

Financial Report 2021

Volkswagen Financial Services N.V.

Amsterdam

This copy of the annual financial reporting of Volkswagen Financial Services N.V. for the year ended 31 December 2021 is not presented in the ESEF-format as specified in the Regulatory Technical Standards on ESEF (Delegated Regulation (EU) 2019/815).

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Supervisory Board Report

The balance sheet total and the result for the financial year 2021 of Volkswagen Financial Services N.V. ('FSNV' or 'the Company') are in line with the expected development of the Company.

The solvency and liquidity of the Company remained good. The issuance activities of FSNV in the capital markets were coordinated with Volkswagen Financial Services AG.

The diesel issue, which surfaced in 2015, has been addressed by the ultimate group parent company, Volkswagen AG, by entering into settlement agreements with the authorities in the respective countries.

In 2021, the credit rating agencies updated their rating assessments for Volkswagen Financial Services AG. Moody's maintained the rating at P-2 / A3 (short term / long term) and changed the outlook to stable while Standard & Poor's maintained the rating at A-2 / BBB+ (short term / long term) and also changed the outlook to stable.

The Management Board informed the Supervisory Board in 2021 continuously on the developments regarding issuance activities and risk exposure. Risk limits set by the Supervisory Board were adhered to.

The Covid-19 pandemic constitutes a challenging environment for governments and economies worldwide. Despite this, FSNV has maintained its funding and lending activities with Group companies without taking on additional risks.

The Supervisory Board does not divide the responsibilities into sub-committees, but takes charge of all tasks that such committees traditionally would fulfil.

During the Annual General Meeting held on 15 June 2021, Ernst & Young Accountants LLP, Rotterdam, was appointed as independent auditors for the fiscal year 2021. The independent auditors audited the annual financial statement of FSNV and issued an unqualified audit opinion.

Amsterdam, 22 March 2022

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Original was signed by
Frank Fiedler, Chairman of the Supervisory Board

Management Report

Business Strategy and Objectives

Volkswagen Financial Services N.V. ('FSNV'), founded in 1983, is one of the funding vehicles of Volkswagen Financial Services AG ('FSAG') and its subsidiaries. FSNV raises funds by issuing bonds and commercial papers in the international capital markets and lends the proceeds to Volkswagen Financial Services companies and joint ventures. FSNV provides the capital market funding as a service within Volkswagen Financial Services AG Group, thereby achieving an adequate return commensurate with the efforts and associated risks.

FSNV is performing its tasks using 14 employees under service agreements with its sister companies Volkswagen International Finance N.V. and Volkswagen Finance Overseas B.V.

Funding

Basis for the issuing activities are the EUR 35 billion Debt Issuance Programme ('DIP') that adheres to the European Prospectus Directive and is regularly updated, as well as the EUR 7.5 billion Commercial Paper ('CP') Programme. Bonds are listed with the Luxembourg Stock Exchange and are traded on regulated markets. All issuances are fully guaranteed towards the investors by FSAG.

Therefore, the FSNV rating by Moody's and Standard & Poor's is derived from the FSAG rating. Moody's assessed the risk with Prime-2 / A3 (short/long term) with a stable outlook while Standard & Poor's assessed the rating with A-2 / BBB+ (short/long term) with a stable outlook in 2021.

Throughout 2021, FSNV raised a EUR equivalent of approx. 2 billion under the DIP (2020: EUR 1.7 billion) with multi-tranche bonds – no commercial papers issued (2020: EUR equivalent 0.5 billion). The proceeds were granted to Volkswagen Financial Services AG Group companies.

In 2021, FSNV also redeemed bonds with a EUR equivalent of 1.5 billion (2020: EUR 0.9 billion) and CPs totalling EUR 0.03 billion (2020: EUR 0.5 billion). Borrowings from VW Group companies amounted to EUR 1.4 billion (2020: EUR 1.5 billion), repayments amounted to EUR 1.7 billion (2020: 0.2 billion).

Financial results

FSNV was able to increase its lending assets from EUR 9.6 billion to EUR 10.1 billion, assisting companies in the Financial Services Division to maintain their market position. All outstanding loans have been fully performing.

FSNV generated a profit after tax of EUR 9.7 million in 2021 against EUR 10.2 million in 2020. The Company generates income from the FSAG Group financing business. Interest surplus amounted to EUR 15.1 million (2020: EUR 15.6 million).

Net-cash from operating activities amounted to EUR 43.1 million (2020: EUR 17.2 million).

In 2021, FSNV paid a dividend of EUR 159 million to its shareholder.

Risks

FSNV is exposed to business and financial risks. Business risks comprise inter alia legal, operational, personnel, reputational and compliance risks. FSNV is adhering to the Governance, Risk and Compliance Guidelines of Volkswagen Financial Services AG managing the aforementioned risks within the FSAG Group policies.

From an operational point of view the Covid pandemic required an adjustment in the office attendance. Following the guidelines from the Dutch government, employees have been asked to work from home as much as possible. The IT-environment was conducive to facilitate the access to the central systems at VW Financial Services Digital Solutions GmbH, Braunschweig, the central IT-provider for the VW Financial Services Division. The internal control system has proven to work effectively also under the remote working conditions, no negative incidences have been observed.

The main financial risks of FSNV are liquidity risk, credit risk, currency risk and interest rate risk.

Liquidity risk is defined as the risk of not being able to meet own payment obligations in full or when due.

Credit risk is defined as the risk of incurring losses as a result of a default of a borrower or bank.

Currency risk refers to the potential loss in open currency positions arising from adverse changes in exchange rates.

Interest rate risk occurs because of fixed and floating interest rate mismatches between asset and liability items on the balance sheet.

The Supervisory Board has established narrow risk limits to restrict these risks and achieve a low risk exposure.

Risk policies

The Board of Management is responsible for the internal control, the management of risks within the company and for the assessment of the effectiveness of the control systems.

Liquidity risk is contained by extending loan amounts sourced from bond or CP-issuances to Volkswagen Financial Services AG Group companies at identical tenors as the funded amounts. Borrowers agreed to repay their loans on the same due date when FSNV's own payment obligations to the capital markets become due. In addition, FSNV may issue loans to VWAG-Group companies funded in whole or in part by its equity position.

Credit risk is addressed by monitoring the financial stability of the Volkswagen Financial Services AG Group borrowers and external banks. A fair value and impairment trigger assessment is performed for Group companies at least once a year or in case of need. Banks are monitored centrally at Volkswagen Financial Services AG based on rating and financial analyses. Financial transactions are only conducted with approved banks.

Currency risk is limited by matching funding and lending currency amounts. In case funding and lending currency do not match, derivatives are used to achieve closed positions.

Interest rate risk is contained by matching the fixed and floating interest rate terms of the funding and lending amounts. Mismatches are closed using interest rate derivatives.

For remaining mismatches, the Supervisory Board has defined narrow limits. FSNV uses adequate tools to assess and to monitor risks. On a monthly basis, a detailed mismatch report, containing all relevant risks, is presented to the management. In 2021, limits were not exceeded.

Diesel issue

In September 2015, the California Air Resources Board (CARB) and the US Environmental Protection Agency (EPA) publicly announced that irregularities in relation to nitrogen oxide emissions had been discovered in emission tests on certain vehicles with diesel engines, resulting in violations of US environmental laws.

Depending on the different emissions regulations in the various countries, Volkswagen has rectified and is rectifying the diesel engine software, applied technical measures, compensated owners for reduced residual values or took back affected cars. The financial impact of this incident to the Volkswagen AG Group is discussed in the quarterly and annual reports of Volkswagen AG.

