VOLKSWAGEN BANK

GMBH

ANNUAL REPORT
HGB

2021

Fundamental Information about the Group

Within the Financial Services division of the Volkswagen Group as a whole, the Volkswagen Bank GmbH Group is responsible for performing banking transactions for retail and business customers.

BUSINESS MODEL

Within the Financial Services division of the Volkswagen Group as a whole, the Volkswagen Bank GmbH Group is responsible for the operating activities required to perform banking transactions for retail and business customers. The individual activities include those described below.

Financing

The Volkswagen Bank GmbH Group provides financing for retail customers, business customers and authorized dealers. The principal activity is automotive financing.

Leasing

At the Bank's branch in Portugal, the Volkswagen Bank GmbH Group operates the finance leasing business. The branch in France is also involved in the operating lease business in addition to finance leasing activities.

Direct Banking

The Volkswagen Bank GmbH Group offers retail customers the entire range of direct banking services, including account management, consumer finance, savings plans and investment products. The facilities provided for business customers by the Volkswagen Bank GmbH Group include instant-access accounts, fixed-term deposits and saving certificates as well as a comprehensive range of payment services.

Broking

The Volkswagen Bank GmbH Group acts as an insurance broker in the context of automotive financing and for retail customers. As part of its direct banking operations, it arranges loans secured by charges entered in the land register.

One of the ways in which the Volkswagen Bank GmbH Group pursues its objectives is joint customer relationship management with other companies in the Financial Services division of the Volkswagen Group; this has led to continuous improvement in customer loyalty, service quality and the range of products offered.

The business operations of the Volkswagen Bank GmbH Group are closely interlinked with those of the manufacturers and the dealer organizations in the Volkswagen Group.

ORGANIZATION OF VOLKSWAGEN BANK GMBH

Generally speaking, the aim of all structural measures implemented by Volkswagen Bank GmbH is to improve the quality offered to both customers and dealerships, make processes more efficient and leverage synergies. The motivation and satisfaction of employees are key factors that enable the Bank to defend its position as a leading employer of choice.

Corporate Management is responsible for the Corporate Strategy & Market, Direct Bank Sales, Human Resources & Organization, Internal Audit, International Business and Legal & Compliance functions. Responsibility for Corporate Management rests with Dr. Michael Reinhart, Chairman of the Management Board of Volkswagen Bank GmbH.

The Accounting, Controlling, Treasury & Investor Relations, Payments and Regulatory Requirements functions have been pooled under the Finance division. From January 1, 2021 to January 31, 2021, Oliver Roes was responsible for these functions in his role as Executive Vice President. During this period, Oliver Roes reported to Management Board members Dr. Michael Reinhart (Group Treasury & Investor Relations only) and Christian Löbke (Finances excluding Group Treasury & Investor Relations). The clear assignment of responsibilities in this context ensures that the functions are separated. Since February 1, 2021, Oliver Roes has been the member of the Management Board responsible for the Finance division.

Risk Management, which is the responsibility of Christian Löbke, encompasses the functions Financial & Nonfinancial Risks, Credit & Residual Value Risk Management, Back Office, Strategic Risk Management and Special Customer Care. Until February 27, 2021 it also included Big Data & Analytics. On March 1, 2021, the Big Data & Analytics organizational unit was renamed Strategic Data Management & Applications. At the same time, its reporting units were restructured to bring about a further streamlining of the organizational structure.

Dr. Volker Stadler is responsible for Operations, which encompasses IT Governance & Management, Direct Bank Customer Service and Direct Bank Process Management.

REPORT ON THE SUBSIDIARIES AND BRANCHES

The Volkswagen Bank GmbH Group has a presence in numerous countries within the European market. Each of the Volkswagen Bank GmbH's international branches in France, Greece, Italy, the Netherlands, Poland, Portugal, Spain and the United Kingdom operate their own local business.

Please refer to the section of this report covering equity investments for further information on changes in this regard.

The brand-related branches of the Volkswagen Bank GmbH Group (Audi Bank, SEAT Bank, ŠKODA Bank, AutoEuropa Bank and ADAC Finance Service) are intended to provide specific support for the financing of the corresponding vehicles. The Ducati Bank branch supports the financing of motorcycles.

In Braunschweig, Emden, Hanover, Ingolstadt, Kassel, Neckarsulm, Salzgitter and Wolfsburg, the Volkswagen Bank GmbH Group maintains branches offering customers counter services, advisory support and, in some cases, ATMs.

INTERNAL MANAGEMENT

The key performance indicators used by the Group are determined on the basis of IFRSs and are presented as part of the internal reporting system. The most important nonfinancial performance indicators are penetration, current contracts and new contracts. The financial key performance indicators are the volume of business, deposit volume and the operating result. Return on equity (RoE) and the cost/income ratio (CIR) are used as further key performance indicators in the Volkswagen Bank GmbH Group.

	Definition
Nonfinancial performance indicators	
Penetration	Total new contracts for new Group vehicles under retail financing and leasing business as a proportion of deliveries of Group vehicles, based on the Volkswagen Bank GmbH Group's relevant markets
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, dealership financing (incl. factoring), leasing business and direct banking
Volume of deposits	Loans to and receivables from customers arising from retail financing, dealership financing, leasing business and direct banking
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	Personnel expenses, material overheads and accounting depreciation and amortization minus income from services rendered / financial income and sales revenue net of risk costs, fee and commission payments, funding costs and other direct costs[1]

1 The earnings and cost elements are part of the management strategy of Volkswagen AG and are not reflected in the IFRS income statement presented in this annual report.

CHANGES IN EQUITY INVESTMENTS

Effective March 24, 2021, paydirekt Beteiligungsgesellschaft privater Banken mbH, Berlin, was removed from the commercial register following liquidation, as a result of which Volkswagen Bank derecognized its 2.02% equity investment in the entity.

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

The Volkswagen Bank GmbH Group has made use of the option under section 340a(1a) sentence 3 of the HGB in conjunction with section 289b(2) of the HGB and in accordance with section 340i(5) sentence 2 of the HGB in conjunction with section 315b(2) of the HGB exempting it from submission of a nonfinancial statement and nonfinancial group statement and refers to the combined separate nonfinancial report of Volkswagen AG for fiscal year 2021, which will be available on the website https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2021/Nonfinancial_Report_2021_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2021/Nonfinancial_Report_2021_e.pdf in English from April 30, 2022.

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

Report on Economic Position

The global economy recorded positive growth in fiscal year 2021 as it recovered from the disruption caused by the Covid-19 pandemic. Global demand for vehicles was up on the previous year. Profit before tax generated by the Volkswagen Bank GmbH Group exceeded the prior-year figure.

GLOBAL SPREAD OF THE CORONAVIRUS (SARS-COV-2)

At the end of 2019, initial cases of a potentially fatal respiratory disease became known in China. This disease is attributable to a novel virus belonging to the coronavirus family. Infections also appeared outside China from mid-January 2020. The number of people infected rose very rapidly in the course of 2020, albeit with differences in timing and regional spread. Around the world, measures were taken and adapted at national level and with varying levels of intensity based on the situation. However, these ultimately failed to bring the spread of the SARS-CoV-2 virus under control. In addition, aid packages to support the economy were agreed by the European Commission and by numerous governments in Europe and other regions, and economic stimulus measures were introduced to counter the pandemic's impact. 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.

The mostly dynamic increase in the rate of infection continued in many places throughout the first quarter of 2021. This was accompanied by ongoing disruption – such as contact and mobility restrictions or limitations on business activities – in many parts of the world. With the increased availability of testing capacities and vaccines, some countries have permitted the extensive reopening of everyday life and the economy. In China in particular, the measures taken resulted in a removal of restrictions. In most of the world, infection rates initially declined in the second quarter of 2021, leading to further easing of the measures taken to contain the pandemic. From the middle of the year, however, some countries recorded a renewed increase in infection rates, which was mainly due to new variants of the SARS-CoV-2 virus. Some restrictions returned in response to the situation. Most regions of the world saw a declining rate of new infections in the third quarter of 2021. Against this backdrop, many countries largely lifted their restrictions on everyday life and the economy, depending on the progress of their vaccination campaigns. Temporary increases in case numbers – primarily associated with increased travel – only rarely resulted in the measures being tightened again. Mainly due to new variants of the SARS-CoV-2 virus, numerous countries around the world again recorded some very dynamic increases in infection rates in the fourth quarter, which, depending particularly on the country's vaccination progress, resulted in renewed restrictions.

Overall in 2021, the global spread of the SARS-CoV-2 virus again brought substantial disruption to all areas of everyday life and the economy.

DEVELOPMENTS IN THE GLOBAL ECONOMY

The global economy recovered in 2021 due to the temporary relaxation of many restrictions and recorded growth of 5.6% (–3.4)%. The average rate of expansion of gross domestic product (GDP) was far above the previous year's level in both the advanced economies and the emerging markets. The progress made by many countries in administering vaccines to their populations had a positive effect, while the emergence of new variants of the virus led to renewed national rises in infections. At a national level, performance was dependent among other things on the extent to which the negative impacts of the Covid-19 pandemic were materializing and the intensity with which measures were taken to contain the spread. The governments and central banks of numerous countries maintained their expansive fiscal and monetary policy measures. Interest rates therefore remained relatively low. Prices for many energy and other commodities rose significantly on average year-on-year, amid growing shortages of intermediates and commodities. On a global average, consumer prices increased at a faster pace than in 2020, and global trade in goods grew in the reporting year.

Europe

The economy in Western Europe recorded significantly positive overall growth of 5.4 (–6.5)% in 2021. This trend was seen in all countries in Northern and Southern Europe. The reasons for this included the increased resilience to high infection rates experienced by the economies in many countries. At the same time, the economic recovery was hit by temporary national restrictions to contain the pandemic and the imbalances between supply and demand that partially resulted from them.

Further uncertainty was caused in fiscal year 2021 by the United Kingdom's exit from the European Union (EU) and the new Trade and Cooperation Agreement associated with this.

In the economies of Central and Eastern Europe, real absolute GDP increased significantly by 5.6 (–2.4)% in 2021. Economic output increased by 6.4 (–2.1)% in Central Europe and 4.2 (–2.8)% in Eastern Europe.

Germany

Germany's economic output recorded a positive growth rate of 2.7 (–4.9)% in the reporting year. The labor market recovered over the course of the year with a fall in the unemployment rate and the number of people on *Kurzarbeit* (short-time working). The temporary easing of restrictions on everyday life and economic activity led confidence among consumers and companies to improve. On average, it exceeded the prior-year levels. Confidence rose significantly in the industrial and service sectors.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services enjoyed a high level of demand in 2021. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas. Nevertheless, the Covid-19 pandemic combined with the restricted availability of vehicles because of the semiconductor shortage continued to exert downward pressure on demand for financial services in virtually every region. Overall, there continued to be a trend toward leasing and away from financing. Moreover, mobility services that focus on the use rather than the ownership of a car – such as car subscription models – saw a rise in demand in the private and business customer segments. Service products, such as inspection and maintenance agreements, also benefited from a modest uptick in demand due to the resulting predictability of total operating costs.

The European passenger car market was increasingly impacted in the reporting period by the consequences of the semiconductor shortage, with vehicle deliveries slightly below those of the prior year, which itself had been weak due to the pandemic. In these persistently difficult market conditions, the number of new contracts for financial services products in new vehicle business reached the prior-year level. However, the financing of used vehicles experienced a positive trend, the most noticeable development being in sales of aftersales products, such as servicing, inspection and spare parts agreements, which rose substantially above the prior-year level.

During 2021, the financial services business in Germany increasingly had to cope with the challenges presented by the shortage of semiconductors in addition to the impact of the Covid-19 pandemic. New vehicle deliveries declined, which consequently also led to a fall in vehicles available on the used vehicle market. On the other hand, new financing agreements for new and used vehicles as well as direct business contracted compared with the previous year. The penetration rate for new vehicles was higher than the very good level achieved in the previous year. With a few exceptions, the number of new contracts for services and insurance products declined year-on-year.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2021, the volume of the passenger car market worldwide rose moderately by 4.2% to 70.9 million units from a weak level in the prior year. However, the growth was uneven owing to the effects of the Covid-19 pandemic, which varied strongly from region to region both in 2020 and in the reporting period. The semiconductor shortage and the resulting supply bottlenecks also had a negative impact in the second half of 2021. Increases in Central and Eastern Europe were slightly below the global average, while in Western Europe, the market volume declined further, falling short of the poor prior-year figure.

In the reporting period, the global volume of new registrations for light commercial vehicles was slightly (1.5%) higher than in 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 in 2021. 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.

The sector-specific conditions in the European banking environment were impacted in the reporting period by legal and regulatory interventions in response to the pandemic and its economic fallout. They include, for example, schemes for granting trust loans and legally mandated payment holidays to support borrowers. The European Central Bank's targeted longer-term refinancing operations (TLTRO III) to provide liquidity to banks also continue to be in force.

Europe

In Western Europe, the number of new passenger car registrations in the reporting period was slightly down on the previous year's weak level, declining by 2.0% to 10.7 million vehicles. The continuing restrictions aimed at containing the Covid-19 pandemic led to a year-on-year decline in deliveries in the first two months of 2021. From March to June, demand in each of the individual months exceeded that of the previous year, which had been affected by the pandemic as of the last third of the first quarter and particularly in the second quarter of 2020. In the second half of 2021, the number of new passenger cars registered declined month-on-month, in some cases substantially. This was due on the one hand to the market recovery that had been experienced the previous year, and on the other to the semiconductor shortage which reduced vehicle availability. Nevertheless, with the exception of Spain (–0.9%), the performance of the large individual passenger car markets was positive on the whole in fiscal year 2021: France (+0.5%), United Kingdom (+1.0%) and Italy (+5.6%).

Registration volumes for light commercial vehicles in Western Europe were moderately higher than in the previous year, increasing by 4.4%.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2021 stood at 2.9 million vehicles, a modest 2.8% more than in the previous year, which had been strained by the pandemic. Here, the development of demand in the reporting period differed from market to market. In Central Europe, the number of new registrations saw a slower rate of increase on the whole, with a rise of 1.4% to 1.1 million units. By contrast, sales of passenger cars in Eastern Europe rose at a somewhat faster pace (+3.8%) to 1.8 million units.

The market volume of light commercial vehicles in Central and Eastern Europe was significantly higher year-on-year (+12.1%).

Germany

New passenger car registrations in Germany in fiscal year 2021 stood at 2.6 million units, falling noticeably (–10.1%) short of the previous year's weak level and thus declining to the lowest level since German reunification. Along with the effects of the Covid-19 pandemic, this was attributable to early purchases made in 2020 due to the expiry of the temporary reduction in value-added tax and to the deterioration in the supply situation as a result of the semiconductor shortage.

Owing to a lack of semiconductor deliveries and related measures such as cutbacks in production and production shutdowns, domestic production and exports in the reporting period also fell short again of the comparable prior-year figures: passenger car production decreased by 11.9% to 3.1 million vehicles and passenger car exports fell by 10.3% to 2.4 million units.

Sales of light commercial vehicles in Germany in the reporting period were down by a slight 1.8% on the 2020 figure.

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management Board of Volkswagen Bank GmbH considers the course of business in the year 2021 to have been positive. Profit before tax for the reporting period amounted to €1,106.7 million, which was higher than the figure for the corresponding prior-year period (previous year restated: €808.3 million). Risk costs were considerably lower than in the previous year and the funding situation remained favorable. Together with the initiatives to increase efficiency, these factors were key drivers behind the growth in earnings.

Performance in the reporting period was dominated by the semiconductor chip shortage and associated supply problems for the brands in the Volkswagen Group. Consequently, the volume of loans to and receivables from customers was markedly below the level of the previous year, which led to a corresponding cut in the provision for credit risks. Overall, the Volkswagen Bank GmbH Group established that its credit risk had remained stable. Residual value risk also generally remained steady. The shortage of new vehicles actually led to a positive trend in the used vehicle market, as a result of which the Bank was able to generate gains from the marketing of used vehicles.

Favorable funding conditions were provided by the general low level of interest rates and liquidity made available by the ECB in open market operations (TLTRO III).

The positive trend in the performance of the business was boosted by the Operational Excellence (OPEX) efficiency program – part of which involves the harmonization of IT systems – and increasing digitalization of the business model.

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

Despite high demand for new vehicles, the semiconductor shortage limited the availability of vehicles from the Group brands. This reduced both the market for new vehicle financing and demand from dealerships for inventory finance. To add to this, there was an evident continuation in the trend among customers to switch from financing to leasing in some European countries, especially in Germany.

The ongoing Covid-19 pandemic also continued to have an adverse effect on economic activity in most European countries. The temporary restrictions on social contact and business activity at the beginning of the reporting year were detrimental to demand for automotive financial service products.

These factors meant that the figures for penetration, new contracts and current contracts fell short of the forecasts. A rise in demand for used vehicles and for associated customer financing products did not fully offset this trend. The effect on business volume in 2021 was the same in both customer and dealer financing.

Customer deposits, which serve as a source of funding for lending, were deliberately reduced as a matter of business policy because a less expensive source of funding was available to Volkswagen Bank GmbH in the form of the ECB's TLTRO III program, plus the Bank had a lower need for funding due to the decrease in business volume. The action taken meant it was possible to avoid costs caused by excess liquidity. The volume of deposits was therefore below the level of 2020.

The operating result for 2021 was predicted to be significantly below the level of 2020. However, it was possible to revise this forecast in 2021 because of positive non-recurring items, particularly in the risk costs. The operating result, return on equity and cost/income ratio therefore turned out to be better than forecast.

	Actual 2020 [1]	Forecast 2021	Actual 2021
Nonfinancial performance indicators			
Penetration (percent)	18.9	At the level of 2020	17.9
Current contracts (thousands)	3,700	Moderately above the level achieved in 2020	3,431
New contracts (thousands)	1,074	Moderately above the level achieved in 2020	1,046
Financial performance indicators			
Volume of business (€ million)	48,486	At the level of 2020	45,585
Volume of deposits (€ million)	28,694	At the level of 2020	26,489
Operating result (€ million)	804	Significantly below the level achieved in 2020	1,137
Return on equity (percent)	8.0	Significantly below the level achieved in 2020	10.5
Cost/income ratio (percent)	51.4	Significantly above the level achieved in 2020	40.1

1 The prior-year income statement has been restated to reflect the corrections to the provision for credit risks in respect of credit commitments. For details, please refer to the Changes to Prior-Year Figures section in the notes.

FINANCIAL PERFORMANCE

The earnings performance of the Volkswagen Bank GmbH Group in fiscal year 2021 was better than in fiscal year 2020.

At €1,137.3 million, the operating result was above the level of the previous year (€804.4 million). Profit before tax increased by €298.5 million year-on-year to €1,106.7 million. The share accounted for by the international branches and companies was €849.1 million (previous year: €577.1 million) or 76.7%.

Interest income from lending and securities transactions fell by €59.3 million to €1,377.5 million (previous year: €1,436.8 million). Net income from leasing business decreased by 11.4% to €269.1 million (previous year: €241.5 million).

The interest expenses of Volkswagen Bank GmbH declined from €152.6 million to €133.6 million.

Net income from service contracts is generated exclusively in the branches that also conduct leasing business. In this case, the net income rose by €9.0 million to €3.0 million (previous year: net expense of €6.0 million).

The required provision for credit risks fell to €327.1 million (previous year: €643.8 million). Income from the reversal of valuation allowances no longer required and income from loans and receivables previously written off totaled €504.9 million and was hence up on the prior-year figure (restated: €378.8 million). This resulted in a net reversal of provisions for credit risks in an amount of €177.8 million (previous year restated: net addition of €264.9 million). The main factors behind this change were the stable risk situation and the reversal of provisions for credit risks as a consequence of the decline in the volume of loans and receivables.

Net fee and commission income was in positive territory in 2021 with net income at €116.3 million (previous year: €105.1 million), which was mainly attributable to higher fee and commission income at Volkswagen Bank Germany and at the branch in Spain.

The net gain or loss on hedges amounted to a net loss of €30.1 million (previous year: net loss of €8.0 million), whereas the 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 came to a net gain of €7.4 million (previous year: net gain of €4.4 million). Both figures were largely determined by activities at Volkswagen Bank GmbH, Germany.

General and administrative expenses were up on the prior-year level and amounted to €807.8 million (previous year:

€762.5 million). The primary reasons were the rise in personnel expenses by €9.2 million and the rise in IT costs by €22.3 million.

Other operating income amounted to €241.6 million (previous year: €270.0 million). This also included income from the reversal of provisions in an amount of €187.1 million (previous year: €122.4 million) and other sales revenue in the amount of €23.5 million (previous year: €20.5 million). Other operating expenses amounted to €83.8 million (previous year: €59.3 million). This figure included impairment losses on goodwill amounting to €16.5 million (previous year: €0.0 million). Including the other components of financial gains or losses, the Volkswagen Bank GmbH Group generated profit after tax of €778.8 million (previous year: €648.0 million).

The profit of Volkswagen Bank GmbH determined in accordance with the HGB (after deduction of taxes) amounting to €562.8 million (previous year: €382.9 million) will be transferred to the parent company, Volkswagen AG, under the existing profit-and-loss transfer agreement.

NET ASSETS AND FINANCIAL POSITION

The Management Board of Volkswagen Bank deems the net assets and financial position to be generally positive.

Lending Business

The lending business of the Volkswagen Bank GmbH Group mainly consists of vehicle-related loans granted to retail customers, business customers and dealerships. The volume of these loans and receivables went down by €5.1 billion to €43.0 billion.

Retail Financing

In the Volkswagen Bank GmbH Group, the total number of current customer financing contracts fell to 2.6 million (previous year: 2.8 million). 711 thousand new contracts were entered into in fiscal year 2021 (previous year: 779 thousand). As of December 31, 2021, the volume of loans and receivables in retail financing amounted to €31.1 billion (previous year: €33.8 billion). Of this total, €11.0 billion (previous year: €10.7 billion) was accounted for by European countries other than Germany.

Dealer Financing

The lending volume in dealer financing – which comprises loans to and receivables from dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – fell by 21.8% or €2.5 billion to €9.0 billion.

The volume of loans and receivables related to the international branches and international subsidiaries came to €4.8 billion (previous year: €6.5 billion) as of the balance sheet date.

Leasing Business

Receivables from leasing transactions amounted to €2.9 billion (previous year: €2.8 billion). Leasing business is offered exclusively in European countries other than Germany.

Marketable Securities

The Volkswagen Bank GmbH Group's portfolio mainly consists of fixed-income securities from public-sector issuers amounting to €4.1 billion (previous year: €3.3 billion).

Equity-Accounted Investments

The investments in DFM N.V., Amersfoort, Netherlands, Volkswagen Finančné služby Slovensko, s.r.o., Bratislava, Slovakia, and Volkswagen Financial Services Digital Solutions GmbH, Braunschweig, Germany, continue to be reported as equity-accounted investments.

Long-Term Financial Assets

As of December 31, 2021, Volkswagen Bank GmbH held 1% of the equity in OOO Volkswagen Bank RUS, Moscow, Russia, and 20% of the shares in Credi2 GmbH, Vienna, Austria. These holdings had remained unchanged year-on-year.

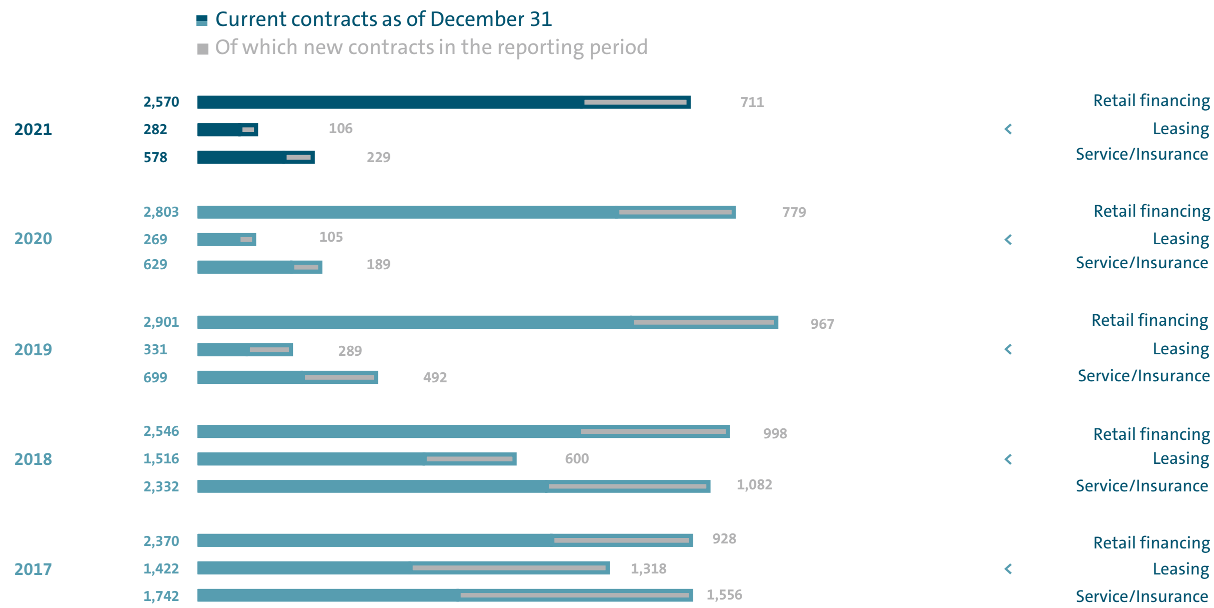
CURRENT CONTRACTS AND NEW CONTRACTS

in thousand [1]	Volkswagen Bank Group	of which: Germany	of which: Italy	of which: France	of which: Spain	of which: other branches/subsidiaries
Current contracts[2]	3,431	1,456	427	863	436	249
Automotive retail financing	2,452	1,334	408	121	428	160
Consumer retail financing	118	107	–	–	8	3
Leasing business	282	–	–	268	0	14
Service/insurance	578	15	19	473	–	72
New contracts[2]	1,046	332	142	376	92	103
Automotive retail financing	686	309	142	63	91	80
Consumer retail financing	25	23	–	–	0	2
Leasing business	106	–	–	100	–	6
Service/insurance	229	0	–	213	–	16
€ million						
Loans to and receivables from customers attributable to						
Retail financing	31,073	20,118	5,025	773	4,303	853
Direct banking	322	304	–	0	1	17
Dealer financing	9,026	4,266	576	1,419	635	2,130
Leasing business	2,928	–	–	2,801	0	126
Assets leased out	2,236	1	–	2,235	–	–
Percent						
Penetration rates[3]	17.9	7.0	41.2	50.0	30.1	8.9

1 All figures shown are rounded; so minor discrepancies may arise from addition of these amounts.
2 Current contracts and new contracts in each case in relation to the markets shown for the Volkswagen Bank GmbH Group
3 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles in each case in relation to the markets shown for the Volkswagen Bank GmbH Group

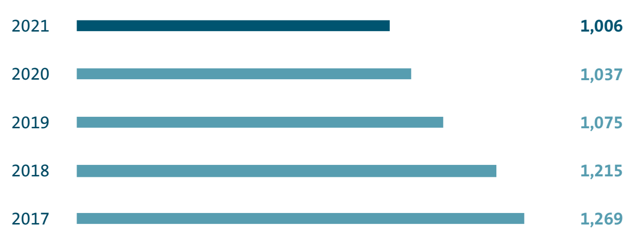
DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31

In thousands



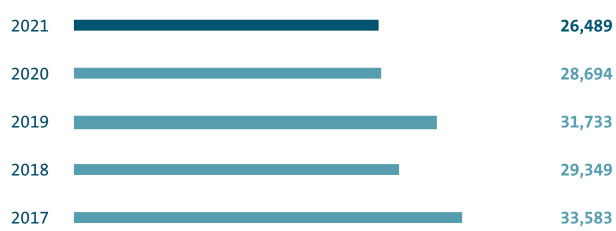
DIRECT BANK CUSTOMERS AS OF DECEMBER 31

Lending and deposit business and borrowings (in thousands)



CUSTOMER DEPOSITS AS OF DECEMBER 31

in € million



Since January 1, 2019, the volume of deposits has been calculated without cash deposits from Group companies.

