VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN BANK GMBH
ANNUAL REPORT (IFRS)

2017

Volkswagen Bank GmbH Group

Key Figures (IFRS)

in € million (as of December 31)	2017	2016
Total assets	78,747	56,334
Loans and receivables attributable to		
Retail financing[1]	28,032	24,259
Dealer financing	12,430	10,538
Leasing business[1]	18,858	3,695
Customer deposits	33,583	35,666
Equity	11,301	7,156
Operating profit	994	645
Profit before tax	992	669
Income tax expense	–336	–186
Profit after tax	656	482

in % (as of December 31)	2017	2016
Equity ratio	14.4	12.7
Common Equity Tier 1 capital ratio[2]	15.6	14.2
Tier 1 capital ratio[2]	15.6	14.2
Total capital ratio[2]	15.6	14.3

Number (as of December 31)	2017	2016
Employees[3]	3,549	1,293

RATING (AS OF DECEMBER 31)	STANDARD & POOR'S				MOODY'S INVESTORS SERVICE		
	Commercial Paper	Senior Unsecured	Senior Subordinated	Outlook	Commercial Paper	Senior Unsecured	Outlook
Volkswagen Bank GmbH	A–2	A–	BBB+	negative	P-1	A3	Negative

1 Previous year restated as explained in the disclosures on the leasing business in the Ireland branch in the section entitled "Restated Prior-Year Figures" in the notes.

2 According to Article 92(1) of the CRR. In contrast to the figures in the previous year, the regulatory ratios are no longer presented at individual bank level for Volkswagen Bank GmbH using HGB figures, but rather at the level of the Volkswagen Bank GmbH Group using IFRS figures. The reason for the change in presentation is the restructuring of the financial services operating segment in the Volkswagen AG Group effective September 1, 2017. Prior-year figures have been restated.

3 Due to the restructuring of the Volkswagen Bank GmbH Group, SkoFIN, s.r.o., Czech Republic, Volkswagen Finans Sverige AB, Sweden and Volkswagen Financial Services (UK) Ltd., United Kingdom, have been part of the Group since 2017.

COMBINED MANAGEMENT REPORT

Fundamental Information about the Group

Continuous international growth demonstrates the validity of the Volkswagen Bank GmbH Group's business model

BUSINESS MODEL

Within the Financial Services division of the Volkswagen Group as a whole, the Volkswagen Bank GmbH Group is responsible for the operating activities relating to the provision of banking transactions for retail and business customers. The individual activities include those described below.

Financing

The Volkswagen Bank GmbH Group provides finance for retail customers, business customers and authorized dealers. The principal activity is the financing of vehicles.

Leasing

At the branches of the Bank in Italy, Ireland and Portugal, the Volkswagen Bank GmbH Group operates the finance lease business. The branch in France and the companies in the United Kingdom, Sweden and the Czech Republic are also involved in the operating lease business in addition to finance lease activities.

Direct banking

The Volkswagen Bank GmbH Group offers retail customers the entire range of direct banking services, including account management, consumer finance, savings plans and investment products. The facilities provided for business customers by the Volkswagen Bank GmbH Group include instant-access accounts, fixed-term deposits and saving certificates as well as a comprehensive range of payment services.

Broking

The Volkswagen Bank GmbH Group acts as an insurance broker in connection with the financing of vehicles. As part of its direct banking operations, it arranges loans secured by charges entered in the land register and other long-term forms of financing; it is also an intermediary for stock market or fund investments.

One of the ways in which the Volkswagen Bank GmbH Group pursues its objectives is joint customer relationship management with other companies in the Financial Services division of the Volkswagen Group and this has led to continuous improvement in customer loyalty, service quality and the range of products offered.

The business operations of the Volkswagen Bank GmbH Group are closely interlinked with those of the manufacturers and the dealer organizations in the Volkswagen Group.

ORGANIZATION OF THE VOLKSWAGEN BANK GMBH GROUP

Generally speaking, the aim of all structural measures implemented by Volkswagen Bank GmbH is to improve the quality offered to both customers and dealers, make processes more efficient and leverage synergies. The motivation and satisfaction of employees are key factors that enable us to defend our position as a leading employer of choice.

Up to August 31, 2017, Process Management was run as a single area of responsibility under the remit of Torsten Zibell. This structure ensured optimum collaboration between the Process Management units responsible for the retail, corporate, fleet and direct banking customer groups. Mr. Zibell was also responsible for Direct Banking Sales and Customer Service as well as Market Development and Internal Services until August 31, 2017.

The Retail Customers & Corporate Customers group was headed by Anthony Bandmann until August 31, 2017. This group was structured on a regional basis with the aim of optimizing the comprehensive advisory approach for customers. Marketing, Sales Management and Brand Management within this group were also allocated to Sales up to August 31, 2017. Mr. Bandmann was additionally responsible for Human Resources until August 31, 2017.

Credit approval processes in Bank Back Office activities and special customer care were brought together under the Back Office to ensure that processes were completed quickly and a high degree of customer satisfaction was achieved0. Harald Heßke held responsibility for this area of activity until August 31, 2017. Mr. Heßke also headed the Legal Affairs, Internal Audit, Compliance, Finances and Risk Management functions until August 31, 2017.

The management of the European branches of Volkswagen Bank GmbH until August 31, 2017 fell within the remit of Jens Legenbauer, who was responsible for Europe (excluding Germany).

A restructuring was carried out on September 1, 2017 to segregate the entire European lending and deposits business from the other financial services activities and to pool this business under Volkswagen Bank GmbH, structured as a direct subsidiary of Volkswagen AG. The reorganization aimed to improve transparency, provide greater clarity for supervisory authorities, enhance efficiency and increase flexibility.

Corporate Management has been responsible for the Direct Bank Sales, Strategy & Market, Human Resources & Organization, Internal Audit, International Business and Legal Affairs functions since September 1, 2017. Dr. Michael Reinhart took over responsibility for Corporate Management on his appointment as Chairman of the Management of Volkswagen Bank GmbH on September 1, 2017.

Since this date, the Accounting, Controlling, Treasury & Investor Relations, Payments and Regulatory Requirements functions have been pooled under Finances, headed by Harald Heßke.

Christian Löbke was appointed as a new member of the Management of Volkswagen Bank GmbH on September 1, 2017 with responsibility for Risk Management, which includes the Credit Rating Analysis & Parameters, Markets & Coordination, Risk Measurement, Risk-Bearing Capacity & Stress Tests, Credit Analysis and Back Office functions.

As of September 1, 2017, Dr. Volker Stadler was appointed member of the Management of Volkswagen Bank GmbH with responsibility for Operations; this remit includes IT Governance & Management, Direct Bank Customer Service, Direct Bank Process Management and Corporate Customer Process Management.

The structure and the organization of Volkswagen Bank GmbH satisfy the requirements of the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements for Risk Management in Banks and Financial Services Institutions).

In 2016, Volkswagen Financial Services AG initiated a reorganization of its legal entities. A key milestone in the project was reached on September 1, 2017 when Volkswagen Financial Services AG's subsidiary Volkswagen Bank GmbH was transferred to become a direct subsidiary of Volkswagen AG. The aim of the restructuring was to segregate the European lending and deposits business from the other financial services activities and to pool this business under Volkswagen Bank GmbH, structured as a direct subsidiary of Volkswagen AG. The intention of the restructuring is to increase transparency and clarity for supervisory authorities, optimize the use of equity and reduce complexity. A new company, Volkswagen Financial Services Digital Solutions GmbH, will develop and provide system-based services for its parent companies Volkswagen Bank GmbH and Volkswagen Financial Services AG. The other activities will remain in Volkswagen Financial Services AG, which will still be a direct subsidiary of Volkswagen AG.

The next few years will see further changes in the international subsidiaries within the European Economic Area as part of the progress toward the target structure.

REPORT ON THE SUBSIDIARIES AND BRANCHES

The Volkswagen Bank GmbH Group has a presence in numerous countries within the European market. Even before the restructuring in the Volkswagen Financial Services Division within the Volkswagen AG Group, the Volkswagen Bank GmbH Group had branches in eight different European Union countries based on the passporting system. Each of the Volkswagen Bank GmbH's international branches in France, Greece, the United Kingdom, Ireland, Italy, the Netherlands, Portugal and Spain serviced the business in the country concerned.

In Poland, the Volkswagen Bank GmbH Group is still represented by its subsidiary Volkswagen Bank Polska S.A., Warsaw. As a result of the restructuring of the legal entities, the activities of the Volkswagen Bank GmbH Group have been expanded in the United Kingdom and Netherlands markets and also extended to other European countries. Operations now include the markets in the Czech Republic, Slovakia and Sweden through the companies ŠkoFIN s.r.o., Volkswagen Finančné služby Slovensko, s.r.o. and Volkswagen Finans Sverige AB respectively. These new companies provide financial services in connection with the sale of vehicles by the Volkswagen Group brands. Please refer to the section of this report covering equity investments for further information on changes in this regard.

The brand-related branches of the Volkswagen Bank GmbH Group (Audi Bank, SEAT Bank, ŠKODA Bank, AutoEuropa Bank) are intended to provide specific support for the financing of the corresponding vehicles. The Ducati Bank Branch supports the financing of motorcycles.

In Braunschweig, Emden, Hanover, Ingolstadt, Kassel, Neckarsulm, Salzgitter, Wolfsburg and Zwickau, the Volkswagen Bank GmbH Group maintains branches offering customers counter services, advisory support and, in some cases, ATMs.

INTERNAL MANAGEMENT

The key performance indicators used by the Group are determined on the basis of IFRSs and are presented as part of the internal reporting system. The most important nonfinancial performance indicators are penetration, current contracts and new contracts. The financial key performance indicators are the volume of business, deposit volume and operating profit. Return on equity (RoE) and the cost/income ratio (CIR) are used as further key performance indicators in the Volkswagen Bank GmbH Group.

	Definition
Nonfinancial performance indicators	
Penetration	Amount of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles, based on Volkswagen Bank GmbH's consolidated entities.
Current contracts	Contracts recognized as of the reporting date
New contracts	Contracts recognized for the first time in the reporting period
Financial performance indicators	
Volume of business	Loans to and receivables from customers arising from retail financing, dealer financing, leasing business and direct banking
Volume of deposits	Customer deposits, i.e. total liabilities from deposits arising from direct banking business, dealer current account and from nondirect banking business
Operating profit	Net income from lending and leasing transactions after provision for credit risks, plus net fee and commission income, less general and administrative expenses, plus other operating income and less other operating expenses. Some amounts under net interest income, net other operating expenses/income and general and administrative expenses are eliminated (see also Segment Reporting).
Return on equity	Return on equity before tax, which is calculated by dividing profit before tax by average equity.[1]
Cost/income ratio	Personnel expenses, material overheads and accounting depreciation and amortization/financial income and sales revenue net of risk costs, fee and commission payments, funding costs and other direct costs2

1 Average equity is calculated on the basis of the structure of the Volkswagen Bank GmbH Group prior to September 1, 2017, using the equity status as of December 31, 2015 and as of December 31, 2016 .

2 The earnings and cost elements are part of the management strategy of Volkswagen AG and are not reflected in the IFRS income statement presented in this annual report.

CHANGES IN EQUITY INVESTMENTS

On April 20, 2017, Volkswagen Bank GmbH established Volkswagen Financial Services Ireland Ltd. with a registered office situated in Dublin, Ireland.

On July 1, 2017, Volkswagen Bank GmbH acquired 60% of the shares in Volkswagen Pon Financial Services 2 B.V. Amersfoort, Netherlands, including its subsidiary, DFM N.V., Amersfoort, Netherlands, from Volkswagen Financial Services AG. Volkswagen Pon Financial Services 2 B.V. was merged into DFM N.V., effective August 1, 2017. Of the total shares in DFM N.V., 60% are held by Volkswagen Bank GmbH and 40% by Pon Holdings B.V.

On July 1, 2017, Volkswagen Bank GmbH acquired 58% of the shares in Volkswagen Finančné služby Slovensko, s.r.o., Bratislava, Slovakia, from Volkswagen Financial Services AG.

As of September 1, 2017, Volkswagen Bank GmbH acquired 51% of the shares in Volkswagen Financial Services Digital Solutions GmbH from Volkswagen Financial Services AG. This company provides information technology services, particularly in connection with the development and operation of systems.

On September 1, 2017, the following companies were demerged from Volkswagen Financial Services AG and acquired by Volkswagen Bank GmbH:

- Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom (100%),
- SkoFin s.r.o., Prague, Czech Republic (100%) and
- Volkswagen Finans Sverige AB, Södertalje, Sweden (100%).

Volkswagen Financial Limited, Milton Keynes, United Kingdom, which was established on December 7, 2017, is a wholly owned subsidiary of Volkswagen Bank GmbH. Volkswagen Financial Limited will serve as a deposit-taking bank for retail customers and diversify the funding of the subsidiaries of Volkswagen Bank GmbH in the United Kingdom. The Prudential Regulation Authority (PRA) must issue an appropriate license before this company can undertake any operations, which are scheduled to commence in the first quarter of 2019.

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

The Volkswagen Bank GmbH Group has made use of the option under section 289b(2) HGB and section 315b(2) HGB exempting it from submission of a nonfinancial statement and nonfinancial group statement and refers to the combined separate nonfinancial report of Volkswagen AG for fiscal year 2017, which will be available on the website www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2017/Nichtfinanzieller_Bericht_2017_d.pdf in German and at www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2017/Nonfinancial_Report_2017_e.pdf in English by no later than April 30, 2018.

Report on Economic Position

In fiscal year 2017, the global economy saw stronger growth than in the previous year. The expansion in demand for vehicles throughout Europe was not as great as in 2016. Profit before tax generated by the Volkswagen Bank GmbH Group once again increased year-on-year.

DEVELOPMENTS IN THE GLOBAL ECONOMY

Global gross domestic product (GDP) rose by 3.2 (2.5)% in 2017. Economic momentum accelerated in both advanced economies and emerging markets year-on-year. Consumer prices increased at a slower pace worldwide than in the previous year, with persistently low interest rates and rising energy and commodity prices.

Europe

GDP growth in Western Europe edged up slightly during the year to 2.3 (1.8)%, with the majority of the countries in this region seeing higher growth rates. The start of the Brexit negotiations between the United Kingdom and the European Union generated uncertainty, as did the question of what form this relationship would take in the future. The unemployment rate in the eurozone continued to decrease, falling to an average of 9.6 (10.6)%, though rates remained considerably higher in Greece and Spain.

The Central and Eastern Europe region recorded a relatively strong increase in GDP in the reporting period with an increase of 3.8 (1.8)%. In Central Europe the general uptrend gained traction, and in Eastern Europe the economy also grew at a considerably stronger pace than in the previous year. Higher energy prices led to a stabilization of the economic situation in the countries from this region that export raw materials. A growth rate of 1.6 (–0.4)% marked the end of the recessionary period in Russia.

Germany

The German economy continued to profit from optimistic consumer sentiment and a good labor market, which led to a sharper year-on-year increase in GDP to 2.5 (1.9)% in 2017.

TRENDS IN THE MARKET FOR FINANCIAL SERVICES

Demand for automotive financial services was high once again in 2017, due above all to the expansion of the overall market for passenger cars and low key interest rates in the main currency areas. Particularly insurance and service products such as maintenance and servicing agreements were especially popular, as customers in more advanced automotive financial services markets are putting greater focus on optimizing overall running costs. In the fleet segment, some customers consulted automotive financial service providers in order to optimize their entire mobility management beyond mere fleet operation. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than ownership.

In Europe, sales of financial services climbed further in the reporting period, strengthened by higher vehicle sales and demand for after-sales products such as servicing, maintenance and spare parts agreements as well as automotive-related insurance. Demand developed positively in most countries; in the United Kingdom, France, Spain and Italy in particular, automotive financial services products continued to enjoy rising popularity. The UK's decision to leave the EU has not yet had a negative impact on local demand for financial services.

In Germany, the share of loan-financed or leased vehicles remained stable at a high level in 2017. Alongside traditional products, mobility services and after-sales products were particularly popular.

In the commercial vehicles segment, the European market for financial services again performed positively.

TRENDS IN THE PASSENGER CAR MARKETS

In fiscal year 2017, the global market volume of passenger cars rose by 2.9% to 83.5 million vehicles, achieving a record figure for the seventh time in a row. While demand rose in the Asia-Pacific, South America, Western Europe and Central and Eastern Europe regions, the market volume in North America, the Middle East and Africa fell short of the prior-year figures.

Sector-Specific Environment

The sector-specific environment was influenced significantly by fiscal policy measures, which contributed substantially to the mixed trends in sales volumes in the markets last year. The instruments used were tax cuts or increases, incentive programs and sales incentives, as well as import duties.

In addition, non-tariff trade barriers to protect the respective domestic automotive industry made the movement of vehicles, parts and components more difficult.

Europe

In Western Europe, new passenger car registrations rose by 2.5% to 14.3 million vehicles, the highest level in the past ten years. The positive performance was underpinned in particular by the strong macroeconomic environment, consumer confidence and low interest rates. In Italy (+8.1%) and Spain (+7.7%), the level of demand benefited from demand for replacement vehicles and particularly from significant growth in sales to commercial customers. The rate of growth in the French passenger car market was lower, at 4.8%. In the United Kingdom, the volume of demand fell 5.7% short of the record level seen in the previous year – due among other things to the change in vehicle taxation as of April 1, 2017. The number of diesel vehicles (passenger cars) in Western Europe slipped to 44.4 (49.5)% in the reporting year.

The passenger car market volume in the Central and Eastern European region in fiscal year 2017 was up considerably on the prior-year figure, with an increase of 12.6% to 3.0 million vehicles. New passenger car registrations in the EU member states of Central Europe increased by 12.5% to 1.3 million units. Passenger car sales in Eastern Europe also achieved a double-digit growth rate (+12.6%), starting from a very low level. The main growth driver in the region was the Russian market, which, with an increase of 12.3% to 1.5 million vehicles, saw demand increase again for the first time after four years of decline.

Germany

In fiscal year 2017, demand for passenger cars in Germany exceeded the prior-year figure by 2.7% at 3.4 million units. The fact that this was the highest level since 2009 was attributable not only to the buoyant macroeconomic environment but also to manufacturer discounts in the form of a trade-in bonus for older diesel models as well as to an environmental bonus for electric-powered vehicles (all-electric and plug-in hybrid drives). New registrations for both retail customers (+4.4%) and business customers (+1.7%) increased as a result.

However, domestic production and exports fell short of the comparable prior-year figures in 2017. Passenger car production declined by 1.7% to 5.6 million vehicles. Passenger car exports fell by 0.9% to 4.4 million vehicles; this was mainly due to the fact that the volume of exports to North America was significantly lower because of shifts in production accompanied by a weakening of the North American market.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Overall demand for light commercial vehicles in fiscal year 2017 was slightly lower than in the previous year. A total of 9.1 (9.3) million vehicles were registered worldwide.

In Western Europe, the number of new vehicle registrations rose by 4.7% during the year to 1.9 million units, driven by the region's continued positive economic performance. The markets in Italy, France and Spain recorded moderate to high growth rates, while the United Kingdom registered a decline. In Germany, the comparative figure for 2016 was exceeded by 3.6%.

Central and Eastern European markets recorded perceptible growth on the whole with 326 (306) thousand vehicle registrations. In Russia alone, 123 (116) thousand light commercial vehicles were registered. There, market performance benefited from the ruble's recovery and the drop in inflation. Most of the markets in this region succeeded in maintaining or exceeding their prior-year results.

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in fiscal year 2017 than in the previous year, with 547 thousand new vehicle registrations (+7.4%).

In Western Europe, the number of new truck registrations remained level with the previous year at a total of 289 thousand vehicles. While the market in Spain remained at the previous year's level, in Italy it expanded. Demand in the United Kingdom and the Netherlands declined. New registrations in Germany, Western Europe's largest market, were on a level with the previous year.

Central and Eastern Europe saw demand rise by 17.7% to 153 thousand units on the back of the positive economic performance. This growth was attributable to the Russian market; here, registrations moved up 47.7% from a low prior-year level to 72 thousand vehicles. Reasons for this were the incipient recovery of the economy, declining inflation rates and demand for replacement vehicles.

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management of Volkswagen Bank GmbH considers the course of business in the year 2017 to have been positive. Operating profit exceeded expectations, with another year-on-year increase.

The number of contracts increased continuously compared with the previous year, and the total number of contracts in the Volkswagen Bank GmbH Group amounted to 5.5 million (previous year: 3.0 million) as of the reporting date.

The associated volume of loans to and receivables from customers, and lease assets rose by €25.3 billion in the reporting period. The positive development is driven by stable economic growth in the established markets and the non-recurring effect of newly acquired equity investments and subsidiaries.

The amount and composition of the risk categories at the Volkswagen Bank GmbH Group changed in the reporting period due to the reorganization of the legal entities and the additional portfolio. Significant increases were recorded in residual value risk because of the acquisition of lease portfolios and in market risk in connection with portfolios in non-euro countries. The existing sales promotion programs with the brands led to further growth in the volume of loans and receivables in the retail and corporate portfolio in the reporting period, especially in Germany. This development was aided by continuing stabilization in the economic environment and the sustained recovery in European markets. Measures previously put in place, such as intensifying the remarketing processes, were also sustained in fiscal year 2017.

CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2017 COMPARED WITH PRIOR-YEAR FORECASTS

We forecasted an operating profit for fiscal year 2017 slightly above that achieved in 2016. Actual operating profit in fiscal year 2017 was significantly higher than expected, which also reflected positive non-recurring items and the transfer of subsidiaries from Volkswagen Financial Services AG to the Volkswagen Bank GmbH Group. The return on equity was broadly in line with our expectations. The cost/income ratio improved as a result of the newly consolidated companies following the reorganization of the legal entities, as well as positive non-recurring items in 2017.

The Bank managed to considerably expand the portfolio of new contracts and current contracts as a result of the transferred subsidiaries and the continuation of the highly successful collaboration with the brands. This is not only attributable to the reorganization of the legal entities, but also to growth in the existing markets, which was in line with our expectations. The total volume of business was expanded substantially in 2017 and exceeded the previous year's expectations. The penetration rate was above expectations and significantly higher than the prior-year level.

The number of direct bank customers and the volume of deposits were slightly lower.

	Actual 2016[1]	Forecast 2017[1]	Actual 2017
Nonfinancial performance indicators			
Penetration (percent)	17.6	Slight increase	22.8
Current contracts (thousands)	3,002	Slight increase	5,533
New contracts (thousands)	1,081	Slight increase	2,256
Financial performance indicators			
Volume of business (€ million)	38,748	Slight increase	59,592
Volume of deposits (€ million)	35,666	Volume reduction	33,583
Operating profit (€ million)[2]	645	Slightly higher than in 2015	994
Return on equity (percent)	11.0	Slightly below prior-year level	10.8
Cost/income ratio (percent)	46.1	At or slightly below prior-year level	38.7

1 The actual figures for 2016 and the forecast for 2017 still reflect the old structure of the Volkswagen Bank GmbH Group without the new subsidiaries in the United Kingdom, Sweden and the Czech Republic.
2 The operating profit for 2017 includes positive non-recurring items.

FINANCIAL PERFORMANCE

The Volkswagen Bank GmbH Group achieved solid earnings performance in fiscal year 2017, exceeding the level posted in 2016.

Operating profit improved significantly to €994 million (previous year: €645 million). Profit before tax amounted to €992 million (48.3%), well above the figure of €669 million achieved in the prior year. Of this total, the share accounted for by the international branches and companies was €526 million or 53%. In addition to the rising volumes in the markets in Italy, France and Ireland, the figures particularly reflected the profits generated by the companies consolidated for the first time in the amount of €104.5 million.

Net income from lending and leasing transactions before provision for credit risks amounted to €1,756 million, a year-on-year gain of €457 million. This increase was mainly attributable to the sharp rise in leasing income resulting from the first-time consolidation of Volkswagen Financial Services (UK) Ltd. (€310 million).

Net income from leasing transactions before provision for credit risks also included impairment losses on lease assets in an amount of €48 million and reversals of impairment losses recognized in previous years amounting to €26 million.

The required expenditure for provision for credit risks of €315 million was 6% lower than the equivalent expenditure in the previous year (€334 million). Income from the reversal of valuation allowances no longer required and income from loans and receivables previously written off totaled €466 million, significantly more than in the prior year (€296 million). This resulted in a net reversal of provisions for credit risks in an amount of €150 million (previous year: net addition of €38 million).

Net fee and commission income was in negative territory in 2017, with a net expense of €37 million (previous year: net expense of €30 million), which was mainly attributable to a decline in commission income from insurance broking.

General and administrative expenses were up on the prior-year level to €931 million (previous year: €829 million). The main reason was an increase of €87 million in personnel and administrative expenses attributable to the companies consolidated for the first time.

Other operating income largely consisted of the reimbursement of costs from Group companies. In 2017, the net income in this regard amounted to €165 million (previous year: €215 million). This includes income from the reversal of provisions in an amount of €73 million (previous year: €81 million) and income from the remarketing of vehicles in an amount of €84 million. Other operating expenses amounted to €317 million (€108 million). This includes expenses for legal and litigation risks of €172 million and expenses arising from the obligation to take over vehicles in an amount of €107 million.