The majority of FSNV's borrowers have either financed cars with affected diesel engines or have them in their lease car inventory. However, investors and the financial markets assess the risks FSNV is exposed to on the background of the guarantee by FSAG, since investors have full recourse to FSAG. FSNV management has also assessed the impact of the "diesel emission issue" on the borrowers of FSNV by analysing in detail the financial situation of the borrowers as well as budget forecasts and concluded that FSNV is not exposed to higher credit risk.

Adherence to tax and regulatory requirements

The Company had its tax returns up to and including 2019 reviewed by the Dutch Tax Authorities. For the tax return 2020, a final assessment has not yet been received.

Due to its issuing activities in the capital markets and the listing at the Luxemburg Stock Exchange, the Company is complying with the regulatory requirements regarding the yearly submission of its annual financial statements to the Dutch Financial Market Authority (the "AFM") and the approval requirements for its prospectuses by the Commission de Surveillance du Secteur Financier of the Grand Duchy of Luxembourg (the "CSSF").

Compliance & Integrity

Acting with Integrity, Compliance and honesty is an essential prerequisite for the success of the Volkswagen Group. For this reason, compliance with national and international laws and regulations, internal rules and guidelines and voluntary commitments is among FSNV's most important principles. The focus of FSNV's compliance organization is on preventing corruption, breaches of trust and money laundering and thereby reducing the risk of unlawful actions. The Volkswagen Group's Code of Conduct is established throughout the Group, and thus also within FSNV. It is the main tool for reinforcing awareness of good conduct, ethical principles and an integrity culture among the employees and providing them assistance, as well as suitable contacts in case of uncertainty. Next to the Volkswagen Group Code of Conduct, other Group policies and guidelines on specific compliance issues have been implemented within FSNV. Where laws and regulations have been violated, the Volkswagen Group Whistleblower System is a suitable tool for taking appropriate actions where misconduct is proven.

Non-financial matters

FSNV is not obliged to disclose a non-financial statement and refers to the combined, separate non-financial report of Volkswagen AG for the fiscal year 2021, which will be available on the website www.volkswagenag.com.

Global spread of Coronavirus (SARS-COV-2)

In the light of the ongoing COVID-19 pandemic, the Board of Management has performed an analysis with regard to its potential effects on the Company and its liquidity. The fundamental risk to the Company is that Volkswagen AG is unable to meet its commitments to the Company under the terms of the guarantee in situations where group companies are unable to repay loans provided by the Company. Based on the analysis performed, the Board of Management believes that the impact for FSNV is limited.

Expectations 2022

FSNV will continue in 2022 its issuing activities in the capital markets. In line with the long-term business strategy, the Volkswagen Financial Services AG Group plans to develop new markets and to improve its position in existing markets.

We expect that FSAG will keep FSNV's capital reserve on an adequate level. As several Volkswagen Financial Services companies worldwide are going to use the attractive European funding opportunities, FSNV foresees additional requests for refinancing which will be taken care of with reinstated and increased capital market issuances under the DIP and CP-programmes.

Based on this assumption, we expect a moderate increase in total business volume for FSNV in 2022. Taking into account the expected growth in business volume and the interest environment, interest income should increase proportionately. The financial statements have been prepared under the going concern assumption.

In principle, one third of the Management Board should be female; however, currently there is only one Managing Director on the Management Board of the Company. The Company will deal with this recommendation in the future.

The Management Board declares to the best of their knowledge:

1. the financial statements for 2021 give a true and fair view of the assets, the liabilities, the financial position and the results of the company; and
2. the management report gives a true and fair view of the company's situation as at the balance sheet date, the events that occurred during 2021 and the risks to which the company is exposed.

Amsterdam, 22 March 2021

Original has been signed by
Christopher R. Norrod, Managing Director

Financial statements

Balance sheet as at 31 December 2021

(after proposed appropriation of profit)

	Ref.	31 December 2021		31 December 2020	
		EUR'000	EUR'000	EUR'000	EUR'000
<i>Assets</i>					
Fixed assets					
Financial fixed assets:					
Loans to Volkswagen Group companies	5	5,897,986		6,144,710	
Loans to affiliates of the Volkswagen Group	5	525,132		388,969	
Total fixed assets			6,423,118		6,533,679
Current assets					
Receivables due from Volkswagen Group companies	6	3,216,892		2,604,777	
Receivables due from affiliates of the Volkswagen Group	6	426,455		495,827	
Loans to external parties	7	500		500	
Other assets	8	37,544		48,110	
Prepaid and deferred charges	9	21,689		15,322	
Total current assets			3,703,080		3,164,536
Cash at banks and in hand	10		12,038		2,860
Total assets			10,138,236		9,701,075

The accompanying notes are integral parts of these financial statements.

<i>Liabilities</i>		31 December 2021		31 December 2020	
		Ref.	EUR'000	EUR'000	EUR'000
<i>Shareholder's equity and liabilities</i>					
Shareholder's equity	11				
Issued and paid-up share capital		454		454	
Share premium reserve		1,115,000		1,115,000	
Retained earnings		10,680		159,951	
Total shareholder's equity			1,126,134		1,275,405
Long-term liabilities					
Bonds	12	5,371,421		5,087,921	
Liabilities to Volkswagen Group companies	12	863,348		1,283,908	
Total long-term liabilities			6,234,769		6,371,829
Current liabilities					
Bonds	13	2,014,123		1,406,507	
Liabilities to Volkswagen Group companies	13	675,260		533,712	
Commercial papers	13	-		30,015	
Other liabilities	14	69,597		68,474	
Deferred income	15	18,353		15,133	
Total current liabilities			2,777,333		2,053,841
Total shareholder's equity and liabilities			10,138,236		9,701,075

The accompanying notes are integral parts of these financial statements.

Income statement for the year ended 31 December 2021

		2021		2020	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Net financial income					
Interest income and similar income	17	194,624		149,888	
Interest expenses and similar expenses	17	(179,731)		(134,426)	
Other operating income	18	189		136	
Total net financial income			15,082		15,598
Expenses					
Other operating expenses	19	(49)		(42)	
General and administrative expenses	20	(2,233)		(2,108)	
Total expenses			(2,282)		(2,150)
Profit and (loss) before income taxes			12,800		13,448
Taxation on result on ordinary activities	24		(3,071)		(3,276)
Net profit and (loss) after taxation			9,729		10,172

The accompanying notes are integral parts of these financial statements.

Cash flow statement for the year ended 31 December 2021

	2021		2020	
	EUR'000	EUR'000	EUR'000	EUR'000
Cash (used in) generated from operations				
Interest received	170,291		134,915	
Interest paid	(118,774)		(108,823)	
Other operating income	-		-	
Guaranty fees paid	(4,379)		(3,967)	
General and other Expenses paid	(2,315)		(1,635)	
Corporate income tax received/ paid	(1,706)		(3,294)	
Net cash from/ used in operating activities		43,117		17,196
Cash flow from investment activities				
Loans issued to VW Group companies & affiliates of the Volkswagen Group	(13,520,544)		(7,007,963)	
Collection of loans to VW Group companies & affiliates of the Volkswagen Group	13,296,012		4,659,700	
Net cash from/ used in investment activities		(224,532)		(2,348,263)
Cash flow from financing activities				
Proceeds from borrowings	3,437,184		3,248,598	
Repayment of borrowings	(3,188,675)		(1,010,662)	
Proceeds from commercial papers	-		55,021	
Repayment of commercial papers	(30,015)		(45,017)	
Derivatives	131,099		82,296	
Dividends paid	(159,000)		-	
Net cash from/ used in financing activities		190,593		2,330,236
Net cash flows		9,178		(831)
Balance as at 1 January		2,860		3,691
Movement		9,178		(831)
Balance as at 31 December		12,038		2,860

The accompanying notes are integral parts of these financial statements.