Deposit Business and Borrowings

The main items on the equity and liabilities side of the balance sheet, other than equity, are liabilities to customers, which decreased by €1.1 billion to €34.3 billion (previous year: €35.4 billion), liabilities to banks in the amount of €13.2 billion (previous year: €9.7 billion) and notes and commercial paper issued in the amount of €5.7 billion (previous year: €8.7 billion).

DEPOSIT BUSINESS

Deposit business in the Volkswagen Bank GmbH Group contracted compared with the prior year. As of the reporting date, the volume of customer deposits amounted to €26.5 billion, which equated to a year-on-year decrease of 7.7% (previous year: €28.7 billion). The deposit business is thus a significant contributing factor in helping the Volkswagen Group retain its customers.

In addition to the security provided by statutory deposit guarantees, Volkswagen Bank GmbH is also covered by its ongoing membership in the Deposit Protection Fund of the Association of German Banks (Bundesverband deutscher Banken e.V.).

EQUITY

The subscribed capital of Volkswagen Bank GmbH remained unchanged at €318.3 million in fiscal year 2021.

The capital reserves of Volkswagen Bank GmbH stood at €8.9 billion (previous year: €8.5 billion) as of December 31, 2021.

The profit in accordance with the HGB to be transferred to Volkswagen AG under the existing profit-and-loss transfer agreement amounted to €562.8 million (previous year: €382.9 million).

Equity in accordance with the IFRSs was €10.9 billion (previous year: €10.3 billion). This resulted in an equity ratio (equity divided by total assets) of 16.1% (previous year: 15.3%) based on total assets of €67.3 billion.

CAPITAL ADEQUACY ACCORDING TO REGULATORY REQUIREMENTS

Under regulatory requirements, Volkswagen Bank GmbH must comply with the provisions in Regulation (EU) No. 575/2013 (Capital Requirements Regulation, CRR) and satisfy the minimum capital requirements. In this context, Volkswagen Bank GmbH must comply with the minimum capital ratios as specified in Article 92(1) of the CRR, both at the individual bank level (HGB) and at consolidated level (IFRS). The minimum ratio under the CRR for Common Equity Tier 1 (CET1) capital is 4.5%, for Tier 1 capital 6% and for total capital 8%.

In addition, Volkswagen Bank GmbH must satisfy the combined capital buffer requirement specified in section 10i of the Kreditwesengesetz (KWG – German Banking Act), i.e. the requirements for the capital conservation buffer and the institution-specific countercyclical capital buffer.

In its capacity as the competent supervisory authority for Volkswagen Bank GmbH, the European Central Bank (ECB) can decide in the Supervisory Review and Evaluation Process (SREP) to impose a capital add-on that must be satisfied in addition to the statutory minimum ratios and the capital buffer requirements. The legal basis for this capital add-on, or Pillar 2 requirement (P2R), is Article 16 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions. The decision of the ECB requires Volkswagen Bank GmbH to satisfy, at consolidated level, a total SREP capital requirement (TSCR) of at least 10% and a Pillar 2 requirement of 2%. The ECB decision specifies that the Pillar 2 requirement must be satisfied in the form of CET1 capital. However, the ECB has granted a relaxation of the capital requirements for a limited period of time in response to the Covid-19 pandemic, as a result which the Pillar 2 requirement no longer has to be covered by CET1 capital in full, but with only a minimum proportion of 56.25%. The remainder of the Pillar 2 requirement can be met with Additional Tier 1 (AT1) capital and Tier 2 (T2) capital.

Volkswagen Bank GmbH complied with all minimum requirements at all times in the reporting period, both at individual bank level and at consolidated level.

The total capital ratio (ratio of own funds to total risk exposure) was 19.0% at the end of the reporting period (previous year restated: 18.1%), significantly above the statutory minimum ratio.

The Tier 1 capital ratio and Common Equity Tier 1 capital ratio were each 19.0% (previous year restated: 18.1%) at the end of the reporting period, and thus also significantly above the respective minimum ratios specified in the CRR.

Total risk exposure is calculated on the basis of credit risks, market risks, operational risks and risks arising from credit valuation adjustment (CVA charge). Volkswagen Bank GmbH uses the Standardized Approach for Credit Risk (CRSA) to quantify credit risk and to determine risk-weighted exposures.

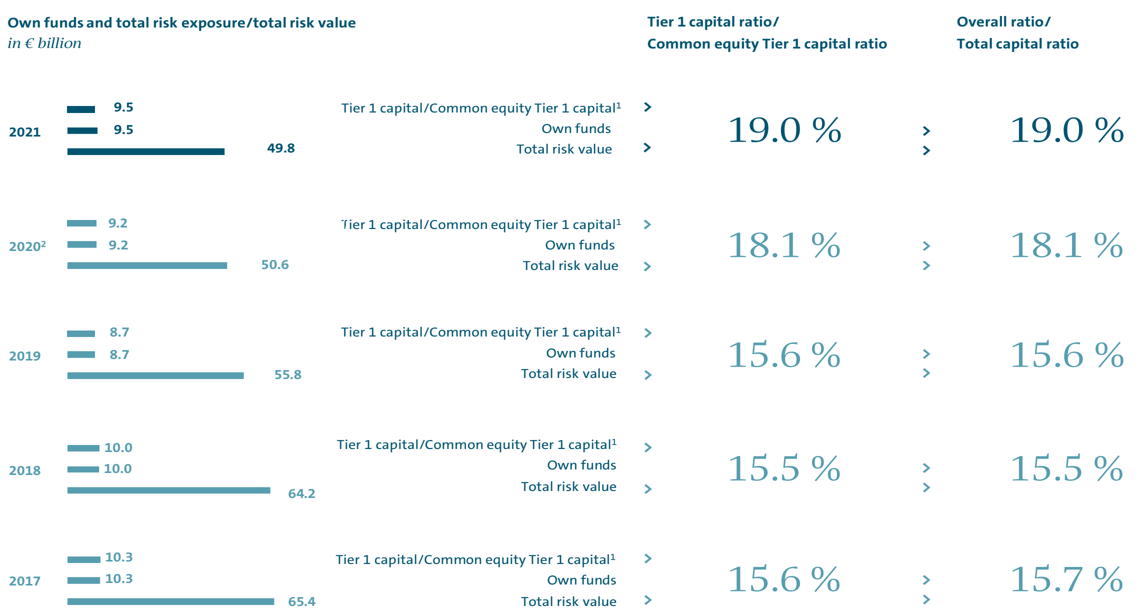
The Standardized Approach as specified in Article 317 of the CRR is used to calculate the own funds requirements for operational risk. The own funds requirements for the CVA charge are determined using the standardized method specified in Article 384 of the CRR.

The following overview shows a breakdown of total risk exposure and own funds:

		Dec. 31, 2021		December 31, 2020[3]
Total risk exposure amount[1] (€ million)		49,770		50,557
of which risk-weighted exposure amounts for credit risk	45,696		46,480	
of which own funds requirements for market risk * 12.5	210		308	
of which own funds requirements for operational risk * 12.5	3,789		3,755	
of which own funds requirements for credit valuation adjustments * 12.5	75		14	
Eligible own funds (€ million)		9,474		9,169
Own funds (€ million)		9,474		9,169
of which Common Equity Tier 1 capital	9,461		9,150	
of which Additional Tier 1 capital	–		–	
of which Tier 2 capital	13		19	
Common Equity Tier 1 capital ratio[2] (%)		19.0		18.1
Tier 1 capital ratio[2] (%)		19.0		18.1
Total capital ratio[2] (%)		19.0		18.1

1 According to Article 92(3) of the CRR.
2 According to Article 92(1) of the CRR.
3 Retrospective update in accordance with EBA Q&A 2018_4085 taking into account balance sheet figures from the approved consolidated financial statements.

REGULATORY RATIOS OF THE VOLKSWAGEN BANK GMBH AS OF DECEMBER 31



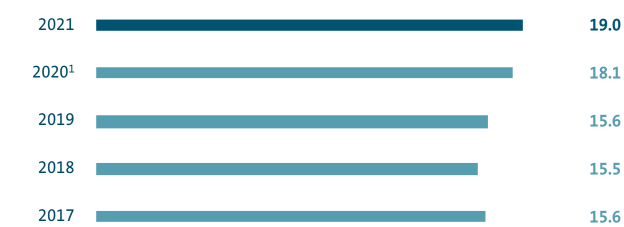
1 The amounts of Tier 1 capital and Common Equity Tier 1 capital are the same because Volkswagen Bank GmbH has not issued any Additional Tier 1 capital instruments.
2 Retrospective update in accordance with EBA Q&A 2018_4085 taking into account balance sheet figures from the approved consolidated financial statements.

The year-on-year increase in the regulatory capital ratios (CET1 capital ratio, Tier 1 capital ratio and total capital ratio) is largely attributable to the slight fall in total risk exposure. This fall was caused mainly by a lower volume of retail and corporate business and a reduction in credit risk in an amount of €2.1 billion.

Own funds changed slightly compared with the previous year, largely because of a payment of €383 million into the capital reserves of Volkswagen Bank GmbH.

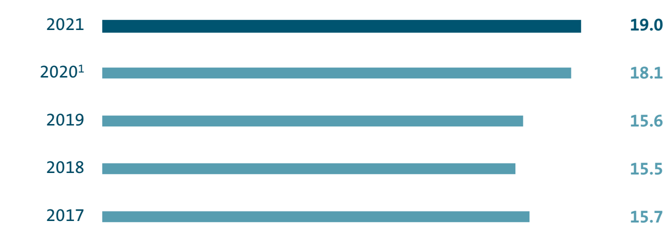
TIER 1 CAPITAL RATIO/COMMON EQUITY TIER 1 CAPITAL RATIO

figures in %



OVERALL RATIO/TOTAL CAPITAL RATIO

figures in %



1 Retrospective update in accordance with EBA Q&A 2018_4085 taking into account balance sheet figures from the approved consolidated financial statements.

Volkswagen Bank GmbH has a capital planning process, the aim of which is to ensure that the regulatory minimum capital ratios are satisfied, even when the volume of business grows. In addition to making additions to capital reserves and using Tier 2 capital in the form of subordinated liabilities, the Bank can also make use of ABS transactions to optimize its capital management. Volkswagen Bank GmbH therefore has the benefit of a sound foundation for further expansion of the financial services business.

CHANGES IN OFF-BALANCE-SHEET LIABILITIES

The off-balance-sheet liabilities relate mainly to revocable and irrevocable credit commitments. In the Volkswagen Bank GmbH Group, they amounted to €14,249 million as of December 31, 2021 (previous year restated: €11,358 million).

LIQUIDITY ANALYSIS

The Volkswagen Bank GmbH Group is funded largely through capital market and asset-backed security programs, and through direct banking deposits. The sources of funding are supplemented on an ad hoc basis by utilizing liquidity made available by the ECB in open market operations (TLTRO III). Volkswagen Bank GmbH holds liquidity reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. Proactive management of the operational safe custody account, which allows Volkswagen Bank GmbH to participate in funding facilities, has proven to be an efficient liquidity reserve approach. In addition to bonds from various countries, German federal states (Länder bonds), supranational institutions and multilateral development banks plus Pfandbriefe (mortgage bonds), all totaling €4.0 billion, Volkswagen Bank GmbH holds senior ABS bonds issued by special purpose entities of Volkswagen Bank GmbH in an amount of €16.0 billion that can be deposited as collateral in the operational safe custody account. These senior ABS bonds are not reported in the consolidated financial statements of Volkswagen Bank GmbH because these special purpose entities are themselves consolidated.

In conjunction with various ILAAP metrics, the normative and economic perspectives of liquidity adequacy are assessed over short-, medium- and long-term time horizons. The Volkswagen Bank GmbH Group ensures that it has appropriate liquidity adequacy at all times by measuring and limiting the ILAAP metrics. A significant ILAAP metric used by Treasury to manage short-term liquidity at Volkswagen Bank GmbH and in the entities within the regulatory basis of consolidation of the Volkswagen Bank GmbH Group is the liquidity coverage ratio (LCR). From January to December in the year under review, this ratio varied between 157% and 274% for the Volkswagen Bank GmbH Group and was therefore significantly above the lower regulatory limit of 100% at all times. The changes in the liquidity ratio are continuously monitored and proactively managed by issuing a lower limit for internal management purposes. Highly liquid assets for the purposes of the LCR include central bank balances and government bonds plus other securities such as Länder bonds, supranational bonds and Pfandbriefe.

The requirement under the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements for Risk Management) for the Volkswagen Bank

GmbH Group to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and 30-day time horizons was also satisfied at all times, even under various stress scenarios. Compliance with this requirement is determined and continuously monitored by the liquidity risk management department. In this process, the cash flows for the coming twelve months are projected and compared against the potential funding available in each maturity band. Adequate potential funding to cover the liquidity requirements was available at all times, both in the normal scenario and in the stress tests required by MaRisk. Over the whole of the reporting year, the survival period recovery indicator showed a survival period of more than 12 months at all times.

FUNDING

Strategic Principles

In terms of funding, the Volkswagen Bank GmbH Group 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 with the objective of safeguarding funding on a long-term basis and using this funding on optimum terms.

Implementation

In the reporting year, Volkswagen Bank GmbH did not issue any unsecured bonds under its €10 billion capital market program. No public securitization transactions were carried out in the reporting period. ECB funding instruments and deposits constituted additional sources of funding.

Customer deposit business amounted to €26.5 billion (previous year: €28.7 billion) in the reporting year.

The Bank continued to implement its strategy of mainly obtaining maturity-matched funding by borrowing on terms with matching maturities and by using derivatives. Currency risks were eliminated by using derivatives.

The Volkswagen Bank GmbH Group was able to meet its payment obligations when due at all times in the reporting period. A high level of liquidity was maintained on a permanent basis during the reporting period and the minimum regulatory ratio (LCR) was therefore satisfied.

In the opinion of the Management Board, Volkswagen Bank GmbH will continue to remain solvent at all times in the future owing to its diversified funding structure and its proactive management of liquidity. No liquidity commitments have been issued to special purpose entities.

Ratings

Volkswagen Bank GmbH 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 Group's parent company.

In June 2021, Standard & Poor's completed a review of its ratings within the German banking sector due to structural changes in the banking business. As a result, Volkswagen Bank GmbH's long-term rating was downgraded by one notch from A– to BBB+ with a stable outlook.

In March 2021, Moody's Investors Service revised the outlook for Volkswagen AG from negative to stable and affirmed the short-term and long-term ratings at P–2 and A3 respectively in response to the ongoing recovery in global automotive sales and in expectation of an improvement in credit metrics. At the same time, the short-term and long-term ratings for Volkswagen Bank GmbH were likewise left unchanged at P–1 and A1. The outlook was revised from negative to stable.

Volkswagen Bank GmbH

(Condensed, in accordance with the HGB)

As the parent company, Volkswagen Bank GmbH accounts for a significant share of the business performance of the Volkswagen Bank GmbH Group. Please refer to the previous section for a presentation of the business performance of the Group in accordance with the IFRSs. In the section below, information is provided on the changes in the net assets, financial position and results of operations of Volkswagen Bank GmbH in accordance with the HGB.

BUSINESS PERFORMANCE 2021

The result from ordinary activities amounted to €843.6 million compared with €554.3 million in the prior year. The net interest income earned by Volkswagen Bank GmbH, including interest anomalies from negative interest and net income from leasing transactions, came to €2,047.8 million compared with €2,012.4 million in the prior year.

As in the prior year, interest income from lending and money market transactions including finance leases arose predominantly from financing business with end customers and from vehicle and capital investment financing with dealerships in the Volkswagen Group, decreasing by €160.4 million year-on-year to €1,382.7 million. Of this amount, €825.8 million (previous year: €971.1 million) was attributable to retail financing and €226.3 million (previous year: €285.0 million) to dealer financing.

Net income from leasing business amounted to €732.8 million (previous year: €609.3 million). Within this figure, income from leasing transactions, which rose by €227.0 million or 20.7%, is set against expenses from leasing transactions, which were up by €103.4 million or 21.1%.

Fee and commission income amounted to €364.5 million, which equated to a decrease of €0.2 million compared with the prior-year level. Fee and commission expenses came to €519.9 million (previous year: €536.8 million). Net fee and commission income was in negative territory in 2021, with a net expense of €155.5 million (previous year: net expense of €172.2 million).

Other operating income rose by €75.1 million to €431.2 million, which was mainly attributable to the reversal of provisions for litigation risk.

General and administrative expenses increased by €23.4 million to €793.2 million (previous year: €769.9 million). Personnel expenses increased by €12.9 million to €203.6 million.

Expenses arising from cost transfers from affiliated companies went up by €28.8 million to €303.2 million. Fees for services provided by third parties decreased by €38.6 million to €36.0 million.

Depreciation and write-downs on lease assets at the French branch amounted to €662.3 million (previous year: €541.6 million). Other operating expenses fell by €23.0 million to €70.0 million.

The provision for credit risks came to a net reversal of €54.9 million in the reporting year (previous year: net addition of €227.9 million). The profit after tax of €562.8 million (previous year: €382.9 million) will be transferred to Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

Total assets rose by €0.2 billion to €81.8 billion (previous year: €81.6 billion). The customer loans and receivables reported in the balance sheet declined by €5.0 billion and amounted to €46.5 billion as of the reporting date (previous year: €51.6 billion). Private and business customers accounted equally for this year-on-year change in loans and receivables.

The cash reserve increased by €4.0 billion to €11.0 billion (previous year: €7.1 billion).

Most of Volkswagen Bank GmbH's portfolio comprises securities from ABS transactions, of which €16.6 billion (previous year: €16.6 billion) is attributable to securities from own-account transactions. For investment purposes, the portfolio also included ABSs with a total value of €0.5 billion (previous year: €0.5 billion) issued by special purpose entities of Volkswagen Financial Services (UK) Ltd., Milton Keynes.

The main items on the equity and liabilities side of the balance sheet are liabilities to customers (including direct banking business) of €34.5 billion (previous year: €35.4 billion), other liabilities of €18.6 billion (previous year: €19.1 billion), notes and commercial paper issued of €5.1 billion (previous year: €7.0 billion) and liabilities to banks of €13.2 billion (previous year: €9.7 billion).

The other provisions mainly comprised provisions to cover costs associated with litigation and legal risks. These provisions reflected the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealerships and other customers. They relate primarily to proceedings concerning design aspects of loan agreements with customers that may obstruct the processing of statutory cancellation periods and provisions for legal disputes in connection with customer financing broking claims.

The equity of Volkswagen Bank GmbH amounted to €9.2 billion (previous year: €8.9 billion) as of the reporting date.

INCOME STATEMENT OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	2021	2020
Net interest income	1,315	1,403
Net leasing income	733	609
Net fee and commission expense	–155	–172
Administrative expenses	793	770
Other net income/expense	–311	–288
Provision for credit risks	–55	228
Result from ordinary business activities	**844**	**554**
Extraordinary result	0	1
Tax expense	281	172
Profits transferred under a profit transfer agreement	563	383
Net income for the year	**0**	**0**
Retained profits brought forward	0	0
Asset transfer	0	0
Amount withdrawn from capital reserves	0	0
Net retained profits	**0**	**0**

BALANCE SHEET STRUCTURE OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	Dec. 31, 2021	Dec. 31, 2020
Assets		
Cash reserve	11,022	7,056
Loans to and receivables from banks	381	349
Loans to and receivables from customers	46,549	51,573
Marketable securities	21,300	20,363
Equity investments and shares in affiliated companies	217	219
Lease assets	2,121	1,778
Other assets	243	247
Total assets	**81,833**	**81,584**
Equity and liabilities		
Liabilities to banks	13,193	9,690
Liabilities to customers	34,514	35,432
Notes, commercial paper issued	5,087	7,048
Provisions	525	596
Subordinated liabilities	30	30
Funds for general banking risks	26	26
Equity	9,224	8,842
Other liabilities	19,235	19,920
Total equity and liabilitiess	**81,833**	**81,584**
Balance sheet disclosures		
Contingent liabilities	268	200
Other obligations	14,249	1,924

NUMBER OF EMPLOYEES

Volkswagen Bank GmbH employed 1,114 people (previous year: 1,138) in Germany at the end of 2021.

A total of 792 people (previous year: 793) were employed at the international branches of Volkswagen Bank GmbH.

OPPORTUNITIES AND RISKS FACING VOLKSWAGEN BANK GMBH

The business performance of Volkswagen Bank GmbH is largely subject to the same opportunities and risks as those faced by the Volkswagen Bank GmbH Group. These opportunities and risks are described in the report on opportunities and risks in the following sections of this management report.

Report on Opportunities and Risks

In the present challenging business environment, Volkswagen Bank GmbH's proactive management of opportunities and risks remains a key factor in maintaining the successful performance of the business.

RISKS AND OPPORTUNITIES

In this section, the risks and opportunities that arise in connection with the Bank's business activities are presented. The risks and opportunities are grouped into various categories.

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 the products, the success of the products in the marketplace and on cost structure. Risks and opportunities that are expected to materialize have already been taken into account in the Bank's medium-term planning and forecast. The following sections therefore describe fundamental opportunities that could lead to a positive variance from the forecast, as well as a detailed description of the risks in the risk report.

MACROECONOMIC OPPORTUNITIES

The Management Board of Volkswagen Bank GmbH anticipates an increase in deliveries to Volkswagen Group customers in 2022 compared with the previous year despite ongoing challenging market conditions, provided that the Covid-19 pandemic does not worsen again and the supply problems affecting commodities and intermediate products such as semiconductors improve. Fiscal year 2022 will continue to be adversely impacted by supply chain difficulties because of the structural shortage of semiconductor chips. However, these difficulties are expected to ease over the course of the year. Volkswagen Bank GmbH supports this generally positive trend by providing financial services products designed to promote sales.

The macroeconomic environment could also give rise to further opportunities for the Volkswagen Bank GmbH Group if actual trends turn out to be better than forecast.

STRATEGIC OPPORTUNITIES

The Volkswagen Bank GmbH Group is continuing to pursue a strategy that focuses on the digitalization and optimization of its product portfolio. It is leveraging the opportunities for growth more and more in the areas of mobility-related consumer credit and used vehicle finance. Particular attention is being given to the continuous, dynamic streamlining of all processes and systems in order to improve productivity and respond to customer needs. This will continue to lay the foundations for Volkswagen Bank GmbH to impress its customers over the coming years with innovative, country-specific financial products, thereby helping to nurture long-term customer loyalty.

OPPORTUNITIES FROM CREDIT RISK

Opportunities may arise in connection with credit risks if the losses actually incurred on lending transactions 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 in which economic uncertainty resulted in the need for a higher provision for credit risks but in which 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, the Volkswagen Bank GmbH Group may generally be presented with the opportunity to obtain a price that is higher than the contractually guaranteed residual value if, for example, increasing demand raises market values higher than expected. This positive trend in market values would also be reflected in the continuous adjustment of projected residual values in line with the prevailing market conditions.

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

The internal control system (ICS) for the consolidated and annual financial statements as well as the management report of Volkswagen Bank GmbH, as far as it is relevant to the accounting system, is defined as the sum of all principles, procedures and activities aimed at ensuring the effectiveness and propriety of the financial reporting and ensuring 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 the Volkswagen Bank GmbH Group.

- The Management Board of Volkswagen Bank GmbH is the governing body with responsibility for the executive management of the business. In this role, the Management Board has set up accounting, treasury, risk management, controlling and compliance divisions, each with clearly distinct functions and clearly defined areas of responsibility and authority, to ensure that the accounting and financial reporting processes are legally compliant and in line with the relevant standards.
- Group-wide rules and regulations have been put in place as the basis for a standardized, proper and continuous financial reporting process.
- For example, the accounting policies applied by the domestic and foreign entities included in the consolidated financial statements of Volkswagen Bank GmbH are governed by the Volkswagen Group's accounting policies, including the accounting requirements specified in the International Financial Reporting Standards (IFRSs).
- The Volkswagen Bank GmbH Group's accounting standards also set out the specific formal requirements for the consolidated financial statements. The standards determine the basis of consolidation and also describe in detail the components of the reporting packages to be prepared by the Group companies. The formal requirements include the mandatory use of a complete, standardized set of forms. The accounting standards also define, for example, specific details relating to the recognition and processing of intragroup transactions and the associated reconciliation of balances.
- At Group level, specific control activities aimed at ensuring that the consolidated financial reporting provides a true and fair view include the analysis and any necessary adjustment of single-entity financial statements submitted by the consolidated entities, taking into account the reports submitted by the auditor and the related discussions concerning the financial statements.
- These activities are supplemented by the clear delineation of areas of responsibility and by various monitoring and review mechanisms. The overall aim is to ensure 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 also 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 enhanced by specific Group functions at the parent company Volkswagen AG, for example functions within the responsibility of the Group tax department.
- Internal auditing is a key component of the Volkswagen Bank GmbH Group's monitoring and control system. The Internal Audit department 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 Management Board of Volkswagen Bank GmbH.

To summarize, the aim of the existing internal monitoring and control system of the Volkswagen Bank GmbH Group is to ensure that the financial position of the individual entities within the Group and the Volkswagen Bank GmbH Group itself is based on information that is reliable and has been properly recognized as of the reporting date December 31, 2021. No material changes were made to the internal monitoring and control system of the Volkswagen Bank GmbH Group after the reporting date.

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

In the Volkswagen Bank GmbH Group, risk is defined as the danger of loss or damage that could occur if an anticipated future development turns out to be less favorable than planned.

In the realm of its primary operating activitied, the Volkswagen Bank GmbH Group is exposed to a large number of risks typical for the financial services sector. The Group takes on these risks within the limits of the approved risk strategy so that it can target and exploit any resulting market opportunities.

The Volkswagen Bank GmbH Group has put a risk management system into place to identify, assess, manage, monitor and communicate risks. The risk management system comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risks. The individual elements are aligned with the activities of the individual divisions. This structure is intended to ensure early detection of any trends that could represent a risk to the business as a going concern so that appropriate countermeasures can then be initiated.

