VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

ANNUAL REPORT
HGB

2020

Fundamental Information about the Group

Volkswagen Financial Services AG and its companies are providers of comprehensive mobility services.

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 Service AG Group provide financial services to private, corporate and fleet customers. The close integration of marketing, sales and customer service focused on customers' needs should play a decisive role in keeping the processes lean and implementing the sales strategy efficiently.

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 result	Interest income from lending transactions and marketable securities, net income from leasing transactions, interest expense, net income from service contracts, net income from insurance business, provision for credit risks, net fee and commission income, net gain or loss on hedges, net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income, general and administrative expenses and net other operating income/expenses
Return on equity	Return on equity before tax, which is calculated by dividing profit before tax by average equity.
Cost/income ratio	General and administrative expenses, adjusted for expenses passed on to other entities in the Volkswagen Group / interest income from lending transactions and marketable securities, net income from leasing transaction, interest expenses, net income from service contracts, net income from insurance business, provision for credit risks and net fee and commission income.

OTHER NONFINANCIAL PERFORMANCE INDICATORS

Customer satisfaction and external employer ranking are also measured.

Customer Satisfaction

Achieving a high level of customer satisfaction is a key objective of Volkswagen Financial Services AG's activities: the aspiration is to ensure that customers are completely satisfied.

With this in mind, Volkswagen Financial Services AG has determined the level of both external and internal customer satisfaction in its markets over the last few years. The key figures that have been used to date are now being revised within the Volkswagen Group in response to the changes in customer needs, the product offering and the strategic focus of Volkswagen Financial Services AG.

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

CHANGES IN EQUITY INVESTMENTS

The following material changes in equity investments have occurred:

Effctive January 16, 2020, Volkswagen Financial Services AG, Braunschweig, acquired ca. 4% of the shares in sunhill technologies GmbH, Erlangen, from the previous minority shareholders thereby increasing its shareholding to 100%.

On February 3, 2020, Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, (60% of the shares in which are held by Volkswagen Finance Overseas B.V., Amsterdam, Netherlands) acquired 57.97% of the shares in the leasing company Muntstad Auto Lease B.V., Zeist, Netherlands, from Phima B.V., Nijkerk, Netherlands.

Effective February 14, 2020, Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, acquired one share of Volkswagen Finance Belgium S.A., Brussels, Belgium, that had been previously held by Volkswagen Financial Services N.V., Amsterdam, Netherlands; this transaction was carried out as a result of a change in Belgian company law. As a consequence, Volkswagen Finance Overseas B.V. now holds all of the shares in Volkswagen Finance Belgium S.A.

On February 21, 2020, Volkswagen Financial Services AG acquired 26% of the shares in Glinicke Leasing GmbH, Kassel, from Glinicke Finanz Holding GmbH & Co. KG, Kassel. The purpose of this equity investment is, inter alia, to include business bike leasing in the range of products offered to German fleet customers. In the meantime, the company has been renamed to Digital Mobility Leasing GmbH.

Effective February 28, 2020, Volkswagen Financial Services AG 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 100% equity investment in sunhill technologies GmbH, Erlangen
- Its 100% equity investment in PayByPhone Technologies Inc., Vancouver, Canada
- Its 60% equity investment in Softbridge - Projectos Tecnológicos S.A., Porto Salvo, Portugal

Effective March 6, 2020, Volkswagen Finance Luxemburg S.A., Strassen, Luxembourg, a wholly owned subsidiary of Volkswagen AG, Wolfsburg, acquired a 44.44% interest in Mobility Trader Holding GmbH, Berlin, by way of a capital increase. Mobility Trader Holding GmbH acts as the holding company for the local companies of the heycar Group.

On March 31, 2020, PayByPhone Technologies Inc., Vancouver, Canada, an indirect wholly owned subsidiary of Volkswagen Financial Services AG, acquired all of the shares in Mathom AG, Düdingen, Switzerland. Mathom AG is one of the leading providers of mobile payment solutions for parking in Switzerland based on its SEPP Parking product. The company has now been renamed PayByPhone Suisse AG. With this acquisition PayByPhone will expand its presence in the Swiss market to cover more than 70 cities, towns and municipalities. The Swiss market is a further element in PayByPhone's strategy to become the leading provider of mobile payment solutions for parking in Europe and North America.

On March 31, 2020, the non-regulated finance lease, insurance broking, services and dealer financing business activities of Volkswagen Bank GmbH, Ireland Branch, Dublin, Ireland, were transferred to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, a wholly owned subsidiary of Volkswagen Financial Services AG.

On April 2, 2020, Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, transferred all of the shares in sunhill technologies GmbH, Erlangen, to PayByPhone Technologies Inc., Vancouver, Canada.

Effective May 28, 2020, Volkswagen Leasing GmbH, Braunschweig, a wholly owned subsidiary of Volkswagen Financial Services AG, transferred the entire portfolio of its branch in Warsaw, Poland, to the newly established Volkswagen Leasing Polen GmbH, Braunschweig, a wholly owned subsidiary of Volkswagen Financial Services AG, by means of a spin-off.

On May 29, 2020, Volkswagen Leasing Polen GmbH was merged into Volkswagen Financial Services Polska Sp. z o.o., Warsaw, Poland, a wholly owned subsidiary of Volkswagen Financial Services AG. The purpose of the spin-off and merger was to support the internal restructuring of the leasing business in Poland.

On May 29, 2020, Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, founded Volkswagen Mobility Services S.p.A., Bolzano, Italy. The purpose of establishing this company is to transfer the business activities of Volkswagen Leasing GmbH´s branch in Italy to a separate legal entity going forward.

On June 2, 2020, Volkswagen Financial Services AG acquired all of the shares in the start-up business Voya GmbH, Hamburg, including its wholly owned subsidiary Voya Travel Technologies S.R.L., Bucharest, Romania, from a consortium of investors. Voya is one of the leading providers of state-of-the-art business travel management. The acquisition broadens Volkswagen Financial Services AG's mobility offering for fleet customers to include business travel management.

On June 18, 2020, as part of an asset deal, LogPay Transport Services GmbH, Eschborn, an indirectly wholly owned subsidiary of Volkswagen Financial Services AG, acquired assets from Truckparking B.V., Utrecht, Netherlands, a subsidiary of Volkswagen Financial Services AG in which the latter holds 79.11% of the shares.

With effect from June 30, 2020, Mobility Trader Holding GmbH, Berlin, in which Volkswagen Financial Services AG holds 44.44% of the shares, founded Mobility Trader Spain S.L., Barcelona, Spain. The shareholders of Mobility Trader Spain S.L. are Mobility Trader Holding GmbH, Berlin, (shareholding of 75.1%) and SEAT S.A., Martorell, Spain, (shareholding of 24.9%). The aim of establishing this company is to support the expansion of the heycar used car platform in the Spanish market.

On July 31, 2020, MAN Financial Services GmbH, Munich, a wholly owned subsidiary of Volkswagen Financial Services AG, transferred all the shares in MAN Financial Services GesmbH, Eugendorf, Austria, to Volkswagen Financial Services AG. This spin-off formed part of a reorganization in preparation for the merger of MAN Financial Services GmbH into Volkswagen Leasing GmbH, Braunschweig.

On August 31, 2020, MAN Financial Services GmbH, Munich, was merged into Volkswagen Leasing GmbH, Braunschweig. Both companies are wholly owned subsidiaries of Volkswagen Financial Services AG. The purpose of the merger was to consolidate the Truck & Bus business in Germany under the umbrella of Volkswagen Leasing GmbH.

On September 1, 2020, Volkswagen Leasing GmbH, Braunschweig, a wholly owned subsidiary of Volkswagen Financial Services AG, established the branch "MAN Financial Services, Zweigniederlassung der Volkswagen Leasing GmbH" in Munich.

Likewise on September 1, 2020, Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, in which Volkswagen Financial Services AG holds an indirect 60% equity investment, acquired the leasing portfolio of M. de Koning Lease B.V., Krimpen aan den IJssel, Netherlands, by means of an asset deal.

Effective October 1, 2020, Volkswagen Financial Services AG 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 100% equity investment in MAN Financial Services GesmbH, Eugendorf, Austria,
> Its 100% equity investment in Volkswagen Financial Services Ireland Ltd., Dublin, Ireland

Effective October 7, 2020, LogPay Transport Services GmbH, Eschborn, an indirectly wholly owned subsidiary of Volkswagen Financial Services AG, established LogPay Charge & Fuel Slovakia s.r.o., Bratislava, Slovakia. The shareholders of LogPay Charge & Fuel Slovakia are LogPay Transport Services GmbH, Eschborn, (shareholding of 85%) and LogPay Financial Services GmbH, Eschborn, (shareholding of 15%). The aim of establishing this company is the expansion in the Slovakian market. The company shall commence operating activities in 2021.

On October 31, 2020, VVS Assuradeuren B.V., Amersfoort, Netherlands, a wholly owned subsidiary of Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, was merged into Volkswagen Pon Financial Services B.V., a subsidiary of Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, in which the latter holds 60% of the shares.

On December 18, 2020, all of the shares in sunhill technologies Italy S.R.L., Ronco all' Adige, Italy, were transferred from sunhill technologies GmbH, Erlangen, a wholly owned subsidiary of PayByPhone Technologies Inc., Vancouver, Canada, to PayByPhone Technologies Inc., an indirectly wholly owned subsidiary of Volkswagen Financial Services AG. The transfer formed part of the internal restructuring of the PayByPhone entities.

In the reporting year, Volkswagen Financial Services AG and its wholly owned subsidiary Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, increased the equity of the following companies to strengthen their capital resources:

> PayByPhone Technologies Inc., Vancouver, Canada, by €33.0 million
> sunhill technologies GmbH, Erlangen, by €19.5 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 Handelsgesetzbuch (HGB – German Commercial Code) and in accordance with IFRS 12.10 and IFRS 12.21, which is included in the notes to the consolidated financial statements.

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 2020 will be available at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nonfinancial_Report_2020_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nonfinancial_Report_2020_d.pdf in English from April 30, 2021.

Report on Economic Position

The global economy recorded negative growth in fiscal year 2020 due to the impact of the Covid-19 pandemic. Global demand for vehicles was lower than in the previous year. Volkswagen Financial Services AG's operating result was at the level of the previous year.

GLOBAL SPREAD OF CORONAVIRUS (SARS-COV-2)

At the end of 2019, initial cases of a potentially fatal respiratory disease became known in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also appeared outside China from mid-January 2020. In Europe, the number of people infected rose continuously in the course of February, and especially in March and April 2020. While many European countries recorded declining numbers of new infections as the second quarter of 2020 progressed, the rate of new infections continued to rise in North, Central and South America, Africa and parts of Asia. In the second quarter, many of the measures taken to contain the Covid-19 pandemic were gradually eased, especially in Europe. This included partially lifting border controls and travel restrictions and easing lockdowns as well as the reopening of businesses and public facilities. In addition, the European Commission and numerous European governments approved aid packages to support the economy. In other regions, too, governments introduced measures aimed at shoring up the economy to counteract the enormous disruption to everyday life and economic activity caused by the Covid-19 pandemic. During the third quarter, and particularly during the fourth quarter of 2020, many regions outside China around the world saw a renewed – and in some cases very rapid – increase in new infections, which led to the easing of restrictions being reversed in certain situations.

Throughout the whole of 2020, the global spread of the SARS-CoV-2 virus brought enormous disruption to all areas of everyday life and the economy.

SPECIAL MANAGEMENT MEASURES IN RESPONSE TO THE COVID-19 PANDEMIC

Because of the Covid-19 pandemic, regular reports were generated in 2020 on new business, the credit risk situation, realized residual values and payment deferrals. Particular attention was paid to the risk and liquidity situation in the dealer organization. This reporting provided a detailed, timely overview of the risk situation in respect of the impact on the financial performance of the Volkswagen Financial Services AG Group, enabling the situation to be managed.

In the second quarter, risk situation calculations were also carried out for different ways in which the Covid-19 pandemic could develop.

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

Despite the conditions in fiscal year 2020 described above, the operating result was at the level of the previous year. New business around the globe contracted as a consequence of the Covid-19 pandemic. Following a reorganization of the legal entities in 2019, new contracts went up slightly compared with the prior-year figure.

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 27.6 (26.1) % at the end of 2020, enabling Volkswagen Financial Services AG to offset some of the contraction in deliveries.

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

The risk costs arising from credit and residual value risk were above the prior-year level in the reporting year, but margins remained stable.

The credit risk situation arising from Volkswagen Financial Services AG's overall portfolio was strongly shaped by the Covid-19 pandemic in 2020. Specific measures were put in place to avert and cushion the economic impact of the Covid-19 pandemic on customers. These measures included payment deferrals and support for the dealer organization in collaboration with the Group brands. The international subsidiaries were granted a certain degree of latitude to develop their own responses, as a result of which they designed targeted measures locally and adapted them in line with – or occasionally over and above – specific legal requirements and customer needs. The action taken mitigated potential effects of the Covid-19 pandemic on Volkswagen Financial Services AG's credit risk in 2020, with the result that there was only a moderate deterioration in the risk situation while the volume of loans and receivables increased slightly. The current conditions mean that the provision for credit risks in the reporting year was higher than the prior-year figure.

The residual value portfolio expanded significantly in fiscal year 2020. Despite the pandemic, there was only a marginal rise in residual value risk. 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. Because of the Covid-19 pandemic, markets could not be accessed temporarily or could only be accessed on a limited basis; in some cases, significant premiums were required.

The funding structure remained well diversified in terms of the instruments used. The Group's main sources of funding, comprising capital markets, ABSs, funding through banks and deposits in individual markets, continued to be available at Group level and could still be used as required (albeit with considerable additional risk premiums in some cases) despite the uncertainty arising from the Covid-19 pandemic, especially in the second quarter. The funding situation significantly improved again during the second half of the year.

The global, intercompany efficiency program referred to as Operational Excellence (OPEX), which was launched in fiscal year 2017, is becoming even more important because of the current situation (Covid-19 pandemic).

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 (among 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 73 (page 162).

The Board of Management of Volkswagen Financial Services AG considers the course of business to have been positive in 2020 despite the consequences of the Covid-19 pandemic.