Including the net loss on the measurement of financial instruments in the amount of €48 million (previous year: net loss of €9 million) and the other components of profit or loss, the Volkswagen Bank GmbH Group generated profit after tax of €656 million (previous year: €482 million).

The profit of Volkswagen Bank GmbH determined in accordance with the HGB (after deduction of taxes) amounting to €489 million (previous year: €414 million) will be transferred to the parent company, Volkswagen AG (previous year: Volkswagen Financial Services AG), under the existing profit-and-loss transfer agreement.

NET ASSETS AND FINANCIAL POSITION

Lending Business

The lending business of the Volkswagen Bank GmbH Group mainly consists of loans granted to retail customers, business customers and dealers. The volume of these loans and receivables went up by 53.8% to €59.6 billion. Disregarding the loans and receivables arising from the first-time consolidation of Volkswagen Financial Services (UK) Ltd., SkoFIN s.r.o. and Volkswagen Finans Sverige AB amounting to a total of €17.0 billion, the increase would have been 9.9% to €42.6 billion. The share of customer lending volume accounted for by European countries other than Germany rose from €13.8 billion to €32.3 billion. The uplift in the volume of loans and receivables is the consequence of business expansion following the restructuring of the legal entities and growth, mainly in Germany, Italy and France.

Retail financing

In the Volkswagen Bank GmbH Group, the total number of current customer financing contracts rose to 2.4 million (previous year: 2.2 million). 847 thousand new contracts were entered into in fiscal year 2017 (previous year: 714 thousand). As of December 31, 2017, the volume of loans and receivables in retail financing amounted to €28.0 billion (previous year: €24.3 billion). Of this total, €6.4 billion (previous year: €4.9 billion) was accounted for by European countries other than Germany. The volume of retail financing went up by €1.6 billion as a result of the companies consolidated for the first time.

Dealer financing

The lending volume in dealer financing – which comprises loans to and receivables from dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – rose by 18.0% or €1.9 billion to €12.4 billion. The volume of loans and receivables related to the newly consolidated companies amounted to €0.8 billion.

The volume of loans and receivables related to the international branches and international subsidiaries came to €6.9 billion (previous year: €5.7 billion) at the end of 2017.

Leasing business

Receivables from leasing transactions amounted to €18.9 billion, well above the prior-year figure of €3.7 billion. Of the increase in this item, €14.6 billion is attributable to the first-time consolidation of the newly acquired companies; the established markets expanded by €1.3 billion to €4.3 billion.

Marketable securities

The portfolio held by the Volkswagen Bank GmbH Group predominantly comprises bonds from various countries amounting to €2.1 billion (previous year: €2.2 billion) and ABS BONDS issued by the special purpose entities of Volkswagen Leasing GmbH and Volkswagen Finance S.A., Madrid, Spain, totaling €417 million (previous year: €2.3 billion).

Equity-accounted investments

The newly acquired investments in DFM N.V., Amersfoort, Netherlands, Volkwagen Finančné služby Slovensko, s.r.o., Bratislava, Slovakia, and Volkswagen Financial Services Digital Solutions GmbH are reported as equity-accounted investments.

Long-term financial assets

As of December 31, 2017, Volkswagen Bank GmbH held 1% of the equity in OOO Volkswagen Bank RUS, Moscow. This holding remained unchanged year-on-year. Volkswagen Bank Polska S.A., Warsaw, is the sole shareholder of Volkswagen Serwis Ubezpieczeniowy Sp.z.o.o., Warsaw. Volkswagen Finans Sverige AB, Södertälje, is the sole shareholder of Volkswagen Service Sverige AB, Södertälje.

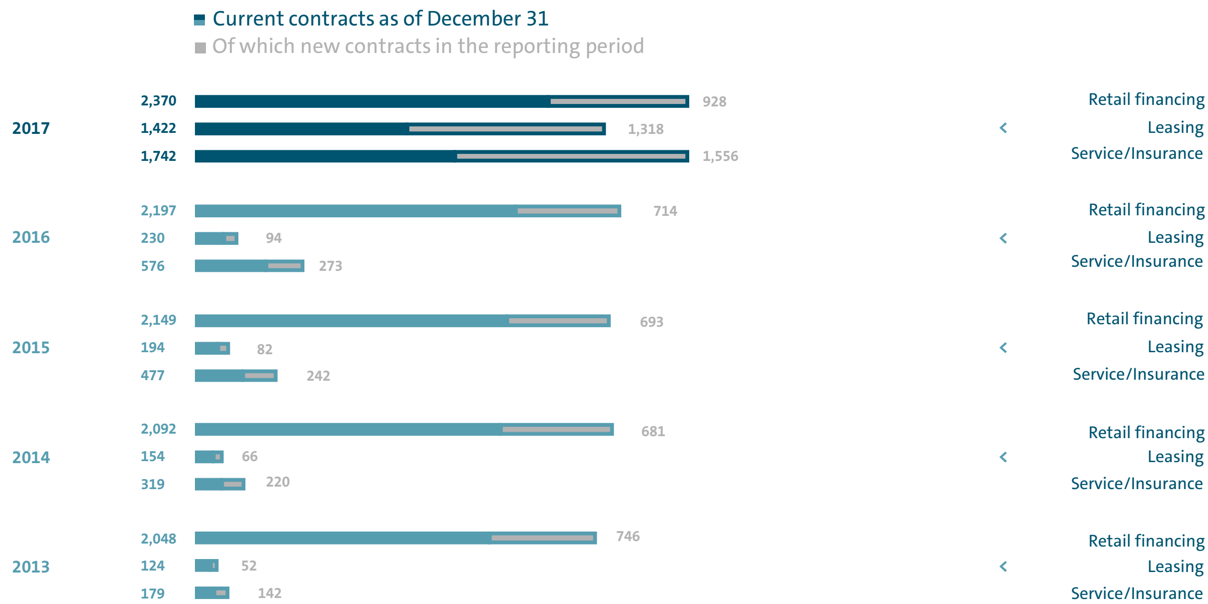
CURRENT CONTRACTS AND NEW CONTRACTS

thousand[1]	Volkswagen Bank Group	of which: Germany[4]	of which Italy	of which France	of which: other	of which: additions due to first-time consolidation (FS UK/CZ/SWE)	of which: subsidiaries as of September 1, 2017 (FS UK/CZ/SWE)
Current contracts	5,533	1,624	622	690	293	-	2,305
Retail financing	2,370	1,605	300	137	166	-	162
Leasing business	1,422	-	52	197	79	-	1,095
Service/insurance	1,742	19	270	357	48	-	1,048
New contracts	3,802	535	263	285	107	2,242	370
Retail financing	928	533	103	45	55	161	31
Leasing business	1,318	-	18	80	33	1,023	165
Service/insurance	1,556	2	142	161	18	1,059	174
€ million							
Loans to and receivables from customers attributable to							
Retail financing	28,032	21,665	2,544	890	1,334	-	1,598
Dealer financing	12,430	5,515	859	1,463	3,745	-	848
Leasing business	18,858	-	1,016	2,242	1,018	-	14,582
Lease assets	5,426	-	-	1,049	-	-	4,377
Percent							
Penetration rates[2,3]	22.8	14.8	39.4	40.9	10.1	-	41.8

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
2 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles in each case in relation to the markets shown for the Volkswagen Bank GmbH Group.
3 Penetration rates exclude additions due to first-time consolidation of current contracts of the new companies in the UK, the Czech Republic and Sweden.
4 Including the business of MAN FS SAS.

DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31

In thousands



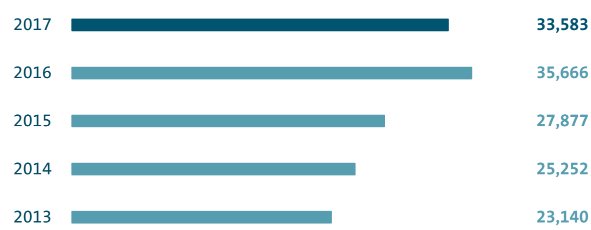
DIRECT BANK CUSTOMERS AS OF DECEMBER 31

Lending and deposit business and borrowings (in thousands)

Including corporate customers since 2013

CUSTOMER DEPOSITS AS OF DECEMBER 31

in € million



Deposit Business and Borrowings

On the equity and liabilities side of the balance sheet, the main items other than equity are liabilities to customers, which grew by 8.3% to €41.1 billion (previous year: €37.9 billion), notes and commercial paper issued in the amount of €13.4 billion (previous year: €4.3 billion) and liabilities to banks in the amount of €8.0 billion (previous year: €4.9 billion). The companies consolidated for the first time accounted for a significant proportion of the increase in liabilities to customers and in notes and commercial paper issued in the amounts of €5.3 billion and €7.6 billion respectively.

DEPOSIT BUSINESS

Deposit business in the Volkswagen Bank GmbH Group contracted slightly compared with the prior year. As of the reporting date, the volume of customer deposits amounted to €33.6 billion, which equates to a year-on-year decrease of 5.8% (previous year: €35.7 billion). Based on this deposits portfolio, the Volkswagen Bank GmbH Group continued to maintain its market leadership in the automotive direct banking segment. The deposit business is thus a significant contributing factor in helping the Volkswagen Group retain its customers. Customer deposits funded 42.6% (previous year: 63.3%) of the business volume, which rose substantially year-on-year.

In addition to the security provided by statutory deposit guarantees, Volkswagen Bank GmbH is also covered by its ongoing membership in the Deposit Protection Fund of the Association of German Banks (Bundesverband deutscher Banken e.V.).

EQUITY

The subscribed capital of Volkswagen Bank GmbH remained unchanged at €318.3 million in fiscal year 2017.

In 2017, the sole shareholder of Volkswagen Bank GmbH increased equity by €2.5 billion. Following this increase, the capital reserves of Volkswagen Bank GmbH amounted to €8.5 billion as of December 31, 2017.

The profit in accordance with the HGB to be transferred to Volkswagen AG under the existing profit-and-loss transfer agreement amounted to €489 million (previous year: €414 million).

Equity in accordance with IFRSs as of December 31, 2017 was €11.3 billion (previous year: €7.2 billion). This resulted in an equity ratio (equity divided by total assets) of 14.4% (previous year: 12.7%) based on total assets of €78.7 billion.

CAPITAL ADEQUACY ACCORDING TO REGULATORY REQUIREMENTS

Under the provisions of the Capital Requirements Regulation (CRR), a bank is deemed to have adequate capital backing if the Common Equity Tier 1 (CET1) capital ratio is at least 4.5%, the Tier 1 capital ratio is at least 6.0% and the total capital ratio is at least 8.0%. Banks must also comply with the capital buffer requirements in the form of CET1 capital.

The ECB, acting on the basis of Article 16 of Council Regulation No. 1024/2013 of October 15, 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, issued a decision on December 8, 2017, establishing regulatory requirements for Volkswagen Bank GmbH. The decision was based on a supervisory review in 2017. The Volkswagen Bank GmbH Group satisfied the minimum requirements of the CRR, the capital buffer requirements and the additional requirements specified by the supervisory authorities at all times in the reporting period.

The total capital ratio (ratio of own funds to the total risk exposure amount) was 15.6% at the end of the reporting period (previous year: 14.3%), well above the statutory minimum ratio of 8%.

The Tier 1 capital ratio and Common Equity Tier 1 capital ratio were each 15.6% (previous year: 14.2%) at the end of the reporting period, likewise well above the respective minimum ratios of 6% and 4.5% specified in the CRR.

The total risk exposure amount is made up primarily of credit risks, market risks, operational risks and credit valuation adjustment (CVA charge). The Standardized Approach for Credit Risk (CRSA) is used to quantify credit risk and to determine risk-weighted exposures. The Standardized Approach as specified in Article 317 of the CRR is used to calculate the own funds requirements for operational risk. The own funds requirements for the CVA charge are determined using the standardized method specified in Article 384 of the CRR.

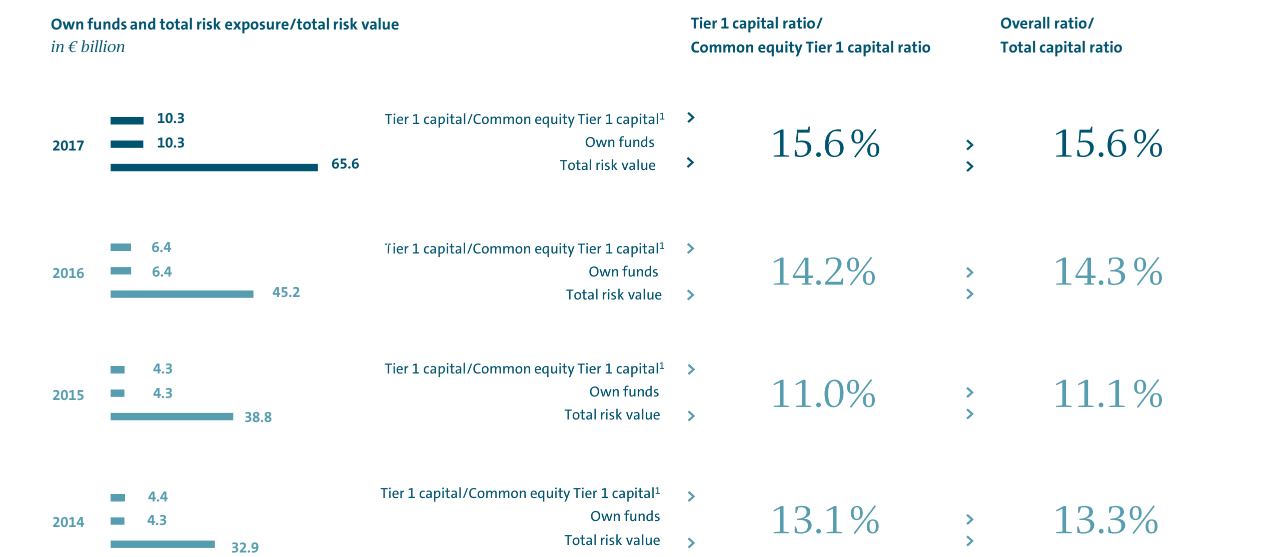
The following overview shows a breakdown of the total risk exposure amount and own funds:

		Dec. 31, 2017		Dec. 31, 2016
Total risk exposure amount[1] (€ million)		65,645		45,178
of which risk-weighted exposure amounts for credit risk	58,430		42,273	
of which own funds requirements for market risk *12.5	2,879		384	
of which own funds requirements for operational risk *12.5	4,240		2,469	
of which own funds requirements for credit valuation adjustments *12.5	96		52	
Eligible own funds (€ million)		10,262		6,444
Own funds (€ million)		10,262		6,444
of which Common Equity Tier 1 capital	10,233		6,415	
of which Additional Tier 1 capital	-		0	
of which Tier 2 capital	29		29	
Common Equity Tier 1 capital ratio[2](percent)		15.6		14.2
Tier 2 capital ratio[2] (percent)		15.6		14.2
Total capital ratio[2] (percent)		15.6		14.3

1 According to Article 92(3) of the CRR
2 According to Article 92(1) of the CRR

In contrast to the figures in the previous year, the regulatory ratios are no longer presented at individual bank level for Volkswagen Bank GmbH using HGB figures, but rather at the level of the Volkswagen Bank GmbH Group using IFRS figures. The reason for the change in presentation is the restructuring of the financial services operating segment in the Volkswagen AG Group effective September 1, 2017. Prior-year figures have been restated.

REGULATORY RATIOS OF THE VOLKSWAGEN BANK GMBH AS OF DECEMBER 31

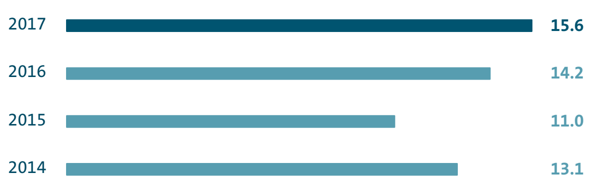


1 The amounts of Tier 1 capital and Common Equity Tier 1 capital are the same because Volkswagen Bank GmbH has not issued any Additional Tier 1 capital instruments.

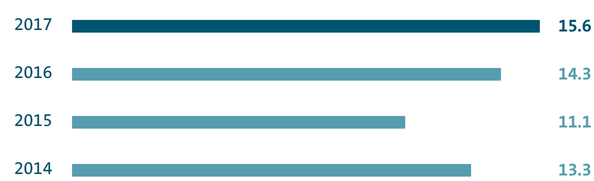
The year-on-year increase in the regulatory capital ratios (CET1 capital ratio, Tier 1 capital ratio and total capital ratio) is largely attributable to the uplift in capital reserves and retained earnings. The higher level of capital reserves amounting to a total of €2.5 billion was attributable to additions to capital and to the structural addition of equity investments as contributions in kind in connection with the restructuring of the Group. The inclusion of further fully consolidated subsidiaries in the regulatory group lifted retained earnings by €1.3 billion.

The total risk exposure amount also went up as a result of the inclusion of the subsidiaries that needed to be additionally consolidated as part of the restructuring.

TIER 1 CAPITAL RATIO/COMMON EQUITY TIER 1 CAPITAL RATIO
figures in %



OVERALL RATIO/TOTAL CAPITAL RATIO
figures in %



The Volkswagen Bank GmbH Group has a relatively high total capital ratio, which ensures that there is an adequate level of capital, even with a sharp rise in the volume of business. In addition to making additions to capital reserves and using Tier 2 capital in the form of subordinated liabilities, the Bank can also make use of ABS transactions to optimize its capital management. Volkswagen Bank GmbH therefore has the benefit of a sound foundation for further expansion of the financial services business.

CHANGES IN OFF-BALANCE-SHEET LIABILITIES

The off-balance-sheet liabilities relate to irrevocable credit and leasing commitments. They increased by €1,607 million year-on-year, of which €807 million is attributable to the companies consolidated for the first time. As of December 31, 2017, the Volkswagen Bank GmbH Group's off-balance-sheet liabilities amounted to €3,071 million (previous year: €1,465 million).

LIQUIDITY ANALYSIS

The Volkswagen Bank GmbH Group is funded largely through capital market and asset-backed security programs, and through direct banking deposits. Volkswagen Bank GmbH holds liquidity reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. Proactive management of the operational safe custody account, which allows Volkswagen Bank GmbH to participate in funding facilities, has proven to be an efficient liquidity reserve approach. The securities deposited as collateral in the operational safe custody account include, in addition to bonds from various countries amounting to €2.1 billion, senior ABS bonds issued by special purpose entities of Volkswagen Leasing GmbH, Volkswagen Finance S.A. and Volkswagen Bank GmbH amounting to €11.4 billion. These senior ABS bonds are not reported in the consolidated financial statements of Volkswagen Bank GmbH because these special purpose entities are themselves consolidated.

Certain standby lines of credit at other banks are also available 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.

To ensure there is appropriate liquidity management, Treasury prepares two different funding matrices, carries out cash flow forecasts and uses this information to determine the relevant range of liquidity coverage. In these calculations, the contractual 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 51 weeks.

A stricter constraint on the management of liquidity at Volkswagen Bank GmbH and in the entities within the regulatory basis of consolidation of the Volkswagen Bank GmbH Group is the liquidity coverage ratio (LCR). From September to December in the year under review, this ratio varied between 91% and 143% for Volkswagen Bank GmbH and was therefore well above the lower regulatory limit of 80% at all times. The changes in the liquidity ratio are continuously monitored by Treasury and proactively managed by issuing a lower limit for internal management purposes. Central bank balances and government bonds are eligible as highly liquid assets for the purposes of the LCR.

The requirement under the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements Risk Management) for Volkswagen Bank GmbH to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and thirty-day time horizons was also satisfied at all times, even under various stress scenarios. Compliance with this requirement is determined and continuously reviewed as part of the liquidity risk management system. In this process, the cash flows for the coming twelve months are projected and compared against the potential funding available in each maturity band. Adequate potential funding to cover the liquidity requirements was available at all times, both in the normal scenario and in the stress tests required by MaRisk.

FUNDING

Strategic Principles

In terms of funding, the Volkswagen Bank GmbH Group generally pursues a strategy of diversification with the aim of achieving the best possible balance of cost and risk. This means accessing the widest possible variety of funding sources in the various regions and countries with the objective of safeguarding funding on a long-term basis at optimum terms.

Implementation

In December 2017, Volkswagen Bank GmbH issued unsecured bonds on the European capital market under its €10 billion capital market program. It also funded its activities by carrying out securitization transactions, using ECB funding instruments and attracting deposits.

In the reporting period, Volkswagen Bank GmbH held the volume of the Driver Master securitization transaction at the same level and issued securitization transactions in Europe.

The following tables show the transaction details:

CAPITAL MARKET

Issuer	Month	Country	Volume and currency	Maturity
Volkswagen Bank GmbH	December	Germany	EUR 750 million	3.5 years
Volkswagen Bank GmbH	December	Germany	EUR 750 million	5.5 years
Volkswagen Bank GmbH	December	Germany	EUR 500 million	8 years

ABS Transactions

Issuer	Transaction name	Month	Country	Volume and currency
Volkswagen Financial Services UK	Driver UK five	March	United Kingdom	GBP 440 million
Volkswagen Bank GmbH	Driver France three	April	France	EUR 500 million
Volkswagen Financial Services UK	Driver UK six	September	United Kingdom	GBP 450 million

Customer deposit business contracted by €2.1 billion to €33.6 billion in the reporting year.

The Bank continued to implement its strategy of obtaining maturity-matched funding as far as possible by borrowing on terms with matching maturities and by using derivatives. Currency risks were largely eliminated by using derivatives. The Volkswagen Bank GmbH Group was able to meet its payment obligations when due at all times in the reporting period. Our diversified funding structure and our proactive management of liquidity ensure that the Bank will also remain solvent at all times in the future. No liquidity commitments have been issued to special purpose entities.

Ratings

Volkswagen Bank GmbH is a wholly owned subsidiary of Volkswagen AG and, as such, its credit ratings with both Moody's Investors Service (Moody's) and Standard & Poor's Global Ratings (S&P) are closely associated with those of the Group's parent company.

In February 2017, the senior unsecured rating of Volkswagen Bank GmbH at S&P was confirmed at A- and a separate BBB+ senior subordinated rating was issued. Volkswagen Bank GmbH's commercial paper rating remained unchanged at A-2. The outlook remained negative over the course of the entire year.

However, Moody's downgraded Volkswagen Bank GmbH's senior unsecured rating to A3 following the asset transfer from Volkswagen Financial Services AG on September 1, 2017, but confirmed the short-term rating at P-1. As in the previous year, the outlook is negative.

Volkswagen Bank GmbH

(Condensed, in accordance with the HGB)

As the parent company, Volkswagen Bank GmbH accounts for a significant share of the business performance of the Volkswagen Bank GmbH Group. Please refer to the previous section for a presentation of the business performance of the Group in accordance with IFRS. In the section below, we comment on the changes in the net assets, financial position and results of operations of Volkswagen Bank GmbH in accordance with the HGB.

BUSINESS PERFORMANCE 2017

The result from ordinary activities amounted to €678.0 million compared with €553.3 million in the prior year.

The net interest income earned by Volkswagen Bank GmbH, including interest anomalies from negative interest and net income from leasing transactions, came to €1,700.5 million compared with €1,518.7 million in the prior year.

As in the prior year, interest income from lending and money market transactions including finance leases arose predominantly from financing business with end customers and from vehicle and capital investment financing with dealers in the Volkswagen Group, increasing by €101.0 million year-on-year to €1,457.3 million. Volkswagen Bank GmbH earned interest income of €71.0 million (previous year: €86.4 million) from marketable securities. Of this amount, €17.1 million (previous year: €35.4 million) was attributable to marketable securities purchased from ABS special purpose entities of Volkswagen Bank GmbH. A further €18.6 million (previous year: €13.7 million) was accounted for by interest income on marketable securities purchased from special purpose entities of Volkswagen Financial Services (UK) Ltd., Milton Keynes, UK, Volkswagen Leasing GmbH, Braunschweig, and Volkswagen Finance S.A., Madrid, Spain.

Net income from leasing business amounted to €394.3 million (previous year: €351.2 million). Interest anomalies amounting to an expense of €12.3 million (previous year: expense of €9.1 million) resulted primarily from money market transactions in connection with the Bank's reserve balance at the ECB in excess of the minimum reserve requirement and from short-term deposits with domestic banks.

Fee and commission income amounted to €388.2 million, which equated to a year-on-year decline of €36.9 million, largely caused by lower fee and commission income derived from insurance broking. Fee and commission expenses came to €500.5 million, down by €27.9 million year-on-year. Net fee and commission income amounted to a net expense in 2017 but improved by €9 million compared with the net income earned in the prior year.

General and administrative expenses went up by €16.8 million to €815.2 million (previous year: €798.4 million). A significant proportion was accounted for by the rise in personnel expenses related to the restructuring of the legal entities in the reporting year.

Other operating income fell by €55.4 million to €419.8 million because some of the opportunities for passing on indirect costs to affiliated companies were lost as part of the reorganization of the company structure.

Depreciation and write-downs on lease assets at the French and Italian branches rose by €37.7 million to €362.4 million. Other operating expenses amounted to €272.8 million (previous year: €156.9 million).

