

VOLKSWAGEN BANK

GMBH

ANNUAL REPORT

HGB

2019

Balance Sheet

of Volkswagen Bank GmbH, Braunschweig, for the Year Ended December 31, 2019

€ thousand		Dec. 31, 2019	Dec. 31, 2018
Assets			
1. Cash reserve			
a) Cash-in-hand	987		933
b) Central bank balances	3,469,985		1,864,626
of which:			
at Deutsche Bundesbank €3,425,826 thousand			(1,781,714)
c) Post office bank balances	28		8
		3,470,999	1,865,567
2. Loans to and receivables from banks			
a) Repayable on demand	314,759		528,046
b) Other receivables	112,290		377
		427,049	528,424
3. Loans to and receivables from customers		55,706,184	51,077,476
of which:			
secured with			
mortgages €372,505 thousand			(391,603)
4. Bonds and other fixed-income securities			
a) Bonds			
aa) From public-sector issuers	1,320,059		2,094,399
of which:			
eligible as collateral at Deutsche Bundesbank €1,320,059 thousand			(1,865,486)
ab) From other issuers	13,384,346		13,324,573
of which:			
eligible as collateral at Deutsche Bundesbank €12,731,100 thousand			(12,449,813)
		14,704,406	15,418,973
5. Equities and other variable-yield securities		0	0
6. Long-term equity investments		93,893	87,852
7. Shares in affiliated companies		125,907	546,982
of which:			
in banks €2,627 thousand			(2,324)
8. Intangible fixed assets			
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	13,127		11,110
b) Goodwill	0		0
c) Prepayments	149		0
		13,275	11,110
9. Property and equipment		13,168	9,730
10. Lease assets		1,644,148	1,407,756
11. Other assets		375,997	637,365
12. Prepaid expenses		123,211	21,032
Total assets		76,698,236	71,612,266

€ thousand		Dec. 31, 2019	Dec. 31, 2018
Equity and liabilities			
1. Liabilities to banks			
a) Repayable on demand	52,575		1,245,092
b) With agreed maturity or notice period	7,411,687		7,627,209
		7,464,262	8,872,301
2. Liabilities to customers			
a) Other liabilities			
aa) Repayable on demand	24,847,615		23,820,648
ab) With agreed maturity or notice period	13,351,639		10,623,004
		38,199,254	34,443,652
3. Notes, commercial paper issued			
a) Bonds issued	7,037,916		4,770,326
b) Other notes, commercial paper issued	639,477		900,324
of which:			
Commercial paper: €639,477 thousand			(900,324)
		7,677,393	5,670,650
4. Other liabilities		13,040,123	12,167,503
5. Deferred income		852,742	887,268
6. Provisions			
a) Provisions for pensions and similar obligations	100,774		88,894
b) Provisions for taxes	44,290		40,991
c) Other provisions	422,267		509,381
		567,332	639,267
7. Special tax-allowable reserve		0	1,128
8. Subordinated liabilities		30,000	30,000
9. Fund for general banking risks		25,565	25,565
10. Equity			
a) Subscribed capital	318,279		318,279
b) Capital reserves	8,497,681		8,531,049
c) Revenue reserves			
ca) Other revenue reserves	25,604		25,604
d) Net retained profits	0		0
		8,841,565	8,874,933
Total equity and liabilities		76,698,236	71,612,266
1. Contingent liabilities			
a) Liabilities under guarantees and indemnity agreements		233,062	183,232
of which:			
to affiliated companies		173,462	152,249
2. Other obligations			
a) Irrevocable credit commitments		1,771,244	2,303,652
of which:			
to affiliated companies		30,260	54,533

Income Statement

of Volkswagen Bank GmbH, Braunschweig, for the Period January 1 to December 31, 2019

€ thousand			2019	2018
1. Interest income from				
a) Lending and money market transactions	1,602,677			1,502,960
b) Fixed-income securities and debt register claims	50,073			67,566
		1,652,750		1,570,526
2. Interest expense		131,385		105,378
3. Interest anomalies				
a) Positive interest from banking business (collateral deposits)	6,834			104,640
b) Negative interest from money market transactions	19,957			22,341
		-13,123		82,299
			1,508,241	1,547,447
4. Current income from				
a) Equities and other variable-yield securities		54		58
b) Long-term equity investments		0		6,758
			54	6,816
5. Leasing income		997,608		837,646
6. Leasing expenses		466,498		396,011
			531,111	441,635
7. Fee and commission income		377,571		351,980
8. Fee and commission expenses		563,751		749,225
			-186,180	-397,245
9. Other operating income			228,642	248,195
10. Income from the reversal of special tax-allowable reserve			1,128	43
11. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	177,765			165,730
ab) Social security, post-employment and other employee benefit costs	37,516			43,300
of which:		215,281		209,030
in respect of post-employment benefits €8.089 thousand				(15,371)
b) Other administrative expenses		580,100		543,387
			795,381	752,417
12. Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment and lease assets				
a) Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment		10,695		8,323
b) Depreciation and write-downs of lease assets		504,928		437,852
			515,623	446,175
13. Other operating expenses			79,843	315,962
14. Amortization and write-downs of receivables and certain securities, and additions to provisions in the lending business			205,691	105,953
15. Write-downs of long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			10	453

€ thousand			2019	2018
16. Income from reversals of write-downs of long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			305	0
17. Result from ordinary activities			486,753	225,932
18. Extraordinary income		0		74,972
19. Extraordinary expenses		2		0
20. Extraordinary result			-2	74,972
21. Income tax expense			121,931	96,317
22. Other taxes, unless reported under item 13			95	120
23. Profits transferred under a profit and loss transfer agreement			364,726	204,467
24. Net income			0	0
25. Reduction in assets as a result of demerger			-481,099	0
26. Withdrawal from capital reserves			481,099	0
27. Net retained profits			0	0

Notes

to the Annual Financial Statements of Volkswagen Bank GmbH, Braunschweig,
for the Year Ended December 31, 2019
Registration court: Braunschweig
Commercial register number: HRB 1819

I. General Information

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

As of December 31, 2019, both a control agreement and a profit and loss transfer agreement were in place with Volkswagen AG.

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

II. Accounting Policies

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

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

Foreign currency assets and liabilities that are not specifically hedged in the same currency are translated at the middle spot rate at the reporting date in accordance with section 256a sentence 1 of the HGB and in compliance with the historical cost convention and the principle of imparity (whereby unrealized losses are recognized but unrealized gains are not). If the items have a residual maturity of one year or less, the net gains or losses from translation are recognized in full in the income statement in accordance with section 256a sentence 2 of the HGB.

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

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

The cash reserve is carried at the nominal amount.

