Financial Report 2020

Volkswagen Financial Services N.V.

Amsterdam

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Supervisory Board Report

The balance sheet total and the result for the financial year 2020 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 2020, Moody's rated Volkswagen Financial Services AG, the parent company, with Prime-2 / A3 (short term / long term) with negative outlook while Standard & Poor's rated Volkswagen Financial Services AG with A-2 / BBB+ (short term / long term) also with a negative outlook. The outlook change from stable to negative occurred on the background of the Covid-19 pandemic

The Management Board informed the Supervisory Board in 2020 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 increased its funding and lending activities with Group companies without taking on additional risks.

In principle, one third of the Supervisory Board should be female; however, currently there are only two members on the Supervisory Board of the Company. The Company will deal with this recommendation in the future.

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 12 May 2020, Ernst & Young Accountants LLP, Rottererdam, was appointed as independent auditors for the fiscal year 2020. The independent auditors audited the annual financial statement of FSNV and issued an unqualified audit opinion.

Amsterdam, 24 March 2021

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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 negative outlook while Standard & Poor's assessed the rating with A-2 / BBB+ (short/long term) with a negative outlook in 2020. The outlook changed from stable to negative on the background of the Covid-19 pandemic.

Throughout 2020, FSNV raised a EUR equivalent of approx. 1.7 billion under the DIP-programme (2019: EUR 2.5 billion) with multi-tranche bonds and a total EUR equivalent of 0.5 billion under the mentioned CP Programme (2019: EUR equivalent 0.8 billion). The proceeds were granted to Volkswagen Financial Services AG Group companies.

In 2020, FSNV also redeemed bonds with a EUR equivalent of 0.9 billion (2019: EUR 0.7 billion) and CPs totalling EUR 0.5 billion (2019: EUR 1.1 billion). Borrowings from VW Group companies amounted to EUR 1.5 billion (2019: EUR 0.4 billion), repayments to EUR 0.2 billion (2019: 0.3 billion).

Financial results

Despite a reduction in consolidated Volkswagen AG Group sales by 11.8% to EUR 222.9 billion, FSNV was able to increase its lending assets from EUR 7.7 billion to EUR 9.7 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 10.2 million in 2020 against EUR 10.6 million in 2019. The Company generates income from the FSAG Group financing business. Interest surplus amounted to EUR 15.6 million (2019: EUR 16.0 million).

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 2020, 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.

Compliance with tax and regulatory requirements

The Company had its tax returns up to and including 2018 reviewed by the Dutch Tax Authorities. For the tax return 2019, 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 2020, which will be available on the website www.volkswagenag.com.

Global spread of Coronavirus (Covid-19)

At the end of December 2019, initial cases of a sometimes fatal respiratory disease became known in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also appeared outside China from mid-January 2020. In Europe, the number of people infected rose continuously in the course of February, and especially in March and April 2020. While many European countries recorded declining numbers of new infections as the second quarter of 2020 progressed, the rate of new infections continued to rise in North, Central and South America, Africa and parts of Asia. In the second quarter, many of the measures taken to contain the Covid-19 pandemic were gradually relaxed, especially in Europe. This included partially lifting border controls and travel restrictions, relaxing lockdowns as well as the reopening of businesses and public

facilities. In addition, the European Commission and numerous European governments approved aid packages to support the economy. In other regions, too, governments introduced measures aimed at shoring up the economy to counteract the enormous disruption to everyday life and economic activity caused by the Covid-19 pandemic. During the third quarter, and particularly during the fourth quarter of 2020, a rapid increase in new infections was again recorded in many parts of the world. To contain the spread of the virus, governments reversed the easing of restrictions and imposed lockdowns in various countries.
The Covid-19 impact on FSNV was limited despite the lower sales volumes for Volkswagen AG Group. The loan volume lent by FSNV increased and the FSNV result reached with EUR 10,2 million approximately the same level as in 2019. The rating agencies maintained the rating of FSNV and lowered only the outlook from stable to negative which did not impact the funding rates for FSNV.

Expectations 2021

Guidance on the economic development 2021 given by the Volkswagen AG Group anticipates that – assuming successful containment of the Covid-19 pandemic – deliveries to customers in 2021 will be significantly up on the previous year amid continued challenging market conditions, which means that also financing requirements for the Financial Services Division will increase while the operating result is expected to be in line with the previous year.

