VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN BANK GMBH
PILLAR 3 DISCLOSURE REPORT
IN ACCORDANCE WITH THE CAPITAL REQUIREMENTS REGULATION
AS OF DECEMBER 31,

2018

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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 year ended Monday, December 31, 2018 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.

The entry into force of the CRR provided in large measure a uniform legal basis for European banking supervisory law. The requirements of the CRR largely replaced the disclosure obligations regulated at national level.

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.

The accompanying report includes in particular disclosures by Volkswagen Bank GmbH concerning
> the level of own funds and own funds requirements,
> the capital buffers in accordance with Article 440 of the CRR
> credit risk adjustments and
> credit risk mitigation techniques.

In accordance with Article 433 of the CRR, the Pillar 3 Disclosure Report is updated regularly to meet the requirements and published shortly thereafter as a separate report on Volkswagen Bank GmbH's website.

It should be noted that some of the information required to be disclosed has already been included in the published annual financial statements as of Monday, December 31, 2018, or in the management report for fiscal year 2018; in accordance with Article 434(2) of the CRR, it is therefore not repeated in this report. The structure of the remuneration systems and the relevant remuneration parameters are described in a separate report.

Braunschweig, April 2019

The Management

Overview

of the structure of the prudential scope of consolidation and the IFRS 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 German Banking Act (GBA) in connection with Article 18ff of the CRR and is the superordinate company within the institution group in accordance with section 10(1) sentence 2 of the GBA.

Section 10a(4) sentence 1 of the GBA requires institution groups as a whole to have adequate own funds. Prudential consolidation in accordance with section 10a(4) of the GBA differs from consolidation under the International Financial Reporting Standards (IFRS) and the additional disclosures required by German commercial law under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code) in terms of both the consolidation methods used and the entities to be consolidated; to a certain extent, it also differs with respect to the accounting policies to be applied.

Whereas entities are included in the subgroup financial statements either through consolidation, using the equity method or at cost, for prudential purposes they must either be consolidated or proportionately consolidated. Participations that are not included as described above are accounted for in accordance with the CRR. In addition, special purpose entities are included in the consolidated financial statements in compliance with IFRS 10.

Volkswagen Bank GmbH uses the consolidated financial statements prepared in accordance with International Financial Reporting Standards to determine its consolidated own funds in accordance with Article 4(1) No. 77 of the CRR. Consequently, own funds and the exposure amounts for counterparty risk, operational risk and market risk of the subsidiaries included in the prudential scope of consolidation are normally determined in accordance with section 10a(5) of the GBA. Items reported in the IFRS consolidated financial statements that are relevant to entities that are not included in the prudential scope of consolidation are deconsolidated for regulatory purposes. As before, the entities that are not included in the IFRS consolidated financial statements but are included in the prudential scope of consolidation are aggregated using the method outlined in section 10a(4) of the GBA. For consolidated own funds, the prudential filters and deductions are additionally taken into account. The entities to be included in the IFRS consolidated financial statements differ from those in the prudential scope of consolidation owing to different reliefs (e.g. based on size) or consolidation requirements (e.g. due to different consolidation requirements) and the nature of their operating business. The prudential scope of consolidation is limited to 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). No such restriction exists under IFRS. Insurance companies and insurance brokers are excluded from the prudential scope of consolidation of the institution group in accordance with section 10a(1) and (2) of the GBA in conjunction with Article 18 et seq. of the CRR.

The following table provides a detailed overview of the treatment of the various subsidiaries and participations in relation to the prudential scope of consolidation and the IFRS scope of consolidation.

TABLE 1: PRUDENTIAL SCOPE OF CONSOLIDATION

Classification in accordance with section 1 of the GBA	Name	Regulatory treatment: Consolidation – Full	Regulatory treatment: Consolidation – Proportionate	Regulatory treatment: Equity deduction or risk-weighting 250 %	Regulatory treatment: Risk-weighted equity interest	Scope of consolidation under IFRS: Full	Scope of consolidation under IFRS: Equity method	Scope of consolidation under IFRS: At cost
CI	Volkswagen Bank GmbH, Braunschweig*	X				X		
	DFM N.V., Amersfoort	X					X	
	ŠkoFIN s.r.o., Prague	X				X		
	Volkswagen Finančné služby Slovensko s.r.o., Bratislava	X					X	
	Volkswagen Financial Services (UK) Ltd., Milton Keynes	X				X		
	Volkswagen Finans Sverige AB, Södertälje	X				X		
ASU	Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	X					X	
Other	Volkswagen Service Sverige AB, Södertälje				X			X
	Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw				X			X
	Volkswagen Finančné služby Maklérska s.r.o., Bratislava				X			X
	MAN Financial Services Ltd., Swindon				X			X
	Volkswagen Insurance Service (Great Britain) Limited				X			X
	Volkswagen Financial Ltd., Milton Keynes				X			X
	Volkswagen Financial Services S.p.A., Mailand				X			X
	Special purpose vehicles (SPV) (partly in compartment structures)							
	Volkswagen Bank GmbH:							
	Driver Ten GmbH in liquidation, Frankfurt am Main					X		
	Driver Eleven GmbH in liquidation, Frankfurt am Main					X		
	Driver Twelve GmbH in liquidation, Frankfurt am Main					X		
	Driver thirteen UG (haftungsbeschränkt) in liquidation, Frankfurt am Main					X		
	Private Driver 2014-4 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main					X		
	Private Driver 2015-1 UG (haftungsbeschränkt), Frankfurt am Main					X		
	SPV in compartment structures							
	Driver France FCT, Pantin					X		
	Compartment Driver France Three							
	Driver Master S.A., Luxembourg					X		
	Compartment 1							
	Compartment 2							
	Driver Multicompartment S.A., Luxembourg					X		
	Driver 14							
	Driver 15							
	DFM Master S.A., Luxembourg						X	
	1 Compartment							
	Driver UK Master S.A., Luxembourg					X		
	2 Compartment							
	3 Compartment							
	4 Compartment							
	Driver UK Multi-Compartment S.A., Luxembourg					X		
	Compartment Driver UK Two in liquidation							
	Compartment Driver UK Three							
	Compartment Driver UK Four							

		REGULATORY TREATMENT						
Classification in accordance with section 1 of the GBA		Consolidation		Equity deduction or risk-weighting 250 %	Risk-weighted equity interest	Scope of consolidation under IFRS		
	Name	Full	Proportionate			Full	Equity method	At cost
	Compartment Driver UK Five							
	Compartment Driver UK Six							
	Private Driver UK 2016-1							
	Private Driver UK 2018-1							
	Driver Italia One S.r.l., Milan					X		
	Autofinance S.A., Luxembourg					X		
	*Branches of Volkswagen Bank GmbH							
	Volkswagen Bank Italy branch, Milan	X						
	Volkswagen Bank Ireland branch, Dublin	X						
	Volkswagen Bank Spain branch, Madrid	X						
	Volkswagen Bank France branch, Roissy-en-France	X						
	Volkswagen Bank Netherlands branch, Amersfoort	X						
	Volkswagen Bank Greece branch, Athens	X						
	Volkswagen Bank UK branch, Milton Keynes	X						
	Volkswagen Bank Portugal branch, Amadora	X						
	Volkswagen Bank Poland branch, Warsaw	X						

CI: Credit institutions in acc. with Article 4(1) No. 1 of the CRR, FSI: Financial services institutions with Article 4(1) No. 26 of the CRR, ASU: Ancillary services undertakings in acc. With Article 4(1) No. 18 of the CRR, Ins.: Insurances, Other: Other companies, SPV: Special Purpose Vehicles

As far as is known, there are no restrictions or other significant obstacles to the transfer of (own) funds within the institution group.

The institution group has not made use of the waiver provision under section 2a of the GBA.

The own funds requirements of the CRR are geared towards institutions as defined by Article 4(1) No. 3 of the CRR. Volkswagen Bank GmbH currently has no subsidiaries that have the characteristics of an institution as defined by the CRR and are not included in prudential consolidation. Accordingly, there are no disclosure requirements in accordance with Article 436(d) of the CRR.

Own funds

STRUCTURE OF OWN FUNDS

The own funds of Volkswagen Bank GmbH's institution group in accordance with Article 72 of the CRR consist of Common Equity Tier 1 capital and Tier 2 capital. Additional Tier 1 capital instruments were not issued by Group entities included in the prudential scope of consolidation.

Common Equity Tier 1 capital

Common Equity Tier 1 capital primarily consists of equity reported in the balance sheet as defined in IFRS. Volkswagen Bank GmbH's share capital is fully paid up and unrestricted. The disclosed reserves consist of the capital reserves and retained earnings. Moreover, allowance is made for unappropriated surpluses which have not yet been approved and are not tied to planned dividend payouts or foreseeable expenses (e.g. tax expenses). A special reserve for general banking risks recognized by Volkswagen Bank GmbH in accordance with section 340 of the Handelsgesetzbuch (HGB – German Commercial Code) is reported in the eligible disclosed reserves.

The reduction in Common Equity Tier 1 capital in the period under review is primarily due to the increase in the first loss position, which was deducted from Common Equity Tier 1 capital.

Tier 2 capital

Tier 2 capital comprises long-term subordinated liabilities, reduced by amortization in accordance with Article 64 of the CRR. Tier 2 capital decreased marginally in the year under review.

The subordinated liabilities, which are subject to interest at market rates, have original maturities of 20 years and are due for settlement no later than 2024. Some of the liabilities are subject to a contractual call right by Volkswagen Bank GmbH if certain trigger events occur. However, in accordance with Article 78 of the CRR, this right can only be exercised with the prior permission of the supervisory authorities. The investors do not have any call rights. The requirements of Article 63 of the CRR have been met.

The following table shows the reconciliation of equity items in the audited consolidated financial statements of Volkswagen Bank GmbH with the own funds in accordance with Article 437(1)(a) of the CRR in conjunction with Annex I to Commission Implementing Regulation (EU) No. 1423/2013 of December 20, 2013:

TABLE 2: RECONCILIATION OF BALANCE SHEET EQUITY TO REGULATORY OWN FUNDS

€ million as of 12/31/2018	Carrying amount in consolidate d financial statements (IFRSs)	Adjustment to the prudential scope of consolidation	Carrying amount in prudential scope of consolidation	Regulatory adjustment	Items of own funds
Subscribed capital	318.3	0.0	318.3	0.0	318.3
(+) Capital reserves	8,531.0	0.0	8,531.0	0.0	8,531.0
(+) Retained earnings	3,006.2	-412.4	2,593.8	-317.9	2,275.9
of which: accumulated profits	1,157.1	-399.5	757.6	-321.0	436.6
of which: actuarial gains and miscellaneous retained earnings	1,849.1	-12.9	1,836.2	3.1	1,839.3
(+) Other reserves	-216.0	46.0	-170.0	-0.6	–170.6
of which: Currency translation	-235.4	64.4	-171.0	-21.2	–192.2
of which: cash flow hedges	1.0	0.0	1.0	0.5	1.5
of which: Market valuation of marketable securities	18.4	-18.4	0.0	20.1	20.1
of which: equity-accounted investments	0.0	0.0	0.0	0.0	0.0
= Total equity	**11,639.5**	**-366.4**	**11,273.1**	**-318.5**	**10,954.6**
(+) Minority interests	0.0	147.1	147.1	-147.1	0.0
= Common Equity Tier 1 (CET1) capital before regulatory adjustments	**11,639.5**	**-219.3**	**11,420.2**	**-465.6**	**10,954.6**
(–) Intangible assets	-50.1	-22.7	-72.8	-24.5	–97.3
(–) Deferred tax assets	0.0	-1,778.5	-1,778.5	1,187.3	–591.2
(+/–) Cash flow hedge reserve	-1.0	0.0	-1.0	-0.5	–1.5
(–) Defined-benefit pension fund assets	0.0	0.0	0.0	-1.6	–1.6
(–) Additional valuation adjustments				-4.2	–4.2
(–) Fair value gains and losses arising from own credit risk related to derivative liabilities				-8.9	–8.9
(–) Securitization positions				-285.3	–285.3
(–) Losses deducted in accordance with Article 36(1)(a) of the CRR				-20.1	–20.1
(+) Regulatory adjustments to Common Equity Tier 1 capital that are added back to the deductions in connection with transitional provisions				0.0	0.0
(–) Regulatory adjustments in connection with unrealized profits and losses in accordance with Articles 467 and 468 of the CRR				0.0	0.0
(–) Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR				0.0	0.0
(–) Amount of items required to be deducted from Additional Tier 1 items that exceeds the institution’s Additional Tier 1 capital				0.0	0.0
= Common Equity Tier 1 capital (CET1) after regulatory adjustments	**11,588.4**	**-2,020.5**	**9,567.9**	**376.6**	**9,944.5**
(+) Additional Tier 1 capital (AT1) after regulatory adjustments	0.0	0.0	0.0	0.0	0.0
= Tier 1 capital (T1) after regulatory adjustments	**11,588.4**	**-2,020.5**	**9,567.9**	**376.6**	**9,944.5**
(+) Tier 2 capital (T2) after regulatory adjustments	548.6	-514.7	33.9	-5.5	28.4
of which: subordinated liabilities	548.6	-514.7	33.9	-5.5	28.4
of which: Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR				0.0	0.0
= Own funds (T1+T2)	**12,137.0**	**-2,535.2**	**9,601.8**	**371.1**	**9,972.9**

The starting point for reconciliation to the items of own funds is the carrying amounts in the consolidated financial statements of Volkswagen Bank GmbH. Following this, the effects of regulatory adjustments are added back. The figures thus calculated are reconciled with the reported own funds.

TABLE 3: DISCLOSURE ON CAPITAL INSTRUMENTS' MAIN FEATURES IN ACCORDANCE WITH ARTICLE 437(1)(B) OF THE CRR (IMPLEMENTING REGULATION 1423 ANNEX II GROUP)

Annex II		Instrument type 1	Instrument type 2	Instrument type 3
1	Issuer	Volkswagen Bank GmbH Group	Volkswagen Bank GmbH	Volkswagen Bank GmbH
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Bilateral agreements	XS0175737997	XS0193333613
3	Governing law(s) of the instrument	German law	German law	German law
	Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital
6	Eligible at solo/(sub)consolidated/solo and (sub)consolidated	(Sub)consolidated	Solo and (sub)consolidated	Solo and (sub)consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated bond	Subordinated bond
8	Amount recognized in regulatory capital (currency in million, as of most recent reporting date)	EUR 318.3 million	EUR 18.6 million	EUR 9.8 million
9	Nominal amount of instrument	EUR 318.3 million	EUR 20.0 million	EUR 10.0 million
9a	Issue price	Various	EUR 19.3 million	EUR 9.5 million
9b	Redemption price	N/A	EUR 20.0 million	EUR 10.0 million
10	Accounting classification	Share capital	Liability – amortized cost	Liability – amortized cost
11	Original date of issuance	Various	26.09.2003	07.06.2004
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	26.09.2023	07.06.2024
14	Issuer call subject to prior supervisory approval	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Termination option for tax event	Termination option for tax event
16	Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons/dividends			
17	Fixed or floating dividend/coupon	Variable	Fixed	Fixed
18	Coupon rate and any related index	N/A	5.4% p.a.	5.5% p.a.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No

Annex II		Instrument type 1	Instrument type 2	Instrument type 3
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to AT1 instruments	Subordinate to insolvency creditors	Subordinate to insolvency creditors
36	Noncompliant transitioned features	No	No	No
37	If yes, specify noncompliant features	N/A	N/A	N/A
([1]) Insert 'N/A' if the question is not applicable				

No. 7 and No. 10 of instrument 1 entails the GmbH shares of Volkswagen Bank GmbH.