Receivables are recognized at their principal amounts, net of provisions for credit risks. In dealer financing, specific valuation allowances are recognized on a contract-by-contract basis. Global valuation allowances are also recognized to cover risks arising in connection with dealer receivables for which no specific valuation allowances have been recognized. In retail financing, the provisions for risks take the form of specific valuation allowances evaluated on a collective basis. The model used to determine valuation allowances has been derived from the regulatory risk quantification method.

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

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

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

Items of property and equipment with finite useful lives are depreciated, and intangible assets with finite useful lives are amortized on a straight-line basis over the course of their useful lives. They are initially recognized at cost. The useful lives applicable to goodwill, which are based on economic useful lives, were eight years (VWV Retail) or two years (Volkswagen Finance S.A., France).

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

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

Liabilities are recognized at the settlement amount.

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

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

Other pension obligations (time asset bonds) are also linked to securities funds. Time asset bonds provide the opportunity to save for early retirement by acquiring time asset bond units. The securities measured at fair value are offset as plan assets against the corresponding provisions.

The pension provision that is not externally funded is recognized at present value.

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

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

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

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

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

III. Balance Sheet Disclosures

LOANS TO AND RECEIVABLES FROM BANKS

Loans to and receivables from banks include loans to and receivables from affiliated companies amounting to €6,005 thousand (previous year: €265 thousand). There are no loans to and receivables from investees or investors included in the item (previous year: €0 thousand).

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

- > Repayable on demand: €314,759 thousand (previous year: €528,046 thousand)
- > Up to three months: €106,284 thousand (previous year: €377 thousand)
- > More than three months and up to one year: €0 thousand (previous year: €0 thousand)
- > More than one year and up to five years: €6,005 thousand (previous year: €0 thousand)
- > More than five years: €0 thousand (previous year: €0 thousand).

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

LOANS TO AND RECEIVABLES FROM CUSTOMERS

This item includes loans to and receivables from affiliated companies amounting to €3,330,485 thousand (previous year: €6,490,361 thousand).

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

- > Up to three months €10,572,894 thousand (previous year: €11,656,026 thousand)
- > More than three months and up to one year €10,845,964 thousand (previous year: €9,973,585 thousand)
- > More than one year and up to five years €28,567,506 thousand (previous year: €23,845,058 thousand)
- > More than five years €729,055 thousand (previous year: €1,519,673 thousand).

Loans to and receivables from customers include receivables with an indefinite maturity (in accordance with the disclosure requirements in section 9(3) no. 1 of the RechKredV) amounting to €4,990,765 thousand (previous year: €4,083,134 thousand).

Loans to and receivables from customers include subordinated loans and receivables of €559,104 thousand (previous year: €548,557 thousand), of which €559,104 thousand (previous year: €548,557 thousand) is attributable to subordinated receivables arising from ABS transactions entered into by Volkswagen Bank GmbH.

The receivables from leasing business included in loans to and receivables from customers amount to €2,794,174 thousand (previous year: €3,702,900 thousand), of which €2,667,656 thousand (previous year: €2,432,595 thousand) is attributable to the Bank's branch in France and €0 thousand (previous year: €1,137,166 thousand) to the Bank's branch in Italy.

Receivables from retail financing amounting to €908,075 thousand (previous year: €751,316 thousand) are attributable to the Bank's branch in France.

LOANS TO AND RECEIVABLES FROM SHAREHOLDERS

As of the reporting date, loans to and receivables from the sole shareholder, Volkswagen AG, Wolfsburg, amounted to €384 thousand (previous year: €777 thousand).

BONDS AND OTHER FIXED-INCOME SECURITIES

To help safeguard the supply of liquidity, Volkswagen Leasing GmbH and Volkswagen Finance S.A., Madrid, have set up ABS structures. However, not all the securities issued by the special purpose entities purchasing the assets concerned have been sold to investors. Instead, some of the securities have been purchased by Volkswagen Bank GmbH and pledged as collateral for its participation in the open market operations of Deutsche Bundesbank. The total portfolio of these securities amounts to €4,500 thousand (previous year: €67,650 thousand). All the securities involved are allocated to the liquidity reserve. They are measured at the lower of cost or market value under the strict HGB approach. Although these securities are marketable and listed, the Bank uses its own valuation model to determine their value because the market for the securities is insufficiently liquid. In this model, the cash flows determined for the securities are discounted using a standard swap yield curve for the Volkswagen Group plus a credit spread. The credit spread is validated using an indirect method based on indicative prices from various banks.

The item also includes purchased securities from Volkswagen Bank GmbH's own ABS transactions. These securities amount to €11,199,700 thousand (previous year: €11,199,700 thousand) and are backed by the Bank's own receivables; no subsequent measurement is applied because the counterparty default risk is already factored into the measurement of the receivables themselves. During the term of the deals, the bonds are recognized at cost, net of any redemptions.

To accumulate collateral for participation in open market operations and to ensure that requirements in accordance with the liquidity coverage ratio are satisfied in the future, the Bank made repeated purchases of fixed-income securities with strong credit ratings. As of the reporting date, these bonds amounted to a total of €2,842,605 thousand (previous year: €3,273,057 thousand). The securities are allocated to the liquidity reserve and measured at market prices, applying the strict lower of cost or market principle under the HGB.

The securities and bonds reported under this balance sheet item – all of which are marketable, listed securities – total €14,704,406 thousand (previous year: €15,418,973 thousand).

As of the reporting date, securities within the portfolio amounting to €10,173,059 thousand (previous year: €10,559,933 thousand) had been deposited in the operational safe custody account maintained with Deutsche Bundesbank. These securities serve as collateral for funding transactions. There were open market loans of €7,183,234 thousand (previous year: €7,459,262 thousand) as of the reporting date.

Of the bonds and other fixed-income securities, a nominal amount of €3,126,908 thousand (previous year: €1,050,743 thousand) was due to mature in the fiscal year following the reporting date.

Bonds and other fixed-income securities include securities issued by affiliated companies amounting to €11,204,200 thousand (previous year: €11,267,350 thousand).

LONG-TERM EQUITY INVESTMENTS AND SHARES IN AFFILIATED COMPANIES

An overview of long-term equity investments and information on shares in affiliated companies can be found in the list of shareholdings. A list of shareholdings is available at <http://www.vwfsag.com/listofholdings2019>.

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

INTANGIBLE FIXED ASSETS

Intangible fixed assets increased by €2,165 thousand to €13,275 thousand (previous year: €11,110 thousand).

PROPERTY AND EQUIPMENT

The total value of buildings and properties used for the Bank's own operations amounts to €7,188 thousand (previous year: €3,760 thousand). The amount within property and equipment attributable to other equipment, operating and office equipment is €3,488 thousand (previous year: €3,724 thousand).