In countries where additional credit risk had been identified in previous years, the provision for credit risk was reduced in the reporting period. This resulted in a net reversal of provisions for credit risk, amounting to €125.5 million in the reporting year (previous year: net addition of €62 million). The profit after tax of €489.2 million (previous year: €413.7 million) will be transferred to Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

The volume of customer loans and receivables reported in the balance sheet went up by €4.7 billion and amounted to €47.9 billion on the reporting date (previous year: €43.2 billion). Of this increase, a significant proportion (€3.0 billion) was accounted for by sales financing loans and receivables.

In 2017, loans and receivables in a nominal amount of €14.8 billion were sold to special purpose entities as part of revolving ABS structures. In the case of ABS transactions in which Volkswagen Bank GmbH has not acquired any securities from the special purpose entities concerned, the sold loans/receivables are derecognized and are no longer reported in the HGB balance sheet. As of the reporting date, the nominal value of these loans and receivables was €1.7 billion (previous year: €2.4 billion).

Most of Volkswagen Bank GmbH's portfolio comprises securities from ABS transactions, of which €11.6 billion (previous year: €8.5 billion) is attributable to securities from own-account transactions. For investment purposes, the portfolio also included ABSs with a total value of €1.6 billion (previous year: €2.3 billion) issued by special purpose entities of Volkswagen Financial Services (UK) Ltd., Milton Keynes, UK, Volkswagen Leasing GmbH and Volkswagen Finance S.A., Madrid, Spain.

The main items on the equity and liabilities side of the balance sheet are liabilities to customers (including direct banking business) of €35.4 billion (previous year: €37.4 billion), other liabilities of €13.0 billion (previous year: €9.7 billion) and liabilities to banks of €7.2 billion (previous year: €4.9 billion).

The other provisions mainly comprised provisions to cover costs associated with litigation and legal risks. The provisions for litigation and legal risks reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers. They relate primarily to proceedings in relation to design aspects of loan agreements with customers that may obstruct the processing of statutory cancelation periods, provisions for legal disputes in connection with dealer financing agreements as well as customer financing broking claims. As of the reporting date, provisions for litigation and legal risks amounted to €371.2 million (previous year: €278.9 million).

The capital reserves of Volkswagen Bank GmbH went up in the reporting year by €2.5 billion to €8.5 billion (previous year: €6.0 billion). Of this amount, €2.1 billion relates to cash contributions and €0.4 billion to non-cash contributions made by the former shareholder, Volkswagen Financial Services AG, as part of the reorganization of the legal entities.

As a result of business growth and the repurchase of securities from ABS transactions, the total assets as of the reporting date amounted to €69.0 billion (previous year: €60.7 billion).

INCOME STATEMENT OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	2017	2016
Net interest income	1,306	1,167
Net leasing income	394	351
Net fee and commission expense	–112	–103
Administrative expenses	815	798
Other comprehensive income	–221	–13
Income from the disposal of equity investments	0	11
Provision for credit risks	–126	62
Result from ordinary business activities	**678**	**553**
Extraordinary result	3	8
Tax expense	192	147
Profits transferred under a profit transfer agreement	489	414
Net income for the year	**0**	**0**
Retained profits brought forward	0	0
Net retained profits	**0**	**0**

BALANCE SHEET STRUCTURE OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	Dec. 31, 2017	Dec. 31, 2016
Assets		
Cash reserve	1,714	1,372
Loans to and receivables from banks	1,862	1,713
Loans to and receivables from customers	47,913	43,210
Marketable securities	15,094	12,839
Equity investments and shares in affiliated companies	720	77
Lease assets	1,198	1,004
Other assets	515	456
Total assets	**69,016**	**60,671**
Equity and liabilities		
Liabilities to banks	7,194	4,872
Liabilities to customers	35,434	37,417
Notes, commercial paper issued	3,803	1,815
Provisions	672	578
Subordinated liabilities	30	30
Funds for general banking risks	26	26
Equity	8,875	6,370
Other Liabilities	12,981	9,563
Total equity and liabilities	**69,016**	**60,671**
Balance sheet disclosures		
Contingent liabilities	136	135
Other obligations	2,351	1,435

NUMBER OF EMPLOYEES

Volkswagen Bank GmbH employed 1,110 people at the end of 2017. Since September 1, 2017, employees of Volkswagen Financial Services AG have no longer been assigned to Volkswagen Bank GmbH's business units under staff leasing arrangements (previous year: 2,786) because the employees now hold direct employment contracts with Volkswagen Bank GmbH.

A total of 809 people (previous year: 955) were employed at the international branches of Volkswagen Bank GmbH.

OPPORTUNITIES AND RISKS FACING VOLKSWAGEN BANK GMBH

The business performance of Volkswagen Bank GmbH is largely subject to the same opportunities and risks as those faced by the Volkswagen Bank GmbH Group. These opportunities and risks are described in the report on opportunities and risks in the following sections of this management report.

Report on Opportunities and Risks

The proactive management of opportunities and risks is a fundamental element of the successful business model used by the Volkswagen Bank GmbH Group.

RISKS AND OPPORTUNITIES

In this section, we report on the risks and opportunities that arise in connection with our business activities. The risks and opportunities are grouped into various categories. Unless specifically stated, there were no material year-on-year changes to the individual risks or opportunities.

We use analyses of the competitive and operating environment, together with market observations, to identify not only risks but also opportunities, which then have a positive impact on the design of our products, the success of the products in the marketplace and on our cost structure. Risks and opportunities that we expect to materialize have already been taken into account in our medium-term planning and forecast. The following sections therefore describe fundamental opportunities that could lead to a positive variance from our forecast and the risk report presents a detailed description of the risks.

MACROECONOMIC OPPORTUNITIES

Against the backdrop of further economic growth in the majority of markets, the Management of Volkswagen Bank GmbH expects to see a moderate increase in the number of vehicle deliveries to Volkswagen Group customers, enabling it to build on its position in European markets on a sustainable basis. The Volkswagen Bank GmbH Group supports this positive trend by providing financial services products designed to promote sales.

The probability of a global recession is considered to be low overall. However, diminished rates of global economic growth or a period of below-average growth rates cannot be ruled out. The macroeconomic environment could also give rise to opportunities for the Volkswagen Bank GmbH Group if actual trends turn out to be better than forecasted.

STRATEGIC OPPORTUNITIES

The Volkswagen Bank GmbH Group will continue to grow in and with the European markets and thereby systematically press ahead with its strategy of internationalization. During 2017, various strategic projects were instrumental in setting the course in this regard. Particular focus is being given to continuous, dynamic optimization of all processes and systems in order to improve productivity. First and foremost, the priority is to achieve efficiency by focusing on the needs of our customers. In this way, we will continue to lay the foundations over the coming years for supporting the Group brands in each of the growth markets by providing innovative, country-specific financial products , thereby promoting sales in these markets over the long term while taking on the related risks on a responsible basis.

OPPORTUNITIES FROM CREDIT RISK

Opportunities may arise in connection with credit risk if the losses actually incurred on lending transactions turn out to be lower than the prior calculations of expected loss and the associated provisions recognized on this basis. A situation in which the incurred losses are lower than the expected losses can occur particularly in individual countries in which economic uncertainty resulted in the need for a higher provision for credit risks but in which the economic circumstances then stabilize, resulting in an improvement in the credit quality of the borrowers concerned.

OPPORTUNITIES FROM RESIDUAL VALUE RISK

When vehicles are remarketed, the Volkswagen Bank GmbH Group may be presented with the opportunity to achieve a price that is higher than the contractually guaranteed residual value if, for example, increasing demand raises market values higher than expected. This positive trend in market values would also be reflected in the continuous adjustment of projected residual values in line with the prevailing market conditions.

KEY FEATURES OF THE INTERNAL CONTROL SYSTEM AND THE INTERNAL RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

The internal control system (ICS) for the consolidated and annual financial statements of Volkswagen Bank GmbH, as far as it is relevant to the accounting system, is defined as the sum of all principles, procedures and activities aimed at ensuring the effectiveness, efficiency and propriety of the financial reporting and ensuring compliance with the relevant legal requirements. The internal risk management system (IRMS) related to the accounting system is concerned with the risk of misstatement in the bookkeeping systems at Bank and Group levels as well as in external financial reporting. The sections below describe the key elements of the ICS/IRMS as they relate to the financial reporting process of the Volkswagen Bank GmbH Group.

- The Management of Volkswagen Bank GmbH is the governing body with responsibility for the executive management of the business. In this role, the Management has set up accounting, customer service, treasury, risk management, controlling and compliance units, each with clearly separated functions and clearly assigned areas of responsibility and authority, to ensure that the Bank carries out accounting and financial reporting processes properly.
- Group-wide rules and regulations have been put in place as the basis for a standardized, proper and continuous financial reporting process.
- For example, the accounting policies applied by the domestic and foreign entities included in the consolidated financial statements of Volkswagen Bank GmbH are governed by the Volkswagen AG Group's accounting policies, including the accounting requirements specified in the International Financial Reporting Standards (IFRS).
- The Volkswagen Bank GmbH Group's accounting standards also set out the specific formal requirements for the consolidated financial statements. The standards determine the basis of consolidation and also describe in detail the components of the reporting packages to be prepared by the Group companies. The formal requirements include the mandatory use of a complete, standardized set of forms. The accounting standards also include, for example, specific details relating to the recognition and processing of intragroup transactions and the associated reconciliation of balances.
- At Group level, specific control activities aimed at ensuring that the consolidated financial reporting provide a true and fair view include the analysis and any necessary adjustment of single-entity financial statements submitted by the consolidated entities, taking into account the reports submitted by the independent auditors and the related discussions concerning the financial statements.
- These activities are supplemented by the clear delineation of areas of responsibility and by various monitoring and review mechanisms. The overall aim is to ensure that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.
- These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT process controls account for a significant proportion of the integrated process activities alongside manual process controls, such as double-checking by a second person. These controls are enhanced by specific functions at Group level carried out by the parent company Volkswagen AG, for example functions within the responsibility of the Group tax department.
- Internal auditing is a key component of the Volkswagen Bank GmbH Group's monitoring and control system. The Internal Audit department carries out regular audits of accounting-related processes in Germany and abroad as part of its risk-oriented auditing activities and reports on these audits directly to the Management of Volkswagen Bank GmbH.

To summarize, the existing internal monitoring and control system of the Volkswagen Bank GmbH Group is intended to ensure that the financial position of the individual entities in the Group and the Volkswagen Bank GmbH Group itself as of the reporting date December 31, 2017 has been based on information that is reliable and has been properly recognized. No material changes were made to the internal monitoring and control system of the Volkswagen Bank GmbH Group after the reporting date.

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

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.

The Volkswagen Bank GmbH Group is exposed to a large number of risks typical for the financial services sector as part of its primary operating activities. The Group takes on these risks responsibly so that it can target and exploit any resulting market opportunities.

The Volkswagen Bank GmbH Group has put a risk management system into place 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 appropriate 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 the FMSA (German Federal Agency for Financial Market Stabilization), 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 submits regular reports on the overall risk position in the Volkswagen Bank GmbH Group to the other members of Management and to the Supervisory Board.

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 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 across Europe.

In particular, these activities involve providing models for carrying out credit assessments, quantifying the different 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 Volkswagen Bank GmbH Group Risk Management are implemented and complied with in each market.

In 2017, local risk management was responsible for the design of the models and procedures used for risk measurement and management and carried out local implementation from process and technical perspectives.

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 as required 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 INVENTORY

The objective of the risk inventory, which has to be carried out at least once a year, 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 ad-hoc risk inventory carried out on September 1, 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 taken into account within the categories specified above.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

A system has been set up to determine the risk-bearing capacity of the Volkswagen Bank GmbH Group, which compares the economic risk against available financial resources referred to as the risk-taking potential. An institution has the capacity to bear its risk if, as a minimum, all material risks to which the institution are exposed are covered at all times by the institution's risk-taking potential.

The results from the risk inventory provide the basis for the level of detail in the design of the risk management process and for inclusion in risk-bearing capacity.

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% and a time horizon of one year. The risk categories of liquidity risk (funding risk), market risk and earnings risk are quantified with a confidence level of 99%. Risk-bearing capacity is also analyzed using the gone-concern approach in addition to the going-concern approach.

In addition, the Volkswagen Bank GmbH Group uses a system of limits derived from the risk-bearing capacity analysis to specifically manage risk-cover capital in accordance with the level of risk tolerance determined by the Management.

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. Risk-taking potential is determined from the available equity and earnings components subject to various deductions. In line with the risk tolerance of the Management of Volkswagen Bank GmbH, only a portion of this risk-taking potential is specified as a risk ceiling in the form of an overall risk limit. The overall risk limit is apportioned to counterparty default risk, residual value risk, market risk, liquidity risk and operational risk for the purposes of operational monitoring and control. In this process, the limit allocated to counterparty default risk, itself an overarching category of risk, is subdivided into individual limits for credit risk, shareholder risk, issuer risk and counterparty risk.

In a second step, the limits for the risk categories (with the exception of those for shareholder risk, issuer risk and counterparty risk) are broken down and allocated at the level of the branches and subsidiaries.

The limit system provides the Management with a tool that enables it to meet its strategic and operational corporate management responsibilities in accordance with statutory requirements.

The overall economic risk of the Volkswagen Bank GmbH Group as of December 31, 2017 amounted to €1,8 billion. The apportionment of this total risk by individual risk category was as follows:

DISTRIBUTION OF RISKS BY TYPE OF RISK

as of December 31, 2017

	€ MILLION		PROPORTION (PERCENT)	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Risk category				
Credit risk	586	453	33	51
Shareholder, issuer and counterparty risk	5	5	0	1
Residual value risk	433	6	24	1
Earnings risk	398[1]	227	23	25
Market risk	92[1]	12	5	1
Liquidity risk (funding risk)[1]	14	0	1	0
Operational risk	152	142	9	16
Other risks[2]	88	44	5	5
Total	1,768	889	100	100

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

The risk-taking potential of €5.6 billion as of December 31, 2017 comprised reported equity plus the forecast result for the next twelve months (overall €12.2 billion) less regulatory minimum own funds requirements (€6.1 billion) and other adjustment items (€0.5 billion). As of September 31, 2017, 32% of risk-taking potential was utilized by the risks outlined above. In the period January 1, 2017 to December 31, 2017, the maximum utilization of the risk-taking potential in accordance with Pillar II was 32%.

In addition to determining the risk-bearing capacity in a normal scenario, the Volkswagen Bank GmbH Group also conducts bank-wide 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 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 repeat of the financial crisis in the years 2008 to 2010) and hypothetical scenarios (such as a global 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.

The calculations of risk-bearing capacity confirmed that all material risks that could adversely impact the financial position or financial performance were adequately covered by the available risk-taking potential at all times. In the reporting period, the Volkswagen Bank GmbH Group managed risk such that the utilized risk cover capital was below the overall risk limit set internally. The stress tests did not indicate any need for action.

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)
- loans/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
- Volkswagen Bank GmbH'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.

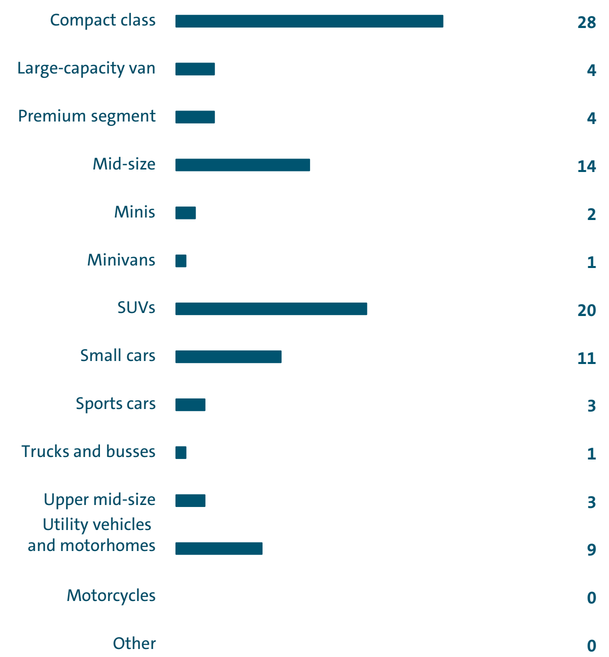
Counterparty concentrations from customer business are only of minor significance in the Volkswagen Bank GmbH Group because of the large proportion of business accounted for by retail lending. From a regional perspective, the Volkswagen Bank GmbH Group has a concentration of business in the German market, 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, Volkswagen Bank GmbH Group enjoys a broad diversification across all vehicle segments (see following diagram) based on a large range of vehicles from the different brands in the Volkswagen Group.

COLLATERAL STRUCTURE AS OF DECEMBER 31, 2017

figures in %



This broad vehicle diversification also means that there is no residual value concentration in the Volkswagen Bank GmbH Group.

Income concentration arises from the very nature of the business model. The Volkswagen Bank GmbH Group's particular role in which it helps to promote sales in the Volkswagen Group gives rise to certain dependencies that directly affect income growth.

RISK REPORTING

A detailed risk management report is submitted to the Management and to the Supervisory Board of Volkswagen Bank GmbH on a quarterly basis. 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. To this end, the derivation of the available risk-taking potential, the utilization of limits and the current percentage allocation of the overall risk to the individual risk categories is also presented. 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 an assessment 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.

FIFTH MARISK AMENDMENT

The German Federal Financial Supervisory Authority (BaFin) published a new version of the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements Risk Management) in October 2017. The need for action and changes has been analyzed. The new requirements will be implemented on schedule in 2018.

On the basis of the statutory requirements relating to risks in banking business, the Volkswagen Bank GmbH Group is systematically continuing to develop its system for measuring and monitoring risk exposures and for their management.

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. The requirements have been transposed into German law with the Sanierungs- und Abwicklungsgesetz (SAG – Recovery and Resolution Act).

Up to August 30, 2017, Volkswagen Bank GmbH formed part of the Volkswagen Financial Services AG Group and was therefore included in that Group's recovery plan. Since September 2017, Volkswagen Bank GmbH has been preparing its own recovery plan for the newly created Volkswagen Bank GmbH Group. It is planned to bring this recovery plan into force and submit it for the first time to the ECB as the competent supervisory authority in the first quarter of fiscal year 2018.

The plan covers a range of topics including a description of the options for action and the potential for recovery at the Bank in the event of a crisis as well as the specific recovery measures that would be taken by the Bank should specified stress scenarios materialize. 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 annually and submitted to the competent supervisory authority.

In addition, in the current fiscal year, Volkswagen Bank GmbH has submitted to the competent Bundesanstalt für Finanzmarktstabilisierung (FMSA – German Federal Agency for Financial Market Stabilization) the necessary information for the preparation of a resolution plan for the Volkswagen Bank GmbH Group in accordance with section 42 of the 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 2017. Nevertheless, the Bank is continuing to monitor the risk situation closely so that it can take a proactive approach to any developments that may occur. Information is also regularly shared with the supervisory authorities concerning the latest developments.

NEW PRODUCT AND NEW MARKET PROCESS

Before launching new products or commencing activities in new markets, the Volkswagen Bank GmbH Group first runs through its new product and new market process. All the units involved (such as Risk Management, Controlling, Accounting, Legal Affairs, Compliance, Treasury, IT) are integrated into the process. The process for every new activity involves the preparation of a written concept, which includes an analysis of the risks associated with the new product or market and a description of the possible implications for management posed by 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.

OVERVIEW OF RISK CATEGORIES

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

In the Volkswagen Bank GmbH Group, counterparty default risk encompasses the following risk categories: credit risk, counterparty risk, issuer risk, country risk and shareholder risk.

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 write-downs or 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 at Volkswagen Bank GmbH Group are made primarily on the basis of the borrower credit check. These credit checks use rating or scoring systems, which provide the relevant departments with an objective 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 value at risk (VaR) less the EL. The calculations use 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 systems for corporate customers

The Volkswagen Bank GmbH Group uses rating systems to assess the credit quality of corporate customers. These assessments 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. A centrally maintained, workflow-based rating application is used for the most part to support this analysis of credit quality. 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 provisions.

Scoring systems in the 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 straightforward estimation procedures at risk pool level are used, depending on portfolio size and the risk inherent in the portfolio.

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 validating and monitoring 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.

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 evaluation bases. Further local regulations (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 of vehicles.

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.

Provisions

The calculation of provisions is based on the incurred loss model in accordance with IAS 39 and is also derived from the rating and scoring processes.

With regard to impaired loans and receivables, a distinction is also made between significant and insignificant loans and receivables. Specific provisions are recognized for significant impaired loans and receivables, whereas specific provisions evaluated on a group basis are recognized for insignificant impaired loans and receivables. Portfolio (global) provisions are recognized to cover impaired loans or receivables for which no specific provisions have been recognized.

The following average values have been determined for the aggregate active portfolio (i.e. portfolio of loans and receivables not in default) based on a time horizon of twelve months: probability of default (PD) of 2.3%) (previous year: 2.9%); loss given default (LGD) of 25.9% (previous year: 24.6%) and total volume of loans and receivables based on the active portfolio of €67.7 billion (previous year: €39.9 billion).

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 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 branch and subsidiary.

A credit risk portfolio rating, together with analyses of the breakdown of expected and unexpected risk, are used to monitor risk at portfolio level. This rating brings together various risk measures into one indicator, facilitating comparability between the international portfolios in the Volkswagen Bank GmbH Group.

Trends

Retail portfolio

In fiscal year 2017, further growth was achieved in the volume of loans and receivables in the Volkswagen Bank GmbH Group's retail business on the back of the established sales promotion program with the brands and continuous expansion of the fleet business. More than 90% of the significant expansion in the retail portfolio was attributable to the inclusion of the international subsidiaries Volkswagen Financial Services (UK) Ltd., Volkswagen Finans Sverige AB, SkoFIN, s.r.o., Volkswagen Finančné služby Slovensko, s.r.o, and DFM N.V. in the Volkswagen Bank GmbH Group. As in the previous year, the German portfolio was instrumental in driving growth based on its stable vehicle market environment. Persistently strong demand for our retail products in the UK market also gave a substantial boost to the volume of loans and receivables in fiscal year 2017. Overall, the credit risk in the retail portfolio of the Volkswagen Bank GmbH Group remained stable.

Corporate portfolio

The corporate portfolio in the Volkswagen Bank GmbH Group benefited from significant expansion in fiscal year 2017. Around 90% of this increase is attributable to the merger of the international subsidiaries DFM N.V., Volkswagen Finans Sverige AB, SkoFIN, s.r.o., Volkswagen Financial Services (UK) Ltd. and Volkswagen Finančné služby Slovensko, s.r.o., into the Volkswagen Bank GmbH Group. At the international subsidiary Volkswagen Financial Services (UK) Ltd., the fall in the value of the pound sterling led to a sharper contraction in the volume of loans and receivables measured in euros than in the equivalent volume figure in local currency. Overall, the credit risk in the corporate portfolio of the Volkswagen Bank GmbH Group remained stable.

BREAKDOWN OF CREDIT VOLUME BY REGION

in € million

1 Europe excluding Germany

Counterparty/Issuer Risk

The Volkswagen Bank GmbH Group defines counterparty risk as the risk of financial loss that could arise from monetary investments or investments in marketable securities or 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 maturity 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 Bank 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.

Risk monitoring and control
To establish effective monitoring and control, volume limits are specified in advance for each counterparty and issuer. The Treasury Backoffice is responsible for monitoring compliance with these limits on a day-to-day basis. The volume limit is set at an appropriate, needs-driven level and is based on the credit assessment. The Credit Analysis department is responsible for the initial classification and then regular reviews. The Risk Management unit assesses counterparty and issuer risk on a monthly basis. The reporting of counterparty and issuer risk to the Management is included in the quarterly risk management report.

Country Risk
Country risk refers to risks in international transactions that are not attributable to the counterparty itself but that arise because of the counterparty's domicile in a country outside Germany. The Volkswagen Bank GmbH Group would need to take into account country risk in particular in connection with funding and equity investment activities involving foreign companies and in connection with the lending business. Given the focus of business activities in Volkswagen Bank GmbH Group, there is little chance that country risk will arise because the Group is not usually involved in cross-border lending business, except in the case of intercompany loans. The conventional country risk analysis is not applicable to intercompany lending because, if the difficulties described above were to occur, the funding of the entities through lending could be extended if necessary, thereby ensuring that the entities could continue to operate in the strategic market concerned. For these reasons, there has been no need to establish limits related to the overall level of business for countries or regions, for example, to limit transfer risk.

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 loans regarded as equity (e.g., silent contributions). 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.

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 financial performance in 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 into 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 value at risk (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 risk in its banking book.

Changes in interest rates that cause interest rate risk to materialize can have a negative impact on financial performance.

Risk identification and assessment

Interest rate risk for the Volkswagen Bank GmbH Group is determined as part of the monthly monitoring process using the value at risk (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 are factored into the risk assessment.

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 ALM 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.

The Management of Volkswagen Bank GmbH receives a separate report on the latest interest rate risk position in the Volkswagen Bank GmbH Group each month.

Currency Risk

Currency risk arises from foreign exchange exposures and potential changes in the corresponding exchange rates. The Volkswagen Bank GmbH Group is exposed to structural currency risks. These risks arise from the equity investments in the relevant local currency in the international subsidiaries/branches in the United Kingdom, Sweden, Czech Republic and Poland.

Fund Price Risk

The risk in connection with fund investments arises from possible changes in market prices. Fund price risk describes the risk that changes in market prices will cause the value of portfolios of securities to fall, thereby giving rise to a loss.