Under a scenario of a prolonged Corona crisis with a protracted economic recovery, the financial situation of FSNV's borrowers might be negatively impacted. Sales of Group companies might only slowly recover to pre-Covid levels lowering the demand for financing and leasing of FSNV borrowers.. Overall the repayment capacity of FSNV's borrowers is expected to still be sufficient to honor their outstanding payment obligations.

FSNV will continue in 2021 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 2021. 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 2020 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 2020 and the risks to which the company is exposed.

Amsterdam, 24 March 2021

Original has been signed by
Thomas Fries, Managing Director

Financial statements

Balance sheet as at 31 December 2020

(after proposed appropriation of profit)

		31 December 2020		31 December 2019	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Fixed assets					
Financial fixed assets:					
Loans to Volkswagen Group companies	5	6,144,710		5,743,490	
Loans to affiliates of the Volkswagen Group	5	388,969		244,954	
Total fixed assets			6,533,679		5,988,444
Current assets					
Receivables due from Volkswagen Group companies	6	2,604,777		1,330,444	
Receivables due from affiliates of the Volkswagen Group	6	495,827		276,225	
Loans to external parties	7	500		500	
Other assets	8	48,110		42,972	
Prepaid and deferred charges	9	15,322		14,592	
Total current assets			3,164,536		1,664,733
Cash at banks and in hand	10		2,860		3,691
Total assets			9,701,075		7,656,868

The accompanying notes are integral parts of these financial statements.

Liabilities		**31 December 2020**		**31 December 2019**	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Shareholder's equity and liabilities					
Shareholder's equity	11				
Issued and paid-up share capital		454		454	
Share premium reserve		1,115,000		1,115,000	
Retained earnings		159,951		149,779	
Total shareholder's equity			1,275,405		1,265,233
Long-term liabilities					
Bonds	12	5,087,921		4,996,578	
Liabilities to Volkswagen Group companies	12	1,283,908		397,000	
Total long-term liabilities			6,371,829		5,393,578
Current liabilities					
Bonds	13	1,406,507		857,969	
Liabilities to Volkswagen Group companies	13	533,712		45,625	
Commercial papers	13	30,015		20,012	
Other liabilities	14	68,474		59,909	
Deferred income	15	15,133		14,542	
Total current liabilities			2,053,841		998,057
Total shareholder's equity and liabilities			9,701,075		7,656,868

The accompanying notes are integral parts of these financial statements.

Income statement for the year ended 31 December 2020

		2020		2019	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Net financial income					
Interest income and similar income	17	149,888		172,127	
Interest expenses and similar expenses	17	(134,426)		(156,113)	
Other operating income	18	136		43	
Total net financial income			15,598		16,057
Expenses					
Other operating expenses	19	(42)		(39)	
General and administrative expenses	20	(2,108)		(2,174)	
Total expenses			(2,150)		(2,213)
Profit and (loss) before income taxes			13,448		13,844
Taxation on result on ordinary activities	24		(3,276)		(3,261)
Net profit and (loss) after taxation			10,172		10,584

The accompanying notes are integral parts of these financial statements.

Cash flow statement for the year ended 31 December 2020

	2020		2019	
	EUR'000	EUR'000	EUR'000	EUR'000
Cash (used in) generated from operations				
Interest received	134,915		181,379	
Interest paid	(108,823)		(106,004)	
Other operating income	-		3	
Guaranty fees paid	(3.967)		(3,150)	
General and other Expenses paid	(1.635)		(2,017)	
Corporate income tax received/ paid	(3.294)		2,175	
Net cash from/ used in operating activities		17,196		72,387
Cash flow from investment activities				
Loans issued to VW Group companies & affiliates of the Volkswagen Group	(7,007,963)		(9,141,634)	
Collection of loans to VW Group companies & affiliates of the Volkswagen Group	4,659,700		7,509,639	
Net cash from/ used in investment activities		(2,348,263)		(1,631,996)
Cash flow from financing activities				
Proceeds from borrowings	3,248,598		2,926,409	
Repayment of borrowings	(1,010,662)		(1,054,644)	
Proceeds from commercial papers	55,021		715,827	
Repayment of commercial papers	(45,017)		(1,112,533)	
Derivatives	82,296		83,032	
Net cash from/ used in financing activities		2,330,236		1,558,091
Net cash flows		(831)		(1,518)
Balance as at 1 January		3,691		5,209
Movement		(831)		(1,518)
Balance as at 31 December		2,860		3,691

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 Luxembourg ('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 Consolidation and shares in participations

FSNV sold its one share in Volkswagen Finance Belgium S.A., Brussels to its parent company Volkswagen Finance Overseas BV in February 2020 and has no longer any participation interest. The carrying value of the participation was EUR 10 cents and the share was sold for EUR 85.86, resulting in a profit of EUR 85.76.