LEASE ASSETS

This item comprises vehicles leased out as part of the leasing business operated by the branches in France and Italy and amounts to €1,644,148 thousand (previous year: €1,407,756 thousand).

OTHER ASSETS

This item includes receivables from interest rate hedging transactions amounting to €38,480 thousand (previous year: €23,151 thousand), fees and commissions due in connection with insurance broking amounting to €0 thousand (previous year: €295 thousand), tax receivables of €94,677 thousand (previous year: €149,202 thousand), of which €51,510 thousand relates to tax receivables at the Bank's branch in Italy and €39,834 thousand to tax receivables at the Bank's branch in France. A significant component of the remaining other assets comprises receivables of €58,782 thousand (previous year: €40,829 thousand) from the ABS special purpose entities relating to the return of pledged collateral (not yet due) and service fees.

Derivatives to hedge currency risk gave rise to a currency adjustment item of €0 thousand (previous year: €153,641 thousand), which has been recognized under other assets.

PREPAID EXPENSES

This item contains deferred discounts of €11,796 thousand (previous year: €10,899 thousand), advance insurance premiums of €1 thousand (previous year: €1 thousand) and advance fees and commissions amounting to €14,261 thousand (previous year: €9,145 thousand) paid in connection with a rise in the level of new business at the Bank's branches. At the Bank's branch in Italy, accrued commissions amount to €89,313 thousand (previous year: €0 thousand) due to new sales commissions.

LIABILITIES TO BANKS

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

- > Repayable on demand €52,575 thousand (previous year: €1,245,092 thousand)
- > Up to three months €856,326 thousand (previous year: €1,105,716 thousand)
- > More than three months and up to one year €4,448,292 thousand (previous year: €19,826 thousand)
- > More than one year and up to five years €2,015,377 thousand (previous year: €6,403,186 thousand)
- > More than five years €91,692 thousand (previous year: €98,481 thousand).

Liabilities to banks include liabilities to an affiliated company in the amount of €126 thousand (previous year: €0 thousand).

Liabilities to Deutsche Bundesbank amounting to €7,163,778 thousand (previous year: €8,263,778 thousand) have been secured by collateral in the same amount in the form of securities.

LIABILITIES TO CUSTOMERS

This item includes liabilities to affiliated companies not evidenced by certificates amounting to €6,083,490 thousand (previous year: €4,693,411 thousand).

Customer deposits amount to €31,733,064 thousand (previous year: €29,349,075 thousand). Since January 1, 2019, customer deposits have been calculated without cash deposits from Group companies; the prior-year figure has been restated (previous year: €32,388,895 thousand).

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

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

- > Up to three months €9,650,959 thousand (previous year: €8,051,735 thousand)

- > More than three months and up to one year €1,203,417 thousand (previous year: €934,635 thousand)
- > More than one year and up to five years €1,600,215 thousand (previous year: €978,162 thousand)
- > More than five years €897,048 thousand (previous year: €658,472 thousand).

LIABILITIES TO SHAREHOLDERS

As of the reporting date, liabilities to the sole shareholder, Volkswagen AG, Wolfsburg, amounted to €3,556,620 thousand (previous year: €2,992,995 thousand).

NOTES, COMMERCIAL PAPER ISSUED

This item comprises bonds and commercial paper.

“a) Bonds issued” comprises: Bonds: €7,037,916 thousand (previous year: €4,770,326 thousand)

Residual maturities:

- > Up to three months €37,916 thousand (previous year: €770,326 thousand)
- > More than three months and up to one year €0 thousand (previous year: €0 thousand)
- > More than one year and up to five years €5,650,000 thousand (previous year: €2,700,000 thousand)
- > More than five years €1,350,000 thousand (previous year: €1,300,000 thousand).

“b) Other notes, commercial paper issued” comprises: Commercial paper: €639,477 thousand (previous year: €900,324 thousand)

Residual maturities:

- > Up to three months €127,805 thousand (previous year: €662,853 thousand)
- > More than three months and up to one year €500,413 thousand (previous year: €0 thousand)
- > More than one year and up to five years €11,259 thousand (previous year: €237,471 thousand).

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

Of the total bonds issued, an amount of €0 thousand matures in the subsequent year.

OTHER LIABILITIES

Of the total liabilities, liabilities in an amount of €11,423,262 thousand (previous year: €11,409,201 thousand) are backed by collateral. These liabilities have arisen from ABS transactions in which Volkswagen Bank GmbH has retained beneficial ownership of the sold receivables after the sale.

The following are also reported under this item: outstanding debt servicing amounts in connection with ABS transactions amounting to €544,439 thousand (previous year: €465,514 thousand), liabilities from interest rate hedging transactions amounting to €12,327 thousand (previous year: €12,526 thousand), liabilities to tax authorities of €51,945 thousand (previous year: €39,502 thousand) and accrued interest liabilities related to subordinated bonds and profit-sharing rights amounting to €597 thousand (previous year: €597 thousand).

Derivatives to hedge currency risk gave rise to a currency adjustment item of €22,507 thousand (previous year: €0 thousand), which has been recognized under other liabilities.

DEFERRED INCOME

This item largely comprises deferred income in connection with manufacturer and partner participation in sales promotion campaigns amounting to €764,764 thousand (previous year: €735,520 thousand), which will be recognized in the income statement over the term of the relevant agreements.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

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

	Germany	International
Discount rate	2,71%	2,71%
Expected rate of salary increases	3.70%	0.00 – 0.00%
Expected rate of pension increases	1.50%	0.00 – 2.80%
Employee turnover rate	1.10%	0.00%

For Germany, the discount rate applied was the discount rate of 2.71% published by Deutsche Bundesbank for December 2019 in accordance with section 253(2) of the HGB (average market interest rate for the past ten years).

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

Pension funds with a value equivalent to a settlement amount of €45,075 thousand and fair value funds with a corresponding value of €41,494 thousand were offset against the liabilities for pensions and similar obligations. The cost of the pension fund securities amounted to €46,081 thousand and the cost of the fair value fund securities amounted to €40,326 thousand. The fair value of the pension fund totaled €45,075 thousand and that of the fair value fund was €41,494 thousand at the reporting date. The securities were measured at closing prices as of the reporting date.

Income of €1,277 thousand from the measurement of the funds at fair value were offset against interest expense from provisions of €1,277 thousand as part of the netting of the obligation (measured at the fair value of the securities) and of the securities fund for the fair value securities.