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

TABLE 4: DISCLOSURE ON OWN FUNDS (IMPLEMENTING REGULATION 1423 ANNEX IV)

€ MILLION AS OF THE REPORTING DATE: 12/31/2018

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at Disclosure Date	(B) Regulation (EU) No. 575/2013 Article Reference
1	Capital instruments and the related share premium accounts	318.3	26(1), 27, 28, 29, EBA list 26(3)
	of which: equities	318.3	EBA list 26(3)
2	Retained earnings	436.6	26(1)(c)
3	Accumulated other comprehensive income (and other reserves)	10,199.7	26(1)
3a	Funds for general banking risk	0.0	26(1)(f)
4	Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase-out from CET1	0.0	486(2)
5	Minority interests (amount allowed in consolidated CET1)	0.0	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0.0	26(2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	10,954.6	Sum of rows 1 to 5a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	–4.2	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	–97.3	36(1)(b), 37
9	Empty set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	–0.4	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	–1.5	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	0.0	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	0.0	32(1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–8.9	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	–1.6	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0.0	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	36 (1) (g), 44
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	36 (1) (h), 43, 45, 46, 49 (2) and (3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1)–(3), 79
20	Empty set in the EU		
20a	Exposure amount of the following items which qualify for a RW of 1,250%, where the institution opts for the deduction alternative	–285.3	36(1)(k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	0.0	36(1)(k)(i), 89 to 91
20c	of which: securitisation positions (negative amount)	–285.3	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	0.0	36 (1) (k) (iii), 379 (3)

€ MILLION AS OF THE REPORTING DATE: 12/31/2018

Common Equity Tier 1 capital: instruments and reserves		(A) Amount at Disclosure Date	(B) Regulation (EU) No. 575/2013 Article Reference
21	Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability where the conditions in 38(3) are met) (negative amount)	–590.8	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	0.0	48(1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0.0	36 (1) (i), 48 (1) (b)
24	Empty set in the EU		
25	of which: deferred tax assets arising from temporary differences	0.0	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	–20.1	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0.0	36(1)(l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0.0	36(1)(j)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	–1,010.1	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	Common Equity Tier 1 (CET1) capital	9,944.5	Row 6 minus row 28
Additional Tier 1 (AT1) capital: Instruments			
30	Capital instruments and the related share premium accounts	0.0	51, 52
31	of which: classified as equity under applicable accounting standards	0.0	
32	of which: classified as liabilities under applicable accounting standards	0.0	
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	0.0	486(3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0.0	85, 86
35	of which: instruments issued by subsidiaries subject to phase out	0.0	486(3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0.0	Sum of rows 30, 33 and 34
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0.0	52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0.0	56 (d), 59, 79
41	Empty set in the EU	0.0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0.0	56(e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0.0	Sum of rows 37 to 42
44	Additional Tier 1 (AT1) capital	0.0	Row 36 minus row 43
45	Tier 1 capital (T1 = CET1 + AT1)	9,944.5	Sum of row 29 and row 44
Tier 2 (T2) capital: Instruments and provisions			
46	Capital instruments and the related share premium accounts	28.4	62, 63
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	0.0	486(4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by	0.0	87, 88

€ MILLION AS OF THE REPORTING DATE: 12/31/2018

	Common Equity Tier 1 capital: instruments and reserves	(A) Amount at Disclosure Date	(B) Regulation (EU) No. 575/2013 Article Reference
	subsidiaries and held by third parties		
49	of which: instruments issued by subsidiaries subject to phase out	0.0	486(4)
50	Credit risk adjustments	0.0	62(c) and (d)
51	Tier 2 (T2) capital before regulatory adjustments	28.4	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0.0	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	66 (b), 68
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0.0	66 (d), 69, 79
56	Empty set in the EU	0.0	
57	Total regulatory adjustments to Tier 2 (T2) capital	0.0	Sum of rows 52 to 56
58	Tier 2 (T2) capital	28.4	Row 51 minus row 57
59	Total capital (TC = T1 + T2)	9,972.9	Sum of row 45 and row 58
60	Total risk weighted assets	64,157.2	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.5	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	15.5	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	15.5	92(2)(c)
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92(1)(a), plus capital conservation and countercyclical buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffer expressed as a percentage of risk exposure amount)	6.7	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	1.9	
66	of which: countercyclical buffer requirement	0.3	
67	of which: systemic risk buffer requirement	0.0	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.8	CRD 128
69	[not relevant in the EU Regulation]	N/A	
70	[not relevant in the EU Regulation]	N/A	
71	[not relevant in the EU Regulation]	N/A	
Amounts under the threshold for deductions (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	14.0	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings by the institution in CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0.0	36 (1) (i), 45, 48
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10 % threshold, net of related tax liability where the conditions in Article 38(3) are met)	1,053.5	36 (1) (c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to	N/A	62

€ MILLION AS OF THE REPORTING DATE: 12/31/2018

Common Equity Tier 1 capital: instruments and reserves		(A) Amount at Disclosure Date	(B) Regulation (EU) No. 575/2013 Article Reference
	standardised approach (prior to the application of the cap)		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	N/A	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to application of the cap)	N/A	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	N/A	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	N/A	484(3), 486(2) and (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	484(3), 486(2) and (5)
82	Current cap on AT1 instruments subject to phase out arrangements	N/A	484(4), 486(3) and (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A	484(4), 486(3) and (5)
84	Current cap on T2 instruments subject to phase out arrangements	N/A	484(5), 486(4) and (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A	484(5), 486(4) and (5)

DISCLOSURES ON COUNTERCYCLICAL CAPITAL BUFFER IN ACCORDANCE WITH ARTICLE 440 OF THE CRR

The following information must be disclosed with respect to the maintenance of the countercyclical capital buffer prescribed by Title VII Chapter 4 of Directive 2013/36/EU:

TABLE 5: GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

€ MILLION	GENERAL CREDIT EXPOSURES		TRADING BOOK EXPOSURES		SECURITIZATION EXPOSURES		OWN FUNDS REQUIREMENTS					
	Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securiti-zation exposures	Total	OWN FUNDS REQUIRE-MENTS WEIGHTS	CONTER-CYCLICAL CAPITAL BUFFER RATE
	010	020	030	040	050	060	070	080	090	100	110	120
ANDORRA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
ARGENTINA	0.1	-	-	-	-	-	-	-	-	-	0.0%	0.0%
AUSTRALIA	0.2	-	-	-	-	-	-	-	-	-	0.0%	0.0%
AUSTRIA	3.6	-	-	-	-	-	0.3	-	-	0.3	0.0%	0.0%
BELGIUM	29.6	-	-	-	-	-	2.4	-	-	2.4	0.1%	0.0%
BERMUDA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
BOTSWANA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
BRAZIL	0.8	-	-	-	-	-	0.1	-	-	0.1	0.0%	0.0%
BULGARIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
CANADA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
CHILE	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
CHINA	2.3	-	-	-	-	-	0.2	-	-	0.2	0.0%	0.0%
CYPRES	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
CZECH REPUBLIC	1,446.6	-	-	-	-	-	115.7	-	-	115.7	2.6%	1.0%
DENMARK	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
ESTONIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
FINLAND	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
FRANCE	5,447.9	-	-	-	-	-	435.8	-	-	435.8	9.9%	0.0%
GERMANY	23,967.5	-	-	-	3.9	-	1,917.4	-	3.9	1,921.3	43.8%	0.0%
GREECE	162.8	-	-	-	-	-	13.0	-	-	13.0	0.3%	0.0%
GUERNSEY	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
HONGKONG	-	-	-	-	-	-	-	-	-	-	0.0%	1.9%
HUNGARY	0.1	-	-	-	-	-	-	-	-	-	0.0%	0.0%
ICELAND	-	-	-	-	-	-	-	-	-	-	0.0%	1.3%
INDIA	0.1	-	-	-	-	-	-	-	-	-	0.0%	0.0%
IRELAND	1,327.8	-	-	-	-	-	106.2	-	-	106.2	2.4%	0.0%
ISLE OF MAN	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
ITALY	4,171.0	-	-	-	-	-	333.7	-	-	333.7	7.6%	0.0%
JAPAN	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
JERSEY	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
KOREA, REPUBLIC of	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
LATVIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
LIECHTENSTEIN	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
LITHUANIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.5%
LUXEMBOURG	0.2	-	-	-	-	-	-	-	-	-	0.0%	0.0%
MALAYSIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
MALTA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
MEXICO	2.7	-	-	-	-	-	0.2	-	-	0.2	0.0%	0.0%
NETHERLANDS	1,947.6	-	-	-	-	-	155.8	-	-	155.8	3.6%	0.0%
NEW ZEALAND	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
NORWAY	-	-	-	-	-	-	-	-	-	-	0.0%	2.0%
POLAND	805.6	-	-	-	-	-	64.5	-	-	64.5	1.5%	0.0%

€ MILLION		GENERAL CREDIT EXPOSURES		TRADING BOOK EXPOSURES		SECURITIZATION EXPOSURES		OWN FUNDS REQUIREMENTS					
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securiti-zation exposures	Total	OWN FUNDS REQUIRE-MENTS WEIGHTS	CONTER-CYCLICAL CAPITAL BUFFER RATE
		010	020	030	040	050	060	070	080	090	100	110	120
	PORTUGAL	403.1	-	-	-	-	-	32.2	-	-	32.2	0.7%	0.0%
	ROMANIA	0.1	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	RUSSIAN FEDERATION	83.3	-	-	-	-	-	6.7	-	-	6.7	0.2%	0.0%
	SINGAPORE	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	SLOVAKIA	454.0	-	-	-	-	-	36.3	-	-	36.3	0.8%	1.3%
	SLOVENIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	SOUTH AFRICA	0.1	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	SPAIN	1,021.2	-	-	-	14.5	-	81.7	-	14.5	96.2	2.2%	0.0%
	SWEDEN	2,945.1	-	-	-	-	-	235.6	-	-	235.6	5.4%	2.0%
	SWITZERLAND	2.4	-	-	-	-	-	0.2	-	-	0.2	0.0%	0.0%
	TAIWAN	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	THAILAND	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	TURKEY	100.1	-	-	-	-	-	8.0	-	-	8.0	0.2%	0.0%
	UGANDA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	UKRAINE	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	UNITED KINGDOM	9,156.7	-	-	-	87.3	-	732.5	-	87.3	819.9	18.7%	1.0%
	UNITED STATES	0.1	-	-	-	-	-	-	-	-	-	0.0%	0.0%
020	Total	53,482.7	-	-	-	105.7	-	4,278.5	-	105.7	4,384.3	100.0%	

TABLE 6: AMOUNT OF THE INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

Row		Column
		010
010	Total risk exposure amount in € million	64,157.2
020	Institution-specific countercyclical capital buffer rate	0.33%
030	Institution-specific countercyclical capital buffer requirement in € million	212.5

RISK INVENTORY/RISK QUANTIFICATION

The objective of the risk inventory, which has to be carried out at least annually, is to identify the main categories of risk. To this end, all known categories of risk are investigated to establish whether they arise in the Volkswagen Bank GmbH Group. In the risk inventory, the relevant categories of risk are examined in greater detail, quantified or, if they cannot be quantified, assessed by experts, and then evaluated to determine whether they are material for the Volkswagen Bank GmbH Group.

The risk inventory carried out on December 31, 2017 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk, earnings risk, direct residual value risk, market risk, liquidity risk and operational risk; it also concluded that reputational risk and strategic risk, which are not quantifiable, should also be considered material. Other existing subcategories of risk are included within the categories specified above.

Reputation risk and strategic risk as nonquantified material categories of risk are included in the calculation of risk-bearing capacity by applying a general risk buffer.

CAPITAL ADEQUACY (INCLUDING RISK-BEARING CAPACITY)

In addition to the quantification of the risk positions required by regulatory law (in accordance with the CRR) and the presentation of the existing equity components, a system for calculating the risk-bearing capacity of the Volkswagen Bank GmbH Group in accordance with MaRisk that compares the economic risk against the risk-taking potential has been established. This system reflects the requirements for risk-bearing capacity determined in the supervisory review and evaluation process (SREP).

The quarterly analysis of its risk-bearing capacity serves to examine whether the Volkswagen Bank GmbH Group is capable at all times of bearing the risks potentially arising from its current and future business activities. The risk-bearing capacity is adequate if all significant risks that could materially adversely affect the institution's financial position, financial performance or its cash flows are covered by its risk-taking potential.
The Volkswagen Bank GmbH Group applies the going-concern approach based on a range of practice[1] criteria. The purpose of the going-concern approach is to ensure the continuation of the entity's regular business operations in the long term, but also serves to enable efficient management of the capital for risk coverage.

In addition, the Volkswagen Bank GmbH Group uses a system of limits derived from the risk-bearing capacity analysis to specifically manage the capital for risk coverage in accordance with the level of risk tolerance determined by the management of Volkswagen Bank GmbH. The establishment of the risk limit system as a core component of capital allocation limits the risk at different levels, thereby safeguarding the economic risk-bearing capacity of the Volkswagen Bank GmbH Group.

The risk-taking potential of €5.0 billion as of December 31, 2018 comprised reported equity plus the forecast result for the next twelve months (overall €12.3 billion) less regulatory minimum own funds requirements (€6.4 billion) and other adjustment items (€0.9 billion). This item is the reference point for risk tolerance and risk appetite and takes the form of an overall risk limit for the Group (fixed at €2.3 billion as of December 31, 2018).

The limit system that builds on the risk-bearing capacity is structured in a way that the adherence to the risk limits ensures not only the management of operating and strategic risk and earnings, but also compliance with regulatory requirements. In a first step, the overall risk limit established by management, which must not exceed the risk-taking potential, is apportioned to counterparty default risk, residual value risk, market risk, liquidity risk (funding risk) and operational risk, and compared against the risk-taking potential. Individual limits are defined for credit risk, shareholder risk, issuer risk and counterparty risk under the aggregate limit

[1] Range of practice to ensure the resilience of German credit institutions (in German only), Deutsche Bundesbank, Frankfurt/Main, November 11, 2010; Supervisory assessment of bank-internal capital adequacy concepts, Deutsche Bundesbank, Frankfurt/Main, December 7, 2011.

for counterparty credit risk as an overarching risk category. In a second step, the risk type limits (with the exception of the shareholder risk, issuer risk and counterparty risk at the branch and subsidiary level) are split for the purposes of operational risk management. Risk Management monitors compliance with the risk limits as part of its quarterly analysis of the risk-bearing capacity.

The risk limit system for the Volkswagen Bank GmbH Group is recalibrated at least once a year by way of a resolution adopted by the management of Volkswagen Bank GmbH.

Risk quantification

Risk values for relevant risk categories are determined by means of different approaches following the methodological recommendations of the Basel Capital Accord. These approaches are based on statistical models and supported by expert estimates. In line with standard banking practice, risks are assessed using the net method.

To measure risk-bearing capacity, it is necessary to quantify the amount of unexpected losses (UL) and, additionally for some risk categories, the amount of expected losses (EL). Unexpected losses are extremely high losses that occur rarely, whereas expected losses describe the average losses expected to occur within the observation period. The total amount of UL and EL produces the value at risk (VaR).

The main risks are quantified as part of the risk-bearing capacity analysis using a going-concern approach, predominantly with a confidence level of 90.0% and a time horizon of one year. Liquidity risk (funding risk), market price risk and earnings risks are quantified at a confidence level of 99%. Risk-bearing capacity is also analyzed using the gone concern approach at a confidence level of 99.93% in addition to the going concern approach.

In addition to determining the risk-bearing capacity in a normal scenario, the Volkswagen Bank GmbH Group also conducts group-wide and cross-institutional stress tests and reports the results directly to the management. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of the Volkswagen Bank GmbH Group. The purpose of these scenarios is to facilitate early identification of those risks that would be particularly affected by the trends simulated in the scenarios so that any necessary corrective action can be initiated in good time. The stress tests include both historical scenarios (such as a repetition of the financial crisis in the years 2008 to 2010) and hypothetical scenarios (such as a european economic downturn or a sharp drop in sales in the Volkswagen Group). In addition, inverse stress tests are used to identify what events could represent a threat to the ability of the Volkswagen Bank GmbH Group to continue as a going concern. A business model risk analysis is also completed every year.

TABLE 7: METHODS FOR THE QUANTIFICATION OF INDIVIDUAL RISK TYPES UNDER THE RISK BEARING CAPACITY ANALYSIS

Risk type	Parameters/model	"Going-concern" scenario (normal case)
Counterparty default risk		
Credit risk	Parameters: PD, LGD, EAD, ASRF model, incl. premium for estimation uncertainties for UL	CL = 90%
Shareholder risk	Parameters: PD, LGD = 90%, carrying amount of equity investment acc. to IFRS, ASRF model	CL = 90%
Issuer risk	Parameters: PD, LGD, EAD, Monte Carlo simulation	CL = 90%
Counterparty risk	Parameters: PD, LGD, EAD, Monte Carlo simulation	CL = 90%
Residual value risk	Comparison of expected sales proceeds (forecast with value deductions based on historical data) with contractually agreed residual value per vehicle	CL = 90%
Market risk	Historical simulation (40-trading-day holding period, 1,000-trading-day history)	CL = 99%
Earnings risk	Parameters: Actual and plan data of income drivers and their relative deviation; parametric variance-covariance model	CL = 99%
Liquidity risk (funding risk)	Liquidity premium from historical spread data	CL = 99%
Operational risk	Parameters from the self-assessment and loss database: typical and maximum probability of default (PD_{typ} and PD_{max}), typical and maximum risk values (RV_{typ} and RV_{max}), 5-year average reported losses (RL), 5-year average reported losses ($RL_{Rück}$)	$EL = ((PD_{typ} \times RV_{typ}) + RL)/2 - RL_{Rück}/2$ $UL = [((PD_{max} \times RV_{typ}) - (PD_{typ} \times RV_{typ})) \times (((PD_{typ} \times RV_{typ}) + RL)/2 / (PD_{typ} \times RV_{typ}))]$

Aggregation of risks, analysis of results

A correlation of 1 between the risk categories is assumed for all calculated risk indicators.

The results of the analysis of risk-bearing capacity and of the stress tests are reported to management on a quarterly basis. The calculations of risk-bearing capacity confirmed that all significant risks that could adversely affect the financial position, financial performance or cash flows were adequately covered at all times by the available risk-taking potential. The stress tests did not indicate any immediate need for action.