1.4 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.

1.5 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.

Guidance on the economic development 2021 given by the Volkswagen Group anticipates that – assuming successful containment of the Covid-19 pandemic – deliveries to customers in 2021 will be significantly up on the previous year amid continued challenging market conditions, which means that also financing requirements for the Financial Services Division will increase while the operating result is expected to be in line with the previous year.

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 2020, 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 affliliated 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 2020, 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 2020, 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 2020	
			Book value	Fair value
			EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	GBP	1.70	5,545,916	5,679,392
	KRW	2.61	140,000	135,999
	SEK	0.93	381,067	384,514
	EUR	0.31	77,727	77,537
			6,144,710	6,277,442
Fixed asset loans to affiliates Of the Volkswagen Group	NOK	2.08	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 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 affliated 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 2019:

	Original currency	Average interest rate (%)	31 December 2019	
			Book value	Fair value
			EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	GBP	2.14	4,450,532	4,541,354
	PLN	2.48	388,000	384,214
	KRW	2.72	210,000	210,320
	SEC	0.95	273,672	273,851
	EUR	0.45	421,286	422,849
			5,743,490	5,832,589
Fixed asset loans to affiliates Of the Volkswagen Group	NOK	2.52	222,954	223,976
	EUR	1.57	22,000	22,330
			244,954	246,306
Total fixed asset loans to Volkswagen Group companies and affiliates of the Volkswagen Group			5,988,444	6,078,896

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 2020	31 Dec 2019
	EUR'000	EUR'000
Beginning of the period	7,595,113	5,861,880
Loans advanced	7,007,963	9,141,634
Loan repayments received	(4,659,700)	(7,509,639)
Interest accrued	32,241	23,720
Interest received	(23,720)	(36,759)
FX difference on loans	(317,614)	114,277
End of the period	**9,634,283**	**7,595,113**
Long-term	6,533,679	5,988,444
Short-term	3,100,604	1,606,669

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

	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
			2,604,777	2,560,083
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
			495,827	503,753
Total current receivables due from Volkswagen Group companies and affiliates			3,100,604	3,063,836

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 extend matched with the corresponding extrenal 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 2019:

	Original currency	Average interest rate (%)	31 December 2019	
			Book value	Fair value
			EUR'000	EUR'000
Current receivables due from Volkswagen Group companies	EUR	0.22	27,000	27,056
	GBP	1.56	705,924	707,955
	PLN	2.46	577,000	581,961

Accrued interest and other receivables	EUR		20,520	20,520
			1,330,444	1,337,492
Current receivables due from affiliates of the Volkswagen Group	EUR	0.84	28,000	28,031
	NOK	2.33	152,013	152,254
	TRY	12.49	93,012	89,956
Accrued interest and other receivables	EUR		3,200	3,200
			276,225	273,441
Total current receivables due from Volkswagen Group companies and affiliates			1,606,669	1,610,933

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	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

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 2019:

Company	Original currency	Interest rate	Amount In EUR	Maturity
Pon Auto Import Nederland B.V., Leusden	EUR	0.76	200,000	24-05-2020
Pon Automotive B.V., Leusden	EUR	0.76	150,000	24-05-2020
Pon Holdings B.V., Almere	EUR	0.76	150,000	24-05-2020

8 Other assets

This account consists of the following:	31 Dec 2020	31 Dec 2019
	EUR'000	EUR'000
Interest receivables from banks arising from derivatives	46,688	40,119
Income tax receivable	1,422	2,704
Unrealized FX gains and losses of derivatives	-	149
	48,110	42,972

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

9 Prepaid and deferred charges

	31 Dec 2020	31 Dec 2019
	EUR'000	EUR'000
Prepaid and deferred charges	15,322	14,592
	15,322	14,592

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 2020	31 Dec 2019
	EUR'000	EUR'000
Cash at Volkswagen Bank account	2,304	3,508
Cash at Commerzbank	556	183
	2,860	3,691

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

In 2020, Moody's rated Volkswagen Bank, with P-1 / A1 (short term / long term) with negative outlook while Standard & Poor's rated Volkswagen Bank with A2 / A- (short term / long term) also with a negative outlook. The outlook change from stable to negative occurred on the background of the Covid-19 pandemic.
In 2020, Moody's rated Commerzbank, with P- / A1 (short term / long term) while Standard & Poor's rated Commerzbank, with A2 / A- (short term / long term).

