, 2018	7
Net carrying amount as of Dec. 31, 2018	10
Net carrying amount as of Jan. 1, 2018	10

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

€ million	Investment property
Cost	
Balance as of Jan. 1, 2019	26
Foreign exchange differences	0
Changes in basis of consolidation	6
Additions	–
Reclassifications	–
Disposals	–
Balance as of Dec. 31, 2019	32
Depreciation and impairment losses	
Balance as of Jan. 1, 2019	13
Foreign exchange differences	0
Changes in basis of consolidation	1
Additions to cumulative depreciation	1
Additions to cumulative impairment losses	–
Reclassifications	–
Disposals	–
Reversal of impairment losses	0
Balance as of Dec. 31, 2019	15
Net carrying amount as of Dec. 31, 2019	17
Net carrying amount as of Jan. 1, 2019	13

1 The opening carrying amount has been adjusted (see IFRS 16 disclosures).

The fair value of investment property amounts to €24 million (previous year: €15 million). The fair value is determined using an income approach based on internal calculations (Level 3 of the fair value hierarchy). Operating expenses of €1 million (previous year: €1 million) were incurred in the reporting period for the maintenance of investment property.

Rental income from investment property of €2 million (previous year: €1 million) is included in the income from leasing transactions line item in the income statement.

38. Deferred Tax Assets

The deferred tax assets comprise exclusively of deferred income tax assets, the breakdown of which is as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Deferred tax assets	8,098	7,051
of which noncurrent	5,286	4,588
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	6	13
of which noncurrent	6	13
Offset (with deferred tax liabilities)	-6,591	-5,525
Total	1,513	1,539

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

€ million	Dec. 31, 2019	Dec. 31, 2018
Loans, receivables and other assets	801	696
Marketable securities and cash	3	4
Intangible assets/property and equipment	20	17
Lease assets	6,253	5,720
Liabilities and provisions	1,021	615
Valuation allowances for deferred assets on temporary differences	-	-
Total	8,098	7,051

39. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Vehicles returned for disposal	1,058	497
Restricted cash	810	596
Prepaid expenses and accrued income	313	223
Other tax assets	381	152
Reinsurers' share of underwriting provisions	58	60
Miscellaneous	657	990
Total	3,276	2,517

Contract origination costs of €65 million had been capitalized as of December 31, 2019. In 2019, the amortization expenses relating to capitalized contract origination costs amounted to €13 million. No impairment losses were recognized in 2019 in respect of the capitalized contract origination costs.

The breakdown of the reinsurers' share of underwriting provisions is as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Reinsurers' share of provision for claims outstanding	42	44
Reinsurers' share of provision for unearned premiums	14	13
Reinsurers' share of other underwriting provisions	2	2
Total	58	60

40. Noncurrent Assets

€ million	Dec. 31, 2019	of which noncurrent	Dec. 31, 2018	of which noncurrent
Cash reserve	106	–	54	–
Loans to and receivables from banks	2,477	303	1,819	208
Loans to and receivables from customers	79,195	18,494	59,012	29,947
Derivative financial instruments	736	673	582	467
Marketable securities	305	–	290	–
Equity-accounted joint ventures	737	737	671	671
Miscellaneous financial assets	591	591	404	404
Intangible assets	91	91	64	64
Property and equipment	498	498	295	295
Lease assets	22,776	20,082	13,083	11,005
Investment property	17	17	10	10
Current tax assets	125	5	122	5
Other assets	3,276	546	2,517	782
Total	110,931	42,038	78,923	43,859

41. Liabilities to Banks and Customers

To cover the capital requirements for the leasing and financing activities, the entities in the VW FS AG Group make use of, among other things, the funds provided by the entities in the Volkswagen Group.

Receivables from finance leases of €779 million (previous year: €631 million) were pledged as collateral for liabilities to banks.

The liabilities to customers also included contractual liabilities from service contracts and other contracts amounting to €1,167 million, in connection with which income of €642 million was expected to be recognized in the next fiscal year, followed by income of €525 million in subsequent years.

42. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Dec. 31, 2019	Dec. 31, 2018
Bonds issued	56,443	38,464
Commercial paper issued	4,501	2,564
Total	60,943	41,029

Customer and dealer financing loans and receivables amounting to €181 million (previous year: €175 million) have been pledged as collateral for issued bonds not related to ABS transactions.

43. ABS Transactions

The VW FS AG Group uses ABS transactions for funding purposes. The related liabilities are recognized in the following balance sheet items:

€ million	Dec. 31, 2019	Dec. 31, 2018
Bonds issued	24,102	13,072
Subordinated liabilities	1,996	57
Total	26,097	13,129

Of the total amount of liabilities arising in connection with ABS transactions, an amount of €22,262 million (previous year: €9,941 million) is accounted for by ABS transactions with financial assets. The corresponding carrying amount of loans/receivables from retail financing and leasing business is €23,551 million (previous year: €10,661 million). As of December 31, 2019, the fair value of the liabilities amounted to €22,281 million (previous year: €9,967 million). The fair value of the assigned loans/receivables, which continued to be recognized, amounted to €24,342 million (previous year: €10,594 million) as of December 31, 2019.

Collateral totaling €28,251 million (previous year: €14,394 million) has been pledged in connection with ABS transactions, of which €24,084 million (previous year: €10,968 million) is accounted for by collateral in the form of financial assets. In these arrangements, the expected payments are assigned to special purpose entities and the ownership of the collateral in the financed vehicles is transferred. The assigned loans/receivables cannot be assigned again to anyone else or used in any other way as collateral. The rights of the bond holders are limited to the assigned loans/receivables and the payment receipts arising from these loans/receivables are used to repay the corresponding liability.

These asset-backed security transactions did not lead to a derecognition of the loans or receivables from the financial services business because the credit risk and timing risk were retained in the Group. The difference between the amount of the assigned loans/receivables and the associated liabilities results from the different terms and conditions and from the proportion of the ABSs held by the VW FS AG Group itself.

The bulk of the public and private ABS transactions in the VW FS AG Group can be repaid early (with a clean-up call) when less than 10% of the original transaction volume remains outstanding.

44. Derivative Financial Instruments

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

€ million	Dec. 31, 2019	Dec. 31, 2018
Transactions to hedge against		
currency risk on assets using fair value hedges	13	24
currency risk on liabilities using fair value hedges	1	1
interest-rate risk using fair value hedges	78	32
of which hedges against interest-rate risk using portfolio fair value hedges	63	18
interest-rate risk using cash flow hedges	14	4
currency and pricing risk on future cash flows using cash flow hedges	7	5
Hedging transactions	114	65
Liabilities arising from derivatives not designated as hedges	313	40
Total	427	105

45. Provisions for Pensions and Other Post-Employment Benefits

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

€ million	Dec. 31, 2019	Dec. 31, 2018
Present value of funded obligations	384	243
Fair value of plan assets	217	156
Funded status (net)	167	87
Present value of unfunded obligations	336	276
Amount not recognized as an asset because of the ceiling in IAS 19	0	1
Net liability recognized in the balance sheet	503	364
of which provisions for pensions	505	366
of which other assets	2	2

Key pension arrangements in the VW FS AG Group:

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

pension obligations funded by plan assets will continue to rise in the future. The main pension commitments are described below.

German pension plans funded solely by recognized provisions

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

German pension plans funded by external plan assets

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

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

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

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

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

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

Percent	GERMANY		INTERNATIONAL	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Discount rate	1.10	2.00	2.02	2.90
Pay trend	3.70	3.50	5.49	4.39
Pension trend	1.50	1.51	2.96	4.00
Staff turnover rate	1.10	1.03	2.20	3.81

These assumptions are averages that were weighted using the present value of the defined benefit obligation. The reduction in the international discount rate results mainly from the effect of a changed scope of companies on the weighting of the average discount rate.

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

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

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

€ million	2019	2018
Net liability recognized in the balance sheet as of January 1	364	359
Current service cost	32	30
Net interest expense	7	6
Actuarial gains (-)/losses (+) arising from changes in demographic assumptions	0	6
Actuarial gains (-)/losses (+) arising from changes in financial assumptions	135	-14
Actuarial gains (-)/losses (+) arising from experience adjustments	-1	-9
Income/expenses from plan assets not included in interest income	8	-8
Change in amount not recognized as an asset because of the ceiling in IAS 19	1	0
Employer contributions to plan assets	17	14
Employee contributions to plan assets	-	-
Pension payments from company assets	4	4
Past service cost (including plan curtailments)	0	-
Gains (-) or losses (+) arising from plan settlements	-	-
Changes in basis of consolidation	-1	-3
Other changes	-3	-2
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	503	364

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

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

€ million	2019	2018
Present value of obligations as of January 1	519	526
Current service cost	32	30
Interest cost (unwinding of discount on obligations)	12	11
Actuarial gains (-)/losses (+) arising from changes in demographic assumptions	0	6
Actuarial gains (-)/losses (+) arising from changes in financial assumptions	135	-14
Actuarial gains (-)/losses (+) arising from experience adjustments	-1	-9
Employee contributions to plan assets	-	-
Pension payments from company assets	4	4
Pension payments from plan assets	2	1
Past service cost (including plan curtailments)	0	-
Gains (-) or losses (+) arising from plan settlements	-	-
Changes in basis of consolidation	31	-3
Other changes	-4	-22
Foreign exchange differences from foreign plans	2	-2
Present value of obligations as of December 31	720	519

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

Present value of defined benefit obligation if		DEC. 31, 2019		DEC. 31, 2018	
		€ million	Change in percent	€ million	Change in percent
Discount rate	is 0.5 percentage points higher	641	-10.99	465	-10.49
	is 0.5 percentage points lower	813	12.94	583	12.25
Pension trend	is 0.5 percentage points higher	750	4.14	541	4.29
	is 0.5 percentage points lower	693	-3.73	501	-3.49
Pay trend	is 0.5 percentage points higher	727	1.05	525	1.19
	is 0.5 percentage points lower	713	-0.95	513	-1.09
Longevity	increases by one year	743	3.17	534	2.83

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

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

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 24 years (previous year: 23 years).

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

€ million	2019	2018
Active members with pension entitlements	567	423
Members with vested entitlements who have left the Company	54	23
Retirees	99	73
Total	720	519

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

€ million	2019	2018
Payments due within the next fiscal year	6	6
Payments due between two and five years	36	28
Payments due in more than five years	678	486
Total	720	519

Changes in plan assets are shown in the following table:

€ million	2019	2018
Fair value of plan assets as of January 1	156	168
Interest income on plan assets determined using the discount rate	5	5
Income/expenses from plan assets not included in interest income	8	-8
Employer contributions to plan assets	17	14
Employee contributions to plan assets	-	-
Pension payments from plan assets	2	1
Gains (+) or losses (-) arising from plan settlements	-	-
Changes in basis of consolidation	32	-
Other changes	-1	-20
Foreign exchange differences from foreign plans	2	-2
Fair value of plan assets as of December 31	217	156

The investment of the plan assets to cover future pension obligations resulted in a net result of €12 million (previous year: net result of €-3 million).

Employer contributions to plan assets are expected to amount to €19 million (previous year: €16 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

€ million	DEC. 31, 2019			DEC. 31, 2018		
	Quoted prices in active markets	No quoted prices in active markets	Total	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	9	–	9	12	–	12
Equity instruments	3	–	3	–	–	–
Debt instruments	23	–	23	1	–	1
Direct investments in real estate	–	–	–	–	–	–
Derivatives	5	–1	4	–1	0	–1
Equity funds	51	–	51	23	–	23
Bond funds	124	–	124	118	–	118
Real estate funds	1	–	1	1	–	1
Other funds	0	0	0	–	–	–
Asset-backed securities	–	–	–	–	–	–
Structured debt	–	–	–	–	–	–
Other instruments	1	2	2	0	2	2

Of the total plan assets, 57% (previous year: 82%) are invested in German assets, 18% (previous year: 1%) in other European assets and 25% (previous year: 17%) in assets in other regions. Investments of plan assets in debt instruments issued by the Volkswagen Group are of minor significance.