CRR OWN FUNDS REQUIREMENTS

The CRR own funds requirements relating to credit risk, the risk of a credit valuation adjustment (CVA risk), the market risk and operational risk were composed of the following items as of Monday, December 31, 2018:

TABLE 8: REGULATORY OWN FUNDS REQUIREMENTS AT GROUP LEVEL

€ million	Risk-weighted exposure amount (after SME Supporting Factor)	Own funds requirements
Credit risk	**56,682**	**4,535**
Exposures to central governments or central banks	2,650	212
Exposures to regional governments or local authorities	0	0
Exposures to public sector entities	23	2
Exposures to multilateral development banks	0	0
Exposures to international organizations	0	0
Exposures to institutions	421	34
Exposures to corporates	17,482	1,399
Retail exposures	29,616	2,368
Exposures secured by mortgages on immovable property	0	0
Exposures in default	1,506	120
Exposures associated with particularly high risk	0	0
Exposures in the form of covered bonds	26	2
Items representing securitization positions	106	8
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	2
Equity exposures	22	2
Other items	4,830	386
Credit valuation adjustment risk	**88**	**7**
CVA risk (standard method)	88	7
Market risk	**2,970**	**238**
Position risk for trading book business		
Large exposures above the limit for trading book business		
Foreign currency risk	2,970	238
Settlement risk		
Commodity position risk		
Capital requirement for currency risks under the standardized approach		
Operational risks	**4,417**	**353**
Capital requirement for the standardized approach	4,417	353
Total	**64,157**	**5,133**

The data presented above indicates clearly that counterparty credit risk is the most prominent exposure, with an own funds requirement of €4.7 billion.

RETURN ON CAPITAL

The return on capital in accordance with section 26a(1) sentence 4 of the GBA, calculated as the ratio of net profit to total assets, stood at 0.85% at December 31, 2018.

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

Volkswagen Bank GmbH's Common Equity Tier 1 capital declined during the period under review primarily as a result of the increase in the first loss position. The capital decrease had a negative effect on the leverage ratio.

TABLE 9: LEVERAGE RATIO DISCLOSURE TEMPLATE

Reference date	31.12.2018
Entity name	Volkswagen Bank GmbH
Level of application	Consolidated level

TABLE 10: SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

		Applicable amount
1	Total assets as per published financial statements	83,042
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	12,594
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No. 575/2013)	0
4	Adjustments for derivative financial instruments	256
5	Adjustment for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	2,065
EU–6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No. 575/2013)	0
EU–6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No. 575/2013)	0
7	Other adjustments	–23,990
8	**Leverage ratio total exposure measure**	**73,967**

TABLE 11: LEVERAGE RATIO COMMON DISCLOSURE

	Item	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	72,232
2	(Asset amounts deducted in determining Tier 1 capital)	–675
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	71,557
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	90
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	256
EU–5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	–1
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives))	0
11	Total derivatives exposures (sum of lines 4 to 10)	345
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets	0
14	Counterparty credit risk exposure for SFT assets	0
EU–14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No. 575/2013	0
15	Agent transaction exposures	0
EU–15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	10,374
18	(Adjustments for conversion to credit equivalent amounts)	–8,309
19	Other off-balance sheet exposures (sum of lines 17 and 18)	2,065
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No. 575/2013 (on and off balance sheet)		
EU–19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No. 575/2013 (on and off balance sheet))	0
EU–19b	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No. 575/2013 (on and off balance sheet)	0
Capital and total exposure measure		
20	Tier 1 capital	9,944
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU –19a and EU –19b)	73,967
Leverage ratio		
22	Leverage ratio	13.4%
Choice on transitional arrangements and amount of derecognized fiduciary items		
EU–23	Choice on transitional arrangements for the definition of the capital measure	Fully phased-in
EU–24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	0

TABLE 12: SPLIT-UP OF ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

		CRR leverage ratio exposures
EU–1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**72,232**
EU–2	Trading book exposures	0
EU–3	Banking book exposures, of which:	72,232
EU–4	Covered bonds	265
EU–5	Exposures to central governments or central banks	7,712
EU–6	Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	70
EU–7	Institutions	656
EU–8	Secured by mortgages of immovable properties	0
EU–9	Retail exposures	39,470
EU–10	Corporate	17,329
EU–11	Exposures in default	1,104
EU–12	Other exposures (.e.g. equity, securitizations and other non-credit obligation assets)	5,627

Risk management disclosures

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

The Volkswagen Bank GmbH Group is exposed to a large number of risks typical of the financial services sector as part of its primary operating activities. The Company takes on these risks on a responsible basis so that it can specifically exploit associated market opportunities.

The Volkswagen Bank GmbH Group has implemented a risk management system to identify, assess, manage, monitor and communicate risks. The risk management system comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risks. The individual elements are closely aligned with the activities of the individual divisions. This structure makes it possible to identify at an early stage any trends that could represent a risk to the business as a going concern so that suitable corrective action can then be initiated. No material changes were made to the risk management methodology in the reporting period.

Appropriate procedures are in place to ensure the adequacy of the risk management system. Firstly, Risk Management continuously monitors the system. Secondly, the individual elements in the system are regularly reviewed on a risk-oriented basis by the Internal Audit department, the ECB (European Central Bank), the ESF (Deposit Protection Fund) and as part of the audit of the annual financial statements by the independent auditors.

Within the Volkswagen Bank GmbH Group, responsibility for risk management and credit analysis is assigned to the Chief Risk Officer (CRO) as the relevant member of Management. In this function, the CRO regularly reports to the Supervisory Board on the Volkswagen Bank GmbH Group's overall risk position.

An important feature of the risk management system at Volkswagen Bank GmbH Group is the clear, unequivocal separation of tasks and areas of responsibility, both organizationally and in terms of personnel to ensure that the system is fully functioning at all times and regardless of the personnel involved.

The Risk Management unit underwent a reorganization in 2018. This move was intended to establish a more consistent end-to-end approach to processes in the risk management entities and to sharpen the focus of risk management activities on the key future topics of big data and advanced analytics by creating a corresponding department to look after these areas along with project management and support for the IT interfaces.

The risk management departments have the role of providing guidelines for the organization of risk management. This function includes drawing up risk policy guidelines, developing and maintaining methodologies and processes relevant to risk management as well as issuing and monitoring international framework standards for the procedures to be used on a Europe-wide basis.

In particular, these activities involve the provision of models for carrying out credit assessments in lending business, quantifying the categories of risk, determining risk-bearing capacity and measuring collateral. Risk Management is therefore responsible for identifying possible risks, analyzing, quantifying and assessing risks, and for determining the resulting measures to manage the risks. Local risk management units ensure that the requirements specified by the Volkswagen Bank GmbH Group's Risk Management are implemented and complied with in each market.

As a significant company, the Volkswagen Bank GmbH Group is supervised by the European Central Bank (ECB) under the Single Supervisory Mechanism (SSM). Accordingly, Volkswagen Bank GmbH is subject to the requirements of the Supervisory Review and Evaluation Process (SREP) and maintains a continuous exchange of information with the responsible joint supervisory team at the ECB.

To summarize, continuous monitoring of risks, transparent and direct communication with the Management and the integration of all information obtained into the operational risk management system form a foundation for the best possible leveraging of market potential based on conscious, effective management of the overall risk faced by the Volkswagen Bank GmbH Group.

RISK STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Management of Volkswagen Bank GmbH.

As part of this overall responsibility, the Management of Volkswagen Bank GmbH has introduced a MaRisk-compliant strategy process and implemented a business and risk strategy. The ROUTE2025 business strategy sets out the fundamental views of the management of Volkswagen Bank GmbH on key matters relating to business policy. It includes the objectives for each major business activity and the strategic areas for action to achieve the relevant objectives. The business strategy also serves as the starting point for creating a consistent risk strategy.

The risk strategy is reviewed each year and on an ad hoc basis on the basis of a risk inventory, risk-bearing capacity and legal requirements. It is adjusted where appropriate and discussed with the Supervisory Board of Volkswagen Bank GmbH. The risk strategy describes the main risk management goals and action plans for each category of risk taking into account the business policy focus (business strategy), risk tolerance and risk appetite. A review is carried out annually to establish whether the goals have been attained. The causes of any variances are analyzed and then discussed with the Supervisory Board of Volkswagen Bank GmbH.

The risk strategy includes all material quantifiable and non-quantifiable risks. Further details and specifics for the individual risk categories are set out in risk substrategies and included in operational requirements as part of the planning round.

The Management of Volkswagen Bank GmbH is responsible for specifying and subsequently implementing the overall risk strategy in the Volkswagen Bank GmbH Group.

RISK CULTURE

A pronounced risk culture entrenched in the company and encompassing all employees forms part of responsible corporate governance and is the basis of efficient and sustained risk management. It defines the rules of conduct for handling risks within an institution. This also includes the way in which risks are identified, evaluated, reported and managed and forms the core of the ROUTE2025 corporate strategy comprising the following main areas of activity: “Identify and actively manage risks”, “Act compliant” and “Encourage open feedback and discussions”.

The aim of an appropriate risk culture is to ensure that employees and management make decisions in their daily work based on a risk culture “imbued with life” (value of systems), that risks are addressed consciously and that an open and transparent dialog on risk-related matters is reinforced within the Volkswagen Bank GmbH Group.

At the Volkswagen Bank GmbH Group, risk culture is operationalized on the basis of the following risk culture elements: “leadership culture”, “organizational structure”, “communications”, “incentive structure” and “risk management framework”. Management and line managers assume a role model with respect to risk culture. Among other things, it implements decision-making practices on the basis of the corporate values (leadership principles) which it has defined to provide employees with a framework within which they can implement standards and prepare future decisions.

Identifying, evaluating and managing risks is an integral part of bank organization beyond risk management. In practice, this takes the form of an open style of communications based on a constructive and objective approach to risks and accompanied by high risk awareness particularly in the light of the Volkswagen Bank GmbH Group’s reputation.

The sum total of the shared values and rules as well as the support provided by technological developments help to incorporate risk aspects in all company decisions.

RISK CONCENTRATIONS

The Volkswagen Bank GmbH Group is a captive financial services provider in the automotive sector. The business model, which focuses on promoting vehicle sales for the different brands in the Volkswagen Group, causes concentrations of risk, which can take various forms.

Concentrations of risk can arise from an uneven distribution of activity in which

> just a few borrowers/contracts account for a large proportion of the loans (counterparty concentrations),
> a small number of sectors account for a large proportion of the loans (sector concentrations),
> many of the loans are to businesses within a defined geographical area (regional concentrations),
> receivables are secured by just one type of collateral or by a limited range of collateral types (collateral concentrations),
> residual values subject to risk are limited to a small number of vehicle segments or models (residual value concentrations), or
> The Volkswagen Bank GmbH Group's income is generated from just a few sources (income concentrations).

One of the objectives of the Volkswagen Bank GmbH Group's risk policy in its business model is to reduce such concentrations by means of broad diversification.

Counterparty concentrations from customer business are only of minor significance in the Volkswagen Bank GmbH Group because of the large proportion of business accounted for by retail lending. From a regional perspective, the Volkswagen Bank GmbH Group has a concentration of business in the German market, but looks to achieve broad nationwide diversification within the country. In contrast, sector concentrations in the dealer business are part of the nature of the business for a captive provider and these concentrations are therefore individually analyzed. Overall, no particular impact has been identified, even in periods of economic downturn like the crisis experienced in recent years.

Likewise, a captive provider cannot avoid collateral concentrations because the vehicle is the predominant collateral asset by virtue of the business model. Risks can arise from concentrations of collateral if downward pricing trends in used vehicle markets or segments lead to lower proceeds from the recovery of assets and, as a consequence, there is a fall in the value of the collateral. Nevertheless, in terms of the vehicles used as collateral, the Volkswagen Bank GmbH Group enjoys broad diversification across all vehicle segments based on a large range of vehicles from the different brands in the Volkswagen Group.

RISK REPORTING

Risk reporting to the management and Supervisory Board occurs quarterly in the form of a comprehensive risk management report. The starting point for the risk management report is risk-bearing capacity because of its importance from a risk perspective for the successful continued existence of the business as a going concern. The report also presents the calculation of the available risk coverage potential, the utilization of limits and the current percentage allocation of the overall risk to the individual risk categories. In addition, Risk Management reports on counterparty default risk, direct residual value risk, liquidity risk and operational risk, both at an aggregate level and for markets.

These reports include quantitative information (financial data) and also qualitative elements in the form of assessments of the current situation and expected developments, including recommendations for action where appropriate. Additional reports are produced for specific risk categories. Ad hoc reports are generated as needed to supplement the system of regular reporting.

The high quality of the information contained in the risk management reports about structures and trends in the portfolios is maintained by a process of constant refinement and ongoing adjustment in line with current circumstances.

RECOVERY AND RESOLUTION PLANNING

The EU's Bank Recovery and Resolution Directive (BRRD), i.e. the rules and regulations governing the recovery and resolution of banks, has been in force since the middle of 2014. and was transposed into national law in Germany in the form of the Recovery and Resolution Act (SAG).

The Volkswagen Bank GmbH Group completed its first (Group) recovery plan and submitted it to the European Central Bank (the competent supervisory authority) in the first quarter of fiscal year 2018.

The recovery plan covers matters including a system to ensure that adverse developments are identified promptly, and the possible measures that could be used by the Group in different stress scenarios to safeguard or restore a robust financial footing. In particular, the recovery plan sets out the responsibilities and the processes to be followed in the management of a crisis.

The recovery plan will be updated and enhanced annually and submitted to the competent supervisory authority.

Volkswagen Bank GmbH has additionally assisted the competent resolution authorities with the preparation of a resolution plan during the current fiscal year. This involves Volkswagen Bank GmbH providing the resolution authorities with information and analyses for this purpose in accordance with its supporting duties as defined in Section 42 SAG.

BREXIT

The Brexit negotiations with the United Kingdom did not have any impact on the risk situation in terms of credit or residual value risk in fiscal year 2018. The Bank is monitoring the risk situation closely so that it can take a proactive approach to any developments that may occur. Various scenarios were analyzed in 2018 in connection with the imminent Brexit vote, allowing the Bank to be prepared for all eventualities. In addition, there is a regular exchange of information with the regulatory authorities on current developments.

NEW PRODUCT AND NEW MARKET PROCESS

Before launching new products or commencing activities in new markets, the new product and new market process must be completed. All the units involved (such as Risk Management, Controlling, Accounting, Legal Affairs, Compliance, Treasury, IT) are integrated in the process. The process involves the preparation of a written concept for each new activity, which includes an analysis of the risks in connection with the new product or market and a description of the possible implications for management of the risks. Responsibility for approval or rejection lies with the relevant members of the Management of Volkswagen Bank GmbH, and, in the case of new markets, also with the members of the Supervisory Board.

RISK CATEGORIES

In the Volkswagen Bank GmbH Group, risk is defined as the danger of loss or damage that could occur if an expected future development turns out to be less favorable than planned. This risk can be broken down into different categories of risk. At the same time, the Volkswagen Bank GmbH Group also continuously analyzes and assesses the opportunities that arise from the risks that have been consciously taken. Business decisions taken by the Volkswagen Bank GmbH Group are therefore based on the risk-reward considerations described here.

OVERVIEW OF RISK CATEGORIES

Financial risks	Nonfinancial risks
Counterparty default risk	Operational risk
Market risk incl. interest rate risk	Compliance and conduct risk
Liquidity risk	Outsourcing risk
Residual value risk	Model risk
Earnings risk	Strategic risk
	Reputational risk

Please see Volkswagen Bank GmbH's 2018 Annual Report for additional reporting on currency risk, fund price risk and country risk.

FINANCIAL RISKS

Counterparty default risk

Counterparty default risk refers to a potential negative variance between actual and forecast counterparty risk outcomes. The forecast outcome is exceeded if the loss incurred as a consequence of defaults or changes in credit rating is higher than the expected loss.

The Volkswagen Bank GmbH Group includes within counterparty default risk the risk types credit, counterparty, issuer, country and equity interest exposure.

Credit risk

Credit risk is defined as the danger of incurring losses as a result of defaults in customer business, specifically the default of the borrower or lessee. Loans to and receivables from entities in the Volkswagen Group are also included in the analysis. The default is caused by the borrower's or lessee's insolvency or unwillingness to pay.

This includes a situation in which the counterparty does not make interest payments or repayments of principal on time or does not pay the full amounts.

Credit risk, which also includes counterparty default risk in connection with leases, accounts for the greatest proportion of risk exposures in the counterparty default risk category by some distance.

The aim of a systematic credit risk monitoring system is to identify potential borrower or lessee insolvencies at an early stage, initiate any corrective action in respect of a potential default in good time and anticipate possible losses by recognizing appropriate provisions.

If a loan default materializes, this represents the loss of a business asset, which has a negative impact on financial position and financial performance, depending on the amount of the loss. If, for example, an economic downturn leads to a higher number of insolvencies or greater unwillingness of borrowers or lessees to make payments, the recognition of a higher write-down expense is required. This in turn has an adverse effect on operating profit.