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

	Actual 2019	Forecast for 2020		Actual 2020
Nonfinancial performance indicators				
Penetration (percent)	26.1	> 26.1	Slightly above the previous year's level	27.6
Current contracts (thousands)	14,813	> 14,813	Moderately above the prior-year level	15,409
New contracts (thousands)	5,655	> 5,655	Slightly above the previous year's level	5,911
Financial performance indicators				
Volume of business (€ million)	88,852	> 88,852	Moderately above the prior-year level	92,572
Operating result (€ million)	1,223	= 1,223	At prior-year level	1,223
Return on equity (percent)	12.6	= 12.6	At prior-year level	8.4
Cost/income ratio (percent)	54	= 54	At prior-year level	57

DEVELOPMENTS IN THE GLOBAL ECONOMY

The global spread of the SARS-CoV-2 virus, the associated restrictions, and the resulting downturn in demand and supply meant that growth in the world economy was negative in 2020, at –4.0 (2.6) %. The average rate of expansion of gross domestic product (GDP) was far below the previous year's level in both the advanced economies and the emerging markets. At country level, performance in the reporting period depended on the extent to which the negative impact of the Covid-19 pandemic was already materializing The governments and central banks of numerous countries responded in some cases with substantial fiscal and monetary policy measures. This meant cuts in the already relatively low interest rates. There was a significant drop in prices for energy resources, while other commodity prices increased slightly year-on-year on average. On a global average, consumer prices rose at a slower pace than in 2019, and global trade in goods declined in the reporting period.

Europe/Other Markets

At −7.2 (1.3) %, the economies of Western Europe as a whole, recorded a sharp fall in growth in 2020. This trend was seen in nearly all countries in Northern and Southern Europe. The impact of national measures to contain the pandemic, including border closures and physical distancing, caused deep cuts. In some states, the measures severely restricted everyday life and also had grave economic consequences. Governments of many countries in this region subsequently started to lift some of the restrictions imposed, spawning a gradual economic recovery. Due to the renewed increase in case numbers in many countries as the year went on, several of these measures were tightened again, or at least left in place. In addition, the uncertain outcome of the Brexit negotiations between the United Kingdom and the European Union (EU) generated uncertainty in fiscal year 2020, as did the related question of what form this relationship would take in the future.

The economies in Central and Eastern Europe reported a marked decline in the real absolute GDP in 2020 at −3.7 (2.5) %, with economic output falling by −3.4 (2.9) % in Central Europe and by −4.0 (2.0) % in Eastern Europe. The same trend was observed in Russia; economic output in Eastern Europe's largest economy contracted by −4.1 (1.3) %.

Turkey was unable to sustain the recovery seen in the first quarter, with GDP growth declining to 0.2 (1.0) % for 2020 as a whole but remaining in positive territory. South Africa's GDP trend declined sharply in the reporting period to −7.3 (0.2) % amid persistent structural deficits and political challenges.

Germany

Germany's economic output showed a significantly negative trend in the reporting year at −5.3 (0.6) %. The labor market was in a favorable situation at the start of the year, but the pandemic led many companies to introduce short-time working (Kurzarbeit) throughout the course of the year. The temporary easing of restrictions in everyday life and economic activity as well as government assistance packages enacted to support the economy led to improved confidence among consumers and companies as the year progressed. However, it only occasionally matched the previous years' levels.

North America

US economic output declined by −3.6 (2.2) % in the reporting year as rates of infection soared. To strengthen the economy in light of the disruption caused by the Covid-19 pandemic, the US government passed comprehensive stimulus packages. The US Federal Reserve cut interest rates twice, alongside other measures to support the economy. The weekly number of people filing new claims for unemployment benefits rose by several million before declining but still remaining at a relatively high level. This was reflected accordingly in the unemployment rate, which more than doubled year-on-year to 8.1 (3.7) % in the reporting period. GDP fell by −5.7 (1.9) % in neighboring Canada and by −9.0 (0.0) % in Mexico.

South America

Brazil's economy recorded a decline of −4.6 (1.4) % in 2020, resulting from the dynamic rate of infection caused by the Covid-19 pandemic. At −11.1 (−2.1) %, the economic downturn in Argentina intensified amid continued high inflation and substantial depreciation of the local currency compared with the previous year.

Asia-Pacific

The Chinese economy, which had been exposed to the negative effects of the Covid-19 pandemic earlier than other economies and benefited from a relatively small number of new infections as the year progressed, recorded positive growth rates from the second quarter onwards, expanding by 2.1 (6.1) % overall. Growth in India fell sharply to −8.9 (4.2) % amid relatively high infection rates. Japan also recorded negative growth of −5.4 (0.3) % compared with the same period of the previous year owing to the negative impact of the Covid-19 pandemic.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services were in high demand in 2020, particularly in the first three months of the year. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas. Nevertheless, the reporting period saw the Covid-19 pandemic exert downward pressure on the demand for financial services in virtually every region. The impact from the Covid-19 pandemic was noticeable around the globe, especially in the second quarter of 2020. Markets for automotive financial services staged a partial recovery in the third and fourth quarters.

The European passenger car market was affected by the Covid-19 pandemic especially in the second quarter of 2020, a downturn that unleashed a significant decline in demand in the automotive business over the reporting period as a whole. In these challenging market conditions, the proportion of vehicle sales accounted for by leases and financing agreements continued to rise in European markets, even though the absolute figures for signed contracts fell short of the level achieved in the previous year. The business with after-sales products such as servicing, maintenance and spare parts agreements, as well as automotive-related insurance was maintained at the prior-year level in the current market environment.

In Germany, the number of new vehicles financed by loans or leases in 2020 went down compared with the previous year, reflecting the challenges presented by the Covid-19 pandemic. In the leasing business with individual customers, the shift from financing to leases, which had begun in 2019, continued in the reporting year.

In South Africa, the demand for financing and insurance products stabilized in the second half of 2020 following a decline in the first six months of the year but remained below the prior-year level for the reporting period overall. Lower interest rates led to an increase in cash purchases. Non-vehicle loans were also used to buy vehicles.

A drop in demand for new vehicles has been seen across the entire North America region as a consequence of the Covid-19 pandemic. In the United States, however, demand for financial services rose slightly and increased as a proportion of vehicle sales. This included a noticeable shift from leases to financing agreements and an increase in used vehicle business. The proportions accounted for by leases and financing agreements also went up year-on-year in Canada in 2020, although the number of contracts declined in absolute terms because of the lower number of vehicles delivered. In Mexico, a downward trend was evident both proportionally and in the absolute number of financing agreements. This was attributable to a number of factors, including the current restricted level of fleet business.

In South America, demand for vehicles and automotive financial services in the reporting year was down on the previous year. It recovered at the end of 2020 after dipping in the second and third quarters as a consequence of the pandemic. In Brazil, the trend toward fleet business and long-term leases continued to strengthen, with the number of long-term lease contracts exceeding the prior-year level. In a difficult macroeconomic environment, customers in Argentina purchased their vehicles mostly in cash; demand for automotive financial services decreased year-on-year.

In China, the passenger car market began its recovery from the Covid-19 pandemic in the second quarter of 2020. The easing of the restrictions led to a steady rise in contracts for automotive financial services, which reached a slightly higher level than in the previous year overall. In Japan, the effects of the Covid-19 pandemic were perceptible in the form of weaker new car sales, with a related fall in demand for financing and leasing products. In India, demand for financial services was below the previous year but rose again in the course of the year as lending rates in the new and used vehicle segments stabilized.

The Covid-19 pandemic also led to a substantial drop in demand for new and used commercial vehicles in 2020. This gave rise to an equivalent fall in the number of leases and financing agreements in Europe, although the penetration rates for financing products increased in Brazil.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2020, the global market volume of passenger cars fell significantly below the prior-year level due to the Covid-19 pan-demic, decreasing to 67.7 million vehicles (–15.2%). This marked a decline for the third year in a row. All regions were affected by this slump. The overall markets of Western Europe, South America and Africa recorded above-average losses, while the decline in Asia-Pacific and the Middle East was smaller in percentage terms.

Global demand for light commercial vehicles in the reporting period was down significantly 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 industries made the movement of vehicles, parts and components more difficult.

Europe/Other Markets

In Western Europe, the number of new passenger car registrations in the reporting period was down substantially by as much as –24.5% on the prior-year figure, at 10.9 million. The negative impact from the spread of the SARS-CoV-2 virus was noticeable in all countries in the region as early as March. After the drastic decline at the beginning of the second quarter, recovery set in the months that followed, and by the end of the third quarter, figures even matched those of the prior year. The fourth quarter of 2020 witnessed a lateral movement in the market, keeping volumes noticeably below the previous year's level. New registrations saw declines on a similar scale in all major individual markets and were in negative territory at year-end: France (–25.4%), Italy (–27.9%), the UK (–29.4%) and Spain (–32.1%).

The volume of new registrations of light commercial vehicles in Western Europe fell significantly below the prior-year figure, essentially due to the pandemic.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2020 was down 15.9% on the prior-year level at 2.8 million vehicles. Following the slump in the second quarter and the recovery in the third quarter, the volume of new vehicle registrations flatlined in the fourth quarter and was moderately short of the previous year's figure. The development of demand in the reporting period differed from market to market. In Central Europe, the number of new registrations dropped substantially by 23.3% to 1.1 million units. By contrast, the decline in sales of passenger cars in Eastern Europe (–10.1%) was weaker, due in particular to demand in Russia slowing less sharply (–8.8%). Registration volumes for light commercial vehicles in Central and Eastern Europe were down significantly year-on-year. In Russia, the number of vehicles sold in the reporting period was also significantly lower than in the previous year.

At 0.6 million units, the volume of the passenger car market in Turkey in the reporting period was up by over 50% on the very low prior-year level. The increase in demand was boosted in particular by the strong growth in the third quarter of 2020. In South Africa, the pandemic meant that the number of new passenger car registrations was down sharply on the comparatively poor results of the previous year (–30.4%).

Germany

New passenger car registrations in Germany in fiscal year 2020 fell significantly short of the previous year's high level, declining to 2.9 million units (–19.1%). Exacerbated by the Covid-19 pandemic and its fallout, demand for passenger cars fell to its lowest level since German reunification despite a temporary reduction in value-added tax and higher purchase premiums for electric vehicles.

Owing to the mandated temporary shutdowns driven by the pandemic and weak demand in important foreign markets, domestic production and exports in the reporting period again fell short of the comparable prior-year figures: passenger car production decreased by −24.6% to 3.5 million vehicles, largely due to the −24.1% drop in passenger car exports to 2.6 million units.

Demand for light commercial vehicles in Germany in the reporting period was significantly lower than in 2019.

North America

At 17.1 million vehicles, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America in fiscal year 2020 were down significantly on the prior-year figure (–15.9%). The negative effects of the Covid-19 pandemic were also very noticeable in this region. After a drastic decline in demand at the beginning of the second quarter and a steady recovery in the months that followed, until the prior-year level was reached in September, the region witnessed volatile market performance in the last quarter of 2020. In December, a new recovery set in and the previous year's figure was exceeded. The market volume in the USA remained markedly lower than the 2019 level, falling to 14.6 million units (–14.5%). The decline affected both the passenger car segment (–28.3%) and light commercial vehicles (–11.9%) such as SUVs and pickup models. In the Canadian automotive market, the Covid-19 pandemic significantly accelerated the downward trend that began in 2018 (–19.7%). In Mexico, sales of passenger cars and light commercial vehicles declined sharply (–28.0%), falling short of the prior-year figure for the fourth year in a row.

South America

In the markets of the South America region, the volume of new registrations for passenger cars and light commercial vehicles in 2020 was much lower (–28.1%) at 3.1 million units following the drastic decline in the second quarter, a strong recovery in the third quarter and a lateral movement in the fourth quarter, though falling short of the levels recorded in the previous year. The South America region saw the most severe negative impact of the Covid-19 pandemic on the automotive markets in terms of percentage. In Brazil, the recovery in vehicle demand that began in 2017 was interrupted in the reporting year; at 2.0 million vehicles (–26.7%), the number of new registrations was sharply lower than in the prior-year period. Exports of vehicles manufactured in Brazil continued to decline, falling by −24.3% to 324 thousand. In the Argentinian market, too, the spread of the SARS-CoV-2 virus negatively impacted the demand for passenger cars and light commercial vehicles. In 2020, there was sharp 26.6% fall in sales to 0.3 million units.

Asia-Pacific

In the Asia-Pacific region, too, the reporting period was adversely impacted by the spread of the SARS-CoV-2 virus. After the very sharp decline in the first three months, the rapid rebound in the second quarter and a return to prior-year levels in the third quarter, demand in the last quarter of 2020 was moderately up on the previous year. The market volume of passenger cars was noticeably lower than the prior-year level at 30.9 million units (–9.6%). This was also partly due to developments in the Chinese passenger car market, where the volume of demand fell distinctly short of the previous year to 19.9 million units (–6.5%) as a result of the Covid-19 pandemic. Following the severe losses in the first three months of 2020, there were clear signs of a recovery in the overall market there as the year went on. In India, sales of passenger cars dwindled significantly year-on-year, falling by −17.3% to 2.3 million units. In the Japanese passenger car market, vehicle demand in the reporting period of 3.8 million units (–11.2%) was down markedly on the previous year due not only to the Covid-19 pandemic, but also to the increase in VAT as of October 1, 2019.

There was a significant year-on-year decline in demand for light commercial vehicles in the Asia-Pacific region. Registration volumes in China, the region's dominant market and the largest market worldwide, fell distinctly year-on-year. The number of new vehicle registrations was significantly below the previous year's level in Japan and drastically lower in India.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was down substantially year-on-year in fiscal year 2020 due to the spread of the SARS-CoV-2 virus: 459 thousand new vehicles were registered (–24.7 %). Despite the ongoing uncertainty generated by the Covid-19 pandemic, a recovery could be seen in almost all of the markets that are relevant for the Volkswagen Group in the second half of 2020 compared with the first six months.

In the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was sharply down on the prior-year figure, dropping –30.1 % to a total of 263 thousand vehicles. Registrations in Germany, the largest market in this region, fell substantially year-on-year.

The previously anticipated downturn in the market for 2020 was amplified by the Covid-19 pandemic, especially in the second quarter of the year. The Russian market also deteriorated noticeably as a consequence of the Covid-19 pandemic and the related economic fallout. Turkey saw new registrations more than double compared to an admittedly very low prior-year figure. By contrast, the South African market declined considerably. In Brazil, the largest market in the South America region, demand for trucks was significantly below the level seen in the previous year as a result of the pandemic.

Demand for buses in the markets that are relevant for the Volkswagen Group was much lower than in the previous year as a consequence of the pandemic. All key markets within the EU27+3 contributed to this trend, with the market for coaches in particular virtually grinding to a halt. Demand was very much lower in Brazil and was less than half the prior-year level in Mexico.

