

VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN BANK GMBH
PILLAR 3 DISCLOSURE REPORT
IN ACCORDANCE WITH THE CAPITAL REQUIREMENTS REGULATION
AS OF SEPTEMBER 30,

2019

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All figures shown in tables are rounded, so minor discrepancies may arise from addition of these amounts.

Foreword

The Pillar 3 Disclosure Report for the period ended September 30, 2019 is published in accordance with the supervisory law requirements of the Basel III framework (Regulation (EU) No. 575/2013 – the Capital Requirements Regulation or “CRR” – and Directive 2013/36/EU – the Capital Requirements Directive IV or “CRD IV”), which came into force as of January 1, 2014. This Report is based on the legal requirements in force as of the reporting date.

Volkswagen Bank GmbH acts as the parent of the institution group for supervisory law purposes and is responsible for implementing the requirements of supervisory law within the Group. This also includes the obligation to make regular disclosures in accordance with Article 433 of the CRR.

As Volkswagen Bank GmbH has been classified as an “other systemically important institution” (O-SII) in accordance with Article 131(3) of the CRD IV in conjunction with section 10g(2) of the German Banking Act (“GBA”) and the relevant guidelines issued by the European Banking Authority (EBA/GL/2014/10), the EBA guidelines on the disclosure duties in accordance with Part 8 of Regulation (EU) No. 575/2013 (EBA/GL/2016/11) must also be applied.

Where available, the format templates stipulated by the EBA guidelines as well as the implementation and regulation standards for the disclosure of the information in accordance with Section 8 of the CRR have been utilized.

In accordance with Article 433 of the CRR, the Pillar 3 Disclosure Report is updated once a quarter to meet the requirements and published shortly thereafter as a separate report on Volkswagen Bank GmbH’s website. The scope of the quarterly Pillar 3 Disclosure Report is based on the relevant EBA guidelines (EBA/GL/2014/14 in conjunction with EBA/GL/2016/11 and EBA/GL/2017/01) and Commission Implementing Regulation (EU) 2016/200.

Braunschweig, December 2019

The Management

Overview

of the structure of the prudential scope of consolidation

Volkswagen Bank GmbH together with its subsidiaries and associates constitutes an institution group as defined in section 10a(1) and (2) of the GBA in conjunction with Article 18 et seq. of the CRR and is the superordinate company within the institution group in accordance with section 10a(1) sentence 2 of the GBA. Entities that qualify under the CRR as institutions (Article 4(1) No. 3 of the CRR), financial institutions (Article 4(1) No. 26 of the CRR), or ancillary services undertakings (Article 4(1) No. 18 of the CRR) are included in the prudential scope of consolidation.

A change in the Pillar 3 Disclosure Report for the period ended September 30, 2019 compared with the report for the period ended June 30, 2019 is that Volkswagen Finans Sverige AB, based in Södertälje, Sweden, is no longer included in the prudential scope of consolidation.

Own funds

DISCLOSURES ON OWN FUNDS AND APPLICABLE RATIOS

The own funds in accordance with Article 72 of the CRR, the capital ratios in accordance with Article 92 of the CRR and the capital buffers in accordance with section 10c et seq. of the GBA are composed of the following items:

TABLE 1: DISCLOSURE ON OWN FUNDS (IMPLEMENTING REGULATION 1423 ANNEX IV)

No.	Capital instruments	(A) Amount at disclosure Date (€ million)	(B) Regulation (EU) No. 575/2013 Article Reference
Common Equity Tier 1 (CET1) capital: Instruments and reserves			
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	9,542	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-830	
29	Common Equity Tier 1 (CET1) capital	8,712	
Additional Tier 1 (AT1) capital: Instruments			
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0	
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	
44	Additional Tier 1 (AT1) capital	0	
45	Tier 1 capital (T1 = CET1 + AT1)	8,712	
Tier 2 (T2) capital: Instruments and provisions			
51	Tier 2 (T2) capital before regulatory adjustments	29	
Tier 2 (T2) capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 (T2) capital	0	
58	Tier 2 (T2) capital	29	
59	Total capital (TC = T1 + T2)	8,741	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16,2	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	16,2	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	16,3	92 (2) (c)

Common Equity Tier 1 (CET1) capital and own funds declined compared with the previous reporting date. The decrease was largely attributable to the derecognition of Volkswagen Finans Sverige AB, based in Södertälje, Sweden. The total risk exposure amount also decreased for the same reason. These two effects had an overall positive effect on the regulatory capital ratios.

CRR OWN FUNDS REQUIREMENTS

The differences in the risk-weighted assets between the reporting periods ended June 30, 2019 and September 30, 2019 are due mainly to the removal of Volkswagen Finans Sverige AB, based in Södertälje, Sweden, from the prudential scope of consolidation.

