VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN BANK GMBH
ANNUAL FINANCIAL STATEMENTS (HGB)

2018

Balance Sheet

of Volkswagen Bank GmbH, Braunschweig, for the year ended December 31, 2018

€ thousand		December 31, 2018	December 31, 2017
Assets			
1. Cash reserve			
a) Cash-in-hand	933		909
b) Central bank balances	1,864,626		1,713,178
of which:			
at Deutsche Bundesbank €1,781,714 thousand			(1,705,254)
c) Post office bank balances	8		81
		1,865,567	1,714,168
2. Loans to and receivables from banks			
a) Repayable on demand	528,046		421,626
b) Other receivables	377		1,440,748
		528,424	1,862,374
3. Loans to and receivables from customers		51,077,476	47,912,663
4. Bonds and other fixed-income securities			
a) Bonds			
aa) From public-sector issuers	2,094,399		1,974,943
of which:			
eligible as collateral at Deutsche Bundesbank €1,865,486 thousand			(1,737,569)
ab) From other issuers	13,324,573		13,119,268
of which:			
eligible as collateral at Deutsche Bundesbank €12,449,813 thousand			(11,967,401)
		15,418,973	15,094,211
5. Equities and other variable-yield securities		0	0
6. Long-term equity investments		87,852	87,989
7. Shares in affiliated companies		546,982	631,561
of which:			
in banks €2,324 thousand			(88,854)
8. Intangible fixed assets			
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	11,110		7,314
b) Goodwill	0		167
		11,110	7,481
9. Property and equipment		9,730	8,545
10. Lease assets		1,407,756	1,198,281
11. Other assets		637,365	488,568
12. Prepaid expenses		21,032	9,761
Total assets		**71,612,266**	**69,015,602**

€ thousand		December 31, 2018	December 31, 2017
Equity and liabilities			
1. Liabilities to banks			
a) Repayable on demand	1,245,092		213,033
b) With agreed maturity or notice period	7,627,209		6,980,987
		8,872,301	7,194,019
2. Liabilities to customers			
a) Other liabilities			
aa) Repayable on demand	23,820,648		23,885,894
ab) With agreed maturity or notice period	10,623,004		11,547,936
		34,443,652	35,433,829
3. Notes, commercial paper issued			
a) Bonds issued	4,770,326		3,265,549
b) Other notes, commercial paper issued	900,324		537,273
of which:			
Commercial paper: €900,324 thousand			(537,273)
		5,670,650	3,802,822
4. Other liabilities		12,167,503	12,221,980
5. Deferred income		887,268	758,833
6. Provisions			
a) Provisions for pensions and similar obligations	88,894		70,612
b) Provisions for taxes	40,991		40,220
c) Other provisions	509,381		561,594
		639,267	672,426
7. Special tax-allowable reserve		1,128	1,171
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	8,531,049		8,531,074
c) Revenue reserves			
ca) Other revenue reserves	25,604		25,604
d) Net retained profits	0		0
		8,874,933	8,874,958
Total equity and liabilities		**71,612,266**	**69,015,602**
1. Contingent liabilities			
a) Liabilities under guarantees and indemnity agreements		183,232	135,995
of which:			
to affiliated companies		152,249	108,733
2. Other obligations			
a) Irrevocable credit commitments		2,303,652	2,147,999
of which:			
to affiliated companies		54,533	137,012

Income Statement

of Volkswagen Bank GmbH, Braunschweig, for the period January 1 to December 31, 2018