GLOBAL DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP[1]

	DELIVERIES OF VEHICLES		
	2020	2019	Change in percent
Deliveries of passenger cars worldwide	**9,115,185**	**10,733,077**	**–15.1**
Volkswagen Passenger Cars	5,328,029	6,279,007	–15.1
Audi	1,692,773	1,845,573	–8.3
ŠKODA	1,004,816	1,242,767	–19.1
SEAT	427,035	574,078	–25.6
Bentley	11,206	11,006	+1.8
Lamborghini	7,430	8,205	–9.4
Porsche	272,162	280,800	–3.1
Bugatti	77	82	–6.1
Volkswagen Commercial Vehicles	371,657	491,559	–24.4
Deliveries of commercial vehicles worldwide	**190,187**	**242,220**	**–21.5**
Scania	72,085	99,457	–27.5
MAN	118,102	142,763	–17.3

1 The delivery figures of the previous year have been updated or restated following statistical updates and changes to the reporting structure. Including Chinese joint ventures.

FINANCIAL PERFORMANCE

The global economy recorded negative growth in 2020 as a consequence of the Covid-19 pandemic. The performance of Volkswagen Financial Services AG was nevertheless stable.

The operating result remained at the prior-year level, amounting to €1,223 (1,223) million.

Profit before tax came to €1,038 (1,264) million, which was significantly below the prior-year level.

Return on equity amounted to 8.4 (12.6) %.

Interest income from lending transactions and marketable securities was below the prior-year level at €1,995 million (–4.7 %).

Net income from leasing transactions amounted to €2,006 (1,917) million and was therefore higher than in the previous year. The impairment losses on lease assets of €498 (324) million included in this figure were attributable to current market fluctuations and expectations.

Interest expenses were down year-on-year at €1,286 million (–4.9 %).

Net income from service contracts amounted to €454 (190) million and was significantly above the prior-year figure.

Net income from insurance business amounting to €155 (155) million remained on the previous year's level.

The provision for credit risks of €600 (294) million was significantly higher than in the previous year. 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 €47 million year-on-year to €581 million, largely as a consequence of the change in business volume.

Net fee and commission income amounted to €89 (156) million, which was significantly below the prior-year level. This decrease was attributable to a number of factors, most notably the higher expenses for business expansion in China.

General and administrative expenses were up on the previous year at €2,071 (2,006) million. This figure also includes costs associated with services for other entities in the Volkswagen Group. Accordingly, costs of €469 (464) million were passed on to other entities in the Volkswagen Group and reported under net other operating income/expenses. At 57 (54) %, the cost/income ratio was worse than in the previous year.

At €521 million (+8.1 %), the figure for net other operating income/expenses exceeded the prior-year level. An amount of €52 (86) million was added to the provisions for legal risks and recognized through profit or loss in net other operating income/expenses. The share of profits and losses of equity-accounted joint ventures declined moderately year-on-year to €64 (65) million.

In the reporting year, the net gain/loss on miscellaneous financial assets amounting to a net loss of €168 (14) million included impairment losses of €81 million for non-consolidated subsidiaries and €70 million for equity-accounted joint ventures. On the basis of these figures, together with the other income and expense components, the Volkswagen Financial Services AG Group generated a profit from continuing operations, net of tax, of €806 million (–9.4 %).

Under Volkswagen Financial Services AG's current control and profit-and-loss transfer agreement, a loss of €673 million reported by Volkswagen Financial Services AG in its single-entity financial statements prepared in accordance with the HGB was absorbed by the sole shareholder Volkswagen AG.

The German companies continued to account for the highest business volumes with 31.4 % of all contracts.

Despite the tough conditions, Volkswagen Leasing GmbH expanded its portfolio of leases slightly compared with the previous year. The operating result was significantly above the prior-year level.

The vehicle insurance business saw a stable level of new business in 2020 in spite of the conditions caused by the Covid-19 pandemic. Volkswagen Autoversicherung AG now holds a portfolio of 461 thousand vehicle insurance policies, which is higher than the prior-year figure. In addition to the new business, the migration of the legacy portfolio of Volkswagen-Versicherungsdienst GmbH to Volkswagen Autoversicherung AG (previously with Allianz AG) contributed to the portfolio growth compared with 2019 (422 thousand vehicle insurance policies).

In 2020, 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 Versicherung 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 €106.0 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Financial Services AG Group – accounted for approximately 90 % of the Group's total assets.

The volume of retail financing lending rose by €0.3 billion to €21.0 billion (+1.4 %).

The number of new retail financing contracts came to 1,256 thousand, which was below the prior-year level (1,268 thousand). The number of current contracts stood at 2,959 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 – declined to €4.3 billion (–21.1 %).

Receivables from leasing transactions amounted to €40.0 billion (+0.1 %), which was at the level of the previous year.

Lease assets recorded growth of €4.5 billion to €27.3 billion (+19.9 %).

A total of 1,346 thousand new leases were entered into in the reporting period. The contract portfolio of lease vehicles as of December 31, 2020 was 3,539 thousand. As in the previous year (1,632[1] thousand), the largest contribution again came from Volkswagen Leasing GmbH, which had a contract portfolio for 1,631 thousand lease vehicles (–0.0%).

Total assets of the Volkswagen Financial Services AG Group rose to €117.8 billion year on year (+4.8%). This increase was mainly attributable to the growth in lease assets, reflecting the expansion in business in the reporting year.

The number of service and insurance contracts at the year-end was 8,912 thousand. The new business volume of 3,309 thousand contracts was up on the prior-year figure (3,087 thousand).

1 Prior-year figure adjusted following the merger of MAN Financial Services GmbH, Munich, into Volkswagen Leasing GmbH.

Deposit Business and Borrowings

In terms of capital structure, the significant liability items included liabilities to banks in the amount of €14.7 billion (+1.4%), liabilities to customers amounting to €20.2 billion (+28.4%) and notes, commercial paper issued of €62.0 billion (+1.7%). Further details on the funding and hedging strategy can be found in the management report in the sections Liquidity Analysis (page 17) and Funding (pages 17 – 18) and in the risk report within the disclosures on interest-rate risk (page 27) and liquidity risk (page 28).

Subordinated Capital

The subordinated capital decreased by 28.7% year-on-year to €3.5 billion.

Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at €441 million in fiscal year 2020. Equity in accordance with IFRSs was €12.8 (12.0) billion. This resulted in an equity ratio of 10.8% (equity divided by total assets) based on total assets of €117.8 billion.

Changes in Off-Balance-Sheet Liabilities

Off-balance-sheet liabilities increased by a total of €48 million year-on-year to €860 million as of December 31, 2020.

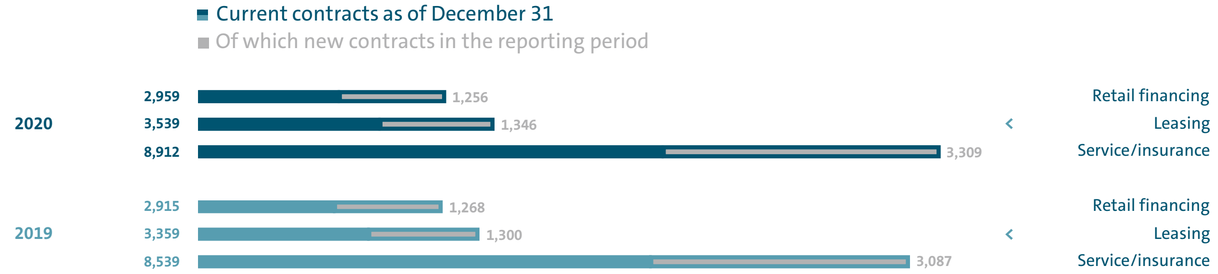
KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2020

in thousands	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other companies[1]	VW FS AG Group
Current contracts	**4,833**	**1,873**	**657**	**1,316**	**602**	**638**	**5,491**	**15,409**
Retail financing	–	8	84	1,311	403	207	944	2,959
of which: consolidated	–	8	84	1,311	403	207	530	2,544
Leasing business	1,561	974	150	5	13	58	777	3,539
of which: consolidated	1,561	974	150	–	1	58	553	3,297
Service/insurance	3,272	891	422	–	186	372	3,769	8,912
of which: consolidated	3,272	848	230	–	111	372	2,193	7,026
New contracts	**1,755**	**817**	**247**	**637**	**260**	**184**	**2,011**	**5,911**
Retail financing	–	14	29	636	159	53	364	1,256
of which: consolidated	–	14	29	636	159	53	217	1,109
Leasing business	669	327	64	1	3	25	258	1,346
of which: consolidated	669	327	64	–	0	25	179	1,264
Service/insurance	1,087	476	153	–	98	106	1,389	3,309
of which: consolidated	1,087	453	85	–	72	106	779	2,582
€ million								
Loans to and receivables from customers attributable to								
Retail financing	–	196	1,016	9,397	2,591	1,097	6,710	21,006
Dealer financing	9	1	226	905	262	419	2,449	4,272
Leasing business	18,869	15,263	1,250	1	9	426	4,166	39,984
Lease assets	17,682	2,892	1,804	0	1	101	4,831	27,311
Investment[2]	8,593	1,317	545	–	–	1	2,404	12,860
Operating result	225	334	62	161	104	107	230	1,223
Percent								
Penetration[3]	55.1	49.3	59.3	16.0	33.9	49.2	26.4	27.6
of which: consolidated	55.1	49.3	59.3	15.8	33.2	49.2	17.3	25.4

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

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 external banks and with companies of the Volkswagen AG Group are also available to protect against unexpected fluctuations in the liquidity position. The utilization of credit lines is generally intended. The committed credit facility with Volkswagen AG serves solely as a liquidity backup; its utilization is not intended in the normal course of business.

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

The internal control system (ICS) at Volkswagen Financial Services AG is used to measure liquidity risk individually for significant companies. The liquidity risk is managed using a maturity structure for Treasury liabilities. This approach includes a limit system covering the subsequent 12 months. The limits are reviewed each month in a process that acts as an early warning indicator. Reports are submitted centrally on a quarterly basis. A Group limit for Volkswagen Financial Services AG is also determined and managed appropriately; 67.3 % of this limit was utilized as of December 31, 2020.

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

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

FUNDING

Strategic Principles

In terms of funding, Volkswagen Financial Services AG generally pursues a strategy of diversification with the aim of achieving the best possible balance of cost and risk. This means accessing the widest possible variety of funding sources in the various regions and countries with the objective of safeguarding funding 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 Brazil. In addition, asset-backed securities (ABSs) were successfully placed.

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 and Japan.

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

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

The following tables show the transaction details:

CAPITAL MARKET 2020

Issuer	Month	Country	Volume and currency	Maturity
Volkswagen Financial Services N.V., Amsterdam	January	Sweden	SEK 1.5 billion	2 and 3 years
Volkswagen Financial Services N.V., Amsterdam	February	United Kingdom	GBP 400 million	4.1 years
Volkswagen Financial Services Japan Ltd., Tokyo	February	Japan	JPY 3 billion	3 years
Volkswagen Financial Services AG, Braunschweig	April	Germany	EUR 2.15 billion	3, 5 and 8 years
Volkswagen Financial Services N.V., Amsterdam	April	United Kingdom	GBP 350 million	5.6 years
Volkswagen Financial Services N.V., Amsterdam	April	Norway	NOK 800 million	3 years
Volkswagen Financial Services N.V., Amsterdam	September	Sweden	SEK 750 million	2 years
Volkswagen Financial Services AG, Braunschweig	September	Germany	EUR 700 million	1 year
Volkswagen Financial Services N.V., Amsterdam	September	United Kingdom	GBP 500 million	3 years
Volkswagen Leasing GmbH, Braunschweig	November	Germany	EUR 500 million	2 years
Volkswagen Financial Services N.V., Amsterdam	November	Sweden	SEK 250 million	2 years
Banco Volkswagen S.A., São Paulo	Full year	Brazil	BRL 1.3 billion	1 to 3 years

ABS 2020

Issuer	Transaction name	Month	Country	Volume and currency
Volkswagen Financial Services Japan Ltd., Tokyo	Driver Japan nine	February	Japan	JPY 64.2 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 30	March	Germany	EUR 1.0 billion
Volkswagen Finance China Co., Ltd., Beijing	Driver China ten	March	China	CNY 6.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 31	November	Germany	EUR 1.1 billion
Volkswagen Finance China Co., Ltd., Beijing	Driver China eleven	November	China	CNY 8.0 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 March 2020, S&P confirmed its short-term and long-term ratings for Volkswagen Financial Services AG at A-2 and BBB+ respectively. At the same time, following an identical rating action taken for Volkswagen AG, the outlook was lowered to negative. In March 2020, Moody's announced that it would be carrying out a review of the long-term A3 corporate rating to establish whether a downgrade was required because of the Covid-19 pandemic. Moody's concluded the review in June 2020 and confirmed the A3 long-term rating but revised the outlook to negative.

Volkswagen Financial Services AG

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2020

Volkswagen Financial Services AG reported a result from ordinary activities after tax amounting to a loss of €673 million for fiscal year 2020.

Sales revenue amounted to €603 (612) million, with cost of sales coming to €596 (606) 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 €17 (8) million, with other operating expenses amounting to €24 (17) million. Other operating income included income from the reversal of provisions amounting to €13 million. Other operating expenses included issue and rating costs of €6 million.

Net investment income declined by €74 million to a net expense of €78 (–4) million. This decrease resulted primarily from the net loss of €100 (net profit of 28) million at VTI GmbH.

The loss after tax of €673 million will be absorbed by Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

Long-term financial assets rose by 14.3% to €10,311 million. The change resulted from the increase of €857 million in loans to affiliated companies, of €110 million in loans to other investees or investors and of €402 million in other loans. Some of the increase was offset by a decline of €35 million in shares in affiliated companies and of €46 million in equity investments. Write-downs of €147 million and reversals of write-downs amounting to €39 million were recognized in respect of shares in affiliated companies and equity investments.

Receivables from affiliated companies rose by €3,634 million (44.0%). This increase was primarily attributable to loans. Loans to and receivables from other investees or investors increased by €348 million (6.8%) and were mainly attributable to loans and time deposits.

The increase in provisions of €51 million (9.4%) arose mainly from higher provisions for pensions.

Bonds rose year-on-year by €1,350 million to €9,700 million, an increase of 16.2%.