The Volkswagen Bank GmbH Group has implemented suitable procedures to make sure that the risk management system is fit for purpose. Firstly, Risk Management continuously monitors the system. Secondly, the individual elements in the system are regularly reviewed on a risk-oriented basis by the Internal Audit department, the ECB (European Central Bank), the ESF (Deposit Protection Fund) and by the external auditor as part of the audit of the annual financial statements .

In the 2021 Supervisory Review and Evaluation Process (SREP), the ECB banking supervisor set a Pillar 2 requirement of 2.25 % (to date 2.00%) for the Volkswagen Bank GmbH Group, applicable from March 1, 2022. The Pillar 2 requirement must be satisfied in addition to the minimum capital requirements under Pillar 1 and covers risks that are underestimated or not covered by the minimum capital requirements.

The entire Management Board is responsible for risk management in the Volkswagen Bank GmbH Group, although responsibility for operational implementation lies with the Chief Risk Officer (CRO). In this function, the CRO submits regular reports on the overall risk position in the Volkswagen Bank GmbH Group to the other members of the Management Board and to the Supervisory Board.

An important feature of the risk management system in the Volkswagen Bank GmbH Group is the clear, unequivocal separation of tasks and areas of responsibility, both organizationally and in terms of personnel. This is intended to ensure that the system is fully functioning at all times and regardless of the personnel involved.

The risk management departments at the headquarters are responsible for providing guidelines for the organization of risk management. This function includes drawing up risk policy guidelines, developing and maintaining methodologies and processes relevant to risk management, and issuing and monitoring international framework standards for the procedures to be used across Europe.

In particular, these activities involve providing models for carrying out credit assessments, quantifying the different categories of risk, determining risk-bearing capacity and evaluating collateral. Risk Management is therefore responsible for identifying possible risks, analyzing, quantifying and evaluating risks, and for determining the resulting measures to respond to the risks.

Local risk management units ensure that the requirements specified by Volkswagen Bank GmbH Group Risk Management are implemented and complied with in their respective market.

To summarize, continuous monitoring of risks, open and direct communication with the Management Board and the integration of all findings into the operational risk management system together form the basis, in the view of the Management Board, for the best possible leveraging of market potential based on conscious, effective management of the overall risk faced by the Volkswagen Bank GmbH Group.

RISK STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Management Board of Volkswagen Bank GmbH.

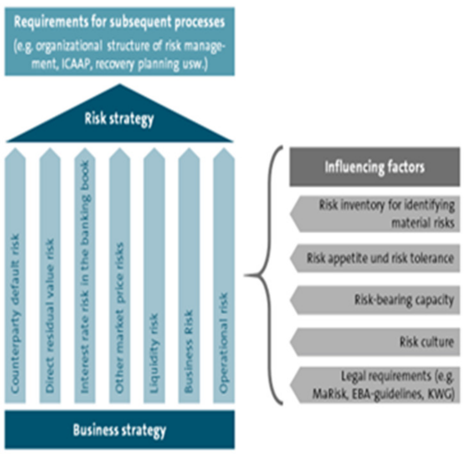
As part of this overall responsibility, the Management Board of Volkswagen Bank GmbH has introduced a MaRisk-compliant strategy process and implemented a business and risk strategy. The ROUTE2025 business strategy sets out the fundamental views of the Management Board of Volkswagen Bank GmbH on key matters 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 business strategy also serves as the starting point for creating an associated risk strategy.

The risk strategy is reviewed each year and whenever required on the basis of a risk inventory, risk-bearing capacity and legal requirements. It is adjusted where appropriate and discussed with the Supervisory Board of Volkswagen Bank GmbH. The risk strategy describes the main risk management goals and action plans for each category of risk, taking into account the business policy focus, risk tolerance and risk appetite. A review is carried out annually to establish whether the goals in the risk strategy have been attained. The causes of any variances are analyzed and then discussed with the Supervisory Board of Volkswagen Bank GmbH.

The risk strategy includes all material quantifiable and non-quantifiable risks. Further details and specifics for the individual risk categories are set out in risk sub-strategies and included in operational requirements during the process of business and risk planning.

The Management Board of Volkswagen Bank GmbH is responsible for specifying and subsequently implementing the overall risk strategy in the Volkswagen Bank GmbH Group.

RISK STRATEGY PROCESS



RISK INVENTORY

The objective of the risk inventory, which has to be carried out at least once a year, is to identify the main categories of risk. To this end, all known categories of risk are examined to establish whether they arise and are relevant in the Volkswagen Bank GmbH Group. In the risk inventory, the relevant categories of risk are examined in greater detail, quantified or, if they cannot be quantified, assessed by experts, and then evaluated to determine whether they are material for the Volkswagen Bank GmbH Group. In accordance with the requirements set out in the ECB Guide to the internal capital adequacy assessment process (ICAAP), the risk inventory is carried out using both the economic and normative perspectives and, in addition, a gross approach (i.e. an analysis of the risks that does not take into account specific techniques designed to mitigate the underlying risks).

The risk inventory carried out as per December 31, 2020 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk (credit risk, shareholder risk, issuer risk and counterparty risk), direct residual value risk, interest rate risk in the banking book, other market risk, business risk (earnings risk, strategic risk, reputational risk and business model risk), liquidity risk and operational risk. Other existing subcategories of risk are taken into account within the categories specified above.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

The Volkswagen Bank GmbH Group has set up a system for calculating risk-bearing capacity in accordance with the requirements specified in the ECB Guide to the internal capital adequacy assessment process (ICAAP). In the opinion of the Management Board, the system ensures that the Group maintains risk-bearing capacity from both economic and normative perspectives.

In the economic risk-bearing capacity analysis, the overall economic risk is compared against the risk-taking potential. An institution has the capacity to bear its risk if, as a minimum, all material risks to which the institution are exposed are covered at all times by the institution's risk-taking potential.

The main risks are quantified as part of the economic risk-bearing capacity analysis with a confidence level of 99.9% and a time horizon of one year.

The objective of the normative perspective is to ensure that the Volkswagen Bank GmbH Group meets all relevant regulatory capital ratio requirements (in particular, the requirements for the total capital ratio and CET1 capital ratio) in the planning period. To this end, the Volkswagen Bank GmbH Group analyzes a baseline scenario and a multidimensional adverse scenario over a forward-looking time horizon of three years beyond the current year and constantly monitors its compliance with the regulatory capital requirements and its internally specified early warning thresholds.

In addition, the Volkswagen Bank GmbH Group uses a system of limits derived from the economic risk-bearing capacity analysis to specifically manage risk-cover capital in accordance with the level of risk tolerance determined by the Management Board.

Building on the Bank's risk appetite framework, the risk limit system that has been put in place limits the risk at different levels, thereby aiming to safeguard the economic risk-bearing capacity of the Volkswagen Bank GmbH Group.

Risk-taking potential is determined from the available equity and earnings components subject to deductions (such as undisclosed liabilities). In accordance with a moderate, overarching risk appetite, only a portion (a maximum of 90%) of this risk-taking potential is specified as a risk ceiling or overall risk limit. The overall risk limit is apportioned according to the relevant specific risk appetite to counterparty default risk, direct residual value risk, interest rate risk in the banking book, other market risk, funding risk and operational risk for the purposes of operational monitoring and control. In this process, the limit allocated to counterparty default risk, itself an overarching category of risk, is subdivided into individual limits for credit risk, shareholder risk, issuer risk and counterparty risk. From a qualitative perspective, the specific risk appetite for each category of risk is set at moderate to low based on the business model and risk strategy of Volkswagen Bank GmbH.

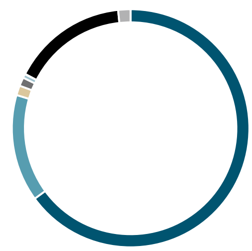
In a second step, the limits for the risk categories (with the exception of those for shareholder risk, issuer risk and counterparty risk) are broken down and allocated at the level of the branches and subsidiaries.

The limit system provides management with a tool that enables it to meet its strategic and operational corporate management responsibilities in accordance with statutory requirements.

The overall economic risk of the Volkswagen Bank GmbH Group as of December 31, 2021 amounted to €2.4 billion. The apportionment of this total risk by individual risk category was as follows:

DISTRIBUTION OF RISKS BY TYPE OF RISK

as of December 31, 2021



CHANGES IN RISK CATEGORY APPORTIONMENT[1]

	€ MILLION		SHARE IN PERCENT	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Risk category				
Credit risk	1,546	1,737	65	63
Shareholder, issuer and counterparty risk	347	330	15	12
Residual value risk	32	34	1	1
Interest rate risk in the banking book (IRRBB)	27	31	1	1
Other market risk (currency and fund price risk)	13	12	1	0
Liquidity risk (funding risk)	1	16	0	1
Operational risk	375	491	16	18
Business risk	40	100	2	4
Total	**2,381**	**2,752**	**100**	**100**

1 The confidence level is 99.9% as standard.

As of December 31, 2021, risk-taking potential amounted to €9.5 billion and comprised CET1 capital (€9.5 billion) plus accumulated earnings after dividend deduction (€0.4 billion) less hidden charges and loss allowance shortfalls (€0.3 billion in total). As of December 31, 2021, 25% of risk-taking potential was utilized by the risks outlined above. In the period January 1, 2021 to December 31, 2021, the maximum utilization of the risk-taking potential in the economic perspective was 29%. In addition to determining the risk-bearing capacity in a normal scenario, the Volkswagen Bank GmbH Group also conducts bank-wide stress tests and reports the results to the Management Board. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of Volkswagen Bank GmbH Group. The purpose of these scenarios is to facilitate early identification of those risks that would be particularly affected by the trends simulated in the scenarios so that any necessary corrective action can be initiated in good time. The stress tests include both historical scenarios (such as a repeat of the financial crisis in the years 2008 to 2010) and hypothetical scenarios (including an economic downturn in Europe or a sharp drop in sales in the Volkswagen Group). In 2021, an ad hoc stress test investigating a contraction in business volume was also carried out. In addition, reverse stress tests are used to identify what events could represent a threat to the ability of the Volkswagen Bank GmbH Group to continue as a going concern.

In 2021, the calculations of risk-bearing capacity confirmed that all material risks that could adversely impact the financial position or financial performance were adequately covered by the available risk-taking potential at all times. The stress tests did not indicate any need for action.

RISK CONCENTRATIONS

The Volkswagen Bank GmbH Group is a captive finance company 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)
> Volkswagen Bank GmbH's income is generated from just a few sources (income concentrations)

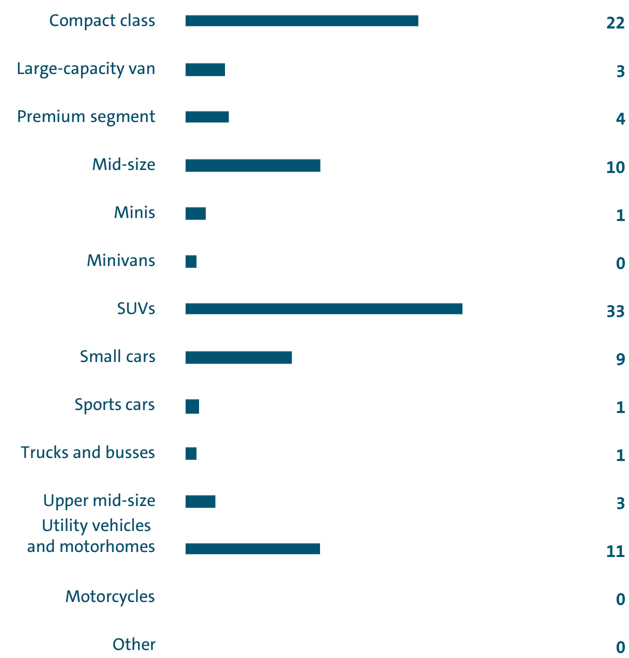
One of the objectives of the Volkswagen Bank GmbH Group's risk policy in its business model is to reduce such concentrations by means of broad diversification.

Counterparty concentrations from customer business are only of minor significance in the Volkswagen Bank GmbH Group because of the large proportion of business accounted for by retail lending. From a regional perspective, the Volkswagen Bank GmbH Group has a concentration of business in the German market, but looks to achieve broad nationwide diversification within the country.

In contrast, sector concentrations in the dealership business are a natural part of the business for a captive finance company and these concentrations are therefore individually analyzed. Overall, no noticeable impact has been identified, even in periods of economic downturn such as that caused by the Covid-19 pandemic. As of December 31, 2021, the default rate in dealer financing was 4.6% compared with 4.9% as of December 31, 2020 and 4.6% as of December 31, 2019.

Likewise, a captive finance company cannot avoid collateral concentrations because the vehicle is the predominant collateral asset by virtue of the business model. Risks can arise from concentrations of collateral if downward pricing trends in used vehicle markets or segments lead to lower proceeds from the recovery of assets and, as a consequence, there is a fall in the value of the collateral. Nevertheless, in terms of the vehicles used as collateral, the Volkswagen Bank GmbH Group enjoys a broad diversification across all vehicle segments (see following diagram) based on a large range of vehicles from the different brands in the Volkswagen Group.

COLLATERAL STRUCTURE AS OF DECEMBER 31, 2021
figures in %



This vehicle diversification also means that there is no residual value concentration in the Volkswagen Bank GmbH Group.

Income concentration arises from the very nature of the business model. The special constellation in which the Bank serves to promote Volkswagen Group sales results in certain dependencies that directly affect income growth.

MODEL RISK

Model risk arises from inaccuracies in the modeling of risk values and must be taken into account, particularly in complex models.

Depending on model complexity, model risk can occur in a number of areas of model development and application.

Potential model risks relating to the risk models used for the risk-bearing capacity analysis are qualitatively assessed both in the original model development process and as part of regular independent model validation. The objective is to examine the need for additional cover in relation to such risks in the form of own funds.

ESG RISKS

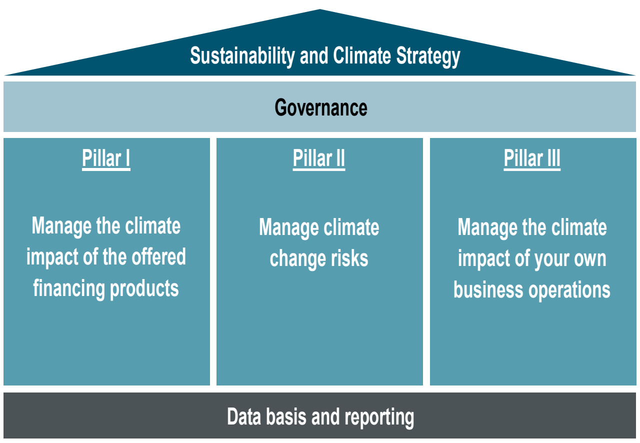
The trend toward sustainability and the management of ESG risks is currently changing the financial system. The Bank intends to be proactively involved in these changes and make the most of the opportunities that arise.

In this context, Volkswagen Bank GmbH, in its role as a provider of financial products across Europe serving the automotive and individual mobility markets, sees sustainability as a business responsibility and critical strategic success factor.

Against this backdrop, the Management Board believes that Volkswagen Bank GmbH is taking a broadly based and in-depth approach to the whole issue of sustainability, the various aspects of which touch all areas of the Bank's business. An overarching project has been established to manage relevant activities. Climate and the environment are key areas of focus.

The ECB's supervisory expectations published in its guide on climate-related and environmental risks are also being incorporated.

The Sustainability project is structured according to the following three-pillar model.



The business and risk strategies set out the fundamental understanding of the focus area and, together with the risk strategy guidelines, describe the operational framework for addressing it.

Volkswagen Bank GmbH attaches particular importance to the treatment of sustainability risks that could have negative consequences for the financial position, financial performance and reputation of the Bank if such risks were to materialize. In addition, the Bank is responding to changing customer needs. These needs are manifested in increasing demand for environmentally friendly and climate-neutral products, and for businesses to behave in a sustainable manner.

Going forward, the risk drivers specific to climate and the environment will play a significant role in the risk category structure and will be included in the risk assessment and management system. Various approaches are being pursued in this regard. For example, the plans include scenario analyses, reviews to establish whether risk models and risk assessment methods can be appropriately refined and risk management via KPIs.

Volkswagen Bank GmbH is a captive finance company and its vehicle financing business is specifically aimed at the retail customer market and dealership financing. The Bank's business model thus does not cover especially emissions-intensive industries. One of Volkswagen Bank GmbH's declared objectives is to provide stewardship for an environmentally friendly transformation process at dealerships and also among retail customers. In this way, the Bank aims to provide the best possible support for the turn towards electric mobility in the Volkswagen Group.

More attention is also being paid to sustainability principles from a funding perspective. In this case, the objective is to base funding to a greater extent on sustainability criteria from now on. Sustainability criteria will also be included in the Bank's own investment guidelines.

Volkswagen Bank GmbH is making major efforts to ensure that its own banking operations are largely climate-neutral and prevent the danger of serious environmental damage.

For example, high priority is being accorded to environmental protection measures such as reducing energy, water and paper consumption, cutting carbon emissions and generating less waste.

In addition, the Bank constantly examines factors, particularly those of an environmental nature, that could constitute a potential hazard for employees, buildings or technologies, investigates ways to minimize such risks and includes them in its impact analyses.

Furthermore, Volkswagen Bank GmbH has a tradition of supporting specific social and environmental protection projects through donations and sponsorship (such as wetlands restoration projects run by NABU [Nature And Biodiversity Conservation Union in Germany]).

RISK REPORTING

A detailed risk management report is submitted to the Management Board and to the Supervisory Board of Volkswagen Bank GmbH on a quarterly basis. The following information is included in the risk management report:

> Overall commentary on the risk position
> Results of the risk-bearing capacity analysis using the economic and normative perspectives
> Key figures for credit risk and residual value risk at the level of the Volkswagen Bank GmbH Group, currently, over time and by market
> Presentation and evaluation of other counterparty default risks (shareholder risk, issuer risk and counterparty risk)

- Presentation and evaluation of liquidity risk, interest rate risks in the banking book, other market risks and operational risk
- Overview of outsourcing activities and business continuity management
- Overview of ad hoc cases and newly authorized products

The following information is also presented to the Management Board in the quarterly ICAAP report:

- Presentation and evaluation of stress test results in various scenarios (historical and hypothetical)
- Sensitivity analyses (by risk category)
- Normative/economic reconciliation of capital requirement (for each risk category)
- Commentary on the changes in risk-bearing capacity in the individual perspectives and scenarios

Ad hoc reports and specific risk category reports are generated as needed to supplement the system of regular reporting.

Volkswagen Bank GmbH strives to maintain the high quality of the information contained in the risk reports about structures and trends in the portfolios by mean of a process of constant refinement and ongoing adjustment in line with current circumstances.

RECOVERY AND RESOLUTION PLANNING

During the course of fiscal year 2021, the Volkswagen Bank GmbH Group updated its Group-wide recovery plan and submitted it to the ECB (the competent supervisory authority).

The recovery plan covers matters including a system to ensure that adverse developments are identified promptly, and the possible measures that could be used by the Group in different stress scenarios to safeguard or restore a robust financial footing. The update to the recovery plan in 2021 focused in particular on an analysis of the Group's ability to recover based on two adverse scenarios. One of the scenarios simulated a serious pandemic and the second scenario assumed a massive cyber attack during a pandemic.

The recovery plan also sets out the responsibilities and the processes to be followed in the management of a crisis and specifies a Group-wide set of recovery indicators to support ongoing monitoring. The recovery indicators are spread over different corporate units so that a broad range of indicators is covered. The range includes capital, liquidity, profitability and market-based indicators, all of which are continually monitored. The Management Board and the Supervisory Board are notified on a quarterly basis of the status of the recovery indicators as of the reporting date in question in the risk management report.

Volkswagen Bank GmbH has additionally assisted the competent resolution authorities with the preparation of a resolution plan during the current fiscal year. The objective of the resolution plan is to safeguard the resolution capability of the Bank. This involves Volkswagen Bank GmbH providing the resolution authorities with information and analyses for this purpose in accordance with its supporting duties as defined in Section 42 of the SAG.

Volkswagen Bank GmbH complied with the applicable bank-specific minimum requirement for own funds and eligible liabilities (MREL) at all times in 2021.

REGULATORY ISSUES IN RISK MANAGEMENT

As already observed in the past, it is likely that there will continue to be an uninterrupted flow of new regulatory requirements in the future.

The regulatory requirements on nonperforming loans (NPLs) are currently of particular relevance to risk management at Volkswagen Bank GmbH. The supervisory expectations for an appropriate level of loss allowances in accordance with the supplementary guidance from the ECB on NPLs are especially noteworthy in this regard in addition to the basic ECB expectations and EBA requirements for the management of NPLs. The Prudential Backstop Regulation also has implications for risk management. Volkswagen Bank GmbH is continually refining and optimizing its recovery and resolution processes, taking into account the regulations referred to above.

The Bank has updated its standards for assessing and granting lending in response to the new EBA guidelines on loan origination and monitoring. Some of the procedural aspects tailored to the particular needs of Volkswagen Bank GmbH were implemented for new loans by June 30, 2021. The aim was to generate added value in the sense of an improvement to the credit risk management system. The other requirements, including the necessary IT, are scheduled for gradual implementation by June 30, 2024 in accordance with the EBA's transitional provisions.

The requirements arising from the EBA guidelines on outsourcing arrangements must also be incorporated into the risk management system. The guidelines include detailed requirements for due diligence, risk analysis and documentation for outsourcing arrangements. There are also additional requirements relating to the terms and conditions in outsourcing agreements and their monitoring as well as relating to the extension of termination rights. These requirements concern in particular compliance with IT security standards and outsourcing to cloud service providers. Under the EBA guidelines, the requirements relating to sub-outsourcing are also substantially expanded. The EBA guidelines on outsourcing will require modification of existing contracts; there was be a transition period up to December 31, 2021 for these changes. Outsourcing is also subject to further requirements as a result of the Finanzmarktintegritätsstärkungsgesetz (FISG – Financial Market Integrity Strengthening Act), which provided for implementation by January 1, 2022. These requirements mainly concern an obligation to notify an intention to establish material outsourcing arrangements or make material changes to significant existing outsourcing arrangements and notify the implementation of such arrangements or changes. In this regard, the German Federal Financial Supervisory Authority (BaFin) launched a consultation process in December of the reporting year on the changes to the notification requirements.

Supervisory authorities are also increasingly focusing on information and communication technology (ICT) risk. Relevant requirements have been issued in the EBA guidelines on ICT risk assessment and in BaFin's supervisory requirements for IT in financial institutions (BAIT), which were most recently revised on August 16, 2021 and form the basis for Volkswagen Bank GmbH's approach. Against the background of the increasing risk of cyber attacks, the draft published by the European Commission in 2020 for an EU regulation on digital operational resilience for the financial sector (DORA), the aim of which is to achieve a uniform high level of digital operational resilience, is of particular significance with regard to harmonized requirements for the security of network and information systems. However, most of these requirements are already known from the EBA's guidelines on ICT and security risk management and BAIT.

Further adjustment requirements arose from the revised MaRisk published on August 16, 2021, although the vast majority of the requirements had already been issued in EBA guidelines. Key aspects of the revised MaRisk were requirements relating to nonperforming loans, outsourcing arrangements, business continuity management (undoubtedly a response to the experience garnered during the Covid-19 pandemic) and operational risk, the management and prevention of which is becoming increasingly important for banks. With regard to the expansion of the data management requirements to include significant institutions, BaFin has clarified that this does not involve any extension of the requirements beyond the expectations communicated by the ECB in 2019. Volkswagen Bank GmbH is continuing to develop its data management systems with reference to regulatory expectations.

Regarding operational risk, the Basel Committee has in the last year extended its principles for managing operational risk to include ICT risk. The Basel Committee has also published a paper focusing on the principles for operational resilience at banks. For the purposes of creating a forward-looking risk management system, Volkswagen Bank GmbH has used these publications as a stimulus for further development as part of a preliminary study.

To add to this, regulatory requirements to include climate and environmental risks, including transition risk, as part of ESG risks will become more important over the next few years. These risks will need to be included when identifying, assessing, monitoring and controlling risk if they are determined as material drivers behind known categories of risk. In this regard, it is particularly worth mentioning the ECB's guide on climate-related and environmental risks for banks published on November 27, 2020. Volkswagen Bank GmbH is taking the guide's requirements into account going forward and has produced a related action plan, which is being continually refined and implemented in stages.

At the end of October in the reporting year, the European Commission published its Banking Package with its draft amendments to the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR). The aim is largely to implement Basel IV, which the Basel Committee also refers to as the completion of Basel III. The main requirements are to be implemented by January 1, 2025. One of the other key aspects in the draft CRD VI – which would still have to be transposed into German law after completion of the European legislative procedure – is the issue of ESG risks, including transition risks, that could arise if a business model is inadequately adjusted or upgraded. The Commission's draft for CRD VI therefore provides that banks should draw up transition plans for the future to counter these risks. Volkswagen Bank GmbH is a captive provider and its support for the transition to a low-carbon economy by offering appropriate financing arrangements is likely to depend to a large extent on the transition at Volkswagen AG and at the other brand manufacturers in the Volkswagen Group.

NEW PRODUCT AND NEW MARKET PROCESS

Before launching new products or commencing activities in new markets, the Volkswagen Bank GmbH Group first runs through its new product and new market process. All the units involved (such as Risk Management, Controlling, Accounting, Legal Affairs, Compliance, Treasury, IT) are integrated into the process. The process for every new activity involves the preparation of a written concept, which includes an analysis of the risks associated with the new product or market and a description of the possible implications for management posed by the risks. Responsibility for approval or rejection lies with the relevant members of the Management Board of Volkswagen Bank GmbH or those with delegated authority from the Management Board, and, in the case of new markets, also with the members of the Supervisory Board.

The Bank maintains a product manual containing details of all products and markets intended to form part of the business activities.

CHANGES TO OPERATING PROCESSES OR STRUCTURES

A materiality analysis must be carried out before any changes are made to the operational and organizational structure or to IT systems.

The degree to which a change is material is determined on the basis of answers to a questionnaire, thereby analyzing the impact of planned changes on control procedures and on the extent of such controls.

The organizational units that will be involved in the future workflows are included in the preliminary stages of any proposed changes. The Risk Management and Compliance units also give their opinion and details of proposed changes are passed to Internal Audit, which provides implementation advice on a case-by-case basis.

OVERVIEW OF RISK CATEGORIES

FINANCIAL RISKS	NONFINANCIAL RISKS
Counterparty default risk	Operational risk
Interest Rate Risk in the Banking Book (IRRBB)	Compliance, conduct and integrity risk
Other market risk (currency and fund price risk)	Outsourcing risk
Liquidity risk	
Residual value risk	
Business risk	

IMPACT OF THE COVID-19 PANDEMIC ON RISK CATEGORIES

The Covid-19 pandemic continued to present challenges for both employees and customers of Volkswagen Bank GmbH in 2021.

The situation was compounded in 2021 by the semiconductor bottlenecks caused by a number of factors, such as lockdowns to cope with the Covid-19 pandemic, simultaneous heightened demand for semiconductors, especially in the consumer electronics industry, and logistics problems. The impact of the semiconductor shortage was reflected in lower new vehicle production and therefore fewer opportunities for the Volkswagen Bank GmbH Group to offer its financing solutions, leading to a sustained contraction in the volume of loans and receivables in 2021 (down by €5.5 billion as of December 2021 compared with December 2020). The shortage of new vehicles, and therefore of new vehicle financing, was only partially offset by the used vehicle business. To add to this, dealers sharply reduced their use of credit facilities in 2021 because of the lack of available new vehicles. Currently, manufacturers are unable to satisfy the high demand for new vehicles because of the persistent semiconductor bottlenecks and dealers are also unable to restock their inventories after selling vehicles.