€ thousand			2018	2017
1. Interest income from				
a) Lending and money market transactions	1,502,960			1,386,246
b) Fixed-income securities and debt register claims	67,566			71,005
		1,570,526		1,457,251
2. Interest expense		105,378		138,708
3. Interest anomalies				
a) Positive interest from banking business (collateral deposits)	104,640			751
b) Negative interest from money market transactions	22,341			13,060
		82,299		–12,309
			1,547,447	1,306,234
4. Current income from				
a) Equities and other variable-yield securities		58		31
b) Long-term equity investments		6,758		0
			6,815	31
5. Leasing income		837,646		715,588
6. Leasing expenses		396,011		321,299
			441,635	394,289
7. Fee and commission income		351,980		388,164
8. Fee and commission expenses		749,225		500,544
			–397,245	–112,380
9. Other operating income			248,195	419,824
10. Income from the reversal of special tax-allowable reserve			43	43
11. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	165,730			97,913
ab) Social security, post-employment and other employee benefit costs	43,300			19,357
of which:		209,030		117,271
in respect of post-employment benefits €15,371 thousand				(363)
b) Other administrative expenses		543,387		698,010
			752,417	815,280
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		8,323		5,240
b) Depreciation and write-downs of lease assets		437,852		362,413
			446,175	367,653
13. Other operating expenses			315,962	272,824
14. Amortization and write-downs of receivables and certain securities, and additions to provisions in the lending business			105,953	0
15. Income from the reversal of write-downs of and valuation allowances on receivables and certain securities and from the reversal of provisions in the lending business			0	125,675
16. Write-downs of long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			453	0
17. Result from ordinary activities			225,932	677,959
18. Extraordinary income		74,972		2,969
19. Extraordinary result			74,972	2,969
20. Income tax expense			96,317	191,629
21. Other taxes, unless reported under item 13			120	52
22. Profits transferred under a profit and loss transfer agreement			204,467	489,247
23. Net income			0	0
24. Net retained profits			**0**	**0**

Notes

to the Annual Financial Statements of Volkswagen Bank GmbH, Braunschweig, for the year ended December 31, 2018
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, 2018, 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: the spot rate and the 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. The spot rate component 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.

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. With the forwarding of the payments from the sold receivables, 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.

Items of property and equipment with finite useful lives are depreciated, and intangible assets with finite useful lives 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, are 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.

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. Liabilities are recognized at the settlement amount. 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. Equities, long-term equity investments and shares in affiliated companies are measured at the lower of cost and fair value. The cash reserve is carried at the nominal amount.

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).

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. The calculations include the assumption of a general residual maturity of 15 years for the obligations. 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 were no indications that the recognition of a provision for expected losses was required.

Securities in the liquidity reserve that are measured using parameters derived from the market are measured at the lower of cost and market under the strict HGB definition.

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 as there were further increases in these amounts year-on-year. 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 €265 thousand (previous year: €1,060,655 thousand). There are no loans to and receivables from investees or investors included in the item (previous year: €77,941 thousand).

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

> Repayable on demand €528,046 thousand (previous year: €421,626 thousand)
> Up to three months €377 thousand (previous year: €607,009 thousand)
> More than three months and up to one year €0 thousand (previous year: €457,348 thousand)
> More than one year and up to five years €0 thousand (previous year: €376,390 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 €6,490,361 thousand (previous year: €5,817,782 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 €11,659,026 thousand (previous year: €11,389,121 thousand)
> More than three months and up to one year €9,973,585 thousand (previous year: €8,406,715 thousand)
> More than one year and up to five years €23,845,058 thousand (previous year: €23,911,010 thousand)
> More than five years €1,519,673 thousand (previous year: €699,657 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 €4,083,134 thousand (previous year: €3,506,160 thousand).

Loans to and receivables from customers include subordinated loans and receivables of €548,557 thousand (previous year: €1,798,992 thousand), of which €548,557 thousand (previous year: €553,352 thousand) is attributable to subordinated receivables arising from ABS transactions entered into by Volkswagen Bank GmbH.

The receivables from leasing business included in loans to and receivables from customers amount to €3,702,900 thousand (previous year: €3,331,856 thousand), of which €1,137,166 thousand (previous year: €2,172,745 thousand) is attributable to the Bank's branch in France and €2,432,595 thousand (previous year: €1,015,921 thousand) to the Bank's branch in Italy.

Receivables from retail financing amounting to €751,316 thousand (previous year: €592,086 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 €777 thousand (previous year: €822 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 €67,650 thousand (previous year: €414,840 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: €11,552,219 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 €3,273,057 thousand (previous year: €1,974,943 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 €15,418,973 thousand (previous year: €15,094,211 thousand).

As of the reporting date, securities within the portfolio amounting to €10,559,933 thousand (previous year: €11,255,047 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 €7,459,262 thousand (previous year: €6,767,680 thousand) as of the reporting date.

Of the bonds and other fixed-income securities, a nominal amount of €1,050,743 thousand (previous year: €759,682 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 €11,267,350 thousand (previous year: €11,967,059 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.de/anteilsbesitzbank2018.