In the year under review, the amount of the difference for Germany determined in accordance with section 253(6) of the HGB are €10,871 thousand for the pension provisions not funded externally and €11,815 thousand for the commitments funded through Volkswagen Pension Trust e.V. The amount of the differences determined in accordance with section 253(6) of the HGB are €52 thousand for the Bank's branch in Italy and €889 thousand for the Bank's branch in the UK. In the Netherlands, the pension obligation and the pension fund were transferred to NN Group N.V. in the reporting period. No future obligations will arise for Volkswagen Bank GmbH. Because of an existing profit and loss transfer agreement, the amount is transferred to Volkswagen AG in accordance with the letter published by the German Ministry of Finance (BMF) on December 23, 2016, "Änderung des § 253 HGB durch das Gesetz zur Umsetzung der Wohnimmobilienkreditrichtlinie und zur Änderung handelsrechtlicher Vorschriften; Auswirkung auf die Anerkennung steuerlicher Organschaften" (Amendments to section 253 of the HGB on the basis of the Act Implementing the Mortgage Credit Directive and Amending Provisions of the HGB; impact on the recognition of tax groups).

OTHER PROVISIONS

Other provisions mainly comprise provisions to cover costs associated with litigation and legal risks. The provisions for litigation and legal risks reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers. They relate primarily to proceedings in relation to design aspects of loan agreements with customers that may obstruct the processing of statutory cancellation periods, provisions for legal disputes in connection with dealer financing agreements as well as customer financing broking claims. In total, provisions for litigation and legal risks amounted to €244,249 thousand (previous year: €338,380 thousand).

SPECIAL TAX-ALLOWABLE RESERVE

The special tax-allowable reserve was recognized in accordance with section 3 of the Zonenrandförderungsgesetz (ZRFG – German Border Regions Development Act). Net income was increased by a reversal in the reporting period of €1,128 thousand (previous year: €43 thousand).

SUBORDINATED LIABILITIES

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

Subordinated liabilities amounting to €26,983 thousand (previous year: €28,465 thousand) are deemed to be a component of equity under the provisions of article 62(a) of the Capital Requirements Regulation (CRR).

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

There are no early repayment obligations for the subordinated liabilities.

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

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

SUBORDINATED BONDS

AS OF:	DEC. 31, 2019		LISTED ON A STOCK EXCHANGE	
	€ million	Coupon	Valid until	New coupon agreement based on
Dated date				Maturity date
26.09.2003	20.0	5.40000%	26.09.2023	Fixed interest rate September 26, 2023
07.06.2004	10.0	5.50000%	07.06.2024	Fixed interest rate June 7, 2024

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

EQUITY

The capital reserves of Volkswagen Bank GmbH were unchanged at €8.5 billion as of December 31, 2019 (previous year: €8.5 billion).

CHANGES IN FIXED ASSETS OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG,
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2019

€ thousand	Long-term equity investments	Shares in affiliated companies	Purchased concessions and similar rights	Payments on account for intangible fixed assets	Goodwill	Land, land rights and buildings on third-party land	Other equipment, operating and office equipment	Prepayments and assets under construction	Lease assets
Cost as of Dec. 31, 2018	88,000	547,287	71,620	25	144,482	24,423	18,841	1,363	2,154,0
Additions in 2019	6,051	59,718	8,835	149	0	11,199	9,010	257	1,149,3
Disposals in 2019	0	481,099	66	26	0	787	3,258	113	811,9
Reclassifications in 2019	0	0	0	0	0	0	0	0	
Currency translation	0	0	229	0	0	0	0	0	
Cost as of Dec. 31, 2019	94,051	125,906	80,618	148	144,482	34,835	24,593	1,507	2,491,4
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2018	148	305	60,536	0	144,482	19,780	15,118	0	746,2
Additions in 2019	10	0	6,792	0	0	7,504	8,167	0	505,0
Reversals of write-downs in 2019	0	0	0	0	0	0	0	0	
Disposals in 2019	0	305	66	0	0	623	2,179	0	403,9
Reclassifications in 2019	0	0	0	0	0	0	0	0	
Currency translation	0	0	229	0	0	0	0	0	
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2019	158	0	67,491	0	144,482	26,661	21,106	0	847,3
Carrying amount as of Dec. 31, 2019	93,893	125,906	13,127	148	0	8,174	3,488	1,507	1,644,1
Carrying amount as of Dec. 31, 2018	87,852	546,982	11,085	25	0	4,643	3,724	1,363	1,407,7

IV. Income Statement Disclosures

INTEREST INCOME FROM LENDING AND MONEY MARKET TRANSACTIONS

The proportion of interest income generated in the foreign branches is 53.1% (previous year: 50.1%). The branches in Italy and France account for the largest share of this foreign income.

Interest income from lending and money market transactions includes income from finance leases amounting to €197,216 thousand (previous year: €212,048 thousand).

INTEREST ANOMALIES

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

LEASING INCOME

Income from leasing transactions comprises net income from operating leases and is generated primarily by the Bank's branch in France. The total amount of this income is €997,608 thousand (previous year: €837,646 thousand).

LEASING EXPENSES

The expenses from leasing transactions amount to €466,498 thousand (previous year: €396,011 thousand).

NET FEE AND COMMISSION INCOME

The proportion net fee and commission income generated in the foreign branches is 52.6% (previous year: 46.2%). The branches in Italy and France account for the largest share of this foreign income.

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

It includes prior-period income of €1,519 thousand (previous year: €1,193 thousand) largely generated from special fees for credit protection insurance, from the card payment system and from the credit card business.

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

OTHER OPERATING INCOME

Other operating income amounted to €228,642 thousand (previous year: €248,195 thousand) and comprises mainly cost reimbursements from Group companies of €28,527 thousand (previous year: €20,712 thousand). The decrease is due to the fact that the options for recharging overheads to affiliated companies has been curtailed as a result of the reorganization of the corporate structure.

The proportion of other operating income generated in the foreign branches is 18.9% (previous year: 25.4%). The branches in France and Italy account for the largest share of this foreign income.

This item includes prior-period income of €91,266 thousand (previous year: €77,817 thousand), of which €78,993 thousand (previous year: €70,002 thousand) is income from the reversal of provisions. Other income includes the effects from the discounting of provisions amounting to €352 thousand (previous year: €0 thousand).

This item also includes income from the premature termination of ABS transactions amounting to €11,096 thousand (previous year: €65,870) and income from currency translation amounting to €34,713 thousand (previous year: €17,872 thousand).

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amount to €795,384 thousand (previous year: €752,417 thousand). Significant elements are personnel expenses of €215,281 thousand (previous year: €209,030 thousand) and cost allocations from Group companies amounting to €270,681 thousand (previous year: €265,640 thousand). These cost allocations were mainly attributable to staff leasing arrangements. The fee for financial audit ser-

vices paid to the auditor in the current fiscal year was mostly attributable to the audit of the annual and consolidated financial statements of Volkswagen Bank GmbH as well as to reviews of interim financial statements. Further assurance services related primarily to other audit services, such as the audit of the safe custody and securities services business pursuant to section 89 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act). The tax advisory services relate to the assessment of an impact analysis in connection with withholding tax. The other services performed by the auditor in the reporting period mainly consisted of issues relating to banking supervisory law, consulting services on process optimization and IT services. For further disclosures of the total fee charged by the auditor for the fiscal year, please refer to the notes to the consolidated financial statements of Volkswagen Bank GmbH.