The following amounts have been recognized in the income statement:

€ million	2019	2018
Current service cost	32	30
Net interest on the net defined benefit liability	7	6
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	39	36

46. Underwriting Provisions and Other Provisions

€ million	Dec. 31, 2019	Dec. 31, 2018
Underwriting provisions	408	416
Other provisions	532	492
Total	940	909

The following table shows the changes in underwriting provisions:

€ million	UNDERWRITING PROVISIONS			Total
	Provision for claims outstanding	Provision for unearned premiums	Other underwriting provisions	
Balance as of Jan. 1, 2018	88	305	6	399
Changes to basis of consolidation	–	–	–	–
Utilization	29	156	2	187
Additions	26	176	2	204
Balance as of Dec. 31, 2018	84	325	7	416

€ million	UNDERWRITING PROVISIONS			Total
	Provision for claims outstanding	Provision for unearned premiums	Other underwriting provisions	
Balance as of Jan. 1, 2019	84	325	7	416
Changes to basis of consolidation	–	–	–	–
Utilization	32	161	3	197
Additions	39	147	2	188
Balance as of Dec. 31, 2019	91	311	6	408

Maturity profile of underwriting provisions:

€ million	DEC. 31, 2019		DEC. 31, 2018	
	Remaining maturity of more than one year	Total	Remaining maturity of more than one year	Total
Provision for claims outstanding	55	91	52	84
Provision for unearned premiums	165	311	172	325
Other underwriting provisions	–	6	–	7
Total	220	408	224	416

Underwriting provisions for direct insurance business:

€ million	2019		2018	
	Remaining maturity of more than one year	Total	Remaining maturity of more than one year	Total
Balance as of Jan. 1	37	133	76	148
Utilization	26	94	51	101
Additions	30	81	12	86
Transfers	–3	0	–	–
Balance as of Dec. 31	38	120	37	133

The underwriting provisions for direct insurance business were recognized in respect of warranty insurance and repair costs insurance.

Changes in the underwriting provisions for reinsurance business, by class of insurance:

€ million	2018			Total
	Vehicle insurance	Credit protection insurance	Other	
Balance as of Jan. 1	50	154	47	251
Utilization	5	67	14	86
Additions	5	99	14	118
Balance as of Dec. 31	50	186	47	283

€ million	2019			Total
	Vehicle insurance	Credit protection insurance	Other	
Balance as of Jan. 1	50	186	47	283
Utilization	4	84	14	102
Additions	5	89	13	107
Balance as of Dec. 31	51	192	45	288

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

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

	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of Jan. 1, 2018	88	282	119	489
Foreign exchange differences	-1	-13	-2	-16
Changes in basis of consolidation	-1	-	-1	-2
Utilization	31	20	38	89
Additions/new provisions	40	92	55	187
Unwinding of discount/effect of change in discount rate	-	-1	-	-1
Reversals	5	63	8	76
Balance as of Dec. 31, 2018	91	277	125	492
of which current	37	46	98	181
of which noncurrent	54	231	26	311
Balance as of Jan. 1, 2019	91	277	125	492
Foreign exchange differences	1	-1	0	0
Changes in basis of consolidation	20	5	1	26
Utilization	40	16	47	103
Additions/new provisions	61	90	49	200
Unwinding of discount/effect of change in discount rate	-	2	-	2
Reversals	10	69	8	86
Balance as of Dec. 31, 2019	123	288	121	532
of which current	61	52	92	206
of which noncurrent	62	236	28	326

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

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

The timing of the cash outflows in connection with other provisions is expected to be as follows: 39% in the next year, 53% in the years 2021 to 2024 and 8% thereafter.

47. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Deferred tax liabilities	7,246	6,308
of which noncurrent	4,113	3,394
Offset (with deferred tax assets)	-6,591	-5,525
Total	655	783

The deferred tax liabilities include taxes arising on temporary differences between amounts in the IFRS financial statements and those determined in the calculation of taxable profits in the Group entities.

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

€ million	Dec. 31, 2019	Dec. 31, 2018
Loans, receivables and other assets	6,385	5,687
Marketable securities and cash	2	0
Intangible assets/property and equipment	38	7
Leased assets	528	527
Liabilities and provisions	294	87
Total	7,246	6,308

48. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Deferred income	944	714
Other tax liabilities	209	194
Social security and payroll liabilities	158	129
Miscellaneous	102	139
Total	1,413	1,176

49. Subordinated Capital

The subordinated capital of €4,947 million (previous year: €3,023 million) was issued or raised by Volkswagen Leasing GmbH, Volkswagen Financial Services (UK) Ltd., Volkswagen Finans Sverige AB, Banco Volkswagen S.A., Volkswagen Financial Services Australia Pty. Ltd. and VW FS AG.

50. Noncurrent Liabilities

€ million	Dec. 31, 2019	of which noncurrent	Dec. 31, 2018	of which noncurrent
Liabilities to banks	14,472	5,486	12,291	4,044
Liabilities to customers	15,740	4,586	12,345	3,371
Notes, commercial paper issued	60,943	42,272	41,029	31,216
Derivative financial instruments	427	306	105	63
Current tax liabilities	373	161	420	145
Other liabilities	1,413	586	1,176	498
Subordinated capital	4,947	4,421	3,023	2,993
Total	98,315	57,819	70,389	42,330

51. Equity

The subscribed capital of VW FS AG is divided into 441,280,000 fully paid up no-par-value bearer shares, each with a notional value of €1, which are all held by Volkswagen AG, Wolfsburg. There are no preferential rights or restrictions in connection with the subscribed capital.

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

The retained earnings comprise the profits from previous fiscal years that have not been distributed. The retained earnings include a legal reserve of €44 million (previous year: €44 million).

On the basis of the control and profit-and-loss transfer agreement with the sole shareholder, Volkswagen AG, the loss of €268 million (previous year: loss absorption of €149 million) in accordance with the HGB incurred by VW FS AG was absorbed.

52. Capital Management

In this context, “capital” is generally defined as equity in accordance with the IFRS. The aims of capital management in the VW FS AG Group are to support the Company’s credit rating by ensuring that the Group has adequate capital backing and is able to obtain capital for the planned growth over the next few years. Capital measures implemented by the parent company of VW FS AG have an impact on VW FS AG’s equity in accordance with IFRS.

As of December 31, 2019, the equity ratio was 10.7% (previous year: 10.0%).

Financial Instrument Disclosures

53. Carrying Amounts, Gains or Losses and Income or Expenses in respect of Financial Instruments, by Measurement Category

The carrying amounts of financial instruments (excluding hedge derivatives) broken down by IFRS 9 measurement category are shown in the following table:

€ million	Dec. 31, 2019	Dec. 31, 2018
Financial assets measured at fair value through profit or loss	516	465
Financial assets measured at fair value through other comprehensive income (debt instruments)	258	254
Financial assets measured at fair value through other comprehensive income (equity instruments)	2	6
Financial assets measured at amortized cost	42,453	41,597
Financial liabilities measured at fair value through profit or loss	313	40
Financial liabilities measured at amortized cost	94,886	68,421

Receivables from leasing business of €39,951 million (previous year: €19,760 million) do not have to be allocated to any of these categories.

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

€ million	2019	2018
Financial instruments measured at fair value through profit or loss	-99	7
Financial assets measured at amortized cost	2,148	1,796
Financial assets measured at fair value through other comprehensive income (debt instruments)	2	2
Financial liabilities measured at amortized cost	-1,466	-1,238

The net gains/losses and income/expenses are determined as follows:

Measurement category	Measurement method
Financial instruments measured at fair value through profit or loss	Fair value in accordance with IFRS 9 in conjunction with IFRS 13, including interest and effects from currency translation
Financial assets measured at amortized cost	Interest income using the effective interest method and expenses/income from the recognition of valuation allowances in accordance with IFRS 9 and effects from currency translation
Financial assets measured at fair value through other comprehensive income (debt instruments)	Fair value valuation in accordance with IFRS 9 in conjunction with IFRS 13, interest income using the effective interest method and expenses/income from the recognition of valuation allowances in accordance with IFRS 9 and effects from currency translation
Financial liabilities measured at amortized cost	Interest expense using the effective interest method in accordance with IFRS 9 and effects from currency translation

The interest income from financial assets measured at amortized cost or at fair value through other comprehensive income included in interest income from lending transactions and marketable securities amounted to €2,160 million (previous year: €2,041 million).

The interest expenses in an amount of €1,352 million (previous year: €1,069 million) relate to financial instruments not measured at fair value through profit or loss.

In the VW FS AG Group, gains and losses on the derecognition of financial assets measured at amortized cost result mainly from recoveries in respect of loans or receivables already written off (gains) and the direct write-off of loans or receivables (losses). These gains and losses are reported as credit-risk-related measurement gains and losses in the provision for credit risks line item in the income statement.

54. Classes of Financial Instruments

Financial instruments are divided into the following classes in the VW FS AG Group:

- > Measured at fair value
- > Measured at amortized cost
- > Derivative financial instruments designated as hedges
- > Not allocated to any measurement category
- > Credit commitments and financial guarantees (off-balance-sheet)

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

Within “Miscellaneous financial assets”, subsidiaries and joint ventures that are not consolidated for reasons of materiality are not deemed financial instruments in accordance with IFRS 9 and therefore do not fall within the scope of IFRS 7. Equity investments forming part of miscellaneous financial assets are reported as financial instruments in accordance with IFRS 9 in the class “Measured at fair value”.

Lease receivables and liabilities, receivables from insurance contracts, subsidiaries and joint ventures not consolidated for reasons of materiality, equity-accounted joint ventures and other instruments (other than financial instruments) are classified as “Not allocated to any measurement category” for the purposes of reconciliation to the balance sheet.

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

€ million	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST ¹		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT ALLOCATED TO ANY MEASUREMENT CATEGORY	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Assets										
Cash reserve	106	54	–	–	106	54	–	–	–	–
Loans to and receivables from banks	2,477	1,819	34	–	2,443	1,819	–	–	–	–
Loans to and receivables from customers	79,195	59,012	310	358	38,921	38,880	–	–	39,965	19,774
Derivative financial instruments	736	582	125	71	–	–	611	510	–	–
Marketable securities	305	290	305	290	–	–	–	–	–	–
Equity-accounted joint ventures	737	671	–	–	–	–	–	–	737	671
Miscellaneous financial assets	591	404	2	6	–	–	–	–	588	398
Current tax assets	125	122	–	–	20	14	–	–	105	108
Other assets	3,276	2,517	–	–	963	829	–	–	2,313	1,689
Total	87,548	65,471	776	724	42,453	41,597	611	510	43,708	22,639
Equity and liabilities										
Liabilities to banks	14,472	12,291	–	–	14,472	12,291	–	–	–	–
Liabilities to customers	15,740	12,345	–	–	14,367	11,759	–	–	1,373	586
Notes, commercial paper issued	60,943	41,029	–	–	60,943	41,029	–	–	–	–
Derivative financial instruments	427	105	313	40	–	–	114	65	–	–
Current tax liabilities	373	420	–	–	60	181	–	–	314	239
Other liabilities	1,413	1,176	–	–	98	139	–	–	1,315	1,038
Subordinated capital	4,947	3,023	–	–	4,947	3,023	–	–	–	–
Total	98,315	70,389	313	40	94,887	68,422	114	65	3,002	1,862

¹ Some of the loans to and receivables from customers and liabilities to customers have been designated as hedged items in fair value hedges and are therefore subject to fair value adjustments. The loans to and receivables from customers and liabilities to customers in the class "Measured at amortized cost" are therefore measured neither entirely at fair value nor entirely at amortized cost.

The "Credit commitments and financial guarantees" class contains obligations under irrevocable credit commitments and financial guarantees amounting to €1,266 million (previous year: €1,149 million).

55. Fair Values of Financial Instruments

The following table shows the fair values of financial instruments in the classes “measured at amortized cost”, “measured at fair value” and “derivative financial instruments designated as hedges”, together with the fair values of receivables from customers relating to the leasing business classified as “not allocated to any measurement category”. The fair value is the amount at which financial assets or liabilities could be sold on fair terms as of the reporting date. Where market prices (e.g. for marketable securities) were available, VW FS AG has used these prices without modification for measuring fair value. If no market prices were available, the fair values for loans/receivables and liabilities were calculated by discounting using a maturity-matched discount rate appropriate to the risk. The discount rate was determined by adjusting risk-free yield curves, where appropriate, by relevant risk factors and taking into account capital and administrative costs. For reasons of materiality, the fair values of loans/receivables and liabilities due within one year were deemed to be the same as the carrying amount.

The fair value of the unlisted equity investment reported under miscellaneous financial assets was determined using a measurement model based on strategic planning. Due to the short maturity and the variable interest rate linked to the market interest rate, the fair value of irrevocable credit commitments is not material. The fair value of financial guarantees is also not material.