The Volkswagen Bank GmbH Group is exposed to fund price risk arising from its employee post-employment benefit arrangements that are funded by pension plan assets consisting of fund investments. The Volkswagen Bank GmbH Group has undertaken to meet these pension obligations if the employees' guaranteed entitlements can no longer be satisfied from the pension fund.

Trends

The market risk limit was adjusted from September 2017 as a result of the restructuring of the Volkswagen Bank GmbH Group. The main factor behind market risk at the level of the Volkswagen Bank GmbH Group is the structural currency risk arising from the sterling zone. Interest rate risk, which is subject to operational management, remained stable during the reporting year.

The quantified risk remained within the specified limits at all times.

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 in the Volkswagen Bank GmbH Group is to safeguard the ability of the Group to meet its payment obligations at all times. To this end, Volkswagen Bank GmbH Group holds liquidity reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. Standby lines of credit at other banks are also available 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.

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 financial performance. The consequence of illiquidity risk in the worst-case scenario is insolvency caused by illiquidity. Liquidity risk management in the Volkswagen Bank GmbH Group ensures that this situation does not arise.

Risk identification and assessment

The expected cash flows in the Volkswagen Bank GmbH Group are brought together and evaluated by the Treasury unit.

The Risk Management unit is responsible for identifying and recording liquidity risk. Stress tests are applied to funding matrices using a scenario approach with scenario triggers from the Bank 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, to ensure there is appropriate liquidity management, Treasury also prepares four different funding matrices, carries out cash flow forecasts and uses this information to determine the relevant range of liquidity coverage.

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 regulation 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 already been drawn up so that it can be implemented in the event of any liquidity squeeze.

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.

Trends

The impact on liquidity risk from the diesel issue discovered in September 2015 has almost completely faded away. From August 2016, Volkswagen Bank GmbH was able to access capital markets again, which is why liquidity risk at the level of the Volkswagen Bank GmbH Group is stable.

Funding risk always remained within the specified limits. Following the restructuring of the Volkswagen Bank GmbH Group, the funding risk limit was adjusted in September 2017 in line with the companies that now formed part of the Group.

Residual Value Risk

Residual value risk arises from the fact that the actual market value for a lease asset at the time of remarketing could be lower than the residual value calculated at the inception of the lease. On the other hand, there is an opportunity in that the remarketing could generate proceeds greater than the calculated residual value.

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

Direct residual value risks are quantified on the basis of expected loss (EL) and unexpected loss (UL). 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.

To determine the UL, the change is measured 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). 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 UL portfolio is determined by aggregating the ULs of the individual vehicles. This figure is determined 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.

In the case of indirect residual value risk, the method used to quantify residual value risk is generally similar to that used for direct residual value risk. 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 general requirements for developing, using and validating the risk parameters for direct and indirect residual value risk are laid down in a set of procedural instructions.

Risk monitoring and control

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

As part of risk management procedures, the adequacy of the provision for risks and the potential residual value risk are regularly reviewed in respect of direct residual value risk; residual value opportunities are disregarded in the recognition of the provision for risks.

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. There are also a number of stress tests for direct residual value risks for creating a comprehensive picture of the risk sensitivity of residual values. These stress tests are 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.

Trends

Within the Volkswagen Bank GmbH Group division, direct residual value risk arises at the branches in France, Italy, Ireland and Portugal, at Volkswagen Bank Polska S.A. and in the international subsidiaries Volkswagen Financial Services (UK) Ltd., Volkswagen Finančné služby Slovensko, s.r.o., SkoFIN, s.r.o. and Volkswagen Finans Sverige AB. The number of contracts involving direct residual value risk and the direct residual value risk itself increased significantly in fiscal year 2017. The main reason for this increase was the addition of the international subsidiaries to the Volkswagen Bank GmbH Group. Steady year-on-year growth in the number of contracts was evident in all markets, driven by the growth strategies (such as the expansion of the fleet business) and by the recovery in vehicle markets. The most significant growth driver was the United Kingdom market. As a result of the inclusion of Volkswagen Financial Services (UK) Ltd. in the Volkswagen Bank GmbH Group, the largest market with direct residual value risk was integrated into Volkswagen Bank GmbH. In terms of the number of contracts with direct residual value risk, some 80% of these contracts are attributable to Volkswagen Financial Services (UK) Ltd. An analysis of residual value risk itself shows that Volkswagen Financial Services (UK) Ltd. alone accounts for approximately 60%. Other than the residual value risk attributable to Volkswagen Financial Services (UK) Ltd., there are only material direct residual value risks at the branch in France and at the international subsidiary in Sweden because the volume in the other companies is still very low or the residual values have been set at such a conservative level that it can be assumed the customers will take over the vehicle at the end of the lease term. In France, direct residual value risk continued to rise in fiscal year 2017 and therefore remained at a high level. The reason for the high level of residual value risk in France is the conservative assessment of the residual value situation. The rise in direct residual value risk at the international subsidiary in Sweden in fiscal year 2017 was largely the result of the growth in current contracts and the adjustment of the projected residual values in the small vehicle segment.

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: firstly, the observed, relative variances between target and actual values; secondly, 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 with the forecast values. This comparison is included in the standard reporting procedure carried out by Controlling.

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

Trends

The change in earnings risk is mainly the result of the increase in the confidence level from 90% to 99% and the reorganization of Volkswagen Bank GmbH, which led to higher expected income and expenses and therefore greater earnings risk exposure in the Volkswagen Bank GmbH Group.

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 because they are analyzed separately.

The objective of operational risk 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 and financial performance, depending on the amount of the loss.

The operational risk strategy specifies the focus for the management of operational risk; the operational risk manual sets out the implementation process and allocates 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 operational risk 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.

Risk monitoring and control

Operational risk is managed by the companies/divisions (operational risk 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).

The Risk Management unit 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 operational risk system to ensure it is fully functioning and instigates appropriate modifications as required. This includes, in particular, the integration of all operational risk units, a review to check compliance with the risk sub-strategies 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 operational risk 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.

Trends

The increase in operational risk in the past was based on a number of factors including business growth and also the legal risk to which the largest part of the

Volkswagen Bank GmbH Group was exposed within the overall operational risk exposure. As of December 2017, an amount of €371 million had been recognized as provisions for legal risks.

Training and briefing sessions are carried out to continue to raise awareness of operational risk in the Volkswagen Bank GmbH Group. Experience and information gained about past loss events also means that potential future risks can be assessed more completely and more accurately.

Particularly in relation to cyber risk, the Volkswagen Bank GmbH Group is engaged in continuous further development of preventive and/or countermeasures to ensure the availability, integrity, confidentiality and authenticity of data.

Compliance and Conduct Risk

At the Volkswagen Bank GmbH Group, compliance risk encompasses all risks that could arise from non-compliance with statutory rules and regulations or other official or supervisory requirements, or that could be caused by a breach of internal company regulations.

Separately from compliance risk, conduct risk is defined as the risk arising from inadequate conduct by the institution toward the customer, unreasonable treatment of the customer or provision of advice using products that are not suitable for the customer.

Volkswagen Bank GmbH Group is taking account of both categories of risk by setting up a local compliance function and this function is working toward specifying and implementing risk-mitigating measures.

To counter compliance and conduct risks, the compliance function is committed to ensuring compliance with laws, other legal requirements, internal rules and self-proclaimed values, and fostering an appropriate compliance culture.

As a component of the compliance function, the role of the compliance officer is to work toward implementing effective procedures to ensure compliance with key and core legal rules and regulations for the institution and toward establishing appropriate controls. This will be achieved, in particular, by specifying mandatory compliance requirements for legal stipulations classified as material. These requirements include documenting responsibilities and processes, establishing controls to the extent required and raising employee awareness of pertinent rules so that employees comply with the rules as a matter of course, reflecting a fully functioning compliance culture.

Further regular activities are also nurturing the emergence of a compliance culture. These activities include, in particular, constantly promoting the Volkswagen Group's Code of Conduct, raising employee awareness on a risk-oriented basis (e.g. tone from the top, face-to-face training, e-learning programs, other media-based activities), carrying out communications initiatives, including distributing guidelines and other information media, and participating in compliance programs.

The compliance function has been set up on a decentralized basis. The departments are responsible for complying with the rules and regulations in their respective areas of activity. A compliance theme coordinator is being 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).

Using the control plans and control documentation as a basis, the compliance function checks whether the implemented controls are appropriate. In addition, the findings from various audit activities will be used to evaluate whether there are indications that the implemented compliance requirements are ineffective, or whether the audits have identified material residual risks on the basis of which further action needs to be determined.

The compliance officer is responsible for coordinating ongoing legal monitoring, the purpose of which is to ensure that new or amended legal regulations and requirements are identified promptly. 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 Company. The compliance theme coordinators notify the compliance officer of any regulations and requirements that have been identified immediately.

The internal Compliance Committee will regularly conduct a materiality analysis on the basis of the outcomes from this legal monitoring. After taking into account the evaluated compliance risks, the Compliance Committee will make a decision on the materiality of new legal requirements applicable to the Bank. Compliance risk primarily includes the risk of a loss of reputation vis-à-vis the general public or supervisory authorities and the risk of material financial loss.

Currently, the following specific legal fields have been determined as being generally material from the perspective of the Group:

- prevention of money laundering and terrorist financing,
- prevention of corruption and other criminal acts,
- data protection,
- consumer protection,
- securities trading law,
- banking supervisory law, and
- antitrust law.

The compliance requirements for the Volkswagen Bank GmbH Group are specified centrally and must be implemented autonomously in 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 receives regular reports and carries out on-site visits on a risk-oriented basis to ensure that the local compliance units are meeting their responsibilities.

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).

The Management also receives an annual compliance report and other comparable reports on an ad hoc basis, as required. The annual compliance report contains a presentation of the appropriateness and effectiveness of the compliance requirements implemented to ensure compliance with key and core legal regulations and requirements.

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.

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 objective of risk management for outsourcing is to identify and minimize the risks from all cases of outsourcing. As part of outsourcing management and detailed monitoring, measures may be initiated, where appropriate, to monitor a variance from an identified risk and ensure that the original risk position associated with an outsourced activity can be restored.

Ultimately, a variance from a determined risk may mean that the service provider has to be changed or, if possible and strategically desirable, the outsourcing arrangement ended. In this case, the activities may be performed by the Bank 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 procurement from a third-party supplier or an outsourcing arrangement. 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 quarterly on the risks to the Management.

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

Model Risk

Model risk arises from inaccuracies in the risk values and must be taken into account, particularly in the case of underestimated risk 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 in the risk models are assessed by the model coordinator on a qualitative basis in an annual model risk process. The objective is to verify that the risks are covered by own funds.

The assessment is carried out using the following criteria: “simple”, “transparent”, “conservative”. If the presence of model risk is demonstrated, the model risk drivers are identified using a further qualitative assessment. A review is then carried out to establish whether the risk drivers can be minimized with appropriate action and/or whether quantitative backing with own funds is required.

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. In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Bank as a going concern.

Strategic risk is recognized quantitatively by applying a markdown 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 strategic objective is therefore to prevent or reduce any negative variance between actual reputation and the level of reputation the Bank expects. A loss of reputation or damage to the Bank’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 global approach is reassessed each year from a qualitative perspective.

SUMMARY

The Volkswagen Bank GmbH Group accepts risks in a responsible manner as part of its operating activities. This approach is based on a comprehensive system for identifying, measuring, analyzing, monitoring and controlling risks, which is part of a holistic risk- and return-oriented management system. Risk-bearing capacity was maintained at all times in 2017. We do not believe that there are any risks to the continued existence of our business as a going concern.

The system was once again subject to a process of continuous refinement in 2017, for example by adjusting methods, models, systems, processes and IT.

The Volkswagen Bank GmbH Group will continue to invest in optimizing its comprehensive control system and risk management systems in order to meet the business and statutory requirements for the management and control of risks.

Forecast of Material Risks

Credit Risk Forecast

Overall, a stable risk position and a further expansion in the volume of loans and receivables is anticipated for 2018. This growth is likely to be achieved on the back of the well-established sales promotion program with the brands and continuous expansion of the fleet business. The challenging market situation arising from the current debate in Germany surrounding the use of diesel engines could impact the credit standing of dealers. Developments will therefore be closely monitored so that the Group can respond in good time to any deterioration that may materialize. At the moment, the diesel debate is not expected to have an impact on the current risk situation in other European markets.

Market Risk Forecast

We are expecting a generally stable market price risk situation for fiscal year 2018, based on the expected relatively stable interest rate environment in the eurozone.

Liquidity Risk Forecast

The future trend in this risk depends to a large extent on global political uncertainties. For example, failure of the Brexit negotiations could lead to a disorderly exit from the European Union by the UK, plunging the financial markets into a new round of turmoil. In turn, this could affect the funding situation in the Volkswagen Bank GmbH Group, increasing funding risk and illiquidity risk.

Residual Value Risk Forecast

We expect the volume of contracts with direct residual value risk to continue to grow in fiscal year 2018. The main drivers behind this are the implemented growth program, continued economic recovery in the markets and further expansion in the fleet business. We believe that there will be little or no impact at the moment on the risk situation from the current debate about potential vehicle prohibitions in individual European cities.

Operational Risk Forecast

Based on future business growth and the trend in operational risk as described in the risk report, we anticipate a constant to moderately rising level of risk. In this context, we expect the effectiveness of fraud protection to remain stable and the high level of quality in processes, staff skills and qualifications, and IT systems to be maintained

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This report contains forward-looking statements on the business development of Volkswagen Bank GmbH. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and of the financial and automotive markets, which we have made on the basis of the information available to us and which we currently consider to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of our business. The same applies in the event of material changes in exchange rates against the euro. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2017 Annual Report develop differently to our current expectations, or additional risks and opportunities or other factors emerge that affect the development of our business.

Human Resources Report

Promoting a Culture of Open Feedback and Discussion

HEADCOUNT

Volkswagen Bank GmbH employed 1,110 people at the end of 2017. Since September 1, 2017, employees of Volkswagen Financial Services AG have no longer been assigned to Volkswagen Bank GmbH's business units under staff leasing arrangements (previous year: 2,786) because the employees are now under direct employment contracts with Volkswagen Bank GmbH.

The branches of Volkswagen Bank GmbH employed 809 staff (previous year: 955); Volkswagen Bank Polska S.A. had 144 employees (previous year: 337). The lower headcount at Volkswagen Bank Polska arose from the restructuring of the Volkswagen Financial Services group of companies. As a consequence of the structural changes referred to above, the following international companies have formed part of the Volkswagen Bank GmbH Group since 2017 in addition to the bank branches and Volkswagen Bank Polska: SkoFIN s.r.o., Czech Republic: 239 employees (previous year: 234), Volkswagen Finans Sverige AB, Sweden: 204 employees (previous year: 159) and Volkswagen Financial Services (UK) Ltd., UK: 1,043 employees (previous year: 984).

EMPLOYEES

We believe it is the responsibility of Volkswagen Bank GmbH to offer our employees the environment expected of a top employer. The elements we think are important primarily include a wide range of attractive tasks, a comprehensive range of opportunities for personal and professional development, options for international assignments and working conditions that enable employees to achieve a good work-life balance. We also offer fair remuneration commensurate with the work performed, profit-sharing and numerous social benefits.

We expect our top employees to demonstrate a high level of professional competence, deliver excellent quality of work, be prepared to embrace change and accept flexibility in their deployment, be keen to develop their skills and qualifications (especially in relation to future customer requirements, including those involving digitalization), be willing to continuously improve productivity and pursue their chosen career with commitment and passion. The long-term success of our Company will only be made possible by the outstanding performance of our employees, taking an agile approach to collaboration and using innovative methods.

Human Resources Strategy

The ROUTE2025 program has created new areas of focus in terms of HR strategy. Six strategic areas for action are listed under the heading "Top Employer/Top Employees". These areas for action are helping Volkswagen Bank GmbH to position itself as "the key to mobility". With the support of the best employees, our objective is to continue to drive forward development of the other strategic cornerstones relating to customers, volume, profitability and operational excellence. Based on specific activities to develop and retain personnel, coupled with profit-sharing arrangements commensurate with the work performed, we aim to encourage top performance and ensure we provide outstanding customer service through top employees, but also, as a top employer, improve our excellent reputation even further.

Responsibility for implementing the employee strategy at an international level lies locally with the branches and international subsidiaries, supported by the international HR unit at the head office. The Human Resources Strategy Card remains the most important management tool for implementing the HR strategy. The objectives and definitions set out in the tool provide our local companies with uniform guidelines. The local entities hold regular meetings with the head office – at least twice a year – to report on their progress and share detailed information in this regard. Depending on the situation, support measures are agreed and/or highly positive examples are systematically made available to other branches using the HR toolbox so that synergies can also be leveraged between the different branches and local companies.

In the year under review, the strategic focus both in Germany and at the international sites remained on promoting a culture of open feedback and discussion and on fostering customer- and service-oriented collaboration, internally and in partnership with customers.

A wide variety of discussion and feedback opportunities was provided for employees in many of the branches and international subsidiaries and also in Germany. These opportunities included, for example, dialog events with members of the Management (Germany), weekly team meetings to identify any need for action at an early stage (Portugal), brief meetings between colleagues for face-to-face feedback (Netherlands) and voluntary interdisciplinary teams to analyze the results from the “Great Place to Work” employer competition and determine any corrective action (Poland).

We assess the extent to which we have achieved our objective of being a top employer by regularly taking part in external employer competitions. Participation in “Great Place to Work” in Europe was suspended in the year under review because of the Europe-wide reorganization; we plan to rejoin the competition in 2019. However, we have received numerous other awards as an employer. In Germany for example, we yet again received accolades from FOCUS magazine in the Top Company category, and from the employer evaluation platform kununu in the “Best Employers in Germany” awards. Our Dutch company received a “Best Employer” distinction from the Effectory & Intermediair employer benchmarking organization in the Netherlands.

The satisfaction of our customers with the work of our employees is given top priority at Volkswagen Bank GmbH. The results of external and internal customer satisfaction surveys are used as indicators of target achievement. The internal customer feedback system, which analyzes intragroup collaboration, has also been introduced in international markets, notably in France, Spain and the Czech Republic.

Volkswagen Bank GmbH already offers competitive, performance-related remuneration. Performance appraisals are conducted as part of the annual staff dialogs in almost all branches and international subsidiaries.

In the reporting year, Volkswagen Bank GmbH was subject to direct supervision by the ECB and implemented the Institutsvergütungsverordnung (IVV – German Regulation Governing Remuneration at Institutions) of December 16, 2013 throughout the Group. The special regulatory requirements relating to remuneration systems applied in addition to the general requirements. In fiscal year 2017, strategies and instruments already introduced, such as the Works Council agreement on variable remuneration, the variable remuneration ceiling, national and international risk-taker identification, the IVV-compliant bonus process and the reporting system using a remuneration report, continued to be applied. Furthermore, special governance functions (Remuneration Committee and Remuneration Officer) ensured that the adequacy of the remuneration systems was continuously monitored. The “Verordnung zur Änderung der Institutsvergütungsverordnung” (IVV 3.0, German Regulation Amending the Regulation Governing Remuneration at Institutions) was adopted on August 4, 2017. The IVV 3.0 will be applied for the first time to the bonuses for fiscal year 2018 (payable in 2019).

IMPLEMENTATION OF THE CORPORATE STRATEGY

ROUTE2025 is complemented by “The FS Way” and the associated leadership and management principles. The FS Way describes our corporate and leadership culture, i.e. the way in which the objectives of the five strategic areas for action – customers, employees, operational excellence, profitability and volume – can be met to enable us to live up to our strategic vision, “The Key to Mobility”, as an automotive financial services provider. The FS Way is anchored in the five FS values, living commitment to our customers, responsibility, trust, courage and enthusiasm, combined with an attitude of continuously looking for improvement and proactively making the changes this requires. The FS values are repeatedly explored and discussed at events for managers, especially from the perspective of digital transformation.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

In 2017, 44 new vocational trainees/dual vocational training students started their professional careers at Volkswagen Financial Services AG in Braunschweig focusing on specialist professional IT qualifications in application development, professional banking qualifications and professional insurance and finance qualifications.

Under a training collaboration agreement between Volkswagen Financial Services AG and Volkswagen Bank GmbH, vocational trainees, dual vocational training students and IT students will continue to have the opportunity to obtain their professional qualifications in departments at Volkswagen Bank GmbH.

In order to continue to attract qualified, committed employees for our Bank, Volkswagen Bank GmbH has a rigorous concept for recruiting and retaining young university graduates. For example, as part of the development program for young graduates, it offers a three-year doctoral program. Another critical element determining the successful implementation of ROUTE2025 is to identify talent in the existing workforce and to nurture this talent with professional development in the Bank. The objectives are to provide individual personal and professional development and to enhance the participant’s profile in the Company.

A wide variety of programs aimed at developing experts and management talent is also available in the branches and international subsidiaries of Volkswagen Bank GmbH.

The strategic approaches of the corporate values and the resulting leadership principles have also been incorporated at Volkswagen Bank GmbH in Germany as part of the holistic training program for new and experienced managers; the program is aimed at developing effective leadership and management skills.

In addition to the mandatory and modular “Erfolgreich durchstarten” (hit the ground running) program for new and newly appointed managers, there are advanced modules for enhancing the management know-how of experienced managers as well as the option of an individual review to assess the current level of a manager’s skills. The program is complemented by the “Boxenstopp Führung” (management pitstop), which gives all managers the opportunity to get information on current issues. Here they can obtain support for specific management situations; internal and external facilitators help them analyze their own leadership and in this way enhance their skills.

Volkswagen Bank GmbH thus ensures consistent quality standards of management know-how as well as a shared understanding of the leadership culture and principles as set out by the FS Way for employees with line management responsibilities.

The branches and international subsidiaries also attach great importance to continuously enhancing management skills. The international “leadership license” standard, comprising training modules and a concluding assessment center, was introduced in all branches and international subsidiaries in 2017. All future managers are now challenged and provided with professional development in the same way, whether as a group or on an individual basis. Furthermore, professional development has become internationally established as an integral part of management. A few of the branches and international subsidiaries carry out the management assessment center (MAC) themselves or offer it in collaboration with the Group brands in the country concerned. In an alternative option, managers can participate in cross-regional MACs offered once or twice a year.

INCREASE IN THE PROPORTION OF WOMEN

As of December 31, 2017, women accounted for 56.9% of the workforce of Volkswagen Bank GmbH in Germany, but this is not yet reflected in the percentage of women in management positions. We have set ourselves the target of permanently increasing the proportion of women in management positions. We do so, for example, by giving special consideration to female candidates in recruitment and succession planning, in combination with measures to improve the work-life balance as well as the development of HR tools.

The targets for the first and second management levels for 2017 still related to Volkswagen Financial Services AG in the structure prior to the transfer of Volkswagen Bank GmbH, i.e. including the Volkswagen Financial Services AG employees. Accordingly, the actual values as of December 31, 2017 were also determined on the same basis. For this reason, no separate target for the Supervisory Board of Volkswagen Bank GmbH was defined as yet in 2017.

Proportion of women – target and actual values for Germany

	Target 2021	Target 2017	Actual 2017
Second management level	22.8	22.1	22.9
First management level	12.0	11.0	10.0
Supervisory Board	25.0	-	33.3

A cross-brand mentoring program is run each year throughout the Group with the aim of increasing the proportion of women in management. Eight mentees from Volkswagen Financial Services AG successfully completed the program in the 2016/2017 round. The aim of the twelve-month program is for suitably qualified female employees to receive advice, support and coaching from managers in the Group.

DIVERSITY

Volkswagen Bank GmbH operates at an international level and aims to maintain a working environment characterized by openness, a sense of community, respect and appreciation. The Bank sent a clear signal with its corporate initiative around the Diversity Charter, which was signed in 2007. Results from the “Great Place to Work” employer benchmark study confirm that the Bank puts into practice the notion of diversity, which has been an integral component of the corporate culture at Volkswagen Bank GmbH.

Report on Expected Developments

Growth in the global economy in 2018 is expected to be not quite as strong as in 2017. We anticipate that trends in the global demand for vehicles will vary from region to region but the rise in demand is likely to be slightly slower than in the reporting year.

The main opportunities and risks arising from the operating activities having been set out in the report on opportunities and risks, the section below now outlines the expected future developments. These developments give rise to opportunities and potential benefits that are included in our planning process on an ongoing basis so that we can exploit them as soon as possible.

Our assumptions are based on current estimates by third-party institutions. These include economic research institutes, banks, multinational organizations and consulting firms.

DEVELOPMENTS IN THE GLOBAL ECONOMY

In our forecasts, we assume that global economic growth will weaken slightly in 2018. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We therefore expect somewhat weaker momentum than in 2017 in both the advanced economies and the emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2019 to 2022.

Europe

In Western Europe, economic growth is expected to slow down in 2018 compared with the reporting period. Resolving structural problems poses a major challenge, as do the uncertain results and impacts of the Brexit negotiations between the EU and the United Kingdom.

For Central Europe, we estimate that growth rates in 2018 will be lower than those of the past fiscal year. In Eastern Europe, the economic situation should stabilize further, providing that the smoldering conflict between Russia and Ukraine does not worsen. Following the increase in the past fiscal year, Russia's economic output is likely to grow further.