Despite the volume challenges, the quality of the lending portfolio remained at a stable level in 2021. The default rate remained steady and was still at 2.9% as of December 2021 (previous year: 2.9%). The percentage provision for credit risks declined slightly to 2.1% as of December 2021 (previous year: 2.3%). Any credit risks were taken into account in the recognition of the provision for credit risks in 2021. Based on various scenario calculations, the Volkswagen Bank GmbH Group should be prepared for potentially conceivable developments and has factored the current circumstances into the provision for credit risks recognized as of the end of 2021.

In the reporting year, the semiconductor bottlenecks and thus the lower availability of new vehicles generated an uptrend in the used vehicle market and a gain for the Volkswagen Bank GmbH Group from the remarketing of vehicles. This trend had a positive impact on direct residual value risks.

We have not identified any implications of the Covid-19 pandemic in the other categories of risk. In 2022, we will continue to monitor developments in the Covid-19 pandemic and the impact thereof on credit risk and other risk categories very closely, and will respond proactively as required.

FINANCIAL RISKS

Counterparty Default Risk

Counterparty default risk refers to a potential negative variance between actual and forecast counterparty risk outcomes. The forecast outcome is exceeded if the loss incurred as a consequence of defaults or changes in credit rating is higher than the expected loss.

In the Volkswagen Bank GmbH Group, counterparty default risk encompasses the following risk categories: credit risk, counterparty risk, issuer risk, country risk and shareholder risk.

Credit Risk

Credit risk is defined as the danger of incurring losses as a result of defaults in customer business (retail and corporate), 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.

Credit risk, which also includes counterparty default risk in connection with leases, accounts by far for the greatest proportion of risk exposures in the counterparty default risk category.

The aim of a systematic credit risk monitoring system is to identify potential borrower or lessee insolvencies at an early stage, initiate any corrective action in respect of a potential default in good time and anticipate possible losses by recognizing appropriate write-downs or provisions.

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.

Risk Identification and Assessment

Lending or credit decisions in the Volkswagen Bank GmbH Group are made primarily on the basis of the borrower credit check. 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 rating systems. The Bank also has a rating manual which specifies how the rating systems are to be applied as part of the loan approval process. Similarly, other written procedures specify the parameters for developing, using and validating the scoring systems in the retail business.

To quantify credit risk, an expected loss (EL) and an unexpected loss (UL) are determined at portfolio level for each entity. The UL is the value at risk (VaR) less the EL. The calculations use an asymptotic single risk factor model (ASRF model) in accordance with the capital requirements specified by the Basel Committee on Banking Supervision (Gordy formula) taking into account the credit quality assessments from the individual rating and scoring systems used.

Rating Systems for Corporate Customers

The Volkswagen Bank GmbH Group uses rating systems to assess the credit quality 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 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.

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 are used at risk pool level, depending on portfolio size and the risk inherent in the portfolio.

Supervision and Review of Retail and Corporate Systems

The models and systems supervised by Risk Management are regularly validated and monitored using standardized procedural models for validating and monitoring risk classification systems. The models and systems are adjusted and refined as required. These review procedures are applied to models and systems for assessing credit quality and estimating the probability of default (such as rating and scoring systems) and to models used for estimating loss given default and estimating credit conversion factors.

In the case of the retail models and systems for credit assessment supervised by local risk management units outside Germany, Risk Management reviews the quality of these models and systems on the basis of the locally implemented validation processes, determines action plans in collaboration with the local risk management units if a need for action is identified and monitors the implementation of those action plans. In the validation process, particular attention is paid to a review of the discriminant power of the models and an assessment of whether the model calibration is appropriate to the risk. The models and systems for corporate customers are handled in the same way, although a centralized approach is used for the supervision and validation thereof.

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. Further local regulations (collateral policies) set out specific values and special regional requirements that must be observed.

The values in the collateral policies are based on historical data and experience accumulated by experts over many years. As the operating activities of the Volkswagen Bank GmbH Group focus on retail and dealership financing, the vehicles themselves are hugely important as collateral assets. For this reason, trends in the market values of vehicles are closely monitored and analyzed. Procedures provide for adjustments to evaluation systems and vehicle remarketing processes if there are substantial changes in the market values of vehicles.

Risk Management also carries out quality assurance tests on local collateral policies on a regular basis. This includes a review of collateral values and implementation of any necessary adjustments.

Provisions

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

The following average values have been determined for the aggregate active portfolio (i.e. portfolio of loans and receivables not in default) based on a time horizon of twelve months: probability of default (PD) of 2.7% (previous year: 3.0%); loss given default (LGD) of 21.2% (previous year: 29.2%) and total volume of loans and receivables based on the total portfolio less exposures in default of €47.5 billion (previous year: €52.8 billion).

Risk Monitoring and Control
Risk Management sets framework constraints 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). Approval or reporting limits determined by (the) Volkswagen Bank GmbH (Group) are also used to manage credit risk. These limits are specified separately for each individual branch and subsidiary.

Trends
Following an initial moderate trend in credit risk, the risk level was shaped by the sustained semiconductor supply bottlenecks over the rest of fiscal year 2021. The shortage of semiconductor chips led to a significant fall in the volume of loans and receivables in the credit risk portfolio (down by €5.5 billion year-on-year as of December 2021).

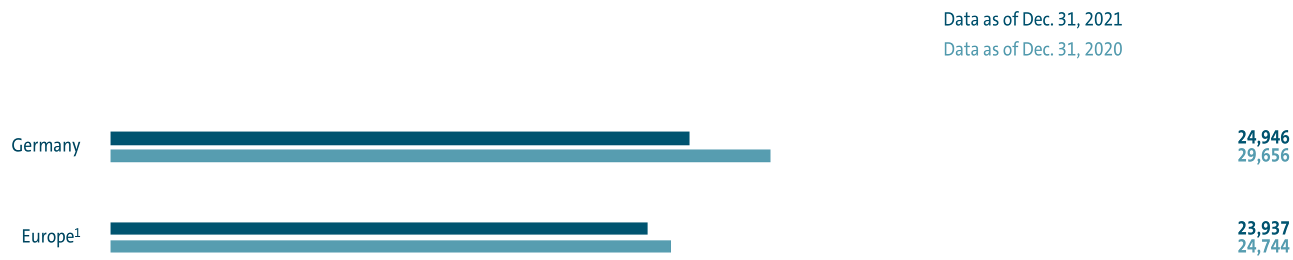
Retail Portfolio
The semiconductor shortage and the associated slump in new business led to a contraction in the volume of loans and receivables in the Volkswagen Bank GmbH Group's retail portfolio in 2021 because the level of new business was no longer sufficient to offset the existing business that matured during the year. The lack of available new vehicles particularly affected new business and only some of the shortfall was offset by the growth in used vehicle business. As of December 2021, the volume of loans and receivables in the retail portfolio had contracted by €3.5 billion year-on-year. The fall in the volume of loans and receivables was attributable to the trend in the German retail portfolio (down by €4.2 billion year-on-year as of December 2021), although persistently strong demand for the retail products in Italy and France in 2021 did generate a slight rise in the volume of loans and receivables. In Italy, the volume of loans and receivables went up by €463 million as of December 2021 compared with December 2020 and in France the equivalent figure rose by €411 million year-on-year. In Italy and France, the shortage of semiconductors and thus new vehicle business has been partially offset by the used vehicle business as yet.

Overall, credit risk in the Volkswagen Bank GmbH Group's retail portfolio has remained stable. In 2021, the default rate saw just a marginal rise from 2.2% as of December 2020 to 2.3% as of December 2021. The percentage provision for credit risks declined from 1.7% as of December 2020 to 1.6% as of December 2021.

Corporate Portfolio
The volume of loans and receivables in the corporate portfolio of the Volkswagen Bank GmbH Group likewise declined considerably in fiscal year 2021 (year-on-year decrease of €2.0 billion as of December 2021). This was attributable to a contraction in the dealer financing portfolio (down by €2.6 billion as of December 2021 compared with December 2020) as dealers made less use of their credit facilities due to the semiconductor shortage.

Risk in the corporate portfolio remained stable with a slight fall in the default rate (from 4.9% as of December 2020 to 4.5% as of December 2021) and a slight decrease in the percentage provision for credit risks (from 4.2% as of December 2020 to 3.8% as of December 2021).

BREAKDOWN OF CREDIT VOLUME BY REGION
in € million



1 Figures before application of consolidation effects
2 Europe excluding Germany

BREAKDOWN OF LENDING VOLUME BY PD BAND AND PORTFOLIO1
€ million

PD band	Retail	Corporate	Total
< = 1%	14,965	4,612	19,576
	30.6%	9.4%	40.0%
> 1% < 100%	20,773	7,138	27,912
	42.5%	14.6%	57.1%
100%	841	554	1,395
	1.7%	1.1%	2.9%
Total	**36,579**	**12,304**	**48,883**
	74.8%	25.2%	100.0%

1 Figures before application of consolidation effects

Counterparty/Issuer Risk

Counterparty risk arises in connection with interbank investments, derivatives and pension funds. Counterparty risk is a subcategory of counterparty default risk and describes the risk that a counterparty may be unable to make payments of interest and/or repayments of principal as contractually required. Similarly, issuer risk is the risk that the issuer of a security could become insolvent during the maturity of the product and, as a consequence, some or all of the invested capital, including the expected interest payments, has to be written off. Issuer risk results from the purchase of securities to optimize liquidity management and to fulfill statutory and/or regulatory requirements.

The objective in the management of counterparty and issuer risk is to identify potential defaults in a timely manner, so that corrective action can be initiated at an early stage as far as possible. Another important objective is to ensure that the Bank only takes on risks within the approved limits.

If a counterparty or issuer risk were to materialize, this would represent the potential loss of a business asset, which would have a negative impact on financial position and financial performance.

Risk Identification and Assessment

Both counterparty risk and issuer risk are recorded as components of counterparty default risk. Counterparty and issuer risks are determined by estimating the portfolio loss distribution using a Monte Carlo simulation and quantified in terms of the value-at-risk or unexpected loss thus calculated.

Risk Monitoring and Control

To establish effective monitoring and control, volume limits are specified for each counterparty and issuer. The Treasury Backoffice, in its role as a subsidiary function of Risk Management, is responsible for monitoring compliance with these limits. The volume limit is set at an appropriate level based on the needs of the market and the credit assessment. The Back Office department is responsible for the initial classification and then regular reviews. The relevant credit applications are then submitted to the decision-makers for a decision. Risk Management analyzes counterparty and issuer risks quarterly as part of the calculation of risk-bearing capacity. Counterparty and issuer risk is reported to the Management Board in the quarterly risk management report.

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. The Volkswagen Bank GmbH Group has to take into account country risk particularly in connection with funding and equity investment activities involving foreign companies and in connection with the lending business. Given the focus of business activities in the Volkswagen Bank GmbH Group, only limited country risks could arise as the Group is not usually involved in cross-border lending business, with the exception of intercompany loans. Cross-border activities account for less than 1% of lending business. The conventional country risk analysis is not applicable to intercompany lending because, if the difficulties described above were to occur, the funding of the entities through lending could be extended if necessary, thereby ensuring that the entities could continue to operate in the strategic market concerned. For these reasons, there has been no need to establish limits related to the overall level of business for countries or regions, for example, to limit transfer risk.

Shareholder Risk

Shareholder risk refers to the risk that after contributions of capital or loans regarded as equity are made to a company, losses with negative effects on the carrying amount of the shareholding might occur (e.g. silent contributions). In principle, the Volkswagen Bank GmbH Group only makes such equity investments to help achieve its corporate objectives. The investments must therefore support the Bank's own operating activities and be as intended a long-term holding.

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 in the Volkswagen Bank GmbH Group would be adversely affected by write-downs recognized in profit or loss.

Risk Identification and Assessment

Shareholder risk is quantified on the basis of the carrying amounts of the equity investments and a probability of default and loss given default assigned to each equity investment using an ASRF model. Simulations are also carried out involving stress scenarios with rating migrations (upgrades and downgrades) or complete loss of equity investments.

Risk Monitoring and Control

Equity investments are integrated into the annual strategy and planning process of the Volkswagen Bank GmbH Group. 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 entities themselves.

Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book (IRRBB) consists of potential losses arising 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. The Volkswagen Bank GmbH Group is exposed to interest rate risk in its banking book.

Changes in interest rates that cause interest rate risk to materialize could have a negative impact on results of operations.

The objective of interest rate risk management is to keep the financial losses arising from this category of risk as low as possible. With this in mind, the Management Board has agreed limits for this category of risk. If limits are exceeded, the situation is escalated on an ad hoc basis to the Management Board and the Asset Liability Management Committee (ALM Committee). Action to reduce risk is discussed and initiated by the ALM Committee.

As part of risk management activities, market risk is included in the monthly risk report with a transparent analysis based on value at risk (VaR), a calculation offsetting the total market risk against the loss ceiling set for the Volkswagen Bank GmbH Group, and recommendations for targeted measures to manage the risk.

Risk Identification and Assessment

Interest rate risk for the Volkswagen Bank GmbH Group is determined as part of the monthly monitoring process using the value at risk (VaR) method with a 60-day holding period and a confidence level of 99%.

The model is based on a historical simulation and calculates potential losses taking into account 1,460 historical market fluctuations (volatilities). Negative interest rates can also be processed in the historical simulation and are factored into the risk assessment.

The VaR calculated for operational management purposes estimates potential losses under historical market conditions, but stress tests are also carried out for forward-looking situations in which interest rate exposures are subject to exceptional changes in interest rates and worst-case scenarios. The results from the simulations are analyzed to assess whether any of the situations could represent a serious potential risk. This process also includes the monthly quantification and monitoring of the changes in present value resulting from the interest rate shock scenarios of +200 basis points and –200 basis points as specified by the German Federal Financial Supervisory Authority (BaFin) and from the scenarios relating to interest rate risk in the banking book specified by the ECB and the Basel Committee on Banking Supervision.

The calculation of interest rate risk uses notional maturities to take into account early repayments under termination rights. The behavior of investors with indefinite deposits is analyzed using internal models and methods for managing and monitoring interest rate risk.

Risk Monitoring and Control

Treasury is responsible for the management of this risk on the basis of decisions made by the ALM Committee. Interest rate risk is managed on the basis of limits using interest rate derivatives. The hedging contracts entered into by the Group mainly comprise interest rate swaps and cross-currency interest rate swaps. Hedged banking book items are assigned to each individual swap (micro hedges). Fair value hedges and cash flow hedges are thus used at micro level to hedge interest rate risk. Hedge ineffectiveness in micro-hedge accounting results from differences between the mark-to-market (fair value) measurement of hedged items and that of hedging instruments. Other factors (e.g. in relation to counterparty risk) are only of minor significance as regards hedge ineffectiveness. Individual yield curves are used when determining forward interest rates and prices and also when discounting future cash flows for hedged items and hedging instruments in order to obtain a measurement in line with the market. Risk Management is responsible for monitoring and reporting on interest rate risk.

The Management Board of Volkswagen Bank GmbH receives a separate report on the latest interest rate risk position in the Volkswagen Bank GmbH Group each month.

Trends

The changes in interest rate risk in the banking book at the level of the Volkswagen Bank GmbH Group were within the set limits.

Other Market Risk (Currency and Fund Price Risk)

Currency risk arises from foreign exchange exposures and potential changes in the corresponding exchange rates. The Volkswagen Bank GmbH Group is exposed to structural currency risks. These risks arise from the equity investments in the relevant local currency in the foreign branches in the UK and Poland.

The risk in connection with fund investments arises from possible changes in market prices. Fund price risk describes the risk relating to changes in market prices which can cause the value of portfolios of securities to fall, thereby giving rise to a loss.

The Volkswagen Bank GmbH Group is exposed to fund price risk solely from its employee post-employment benefit arrangements that are funded by pension plan assets consisting of fund investments (pension fund price risk). The Volkswagen Bank GmbH Group has undertaken to meet these pension obligations to employees if the employees' guaranteed entitlements can no longer be satisfied from the pension trust and covers these obligations by recognizing pension provisions.

The objective of currency and fund price risk management is to keep the financial losses arising from these categories of risk as low as possible. With this in mind, the Management Board has agreed limits for this category of risk. As part of risk management activities, currency risk and fund price risk are included in the quarterly risk report with a transparent analysis based on value at risk (VaR), a calculation offsetting the risk against the loss ceiling set for the Volkswagen Bank GmbH Group.

The level of currency risk and fund price risk is not material in relation to the total portfolio of the Volkswagen Bank GmbH Group.

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. This results in a distinction between illiquidity risk (day-to-day cash flow risk including deposit withdrawal/commitment drawdown risk and the risk of delayed repayment of loans on maturity), funding risk (structural liquidity risk) and market liquidity risk.

The primary objective of liquidity management in the Volkswagen Bank GmbH Group is to safeguard the ability of the Group to meet its payment obligations at all times. To this end, the Volkswagen Bank GmbH Group holds liquidity reserves in the form of securities deposited in its operational safe custody account with a number of banks, including Deutsche Bundesbank.

If liquidity risk were to materialize, funding risk would result in higher costs and market liquidity risk would result in lower selling prices for assets, both of which would have a negative impact on financial performance. The consequence of illiquidity risk in the worst-case scenario is insolvency caused by illiquidity. Liquidity risk management in the Volkswagen Bank GmbH Group ensures that this situation does not arise.

Risk Identification and Assessment

In line with the requirements of the ECB's Supervisory Review and Evaluation Process (SREP), the Volkswagen Bank GmbH Group has a sound and effective internal liquidity adequacy assessment process (ILAAP). In addition, the Volkswagen Bank GmbH Group has a comprehensive range of tools appropriate to its business model and business strategy to enable it to measure, monitor and control liquidity risk and the relevant risk subcategories.

In conjunction with various ILAAP metrics, the normative and economic perspectives of liquidity adequacy are assessed over short-, medium- and long-term time horizons. The Volkswagen Bank GmbH Group ensures that it has appropriate liquidity adequacy at all times by measuring and limiting the ILAAP metrics. In the normative perspective, the liquidity coverage ratio (LCR) is used to assess the short-term liquidity risk; this approach is complemented by an analysis of the net stable funding ratio (NSFR), which is a longer-term structural liquidity ratio. The economic perspective also distinguishes between the analysis time horizons. For the purposes of safeguarding solvency at all times, utilization limits are specified for potential funding over the short- and medium-term time horizons. In this regard, the survival period functions as a key indicator as part of the recovery plan. Unexpected funding risks are quantified in order to manage the medium- to long-term funding structure. Liquidity adequacy is evaluated using a baseline scenario and multiple adverse scenarios, and is complemented by reverse stress tests. Stress tests are applied to funding matrices using a scenario approach with scenario triggers from the Bank itself or the market, or a combination of the two. Two approaches are used to determine the parameters for these stress scenarios. The first approach uses observed historical events and specifies different degrees of impact from hypothetical, but conceivable events. To quantify the funding risk, this approach takes into account the relevant aspects of illiquidity risk and changes in spreads driven by credit ratings or the market. A risk assessment is a key component in the system to ensure appropriate liquidity adequacy at all times. All ILAAP metrics are linked with other elements of the ILAAP (including liquidity contingency plan, recovery plan) to ensure that an effective overall process is in place. Funding risk is also included in the calculation of risk-bearing capacity for the Volkswagen Bank GmbH Group.

In addition to ensuring appropriate liquidity management, the Group prepares funding matrices, carries out cash flow forecasts and uses this information to determine the relevant range of liquidity coverage.

Risk Monitoring and Control

To manage liquidity, the Operational Liquidity Committee (OLC) holds meetings every two weeks to monitor the current liquidity situation and the range of liquidity coverage. It prepares any necessary decisions (such as those on funding measures) for the decision-makers.

Risk Management communicates the main risk management information and relevant early warning indicators relating to illiquidity risk and funding risk. As far as illiquidity risk is concerned, these indicators involve appropriate threshold values for determined degrees of utilization over various time horizons, taking into account access to relevant sources of funding. The indicators relating to funding risk are based on potential funding costs, which are monitored using a system of limits.

A further strict requirement imposed under banking regulations is the need to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and 30-day time horizons. For this reason, a contingency plan with an appropriate list of measures for obtaining liquidity has already been drawn up so that it can be implemented in the event of a liquidity squeeze.

Risk Communication

The ILAAP is a permanent component of the management framework. This means there is regular reporting on all key elements of the ILAAP to the Management Board.

The members of the Management of Volkswagen Bank GmbH are informed on a daily basis of outstanding funding and the value of the securities in the operational safe custody account held with Deutsche Bundesbank.

Trends

Liquidity risk at the level of the Volkswagen Bank GmbH Group remained stable.

Neither the shortage of semiconductors nor the Covid-19 pandemic caused any unexpected liquidity outflows whatsoever. Funding instruments remained available and stable at all times. The main ILAAP metrics remained within the specified limits at all times.

Residual Value Risk

Residual value risk arises from the fact that the predicted market value for an asset leased or financed could turn out to be lower upon remarketing at the end of the contract than the residual value calculated when the contract was concluded, or that the sales revenue realized could be less than the carrying amount of the vehicle in the event of the contract ending early if legal contract termination options are exercised. On the other hand, there is an possibility that remarketing could generate proceeds greater than the calculated residual value or carrying amount.

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 the Volkswagen Bank GmbH Group. An indirect residual value risk arises if the residual value risk has been transferred to a third party (such as a dealership) on the basis of a contractual agreement. In such cases, there is a counterparty default risk in respect of the bearer of the residual value risk. If the bearer of the residual value risk defaults, the Volkswagen Bank GmbH Group's indirect residual value risk becomes relevant in that the indirect residual value risk passes back to the Volkswagen Bank GmbH Group and becomes a direct residual value risk. In other words, the Volkswagen Bank GmbH Group re-assumes responsibility for remarketing the vehicles.

The objective of residual value risk management is to keep the risks within the agreed limits. The net assets and financial performance of the Volkswagen Bank GmbH Group would be adversely affected by losses on disposal or impairment losses if the residual value risk were to materialize. 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.

Risk Identification and Assessment

Direct residual value risks are quantified on the basis of expected loss (EL) and unexpected loss (UL). The EL equates to the difference between the latest forecast as of the measurement date of the remarketing proceeds on expiration of the contract and the contractual residual value specified at the inception of the lease for each vehicle. Other parameters such as remarketing costs are also taken into account in the calculation. The portfolio EL 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 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.

To determine the UL, the change is measured between the projected residual value one year before the sale and the actual selling price achieved (adjusted for damage and mileage variances). In a first step, the change in value is determined for each individual lease for each period. However, given the size of the portfolio and the huge number of vehicles, systematic risk is significant and a second step is therefore carried out in which the average change in value compared with projected residual values is determined over several periods. The resulting markdown is calculated using the quantile function of the normal distribution with a specified confidence level.

The UL is calculated by multiplying the latest projected residual value by the markdown. As in the calculation of the EL, the UL portfolio is determined by aggregating the ULs of the individual vehicles. This figure is determined quarterly. The results from the calculation of the EL and UL are fed in to the assessment of the risk situation, e.g. they are one of the factors used in assessing the adequacy of the provisions for risks and are included in the calculation of risk-bearing capacity.

In the case of indirect residual value risk, the method used to quantify residual value risk is generally similar to that used for direct residual value risk. When the risk is quantified, the calculation also takes into account the probability of default for the bearer of the residual value risk (the dealership for example), because this represents the likelihood that the risk will revert, and any other factors specific to this category of risk.

The general requirements for developing, using and validating the risk parameters for direct and indirect residual value risk are laid down in a set of procedural instructions.

Risk Monitoring and Control

Risk Management monitors residual value risk within the Volkswagen Bank GmbH Group.

As part of risk management procedures, the adequacy of the provision for risks and the potential residual value risk are regularly reviewed in respect of direct residual value risk; residual value opportunities are disregarded in the recognition of the provision for risks. The preparation of the risk management report includes a review of adequacy in which the level of existing direct residual value risk is compared against the level of the recognized provisions for risks.

Based on the resulting potential residual value risk, various measures are initiated as part of a proactive risk management approach to limit the residual value risk. Residual value recommendations for new lease origination must take into account prevailing market circumstances and future influences. Various stress tests for direct residual value risks are also in place to create a comprehensive picture of the risk sensitivity of residual values. Indirect residual value risks faced by the Volkswagen Bank GmbH Group are subject to plausibility checks and are assessed from the perspectives of risk amount and significance.

As part of risk management activities, Risk Management regularly reviews the potential indirect residual value risk and the adequacy of the associated provision for risks. If necessary, it takes measures to limit the indirect residual value risk.

Trends

In 2021, the branch in Germany became subject to direct residual value risk from new variants of the Autokredit product launched on July 1, 2021. The residual value risk results from two vehicle credit product variants, namely the residual value guarantee (for the Audi brand) and the residual value option (for the Volkswagen Passenger Cars brand) offered to dealerships in the new vehicle business. At consolidated level, the Volkswagen Bank GmbH Group was therefore exposed to direct residual value risk as of December 31, 2021 at the branches in France, Spain, Portugal and Germany as well as in the international subsidiary Volkswagen Finančné služby Slovensko s.r.o. The direct residual value risk is only material in the France branch (which accounts for approximately 98%

of the total direct residual value risk and around 67% of contracts) because the volumes in the other entities either remain very low or the residual values are set in such a way that the risk assessment can assume that the customers will take over the vehicle at the end of the contract term.

Steady year-on-year growth in the number of contracts was evident, driven by growth strategies such as the expansion of the fleet business at the France branch. Direct residual value risk at the branch in France saw a further rise and remained at a high level, reflecting the conservative evaluation of the residual value situation maintained by the branch.

The semiconductor shortage in 2021 led to an uptrend in used vehicle prices and ultimately to gains on the remarketing of vehicles in the reporting year. The gain from remarketing vehicles in the Volkswagen Bank GmbH Group in the year ended December 2021 amounted to €27.1 million, with €26.6 million accounted for by the branch in France.

Business Risk

The Volkswagen Bank GmbH Group defines business risk as the risk of direct or indirect loss from adverse changes in economic conditions, particularly in the financial services sector (equates to sector risk). Business risk includes the following risk subcategories:

- Earnings risk
- Reputational risk
- Strategic risk
- Business model risk

All four risk subcategories relate to earnings drivers (e.g. business volume, margin, overheads, fees and commissions).

With respect to business risk, the planned profit before tax is deducted as a risk mitigation technique. In the economic perspective, business risk is included in risk management as a material category of risk.