€ million	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Assets						
Measured at fair value						
Loans to and receivables from banks	34	–	34	–	–	–
Loans to and receivables from customers	310	358	310	358	–	–
Derivative financial instruments	125	71	125	71	–	–
Marketable securities	305	290	305	290	–	–
Miscellaneous financial assets	2	6	2	6	–	–
Measured at amortized cost						
Cash reserve	106	54	106	54	–	–
Loans to and receivables from banks	2,445	1,820	2,443	1,819	2	1
Loans to and receivables from customers	39,034	39,023	38,921	38,880	113	143
Current tax assets	20	14	20	14	–	–
Other assets	963	829	963	829	–	–
Derivative financial instruments designated as hedges	611	510	611	510	–	–
Not allocated to any measurement category						
Lease receivables	40,973	19,840	39,951	19,760	1,021	80
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	313	40	313	40	–	–
Measured at amortized cost						
Liabilities to banks	14,421	12,299	14,472	12,291	–51	8
Liabilities to customers	14,384	11,777	14,367	11,759	18	18
Notes, commercial paper issued	61,027	41,098	60,943	41,029	83	69
Current tax liabilities	60	181	60	181	–	–
Other liabilities	98	140	98	139	0	1
Subordinated capital	4,435	1,990	4,947	3,023	–512	–1,034
Derivative financial instruments designated as hedges	114	65	114	65	–	–

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

Percent	EUR	USD	GBP	JPY	BRL	MXN	SEK	CZK	AUD	CNY	PLN	INR	RUB	KRW	DKK
Interest rate for six months	–0.377	1.826	0.765	–0.179	4.329	7.629	0.185	2.145	0.897	2.980	1.716	6.350	6.283	1.475	–0.497
Interest rate for one year	–0.367	1.763	0.739	–0.088	4.588	7.335	0.197	2.295	0.867	2.992	1.698	6.367	6.394	1.415	–0.437
Interest rate for five years	–0.120	1.687	0.884	0.025	6.406	6.730	0.390	2.060	1.185	3.400	1.792	6.685	6.585	1.338	0.015
Interest rate for ten years	0.211	1.835	1.017	0.126	–	6.835	0.690	1.725	1.525	4.150	1.880	6.600	7.040	1.385	0.313

56. Financial Instrument Measurement Levels

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. The following table shows the hierarchy breakdown for financial instruments in the classes “measured at amortized cost”, “measured at fair value” and “derivative financial instruments designated as hedges”. Classification to the individual levels is dictated by the extent to which the main inputs used in determining the fair value are observable in the market or not.

Level 1 is used to report the fair value of financial instruments such as marketable securities or notes and commercial paper issued for which a quoted price is directly observable in an active market.

Level 2 fair values are measured on the basis of inputs observable in the markets, such as exchange rates or yield curves, using market-based valuation techniques. Fair values measured in this way include those for derivatives and liabilities to customers.

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not directly observable in an active market. Most of the loans to and receivables from banks and the loans to and receivables from customers are allocated to Level 3 because their fair value is measured using inputs that are not observable in active markets (see note 55). An equity investment measured at fair value through other comprehensive income and using inputs that are not observable in the market is also reported under Level 3. The main inputs used to measure this equity investment are strategic planning and cost of equity rates.

In fiscal year 2019, the fair value of derivative financial instruments in connection with the risk of early termination is also allocated to Level 3. Inputs for determining the fair value of derivatives in connection with the risk of early termination are forecasts and estimates of used vehicle residual values for the models concerned as well as yield curves.

The following table shows the allocation of financial instruments to the three-level fair value hierarchy by class:

€ million	LEVEL 1		LEVEL 2		LEVEL 3	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Assets						
Measured at fair value						
Loans to and receivables from banks	-	-	-	-	34	-
Loans to and receivables from customers	-	-	-	-	310	358
Derivative financial instruments	-	-	125	71	-	-
Marketable securities	305	290	-	-	-	-
Miscellaneous financial assets	-	-	-	-	2	6
Measured at amortized cost						
Cash reserve	106	54	-	-	-	-
Loans to and receivables from banks	840	1,111	1,604	709	-	-
Loans to and receivables from customers	-	-	1,243	532	37,791	38,491
Current tax assets	-	-	20	14	-	-
Other assets	-	-	963	829	-	-
Derivative financial instruments designated as hedges	-	-	611	510	-	-
Total	1,251	1,456	4,566	2,665	38,138	38,854
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	-	-	145	40	168	-
Measured at amortized cost						
Liabilities to banks	-	-	14,421	12,299	-	-
Liabilities to customers	-	-	14,384	11,777	-	-
Notes, commercial paper issued	43,384	28,251	17,643	12,847	-	-
Current tax liabilities	-	-	60	181	-	-
Other liabilities	-	-	90	140	8	-
Subordinated capital	-	-	4,435	1,990	-	-
Derivative financial instruments designated as hedges	-	-	114	65	-	-
Total	43,384	28,251	51,292	39,338	176	-

The following table shows the changes in the loans to and receivables from banks, loans to and receivables from customers, and equity investments measured at fair value and allocated to Level 3.

€ million	2019	2018
Balance as of Jan. 1	363	495
Foreign exchange differences	4	-24
Changes in basis of consolidation	-	-
Portfolio changes	-19	-107
Measured at fair value through profit or loss	1	-1
Measured at fair value through other comprehensive income	-3	-
Balance as of Dec. 31	346	363

The remeasurements recognized in profit or loss for loans to and receivables from banks and for loans to and receivables from customers resulting in a net gain of €1 million (previous year: €-1 million) have been reported in the income statement under the item "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". Of the remeasurements recognized in profit or loss, a net gain of €1 million (previous year: €-1 million) was attributable to loans to and receivables from banks and loans to and receivables from customers held as of the reporting date.

The risk variables relevant to the fair value of the loans to and receivables from banks and the loans to and receivables from customers are risk-adjusted interest rates. A sensitivity analysis is used to quantify the impact from changes in risk-adjusted interest rates on profit or loss after tax.

If risk-adjusted interest rates as of December 31, 2019 had been 100 basis points higher, profit after tax would have been €2 million (previous year: €5 million) lower. If risk-adjusted interest rates as of December 31, 2019 had been 100 basis points lower, profit after tax would have been €2 million (previous year: €6 million) higher.

The risk variables relevant to the fair value of the equity investment are the growth rate within strategic planning and the cost of equity rates. If a 10% change were applied to the financial performance (which takes into account the relevant risk variables) of the equity investments measured at fair value through other comprehensive income, there would be no material change to equity.

The following table shows the change in derivatives measured at fair value in connection with the risk of early termination based on Level 3 measurement.

€ million	2019
Balance as of Jan. 1	-
Foreign exchange differences	2
Changes in basis of consolidation	168
Portfolio changes	-
Measured at fair value through profit or loss	-2
Measured at fair value through other comprehensive income	-
Balance as of Dec. 31	168

The remeasurements recognized in profit and loss amounting to €-2 million have been reported in the income statement under net gain or loss on financial instruments measured at fair value and on derecognition of fi-

financial assets measured at fair value through other comprehensive income. The net gain was accounted for entirely by derivatives held as of the reporting date.

The risk of early termination can arise from country-specific consumer protection legislation, under which customers may have the right to return used vehicles for which a lease has been signed. The impact on earnings arising from market-related fluctuations in residual values and interest rates is borne by the VW FS AG Group.

The market prices of used vehicles are the main risk variable applied to the fair value of derivatives recognized in connection with the risk of early termination. A sensitivity analysis is used to quantify the impact of changes in used vehicle prices on profit or loss after tax. If the used vehicle prices of the vehicles included in the derivatives in connection with the risk of early termination had been 10% higher as of the reporting date, profit after tax would have been €75 million higher. If the used vehicle prices of the vehicles included in the derivatives in connection with the risk of early termination had been 10% lower as of the reporting date, profit after tax would have been €95 million lower.

57. Offsetting of Financial Assets and Liabilities

The table below contains information about the effects of offsetting in the consolidated balance sheet and the financial effects of offsetting in the case of instruments that are subject to a legally enforceable master netting agreement or a similar arrangement.

The “Financial instruments” column shows the amounts that are subject to a master netting agreement but have not been netted because the relevant criteria have not been satisfied. Most of the amounts involved are positive and negative fair values of derivatives entered into with the same counterparty.

The “Collateral received/pledged” column shows the cash collateral amounts and collateral in the form of financial instruments received or pledged in connection with the total sum of assets and liabilities. It includes such collateral relating to assets and liabilities that have not been offset against each other. The collateral amounts primarily consist of pledged cash collateral in connection with ABS transactions and collateral received in the form of cash deposits and receivables from ABS transactions.

€ million	AMOUNTS NOT OFFSET IN THE BALANCE SHEET											
	Gross amount of recognized financial assets/ liabilities		Gross amount of recognized financial assets/ liabilities offset in the balance sheet		Net amount of financial assets/ liabilities reported in the balance sheet		Financial instruments		Collateral received/pledged		Net amount	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Assets												
Cash reserve	106	54	–	–	106	54	–	–	–	–	106	54
Loans to and receivables from banks	2,477	1,819	–	–	2,477	1,819	–	–	–34	–	2,443	1,819
Loans to and receivables from customers	79,172	58,998	–11	–	79,182	58,998	–	–	–98	–127	79,084	58,871
Derivative financial instruments	736	582	–	–	736	582	–159	–85	–	–	577	496
Marketable securities	305	290	–	–	305	290	–	–	–	–	305	290
Miscellaneous financial assets	2	6	–	–	2	6	–	–	–	–	2	6
Current tax assets	20	14	–	–	20	14	–	–	–	–	20	14
Other assets	963	829	–	–	963	829	–	–	–	–	963	829
Total	83,781	62,591	–11	–	83,792	62,591	–159	–85	–132	–127	83,501	62,379
Equity and Liabilities												
Liabilities to banks	14,472	12,291	–	–	14,472	12,291	–	–	–55	–	14,417	12,291
Liabilities to customers	14,558	11,762	11	–	14,548	11,762	–	–	–	–	14,548	11,762
Notes, commercial paper issued	60,943	41,029	–	–	60,943	41,029	–	–	–752	–482	60,192	40,547
Derivative financial instruments	427	105	–	–	427	105	–159	–85	–	–	267	20
Current tax liabilities	60	181	–	–	60	181	–	–	–	–	60	181
Other liabilities	98	139	–	–	98	139	–	–	–	–	98	139
Subordinated capital	4,947	3,023	–	–	4,947	3,023	–	–	–	–	4,947	3,023
Total	95,505	68,530	11	–	95,494	68,530	–159	–85	–806	–482	94,528	67,963

58. Counterparty Default Risk

For qualitative information, please refer to the risk report (Credit Risk section, pages 24 to 25), which forms part of the management report.

PROVISION FOR CREDIT RISKS

Please refer to the provision for credit risks section in note (8) for disclosures on the accounting policies relating to the provision for credit risks.

The following table shows a reconciliation for the provision for credit risks relating to financial assets measured at amortized cost:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2018	338	489	462	14	33	1,337
Exchange differences on translating foreign operations	-4	-9	-35	0	-4	-52
Changes in basis of consolidation	-	-	-	-	-	-
Newly extended/purchased financial assets (additions)	116	-	-	6	4	126
Other changes within a stage	-50	73	58	1	-2	79
Transfers to						
Stage 1	4	-22	-3	-	-	-21
Stage 2	-40	86	-15	-	-	31
Stage 3	-4	-12	118	-	-	102
Financial instruments derecognized during the period (derecognitions)	-48	-24	-48	-1	-1	-122
Utilizations	-	-	-227	0	0	-227
Model or risk parameter changes	3	8	25	-	1	36
Balance as of Dec. 31, 2018	315	589	334	20	31	1,289

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2019	315	589	334	20	31	1,289
Exchange differences on translating foreign operations	2	2	2	0	0	5
Changes in basis of consolidation	6	6	17	7	0	35
Newly granted/purchased financial assets (additions)	185	–	–	6	7	197
Other changes within a stage	–15	–192	169	2	–6	–42
Transfers to						
Stage 1	8	–17	–4	–	–	–14
Stage 2	–27	40	–6	–	–	7
Stage 3	–18	–36	83	–	–	29
Financial instruments derecognized during the period (derecognitions)	–55	–37	–41	–2	–2	–138
Utilizations	–	–	–188	–1	–4	–193
Model or risk parameter changes	–1	1	–	0	–	0
Balance as of Dec. 31, 2019	399	355	364	33	25	1,175

The undiscounted expected credit losses on the initial recognition of purchased or originated credit-impaired financial assets that were recognized for the first time in the reporting period amounted to €1 million (previous year: €1 million).

The provision for credit risks in respect of financial assets measured at fair value through other comprehensive income is allocated to Stage 1 and was subject to change in the reporting period only as part of other changes within Stage 1. The amount of the provision for credit risks in respect of these financial assets in terms of the balance as of the reporting date and the prior-year reporting date and in terms of the changes in the reporting year is not material and is therefore not presented in a separate table.