Germany

In Germany, gross domestic product (GDP) is likely to increase less strongly in 2018 than in the reporting period. However, the situation in the labor market is expected to remain stable and bolster consumer spending.

DEVELOPMENTS IN THE FINANCIAL MARKETS

We assume that the economy will expand slightly more slowly in 2018 than in the previous year. Persistent geopolitical tensions and structural deficits in individual countries will have an adverse impact. The eurozone's loose monetary policy will continue, even though the ECB's bond-buying program is expected to be scaled back significantly in 2018. Eurozone inflation is anticipated to increase slightly, while the structural deficits in southern European countries have not yet been eliminated. Further interest rate rises by the Federal Reserve in the USA are likely in an environment of slightly accelerating economic growth.

TRENDS IN THE PASSENGER CAR MARKETS

We expect trends in the passenger car markets in the individual regions to be mixed in 2018. Overall, growth in global demand for new vehicles will probably be slower than in the reporting period.

The Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed developments in regional automotive markets. Our brand diversity, steadily growing presence in all major world markets, broad and selectively expanded product range, and pioneering technologies and services place us in a good competitive position worldwide. Our goal is to offer all customers mobility and innovations suited to their needs and thus ensuring long-term success.

We expect that the growth in demand for passenger cars worldwide will continue in the years 2019 to 2022.

Europe

For 2018, we anticipate that unit sales volumes in Western Europe will fall slightly short of those seen in the reporting period. The level recorded before the financial and debt crisis is unlikely to be achieved again in the medium term. The uncertain outcome of the exit negotiations between the EU and United Kingdom is likely to further exacerbate the continuing uncertainty among consumers precipitated by the financial and debt crisis, putting a damper on demand. In Italy and Spain, the recovery will probably continue in 2018 but at a considerably slower pace; in the French market, we expect growth to be only slightly positive. In the United Kingdom, we expect the market volume to fall moderately short of the previous year's high level.

Passenger car demand in 2018 is expected to significantly exceed the prior-year figures in markets in Central and Eastern Europe. In Russia, the volume of demand will probably rise somewhat more strongly after the considerable recovery over the past fiscal year. We also expect to see further growth in demand in the other markets in this region. In the Czech Republic, we also forecast that the market volume will be slightly above that seen in 2017.

Germany

Following the positive trend of recent years, we forecast that the market volume of the German passenger car market will remain on a level with the previous year in 2018.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2018. Overall, we expect a slight fall in demand in 2018, and a return to the growth trajectory for the years 2019 to 2022.

Due to the uncertainty caused by the United Kingdom's European Union membership referendum in June 2016, we estimate that demand for light commercial vehicles in Western Europe in 2018 will be slightly below the previous year's level. The United Kingdom and Italy are expected to record a decline. We anticipate that registrations in Germany will be around the previous year's level.

In the Central and Eastern European markets, registrations of light commercial vehicles in 2018 will probably be perceptibly higher than in the previous year. In Russia, too, we expect the market volume to rise compared with 2017.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2018 are set to be slightly up on the level seen in 2017. We anticipate a positive trend for the period from 2019 to 2022.

We assume that demand in Western Europe will be slightly above the level of 2018. In Germany, we expect the market to remain on a level with the previous year.

Central and Eastern European markets should7 record a moderate increase in demand. In Russia, we anticipate a further recovery in demand in 2018, though the growth rate seen in 2017 will not be repeated.

INTEREST RATE TRENDS

In 2017 and also into the beginning of the current fiscal year, central banks continued to support the global economy and the financial system with an expansionary monetary policy, although the central banks in the US and the UK have already introduced initial interest rate hikes. The level of interest rates still remains close to the historic low. In terms of the economic outlook, the clouds are lifting however, so much so that the central banks in the US and UK are likely to announce further gradual increases in interest rates. This will be reflected in a modest rise in interest denominated in GBP and USD.

However, the ECB will certainly maintain its policy of low interest rates throughout the whole of 2018. An initial rise in interest rates is not anticipated before 2019. Interest rates will therefore probably remain stable in the eurozone for the time being.

SUMMARY OF EXPECTED DEVELOPMENTS

Over the coming fiscal year, the Volkswagen Bank GmbH Group predicts that the volume of business will be at the level of 2017. Please refer to the statements in the opportunities and risks report for information on the trends in credit risk, liquidity risk, and residual value risk.

Sales activities related to the Volkswagen Group brands and our sales partner Volkswagen Financial Services AG will be further intensified, particularly through joint strategic projects.

Furthermore, the Volkswagen Bank GmbH Group intends to continue enhancing the leveraging of potential along the automotive value chain. Our aim is to satisfy the wishes and needs of our customers in the most efficient manner in cooperation with the Group brands. Our end customers are looking, in particular, for mobility with predictable fixed costs. In addition, we intend to further expand the digitalization of our business.

The product packages and mobility solutions successfully launched in the last few years will be refined in line with customer needs.

In parallel with its market-based activities, the position of the Volkswagen Bank GmbH Group vis-à-vis its global competitors will be further strengthened through strategic investment in structural projects as well as through process optimization and productivity gains.

OUTLOOK FOR 2018

When the above factors and the market trends are considered, the following overall picture emerges for Volkswagen Bank GmbH, from both single entity and Group perspectives: our earnings expectations assume stable funding costs, greater levels of cooperation with the individual Group brands, further optimization of costs as part of our efficiency program and a continued high degree of uncertainty about macroeconomic conditions in the real economy and the impact of this uncertainty on factors such as risk costs.

We anticipate that we will be able to sustain stable levels of new contracts, current contracts, penetration and volume of business in 2018 despite the transfer of portfolios to Volkswagen Financial Services AG in connection with the restructuring of the Group. The volume of deposits is also projected to remain stable in 2018. We expect the operating profit for fiscal year 2018 to be moderately below the level achieved in fiscal year 2017 because of the positive non-recurring items recognized in 2017. Return on equity will be affected accordingly and therefore is also likely to be below the level of 2017. We forecast that the cost/income ratio in 2018 will be slightly higher than the level of the previous year.

FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2018 COMPARED WITH PRIOR-YEAR FIGURES

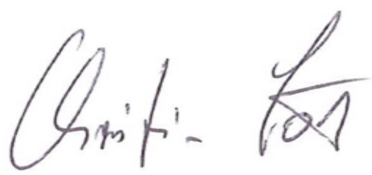
	Actual 2016[1]	Actual 2017	Forecast for 2018
Nonfinancial performance indicators			
Penetration (percent)	17.6	22.8	At 2017 level
Current contracts (thousands)	3,002	5,533	At 2017 level
New contracts (thousands)	1,081	2,256	At 2017 level
Financial performance indicators			
Volume of business (€ million)	38,748	59,592	At 2017 level
Volume of deposits (€ million)	35,666	33,583	At 2017 level
Operating profit (€ million)[2]	645	994	Moderatly below 2017 level
Return on equity (percent)	11.0	10.8	Lower than in 2017
Cost/income ratio (percent)	46.1	38.7	Above 2017 level

1 The actual figures for 2016 still reflect the old structure of the Volkswagen Bank GmbH Group without the new subsidiaries in the United Kingdom, Sweden and the Czech Republic.
2 The operating profit for 2017 includes positive non-recurring items. In 2018, the operating profit is expected to be higher than the 2017 operating profit adjusted for these non-recurring items.

Braunschweig, February 21, 2018
The Management

Dr. Michael Reinhart

Harald Heßke



Christian Löbke

Dr. Volker Stadler

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement

of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2016 restated[2]	Change in percent
Interest income from lending transactions before provision for credit risks	(20)	1,429	1,300	9.9
Income from leasing transactions and service contracts		2,726	654	X
Expenses from leasing transactions and service contracts		–1,733	–262	X
Depreciation of and impairment losses on lease assets and investment property		–432	–186	X
Net income from leasing transactions before provision for credit risks	(15)	561	206	X
Interest expense		–234	–207	13.0
Net income from lending and leasing transactions before provision for credit risks	(5, 20)	1,756	1,299	35.2
Provision for credit risks from lending and leasing business	(9, 21, 30)	150	–38	X
Net income from lending and leasing transactions after provision for credit risks		1,907	1,261	51.2
Fee and commission income		291	315	–7.6
Fee and commission expenses		–328	–345	–4.9
Net fee and commission income	(5, 22)	–37	–30	23.3
Net loss on the measurement of derivative financial instruments and hedged items	(10, 23)	–48	–9	X
Net gain on equity-accounted joint ventures		29	–	X
Net gain on marketable securities and miscellaneous financial assets[1]	(32)	16	20	–20.0
General and administrative expenses	(5, 6, 13, 14, 15, 24)	–931	–829	12.3
Other operating income		374	364	2.7
Other operating expenses		–317	–108	X
Net other operating income/expenses	(5, 25)	57	255	–77.6
Profit before tax		**992**	**669**	**48.3**
Income tax expense	(6, 26)	–336	–186	80.6
Profit after tax		**656**	**482**	**36.1**
Profit after tax attributable to the sole shareholder		656	482	36.1

1 In the comparative period of 2016, this item included income of €14 million from the disposal of noncurrent assets that had been classified as held for sale in the previous year.
2 Previous year restated as explained in the disclosures on the leasing business in the Ireland branch in the section entitled "Restated Prior-Year Figures".

Statement of Comprehensive Income

of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2016
Profit after tax		**656**	**482**
Pension plan remeasurements recognized in other comprehensive income	(17, 44)		
Pension plan remeasurements recognized in other comprehensive income, before tax		–15	–5
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	(6, 26)	5	1
Pension plan remeasurements recognized in other comprehensive income, net of tax		–11	–3
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax		0	–
Items that will not be reclassified to profit or loss		**–11**	**–3**
Exchange differences on translating foreign operations	(4)		
Gains/losses on currency translation recognized in other comprehensive income		44	–42
Reclassified to profit or loss		–	–
Exchange differences on translating foreign operations, before tax		44	–42
Deferred taxes relating to exchange differences on translating foreign operations		–	–
Exchange differences on translating foreign operations, net of tax		44	–42
Cash flow hedges	(10, 23, 31)		
Fair value changes recognized in other comprehensive income		0	1
Reclassified to profit or loss		0	0
Cash flow hedges, before tax	(6, 26)	0	1
Deferred taxes relating to cash flow hedges		0	0
Cash flow hedges, net of tax		0	1
Available-for-sale financial assets	(11, 32, 50)		
Fair value changes recognized in other comprehensive income		–24	45
Reclassified to profit or loss		–3	–16
Available-for-sale financial assets, before tax	(6, 26)	–27	29
Deferred taxes relating to available-for-sale financial assets		9	–11
Available-for-sale financial assets, net of tax		–18	19
Share of other comprehensive income of equity-accounted investments that may be reclassified subsequently to profit or loss, net of tax		–	–
Items that may be reclassified subsequently to profit or loss		**25**	**–23**
Other comprehensive income, before tax		1	–17
Deferred taxes relating to other comprehensive income		13	–10
Other comprehensive income, net of tax		**14**	**–26**
Total comprehensive income		**670**	**456**
Total comprehensive income attributable to the sole shareholder		670	456

Balance Sheet

of the Volkswagen Bank GmbH Group

Assets (€ million)	Note	Dec. 31, 2017	Dec. 31, 2016 restated[1]	Change in percent	Jan. 1, 2016 restated[2]
Cash reserve	(7, 28)	1,866	1,457	28.1	1,352
Loans to and receivables from banks	(8)	970	1,944	–50.1	1,501
Loans to and receivables from customers attributable to					
retail financing		28,032	24,259	15.6	22,825
dealer financing		12,430	10,538	18.0	10,302
leasing business	(15)	18,858	3,695	X	2,989
other loans and receivables		5,592	7,175	–22.1	4,690
Total loans to and receivables from customers	(8, 9, 29, 30)	64,912	45,667	42.1	40,806
Derivative financial instruments	(10, 31)	289	221	30.8	153
Marketable securities	(11, 32)	2,509	4,455	–43.7	2,557
Equity-accounted joint ventures	(33)	197	–	X	–
Miscellaneous financial assets	(12, 33)	3	3	0.0	3
Intangible assets	(13, 34)	48	39	23.1	43
Property and equipment	(14, 35)	25	9	X	10
Lease assets	(15, 36)	5,426	877	X	710
Investment property	(15, 36)	1	1	0.0	1
Deferred tax assets	(6, 37)	1,497	1,212	23.5	1,431
Current tax assets	(6)	53	53	0.0	50
Other assets	(38)	952	396	X	589
Total		**78,747**	**56,334**	**39.8**	**49,206**

Equity and liabilities (€ million)	Note	Dec. 31, 2017	Dec. 31, 2016 restated[1]	Change in percent	Jan. 1, 2016 restated[2]
Liabilities to banks	(16, 40)	8,032	4,930	62.9	4,020
Liabilities to customers	(16, 40)	41,066	37,938	8.2	30,478
Notes, commercial paper issued	(41, 42)	13,446	4,311	X	7,604
Derivative financial instruments	(10, 43)	277	43	X	46
Provisions	(17, 18, 44)	564	425	32.7	376
Deferred tax liabilities	(6, 45)	1,502	1,070	40.4	1,237
Current tax liabilities	(6)	210	89	X	39
Other liabilities	(46)	629	217	X	150
Subordinated capital	(47)	1,721	155	X	226
Equity	(49)	11,301	7,156	57.9	5,030
Subscribed capital		318	318	–	318
Capital reserves		8,531	6,026	41.6	3,946
Retained earnings		2,622	826	X	757
Other reserves		–171	–14	X	9
Total		**78,747**	**56,334**	**39.8**	**49,206**

1 Previous year restated as explained in the disclosures on the leasing business in the Ireland branch in the section entitled “Restated Prior-Year Figures”.
2 January 1, 2016 corresponds to December 31, 2015 after adjustments, as explained in the disclosures on the leasing business in the Ireland branch in the section entitled “Restated Prior-Year Figures”.

Statement of Changes in Equity

of the Volkswagen Bank GmbH Group

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES Currency translation	Cash flow hedges	Available-for-sale financial assets	Equity-accounted investments	Total equity
Balance as of Jan. 1, 2016	**318**	**3,946**	**757**	**–12**	**0**	**21**	**–**	**5,030**
Profit after tax	–	–	482	–	–	–	–	482
Other comprehensive income, net of tax	–	–	–3	–42	1	19	–	–26
Total comprehensive income	**–**	**–**	**479**	**–42**	**1**	**19**	**–**	**456**
Capital increase	–	2,080	–	–	–	–	–	2,080
Distribution/profit transfer to the sole shareholder[1]	–	–	–414	–	–	–	–	–414
Other changes	–	–	5	–	0	–	–	5
Balance as of Dec. 31, 2016	**318**	**6,026**	**826**	**–54**	**0**	**40**	**–**	**7,156**
Balance as of Jan. 1, 2017	**318**	**6,026**	**826**	**–54**	**0**	**40**	**–**	**7,156**
Profit after tax	–	–	656	–	–	–	–	656
Other comprehensive income, net of tax	–	–	–11	44	0	–18	0	14
Total comprehensive income	**–**	**–**	**645**	**44**	**0**	**–18**	**0**	**670**
Capital increase	–	2,505	–	–	–	–	–	2,505
Distribution/profit transfer to the sole shareholder[1]	–	–	–489	–	–	–	–	–489
Other changes[2]	–	–	1,639	–180	–	–1	–	1,458
Balance as of Dec. 31, 2017	**318**	**8,531**	**2,622**	**–191**	**0**	**20**	**0**	**11,301**

1 The figures show the share of HGB profit attributable to Volkswagen AG (previous year: Volkswagen Financial Services AG).
2 See note 2 for a detailed explanation of the effects.

Cash Flow Statement

of the Volkswagen Bank GmbH Group

€ million	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2016
Profit after tax	**656**	**482**
Depreciation, amortization, impairment losses and reversals of impairment losses	311	178
Change in provisions	117	49
Change in other noncash items	81	577
Gain/loss on disposal of financial assets and items of property and equipment	0	0
Net interest income and dividend income	–1,666	–1,274
Other adjustments	3	–6
Change in loans to and receivables from banks	1,065	–429
Change in loans to and receivables from customers	–4,605	–5,004
Change in lease assets	–1,013	–348
Change in other assets related to operating activities	–104	194
Change in liabilities to banks	2,229	907
Change in liabilities to customers	–2,438	7,123
Change in notes, commercial paper issued	1,472	–3,289
Change in other liabilities related to operating activities	72	65
Interest received	1,887	1,475
Dividends received[1]	13	6
Interest paid	–234	–207
Income taxes paid	–88	–95
Cash flows from operating activities	**–2,242**	**403**
Proceeds from disposal of investment property	–	0
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries	0	4
Acquisition of subsidiaries	–211	–30
Proceeds from disposal of other assets	0	1
Acquisition of other assets	–13	–6
Change in investments in securities	839	–2007
Cash flows from investing activities	**615**	**–2,038**
Proceeds from changes in capital	2,505	2,080
Profit transfer to Volkswagen Financial Services AG	–414	–268
Change in cash funds attributable to subordinated capital	–59	–70
Cash flows from financing activities	**2,032**	**1,742**
Cash and cash equivalents at end of prior period	**1,457**	**1,352**
Cash flows from operating activities	–2,242	403
Cash flows from investing activities	615	–2,038
Cash flows from financing activities	2,032	1,742
Effect of exchange rate changes	4	–3
Cash and cash equivalents at end of period	**1,866**	**1,457**

1 Prior-year figures adjusted for profit and loss transfers.
See note 61 for disclosures on the cash flow statement

Notes to the Consolidated Financial Statements

of the Volkswagen Bank GmbH Group for the Year Ended December 31, 2017

General Information

Volkswagen Bank GmbH is a limited liability company (Gesellschaft mit beschränkter Haftung, GmbH) under German law. It has its registered office at Gifhorner Strasse, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 1819).

The object of the Company is to develop, sell and process its own and third-party financial services both in Germany and abroad, the purpose of such financial services being to support the business of Volkswagen AG and of Volkswagen AG's affiliated companies.

Volkswagen AG, Wolfsburg, is the sole shareholder of Volkswagen Bank GmbH. Volkswagen AG, and Volkswagen Bank GmbH have entered into a control and profit-and-loss transfer agreement.

The annual financial statements of the companies in the Volkswagen Bank GmbH Group are included in the consolidated financial statements of Volkswagen AG, Wolfsburg, which are published in the electronic German Federal Gazette and Company Register.

Group Accounting Principles

Volkswagen Bank GmbH has prepared its consolidated financial statements for the year ended December 31, 2017 in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the interpretations issued by the IFRS Interpretations Committee as well as in accordance with the additional disclosures required by German commercial law under section 315e(1) of the Handelsgesetzbuch (HGB – German Commercial Code). All IFRS issued by the International Accounting Standards Board (IASB) up to December 31, 2017 for which mandatory application was required in fiscal year 2017 in the EU were taken into account in these consolidated financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the IFRS consolidated financial statements also include the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks associated with future development (report on opportunities and risks) can be found in the combined management report on pages 20 – 37. This includes the qualitative disclosures on the nature and scope of risk from financial instruments required under IFRS 7.

All estimates and assumptions required for recognition and measurement under IFRS are made in accordance with the relevant standard. They are continuously updated and are based on past experience and other factors, including expectations regarding future events that appear to be reasonable in the given circumstances. Where significant estimates have been necessary, the assumptions made by the Bank are explained in the disclosures on management's estimates and assumptions.

During the year under review, individual details were adjusted in line with the presentation in the annual report for Volkswagen Financial Services AG. Changes have been made in the disclosures covering net fee and commission income and the fair value of financial instruments. There was no impact on the balance sheet or income statement from these changes. Corresponding changes in the tables are identified by footnotes.

The Management completed the preparation of these consolidated financial statements on February 21, 2017. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Significant Events

Volkswagen Financial Services AG, the former sole shareholder of Volkswagen Bank GmbH, initiated a reorganization of its structures under company law in 2016. A key milestone in the project was reached on September 1, 2017 when Volkswagen Financial Services AG's subsidiary Volkswagen Bank GmbH was transferred to become a direct subsidiary of Volkswagen AG. The aim of the restructuring was to segregate the European lending and deposits business from the other financial services activities and to pool this business under Volkswagen Bank GmbH, structured as a direct subsidiary of Volkswagen AG. The intention of the restructuring is to increase transparency and clarity for supervisory authorities, optimize the use of equity and reduce complexity. A new company, Volkswagen Financial Services Digital Solutions GmbH, will develop and provide system-based services for its parent companies Volkswagen Bank GmbH and Volkswagen Financial Services AG.

The next few years will see further changes in the international subsidiaries within the European Economic Area as part of the progress toward the target structure.

Restated Prior-Year Figures

LEASING BUSINESS IN THE IRELAND BRANCH

To standardize the presentation in the consolidated financial statements, some of the receivables previously reported as retail financing in the Irish market are now reported as receivables from leasing transactions; prior-year figures have been restated accordingly.

The income statement for the previous year has been restated as follows.

€ million	Jan. 1 – Dec. 31, 2016 before restatement	Restated leasing business	Jan. 1 – Dec. 31, 2016 after restated leasing business
Interest income from lending transactions	1,336	–36	1,300
Net income from leasing transactions before provision for credit risks	170	36	206

The balance sheet as of January 1, 2016 has been restated as follows.

€ million	Jan. 1, 2016 before restatement	Restated leasing business	Jan. 1, 2016 after restated leasing business
Assets			
Loans to and receivables from customers attributable to			
retail financing	23,312	–487	22,825
leasing business	2,502	487	2,989
Total loans to and receivables from customers	40,806	–	40,806
Total	**49,206**	**–**	**49,206**

The balance sheet as of December 31, 2016 has been restated as follows.

€ million	Dec. 31, 2016 before restatement	Restated leasing business	Dec. 31, 2016 after restated leasing business
Assets			
Loans to and receivables from customers attributable to			
retail financing	24,940	–681	24,259
leasing business	3,014	681	3,695
Total loans to and receivables from customers	45,667	–	45,667
Total	**56,334**	**–**	**56,334**

Effects of New and Revised IFRSs

Volkswagen Bank GmbH has applied all financial reporting standards adopted by the EU and subject to mandatory application from fiscal year 2017.

Under IAS 7 (Statement of Cash Flows), additional disclosures have been required since January 1, 2017 in relation to cash and non-cash changes in financial liabilities arising from the financing activities reported in the cash flow statement. Amendments to IAS 12 (Income Taxes) applicable since January 1, 2017 have clarified the recognition of deferred tax assets for unrealized losses related to assets measured at fair value.

As part of the annual improvements project for IFRSs (2016 cycle), the International Accounting Standards Board (IASB) published amendments to IFRS 12 (Disclosure of Interests in Other Entities) to be applied from January 1, 2017 onward. These amendments clarified that the disclosures under IFRS 12 would generally also be required for subsidiaries, joint arrangements, associates and unconsolidated structured entities even if they were classified as held for sale, as held for distribution, or as discontinued operations.

The changes referred to above do not have any material impact on the financial position or financial performance of the Volkswagen Bank GmbH Group.

New and Revised IFRSs Not Applied

In its 2017 consolidated financial statements, Volkswagen Bank GmbH has not applied the following financial reporting standards that have already been issued by the IASB but were not yet subject to mandatory application in fiscal year 2017.

Standard/ interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IFRS 2	Classification and Measurement of Share-based Payment Transactions	20.06.2016	01.01.2018	No	None
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	12.09.2016	01.01.2018	Yes	None
	Financial Instruments	24.07.2014	01.01.2018	Yes	Detailed description shown below
IFRS 9	Amendments to IFRS 9 – Prepayment Features with Negative Compensation	12.10.2017	01.01.2019	No	None
IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11.09.2014	Postponed[2]	–	None
	Revenue from Contracts with Customers	28.05.2014	01.01.2018[3]	Yes	No material impact on revenue recognition, additional disclosure requirements in the notes
IFRS 15	Clarifications to IFRS 15 – Revenue from Contracts with Customers	12.04.2016	01.01.2018	Yes	Additional transitional exemptions, otherwise no material impact
IFRS 16	Leases	13.01.2016	01.01.2019	Yes	Detailed description shown below
IFRS 17	Insurance Contracts	18.05.2017	01.01.2021	No	Changes to presentation and measurement methods that, as a whole, do not have a material impact; extended disclosures in the notes
IAS 28	Investments in Associates Long-Term Equity Investments in Associates and Joint Ventures	12.10.2017	01.01.2019	No	None
IAS 40	Transfers of Investment Property	08.12.2016	01.01.2018	No	No material impact
	Improvements to International Financial Reporting Standards 2016[4]	08.12.2016	01.01.2018[5]	Yes	No material impact
	Improvements to International Financial Reporting Standards 2017[6]	12.12.2017	01.01.2019	No	No material impact
IFRIC 22	Foreign Currency Transactions and Advance Consideration	08.12.2016	01.01.2018	No	Translation of foreign currency advances into the functional currency using the spot rate on the date of payment
IFRIC 23	Uncertainty over Income Tax Treatments	07.06.2017	01.01.2019	No	No material impact

1 Requirement for initial application from Volkswagen Bank GmbH's perspective.
2 On December 15, 2015, the IASB decided to postpone the date of initial application indefinitely.
3 Postponed until January 1, 2018 (IASB decision on September 11, 2015).
4 Minor changes to a number of IFRS (IFRS 1 and IAS 28).
5 This concerns the initial application of the amendments to IFRS 1 and IAS 28
6 Minor changes to a number of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23).