Earnings Risk (Specific Profit or Loss Risk)

Earnings risk refers to the risk that actual values will vary from the budgeted values for certain items on the income statement that are not already covered by the other categories of risks described elsewhere. Earnings risk includes the following risks:

- Unexpectedly low fees and commissions (fee and commission risk)
- Unexpectedly high costs (cost risk)
- Excessively high income targets for new and existing business volume (sales risk); and
- Unexpectedly low investment income

The objective is to regularly analyze and monitor the potential risks associated with earnings risk to ensure that values at variance with budgeted values are identified at an early stage and any necessary corrective action is initiated. If the risk were to materialize, this would reduce income or increase costs and thereby also adversely impact the operating result.

Risk Identification and Assessment

The Volkswagen Bank GmbH Group quantifies earnings risk using a parametric earnings at risk (EaR) model with the confidence level specified in the calculation of risk-bearing capacity and a one-year forecast period.

The relevant income statement items provide the basis for these calculations. The estimates for earnings risk are then based on two perspectives: firstly, the observed, relative variances between target and actual values; secondly, the volatility and interdependencies among the individual items. Both components are incorporated into the EaR calculation.

Risk Monitoring and Control

During the course of the year, changes in the actual values for the earnings risk exposures are compared with the forecast values. This comparison is included in the standard reporting procedure carried out by Controlling.

The results from the quarterly quantification of earnings risk are included in the calculation of business risk. The results are monitored by Risk Management.

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, etc.) and/or direct financial losses such as penalties, litigation costs, etc.

The responsibilities of the Corporate Communications unit include preventing negative reports appearing in the press or similar messages that could be detrimental to the reputation of the Bank. 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 Bank expects. A loss of reputation or damage to the Bank's image could have a direct impact on financial performance.

Reputational risk is recognized quantitatively in the calculation of risk-bearing capacity by applying a flat-rate markdown as part of business risk. This global approach is reassessed each year from a qualitative perspective.

Strategic Risk

Strategic risk 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 Management in relation to the positioning of the Bank in the market.

The objective of the Volkswagen Bank GmbH Group 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 Bank as a going concern.

Strategic risk is included in the calculation of risk-bearing capacity as part of business risk.

Business Model Risk

Business model risk arises as a result of the economic dependency of an entity on its group parent. The value for business model risk is derived from the capital requirement simulated in a scenario analysis that would be necessary in the event of insolvency of the Volkswagen Group to satisfy all creditor claims against the Volkswagen Bank GmbH Group. An analysis of business model risk is carried out annually and the value of this risk is currently assessed at €0.

NONFINANCIAL RISKS

Operational Risk

Operational risk (OpR) is defined as the risk of loss resulting from inadequate or failed internal processes (process risk), people (HR risk) or systems (technological risk), or resulting from external events (third-party risk). This definition includes legal risk.

Other categories of risk, such as reputational or strategic risk, do not fall within the scope of operational risk and are analyzed separately.

The objective of operational risk management is to present operational risks transparently and to initiate precautionary or corrective measures with the aim of 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.

The operational risk strategy specifies the focus for the management of operational risk; the operational risk manual sets out the implementation process and allocates responsibilities.

Risk identification and assessment

Operational risks or losses are identified and assessed by local experts working in pairs (assessor and approver) with the help of two operational risk tools: a risk self-assessment and a loss database.

The risk self-assessment is used to determine a monetary assessment of future risks. A standardized risk questionnaire is provided once a year for this purpose. The local experts use these questionnaires to determine and record the details for various risk scenarios. The details include the possible amount of the risk and the probability of occurrence, in each case with typical and maximum figures.

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.

The risk value for operational risk is simulated quarterly on the basis of a loss distribution approach (LDA). The results from the annual risk self-assessment and actual losses incurred by the Volkswagen Bank GmbH Group are factored into the distribution amount and frequency. The simulation outputs the risk value as a value-at-risk at the relevant confidence level. This risk value is then distributed to the individual branches and subsidiaries using an allocation key.

Risk Monitoring and Control

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 (IT, Integrity/Legal & Compliance, and Human Resources & Organization). 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 Risk Management 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 initiates appropriate modifications as required. This includes, in particular, the integration of all operational risk units, a review to check compliance with the risk sub-strategies for operational risks and a review of the methods and procedures used for risk measurement.

Communications relating to operational risks are provided quarterly as part of the risk management reports. The quarterly details are supplemented by an annual operational risk report in which the main events in the year are presented and assessed again in one coherent report. Ad hoc reports are issued in addition to the regular reports, provided that the relevant specified criteria are satisfied.

Trends

Operational risk at the level of the Volkswagen Bank GmbH Group was within the set limits. Legal risk continued to account for the greatest proportion within the overall operational risk exposure in the Volkswagen Bank GmbH Group.

The Volkswagen Bank GmbH Group attaches great importance to operational risk factors and the active management thereof. As regards cyber risks, a general rise in the number of cyber attacks on businesses and their customers was evident. The nature of these attacks changes constantly (examples being ransomware attacks, supply chain attacks). Consequently, the Volkswagen Bank GmbH Group is constantly implementing and refining preventive action and countermeasures to safeguard the availability, integrity, confidentiality and authenticity of data.

In addition, a rolling program of training and briefing sessions ensures that awareness of operational risk continues to grow. Experience and information gained about past loss events also means that future risks can be assessed more thoroughly and more accurately.

Compliance, Conduct and Integrity Risk

At the Volkswagen Bank GmbH Group, compliance risk encompasses all risks that could arise from non-compliance with statutory rules and regulations or other official or supervisory requirements, or that could be caused by a breach of internal company regulations.

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

In addition, integrity risk encompasses all risks that arise from a failure of employees to conduct themselves in an ethically acceptable manner or to act in accordance with the Group's principles or the FS values, thereby presenting an obstacle to the sustained success of the business.

The Volkswagen Bank GmbH Group addresses the three categories of risk by means of a local compliance and integrity function whose task is to specify and implement risk-mitigating measures.

To counter compliance and conduct risks, it is the responsibility of the compliance function to ensure compliance with laws, other legal requirements, internal rules and self-proclaimed values, and to create and foster an appropriate compliance culture. It is also the responsibility of the integrity function, on the basis of an integrity management system, to raise awareness of the ethical principles, code of conduct and the need for compliance, and to help employees choose the right course of action, responsibly and steadfastly, driven by their own personal conviction.

As a component of the compliance function, the role of the compliance officer is to work toward implementing effective procedures to ensure compliance with key and core legal rules and regulations for the institution and toward establishing appropriate controls. This is achieved, in particular, by specifying mandatory compliance requirements for legal stipulations classified as material. These requirements include documenting responsibilities and processes, establishing controls to the extent required and raising employee awareness of pertinent rules so that employees comply with the rules as a matter of course, reflecting a fully functioning compliance culture.

Further regular activities also nurture a compliance and integrity culture. These activities include, in particular, constantly promoting the Volkswagen Group's Code of Conduct, raising employee awareness on a risk-oriented basis (e.g. tone from the top, tone at the middle, face-to-face training, e-learning programs, other media-based activities), carrying out communication initiatives, including distributing guidelines and other information media, and participating in compliance and integrity programs.

The compliance function has been set up on a decentralized basis. The departments are responsible for complying with the rules and regulations in their respective areas of activity. A compliance theme coordinator is appointed for all central and core rules and regulations. The coordinator is responsible for adherence to and the implementation of the defined compliance requirements (such as documenting responsibilities, setting up controls, raising awareness and training employees).

Using the control plans and records as a basis, the compliance unit checks whether the implemented controls are appropriate. In addition, the findings from various audit activities are used to evaluate whether there are indications that the implemented compliance requirements may be ineffective, or whether the audits have identified material residual risks on the basis of which further action needs to be determined.

The compliance officer is responsible for coordinating ongoing legal monitoring, the purpose of which is to ensure that new or amended legal regulations and requirements are identified promptly. For their part, the compliance theme coordinators must work in collaboration with the legal department and the various other departments to implement measures aimed at identifying new or amended regulations and requirements relevant to their areas of responsibility at an early stage and, if such relevance is established, furnishing an analysis of materiality for the Bank. The respective compliance officer is notified of any identified regulations and requirements in accordance with the process description.

The internal Compliance Committee conducts a regular materiality analysis on the basis of the outcomes of this legal monitoring. After taking into account the evaluated compliance risks, the Compliance Committee makes a decision on the materiality of new legal requirements applicable to the Bank. Compliance risk primarily includes the risk of a loss of reputation vis-à-vis the general public or supervisory authorities and the risk of material financial loss.

Currently, the following specific legal fields have been determined as being fundamentally material from the perspective of the Group:

- Prevention of money laundering and terrorist financing
- Prevention of corruption and other criminal acts
- Data protection
- Consumer protection
- Capital market law
- Market abuse regulation
- Banking supervisory law
- Antitrust law and
- IT security law

The compliance requirements for the Volkswagen Bank GmbH Group are specified centrally and must be implemented autonomously in the local companies. Any deviation from the minimum requirements or guidelines is only possible if accompanied by a description of the reasons (such as local statutory requirements) and only in consultation with, and with the consent of, the Compliance Officer at the institution concerned.

As in the case of the compliance function, the central integrity function only specifies the framework for the Group. The responsibility for implementing the requirements, for example by raising awareness of the ethical principles among employees, remains with the local entity concerned.

The Compliance and Integrity Officer receives regular reports and carries out on-site visits on a risk-oriented basis to ensure that the local compliance and integrity units are meeting their responsibilities.

To meet the statutory reporting requirements of the compliance unit, the compliance officer must submit to the Management Board both regular reports on the outcome of the meetings of the Compliance Committee and ad hoc reports as necessary (for example, if control plans are not prepared by the required deadline).

In addition, the Management Board receives an annual compliance report, although this can be updated during the year if required. The annual compliance report contains a presentation of the appropriateness and effectiveness of the compliance requirements implemented to ensure compliance with key and core legal regulations and requirements.

The Management Board has also entered into a voluntary undertaking regarding compliance and integrity to ensure that compliance and integrity issues are always discussed and taken into account in connection with all decisions made by the Management Board.

Risk from Outsourcing Activities

Outsourcing describes a situation in which another entity (the outsourcee) is engaged to carry out activities and processes in connection with the provision of banking activities, financial services or other typical banking-related services that would otherwise be carried out by the outsourcing entity itself.

Arrangements for support services in relation to software that are utilized for the identification, assessment, management, monitoring and communication of risks or that are of material significance for the performance of banking tasks also constitute outsourcing.

A distinction needs to be made between outsourcing and one-time or occasional procurement from third parties of goods or services, or services that are typically obtained from a supervised entity and, because of the actual circumstances involved or legal requirements, cannot usually be supplied by the buying entity itself, either at the time of the purchase from the third party or in the future.

The procurement of software without accompanying services or activities is also generally to be classified as other procurement from third parties.

The objective of risk management for outsourcing is to identify and minimize the risks arising from all cases of outsourcing. If an elevated level of risk is identified in the course of outsourcing management or from supervisory activities, measures may be initiated, where appropriate, to restore the risk situation associated with an outsourced activity to the original level.

A significant increase in risk can necessitate a change of service provider or, if possible and strategically desirable, termination of the outsourcing arrangement. In this case, the activities may be performed by the Bank itself or may be eliminated entirely. The legal bases are derived mainly from the KWG, MaRisk and the EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02).

Risk Identification and Assessment

Risks arising in connection with outsourced activities are identified by examining the circumstances with a focus on risk. In the first step, an examination of the circumstances is used to establish whether the planned activity constitutes outsourcing, other procurement from a third-party supplier, or other procurement of IT services from a third-party supplier. A further check is carried out to establish whether the activity to be outsourced is permitted outsourcing or prohibited for regulatory reasons. In the case of outsourcing, the related risk content is then determined using a risk assessment based on various criteria, the outcome of which is the classification of the arrangement as one of the following: outsourcing with medium risk, outsourcing with high risk or critical outsourcing. Depending on the level of risk, the arrangement may be subject to more stringent levels of monitoring and control as well as special and stricter contractual provisions.

Risk Monitoring and Control

The risks from outsourcing activities are documented as part of operational risk. To ensure effective management of outsourcing risk in accordance with the EBA guidelines, the Volkswagen Bank GmbH Group has issued a framework policy specifying the constraints that outsourcing arrangements must observe. Before any activity is outsourced, the circumstances must be examined with a focus on risk to determine the risk in each case. This analysis procedure is one of the components of the constraints and is intended to help ensure that an adequate level of monitoring and control is applied. In this regard, the specialist outsourcing officer carries out checks mainly to establish whether the quality of performance is in line with the contractually agreed targets and, where appropriate, initiates corrective measures to ensure such quality of performance is delivered. The framework policy also specifies that all outsourced activities must be agreed with the Outsourcing Coordination unit. This coordination unit is therefore informed of all outsourcing activities and the associated risks, and communicates these risks to the Management Board on a regular basis.

In addition, all risks arising from outsourcing activities are subject to risk monitoring and control using the operational risk loss database and the annual risk self-assessment.

SUMMARY

The Volkswagen Bank GmbH Group strives to handle risks in a responsible manner as part of its operating activities. This approach is based on a multifaceted system for identifying, measuring, analyzing, monitoring and controlling risks, which is part of a comprehensive risk- and return-oriented management system.

The Volkswagen Bank GmbH Group will continue to invest in optimizing its control system and risk management systems in order to meet the business and statutory requirements for the management and control of risks.

As is clear from the above details in the risk report, there is currently no evidence of any risks that could jeopardize the continued existence of the Volkswagen Bank Group as a going concern.

As of December 31, 2021, the regulatory own funds requirements amounted to €4.0 billion. The actual available own funds amounted to €9.5 billion and therefore exceeded the regulatory requirements.

Forecast of Material Risks

Credit Risk Forecast

Overall, it is anticipated that the risk situation will remain challenging in 2022 because of the persistent Covid-19 pandemic and the ongoing semiconductor chip shortage. Nevertheless, the volume of loans and receivables is projected to grow (by 14% compared with December 2021 based on the 2022 budget). The risk situation in the Volkswagen Bank GmbH Group will continue to be closely monitored in 2022 so that the Bank can respond proactively to any developments that may occur.

Interest Rate Risk in the Banking Book Forecast

A cycle of interest rate hikes has been detected outside the eurozone, leading to higher interest and higher associated interest expenses. Within the eurozone, interest rates are expected to remain stable and interest rate risk low.

Liquidity Risk Forecast

Volkswagen Bank GmbH predicts that its funding instruments will still be permanently available in 2022, though the year will continue to be affected by the Covid-19 pandemic. In the current year, it is likely that growth in the asset portfolio will follow a lower trajectory because of the ongoing shortage of semiconductors. Accordingly, liquidity risk will probably also remain at the level of the previous year.

Residual Value Risk Forecast

We expect the volume of contracts with direct residual value risk to continue to grow in fiscal year 2022 overall (by 22% compared with December 2021 based on the 2022 budget).

Operational Risk Forecast

The year 2021 has demonstrated that we can effectively manage potential operational risk despite the pandemic in such a way that this risk does not materialize to any significant extent.

We predict that our management will be equally successful in 2022 and we do not therefore anticipate any significant rise in operational risk. In this context, we expect the effectiveness of fraud protection to remain stable and the high level of quality in processes, staff skills and qualifications, and IT systems to be maintained.

This Annual Report contains forward-looking statements on the business development of the Volkswagen Bank GmbH Group. These statements are based on assumptions relating to changes in the economic, political and legal environment in individual countries, economic regions and markets, in particular for financial services and the automotive industry; these assumptions have been made on the basis of the information available and Volkswagen Bank GmbH currently considers them to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. If material parameters relating to key sales markets vary from the assumptions, or material changes arise from the exchange rates, commodities or supply of parts (in particular, semiconductors) relevant to the Volkswagen Group, or the actual impact of the Covid-19 pandemic deviates from the scenario assumed in this report, the performance of the business will be affected accordingly. In addition, expected business performance may vary if the key performance indicators and risks and opportunities presented in this annual report turn out to be different from current expectations, or additional risks and opportunities or other factors emerge that affect the development of the business.

Human Resources Report

Realignment of HR: Business Driven – People Focused.

EMPLOYEES

Volkswagen Bank GmbH employed 1,114 people (previous year: 1,138) in Germany at the end of 2021.

A total of 792 people (previous year: 793) were employed at the international branches of Volkswagen Bank GmbH.

HUMAN RESOURCES STRATEGY

The ROUTE2025 strategy has created new areas of focus in terms of HR strategy. Five strategic areas for action are listed under the heading Top Employer/Top Employees. These areas for action are helping Volkswagen Bank GmbH 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 objective is to continue to drive forward development around the other strategic cornerstones of customers, operational excellence, profitability and volume. Through the use of specific activities to develop and retain personnel, coupled with performance-based profit sharing, the Bank aims to encourage top performance, with the objective of ensuring outstanding customer service provided by top employees and still further improving its excellent international reputation as a top employer.

Responsibility for implementing the employee strategy at an international level lies with the branches and the international subsidiaries themselves, supported by the international HR unit at the head office in Braunschweig. The branches and local entities hold individual and overarching meetings on a regular basis with the head office in Braunschweig to report on their progress and share detailed related information. For example, notable positive trends and activities are presented and discussed at the annual HR conference so that synergies can also be leveraged between the different branches and local entities.

The new business driven – people focused reorientation began in the reporting year, serving to guide all the activities in the HR unit.

The Bank has launched several new initiatives to remain competitive in future, with the customer increasingly at the center. For this reason, the HR unit has also begun to realign its focus. The HR business partners are to partner the managers proactively and in this way ensure the best possible strategic advice. At the same time, issues such as interdisciplinary teams, agility and cross-functional collaboration will now be given greater importance, including within the HR unit.

To ensure the best possible structure and have the ability to meet the needs of customers in future, the HR unit has started to develop a new HR strategy in 2021. This covers predominantly issues that support the transformation of the Bank while enabling the HR unit to function to an even greater extent in a digital, data-driven system. The HR strategy is to be completed in 2022.

Another key aspect of HR activities continued to be the need to cope with the Covid-19 pandemic and the associated new requirements for managers and for working remotely, both in Germany and in the international offices. While, due to the pandemic, most employees were still working from home at the beginning and the end of the year, roughly half of them were back in the office during the middle of the year. The greatest challenge therefore was to allow for new hybrid formats for working together. Seminars and mandatory training sessions continue to be offered online, and many events are held in hybrid formats. For employees working at the Bank's offices, the best possible protection continues to be provided by the implemented hygiene protocols.

The HR Transformation program was set up in 2018. HR Transformation means everything involving the employees who are shaping or who are affected by the transformation process.

The HR Transformation program sets the framework in which all employees can make an individual contribution to the success of the transformation ,regardless of the extent to which they are affected by it. In addition to placing employees in new roles, the program also establishes the basic conditions, addresses key questions, sets out processes and specifies the skills and qualifications required. The importance of knowledge and experience is growing in the field of digitalization. Since 2020, HR has each year offered 20 sponsored online degree programs and other online training courses related to the areas of data, digitalization and cyber security.

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 site ensures that vacant positions are taken up primarily by internal job applicants whose previous roles have been discontinued. This aims to ensure a transparent procedure throughout the entire site. The employees concerned receive assistance in the form of training geared to their individual needs. 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. The Internal Labor Market has become an attractive option and managers now proactively seek applications via the transformation process. There are similar approaches at the international facilities.

Leadership is a significant topic at Volkswagen Bank GmbH and is more important than ever in periods of transformation. The focus of managerial professional development is therefore on providing the best possible level of support for both young and experienced managers along the way. In addition to the mandatory and modular program *Erfolgreich durchstarten* (Hit the Ground Running) for new and newly appointed managers, there are advanced training offers 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. Skills development content is based, among other things, on the latest leadership trends and is offered according to need.

The branches and international subsidiaries also attach great importance to continuously enhancing management skills in line with prevailing requirements.

The Bank assesses the extent to which it has achieved its objective of being a top employer by regularly taking part in external employer competitions. In 2021, Volkswagen Financial Services was ranked number one in the relevant category by company size in both the Best Employer in Lower Saxony-Bremen 2021 and Best Employer in Germany 2021competitions. In a comparison within Europe, the Bank was in 20th place in a ranking of the top 25 European employers. These results were based on the rankings in each country, for example 18th place in the UK and 30th place in Spain. The Bank next plans to participate in the competition for Best Employer 2023. Customer satisfaction with the work of the employees is given top priority at Volkswagen Bank GmbH.

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, is used in nine countries.

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 theme of integrity and 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 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 in terms of 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 2021 at both national and international levels. 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 Bank GmbH by organizing and tracking integrity and compliance initiatives throughout the Group. Following the successful completion of the U.S. Compliance Monitorship in September 2020, the program will be continued in 2022 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 refine and enshrine the issues of integrity and compliance in key HR processes (recruitment, professional development, remuneration, disciplinary processes and employee retention). The Group's minimum standards underlying the initiatives have been set down in an organizational policy.

REGULATORY REQUIREMENTS RELATING TO REMUNERATION SYSTEMS

In the reporting year, Volkswagen Bank GmbH was subject to direct supervision by the ECB and implemented, throughout the Group, the Institutsvergütungsverordnung (IVV – German Regulation Governing Remuneration at Institutions) of August 4, 2017, last amended by Article 1 of the Regulation of April 15, 2019. The special regulatory requirements relating to remuneration systems applied in addition to the general requirements. Strategies and instruments already introduced, such as the Works Council agreement on variable remuneration, the variable remuneration ceiling, national and international risk-taker identification and the reporting system using a remuneration report, continued to be applied and enhanced in fiscal year 2021. Furthermore, special governance functions (Remuneration Committee and Remuneration Officer) were used to ensure that the adequacy of the remuneration systems was continuously monitored.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

Again in 2021, 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 e-commerce qualifications. The dual approach combines vocational training with study for a university degree. The Bachelor of Arts in Business Administration focusing on digital marketing & sales and financial services management is offered in collaboration with WelfenAkademie e. V.; the Bachelor of Science in Business Informatics and the Bachelor of Science in IT Security are offered in collaboration with Leibniz University of Applied Sciences. In 2021, vocational trainees were once again recruited predominantly to train for specialist professional IT qualifications in application development, and dual vocational training students were hired mainly to become business informatics specialists, with the aim of 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. Under a training collaboration agreement between Volkswagen Financial Services AG and Volkswagen Bank GmbH, vocational trainees, dual vocational training students and IT students will have the opportunity to obtain their professional qualifications in departments at Volkswagen Bank GmbH.

Skilled, committed employees are the cornerstone of the success of Volkswagen Bank GmbH as a business. To ensure that the Bank is structured to deal with future challenges, the aim is to recruit specialists and experts to complement the existing workforce.

Volkswagen Bank GmbH is also pursuing a rigorous approach to recruiting and retaining young talent. The range of qualification options is focused mainly on issues pertaining to preparing for change as part of the business and cultural transformation. Key areas include 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 Bank GmbH. The Bank has an interest in further developing its employees' skills in growth areas to ensure that they have the capability to adapt to changing job requirements. An offering targeted at all employees who wish to receive professional development in connection with digitalization was developed. Degree programs and courses lasting several months have been offered in the field of digitalization since 2020. This development opportunity is presented entirely online and can therefore be completed at any time or place at the convenience of the employee.

To promote employee engagement with the transformation and thereby support the transformation processes at the Bank, Volkswagen Bank GmbH continued to implement its ideas and innovation management system known as FS.IDEAS in the reporting year. All employees are encouraged to submit their ideas for conventional improvements or innovative changes.

INCREASE IN THE PROPORTION OF WOMEN

As of December 31, 2021, women accounted for 56.2% of the workforce of Volkswagen Bank GmbH in Germany, but this is not yet reflected in the percentage of women at all management levels. Volkswagen Bank GmbH is working toward achieving the targets for women at all levels. The Bank has set itself the objective of increasing the proportion of women in management positions over the long term. In 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 Management Board.

PROPORTION OF WOMEN – TARGET AND ACTUAL VALUES FOR GERMANY

	Target 2023	Target 2021	Actual 2021
Second management level	26.1	22.7	15.4
First management level	10.3	8.6	10.7
Management Board	20.0	–	0.0
Supervisory Board	30.0	–	33.3

DIVERSITY

In addition to the advancement of women, the concept of diversity has been an integral component of the corporate culture at Volkswagen Bank GmbH. The Bank sent a clear signal with its Diversity Charter corporate initiative, which was signed in 2007. Under this initiative, Volkswagen Bank GmbH has pledged to respect and value diversity, and to promote it in accordance with skills and ability. In 2018, Volkswagen Bank GmbH 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. The Bank 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 path to diversity in the Bank. Workshops are held as part of the program to raise the awareness about the issue of diversity and equal opportunities among all managers.

Volkswagen Bank GmbH promotes a family-friendly environment and offers numerous continuously expanding initiatives and programs aimed at achieving the right work-life balance, such as various work-time models, company childcare facilities and the FlexWork company agreement.

Report on Expected Developments

The global economy is expected to continue growing in 2022, albeit at a somewhat lower level overall. Global demand for passenger cars will probably vary from region to region and increase moderately year-on-year. With its brand diversity, broad product range, technologies and services, the Volkswagen Group believes it is well prepared for the future challenges in the mobility business.

Since the main opportunities and risks arising from the operating activities have been set out in the report on opportunities and risks, we would like to outline the expected future developments in the following. These developments give rise to opportunities and potential benefits that are included in our planning process on an ongoing basis so that we can act on them as soon as possible.

Our 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 continue to grow in 2022, albeit at a somewhat lower level overall, on the heels of the recovery observed in the past fiscal year – provided that the Covid-19 pandemic does not flare up again and that shortages of intermediates and commodities become less intense. 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 2023 to 2026.

Europe

In Western Europe, we expect comparatively robust economic growth, exceeding the 2019 pre-crisis level. The widespread 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 likewise anticipate relatively robust growth rates in Central Europe in 2022. Economic output in Eastern Europe is also expected to continue growing, though at a somewhat slower pace.

Germany

We expect gross domestic product (GDP) in Germany to grow at a significantly positive pace in 2022, comparatively speaking, exceeding the 2019 pre-crisis level. The labor market situation is likely to improve in 2022.

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 2022, particularly because of the ongoing challenges resulting from the Covid-19 pandemic and the limited vehicle availability arising from the semiconductor shortage. 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 presumably 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 probably become increasingly important in this regard. It is also likely that demand for new forms of mobility, such as rental services or car subscription models, and for integrated mobility services, such as parking, refueling and charging, will increase and that the shift from financing to lease contracts that has already begun in the European leasing business will continue. We anticipate that this trend will continue in the period from 2023 to 2026.

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 2022. Overall, the global volume of new vehicle sales is expected to be moderately up on the prior year without reaching the pre-pandemic level. This prediction assumes that the Covid-19 pandemic does not flare up again and that shortages of intermediates, especially semiconductors, and commodities become less intense. We are forecasting growing demand for passenger cars worldwide in the period from 2023 to 2026.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed; on the whole, we anticipate a slight increase in the sales volume for 2022. This assumes that the Covid-19 pandemic does not flare up again and that shortages of intermediates, especially semiconductors, and commodities become less intense. For the years 2023 to 2026, we expect demand for light commercial vehicles to increase globally.

We believe we are well prepared overall for the future challenges pertaining to automotive 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. We have set ourselves the goal of continuing to excite our customers in the future and meeting their diverse needs with an appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions.