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

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance as of Jan. 1, 2018	3	2	–	–	4
Exchange differences on translating foreign operations	0	0	–	–	0
Changes in basis of consolidation	–	–	–	–	–
Newly extended/purchased financial assets (additions)	0	–	–	–	0
Other changes within a stage	0	–	–	–	0
Transfers to					
Stage 1	–	–	–	–	–
Stage 2	–	–	–	–	–
Stage 3	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	–2	–2	–	–	–4
Utilizations	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–
Balance as of Dec. 31, 2018	0	–	–	–	0

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance as of Jan. 1, 2019	0	–	–	–	0
Exchange differences on translating foreign operations	0	0	–	–	0
Changes in basis of consolidation	0	0	–	–	0
Newly extended/purchased financial assets (additions)	0	–	–	–	0
Other changes within a stage	0	–	–	–	0
Transfers to					
Stage 1	–	–	–	–	–
Stage 2	0	0	–	–	0
Stage 3	–	–	–	–	–
Financial instruments derecognized during the period (disposals)	0	–	–	–	0
Utilizations	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–
Balance as of Dec. 31, 2019	0	0	–	–	0

The following table shows a reconciliation for the provision for credit risks relating to lease receivables in the class “Not allocated to any measurement category”:

€ million	SIMPLIFIED APPROACH	
	2019	2018
Balance as of Jan. 1,	639	717
Exchange differences on translating foreign operations	9	-2
Changes in basis of consolidation	175	-
Newly granted/purchased financial assets (additions)	133	249
Other changes	228	12
Financial instruments derecognized during the period (derecognitions)	-184	-313
Utilizations	-47	-25
Model or risk parameter changes	-30	-
Balance as of Dec. 31,	924	639

MODIFICATIONS

During the reporting period and the prior-year period, there were contractual modifications of financial assets that did not lead to a derecognition of the asset concerned. These modifications were largely caused by changes in credit quality and related to financial assets for which the associated provision for credit risks equated to the lifetime expected credit loss. To simplify matters, in the case of trade receivables and lease receivables, the analysis only takes into account credit-quality-related modifications where the receivables concerned are more than 30 days past due. Prior to the contractual modification, the amortized cost amounted to €117 million (previous year: €147 million). In the reporting period, the contractual modifications gave rise to a total net income/net expense of €0 million (previous year: €-1 million).

At the reporting date, the gross carrying amount of financial assets that had been modified since initial recognition and that, in the reporting period, had also been transferred from Stage 2 or Stage 3 to Stage 1 amounted to €28 million (previous year: €19 million). As a consequence, the measurement of the provision for credit risks for these financial assets was switched from the lifetime expected credit loss to a twelve-month expected credit loss.

MAXIMUM CREDIT RISK

The credit and default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the amount of the claims against the counterparty concerned arising from recognized carrying amounts and irrevocable credit commitments.

The maximum credit and default risk is reduced by collateral and other credit enhancements. The collateral held relates to loans to and receivables from banks and customers in the classes “Measured at amortized cost”, “Measured at fair value” and “Not allocated to any measurement category”. The types of collateral held include vehicles, other assets pledged as collateral, financial guarantees, marketable securities, cash collateral and charges on real estate. In the case of financial assets with an objective indication of impairment as of the reporting date, the collateral reduced the risk by €419 million (previous year: €361 million). For financial assets in the “Measured at fair value” class to which the IFRS 9 impairment requirements are not applied, the maximum credit and default risk was reduced by collateral with a value of €273 million (previous year: €65 million).

For financial assets on which impairment losses were recognized during the fiscal year and that are subject to enforcement measures, the contractually outstanding amounts total €229 million (previous year: €213 million).

The following table shows the maximum credit risk, broken down by class, to which the VW FS AG Group was exposed as of the reporting date and to which the impairment model was applied.

€ million	Dec. 31, 2019	Dec. 31, 2018
Financial assets measured at fair value	258	254
Financial assets measured at amortized cost	42,453	41,597
Financial guarantees and credit commitments	1,329	1,149
Not allocated to any measurement category	39,951	19,760
Total	83,991	62,760

The VW FS AG Group intends to recover the following collateral accepted in the reporting period for financial assets:

€ million	Dec. 31, 2019	Dec. 31, 2018
Vehicles	70	61
Real estate	–	–
Other movable assets	–	–
Total	70	61

The vehicles are remarketed to Volkswagen Group dealers through direct sales and auctions.

DEFAULT RISK RATING CLASSES

The VW FS AG Group evaluates the credit quality of the borrower before entering into any lending contract or lease. In the retail business, this evaluation is carried out by using scoring systems, whereas rating systems are used for fleet customers and dealer financing transactions. Lending evaluated as “good” is included in rating class 1. Loans to and receivables from customers whose credit quality has not been classified as “good” but who have not yet defaulted are included under rating class 2. Accordingly, all loans and receivables in default are allocated to rating class 3.

The following table presents the gross carrying amounts of financial assets broken down by rating class:

FISCAL YEAR 2018

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1 (loans/receivables not at risk of default – normal loans)	38,198	1,056	–	20,536	21
Default risk rating class 2 (loans/receivables at risk of default- loans with intensified loan management)	583	1,387	–	814	4
Default risk rating class 3 (loans/receivables in default - non-performing loans)	–	–	501	406	34
Total	38,780	2,443	501	21,756	58

FISCAL YEAR 2019

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1 (loans/receivables not at risk of default – normal loans)	36,876	1,331	–	41,768	3
Default risk rating class 2 (loans/receivables at risk of default- loans with intensified loan management)	938	1,430	–	1,448	6
Default risk rating class 3 (loans/receivables in default - non-performing loans)	–	–	347	560	55
Total	37,813	2,761	347	43,776	64

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

FISCAL YEAR 2018

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1 (loans/receivables not at risk of default – normal loans)	1,149	–	–	–
Default risk rating class 2 (loans/receivables at risk of default- loans with intensified loan management)	–	–	–	–
Default risk rating class 3 (loans/receivables in default - non-performing loans)	–	–	–	–
Total	1,149	–	–	–

FISCAL YEAR 2019

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1 (loans/receivables not at risk of default – normal loans)	1,326	3	–	–
Default risk rating class 2 (loans/receivables at risk of default- loans with intensified loan management)	0	0	–	–
Default risk rating class 3 (loans/receivables in default - non-performing loans)	–	–	–	–
Total	1,326	3	–	–

59. Liquidity Risk

Please refer to the management report for information on the funding and hedging strategies.

The maturity profile of assets held to manage liquidity risk is as follows:

€ million	ASSETS		REPAYABLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
	Cash reserve	106	54	106	54	–	–	–	–	–	–	–
Loans to and receivables from banks	2,477	1,819	1,830	1,359	235	230	109	22	141	47	162	161
Total	2,583	1,874	1,937	1,414	235	230	109	22	141	47	162	161

The following table shows the maturity profile of undiscounted cash outflows from financial liabilities:

€ million	Cash outflows		REMAINING CONTRACTUAL MATURITIES							
			Up to 3 months		3 months to 1 year		1 to 5 years		More than 5 years	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Liabilities to banks	15,101	12,825	3,787	2,956	5,526	5,588	5,762	4,181	26	100
Liabilities to customers	14,639	11,826	9,021	5,335	1,491	3,226	3,878	3,016	249	250
Notes, commercial paper issued	62,488	42,287	3,160	2,587	16,035	7,577	38,927	26,801	4,365	5,322
Derivative financial instruments	5,674	3,721	1,986	1,021	1,889	818	1,755	1,877	44	5
Other liabilities	98	139	67	60	26	30	4	47	1	1
Subordinated capital	5,256	3,339	55	19	545	30	1,669	163	2,988	3,127
Irrevocable credit commitments	369	306	369	306	–	–	–	–	–	–
Total	103,625	74,442	18,445	12,283	25,512	17,269	51,996	36,085	7,673	8,805

Financial guarantees with a maximum possible drawdown of €898 million (previous year: €844 million) are assumed to be payable on demand at all times.

60. Market Risk

For qualitative information, please refer to the risk report within the management report.

For quantitative risk measurement, interest rate and foreign currency risk are measured using a value-at-risk (VaR) model on the basis of a historical simulation. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 40 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from non-derivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in determining the value-at-risk covers a period of 1,000 trading days.

This approach has produced the following values:

€ million	Dec. 31, 2019	Dec. 31, 2018
Interest-rate risk	80	170
Currency translation risk	62	51
Total market risk	97	155

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

61. Hedging Policy Disclosures

HEDGING POLICY AND FINANCIAL DERIVATIVES

Given its international financial activities, the VWFS AG Group is exposed to fluctuations in interest rates and foreign exchange rates on international money and capital markets. The general rules governing the Group-wide currency and interest rate hedging policy are specified in internal Group guidelines. The partners used by the Group when entering into appropriate financial transactions are national and international banks with strong credit ratings whose credit quality is continuously monitored by leading rating agencies. The Group enters into suitable hedging transactions to limit currency and interest rate risks. Regular derivative financial instruments are used for this purpose.

MARKET RISK

Market risk arises when changes in prices on financial markets (interest rates and exchange rates) have a positive or negative effect on the value of traded products. The fair values listed in the tables in the notes were determined using the market information available on the reporting date and represent the present values of the financial derivatives. They were determined on the basis of standardized techniques or quoted prices.

Interest rate risk

Changes in the level of interest rates in the money and capital markets represent an interest rate risk in the case of any funding that is not maturity-matched. Interest rate risk is managed at the level of the individual company based on an overall interest rate risk limit set for the entire Group and broken down into specific limits for each company. Interest rate risk is quantified using interest rate gap analyses to which various scenarios involving changes in interest rates are applied. The calculations take into account uniform risk ceilings applicable throughout the Group.

The hedging contracts entered into by the Group mainly comprise interest rate swaps and cross-currency interest rate swaps. Micro-hedges and portfolio hedges are used for interest rate hedging. Fixed-income assets and liabilities included in this hedging strategy are recognized at fair value rather than at amortized cost, the method used in their original subsequent measurement. The resulting effects in the income statement are generally offset by the opposite effects from the corresponding gains and losses on the interest rate hedging instruments (swaps).

Currency risk

The VW FS AG Group avoids currency risk by entering into currency hedging contracts, which may be currency forwards or cross-currency interest rate swaps. Generally speaking, all cash flows in foreign currency are hedged.

DESCRIPTION OF HEDGES AND METHODOLOGIES FOR MONITORING HEDGE EFFECTIVENESS

If possible, the hedge strategy aims to recognize hedges for suitable underlying transactions (hedged items) using micro- or portfolio hedges. The vast majority of hedged items are assets or liabilities on the balance sheet. Future transactions are only used as hedged items in exceptional cases. The volume represented by the hedging instruments is generally the same as the volume represented by the designated hedged items.

In the VW FS AG Group, hedges to which micro-hedge accounting is applied are normally held to maturity.

In portfolio hedge accounting, derivatives are designated as hedges for interest rate hedging on a quarterly basis. Hedge effectiveness is reviewed for each maturity band. Derivatives are only included in portfolio hedge accounting for a hedging period if a high level of hedge effectiveness is achieved, both prospectively and retrospectively.

Hedge effectiveness in the VW FS AG Group is generally measured respectively using the critical terms match method. Hedge effectiveness is analyzed retrospectively by testing for ineffectiveness using the dollar offset method. The dollar offset method compares the changes in the value of the hedged item expressed in monetary units with the changes in the value of the hedging instrument expressed in monetary units. Hedge ineffectiveness in micro-hedge accounting largely results from differences between the mark-to-market (fair value) measurement of hedged items and that of hedging instruments. Individual yield curves are used when determining forward interest rates and prices and also when discounting future cash flows for hedged items and hedging instruments in order to obtain a measurement in line with the market. Other factors (e.g. in relation to counterparty risk) are only of minor significance as regards hedge ineffectiveness.

In portfolio hedge accounting, ineffectiveness generally arises where the changes in the fair values of hedging instruments do not fully offset those of the hedged items.

In connection with hedges involving interest rate swaps or cross-currency interest rate swaps, the IBOR reform exposes the VW FS AG Group to uncertainty in terms of the timing and amount of the IBOR-based cash flows and of the hedged risk relating to the hedged item and hedging instrument. Regardless of the residual maturity of the hedged items and hedging instruments in hedging relationships, the VW FS AG Group makes use of the exceptions available under the amendments to the standards for all hedges affected by the aforementioned uncertainty arising from the IBOR reform.

This uncertainty relates mainly to the following interest rate benchmarks: GBP LIBOR, AUD BBSW and NOK OIBOR.

In the case of fair value hedges, the uncertainty relates to the ability to identify the risk component as the change in fair value for the purposes of hedging the risk of changes in the fair value of financial assets and financial liabilities. In the case of cash flow hedges, which hedge the risk arising from changes in future cash flows, the uncertainty relates to the extent to which hedged variable future cash flows can be expected to be highly probable.

The expected impact of the IBOR reform is continuously assessed, and any necessary action will be initiated in good time. The aim of such action is to adapt the systems and processes in such a way that the benchmark interest rates covered by the IBOR reform can be replaced in good time by the new benchmark interest rates. The VW FS AG Group is currently focusing its attention on the SONIA interest rate benchmark because this benchmark is already widely accepted by the market and because of the materiality of the transactions involved.

DISCLOSURES ON GAINS AND LOSSES FROM FAIR VALUE HEDGES

In fair value hedges, the transactions hedge the risk from changes in the fair value of financial assets and financial liabilities. Changes in fair value that arise from the recognition of hedging instruments at fair value and those from the recognition of the associated hedged items at the hedged fair value generally have an offsetting effect and are reported under the net gain or loss on hedges.