Risk identification and assessment

Lending or credit decisions by the Volkswagen Bank GmbH Group are made primarily on the basis of the borrower credit check. These credit checks use rating or scoring systems, that provide the relevant departments with an objectified basis for reaching a decision on a loan or a lease. A set of procedural instructions outlines the requirements for developing and maintaining the rating systems. The Bank also has a rating manual which specifies how the rating systems are to be applied as part of the loan approval process. Similarly, other written procedures specify the parameters for developing, using and validating the scoring systems in the retail business.

To quantify credit risk, an expected loss (EL) and an unexpected loss (UL) are determined at portfolio level for each entity. The UL is the VaR less the EL. The calculation uses an asymptotic single risk factor model (ASRF model) in accordance with the capital requirements specified by the Basel Committee on Banking Supervision (Gordy formula) taking into account the credit quality assessments from the individual rating and scoring systems used.

Rating process in corporate business

The Volkswagen Bank GmbH Group uses rating systems to assess the credit quality of corporate customers. These evaluations take into account both quantitative factors (mainly data from annual financial statements) and qualitative factors (such as the prospects for future business growth, quality of management, market and industry environment, and the customer’s payments record). When the credit assessment has been completed, the customer is assigned to a rating class, which is linked to a probability of default.

Individual rating processes that have mainly been developed based on statistical methods are used for significant portfolios of subsidiaries of the Volkswagen Bank GmbH Group. This concerns the branches in Germany, France, Italy, Poland and the United Kingdom. Another important rating system is the FS rating. This is used in a variety of countries in which portfolios tend to be small or there are few defaults. It was designed as an expert-based rating system that includes data from annual financial statements in a market-specific approach for assessing credit quality.

A workflow-based rating application drawing on centrally held data is used to calculate ratings.

The rating systems were calibrated to a unified master scale to ensure comparability of the risk assessment within the Group by rating class. This provides for 15 rating classes (individual rating processes) or nine rating classes (FS rating) for the live portfolio as well as three non-performing classes. Fixed PD bands are allocated to the performing rating classes. The median probability of default of the relevant rating class is always within the rating class of the PD band apportioned on the basis of uniform criteria.

The rating determined for the customer serves as an important basis for decisions on whether to grant or renew a loan and for decisions on valuation provisions.

Scoring process in retail business

For the purposes of determining the credit quality of retail customers, scoring systems are incorporated into the processes for credit approval and for evaluating the existing portfolio. These scoring systems provide an objective basis for credit decisions. The systems use information about the borrower available internally and externally and estimate the probability of default for the requested loan, generally with the help of statistical methods based on historical data covering a number of years. An alternative approach adopted for smaller or low-risk portfolios also uses generic, robust scorecards and expert systems to assess the risk involved in credit applications.

To classify the risk in the credit portfolio, both behavioral scorecards and estimation procedures at risk pool level are used, depending on portfolio size and the risk inherent in the portfolio.

Besides the customer's individual payments record, a variety of other external and internal data on the borrower is used in the behavioral scorecards to estimate the probability of default for the customer transaction. Similar transactions (in terms of the counterparty default risk) are assigned to a single risk class to enable standardized and uniform measurement in portfolio management. The behavioral scorecards in use were developed using statistical methods and models based on historical data covering a number of years and have predominantly been calibrated to a unified master scale. As a rule, all scorecards are validated annually.

Risk classification in the portfolios for which no behavioral scorecards are employed generally entails allocating the loans to different risk pools based on the borrower's payments record. A probability of default is assigned to each risk pool and, following this, to each loan in the risk pool. It is also used further along the credit risk measurement process as a basis for quantifying the probability of default of all the transactions in a risk pool. Provided corresponding data histories are available, this probability of default is determined based on long-term averages of realized default rates and normally validated on a yearly basis.

Supervision and review of retail and corporate systems

The models and systems supervised by Risk Management are regularly validated and monitored using standardized procedural models for risk classification systems. The models and systems are adjusted and refined, as required. These review procedures are applied to models and systems for assessing credit quality and estimating the probability of default (such as rating and scoring systems) and to models used for estimating loss given default and estimating credit conversion factors.

In the case of the retail models and systems for credit assessment supervised by local risk management units outside Germany, Risk Management reviews the quality of these models and systems on the basis of the locally implemented validation processes, determines action plans in collaboration with the local risk management units if a need for action is identified and monitors the implementation of the action plans. In the validation process, particular attention is paid to a review of the discriminant power of the models and an assessment of whether the model calibration is appropriate to the risk. The models and systems for corporate customers are handled in the same way, although a centralized approach is used for their supervision and validation.

Risk monitoring and control

Risk Management sets framework constraints for the management of credit risk. These constraints form the mandatory outer framework of the central risk management system, within which the divisions/markets can operate in terms of their business policy activities, planning, decisions, etc. in compliance with their assigned authority.

Appropriate processes are used to monitor all lending in relation to financial circumstances, collateral and compliance with limits, contractual obligations and internal and external conditions. To this end, exposures are transferred to a suitable form of supervision or support depending on their risk content (normal, intensified, or problem loan management). Approval or reporting limits determined by the Volkswagen Bank GmbH Group are also used to manage credit risk. These limits are specified separately for each individual subsidiary.

In addition to analyses of the composition of expected and unexpected risks, the portfolio is monitored using the credit risk portfolio rating in order to track risk at the portfolio level. This rating brings together various risk measures into one indicator, facilitating comparability between the international portfolios of the Volkswagen Bank GmbH Group.

HEDGING AND MITIGATION OF CREDIT RISK

Collateral

The general rule is that credit transactions are secured by collateral to an extent that is commensurate with the risk. In addition, overarching rules specify the requirements that must be satisfied by collateral, the evaluation procedures and the measurement bases. Further local requirements (collateral policies) set out specific values and special regional requirements that must be observed.

The values in the collateral policies are based on historical data and experience accumulated by experts over many years. As the operating activities of the Volkswagen Bank GmbH Group are focused on retail financing, dealer financing and the leasing of vehicles, the vehicles themselves are hugely important as collateral assets. For this reason, trends in the market values of vehicles are closely monitored and analyzed. Procedures provide for adjustments to evaluation systems and vehicle remarketing processes if there are substantial changes in the market values/remarketing proceeds of vehicles.

In order to enforce any financial claims arising from the financed or leased vehicle, the Volkswagen Bank GmbH Group contractually secures access rights to the vehicle so as to be able to use it as collateral if necessary. In Germany, for example, as a rule the registration document for the vehicle is generally retained as a security deposit. In addition to the vehicles, other physical collateral (liens on real property, pledges, etc.) and personal guarantees are used to secure loans. The value of the collateral is measured during the loan application process and generally also once a year during the term of the loan.

The measurement of the value of the collateral respectively the calculation of the unsecured loan volume which is based on this measurement, are relevant for the loan approval process and – especially in the dealer financing business – also for decisions to extend loans.

Risk Management also carries out regular quality assurance tests on local collateral policies. This includes a review of collateral values and implementation of any necessary adjustments.

Credit risk mitigation

Credit risk mitigation techniques are only used in specific cases for capital backing purposes. Compliance with the minimum requirements for recognizing this credit risk mitigation technique in accordance with the CRR is ensured in such cases.

At present, credit risk mitigation within the meaning of Article 192 et seq. of the CRR is applied in the following cases:

> Cash on deposit for loan commitments of Volkswagen Bank GmbH within the meaning of Article 197(1)(a) of the CRR.

Limited use is made of the option to enter into netting agreements within the meaning of Article 205 et seq. of the CRR for mitigating credit risk in the calculation of own funds.

TABLE 13: OVERVIEW OF THE EXPOSURE CLASSES FOR WHICH CREDIT RISK MITIGATION METHODS ARE USED AS OF DECEMBER 31, 2018

Exposure classes	Eligible financial collateral and other eligible collateral in € million
Exposures to institutions	439
Exposures to corporates	1,521
Total	**1,960**

DISCLOSURES ON INDIVIDUAL RISK POSITION CLASSES AND EXTERNAL CREDIT ASSESSMENT INSTITUTIONS (ECAI) IN ACCORDANCE WITH ARTICLE 135FF/ARTICLE 444 OF THE CRR

In order to measure the risk weighting in the credit risk standard approach (CRSA) and to assess creditworthiness, Standard & Poor’s Financial Services LLC has been disclosed to the German Federal Financial Supervisory Authority (BaFin) and Deutsche Bundesbank for the “institutes and central governments” risk position classes and Moody’s Investors Service, The McGraw-Hill Companies under the brand name Standard & Poor’s Rating Services (S&P), Creditreform AG and DBRS Rating Limited for the “securitizations” risk position classes for the CRSA positions.

The nomination of a rating agency for the "corporates" risk position class has been dispensed with for the time being as the number of customers with an external rating is small in view of the predominance of small and mid-size enterprises in the customer structure.

There are no transactions within the Volkswagen Bank GmbH institution group for which the rating of the counterparty/debtor is applied to assess the corresponding issue.

The following table sets out the position values (except those equaling zero) before and after the application of the credit risk mitigation methods as defined in Article 197(1) a of the CRR. The impact of the application of the credit risk mitigation methods becomes evident from the transfer of outstanding secured loan amounts from higher to lower risk weighting in accordance with reporting requirements.

TABLE 14: RISK POSITIONS BEFORE AND AFTER CREDIT RISK MITIGATION AT DECEMBER 31, 2018 *

RISK WEIGHTING %	EXPOSURE VALUES (STANDARD APPROACH)	
	before credit risk mitigation € million	after credit risk mitigation € million
0	6,593	8,553
4	96	96
10	265	265
20	1,370	931
50	198	198
75	40,247	40,247
100	23,116	21,595
150	862	862
250	1,056	1,056
Capital deduction	–287	–287

* Calculated in accordance with Article 253 of the CRR

DISCLOSURES ON CREDIT RISK IN ACCORDANCE WITH ARTICLE 442 OF THE CRR

Receivables that are past due by at least one day but by no more than 90 days (1 day ≤ past due in days ≤ 90 days) and not classified as nonperforming – taking into account the materiality threshold in accordance with section 16 of the SolvV – are considered to be past due.

The Volkswagen Bank GmbH Group defines nonperforming in accordance with Article 442(a) of the CRR in line with Article 178 of the CRR as follows:

An obligor is deemed to be nonperforming if,

a. based on concrete indications, the entity is of the opinion that the obligor is unlikely to discharge its payment obligations from the granting of credit or from lease liabilities without recourse by the entity to actions such as realizing any existing security, or

b. a significant portion of its aggregate liability from the granting of credit or from lease liabilities is past due for more than 90 consecutive calendar days – taking into account the materiality threshold in accordance with section 16 of the SolvV. In the case of retail risk exposures, the criteria set out above are applied to individual credit facilities and not to a borrower's total liabilities.

The events that are regarded as indications that it is unlikely that payment obligations will be discharged include:

> debt waivers
> distressed restructurings
> significant reduction in credit rating
> insolvency
> negative information from external credit information agencies
> court payment orders
> termination
> sale of receivables at a loss

In 2014, the final draft Implementing Technical Standards on supervisory reporting on forbearance and non-performing exposures published by the European Banking Authority (EBA) in February 2014 was implemented. This essentially defines forborne exposures as debt instruments in which concessions were granted to the debtor (for example, modification of the terms and conditions of the contract or its refinancing, deferrals and/or restructuring) that would not have been granted had the debtor not been facing or about to face financial difficulties.

The data is collected each quarter in the prudential scope of consolidation of Volkswagen Bank GmbH for the reporting in accordance with Article 99(4) of Regulation (EU) No. 575/2013 CRR (Capital Requirements Regulation) or in the course of the FINREP (Financial Reporting) framework and reported to the EBA.

Description of the procedures applied when recognizing provisions for risks

The entities of the Volkswagen Bank GmbH Group use IFRS-based risk-provisioning procedures for the purposes of recognizing provisions for credit risks. These take country-specific circumstances into account.

Provisions for credit risks are calculated using the expected credit loss model described in IFRS 9. To this end, the Volkswagen Bank GmbH Group recognizes specific value allowances and portfolio-based provisions for credit risks. In the case of specific value allowances, it additionally draws a distinction between portfolio-based specific value allowances and other specific value allowances. The principal distinguishing factor is whether an exposure is classified as an individually significant exposure or as a nonsignificant exposure.

Recognition of specific value allowances

Specific value allowances are recognized for individually significant exposure if there is any evidence of impairment. The specific valuation allowance is recognized in the amount required to cover the entire expected loss. To identify any objective evidence of impairment, the Volkswagen Bank GmbH Group applies the definition of default used for risk management in accordance with Article 178 of the CRR in connection with section 16 of the SolvV in order to satisfy Article 422 of the CRR, among other things. Depending on the complexity and importance of the transaction, the Volkswagen Bank GmbH Group classifies customers in the corporate exposures class as individually significant. In terms of the customer segments of the Volkswagen Bank GmbH Group, this means that dealers are classified as individually significant.

Recognition of portfolio-based specific value allowances

Portfolio-based specific valuation allowances are recognized for exposures that are not classified as individually significant but for which there is objective evidence of impairment. The amount of the valuation allowances corresponds to the expected loss, which is estimated using statistical techniques on the basis of expected recovery proceeds and cash flows.

Recognition of portfolio-based provisions for credit risks

Portfolio-based provisions for credit risks for covering expected impairments are recognized for exposure in cases in which there is not yet any specific evidence of impairment. Provisions for exposure for which a significant increase in the credit risk since origination has been determined (stage 2) equal the amount of the lifetime expected credit loss. Provisions for exposure for which no significant increase in credit risk has been identified are measured on the basis of the 12-month expected loss. The determination of a significant increase in credit risk is based on any changes in the credit rating of the exposure. The amount of the provisions for credit risks is determined on the basis of the results of the creditworthiness assessment (e.g. rating or score), expected loss and the applicable stage. The methods used to estimate the expected loss correspond to the methods used to estimate the loss for which portfolio-based valuation allowances are recognized.

The amount of the risk provision and the existence of evidence of impairment are regularly reviewed and updated.

QUANTITATIVE DISCLOSURES ON THE COUNTERPARTY CREDIT RISK OF VOLKSWAGEN BANK GMBH

The following tables present the aggregate amount of the exposure values of Volkswagen Bank GmbH after accounting offsets net of the effect of credit risk mitigation and the disaggregated average amounts by exposure classes broken down by significant geographical areas and remaining maturities as of Monday, December 31, 2018. The information is based on the supervisory reports as of Monday, December 31, 2018. Disclosures in accordance with Article 442(e) of the CRR are omitted for materiality reasons as defined in Article 432(1) of the CRR.

TABLE 15: TOTAL AMOUNT OF EXPOSURES AFTER ACCOUNTING OFFSETS AND WITHOUT TAKING INTO ACCOUNT THE EFFECTS OF CREDIT RISK MITIGATION AS WELL AS AVERAGE AMOUNT OF EXPOSURES BROKEN DOWN BY EXPOSURE CLASS IN € MILLION AS OF DECEMBER 31, 2018

Exposure classes	Exposure value Dec. 31, 2018	Average 2018
Exposures to central governments or central banks	4,593	5,956
Exposures to regional governments or local authorities	731	384
Exposures to public sector entities	991	513
Exposures to multilateral development banks	50	13
Exposures to international organizations	100	25
Exposures to institutions	1,554	1,645
Exposures to corporates	18,821	18,883
Retail exposures	40,247	40,872
Exposures secured by mortgages on immovable property	0	0
Exposures in default	1,108	998
Exposures associated with particularly high risk	0	0
Exposures in the form of covered bonds	265	169
Items representing securitization positions	435	1,372
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	18	19
Other items	4,889	4,660
Total	**73,803**	**75,509**

TABLE 16: TOTAL AMOUNT OF EXPOSURES BY SIGNIFICANT GEOGRAPHICAL AREAS

Exposure classes	Germany	Europe/Other	Asia/Pacific	Latin America
Exposures to central governments or central banks	2,245	1,707	0	0
Exposures to regional governments or local authorities	693	38	0	0
Exposures to public sector entities	925	66	0	0
Exposures to multilateral development banks	0	50	0	0
Exposures to international organizations	0	100	0	0
Exposures to institutions	752	892	7	0
Exposures to corporates	6,749	12,610	2	4
Retail exposures	23,528	16,718	0	0
Exposures secured by mortgages on immovable property	0	0	0	0
Exposures in default	780	328	0	0
Exposures associated with particularly high risk	0	0	0	0
Exposures in the form of covered bonds	265	0	0	0
Items representing securitization positions	18	417	0	0
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIUs)	0	0	0	0
Equity exposures	14	5	0	0
Other items	331	4,554	0	4
Total	**36,300**	**37,486**	**10**	**8**

TABLE 17: EXPOSURES BY RESIDUAL MATURITY AND EXPOSURE CLASS AS OF DECEMBER 31, 2018

Exposure classes	< 3 months	> 3 months < 1 year	> 1 to 5 years	more than 5 years
Exposures to central governments or central banks	2,200	2,000	271	122
Exposures to regional governments or local authorities	53	7	338	333
Exposures to public sector entities	5	6	480	500
Exposures to multilateral development banks	0	0	0	50
Exposures to international organizations	0	0	100	0
Exposures to institutions	1,114	3	3	434
Exposures to corporates	5,486	3,085	2,047	8,203
Retail exposures	1,233	4,097	33,076	1,841
Exposures secured by mortgages on immovable property	0	0	0	0
Exposures in default	217	71	354	466
Exposures associated with particularly high risk	0	0	0	0
Exposures in the form of covered bonds	0	0	50	215
Items representing securitization positions	83	190	162	0
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIUs)	0	0	0	0
Equity exposures	15	0	0	4
Other items	1,014	1,242	2,626	7
Total	**11,420**	**10,701**	**39,507**	**12,175**

The figures in Tables 18 to 20 are presented on the basis of the external IFRS financial statements as of December 31, 2018.