Liabilities to banks in connection with borrower's note loans rose by €75 million or 4.2% to €1,873 million. Liabilities to affiliated companies went up by €3,503 million (52.4%), largely as a result of new fixed-rate loans and time deposits from Volkswagen AG and fixed-rate loans from Volkswagen International Luxemburg S.A..

The equity ratio was 13.5 (16.8)%. Total assets at the end of the reporting period amounted to €27,756 million.

NUMBER OF EMPLOYEES

Volkswagen Financial Services AG had a total of 5,311 (previous year: 5,275) employees as of December 31, 2020. Employee turnover was less than 1.0%.

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 2020, 1,017 (previous year: 798) employees were leased to Volkswagen Leasing GmbH. In addition, 173 (previous year: 170) employees were leased to Volkswagen Insurance Brokers GmbH, 80 (previous year: 82) employees to Volkswagen Versicherung AG, 9 (previous year: 10) employees to Volkswagen Autoversicherung AG, 0 (previous year: 161) employees to MAN Financial Services GmbH, 2 (previous year: 0) employees to Volkswagen Bank GmbH and 2,651 (previous year: 2,713) employees to Volkswagen Financial Services Digital Solutions GmbH. The changes in relation to Volkswagen Leasing GmbH were largely attributable to the merger of MAN Financial Services GmbH into Volkswagen Leasing GmbH.

Volkswagen Financial Services AG employed 131 (previous year: 131) vocational trainees as of December 31, 2020.

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

Volkswagen Financial Services AG operates almost exclusively as a holding company and is integrated into the internal management concept of the Volkswagen Financial Services Group. It is thus subject to the same key performance indicators and the same opportunities and risks as the Volkswagen Financial Services Group. The legal requirements governing the management of Volkswagen Financial Services AG as a legal entity are observed using key performance indicators such as net assets, net income and liquidity. This internal management concept and these opportunities and risks are described in the section on the fundamental information about the Volkswagen Financial Services Group (pages 4 and 5) as well as in the report on opportunities and risks (pages 22–30) of this annual report.

INCOME STATEMENT OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, FOR FISCAL YEAR 2020

€ million	2020	2019
Sales	603	612
Cost of sales	–596	–606
Gross profit on sales	**7**	**6**
General and administrative expenses	–195	–200
Other operating income	17	8
Other operating expenses	–24	–17
Net income from long-term equity investments	–78	–4
of which income under profit and loss transfer agreements	169	231
of which expenses from absorption of losses	–248	–236
Financial result	**–198**	**–75**
of which income from affiliated companies	98	53
of which expenses from affiliated companies	–108	–19
Income tax expense	**–201**	**13**
Profit after tax	–673	–270
Profits transferred under a profit-and-loss transfer agreement	–	–
Losses absorbed under a profit-and-loss transfer agreement	673	268
Net income	–	–
Profit brought forward	2	2
Amount withdrawn from capital reserves	0	0
Net retained profits	**2**	**2**

BALANCE SHEET OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS OF DECEMBER 31, 2020

€ million	Dec. 31, 2020	Dec. 31, 2019
Assets		
A. Fixed assets		
I. Financial assets	10,311	9,023
	10,311	**9,023**
B. Current assets		
I. Receivables and other assets	17,425	13,401
II. Cash-in-hand and bank balances	1	1
	17,426	**13,402**
C. Prepaid expenses	**19**	**15**
Total assets	**27,756**	**22,440**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441	441
II. Capital reserves	3,216	3,216
III. Retained earnings	100	100
IV. Net retained profits	2	2
	3,759	**3,759**
B. Provisions	**599**	**547**
C. Liabilities	**23,398**	**18,127**
D. Deferred income	**0**	**7**
Total equity and liabilities	**27,756**	**22,440**

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 Volkswagen Group customers will be significantly up on the previous year in 2021 – assuming successful containment of the Covid-19 pandemic – amid continued challenging market conditions. Volkswagen Financial Services AG supports this positive trend by providing financial services products designed to promote sales.

Overall, growth in the global economy depends on how the Covid-19 pandemic develops. However, diminished rates of global economic growth or a period of below-average growth rates cannot be ruled out. In this regard, particular attention needs to be paid to the expiry of government support measures and the economic consequences of the action implemented to contain the pandemic. 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 and Risks

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

Volkswagen Financial Services AG expects to be presented with opportunities arising from the digitalization of its business. The aim is to ensure that all key products are also available online around the world, 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. However, the digitalization of the business model also involves strategic risk, for example from the potential emergence of new competitors.

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, 2020 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 internal 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 MARKETS PROCESS

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

RISK CONCENTRATIONS

Volkswagen Financial Services AG is a captive financial services provider in the automotive sector. The business model, which focuses on promoting vehicle sales for the 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 a natural part of the business for a captive and these concentrations are therefore individually analyzed.

Likewise, a captive cannot avoid collateral concentrations because the vehicle is the predominant collateral asset by virtue of the business model. A broad vehicle diversification 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, country risk, shareholder risk, interest rate risk, residual value risk, liquidity risk, earnings risk, risks of insurance companies, operational risk, reputational risk, compliance and integrity risk, and strategic risk.

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
Country risk	Reputational risk
Shareholder risk	Compliance and integrity risks
Interest rate risk	Strategic risk
Residual value 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. 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.

In the reporting year, there was only a modest increase in credit risk based on a slight rise in the volume of loans and receivables. Alongside statutory assistance, internal support measures implemented by the Group mitigated effects from the Covid-19 pandemic.

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 and analyzed; the collateral values based on this data are adjusted, where required.

Provisions

The calculation of provisions is based on the expected loss model in accordance with IFRS 9 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 and the yearly planning process are used to monitor credit risk at portfolio level.

CHANGES IN CREDIT RISK

Credit risk[1]	Dec. 31, 2020	Dec. 31, 2019
Amount utilized (€ million)	103,263	100,962
Default rate in %	1.8	1.6
Impairment ratio in %	2.0	1.8

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

The rating and scoring processes on which the impairment ratio is based include default probabilities of future events. As of the reporting date, the provisions 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 2020, 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 2020 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, 2020, 81.2% 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, 2020	Dec. 31, 2019
Number of contracts	2,430,832	2,134,455
Guaranteed residual values (€ million)	32,713	27,678
Risk exposure in %	4.1	3.9

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

As part of the management of residual value risk, Volkswagen Financial Services AG has firstly specified rules for managing residual value. The processes for this include the calculation of the risk exposures of forward-looking residual value forecasts. Secondly, it has established uniform requirements for the Group, which reflect the accounting standards governing the recognition of provisions for 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.

Despite the pandemic, there was only a marginal increase in this risk in the reporting year.

Liquidity Risk

Liquidity risk is the risk of a negative variance between actual and expected cash inflows and outflows. Liquidity risk is defined as the risk of not being able to meet payment obligations in full or when due, or – in the event of a liquidity crisis – the risk of only being able to raise funding at higher market rates or only being able to sell assets at a discount to market prices. If liquidity risk were to materialize, higher costs and lower selling prices for assets could lead to a negative impact on financial performance. The consequence of liquidity risk in the worst-case scenario is insolvency caused by illiquidity. Liquidity risk management ensures that this situation does not arise. The analysis and management of liquidity risk at the entities belonging to Volkswagen Financial Services AG are outsourced to the Treasury 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 12 months. A broad diversification of funding maturities is therefore necessary to ensure compliance with the limits. To manage liquidity, the Operational Liquidity Committee (OLC) meets at least every four weeks to monitor the current liquidity situation and the range of liquidity coverage. It decides on funding measures and prepares any necessary decisions for the decision-makers. ICS Steering communicates the main risk management information and relevant early warning indicators relating to liquidity risk. As of December 31, 2020, 67.3% 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 regulatory requirements into the risks associated with three different classes of insurance: non-life underwriting risk, life underwriting risk and health underwriting risk.

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

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 €38.8 (43.7) million as of December 31, 2020, of which €5.6 million was attributable to additional costs arising from the pandemic. These costs were mainly incurred in connection with implementing social distancing and hygiene measures, deploying more security personnel and canceling planned events and business trips.

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 to creating 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. This officer is also responsible for operating 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

In 2020, the risks were moderately greater than in the previous year. In fiscal year 2020, which was mainly shaped by the pandemic, the levels of credit and residual value risk, in particular, were slightly higher than in the previous year.

Human Resources Report

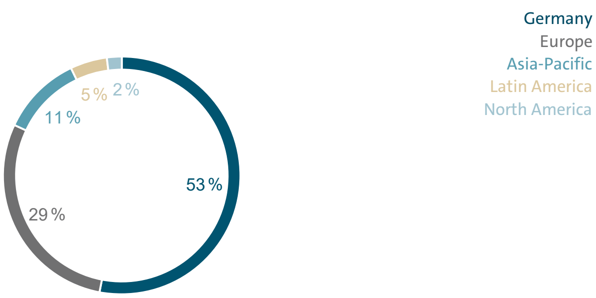
HR modernization – focus on the customer

EMPLOYEES

The Volkswagen Financial Services AG Group had a total workforce of 10,880 (10,773) employees as of December 31, 2020. Of these, 5,789 (5,763), or 53 %, were employed in Germany and 5,091 (5,010), or 47 %, at international sites. Owing to economic considerations, 270 (336) employees of Volkswagen Servicios, S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

EMPLOYEES BY REGION

as of December 31, 2020



HUMAN RESOURCES STRATEGY

The ROUTE2025 strategy 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". The objective is to attract, develop and retain the best employees. With the support of these employees, the Company will 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 in Braunschweig. 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 in Braunschweig – 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 excellent examples from other branches are presented and discussed in regional workshops and at the annual HR conference so that synergies can also be leveraged between the different local companies.

The HR unit was fundamentally restructured in the reporting year. Until now, administrative tasks have accounted for a high proportion of HR activities. Going forward, HR will be expected to be more proactive in influencing corporate strategy. The requirement is for an innovative partner capable of providing the impetus for the continued strategic development of various topics. At the same time, the focus is on supporting employees and providing advice for managers. A further requirement from now on is for HR to provide advisory expertise rather than an administrative service.

The HR unit has clearly oriented itself around customer needs with a structure based on a business partner model. The provision of strategic advice for managers on HR issues has been taken over by the customer function, whereas the new employee service center now looks after all employee-related matters. The two functions are backed by a broad range of specialist expertise in other components of the structure, enabling all matters to be treated on a holistic and long-term basis. The aim is thus to ensure that HR supports all customers efficiently and effectively and that it is involved in forward-looking issues for the business as appropriate for the right target group.

Another key aspect of HR activities has been the need to deal with the Covid-19 pandemic and the associated new requirements for managers and employees to work remotely. Because of the pandemic, the vast majority of employees have been working from home. To facilitate this, processes have been transformed and technical requirements put in place in the shortest possible time. Employees have been equipped with laptops and the necessary access authorizations established. In this context, a large number of initiatives for digitalizing HR products and processes have been implemented. For example, seminars and mandatory training sessions are offered online and events are held using Skype. Job interviews and employee appraisal sessions are also conducted remotely. In addition, the Occupational Health & Safety department conducted work station approvals and hygiene protocols have been implemented. These measures aim to ensure that employees who can only do their jobs at the Company's offices are provided with the best possible protection. Necessary measures are regularly discussed, decided upon and then communicated by the crisis team with the involvement of appropriate experts. In order to ensure employees and managers were informed quickly and comprehensively, a total of 55 HR bulletins were sent to the entire workforce and 44 special notices to managers in 2020 via e-mail.

The HR Transformation program was set up in 2018. Transformation refers to all the changes that employees can expect in the business over the coming years as a result of digitalization or efficiency programs. HR Transformation means everything involving the employees who are shaping the transformation process or are affected by it. The transformation of Volkswagen Financial Services represents a challenge to the flexibility of all employees and managers. The HR Transformation program sets the framework in which all employees – regardless of the extent to which they are affected – can make an individual contribution to the success of the transformation. In addition to placing employees in new jobs, the program also establishes the basic conditions, addresses key questions, sets out processes and specifies the skills and qualifications required. The Transformation Office established in connection with the project supports the change process in respect of the internal labor market. Its centralized management at the Braunschweig facilities ensures that vacant positions are taken up primarily by internal job applicants whose previous roles have been discontinued. This aims to ensure that there is a transparent procedure throughout the whole site. The employees concerned receive assistance in the form of special training. 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. The Strategic HR Planning subproject is a response to the changes in employee requirements. It enables the Company to carry out quantitative HR planning and detailed analysis based on job clusters and skills and qualifications.

The objective of the Leadership in Transformation program initiated in 2019 is to provide managers with the capability to deal with digital transformation successfully. The three words "Learn – Inspire – Transfer" are intended to sum up the approach. 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.

From the "Inspire" and "Transfer" perspectives, BarCamps and the "Time for Stimulus" format offer all managers the opportunity to improve their knowledge about current issues. They can obtain support for specific management situations; internal and external facilitators help them analyze and enhance their leadership skills. Following a successful pilot project, a language analysis tool was also used in 2020 as a voluntary development mechanism for all managers and program leaders. Language analysis is based on artificial intelligence and can raise managers' awareness of the importance of language and its effects, particularly when many employees are working remotely. 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.

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 in line with prevailing requirements. For example, FS Australia offered all managers support to help them lead teams working remotely during periods of crisis.

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. 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. The Company entered the competition again in 2020. The rankings in the German, European and wider international competitions are expected to be announced during the course of 2021.

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

The ROUTE2025 strategy 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 its strategic vision of being "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 are complemented by 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 continued in 2020. The international rollout was concentrated mainly in the EU East, EU West and EU4 regions, notably in Poland, Portugal and France. 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. Following the successful completion of the U.S. Compliance Monitorship in 2020, the program will be continued in 2021 and thereafter in accordance with the Group's master plan.

The HR unit aims to use 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 Group's minimum standards underlying the initiatives have been set down in an organizational policy.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

In 2020, 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 Welfen Akademie 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 and Bachelor of Science in IT Security is offered in collaboration with Leibniz University of Applied Sciences. In 2020, 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. The training offering has been expanded to include the vocational field of media design.

As of December 31, 2020, 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 43 vocational trainees were offered permanent positions in the reporting period.