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

INTANGIBLE FIXED ASSETS

Intangible fixed assets increased by €3,629 thousand to €11,110 thousand (previous year: €7,481 thousand).

PROPERTY AND EQUIPMENT

The total value of buildings and land used by the Bank as part of its operating activities amounts to €3,760 thousand (previous year: €3,857 thousand). The amount within property and equipment attributable to other equipment, operating and office equipment is €3,724 thousand (previous year: €3,217 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 €1,407,756 thousand (previous year: €1,198,281 thousand).

OTHER ASSETS

This item includes receivables from interest rate hedging transactions amounting to €23,151 thousand (previous year: €18,207 thousand), fees and commissions due in connection with insurance broking amounting to €295 thousand (previous year: €1,103 thousand), tax receivables of €149,202 thousand (previous year: €123,906 thousand), of which €119,446 thousand relates to tax receivables at the Bank's branch in Italy and €22,931 thousand to tax receivables at the Bank's branch in France. A significant component of the remaining other assets comprises receivables of €40,829 thousand (previous year: €84,646 thousand) from the ABS special purpose entities relating to the return of pledged collateral (not yet due), service fees, interest and monthly cost allocation payment obligations.

Derivatives to hedge currency risk gave rise to a currency adjustment item of €153,641 thousand (previous year: €168,652 thousand), which has been recognized under other assets.

DEFERRED INCOME

This item contains deferred discounts of €10,899 thousand (previous year: €6,311 thousand), advance insurance premiums of €1 thousand (previous year: €1 thousand) and advance fees and commissions amounting to €2,974 thousand (previous year: €1,372 thousand) paid in connection with a rise in the level of new business at the Bank's branch in Italy.

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 €1,245,092 thousand (previous year: €213,033 thousand)
> Up to three months €1,105,716 thousand (previous year: €355,194 thousand)
> More than three months and up to one year €19,826 thousand (previous year: €18,135 thousand)
> More than one year and up to five years €6,403,186 thousand (previous year: €6,499,687 thousand)
> More than five years €98,481 thousand (previous year: €107,971 thousand).

There are no liabilities to affiliated companies included in liabilities to banks (previous year: €525 thousand).

Liabilities to Deutsche Bundesbank amounting to €8,263,778 thousand (previous year: €6,767,680 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 €4,693,411 thousand (previous year: €4,285,253 thousand).

Customer deposits (including direct banking deposits) amount to €32,388,895 thousand (previous year: €33,223,580 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 €8,051,735 thousand (previous year: €7,023,750 thousand)
- More than three months and up to one year €934,635 thousand (previous year: €2,231,610 thousand)
- More than one year and up to five years €978,162 thousand (previous year: €1,771,909 thousand)
- More than five years €658,472 thousand (previous year: €520,666 thousand).

LIABILITIES TO SHAREHOLDERS

As of the reporting date, liabilities to the sole shareholder, Volkswagen AG, Wolfsburg, amounted to €2,992,995 thousand (previous year: €3,083,561 thousand).

NOTES, COMMERCIAL PAPER ISSUED

This item comprises bonds and commercial paper.

“a) Bonds issued” comprises: Bonds: €4,770,326 thousand (previous year: €3,265,549 thousand)

Residual maturities:
- Up to three months €770,326 thousand (previous year: €515,549 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 €2,700,000 thousand (previous year: €1,500,000 thousand)
- More than five years €1,300,000 thousand (previous year: €1,250,000 thousand).

“b) Other notes, commercial paper issued” comprises: Commercial Paper: €900,324 thousand (previous year: €537,273 thousand)

Residual maturities:
- Up to three months €662,853 thousand (previous year: €537,273 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 €237,471 thousand (previous year: €0 thousand)

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

Of the total bonds issued, an amount of €750,000 thousand matures in the subsequent year.

OTHER LIABILITIES

Of the total liabilities, liabilities in an amount of €11,409,201 thousand (previous year: €11,716,379 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 €465,514 thousand (previous year: €408,176 thousand), liabilities from interest rate hedging transactions amounting to €12,526 thousand (previous year: €16,383 thousand), liabilities to tax authorities of €39,502 thousand (previous year: €35,049 thousand) and accrued interest liabilities related to subordinated bonds and profit-sharing rights amounting to €597 thousand (previous year: €597 thousand).