Notes to the financial statements

1. General

1.1 Activities

Volkswagen Financial Services N.V. ('FSNV' or 'the Company'), founded in 1983, is a 100% subsidiary of Volkswagen Finance Overseas BV ('Overseas'), who in turn is a 100% subsidiary of Financial Services AG ('FSAG'). The ultimate parent company is Volkswagen AG (VWAG).

FSNV's registered office is located at Paleisstraat 1, 1012 RB Amsterdam, The Netherlands. The Company is registered with the Dutch Register of Commerce under No. 33172400. FSNV maintains a website at www.vwfs.nl.

The main purpose of the Company is the financing of and participation in Volkswagen AG Group companies. FSNV has access to several funding sources such as bonds, and commercial paper as well as inter-company loans.

All external issuances of financial instruments are guaranteed by FSAG in case FSNV does not meet its obligations towards the holders of these instruments. FSNV has lent more than 95% of the proceeds of these borrowings to Group companies or affiliates.

Due to its issuing activity in the capital markets, FSNV is subject to the regulatory supervision by the Dutch Financial Market Authority (Autoriteit Financiële Markten, 'AFM') and has to submit its yearly and half-yearly annual reports to the AFM.

Bonds issued by FSNV are listed at the Luxemburg Stock Exchange. The bond prospectuses have been approved by the Commission de Surveillance du Secteur Financier of the Grand Duchy of Luxemburg ('CSSF').

1.2 Related parties

All legal entities that can be controlled, jointly controlled or significantly influenced by FSNV are considered to be related parties. Also entities (and their subsidiaries and affiliated companies) which can control or significantly influence the Company are considered to be related parties. In addition, statutory directors, other key management of the Company or the ultimate parent company and close relatives are regarded as related parties.

1.3 Note to the cash-flow statement

Consolidated cash flows for the whole Volkswagen Financial Services Group are included in the Volkswagen AG consolidated financial statements; therefore a separate cash flow statement for the Company is not required by Dutch law. To be in line with practice in the capital market, FSNV prepares a cash flow statement, using the direct method.

The cash items disclosed in the cash flow statement are comprised of cash and cash equivalents. Cash flows denominated in foreign currencies have been translated at average exchange rates. Exchange differences affecting cash items are included in the respective amounts.

Cash from loans granted is included in cash from / used in investment activities. Cash from borrowings and the related derivatives, including capital increases/ dividends paid/ received are included in cash from / used in financing activities.

All other movements are included in cash used/ generated from operations.

1.4 *Estimates*

The preparation of financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. If necessary for the purposes of providing the view required under Section 362(1), Book 2, of the Dutch Civil Code, the nature of these estimates and judgements, including the related assumptions, is disclosed in the notes to the financial statement items in question. Estimates used for accounting of financial fixed assets and impairment of loans granted are disclosed under note 2.4 and 2.10.

2. **Principles of valuation of assets and liabilities**

2.1 *General*

The financial statements are prepared in accordance with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. The financial statements are presented in EUR, which is also the Company's functional currency, and have been prepared on a going concern basis.

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred, or fair value. If not specifically stated otherwise, they are recognized at the amounts at which they were acquired or incurred. The balance sheet and the income statement include references to the notes.

Unless otherwise stated, amounts are shown in thousands of euros (EUR'000). All amounts shown are rounded, so minor discrepancies may arise from addition of these amounts. Negligible discrepancies could also arise in the comparison with the prior year owing to adjustments in the rounding methodology.

2.2 *Comparison with prior year*

The principles of valuation and determination of result remain unchanged compared to the prior year.

2.3 *Foreign currencies*

Functional currency

The financial statements are presented in EUR, i.e. the functional and reporting currency of FSNV.

Transactions, receivables and liabilities

Transactions denominated in foreign currencies are initially recorded at the functional currency exchange rates at the date of transaction. Monetary balance sheet items denominated in foreign currencies are translated at the functional currency exchange rates at the balance sheet date. Non-monetary balance sheet items that are measured at historical cost in a foreign currency are translated at the functional exchange rates ruling at the date of transaction. Non-monetary balance sheet items that are measured at current value are translated at the functional exchange rates ruling at the date of valuation.

Foreign currency exchange rate results arising on the settlement or translation of monetary items denominated in foreign currencies are recognized in the income statement.

2.4 *Financial fixed assets*

Loans to Volkswagen Group companies and affiliates of the Volkswagen Group and to external parties

These loans to Volkswagen Group companies, other participating interests and third parties are loans with a remaining term of more than one year. Receivables disclosed under financial fixed assets are recognized initially at fair value of the amount owed plus transaction costs. These receivables are subsequently measured at amortized cost. The main rule is that amortized cost equals the carrying amount of the asset net of any repayments on the principal and plus, or net of, the accumulated amortization, calculated using the effective interest method, of the difference between the amount upon initial recognition (including transaction costs) and the repayments. Straight-line amortization in determining amortized cost is allowed as an alternative if straight-line amortization does not lead to significant discrepancies with the effective interest method. If loans are issued at a discount or premium, the discount or premium is recognized through profit or loss over the maturities of the loans using the effective interest method. In addition, transaction costs are included in the initial valuation and recognized in profit or loss as part of the effective interest method. Impairment losses are deducted from amortized cost and expensed in the income statement.

2.5 *Current assets*

All current assets have a maturity within one year.

Receivables due from Volkswagen Group companies and affiliates of the Volkswagen Group and to external parties

Receivables are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost.

Other assets

The interest receivables from banks arising from derivatives and income tax receivables are shown under other assets and are initially valued at cost and subsequently at their amortized cost value.

Prepaid and deferred charges

Prepaid and deferred charges are initially valued at cost and are amortized over the remaining life of the services or of the bonds.

Cash at banks and in hand

Cash at banks and in hand represents cash in hand and bank balances. Cash at banks and in hand is carried at nominal value. Cash at banks denominated in foreign currencies are translated at the period end-rate prevailing on the balance sheet date.

2.6 Provisions

Provisions are recognized for legally enforceable or constructive obligations that exist at the balance sheet date, and for which it is probable that an outflow of resources will be required and a reliable estimate can be made.

Provisions are measured at the best estimate of the amount that is necessary to settle the obligation as per the balance sheet date. The other provisions are carried at the nominal value of the expenditure that is expected to be necessary in order to settle the obligation, unless stated otherwise.

If obligations are expected to be reimbursed by a third party, such reimbursement is included as an asset in the balance sheet if it is probable that such reimbursement will be received when the obligation is settled.

2.7 Long-term liabilities

Bonds

The bonds are initially valued at fair value plus transaction costs with subsequent measurement at their amortized cost value. All long-term bonds have a remaining maturity of more than one year. No assets were pledged as collateral by the Company.

Liabilities to Volkswagen Group companies

The liabilities to Volkswagen Group companies are initially valued at fair value with subsequent measurement at their amortized cost value. All liabilities have a maturity of more than one year.

2.8 Current liabilities

Bonds

The bonds are initially valued at fair value plus transaction costs with subsequent measurement valued at their amortized cost value. All short-term bonds are payable within one year.

Commercial papers

The commercial papers are initially valued at fair value plus transaction costs with subsequent measurement valued at their amortized cost value.

Liabilities to Volkswagen Group companies

The liabilities to affiliated companies are initially valued at fair value with subsequent measurement valued at their amortized cost value. All liabilities are payable within one year.

Other liabilities

The interest payables from banks arising from derivatives with a run-off period within one year are shown under other liabilities and are valued at their nominal value.

Trade payables

The trade payables are initially valued at fair value and subsequently at their amortized cost value and are payable within one year.

Other accrued liabilities

The accruals are valued at the expected costs.

Deferred income

The deferred income concerns premiums and cost compensations and is amortized over the remaining life of the loans taken.