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

Depreciation and write-downs of lease assets amounting to €504,928 thousand (previous year: €437,852 thousand) are reported within this line item as a separate subitem.

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

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

Amortization and write-downs increased by €62.5 million to €422.5 million. Income from the reversal of valuation allowances no longer required and income from loans and receivables previously written off totaled €216.8 million, down on the prior-year figure (€254.1 million). This resulted in a net addition of provisions for credit risk, amounting to €205.7 million in the reporting year (previous year: net addition of €106.0 million).

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

In fiscal year 2019, write-downs of €10 thousand were recognized on long-term equity investments and shares in affiliated companies.

OTHER OPERATING EXPENSES

This item is essentially the aggregation of a large number of individual items. These include prior-period expenses of €8,642 thousand (previous year: €4,673 thousand), of which €4,405 thousand (previous year: €3,094 thousand) relate to the branch in Italy and €3,166 thousand (previous year: €1,449 thousand) to the branch in France. The increase in prior-period expenses is primarily attributable to the change in the presentation of liabilities for outstanding costs arising under service contracts. Other operating expenses include expenses from currency translation amounting to €20,151 thousand (previous year: €24,880 thousand). Expenses of €402 thousand (€196,944 thousand) were recognized for identifiable litigation risks. The item also comprises the effects from the discounting of provisions amounting to €17,646 thousand (previous year: €16,515 thousand).

TAXES ON INCOME

This item comprises domestic and foreign taxes on income. The domestic income taxes for the reporting period amounting to €22,606 thousand (previous year: €34,214 thousand) were recharged to Volkswagen Bank GmbH within the existing tax group by Volkswagen AG, the controlling entity in the tax group.

The income taxes item includes prior-period expenses of €696 thousand (previous year: €474 thousand) and tax refunds for prior years amounting to €4,638 thousand (previous year: €4,553 thousand).

The deferred taxes of the independently taxable branches are determined separately in a dedicated statement using the appropriate local tax rates of between 12.5% and 33.52% in accordance with local tax laws. The deferred tax liabilities of the branch in France, most of which are attributable to lease assets, are offset against deferred tax assets of the other branches arising from valuation allowances and pension provisions. The option not to recognize the resulting total excess of assets over liabilities of €40,561 thousand (previous year: €29,356 thousand) is exercised in accordance with section 274(1) sentence 2 of the HGB.

In Germany, deferred taxes are determined using a tax rate of 29.9%. Due to the tax group with Volkswagen AG, the resulting net deferred tax assets of €193,124 thousand (previous year: €210,588 thousand) are attributable to Volkswagen AG.

V. Other Disclosures

REPORT ON POST-BALANCE SHEET DATE EVENTS

No significant events had occurred by February 19, 2020 that would have required a substantially different presentation of the net assets, financial position and results of operations.

CONSOLIDATED FINANCIAL REPORTING

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

CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

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

The contingent liabilities amounting to €233,062 thousand (previous year: €183,232 thousand) consist exclusively of guarantees. Of these guarantees, an amount of €92,341 thousand (previous year: €107,654 thousand) is secured by collateral in the form of deposits. Volkswagen Bank GmbH is therefore not exposed to any loss risk up to this amount if the guarantees were to be called upon. Other guarantees primarily relate to risk cover for domestic dealer financing liabilities. At present, the probability of unsecured guarantees being called in is considered to be low.

OFF-BALANCE-SHEET TRANSACTIONS AND OTHER FINANCIAL OBLIGATIONS

Derivative financial instruments

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

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

€ million	NOTIONAL VALUE	NOTIONAL VALUE	POSITIVE FAIR VALUES ¹	POSITIVE FAIR VALUES ¹	NEGATIVE FAIR VALUES ¹	NEGATIVE FAIR VALUES ¹
	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
Interest rate risks						
Interest rate swaps	9,855.5	11,779.2	63.3	150.1	4.2	2.4
Currency risks						
Currency forwards	1,983.7	1,165.9	8.3	1.8	6.6	16.6
Cross currency swaps	2,820.1	2,066.9	112.2	33.7	6.2	46.9
Cross-currency interest rate risks						
Cross-currency interest rate swaps	726.0	830.5	51.0	8.1	1.2	2.7
Total derivatives	15,385.3	15,842.5	234.8	193.7	18.2	68.6

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

The maturity analysis for the derivatives is as follows:

€ million	INTEREST RATE RISKS		CURRENCY RISKS		CROSS-CURRENCY INTEREST RATE RISKS	
	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
Residual maturities						
<= 3 months	953.8	868.4	2,604.1	509.8	129.7	0.0
<= 1 year	634.5	3,589.4	1,683.1	1,376.7	323.0	720.5
<= 5 years	6,967.2	5,971.4	516.6	180.4	273.3	110.0
> 5 years	1,300.0	1,350.0	0.0	0.0	0.0	0.0

OTHER FINANCIAL OBLIGATIONS

Other financial obligations amount to €15,035 thousand (previous year: €7,275 thousand).

FOREIGN CURRENCIES

As of the reporting date, the total amount of assets denominated in foreign currency (translated into euros) amounted to €5,024,832 thousand (previous year: €7,015,426 thousand); liabilities in foreign currency (translated into euros) came to €727,649 thousand (previous year: €834,467 thousand).

The volume of spot exchange transactions not yet settled as of the reporting date was €128,957 thousand (previous year: €20,956 thousand), while the volume of currency forwards was €1,165,867 thousand (previous year: €1,983,695 thousand). The notional value of cross currency swaps was €2,066,902 thousand (previous year: €2,820,075 thousand); that of cross-currency interest rate swaps amounted to €830,488 thousand (previous year: €726,041 thousand).

GOVERNING BODIES DISCLOSURES

Since fiscal year 2019, the members of the Management Board have received their remuneration from Volkswagen Bank GmbH. The total remuneration of the members of the Management Board amounted to €2,122 thousand.