The following table breaks down non-performing and past due exposures by type of counterparty:

TABLE 18: NON-PERFORMING AND PAST DUE EXPOSURES BY TYPE OF COUNTERPARTY IN € MILLION AS OF DECEMBER 31, 2018

Types of counterparty	Exposures not in default (gross)	of which: not past due/ past due up to 30 days	of which: past due 30–90 days	Exposures in default (gross)	of which: not past due/ past due up to 90 days	of which: past due > 90 days	individually measured allowances	individually measured allowances in the reporting year	collectively measured allowances	collectively measured allowances in the reporting year
Central banks	1,865	1,865	0	0	0	0	0	0	0	0
Sovereigns	2,003	2,002	1	0	0	0	0	0	-1	0
Credit institutions	2,026	2,026	0	0	0	0	0	0	-1	-1
Other financial institutions	14,401	14,389	1	11	9	1	-1	0	-3	0
Non-financial corporations	22,846	21,275	241	1,330	990	341	-371	13	-254	-4
Households	45,981	44,952	170	859	629	230	-196	27	-329	-68
Total	**89,122**	**86,509**	**413**	**2,200**	**1,628**	**572**	**-568**	**41**	**-589**	**-72**

The following table shows a breakdown of nonperformance and past due risk exposures by significant geographical areas:

TABLE 19: BREAKDOWN OF NON-PERFORMING AND PAST DUE EXPOSURES BY SIGNIFICANT GEOGRAPHICAL AREAS IN € MILLION AS OF DECEMBER 31, 2018

Significant geographical areas	Exposures not in default (gross)	of which: not past due/past due up to 30 days	of which: past due 30–90 days	Exposures in default (gross)	of which: not past due/past due up to 90 days	of which: past due > 90 days	Individually measured allowances	Collectively measured allowances
Germany	48,257	46,580	87	1,316	1,035	282	-356	-225
Europe	40,865	39,929	326	884	593	290	-212	-363
Total	**88,276**	**83,133**	**413**	**2,200**	**1,583**	**572**	**-568**	**-589**

The following table shows the changes in individually and collectively measured allowances for impaired exposures:

TABLE 20: CHANGES IN THE INDIVIDUALLY AND COLLECTIVELY MEASURED ALLOWANCES FOR IMPAIRED EXPOSURES AS OF DECEMBER 31, 2018

€ million	Individually measured allowances (specific valuation allowances)	Collectively measured allowances (portfolio-based valuation allowances)	Total risk provisions
Opening balance	-609	-522	-1,132
Addition	-109	-133	-242
Unwinding	0	0	0
Reclassification	-118	-142	-260
Utilization	85	0	85
Reversal	181	196	377
Changes arising from foreign exchange rates	1	1	2
Closing balance	**-569**	**-600**	**-1,169**

The “Reclassification” column contains reclassified amounts.

The specific credit risk adjustments reported directly through profit and loss take the form of expenses of €–81 million for direct write-downs and income of €30 million from derecognized exposures.

DISCLOSURE OF ASSET ENCUMBRANCE

The tables below show the carrying amounts and fair values of the unencumbered and encumbered assets, the fair values of the collateral received and utilized or collateral available for encumbrance as well as the nominal amount of the collateral that is not available for encumbrance. The figures shown are medians calculated on the basis of the last four quarterly reporting dates in 2018. Information about the source of the encumbrance is also provided.

Information about the most important sources and types of encumbrance as well as a general description of the terms and conditions of the collateral agreements concluded for the purpose of securing liabilities

A portion of liquidity in the regulatory amount is deposited with central banks as a minimum reserve.

Bonds are used as collateral for the Group's own liabilities under open-market transactions. These securities are deposited with and pledged to Deutsche Bundesbank.

Receivables from retail financing and contractual claims from the leasing business are partially refinanced through ABS transactions. Liabilities include virtual loans representing the obligation to transfer the sold cash flows to special purpose vehicles (SPVs). The assigned receivables cannot be assigned again to anyone else or used in any other way as collateral.

Derivatives of Volkswagen Bank GmbH are secured with cash (cash collateral). If the fair value of all derivatives entered into with a counterparty is negative, cash collateral must be provided, which is recognized as an encumbered asset. If the fair value of all derivatives entered into with a counterparty is positive, Volkswagen Bank GmbH receives cash collateral, which is presented as collateral received but not encumbered. In addition, collateral is provided for derivatives subject to central clearing.

At the December 31, 2018 reporting date, the carrying amount of the encumbered assets was €33,348 million (previous year: €30,744 million).

In the absence of encumbrances, information about the encumbrance structure between entities of the Volkswagen Bank GmbH Group can be omitted. Special purpose entities (see ABS transactions above) are consolidated in accordance with IFRS 10 but are not part of the prudential scope of consolidation.

Receivables are transferred to special purpose entities at no charge during securitization transactions within the framework of overcollateralization.

Of the “Other assets” item, 33% are not suitable for encumbrance in normal business. This relates in particular to property and equipment and other receivables.

TABLE 21: DISCLOSURE ON ASSET ENCUMBRANCE: OVERVIEW A – ASSETS

		CARRYING AMOUNT OF ENCUMBERED ASSETS		FAIR VALUE OF ENCUMBERED ASSETS		CARRYING AMOUNT OF UNENCUMBERED ASSETS		FAIR VALUE OF UNENCUMBERED ASSETS	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	32,861	7,527			63,673	4,099		
030	Equity instruments	0	0			8	0		
040	Debt securities	7,527	7,527	7,527	7,527	7,727	4,099	7,727	4,099
050	of which: covered bonds	0	0	0	0	0	0	0	0
060	of which: asset-backed securities	7,527	7,527	7,527	7,527	3,788	3,270	3,788	3,270
070	of which: issued by general governments	0	0	0	0	1,939	829	1,939	829
080	of which: issued by financial corporations	7,527	7,527	7,527	7,527	5,789	3,270	5,789	3,270
090	of which: issued by non-financial corporations	0	0	0	0	0	0	0	0
120	Other assets	0	0			10,062	0		
121	of which: Leased assets (movable)	0	0			5,734	0		

TABLE 22: DISCLOSURE ON ASSET ENCUMBRANCE: OVERVIEW B – COLLATERAL RECEIVED

				UNENCUMBERED	
		Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	Collateral received by the reporting institution	0	0	0	0
140	Loans on demand	0	0	0	0
150	Equity instruments	0	0	0	0
160	Debt securities	0	0	0	0
170	of which: covered bonds	0	0	0	0
180	of which: asset-backed securities	0	0	0	0
190	of which: issued by general governments	0	0	0	0
200	of which: issued by financial corporations	0	0	0	0
210	of which: issued by non-financial corporations	0	0	0	0
220	Loans and advances other than loans on demand	0	0	0	0
230	Other collateral received	0	0	0	0
231	of which: ...	0	0	0	0
240	Own debt securities issued other than own covered bonds or asset-backed securities	0	0	0	0
241	Own covered bonds and asset-backed securities issued and not yet pledged			0	0
250	TOTAL ASSETS; COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	32,375	0		

TABLE 23: DISCLOSURE ON ASSET ENCUMBRANCE: OVERVIEW C – SOURCES OF ENCUMBRANCE

		MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED
		010	030
010	Carrying amount of selected financial liabilities	67,068	32,861
011	of which: Secured deposits with the exception of repurchasing agreements	67,066	32,860

DISCLOSURES RELATED TO SECURITIZATION TRANSACTIONS

Volkswagen Bank GmbH's securitization activities in accordance with Article 242 et seq. of the CRR are limited to the use of asset-backed securities transactions (ABS). Investments in securitizations of Volkswagen Bank GmbH Group are carried out solely via the banking book. The investment policy of the Volkswagen Bank GmbH and members of the institution group precludes taking over or retaining resecuritization positions.

Objectives of securitization activity

Securitization by the Volkswagen Bank GmbH institution group primarily serves the purpose of selling receivables in order to raise cash and thus to gain access to another source of funding. ABS transactions also represent a cost-effective form of funding for the seller because the buyer's risk is low. They leverage the capital market and its investors to a greater extent and expand the proportion of funding that is available to the relevant company independently of its rating. This creates a broader and more stable funding and investor base.

The Company may purchase portions of the securities from its own ABS transactions as an investor and deposit them as collateral with the European Central Bank as a liquidity reserve if required.

These transactions also serve to reduce the demands on regulatory capital.

Types of risk associated with securitization

With the exception of moral hazard, the Volkswagen Bank GmbH Group does not retain any risks in connection with the securitization of receivables.

As resecuritization positions are neither assumed nor retained, the associated disclosures are omitted in accordance with Article 449(c) of the CRR.

Roles in the securitization process

The Volkswagen Bank GmbH Group assumes clearly defined roles in the securitization process in compliance with the legal framework for securitization transactions. As the originator, it generates receivables under financing agreements. The structuring and selling process entails selecting and separating the portfolio and contacting external partners as well as the overall coordination of the transaction (attorneys, investment banks, rating agencies, swap partners, auditors, regulatory authorities). The entity also manages the contract pool that has been sold (collection and dunning procedures) and forwards the resulting payments to the special purpose vehicle (SPV, i.e. the servicer). Finally, they also assume responsibility for reporting to investors, banks and credit rating agencies. Since 2008, the Volkswagen Bank GmbH Group has additionally invested in securitization positions related to own ABS transactions of the Volkswagen Financial Services AG financial holding group or Volkswagen AG so as to be able to use the securities thus created as collateral for funding from the European Central Bank.

Scope of the institution's activities

The scope of the institution's individual activities is as follows:

TABLE 24: SECURITIZATION: SCOPE OF THE INSTITUTION'S ACTIVITIES

Roles	Scope
Originator	Generation of receivables in the form of financing contracts
	"True sale", i.e. nonrecourse sale of receivables to a single purpose vehicle (SPV)
Structurer	Execution of the feasibility study
	Overall project management
	Definition of portfolio criteria
	Coordination of banks, legal counsel and rating firms to be involved
	Selection of swap partner and other third parties
Servicer	Contract pool management
	Collection of receivables, dunning services
	Forwarding of payments received to the single purpose vehicle
	Monthly reports to rating agencies, investors and other parties involved in the transaction

Risk monitoring of securitization positions

The securitization positions held by the Volkswagen Bank GmbH Group may be tranches of any seniority (senior, mezzanine, junior). Prior to their sale or issue, a loan approval process is performed in which the Bank front office and back office are involved.

The reports prepared by external credit assessment institutions in connection with an internal evaluation and plausibility check as part of the existing security mechanisms are used to assess the level of risk.

An internal rating is awarded if an external rating is not available. The only exception is the first loss position, which is deducted directly from the liable capital of the Volkswagen Bank GmbH Group.

Transaction performance is regularly reviewed using the monthly investor reports. The positions are also reviewed as part of an annual resubmission process.

The credit risks arising from the securitization positions are not hedged.

No resecuritization positions are held.

Description of the approaches used to calculate the risk-weighted exposure amounts

The entities of the Volkswagen Bank GmbH institution group determine their own funds requirements using the Standardized Approach to Credit Risk (SACR) based on the IFRS consolidated financial statements of Volkswagen Bank GmbH, taking into account the scope of consolidation in accordance with section 10a(1) sentence 2 of the GBA. Models based on internal ratings or the IRBA approach are not used. With respect to the CRSA the relevant risk weighting is determined by allocating the short and long-term ratings to credit assessment levels. At the Group level, the requirements for the transfer of the significant risk in accordance with Article 243 of the CRR are fulfilled and options to reduce the risk-weighted exposure amounts to be calculated under Article 245 of the CRR are exercised. Risk-weighted exposure amounts for counterparty default risk are determined for the securitization positions. No options to reduce the risk-weighted exposure amounts are applied with respect to the Driver Master Compartment 2 transaction issued by Volkswagen Bank GmbH Group companies.

Within Volkswagen Bank GmbH, securitization positions arise from the retention of securities issued by originators within the Volkswagen Bank GmbH institution group. In addition, Volkswagen Bank GmbH invests in securitization positions of entities of Volkswagen Financial Services AG and of the Volkswagen Group whose originator is not included in the prudential scope of consolidation of Volkswagen Bank GmbH. This refers to Driver España two, Driver España three, Private Driver VCL 2016-1 (matured in November 2018) and VCL Master Compartment 1. A risk weight for determining capital backing is allocated to the securitization tranches using the rating of the securitization tranches that is issued based on the granularity and their seniority. If a rating cannot be allocated to a retained securitization position, this position will be deducted from the available modified own funds providing expected losses have not already been taken into account by making provisions in the HGB accounting. In addition, the risk weight of the securitization position is determined in part by applying Article 253 of the CRR.

Disclosures related to Article 449(i) of the CRR are omitted because no third-party exposures have been securitized.

Accounting policies

The accounting policies of Volkswagen Bank GmbH Group are based on IFRSs as follows.

In accordance with IFRS 10, the Volkswagen Bank GmbH Group consolidates the relevant special purpose entity such that the sale of the receivables constitutes an intragroup transaction from the perspective of the Group. Intragroup transactions do not have an effect on the consolidated balance sheet.

As a result, Volkswagen Bank GmbH reports the receivables sold in the consolidated financial statements as if no sale of receivables had taken place, even after the transaction has been closed. This means that no gain or loss on disposal to be recognized in profit or loss arises immediately or at a later point in time.

Consequently, the proceeds from the issue by the relevant special purpose entity are reported on the assets side of the consolidated balance sheet alongside the unchanged receivables at the inception of the transaction. The bonds and subordinated loans are recognized as liabilities as a counterposition. The securitization transactions reported in the consolidated balance sheet of Volkswagen Bank GmbH are therefore treated as funding within the meaning of the CRR.

An amount is withheld from the special purpose entities for the overcollateralization of the transaction. A further discount from the purchase price is transferred to a cash deposit account. Surplus collateralization is not reported in a separate line item of the balance sheet as the receivables are never taken off the balance sheet due to the fact that the special purpose entities are consolidated. The claim to payment of the cash deposit is also not capitalized because, from the Group's perspective, no sale took place owing to the consolidation of the special purpose entities. However, the cash deposit is reported separately under assets in the IFRS subgroup consolidated financial statements because the special purpose entities are consolidated.

Subsequent entries are made when the originator in its capacity as servicer collects the installments from the customers as these fall due and transfers them to the special purpose entities. These special purpose entities particularly use these funds to cover recurring costs and to make interest and capital payments on the bonds and subordinated loans issued by them.

For more information, please see the accounting policies described in the consolidated financial statements of Volkswagen Bank GmbH.

Because only entities that are part of the prudential scope of consolidation may be included in regulatory Group reporting, the special purpose entities that are included in the scope of consolidation under IFRSs but not in the prudential scope of consolidation are deconsolidated for the purposes of the regulatory Group reporting.

Purchased securities and subordinated loans granted are disclosed under assets as securitization positions. Securities are measured at fair value through profit and loss. If no price can be determined directly for securities not traded on an active market, the present value of the expected future cash flows is used for measurement, discounted to the reporting date using the risk-adjusted yield curve.

The subordinated loans granted are reported with other receivables from customers. They are measured at fair value through profit and loss.

There was a change in measurements in the year under review due to the first-time application of IFRS 9. In the previous year, securities acquired had been recognized at fair value through other comprehensive income and subordinate loans granted at amortized cost.

Receivables from customers are measured at amortized cost using the effective interest method and are assigned to the banking book. The question of whether or not the receivables to customers are awaiting securitization does not affect the measurement.

There are no liabilities reported in the balance sheet that are based on obligations to provide financial support for securitized receivables.

Credit rating agencies

The Volkswagen Bank GmbH Group invests in securities issued under the Driver transactions as well as under the VCL transactions issued by Volkswagen Leasing GmbH. The Driver transactions involve securitizations of retail financing, while the VCL transactions entail securitizations of lease receivables or residual values from leases.

Ratings from at least two credit rating agencies were used for both types of securitized receivables.

The following agencies issued ratings for tranches of current asset-backed securitizations issued by Volkswagen Bank GmbH:

> Fitch Ratings
> Moody's Investors Service
> Standard & Poor's Corporation
> DBRS
> Creditreform Rating AG
> ARC Ratings S.A.

Disclosures in accordance with Article 449 I of the CRR can be dispensed with as no internal-ratings-based approaches are applied.