Deferred income tax

Deferred tax liabilities are recognized to provide for timing differences between the value of the assets and liabilities for financial reporting purposes on the one hand and for tax purposes on the other. Deferred tax liabilities are calculated based on the tax rate prevailing on the balance sheet date.

Current income tax

The current Dutch nominal tax rate of 25% has been applied.

2.9 Financial instruments

Loans included in financial and current assets, as well as liabilities and derivative financial instruments, are stated at amortized cost. The Company applies hedge accounting to hedging instruments when hedging interest and currency risk on borrowings and lendings. The Company documents the relationship between hedging instruments and hedged items at the inception of the transaction. Both the derivative and the hedged item are stated at amortized cost. The gain or loss relating to any ineffective portion is recognized in the income statement within finance cost. For more information about the value of the assets, assigned as hedged item, see notes 5 and 6, of the liabilities see notes 12 and 13 and of the financial instruments see note 23. The Company has no derivative financial instruments other than the ones used for hedging.

Hedge accounting

FSNV applies hedge accounting. Relationships between hedging instruments and hedged items are documented at the inception of the transaction. FSNV also assesses, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. This is done by comparing the critical qualitative characteristics of the hedge instrument with those of the hedged position. If there is an indication of ineffectiveness, the Company measures this potentially ineffective part by conducting a quantitative ineffectiveness analysis.

Cost price hedge accounting

The Company applies cost price hedge accounting to hedge interest risk and currency-risk on borrowings. For the following instruments, (Cross currency) interest rate swaps and FX Swaps hedge accounting is applied.

In applying cost price hedge accounting, the initial recognition of, and the accounting policies for, the hedging instrument are dependent on the hedged item, which has the following implications:

- if the hedged item is recognized at cost in the balance sheet, the derivative instrument is also stated at cost;
- as long as the hedged item is not yet recognized in the balance sheet, the hedging instrument is not re-measured (this applies, for instance, to hedging currency risks on future transactions);
- if the hedged item qualifies as a monetary item denominated in a foreign currency, the derivative instrument, where it has currency elements, is also stated at the period end-rate prevailing at the balance sheet date.

The ineffective portion of the hedge is recognized directly in the income statement.

Hedge effectiveness is assessed by comparing the critical characteristics of the hedge instrument with those of the hedged position. If there is an indication of ineffectiveness, the Company measures this potentially ineffective part by conducting a quantitative ineffectiveness analysis.

2.10 Impairment of financial assets

On each balance sheet date, the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the statement of financial position date, and that loss event has had an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For loans and receivables, the amount of impairment loss is measured as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the assets original effective interest rate. The amount of the loss is included in the profit and loss statement. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed in the profit and loss statement.

3. Principles determination of result

3.1 General

Result is determined as the difference between the realisable value of services rendered and the costs and other charges for the year. Results on transactions are recognized in the year in which they are realised; losses are taken as soon as they are foreseeable.

3.2 Exchange rate differences

Exchange rate differences arising upon the settlement of monetary items are recognized in the income statement in the year that they arise unless hedged, see note 17.

3.3 Interest income and similar income and interest expenses and similar expenses

Interest income and expenses are recognized on a pro-rata basis, taking into account the effective interest rate of the assets and liabilities concerned. When recognising the interest charges, the transaction cost on the loans received is taken into account.

3.4 Other operating income and expenses

Other operating income and expenses include income and expenses that are not directly attributable to the interest income and expenses.

3.5 General and administrative expenses

These expenses include expenses such as personnel expenses, office expenses, consulting and audit fees.

Labour and other costs

Services performed by Volkswagen International Finance N.V. ('VIF') for FSNV are charged at a fixed amount. The fixed amount is evaluated in regular intervals. These costs include for example salaries, rental costs and general costs.

3.6 Taxation

Profit tax is calculated on the profit before taxation in the income statement, taking into account any losses carried forward from previous financial years (insofar as these are not included in deferred tax assets), tax-exempt items and non-deductible expenses. Account is also taken of changes in deferred tax assets and deferred tax liabilities owing to changes in the applicable tax rates.

4. Financial instruments and risks

4.1 Market risk

General market risk due to events at Volkswagen AG

Government authorities in a number of jurisdictions worldwide have conducted and are conducting investigations of Volkswagen Group regarding findings of irregularities in relation to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any future investigations and criminal litigations, may have a material adverse effect on Volkswagen Group's business, financial position, results of operations and reputation, as well as the prices of its securities and its ability to make payments under its securities.

Volkswagen Financial Services N.V.'s commercial success largely depends on the financial health and the reputation of the ultimate shareholder Volkswagen AG and due to the events, Volkswagen Financial Services N.V. may not succeed in obtaining funds for financing requests in due time and to the extent necessary.

Whilst the worldwide outbreak of the COVID-19 virus generally increases a number of the risk factors, no direct impact on the company's operations can be observed, as the Company has a sound financial position (with equity reserves in place) which is expected to keep the Company in a profitable position for the foreseeable future.

In addition, because of the investigations, Volkswagen Financial Services N.V. as an issuer may face risks arising from legal disputes with investors claiming damages for alleged breaches of capital market laws.

Currency risk

To avoid currency risk, the loans to FSAG group companies and to affiliates of the FSAG Group and the related funding are generally matched in currency terms. If not, currency swaps are executed to achieve the matched basis.

In cases where the matching cannot be achieved completely, the Supervisory Board has set small currency limits for individual currencies. Matching policies are closely monitored and enforced. Consequently, currency risk is comparatively remote. In 2021, the limits were not exceeded.

Interest rate risk

Based on funding requests by FSAG group companies and affiliates of the FSAG Group FSNV issues bonds or commercial paper to investors matching the fixed or variable interest requirement of the affiliated companies. In cases where the investor looks for a different interest structure, FSNV is using interest rate swaps or cross currency interest rate swaps to convert the interest into the structure required by affiliated companies. The Supervisory Board authorized FSNV to run a certain interest rate risk. A limit system and tools to monitor and manage the risk have been set up. Interest mismatches are permitted within a twelve-month period only. Therefore, the risk is comparatively low. In 2021, no limits were exceeded.

Market risk fluctuations in terms of currency and interest rate risk did not have an impact on the financial results since FSNV is closing open risk positions using derivatives according to the established risk policies of FSNV.

4.2 Credit risk

The risk of default arising from loans granted, account balances and derivative financial instruments involves the risk of default by counterparties.

FSNV is extending loans to FSAG group companies and to affiliates of FSAG Group, which are granted according to the guidelines and instructions from FSAG, the guarantor of commercial paper and capital market issuances by FSNV. The default risk of FSNV-borrowers has been analysed based on financial reports, planning forecasts and discussions with FSAG headquarters. Based on the analysis, the credit risk of FSNV-borrowers is considered to be remote.

For FSNV's external bank counterparties risk is limited by a limit system centrally managed by FSAG Group Risk Management taking into account also the credit assessments by the international rating agencies. Credit risk with external counterparties materialises from account balances, deposits and derivative transactions with a positive fair value. Given the business purpose of FSNV, account balances and deposits are zero or kept to a minimum. Regarding the derivative transactions, exposure is kept within the risk limits defined by FSAG Group Risk Management.

4.3 Liquidity risk

Based on funding requests by FSAG related parties, FSNV issues commercial paper and bonds to investors. Funds taken from investors are extended with the same maturity to FSAG-Group borrowers. In addition FSNV may issue loans to FSAG-Group companies in whole or in part funded by its equity position.

In cases where this matching cannot be achieved the Supervisory Board has set narrow liquidity risk limits. The Company monitors the limits on a daily basis. Against the background of the relatively narrow limits and the strong financial solidity of the Volkswagen Group, the liquidity risk is remote. In 2021, no limits were exceeded. Notes issued by FSNV have the benefit of a Guarantee and Negative Pledge (The Guarantee) given by Volkswagen Financial Services AG (The Guarantor) to the noteholders.