The following table shows the degree of hedge ineffectiveness from fair value hedges broken down by type of risk, equating to the differences between the gains or losses on hedging instruments and those on hedged items:

€ million	2019	2018
Interest rate risk hedging	-10	0
Currency risk hedging	-9	-15
Combined interest rate and currency risk hedging	2	2

DISCLOSURES ON GAINS AND LOSSES FROM CASH FLOW HEDGES

Cash flow hedges are recognized with the aim of hedging risks arising from changes in future cash flows. These cash flows can arise from a recognized asset or a recognized liability.

The following table covering gains and losses from cash flow hedges shows the gains and losses on hedges recognized in other comprehensive income, the hedge ineffectiveness recognized under net gain or loss on hedges and the gains or losses arising from the reclassification of cash flow hedge reserves recognized under net gain or loss on hedges:

€ million	2019	2018
Interest rate risk hedging		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	-7	-7
Recognized in profit or loss	0	0
Reclassifications from the cash flow hedge reserve to the income statement		
As a result of the early termination of hedges	-	-
As a result of the recovery of the hedged item	-	0
Currency risk hedging		
Gain or loss from changes in the fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	0	3
Recognized in profit or loss	0	0
Reclassifications from the cash flow hedge reserve to the income statement		
As a result of the early termination of hedges	-	-
As a result of the recovery of the hedged item	0	0
Combined interest rate and currency risk hedging		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	-3	6
Recognized in profit or loss	0	0
Reclassifications from the cash flow hedge reserve to the income statement		
As a result of the early termination of hedges	-	-
As a result of the recovery of the hedged item	3	-6

In the table, effects recognized directly in equity are presented net of deferred taxes.

The gain or loss from changes in fair value of hedges within hedge accounting reflects the basis for determining hedge ineffectiveness. Those gains or losses on changes in the fair value of hedging instruments that exceed the changes in the fair value of the hedged items constitute the ineffective portion of cash flow hedges. This ineffectiveness within a hedge arises as a result of differences in the parameters applicable to the hedging instrument and the hedged item. These gains or losses are recognized immediately under the gain or loss on hedges.

NOTIONAL AMOUNTS OF DERIVATIVE FINANCIAL INSTRUMENTS

The following table presents a maturity analysis of the notional amounts of hedging instruments reported under the hedge accounting rules and those of derivatives to which hedge accounting is not applied:

FISCAL YEAR 2018

€ million	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
	Up to 1 year	1 – 5 years	More than 5 years	Dec. 31, 2018
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	3,256	19,369	5,140	27,766
Currency risk hedging				
Currency forwards/cross currency swaps TRY	343	–	–	343
Currency forwards/cross currency swaps PLN	165	–	–	165
Currency forwards/cross currency swaps other currencies	151	65	–	216
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	453	669	–	1,122
Cross-currency interest rate swaps USD	305	–	–	305
Cross-currency interest rate swaps, other foreign currencies	218	191	–	409
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	10,005	15,113	130	25,248
Currency risk hedging				
Currency forwards/cross currency swaps	112	501	–	613
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	168	388	–	556

FISCAL YEAR 2019

€ million	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
	Up to 1 year	1 – 5 years	More than 5 years	Dec. 31, 2019
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	8,692	28,968	4,212	41,872
Currency risk hedging				
Currency forwards/cross currency swaps CZK	534	22	–	555
Currency forwards/cross currency swaps DKK	294	–	–	294
Currency forwards/cross currency swaps PLN	128	–	–	128
Currency forwards/cross currency swaps other currencies	187	37	–	224
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	847	214	–	1,061
Cross-currency interest rate swaps, other foreign currencies	–	256	–	256
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	15,363	17,629	19,636	52,629
Currency risk hedging				
Currency forwards/cross currency swaps	1,284	98	–	1,382
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	450	989	–	1,439

The timings of the future payments for the hedged items in the cash flow hedges match the maturities of the hedging instruments.

As of the reporting date and the prior-year reporting date, none of the recognized cash flow hedges involved a hedged item in which the transaction was no longer expected to occur in the future.

In the reporting year, the average exchange rates used in the measurement of hedging instruments were as follows for the following currencies with significant notional amounts: PLN 4.2910, CZK 25.9257 and DKK 7.4687. The average interest rates used for interest rate swaps and cross-currency interest rate swaps in cash flow hedges in the reporting year were as follows for the following currencies: EUR 0.26%, AUD 2.08%, JPY 0.49%, MXN 8.05% and BRL 5.57%.

In the previous year, the average exchange rates used in the measurement of hedging instruments for the following currencies with significant notional amounts were: NOK 9.5866, USD 1.3117, TRY 6.5550, PLN 4.2944. The average exchange rates used for interest rate swaps and cross-currency interest rate swaps in the previous year were as follows for the following currencies: EUR 0.33%, NOK 0.29%, AUD 2.84%, MXN 7.65% and JPY 0.53%.

The notional amounts of hedging instruments that are exposed to the uncertainty of the IBOR reform described above amount to a total of €17,836 million. This total notional amount is mainly attributable as follows: GBP LIBOR, €12,865 million; AUD BBSW, €2,675 million; and NOK OIBOR, €1,350 million.

DISCLOSURES ON HEDGING INSTRUMENTS USED IN HEDGE ACCOUNTING

The VW FS AG Group regularly uses hedging instruments to hedge changes in the fair value of financial assets and financial liabilities.

The following overview shows the notional amounts, fair values and changes in fair value to determine ineffectiveness in hedging instruments used in fair value hedges to hedge risk arising from changes in fair value:

FISCAL YEAR 2018

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value changes to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	26,346	397	32	267
Currency risk hedging				
Currency forwards/cross currency swaps	685	13	25	-15
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	788	61	-	60

FISCAL YEAR 2019

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value changes to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	39,924	580	78	405
Currency risk hedging				
Currency forwards/cross currency swaps	1,137	2	14	-12
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	175	7	0	7

The VW FS AG Group also uses hedging instruments to hedge the risk arising from changes in future cash flows.

The following table sets out the notional amounts, fair values and changes in fair value to determine ineffectiveness in hedging instruments used in cash flow hedges:

FISCAL YEAR 2018

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value changes to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	1,420	8	3	2
Currency risk hedging				
Currency forwards/cross currency swaps	40	0	0	0
Combined interest rate and currency risk hedging:				
Cross-currency interest rate swaps	1,048	32	5	31

FISCAL YEAR 2019

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value changes to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	1,948	1	12	-8
Currency risk hedging				
Currency forwards/cross currency swaps	64	0	0	0
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,143	21	9	15

The change in fair value to determine ineffectiveness equates to the change in the fair value of the designated components of the hedging instruments.

DISCLOSURES ON HEDGED ITEMS TO WHICH HEDGE ACCOUNTING IS APPLIED

Disclosures on hedged items, broken down by risk category and type of designation, are required in addition to the disclosures on hedging instruments.

The table below shows the hedged items hedged in fair value hedges:

FISCAL YEAR 2018

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging:				
Loans to and receivables from banks	-	-	-	-
Loans to and receivables from customers	10,195	5	13	-
Liabilities to banks	-	-	-	-
Liabilities to customers ¹	506	6	7	-
Notes, commercial paper issued ¹	19,746	148	88	-
Subordinated capital	-	-	-	-
Currency risk hedging:				
Loans to and receivables from banks	-	-	-	-
Loans to and receivables from customers	533	-5	-5	-
Liabilities to banks ¹	26	-1	1	-
Liabilities to customers	-	-	-	-
Notes, commercial paper issued	-	-	-	-
Subordinated capital	-	-	-	-
Combined interest rate and currency risk hedging:				
Loans to and receivables from banks	-	-	-	-
Loans to and receivables from customers	381	-14	-6	-
Liabilities to banks	-	-	0	-
Liabilities to customers ¹	305	48	13	-
Notes, commercial paper issued ¹	166	1	1	-
Subordinated capital	-	-	-	-

1 Adjustment of the sign logic for the liabilities

FISCAL YEAR 2019

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging:				
Loans to and receivables from banks	-	-	-	-
Loans to and receivables from customers	11,238	-3	-3	-
Liabilities to banks	-	-	-	-
Liabilities to customers	810	4	-1	-
Notes, commercial paper issued	24,845	343	165	-
Subordinated capital	-	-	-	-
Currency risk hedging:				
Loans to and receivables from banks	-	-	-	-
Loans to and receivables from customers	465	0	0	-
Liabilities to banks	27	-1	0	-
Liabilities to customers	-	-	-	-
Notes, commercial paper issued	-	-	-	-
Subordinated capital	-	-	-	-
Combined interest rate and currency risk hedging:				
Loans to and receivables from banks	-	-	-	-
Loans to and receivables from customers	127	-7	1	-
Liabilities to banks	-	-	-	-
Liabilities to customers	-	-	-	-
Notes, commercial paper issued	48	3	3	-
Subordinated capital	-	-	-	-

The following table presents the hedged items hedged in cash flow hedges:

FISCAL YEAR 2018

€ million	Fair value change to determine ineffectiveness ¹	RESERVE FOR	
		Existing cash flow hedges	Terminated cash flow hedges
Interest rate risk hedging			
Designated components	8	4	0
Deferred taxes	–	–2	0
Total interest rate risk	8	2	0
Currency risk hedging			
Designated components	0	0	–
Deferred taxes	–	0	–
Total hedging currency risk	0	0	–
Combined interest rate and currency risk hedging			
Designated components	27	1	–
Deferred taxes	–	0	–
Total combined interest rate and currency risk	27	1	–

¹ Adjustment of the previous year's values

FISCAL YEAR 2019

€ million	Fair value change to determine ineffectiveness	RESERVE FOR	
		Existing cash flow hedges	Terminated cash flow hedges
Interest rate risk hedging			
Designated components	–6	–8	0
Deferred taxes	–	3	0
Total interest rate risk	–6	–5	0
Currency risk hedging			
Designated components	0	0	–
Non-designated components	–	0	–
Deferred taxes	–	0	–
Total currency risk	0	0	–
Combined interest rate and currency risk hedging			
Designated components	15	1	–
Deferred taxes	–	0	–
Total combined interest rate and currency risk	15	0	–

CHANGES IN THE CASH FLOW HEDGE RESERVE

In the accounting treatment of cash flow hedges, the designated effective portion of a hedge is reported in other comprehensive income (in “OCI I”). All changes in the fair value of hedging instruments in excess of the effective portion are reported in profit or loss as hedge ineffectiveness.

The following table shows a reconciliation for the cash flow hedge reserve (OCI I):

€ million	Interest rate risk	Currency risk	Combined Interest rate and currency risk	Total
Balance as of Jan. 1, 2018	10	-3	1	7
Gains or losses from effective hedges	-7	3	6	2
Reclassifications resulting from the recovery of the hedged item	0	0	-6	-6
Balance as of Dec. 31, 2018	2	0	1	3

€ million	Interest rate risk	Currency risk	Combined Interest rate and currency risk	Total
Balance as of Jan. 1, 2019	2	0	1	3
Gains or losses from effective hedges	-7	0	-3	-11
Reclassifications resulting from the recovery of the hedged item	-	0	3	3
Balance as of Dec. 31, 2019	-5	0	0	-5

The changes in the fair value of non-designated forward components in currency forwards and in currency hedging within cash flow hedges are initially reported in other comprehensive income (hedging costs) in the VW FS AG Group. Therefore, changes in the fair value of non-designated components (or parts thereof) are reported immediately in profit or loss only if they relate to ineffective portions of the hedge.

The following table presents an overview of the changes in the hedging costs reserve arising from the non-designated components of currency hedges:

€ million	Currency risk
Balance as of Jan. 1, 2019	-
Gains and losses from undesignated forward elements and CCBS	
Hedged item is recognized at a point in time	0
Reclassification due to realization of the hedged item	
Hedged item is recognized at a point in time	0
Reclassification due to changes in whether the hedged item is expected to occur	
Hedged item is recognized at a point in time	-
Balance as of Dec. 31, 2019	0

In the tables, the effects reported in equity are reduced by deferred taxes.

LIQUIDITY RISK, FUNDING RISK

The VW FS AG Group takes precautions to minimize the risk from any potential liquidity squeeze by holding confirmed credit lines and by using debt issuance programs with multicurrency capability.

Local cash funds in certain countries (e.g. China, Brazil, India) are only available to the Group for cross-border transactions subject to exchange controls. There are otherwise no significant restrictions.

DEFAULT RISK

The default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the balance due from the counterparty concerned.

Given that only counterparties with strong credit ratings are used for transactions, and limits are set for each counterparty as part of the risk management system, the actual default risk is deemed to be low. Furthermore, the default risk in the Group's transactions is also minimized in accordance with regulatory requirements by the use of collateral to be furnished by the counterparty.

Risk concentrations arise in the VW FS AG Group in a variety of forms. A detailed description can be found in the report on opportunities and risks within the combined management report.

Segment Reporting

62. Breakdown by Geographical Market

The delineation between segments follows that used for internal management and reporting purposes in the VW FS AG Group. The operating result is reported as the primary key performance indicator to the chief operating decision-makers. The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting.