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 aims to recruit specialists and experts to complement the existing 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 quick, efficient and transparent application process, referred to as the Candidate Journey. An application using the SuccessFactors recruiting tool clears the administrative hurdle. This applies to both external and internal applications. The traditional cover letter is no longer required; applicants simply need to upload a career history. The selection procedure focuses on candidates and whether they are suitable 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 are able to 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 is also pursuing a rigorous approach to recruiting and retaining young talent. The recruitment process was fully digitalized in April of the reporting year so that the selection procedure could be maintained, even under the restrictions caused by the Covid-19 pandemic. HR marketing has also developed the “You like to move IT” campaign, which is aimed at school students who are thinking of a future career in which they are able to create or motivate, ideally in IT. Each year, the Company also invites applications from university graduates for the eight places available on the 12-month Digital Talents trainee program, which takes place both in Germany and abroad and focuses on the digitalization of the Company’s products. 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 and is therefore being extended by a further two years until the end of 2022.

As part of the reorganization, all HR professional development and qualification matters have been restructured from a strategic perspective and assigned to one of two units in the business partner model (Leadership, Culture and Change on the one hand, and Skills and Qualifications Management on the other). The objective is to ensure that all activities are oriented around the business of Volkswagen Financial Services AG with a strategic focus on professional and skills development as a primary component of the HR core business.

The range of skills development options is concentrated mainly on issues connected with preparing for change as part of the business and cultural transformation. Key areas are skills and vocations of the future alongside social and methodological know-how, for example in an agile working environment.

The importance of digitalization knowledge and experience is growing steadily – even within Volkswagen Financial Services AG. As a business, the Company has an interest in ensuring that its employees receive professional development in growth areas so they have the capability to adapt to changing job requirements. HR and the digital program have together developed a joint offering targeted at all employees who wish to receive professional development in connection with digitalization. In 2020, digitalization study programs and courses over a number of months were offered for the first time with 20 places being allocated. This development opportunity is presented entirely online and can therefore be completed at any time or place at the convenience of the employee concerned. Volkswagen Financial Services bears the cost of this training. The following university courses were offered in 2020: UX Design B.A., Data Science B.Sc., Digital Business B.A., Artificial Intelligence M.Sc. and Computer Science in Cyber Security M.Sc. Long-term, intensive skills development is offered through the university courses. Online courses support medium-term skills development with the aim of improving the skills required in the Company in the digital world. The different skills development formats with varying degrees of intensity take into account differing employees, their needs and the ways in which they can be deployed in the business. These skills development activities support the HR Transformation program.

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. The bulk of the skills development offering has also been transferred to a digital format so that employees are able to learn wherever they happen to be and, in some cases, at any time they choose.

To promote employee participation in the transformation and thereby support the transformation processes in the Company, Volkswagen Financial Services AG initiated a new ideas and innovation management system in the reporting year under the name “FS.IDEAS”. All employees are encouraged to submit their ideas for conventional improvements or innovative changes. Ideas are sent in by using an online tool that can be seen by all employees, thus creating transparency in respect of both the ideas and the process. Event months are held across the whole of the Group, during which time the Company puts incentives in place to encourage employees to submit ideas. In the system, the Company activates the function allowing employees to add comments and likes, which represents a new form of involvement and appreciation between colleagues. This approach fosters an environment in which employees share in the refinement of ideas and collaborate across departments and disciplines. If expert teams approve ideas that have been put forward, the ideas are then implemented by the relevant departments. If an idea is thought to be particularly beneficial, the originator may also be able to make a short pitch to a panel consisting of board members and members of the Works Council with a view to obtaining implementation support.

CORPORATE GOVERNANCE DECLARATION

Increase in the Proportion of Women

As of December 31, 2020, women accounted for 47.7% 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 (FührposGleichberG – 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 2020	Actual 2020
Second management level	27.8	26.1	26.8
First management level	16.8	13.9	14.7

The targets for the first and second management levels in Germany have therefore been attained.

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 2020, the proportion of women on the Supervisory Board was 33.3%; 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 2020, women held 22.5% of management positions globally. The proportion of women at the upper management level was 19%. Internationally, the overall proportion of women at Volkswagen Financial Services AG was 49% in 2020.

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 diversity, and to promote employees according to their 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. Workshops are held as part of the program to raise the awareness of all managers about the issue of diversity and equal opportunities.

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 up to 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

Growth in the global economy is expected to recover overall in 2021. Global demand for passenger cars will probably vary from region to region and increase noticeably year-on-year.

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 planning is based on the assumption that global economic output will recover overall in 2021, provided lasting containment of the Covid-19 pandemic is achieved. This growth will most likely be sufficient for the economy to recover to approximately its pre-pandemic level. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. We anticipate that both the advanced economies and the emerging markets will experience positive momentum.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2022 to 2025.

Europe/Other Markets

In Western Europe, we expect moderate economic growth in 2021 after the downturn in the last fiscal year. The impact of the Covid-19 pandemic and the uncertain consequences of the United Kingdom’s withdrawal from the EU will fundamentally pose major challenges.

We also anticipate moderate growth rates in Central Europe in 2021. The economic situation in Eastern Europe is expected to recover as well, albeit at a somewhat slower pace given that only slight growth is anticipated for the Russian economy.

For Turkey, we expect an increasing economic growth rate combined with high inflation and a weak domestic currency. The South African economy will probably be dominated by political uncertainty and social tensions again in 2021 resulting from high unemployment, among other factors. Despite the sharp slump in the past fiscal year, we therefore expect only moderate growth.

Germany

We expect gross domestic product (GDP) in Germany to grow at a relatively robust pace in 2021 but to remain short of its pre-pandemic level. The labor market situation is likely to deteriorate somewhat depending, among other things, on a delayed increase in corporate insolvencies following the suspension of the obligation to file for insolvency during the pandemic.

North America

We anticipate a distinct improvement in the economic situation in the USA in 2021, despite a declining but still relatively high unemployment rate. The US Federal Reserve will probably leave key interest rates close to zero. Economic growth is also likely to increase distinctly in neighboring Canada and Mexico, albeit in Mexico probably not at the same pace compared with the relatively sharp decline in the reporting year.

South America

In all probability, the Brazilian economy will recover in 2021 and record a moderate rate of growth. After three years of negative GDP growth rates, we anticipate only little improvement in the economic situation in Argentina.

Asia-Pacific

The Chinese economy will probably continue growing at a relatively high level in 2021 after being one of the few economies not to experience a recession in 2020. After a sharp contraction in the reporting year, we also expect a relatively high rate of expansion for the Indian economy in 2021, outpacing the average growth seen in the years before the Covid-19 pandemic. In Japan, we anticipate a solid rise in GDP growth.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Volkswagen Financial Services AG believes that automotive financial services will play a significant role in global vehicle sales in 2021, particularly because of the ongoing challenges resulting from the Covid-19 pandemic. We expect demand to rise in emerging markets where market penetration has so far been low. 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 rental services, and for integrated mobility services, for example parking, refueling and charging and that the initiated shift from financing to lease contracts will continue in the leasing business. We anticipate that this trend will continue in the period from 2022 to 2025.

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 2021 for telematics services and services aimed at reducing total operating costs. This trend is also expected to continue in the period 2022 to 2025.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2021. Overall, the volume of demand worldwide for new vehicles is expected to be noticeably up on the reporting year, but will not reach the pre-pandemic level, provided successful containment of the Covid-19 pandemic is achieved. We are forecasting growing demand for passenger cars worldwide in the period from 2022 to 2025.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2021; on the whole, we anticipate a moderate rise in demand for 2021, assuming a successful containment of the Covid-19 pandemic. For the years 2022 to 2025, we expect demand for light commercial vehicles to increase globally.

We believe we are well prepared overall for the future challenges pertaining to automobility business activities and for the mixed development of the 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, quieter, more intelligent and safer. With an appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions we have set ourselves the goal of continuing to excite our customers and to meet their diverse needs.

Europe/Other Markets

For 2021, we anticipate that the volume of new passenger car registrations in Western Europe will be significantly above that recorded in the reporting year. At the same time, however, possible consequences of the pandemic and the uncertain impact of the United Kingdom’s exit from the EU may result in ongoing uncertainty among consumers and dampen demand. Despite this, we expect a strong increase in the United Kingdom in 2021. In Italy, Spain and France, the markets are likely to significantly exceed the level seen in the reporting year.

For light commercial vehicles, we anticipate demand in Western Europe in 2021 to be noticeably up on the previous year’s level despite the possible consequences of the pandemic and the uncertain impact of the United Kingdom’s exit from the EU. We predict a moderate to large increase in Italy, France, Spain and the United Kingdom.

Sales of passenger cars in 2021 are expected to distinctly exceed the prior-year figures in markets in Central and Eastern Europe. In Russia, we anticipate a moderate year-on-year increase in market volume. In the region’s other markets, a slight to strong rise in the number of new registrations is expected.

Registrations of light commercial vehicles in the Central and Eastern European markets in 2021 will probably be distinctly higher than in the previous year. We predict a moderate increase in market volume for Russia.

The volume of the passenger car market in Turkey in 2021 is expected to remain at the previous year’s level. The volume of new registrations in South Africa in 2021 is likely to be substantially higher year-on-year.

Germany

In the German passenger car market, we expect a moderate year-on-year increase in demand in 2021.

We also anticipate that registrations of light commercial vehicles will be noticeably up on the previous year.

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 2021 is likely to be distinctly higher than the previous year's level. Demand will probably remain highest for models in the SUV and pickup segments. In Canada, the number of new registrations is also projected to be significantly higher than the previous year's level. For Mexico, we expect demand to rise slightly compared with the reporting year.

South America

Owing to their dependence on demand for raw materials worldwide, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. We anticipate an overall large increase in new registrations in the South American markets in 2021 compared with the previous year. In Brazil, the volume of demand is expected to increase substantially compared with 2020. We anticipate that demand in Argentina will be significantly higher year-on-year.

Asia-Pacific

The passenger car markets in the Asia-Pacific region are expected to be noticeably up on the prior-year level in 2021. We predict demand in China to also be noticeably higher than the comparative figure for 2020. Attractively priced entry-level models in the SUV segment in particular should still see strong demand. As long as there is no resolution in sight, the trade dispute between China and the United States is likely to continue to weigh on business and consumer confidence. We anticipate an appreciable increase in the Indian market compared with the previous year. Japan should see slight growth in market volume in 2021.

The market volume for light commercial vehicles in 2021 will probably be slightly higher than the previous year's figure. We are expecting demand in the Chinese market to be distinctly lower than in the previous year. For India, we are forecasting a substantially higher volume in 2021 than in the reporting year. In the Japanese market, we expect demand to be comparable with the previous year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was down substantially year-on-year in fiscal year 2020 due to the spread of the SARS-CoV-2 virus: 460 thousand new vehicles were registered (–20.1%). Despite the ongoing uncertainty generated by the Covid-19 pandemic, a recovery could be seen in almost all of the markets that are relevant for the Volkswagen Group in the second half of 2020 compared with the first six months.

In the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was sharply down on the prior-year figure, dropping –27.4% to a total of 273 thousand vehicles. Registrations in Germany, the largest market in this region, fell substantially year-on-year. The previously anticipated downturn in the market for 2020 was amplified by the Covid-19 pandemic, especially in the second quarter of the year. The Russian market also deteriorated noticeably as a consequence of the Covid-19 pandemic and the related economic fallout. Turkey saw new registrations more than double compared to an admittedly very low prior-year figure. By contrast, the South African market declined considerably. In Brazil, the largest market in the South America region, demand for trucks was significantly below the level seen in the previous year as a result of the pandemic.

Demand for buses in the markets that are relevant for the Volkswagen Group was much lower than in the previous year as a consequence of the pandemic. All key markets within the EU27+3 contributed to this trend, with the market for coaches in particular virtually grinding to a halt. Demand was very much lower in Brazil and was less than half the prior-year level in Mexico.

INTEREST RATE TRENDS

The period of low interest rates continued in Europe, the USA and numerous other economies in 2020, and also at the beginning of the current fiscal year. The outbreak of the pandemic in the spring of 2020 led to economic setbacks, to which central banks around the globe responded by further loosening monetary policy. Interest rates are still at historic lows. There is currently no end to the period of low interest rates in sight.

MOBILITY CONCEPTS

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

Volkswagen Financial Services AG closely monitors developments in the mobility area 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 of the Volkswagen Group, Volkswagen Financial Services AG is aiming to get a leading position 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, including traditional leasing, long-term rental, car and truck rental, car sharing and car subscription. 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 a portfolio of services fulfilling the customers' desire for convenience and flexibility. Efforts focus on the global expansion of 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 184,000 public charging points in Europe.

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 by expanding the product range in existing 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.

Together with the Group brands, Volkswagen Financial Services AG aims to provide optimum solutions to satisfy the wishes and needs of its customers. Its 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 far as credit risk is concerned, it is anticipated that the risk situation will remain challenging in 2021 because of the ongoing Covid-19 pandemic. The effects very much depend on how the pandemic develops and on the macroeconomic impact in each region. Nevertheless, the volume of loans and receivables is projected to grow.

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

In the residual value portfolio, the volume of contracts is projected to continue to grow in fiscal year 2021. 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

Taking into account the uncertainty on capital markets as a result of the Covid-19 pandemic, the risk situation is still considered to be 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 2021

Volkswagen Financial Services AG's Board of Management expects global economic growth in 2021 to be higher than the previous year's level. Risks will arise first and foremost from the consequences of the Covid-19 pandemic. 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 stronger than in 2020. Growth in individual countries and regions is heavily dependent on the local course of the pandemic going forward. Taking into account the aforementioned factors and market trends, the overall picture is as follows: earnings expectations assume greater levels of cooperation with the individual Group brands, increased investment in digitalization for the future, potential effects of geopolitical upheaval and continued uncertainty about macroeconomic conditions in the real economy. In this regard, risk costs have a significant impact. These costs depend on the development of the pandemic and the associated economic consequences. It is anticipated that risk costs will still be higher compared with the situation prior to Covid-19.

The Company forecasts that current contracts and business volume in 2021 will be significantly above the level of fiscal year 2020. New contracts are expected to be significantly above the prior-year level. It is assumed that the penetration rate will be slightly higher than the level in the previous year. Based on the effects described above and assuming that the Covid-19 pandemic is increasingly contained, the operating result for fiscal year 2021 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 2021 that is on a level with the previous year. Similarly, we anticipate the cost/income ratio in 2021 to be at the level of the prior year.

FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2021 COMPARED WITH PRIOR-YEAR FIGURES

	Actual 2020	Forecast for 2021	
Nonfinancial performance indicators			
Penetration (percent)	27.6	> 27.6	Slightly above the previous year's level
Current contracts (thousands)	15,409	> 15,409	Significantly above the previous year's level
New contracts (thousands)	5,911	> 5,911	Significantly above the previous year's level
Financial performance indicators			
Volume of business (€ million)	92,572	> 92,572	Significantly above the previous year's level
Operating result (€ million)	1,223	= 1,223	At prior-year level
Return on equity (percent)	8.4	= 8.4	At prior-year level
Cost/income ratio (percent)	57	= 57	At prior-year level

Braunschweig, February 15, 2021
The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Frank Fiedler

Dr. Alexandra Baum-Ceisig

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. The same applies should the actual effects of the Covid-19 pandemic differ from the scenario assumed in this report. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2020 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.

Balance Sheet

of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2020

€ thousand	Dec. 31, 2020	Dec. 31, 2019
Assets		
A. Fixed assets		
Financial assets	10,311,148	9,022,912
	10,311,148	9,022,912
B. Current assets		
I. Receivables and other assets	17,425,281	13,401,074
II. Cash-in-hand and bank balances	543	578
	17,425,824	13,401,652
C. Prepaid expenses	18,850	15,838
Total assets	**27,755,822**	**22,440,402**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441,280	441,280
II. Capital reserves	3,216,213	3,216,213
III. Retained earnings	99,469	99,469
IV. Net retained profits	1,705	1,705
	3,758,667	3,758,667
B. Provisions	598,902	547,482
C. Liabilities	23,398,095	18,127,715
D. Deferred income	159	6,538
Total equity and liabilities	**27,755,822**	**22,440,402**

Income Statement

of Volkswagen Financial Services AG, Braunschweig, for the period January 1 to December 31, 2020

€ thousand	2020	2019
Sales	602,907	611,667
Cost of sales	596,213	605,748
Gross profit on sales	**6,694**	**5,919**
General and administrative expenses	195,119	200,004
Other operating income	17,327	8,446
Other operating expenses	24,142	16,736
Net income from long-term equity investments	–78,373	–4,069
of which income under profit and loss transfer agreements	169,125	230,736
of which expenses from absorption of losses	–248,143	–235,562
Financial result	–198,355	–75,183
of which income from affiliated companies	98,390	53,466
of which expenses from affiliated companies	107,744	18,984
Taxes on income (charged by parent €200,975 thousand; previous year: refunded by parent €13,395 thousand)	201,043	–13,271
Result after tax	**–673,010**	**–268,356**
Other taxes	0	0
Profits transferred under a profit and loss transfer agreement	–	–
Losses absorbed under a profit and loss transfer agreement	673,010	268,356
Net income	**–**	**–**
Profit brought forward	1,705	1,705
Net retained profits	**1,705**	**1,705**

Notes

to the Annual Financial Statements of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2020

1. General Information

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

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

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

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

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

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

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

2. Accounting Policies

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

Loans to affiliated companies and loans to other long-term investees and investors are measured at cost.

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

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

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

The Company has various pension commitments, which differ in terms of their structure. Some of these pension commitments are not externally funded, while others are funded through Volkswagen Pension Trust e. V.
The commitments funded through Volkswagen Pension Trust e. V. and MAN Pension Trust e. V. are measured at the fair value of the securities in the fund in accordance with section 253(1) sentence 3 of the HGB because the

amount of the pension scheme obligations is determined exclusively by this value. The fair value of the securities is offset against the funded provisions in accordance with section 246(2) of the HGB.
Any other pension obligations are also linked to securities funds. The securities measured at fair value are offset as plan assets against the corresponding provisions.

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

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

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

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €35,425 thousand for the pension provision not funded externally, €56,525 thousand for the commitments funded through Volkswagen Pension Trust e. V. and €179 thousand for the commitments funded through MAN Pension Trust e. V. There is no restriction on distribution due to the profit and loss transfer agreement with Volkswagen AG.

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

Discount rate:	2.30%	
Expected rate of salary increases:	3.40%	
Expected rate of pension increases:		1.50%
Employee turnover rate:	1.10%	

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

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

Liabilities are recognized at the settlement amount.

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

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

3. Balance Sheet Disclosures

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

There are no subordinated loans in the loans to affiliated companies or in other long-term equity investments amounting to €1,785,449 thousand.
The other loans amounting to €2,897,292 thousand are subordinated.

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

The breakdown of receivables and other assets is as follows:

€ thousand	Dec. 31, 2020	Dec. 31, 2019
1. Receivables from affiliated companies (of which from the shareholder €676,598 thousand; previous year: €293,337 thousand) (of which due in more than 1 year €5,567,706 thousand; previous year: €1,850,139 thousand)	11,886,533	8,252,855
2. Receivables from other long-term investees and investors (of which due in more than 1 year €2,075,265 thousand; previous year: €1,737,340 thousand)	5,465,017	5,116,663
3. Other assets (of which due in more than 1 year €– thousand; previous year €– thousand)	73,731	31,556
	17,425,281	**13,401,074**

The receivables from affiliated companies include loan receivables and interest of €6,975,821 thousand, receivables under existing profit and loss transfer agreements of €795,423 thousand, tax allocations of €96,732 thousand, receivables from cash deposits of €129,500 thousand, receivables from current account deposits of €1,051,205 thousand and receivables from fixed-term deposits and interest of €2,824,751 thousand.

The receivables from other long-term investees and investors include loans and interest receivables of €4,103,685 thousand as well as fixed-term and overnight deposits and interest receivables amounting to €1,360,752 thousand.

Other assets largely comprise receivables from interest-swap contracts in an amount of €69,347 thousand.

Prepaid expenses include prepayments of guarantee insurance and currency forward swap premiums of €4,390 thousand relating to the subsequent year. Prepaid expenses also include a difference of €14,460 thousand determined in accordance with section 250(3) of the HGB.

The capital reserves are unchanged at €3,216,213 thousand.

The revenue reserves remain unchanged, consisting of legal reserves of €44,128 thousand and other revenue reserves of €55,341 thousand.

The provisions comprise the following items:

€ thousand	Dec. 31, 2020	Dec. 31, 2019
1. Provisions for pensions and similar obligations	339,087	287,583
including the offsetting of the unit-linked pension obligation:		
Provisions for pensions, funded	277,005	217,033
Fund assets as plan assets (cost €197,720 thousand)	–199,983	–170,737
2. Other provisions	259,814	259,899
including the offsetting of the employee time asset bond:		
Provision for time asset bond	113,194	89,235
Fund assets as plan assets (cost €119,641 thousand)	–113,194	–89,235
	598,902	**547,482**

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €35,425 thousand for the pension provision not funded externally, €56,525 thousand for the commitments funded through Volkswagen Pension Trust e. V. and €179 thousand for the commitments funded through MAN Pension Trust e. V. There is no restriction on distribution due to the profit and loss transfer agreement with Volkswagen AG.

The main items recognized within other provisions are provisions for personnel expenses amounting to €179,527 thousand (previous year: €187,850 thousand), provisions for contract risks arising from operating activities amounting to €50,636 thousand (previous year: €48,020 thousand) and provisions for outstanding invoices of €7,309 thousand (previous year: €7,325 thousand).

The breakdown of liabilities is as follows:

€ thousand	Dec. 31, 2020	Dec. 31, 2019
1. Bonds (of which due within 1 year €2,450,000 thousand; previous year: €1,500,000 thousand) (of which due in more than 1 year €7,250,000 thousand; previous year: €6,850,000 thousand) (of which due in more than 5 years €2,200,000 thousand; previous year: €1,400,000 thousand)	9,700,000	8,350,000
2. Liabilities to banks (of which due within 1 year €129,406 thousand; previous year: €604,634 thousand) (of which due in more than 1 year €1,743,854 thousand; previous year: €1,193,854 thousand) (of which due in more than 5 years €– thousand previous year: €– thousand)	1,873,260	1,798,488
3. Trade payables (due within 1 year)	1,120	2,507
4. Liabilities to affiliated companies (of which to the shareholder €7,601,369 thousand; previous year: €4,688,265 thousand) (of which due in more than 1 year €2,249,377 thousand; previous year: €1,430,061 thousand) (of which due in more than 1 year €7,932,564 thousand; previous year: €5,249,130 thousand) (of which due in more than 5 years €3,217,564 thousand; previous year: €2,985,844 thousand)	10,181,941	6,679,191
5. Liabilities to other long-term investees and investors (due within 1 year)	198	53
6. Other liabilities (of which taxes €7,763 thousand; previous year: €7,924 thousand) (of which relating to social security and similar obligations €2,839 thousand; previous year: €2,655 thousand) (of which due in more than 1 year 965,576 thousand; previous year: €1,221,377 thousand) (of which due in more than 1 year €676,000 thousand; previous year: €76,100 thousand) (of which due in more than 5 years €– thousand previous year: €– thousand)	1,641,576	1,297,476
	23,398,095	**18,127,715**

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

The liabilities to the shareholder relate mainly to loans of €5,745,000 thousand and fixed-term deposits of €1,500,000 thousand.

Other liabilities include promissory note loan liabilities amounting to €676,851 thousand and commercial paper liabilities amounting to €851,792 thousand.

Statement of changes in fixed assets of Volkswagen Financial Services AG, Braunschweig, for 2020

	GROSS CARRYING AMOUNTS				
€ thousand	Balance brought forward Jan. 1, 2020	Additions	Disposals	Transfers	Balance as of Dec. 31, 2020
Financial assets					
Shares in affiliated companies	5,697,873	418,529	467,067	0	5,649,335
Loans to affiliated companies	723,955	965,893	109,250	0	1,580,598
Other long-term equity investments	259,890	10,232	0	0	270,121
Loans to other long-term investees and investors	94,851	110,000	0	0	204,851
Other loans	2,495,461	501,736	99,905	0	2,897,292
Total financial assets	**9,272,030**	**2,006,390**	**676,222**	**0**	**10,602,198**
Total fixed assets	**9,272,030**	**2,006,390**	**676,222**	**0**	**10,602,198**

WRITE-DOWNS						NET CARRYING AMOUNTS	
Balance brought forward Jan. 1, 2020	Additions	Disposals	Transfers	Write-ups	Balance as of Dec. 31, 2020	Balance as of Dec. 31, 2020	Balance as of Dec. 31, 2019
246,018	88,432	66,500	0	35,800	232,150	5,417,185	5,451,855
0	0	0	0	0	0	1,580,598	723,955
3,100	58,900	0	0	3,100	58,900	211,221	256,790
0	0	0	0	0	0	204,851	94,851
0	0	0	0	0	0	2,897,292	2,495,461
249,118	**147,332**	**66,500**	**0**	**38,900**	**291,050**	**10,311,148**	**9,022,912**
249,118	**147,332**	**66,500**	**0**	**38,900**	**291,050**	**10,311,148**	**9,022,912**

Write-downs and reversals of write-downs of the carrying amounts of investments in affiliated companies and other long-term equity investments were recognized in the reporting period. The income and expenses are included in the financial result.

4. Income Statement Disclosures

Volkswagen Financial Services AG reports sales of €602,907 thousand (previous year: €611,667 thousand) in accordance with section 277(1) of the HGB. Of this amount, €594,563 thousand (previous year: €590,827 thousand) was generated in Germany and €8,344 thousand (previous year: €20,840 thousand) abroad.

An amount of €596,213 thousand is reported under cost of sales (previous year: €605,748 thousand).

Cost of materials within the meaning of section 275(2) no. 5 of the HGB was incurred for purchased services in an amount of €142,301 thousand (previous year: €144,538 thousand).

The breakdown of personnel expenses is as follows:

€ thousand	2020	2019
Salaries	480,468	502,391
Social security, post-employment and other employee benefit costs	107,987	100,832
of which for post-employment benefits	(36,697)	(31,804)
	588,455	**603,223**

Other operating income includes income from the reversal of provisions of €13,317 thousand (previous year: €4,002 thousand). In addition, currency translation accounts for other operating income of €56 thousand (previous year: €62 thousand) and other operating expenses of €43 thousand (previous year: €326 thousand). Other operating expenses also include issue and rating costs of €5,993 thousand for bonds issued (previous year: €9,810 thousand).

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

€ thousand	2020	2019
Expenses from absorption of losses	248,143	235,563
Income under profit and loss transfer agreements (from affiliated companies)	169,125	230,736
Income from other long-term equity investments (from investments in joint ventures)	646	758
	–78,373	**–4,069**

The following table shows the breakdown of the financial result:

€ thousand	2020	2019
Income from other securities and long-term loans (of which from affiliated companies €27,953 thousand; previous year: €10,001 thousand)	101,726	58,845
Other interest and similar income (of which from affiliated companies €70,436 thousand; previous year: €43,466 thousand) (of which interest income from discounting €– thousand; previous year: €– thousand)	111,330	84,192
Interest and similar expenses (of which to affiliated companies €107,744 thousand; previous year: €18,984 thousand) (of which from unwinding discount on provisions €47,778 thousand; previous year: €48,947 thousand)	302,978	170,237
Write-downs of financial assets (write-downs for permanent impairment at affiliated companies)	147,332	82,200
Write-ups of financial assets (from affiliated companies)	38,900	34,217
	–198,355	**–75,183**

Interest expenses for funded pension provisions amounting to €10,187 thousand (previous year: €9,281 thousand) were offset against income of the same amount arising from the measurement of the associated plan assets. The interest expense from unwinding discount on the provision for time asset bonds in the amount of €6,579 thousand (previous year: €4,779 thousand) was offset against income of the same amount from the measurement of the scheme fund assets.

Net income for the year includes prior-period income of €14,690 thousand (previous year: €7,131 thousand), which is largely attributable to the allocation of personnel expenses and the reversal of provisions. Prior-period income is recognized under other operating income.

5. Other Disclosures

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

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

	NOMINAL VALUES		MARKET VALUES			
€ thousand	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020		Dec. 31, 2019	
			positive	negative	positive	negative
Interest rate swaps	7,950,000	6,850,000	207,250	–	127,392	–
Cross-currency/currency swaps	1,302,829	1,613,961	27,608	28,102	26,369	33,341
Currency forward contracts	716,983	883,449	927	8,077	53	12,671

The following table shows the amount of hedged items as of December 31, 2020 for which hedge accounting has been applied, together with the level of risk mitigated by this hedge accounting:

€ thousand		Assets	Liabilities	Total	Amount of hedged risks
Interest rate risks	Micro hedge	–	7,950,000	7,950,000	61,505
Currency risks	Micro hedge	1,950,416	24,493	1,974,909	22,656
Currency risks	Macro hedge	44,903	44,903	89,806	7,423
Total		**1,995,319**	**8,019,396**	**10,014,715**	**91,584**

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

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

As of December 31, 2020, a provision for expected losses of €12,554 thousand (previous year €7,101 thousand) had been recognized in connection with interest rate and currency risks.