The Debt Issuance Program under which FSNV is issuing bonds, is regularly updated to incorporate current developments. FSNV also continues to issue Commercial Papers based on the existing EUR 7.5 billion Commercial Paper Program to finance the requirements of FSAG group companies and affiliates of FSAG group.

Based on the diversified funding strategy, Volkswagen Financial Service AG acted flexibly to refinance its activities with the increased issuance of secured bonds (ABS), direct bank deposits and bank credit facilities.

5. Financial fixed assets

Loans to Volkswagen Group companies and affiliates of the Volkswagen Group included in financial fixed assets

The breakdown of the loans to Volkswagen Group companies and affiliates of the Volkswagen Group is as follows:

	Original currency	Weighted average effective interest rate (%)	31 December 2021	
			Book value	Fair value
			EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	GBP	1.58	5,331,781	5,574,077
	CZK	1.05	40,106	37,672
	SEK	0.79	341,314	341,733
	PLN	1.80	140,000	136,047
	EUR	0.05	239,812	238,263
			6,093,013	6,327,792
Fixed asset loans to affiliates Of the Volkswagen Group	NOK	2.52	180,105	184,051
	EUR	0.04	150,000	148,879
			330,105	332,930
Total fixed asset loans to Volkswagen Group companies and affiliates of the Volkswagen Group			6,423,118	6,660,722

The fair values are determined using the discounted cash flow model.

Because all loans are granted to companies and affiliates of the Volkswagen Group, the fair value calculation takes into account the credit default swap rate of the Volkswagen Group traded in the financial markets retrieved from Reuters. The country risk premium is based on the country in which the counterparty is located.

By issuing a letter of comfort to the lenders, Volkswagen Financial Services AG declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to lenders in the agreed manner. This is why the Company believes that the book value equals the expected value, hence no impairment has been recorded.

The weighted average effective interest rate is calculated for the outstanding loans as per year end, taking into account the duration in the current year.

For comparison, the fixed asset loans overview of 2020:

			31 December 2020	
	Original currency	Weighted average effective interest rate (%)	Book value	Fair value
			EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	GBP	1.31	5,545,916	5,679,392
	KRW	2.61	140,000	135,999
	SEK	0.73	381,067	384,514
	EUR	0.17	77,727	77,537
			6,144,710	6,277,442
Fixed asset loans to affiliates Of the Volkswagen Group	NOK	1.75	238,969	243,144
	EUR	0.44	150,000	149,928
			388,969	393,072
Total fixed asset loans to Volkswagen Group companies and affiliates of the Volkswagen Group			6,533,679	6,670,514

The movement of the loans for the financial fixed assets and current receivables (note 6) due from Volkswagen Group companies and affiliates of the Volkswagen Group consists of the following:

	31 Dec 2021	31 Dec 2020
	EUR'000	EUR'000
Beginning of the period	9,634,283	7,595,113
Loans advanced	13,520,544	7,007,963
Loan repayments received	(13,296,012)	(4,659,700)
Interest accrued	37,643	32,241
Interest received	(32,241)	(23,720)
FX difference on loans	202,248	(317,614)
End of the period	10,066,465	9,634,283
Long-term	6,423,118	6,533,679
Short-term	3,643,347	3,100,604

6. Receivables due from Volkswagen Group companies and affiliates of the Volkswagen Group

	Original currency	Weighted average effective interest rate (%)	31 December 2021	
			Book value	Fair value
			EUR'000	EUR'000
Current receivables due from Volkswagen Group companies	EUR	0.01	425,915	426,027
	GBP	1.41	1,994,085	2,063,732
	PLN	0.82	370,000	372,404
	KRW	2.61	140,000	135,013
	SEK	0.93	252,569	255,576
Accrued interest and other receivables	EUR		34,330	34,330
			<u>3,216,899</u>	<u>3,287,082</u>
Current receivables due from affiliates of the Volkswagen Group	EUR	0.39	150,000	150,546
	NOK	1.69	170,135	170,794
	TRY	1.50	103,000	106,697
Accrued interest and other receivables	EUR		3,313	3,313
			<u>426,448</u>	<u>431,350</u>
Total current receivables due from Volkswagen Group companies and affiliates			<u>3,643,347</u>	<u>3,718,432</u>

For the determination of the market values, see note 5.

As mentioned in note 2.9, the terms of all outstanding loans to Volkswagen Group companies and affiliates are to a large extent matched with the corresponding external borrowings or hedged by using derivatives to match the terms of the bonds and loans from Volkswagen Group companies. Implying that even though the Company has exposure to interest rate risk and currency risk, exposure is limited through these effective risk management strategies.

For comparison, the overview of 2020:

	Original currency	Weighted average effective interest rate (%)	31 December 2020	
			Book value	Fair value
			EUR'000	EUR'000
Current receivables due from Volkswagen Group companies	EUR	0.26	121,286	121,330
	GBP	1.08	1,160,777	1,158,611
	PLN	0.37	1,076,931	1,036,930
	KRW	2.95	70,000	67,127
	SEK	0.84	149,541	149,843
Accrued interest and other receivables	EUR		26,242	26,242
			<u>2,604,777</u>	<u>2,560,083</u>
Current receivables due from affiliates of the Volkswagen Group	EUR	0.45	180,000	180,001
	NOK	1.08	47,813	47,854
	TRY	3.64	262,015	269,899
Accrued interest and other receivables	EUR		5,999	5,999
			<u>495,827</u>	<u>503,753</u>
Total current receivables due from Volkswagen Group companies and affiliates			<u>3,100,604</u>	<u>3,063,836</u>

7. Loans to external parties

This balance sheet position contains loans to external parties:

Company	Original currency	Interest rate	Amount In EUR	Maturity
Pon Auto Import Nederland B.V., Leusden	EUR	0.03	200,000	25-05-2022
Pon Automotive B.V., Leusden	EUR	0.03	150,000	25-05-2022
Pon Holdings B.V., Almere	EUR	0.03	150,000	25-05-2022

These Dutch companies do not belong to the Volkswagen Group. The loans are not guaranteed by FSAG. The fair values of these loans approximate their carrying value.

The interest rates charged on the above loans are calculated on 1-year Euribor plus a margin based on market price margin for investment graded companies.

For comparison, the overview of loans to external parties as at 31 December 2020:

Company	Original currency	Interest rate	Amount In EUR	Maturity
Pon Auto Import Nederland B.V., Leusden	EUR	1.30	200,000	25-05-2021
Pon Automotive B.V., Leusden	EUR	1.30	150,000	25-05-2021
Pon Holdings B.V., Almere	EUR	1.30	150,000	25-05-2021

8. Other assets

This account consists of the following:

	31 Dec 2021	31 Dec 2020
	EUR'000	EUR'000
Interest receivables from banks arising from derivatives	37,434	46,688
Income tax receivable	-	1,422
Unrealized FX gains and losses of derivatives	110	-
	<u>37,544</u>	<u>48,110</u>

The income tax receivable relates to recoverable income and withholding taxes.

9. Prepaid and deferred charges

	31 Dec 2021	31 Dec 2020
	EUR'000	EUR'000
Prepaid and deferred charges	21,689	15,322
	<u>21,689</u>	<u>15,322</u>

The prepaid and deferred charges mainly consist of the capitalized bond discount. The bond discount arises in the difference of principal amount and net proceed at issuance. The duration for amortization is the term of the respective bond.

10. Cash at banks and in hand

	31 Dec 2021	31 Dec 2020
	EUR'000	EUR'000
Cash at Volkswagen Bank account	6,521	2,304
Cash at Commerzbank	5,517	556
	<u>12,038</u>	<u>2,860</u>

All cash balances are at the free disposal of the Company and bear market interest rates.