The following table shows changes in the risk weighted assets (RWAs) broken down by risk type and model approach in the last quarter:

TABLE 2: EU OV1 – OVERVIEW OF RISK-WEIGHTED ASSETS (RWAS)

CRR	€ million	RWAS		MINIMUM CAPITAL REQUIREMENTS	
		Sep 30, 2019	Jun 30, 2019	Sep 30, 2019	
	1	Credit risk (excluding counterparty credit risk) (CRR)	47,420	50,341	3,794
Art. 438 (c) (d)	2	Of which standardised approach (SA)	47,420	50,341	3,794
Art. 438 (c) (d)	3	Of which foundation IRB (FIRB) approach	-	-	-
Art. 438 (c) (d)	4	Of which advanced IRB (AIRB) approach	-	-	-
Art. 438 (d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-
Art. 107					
Art. 438 (c) (d)	6	Counterparty credit risk (CCR)	73	103	6
Art. 438 (c) (d)	7	Of which mark to market	46	63	4
Art. 438 (c) (d)	8	Of which original exposure	-	-	-
	9	Of which standardised approach for counterparty credit risk (SA-CCR)	-	-	-
	10	Of which internal model method (IMM)	-	-	-
		Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-
Art. 438 (c) (d)	11		-	-	-
Art. 438 (c) (d)	12	Of which CVA	27	40	2
Art. 438 (e)	13	Settlement risk	-	-	-
Art. 449 (o) (i)	14	Securisation exposures in banking book (after the cap)	141	123	11
	15	Of which IRB approach	-	-	-
	16	Of which IRB Supervisory Formula Approach (SFA)	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-
	18	Of which standardised approach	141	123	11
Art. 438 (e)	19	Market risk	337	1,279	27
	20	Of which standardised approach (SA)	337	1,279	27
	21	Of which IMA	-	-	-
Art. 438 (e)	22	Large exposures	-	-	-
Art. 438 (f)	23	Operational risk	3,452	3,323	276
	24	Of which Basic Indicator Approach	-	-	-
	25	Of which Standardised Approach	3,452	3,323	276
	26	Of which Advanced Measurement Approach	-	-	-
Art. 437 (2), Art. 48 and Art. 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	2,352	2,431	188
Art. 500	28	Floor adjustment	-	-	-
	29	Total	53,775	57,600	4,302

As of September 30, 2019, the CRR own funds requirements relating to credit risk, the risk of a credit valuation adjustment (CVA risk), market risk and operational risk were composed as illustrated below in table 3. The risk-weighted exposure amount for credit risk is calculated including counterparty credit risk (CCR) under the mark-to-market method, securitization positions in the banking book and the amounts below the thresholds for deductions (which are subject to a risk weighting of 250%).

TABLE 3: REGULATORY OWN FUNDS REQUIREMENTS AT GROUP LEVEL

€ million	Risk-weighted exposure amount (after SME Supporting Factor)	Own funds requirements
Credit risk	49,959	3,997
Exposures to central governments or central banks	2,355	188
Exposures to regional governments or local authorities	0	0
Exposures to public sector entities	8	1
Exposures to multilateral development banks	0	0
Exposures to international organizations	0	0
Exposures to institutions	256	20
Exposures to corporates	15,210	1,217
Retail exposures	29,339	2,347
Exposures secured by mortgages on immovable property	0	0
Exposures in default	1,198	96
Exposures associated with particularly high risk	0	0
Exposures in the form of covered bonds	26	2
Items representing securitisation positions	141	11
Exposures to institutions and corporates with a short-term credit assessment	0	0
Exposures in the form of units or shares in collective investment undertakings (CIUs)	0	0
Equity exposures	25	2
Other items	1,401	112
Credit valuation adjustment risk	27	2
CVA risk (standard method)	27	2
Market risk	337	27
Position risk for trading book business	0	0
Large exposures above the limit for trading book business	0	0
Foreign currency risk	337	27
Settlement risk	0	0
Commodity position risk	0	0
Capital requirement for currency risks under the standardised approach	0	0
Operational risks	3,452	276
Capital requirement for the standardised approach	3,452	276
Total	53,775	4,302

The data presented above indicates clearly that credit risk is the most prominent exposure, with an own funds requirement of €4.0 billion.

DISCLOSURE OF THE LEVERAGE RATIO**Description of the processes used to manage the risk of excessive leverage**

Reporting on changes in the leverage ratio is included in Volkswagen Bank GmbH's capital projections. The leverage ratio is regularly monitored as part of capital planning.

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

Both Tier 1 capital and the total exposure measure declined at Volkswagen Bank GmbH during the reporting period. This was largely attributable to the removal of Volkswagen Finans Sverige AB, based in Södertälje, Sweden, from the prudential scope of consolidation. Overall, this had a positive impact on the leverage ratio.

TABLE 4: LEVERAGE RATIO DISCLOSURE TEMPLATE

Reference date	Sep 30, 2019
Entity name	Volkswagen Bank GmbH
Level of application	Consolidated level

TABLE 5: LRCOM – LEVERAGE RATIO COMMON DISCLOSURE

€ million	Item	CRR leverage ratio exposures
Capital and total exposure measure		
20	Tier 1 capital	8,712
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	69,491
Leverage ratio		
22	Leverage ratio	12,5%

Quantitative disclosures on the LCR

The calculation of the details for the liquidity coverage ratio (LCR) disclosure template for quantitative information on the LCR is based on simple averages of the end-of-month reports over the 12 months preceding the end of each quarter in accordance with the guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No. 575/2013.

TABLE 6: EU LIQ1 – DISCLOSURE OF QUANTITATIVE INFORMATION ON LCR

SCOPE OF CONSOLIDATION (CONSOLIDATED) CURRENCY AND UNITS (€ MILLION)		TOTAL UNWEIGHTED VALUE (AVERAGE)				TOTAL WEIGHTED VALUE (AVERAGE)			
		Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sep 30, 2019	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sep 30, 2019
Quarter ends on									
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
		Adjusted total amount							
21	Cash buffer					6,412	6,890	7,535	7,827
22	Total net cash outflows					4,776	4,979	5,394	5,416
23	Liquidity coverage ratio (%)					133,9%	139,7%	141,8%	147,3%

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