Europe

For 2022, we anticipate that the volume of new passenger car registrations in Western Europe will be distinctly above that recorded in the reporting period. At the same time, however, possible consequences of the pandemic and the still uncertain impact of the United Kingdom's exit from the EU may result in ongoing uncertainty among consumers and dampen demand. Limited vehicle availability as a result of the semiconductor shortage may also continue to weigh on the volume of new registrations. Nevertheless, we anticipate a significant increase for the United Kingdom and Spain in 2022. In France and Italy, the markets will probably be slightly or moderately higher than the level seen in the reporting period.

For light commercial vehicles, we expect the volume of new registrations in Western Europe in 2022 to be moderately up on the previous year's level despite the possible impact of the pandemic, continuing supply bottlenecks for semiconductors and the still uncertain consequences of the United Kingdom's exit from the EU. We predict a moderate to noticeable increase in the United Kingdom, Spain and France and a slight decline in Italy.

Sales of passenger cars in 2022 are expected to distinctly exceed the prior-year figures in markets in Central and Eastern Europe.

Registrations of light commercial vehicles in 2022 are expected to slightly exceed the prior-year figures in markets in Central and Eastern Europe.

Germany

In the German passenger car market, we expect the volume of new registrations in 2022 to distinctly exceed the prior-year figure.

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

INTEREST RATE TRENDS

Europe saw a continuation of the period of low interest rates throughout 2021 and also at the beginning of the current fiscal year. However, in the US and numerous other economies, expansionary monetary policy is expected to come to an end, giving way to interest rate hikes.

SUMMARY OF EXPECTED DEVELOPMENTS

The Volkswagen Bank GmbH Group predicts that the volume of business in the current fiscal year will be noticeably above the level of 2021. Please refer to the statements in the opportunities and risks report for information on the trends in credit risk, liquidity risk, and residual value risk.

Sales activities related to the Volkswagen Group brands and our sales partner Volkswagen Financial Services AG will be further intensified, particularly through joint strategic projects.

Furthermore, the Volkswagen Bank GmbH Group intends to continue enhancing the leveraging of potential along the automotive value chain. Our aim is to satisfy the wishes and needs of our customers in the most efficient manner in cooperation with the Group brands. Our end customers are looking, in particular, for mobility with predictable fixed costs. In addition, we intend to further expand the digitalization of our business.

The product packages that the Bank believes it has successfully launched in the last few years will be refined in line with customer needs.

In parallel with its market-based activities, the Volkswagen Bank GmbH Group aims to further strengthen its position vis-à-vis its European competitors through strategic investment in structural projects as well as through the OPEX program focusing on process optimization and productivity gains.

OUTLOOK FOR 2022

When the above factors and the market trends are considered, the following overall picture emerges for Volkswagen Bank GmbH, from both single entity and Group perspectives: our earnings expectations assume stable funding costs, greater levels of cooperation with the individual Group brands and continuing optimization of costs as part of our efficiency program. In addition, our earnings forecasts take into account a continued high degree of uncertainty about macroeconomic conditions in the real economy due to the ongoing Covid-19 pandemic and the impact of this uncertainty on factors such as risk costs.

For 2022, we predict that the penetration rate will be at the level of the previous year, although a return to growth in deliveries is anticipated. New contracts and current contracts are expected to be substantially and slightly higher than the prior-year level, respectively. Business volume is therefore projected to be at a level noticeably higher than in 2021; we also expect the volume of deposits to be significantly above the prior-year level. In view of the major positive nonrecurring items in 2021, especially in the risk costs, we expect the operating result and return on equity for fiscal year 2022 to be drastically below the level of the previous year. The cost/income ratio is likely to reflect this change and we predict that the figure will be significantly higher than the prior-year figure despite a slight fall in overhead costs in 2022.

Looking ahead to subsequent years, the maintenance of the current business strategy is expected to enable performance to recover to the pre-crisis level as of 2024/2025.

FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2022 COMPARED WITH PRIOR-YEAR FIGURES

	Actual 2020 [1]	Actual 2021	Forecast for 2022
Nonfinancial performance indicators			
Penetration (percent)	18.9	17.9	At the level of 2021
Current contracts (thousands)	3,700	3,431	Slightly above the level achieved in 2021
New contracts (thousands)	1,074	1,046	Very significantly above the level achieved in 2021
Financial performance indicators			
Volume of business (€ million)	48,486	45,585	Noticeably above the level achieved in 2021
Volume of deposits (€ million)	28,694	26,489	Significantly above the level achieved in 2021
Operating result (€ million)	804	1,137	Drastically below the level achieved in 2021
Return on equity (percent)	8.0	10.5	Drastically below the level achieved in 2021
Cost/income ratio (percent)	51.4	40.1	Very significantly above the level achieved in 2021

1 The prior-year income statement has been restated to reflect the corrections to the provision for credit risks in respect of credit commitments. For details, please refer to the Changes to Prior-Year Figures section in the notes.

Braunschweig, February 22, 2022
The Management Board

Dr. Michael Reinhart

Oliver Roes

Christian Löbke

Dr. Volker Stadler

Balance Sheet

of Volkswagen Bank GmbH, Braunschweig, for the Year Ended December 31, 2021

€ thousand		Dec. 31, 2021	Dec. 31, 2020
Assets			
1. Cash reserve			
a) Cash-in-hand	1,423		1,917
b) Central bank balances	11,020,765		7,054,251
of which:			
at Deutsche Bundesbank €10,970,812 thousand			(6,989,738)
		11,022,188	7,056,168
2. Loans to and receivables from banks			
a) Repayable on demand	292,154		342,693
b) Other receivables	88,690		6,018
		380,844	348,711
3. Loans to and receivables from customers		46,549,103	51,572,531
of which:			
mortgages			
€360,234 thousand			(379,220)
4. Bonds and other fixed-income securities			
a) Bonds			
aa) From public-sector issuers	2,513,330		1,697,829
of which:			
eligible as collateral at Deutsche Bundesbank €2,513,330 thousand			(1,697,829)
ab) From other issuers	18,786,372		18,664,844
of which:			
eligible as collateral at Deutsche Bundesbank €18,243,485 thousand			(18,157,659)
		21,299,702	20,362,674
5. Equities and other variable-yield securities		0	0
6. Long-term equity investments		91,022	94,022
7. Shares in affiliated companies		125,506	125,205
of which:			
in banks €2,228 thousand			(1,927)
8. Trust assets		1,672	1,737
of which:			
trust loans €1,672 thousand			(1,737)
9. Intangible fixed assets			
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	6,239		8,259
b) Prepayments	0		1,799
		6,239	10,058
10. Property and equipment		9,625	10,831
11. Lease assets		2,121,203	1,777,837
12. Other assets		213,839	205,745
13. Prepaid expenses		11,937	18,172
Total assets		**81,832,879**	**81,583,690**

€ thousand		Dec. 31, 2021	Dec. 31, 2020
Equity and liabilities			
1. Liabilities to banks			
a) Repayable on demand	5,593		85,901
b) With agreed maturity or notice period	13,187,074		9,603,812
		13,192,667	9,689,713
2. Liabilities to customers			
a) Other liabilities			
aa) Repayable on demand	25,967,402		24,931,738
ab) With agreed maturity or notice period	8,546,617		10,500,197
		34,514,019	35,431,935
3. Notes, commercial paper issued			
a) Bonds issued	5,086,592		7,037,857
b) Other notes, commercial paper issued	0		10,589
of which:			
commercial paper €0 thousand			(10,589)
		5,086,592	7,048,446
4. Trust liabilities		1,672	1,737
of which:			
trust loans €1,672 thousand			(1,737)
5. Other liabilities		18,581,533	19,128,713
6. Deferred income		651,492	790,014
7. Provisions			
a) Provisions for pensions and similar obligations	124,796		110,597
b) Provisions for taxes	31,806		5,633
c) Other provisions	368,260		479,773
		524,862	596,002
8. Subordinated liabilities		30,000	30,000
9. Fund for general banking risks		25,565	25,565
10. Equity			
a) Subscribed capital	318,279		318,279
b) Capital reserves	8,880,595		8,497,681
c) Revenue reserves			
ca) Other revenue reserves	25,604		25,604
d) Net retained profits	0		0
		9,224,479	8,841,565
Total equity and liabilities		**81,832,879**	**81,583,690**
1. Contingent liabilities			
a) Liabilities under guarantees and indemnity agreements		268,451	200,458
of which:			
to affiliated companies		139,955	130,252
2. Other obligations			
a) Irrevocable credit commitments		14,248,687	1,923,678
of which:			
to affiliated companies		1,189,844	43,793

Income Statement

of Volkswagen Bank GmbH, Braunschweig, for the Period January 1 to December 31, 2021

€ thousand			2021	2020
1. Interest income from				
a) Lending and money market transactions	1,322,049			1,496,887
b) Fixed-income securities and debt register claims	60,638			46,151
		1,382,688		1,543,038
2. Interest expense		125,716		133,535
3. Interest anomalies				
a) Positive interest from banking business (collateral deposits)	90,840			23,542
b) Negative interest from money market transactions	32,806			29,940
		58,034		–6,398
			1,315,006	1,403,105
4. Current income from				
a) Equities and other variable-yield securities		79		63
			79	63
5. Leasing income		1,326,177		1,099,191
6. Leasing expenses		593,345		489,917
			732,832	609,274
7. Fee and commission income		364,459		364,651
8. Fee and commission expense		519,942		536,822
			–155,484	–172,171
9. Other operating income			431,168	356,057
10. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	162,506			154,344
ab) Social security, post-employment and other employee benefit costs	41,118			36,399
of which:		203,624		190,743
in respect of post-employment benefits €13,314 thousand				(10,193)
b) Other administrative expenses		589,615		579,108
			793,239	769,851
11. Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment and lease assets				
a) Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment		6,690		8,939
b) Depreciation and write-downs of lease assets		662,268		541,577
			668,958	550,516
12. Other operating expenses			70,058	93,050
13. Amortization and write-downs of receivables and certain securities, and additions to provisions in the lending business			0	227,942
14. Income from reversals of write-downs of receivables and certain securities and from reversals of provisions in the lending business			54,934	0

€ thousand			2021	2020
15. Write-downs of long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			3,000	701
16. Income from reversals of write-downs of long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			301	0
17. Result from ordinary activities			843,580	554,267
18. Extraordinary income		0		1,144
19. Extraordinary expenses		0		0
20. Extraordinary result			0	1,144
21. Income tax expense			275,009	172,434
22. Other taxes, unless reported under item 12			5,803	62
23. Profits transferred under a profit-and-loss transfer agreement			562,768	382,914
24. Net income			0	0
25. Net retained profits			**0**	**0**

Notes

to the Annual Financial Statements of Volkswagen Bank GmbH, Braunschweig, for the Year Ended December 31, 2021
Registration Court: Braunschweig
Commercial Register Number: HRB 1819

I. General Information

The annual financial statements have been prepared in accordance with the requirements of the Handelsgesetzbuch (HGB – German Commercial Code) and the Verordnung über die Rechnungslegung der Kreditinstitute (RechKredV – German Bank Accounting Regulation).

As of December 31, 2021, both a control agreement and a profit-and-loss transfer agreement have been in place with Volkswagen AG.

Under section 285 no. 21 of the HGB, Volkswagen Bank GmbH is subject to an obligation to disclose material related-party transactions that have not been conducted on an arm's-length basis. All transactions with related parties have been conducted at arm's length.

II. Accounting Policies

Assets and liabilities are measured in accordance with the provisions in section 252ff. of the HGB and additionally in accordance with those in section 340ff. of the HGB. Unless otherwise stated, the other accounting policies are the same as those applied in the prior year.

Foreign currency transactions in the non-trading portfolio are measured in accordance with section 340h in conjunction with section 256a of the HGB. In compliance with Volkswagen Bank GmbH's risk strategy, the portfolio of assets, liabilities and forward contracts specifically hedged in accordance with section 340h of the HGB includes all material transactions denominated in foreign currency. These items are measured using the middle spot rate at the reporting date. Income and expenses arising from the translation of foreign currency exposures specifically hedged in the same currency are recognized in net other operating income/expense.

Foreign currency assets and liabilities that are not specifically hedged in the same currency are translated at the middle spot rate at 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 (whereby unrealized losses are recognized but unrealized gains are not). If the items have 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.

Currency forwards in the non-trading portfolio that are intended to hedge interest-bearing balance sheet items and that have not yet been settled as of the reporting date are measured and recognized by applying a split forward rate method. In this method, the forward rate in the contract is broken down into its two components of spot rate and swap rate, the latter being the forward premium or forward discount. The forward premium or discount is allocated and recognized over the term of the forward contract in the same way as interest. It is measured by comparing the spot basis in the forward contract with the middle spot rate at the reporting date. Positive and negative spot rate differences within the same currency are offset against each other. The net amount is reported as an adjustment item from foreign exchange transactions under the "Other assets" or "Other liabilities" item.

Interest rate and currency derivative transactions entered into by Volkswagen Bank GmbH are used as part of general economic hedges. The Bank does not make use of the option to apply specific hedge accounting arrangements in accordance with section 254 of the HGB.

The cash reserve is carried at the nominal amount.

Receivables are recognized at their principal amounts, net of provisions for credit risks. The expected credit loss model of IFRS 9 was applied for the first time to determine specific valuation allowances, but this did not have a material impact on the amount of provisions for credit risks. Global valuation allowances are recognized to cover risks arising in connection with receivables for which no specific valuation allowances have been recognized. In this regard, Volkswagen Bank GmbH applies accounting principle IDW AcP BFA 7, using the expected credit loss model of IFRS 9 to determine global valuation allowances.

Volkswagen Bank GmbH has acquired all of its own Driver Master Compartment 2, Private Driver Italia 2020-1 and Private Driver España 2020-1 asset-backed securities (ABSs). Under the principles specified in IDW AcP HFA 8, significant credit risks thus remain with Volkswagen Bank GmbH. There has been no transfer of the beneficial ownership in the receivables underlying these ABS transactions, and these receivables therefore continue to be reported under loans to and receivables from customers. A miscellaneous liability is recognized in the amount of the purchase price received. When the payments from the sold receivables are forwarded, this liability is reduced on a pro rata basis in the amount of the change in the present value of the underlying receivables. The difference compared with the payments received is recognized as an interest expense. No subsequent measurement is carried out for purchased securities derived from the Bank's own securitization transactions because these transactions securitize the Bank's own receivables and any counterparty default risk is already recognized as part of the measurement of the receivables concerned.

Current bonds and other fixed and variable-income securities held in the liquidity reserve and measured using parameters derived from the market are recognized at historical cost, applying the strict lower of cost or market principle and the requirement to reverse write-downs when the reasons for them no longer exist (section 340e(1) sentence 2 in conjunction with section 253(4) sentence 1 of the HGB and section 253(5) sentence 1 of the HGB).

Equities, long-term equity investments and shares in affiliated companies are measured at the lower of cost and fair value.

Trust loans are granted in the name and for the account of KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main. The receivable from the dealer is recognized at its principal amount. KfW grants a 100% exemption from liability for the refinancing loan for the entire term of the loan.

Items of property and equipment with finite useful lives are depreciated, and intangible assets with finite useful lives are amortized on a straight-line basis over the course of their useful lives. They are initially recognized at cost.

Straight-line depreciation is applied to vehicles reported under the "Lease assets" item in accordance with their expected useful lives. They are initially recognized at cost. If property and equipment, intangible assets, or lease assets are identified as impaired and this impairment is likely to be permanent, the carrying amounts of the assets concerned are written down to fair value. When vehicles recognized as lease assets are sold, the proceeds are recognized under leasing income and the derecognized residual carrying amounts are reported under leasing expenses.

Differences between the amount received and the nominal amount are recognized in prepaid expenses or deferred income and then amortized over the maturity of the liability concerned.

Liabilities are recognized at the settlement amount.

Provisions are measured using the best estimate of the amount required to settle the obligations concerned.

Some of the pension commitments are direct pension commitments, while others are funded through Volkswagen Pension Trust e. V. The commitments funded through Volkswagen Pension Trust e. V. are unit-linked pension commitments. Their amount is determined on the basis of the fair values of the associated securities in accordance with section 253(1) sentence 3 of the HGB. The fair value of the securities is offset against the funded provisions in accordance with section 246(2) of the HGB.

Other pension obligations (time asset bonds) are also linked to securities funds. Time asset bonds provide the opportunity to save for early retirement by acquiring time asset bond units. 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 2018 G mortality tables published by Professor Klaus Heubeck are used to measure pension obligations. The provisions for pension obligations are discounted using an average discount rate in accordance with section 253(2) sentence 1 of the HGB, whereby it is assumed that the obligations have a general residual maturity of 15 years. The recognized provisions for pensions equate to the pension obligations net of the associated plan assets, which are measured at fair value. If the value of the plan assets is higher than that of the pension provisions, the difference is reported as an excess of plan assets over pension liability.

For reasons of materiality, individual provisions with a maturity of more than one year are not discounted as would be required in accordance with section 253(2) of the HGB. The materiality assessment is continually reviewed.

The banking book of Volkswagen Bank GmbH was reviewed in accordance with IDW ACP BFA 3 to assess whether there was any need to recognize a provision for expected losses. The discounted cash flow method was used for the evaluation. The discount rate used to discount the cash flows included a component to cover risk costs still expected to be incurred together with a risk costs premium and administrative expenses. The present value determined in this way was then compared against the carrying amounts recognized in the HGB financial statements for the assets in the banking book. There was no indication that a provision for expected losses was required.

All identifiable risks have been adequately provided for in the annual financial statements by the recognition of specific valuation allowances and provisions. Latent risk in the lending business is covered by global valuation allowances.

In the reporting period, the negative interest from financial assets and the positive interest from financial obligations are reported separately in the income statement as interest anomalies. This method of presentation makes the composition of net interest income more transparent.

Volkswagen Bank GmbH has reassessed the treatment of revocable credit commitments. Generally speaking, the Bank does not make any use of the legal option to revoke such credit commitments or it is unable to prevent the drawdown of the commitments without some delay. For this reason, Volkswagen Bank GmbH treats the legally revocable credit commitments equally to irrevocable credit commitments under the HGB, including the recognition of additional provisions for credit risks. They are presented together with irrevocable credit commitments.

III. Balance Sheet Disclosures

LOANS TO AND RECEIVABLES FROM BANKS

Loans to and receivables from banks include loans to and receivables from affiliated companies amounting to €12 thousand (previous year: €6,018 thousand). There are no loans to and receivables from investees or investors included in the item (previous year: €0 thousand).

The maturity analysis of loans to and receivables from banks is as follows:

> Repayable on demand €292,154 thousand (previous year: €342,693 thousand)
> Up to three months: €88,690 thousand (previous year: €12 thousand)
> More than three months and up to one year: €0 thousand (previous year: €6,006 thousand)
> More than one year and up to five years: €0 thousand (previous year: €0 thousand)
> More than five years: €0 thousand (previous year: €0 thousand)

No loans to or receivables from banks are evidenced by certificates.

LOANS TO AND RECEIVABLES FROM CUSTOMERS

This item includes loans to and receivables from affiliated companies amounting to €2,644,896 thousand (previous year: €2,724,780 thousand).

The maturity analysis of the total amount of loans to and receivables from customers, none of which are evidenced by certificates, is as follows:

> Up to three months: €8,747,783 thousand (previous year: €10,412,458 thousand)
> More than three months and up to one year: €10,651,417 thousand (previous year: €10,671,228 thousand)
> More than one year and up to five years: €24,006,651 thousand (previous year: €26,685,969 thousand)
> More than five years: €743,552 thousand (previous year: €698,000 thousand)

Loans to and receivables from customers include receivables with an indefinite maturity (in accordance with the disclosure requirements in section 9(3) no. 1 of the RechKredV) amounting to €2,399,800 thousand (previous year: €3,104,876 thousand).

Loans to and receivables from customers include subordinated loans and receivables of €932,250 thousand (previous year: €989,645 thousand), of which €932,250 thousand (previous year: €989,645 thousand) is attributable to subordinated receivables arising from ABS transactions entered into by Volkswagen Bank GmbH.

The receivables from leasing business included in loans to and receivables from customers amount to €3,044,500 thousand (previous year: €2.906.130 thousand), of which €2,893,666 thousand (previous year: €2,795,182 thousand) is attributable to the Bank's branch in France.

Receivables from retail financing amounting to €765,560 thousand (previous year: €795,516 thousand) are attributable to the Bank's branch in France.

LOANS TO AND RECEIVABLES FROM SHAREHOLDERS

As of the reporting date, loans to and receivables from the sole shareholder, Volkswagen AG, Wolfsburg, amounted to €603 thousand (previous year: €0 thousand).

BONDS AND OTHER FIXED-INCOME SECURITIES

To help safeguard the supply of liquidity, Volkswagen Bank's branches in Italy and Spain have set up ABS structures. However, the securities issued by the special purpose entities purchasing the assets concerned have not been sold to investors but have instead been purchased by Volkswagen Bank GmbH and pledged as collateral for its participation in the open market operations of Deutsche Bundesbank. The total portfolio of these securities amounts to €3,126,000 thousand (previous year: €3,126,000 thousand). All the securities involved are allocated to the liquidity reserve. The securities are not remeasured because the counterparty default risk is already factored into the measurement of the receivables themselves. During the term of the transactions, the securities are recognized at cost, net of any redemptions.

The item also includes purchased securities from Volkswagen Bank GmbH's own ABS transactions. These securities amount to €13,504,700 thousand (previous year: €13,504,700 thousand) and are backed by the Bank's own receivables; no subsequent measurement is applied because the counterparty default risk is already factored into the measurement of the receivables themselves. During the term of the deals, the bonds are recognized at cost, net of any redemptions.

To accumulate collateral for participation in open market operations and to ensure that requirements in accordance with the liquidity coverage ratio are satisfied in the future, the Bank made repeated purchases of fixed-income securities with strong credit ratings. As of the reporting date, these bonds amounted to a total of €4,121,498 thousand (previous year: €3,219,801 thousand). The securities are allocated to the liquidity reserve and measured at market prices, applying the strict lower of cost or market principle under the HGB.

The securities and bonds reported under this balance sheet item – all of which are marketable, listed securities – total €21,299,702 thousand (previous year: €20,362,674 thousand).

As of the reporting date, securities within the portfolio amounting to €15,256,356 thousand (previous year: €12,453,740 thousand) had been deposited in the operational safe custody account maintained with Deutsche Bundesbank. These securities serve as collateral for funding transactions. There were open market loans of €12,975,137 thousand (previous year: €9,388,425 thousand) as of the reporting date.

Of the bonds and other fixed-income securities, a nominal amount of €4,575,113 thousand (previous year: €3,626,376 thousand) was due to mature in the fiscal year following the reporting date.

Bonds and other fixed-income securities include securities issued by affiliated companies amounting to €16,630,700 thousand (previous year: €16,630,700 thousand).

LONG-TERM EQUITY INVESTMENTS AND SHARES IN AFFILIATED COMPANIES

An overview of long-term equity investments and information on shares in affiliated companies can be found in the list of shareholdings in these annual financial statements.

The shares in affiliated companies and other long-term equity investments held by Volkswagen Bank GmbH are neither marketable nor listed.

INTANGIBLE FIXED ASSETS

Intangible fixed assets increased by €3,819 thousand to €6,239 thousand (previous year: €10,058 thousand).

PROPERTY AND EQUIPMENT

The total value of buildings and properties used for the Bank's own operations amounts to €6,011 thousand (previous year: €6,725 thousand). The amount within property and equipment attributable to other equipment, operating and office equipment is €1,524 thousand (previous year: €1,720 thousand).

LEASE ASSETS

This item comprises vehicles leased out as part of the leasing business operated by the branches in France and Italy and amounts to €2,121,203 thousand (previous year: €1,777,837 thousand).

OTHER ASSETS

This item includes receivables from interest rate hedging transactions amounting to €36,803 thousand (previous year: €39,148 thousand) and tax receivables of €40,067 thousand (previous year: €31,418 thousand), of which €8,452 thousand relates to tax receivables at the Bank's branch in Italy and €20,263 thousand to tax receivables at the Bank's branch in France. A significant component of the remaining other assets comprises receivables of €46,539 thousand (previous year: €45,450 thousand) from the ABS special purpose entities relating to the return of pledged collateral (not yet due) and service fees.

Derivatives to hedge currency risk gave rise to a currency adjustment item of €0 thousand (previous year: €22,869 thousand), which has been recognized under other assets.

PREPAID EXPENSES

This item contains deferred discounts of €6,427 thousand (previous year: €9,125 thousand), advance insurance premiums of €1 thousand (previous year: €1 thousand) and advance fees and commissions amounting to €1,952 thousand (previous year: €9,827 thousand) paid in connection with a rise in the level of new business at the Bank's branches.

LIABILITIES TO BANKS

The maturity analysis of the liabilities to banks, all of which comprise deposits or other liabilities not evidenced by certificates, is as follows:

> Repayable on demand €5,592 thousand (previous year: €85,901 thousand)
> Up to three months: €6,736 thousand (previous year: €1,881,299 thousand)
> More than three months and up to one year: €23,158 thousand (previous year: €20,634 thousand)
> More than one year and up to five years: €13,100,269 thousand (previous year: €7,624,849 thousand)
> More than five years: €56,911 thousand (previous year: €77,030 thousand)

Liabilities to banks include liabilities to an affiliated company in the amount of €0 thousand (previous year: €0 thousand).

Liabilities to Deutsche Bundesbank amounting to €13,000,000 thousand (previous year: €9,386,656 thousand) have been secured by collateral in the same amount in the form of securities.

LIABILITIES TO CUSTOMERS

This item includes liabilities to affiliated companies not evidenced by certificates amounting to €7,663,056 thousand (previous year: €6,414,654 thousand).

Customer deposits amount to €26,488,757 thousand (previous year: €28,693,540 thousand).

The item also includes accrued liabilities to dealers, customers and other creditors, i.e. incurred liabilities still to be billed.

The maturity breakdown of subitem "ab) With agreed maturity or notice period" is as follows:

- Up to three months: €5,687,266 thousand (previous year: €7,545,960 thousand)
- More than three months and up to one year: €355,012 thousand (previous year: €1,809,065 thousand)
- More than one year and up to five years: €1,576,607 thousand (previous year: €1,011,536 thousand)
- More than five years: €927,432 thousand (previous year: €133,636 thousand)

LIABILITIES TO SHAREHOLDERS

As of the reporting date, liabilities to the sole shareholder, Volkswagen AG, Wolfsburg, amounted to €3,365,762 thousand (previous year: €3,075,044 thousand).

NOTES, COMMERCIAL PAPER ISSUED

This item comprises bonds and commercial paper.

"a) Bonds issued" comprises: bonds: €5,086,592 thousand (previous year: €7,037,857 thousand)

Residual maturities:

- Up to three months: €36,592 thousand (previous year: €37,857 thousand)
- More than three months and up to one year: €1,300,000 thousand (previous year: €1,950,000 thousand)
- More than one year and up to five years: €3,750,000 thousand (previous year: €4,200,000 thousand)
- More than five years: €0 thousand (previous year: €850,000 thousand)

"b) Other notes, commercial paper issued" comprises: commercial paper €0 thousand (previous year: €10,589 thousand)

Residual maturities:

- Up to three months: €0 thousand (previous year: €0 thousand)
- More than three months and up to one year: €0 thousand (previous year: €10,589 thousand)
- More than one year and up to five years: €0 thousand (previous year: €0 thousand)

The "notes, commercial paper issued" item does not include any liabilities to an affiliated company or to an investor or investee of Volkswagen Bank GmbH.