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

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

The members of the Management Board are as follows:

DR. MICHAEL REINHART

Chairman of the Management Board
Corporate Management, Volkswagen Bank GmbH

HARALD HEßKE

Finance, Volkswagen Bank GmbH

CHRISTIAN LÖBKE

Risk Management, Volkswagen Bank GmbH

DR. VOLKER STADLER

Operations, Volkswagen Bank GmbH

The Supervisory Board had the following members as of the reporting date, December 31, 2019:

DR. JÖRG BOCHE

Chairman
Executive Vice President of Volkswagen AG
Head of Group Treasury

DR. INGRUN-ULLA BARTÖLKE

Deputy Chairwoman
Head of Group Accounting and External Reporting Volkswagen AG

WALDEMAR DROSDZIOK (UNTIL MARCH 31, 2019)

Deputy Chairman
Chairman of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

SILVIA STELZNER (AS OF APRIL 1, 2019)

Deputy Chairwoman
Member of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

MARKUS BIEBER

General Secretary of the Joint Works Council of Volkswagen AG

BIRGIT DIETZE

Principal Representative of IG Metall, Berlin

FRANK FIEDLER

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

PROF. DR. SUSANNE HOMÖLLE

Chair of Banking and Finance, University of Rostock

THOMAS KÄHMS

Member of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

LUTZ MESCHKE

Deputy Chairman and Member of the Board of Management
of Dr. Ing. h.c. F. Porsche AG
Finance and IT

DR. HANS-JOACHIM NEUMANN

Head of Business Back Office, Volkswagen Bank GmbH

JÜRGEN ROSEMANN (AS OF APRIL 1, 2019)

Member of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

LARS HENNER SANTELMANN

Chairman of the Board of Management of Volkswagen Financial Services AG

The composition of the committees of the Supervisory Board of Volkswagen Bank GmbH was as follows as of the reporting date, December 31, 2019:

MEMBERS OF THE AUDIT COMMITTEE

Dr. Ingrun-Ulla Bartölke (Chairwoman)
Prof. Dr. Susanne Homölle (Deputy Chairwoman)
Frank Fiedler
Dr. Hans-Joachim Neumann

MEMBERS OF THE RISK COMMITTEE

Prof. Dr. Susanne Homölle (Chairwoman)
Dr. Jörg Boche (Deputy Chairman)
Frank Fiedler
Silvia Stelzner

MEMBERS OF THE NOMINATION COMMITTEE

Dr. Ingrun-Ulla Bartölke (Chairwoman)
Waldemar Drosdziok (Deputy Chairman) (until March 31, 2019)
Thomas Kähms (Deputy Chairman) (as of April 1, 2019)
Lars Henner Santelmann

MEMBERS OF THE REMUNERATION COMMITTEE

Dr. Jörg Boche (Chairman)

Dr. Ingrun-Ulla Bartölke (Deputy Chairwoman)

Waldemar Drosdziok (until March 31, 2019)

Thomas Kähms (as of April 1, 2019)

Lars Henner Santelmann

Provisions of €8,030 thousand (previous year: €7,973 thousand) were recognized for pensions and similar obligations in favor of former members of the Management Board or their surviving dependents. In the reporting period, payments to these individuals amounted to €335 thousand (previous year: €321 thousand).

Assets include receivables of €39 thousand (previous year: €45 thousand) relating to loans falling within the scope of section 15(1) nos. 1 and 3 of the KWG. Of this amount, receivables of €36 thousand (previous year: €43 thousand) are due from members of the Supervisory Board and an amount of €3 thousand (previous year: €2 thousand) is due from the members of the Management Board.

Average number of employees during the reporting period:

	2019	2018
Salaried employees	1,899	2,017
of which senior managers	39	45
of which part time	420	436
Vocational trainees	25	21

BRANCHES

Zweigniederlassungen

Audi Bank, Braunschweig

SEAT Bank, Braunschweig

ŠKODA Bank, Braunschweig

AutoEuropa Bank, Braunschweig

ADAC FinanzService, Braunschweig

Ducati Bank, Braunschweig

Zweigstellen

Volkswagen Bank, Braunschweig

Volkswagen Bank, Emden

Volkswagen Bank, Hanover

Volkswagen Bank, Kassel

Volkswagen Bank, Salzgitter

Volkswagen Bank, Wolfsburg

Audi Bank, Ingolstadt

Audi Bank, Neckarsulm

Filialen

Volkswagen Bank GmbH, St. Denis-Paris, France

Volkswagen Bank GmbH, Glyfada-Athens, Greece

Volkswagen Bank GmbH, Milton Keynes, United Kingdom

Volkswagen Bank GmbH, Dublin, Ireland

Volkswagen Bank GmbH, Milan, Italy

Volkswagen Bank GmbH, Verona, Italy

Volkswagen Bank GmbH, Amersfoort, Netherlands

Volkswagen Bank GmbH, Warsaw, Poland

Volkswagen Bank GmbH, Lisbon, Portugal

Volkswagen Bank GmbH, Alcobendas-Madrid, Spain

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

DR. MICHAEL REINHART

- > Volkswagen Finančné služby Slovensko s.r.o., Bratislava, Slovakia
- > Chairman of the Supervisory Board
- > DFM N.V., Amersfoort, Netherlands
- > Chairman of the Supervisory Board
- > BASKETBALL LÖWEN Braunschweig GmbH, Braunschweig, Germany
- > Member of the Supervisory Board

HARALD HEBKE

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

Responsibility Statement

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

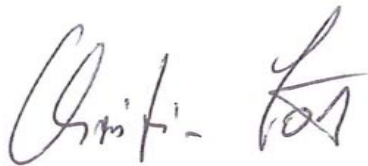
Braunschweig, February 19, 2020
The Management Board



Dr. Michael Reinhart



Harald Heßke



Christian Løbke



Dr. Volker Stadler

INDEPENDENT AUDITOR'S REPORT

To Volkswagen Bank GmbH, Braunschweig

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

AUDIT OPINIONS

We have audited the annual financial statements of Volkswagen Bank GmbH, Braunschweig, which comprise the balance sheet as at 31 December 2019, and the statement of profit and loss for the financial year from 1 January to 31 December 2019 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of Volkswagen Bank GmbH, which is combined with the group management report, for the financial year from 1 January to 31 December 2019. We have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards) in accordance with the German legal requirements.

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

- > the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 in compliance with German Legally Required Accounting Principles, and
- > the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE AUDIT OPINIONS

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

the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

- ① Risk provisions in dealer financing
- ② Provisions for legal risks

Our presentation of these key audit matters has been structured in each case as follows:

- ① Matter and issue
- ② Audit approach and findings
- ③ Reference to further information

Hereinafter we present the key audit matters:

① Risk provisions in dealer financing

① In the Company's financial statements receivables from dealer financing are reported under the "Loans to and receivables from customers" balance sheet item. As at 31 December 2019, risk provisions for the loan portfolio consisting of individual and general valuation allowances are reported in the balance sheet. The measurement of the risk provisions for the dealer financing business is determined in particular by the executive directors' estimates with respect to future loan defaults, the structure and quality of the loan portfolios and general economic factors. The amount of the individual valuation allowances for dealer financing reflects the difference between the outstanding amount of the loan and the lower value assigned to it as at the balance sheet date. Existing collaterals are taken into account. A portfolio allowance is recognized for deferred credit default risks and is measured based on the actual historical defaults. The amounts of the valuation allowances in the dealer financing business are highly significant for the financial performance of the Company and they involve considerable judgment on the part of the executive directors. Furthermore, the measurement parameters applied, which are subject to material uncertainties, have a significant impact on the recognition and the amount of any valuation allowances required. Against this background, this matter was of particular significance during our audit.