11 Shareholder's equity

	Issued and paid-up share capital	*Share premium reserve*	*Retained earnings*	*Total equity*
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Balance as at 1 January 2019	454	1,115,000	139,195	1,254,649
Result for the year 2019	-	-	10,584	10,584
Balance as at 31 December 2019 / 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	454	1,115,000	159,951	1,275,405

The shareholder's equity consists of the following:

Share capital

On 31 December 2020, 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

*T*here have been no changes to the share premium reserve during 2020.

Retained earnings

At the end of 2020, the total retained earnings amounted to EUR 160 million (2019: EUR 149,8 million) and the total equity amounted to EUR 1,3 billion (2019: EUR 1,3 billion).

12 Long-term liabilities

	31 Dec 2020	**31 Dec 2019**
	EUR'000	EUR'000
Bonds listed	5,087,921	4,996,578
	5,087,921	4,996,578

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

	Original currency	Weighted average effective interest rate (%)	31 December 2020 Book value	31 December 2020 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	2.07	3,947,734	4,039,006
Bonds listed	NOK	2.54	320,926	360,958
Bonds listed	SEK	0.73	299,261	347,603
Total long-term bonds			5,087,921	5,272,367

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 2019 is as follows:

	Original currency	Average interest rate (%)	31 December 2019 Book value	31 December 2019 Fair value
			EUR'000	EUR'000
Maturity longer than 5 years				
Bonds listed	GBP	2.25	411,788	413,399
Maturity less than 5 years				
Bonds listed	EUR	1.35	520,000	527,743
Bonds listed	GBP	1.63	3,470,793	3,529,791
Bonds listed	NOK	2.47	305,304	304,356
Bonds listed	SEK	0.71	288,693	287,470
Total long-term bonds			4,996,578	5,062,759

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:

			31 December 2020	
	Original currency	**Weighted average effective interest rate (%)**	**Book value**	**Fair value**
			EUR'000	EUR'000
Maturity less than 5 years				
VWGoAF	USD	1.20	1,133,908	1,102,910
Volkswagen International Belgium	EUR	0.51	150,000	150,136
			1,283,908	1,253,046

For comparison purposes, the overview of 2019 is as follows:

			31 December 2019	
	Original currency	**Average interest rate (%)**	**Book value**	**Fair value**
			EUR'000	EUR'000
Maturity less than 5 years				
FSAG	EUR	0.35	97,000	97,040
Volkswagen International Belgium	EUR	0.44	300,000	299,661
			397,000	396,701

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

	31 Dec 2020	**31 Dec 2019**
	EUR'000	EUR'000
Beginning of the period	6,317,184	4,170,692
Borrowings	3,248,598	2,926,409
Maturities	(1,010,662)	(1,054,644)
Interest accrued to VW Group companies	1,782	625
Interest paid to VW Group companies	(625)	(1,048)
FX difference on borrowings and bonds	(214,214)	275,150
End of the period	**8,342,063**	**6,317,184**
Long-term	6,371,829	5,393,578
Short-term	1,970,234	923,606

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

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

	2019		
Agency	Short-term	Long term	Outlook
Moody's	Prime-2	A3	Stable
Standard & Poor's	A-2	BBB+	Stable

13 Current liabilities

	31 Dec 2020	**31 Dec 2019**
	EUR'000	EUR'000
Bonds listed	1,406,507	857,969
	1,406,507	857,969

The breakdown of the current bonds 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			1,406,507	1,413,664

For comparison purposes, the overview of current bonds as at 31 December 2019 is as follows:

	Original currency	Average interest rate (%)	31 December 2019	
			Book value	Fair value
			EUR'000	EUR'000
Maturity less than 1 year				
Bonds listed	GBP	1.84	705,924	709,861
Bonds listed	NOK	1.93	152,045	151,994
Total current bonds			857,969	861,855

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 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

For comparison purposes, the overview of current liabilities, including accrued interest to Volkswagen Group companies as at 31 December 2019 is as follows:

	Original currency	Average interest rate (%)	31 December 2019	
			Book value	Fair value
			EUR'000	EUR'000
FSAG	EUR	0.00	45,000	45,002
Accrued interest	EUR		625	625
			45,625	45,627