In 2021, Moody's rated Volkswagen Bank, with P-1 / A1 (short term / long term) with a stable outlook while Standard & Poor's rated Volkswagen Bank with A2 / BBB+ (short term / long term) also with a stable outlook.

In 2021, Moody's rated Commerzbank, with P-1 / A1 (short term / long term) while Standard & Poor's rated Commerzbank, with A-2 / A- (short term / long term).

11. Shareholder's equity

	<i>Issued and paid-up share capital</i>	<i>Share premium reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
	<i>EUR'000</i>	<i>EUR'000</i>	<i>EUR'000</i>	<i>EUR'000</i>
Balance as at 1 January 2020	454	1,115,000	149,779	1,265,233
Result for the year 2020	-	-	10,172	10,172
Balance as at 31 December 2020 / 1 January 2021	<u>454</u>	<u>1,115,000</u>	<u>159,951</u>	<u>1,275,405</u>
Dividend distributed	-	-	(159,000)	(159,000)
Result for the year 2021	-	-	9,729	9,729
Balance as at 31 December 2021	<u>454</u>	<u>1,115,000</u>	<u>10,680</u>	<u>1,126,134</u>

The shareholder's equity consists of the following:

Share capital

On 31 December 2021, the authorized capital of the Company amounted to EUR 2.3 million, of which an amount of EUR 454,000 was issued and paid-up, representing 454 registered and issued shares of EUR 1,000 each. The Company has no mandatory statutory reserve.

Share premium reserve

There have been no changes to the share premium reserve during 2021.

Retained earnings

At the end of 2021, the total retained earnings amounted to EUR 10,68 million (2020: EUR 160 million) and the total equity amounted to EUR 1,13 billion (2020: EUR 1,3 billion).

12. Long-term liabilities

	31 Dec 2021	31 Dec 2020
	EUR'000	EUR'000
Bonds listed	5,371,421	5,087,921
	<u>5,371,421</u>	<u>5,087,921</u>

The breakdown of the long-term bonds is as follows:

	Original currency	Weighted average effective interest rate (%)	31 December 2021	
			Book value	Fair value
			EUR'000	EUR'000
Maturity longer than 5 years				
Bonds listed	GBP	1.38	416,667	392,596
Maturity less than 5 years				
Bonds listed	EUR	0.12	150,000	151,024
Bonds listed	GBP	1.94	4,017,857	4,042,192
Bonds listed	NOK	2.61	180,191	182,616
Bonds listed	SEK	0.65	341,305	342,357
Bonds listed	CZK	1.71	40,227	37,518
Bonds listed	JPY	0.20	225,174	231,926
Total long-term bonds			<u>5,371,421</u>	<u>5,380,229</u>

The market values for the bonds are based on the prices of the Stuttgart stock exchange. In case of non-availability, the market values are determined on the basis of discounted cash flows. Credit spreads were not included in the model used to determine the market value

The weighted average effective interest rate is calculated for the outstanding loans as per year end, taking into account the duration in the current year.

For comparison purposes, the overview of long-term bonds as at 31 December 2020 is as follows:

	Original currency	Weighted average effective interest rate (%)	31 December 2020	
			Book value	Fair value
			EUR'000	EUR'000
Maturity longer than 5 years				
Bonds listed			-	-
Maturity less than 5 years				
Bonds listed	EUR	1.35	520,000	524,800
Bonds listed	GBP	1.82	3,947,734	4,039,006
Bonds listed	NOK	2.30	320,926	360,958
Bonds listed	SEK	0.52	299,261	347,603
Total long-term bonds			5,087,921	5,272,367

The bonds are issued under the existing EUR 35bn DIP Programme and rank pari passu with the existing issuance.

Liabilities to Volkswagen Group companies excluding interest

A breakdown of the long-term liabilities to Volkswagen Group companies is as follows:

	Original currency	Weighted average effective interest rate (%)	31 December 2021	
			Book value	Fair value
			EUR'000	EUR'000
Maturity less than 5 years				
VWGoAF	USD	1.33	713,348	738,475
Volkswagen International Estonia	EUR	0.03	150,000	148,564
			863,348	887,039

For comparison purposes, the overview of 2020 is as follows:

	Original currency	Weighted average effective interest rate (%)	31 December 2020	
			Book value	Fair value
			EUR'000	EUR'000
Maturity less than 5 years				
VWGoAF	USD	0.13	1,133,908	1,102,910

Volkswagen International Belgium	EUR	0.51	150,000	150,136
			<u>1,283,908</u>	<u>1,253,046</u>

The movement of the borrowings and bonds (long and short-term) consists of the following:

	<u>31 Dec 2021</u>	<u>31 Dec 2020</u>
	EUR'000	EUR'000
Beginning of the period	8,342,063	6,317,184
Borrowings	3,437,184	3,248,598
Maturities	(3,218,690)	(1,010,662)
Interest accrued to VW Group companies	1,700	1,782
Interest paid to VW Group companies	(1,782)	(625)
FX difference on borrowings and bonds	363,675	(214,214)
End of the period	<u>8,924,150</u>	<u>8,342,063</u>
Long-term	<u>6,234,769</u>	<u>6,371,829</u>
Short-term	<u>2,689,381</u>	<u>1,970,234</u>

The credit ratings of the rating agencies are derived from FSAG's rating:

	2021		
Agency	Short-term	Long term	Outlook
Moody's	Prime-2	A3	stable
Standard & Poor's	A-2	BBB+	stable
	2020		
Agency	Short-term	Long term	Outlook
Moody's	Prime-2	A3	Negative
Standard & Poor's	A-2	BBB+	Negative

13. Current liabilities

	31 Dec 2021	31 Dec 2020
	EUR'000	EUR'000
Bonds listed	2,014,122	1,406,507
	<u>2,014,122</u>	<u>1,406,507</u>

The breakdown of the current bonds is as follows:

	Original currency	Weighted average effective interest rate (%)	31 December 2021	
			Book value	Fair value
			EUR'000	EUR'000
Maturity less than 1 year				
Bonds listed	GBP	1.67	1,071,428	1,076,486
Bonds listed	NOK	2.32	252,041	251,574
Bonds listed	SEK	0.74	170,653	171,301
Bonds listed	EUR	1.35	520,000	520,447
Total current bonds			<u>2,014,122</u>	<u>2,019,808</u>

For comparison purposes, the overview of current bonds as at 31 December 2020 is as follows:

	Original currency	Weighted average effective interest rate (%)	31 December 2020	
			Book value	Fair value
			EUR'000	EUR'000
Maturity less than 1 year				
Bonds listed	GBP	1.69	1,112,038	1,116,071
Bonds listed	NOK	2.00	47,813	47,938
Bonds listed	SEK	0.64	246,656	249,655
Total current bonds			<u>1,406,507</u>	<u>1,413,664</u>

Liabilities to Volkswagen Group companies

The breakdown of the current liabilities, including accrued interest to Volkswagen Group companies is as follows:

	Original currency	Weighted average effective interest rate (%)	31 December 2021	
			Book value	Fair value
			EUR'000	EUR'000
FSAG	EUR	0.00	103,000	103,023
Volkswagen International Belgium	EUR	0.30	150,000	150,644
VWGoAF	USD	0.98	420,559	441,091
Accrued interest	EUR		1,700	1,700
			675,259	696,458

For comparison purposes, the overview of current liabilities, including accrued interest to Volkswagen Group companies as at 31 December 2020 is as follows:

	Original currency	Weighted average effective interest rate (%)	31 December 2020	
			Book value	Fair value
			EUR'000	EUR'000
FSAG	EUR	0.06	381,930	383,969
Volkswagen International Belgium	EUR	0.09	150,000	149,954
Accrued interest	EUR		1,782	1,782
			533,712	535,705