Internal management applies a market-based geographical breakdown. Foreign branches of German subsidiaries are allocated to the markets in which they are based. The geographical markets of Germany, the United Kingdom, Sweden, China, Brazil and Mexico are the segments that are reportable under IFRS 8. Subsidiaries in the VW FS AG Group are aggregated within these segments. The German market includes companies in Germany and Austria in line with internal reporting. All other companies that can be allocated to geographical markets are brought together under "Other Segments".

Companies that are not allocated to any geographical market are reported in the reconciliation. The reconciliation also includes the VW FS AG holding company, the holding and financing companies in the Netherlands, France and Belgium, EURO Leasing companies in Germany, Denmark and Poland, Volkswagen Insurance Brokers GmbH and Volkswagen Versicherung AG. In the internal reporting structure, this presentation ensures that there is a separation between market activities on one side and typical holding company or financing functions, industry business, primary insurance business and reinsurance business on the other side. Effects from consolidation between the segments and from the provision for country risks are additionally included in the reconciliation.

All business transactions between the segments – where such transactions take place – are conducted on an arm's-length basis.

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

BREAKDOWN BY GEOGRAPHICAL MARKET 2018:

€ million	JAN. 1 – DEC. 31, 2018						Reconcil- iation	Group
	Germany	China	Mexico	Brazil	Other segments	Segments total		
Interest income from lending transactions and marketable securities in respect of third parties	7	697	263	480	419	1,866	101	1,967
Income from leasing transactions with third parties	7,492	–	203	13	956	8,664	149	8,813
Intersegment income from leasing transactions	–	–	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–6,919	–	–126	–4	–783	–7,831	–148	–7,978
of which impairment losses in accordance with IAS 36	–175	–	–3	0	–39	–216	0	–216
Net income from leasing transactions	574	–	78	9	173	834	1	835
Interest expense	–124	–299	–158	–185	–247	–1,013	–57	–1,070
Income from service contracts with third parties	1,139	–	–	2	195	1,336	23	1,359
Intersegment income from service contracts	–	–	–	–	–	–	–	–
Income from insurance business with third parties	–	–	–	–	–	–	308	308
Intersegment income from insurance business	–	–	–	–	–	–	–	–
Fee and commission income from third parties	232	–	67	71	27	398	25	423
Intersegment fee and commission income	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–13	–3	0	–3	–14	–34	–1	–34
Operating profit/loss	252	182	118	150	138	839	4	844

The geographical markets of the United Kingdom and Sweden were included in the VW FS AG Group during the course of fiscal year 2019. These markets are therefore not reported in the table covering the previous year.

BREAKDOWN BY GEOGRAPHICAL MARKET 2019:

€ million	JAN. 1 – DEC. 31, 2019									
	Germany	Great Britain	Sweden	China	Brazil	Mexico	Other segments	Segments total	Reconciliation	Group
Interest income from lending transactions and marketable securities in respect of third parties	11	6	12	726	515	305	488	2,063	53	2,116
Income from leasing transactions with third parties	8,767	1,901	1,497	–	11	322	1,623	14,121	182	14,304
Intersegment income from leasing transactions	–	–	–	–	–	–	1	1	–1	–
Depreciation, impairment losses and other expenses from leasing transactions	–8,059	–1,168	–1,455	–	–5	–195	–1,350	–12,232	–145	–12,378
of which impairment losses in accordance with IAS 36	–226	–4	0	–	0	–	–91	–322	–1	–324
Net income from leasing transactions	708	732	42	–	6	127	274	1,890	36	1,926
Interest expense	–152	–240	–8	–269	–218	–170	–282	–1,339	–13	–1,352
Income from service contracts with third parties	1,257	102	–	–	1	–	346	1,706	31	1,738
Intersegment income from service contracts	–	–	–	–	–	–	–	–	–	–
Income from insurance business with third parties	–	–	–	–	–	–	–	–	318	318
Intersegment income from insurance business	–	–	–	–	–	–	–	–	–	–
Fee and commission income from third parties	156	4	1	–	80	56	176	474	40	514
Intersegment fee and commission income	–	–	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–2	–3	–1	–8	–5	0	–24	–43	–27	–70
Operating profit/loss	232	235	20	186	131	128	276	1,208	15	1,223

Information on the main products (lending and leasing business) can be taken directly from the income statement.

The breakdown of noncurrent assets in accordance with IFRS 8 and of the additions to noncurrent lease assets by geographical market is shown in the following tables:

€ million	JAN. 1 – DEC. 31, 2018			
	Germany	China	Mexico	Brazil
Noncurrent Assets	10,837	6	47	251
Additions to lease assets classified as noncurrent assets.	4,449	–	14	1

€ million	JAN. 1 – DEC. 31, 2019					
	Germany	Great Britain	Sweden	China	Brazil	Mexico
Noncurrent Assets ¹	13,069	3,185	1,119	26	258	43
Additions to lease assets classified as noncurrent assets.	6,737	940	236	–	0	1

1 The opening value has been adjusted (see notes to IFRS16)

Investment recognized under other assets was of minor significance.

The following table shows the reconciliation to consolidated revenue, consolidated operating result and consolidated profit before tax.

€ million	2019	2018
Segment revenue	18,366	12,264
Other companies	586	385
Consolidation	–280	–87
Group revenue	18,672	12,561
Segment profit or loss (operating profit or loss)	1,208	839
Other companies	–86	30
Contribution to operating profit by included companies	–	8
Consolidation	101	–33
Operating profit/loss	1,223	844
Share of profits and losses of equity-accounted joint ventures	65	51
Net gain or loss on miscellaneous financial assets	–14	–76
Other financial gains or losses	–9	–1
Profit/loss before tax	1,264	818

Other Disclosures

63. Leases

LESSOR ACCOUNTING FOR FINANCE LEASES

In the reporting year, interest income from the net investment in the lease amounting to €1,504 million (previous year: €726 million) was generated from finance leases. There was no income from variable lease payments that was not taken into account in the measurement of the net investment in the lease where finance leases were concerned.

The following table shows a reconciliation of the undiscounted lease payments under finance leases to the net investment in the leases.

€ million	Dec. 31, 2019
Non-discounted lease payments	43,075
Non-guaranteed residual value	170
Unearned interest income	-2,849
Loss allowance on lease receivables	-680
Other	-
Net investment	39,717

In the VW FS AG Group, net investment equates to the net receivables from finance leases.

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

€ million	2020	2021	2022	2023	2024	From 2025	Total
Lease payments	14,589	11,537	10,102	6,016	616	216	43,075

As of December 31, 2018, the breakdown of finance lease receivables was as follows:

€ million	2019	2020 – 2023	from 2024	Total
Future payments from finance lease receivables	8,572	11,927	34	20,533
Unearned finance income from finance leases (discounting)	-403	-504	-2	-909
Present value of minimum lease payments outstanding at the reporting date	8,169	11,423	33	19,624

In the previous year, there was a provision for credit risks in respect of outstanding minimum lease payments amounting to €21 million.

LESSOR ACCOUNTING FOR OPERATING LEASES

Income generated from operating leases is included in the income from leasing transactions line item in the income statement. The following table shows a breakdown between income from leases without variable lease payments and income from leases with variable lease payments.

€ million	2019
Lease income	4,464
Income from variable lease payments	-
Total	4,464

The impairment losses recognized as a result of the impairment test on lease assets amounted to €324 million (previous year: €216 million) and are included in the depreciation, impairment losses and other expenses from leasing transactions. Impairment losses are based on continuously updated internal and external information, which is then fed into the forecasts of residual values for vehicles.

Income from reversals of impairment losses on lease assets applied in prior years amounted to €119 million (previous year: €42 million) and is included in income from leasing business.

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

€ million	Movable lease assets
Cost	
Balance as of Jan. 1, 2018	15,059
Foreign exchange differences	-15
Changes in basis of consolidation	-
Additions	8,167
Reclassifications	0
Disposals	6,310
Balance as of Dec. 31, 2018	16,901
Depreciation and impairment losses	
Balance as of Jan. 1, 2018	3,489
Foreign exchange differences	-4
Changes in basis of consolidation	-
Additions to cumulative depreciation	1,969
Additions to cumulative impairment losses	216
Reclassifications	0
Disposals	1,811
Reversal of impairment losses	42
Balance as of Dec. 31, 2018	3,818
Net carrying amount as of Dec. 31, 2018	13,083
Net carrying amount as of Jan. 1, 2018	11,570

In the prior year, the following payments were expected over the next few years from noncancelable leases:

€ million	2019	2020 – 2023	Total
Lease payments	133	144	278

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

€ million	Movable lease assets
Cost	
Balance as of Jan. 1, 2019¹	18,029
Foreign exchange differences	87
Changes in basis of consolidation	7,576
Additions	14,157
Reclassifications	2
Disposals	10,427
Balance as of Dec. 31, 2019	29,425
Depreciation and impairment losses	
Balance as of Jan. 1, 2019	4,385
Foreign exchange differences	14
Changes in basis of consolidation	1,687
Additions to cumulative depreciation	3,182
Additions to cumulative impairment losses	324
Reclassifications	0
Disposals	2,825
Reversal of impairment losses	119
Balance as of Dec. 31, 2019	6,649
Net carrying amount as of Dec. 31, 2019	22,776
Net carrying amount as of Jan. 1, 2019¹	13,644

1 The opening carrying amounts for lease assets have been adjusted (see disclosures relating to IFRS 16).

From the perspective of the VW FS AG Group as lessor, the value of the right of use under noncurrent leases recognized in connection with buyback transactions is presented under the lease assets item in the balance sheet.

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

€ million	2020	2021	2022	2023	2024	From 2025	Total
Lease payments	3,516	2,166	985	302	148	7	7,125

The minimum lease payments expected in the reporting year from subleases in connection with buyback transactions are included in the presentation of the outstanding, undiscounted lease payments from operating leases.

In the previous year, minimum lease payments of €666 million were expected from noncancelable subleases in connection with buyback transactions.

LESSEE ACCOUNTING

The VW FS AG Group is a party to leases as a lessee in various aspects of the business. These leases mainly involve the leasing of land and buildings and operating and office equipment.

Interest expenses of €6 million were recognized for lease liabilities under the interest expenses line item in the income statement in the reporting year.

The subleasing of right-of-use assets gave rise to income of €562 million in the reporting year.

No right-of-use assets are recognized for short-term leases or leases in which the underlying asset is of low value. In the reporting year, expenses for leases in which the underlying assets are of low value amounted to €5 million. Expenses for short-term leases were €8 million. There were no variable lease expenses in the reporting year that were not taken into account in the measurement of the lease liabilities.

In the previous year, general and administrative expenses included expenses of €30 million for leased assets under operating leases related in particular to land and buildings as well as office and operating equipment.

Right-of-use assets derived from leases are reported in the balance sheet of the VW FS AG Group within property and equipment under the following items:

€ million	Right of use on land, land rights and buildings incl. buildings on third party land	Right of use on other equipment, operational and office equipment	Total
Balance as of Jan. 1, 2019	109	9	118
Foreign exchange differences	1	0	1
Changes in basis of consolidation	53	0	53
Additions	45	2	47
Reclassifications	–	–	–
Disposals	13	5	18
Balance as of Dec. 31, 2019	194	6	200
Depreciation and impairment losses			
Balance as of Jan. 1	0	–	0
Foreign exchange differences	0	0	0
Changes in basis of consolidation	1	0	1
Additions to cumulative depreciation	22	4	25
Additions to cumulative impairment losses	–	0	0
Reclassifications	–	–	–
Disposals	0	1	1
Reversal of impairment losses	–	0	0
Balance as of Dec. 31, 2019	22	3	25
Net carrying amount as of Dec. 31, 2019	172	3	175

The values of the rights of use under noncurrent leases recognized in connection with buyback transactions under lease assets in the balance sheet are presented as part of the disclosures on lessor accounting for operating leases.

When assessing the lease term underlying a lease liability, the VW FS AG Group makes a best estimate as to whether an extension option will be exercised or a termination option will not be exercised. In the event of a material change in the general parameters used for this estimate or a modification of the lease, this estimate is updated.

In the balance sheet, lease liabilities are reported under liabilities to customers. The following table shows a breakdown of the contractual maturities of lease liabilities:

€ million	REMAINING CONTRACTUAL MATURITIES			Dec. 31, 2019
	under one year	within one to five years	over five years	
Lease liabilities	23	67	91	181

The following table shows the present values in the prior year of future lease payments arising from buildings leased under finance leases:

€ million	2019	2020 – 2023	from 2024	Total
Finance lease payments	1	2	–	2
Interest component	0	0	–	0
Carrying amount of liabilities	1	2	–	2

Overall, leases in which the VW FS AG Group is a lessee gave rise to total cash outflows of €691 million in the reporting year. In the case of assets leased in as part of buyback transactions, the total cash outflows were reported in an amount equating to the value of the right of use recognized in the reporting year.

In the previous year, payments of €401 million had been recognized as an expense for the assets leased in as part of buyback transactions.

The following table shows an overview of potential future cash outflows that have not been included in the measurement of the lease liabilities.