Of the total bonds issued, an amount of €1,300,000 thousand matures in the subsequent year.

OTHER LIABILITIES

Of the total liabilities, liabilities in an amount of €17,525,661 thousand (previous year: €18,140,429 thousand) are backed by collateral. These liabilities have arisen from ABS transactions in which Volkswagen Bank GmbH has retained beneficial ownership of the sold receivables after the sale.

The following are also reported under this item: outstanding debt servicing amounts in connection with ABS transactions amounting to €817,801 thousand (previous year: €749,239 thousand), liabilities from interest rate hedging transactions amounting to €8,651 thousand (previous year: €8,465 thousand), liabilities to tax authorities of €54,530 thousand (previous year: €36,895 thousand) and accrued interest liabilities related to subordinated bonds and profit-sharing rights amounting to €597 thousand (previous year: €597 thousand).

Derivatives to hedge currency risk gave rise to a currency adjustment item of €42,016 thousand (previous year: €0 thousand), which has been recognized under other liabilities.

DEFERRED INCOME

This item largely comprises deferred income in connection with manufacturer and partner participation in sales promotion campaigns amounting to €614,191 thousand (previous year: €736,061 thousand), which will be recognized in the income statement over the term of the relevant agreements.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

The main measurement assumptions and parameters applied in the actuarial calculations by Volkswagen Bank GmbH were as follows:

	Germany	Other countries
Discount rate	1.87%	1.87%
Expected rate of salary increases	3.30%	0.00% – 0.00%
Expected rate of pension increases	1.70%	0.00% – 3.20%
Employee turnover rate	1.10%	0.00%

For Germany, the discount rate applied was the discount rate of 1.87% published by Deutsche Bundesbank for December 2021 in accordance with section 253(2) of the HGB (average market interest rate for the past ten years).

Discounting at the average market interest rate of the past seven years (1.35%) resulted in a difference of €20,800 thousand, which is subject to restrictions on distribution. In addition, unrealized gains on plan assets of €2,777 thousand were subject to distribution restrictions.

For reasons of materiality, the actuarial assumptions used for other countries are reported as a range of values.

Pension funds with a value equivalent to a settlement amount of €60,136 thousand and fair value funds with a corresponding value of €55,021 thousand were offset against the liabilities for pensions and similar obligations. The cost of the pension fund securities amounted to €57,629 thousand and the cost of the fair value fund securities amounted to €50,920 thousand. The fair value of the pension fund totaled €60,136 thousand and that of the fair value fund was €55,021 thousand at the reporting date. The securities were measured at closing prices as of the reporting date.

Income of €1,605 thousand from the measurement of the funds at fair value was offset against interest expense from provisions of €1,605 thousand as part of the netting of the obligation (measured at the fair value of the securities) and of the securities fund for the fair value securities.

In the year under review, the amount of the difference for Germany determined in accordance with section 253(6) of the HGB is €8,413 thousand for the pension provisions not funded externally and €12,387 thousand for the commitments funded through Volkswagen Pension Trust e. V. The amount of the difference determined in accordance with section 253(6) of the HGB is €27 thousand for the Bank's branch in Italy and €682 thousand for the Bank's branch in the UK.

OTHER PROVISIONS

Other provisions mainly comprise provisions to cover costs associated with litigation and legal risks. The provisions for litigation and legal risks reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers. They relate primarily to proceedings in relation to design aspects of loan agreements with customers that may obstruct the processing of statutory cancelation periods, provisions for legal disputes in connection with dealer financing agreements as well as customer financing broking claims. In total, provisions for litigation and legal risks amounted to €139,738 thousand (previous year: €305,373 thousand).

SUBORDINATED LIABILITIES

The total portfolio of subordinated liabilities amounts to €30,000 thousand (previous year: €30,000 thousand).

Subordinated liabilities amounting to €11,702 thousand (previous year: €19,702 thousand) are deemed to be a component of equity under the provisions of article 62(a) of the Capital Requirements Regulation (CRR).

The overall portfolio includes subordinated bonds in the amount of €30,000 thousand (previous year: €30,000 thousand), which have been placed on public capital markets.

There are no early repayment obligations for the subordinated liabilities.

The Bank has not entered into any agreement to convert these liabilities into equity or another form of debt, nor is it planning any such conversion. Volkswagen Bank GmbH has entered into derivative contracts to mitigate interest rate risk. The expenses incurred in connection with raising subordinated loans and issuing subordinated bonds amounted to €1,630 thousand (previous year: €1,630 thousand).

There are no subordinated liabilities to affiliated companies (previous year: €0 thousand).

SUBORDINATED BONDS

AS OF:	DEC. 31, 2021		LISTED ON A STOCK EXCHANGE		
Dated date	€ million	Coupon	Valid until	New coupon agreement based on	maturity date
September 26, 2003	20.0	5.40000%	September 26, 2023	Fixed interest rate	September 26, 2023
June 7, 2004	10.0	5.50000%	June 7, 2024	Fixed interest rate	June 7, 2024

Both of the subordinated bonds exceed 10% of the total amount of the subordinated liabilities. If the issuer is wound up, liquidated, or files for insolvency, the liabilities under these bonds will rank behind the claims of all the non-subordinated third-party creditors of the issuer such that no amount will be repayable in connection with these bonds until the claims of all these non-subordinated third-party creditors of the issuer have been satisfied in full. No agreement may be made retrospectively to limit the subordination or shorten the maturity of these bonds. The bonds may be redeemed early, but no earlier than five years after the issue date, and the issuer must first call the bond in question before any such redemption can take place. The issuer is only permitted to call the bond concerned if one of the following two requirements is satisfied: an equivalent amount of liable capital within the meaning of the Kreditwesengesetz (KWG – German Banking Act) and the CRR has been paid in to replace the redemption amount; or, the German Federal Financial Supervisory Authority (BaFin) and the European Banking Authority have consented to the early redemption. The bonds may also be called and redeemed early as a result of changes in the tax laws or regulations in the Federal Republic of Germany or as a result of a change in the official interpretation of these laws and regulations.

EQUITY

The capital reserves of Volkswagen Bank GmbH rose to €8.9 billion as of December 31, 2021 (previous year: €8.5 billion) due to the capital increase by Volkswagen AG.

CHANGES IN FIXED ASSETS OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG, FOR THE PERIOD JANUARY 1 THROUGH DECEBMER 31, 2021

€ thousand	Long-term equity investments	Shares in affiliated companies	Purchased concessions and similar rights	Payments on account for intangible fixed assets	Land, land rights and buildings on third-party land	Other equipment, operating and office equipment	Prepayments and assets under construction	Lease assets
Cost as of Dec. 31, 2020	**94,180**	**125,906**	**81,077**	**1,799**	**34,509**	**18,640**	**1,548**	**2,742,956**
Additions in 2021	0	0	2,786	0	8	381	16	1,419,187
Disposals in 2021	158	0	35,628	1,646	0	421	0	932,583
Reclassifications in 2021	0	0	153	–153	10	0	–10	0
Currency translation	0	0	292	0	0	0	0	0
Cost as of Dec. 31, 2021	**94,022**	**125,906**	**48,680**	**0**	**34,527**	**18,600**	**1,554**	**3,229,560**
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2020	**158**	**701**	**72,818**	**0**	**27,099**	**16,768**	**0**	**965,119**
Additions in 2021	3,000	0	4,959	0	881	698	0	664,268
Reversals of write-downs in 2021	0	–301	0	0	0	0	0	0
Disposals in 2021	158	0	35,628	0	0	389	0	521,030
Reclassifications in 2021	0	0	0	0	0	0	0	0
Currency translation	0	0	–292	0	0	0	0	0
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2021	**3,000**	**400**	**42,441**	**0**	**27,980**	**17,077**	**0**	**1,108,357**
Carrying amount as of Dec. 31, 2021	**91,022**	**125,506**	**6,239**	**0**	**6,547**	**1,524**	**1,554**	**2,121,203**
Carrying amount as of Dec. 31, 2020	**94,022**	**125,205**	**8,259**	**1,799**	**7,410**	**1,873**	**1,548**	**1,777,837**

IV. Income Statement Disclosures

INTEREST INCOME FROM LENDING AND MONEY MARKET TRANSACTIONS

The proportion of interest income generated in the foreign branches is 53.5% (previous year: 51.6%). The branches in Italy and France account for the largest share of this foreign income.

Interest income from lending and money market transactions includes income from finance leases amounting to €213,619 thousand (previous year: €202,998 thousand).

INTEREST ANOMALIES

The negative interest from money market transactions results from the Bank's reserve balance at the ECB in excess of the minimum reserve requirement and from short-term deposits with domestic banks. The positive interest from banking transactions results from the recharged negative interest on deposits of affiliated companies, the provision of short-term collateral for derivatives by banks and the participation in the tender operations of Deutsche Bundesbank.

LEASING INCOME

Income from leasing transactions comprises net income from operating leases and is generated primarily by the Bank's branch in France. The total amount of this income is €1,326,177 thousand (previous year: €1,099,191 thousand).

LEASING EXPENSES

The expenses from leasing transactions amount to €593,345 thousand (previous year: €489,917 thousand).

NET FEE AND COMMISSION INCOME

The proportion of net fee and commission income generated in the foreign branches is 50.9% (previous year: 48.0%). The branches in Italy and France account for the largest share of this foreign income.

Fee and commission income is derived largely from insurance broking, especially in connection with credit protection insurance, from the administration and collection of receivables sold as part of ABS transactions and from miscellaneous fees relating to the retail business.

It includes prior-period income of €556 thousand (previous year: €1,118 thousand) largely generated from special fees for credit protection insurance, from the card payment system and from the credit card business.

Most of the fee and commission expenses are fees and commissions paid to dealers in connection with consumer credit business.

OTHER OPERATING INCOME

Other operating income amounted to €431,168 thousand (previous year: €356,057 thousand) and comprises mainly cost reimbursements from Group companies of €25,912 thousand (previous year: €21,774 thousand). The decrease is due to the fact that the options for recharging overheads to affiliated companies has been curtailed as a result of the reorganization of the corporate structure.

The proportion of other operating income generated in the foreign branches is 82.0% (previous year: 48.1%). The branches in Italy and Spain account for the largest share of this foreign income.

This item includes prior-period income of €191,831 thousand (previous year: €132,100 thousand), of which €190,247 thousand (previous year: €126,392 thousand) is income from the reversal of provisions. Other income includes the effects from the discounting of provisions amounting to €172 thousand (previous year: €1,379 thousand).

This item also includes income from the premature termination of ABS transactions amounting to €138,834 thousand (previous year: €35,575 thousand) and income from currency translation amounting to €14,128 thousand (previous year: €8,735 thousand).

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amount to €793,239 thousand (previous year: €769,851 thousand). Significant elements are personnel expenses of €203,624 thousand (previous year: €190,743 thousand) and cost allocations from Group companies amounting to €303,222 thousand (previous year: €274,457 thousand). These cost allocations were mainly attributable to staff leasing arrangements. The fee for financial audit services paid to the auditor in the current fiscal year was mostly attributable to the audit of the annual and consolidated financial statements of Volkswagen Bank GmbH as well as to reviews of interim financial statements. Further assurance services related primarily to other audit services, such as the audit of the safe custody and securities services business pursuant to section 89 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act). The tax advisory services relate to the assessment of an impact analysis in connection with withholding tax. The other services performed by the auditor in the reporting period mainly consisted of issues relating to banking supervisory law, consulting services on process optimization and IT services. For further disclosures of the total fee charged by the auditor for the fiscal year, please refer to the notes to the consolidated financial statements of Volkswagen Bank GmbH.

AMORTIZATION AND WRITE-DOWNS OF INTANGIBLE FIXED ASSETS, AND DEPRECIATION AND WRITE-DOWNS OF PROPERTY AND EQUIPMENT AND LEASE ASSETS

Depreciation and write-downs of lease assets amounting to €662,268 thousand (previous year: €541,577 thousand) are reported within this line item as a separate subitem.

The “Depreciation and write-downs of lease assets” subitem is mainly used to recognize the depreciation and impairment of lease vehicles at the branch in France. Depreciation is calculated on a straight-line basis.

AMORTIZATION AND WRITE-DOWNS OF RECEIVABLES AND CERTAIN SECURITIES, AND ADDITIONS TO PROVISIONS IN THE LENDING BUSINESS

Amortization and write-downs decreased by €228.2 million to €514.3 million. Income from the reversal of valuation allowances no longer required and income from loans and receivables previously written off totaled €569.3 million and were hence up on the prior-year figure (€514.6 million). This resulted in a net reversal of provisions for credit risk, amounting to €54.9 million in the reporting year (previous year: net addition of €227.9 million). Following the reassessment of the treatment of revocable credit commitments, the effect of changing the treatment led to the recognition of additional provisions for credit risks in the amount of €46,995 thousand.

WRITE-DOWNS OF LONG-TERM EQUITY INVESTMENTS, SHARES IN AFFILIATED COMPANIES, AND SECURITIES TREATED AS FIXED ASSETS

In fiscal year 2021, write-downs of €3,000 thousand were recognized on long-term equity investments and shares in affiliated companies.

OTHER OPERATING EXPENSES

This item is essentially the aggregation of a large number of individual items. These include prior-period expenses of €3,600 thousand (previous year: €10,136 thousand), of which €551 thousand (previous year: €3,298 thousand) relate to the branch in Italy and €2,679 thousand (previous year: €3,088 thousand) to the branch in France. Other operating expenses include expenses from currency translation amounting to €1,109 thousand (previous year: €28,815 thousand). Expenses of €20,771 thousand (previous year: €24,426 thousand) were recognized for identifiable litigation risks. The item also comprises the effects from the discounting of provisions amounting to €19,967 thousand (previous year: €16,708 thousand).

INCOME TAX EXPENSE

This item comprises domestic and foreign taxes on income. The domestic income taxes for the reporting period amounting to €46,336 thousand (previous year restated[1]: €30,813 thousand) were recharged to Volkswagen Bank GmbH within the existing tax group by Volkswagen AG, the controlling entity in the tax group.

The income taxes item includes prior-period expenses of €91,235 thousand (previous year restated[1]: €50,149 thousand) and tax refunds for prior years amounting to €2,414 thousand (previous year: €502 thousand).

1 The adjustment was made because of the reclassification of income taxes from periodic to non-periodic in the amount of €50,000 thousand.

The deferred taxes of the independently taxable branches are determined separately in a dedicated statement using the appropriate local tax rates of between 15.00% and 33.07% in accordance with local tax laws. The deferred tax liabilities of the branch in France, most of which are attributable to lease assets, are offset against deferred tax assets of the other branches arising from valuation allowances and legal provisions. The option not to recognize the resulting total excess of assets over liabilities of €93,377 thousand (previous year: €123,261 thousand) is exercised in accordance with section 274(1) sentence 2 of the HGB.

In Germany, deferred taxes are determined using a tax rate of 30%. Due to the tax group with Volkswagen AG, the resulting net deferred tax assets of €229,079 thousand (previous year: €85,952 thousand) are attributable to Volkswagen AG.

PROFITS TRANSFERRED UNDER A PROFIT-AND-LOSS TRANSFER AGREEMENT

The profit remaining after tax, which amounts to €562.8 million (previous year: €382.9 million), is transferred to Volkswagen AG pursuant to the existing profit and loss transfer agreement.

V. Other Disclosures

REPORT ON POST-BALANCE SHEET DATE EVENTS

No significant events had occurred by February 22, 2022 that would have required a substantially different presentation of the net assets, financial position and results of operations.

GROUP ACCOUNTING

The annual financial statements of Volkswagen Bank GmbH, Braunschweig, are included in the consolidated financial statements of Volkswagen Bank GmbH, Braunschweig, which are prepared in accordance with the International Financial Reporting Standards. The consolidated financial statements of Volkswagen Bank GmbH are included in the consolidated financial statements of Volkswagen AG, Wolfsburg (smallest and largest consolidated group within the meaning of section 285 no. 14 and no. 14a of the HGB). The annual financial statements of Volkswagen Bank GmbH, the consolidated financial statements of Volkswagen Bank GmbH and those of Volkswagen AG are all published in the German Federal Gazette.

CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

The irrevocable credit commitments are commitments that have arisen as part of the general banking business. The agreed credit amounts can be drawn down at any time. Once drawn down, the loans concerned are subject to the general rules and regulations for credit monitoring.

The remeasurement effect of changing the treatment of revocable credit commitments amounted to €11,452,453 thousand as of December 31, 2021.

The contingent liabilities amounting to €268,451 thousand (previous year: €200,458 thousand) consist exclusively of guarantees. Of these guarantees, an amount of €241,032 thousand (previous year: €174,089 thousand) is secured by collateral in the form of deposits. Volkswagen Bank GmbH is therefore not exposed to any loss risk up to this amount if the guarantees were to be called upon.

OFF-BALANCE-SHEET TRANSACTIONS AND OTHER FINANCIAL OBLIGATIONS

Derivative Financial Instruments

Volkswagen Bank GmbH has entered into derivative contracts to mitigate interest rate and currency risks. The derivatives used are interest rate swaps, cross-currency swaps, cross-currency interest rate swaps and currency forwards, all of which are used solely for economic hedging purposes. The fair values of interest rate swaps, cross-currency swaps and currency forwards are determined with the help of suitable IT-based valuation techniques (discounted cash flow method) based on market swap rates; the levels vary in line with changes in interest or exchange rates. The fair values are not reported in the balance sheet. In the case of interest rate swaps, the interest is allocated and recognized over the maturity of the instrument.

The breakdown of derivative financial instruments in accordance with section 285 no. 19 of the HGB is as follows:

€ million	NOTIONAL VALUES	NOTIONAL VALUES	POSITIVE FAIR VALUES[1]	POSITIVE FAIR VALUES[1]	NEGATIVE FAIR VALUES[1]	NEGATIVE FAIR VALUES[1]
	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021
Interest rate risks						
Interest rate swaps	11,385.3	8,320.4	167.8	90.5	9.7	3.2
Currency risks						
Currency forwards	2,096.5	470.3	11.8	0.0	16.4	15.2
Cross-currency swaps	1,434.4	1,794.0	20.6	1.6	5.0	36.2
Cross-currency interest rate risks						
Cross-currency interest rate swaps	190.0	350.0	11.2	7.5	0.0	0.0
Total derivatives	15,106.2	10,934.7	211.4	99.6	31.1	54.6

1 Fair value including accrued interest is shown for all contracts.

The maturity analysis for the derivatives is as follows:

NOTIONAL VALUES € million	INTEREST RATE RISKS	INTEREST RATE RISKS	CURRENCY RISKS	CURRENCY RISKS	CROSS-CURRENCY INTEREST RATE RISKS	CROSS-CURRENCY INTEREST RATE RISKS
	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021
Residual maturities						
less than or equal to 3 months	1,930.0	1,109.2	283.8	925.2	110.0	140.0
less than or equal to 1 year	1,135.0	3,260.8	1,121.3	868.9	80.0	0.0
less than or equal to 5 years	7,470.3	3,950.3	29.3	0.0	0.0	210.0
more than 5 years	850.0	0.0	0.0	0.0	0.0	0.0

OTHER FINANCIAL OBLIGATIONS

Other financial obligations amount to €14,190 thousand (previous year: €13,609 thousand).

FOREIGN CURRENCIES

As of the reporting date, the total amount of assets denominated in foreign currency (translated into euros) amounted to €3,343,457 thousand (previous year: €4,266,512 thousand); liabilities in foreign currency (translated into euros) came to €472,886 thousand (previous year: €579,543 thousand).

The volume of spot exchange transactions not yet settled as of the reporting date was €0 thousand (previous year: €99,774 thousand), while the volume of currency forwards was €470,284 thousand (previous year: €2,096,468 thousand). The notional value of cross-currency swaps was €1,794,024 thousand (previous year: €1,434,366 thousand); that of cross-currency interest rate swaps amounted to €350,000 thousand (previous year: €190,000 thousand).

GOVERNING BODIES DISCLOSURES

Since fiscal year 2021, the members of the Management Board have received their remuneration from Volkswagen Bank GmbH. The total remuneration of the members of the Management Board amounted to €2,585 thousand.

In accordance with a resolution passed by the Annual General Meeting, the members of the Supervisory Board who are not employees of the Volkswagen Group are entitled to annual remuneration. This remuneration is independent of the performance of the Bank and the Supervisory Board role undertaken by the person concerned. The members of the Supervisory Board who are employees of the Volkswagen Group receive flat-rate remuneration from Volkswagen Bank GmbH. If they are also members of other supervisory boards of Group companies of Volkswagen AG, remuneration received for these functions is deducted from their entitlement. As a result, a total amount of less than €0.07 million was granted to the members of the Supervisory Board in the reporting period.

The employee representatives on the Supervisory Board employed by Volkswagen Bank GmbH also receive their regular salaries under the terms of their employment contracts. This salary is based on the provisions in the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act) and is an appropriate remuneration for the relevant function or activity in the Bank. The same also applies to the representative of the senior executives on the Supervisory Board.

The members of the Management Board in the reporting year were as follows:

DR. MICHAEL REINHART (UNTIL JANUARY 31, 2021)
Chairman of the Management Board
Corporate Management, Volkswagen Bank GmbH
Finance, Volkswagen Bank GmbH (Group Treasury & Investor Relations only)

DR. MICHAEL REINHART (AS OF FEBRUARY 1, 2021)
Chairman of the Management Board
Corporate Management, Volkswagen Bank GmbH

OLIVER ROES (AS OF FEBRUARY 1, 2021)
Finance, Volkswagen Bank GmbH

CHRISTIAN LÖBKE (UNTIL JANUARY 31, 2021)
Risk Management, Volkswagen Bank GmbH
Finance, Volkswagen Bank GmbH (excl. Group Treasury & Investor Relations)

CHRISTIAN LÖBKE (AS OF FEBRUARY 1, 2021)
Risk Management, Volkswagen Bank GmbH

DR. VOLKER STADLER
Operations, Volkswagen Bank GmbH

The Supervisory Board had the following members as of the reporting date, December 31, 2021:

DR. INGRUN-ULLA BARTÖLKE
Chairwoman (as of October 1, 2021)
Deputy Chairwoman (until September 30, 2021)
Head of Group Accounting and External Reporting Volkswagen AG

LUTZ MESCHKE
Deputy Chairman (as of October 1, 2021)
Deputy Chairman and Member of the Management Board
of Dr. Ing. h.c. F. Porsche AG
Finance and IT

SILVIA STELZNER
Deputy Chairwoman
Managing Director of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

BJÖRN BÄTGE (AS OF OCTOBER 1, 2021)
Group Treasury – Head of Global Markets of Volkswagen AG

MARKUS BIEBER
General Secretary of the Joint Works Council of Volkswagen AG

FRANK FIEDLER
Member of the Board of Management of Volkswagen Financial Services AG
Finance and Purchasing

PROF. DR. SUSANNE HOMÖLLE
Chair of Banking and Finance, University of Rostock

THOMAS KÄHMS
Member of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

REINHARD MATHIEU
Head of Basic Regulatory Issues & Reporting at Volkswagen Bank GmbH

JÜRGEN ROSEMANN
Member of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

LARS HENNER SANTELMANN
Chairman of the Board of Management of Volkswagen Financial Services AG

CONNY SCHÖNHARDT (AS OF JUNE 18, 2021)
Trade union secretary for the IG Metall Board of Management, Department of Vehicle Construction Coordination

In addition, the Supervisory Board had the following members in 2021:

BIRGIT DIETZE (UNTIL APRIL 30, 2021)
District Manager of IG Metall Berlin-Brandenburg-Saxony

DR. JÖRG BOCHE (UNTIL SEPTEMBER 30, 2021)
Chairman
Executive Vice President of Volkswagen AG
Head of Group Treasury

The composition of the committees of the Supervisory Board of Volkswagen Bank GmbH was as follows as of the reporting date, December 31, 2021:

MEMBERS OF THE AUDIT COMMITTEE

Lutz Meschke (Chairman) (as of October 1, 2021)
Prof. Dr. Susanne Homölle (Deputy Chairwoman)
Frank Fiedler
Silvia Stelzner

In addition, the following person was a member of the Audit Committee in 2021:
Dr. Ingrun-Ulla Bartölke (Chairwoman) **(UNTIL SEPTEMBER 30, 2021)**

MEMBERS OF THE RISK COMMITTEE

Prof. Dr. Susanne Homölle (Chairwoman)
Björn Bätge (Deputy Chairman) (as of October 1, 2021)
Frank Fiedler
Silvia Stelzner

In addition, the following person was a member of the Risk Committee in 2021:
Dr. Jörg Boche (Deputy Chairman) **(UNTIL SEPTEMBER 30, 2021)**

MEMBERS OF THE NOMINATION COMMITTEE

Dr. Ingrun-Ulla Bartölke (Chairwoman)
Thomas Kähms (Deputy Chairman)
Lars Henner Santelmann

MEMBERS OF THE REMUNERATION COMMITTEE

Dr. Ingrun-Ulla Bartölke (Chairwoman) (as of October 1, 2021)
Dr. Ingrun-Ulla Bartölke (Deputy Chairwoman) (until September 30, 2021)
Björn Bätge (Deputy Chairman) (as of October 1, 2021)
Thomas Kähms
Lars Henner Santelmann

In addition, the following person was a member of the Remuneration Committee in 2021:
Dr. Jörg Boche (Chairman) **(UNTIL SEPTEMBER 30, 2021)**

Provisions of €3,057 thousand (previous year: €4,439 thousand) were recognized for pensions and similar obligations in favor of former members of the Management Board or their surviving dependants. In the reporting period, payments to these individuals amounted to €214 thousand (previous year: €233 thousand).

Assets include receivables of €31 thousand (previous year: €21 thousand) relating to loans falling within the scope of section 15(1) nos. 1 and 3 of the KWG. Of this amount, receivables of €13 thousand (previous year: €14 thousand) are due from members of the Supervisory Board and an amount of €18 thousand (previous year: €7 thousand) is due from the members of the Management Board.