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments revises the financial reporting provisions governing the classification and measurement of financial assets, impairment of financial assets and hedge accounting.

Financial assets are classified and measured on the basis of the business model operated by an entity and the structure of its cash flows. On initial recognition, a financial asset is classified as “at amortized cost”, “at fair value through other comprehensive income” or “at fair value through profit or loss”. As a result of the changes to the procedure for classifying and measuring financial assets, there is likely to be a conversion effect amounting to approximately between €0 million and €10 million, net of deferred taxes. This initial application effect must be recognized directly in retained earnings. The procedure for classifying and measuring financial liabilities under IFRS 9 is largely unchanged compared with the current accounting requirements under IAS 39.

The model for determining impairment and recognizing the provision for credit risks is changing from an incurred loss model to an expected loss model. The expected loss model breaks down the provision for credit risks into three stages. Financial assets that are newly acquired or issued and that are not deemed to be underperforming or non-performing on the date of initial recognition are allocated to stage 1. Stage 1 includes expected defaults that could arise from potential default events within the subsequent twelve months. In the case of financial assets in which the credit risk has increased significantly since acquisition or issue but in which the financial asset is not underperforming (stage 2) and non-performing financial assets (stage 3), the provision for credit risks is recognized on the basis of the expected remaining maturity of the financial asset (lifetime expected loss). In addition, interest income on financial assets classified as stage 3 is recognized on the basis of the net carrying amount, i.e. amortized cost less recognized impairment losses, in contrast to the rules applicable to stages 1 and 2. The change in the measurement methodology to an expected loss model described above will lead to an increase in the provision for credit risks on first-time application. This is expected to result in a negative conversion effect ranging between €90 million and €110 million, which will be recognized directly in equity under retained earnings. This increase in the provisions for credit risks results firstly from the requirement to recognize a provision for credit risks for performing financial assets that have not been affected by a significant increase in credit risk since initial recognition. Secondly, the increase arises from the requirement to recognize a provision for credit risks on the basis of the total expected time to maturity for financial assets that have been affected by a significant increase in credit risk since initial recognition.

As regards hedge accounting, IFRS 9 introduces wider designation options and the need to implement more complex recognition and measurement logic. IFRS 9 also removes the quantitative limits for the effectiveness test. The IFRS 9 hedge accounting requirements will be applied by the VW Bank GmbH Group prospectively from the changeover date, such that no initial application effect will arise from the new rules.

IFRS 9 will also give rise to significantly more extensive disclosures in the notes.

IFRS 16 LEASES

IFRS 16 amends the requirements for the accounting treatment of leases. The core objective of IFRS 16 is to ensure that all leases are recognized in the balance sheet.

Accordingly, the previous requirement for lessees to classify a lease as either a finance lease or operating lease has been eliminated. Instead, for all leases, lessees will have to recognize both a right-of-use asset and a lease liability in their balance sheet in the future. There are only exemptions for short-term leases or those of low value. During the term of the lease, the right-of-use asset must be depreciated and the lease liability measured using the effective interest method, taking into account the lease payments. The new accounting treatment for lessees will tend to increase assets and financial liabilities. It is also expected to reduce general and administrative expenses and increase interest expenses in the income statement. Moreover, there will be significantly more extensive disclosures in the notes.

The required accounting treatment for leases by lessors will be largely the same as under the current provisions in IAS 17. In the future, lessors will still have to classify a lease as either a finance lease or an operating lease based on the allocation of opportunities and risks from the asset.

Accounting Policies

1. Basic Principles

All entities included in the basis of consolidation have prepared their annual financial statements to the reporting date of December 31, 2017.

Financial reporting in the Volkswagen Bank GmbH Group complies with IFRS 10 and is on the basis of standard accounting policies. The consolidated financial statements have been prepared in euros. Unless otherwise stated, amounts are shown in millions of euros (€ million). All amounts shown are rounded, so minor discrepancies may arise from addition of these amounts.

Assets and liabilities are presented broadly in order of liquidity in accordance with IAS 1.60.

2. Basis of Consolidation

In addition to Volkswagen Bank GmbH, the consolidated financial statements comprise all significant German and foreign subsidiaries, including structured entities, that are directly or indirectly controlled by Volkswagen Bank GmbH. This is the case if Volkswagen Bank GmbH has power over potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and has the ability to use its power to influence those returns.

The purpose of the structured entities is to facilitate asset-backed-securities transactions to fund the financial services business. In the case of the structured entities consolidated in the Volkswagen Bank GmbH Group, the originator holds no equity investment but nevertheless determines the main relevant activities of the special purpose entity remaining after the structure is created and thereby influences its own variable returns.

Subsidiaries are included in the consolidation from the date on which control comes into existence; they cease to be consolidated when control no longer exists. Subsidiaries in which activities are dormant or of low volume and that, individually and jointly, are of minor significance in the presentation of a true and fair view of the financial position, financial performance and cash flows of the Volkswagen Bank GmbH Group are not consolidated. They are recognized in the consolidated financial statements under financial assets at cost, taking into account any necessary impairment losses or reversals of impairment losses.

The equity method is used to account for material entities in which Volkswagen Bank GmbH has the opportunity, directly or indirectly, to exercise significant influence over financial and operating policy decisions (associates) or in which Volkswagen Bank GmbH directly or indirectly shares control (joint ventures). Joint ventures also include entities in which the Volkswagen Bank GmbH Group controls a majority of the voting rights but whose partnership agreements or articles of association specify that key decisions may only be resolved unanimously. Associates and joint ventures of minor significance are not accounted for using the equity method but are reported under financial assets at cost, taking into account any necessary impairment losses or reversals of impairment losses.

The composition of the Volkswagen Bank GmbH Group is shown in the following table:

	2017	2016
VW Bank GmbH and consolidated subsidiaries		
Germany	1	1
International	4	1
Subsidiaries recognized at cost		
Germany	–	–
International	6	2
Associates and equity-accounted joint ventures		
Germany	1	–
International	2	–
Associates, joint ventures and equity investments recognized at cost		
Germany	1	1
International	2	1
Total	**17**	**6**

Volkswagen Bank GmbH maintains eight branches abroad. As of the balance sheet date, 31 (previous year: 24) structured entities were fully consolidated in the consolidated financial statements. The list of all shareholdings in accordance with section 313(2) of the HGB and in accordance with IFRS 12.10 and IFRS 12.21 can be accessed at www.vwfsag.com/listofholdingsbank2017. Disclosures in accordance with IFRS 7.30 are not provided because they are of minor significance.

An internal reorganization within the Group resulted in the following material changes in the basis of consolidation of Volkswagen Bank GmbH in the reporting period:

On September 1, 2017, the following companies were demerged from Volkswagen Financial Services AG and acquired by Volkswagen Bank GmbH:

- -Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom (100%),
- -SkoFin s.r.o., Prague, Czech Republic (100%) and
- -Volkswagen Finans Sverige AB, Södertalje, Sweden (100%).
- The transformation transactions are common control transactions. The assets and liabilities assumed are subsequently measured at their consolidated carrying amounts during the transaction period (predecessor accounting).

The table below shows the assets and liabilities assumed:

€ million	IFRS carrying amounts at the acquisition date
Loans to and receivables from banks	106
Loans to and receivables from customers	16,297
Leased assets	3,909
Other assets	762
Total assets	**21,074**
Liabilities to banks	2,991
Liabilities to customers	5,356
Notes, commercial paper issued	8,732
Other liabilities	2,071
Total liabilities	**19,150**

The reconciliation of the assets acquired and liabilities assumed to other changes in equity is as follows:

€ million	Equity
Amount before consolidation	1,924
Acquisition accounting	–419
Equity-accounted companies	–43
Other consolidation effects	–4
Amount after consolidation	1,458

On July 1, 2017, Volkswagen Bank GmbH acquired 60% of the shares in Volkswagen Pon Financial Services 2 B.V. Amersfoort, Netherlands, including its subsidiary, DFM N.V., Amersfoort, Netherlands, from Volkswagen Financial Services AG. Volkswagen Pon Financial Services 2 B.V. was merged into DFM N.V., effective August 1, 2017.

On July 1, 2017, Volkswagen Bank GmbH acquired 58% of the shares in Volkswagen Finančné služby Slovensko, s.r.o., Bratislava, Slovakia from Volkswagen Financial Services AG.

As of September 1, 2017, Volkswagen Bank GmbH acquired 51% of the shares in Volkswagen Financial Services Digital Solutions GmbH from Volkswagen Financial Services AG.

The above acquisitions are common control transactions. The purchase prices totaled €211 million and were paid in cash for each transaction. All three entities are joint ventures, accounted for using the equity method in the balance sheet of the Volkswagen Bank Group. The assets and liabilities assumed are measured at their consolidated carrying amounts at the transaction date (predecessor accounting). The difference between the assets and liabilities assumed and the purchase prices paid, which amounted to €–43 million, was taken directly to equity.

Summarized financial information for the material joint ventures on a 100% basis:

€ million	DFM N.V. (NETHERLANDS) 2017	VOLKSWAGEN FINANCIAL SERVICES DIGITAL SOLUTIONS GMBH (GERMANY) 2017	VOLKSWAGEN FINANČNÉ SLUŽBY SLOVENSKO S.R.O. (SLOVAKIA) 2017
Shareholding (percent)	60 %	51 %	58 %
Loans to and receivables from banks	10	20	1
Loans to and receivables from customers	1,814	23	402
Lease assets	–	–	44
Other assets	71	140	22
Total	**1,895**	**183**	**469**
of which: noncurrent assets	480	8	249
of which: current assets	1,415	175	215
of which: cash and cash equivalents	2	0	0
Liabilities to banks	1,477	24	389
Liabilities to customers	69	72	15
Notes, commercial paper issued	161	–	–
Other liabilities	23	6	3
Equity	165	82	62
Total	**1,895**	**183**	**469**
of which: noncurrent liabilities	286	5	116
of which: current liabilities	1,444	96	291
of which: noncurrent financial liabilities	286	2	115
of which: current financial liabilities	1,444	93	289
Revenue	23	232	23
of which: Interest income	21	–	8
Expenses	–9	–229	–18
of which: Interest expense	–6	0	–1
of which: depreciation and amortization	–	–9	–3
Profit/loss from continuing operations, before tax	**14**	**12**	**1**
Income tax expense or income	–3	33	–1
Profit/loss from continuing operations, net of tax	**10**	**45**	**0**
Profit/loss from discontinued operations, net of tax	–	–	–
Other comprehensive income, net of tax	0	–	–
Total comprehensive income	**10**	**45**	**0**
Dividends received	–	–	–

Reconciliation from the financial information to the carrying amount of the equity-accounted investments:

€ million	DFM N.V. (Netherlands)	Volkswagen Financial Services Digital Solutions GmbH (Germany)	Volkswagen Finančné služby Slovensko s.r.o. (Slovakia)
2017			
Equity of the joint venture as of the acquisition date	154	37	62
Profit/loss	11	45	0
Other comprehensive income	0	–	–
Change in share capital	–	–	–
Exchange differences on translating foreign operations	–	–	–
Dividends	–	–	–
Equity of the joint venture as of Dec. 31, 2017	165	82	62
Share of equity	99	42	36
Goodwill	21	–	–
Carrying amount of the share of equity as of Dec. 31, 2017	120	42	36

There were no unrecognized losses relating to interests in joint ventures. Cash attributable to joint ventures amounting to €31 million was pledged as collateral in connection with ABS transactions and was therefore not available to the Volkswagen Bank GmbH Group. There were no contingent liabilities to joint ventures in the year under review.

On April 20, 2017, Volkswagen Bank GmbH established Volkswagen Financial Services Ireland Ltd., which has its registered office in Dublin, Ireland. Volkswagen Financial Limited, Milton Keynes, United Kingdom, which was established on December 7, 2017, is a wholly owned subsidiary of Volkswagen Bank GmbH. The newly established entities and the other entities acquired, which are carried at cost, did not have any material impact on the financial position or financial performance of the Group during the reporting period and are therefore not consolidated.

3. Consolidation Methods

The assets and liabilities of the German and foreign entities included in the consolidated financial statements are reported in accordance with the uniform accounting policies applicable throughout the Volkswagen Bank GmbH Group.

Acquisitions are accounted for by offsetting the carrying amounts of the equity investments with the proportionate amount of the remeasured equity of the subsidiaries on the date of acquisition or initial inclusion in the consolidated financial statements and in subsequent periods.

When subsidiaries are consolidated for the first time, the assets and liabilities, together with contingent consideration, are recognized at fair value on the date of acquisition or on the date of inclusion (for newly established subsidiaries). Subsequent changes in the fair value of contingent consideration do not generally result in an adjustment of the acquisition-date measurement. Acquisition-related costs that are not equity transaction costs are not added to the purchase price, but instead recognized as expenses. Goodwill arises when the purchase price of the investment exceeds the fair value of the identified assets less liabilities. Goodwill is tested for impairment at least once a year and additionally if relevant events or changes in circumstances occur (impairment-only approach). If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized. If this is not the case, there is no change in the carrying amount of goodwill compared with the previous year. If the purchase price of the investment is less than the net value of the identified assets and liabilities, the difference is recognized in profit or loss in the year of acquisition. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries.

The net assets recognized at fair value as part of an acquisition transaction are depreciated or amortized over their relevant useful lives. If the useful life is indefinite, any requirement for the recognition of an impairment loss is determined at individual asset level using a procedure similar to that used for goodwill. Where hidden reserves and charges in the recognized assets and liabilities are uncovered during the course of purchase price allocation, these items are amortized over their remaining maturities.

The acquisition method described above is not applied when subsidiaries are newly established; no goodwill or negative goodwill can arise when newly established subsidiaries are included in the consolidation.

In the consolidation, the recognition and measurement arising from the independence of the individual companies is adjusted such that they are then presented as if they belonged to a single economic unit. Loans/receivables, liabilities, income and expenses relating to business relationships between consolidated entities are eliminated in the consolidation. Consolidation transactions recognized in profit or loss are subject to the recognition of deferred taxes.

Investments in companies that do not meet the consolidation requirements are reported as other equity investments under miscellaneous financial assets.

Intragroup transactions are conducted on an arm's-length basis. Any resulting intercompany profits or losses are eliminated.

4. Currency Translation

Transactions in foreign currencies are translated in the single-entity financial statements of Volkswagen Bank GmbH and its consolidated subsidiaries at the rates prevailing at the transaction date. Foreign currency monetary items are reported in the balance sheet using the middle rate at the closing date and the resulting gains or losses are recognized in profit or loss.

The foreign branches and subsidiaries forming part of the Volkswagen Bank GmbH Group are independent subunits whose financial statements are translated using the functional currency principle. Under this principle, all assets and liabilities, but not equity, are translated at the closing rate. With the exception of income and expense items recognized in other comprehensive income, equity is translated at historical rates. Until the disposal of the subsidiary concerned, the resulting exchange differences on translating foreign operations are recognized in other comprehensive income and are presented as a separate item in equity.

The transaction data in the statement of changes in noncurrent assets is translated into euros using weighted average rates. A separate "Foreign exchange differences" line is reported to reconcile the carryforwards translated at the middle spot rate on the prior-year reporting date and the transaction data translated at average rates with the final balances translated at the middle spot rate on the reporting date.

We translate the income statement items into euros using weighted average rates. The exchange rates used for currency translation are listed in the table below.

€		Balance sheet, middle spot rate on Dec. 31		Income statement, average rate	
		2017	2016	2017	2016
United Kingdom	GBP	0.88730	0.85850	0.87679	0.81955
Poland	PLN	4.17490	4.41530	4.25797	4.36373
Sweden	SEK	9.83140	9.56720	9.63524	9.46871
Czech Republic	CZK	25.57900	27.02400	26.3276	27.03432

5. Recognition of Revenue and Expenses

Revenue and expenses are recognized in accordance with the accrual basis of accounting and are reported in profit or loss in the period in which the substance of the related transaction occurs.

Interest income is recognized in the income statement using the effective interest method. Income from financing and leasing transactions, together with expenses for the funding of this business, is included in net income from lending and leasing transactions. This item also includes operating lease income, which is recognized on a straight-line basis over the lease term.

Net fee and commission income includes income and expenses from insurance broking as well as fees and commissions from the financing and financial services businesses. Fee and commission income from insurance broking is normally recognized in accordance with contractual arrangements when the entitlement arises, i.e. when the policyholder pays the related premium.

Dividends are reported on the date on which the legal entitlement is established, i.e. generally the date on which a dividend distribution resolution is approved.

General and administrative expenses comprise personnel expenses, non-staff operating expenses, depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets, and other taxes.

The main components of net other operating income/expenses are income from cost allocations to other entities in the Volkswagen Group and income from the reversal of provisions.

6. Income Taxes

Current income tax assets and liabilities are measured using the tax rates expected to apply in respect of the refund from or payment to the tax authorities concerned. Current income taxes are generally reported on an unnetted basis. Provisions are recognized for potential tax risks.

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and those in the tax base and in respect of tax loss carryforwards. This gives rise to expected income tax income or expense effects in the future (temporary differences). Deferred taxes are measured using the domicile-specific income tax rates expected to apply in the period in which the tax benefit is recovered or liability paid.

Deferred tax assets are recognized if it is probable that in the future sufficient taxable profits will be generated in the same tax unit against which the deferred tax assets can be utilized. If it is no longer likely that it will be possible to recover deferred tax assets within a reasonable period, valuation allowances are applied. The measurement of deferred tax assets for tax loss carryforwards is generally based on planning data for taxable income within over the next five years. Deferred tax assets and liabilities with the same maturities and relating to the same tax authorities are netted. The tax expense attributable to the profit before tax is reported in the Group's income statement under the "Income tax expense" item and a breakdown into current and deferred taxes for the fiscal year is disclosed in the notes. Other non-income-related taxes are reported as a component of general and administrative expenses.

7. Cash Reserve

The cash reserve is carried at the nominal amount.

8. Loans and Receivables

Loans to and receivables from banks, and loans to and receivables from customers, originated by the Volkswagen Bank GmbH are generally recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates. For reasons of materiality, current loans and receivables (due within one year) are not discounted and no unwinding of discount is therefore recognized. Some of the loans to and receivables from customers were included in portfolio hedges in the reporting period. Loans to and receivables from customers assigned to portfolio hedges are measured at hedged fair value.

Volkswagen Bank GmbH transfers loans and receivables to special purpose entities. At the level of the Volkswagen Bank Group, these transfers represent neither the derecognition of assets nor continuing involvement, because the respective special purpose entities are fully consolidated (note 2).

9. Provision for Credit Risks

The Volkswagen Bank GmbH Group takes full account of default risk by recognizing specific and portfolio-based valuation allowances in accordance with IAS 39. These allowances are posted to valuation allowance accounts.

In the case of credit risk present in significant individual loans to or receivables from customers or banks (e.g. dealer financing loans/receivables and fleet customer business loans/receivables), specific valuation allowances are recognized in accordance with Group-wide standards in the amount of losses already incurred.

Potential impairment is assumed in a number of situations, such as delayed payment over a certain period, the initiation of enforcement measures, the threat of insolvency or overindebtedness, application for or the initiation of insolvency proceedings, or the failure of restructuring measures.

Insignificant loans/receivables and significant individual loans/receivables with no indication of impairment are grouped together into homogeneous portfolios using comparable credit risk features and broken down by risk category. As long as no definite information is available as to which loans or receivables are in default, average historical default probabilities for the portfolio concerned are used to calculate the amount of the valuation allowances. Regular backtesting is carried out to ensure that the valuation allowances are appropriate.

Loans and receivables are reported in the balance sheet at the net carrying amount. Disclosures relating to the provision for credit risks are presented separately in note 30.

Uncollectible loans or receivables that are already subject to a workout process and for which all collateral has been recovered and all further options for recovering the loan or receivable have been exhausted are written off directly. Any specific valuation allowances previously recognized are utilized. Income subsequently collected in connection with loans or receivables already written off is recognized in profit or loss.

10. Derivative Financial Instruments

Derivative financial instruments comprise derivatives in effective hedges and derivatives not designated as hedging instruments. All derivatives are measured at fair value and are presented separately in notes 31 and 43.

The fair value is determined with the help of measurement software in IT systems using the discounted cash flow method and taking into account credit valuation adjustments (CVAs) and debt valuation adjustments (DVAs).

Derivatives are used as hedging instruments in fair value hedges or cash flow hedges. Hedge accounting in accordance with IAS 39 is only applied in the case of highly effective hedges.

When fair value hedges are applied, changes in the fair value of the derivative designated as the instrument used to hedge the fair value of a recognized asset or liability (hedged item) are recognized in profit or loss under net gain/loss on the measurement of derivative financial instruments and hedged items. Changes in the fair value of the hedged item in connection with which the risk is being minimized are also reported in profit or loss under this item. The effects in profit or loss from the changes in the fair value of the hedging instrument and the hedged item balance each other out depending on the extent of hedge effectiveness.

IAS 39 permits the use of fair value hedging not only for individual hedged items, but also for a group of similar hedged items. In the reporting period, Volkswagen Bank GmbH used portfolio-based fair value hedges to hedge interest-rate risks. In portfolio-based hedging, the accounting treatment of changes in fair value is the same as in fair value hedging at micro level.

In the case of derivatives that are designated as hedges of future cash flows and that satisfy the relevant criteria, the effective portion of changes in the fair value of the derivative is recognized in the cash flow hedge reserve through other comprehensive income. Any effect on profit or loss arises solely from the ineffective portion of the change in fair value. The measurement of the hedged item remains unchanged.

Changes in the fair value of derivatives that do not satisfy the hedge accounting criteria in IAS 39 are recognized in profit or loss under net gain/loss on the measurement of derivative financial instruments and hedged items.

The Volkswagen Bank GmbH Group documents all relationships between hedging instruments and hedged items. Hedge effectiveness is kept under constant review. All transactions entered into in the Volkswagen Bank GmbH Group are for hedging purposes.

With the exception of derivatives not designated as hedging instruments, no financial instruments are classified as financial assets or financial liabilities at fair value through profit or loss.

11. Marketable Securities

Marketable securities are categorized as available-for-sale financial assets. They are always measured at fair value through other comprehensive income. Permanent impairment losses are recognized in profit or 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.

Available-for-sale financial assets are subject to the recognition of impairment losses if there is objective evidence of permanent impairment. A rise in the risk-free interest rate or an increase in credit risk premiums included in the interest rate does not, by itself, generally represent objective evidence of impairment. If the requirements for impairment are no longer met, the impairment loss is reversed.

In the case of equity instruments, indicators of impairment include a significant (more than 20%) or long-term (more than 10% of the average market price over one year) fall in fair value below cost. If such an asset is found to be impaired, the cumulative loss is posted to other reserves and recognized in profit or loss. Reversals of impairment losses on equity instruments are reported in other comprehensive income.

In the case of debt instruments, impairment losses are recognized in the event of a forecast decline in future cash flows from the financial asset. A rise in the risk-free interest rate or an increase in credit risk premiums does not, by itself, generally represent objective evidence of impairment. Reversals of impairment losses on debt instruments are recognized in profit or loss.

12. Miscellaneous Financial Assets

Equity investments are reported as miscellaneous financial assets. They are reported at fair value or at cost, if fair value cannot be reliably determined. If there is significant or permanent impairment, impairment losses are recognized through profit or loss.

13. Intangible Assets

Purchased intangible assets with finite useful lives (largely software and customer relationships) are recognized at cost and amortized on a straight-line basis over a useful life of three to five years (software) or ten years (customer relationships).

When assessing whether the development costs associated with internally generated software are to be capitalized or not, we take into account not only the probability of a future inflow of economic benefits but also the extent to which the costs can be reliably determined. Direct and indirect costs that can be assigned to the development are capitalized, whereas research costs are not capitalized at all. Amortization is on a straight-line basis over a useful life of three to five years and is reported under general and administrative expenses.

At every reporting date, intangible assets with finite useful lives are tested to establish whether there are any indications of impairment. If there are indications of impairment, the carrying amount is compared to the recoverable amount. If the recoverable amount is lower than the carrying amount, an impairment loss is recognized.

The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value less costs to sell is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties. The value in use is defined as the net present value of future cash flows expected to be derived from the asset. The recoverable amount was determined on the basis of value in use.

The depreciation expense and impairment losses are reported within general and administrative expenses. Income from the reversal of impairment losses is recognized in net other operating income/expenses.

Brand names arising from business combinations usually have indefinite useful lives. Intangible assets with indefinite useful lives are not amortized. An annual review is carried out to establish whether an asset has an indefinite useful life. In accordance with IAS 36, these assets are tested for impairment by comparing the carrying amount and recoverable amount once a year. If required, an impairment loss is recognized to reduce the carrying amount to a lower recoverable amount.

Goodwill is tested for impairment once a year or when events or circumstances occur that indicate impairment. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized.