The contingent liabilities under guarantees amount to €24,225,211 thousand and are attributable to guarantees to creditors of affiliated companies and investees in the amount of €24,075,674 thousand relating to short- and medium-term bonds (money and capital market) issued by these companies and to a guarantee to the creditor of an affiliated company for future rental payments in the amount of €149,536 thousand. The probability of these guarantees being called upon is very low because the companies involved form part of the Group. Contingent liabilities under guarantees to affiliated companies amount to €7,197 thousand. The cash deposits of €129,500 thousand reported under receivables have been pledged as collateral for local risk in France (€9,500 thousand) and in connection with dealer financing (€120,000 thousand) in Russia. A credit risk provision of €6,858 thousand has been recognized to cover the associated risks.

Other financial obligations (purchase order obligations) as specified in section 285 no. 3a of the HGB amount to €13,850 thousand.

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

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

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

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

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

The fee paid to the auditor for audit services in 2020 was mostly attributable to the audit of the consolidated financial statements of Volkswagen Financial Services AG and of annual financial statements of German Group companies as well as to reviews of interim financial statements of German Group companies. Tax consulting services include in particular tax advisory services for delegated employees. The other services performed by the auditor in the reporting period mainly consisted of issues relating to process optimization and information technology.

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

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

Volkswagen Financial Services AG had 5,125 employees, including 18 senior executives (previous year: 5,122, including eleven senior executives) and 128 vocational trainees (previous year: 120) on average in the reporting period. The 5,125 employees comprised 3,700 full-time and 1,425 part-time employees.

The remuneration of the Board of Management of Volkswagen Financial Services AG amounted to €5,220 thousand in 2020. 9,195 performance shares were granted in the reporting period. The fair value at the grant date was €1,527 thousand. The total payments made to former members of the Board of Management and their surviving dependents amounted to €759 thousand. The provisions recognized for this group of individuals to cover current pensions and pension entitlements amount to €12,332 thousand.

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 forward-looking three-year term (share-based payment).

Since the end of 2018, the beneficiaries of the performance share plan have included other top management members in addition to the members of the Board of Management. At the end of 2019, the group of beneficiaries was extended to include all other members of management as well as selected beneficiaries below management level. Top management members were granted performance shares for the first time at the beginning of 2019. All other beneficiaries were granted benefits on the basis of performance shares for the first time at the beginning of 2020. The 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. For members of the Board of Management and of top management, the annual target amount under the LTI is, at the time of granting, converted, on the basis of the initial reference price of Volkswagen preferred shares, into performance shares, which are allocated to the beneficiary as a pure calculation position. Based on the degree of target achievement for the annual earnings per Volkswagen preferred share, the number of performance shares is definitively determined on the basis of a three-year, forward-looking performance period. After the end of the performance period, a cash settlement is made. The payment amount corresponds to the number of determined performance shares, multiplied by the closing reference price at the end of the period plus a dividend equivalent. For all other beneficiaries, the payment amount is determined by multiplying the target amount by the degree of target achievement for the annual earnings per Volkswagen preferred share and the ratio of the closing reference price at the end of the period, plus a dividend equivalent, to the initial reference price. Target achievement is determined on the basis of a two-year performance period with a forward-looking horizon of one year. As a departure from this, target achievement in 2020 will initially be determined 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 forward-looking horizon of one year. For all beneficiaries, the payment amount under the performance share plan is limited to 200% of the target amount; the payment amount is reduced by 20% if the average ratio of capex to sales revenue or the R&D ratio in the Automotive Division of the last three years is smaller than 5%.

The Company paid the members of the Supervisory Board a total allowance of €36 thousand.

6. Report on Post-Balance Sheet Date Events

There were no significant events after the balance sheet date.

7. Governing Bodies of Volkswagen Financial Services AG

The composition of the Board of Management is as follows:

LARS HENNER SANTELMANN
Chairman of the Board of Management
Corporate Management
China, Germany and Europe regions
Mobility Unit (until July 31, 2020)
Sales and Marketing

DR. ALEXANDRA BAUM-CEISIG (AS OF AUGUST 1, 2020)
Human Resources and Organization
International region

DR. MARIO DABERKOW
Information Technology and Processes
South America & Mexico regions

FRANK FIEDLER
Finance and Purchasing

CHRISTIANE HESSE (UNTIL JULY 31, 2020)
Human Resources and Organization
International region

The members of the Supervisory Board of VW FS AG 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 Board of Management of AUDI AG
Finance and Legal

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

DR. CHRISTIAN DAHLHEIM (AS OF FEBRUARY 1, 2020)
Head of Group Sales of Volkswagen AG

JOACHIM DREES (UNTIL JULY 15, 2020)
Chief Executive Officer of MAN SE and MAN Truck & Bus SE
Member of the Executive Board of TRATON SE

MICHAEL GROSCHE
Head of Fleet and Remarketing of Volkswagen Financial Services AG

MATTHIAS GRÜNDLER (AS OF DECEMBER 1, 2020)
Chairman of the Executive Board of TRATON SE

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

IMELDA LABBÈ (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 (UNTIL FEBRUARY 29, 2020)
Member of the Board of Management of AUDI AG
Technical Development

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

ALEXANDER SEITZ (AS OF MARCH 1, 2020)
Member of the Volkswagen Brand Board
of Management, Controlling and Accounting

EVA STASSEK
Principal Representative of IG Metall Braunschweig

Shareholdings

Shareholdings of Volkswagen Financial Services AG and the Volkswagen Financial Services Group in accordance with sections 285 and 313 of the HGB and presentation of the companies included in the consolidated financial statements of the Volkswagen Financial Services Group in accordance with IFRS 12 as of December 31, 2020.

		EXCHANGE RATE (1 EURO =)	VW FS AG'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/LOSS IN THOUSANDS		
Name and registered office of the company	Currency	Dec. 31, 2020	Direct	Indirect	Total	local currency	local currency	Footnote	Year
I. PARENT COMPANY									
VOLKSWAGEN FINANCIAL SERVICES AG, Braunschweig									
II. SUBSIDIARIES									
A. Consolidated companies									
1. Germany									
EURO-Leasing GmbH, Sittensen	EUR		100.00	–	100.00	23,284	–	1)	2020
Vehicle Trading International (VTI) GmbH, Braunschweig	EUR		100.00	–	100.00	2,763	–	1)	2020
Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig	EUR		100.00	–	100.00	26	–	1)	2020
Volkswagen Insurance Brokers GmbH, Braunschweig	EUR		100.00	–	100.00	54,829	–	1)	2020
Volkswagen Leasing GmbH, Braunschweig	EUR		100.00	–	100.00	270,712	–	1) 12)	2020
Volkswagen Versicherung AG, Braunschweig	EUR		100.00	–	100.00	97,055	–	1)	2020
Volkswagen-Versicherungsdienst GmbH, Braunschweig	EUR		100.00	–	100.00	54,369	–	1)	2020
2. International									
Autofinance S.A., Luxembourg	SEK	10.0247	–	–	–	300	–	13)	2019
Banco Volkswagen S.A., São Paulo	BRL	6.3756	–	100.00	100.00	2,627,089	635,950		2019
Consórcio Nacional Volkswagen - Administradora de Consórcio Ltda., São Paulo	BRL	6.3756	–	100.00	100.00	628,101	90,546		2019
Driver Australia Three Pty. Ltd., Ashfield	AUD	1.5861	–	–	–	–3,191	–1,210	13)	2019
Driver Brasil four Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco	BRL	6.3756	–	–	–	826,698	24,408	4) 13)	2019
Driver China Eleven Auto Loan Securitization Trust, Beijing	CNY	8.0290	–	–	–	–	–	4) 6) 13)	2020
Driver China Nine Auto Loan Securitization Trust, Beijing	CNY	8.0290	–	–	–	–	–	4) 13)	2019
Driver China Ten Auto Loan Securitization Trust, Beijing	CNY	8.0290	–	–	–	–	–	4) 6) 13)	2020
Driver UK Master S.A., Luxembourg	GBP	0.8993	–	–	–	29	–	3) 13)	2019

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
Driver UK Multi-Compartment S.A., Luxembourg	GBP	0.8993	–	–	–	29	–	3) 13)	2019
Euro-Leasing A/S, Padborg	DKK	7.4405	–	100.00	100.00	488	–14,505		2019
Euro-Leasing Sp. z o.o., Kolbaskowo	PLN	4.5562	–	100.00	100.00	–368	–4,907		2019
MAN Financial Services España S.L., Coslada	EUR		–	100.00	100.00	25,509	–237		2019
MAN Financial Services GmbH, Eugendorf	EUR		–	100.00	100.00	26,620	2,137		2019
MAN Financial Services Poland Sp. z o.o., Nadarzyn	PLN	4.5562	100.00	–	100.00	60,746	4,114	10)	2019
MAN Location & Services S.A.S., Evry	EUR		100.00	–	100.00	6,727	–203		2019
OOO Volkswagen Bank RUS, Moscow	RUB	91.7754	99.00	–	99.00	16,250,171	1,258,821	10)	2019
OOO Volkswagen Group Finanz, Moscow	RUB	91.7754	100.00	–	100.00	3,818,758	435,287		2019
ŠkoFIN s.r.o., Prague	CZK	26.2390	–	100.00	100.00	7,057,000	408,000		2019
Trucknology S.A., Luxembourg	EUR		–	–	–	1	–	13)	2019
VCL Master Residual Value S.A., Luxembourg	EUR		–	–	–	31	–	13)	2019
VCL Master S.A., Luxembourg	EUR		–	–	–	31	–	13)	2019
VCL Multi-Compartment S.A., Luxembourg	EUR		–	–	–	31	–	13)	2019
Volkswagen Bank S.A., Institución de Banca Múltiple, Puebla	MXN	24.4115	100.00	–	100.00	2,046,000	184,000		2019
Volkswagen Corretora de Seguros Ltda., São Paulo	BRL	6.3756	–	100.00	100.00	21,040	–42,090		2019
Volkswagen Finance (China) Co., Ltd., Beijing	CNY	8.0290	100.00	–	100.00	13,752,768	862,456		2019
Volkswagen Finance Belgium S.A., Bruxelles	EUR		–	100.00	100.00	48,120	6,278		2019
Volkswagen Finance Overseas B.V., Amsterdam	EUR		100.00	–	100.00	2,866,073	–2,965		2019
Volkswagen Finance Pvt. Ltd., Mumbai	INR	89.6900	91.00	9.00	100.00	13,166,929	–244,643	3)	2020
Volkswagen Financial Leasing (Tianjin) Co., Ltd., Tianjin	CNY	8.0290	–	100.00	100.00	581,130	–77,404		2019
Volkswagen Financial Services (UK) Ltd., Milton Keynes	GBP	0.8993	–	100.00	100.00	1,775,510	238,095	10)	2019
Volkswagen Financial Services Australia Pty. Ltd., Chullora	AUD	1.5861	100.00	–	100.00	311,364	34,246	9)	2019
Volkswagen Financial Services Ireland Ltd., Dublin	EUR		–	100.00	100.00	–11,933	–6,660		2019
Volkswagen Financial Services Japan Ltd., Tokyo	JPY	126.5100	–	100.00	100.00	22,317,729	3,060,712		2019
Volkswagen Financial Services Korea Co., Ltd., Seoul	KRW	1,336.2100	100.00	–	100.00	326,745,000	13,266,000		2019
Volkswagen Financial Services N.V., Amsterdam	EUR		–	100.00	100.00	1,265,233	10,584		2019
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	PLN	4.5562	100.00	–	100.00	41	–9	4) 12)	2019

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
Volkswagen Financial Services S.p.A., Mailand	EUR		100.00	–	100.00	106,219	27,106		2019
Volkswagen Finans Sverige AB, Södertälje	SEK	10.0247	–	100.00	100.00	2,072,350	194		2019
Volkswagen Holding Financière S.A., Villers-Cotterêts	EUR		–	100.00	100.00	196,295	653		2019
Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat	EUR		–	100.00	100.00	17,448	9,038		2019
Volkswagen Leasing S.A. de C.V., Puebla	MXN	24.4115	100.00	–	100.00	10,775,047	1,617,385		2019
Volkswagen New Mobility Services Investment Co., Ltd., Beijing	CNY	8.0290	100.00	–	100.00	1,051,908	6,139		2019
Volkswagen Participações Ltda., São Paulo	BRL	6.3756	–	100.00	100.00	3,366,623	613,067		2019
Volkswagen Renting, S.A., Alcobendas (Madrid)	EUR		–	100.00	100.00	97,255	6,037		2019
Volkswagen Renting, Unipessoal, Lda., Amadora	EUR		–	100.00	100.00	5,302	2,211		2018
Volkswagen Serviços Ltda., São Paulo	BRL	6.3756	–	100.00	100.00	44,066	–2,780		2019
B. Unconsolidated companies									
1. Germany									
carmobility GmbH, Braunschweig	EUR		100.00	–	100.00	10,396	–	1)	2020
LogPay Financial Services GmbH, Eschborn	EUR		100.00	–	100.00	12,674	–	1) 11)	2020
LogPay Mobility Services GmbH, Eschborn	EUR		–	100.00	100.00	20	–		2019
LogPay Transport Services GmbH, Eschborn	EUR		–	100.00	100.00	3,312	1,265		2019
Rent-X GmbH, Braunschweig	EUR		100.00	–	100.00	33,024	–	1)	2020
sunhill technologies GmbH, Erlangen	EUR		–	100.00	100.00	–	–12,602		2019
Volkswagen Payment Systems GmbH, Munich	EUR		–	100.00	100.00	5,761	–734		2019
Voya GmbH, Hamburg	EUR		100.00	–	100.00	–	–	7)	2020
2. International									
Adaptis Solutions Ltd., Hatfield	GBP	0.8993	–	100.00	100.00	508	342		2019
Connect Cashless Parking Ltd., Liverpool	GBP	0.8993	–	100.00	100.00	72	–84	3)	2019
Fleetzil Locações e Serviços Ltda., Curitiba	BRL	6.3756	–	100.00	100.00	46,215	11,828		2019
INIS International Insurance Service s.r.o., ve zkratce INIS s.r.o., Mladá Boleslav	CZK	26.2390	–	100.00	100.00	37,728	32,228		2019
LogPay Charge & Fuel Slovakia s.r.o., Bratislava	EUR		–	100.00	100.00	–	–	4) 6)	2020
LogPay Fuel Czechia s.r.o., Prague	CZK	26.2390	–	100.00	100.00	286	–214		2019