Average number of employees during the reporting period:

	2021	2020
Salaried employees	1,849	1,855
of which senior managers	41	38
of which part time	423	430
Vocational trainees	31	27

BRANCHES

Zweigniederlassungen
Audi Bank, Braunschweig
SEAT Bank, Braunschweig
ŠKODA Bank, Braunschweig
AutoEuropa Bank, Braunschweig
ADAC FinanzService, Braunschweig
Ducati Bank, Braunschweig
Zweigstellen
Volkswagen Bank, Braunschweig
Volkswagen Bank, Emden
Volkswagen Bank, Hannover
Volkswagen Bank, Kassel
Volkswagen Bank, Salzgitter
Volkswagen Bank, Wolfsburg
Audi Bank, Ingolstadt
Audi Bank, Neckarsulm
Filialen
Volkswagen Bank GmbH, St. Denis-Paris, France
Volkswagen Bank GmbH, Glyfada-Athen, Greece
Volkswagen Bank GmbH, Milton Keynes, United Kingdom
Volkswagen Bank GmbH, Milan, Italy
Volkswagen Bank GmbH, Verona, Italy
Volkswagen Bank GmbH, Amersfoort, Netherlands
Volkswagen Bank GmbH, Warsaw, Poland
Volkswagen Bank GmbH, Lisbon, Portugal
Volkswagen Bank GmbH, Alcobendas-Madrid, Spain

Appointments to Supervisory Bodies – Disclosures in accordance with Section 340a(4) of the HGB

DR. MICHAEL REINHART

> Volkswagen Finančné služby Slovensko s.r.o., Bratislava, Slovakia
> Chairman of the Supervisory Board
> DFM N.V., Amersfoort, Netherlands
> Chairman of the Supervisory Board

OLIVER ROES

> Volkswagen Finančné služby Slovensko s.r.o., Bratislava, Slovakia
> Member of the Supervisory Board

ROMAN ROSENBERG

> Volkswagen Financial Services N.V., Amsterdam, Netherlands
> Member of the Supervisory Board

Shareholdings

Shareholdings of Volkswagen Bank GmbH and the Volkswagen Bank GmbH 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 Bank GmbH Group in accordance with IFRS 12 as of December 31, 2021.

		EXCHANGE RATE (1 EURO =)	VW BANK GMBH'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/LOSS IN THOUSANDS		
Name and registered office of the company	Currency	Dec. 31, 2021	Direct	Indirect	Total	Local currency	Local currency	Footnote	Year
I. PARENT COMPANY									
Volkswagen Bank GmbH, Braunschweig									
II. SUBSIDIARIES									
A. Consolidated companies									
1. Germany									
2. International									
Driver España six, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	2) 6)	2020
Driver Italia One S.r.l., Milan	EUR		–	–	–	10	–	1) 3) 6)	2020
Driver Master S.A., Luxembourg	EUR		–	–	–	31	–	6)	2020
Driver Multi-Compartment S.A., Luxembourg	EUR		–	–	–	16	–	6)	2020
Private Driver España 2020-1, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	2) 6)	2020
Private Driver Italia 2020-1 S.r.l., Milan	EUR		–	–	–	10	–	2) 6)	2020
B. Unconsolidated companies									
1. Germany									
2. International									
OOO Volkswagen Bank RUS, Moscow	RUB	84.9779	1.00	–	1.00	17,284,314	1,034,143	5)	2020

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2021	VW BANK GMBH'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS Local currency	PROFIT/LOSS IN THOUSANDS Local currency	Footnote	Year
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR		51.00	–	51.00	103,091	25,943		2020
2. International									
DFM N.V., Amersfoort	EUR		60.00	–	60.00	235,098	26,521	5)	2020
Volkswagen Finančné služby Slovensko s.r.o., Bratislava	EUR		58.00	–	58.00	73,294	–1,297	5)	2020
B. Companies accounted for at cost									
1. Germany									
2. International									
IV. ASSOCIATES									
A. Equity-accounted associates									
1. Germany									
2. International									
B. Associates accounted for at cost									
1. Germany									
2. International									
Credi2 GmbH, Vienna	EUR		20.00	–	20.00	1,908	–2,399		2020
V. EQUITY INVESTMENTS									
1. Germany									
2. International									
Society for Worldwide Interbank Financial Telecommunications SCRL, La Hulpe	EUR		0.01	–	0.01	487,078	35,824	4) 5)	2020

1) In liquidation
2) Short fiscal year
3) Currently not trading
4) Consolidated financial statements
5) Figures in accordance with IFRSs
6) Structured company in accordance with IFRS 10 and IFRS 12

Braunschweig, February 22, 2022

The Management Board

Dr. Michael Reinhart

Oliver Roes

Christian Löbke

Dr. Volker Stadler

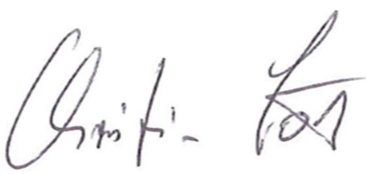
Responsibility Statement

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 Bank GmbH, and the management report includes a fair review of the development and performance of the business and the position of Volkswagen Bank GmbH, together with a description of the material opportunities and risks associated with the expected development of Volkswagen Bank GmbH.

Braunschweig, February 22, 2022
The Management Board

Dr. Michael Reinhart

Oliver Roes



Christian Löbke

Dr. Volker Stadler

Independent Auditor´s Report

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

To Volkswagen Bank GmbH, 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 Bank GmbH, Braunschweig, which comprise the balance sheet as at 31 December 2021, and the income statement for the fiscal year from 1 January 2021 to 31 December 2021, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Volkswagen Bank GmbH, which is combined with the group management report, for the fiscal year from 1 January 2021 to 31 December 2021. 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 institutions and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2021 and of its financial performance for the fiscal year from 1 January 2021 to 31 December 2021 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 non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2021 to 31 December 2021. 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:

IDENTIFICATION OF IMPAIRED LOANS AND DETERMINATION OF SPECIFIC VALUATION ALLOWANCES IN DEALER FINANCING

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

The valuation of loans to dealers and the related identification of impaired loans and the determination of specific valuation allowances are significant areas in which the executive directors of Volkswagen Bank exercise judgment. The identification of impaired loans and the determination of an appropriate specific valuation allowance entail uncertainties, which include various assumptions and estimation inputs, particularly regarding the dealer's financial performance, expected future cash flows and the valuation of collateral. In addition to the impact of the global Covid-19 pandemic, for which it is not yet possible to make a conclusive assessment, these uncertainties are also significantly increased in the fiscal year as a result of the supply bottlenecks of Group's new vehicles due to the semiconductor shortage. Even minimal changes in the assumptions and estimation inputs can lead to significant variation in values.

In view of Volkswagen Bank's business model and the significance of dealer financing for its assets and financial performance, we determined the identification of impaired loans and the determination of specific valuation allowances in dealer financing to be a key audit matter.

Auditor´s response

During our audit, we analyzed the accounting-related processes for the identification of impaired loans and the determination of specific valuation allowances. We tested the operating effectiveness of the controls implemented in these processes for identifying impaired loans and determining specific valuation allowances. Our audit procedures focused on the processes for evaluating the borrowers' economic situation, monitoring early warning indicators, applying impairment triggers and thus for applying internal risk classification procedures and for valuing collateral.

In addition, we performed substantive audit procedures on a sample basis and assessed the need for any specific valuation allowance and the determination of the specific valuation allowances. We selected our sample applying a risk-based approach, using criteria such as the inclusion of loans on watch lists for increased default risks, rating class, the level of exposure and specific valuation allowances already recognized.

As part of our risk-based sampling, we assessed whether the significant assumptions and estimates relating to dealers' expected cash flows including the carrying amounts of collateral held are consistent with the borrower's economic situation and market expectations. Furthermore, we checked the arithmetical accuracy of the specific valuation allowances determined.

Our audit procedures did not lead to any reservations relating to the identification of impaired loans and the determination of specific valuation allowances in dealer financing.

Reference to related disclosures

The Company's disclosures on the valuation of the loan portfolios (including the dealer financing portfolio) are contained in the section "Accounting Policies" of the notes to the financial statements as well as in the section "Report on Opportunities and Risks," subsection "Credit Risk," passages "Collateral" and "Provisions" of the management report, which is combined with the group management report.

RECOGNITION AND VALUATION OF THE PROVISION FOR LEGAL RISKS FROM CANCELATIONS OF CUSTOMER LOAN AGREEMENTS

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

The Company is exposed to legal risks in relation to certain design aspects of loan agreements with customers that may obstruct the processing of statutory cancelation periods. Due in particular to differing decisions by the courts, the recognition of provisions for the resulting legal risks entails a high level of uncertainty and is thus, in principle and in amount, a significant area in which the executive directors exercise judgment. Against this background, we determined this to be a key audit matter.

Auditor´s response

In connection with our audit of the recognition and valuation of the provision for legal risks from cancelations of customer loan agreements, we examined the processes and controls set up by Volkswagen Bank to identify affected agreements and assess the potential future expenses therefrom.

In order to determine whether the estimates by the executive directors of the anticipated cash outflows were appropriate, our audit procedures included making inquiries of the executive directors and the internal Legal department of the Company.

As of the reporting date, we also obtained assessments by an external law firm engaged by the Bank and opinions from experts engaged by the Bank for the valuation of the estimated cash outflows and their probability and, with the assistance of internal lawyers, determined that they were suitable for use in our audit. Furthermore, we inspected and analyzed the court rulings and proceedings concluded in the past. On this basis we formed our own expectations. We analyzed the estimates and assumptions made by the executive directors as to whether they were consistent with the knowledge obtained from using the documents of the external law firm and experts engaged by the Bank and with our expectations. Moreover, we checked the arithmetical accuracy of the provision calculated by the Company.

Our audit procedures did not lead to any reservations relating to the recognition and valuation of the provision for legal risks from cancelations of customer loan agreements.

Reference to related disclosures

The Company's disclosures on the provisions for litigation and legal risks are contained in section "III. Balance Sheet Disclosures," subsection "Other Provisions" of the notes to the financial statements and in the "Business Performance 2021" section of the management report, which is combined with the group management report.

MACROECONOMIC SCENARIOS AND THE SPECIFIC CREDIT RISK PARAMETERS DERIVED THEREFROM IN CONNECTION WITH THE DETERMINATION OF THE GLOBAL VALUATION ALLOWANCE FOR FORESEEABLE BUT NOT INDIVIDUALLY IDENTIFIED COUNTERPARTY DEFAULT RISKS RELATING TO LOANS TO AND RECEIVABLES FROM CUSTOMERS

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

The valuation of loans to and receivables from customers and the related determination of the global valuation allowance for foreseeable but not individually identified counterparty default risks relating to loans to and receivables from customers are significant areas in which the executive directors exercise judgment.

In accordance with the Accounting Principle "Risk provision for foreseeable but not yet individually specified counterparty default risks in banks' lending business ("global valuation allowances") (IDW AcP BFA 7)," the Bank uses for the sake of simplification the approach specified by International Financial Reporting Standard 9 Financial Instruments ("IFRS 9") to determine the global valuation allowance. Consequently, the model-based determination of the global valuation allowance according to the IFRS 9 impairment approach uses four macroeconomic scenarios to meet the requirements for an unbiased and probability-weighted estimate. The four scenarios (base, positive, negative, semiconductor) differ in terms of the assumptions and estimates of future macroeconomic developments and are reflected in the different specific credit risk parameters underlying the calculation of the global valuation allowance (loss given default, probability of default and credit conversion factor).

Minimal changes in the assumptions can lead to significant variation in values.

In light of the significant volume of non-defaulted loans to and receivables from customers underlying the model-based determination of the global valuation allowance as well as the increased uncertainty and judgment involved in the macroeconomic scenarios due to the ongoing effects of the Covid-19 pandemic and the global supply shortages, we consider the macroeconomic scenarios and the specific credit risk parameters derived therefrom in connection with the determination of the global valuation allowance for foreseeable but not yet individually specified counterparty default risks relating to loans to and receivables from customers to be a key audit matter.

Auditor´s response

As part of our audit, we analyzed the derivation of the scenarios to determine whether they are consistent with the macroeconomic forecasts of leading economic research institutes. We also consulted internal specialists to assess the appropriateness of the derived scenarios on the basis of our expectations of industry performance.

We analyzed the processes implemented by the executive directors of Volkswagen Bank GmbH in connection with the specific credit risk parameters derived from the scenarios and assessed the adequate design and operating effectiveness of the controls implemented in the process.

We examined the method used so as to check that the specific credit risk parameters are consistent with the relevant scenario. To test the adequate design of the credit risk parameters for each scenario, we first assessed the operating effectiveness of the controls implemented in the risk classification process with regard to the default risk. We also examined the appropriate valuation of the collateral using the recovery rates realized in the past.

We reperformed the calculations of the model-based global valuation allowance determined on the basis of the different scenarios and the different specific credit risk parameters and checked whether the Bank correctly included the scenarios in its calculation. In this context, we checked that the specific credit risk parameters relate to the entire term for the relevant derived scenario if there has been a significant increase in the credit risk of the loans to and receivables from customers since initial recognition.

Our audit procedures did not give rise to any reservations with regard to the macroeconomic scenarios and the specific credit risk parameters derived therefrom in connection with the model-based determination of the global valuation allowance for non-defaulted loans to and receivables from customers of Volkswagen Bank GmbH.

Reference to related disclosures

Disclosures on the model-based determination of the global valuation allowance for loans to and receivables from customers including the presentation of the different macroeconomic scenarios are included in the section “Accounting policies – Loans to and receivables from banks and customers” section of the notes to the financial statements and in the management report, which is combined with the group management report, in the Report on Opportunities and Risks under the heading “Credit Risk” in the passages addressing “Collateral” and “Provisions.”

OTHER INFORMATION

The Supervisory Board is responsible for the Report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. The other information comprises the corporate governance declaration (disclosures on the quota for women on executive boards). The other information also comprises additional parts of the annual report, of which we obtained a version prior to issuing this auditor’s report, such as the Report of the Supervisory Board and the Responsibility Statement, but not the annual financial statements, not the management report disclosures whose content is audited and not our auditor’s report thereon.

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

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

> is materially inconsistent with the annual financial statements, with the 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 institutions, 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 on the electronic rendering of the annual financial statements and the management report prepared for publication purposes in accordance with Sec. 317 (3a) HGB

Opinion

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the file Volkswagen Bank_GmbH_JA+LB_ESEF-2021-12-31.zip (SHA-256 checksum: 8b3b04beedd521db02cfa23346502b426a96c47589a2a9d9ea6f48a5a6e96072) and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the annual financial statements and the management report contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying annual financial statements and the accompanying management report for the fiscal year from 1 January 2021 to 31 December 2021 contained in the “Report on the audit of the annual financial statements and of the management report” above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the opinion

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

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

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

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

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

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

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

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

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

We were elected as auditor by the Annual General Meeting on 1 March 2021. We were engaged by the Supervisory Board on 14 September 2021. We have been the auditor of Volkswagen Bank GmbH since 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).

OTHER MATTER – USE OF THE AUDITOR’S REPORT

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Laura Gundelach.

Hanover, 22 February 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Gundelach	Bühring
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

Volkswagen Bank GmbH

During the reporting period, the Supervisory Board regularly concerned itself closely with the situation and development of the Bank. The Management Board regularly provided the Supervisory Board with timely and comprehensive information, both written and oral, on the key aspects of planning, on the situation of the Bank, including the risk position and risk management, and on business development. There are regular exchanges between the Chairman of the Supervisory Board and the Management Board even outside of meetings. On the basis of the reports by the Management Board, the Supervisory Board continually monitored the conduct of the Bank's business and was thus able to perform the functions entrusted to it by law and under the articles of association without any restrictions. All decisions of fundamental importance to the Bank and other transactions requiring the approval of the Supervisory Board in accordance with the rules of procedure were reviewed and discussed with the Management before a resolution was adopted.

The Supervisory Board has twelve members. The Supervisory Board held six meetings in the reporting year. The average attendance rate was approximately 99%. Two decisions were made by circulation of written resolutions for approval; in the reporting period, there were no decisions made by the Chairman of the Supervisory Board using the expedited procedure.

The main issues discussed at the meetings of the Supervisory Board and its committees are presented below.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on February 18, 2021, following a detailed examination, the Supervisory Board recommended to the Annual General Meeting to adopt the annual financial statements of Volkswagen Bank GmbH prepared by the Management Board for 2020 and commented on the consolidated financial statements. In addition, in relation to the report on the Bank's current situation, we discussed the current and future risk situation, the financial performance of the Volkswagen Bank GmbH Group, the key issues for fiscal year 2021 and the status of an ECB tender. Furthermore, we heard a report on the Company's IT strategy for 2021. Amended provisions in section 15 of the Kreditwesengesetz (KWG – German Banking Act) and other amendments to the KWG were also explained to us and, pursuant to the Risikoreduzierungsgesetz (German Risk Reduction Act), we resolved to amend the rules of procedure of the Management Board, the Risk Committee, the Remuneration Committee, the Nomination Committee and the Audit Committee. There was also a report on the planned increase in the Bank's equity.

At the meeting on April 14, 2021, the communication of the results of the Supervisory Review and Evaluation Process (SREP) was described to the Supervisory Board. We also discussed Management Board remuneration.

The meeting on May 19, 2021 was entirely devoted to the issue of independent directors.

At the meeting on June 17, 2021, we had a report on the equity increase implemented by the Bank, the financial performance of the Volkswagen Bank GmbH Group, progress with a number of strategic initiatives as well as current regulatory issues. There were also reports on selected IT findings and projects, IT sourcing and on a second European hub for certain IT services. Finally, the Chairwoman of the Audit Committee presented the compliance report.

On September 16, 2021, we resolved amendments to the rules of procedure of the Credit Committee and the Audit Committee. Moreover, in accordance with a succession plan, we elected a new Chairwoman and a new Deputy Chairman. We also resolved to recommend to the Annual General Meeting the appointment of a new Supervisory Board member. Because of these personnel changes, we elected from among our members a new member and a new Chairman for the Audit Committee as well as a new Chairwoman for the Remuneration Committee. Furthermore, we discussed the results of the annual assessment of the Management and Supervisory Board in accordance with section 25d of the KWG. We also heard a report on the financial performance of the Volkswagen Bank GmbH Group and a planning outlook. Other topics included progress with the strategic initiatives, current regulatory issues and a report on selected IT findings and projects. A report was also provided on the judgment handed down by the Bundesgerichtshof (BGH – German Federal Court of Justice) on the general terms and conditions of banks as well as an estimate of customer attrition, the flood relief program and the latest legal developments relating to the right to cancel vehicle financing agreements.

At the meeting on December 3, 2021, we passed a resolution to amend the rules of procedure of the Supervisory Board to incorporate new digital options for organizing meetings.

The Remuneration Officer presented the report on the appropriateness of employee remuneration. Further, we concerned ourselves with the risk taker analysis for 2021/2022, and the Remuneration Officer presented the remuneration control report for fiscal year 2020/2021. We also received details of the review of the remuneration systems in the light of regulatory changes.

In addition, we asked the Management Board to report on the current risk situation, the financial performance of the Bank and the Group, and the progress of strategic initiatives. We took note of the planning round and approved the investment planning. We also received information on the effects of the agency model on dealer financing and the back office and an update on the data quality framework. We also heard a report on selected IT findings and projects and on progress of the Together4Integrity project.

At each of the meetings, the chairpersons of the respective committees or their deputies reported in detail on the contents of their committee meetings.

COMMITTEE ACTIVITIES

The Supervisory Board set up committees in accordance with section 25d of the Kreditwesengesetz (KWG – German Banking Act).

Audit Committee

The Audit Committee held four regular meetings in the reporting period. There were no extraordinary meetings or urgent transactions that would have required a decision by circulation of written resolutions for approval. The Committee has four members. The average attendance rate was approximately 94%.

At the meeting held on February 18, 2021, the Audit Committee concerned itself with the annual financial statements and the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH for the year ended December 31, 2020 together with the proposal for the appropriation of profit. As part of this review, the Audit Committee discussed with the auditor the reports on the audit of the annual financial statements, the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH as well as material transactions and issues related to financial reporting. Following a detailed consultation, the Audit Committee submitted a recommendation to the sole shareholder regarding the election of the auditor and drew up the resolution covering the issue of the audit engagement in preparation for the Annual General Meeting. In addition, the Head of Internal Audit provided further information relating to Internal Audit's 2020 Annual Report for the benefit of the Audit Committee.

At its meeting on June 17, 2021, the Audit Committee heard a report on the financial situation of the Volkswagen Bank GmbH Group. The compliance report was also presented. Furthermore, the Committee discussed other transactions with Management Board members and their related parties within the meaning of section 15 (6) of the KWG and gave its approval to some of these transactions.

At its meeting on September 16, 2021, the Audit Committee received information on the 2021 half-yearly financial statements and a status update on an audit by the German Financial Reporting Enforcement Panel (DPR). After that, the Committee heard details of a report on external assurance procedures relating to the tax audit. The quality of the audit of the financial statements was also discussed, and approval was given to several other transactions with Management Board members and their related parties within the meaning of section 15 (6) of the KWG. There were also reports on amendments to the rules of procedure of the Audit Committee required because of the Finanzmarktintegritätsstärkungsgesetz (FISG – Financial Market Integrity Strengthening Act) and an update on the profit and loss transfer agreement.

At the meeting held on December 1, 2021, the Audit Committee received reports on the latest business performance and discussed the audit planning, key audit matters and the obligations of the auditor to provide information. The Committee gathered details to establish the extent to which there were relationships of a professional, financial or other nature between the auditor and the Bank and/or its governing bodies with a view to assessing the independence of the auditor. In this regard, the Audit Committee received information on the services that the auditor had provided for the Bank in addition to the auditing activities. In addition, the Committee heard a report on the results of the audit by the German Financial Reporting Enforcement Panel (FREP). Finally, the Head of Internal Audit reported on the auditing activities in the reporting year, outstanding action and the key audit matters for 2022.

Risk Committee

The Risk Committee held four regular meetings in the reporting period. During the reporting period, there were no urgent transactions that would have required a decision by circulation of written resolutions for approval. The Committee has four members. The average attendance rate was approximately 94%.

At its meeting on February 18, 2021, the Risk Committee discussed the auditors' findings relating to risk management in the 2020 annual report. The Committee then addressed the retrospective analysis of the 2020 risk strategy and the risk strategy and risk limits for 2021. In addition, following an appropriate review, the Risk Committee confirmed that the incentives set by the Bank's risk, capital, and liquidity structure and the probability and timing of income take into account.

At its meeting on June 17, 2021, the Risk Committee discussed changes in the credit risk of Volkswagen Bank GmbH in the first half of 2021 as well as modifications to the internal capital adequacy assessment process (ICAAP) report for 2021 relating to stress tests and sensitivity analyses. In addition, the Committee heard a presentation of the ICAAP stress test program 2021 and received an update on the 2021 stress tests by the European Banking Authority (EBA). In addition, selected aspects of the risk management report as of March 31, 2021 were explained to the Committee. The Committee's remaining work program for 2021 was also discussed.

At the meeting on September 16, 2021, the Risk Committee concerned itself with the result of the EBA's 2021 stress test as well as current issues relating to interest rate risk in the banking book (IRRBB).

On December 3, 2021, the Risk Committee was informed on operational risks, especially IT risks (internet and cyber risk) and the 2021 business model risk analysis. The Committee also received a report on changes to internal processes on the basis of SREP 2021. Furthermore, the Committee heard the presentation of an outlook on the ECB's climate stress test for 2022.

Remuneration Committee

The Remuneration Committee held five meetings in the reporting period. The Committee has four members. The attendance rate was 95%.

At its meeting on February 18, 2021, the Remuneration Committee discussed the constraints for granting variable remuneration, the determination of the bonus pool available for the members of the Management Board and changes in the sustainability component relevant to remuneration. No facts were identified that are relevant to malus provisions within the meaning of section 18 (5) of the Institutsvergütungsverordnung (IVV – German Regulation Governing Remuneration at Institutions) were identified. The Committee also approved the appointment of the new Remuneration Officer.

At its meeting on April 14, 2021, the Committee's main discussion point was variable Management Board remuneration.

On June 17, 2021 the Remuneration Officer was introduced. The Committee also reviewed the remuneration of the monitoring units.

At its meeting on September 16, 2021, the Committee dealt with the remuneration report for fiscal year 2020 as well as the adoption of the collective bargaining agreement and the scenario for implementing it for the Management Board. In addition, the Bank's remuneration report for fiscal year 2020 was presented. The Committee also discussed the calculation of a performance-based component of variable remuneration of certain senior managers and received a report on updating the documentation of the Group-wide remuneration strategy.

On December 3, 2021, the Committee concerned itself with the risk taker analysis for 2021/2022. The Remuneration Officer presented the remuneration control report for fiscal year 2020/2021 and the report on the appropriateness of employee remuneration. The Committee also examined the appropriateness of Management Board remuneration and received details of the review of the remuneration systems in the light of regulatory changes. Moreover, the Committee again discussed the calculation of a performance-based variant of variable remuneration of certain senior managers

Nomination Committee

The Nomination Committee held four meetings in the reporting year, each of which was attended by all members of the Committee. One decision was made by circulation of written resolutions for approval in the reporting period.

At its meetings on June 3, September 7, September 16 and November 3, 2021, the Committee discussed the extension of a Management Board appointment and the filling of vacancies on the Supervisory Board, and made corresponding recommendations to the Supervisory Board. At its meeting on September 7, 2021, the Committee also discussed the reliability of the members of the Supervisory Board. On November 3, 2021, the Committee concerned itself with the collective suitability of the Supervisory Board and the Management Board and with the analysis of the annual assessment of the Management Board and the Supervisory Board in fiscal year 2020/2021.

Credit Committee

The Credit Committee is responsible for approving issues that the Supervisory Board has to deal with by law and under the rules of procedure relating to loan commitments, the assumption of sureties, guarantees and similar liabilities, Bank borrowings, the purchasing of receivables and for master agreements governing the assumption of receivables. The Credit Committee is composed of three members of the Supervisory Board and makes its decisions by circulation of written resolutions or on the basis of electronic credit applications.

The members of the committees also consulted each other on several occasions and were in constant contact with the Management Board. The activities of the committees were reported at the plenary meetings of the Supervisory Board.

EDUCATION AND TRAINING

The members of the Supervisory Board took, under their own responsibility, the education and training measures required to perform their tasks. Training for the entire Supervisory Board was held on customer relationship management and on the Finanzmarktintegritätsstärkungsgesetz (FISG – Financial Market Integrity Strengthening Act).

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hanover, was appointed to audit both the consolidated financial statements of the Volkswagen Bank GmbH Group in accordance with the IFRSs and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2021, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Bank GmbH Group in accordance with the IFRSs and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2021, together with the management reports, were submitted to the Supervisory Board. The auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hanover, audited these financial statements, including the bookkeeping system and the management reports, and issued an unqualified auditor’s opinion in each case.

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

At its meeting on March 8, 2022, the Supervisory Board commented on the consolidated financial statements and annual financial statements of Volkswagen Bank GmbH prepared by the Management Board and recommended to the Annual General Meeting to adopt the annual financial statements for 2021 and to approve the consolidated financial statements.

In accordance with the existing control and profit-and-loss transfer agreement, the profits reported in the financial statements of Volkswagen Bank GmbH for the year ended December 31, 2021 have been transferred to Volkswagen AG.

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

Braunschweig, March 8, 2022

Dr. Ingrun-Ulla Bartölke
Chairwoman of the Supervisory Board

NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements on the future business development of Volkswagen Bank GmbH. These statements are based on assumptions relating to the development of the global economy and of the financial and automotive markets, which Volkswagen Bank GmbH has made on the basis of the information available to it and which it considers to be realistic at the time of going to press. The estimates given entail a degree of risk, and the actual developments may differ from those forecast.

Should actual developments turn out to be different, contrary to expectations and assumptions, or unforeseen events occur that have an impact on the business of Volkswagen Bank GmbH, this will have a corresponding effect on the business development of the Bank.

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