The recoverable amount of goodwill is derived from the value in use for the relevant cash-generating unit, which is determined using the discounted cash flow method. The basis is the latest planning data prepared by management for a planning period of five years, with growth in subsequent years estimated using a flat rate percentage. This planning is based on expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and on assumptions derived from these trends about financial services, taking into account market penetration, risk costs and margins. Planning assumptions are adjusted in line with the latest available information. The interest rate used is based on the long-term market interest rate relevant to each cash-generating unit (regions or markets). The calculations use a standard Group cost of equity of 7.5% (previous year: 7.5%). If necessary, the cost of equity rate is also adjusted using discount factors specific to the country and business concerned. The calculation of cash flows is based on the forecast growth rates for the relevant markets. Cash flows after the end of the planning period are generally estimated using a growth rate of 1% p.a. (previous year: 1% p.a.).

14. Property and Equipment

Property and equipment (land and buildings plus operating and office equipment) is carried at cost less depreciation in accordance with estimated useful lives. Depreciation is applied on a straight-line basis over the estimated useful life. Useful lives are reviewed at every reporting date and adjusted where appropriate.
Depreciation is based on the following useful lives:

Property and equipment	Useful lives
Buildings and property facilities	10 to 50 years
Operating and office equipment	3 to 10 years

Impairment losses are recognized if the requirements of IAS 36 are met, if the achievable net selling price or value in use of the asset concerned has fallen below the carrying amount. If the reasons for the recognition of an impairment loss in prior years now no longer apply, an appropriate reversal of the impairment loss is recognized. The depreciation expense and impairment losses are reported within general and administrative expenses. Income from the reversal of impairment losses is recognized in net other operating income/expenses.

15. Leasing Business

GROUP AS LESSOR

The Volkswagen Bank GmbH Group operates the finance lease business and the operating lease business. Most of the lease assets are vehicles, but to a lesser extent also involve land, buildings and dealer equipment.

A finance lease is a lease that transfers beneficial ownership to the lessee. In the consolidated balance sheet, receivables from finance leases are therefore reported within loans to and receivables from customers and the net investment in the lease generally equates to the cost of the lease asset. Interest income from finance leases is recognized using the effective interest method and reported under leasing income in the income statement.

In the case of operating leases, beneficial ownership of the lease asset remains with the lessor. In the consolidated balance sheet, the assets involved are reported separately under lease assets. They are measured at cost and reduced by straight-line depreciation over the lease term to the calculated residual carrying amount. Any impairment identified as a result of an impairment test in accordance with IAS 36 using the net selling price as the recoverable amount is taken into account by recognizing an impairment loss and adjusting the depreciation rate. If the reasons for the recognition of an impairment loss in prior years no longer apply, a reversal of the impairment loss is recognized. Impairment losses and reversals of impairment losses are included in the net income from leasing transactions before provision for credit risks. The leasing revenue is recognized on a straight-line basis over the lease term.

Land and buildings held to earn rentals are reported under the “Investment property” item in the balance sheet and measured at amortized cost. The land and buildings involved are generally leased out to dealer businesses. Depreciation is applied on a straight-line basis over useful lives of ten to 33 years. Any impairment identified as a result of an impairment test in accordance with IAS 36 is taken into account by recognizing an impairment loss.

GROUP AS LESSEE

Lease payments made under operating leases are recognized under general and administrative expenses.

BUYBACK TRANSACTIONS

Leases in which the Volkswagen Bank GmbH Group has a firm agreement with the lessor regarding the return of the leased asset are recognized under other loans and receivables within loans to and receivables from customers at the amount of the resale value agreed at the inception of the lease and are also recognized under other assets in the amount equating to the right of use. In the case of noncurrent leases (maturity of more than one year), the agreed resale value is discounted at the inception of the lease. The unwinding of the discount during the term of the lease is recognized in interest income. The value of the right of use recognized under other assets is depreciated on a straight-line basis over the term of the lease. This depreciation is reported under expenses from the leasing business. Lease payments received under subleases are reported as income from leasing business.

16. Liabilities

Liabilities to banks and customers, notes and commercial paper issued, and subordinated liabilities are recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates. For reasons of materiality, current liabilities (due within one year) are not discounted and no unwinding of discount is therefore recognized.

17. Provisions for Pensions and Other Post-Employment Benefits

Provisions are recognized for commitments in the form of retirement, invalidity and surviving dependants' benefits payable under pension plans. The benefits provided by the Group vary according to the legal, tax and economic circumstances of the country concerned, and usually depend on the length of service and remuneration of the employees.

The Volkswagen Bank GmbH Group provides occupational pensions in the form of both defined contribution and defined benefit plans. In the case of defined contribution plans, the Company makes contributions to state or private pension schemes based on statutory or contractual requirements, or on a voluntary basis. Once the contributions have been paid, the Volkswagen Bank GmbH Group has no further obligations. Current contributions are recognized as pension expenses in the period concerned. In 2017, the total contributions made by the Volkswagen Bank GmbH Group came to €2 million (previous year: €0 million). This amount included contributions to the compulsory state pension system in Germany in an amount of €2 million (previous year: €0 million).

Most pension plans in the Volkswagen Bank GmbH Group are defined benefit plans; a distinction is made between plans without and plans with plan assets. The pension provisions for defined benefit commitments are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19, under which the future obligations are measured on the basis of the proportionate benefit entitlements earned as of the reporting date. The measurement of pension provisions takes into account actuarial assumptions as to discount rates, salary and pension trends, and employee turnover rates, which are determined for each Group company depending on the economic environment. Actuarial gains or losses arise from differences between actual trends and prior-year estimates as well as from changes in assumptions. These actuarial gains or losses are recognized in other comprehensive income, together with the associated deferred taxes, in the period in which they arise. Detailed disclosures on provisions for pensions and other post-employment benefits are set out in note 44.

18. Other Provisions

Under IAS 37, provisions are recognized if a present legal or constructive obligation to third parties has arisen as a result of a past event, it is probable that settlement in the future will result in an outflow of economic resources and the amount of the obligation can be estimated reliably. If an outflow of resources is deemed neither probable nor improbable, the amount concerned is treated as a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note 62.

Other provisions are recognized under the relevant expense item; reversals of other provisions are recognized as other operating income.

Provisions that are not related to an outflow of resources likely to take place in the subsequent year are recognized at their settlement amount discounted to the reporting date using market discount rates. The settlement amount also includes expected cost increases.

Any rights of recourse are not offset against provisions.

19. Trust Transactions

No transactions are entered into on the basis of the administration or placement of assets for third-party accounts (trust transactions).

Estimates and Assumptions by Management

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the recognition and measurement of assets, liabilities, income and expenses, and the disclosures relating to contingent assets and liabilities for the reporting period.

Assumptions and estimates are based on the latest available information. In particular, the circumstances prevailing at the time the consolidated financial statements are prepared and future trends in the global and sector environment considered to be realistic are taken into account in the projected future performance of the business. The estimates and assumptions used by management have been made, in particular, on the basis of assumptions relating to macroeconomic trends as well as trends in automotive markets, financial markets and the legal framework. These and other assumptions are explained in detail in the report on expected developments, which forms an integral part of the group management report.

As future business performance is subject to unknown factors that, in part, lie outside the control of the Group, our assumptions and estimates continue to be subject to considerable uncertainty. This applies especially to the cash flows predicted over the short and medium terms. The discount rates used are also affected by uncertainty caused by factors beyond the control of the Group. If changes in parameters are different from the assumptions, the amounts actually arising could differ from the estimated values originally forecast. If actual performance is at variance with the forecasts, the assumptions and, where necessary, the carrying amounts of the assets and liabilities concerned are adjusted. The assumptions and estimates largely relate to the items set out below.

RECOVERABLE AMOUNT OF NON-FINANCIAL ASSETS AND EQUITY INVESTMENTS

The impairment tests applied to non-financial assets (particularly goodwill and brand names) and equity investments measured at cost require assumptions related to the future cash flows in the planning period and, where applicable, beyond. The assumptions about the future cash flows factor in expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and expectations derived from these trends about financial services, taking into account market penetration, risk costs, margins and regulatory requirements. For further information on the assumptions relating to the detailed planning period, please refer to the report on expected developments, which forms part of the management report. The discount rates used in the discounted cash flow method applied when testing goodwill for impairment are based on specified cost of equity rates, taking into account historical experience and appropriate assumptions regarding macroeconomic trends.

RECOVERABLE AMOUNT OF LEASE ASSETS

The recoverable amount of the lease assets in the Group mainly depends on the residual value of the lease vehicles at the end of the contractually agreed lease period because this value represents a considerable proportion of the expected cash inflows. Continuously updated internal and external information on trends in residual values – based on particular local circumstances and empirical values from the marketing of used vehicles – is factored into the forecasts of residual values. These forecasts require the Group to make assumptions, primarily in relation to future supply and demand for vehicles and in relation to trends in vehicle prices. These assumptions are based on either professional estimates or information published by third-party experts. The professional estimates are based on external data (where available), taking into account any additional information available internally, such as values from past experience and current sales data. Forecasts and assumptions are regularly verified by a process of backtesting.

FINANCIAL INSTRUMENTS

The procedure for determining the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. As far as possible, these estimates take into account the latest market data as well as rating and scoring information based on past experience. Further details on specific and portfolio-based valuation allowances can be found in the disclosures on the provision for credit risks (notes 9 and 30).

Management estimates are necessary to determine the fair value of financial instruments. This relates to both fair value as a measurement standard in the balance sheet and fair value in the context of disclosures in the notes. Fair value measurements are categorized into a three-level hierarchy depending on the type of inputs to the valuation techniques used and each level requires different management estimates. Fair values in Level 1 are based on prices quoted in active markets. Management assessments in this case relate to determining the primary or most advantageous market. Level 2 fair values are measured on the basis of observable market data using market-based valuation techniques. Management decisions for this level relate to selecting generally accepted, standard industry models and specifying the market in which the relevant input factors are observable. Level 3 fair values are determined with recognized valuation techniques relying on some inputs that cannot be observed in an active market. Management judgment is required in this case when selecting the valuation techniques and determining the inputs to be used. These inputs are developed using the best available information. If the Company uses its own data, it applies appropriate adjustments to best reflect market conditions.

PROVISIONS

The recognition and measurement of provisions is also based on assumptions about the probability that future events will occur and the amounts involved, together with an estimation of the discount rate. Again, past experience or reports from external experts are used as far as possible.

The measurement of pension provisions is based on actuarial assumptions as to discount rates, salary and pension trends and employee turnover rates. It additionally depends on the estimated growth in plan assets. Remeasurements are recognized in other comprehensive income and have no impact on profit or loss.

In the case of other provisions, expected values are used as the basis for measurement, which means that changes are made on a regular basis, involving either additions to the provisions or the reversal of unused provisions. Changes in the estimates of the amounts for other provisions are always recognized in profit or loss. The recognition and measurement of provisions for legal and litigation risks included within other provisions requires predictions with regard to decisions to be made by the courts and the outcome of legal proceedings. Each case is individually assessed on its merits based on developments in the proceedings, the Company's past experience in comparable situations and evaluations made by experts and lawyers.

DEFERRED TAX ASSETS AND UNCERTAIN INCOME TAX ITEMS

When determining deferred tax assets, there is a need to make assumptions about future taxable income and the timings for any recovery of the deferred tax assets. The measurement of deferred tax assets for tax loss carryforwards is generally based on future taxable income within a planning horizon of five fiscal years. In the recognition of uncertain income tax items, the expected tax payment is used as the basis for the best estimate.

Income Statement Disclosures

20. Net income from lending and leasing transactions before provision for credit risks

The breakdown of net income from lending and leasing transactions before provision for credit risks is as follows:

€ million	2017	2016 restated[1]
Interest income from lending and money market transactions	1,429	1,300
Income from leasing transactions and service contracts	2,726	654
Expenses from leasing transactions and service contracts	–1,733	–262
Depreciation of and impairment losses on lease assets and investment property	–432	–186
Interest expense	–234	–207
Total	**1,756**	**1,299**

1 Previous year restated as explained in the disclosures on the leasing business in the Ireland branch in the section entitled "Restated Prior-Year Figures".

Interest income from lending and money market transactions and the income from leasing transactions include interest income on impaired loans and receivables amounting to a total of €14 million (previous year: €8 million). The interest income included here that relates to financial instruments not allocated to the category of financial assets or financial liabilities measured at fair value through profit or loss amounted to €1,434 million (previous year: €1,342 million). Interest income from lending and money market transactions also included income of €1 million (previous year: €1 million) arising from short-term borrowing in the form of collateral furnished by banks for derivatives. Income of €104 million (previous year: none) from targeted longer-term refinancing operations with Deutsche Bundesbank was also included. This figure arose from a remeasurement at amortized cost following the increase in net lending in the measurement period and the associated adjustment in terms for these transactions.

Income from leasing transactions includes rental income from investment property amounting to €0 million (previous year: €0 million). As in the previous year, this income does not include any amounts from reversals of impairment losses on lease assets and investment property applied in prior years.

The impairment losses recognized as a result of the impairment test on lease assets amounted to €25 million (previous year: €10 million) and are included in the depreciation of impairment losses on lease assets. Impairment losses are based on continuously updated internal and external information, which is then fed into the forecasts of residual values for vehicles. Income from reversals of impairment losses on lease assets applied in prior years amounted to €1 million (previous year: €6 million) and is included in income from leasing business.

The interest expenses include funding expenses for the lending and leasing business, and an amount of €233 million (previous year: €206 million) relates to financial instruments not measured at fair value through profit or loss. Out of this amount, €–1 million (previous year: €–1 million) was offset against the net expense arising from interest income and expenses on derivatives in ineffective hedges in the reporting period.

Interest expenses included negative interest on money market transactions in an amount of €15 million (previous year: €11 million). This resulted primarily from the Bank's reserve balance at the ECB in excess of the minimum reserve requirement and from short-term deposits with domestic banks.

21. Provision for Credit Risks from Lending and Leasing Business

The provision for credit risks primarily relates to the loans to and receivables from customers item on the balance sheet. The breakdown of the provision for credit risks recognized in the consolidated income statement is as follows:

€ million	2017	2016
Additions to provision for credit risks	–269	–295
Reversals of provision for credit risks	438	273
Direct write-offs	–47	–40
Income from loans and receivables previously written off	28	23
Total	**150**	**–38**

The provision for additional credit risks to which the Volkswagen Bank GmbH Group is exposed as a result of critical situations (economic crises, Brexit impact, block on sales of vehicles) in some European countries was decreased by €232 million in the year under review (previous year: decreased by €76 million).

22. Net Fee and Commission Income

The breakdown of net fee and commission income is as follows:

€ million	2017	2016
Fee and commission income	291	315
of which commissions from insurance broking	208	240
Fee and commission expenses	–328	–345
of which sales commission in the financing business	–277	–296
Total	**–37**	**–30**

23. Net Gain/Loss on the Measurement of Derivative Financial Instruments and Hedged Items

This item includes the net gains or losses on hedges, on derivatives not designated as hedging instruments and on the measurement of foreign currency loans/receivables and liabilities.

The net gain or loss on hedges comprises gains and losses arising from the fair value measurement of hedging instruments and hedged items. Gains or losses on the ineffective portion of hedges and arising from changes in the fair value of derivatives that do not satisfy the IAS 39 requirements for hedge accounting are recognized under gains/losses on other derivatives not designated as hedging instruments.

The detailed breakdown of the gains and losses is as follows:

€ million	2017	2016
Gains/losses on hedging instruments in fair value hedges and cash flow hedges	164	462
Gains/losses on hedged items in fair value hedges	–161	–467
Ineffective portion of hedging instruments in cash flow hedges	–	–
Gains/losses on the measurement of foreign currency loans/receivables and liabilities	–36	–
Gains/losses on derivatives not designated as hedging instruments	–15	–4
Total	**–48**	**–9**

24. General and Administrative Expenses

The breakdown of general and administrative expenses is shown in the following table:

€ million	2017	2016
Personnel expenses	–159	–96
Non-staff operating expenses	–740	–690
Advertising, public relations and sales promotion expenses	–22	–33
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–10	–10
Other taxes	0	0
Total	**–931**	**–829**

Non-staff operating expenses include expenses of €51 million (previous year: €23 million) for assets (vehicles and real estate) leased under operating leases.

In accordance with the requirements specified in section 314(1) no. 9 of the HGB, the general and administrative expenses include the total fees charged in the reporting year by the independent auditors of the consolidated financial statements as shown in the following table.

€ million	2017	2016
Financial statements audit services	1	1
Assurance, valuation and tax advisory services	0	1
Tax consulting services	–	–
Other services	2	0
Total	**3**	**2**

The fee for financial audit services paid to the auditors in 2017 was mostly attributable to the audit of the consolidated financial statements of Volkswagen Bank GmbH and of annual financial statements of German Group companies as well as to reviews of interim financial statements of German Group companies. The independent auditors only provided a small number of other attestation services. The other services performed by the independent auditors in the reporting period mainly consisted of issues relating to business consulting aimed at process optimization, information technology and compliance.

25. Net Other Operating Income/Expenses

The breakdown of the net other operating income/expenses is as follows:

€ million	2017	2016
Income from cost allocations to other entities in the Volkswagen Group	165	215
Income from the reversal of provisions and deferred income	107	94
Income from claims for damages	–	–
Income from the disposal of vehicles under financing agreements	84	–
Miscellaneous operating income	18	55
Litigation and legal risk expenses	–172	–77
Expenses from the disposal of vehicles under financing agreements	–107	–
Other operating expenses	–38	–31
Net other operating income/expenses	**57**	**255**

26. Income Tax Expense

Income tax expense includes the taxes charged in respect of the Volkswagen AG tax group (previous year: Volkswagen Financial Services AG tax group), taxes for which the foreign subsidiaries and branches are the taxpayers, and deferred taxes. The components of the income tax expense are as follows:

€ million	2017	2016
Current tax expense, Germany	140	101
Current tax expense, foreign	54	42
Current income tax expense	**194**	**142**
of which income (–)/expense (+) related to prior periods	–43	–1
Deferred tax income (–)/expense (+), Germany	83	26
Deferred tax income (–)/expense (+), foreign	59	19
Deferred tax income (–)/expense (+)	**142**	**44**
Income tax expense	**336**	**186**

The reported tax expense in 2017 of €336 million (previous year: €186 million) is €39 million (previous year: €12 million) higher than the expected tax expense of €297 million (previous year: €198 million) calculated by applying a tax rate of 29.9% (previous year: 29.9%) to the consolidated profit before tax. The following reconciliation shows the relationship between the income tax expense and the profit before tax for the reporting period:

€ million	2017	2016
Profit before tax	**992**	**669**
multiplied by the domestic income tax rate of 29.9 % (previous year: 29.9 %)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**–297**	**–200**
+ Effects from tax credits	1	–
+ Effects from domestic/foreign tax rates	11	9
+ Effects from changes in tax rates	0	1
+ Effects from permanent differences	–2	0
+ Effects from tax-exempt income	16	11
+ Effects from loss carryforwards	–	2
+ Effects from non-deductible operating expenses	–17	–9
+ Taxes attributable to prior periods	–43	1
+ Other variances	–7	–1
= Current income tax expense	**–336**	**–186**

The statutory corporation tax rate in Germany for the 2017 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.9%.

The effects of different income tax rates outside Germany arise because of the different income tax rates in the individual countries in which the subsidiaries and branches have their registered offices compared with the rates in Germany. The rates outside Germany vary between 12.5% and 35.7% (previous year: 12.5% and 34.4%).

As of December 31, 2017, there were unused tax loss carryforwards of €5 million (previous year: €13 million) for which deferred tax assets of €1 million (previous year: €3 million) had been recognized. Of these unused tax loss carryforwards, an amount of €5 million is deemed usable in the medium term (previous year: €8 million usable in the medium term and €5 million usable in the long term).

Tax loss carryforwards not deemed usable amounted to €0 million (previous year: €0 million). Changes in tax rates have given rise to deferred tax expenses throughout the Group of €–1 million (previous year: €1 million). As in the previous year, there were no deductible temporary differences in the reporting period. No deferred tax asset was recognized in the balance sheet.

The Group has recognized deferred tax assets of €0 million (previous year: €2 million) against which there are no deferred tax liabilities in an equivalent amount. The branch involved is expecting to generate profits in the future following losses in the reporting and prior periods.

In accordance with IAS 12.39, deferred tax liabilities of €21 million (previous year: €1 million) have not been recognized for temporary differences and undistributed profits of subsidiaries because Volkswagen Bank GmbH has the relevant control.

Of the deferred taxes recognized in the balance sheet, an amount of €11 million (previous year: €–4 million) relates to transactions reported in other comprehensive income. Within this figure, an amount of €17 million (previous year: €11 million) relates to actuarial gains or losses (IAS 19), €0 million (previous year: €0 million) to derivative financial instruments and another €–6 million (previous year: €–15 million) to the fair value measurement of marketable securities.

27. Further Income Statement Disclosures

The figures reported for fiscal years 2016 and 2017 do not include any commission income not accounted for using the effective interest method.

Balance Sheet Disclosures

28. Cash Reserve

The cash reserve primarily includes credit balances of €1,705 million (previous year: €1,363 million) held with Deutsche Bundesbank.

29. Loans to and Receivables from Customers

Loans to and receivables from customers largely comprise loans to private and commercial customers for the financing of vehicles. The vehicle itself is normally pledged as collateral for the financing of vehicles. Dealer financing encompasses floor plan financing as well as loans to the dealer organization for operating equipment and investment. Assets are pledged as collateral, but guarantees and charges on real estate are also used as security. Receivables from leasing transactions include receivables from finance leases and receivables due in connection with lease assets. Other loans and receivables primarily relate to lines of credit and overdrafts drawn down by customers as well as loans to and receivables from Volkswagen Group entities. They include subordinated loans in an amount of €1,246 million (previous year: €1,148 million).

Some of the fixed-income exposures under loans/receivables from retail financing have been hedged against fluctuations in the risk-free base interest rate using a portfolio fair value hedge.

The reconciliation to the balance sheet values is as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Loans to and Receivables from Customers	**64,912**	**45,667**
Fair value adjustment from portfolio hedging	–22	2
Loans to and receivables from customers, net of fair value adjustment from portfolio hedging	64,934	45,666

Receivables from leasing transactions include due receivables amounting to €94 million (previous year: €27 million). Of this amount, €65 million (previous year: €24 million) is attributable to finance leases and €28 million (previous year: €3 million) to operating leases. The due lease receivables are payable within one year.

The breakdown of receivables from finance leases as of December 31, 2016 and December 31, 2017 was as follows:

€ million	2017	2018 – 2021	From 2022	Total
Future payments from finance lease receivables[1]	1,369	2,473	19	3,861
Unearned finance income from finance leases (discounting)[1]	–73	–95	–1	–169
Present value of minimum lease payments outstanding at the reporting date[1]	1,296	2,378	18	3,692

1 Previous year restated as explained in the disclosures on the leasing business in the Ireland branch in the section entitled “Restated Prior-Year Figures”.

€ million	2018	2019 – 2022	From 2023	Total
Future payments from finance lease receivables	5,990	14,697	26	20,713
Unearned finance income from finance leases (discounting)	–532	–1,352	–1	–1,885
Present value of minimum lease payments outstanding at the reporting date	5,458	13,345	25	18,828

In the Volkswagen Bank GmbH Group, the present value of the minimum lease payments outstanding as of the reporting date equates to the net receivables from finance leases disclosed above. The provision for credit risks in respect of uncollectible outstanding minimum lease payments amounted to €15 million (previous year: €1 million).

30. Provision for Credit Risks from Lending and Leasing Business

The provision for credit risks from lending and leasing business is recognized in accordance with standard rules applicable throughout the Group and covers all identifiable credit risks.

€ million	Specific valuation allowances	Portfolio-based valuation allowances	2017	Specific valuation allowances	Portfolio-based valuation allowances	2016
Balance as of Jan. 1	**532**	**608**	**1,140**	**490**	**703**	**1,193**
Exchange rate and other changes	2	0	2	–1	–2	–3
Changes in basis of consolidation	43	87	129	4	1	5
Additions	177	90	266	182	83	265
Utilization	40	–	40	41	–	41
Reversals	100	296	396	92	178	270
Interest income on impaired loans and receivables	14	–	14	8	–	8
Reclassification	0	0	0	–1	1	–
Balance as of Dec. 31	**598**	**488**	**1,086**	**532**	**608**	**1,140**

The provision for credit risks has been recognized in respect of loans to and receivables from customers. At the end of the reporting period, valuation allowances of €76 million (previous year: €308 million) had been recognized in relation to loans and receivables in countries subject to additional credit risk as a result of various critical situations (economic crises, Brexit impact, block on sales of vehicles).

31. Derivative Financial Instruments

This item comprises the positive fair values from hedges and from derivatives not designated as a hedging instrument. The breakdown is as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Transactions to hedge against		
currency risk on assets using fair value hedges	195	175
currency risk on liabilities using fair value hedges	–	–
interest-rate risk using fair value hedges	41	38
of which hedges against interest-rate risk using portfolio fair value hedges	16	–
interest-rate risk using cash flow hedges	–	–
currency and pricing risk on future cash flows using cash flow hedges	0	0
Hedging transactions	**236**	**213**
Assets arising from derivatives not designated as hedges	52	8
Total	**289**	**221**

32. Marketable Securities

Marketable securities largely comprised purchased government bonds amounting to €2,086 million (previous year: €2,186 million) and asset-backed securities issued by special purpose entities of the following: Volkswagen Finance S.A., Madrid in the amount of €114 million (previous year: €285 million); Volkswagen Leasing GmbH, Braunschweig in the amount of €302 million (previous year: €631 million); and Volkswagen Financial Services (UK) Limited, Milton Keynes, United Kingdom in the amount of €1,153 million (previous year: 1,348 million). With the exception of Volkswagen Financial Services (UK) Limited, these special purpose entities are structured entities not consolidated by Volkswagen Bank GmbH. The relevant disclosures can be found in note 67.