Commercial papers

A breakdown of the current liabilities from issued commercial paper as per 31 December 2021 is as follows:

	Original currency	Weighted average effective interest rate (%)	31 December 2021	
			Book value	Fair value
			EUR'000	EUR'000
Average term 5 months				
Commercial Papers	EUR	-	-	-
Total commercial papers			-	-

For comparison the overview of 2020:

	Original currency	Average interest rate (%)	31 December 2020	
			Book value	Fair value
			EUR'000	EUR'000
Average term 5 months				
Commercial Papers	EUR	(0.05)	30,015	30,005
Total commercial papers			30,015	30,005

14. Other liabilities

	31 Dec 2021	31 Dec 2020
	EUR'000	EUR'000
This account consists of the following:		
Interest payables on bonds	54,079	53,421
Interest payables to banks arising from derivatives	14,837	13,937
Current income tax	252	-
Withholding tax payable	155	262
Accrued liabilities	274	854
	69,597	68,474

15. Deferred income

	31 Dec 2021	31 Dec 2020
	EUR'000	EUR'000
Capitalised issue income	18,353	15,133
	<u>18,353</u>	<u>15,133</u>

Capitalised issue income relates to received up-front payments from cross-currency interest rate swaps, compensating the bond discount. The duration for amortization is the term of the regarding swap and bond, see note 9.

16. Commitments not included in the balance sheet

The following revolving credit facilities are currently outstanding in 2021:

Borrower	Currency	Amount in '000	Effective date	Termination date
SkoFIN s.r.o.	CZK	4,000,000	03.09.2012	Open
OOOVolkswagen Group Finanz	RUB	3,000,000	07.02.2015	Open
OOO VW Financial Services RUS	RUB	8,000,000	07.02.2015	Open

For comparison, the overview of outstanding revolving credit facilities as at 31 December 2020:

Borrower	Currency	Amount in '000	Effective date	Termination date
SkoFIN s.r.o.	CZK	4,000,000	03.09.2012	Open
OOO Volkswagen Group Finanz	RUB	3,000,000	07.02.2015	Open
OOO VW Financial Services RUS	RUB	8,000,000	07.02.2015	Open

17. Financial income and expenses

	2021	2020
	EUR'000	EUR'000
Interest and similar income	194,624	149,888
Interest and similar expenses	(179,731)	(134,426)
	<u>14,893</u>	<u>15,462</u>

The Interest and similar income includes the net exchange rate difference TEUR 802. The net exchange rate difference in 2020 is included in Interest and similar expenses TEUR 173).

18. Other operating income

	<u>2021</u>	<u>2020</u>
	EUR'000	EUR'000
Miscellaneous income	189	136
	<u>189</u>	<u>136</u>

The miscellaneous income relates to refunds by Volkswagen Digital Solutions for IT services related to the previous period (TEUR 189).

19. Other operating expenses

	<u>2021</u>	<u>2020</u>
	EUR'000	EUR'000
Miscellaneous expenses	2	20
Bank charges	19	22
Deposit facility charges	28	-
	<u>49</u>	<u>42</u>

20. General and administrative expenses

	<u>2021</u>	<u>2020</u>
	EUR'000	EUR'000
Personnel and other third party costs	1,350	1,200
Auditors fees	71	85
Information technology expenses	425	448
Group treasury deal processing fee	220	217
General office expenses	160	154
Directors' and Officers' liability insurance	7	4
	<u>2,233</u>	<u>2,108</u>

The personnel and other third party costs is a charge from VIF for services rendered to FSNV. Due to a re-negotiation of the Service Level Agreement in January 2015, the amount charged for these services will fluctuate on a year-to-year basis. The remuneration of the members of Management Board in 2021 was approximately EUR 231,000 (2020: EUR 217,000) and is included in the personnel and other third party costs from VIF.

21. Independent auditor's fees

The following fees based on invoices and estimated work orders for assurance services incurred in the reporting year:

	2021	2020
	EUR'000	EUR'000
Audit of the financial statements	36	36
Audit-related fees	35	7
	<u>71</u>	<u>43</u>

The audit of the statutory accounts in 2021 and 2020 was performed by Ernst & Young Accountants LLP.

The audit-related fees in 2021 were services on consent letters issued by Ernst & Young Accountants LLP and BDO Audit & Assurance B.V. The audit-related fees in 2020 are related to services on consent letters issued by BDO Audit & Assurance B.V. only.

Neither tax services nor other non-audit services were rendered by Ernst & Young Accountants LLP.

22. Average number of employees

The employees are supplied by VIF. The costs regarding the work performed for FSNV are included in the service charges of EUR 1,35 million, which are included in the general and administrative expenses.

23. Financial instruments

The company uses derivatives to manage interest and FX exposures that arise as result of mismatches between the loans issued in the capital markets and loans issued to VWAG Group companies and affiliated. On this basis the fair value changes in derivatives are primarily driven by changes in the applicable currencies and related interest curves. The main currencies and interest zones applicable are GBP and USD as well as NOK, SEK, USD, PLN, KRW, TRY and JPY.

The company applies hedge accounting for all derivatives except for short-term FX forwards relating to interest positions. The current hedges are all 100% effective during the year.

The financial instruments of the Company had the following notional amounts:

	Up to 1 year	1 to 5 years	More than 5 years	Total
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2021				
Interest rate swaps	984,413	2,581,005	416,667	3,982,085
Cross currency Interest rate swaps	1,317,331	1,124,508	-	2,441,839
Foreign exchange contracts	392,091	6,025	-	398,116
Total notional amounts	2,693,835	3,711,538	416,667	6,822,040
31 December 2020				
Interest rate swaps	1,309,851	2,878,040	-	4,187,891
Cross currency Interest rate swaps	520,881	1,867,064	-	2,387,945
Foreign exchange contracts	964,653	5,267	-	969,920
Total notional amounts	2,795,385	4,750,371	-	7,545,756

The financial instruments of the Company had the following positive or negative fair values. The values are shown as Dirty Prices, i.e. including accrued interest.

	Interest rate swaps	Cross currency Interest rate swaps	Foreign exchange contracts	Total
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2021				
Positive fair value	10,912	13,307	274	24,493
Negative fair value	(50,498)	(76,346)	(11,143)	(137,987)
Total market value	(39,586)	(63,039)	(10,869)	(113,494)
31 December 2020				
Positive fair value	85,034	49,502	13,026	147,562
Negative fair value	-	(39,453)	(12,527)	(51,981)
Total fair value	85,034	10,049	499	95,581

24. Taxation

The taxation on the result on ordinary activities can be specified as follows:

	<u>2021</u>	<u>2020</u>
	EUR'000	EUR'000
Result before taxation	12,800	13,448
Taxation on result	3,071	3,276
Effective tax rate	24.0%	24.4%
Applicable tax rate	25.0%	25.0%

The difference between the effective and applicable tax rate is caused by withholding taxes from previous years.

25. Profit distribution

Management proposes to retain the 2021 profit of EUR 9.728.735,79.

26. Post balance sheet events

Russia-Ukraine conflict

At the time of preparing this report, there is a risk that the latest developments in the Russia-Ukraine conflict will have a negative impact on the Volkswagen Group's business. This may also result from bottlenecks in the supply chain. At the present time, it is not yet possible to conclusively assess the specific effects. Nor it is possible at this stage to predict with sufficient certainty to what extent further escalation of the Russia-Ukraine conflict will impact on the global economy and growth in the industry in fiscal year 2022.

The Volkswagen Group does not have any material subsidiaries and equity instruments in Ukraine. In Russia, the Volkswagen Group has in particular the production company at the Kaluga site, as well as sales units and financing companies. These companies could be adversely affected by the sanctions already resolved, and also by new sanctions and general developments in Russia. In relation to the net assets, financial positions and result of operations of the Volkswagen Group, the business activities of the Volkswagen Group in these two countries are insignificant.