€ million	2019
Future cash outflows to which the lessee is potentially exposed	
Variable lease payments	–
Residual value guarantees	0
Extension options	49
Termination options	–
Obligations under leases not yet commenced	19
Other obligations from limitations and arrangements	0
Total	69

64. Cash Flow Statement

VW FS AG Group's cash flow statement documents changes in cash and cash equivalents attributable to cash flows from operating, investing and financing activities. Cash flows from investing activities comprise purchase payments and disposal proceeds relating to investment property, subsidiaries, joint ventures and other assets. Cash flows from financing activities reflect all cash flows arising from transactions involving equity, subordinated capital and other financing activities. All other cash flows are classified as cash flows from operating activities in accordance with standard international practice for financial services companies.

The narrow definition of cash and cash equivalents comprises only the cash reserve, which consists of cash-in-hand and central bank balances.

The changes in the balance sheet items used to determine the changes in the cash flow statement cannot be derived directly from the balance sheet because effects from the changes in the basis of consolidation have no impact on cash and are eliminated.

The following tables show the breakdown of the changes in subordinated capital (as part of financing activities) into cash and non-cash transactions for the reporting year and the prior year.

€ million	As of Jan. 1, 2018	Cash changes	NON-CASH TRANSACTIONS			As of Dec. 31, 2018
			Exchange rate changes	Changes in basis of consolidation	Measurement changes	
Subordinated capital	4,354	–1,302	–29	–	–	3,023

€ million	As of Jan. 1, 2019	Cash changes	NON-CASH TRANSACTIONS			As of Dec. 31, 2019
			Exchange rate changes	Changes in basis of consolidation	Measurement changes	
Subordinated capital	3,023	-166	8	2,081	-	4,947

65. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

The contingent liabilities of €374 million (previous year: €303 million) largely relate to legal disputes concerning tax matters in which the criteria for the recognition of a provision in accordance with IAS 37 are not satisfied. After an analysis of the individual cases covered by the contingent liabilities, it is believed that the disclosure of further detailed information on individual proceedings, legal disputes and legal risks could seriously prejudice the course of those proceedings.

The trust assets and liabilities of the savings and trust entity belonging to the Latin American subsidiaries are not included in the consolidated balance sheet and amounted to €419 million (previous year: €558 million).

OTHER FINANCIAL OBLIGATIONS

€ million	DUE	DUE	DUE	TOTAL
	2019	2020 – 2023	from 2024	Dec. 31, 2018
Purchase commitments in respect of				
Property and equipment	6	-	-	6
Intangible assets	0	-	-	0
Investment property	-	-	-	-
Obligations from				
Irrevocable credit commitments to customers	306	-	-	306
Long-term leasing and rental contracts	23	43	3	69
Miscellaneous financial obligations	18	0	-	18

€ million	DUE	DUE	DUE	TOTAL
	2020	2021 – 2024	from 2025	Dec. 31, 2019
Purchase commitments in respect of				
Property and equipment	10	–	–	10
Intangible assets	2	–	–	2
Investment property	–	–	–	–
Obligations from				
Irrevocable credit commitments to customers	369	–	–	369
Long-term leasing and rental contracts	6	1	1	8
Miscellaneous financial obligations	48	1	–	49

In the case of irrevocable credit commitments, the Company expects the customers to draw down the facilities concerned.

66. Average Number of Employees During the Reporting Period

	2019	2018
Salaried employees	10,322	8,403
Vocational trainees	143	124
Total	10,465	8,527

67. Benefits Based on Performance Shares (Share-Based Payment)

At the end of 2018, the Supervisory Board of VW FS AG resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2019. 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 mainly forward-looking three-year term.

Since the end of 2018, the beneficiaries of the performance share plan have included other top management members in addition to the members of the Board of Management. At the end of 2019, the group of beneficiaries was extended to include all other members of management as well as selected beneficiaries below management level. Top management members were granted performance shares for the first time at the beginning of 2019. At the beginning of 2020, all other beneficiaries were granted performance shares for the first time. The way the performance share plan granted to these beneficiaries works is essentially the same as the performance share plan used for members of the Board of Management. At the introduction of the performance share plan, top management members were guaranteed a minimum bonus amount for the first three years on the basis of remuneration in 2018, whereas all other beneficiaries were given a guarantee for the first three years on the basis of remuneration in 2019.

Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted on the basis of the initial reference price of Volkswagen's preferred shares into performance shares of Volkswagen AG, which are allocated to the beneficiar-

ies purely for calculation purposes. For the members of the Board of Management and top management, the number of performance shares is determined definitively on the basis of a three-year forward-looking performance period according to the degree of target attainment for the annual earnings per Volkswagen preferred share. For all other beneficiaries, this number is definitively determined on the basis of a three-year performance period with a one-year forward reference. In a deviation from this approach, the number is fixed for the other beneficiaries in 2020 initially on the basis of a one-year forward-looking performance period and in 2021 on the basis of a two-year performance period with a one-year forward reference. Settlement is in cash at the end of the performance period. The payment amount corresponds to the number of determined performance shares, multiplied by the closing reference price at the end of the period plus a dividend equivalent. The payment amount under the performance share plan is limited to 200% of the target amount.

MEMBERS OF THE BOARD OF MANAGEMENT AND TOP MANAGEMENT

In fiscal year 2019, a total expense for the period amounting to €4 million was recognized as personnel expenses. In addition, as of December 31, 2019, the total carrying amount of the obligation was €4 million, the intrinsic value of the liabilities €4 million and the fair value at the grant date €2 million. A total of 15,119 performance shares had been granted, of which 15,119 were granted in fiscal year 2019.

MANAGEMENT MEMBERS AND SELECTED BENEFICIARIES BELOW MANAGEMENT LEVEL

If 100% of each of the agreed targets is attained, the target amount for the other management members and selected beneficiaries below management level comes to a total of €26 million.

68. Related Party Disclosures

Related parties within the meaning of IAS 24 are deemed to be individuals or entities who can be influenced by VW FS AG, who can exercise an influence over VW FS AG, or who are under the influence of another related party of VW FS AG.

Volkswagen AG, Wolfsburg, is the sole shareholder in VW FS AG. In addition, Porsche Automobil Holding SE, Stuttgart, controlled the majority of the voting rights in Volkswagen AG as of the reporting date. The Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved the creation of rights of appointment for the State of Lower Saxony. As a result of these rights, Porsche SE can no longer appoint a majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore deemed to be a related party within the meaning of IAS 24. According to a notification submitted on Thursday, January 2, 2020, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held more than 20.00% of the voting rights in Volkswagen AG as of December 31, 2019 and therefore indirectly had significant influence over the VW FS AG Group. In addition, as referred to above, the Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved a resolution under which the State of Lower Saxony could appoint two members of the Supervisory Board (right of appointment).

VW FS AG and its sole shareholder Volkswagen AG have a control and profit-and-loss transfer agreement.

Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities provide the entities in the VW FS AG Group with funding on an arm's-length basis. As part of funding transactions, Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities sold vehicles to entities in the VW FS AG Group on an arm's-length basis. These transactions are presented in the "Goods and services received" line item. Volkswagen AG and its subsidiaries have also furnished collateral in the Company's favor as part of the operating business.

The "Goods and services provided" line item primarily contains income from leasing transactions.

The business transactions with unconsolidated subsidiaries and joint ventures of VW FS AG mainly relate to the provision of funding and services. These transactions are always conducted on an arm's-length basis, e.g. when using the cost plus method for the provision of services.

The two tables below show the transactions with related parties. In these tables, the exchange rates used are the closing rate for asset and liability items, and the weighted average rates for the year for income statement items.

FISCAL YEAR 2018

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Non-consolidated subsidiaries	Joint ventures
Loans and Receivables	–	–	6,920	0	7,674	99	5,075
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–
Obligations	–	–	6,595	–	6,926	224	163
Interest income	–	–	4	–	145	4	109
Interest expense	–	–	–15	–	–132	–2	–
Goods and services provided	–	–	654	–	1,718	77	377
Goods and services received	–	–	7,937	–	2,258	55	400

FISCAL YEAR 2019

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Non-consolidated subsidiaries	Joint ventures
Loans and Receivables	–	–	3,241	0	6,409	226	6,054
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–
Obligations	–	–	8,523	–	10,685	193	170
Interest income	–	–	2	–	122	6	92
Interest expense	–	–	–17	–	–148	–1	–
Goods and services provided	0	–	1,091	0	2,988	22	426
Goods and services received	–	–	9,903	–	6,681	36	486

The “Other related parties in the group of consolidated entities” column includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG’s group of consolidated entities. The relationships with the Supervisory Board and the Board of Management comprise relationships with the relevant groups of people at VW FS AG and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of lesser significance.

In the reporting year, VW FS AG received capital contributions from Volkswagen AG amounting to €1,617 million (previous year: €– million) and provided capital contributions to related parties of €137 million (previous year: €142 million).

Members of the Board of Management and Supervisory Board of VW FS AG are also members of management and supervisory boards of other entities in the Volkswagen Group with which VW FS AG sometimes conduct

transactions in the normal course of business. All transactions with these related parties are on an arm's-length basis.

During the course of the reporting period, standard short-term bank loans amounting to an average total of €138 million (previous year: €81 million) were granted to related parties as part of dealer financing.

BOARD OF MANAGEMENT REMUNERATION IN ACCORDANCE WITH IAS 24

€ million	2019	2018
Short-term benefits	6	5
Benefits based on performance shares	2	1
Termination benefits	–	–
Post-employment benefits	10	–1

The benefits based on performance shares for the fiscal year included expenses of €2 million (previous year: €0.1 million) for the performance shares granted to the members of the Board of Management. The total remuneration of the Board of Management in accordance with the HGB amounted to €8 million; 10,974 performance shares were granted, the fair value of which was €2 million on the grant date.

The total payments made to former members of the Board of Management and their surviving dependants amounted to €0.7 million (previous year: €0.5 million); the provisions recognized for this group of people to cover current pensions and pension entitlements amounted to €15 million (previous year: €14 million).

SUPERVISORY BOARD REMUNERATION

In accordance with a resolution passed by the Annual General Meeting, the members of the Supervisory Board are entitled to an annual allowance. This allowance is independent of the performance of the Company and the Supervisory Board role undertaken by the person concerned. Various members of the Supervisory Board are also members of the supervisory boards of other Volkswagen AG subsidiaries. The amounts received for these functions is deducted from the allowance entitlement from VW FS AG. As a result, a total amount of less than €0.04 million (previous year: €0.06 million) was paid out to the members of the Supervisory Board in the reporting period.

The employee representatives on the Supervisory Board of VW FS AG also receive their regular salaries under the terms of their employment contracts. This salary is based on the provisions in the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act) and is an appropriate remuneration for the relevant function or activity in the Company. The same also applies to the representative of the senior executives on the Supervisory Board.

69. Disclosures Relating to Unconsolidated Structured Entities

A structured entity is normally designed so that voting rights or similar rights are not the deciding factor in determining control over the entity.

Typical features of a structured entity are as follows:

- > limited scope of activities;
- > narrowly defined business purpose;
- > inadequate equity to finance the business activities;
- > financing through a number of instruments that contractually bind investors and that give rise to a concentration of credit risk and other risks.

In the reporting period, VW FS AG maintained business relationships with structured entities in connection with acquired subordinated loans. These are ABS special purpose entities within Volkswagen AG's group of consolidated entities. The entities carry out a process of securitization by taking assets from lending agreements and leases for vehicles and transforming them into securities (asset-backed securities) on a maturity-matched basis. In the VW FS AG Group, the subordinated loans have been allocated to assets measured at fair value through profit or loss. Under the principles specified in IFRS 10, the ABS special purpose entities are not controlled by VW FS AG and are therefore not included in the consolidated financial statements. The acquisition of subordinated loans granted by ABS special purpose entities in the Volkswagen AG group of consolidated entities means that the financial services business of the associated entities is funded within the Volkswagen AG group of consolidated entities.

The purchase of the subordinated loans gives rise to counterparty default risk on the part of the issuer and interest rate risk. The maximum risk exposure of VW FS AG arising from its interests in unconsolidated structured entities was limited to the fair value of the subordinated loans reported in the balance sheet.

The following table contains disclosures on VW FS AG's assets reported in the balance sheet that are related to unconsolidated structured entities and the maximum risk exposure of the VW FS AG Group (disregarding collateral). The nominal amount of the securitized assets is also disclosed.

€ million	ABS SPECIAL PURPOSE ENTITIES	
	2019	2018
Reported in the balance sheet as of December 31		
Loans to and receivables from customers ¹	34	50
Maximum loss risk	34	50
Nominal volume of securitized assets	411	639

¹ Subordinated loans granted

VW FS AG did not provide unconsolidated structured entities with any noncontractual support during the reporting period.