Changes versus the previous year

Volkswagen Bank GmbH regularly securitized customer finance under the revolving Driver Master Compartment 1 (since 7/2015) and Driver Master Compartment 2 (since 7/2015). The Driver 14 (03/2018) and Driver 15 (09/2018) transactions were issued for the first time.

Receivables from the portfolio of Volkswagen Financial Services (UK) Limited were securitized on an ongoing basis using the revolving Driver UK Master Compartment 2 (since 11/2013) and Driver UK Master Compartment 3 (since 05/2016) In addition, Private Driver UK 2018-1 (03/2018) and Driver UK Master Compartment 4 (06/2018) were issued.

The Italian branch initiated its first securitization transaction known as Driver Italia One (05/2018).

Under the contractual repurchasing right which may be utilized if a certain materiality threshold is reached ("clean-up call"), outstanding exposures under the Driver 13 (09/2018), Private Driver 2014-4 (06/2018), Private Driver 2015-1 (12/2018) and DFM Master S.A. (12/2018) securitization transactions were bought back.

Information on quantitative disclosure requirements

The securitization transactions of the Volkswagen Bank GmbH Group described below are traditional securitizations involving the transfer of receivables from the banking book, for which options to reduce the risk-weighted exposure amounts to be calculated are exercised and under which no right of recourse against the Volkswagen Bank GmbH Group and its subsidiaries exists after the transactions have been executed. Purchased securitization positions are also shown. With the exception of the ordinary operations of the Volkswagen Bank GmbH Group, there are no significant changes in accordance with Article 449(m) of the CRR.

The following table shows the total amount of the outstanding securitized exposures, divided by the type of securitization and broken down by exposure type:

TABLE 25: TOTAL AMOUNT OF THE OUTSTANDING EXPOSURES SECURITIZED BY THE INSTITUTION, SEPARATELY FOR TRADITIONAL AND SYNTHETIC SECURITIZATIONS, AND SECURITIZATIONS FOR WHICH THE INSTITUTION ACTS SOLELY AS SPONSOR, AS OF DECEMBER 31, 2018

Exposure type in € million	Outstanding exposures
Traditional securitization transactions	
Retail financing	31,450
Dealer financing	0
Leases	0
Synthetic securitization transactions	
Total	**31,450**
of which as sponsor	0

The following table shows the aggregate amount of securitization positions retained or purchased, broken down by exposure type:

TABLE 26: AGGREGATE AMOUNT OF SECURITIZATION POSITIONS RETAINED OR PURCHASED AS OF DECEMBER 31, 2018

Exposure types	Securitization positions in € million
On-balance sheet	
Retail financing	68
Dealer financing	
Leases	367
Off-balance sheet	
Aggregate amount of securitization positions	**435**

The following table shows the amount of assets awaiting securitization in new ABS transactions. Receivables that are securitized within existing, revolving transactions are not shown in this table.

TABLE 27: AGGREGATE AMOUNT OF ASSETS AWAITING SECURITIZATION AS OF DECEMBER 31, 2018

Exposure type in € million	Outstanding exposures
Traditional securitization transactions	
Retail financing	769
Dealer financing	0
Leases	0
Total	**769**

The Volkswagen Bank GmbH Group intends to continue issuing ABS on a regular basis.

None of the transactions are based on revolving counterparty risk exposures within the meaning of Article 242 No. 12 of the CRR for a Group company acting as the originator. As there are no securitized facilities with an early amortization provision within the meaning of Article 242 No. 14 of the CRR, the disclosures relating to point (iv) of Article 449(n) of the CRR are omitted.

TABLE 28: AMOUNT OF SECURITIZATION POSITIONS THAT ARE DEDUCTED FROM OWN FUNDS OR RISK-WEIGHTED AT 1,250% AS OF DECEMBER 31, 2018

Exposure type in € million	Amount of securitization positions
Traditional securitization transactions	
Retail financing	80
Dealer financing	
Leases	205
Total	**285**

The following table shows a subclassification of the securitization positions retained or purchased broken down by risk weight bands, including securitization positions whose securitization risk weight is 1,250% or which are securitization positions to be deducted in accordance with Article 258 of the CRR, as well as the resulting own funds requirements:

TABLE 29: AGGREGATE AMOUNT OF SECURITIZATION POSITIONS RETAINED OR PURCHASED BROKEN DOWN BY RISK WEIGHT BANDS AS OF DECEMBER 31, 2018 *

Risk weight bands	Aggregate amount of SACR securitization positions in € million	SACR own funds requirements in € million
Securitization exposures		
20%	372	6
50%	63	3
1,250%/capital deduction	285	285
Re-securitization exposures		
Total	**720**	**294**

*Calculation according to Art. 253 CRR

Disclosures in accordance with point (ii) of Article 449(o) of the CRR can be omitted because resecuritization positions are neither retained nor purchased.

The following table shows a summary of securitization activity in the reporting period, including the amount of actually securitized exposures, as well as the gains and losses on sales of the securitized exposures, broken down by type of securitized exposure:

TABLE 30: SUMMARY OF SECURITIZATION ACTIVITY IN THE CURRENT DISCLOSURE PERIOD

EXPOSURE TYPE/SECURITIZATION	SECURITIZATION ACTIVITY IN THE CURRENT YEAR		
	Amount of securitized exposures in € million	Gain on sales in € million	Loss on sales in € million
Retail financing	4,261	0	0
Dealer financing	0	0	0
Leases	0	0	0
Total	**4,261**	**0**	**0**

The following table shows the amount of the impaired/overdue risk positions which, if they had not been securitised, would have been allocated to the banking book and which the Volkswagen Bank GmbH Group considers to be originator:

TABLE 31: DISCLOSURES ON IMPAIRED/PAST DUE ASSETS SECURITIZED RELATING TO EXPOSURES SECURITIZED BY THE INSTITUTION AS OF DECEMBER 31, 2018

Exposure type in € million	Amount of impaired/past due securitization exposures at the reporting date	Losses recorded by the institution in the current disclosure period
Traditional securitization transactions		
Retail financing	352	72
Dealer financing	0	0
Leases	0	0
Synthetic securitization transactions	**0**	**0**
Total	**352**	**72**

The Group does not maintain a trading book. Statements on trading book exposures in accordance with Article 449(q) of the CRR can therefore be omitted.

Credit support beyond the contractual obligations under Article 248(1) of the CRR is not provided. Statements in accordance with Article 449(r) of the CRR can therefore be omitted.

COUNTERPARTY/ISSUER RISK

Volkswagen Bank GmbH defines counterparty risk as the risk of financial loss that could arise from monetary investments or investments in securities or borrower's notes if the counterparty fails to make payments of interest or repayments of principal as contractually required. Similarly, issuer risk is the risk that the issuer of a financial product could become insolvent during the term of the product and, as a consequence, some or all of the invested capital, including the expected interest payments, has to be written off.

Counterparty risk arises in connection with interbank overnight and term deposits, derivatives and the purchase of pension fund units as part of the provision of pensions benefits for employees.

Issuer risk results from the purchase of securities to optimize liquidity management and to fulfill statutory and/or regulatory requirements.

The primary objective in the management of counterparty and issuer risk is to identify potential defaults in a timely manner so that corrective action can be initiated at an early stage as far as possible. Another important objective is to ensure that the company only takes on risks within the approved limits.

If a counterparty or issuer risk were to materialize, this would represent the potential loss of a business asset, which would have a negative impact on financial position and financial performance, depending on the amount of the loss.

Risk identification and assessment

Both counterparty risk and issuer risk are recorded as components of counterparty default risk. Both risk categories are determined by using a Monte Carlo simulation to calculate the unexpected loss (value at risk and expected shortfall) and the expected loss from a normal scenario and stress scenarios.

With the exception of the ABS agreements, the Volkswagen Bank GmbH institution group’s master agreements for derivatives transactions do not provide for the furnishing of additional collateral in the event of a downgrade in the credit rating.

In relation to the ABS agreements, the following table shows the amount of collateral an institution would have to provide given a downgrade in its credit rating in accordance with Article 439(d) of the CRR.

TABLE 32: DISCLOSURES ON THE AMOUNT OF COLLATERAL THE INSTITUTION WOULD HAVE TO PROVIDE GIVEN A DOWNGRADE IN ITS CREDIT RATING AS OF DECEMBER 31, 2018

Securitization transactions	Total collateral requirement given credit rating downgrade
Traditional securitization transactions	
Retail financing	1,287
Dealer financing	0
Leases	0
Total	**1,287**

Risk monitoring and control
Limits are assigned for counterparty/issuer risk on an aggregated basis and backed by internal capital under the Group ICAAP (internal capital adequacy assessment process) process. To establish effective monitoring and control, volume limits are specified in advance for each counterparty and issuer. The Treasury back office is responsible for monitoring compliance with these limits on a day-to-day basis. The volume limit is determined appropriately and in line with requirements and is based on the credit assessment that its initially performed and then regularly reviewed by the Credit Analysis department. Reports on counterparty and issuer risks to management are included in the quarterly risk management report.

REGULATORY CONSIDERATION

Detailed quantitative information on the derivative exposures is omitted for reasons of materiality (Article 432(1) of the CRR).

The Volkswagen Bank GmbH Group institution group does not conduct transactions in credit derivatives. It has not made use of the option to conclude netting agreements for derivatives.

SHAREHOLDER RISK

Shareholder risk refers to the risk that losses with a negative impact on the carrying amount of an equity investment could be incurred after the contribution of capital or equity-equivalent loans (e.g. silent contributions) for the Volkswagen Bank GmbH Group. In principle, the Volkswagen Bank GmbH Group only makes such equity investments to help it achieve its corporate objectives. The investments must therefore support its own operating activities and are intended to be held on a long-term basis. These equity investments are designed to enable customers of the Volkswagen Group to avail themselves of financial services and mobility in countries in which the Group is actively represented on its own or through private importers.

If shareholder risk were to materialize in the form of a loss of fair value or even the complete loss of an equity investment, this would have a direct impact on relevant financial data. The net assets and results of operations of the Volkswagen Bank GmbH Group would be adversely affected by write-downs recognized in profit or loss.

Risk identification and assessment
Shareholder risk is quantified on the basis of the carrying amounts of the equity investments and a probability of default and loss given default assigned to each equity investment using an ASRF model. Simulations are also carried out involving stress scenarios with rating migrations (upgrades and downgrades) or complete loss of equity investments.

Risk monitoring and control
Equity investments are integrated in the annual strategy and planning process of the Volkswagen Bank GmbH Group. It exercises influence over the business and risk policies of the equity investments through its representation on the relevant ownership or supervisory bodies. However, responsibility for the operational use of the risk management tools lies with the entities themselves.

MARKET RISK

Market risk refers to the potential loss arising from adverse changes in market prices or parameters that influence prices. The Volkswagen Bank GmbH Group is exposed to significant market risk arising from changes in market prices that trigger a change in the value of open interest rate or currency transactions.

The objective of market risk management is to keep the financial losses arising from this category of risk as low as possible. With this in mind, the management has agreed limits for this category of risk. If limits are exceeded, the situation is escalated on an ad hoc basis to the management and the Asset Liability Management Committee (ALM Committee). Action to reduce risk is discussed and initiated by the ALM Committee.

As part of risk management activities, market risk is included in the monthly risk report with a transparent analysis based on VaR, a calculation offsetting the total market risk against the loss ceiling set for the Volkswagen Bank GmbH Group and recommendations for targeted measures to manage the risk.

INTEREST RATE RISK

Interest rate risk refers to potential losses that could arise as a result of changes in market interest rates. It occurs because of interest rate mismatches between asset and liability items in a portfolio or on the balance sheet. The Volkswagen Bank GmbH Group is exposed to interest rate risks in its banking book.

Changes in interest rates that cause interest rate risk to materialize can have a negative impact on results of operations.

Risk identification and assessment

Interest rate risk for the Volkswagen Bank GmbH Group is determined as part of the monthly monitoring process using the VaR method with a 40-day holding period and a confidence level of 99%. The model is based on a historical simulation and calculates potential losses taking into account 1,000 historical market fluctuations (volatilities). Negative interest rates can also be processed in the historical simulation and included in the risk evaluation.

The VaR calculated for operational management purposes estimates potential losses under historical market conditions, but stress tests are also carried out for forward-looking situations in which interest rate exposures are subject to exceptional changes in interest rates and worst-case scenarios. The results from the simulations are analyzed to assess whether any of the situations could represent a serious potential risk. This process also includes the monthly quantification and monitoring of the changes in present value resulting from the interest rate shock scenarios of +200 basis points and –200 basis points as specified by the German Federal Financial Supervisory Authority (BaFin) and from the scenarios relating to interest rate risk in the banking book specified by the ECB and the Basel Committee on Banking Supervision.

The calculation of interest rate risk uses notional maturities to take into account early repayments under termination rights. The behavior of investors with indefinite deposits is analyzed using internal models and methods for managing and monitoring interest rate risk.

Risk monitoring and control

Treasury is responsible for the management of this risk on the basis of decisions made by the Asset Liability Committee. Interest rate risk is managed by using interest rate derivatives at both micro and portfolio levels. The derivatives are recognized in the banking book. Risk Management is responsible for monitoring and reporting on interest rate risk. Management receives a report on the current interest risk situation for the Volkswagen Bank GmbH Group each month.

TABLE 33: INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK AS OF DECEMBER 31, 2018*

CURRENCY	INTEREST RATE RISK SHOCK (+200/–200 BP)	
	Decrease in economic value in € million	Increase in economic value in € million
EUR	615.9	–16.5
GBP	218.7	93.2
TRY	0.5	0.0
SEK	7.2	18.0
CZK	4.3	–3.3
NOK	1.9	0.0
PLN	3.3	0.0
USD	0.0	0.0
Total	**851.9**	**91.5**

* Negative interest rates were floored, meaning that no deterioration in the –200 BP scenario is assumed if interest rates are negative.

DISCLOSURE OF MARKET RISK

All companies in the Volkswagen Bank GmbH institution group are classified as non-trading book institutions. The institution group does not run a trading book. In the area of market risk, the institution group currently enters into currency risk. Own funds requirements stand at €238 million. Own risk models are not in use at this time.

LIQUIDITY RISK

Liquidity risk is the risk of a negative variance between actual and expected cash inflows and outflows.

Liquidity risk is defined as the risk of not being able to meet payment obligations in full or when due, or – in the event of a liquidity crisis – the risk of only being able to raise funding at higher market rates or only being able to sell assets at a discount to market prices. This results in a distinction between illiquidity risk (day-to-day cash flow risk including deposit withdrawal/commitment drawdown risk and the risk of delayed repayment of loans on maturity), funding risk (structural liquidity risk) and market liquidity risk.

The primary objective of liquidity management at the Volkswagen Bank GmbH Group is to safeguard the ability of the Company to meet its payment obligations at all times. To this end, the Volkswagen Bank GmbH Group holds liquidity reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. It also has at its disposal standby lines of credit at other banks to protect against unexpected fluctuations in cash flows. There are no plans to make use of these standby lines of credit; their sole purpose is to serve as backup to safeguard liquidity.

When funding the Group companies, the Volkswagen Bank GmbH Group aims to diversify the funding sources. In addition to direct bank deposits at Volkswagen Bank GmbH, these mostly comprise money and capital market programs as well as asset-backed security transactions. This diversification of funding instruments helps to improve the structure of the balance sheet and reduce dependence on individual markets and products. To reduce the funding risk, the capital that the companies need is largely raised by matching maturities.

If liquidity risk were to materialize, funding risk would result in higher costs and market liquidity risk would result in lower selling prices for assets, both of which would have a negative impact on results of operations. The consequence of illiquidity risk in the worst-case scenario is insolvency caused by illiquidity. Liquidity risk management at the Volkswagen Bank GmbH Group ensures that this situation does not arise.