Commercial papers

A breakdown of the current liabilities from issued commercial paper as per 31 December 2020 is as follows:

	Original currency	Weighted average effective 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

For comparison the overview of 2019:

	Original currency	Average interest rate (%)	31 December 2019	
			Book value	Fair value
			EUR'000	EUR'000
Average term 5 months				
Commercial Papers	EUR	(0.36)	20,012	20,009
Total commercial papers			20,012	20,009

14 Other liabilities

This account consists of the following:	31 Dec 2020	31 Dec 2019
	EUR'000	EUR'000
Interest payables on bonds	53,421	52,811
Interest payables to banks arising from derivatives	13,937	5,570
Current income tax	-	1,133
Withholding tax payable	262	334
Accrued liabilities	854	61
	68,474	59,909

15 Deferred income

	31 Dec 2020	31 Dec 2019
	EUR'000	EUR'000
Capitalised issue income	15,133	14,542
	15,133	14,542

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 2020:

Borrower	Currency	Amount in '000	Effective date	Termination date
SkoFIN	CZK	4,000,000	03.09.2012	Open
OOO Volkswagen Group Finanz	RUB	3,000,000	07.02.2015	Open
VW Financial Services Russia LLC	RUB	8,000,000	07.02.2015	Open

For comparison, the overview of outstanding revolving credit facilities as at 31 December 2019:

Borrower	Currency	Amount in '000	Effective date	Termination date
SkoFIN	CZK	4,000,000	03.09.2012	Open
MAN Financial Services OOO	RUB	3,000,000	07.02.2015	Open
VW Financial Services Russia LLC	RUB	8,000,000	07.02.2015	Open

17 Financial income and expenses

	2020	2019
	EUR'000	EUR'000
Interest and similar income	149,888	172,127
Interest and similar expenses	(134,426)	(156,113)
	15,462	16,014

The Interest and similar expenses include the net exchange rate difference TEUR 137 (2019: TEUR 1,241).

18 Other operating income

	2020	2019
	EUR'000	EUR'000
Miscellaneous income	136	43
	136	43

The miscellaneous income relates to a discount on income taxes due to early payment (TEUR 24), fees received for hedge accounting services (TEUR 2) and refund by Volkswagen Digital Solutions for IT services related to the previous period (TEUR 110).

19 Other operating expenses

	2020	2019
	EUR'000	EUR'000
Miscellaneous expenses	20	24
Bank charges	22	15
	42	39

20 General and administrative expenses

	2020	2019
	EUR'000	EUR'000
Personnel and other third party costs	1,200	1,200
Consulting and auditing fees	85	105
Information technology expenses	448	701
Group treasury deal processing fee	217	-
General office expenses	154	165
Directors' and Officers' liability insurance	4	3
	2,108	2,174

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 2020 was approximately EUR 217,000 (2019: EUR 213,000) 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:

	2020	2019
	EUR'000	EUR'000
Audit of the financial statements	36	53
Other audit procedures	-	31
Tax services	-	-
Other non-audit services	7	-
	43	84

The audits of the statutory accounts in 2020 were performed by Ernst & Young Accountants LLP and in 2019 by BDO Audit & Assurance B.V.

The other audit procedures in 2019 are related to the audit of the group reporting packages and were performed by Pricewaterhouse Coopers Accountants N.V.

The other non-audit services in 2020 are related to consent letter issued by BDO Audit & Assurance B.V.

Neither tax services nor other non-audit services were rendered by either Ernst & Young Accountants LLP, PricewaterhouseCoopers Accountants N.V. or BDO Audit & Assurance B.V.

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 1,2 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 applicabe are GBP and USD as well as NOK, SEK, USD, PLN, KRW and TRY.

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 2020				
Interest swaps	1,309,851	2,878,040	-	4,187,891
Interest/ currency swaps	520,881	1,867,064	-	2,387,945
FX Contracts	964,653	5,267	-	969,920
Total notional amounts	2,795,385	4,750,371	-	7,545,756
31 December 2019				
Interest swaps	822,492	3,590,148	411,789	4,824,429
Interest/ currency swaps	454,391	1,320,494	-	1,774,885
FX Contracts	222,967	1,273	-	224,240
Total notional amounts	1,499,850	4,911,915	411,789	6,823,554

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 swaps	**Interest/ currency swaps**	**FX contracts**	**Total**
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2020				
Positive fair value	85,034	49,502	13,026	147,562
Negative fair value	-	(39,453)	(12,527)	(51,981)
Total market value	85,034	10,049	499	95,581
31 December 2019				
Positive fair value	38,365	8,361	2,458	49,184
Negative fair value	(5,002)	(30,398)	(982)	(36,382)
Total fair value	33,363	(22,037)	1,476	12,802

24 Taxation

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

	2020	2019
	EUR'000	EUR'000
Result before taxation	13,448	13,844
Taxation on result	3,276	3,261
Effective tax rate	24.4%	23.6%
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 2020 profit of EUR 10,172,161,89.