DEFERRED INCOME

This item largely comprises deferred income in connection with manufacturer and partner participation in sales promotion campaigns amounting to €735,520 thousand (previous year: €630,423 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 for 2016 were as follows:

	Germany	International

Discount rate	3.21%	1.60 – 3.29%
Expected rate of salary increases	3.50%	0.00 – 0.00%
Expected rate of pension increases	1.50%	0.00 – 3.10%
Employee turnover rate	1.00%	0.00 – 3.50%

For Germany, the discount rate applied was the discount rate of 3.21% published by Deutsche Bundesbank for December 2018 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 €31,790 thousand and fair value funds with a corresponding value of €34,491 thousand were offset against the liabilities for pensions and similar obligations. The cost of the pension fund securities amounted to €34,203 thousand and the cost of the fair value fund securities amounted to €34,583 thousand. The fair value of the pension fund totaled €31,790 thousand and that of the fair value fund was €34,491 thousand at the reporting date. The securities were measured at closing prices as of the reporting date.

Expenses of €1,106 thousand from the measurement of the funds at fair value were offset against interest income from provisions of €1,106 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 difference for Germany determined in accordance with section 253(6) of the HGB amounted to €11,708 thousand for the pension provisions not funded externally and €11,256 thousand for the commitments funded through Volkswagen Pension Trust e.V. The difference determined in accordance with section 253(6) of the HGB amounted to €84 thousand for the Bank's branch in Italy, €785 thousand for its branch in the Netherlands and €923 thousand for its branch in the UK. 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 cancelation periods, provisions for legal disputes in connection with dealer financing agreements as well as customer financing broking claims. In total, provisions for litigation and legal risks amounted to €338,380 thousand (previous year: €371,208 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 €43 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 €28,465 thousand (previous year: €29,422 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, 2018		LISTED ON A STOCK EXCHANGE		
Dated date	€ million	Coupon	Valid until	New coupon agreement based on	Maturity date
September 26, 2003	20.0	5.40000%	26.09.2023	Fixed interest rate	26.09.2023
June 7, 2004	10.0	5.50000 %	07.06.2024	Fixed interest rate	07.06.2024

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, 2018 (previous year: €8.5 billion).

CHANGES IN FIXED ASSETS OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG, FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

€ 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, 2017	**87,989**	**631,561**	**65,119**	**895**	**144,482**	**24,050**	**19,447**	**712**	**1,811,352**
Additions in 2018	11	1,977	5,626	0	0	376	1,150	651	924,912
Disposals in 2018	0	86,250	11	26	0	3	1,756	0	582,213
Reclassifications in 2018	0	0	–843	843	0	0	0	0	0
Currency translation	0	0	–45	0	0	0	0	0	0
Cost as of Dec. 31, 2018	**88,000**	**547,287**	**71,622**	**25**	**144,482**	**24,423**	**18,841**	**1,363**	**2,154,051**
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2017	**0**	**0**	**54,672**	**0**	**144,316**	**19,159**	**14,821**	**0**	**613,071**
Additions in 2018	148	305	5,831	0	167	621	1,734	0	445,799
Reversals of write-downs in 2018	0	0	0	0	0	0	0	0	0
Disposals in 2018	0	0	11	0	0	0	1,437	0	312,575
Reclassifications in 2018	0	0	0	0	0	0	0	0	0
Currency translation	0	0	45	0	0	0	0	0	0
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2018	**148**	**305**	**60,536**	**0**	**144,483**	**19,780**	**15,118**	**0**	**746,295**
Carrying amount as of Dec. 31, 2018	**87,852**	**546,982**	**11,085**	**25**	**0**	**4,643**	**3,724**	**1,363**	**1,407,756**
Carrying amount as of Dec. 31, 2017	**87,989**	**631,561**	**7,314**	**895**	**167**	**4,616**	**3,217**	**712**	**1,198,281**

IV. Income Statement Disclosures

INTEREST INCOME FROM LENDING AND MONEY MARKET TRANSACTIONS

The proportion of interest income generated in the foreign branches is 50.1% (previous year: 48.2%). 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 €212,048 thousand (previous year: €191,630 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 Bundesbank's Targeted Longer-Term Refinancing Operations II program and the provision of short-term collateral for derivatives by banks.