TABLE 34: DISCLOSURE OF QUANTITATIVE INFORMATION ON LCR

	Scope of consolidation (consolidated) / Currency and units (million)	Total unweighted value (average)				Total weighted value (average)			
	Quarter ends on	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
	Number of data points used in the calculation of averages	7	10	12	12	7	10	12	12
	HIGH-QUALITY LIQUID ASSETS								
1	Total high-quality liquid assets (HQLA)					4.738	4.855	5.480	6.412
	CASH OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	20.054	20.020	19.915	19.785	1.270	1.256	1.241	1.241
3	*Stable deposits*	16.100	16.191	16.270	16.256	805	810	813	813
4	*Less stable deposits*	3.882	3.763	3.579	3.447	393	380	361	346
5	Unsecured wholesale funding	4.310	4.506	4.630	4.938	1.908	2.069	2.174	2.446
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	0	0	0	0	0	0	0	0
7	*Non-operational deposits (all counterparties)*	4.003	4.273	4.361	4.537	1.601	1.836	1.905	2.046
8	*Unsecured debt*	307	233	269	401	307	233	269	401
9	Secured wholesale funding					0	0	0	0
10	Additional requirements	10.771	10.959	11.561	12.019	1.304	1.312	1.369	1.402
11	*Outflows related to derivative exposures and other collateral requirements*	101	89	79	62	83	75	70	57
12	*Outflows related to loss of funding on debt products*	0	0	0	0	0	0	0	0
13	*Credit and liquidity facilities*	10.670	10.871	11.482	11.957	1.221	1.238	1.298	1.345
14	Other contractual funding obligations	4.411	4.295	4.201	4.408	4.053	3.921	3.845	4.045
15	Other contingent funding obligations	0	0	0	0	0	0	0	0
16	**TOTAL CASH OUTFLOWS**					8.535	8.558	8.629	9.134
	CASH INFLOWS								
17	Secured lending (e.g. reverse repos)	0	0	0	0	0	0	0	0
18	Inflows from fully performing exposures	5.585	5.658	5.452	5.361	3.637	3.670	3.502	3.391
19	Other cash inflows	913	923	954	967	913	923	954	967
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	**TOTAL CASH INFLOWS**	6.498	6.580	6.406	6.328	4.550	4.592	4.455	4.358
EU-20a	***Fully exempt inflows***	0	0	0	0	0	0	0	0
EU-20b	***Inflows subject to 90 % cap***	0	0	0	0	0	0	0	0
EU-20c	***Inflows subject to 75 % cap***	6.498	6.580	6.406	6.328	4.550	4.592	4.455	4.358
						ADJUSTED TOTAL AMOUNT			
21	**CASH BUFFER**					4.738	4.855	5.480	6.412
22	**TOTAL NET CASH OUTFLOWS**					3.985	3.966	4.174	4.776
23	**LIQUIDITY COVERAGE RATIO (%)**					121,48%	124,41%	131,77%	133,90%

The calculation of the liquidity coverage ratio (LCR) disclosure setting out quantitative information on the LCR is based on the averages for the last twelve reporting dates prior to the December 31, 2018 disclosure date. These are simple averages of the figures reported at the end of the month over the twelve months prior to the end of each quarter.

The deviation from the Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 is due to the restructuring of the Volkswagen Bank GmbH Group in 2017. As a consequence of this, the first quarter of 2018 only includes seven averages (for the period from September 30, 2017 through March 31, 2018) and the second quarter of 2018 only ten averages (for the period from September 30, 2017 through June 30, 2018).

Concentration of liquidity and funding sources:

The Volkswagen Bank GmbH Group is funded largely through capital market and asset-backed security programs, and through direct banking deposits. The Volkswagen Bank GmbH Group holds liquidity reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. In addition to a broadly diversified number of funding sources, the Volkswagen Bank GmbH Group has two concentrations of funding sources: Volkswagen AG as the parent company and Deutsche Bundesbank in view of the targeted long-term refinancing operations II (TLTRO II)

Derivative exposures and potential collateral calls:

Interest-rate and currency swaps are traded within the Volkswagen Bank GmbH Group and included in the calculation of the LCR. Derivative contracts are secured in the form of collateral for each individual counterparty or in the form of a variation or initial margin in the case of clearing business.

Derivatives are expected to generate only very minor liquidity effects.

Currency mismatch in the LCR:

In accordance with the Commission Delegated Regulation (EU) 2015/61 of October 10, 2014, the Volkswagen Bank GmbH Group is required to hold sufficient high-quality liquid assets (HQLA) in the corresponding currency within the following 30 calendar days to cover the net liquidity outflows calculated for the LCR report. A perfect match between the currency of the HQLAs and the denomination of the net liquidity outflows is not sought. Rather, HQLAs are held in the main currency as well as the regulatory currencies for strategic purposes. Corresponding fluctuations and currencies that are not identified as currencies to be bought are compensated for in euros via HQLAs.

A description of the degree of centralization of liquidity management and the interaction between the individual Group institutions:

Within the Volkswagen Bank GmbH Group, the LCR is managed centrally by Group Treasury Volkswagen Bank GmbH. The liquid assets for the prudential scope of consolidation of the Volkswagen Bank GmbH Group are also managed centrally by Group Treasury as part of Group-wide LCR management. Group Treasury may issue instructions for the sale of central securities as well as securities held by the national companies.

Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile

Planned liquidity inflows (e.g. ABSs or capital market issues) which are not classed as legal cash flows for LCR purposes.

Liquidity planning

Responsibility for liquidity planning lies with the Treasury department of Volkswagen Bank GmbH and Group companies.

The expected liquidity flows of Volkswagen Bank GmbH are pooled and evaluated by Treasury. Daily liquidity requirements are calculated by Cash Management in the Treasury Back Office of Volkswagen Bank GmbH. Liquidity surpluses or shortfalls are eliminated by investing or raising cash with external banks as well as through ECB tenders.

Risk identification and assessment

Data is prepared and liquidity risks identified and recorded by risk management. Stress tests are applied to funding matrices using a scenario approach with scenario triggers from the Company itself or the market, or a combination of the two. Two approaches are used to determine the parameters for these stress scenarios. The first approach uses observed historical events and specifies different degrees of impact from hypothetical, but conceivable events. To quantify the funding risk, this approach takes into account the relevant aspects of illiquidity risk and changes in spreads driven by credit ratings or the market.

In the second approach, Treasury also prepares two different funding matrices, carries out cash flow forecasts and uses this information to determine the relevant range of liquidity coverage to ensure appropriate liquidity management. In these calculations, the legal cash flows are assumed for funding instruments, whereas estimated cash flows are used for other factors that affect liquidity. In the reporting period, the range of liquidity coverage taking into account simulated, limited funding and a partial withdrawal of overnight deposits came to a minimum of 31 weeks.

Different basic assumptions and premises are taken into account for liquidity stress tests; these include a variety of events (e.g. no external funds available and increased withdrawal of deposits at the Volkswagen Bank GmbH Group).

The decision of the specific type of funding to be performed is influenced by market conditions, e.g. investor demand, on the one hand and by the maturity profiles of the existing funding operations on the other.

The Volkswagen Bank GmbH Group's external rating has an impact on the funding costs of money and capital market programs. Currently, credit rating agencies give Volkswagen Bank GmbH a long-term rating of A- (S&P) with a negative outlook and A1 (Moody's).

Compliance with the LCR is a strict condition for managing the liquidity of the Volkswagen Bank GmbH Group.

Risk monitoring and control

To manage liquidity, the Operational Liquidity Committee (OLC) holds meetings every two weeks at which it monitors the current liquidity situation and the range of liquidity coverage. It decides on funding measures and prepares any necessary decisions for the decision-makers.

Risk Management communicates the main risk management information and relevant early warning indicators relating to illiquidity risk and funding risk. As far as illiquidity risk is concerned, these indicators involve appropriate threshold values for determined degrees of utilization over various time horizons, taking into account access to relevant sources of funding. The indicators relating to funding risk are based on potential funding costs, which are monitored using a system of limits.

A further strict requirement imposed under banking regulations is the need to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and thirty-day time horizons. For this reason, a contingency plan with an appropriate list of action points for obtaining liquidity has been drawn up so that it can be implemented in the event of any liquidity squeeze. A contingency situation may be triggered either by liquidity risk management (risk management) or by liquidity management and planning (OLC). These action points stipulate immediate notification of a set group of recipients including the management in the event that a severe liquidity squeeze should occur. A crisis committee is convened to make all liquidity-related decisions and/or lay the groundwork for decisions by the management.

Risk Communication

As part of risk communications, the members of the management of Volkswagen Bank GmbH are informed on a daily basis of the outstanding funding, open confirmed bank credit lines and the value of the securities in the operational safe custody account held with Deutsche Bundesbank.

The Management of Volkswagen Bank GmbH is informed of the prevailing liquidity position on a monthly basis.

Moreover, management discloses the appropriateness of the liquidity situation in a final statement based on the annual ILAAP guideline.

RESIDUAL VALUE RISK

Residual value risk arises from the fact that the predicted market value for an asset leased or financed could turn out to be lower on remarketing at the end of the contract than the residual value calculated when the contract was concluded, or that the sales revenue realized could be less than the carrying amount of the vehicle in the event of the contract being ended early by the exercise of legal contract termination options. On the other hand, there is an opportunity in that remarketing could generate proceeds greater than the calculated residual value or carrying amount.

The Volkswagen Bank GmbH Group companies have implemented a residual value risk management cycle. As part of this cycle, regular residual value forecasts are prepared and ongoing risk assessments performed. Where necessary, proactive marketing activities are derived from the results of the assessment to optimize the result from the assumption of residual value risks. The results of the marketing thus obtained are taken into consideration in the review of the residual value guidelines.

A distinction is made between direct and indirect residual value risk in relation to the bearer of this risk. Direct residual value risk refers to residual value risk borne directly by the Volkswagen Bank GmbH Group. An indirect residual value risk arises if the residual value risk has been transferred to a third party (such as a dealer) on the basis of a contractual agreement. In such cases, there is a counterparty default risk in respect of the residual value guarantor. If the residual value guarantor defaults, the residual value risk reverts to the Volkswagen Bank GmbH Group.

The objective of residual value risk management is to keep the risks within the agreed limits. The net assets and financial performance of the Volkswagen Bank GmbH Group would be adversely affected by losses on disposal if the residual value risk were to materialize.

Risk identification and assessment

Expected loss (EL) and unexpected loss (UL) are used to quantify direct residual value risks. The EL equates to the difference between the latest forecast remarketing proceeds as of the measurement date and the contractual residual value specified at the inception of the lease for each vehicle. Other parameters such as remarketing costs are also taken into account in the calculation. The portfolio EL is calculated by aggregating the individual ELs for all the vehicles.

The UL is determined by measuring the change between the projected residual value one year before the end of the lease and the actual selling price achieved (adjusted for damage and mileage variances). Using the used car price adds a fixed, observable reference figure to the model, with the result that the modeling can be considered statically valid. In a first step, the change in value is determined for each individual lease for each period. However, given the size of the portfolio and the huge number of vehicles, systematic risk is significant and a second step is therefore carried out in which the average change in value compared with projected residual values is determined over several periods. The resulting markdown is calculated using the quantile function of the normal distribution with a specified confidence level.

The UL is calculated by multiplying the latest projected residual value by the markdown. As in the calculation of the EL, the portfolio UL is determined by aggregating the ULs for the individual vehicles. This figure is generated quarterly. The results from the calculation of the EL and UL are fed in to the assessment of the risk situation, e.g. they are one of the factors used in assessing the adequacy of the provisions for risks and are included in the calculation of risk-bearing capacity.

Indirect residual value risks are quantified using the method applied to calculate direct residual value risks. In addition, this method takes into account the probability of default of the residual value guarantor (dealer) and, if appropriate, other factors specific to this category of risk.

The Volkswagen Bank GmbH Group classifies indirect residual value risks as a “minor risk type”.

The general requirements for developing, using and validating the risk parameters for direct and indirect residual value risk are documented in a work rule.

Risk monitoring and control

Risk management monitors the residual value risk within the Volkswagen Bank GmbH Group.

As part of risk management procedures, the adequacy of provisions for risk and the potential residual value risk are regularly reviewed in respect of direct residual value risk. Within the Volkswagen Bank GmbH Group, provisions for direct residual value risk are recognized in accordance with the guidance contained in the IFRSs. Loan loss provisions are calculated on the basis of a point-in-time view of the risks accepted. For this purpose, the quantified residual value risks are spread over the term of the contract. Residual value opportunities are disregarded in the recognition of provisions for risks.

The sum total of loan loss provisions set aside at the portfolio level is sufficient to cover the overall risk (EL) as contracts with residual value risks are netted against those with residual value opportunities in order to quantify overall risk. If a large part of the portfolio is exposed to residual value risks, the existing provisions for credit risks may not be sufficient to cover risk in full. In these cases, the resultant gap must be filled with equity components.

Based on the resulting potential residual value risk, various measures are initiated as part of a proactive risk management approach to limit the residual value risk. Residual value recommendations for new lease originations must take into account prevailing market circumstances and future influences.

Various stress tests for direct residual value risks are also planned to create a comprehensive picture of the risk sensitivity of residual values. These stress tests will be carried out by experts with the involvement of risk specialists at head office and in the local units.

Indirect residual value risks faced by the Volkswagen Bank GmbH Group are subject to plausibility checks and are assessed from the perspectives of risk amount and significance.

As part of risk management activities, Risk Management regularly reviews the potential indirect residual value risk and the adequacy of the associated provision for risks. If necessary, it takes measures to limit the indirect residual value risk.

EARNINGS RISK (SPECIFIC PROFIT OR LOSS RISK)

Earnings risk refers to the risk that actual values will vary from the budgeted values for certain items on the income statement that are not already covered by the other categories of risks described elsewhere.

Earnings risk includes the following risks:

- unexpectedly low fees and commissions (fee and commission risk);
- unexpectedly high costs (cost risk);
- excessively high income targets for new and existing business volume (sales risk); and
- unexpectedly low investment income

The objective is to regularly analyze and monitor the potential risk associated with earnings risk to ensure that variances compared with budgeted values are identified at an early stage and any necessary corrective action is initiated. If the risk were to materialize, this would reduce income or increase costs and thereby also adversely impact operating profit.

Risk identification and assessment

The Volkswagen Bank GmbH Group quantifies earnings risk using a parametric earnings at risk (EaR) model with the confidence level specified in the calculation of risk-bearing capacity and a one-year forecast period.

The relevant income statement items provide the basis for these calculations. The estimates for earnings risk are then based on two perspectives: first, the observed relative variances between target and actual values; second, the volatility and interdependencies between the individual items. Both components are incorporated into the EaR calculation.

Risk monitoring and control

During the course of the year, changes in the actual values for the earnings risk exposures are compared against the forecast values. This comparison is included in the standard reporting procedure carried out by Controlling.

The results from the quantification of earnings risk are fed into the calculation of risk coverage potential as a deduction from risk-bearing capacity. The results are monitored by Risk Management.

NONFINANCIAL RISKS

Operational risk

Operational risk (OpR) is defined as the risk of loss resulting from inadequate or failed internal processes (process risk), people (HR risk) or systems (technological risk), or resulting from external events (third-party risk). This definition includes legal risk. Other categories of risk, such as reputational or strategic risk, do not fall within the scope of operational risk and are analyzed separately.

The objective of OpR management is to present operational risks transparently and initiate precautionary or corrective measures with a view to preventing or, when this is not possible, mitigating the risks or losses. If an operational risk materializes, this represents an operational loss with the resulting loss of a business asset, which has a negative impact on financial position or financial performance, depending on the amount of the loss. The OpR strategy defines the approach to be applied in the management of operational risks. The OpR manual defines the implementation process and responsibilities.

Risk identification and assessment

Operational risks or losses are identified and assessed by local experts working in pairs (assessor and approver) with the help of two OpR tools: a risk self-assessment and a loss database.

The risk self-assessment is used to determine a monetary assessment of future potential risks. A standardized risk questionnaire is provided once a year for this purpose. The local experts use these questionnaires to determine and record the details for various risk scenarios. The details include the possible amount of the risk and the probability of occurrence, in each case with typical and maximum figures. The central loss database is used to ensure that information about monetary operational losses is collected internally on an ongoing basis and the relevant data is stored. A standardized loss form is made available to the local experts to aid this process. The experts use this form to determine and record the relevant data, including the amount and cause of the loss.

All relevant data from the risk self-assessment and the loss database is historicized centrally and its trend monitored.

Risk monitoring and control

Operational risk is managed by the companies/divisions (OpR units) on the basis of the guidelines in force and the requirements laid down by the special operational risk units responsible for specific risk categories. To this end, local management decides whether future risks or losses are to be ruled out (risk prevention), mitigated (risk mitigation), consciously accepted (risk acceptance) or transferred to third parties (risk transfer).

Risk Management checks the plausibility of the information provided by the companies/divisions in the risk self-assessments, reviews the reported loss events and then initiates any necessary corrective action, reviews the OpR system to ensure it is fully functioning and instigates appropriate modifications as required. This includes, in particular, the integration of all relevant operational risk units, a review to check compliance with the risk substrategies for operational risks and a review of the methods and procedures used for risk measurement.

Communications relating to operational risks are provided quarterly as part of the risk management reports. The quarterly details are supplemented by an annual OpR report in which the main events in the year are presented and assessed again on a coherent basis. Ad hoc reports are issued in addition to the regular reports provided that the relevant specified criteria are satisfied.

DISCLOSURE ON OPERATIONAL RISK

The Volkswagen Bank GmbH institution group uses the Standardized Approach to determine the capital requirement for operational risks. Own funds requirements stand at €353 million.

Compliance and conduct risk

Compliance risks comprise all risks at the Volkswagen Bank GmbH Group that may arise from any failure to comply with statutory provisions, other requirements of competent authorities or regulators and internal company policies.

They are distinct from conduct risks which arise from misconduct by the institution towards customers as a result of improper treatment of the customer or misselling of products that are not suitable for the customer.

Volkswagen Bank GmbH Group addresses both categories of risk by means of a local compliance function whose task is to specify and implement risk-mitigating measures.

To counter compliance and conduct risks, it is the responsibility of the compliance function to ensure compliance with laws, other legal requirements, internal rules and self-proclaimed values, and to create and foster an appropriate compliance culture.