② As part of our audit, we initially assessed the appropriateness of the design of the controls in the Company's relevant internal control systems and tested the controls' effectiveness. In doing so, we considered the business organization, the IT systems and the relevant measurement models. Moreover, we evaluated the measurement of the receivables in dealer financing, including the appropriateness of estimated values, on the basis of sample testing of loan exposures. For this purpose, we assessed, among other things, the available documentation of the Company with respect to the economic circumstances as well as the recoverability of the collaterals. For real estate as collateral, we obtained an understanding of and critically assessed the source data, measurement parameters applied and assumptions made on which the expert valuations provided to us by the Company were based and evaluated whether they lay within an acceptable range. In addition, for the purpose of assessing the individual and global valuation allowances applied, we evaluated the calculation methodology applied by the Company together with the underlying assumptions and parameters. Based on our audit procedures, we were able to satisfy ourselves that overall the assumptions made by the executive directors for the purpose of testing the recoverability of the receivables in dealer financing are appropriate, and that the processes implemented by the Company are appropriate and effective.

③ The Company's disclosures on risk provisions in dealer financing are contained in the section "Accounting Policies" of the notes to the financial statements and in the section "Volkswagen Bank GmbH" in the Management report.

② Provisions for legal risks

① The Company is exposed to various legal risks; during the financial year, these related in particular to potential claims in connection with the brokerage of customer financing and proceedings in relation to the structuring of customer lending agreements, which can have a negative impact on statutory rescission periods, impeding certain processes. At the balance sheet date, the Company had recognized EUR 244.2 million in litigation and legal risk provisions. The determination of whether or not a provision should be recognized to cover the risks to which the Company is exposed, and if so, in what amount, is subject to a high degree of uncertainty. In light of this background, we consider these matters to be of particular importance for our audit.

② As part of our audit, we assessed risk assessment carried out by the executive directors on the basis of the process established by the Company to ensure that a legal dispute is recorded and accounted for. In this connection, we also examined the content of the material legal risks and assessed the risk estimates made in that regard. As of the balance sheet date, we also obtained external legal confirmations that support management's risk assessments with regard to the provisions specified in the section above. Furthermore, we also held regular meetings with the Company's legal department in order to receive updates on current developments and the reasons for the corresponding assessments. Our assessment took into account the knowledge obtained in the course of these meetings as well as the current development of the material legal disputes. We have also verified the calculations submitted by the Company on the amount of the provisions. We were able to follow the assumptions applied by the Management, and deem appropriate the assessments arrived at by the Management to serve as a basis for the measurement of these provisions.

③ The Company's disclosures relating to provisions for legal disputes are contained in the section "Balance Sheet Disclosures" – "Other Provisions" of the notes to the financial statements and in the section "Volkswagen Bank GmbH" in the Management report.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards), which we obtained prior to the date of our auditor's report.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

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

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

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

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

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

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

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

- > Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- > Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- > Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- > Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- > Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial posi-

tion and financial performance of the Company in compliance with German Legally Required Accounting Principles

- > Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- > Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as auditor by the annual general meeting on 18 March 2019. We were engaged by the supervisory board on 23 May 2019. We have been the auditor of the Volkswagen Bank GmbH, Braunschweig, without interruption since the financial year 1949.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Burkhard Eckes.

Hanover, 20 February 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes
Wirtschaftsprüfer
(German Public Auditor)

ppa. Mirko Braun
Wirtschaftsprüfer
(German Public Auditor)

Report of the Supervisory Board

of Volkswagen Bank GmbH

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

The Supervisory Board has twelve members. In the reporting year, the Supervisory Board held four regular meetings and one extraordinary meeting. The average attendance rate was approximately 88%. One Supervisory Board member attended two meetings, four Supervisory Board members attended four meetings and all others attended all five meetings. Two decisions were made by circulation of written resolutions for approval; in the reporting period, there were no decisions made by the Chairman of the Supervisory Board using the expedited procedure.

COMMITTEE ACTIVITIES

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

Audit Committee

The Audit Committee held two regular meetings in the reporting period. During the reporting year, there were no extraordinary meetings or urgent transactions that would have required a decision by circulation of written resolutions for approval. All four members of the Audit Committee were present at the first meeting; three members attended the second meeting.

At the meeting held on March 7, 2019, the Audit Committee reviewed the annual financial statements and the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH for the year ended December 31, 2018 together with the proposal for the appropriation of profit. As part of this review, the Audit Committee discussed with the auditor the reports on the audit of the annual financial statements, the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH as well as material transactions and issues related to financial reporting. Following a detailed evaluation, the Audit Committee submitted a recommendation to the sole shareholder regarding the election of the auditor and drew up the resolution covering the issue of the audit engagement in preparation for the Annual General Meeting. In addition, the Head of Internal Audit provided further information relating to Internal Audit's 2018 Annual Report for the benefit of the Audit Committee. Under further agenda items, the Audit Committee received reports on the regulatory audit of the reporting system at the end of 2018 and on the schedule for external audits in 2019.

At the meeting held on November 29, 2019, the Audit Committee received reports on the latest performance of the Volkswagen Bank Group and discussed the audit planning, key audit matters and the obligations of the auditor to provide information. The Committee gathered details to establish the extent to which there were relationships of a professional, financial or other nature between the auditor and the Bank and/or its governing bodies with a view to assessing the independence of the auditor. In this regard, the Audit Committee obtained information on the services that the auditor had provided for the Bank in addition to the auditing activities. In addition, the Audit Committee received detailed reports on the preparatory activities for the change in auditor, on the findings of various external audits and on outstanding audits. Finally, the Head of

Internal Audit reported on the auditing activities in the reporting year, outstanding action and the key audit matters for 2020.

Risk Committee

The Risk Committee held three regular meetings in the reporting period. During the reporting period, there were no urgent transactions that would have required a decision by circulation of written resolutions for approval. Three members of the Committee attended all three meetings. One member attended two meetings.