70. Governing Bodies of Volkswagen Financial Services AG

The members of the Board of Management are as follows:

LARS HENNER SANTELMANN

Chairman of the Board of Management
Corporate Management
China region
Germany, Europe regions
Mobility Unit
Sales and Marketing

DR. MARIO DABERKOW

Information Technology and Processes
South America & Mexico regions

FRANK FIEDLER

Finance and Purchasing

CHRISTIANE HESSE

Human Resources and Organization
International region

The members of the Supervisory Board are as follows:

FRANK WITTER

Chairman
Member of the Board of Management of
Volkswagen AG
Finance and IT

DR. ARNO ANTLITZ

Deputy Chairman
Member of the Volkswagen Brand Board of
Management
Controlling and Accounting

DANIELA CAVALLO (AS OF JANUARY 28, 2019)

Deputy Chairwoman
Deputy Chairwoman of the General and Group Works
Councils of Volkswagen AG

JOACHIM DREES

Chief Executive Officer of MAN SE and
MAN Truck & Bus SE
Member of the Executive Board of TRATON SE

MICHAEL GROSCHE

Head of Fleet, Mobility and Remarketing
of Volkswagen Financial Services AG

ANDREAS KRAUB

Executive Director of the Joint Works Council
of Volkswagen Financial Services AG and
Volkswagen Bank GmbH

DR. CHRISTIAN DAHLHEIM (AS OF FEBRUARY 1, 2020)

Head of Group Sales of Volkswagen AG

IMELDA LABBÉ (UNTIL JANUARY 31, 2020)

Head of Group After Sales Volkswagen AG Kassel

SIMONE MAHLER

Chairwoman of the Joint Works Council
of Volkswagen Financial Services AG and
Volkswagen Bank GmbH

PETRA REINHEIMER

Deputy Chairwoman of the Joint Works Council
of Volkswagen Financial Services AG and
Volkswagen Bank GmbH

HANS-JOACHIM ROTHENPIELER (AS OF MAY 27, 2019)

Member of the Board of Management of AUDI AG
Technical Development

DR. HANS PETER SCHÜTZINGER

Chief Executive Officer of
Porsche Holding GmbH Salzburg

EVA STASSEK

Principal Representative of IG Metall Braunschweig

71. Letter of Comfort for Our Affiliated Companies

With the exception of political risks, Volkswagen Financial Services AG hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to lenders in the agreed manner. Moreover, Volkswagen Financial Services AG confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders. This comfort also applies to holders of unguaranteed bonds issued by the following affiliated companies: Banco Volkswagen S.A., São Paulo, Brazil; Volkswagen Finance (China) Co., Ltd., Beijing, China; Volkswagen Finance Pvt. Ltd., Mumbai, India; Volkswagen Doğuş Finansman A.Ş., Kağıthane-Istanbul, Turkey; Volkswagen Doğuş Faktoring A.Ş., Kağıthane-Istanbul, Turkey.

72. Events After the Balance Sheet Date

On January 16, 2020, Volkswagen Financial Services AG took out a borrower's note loan with a value of €50 million, and on January 22, 2020 a further borrower's note loan with a value of €600 million, from external lenders.

There were no other significant developments after the end of fiscal year 2019.

Responsibility Statement

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

Braunschweig, February 10, 2020

Volkswagen Financial Services AG
The Board of Management



Lars Henner Santelmann



Dr. Mario Daberkow



Frank Fiedler



Christiane Hesse

Independent Auditor's Report

To VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig

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

AUDIT OPINIONS

We have audited the consolidated financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

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

- > the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and
- > the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 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 audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

- ① Recoverability of lease assets
- ② Acquisition of several long-term equity interests in the course of transactions covered by transformation law

Our presentation of these key audit matters has been structured in each case as follows::

- ① Matter and issue
- ② Audit approach and findings
- ③ Reference to further information

Hereinafter we present the key audit matters:

- ① Recoverability of lease assets)
 - ① Vehicles from current leases are reported under the balance sheet item "Lease assets" in the amount of EUR 22,776 million (20.3% of consolidated total assets) in the consolidated financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT as of December 31, 2019. The measurement of the lease assets is based on amortized cost and the recoverable amount. The Volkswagen Financial Services Group performs a quarterly impairment test of the lease assets. The carrying amount of the relevant asset is compared with the corresponding recoverable amount in the context of the impairment test. The results of internal and external marketing and the executive directors' estimate of the development of market prices for vehicles are taken into account for this purpose. Write-downs amounting to EUR 324 million were recognized in respect of lease assets in the financial year on the basis of this valuation..

The measurement of the lease assets is, firstly, of great significance for the assets, liabilities, and financial performance of the Group in terms of amount and, secondly, involves considerable scope for judgment on the part of the executive directors, since the use of models and assumptions creates material uncertainties due to the estimates required for the measurement exercise. In addition, despite a declining trend, the current public discussion about the development of the residual values of vehicles with diesel engines (possible bans on diesel vehicles in inner cities, shift in demand towards vehicles with petrol engines) contributes further to the uncertainty involved in measuring the vehicles recognized. Against this background, this matter was of particular significance during our audit.

- ② Our audit included in particular assessing the valuations carried out by the Company with respect to whether these were up to date, as well as the methodology applied and the transparency of the valuation. At the same time, we obtained an understanding of the source data underlying the valuation, the value inputs and the assumptions made, evaluated those factors critically and assessed whether they are within a reasonable range. In addition to this, our assessment of the assumptions made by the executive directors with respect to marketing was based, among other things, on a comparison with general and sector-specific market expectations as well as documentation and explanations from the executive directors relating to the expected marketing results. Furthermore, we verified the classification of the vehicles as property and equipment and evaluated the accounting policies applicable as a result.

Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

- ③ The Company's disclosures relating to the lease assets are contained in numbers 13, and 63 of the notes to the consolidated financial statements..
- ② Acquisition of several long-term equity interests in the course of transactions covered by transformation law

- ① In connection with a strategic realignment and the requirements of European regulations, the consolidated Group was expanded in the reporting period by means of extensive restructuring measures between VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, VW Bank and Volkswagen AG. Following the spin-off implemented with retrospective effect as of January 1, 2019, Volkswagen Bank GmbH no longer holds any shares in Volkswagen Financial Services (UK) Ltd., Milton Keynes (United Kingdom). Furthermore, in this context in particular the 100% interest in Volkswagen Finans Sverige AB, Södertälje (Sweden), Volkswagen Finance 2 S.L.U., Madrid (Spain) and ŠkoFIN s.r.o., Prague (Czech Republic) were spun off to VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT. These companies were subject to first-time inclusion in the consolidated financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT as of the respective dates on which the spin-offs were entered in the commercial register. Given that the restructuring related to mergers subject to joint control, the assets and liabilities of the companies to be newly recognized in the consolidated financial statements were measured at the carrying amounts recognized in the consolidated financial statements of the ultimate parent. In view of the material overall impact of the restructuring on the net assets, financial position and results of operations of the Group and in light of the complexity of the accounting treatment of transactions under transformation law, this matter was of particular significance for our audit..
- ② For the purposes of our audit and in order to ensure the proper accounting treatment of the spin-off from Volkswagen Bank GmbH and subsequent inclusion of the companies by VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, we examined, among other things, the company and stock corporation law basis for the spin-off and assessed the relevant contractual arrangements and spin-off documents, in particular the spin-off agreement. In addition, we inspected the records of the underlying resolutions and the corresponding commercial register excerpts. We then also assessed whether the figures reported in the consolidated balance sheet, consolidated statement of comprehensive income, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity were recognized in accordance with the relevant standards and the generally accepted accounting principles and interpretations. With respect to the measurement of the companies included in the basis of consolidation, we have verified the calculation of the carrying amounts in the consolidated financial statements and in this connection assessed the correct derivation of the figures from the bookkeeping records of the ultimate parent. By means of these and other audit procedures, we were able to satisfy ourselves that the accounting treatment of the restructuring was sufficiently documented and comprehensible on the basis of the available information.
- ③ The Company's disclosures relating to transactions under transformation law are contained in number 2 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB, which we obtained prior to the date of our auditor's report (disclosures on the quota for women on executive boards).

The annual report is expected to be made available to us after the date of the auditor's report.

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

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

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

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

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

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

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

We also:

- > Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- > Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- > Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures
- > Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in

the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- > Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- > Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- > Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- > Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

Based on the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for 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

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on February 13, 2019. We were engaged by the supervisory board on July 10, 2019. We have been the group auditor of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, without interruption since the financial year 1991.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Frank Hübner.

Hanover, February 10, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Frank Hübner	Burkhard Eckes
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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 in the reporting period; there were no extraordinary meetings. The average attendance rate was 86%. One member of the Supervisory Board attended less than half of the meetings; all other members of the Supervisory Board were present at more than half of the meetings. Decisions were made on seven matters by means of a written resolution circulated to each of the members for approval; the Chairman of the Supervisory Board also made nine urgent decisions using the written procedure.

COMMITTEE ACTIVITIES

The Supervisory Board of Volkswagen Financial Services AG is not subject to an obligation to establish committees. Instead, the full Supervisory Board is responsible for performing the tasks of an audit committee pursuant to Article 39(2) of Directive 2014/56/EU in conjunction with section 107(3) of the Aktiengesetz (AktG – German Stock Corporation Act).

In this regard, the Supervisory Board held detailed discussions in the reporting period, addressing the supervision of the internal control, risk management and internal audit systems as well as the monitoring of the financial reporting and auditing process.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on February 13, 2019, 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 and the annual financial statements and management report of Volkswagen Financial Services AG for 2018 prepared by the Board of Management. The Supervisory Board also issued a recommendation regarding the appointment of the auditor for 2019.

Furthermore, the Board of Management reported to the Supervisory Board on the funding strategy of the Volkswagen Financial Services subgroup and necessary adjustments in relation to Strategy 2025. The Supervisory Board also received updates on the status of action plans in the Group-wide Together4Integrity program at Volkswagen Financial Services AG. In addition, this meeting held discussions with an external expert about possible future business strategies for automotive financial services providers in times of changing mobility requirements and the anticipated impact on the activities of Volkswagen Financial Services AG.

The Supervisory Board also received a presentation on the sales strategy in relation to electric vehicles and on the differences compared with the combustion-engine vehicle business.

At this meeting, as well as at the meetings held on June 21, 2019 and on November 8, 2019, 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 subgroup.

At the meeting of the Supervisory Board held on June 21, 2019, the Board of Management reported in detail on the Company's latest position. This report focused particularly on current positioning in the market and progress to date in the Operational Excellence initiative launched in 2018. The Board of Management also informed the Supervisory Board about the current

situation regarding the hey.car used vehicle platform and the plans to refine the existing ranges of services in the areas of mobility, fleet customer business and charging infrastructure for electric vehicles.

Under a further agenda item, the Supervisory Board approved the market launch of Volkswagen Financial Services AG in Denmark as part of a joint venture and the acquisition of a parking services provider in the UK by the PayByPhone Group. In addition, the Supervisory Board agreed to further restructuring in the markets in Sweden and Ireland in the final phase of the Panda Project (separation of the lending business supervised by the European Central Bank from the other business segments at Volkswagen Financial Services AG).

At the meeting held on November 8, 2019, the Board of Management reported to the Supervisory Board on the key issues in the reporting year. This included information on ongoing structural changes in the Company's organization. The Supervisory Board also received detailed information on the status of the mobility services offered by the Company, such as parking, car rental and car-sharing services.

In addition, the Supervisory Board received an explanation from the Chief Compliance Officer regarding the information on the risk classification of the international subsidiaries and the relevant risk categories derived from the internal control system. The Supervisory Board also addressed the implementation status of action plans in the Together4Integrity program at Volkswagen Financial Services AG. Under another agenda item, the Head of Internal Audit presented the key areas of activity in the reporting year. Various reasons for audits, such as submissions via the Whistleblower System, were also discussed in this context. Finally, the Head of Internal Audit set out the planned audits for 2020.

In the remainder of the meeting, the relevant project manager reported to the Supervisory Board on the successful conclusion of Project Panda for the comprehensive restructuring of the Volkswagen Financial Services subgroup, which had been initiated some two years previously.

The Chief Digital Officer also informed the Supervisory Board about the latest implementation status of digitalization at Volkswagen Financial Services AG and about the product and customer groups at the focus of these activities. In addition, the Board of Management provided an IT status report. This mainly consisted of presentations on the status of key IT projects and IT security.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, was appointed to audit both the consolidated financial statements of the Volkswagen Financial Services AG Group in accordance with the IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with HGB for the year ended December 31, 2019, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Financial Services AG Group in accordance with the IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with HGB for the year ended December 31, 2019, together with the management reports, were submitted to the Supervisory Board. The auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, audited these financial statements, including the bookkeeping system and the management reports, and issued an unqualified auditor's opinion in each case.

The Supervisory Board 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 13, 2020, the Supervisory Board approved both the consolidated financial statements and annual financial statements of Volkswagen Financial Services AG prepared by the Board of Management. The consolidated financial statements and annual financial statements have thus been adopted.

Under 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 2019 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 13, 2020



Frank Witter
Chairman of the Supervisory Board

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