The compliance officer as part of the compliance function is responsible for implementing effective processes for ensuring compliance with statutory rules and requirements of key importance for the institution together with appropriate controls. This is done particularly by defining binding “compliance rules” for all statutory provisions classified as being material. This includes the documentation of responsibilities and processes, the establishment of controls of a necessary extent and measures for heightening employees’ awareness of the rules relevant to them so that compliance with these rules becomes automatic and forms part of a fully functional compliance ethos.

As well as this, additional regular measures are taken to promote a compliance culture. These particularly include constant reminders of the Volkswagen Group’s code of conduct, measures to heighten employees’ awareness on a risk-oriented basis (e.g. “tone from the top”, face-to-face training, e-learning programs, other media), communications including the distribution of guidelines and other information media and participation in compliance programs.

The compliance function has a decentralized structure. As a general principle, the individual departments are responsible for ensuring compliance in their own areas. A compliance theme coordinator is appointed for all key and core rules and regulations. The coordinator is responsible for adhering to and implementing the defined compliance requirements (such as documenting responsibilities, setting up controls, raising awareness and training employees).

The compliance function determines on the basis of control plans and documentation whether the controls that have been implemented are appropriate. In addition, an evaluation is performed on the basis of the results of various auditing activities to determine whether there is any evidence indicating that the compliance requirements that have been implemented are not effective or material residual risks requiring further action are discernible.

The compliance officer is responsible for coordinating the ongoing legal monitoring used for identifying any new or modified legal requirements and rules with minimum delay. For their part, the compliance theme coordinators must work in collaboration with the legal department and the various other departments to implement measures aimed at identifying new or amended regulations and requirements relevant to their areas of responsibility at an early stage and, if such relevance is established, furnishing an analysis of materiality for the Bank. They report the identified requirements and rules to the compliance officer without delay.

The internal compliance committee performs a regular materiality analysis on the basis of the legal monitoring results. The compliance committee makes a decision in the light of the compliance risks that have been evaluated concerning the materiality of new legal requirements applicable to the company. Compliance risks particularly include the risk of a loss of reputation on the part of the general public or regulatory authorities and the risk of material financial losses.

As a result, the following main legal areas have been identified as being of material relevance for the Group:

> prevention of money laundering and terror finance,
> prevention of corruption and other criminal acts,
> data protection,
> consumer protection,
> securities trading law/capital market law,
> banking supervisory law,
> antitrust law and
> IT security law.

The compliance requirements that must be met by the Volkswagen Bank GmbH Group are determined centrally and must be implemented autonomously by the local companies. Any deviation from the minimum requirements or guidelines is only possible if accompanied by a description of the reasons (such as local statutory requirements) and only in consultation with, and with the consent of, the Compliance Officer at the institution concerned.

The compliance officer ensures by means of regular visits and risk-oriented site inspections that the local compliance units are acting in accordance with their responsibility.

To meet the statutory reporting requirements of the compliance function, the Compliance Officer must submit to the Management both regular reports on the outcome of the meetings of the Compliance Committee and ad hoc reports as necessary (for example, if control plans are not prepared by the required deadline).

Moreover, management prepares a compliance report both annually and on an ad-hoc basis. The annual compliance report includes a description of the appropriateness and efficacy of the compliance requirements implemented for observing central and important statutory requirements and rules.

Risk from outsourcing activities

Outsourcing describes a situation in which another entity (the outsourcee) is engaged to carry out activities and processes in connection with the provision of banking activities, financial services or other typical banking-related services that would otherwise be carried out by the outsourcing entity itself.

Arrangements for support services in relation to software that are utilized for the identification, assessment, management, monitoring and communication of risks or that are of material significance for the performance of banking tasks also constitute outsourcing.

A distinction needs to be made between outsourcing and one-time or occasional procurement from third parties of goods or services or services that are typically obtained from a supervised entity and, because of the actual circumstances involved or legal requirements, cannot usually be supplied by the buying entity itself, either at the time of the purchase from the third party or in the future.

The procurement of software without accompanying services or activities is also generally to be classified as other procurement from third parties.

The objective of outsourcing risk management is to identify and minimize the risks from all outsourcing. If an elevated level of risk is identified in the course of outsourcing management or supervisory activities, measures may be initiated, where appropriate, to restore the risk situation associated with an outsourced activity to the original level.

A significant increase in risk can necessitate a change of service provider or, if possible and strategically desirable, the ending of the outsourcing arrangement. In this case, the activities may be performed by the Company itself or may be eliminated entirely.

Risk identification and assessment
Risks arising in connection with outsourced activities are identified by examining the circumstances and performing a risk analysis. In the first step, an examination of the circumstances is used to establish whether the planned activity constitutes outsourcing or procurement from a third-party supplier. The risk analysis uses various criteria to determine the risk content in an outsourcing arrangement. The outcome is the classification of the outsourcing arrangement as material or immaterial. Material outsourcing arrangements are subject to more stringent levels of monitoring and control as well as special and stricter contractual provisions.

Risk monitoring and control
The risks from outsourcing activities are documented as part of operational risk. To ensure effective management of outsourcing risk, the Volkswagen Bank GmbH Group has issued a framework policy specifying the constraints that outsourcing arrangements must observe. Before any activity is outsourced, a risk analysis must be prepared to determine the risk in each case. This analysis procedure is one of the components of the constraints and ensures that an adequate level of monitoring and control is applied. The framework policy also specifies that all outsourced activities must be agreed with the Group Outsourcing Coordination unit. This coordination unit is therefore informed about all outsourcing activities and the associated risks, and communicates these risks to the Management on a quarterly basis.

In addition, all risks arising from outsourcing activities are subject to risk monitoring and control through the OpR loss database and the annual risk self-assessment.

Business continuity management

Business continuity management (BCM) aims to ensure the continuation of time-critical business processes in the event of an unplanned interruption as well as a structured, coordinated and rapid return to normal business operations through adequate and effective planning and preparation.

To ensure business resilience in crisis situations, the Volkswagen Bank GmbH Group introduced a business continuity management program – based on international standard ISO 22301 – that is continuously refined and improved. The general Group-wide BCM requirements are regularly reviewed with regard to their effectiveness and modified as requirements change. Local management is responsible for implementing these requirements and for implementing, enhancing and continuously improving the preventive and reactive organizational structures and workflows in a local business continuity management system (BCMS).

Here, time-critical business processes are identified and tactics and contingency plans to ensure the continuation of business and return to normal operations are prepared, taking local risk situations into account. In this connection, the Volkswagen Bank GmbH Group has defined the following scenarios as relevant: Loss of buildings, IT, human resources and external service providers In order to ensure operational capability, all plans are regularly tested and the effectiveness of the procedures is practiced within the scope of the structures that have been implemented at the local level.

The process implemented with the BCMS is repeated periodically to ensure that the planning and preparation are up to date, adequate and effective.

Model risk

Model risks arise from any imprecision in the risk values and must particularly be taken into account in risk assessments and complex models. Depending on the complexity of the model, model risk can occur in a number of areas of model development and application.

Potential model risks relating to the risk models used for the risk-bearing capacity analysis are qualitatively assessed both in the original model development process and as part of regular independent model validation. The objective is to examine the need for additional cover in relation to such risks in the form of own funds.

The assessment results indicate that the models used for the risk-bearing capacity analysis overwhelmingly rank as “straightforward”, “transparent” and “conservative”. Possible drivers of model risk are additionally reviewed and validated regularly in the context of the particularly significant risk categories credit risk and residual value risk. Quantitative backing with own funds is provided where necessary for any model risks that arise.

Strategic Risk

Strategic risk is the risk of a direct or indirect loss arising from strategic decisions that are flawed or based on false assumptions.

Strategic risk also includes all risks that result from the integration/reorganization of technical systems, personnel or corporate culture (integration/reorganization risk). These risks may be caused by fundamental decisions about the structure of the business made by the management in relation to the positioning of the company in the market.

The objective of the Volkswagen Bank GmbH Group is to manage its acceptance of strategic risk enabling it to systematically leverage earnings potential in its core business. At the same time, the strategic risks must be minimized.

In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern. Strategic risk is recognized quantitatively by applying a deduction to aggregate risk cover in the calculation of risk-bearing capacity.

Reputational risk

Reputational risk refers to the risk that an event or several successive events could cause reputational damage (in the eyes of the general public), which in turn could limit current and future business opportunities or activities (potential earnings), thereby leading to an indirect adverse financial impact (customer base, sales, funding costs, etc.) and/or direct financial losses such as penalties, litigation costs, etc.

The responsibilities of the Corporate Communications unit include avoiding negative reports in the press or similar announcements that could inflict damage on the reputation of the Company. If this is unsuccessful, the unit is then responsible for assessing the situation and initiating appropriate communications aimed at specific target groups to limit the reputational damage as far as possible. The objective is therefore to prevent or reduce any negative variance between actual reputation and the level of reputation the Company expects. A loss of reputation or damage to the Company's image could have a direct impact on financial performance.

Reputational risk is recognized quantitatively by applying a markdown in the calculation of risk-bearing capacity. This approach is reassessed each year from a qualitative perspective.

RISK STATEMENTS BY THE MANAGEMENT IN ACCORDANCE WITH ARTICLE 435 OF THE CRR

The management of Volkswagen Bank GmbH has approved the following risk statements:

Declaration on the adequacy of risk management arrangements (in accordance with Article 435(1)(e) of the CRR)

"The risk management arrangements of the Volkswagen Bank GmbH Group comply with established standards and are proportional to the risk inherent in the exposures. This includes the processes which have been established for liquidity risk management.

The processes are appropriate for ensuring risk-bearing capacity and adequate liquidity resources on a sustained basis. The risk objectives described are measurable, transparent and manageable on account of the procedures used. They fit the strategy of the institution.

Consequently, we, as the Board of Management of Volkswagen Bank GmbH, consider the risk management systems established by the Volkswagen Bank GmbH Group to be appropriate for the profile and strategy of the Volkswagen Bank GmbH Group."

Concise risk statement (in accordance with Article 435(1)(f) of the CRR)

The business strategy of Volkswagen Bank GmbH (Group), ROUTE2025, serves as the starting point for the preparation and consistent derivation of our 2019 risk strategy. This provides a binding framework for risk-taking that reflects our risk-bearing capacity, risk tolerance and risk appetite, as well as the management of risks.

Our risk profile as well as the risk tolerance defined by the management and the defined risk appetite of the Volkswagen Bank GmbH Group are modeled by the limit system and the allocation to risk types. As the following allocation shows, credit and residual value risks account for the largest share of the overall risk and thus correspond to our business model of a captive finance company:

TABLE 35: DEVELOPMENT OF RISK TYPES (AS OF DECEMBER 31, 2018)

	€ MILLION		SHARE IN %	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Risk categories				
Credit risk	352	586	22	33
Shareholder, issuer and counterparty risk	3	5	0	0
Residual value risk	553	433	35	24
Earnings risk[1]	314	398	20	23
Market risk[1]	113	92	7	5
Liquidity risk (funding risk)[1]	11	14	1	1
Operational risk	168	152	11	9
Other risks[2]	80	88	5	5
Total	**1,594**	**1,768**	**100**	**100**

1 Confidence level: 99 %
2 Global amount for material non-quantifiable risks: reputational risk and strategic risk

In addition, our risk profile is characterized by broad nationwide diversification, a large proportion of retail business and the use of motor vehicles as collateral. These comprise a large range of vehicles from the different brands of the Volkswagen Group as well as across all automotive segments. Furthermore, the Volkswagen Bank GmbH Group makes use of the exemption granted in Article 94 of the CRR, as it does not conduct any trading book activities.

The Volkswagen Bank GmbH Group has broadly diversified funding sources. At 20%, the target LCR (liquidity cover ratio) is above the regulatory minimum. This minimum ratio has always been achieved. This corresponds to the liquidity risk profile and is in line with the risk strategy as well as the defined risk tolerance. Liquidity risk management is suitable for detecting possible risks at an early stage and is therefore considered to be appropriate.

The above-mentioned aspects and the incomplete allocation of the existing risk coverage potential among the risk types reflect the moderate risk tolerance of the Volkswagen Bank GmbH Group."

CORPORATE GOVERNANCE ARRANGEMENTS IN ACCORDANCE WITH ARTICLE 435(2)(A-E) OF THE CRR

Number of directorships held by members of the management

The following tables show the number of directorships held by members of the management and the Supervisory Board of Volkswagen Bank GmbH.

TABLE 36: NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT

	Number of management functions as of Dec. 31, 2018	of which management functions in the Volkswagen Group as of Dec. 31, 2018	Number of supervisory functions as of Dec. 31, 2018	of which supervisory functions in the Volkswagen Group as of Dec. 31, 2018
Dr. Michael Reinhart	1	1	4	3
Harald Heßke	1	1	4	4
Christian Löbke	1	1	2	2
Dr. Volker Stadler	1	1	3	3

TABLE 37: NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE SUPERVISORY BOARD*

	Number of management functions as of Dec. 31, 2018	of which management functions in the Volkswagen Group as of Dec. 31, 2018	Number of supervisory functions as of Dec. 31, 2018	of which supervisory functions in the Volkswagen Group as of Dec. 31, 2018
Dr. Jörg Boche	–	–	3	3
Dr. Ingrun-Ulla Bartölke	–	–	3	3
Waldemar Drosdziok	–	–	1	1
Markus Bieber	–	–	1	1
Birgit Dietze	–	–	2	2
Frank Fiedler	3	3	13	12
Prof. Dr. Susanne Homölle	–	–	1	1
Thomas Kähms	–	–	1	1
Lutz Meschke	2	2	24	23
Dr. Hans-Joachim Neumann	–	–	1	1
Lars Henner Santelmann	2	2	11	11
Silvia Stelzner	–	–	1	1

* Disclosures include mandates which are subject to grandfathering rights as defined in section 64r of the GBA.

Recruitment policy for the selection of members of the management and Supervisory Board and their actual knowledge, skills and expertise

The selection strategy is based on statutory requirements, particularly those governed by the GBA, the rules of procedure of the Supervisory Board and its committees and the Company's articles of association.

The Supervisory Board follows these in appointing and dismissing members of the management. Members are generally reappointed in the year before their current appointment ends. The nomination committee supports the Supervisory Board in finding suitable candidates for filling a vacancy in the management and in preparing proposals for the election of members of the Supervisory Board. In this connection, it seeks to ensure a balance and diversity in the knowledge, capabilities and experience of all the members of the governing body in question. The members of the Supervisory Board are elected at the annual general meeting. Particular attention is paid to diversity and suitability for performing the responsibilities of a member of the Supervisory Board. Following a corresponding assessment, the Nomination Committee regularly provides the Supervisory Board with recommendations regarding the composition of the management bodies. In addition, the members of the Supervisory Board are encouraged to take part in the lifelong learning program.

The members of the management have extensive theoretical and practical knowledge as well as the experience to be able to carry out their department-related management responsibilities in full. Sufficient time is available for their activities.

The composition of the management ensures that Volkswagen Bank GmbH has the theoretical and practical knowledge necessary to duly carry out its overall responsibility in all significant areas.

The members of the Supervisory Board work or have worked – in some cases for many years – in various functions, including management at different companies, have been appointed as chairs or as members of the management boards, have headed controlling and accounting or treasury departments, or are long-standing members of works councils. The members of the Supervisory Board possess the necessary expertise to perform their supervisory duties and to assess and monitor the Company's business as well as knowledge of accounting and auditing matters.

Policy on diversity with regard to selection of members of the management and Supervisory Board

Diversity is one of the criteria for the composition of management bodies. The concept of diversity is also taken into account when selecting the members of the management bodies. Above all, Volkswagen Bank GmbH endeavors to achieve diversity in terms of age, gender, geographical origin, as well as educational and professional background with, in particular, appropriate consideration of women. The proportion of women on the Supervisory Board stands at 33%. There is adequate representation of employees on the Supervisory Board.

Information about the 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), as well as the terms and conditions in customer business as compared to the business model and risk structure.

Description of the information flow on risk to the management and Supervisory Board

Risk reporting to the management and Supervisory Board occurs quarterly in the form of a comprehensive risk management report. The starting point for the risk management report is risk-bearing capacity because of its importance from a risk perspective for the successful continued existence of the business as a going concern. The report also presents the calculation of the available risk coverage potential, the utilization of limits and the current percentage allocation of the overall risk to the individual risk categories. In addition, Risk Management reports on counterparty default risk, direct residual value risk, liquidity risk and operational risk, both at an aggregate level and for markets. Additional reports are produced for specific risk categories.

Ad hoc reports are generated as needed to supplement the system of regular reporting. All Group companies are required to prepare these reports. In a two-step process, the management is first informed of events that may have a significant impact on or damage the overall risk profile; then, if necessary, the Supervisory Board is notified of these events. Depending on the risk type and reporting level, various thresholds then lead to these risks being reported immediately.

In addition to the reporting, management is briefed at its meetings on the risk situation including selected exposures. Supervisory Board members are informed of risk-specific topics at Supervisory Board meetings. Information on risks arising from the launch of new products or the commencement of activities in new markets is collected in the new product and new market process. Responsibility for approval or rejection lies with the relevant members of the management and, in the case of new markets, also with the members of the Supervisory Board.

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