At the meeting held on March 7, 2019, the Risk Committee discussed the statements relating to risk management in the 2018 annual report, the ECB's SREP decision, the classification of Volkswagen Bank GmbH as an other systemically important institution and the imposition of a capital buffer, the supervisory priorities of the ECB and other activities of the ECB banking supervisor in relation to the Bank in the reporting year. The Committee then addressed the retrospective analysis of the 2018 risk strategy, the risk strategy and risk limits for 2019, and the 2019 IT strategy. The Remuneration Officer presented the Bank's remuneration system and explained how it provided incentives. In this regard, the Committee also discussed the review of how risk, capital, and liquidity structures are taken into account.

At the meeting held on June 7, 2019, the Risk Committee considered the ICAAP report, the preliminary findings from the ECB liquidity stress test and a progress report on the cancellation of consumer loan agreements, together with the calculation of risk-weighted assets for credit risk under Pillar I in accordance with the Standardized Approach and the internal ratings-based approach.

On November 29, 2019, the Committee received a further progress report on the cancellation of consumer loan agreements and on two related judgments issued by the German Federal Court of Justice. The Committee also addressed the risk culture, the measures to optimize the equity ratio and the historical changes in the risk classes in the Bank's dealer portfolio.

Remuneration Committee

The Remuneration Committee held three meetings in the reporting period. A resolution on consent for the Management Board's anticipatory resolution on loans to executive bodies was passed in writing. All members of the Remuneration Committee were present at the meetings.

At its meeting on March 7, 2019, the Remuneration Committee discussed the constraints and determination of the total amount available for variable remuneration (bonus pool) in accordance with the *Institutsvergütungsverordnung* (IVV – German Remuneration Regulation for Institutions), the review of negative performance contributions (malus) in accordance with section 20(5) of the IVV, the review of the remuneration of monitoring units in accordance with section 15(3) of the IVV and the recommendation of the Supervisory Board regarding the appointment of a new Remuneration Officer.

At its meeting on April 4, 2019, the Committee's only discussion points were Management Board remuneration and the current position regarding the malus committee.

On November 29, 2019, the Committee dealt with the new Management remuneration system, the proposal to raise the ceiling for variable remuneration for senior managers, the remuneration report for fiscal year 2018 and the risk taker analysis for fiscal year 2019. Finally, the Remuneration Officer presented the remuneration control report and the review of the appropriateness of remuneration pursuant to section 12 of the IVV.

Nomination Committee

The Nomination Committee held two meetings and one extraordinary meeting in the reporting year. All members of the Committee were present at each meeting. In the reporting period, no decisions were made by circulation of written resolutions for approval.

At the meeting held on March 5, 2019, the Committee discussed the selection of a new member of the Supervisory Board and issued a recommendation to the Supervisory Board.

On August 30, 2019, the Committee held an extraordinary meeting at which it reviewed whether a member of one of the governing bodies was suited to their role.

The issues addressed by the Committee at its meeting on October 24, 2019 included the annual assessment of the Management and Supervisory Board as well as the extension of the appointment of two members of the Management.

Credit Committee

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

No other committee meetings were held in the reporting period.

The members of the committees also consulted each other on several occasions and were in constant contact with the Management Board outside committee meetings. The activities of the committees (where such activities took place) were reported at the plenary meetings of the Supervisory Board.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on March 7, 2019, the Supervisory Board reviewed in detail and subsequently approved the 2018 consolidated financial statements prepared by the Management and the annual financial statements of Volkswagen Bank GmbH. In addition, it discussed the 2019 budget, the funding strategy for the secured capital market, the key issues for fiscal year 2019, the target structure for the current account and securities business, together with the closure of a Direct Bank branch. The Supervisory Board also addressed a recommendation for the election of a new member of the Supervisory Board as well as the replacement of the departing member of the Supervisory Board on the committees.

An extraordinary meeting held on May 8, 2019 was dedicated exclusively to deliberations relating to the remuneration of the members of the Management Board and to the outcome from the meeting of the malus committee. At the meetings held on June 7, 2019 and November 29, 2019, the Management Board provided comprehensive reports on the economic and financial position of the Bank.

At the meeting on June 7, 2019, the Supervisory Board gave particular attention to the findings of the ECB IT audit and the schedule for dealing with the matters to be addressed, as well as to the compliance report. The meeting also discussed various company-law measures in connection with the separation of the European lending business at Volkswagen Bank GmbH from the other activities at Volkswagen Financial Services AG.

On September 20, 2019, following detailed consultation, the Supervisory Board approved the medium-term financial and investment planning of the Bank and Group and heard a report on Volkswagen Bank GmbH's strategic orientation. Other topics included the OpEx program to cut the Bank's costs, the decision on the selection of a new IT provider for the replacement of a contract management system and the implementation status of access identity management and privileged access management. The meeting also heard reports on the implementation status of regulatory requirements and long-term internal audit activities at a foreign branch and consented to the acquisition of a noncontrolling interest in an Austrian entity.

At the meeting on November 29, 2019, the deliberations of the Supervisory Board mainly focused on results from the annual assessment of the Management Board and Supervisory Board pursuant to section 25d of the KWG and on the preparation and current status of the ECB audits. Reports were also presented to the meeting on the subject of leadership and management in the digital revolution and concerning the "Together 4 Integrity" project in the Volkswagen Group.

At each of the meetings, the chairpersons of the respective committees reported in detail on the contents of their committee meetings, as far as these have taken place.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, was appointed to audit both the consolidated financial statements of the Volkswagen Bank GmbH Group in accordance with the IFRSs and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2019, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Bank GmbH Group in accordance with the IFRSs and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2019, together with the management reports, were submitted to the Supervisory Board. The auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, audited these financial statements, including the bookkeeping system and the management reports, and issued an unqualified auditor's opinion in each case.

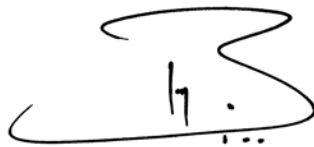
The Supervisory Board had no reservations after its review of the consolidated financial statements and the annual financial statements, including the management reports. The auditors were present when this agenda item was addressed at the Supervisory Board meeting and they reported on the main findings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

At its meeting on March 11, 2020, the Supervisory Board approved both the consolidated financial statements and annual financial statements of Volkswagen Bank GmbH prepared by the Management Board. The consolidated financial statements and annual financial statements have thus been adopted.

In accordance with the existing control and profit-and-loss transfer agreement, the profits reported in the financial statements of Volkswagen Bank GmbH for the year ended December 31, 2019 have been transferred to Volkswagen AG.

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

Braunschweig, March 11, 2020

A handwritten signature in black ink, consisting of a large, stylized 'J' followed by 'ö', 'r', 'g', and 'B', with a period and three dots below the 'B'.

Dr. Jörg Boche
Chairman of the Supervisory Board

NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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