FSNV has no direct business relation with entities in Ukraine. Credit facilities are granted to OOO Volkswagen Group Finanz, Moscow and OOO Volkswagen Financial Services RUS, Moscow. - both undrawn. The entities are funded mainly on the local capital and financial markets.

Therefore the impact of this conflict for FSNV can only be indirect due to corporate integration within the Volkswagen Group

27. Going Concern

The Managing Director has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources and activities to continue in business for the foreseeable future. Furthermore, the Managing Director is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Whilst the worldwide outbreak of the COVID-19 virus generally increases a number of the risk factors, no direct impact on the company's operations can be observed, as the Company has a sound financial position (with equity reserves in place) and committed loan agreements which is expected to keep the Company in a profitable position for the foreseeable future

28. Members of Management Board and Supervisory Board

Management Board:

- Chris Norrod, Amsterdam (since 1 August 2021)
- Inez de Rijk, Amsterdam (1 July to 31 July 2021)
- Thomas Fries, Amsterdam (until 12 June 2020)

The member of the Management Board located in Amsterdam received a remuneration for 2021 in his capacity as Director of the Company of approximately EUR 240,000 (2020: 217,000) by Volkswagen International Finance N.V., see note 20.

Supervisory Board:

- Frank Fiedler, Braunschweig (Chairman)
- Bernd Bode, Hannover (until 1 June 2021)
- Roman Rosenberg, Magdeburg (since 28 June 2021)

The members of the Supervisory Board receive a fixed fee for all their supervisory board mandates within the Volkswagen Group from FSAG.

Amsterdam, 22 March 2022

Management Board,

Supervisory Board,

Original has been signed by
C. Norrod

Original has been signed by
F. Fiedler

Original has been signed by
R. Rosenberg

Other information

Profit appropriation according to the Articles of Association

The Company's Articles of Association provide that appropriation of accrued profit is subject to the decision of the shareholders at the general meeting of shareholders. The Company can only make distributions to the shareholders and other persons entitled up to an amount, which does not exceed the amount of the distributable reserves. The general meeting may resolve to pay dividends from legally distributable reserves.

Independent auditor's report

To: the shareholders and supervisory board of Volkswagen Financial Services N.V.

Report on the audit of the financial statements 2021 included in the financial report

Our opinion

We have audited the financial statements 2021 of Volkswagen Financial Services N.V. based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Volkswagen Financial Services N.V. as at 31 December 2021, and of its result and its cash flows for year ended 31 December 2021 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- ▶ The balance sheet as at 31 December 2021
- ▶ The income statement for the year ended 31 December 2021
- ▶ The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of Volkswagen Financial Services N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Our understanding of the business

Volkswagen Financial Services N.V. is a 100% subsidiary of Volkswagen Finance Overseas BV, who in turn is a 100% subsidiary of Financial Services AG (FSAG). The ultimate parent company is Volkswagen AG (VWAG). The main purpose of the Company is the financing of and participation in VWAG Group companies. The Company has access to several funding sources such as bonds and commercial paper, as well as inter-company loans. All external issuances of financial instruments are guaranteed by FSAG in case the Company does not meet its obligations towards the holders of these instruments. The Company has lent more than 95% of the proceeds of these borrowings to VWAG group companies and its affiliates.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.

Materiality

Materiality	€81 million (2020: €77 million)
Benchmark applied	0.8% of total assets
Explanation	We have used total assets as a benchmark as we believe that this benchmark is the most appropriate metric for the financial position of the Company. In our opinion, the holders of the debt issued by the Company are most interested in the receivables of the loans issued to related parties, which is best represented by total assets.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of €4.1 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Teaming

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a listed client in the automotive and financial services industry.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and we cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Our audit response related to fraud risks

We identify and assess the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of Volkswagen Financial Services N.V. and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how the supervisory board exercises oversight, as well as the outcomes.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

As in all of our audits, we addressed the risks related to management override of controls. These risks did however not require significant auditor's attention during our audit.

We identified a risk on fraud as part of our risk assessment related to the existence of the loan. This has been further explained below in our key audit matter paragraph.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes, inspection of internal audit and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures. We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit.

Our audit response related to going concern

As disclosed in section "Going concern" in Note 27 to the financial statements, management made a specific assessment of the company's ability to continue as a going concern and to continue its operations for at least the next 12 months.

We discussed and evaluated the specific assessment with management exercising professional judgment and maintaining professional skepticism.

We considered whether management's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all 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 our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Based on our procedures performed, we did not identify serious doubts on the Company's ability to continue as a going concern for the next twelve months.

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 a Company to cease to continue as a going concern.

Our key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed. In comparison with previous year, our key audit matter has become more concentrated on the existence of the loans issued to related parties. Which is deemed the area with the highest potential impact on the financial statements.

Existence of the loans issued to related parties Note 5 and Note 6

Risk	Volkswagen Financial Services N.V is a financing entity entering into financing agreements with Volkswagen AG group companies and its affiliates. Volkswagen Financial Services N.V has no significant assets other than loans and interest receivable from Volkswagen AG group companies and its affiliates to meet its financial obligations. We consider the existence of the loans receivable a key audit matter due to the size of the loans in relation to the financial statements as a whole and the loan portfolio balance of the Company being the main Key Performance Indicator of the financial statements for the Company's bond holders.
Our audit approach	<p>We have applied mainly substantive audit procedures on the balances of loans issued to related parties. These procedures included, amongst others:</p> <ul style="list-style-type: none"> ▶ Obtaining an understanding of the process for entering into loans with related parties ▶ Inspecting loan agreements for the loans issued to the related parties ▶ Obtaining loan confirmations to verify the existence of the loans issued to related parties ▶ Evaluating the appropriateness of accounting policies applied related to recognition of loans issued to related parties. <p>In addition to the steps above we assessed the adequacy of the disclosures which are included in note 5 and note 6 to the financial statements.</p>
Key observations	Based on the results of our work, we did not identify evidence of material misstatement in the existence of loans issued to related parties. We concur with the related disclosures in the financial statements.

Report on other information included in the financial report

In addition to the financial statements and our auditor's report thereon, the financial report contains other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- ▶ Is consistent with the financial statements and does not contain material misstatements
- ▶ Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code for the management board report and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Management Board Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, other information required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements and ESEF

Engagement

We were engaged by supervisory board as auditor of Volkswagen Financial Services N.V. on 16 November 2020, as of the audit for the year 2020 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

European Single Electronic Reporting Format (ESEF)

Volkswagen Financial Services N.V. has prepared the financial report in ESEF. The requirements for this are set out in the Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: the RTS on ESEF).

In our opinion, the financial report, including the financial statements, prepared in the XHTML format by Volkswagen Financial Services N.V., complies in all material respects with the RTS on ESEF.

Management is responsible for preparing the financial report, including the financial statements, in accordance with the RTS on ESEF.

Our responsibility is to obtain reasonable assurance for our opinion whether the financial report complies with the RTS on ESEF.

Our procedures, taking into account Alert 43 of the NBA (the Netherlands Institute of Chartered Accountants), included amongst others:

- ▶ Obtaining an understanding of the Volkswagen Financial Services N.V.'s financial reporting process, including the financial report in XHTML format
- ▶ Obtaining the financial report in XHTML format and performing validations to determine whether the financial report in XHTML format has been prepared in accordance with the technical specifications as included in the RTS on ESEF

Description of responsibilities regarding the financial statements

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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 financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The "Information in support of our opinion" section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Our audit included among others:

- ▶ Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- ▶ Obtaining an understanding of internal control relevant to the audit 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 the company's internal control
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- ▶ Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication

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

In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 22 March 2022

Ernst & Young Accountants LLP

signed by M.L. Milet de St Aubin