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
LogPay Fuel Italia S.r.l., Bolzano	EUR		–	100.00	100.00	115	42		2019
LogPay Fuel Spain S.L., Barcelona	EUR		–	100.00	100.00	579	90		2019
Mobile Payment Services S.A.S., Boulogne-Billancourt	EUR		–	100.00	100.00	334	–893		2019
OOO Volkswagen Financial Services RUS, Moscow	RUB	91.7754	100.00	–	100.00	6,112,289	1,197,385		2019
PayByPhone Ltd., Hatfield	GBP	0.8993	–	100.00	100.00	16,902	12,796		2019
PayByPhone Suisse AG, Düdingen	CHF	1.0811	–	100.00	100.00	–	–	7)	2020
PayByPhone Technologies Inc., Vancouver / BC	CAD	1.5628	–	100.00	100.00	8,116	–33,420		2019
PayByPhone US Inc., Wilmington / DE	USD	1.2276	–	100.00	100.00	0	–	4) 5)	2019
Simple Way Locações e Serviços Ltda., Curitiba	BRL	6.3756	–	100.00	100.00	22,142	4,747		2019
Softbridge - Projectos Tecnológicos S.A., Porto Salvo	EUR		–	60.00	60.00	2,700	385		2019
sunhill technologies Italy S.R.L., Verona	EUR		–	100.00	100.00	59	–317		2019
Truckparking B.V., in liquidation, Utrecht	EUR		79.11	–	79.11	276	–3,089	2)	2019
Truckparking LLC, in Liquidation, Arlington / VA	USD	1.2276	–	100.00	100.00	–119	–39	2)	2019
VAREC Ltd., Tokyo	JPY	126.5100	–	100.00	100.00	611,914	98,279		2019
Volkswagen Administradora de Negócios Ltda., São Paulo	BRL	6.3756	–	100.00	100.00	47,105	11,024		2019
Volkswagen Brokers Argentina S.A., Buenos Aires	ARS	103.2880	–	96.00	96.00	66,741	47,384		2018
Volkswagen Financial Ltd., Milton Keynes	GBP	0.8993	–	100.00	100.00	0	–	5)	2019
Volkswagen Financial Services Hellas A.E., Athens	EUR		100.00	–	100.00	2,274	–542		2019
Volkswagen Financial Services Holding Argentina S.R.L., Buenos Aires	ARS	103.2880	99.99	0.01	100.00	685,721	–188,580		2018
Volkswagen Financial Services Schweiz AG, Wallisellen	CHF	1.0811	–	100.00	100.00	7,436	2,722		2019
Volkswagen Financial Services Taiwan Ltd., Taipei	TWD	34.4845	–	100.00	100.00	1,059,180	130,167		2019
Volkswagen FS France S.A.S., Roissy-en-France	EUR		–	100.00	100.00	100	–	8)	2019
Volkswagen Insurance Brokers, Agente de Seguros y de Fianzas, S.A. de C.V., Puebla	MXN	24.4115	–	100.00	100.00	–46,864	9,369		2019
Volkswagen Insurance Company DAC, Dublin	EUR		100.00	–	100.00	37,786	–2,290		2019
Volkswagen Insurance Service (Great Britain) Ltd., Milton Keynes	GBP	0.8993	–	100.00	100.00	1,396	657		2019
Volkswagen Insurance Services Korea Co., Ltd., Seoul	KRW	1,336.2100	–	100.00	100.00	1,050,203	591,682		2019
Volkswagen International Insurance Agency Co., Ltd., Taipei	TWD	34.4845	–	100.00	100.00	35,178	28,928		2019

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
Volkswagen Leasing (Beijing) Co., Ltd., Beijing	CNY	8.0290	–	100.00	100.00	8,380	–23,167		2019
Volkswagen Leasing (Dalian) Co., Ltd., Dalian	CNY	8.0290	–	100.00	100.00	3,831	848		2019
Volkswagen Leasing (Guangzhou) Co., Ltd., Guangzhou	CNY	8.0290	–	100.00	100.00	–1,465	–777		2019
Volkswagen Leasing (Nanjing) Co., Ltd., Nanjing	CNY	8.0290	–	100.00	100.00	–4,087	–2,112		2019
Volkswagen Leasing (Shanghai) Co., Ltd., Shanghai	CNY	8.0290	–	100.00	100.00	7,873	–17,841		2019
Volkswagen Leasing (Suzhou) Co., Ltd., Suzhou	CNY	8.0290	–	100.00	100.00	–263	–1,284		2019
Volkswagen Leasing (Wuxi) Co., Ltd., Wuxi	CNY	8.0290	–	100.00	100.00	953	–275		2019
Volkswagen Mobility Services S.p.A., Bolzano	EUR		–	100.00	100.00	–	–	4) 6)	2020
Volkswagen New Mobility Services Consulting (Beijing) Co., Ltd., Beijing	CNY	8.0290	–	100.00	100.00	15,470	–4,020		2019
Volkswagen Payments S.A., Strassen	EUR		100.00	–	100.00	18,370	–8,582		2019
Volkswagen Reinsurance Company DAC, Dublin	EUR		100.00	–	100.00	6,897	–1,816		2019
Volkswagen Service Sverige AB, Södertälje	SEK	10.0247	–	100.00	100.00	40,970	5,605		2019
Volkswagen Servicios, S.A. de C.V., Puebla	MXN	24.4115	–	100.00	100.00	24,183	3,456		2019
Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw	PLN	4.5562	–	100.00	100.00	61,220	26,313		2019
Voya Travel Technologies S.R.L., Bukarest	RON	4.8685	–	100.00	100.00	–	–	7)	2020
VTXRM - Software Factory Lda., Porto Salvo	EUR		–	90.00	90.00	2,949	383		2019
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Mobility Trader Holding GmbH, Berlin	EUR		44.44	–	44.44	88,029	1,109		2019
Volkswagen Autoversicherung Holding GmbH, Braunschweig	EUR		51.00	–	51.00	117,254	4,534		2019
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR		49.00	–	49.00	77,147	22,642		2019

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
2. International									
MAN Financial Services (SA) (RF) (Pty) Ltd., Johannesburg	ZAR	18.0152	50.00	–	50.00	154,562	24,567	10)	2019
VDF Servis ve Ticaret A.S., Istanbul	TRY	9.1013	51.00	–	51.00	291,880	55,256		2019
Volkswagen D'Ieteren Finance S.A., Bruxelles	EUR		–	50.00	50.00	140,238	5,792		2019
Volkswagen Doguș Finansman A.S., Istanbul	TRY	9.1013	51.00	–	51.00	223,181	–52,612		2019
Volkswagen Financial Services South Africa (Pty) Ltd., Sandton	ZAR	18.0152	51.00	–	51.00	–175,205	–576,006		2019
Volkswagen Møller Bilfinans A/S, Oslo	NOK	10.4574	–	51.00	51.00	3,246,512	240,908	10)	2019
Volkswagen Pon Financial Services B.V., Amersfoort	EUR		–	60.00	60.00	175,806	22,610	9) 12)	2019
B. Companies accounted for at cost									
1. Germany									
FleetCompany GmbH, Oberhaching	EUR		60.00	–	60.00	9,732	–277		2019
2. International									
Collect Car B.V., Rotterdam	EUR		–	60.00	60.00	8,057	1,407		2019
Lenkrad Invest (Pty) Ltd., Sandton	ZAR	18.0152	51.00	–	51.00	30,054	25,209		2019
Porsche Volkswagen Servicios Financieros Chile S.p.A., Santiago de Chile	CLP	872.1700	50.00	–	50.00	2,300,190	890,882		2019
Shuttel B.V., Leusden	EUR		49.00	–	49.00	3,038	235		2019
Volkswagen Financial Services Compañia Financiera S.A., Buenos Aires	ARS	103.2880	–	49.00	49.00	1,981,623	739,733		2019
Volkswagen Losch Financial Services S.A., Luxembourg	EUR		60.00	–	60.00	2,387	–332		2019
Volkswagen Semler Finans Danmark A/S, Bröndby	DKK	7.4405	–	51.00	51.00	213,736	–8,865	4)	2019
IV. ASSOCIATES									
A. Equity-accounted associates									
1. Germany									
2. International									
B. Associates accounted for at cost									
1. Germany									
Digital Mobility Leasing GmbH, Kassel	EUR		26.00	–	26.00	–	–	7)	2020

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
2. International									
Kuwy Technology Service Pvt. Ltd., Chennai	INR	89.6900	–	25.10	25.10	115,993	–83,409	3)	2020
Volkswagen-Versicherungsdienst GmbH, Vienna	EUR		–	15.00	15.00	4,195	3,717		2019
V. EQUITY INVESTMENTS									
1. Germany									
Allianz für die Region GmbH, Braunschweig	EUR		8.70	–	8.70	997	–8		2019
PosernConnect GmbH, Sittensen	EUR		–	49.00	49.00	954	577		2019
Verimi GmbH, Berlin	EUR		3.00	–	3.00	54,793	–28,661		2018
2. International									

1) Proift-and-loss transfer agreement
2) In liquidation
3) Diffrerent fiscal year
4) Short fiscal year
5) Currently not trading
6) Newly established company
7) Newly acquired company
8) Started trading in 2020
9) Consolidated financial statements
10) Figures in accordance with IFRSs
11) Profit-and-loss transfer agreement as of 2020
12) Matter within the meaning of section 1 of the UmwG
13) Structured company in accordance with IFRS 10 and IFRS 12

Braunschweig, February 15, 2021

The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Frank Fiedler

Dr. Alexandra Baum-Ceisig

Responsibility Statement

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

Braunschweig, February 15, 2021

The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Frank Fiedler

Dr. Alexandra Baum-Ceisig

Independent Auditor's Report

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

To VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig

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

OPINIONS

We have audited the annual financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, which comprise the balance sheet as at 31 December 2020, and the income statement for the fiscal year from 1 January to 31 December 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, which is combined with the group management report, for the fiscal year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration pursuant to Sec. 289f (4) in conjunction with Sec. 289f (2) No. 4 HGB ["Handelsgesetzbuch": German Commercial Code] included in the Human Resources Report section of the management report (disclosures on the quota for women on executive boards).

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

> the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020 and of its financial performance for the fiscal year from 1 January to 31 December 2020 in compliance with German legally required accounting principles, and

>

> the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the corporate governance declaration referred to above (disclosures on the quota for women on executive boards).

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

Basis for the opinions

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

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

Valuation of shares in affiliated companies and equity investments

Reasons why the matter was determined to be a key audit matter

The valuation of shares in affiliated companies and equity investments and the related assessment of impairment as likely to be permanent is a significant area in which the executive directors of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT exercise judgment. The forecasts of future cash flows underlying the valuation based on calculations of capitalized earnings values, which consider future market developments and assumptions on the development of macroeconomic factors, and the risk-adjusted capitalization rates and growth rates used are subject to significant uncertainty and the use of judgment. As it is not yet possible to make a conclusive assessment of the impact of the global COVID-19 pandemic, these uncertainties are significantly heightened in the fiscal year. Minimal changes in the inputs can lead to great variation in values.

In light of the complexity of the valuation and the uncertainties involved and judgment used, the valuation of shares in affiliated companies and equity investments was a key audit matter.

Auditor's response

As part of our audit, we analyzed the process implemented by the executive directors of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT and the recognition and measurement policies for determining the net realizable value of shares in affiliated companies and equity investments to identify any risks of material misstatement and obtained an understanding of the process steps. In this connection, we assessed whether the process is suitable for providing objective evidence of a lower net realizable value or prolonged impairment.

We obtained an understanding of the capitalization of earnings models used for significant shares in affiliated companies and equity investments and reperformed the calculations with the help of internal valuation specialists, and investigated whether the calculation of the capitalized earnings values was consistent with the relevant accounting standards IDW S1 and IDW AcP HFA 10. We evaluated the significant assumptions regarding business performance and business growth in the budgets and forecasts by analyzing the underlying forecasts on the basis of past performance and general and industry-specific market expectations. We assessed the derivation of the risk-adjusted capitalization rate with the assistance of our internal valuation specialists by scrutinizing in particular the peer group used for determining the industry-specific beta factors, obtaining an understanding of how the beta factors were determined and comparing the country risk premiums and inflation differentials used with external market data.

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

Reference to related disclosures

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

Other information

The executive directors are responsible for the other information. The other information comprises the corporate governance declaration (disclosures on the quota for women on executive boards). The other information also comprises the Responsibility Statement to be included in the annual report, of which we obtained a version prior to issuing this auditor's report.

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

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

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

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

Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report

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

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

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

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

Auditor's responsibilities for the audit of the annual financial statements and of the management report

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

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

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

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

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Opinion

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the attached electronic file "Volkswagen Financial Services_AG_JA+LB_ESEF-2020-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the fiscal year from 1 January 2020 to 31 December 2020 contained in the "Report on the audit of the annual financial statements and of the management report" above.

Basis for the opinion

We conducted our assurance work on the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file in accordance with Sec. 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Sec. 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the "Auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the requirements for quality control systems set forth in IDW Standard on Quality Control: "Requirements for Quality Control in Audit Firms" (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

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

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Sec. 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and the audited management report as well as other documents to be published to the operator of the Bundesanzeiger [German Federal Gazette].

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

Auditor's responsibilities for the assurance work on the ESEF documents

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

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

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 2 March 2020. We were engaged by the Supervisory Board on 19 November 2020. We have served as auditor of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, for the first time for fiscal year 2020.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Martin Werthmann.

Hanover, 17 February 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werthmann	Prof. Dr. Schellhorn
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

PUBLISHED BY
Volkswagen Financial Services AG
Gifhorner Strasse 57
38112 Braunschweig, Germany
Telephone +49 (0) 531 212-0
info@vwfs.com
https://www.vwfs.com/en.html

INVESTOR RELATIONS
Telephone +49 (0) 531 212-30 71
ir@vwfs.com

Produced in-house with firesys

This annual report is also available in German at www.vwfsag.com/gb20.

VOLKSWAGEN FINANCIAL SERVICES AG
Gifhorner Strasse 57 · 38112 Braunschweig · Germany · Phone +49 (0) 531 212-0
info@vwfs.com · www.vwfs.com/en.html · www.facebook.com/vwfsde
Investor Relations: Phone +49 (0) 531 212-30 71 · ir@vwfs.com