CURRENT INCOME

Current income from long-term equity investments relates to a non-recurring dividend distribution of €6,758 thousand made by the insurance subsidiary in the Poland branch.

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 €837,646 thousand (previous year: €715,588 thousand).

LEASING EXPENSES

The expenses from leasing transactions amount to €396,011 thousand (previous year: €321,299 thousand).

NET FEE AND COMMISSION INCOME

The proportion net fee and commission income generated in the foreign branches is 46.2% (previous year: 37.1%). 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 €1,193 thousand (previous year: €1,350 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. The rise in fee and commission expenses is due to the new sales commission model between Volkswagen Bank GmbH and the companies in the Volkswagen Financial Services AG subgroup introduced in 2018, according to which all sales and distribution activities are performed by the companies of Volkswagen Financial Services AG. In return, Volkswagen Bank GmbH does not incur the direct costs associated with distribution.

OTHER OPERATING INCOME

Other operating income amounted to €248,195 thousand (previous year: €419,824 thousand) and comprises mainly cost reimbursements from Group companies of €20,712 thousand (previous year: €153,614 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 25.4% (previous year: 31.3%). The branches in France and Italy account for the largest share of this foreign income.

This item includes prior-period income of €77,817 thousand (previous year: €138,926 thousand), of which €70,002 thousand (previous year: €130,878 thousand) is income from the reversal of provisions.

This item also includes income from the premature termination of ABS transactions amounting to €65,870 thousand and income from currency translation amounting to €17,872 thousand (previous year: €3,589 thousand).

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amount to €752,417 thousand (previous year: €815,280 thousand). Significant elements are personnel expenses of €209,030 thousand (previous year: €117,271 thousand) and cost allocations from Group companies amounting to €265,640 thousand (previous year: €324,991 thousand). These cost allocations were mainly attributable to staff leasing arrangements. The fee for financial audit services paid to the auditors in 2018 was mostly attributable to the audit of the consolidated financial statements of Volkswagen Bank GmbH and of annual financial statements of German Group companies as well as to reviews of interim financial statements of German Group companies. Other assurance services related primarily to other audit services. The other services performed by the independent auditors 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 external auditors 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 €437,852 thousand (previous year: €362,413 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.

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

In fiscal year 2018, write-downs of €453 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 €4,673 thousand (previous year: €29,199 thousand), of which €3,094 thousand (previous year: €2,594 thousand) relate to the branch in Italy and €1,449 thousand (previous year: €25,627 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 €24,880 thousand (previous year: €10,075 thousand). Expenses of €196,944 thousand were recognized for identifiable litigation risks. The item also comprises the effects from the discounting of provisions amounting to €16,515 thousand (previous year: €8,875 thousand).

EXTRAORDINARY RESULT

The extraordinary result of €74,972 thousand was attributable to the merger of Volkswagen Bank Polska S.A. into Volkswagen Bank GmbH.

TAXES ON INCOME

This item comprises domestic and foreign taxes on income. The domestic income taxes for the reporting period amounting to €34,214 thousand (previous year: €91,613 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 €474 thousand (previous year: €49,036 thousand) and tax refunds for prior years amounting to €4,553 thousand (previous year: €855 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 33.07% in accordance with local tax laws. The deferred tax liabilities of the branch in France, most of which are attributable to lease assets, are offset against deferred tax assets of the other branches arising from valuation allowances and pension provisions. The option not to recognize the resulting total excess of assets over liabilities of €29,356 thousand (previous year: €46,399 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 €210,588 thousand (previous year: €197,198 thousand) are attributable to Volkswagen AG.

V. Other Disclosures

REPORT ON POST-BALANCE SHEET DATE EVENTS

No significant events had occurred by February 19, 2019, 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. An analysis of the obligations from irrevocable credit commitments was carried out in the course of the year. This resulted in a change in the overall portfolio. The prior-year amount was reduced by €202,897 thousand.