26 Post balance sheet events

No post balance sheet events that require disclosure nor adjustment have occurred.

27 Members of Management Board and Supervisory Board

Management Board:
- Thomas Fries, Amsterdam
- Bernd Bode, Hannover (until 12 June 2020)

The member of the Management Board located in Amsterdam received a remuneration for 2020 in his capacity as Director of the Company of approximately EUR 217,000 (2019: 213,000) by Volkswagen International Finance N.V., see note 20. The member of the Management Board located in Braunschweig is employed by Volkswagen Bank GmbH and in his function received his regular salary.

Supervisory Board:
- Frank Fiedler, Braunschweig (Chairman)
- Bernd Bode, Hannover (as of 12 June 2020)

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

Amsterdam, 24 March 2021

Management Board,

Original has been signed by
T. Fries

Supervisory Board,

Original has been signed by
F. Fiedler

Original has been signed by
B. Bode

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 2020 included in the financial report

Our opinion

We have audited the financial statements 2020 of Volkswagen Financial Services N.V. based in Amsterdam.

In our opinion the accompanying company financial statements give a true and fair view of the financial position of Volkswagen Financial Services N.V. as at 31 December 2020 and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The financial statements comprise:

- the balance sheet as at 31 December 2020
- the income statement for the year ended 31 December 2020
- 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.

Materiality

Materiality	€77 million (2019: €76 million[2])
Benchmark applied	0.8% of total assets
Explanation	We use total assets given the company's main activity is intra-group lending. The company facilitates Volkswagen AG in their financing activities. We have used 0.8% of total assets to ensure relevant balance sheet and income statement items for the financial statement users are appropriately considered in our audit.

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 €3.8 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.

Our key audit matters

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. We continued with a key audit matters reported by the predecessor auditor in relation to loans issued.

The matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation and existence of the loans issued Note 2.4, note 5 and note 6	
Risk	Volkswagen Financial Services N.V. is a financing entity entering into financing agreements with Volkswagen AG Group companies. Volkswagen Financial Services N.V. has no substantial assets other than loans and interest receivable from Volkswagen AG Group companies to meet its financial obligations. We consider the valuation and 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.
Our audit approach	We evaluated the financial position and liquidity of the Volkswagen AG Group and affiliated counterparties to assess whether they are able to meet their contractual obligations as well as any guarantees issued. To determine this we have, amongst others: ▸ We obtained an understanding of the process for entering into loans, the amortized cost valuations and the loan impairment assessment process ▸ We performed confirmation procedures with the counterparties of the loans ▸ We tested on a sample basis the amortized cost valuations of the loans

[2] Materiality determined by predecessor auditor

Valuation and existence of the loans issued Note 2.4, note 5 and note 6	
Our audit approach (continued)	▸ We tested the loan impairment analysis prepared by the Company's management and specifically analyzed if there have been impairment triggers (including impacts of COVID-19), challenged critical assumptions and assessed developments in fair values of the loans ▸ We inspected the 2020 financial statements of Volkswagen AG and considered forward looking information and cash flows of Volkswagen AG ▸ We inspected the recent ratings issued by credit agencies for Volkswagen AG In addition to the steps above we assessed the adequacy of the disclosures which are included in note 2.4, note 5 and note 6 to the financial statements.
Key observations	Based on the results of our work, we conclude that the valuation of the loans is in accordance with Dutch GAAP and concur with management that no impairments are identified. 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 annual report contains other information that consists of:

- The supervisory board report
- The management report
- 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

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 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

Engagement

We were engaged by the general meeting 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.

Description of responsibilities for 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 frameworks 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. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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

- 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
- Concluding on the appropriateness of management's 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 our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. 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
- 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

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.

The Hague, 24 March 2021

Ernst & Young Accountants LLP

signed by A.A. Kuijpers