The contingent liabilities amounting to €183,232 thousand (previous year: €135,995 thousand) consist exclusively of guarantees. Of these guarantees, an amount of €107,654 thousand (previous year: €120,536 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]
	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018
Interest rate risks						
Interest rate swaps	4,400.2	9,855.5	28.9	63.3	12.2	4.2
Currency risks						
Currency forwards	2,297.2	1,983.7	8.2	8.3	10.5	6.6
Cross currency swaps	3,166.2	2,820.1	119.9	112.2	21.3	6.2
Cross-currency interest rate risks						
Cross-currency interest rate swaps	747.9	726.0	67.0	51.0	2.9	1.2
Total derivatives	10,611.5	15,385.3	224.0	234.8	46.9	18.2

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

The maturity analysis for the derivatives is as follows:

NOTIONAL VALUES € million	INTEREST RATE RISKS	INTEREST RATE RISKS	CURRENCY RISKS	CURRENCY RISKS	CROSS-CURRENCY INTEREST RATE RISKS	CROSS-CURRENCY INTEREST RATE RISKS
	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018
Residual maturities						
<= 3 months	595.0	953.8	3,176.4	2,604.1	168.5	129.7
<= 1 year	25.0	634.5	1,508.6	1,683.1	63.4	323.0
<= 5 years	1,160.2	6,967.2	817.5	516.6	516.0	273.3
> 5 years	2,619.9	1,300.0	0.0	0.0	0.0	0.0

OTHER FINANCIAL OBLIGATIONS

Other financial obligations amount to €7,275 thousand (previous year: €9,404 thousand).

FOREIGN CURRENCIES

As of the reporting date, the total amount of assets denominated in foreign currency (translated into euros) amounted to €5,954,816 thousand (previous year: €3,710,109 thousand); liabilities in foreign currency (translated into euros) came to €834,467 thousand (previous year: €173,557 thousand).

The volume of spot exchange transactions not yet settled as of the reporting date was €20,956 thousand (previous year: €39,063 thousand), while the volume of currency forwards was €1,983,695 thousand (previous year: €2,297,209 thousand). The notional value of cross currency swaps was €2,820,075 thousand (previous year: €3,166,235 thousand); that of cross-currency interest rate swaps amounted to €726,041 thousand (previous year: €747,909 thousand).

GOVERNING BODIES DISCLOSURES

Since fiscal year 2018, the members of the Management have received their remuneration from Volkswagen Bank GmbH. The total remuneration of the members of the Management amounted to €2,614 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 are as follows:

DR. MICHAEL REINHART
Chairman of the Board of Management
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, 2018:

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
Deputy Chairman
Chairman 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
Member of the Board of IG Metall, Berlin
Member of the Supervisory Board of Volkswagen AG

FRANK FIEDLER
Chairman 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

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

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

The composition of the committees of the Supervisory Board of Volkswagen Bank GmbH was as follows as of the reporting date, December 31, 2018:

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)
Lars Henner Santelmann

MEMBERS OF THE REMUNERATION COMMITTEE
Dr. Jörg Boche (Chairman)
Dr. Ingrun-Ulla Bartölke (Deputy Chairwoman)
Waldemar Drosdziok
Lars Henner Santelmann

Provisions of €7,973 thousand (previous year: €7,368 thousand) were recognized for pensions and similar obligations in favor of former members of the Management or their surviving dependents. In the reporting period, payments to these individuals amounted to €321 thousand (previous year: €308 thousand).

Assets include receivables of €45 thousand (previous year: €75 thousand) relating to loans falling within the scope of section 15(1) nos. 1 and 3 of the KWG. Of this amount, receivables of €43 thousand (previous year: €52 thousand) are due from members of the Supervisory Board and an amount of €2 thousand (previous year: €23 thousand) is due from the members of the Management.

Average number of employees during the reporting period:

	2018	2017
Salaried employees	2,017	1,423
of which senior managers	45	35
of which part time	436	235
Vocational trainees	21	16

The increase in personnel resources (including part-time employees) is due to the reorganization of Volkswagen Financial Services AG and Volkswagen Bank GmbH, including their branches.

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
Volkswagen Bank, Zwickau
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, Bolzano, Italy
Volkswagen Bank GmbH, Amersfoort, The 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
> Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom
> Chairman of the Board of Directors
> DFM Dealers Financierings Maatschappij N.V., Amersfoort, Netherlands
> Chairman of the Supervisory Board
> BASKETBALL LÖWEN Braunschweig GmbH, Braunschweig, Germany
> Member of the Supervisory Board

HARALD HEßKE

> Volkswagen Finans Sverige AB, Södertälje, Sweden
> Volkswagen Service Sverige AB, Södertälje, Sweden
> Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom
> Volkswagen Finančné služby Slovensko s.r.o., Bratislava, Slovakia
> Member of the Board of Directors/Supervisory Board of all three companies

CHRISTIAN LÖBKE

> Volkswagen Finance S.A. Establecimiento financiero de crédito, Alcobendas (Madrid), Spain
> Volkswagen Renting, S.A., Alcobendas (Madrid), Spain
> Member of the Board of Directors/Supervisory Board of both companies

DR. VOLKER STADLER

> Volkswagen Finans Sverige AB, Södertälje, Sweden
> Volkswagen Service Sverige AB, Södertälje, Sweden
> Member of the Board of Directors/Supervisory Board of both companies
> SkoFIN s.r.o., Prague, Czech Republic
> Member 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, 2019
The Board of Management

Dr. Michael Reinhart

Harald Heßke

Christian Löbke

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 2018, and the statement of profit and loss for the financial year from 1 January to 31 December 2018 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 2018. 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 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 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 2018. 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:

❶ Risk provisions in dealer financing
❷ 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:

❶ **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 2018, 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 do-ing 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.

❷ **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 338.4 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 conformations 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 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 po-

sition 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 20 March 2018. We were engaged by the supervisory board on 14 June 2018. 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 addi-tional 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, 21 February 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes	ppa. Mirko Braun
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

of Volkswagen Bank GmbH

During the reporting period, the Supervisory Board has regularly scrutinized the situation and development of the Bank. The Management 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, 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. It held four regular meetings in the reporting period; there were no extraordinary meetings. The average attendance rate of the members of the Supervisory Board was 94%. Three Supervisory Board members attended three meetings, all others attended all four meetings. Two resolutions were passed in writing, and one resolution was adopted by the Chairman of the Supervisory by way of 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 and one extraordinary meeting 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. All members of the Audit Committee were present at the meetings.

At the meeting held on the March 2, 2018, 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, 2017 together with the proposal for the appropriation of profit. As part of this review, the Audit Committee discussed with the external auditors 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. The Committee gathered details to establish the extent to which there were relationships of a professional, financial or other nature between the external auditors and the Bank and/or its governing bodies with a view to assessing the independence of the external auditors. In this regard, the Audit Committee obtained information on the services that the external auditors had provided for the Bank in addition to the auditing activities and on whether there were any grounds for disqualification or indications of partiality. Following a detailed evaluation of the independence of the external auditors, the Audit Committee submitted a recommendation to the sole shareholder regarding the election of the external auditors and drew up the resolution covering the issue of the audit engagement in preparation for the Annual General Meeting. In addition, the Committee received reports on progress with the implementation of IFRS 9, the implementation of the European General Data Protection Regulation and on internal and external audit procedures and the related findings. The Committee dealt, moreover, with the preselection result in the process for choosing a new auditor.

The Audit Committee devoted its entire extraordinary meeting held on November 1, 2018 to the selection process for appointing a new auditor from 2020 onward and submitted its recommendation in this regard to the Supervisory Board. The Audit Committee's recommendation consisted of two proposals and an indication of its preference for one of the two firms proposed.

At its meeting on December 13, 2018, the Audit Committee discussed the audit planning, key audit matters and the obligations of the external auditors to provide information and subsequently prepared a proposal to the Supervisory Board for the election of the auditor for the current fiscal year. The external auditors also reported on significant results of the preliminary audits. The Committee then heard a report on the findings of a number of external reviews as well as a report from the Head of Internal Audit. Finally, the Committee concerned itself with the services provided by the auditors in the reporting period.

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. All members of the Risk Committee were present at the meetings.

At its meeting on March 2, 2018, the Risk Committee discussed the frequency and intensity of reports on strategy and risk that the Management is required to present to the Committee. After that, the Committee dealt with risk management, in particular the risk strategy and risk mitigation, and heard a report on the ECB's ongoing activities and a progress report on the cancellation of loan agreements.

At its meeting on May 28, 2018, the Risk Committee debated the recovery plan for Volkswagen Bank GmbH, the current status of the cancellation of loan agreements and of the review of how risk, capital, and liquidity structures are taken into account, and the probability/due dates of income in the context of setting incentives in the remuneration system.

At the meeting held on December 13, 2018, the Committee heard reports on the risk culture, the results of Volkswagen Bank GmbH in the ECB's 2018 stress test and the recovery and resolution plan. The Committee also discussed interest rate and exchange rate management and limit utilization in the UK subsidiary Volkswagen Financial Services (UK) and in the UK branch of Volkswagen Bank GmbH, as well as the terms and conditions in the customer business as compared to the business model and risk structure.

Remuneration Committee

The Remuneration Committee held one regular meeting in the reporting period. A resolution on consent for the Management'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 2, 2018, the Remuneration Committee discussed the constraints and the 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 in accordance with section 20 (5) of the IVV, and the approval of higher variable remuneration.

At its meeting on April 23, 2018, the Committee's only discussion point was Management remuneration. On May 18, 2018, the Committee asked the remuneration officer to explain the plan for implementing IVV version 3.0.

On September 19, 2018, the Committee dealt with the appointment of the deputy remuneration officer and the appropriateness of remuneration in accordance with section 12 of the IVV. In addition, the Committee requested an explanation of the risk taker analysis process.

The focus of the Remuneration Committee's meeting held on December 13, 2018 was on determining the company bonus at Volkswagen Bank GmbH, the IVV-specific changes in the areas of negative performance contributions and sustainability, and the results of the risk taker analysis. Finally, the remuneration officer presented the remuneration report.

Nomination Committee

The Nomination Committee held one meeting in the reporting period, which was attended by all its members. There were no written resolutions in the reporting period.

The issues addressed by the Committee at its meeting on October 1, 2018 included the annual assessment of Management and Supervisory Board, the training offering for the members of the Supervisory Board (lifelong learning), and the definition of targets for the proportion of women at Volkswagen Bank GmbH. Finally, the Committee resolved to extend the appointment of one of the Managing Directors.

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 comprised of three members from 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 outside the committee meetings. The activities of the committees were reported at the plenary meetings of the Supervisory Board.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on March 2, 2018, the Supervisory Board reviewed in detail and subsequently approved the 2017 consolidated financial statements prepared by the Management and the annual financial statements of Volkswagen Bank GmbH. Other issues that were discussed included a guideline on how to deal with conflicts of interest, capex planning and an update to the investment guideline. Finally, the Supervisory Board approved a number of company law measures in connection with the separation of Volkswagen Bank GmbH's European lending business from Volkswagen Financial Services AG's other activities.

Both at this meeting and at the meetings held on May 29, September 19 and December 13, the Management provided us with comprehensive reports on the economic and financial position of the Bank.

At the meeting on May 28, 2018, the Board focused in particular on the OPEX (operational excellence) program and heard a report from the Management on regulatory requirements.

On September 19, the Supervisory Board first dealt with organizational matters. After that, following detailed consultation, it approved the medium-term financial and investment planning of the Bank and the Group and heard a report on Volkswagen Bank GmbH's strategic orientation. Other topics included the closure of Direct Bank branches, management mechanisms for the market in France, and preparations for the impending ECB review. Finally, the Supervisory Board approved further company law measures in connection with the bundling of Volkswagen Bank GmbH's European lending business and its separation from the other activities of Volkswagen Financial Services AG.

At its meeting on December 13, 2018, the main focus was on the Volkswagen Group's "Together 4 Integrity" project, a progress report on the ECB review, and the purchase policy for ABS transactions. Other points of discussion were the effects of WLTP on Volkswagen Bank GmbH and the selection of a new external auditor from 2020 onward. Finally, the Board approved the establishment of a payment services company in the Netherlands.

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 IFRSs and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2018, 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, 2018, 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.

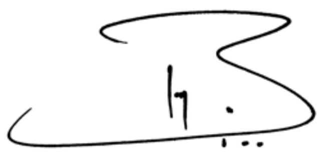
The Supervisory Board agrees with the findings of these audits. The Supervisory Board had no reservations after its review of the consolidated financial statements and the annual financial statements, including the management reports. The independent auditors were present when this agenda item was addressed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

At its meeting on March 7, 2019, the Supervisory Board approved both the consolidated financial statements and annual financial statements of Volkswagen Bank GmbH prepared by the Management. 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, 2018 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, 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 7, 2019



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.

PUBLISHED BY

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