Marketable securities with a total value of €1,156 million (previous year: €2,657 million) have been pledged as collateral for Volkswagen Bank GmbH's own liabilities. They are deposited at Deutsche Bundesbank and are furnished as collateral in connection with open market operations.

Due to immateriality, no disclosures are made on (class C) shares in VISA Inc., USA.

33. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2016	**–**	**3**	**3**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	–	–
Reclassifications	–	–	–
Disposals	–	–	–
Changes recognized in profit or loss	–	–	–
Dividends	–	–	–
Other changes recognized in other comprehensive income	–	–	–
Balance as of Dec. 31, 2016	**–**	**3**	**3**
Impairment losses Balance as of Jan. 1, 2016	**–**	**–**	**–**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	–	–
Reclassifications	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2016	**–**	**–**	**–**
Net carrying amount as of Dec. 31, 2016	**–**	**3**	**3**
Net carrying amount as of Jan. 1, 2016	**–**	**3**	**3**

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2017	**–**	**3**	**3**
Foreign exchange differences	–	0	0
Changes in basis of consolidation	–34	0	–34
Additions	211	0	211
Reclassifications	–	–	–
Disposals	–	0	0
Changes recognized in profit or loss	29	–	29
Dividends	–	–	–
Other changes recognized in other comprehensive income	0	–	0
Balance as of Dec. 31, 2017	**206**	**3**	**209**
Impairment losses Balance as of Jan. 1, 2017	**–**	**–**	**–**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	9	–	9
Additions	–	–	–
Reclassifications	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2017	**9**	**–**	**9**
Net carrying amount as of Dec. 31, 2017	**197**	**3**	**200**
Net carrying amount as of Jan. 1, 2017	**–**	**3**	**3**

34. Intangible Assets

€ million	Internally generated software	Brand names, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2016	**0**	**21**	**18**	**53**	**92**
Foreign exchange differences	0	–1	–1	0	–2
Changes in basis of consolidation	0	–	–	1	1
Additions	0	–	–	4	4
Reclassifications	0	–	–	–	–
Disposals	–	–	–	1	1
Balance as of Dec. 31, 2016	**0**	**20**	**17**	**57**	**95**
Amortization and impairment losses					
Balance as of Jan. 1, 2016	**–**	**8**	**–**	**41**	**49**
Foreign exchange differences	–	0	–	0	0
Changes in basis of consolidation	–	–	–	1	1
Additions to cumulative depreciation	–	1	–	5	7
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	0	–	–	0	0
Reversal of impairment losses	0	–	–	–	–
Balance as of Dec. 31, 2016	**–**	**9**	**–**	**47**	**56**
Net carrying amount as of Dec. 31, 2016	**0**	**11**	**17**	**11**	**39**
Net carrying amount as of Jan. 1, 2016	**–**	**13**	**18**	**12**	**43**

€ million	Internally generated software	Brand names, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2017	**–**	**20**	**17**	**57**	**95**
Foreign exchange differences	0	1	1	1	3
Changes in basis of consolidation	1	–	–	26	27
Additions	–	–	–	9	9
Reclassifications	–	–	–	–	–
Disposals	–	1	–	1	2
Balance as of Dec. 31, 2017	**1**	**20**	**18**	**92**	**131**
Amortization and impairment losses					
Balance as of Jan. 1, 2017	**–**	**9**	**–**	**47**	**56**
Foreign exchange differences	0	0	–	1	1
Changes in basis of consolidation	1	–	–	21	21
Additions to cumulative depreciation	–	1	–	6	7
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	–	1	–	1	2
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2017	**1**	**9**	**–**	**73**	**83**
Net carrying amount as of Dec. 31, 2017	**–**	**11**	**18**	**19**	**48**
Net carrying amount as of Jan. 1, 2017	**–**	**11**	**17**	**11**	**39**

The goodwill of €18 million (previous year: €17 million) and the brand names of €6 million (previous year: €6 million) reported as of the balance sheet date resulted from the acquisition of Volkswagen Bank Polska S.A. These intangible assets have indefinite useful lives. The indefinite useful life arises because goodwill and brand names are linked to the relevant cash-generating unit and will therefore remain in existence for as long as this unit also remains in existence. The acquired customer base of Volkswagen Bank Polska S.A. is amortized over ten years.

The impairment tests for the reported goodwill and brand names are based on the value in use. The values in use determined for the recognized goodwill and brand name in the impairment tests exceeded the corresponding carrying amounts, so no impairment loss requirement was identified. Sensitivity analyses were also carried out as part of the impairment tests. No conceivable change in a material assumption would lead to the recognition of an impairment loss for goodwill and brand names. As of the reporting date, intangible assets with indefinite useful lives amounted to €25 million (previous year: €24 million).

35. Property and Equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2016	**21**	**21**	**42**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	0	0
Additions	1	1	2
Reclassifications	0	0	–
Disposals	0	1	1
Balance as of Dec. 31, 2016	**21**	**21**	**42**
Depreciation and impairment losses			
Balance as of Jan. 1, 2016	**17**	**15**	**32**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	0	0
Additions to cumulative depreciation	1	2	3
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Disposals	0	1	1
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2016	**17**	**16**	**33**
Net carrying amount as of Dec. 31, 2016	**4**	**5**	**9**
Net carrying amount as of Jan. 1, 2016	**4**	**6**	**10**

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2017	**21**	**21**	**42**
Foreign exchange differences	0	1	1
Changes in basis of consolidation	1	26	27
Additions	1	3	4
Reclassifications	–	–	–
Disposals	–	4	4
Balance as of Dec. 31, 2017	**24**	**47**	**71**
Depreciation and impairment losses			
Balance as of Jan. 1, 2017	**17**	**16**	**33**
Foreign exchange differences	0	0	1
Changes in basis of consolidation	0	12	12
Additions to cumulative depreciation	1	3	4
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Disposals	–	3	3
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2017	**18**	**27**	**46**
Net carrying amount as of Dec. 31, 2017	**5**	**20**	**25**
Net carrying amount as of Jan. 1, 2017	**4**	**5**	**9**

Assets under construction with a carrying amount of €1 million (previous year: €1 million) are included in land and buildings.

36. Lease Assets and Investment Property

€ million	Movable lease assets	Investment property	Total
Cost			
Balance as of Jan. 1, 2016	**1,005**	**3**	**1,008**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	458	–	458
Reclassifications	–	–	–
Disposals	252	1	253
Balance as of Dec. 31, 2016	**1,211**	**3**	**1,213**
Depreciation and impairment losses			
Balance as of Jan. 1, 2016	**296**	**2**	**298**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions to cumulative depreciation	171	0	171
Additions to cumulative impairment losses	10	–	10
Reclassifications	–	–	–
Disposals	142	1	143
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2016	**334**	**2**	**335**
Net carrying amount as of Dec. 31, 2016	**877**	**1**	**878**
Net carrying amount as of Jan. 1, 2016	**710**	**1**	**711**

€ million	Movable lease assets	Investment property	Total
Cost			
Balance as of Jan. 1, 2017	**1,211**	**3**	**1,213**
Foreign exchange differences	74	–	74
Changes in basis of consolidation	4,720	–	4,720
Additions	2,008	–	2,008
Reclassifications	–	–	–
Disposals	1,334	–	1,334
Balance as of Dec. 31, 2017	**6,679**	**3**	**6,682**
Depreciation and impairment losses			
Balance as of Jan. 1, 2017	**334**	**2**	**335**
Foreign exchange differences	17	–	17
Changes in basis of consolidation	811	–	811
Additions to cumulative depreciation	407	0	407
Additions to cumulative impairment losses	25	–	25
Reclassifications	–	–	–
Disposals	339	–	339
Reversal of impairment losses	1	–	1
Balance as of Dec. 31, 2017	**1,254**	**2**	**1,255**
Net carrying amount as of Dec. 31, 2017	**5,426**	**1**	**5,426**
Net carrying amount as of Jan. 1, 2017	**877**	**1**	**878**

Since the fair value of investment property could not be determined without undue cost and effort, this item is carried at amortized cost in an amount of €1 million (previous year: €1 million). Operating expenses in an immaterial amount were incurred for the maintenance of investment property in both the reporting period and in the previous year.

We expect payments from noncancelable leases and rental agreements of €189 million in 2018 (previous year: €154 million in 2017) and of €172 million in the period 2019 to 2022 (previous year: €145 million in the period 2018 to 2021).

37. Deferred Tax Assets

The deferred tax assets comprise exclusively deferred income tax assets, the breakdown of which is as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Deferred tax assets	3,858	2,735
of which noncurrent	129	86
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	1	3
of which noncurrent	1	3
Offset (with deferred tax liabilities)	–2,362	–1,526
Total	**1,497**	**1,212**

Deferred tax assets are recognized in connection with the following balance sheet items:

€ million	Dec. 31, 2017	Dec. 31, 2016
Loans, receivables and other assets	287	106
Marketable securities and cash	3,453	2,541
Intangible assets/property and equipment	1	3
Lease assets	18	–
Liabilities and provisions	99	85
Valuation allowances for deferred tax assets on temporary differences	–	–
Total	**3,858**	**2,735**

38. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Vehicles returned for disposal	102	23
Restricted cash	438	193
Prepaid expenses	60	30
Other tax assets	117	50
Miscellaneous	236	101
Total	**952**	**396**

39. Noncurrent Assets

€ million	Dec. 31, 2017	of which noncurrent	Dec. 31, 2016	of which noncurrent
Cash reserve	1,866	–	1,457	–
Loans to and receivables from banks	970	–	1,944	322
Loans to and receivables from customers	64,912	36,459	45,667	22,765
Derivative financial instruments	289	200	221	150
Marketable securities	2,509	–	4,455	–
Equity-accounted joint ventures	197	197	–	–
Miscellaneous financial assets	3	3	3	3
Intangible assets	48	48	39	39
Property and equipment	25	25	9	9
Lease assets	5,426	4,968	877	877
Investment property	1	1	1	1
Current tax assets	53	–	53	–
Other assets	952	182	396	29
Total	**77,250**	**42,083**	**55,122**	**24,195**

40. Liabilities to Banks and Customers

The liabilities to banks mainly comprise liabilities to Deutsche Bundesbank arising from targeted longer-term refinancing operations.

To cover the capital requirements for the leasing and financing activities, the entities in the Volkswagen Bank GmbH Group make use, among other things, of the funds provided by the Volkswagen Group.

The liabilities to customers item primarily contains customer deposits, such as overnight money and time deposits, as well as various savings bonds and savings plans. In terms of maturity, the “Direkt-Sparplan” and “Plus Sparbrief” savings products currently offer the longest investment horizon. The maximum maturity is ten years.

The reconciliation to the balance sheet values is as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Liabilities to customers	**41,066**	**37,938**
Fair value adjustment from portfolio hedging	–	–
Liabilities to customers, net of fair value adjustment from portfolio hedging	41,066	37,938

41. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Dec. 31, 2017	Dec. 31, 2016
Bonds issued	11,546	4,206
Commercial paper issued	1,899	105
Total	**13,446**	**4,311**

42. ABS Transactions

The Volkswagen Bank GmbH Group uses ABS transactions for funding purposes. The related liabilities are recognized in the following balance sheet items:

€ million	Dec. 31, 2017	Dec. 31, 2016
Notes, commercial paper issued	8,287	2,371
Subordinated capital	1,686	120
Total	**9,973**	**2,491**

The asset-backed securities of the Volkswagen Bank GmbH Group are backed exclusively by financial assets. The corresponding carrying amount of the securitized loans and receivables from retail financing and finance leases is €9,961 million (previous year: €2,404 million). As of December 31, 2017, the fair value of the liabilities amounted to €9,972 million (previous year: €2,499 million). The fair value of the assigned loans and receivables that continue to be recognized, amounted to €10,240 million (previous year: €2,477 million) as of December 31, 2017. Security is provided in the form of loans and receivables from retail financing and finance leases as well as cash collateral amounting to €10,233 million (previous year: €2,482 million). In these arrangements, the expected payments are assigned to special purpose entities and the ownership of the collateral in the financed vehicles is transferred. The assigned loans/receivables cannot be assigned again to anyone else or used in any other way as collateral. The rights of the bond holders are limited to the assigned loans/receivables and the payment receipts arising from these loans/receivables are used to repay the corresponding liability.

These asset-backed securities transactions did not lead to the derecognition of the loans or receivables from the financing business because the credit risk and timing risk were retained in the Group. The difference between the amount of the assigned loans/receivables and the associated liabilities results from the different terms and conditions and from the proportion of the ABSs held by the Volkswagen Bank GmbH Group itself.

The Volkswagen Bank GmbH Group is under a contractual obligation to transfer funds in certain circumstances to the structured entities included in its consolidated financial statements. As the loans/receivables are transferred to the special purpose entity by way of undisclosed assignment, it is possible that the loan/receivable has already been reduced in a legally binding manner at the originator, for example if the debtor effectively offsets it against amounts it is owed by the Volkswagen Bank GmbH Group. Collateral must be furnished for the resulting compensation claim in respect of the special purpose entity if, for example, the rating of the relevant Group company falls to a contractually specified reference value.

The ABS transactions in the Volkswagen Bank GmbH Group can be repaid early (with a clean-up call) when less than 10% of the original transaction volume remains outstanding.

43. Derivative Financial Instruments

This item comprises the negative fair values from hedges and from derivatives not designated as a hedging instrument. The breakdown is as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Transactions to hedge against		
currency risk on assets using fair value hedges	35	25
currency risk on liabilities using fair value hedges	–	–
interest-rate risk using fair value hedges	12	3
of which hedges against interest-rate risk using portfolio fair value hedges	12	3
interest-rate risk using cash flow hedges	–	–
currency and pricing risk on future cash flows using cash flow hedges	0	0
Hedging transactions	**47**	**28**
Liabilities arising from derivatives not designated as hedges	230	15
Total	**277**	**43**

44. Provisions

The provisions break down as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Provisions for pensions and other post-employment benefits	114	52
Other provisions	451	372
of which provisions for litigation and legal risks	381	282
of which for staff	40	20
of which other	30	70
Total	**564**	**425**

PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The following amounts have been recognized in the balance sheet for benefit commitments:

€ million	Dec. 31, 2017	Dec. 31, 2016
Present value of funded obligations	99	13
Fair value of plan assets	77	12
Funded status (net)	**22**	**1**
Present value of unfunded obligations	91	51
Amount not recognized as an asset because of the ceiling in IAS 19	–	–
Net liability recognized in the balance sheet	**114**	**52**
of which provisions for pensions	114	52
of which other assets	–	–

Key pension arrangements in the Volkswagen Bank GmbH Group

For the period after the active working life of employees, Volkswagen Bank GmbH offers its employees benefits under occupational pension arrangements. Most of the arrangements in the Volkswagen Bank GmbH Group are pension plans for employees in Germany classified as defined benefit plans under IAS 19. The majority of these obligations are funded by provisions recognized in the balance sheet. These plans are now closed for new members. To reduce the risks associated with defined benefit plans, in particular longevity, salary increases and inflation, the Volkswagen Bank GmbH Group has introduced new defined benefit plans in recent years in which the benefits are funded by appropriate external plan assets. The risks referred to above have been significantly reduced in these pension plans. The proportion of the total defined benefit obligation attributable to pension obligations funded by plan assets will continue to rise in the future. The main pension commitments are described below.

German pension plans funded solely by provisions

The pension plans funded solely by recognized provisions comprise both defined contribution plans with guarantees and final salary plans. For defined contribution plans, an annual pension expense dependent on income and status is converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlements). The annuity factors include a guaranteed rate of interest. The modular pension entitlements earned annually are added together at retirement. For final salary plans, the underlying salary is multiplied at retirement by a percentage that depends on the years of service up to the retirement date. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk. The pension system provides for lifelong pension payments. The companies therefore bear the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the "Heubeck 2005 G" mortality tables – which already reflect future increases in life expectancy. To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

German pension plans funded by external plan assets

The pension plans funded by external plan assets are defined contribution plans with guarantees. In this case, an annual pension expense dependent on income and status is either converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlement) or paid out in a single lump sum or in installments. In some cases, employees also have the opportunity to provide for their own retirement through deferred compensation. The annuity factors include a guaranteed rate of interest. The modular pension entitlements earned annually are added together at retirement. The pension expense is contributed on an ongoing basis to a separate pool of assets that is administered independently of the Company in trust and invested in the capital markets. If the plan assets exceed the present value of the obligations calculated using the guaranteed rate of interest, surpluses are allocated (modular pension bonuses). As the assets administered in trust meet the IAS 19 criteria for classification as plan assets, they are offset against the obligations.

The amount of the pension assets is exposed to general market risk. The investment strategy and its implementation are therefore continuously monitored by the trusts' governing bodies, on which the companies are also represented. For example, investment policies are stipulated in investment guidelines with the aim of limiting market risk and its impact on plan assets. In addition, asset-liability management analyses are conducted at regular intervals so as to ensure that investments are in line with the obligations that need to be covered. The pension assets are currently invested primarily in fixed-income or equity funds. The main risks are therefore interest rate and equity price risk. To mitigate market risk, the pension system also provides for funds to be set aside in an equalization reserve before any surplus is allocated.

The present value of the obligation is reported as the maximum of the present value of the guaranteed obligation and of the plan assets. If the value of the plan assets falls below the present value of the guaranteed obligation, a provision must be recognized for the difference. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk. In the case of lifelong pension payments, the Volkswagen Bank GmbH Group bears the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the "Heubeck 2005 G" mortality tables – which already reflect future increases in life expectancy. In addition, independent actuaries carry out annual risk monitoring as part of the review of the assets administered by the trusts.

To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law. The calculation of the present value of the defined benefit obligations was based on the following actuarial assumptions:

	GERMANY		INTERNATIONAL	
Percent	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Discount rate	1.90	1.80	1.30 – 2.50	1.60 – 2.60
Pay trend	3.60	3.60	–	–
Pension trend	1.50	1.50	0.60 – 3.10	0.80 – 3.30
Staff turnover rate	0.95	0.95	1.50 – 2.43	1.50 – 2.40

These assumptions are averages that were weighted using the present value of the defined benefit obligation.

With regard to life expectancy, the latest mortality tables in every country are taken into account. For example, in Germany calculations are based on the "2005 G" generational mortality tables developed by Professor Dr. Klaus Heubeck. The discount rates are generally determined to reflect the yields on prime-rated corporate bonds with matching maturities and currencies. The iBoxx AA 10+ Corporates index was taken as the basis for the obligations of German Group companies. Similar indices were used for foreign pension obligations.

The pay trends cover expected wage and salary trends, which also include increases attributable to career development. The pension trends either reflect the contractually guaranteed pension adjustments or are based on the rules on pension adjustments in force in each country. The employee turnover rates are based on past experience and future expectations.

The following table shows changes in the net defined benefit liability recognized in the balance sheet:

€ million	2017	2016
Net liability recognized in the balance sheet as of January 1	**52**	**49**
Current service cost	1	0
Net interest expense	1	1
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	2
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–4	5
Actuarial gains (–)/losses (+) arising from experience adjustments	20	–1
Income/expenses from plan assets not included in interest income	1	1
Change in amount not recognized as an asset because of the ceiling in IAS 19	–	–
Employer contributions to plan assets	1	0
Employee contributions to plan assets	–	–
Pension payments from company assets	2	3
Past service cost (including plan curtailments)	–	–
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	2	0
Other changes	46	0
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**114**	**52**

The change in the present value of the defined benefit obligation is attributable to the following factors:

€ million	2017	2016
Present value of obligations as of January 1	**64**	**60**
Current service cost	1	0
Interest cost (unwinding of discount on obligations)	2	2
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	2
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–4	5
Actuarial gains (–)/losses (+) arising from experience adjustments	20	–1
Employee contributions to plan assets	0	0
Pension payments from company assets	2	3
Pension payments from plan assets	1	0
Past service cost (including plan curtailments)	–	–
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	38	0
Other changes	74	0
Foreign exchange differences from foreign plans	–1	–1
Present value of obligations as of December 31	**191**	**64**

Changes in the relevant actuarial assumptions would have had the following effects on the defined benefit obligation:

Present value of defined benefit obligation if		DEC. 31, 2017 € million	DEC. 31, 2017 Change in percent	DEC. 31, 2016 € million	DEC. 31, 2016 Change in percent
Discount rate	is 0.5 percentage points higher	172	–9.77	60	–6.46
	is 0.5 percentage points lower	212	11.34	69	7.23
Pension trend	is 0.5 percentage points higher	201	5.10	67	4.63
	is 0.5 percentage points lower	182	–4.74	61	–4.32
Pay trend	is 0.5 percentage points higher	192	0.40	64	0.01
	is 0.5 percentage points lower	190	–0.39	64	–0.01
Longevity	increases by one year	195	2.34	66	3.48

The sensitivity analysis shown above considers the change in one assumption at a time, leaving the other assumptions unchanged versus the original calculation. In other words, any correlation effects between the individual assumptions are ignored.

To examine the sensitivity of the present value of the defined benefit obligation to a change in assumed longevity, the estimates of mortality were reduced as part of a comparative calculation by a measure that was roughly equivalent to an increase in life expectancy of one year.

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 21 years (previous year: 14 years).

The following table shows a breakdown of the present value of the defined benefit obligation by category of plan member:

€ million	2017	2016
Active members with pension entitlements	94	3
Members with vested entitlements who have left the Company	39	14
Retirees	58	47
Total	**191**	**64**

The maturity profile of payments attributable to the defined benefit obligation is presented in the following table, which classifies the present value of the obligation by the maturity of the underlying payments:

€ million	2017	2016
Payments due within the next fiscal year	4	3
Payments due between two and five years	15	11
Payments due in more than five years	172	50
Total	**191**	**64**

Changes in plan assets are shown in the following table:

€ million	2017	2016
Fair value of plan assets as of January 1	**12**	**11**
Interest income on plan assets determined using the discount rate	1	0
Income/expenses from plan assets not included in interest income	1	1
Employer contributions to plan assets	1	0
Employee contributions to plan assets	0	0
Pension payments from plan assets	1	0
Gains (+) or losses (–) arising from plan settlements	–	–
Changes in basis of consolidation	36	–
Other changes	28	0
Foreign exchange differences from foreign plans	–1	–1
Fair value of plan assets as of December 31	**77**	**12**

The investment of the plan assets to cover future pension obligations resulted in income in the amount of €2 million (previous year: €1 million). Employer contributions to plan assets are expected to amount to €9 million (previous year: €1 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

	DEC. 31, 2017			DEC. 31, 2016		
€ million	Quoted prices in active markets	No quoted prices in active markets	Total	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	3	–	3	0	–	0
Equity instruments	5	–	5	2	–	2
Debt instruments	29	–	29	7	–	7
Direct investments in real estate	–	–	–	–	–	–
Derivatives	4	0	4	1	–	1
Equity funds	5	–	5	0	–	0
Bond funds	23	–	23	1	–	1
Real estate funds	0	–	0	0	–	0
Other funds	8	–	8	1	–	1
Asset-backed securities	–	–	–	–	–	–
Structured debt securities	–	–	–	–	–	–
Other	0	–	0	0	–	0

Of the total plan assets, 32% (previous year: 9%) is invested in German assets, 62% (previous year: 90%) in other European assets and 6% (previous year: 1%) in assets in other regions. Investments of plan assets in debt instruments issued by the Volkswagen Group are of minor significance.

The following amounts have been recognized in the income statement:

€ million	2017	2016
Current service cost	1	0
Net interest on the net defined benefit liability	1	1
Past service cost (including plan curtailments)	–	–
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	**2**	**1**

OTHER PROVISIONS

The following table shows the changes in other provisions, including maturities:

€ million	Employee expenses	Litigation and legal risks	Other provisions	Total
Balance as of Jan. 1, 2016	**19**	**246**	**62**	**327**
Foreign exchange differences	0	–	0	0
Changes in basis of consolidation	–	–	–	–
Utilization	14	0	4	18
Additions/new provisions	20	76	51	146
Unwinding of discount/effect of change in discount rate	–	3	–	3
Reversals	4	42	39	85
Balance as of Dec. 31, 2016	**20**	**282**	**70**	**372**
of which current	20	126	67	212
of which noncurrent	0	157	3	160
Balance as of Jan. 1, 2017	**20**	**282**	**70**	**372**
Foreign exchange differences	0	0	0	0
Changes in basis of consolidation	19	–	0	19
Utilization	15	9	16	40
Additions/new provisions	21	171	20	212
Unwinding of discount/effect of change in discount rate	–	2	–	2
Reversals	5	65	45	115
Balance as of Dec. 31, 2017	**40**	**381**	**30**	**451**
of which current	27	162	27	216
of which noncurrent	13	220	3	235

Provisions for employee expenses have been recognized for annually recurring bonuses, long-service awards and other employee expenses.

The provisions for litigation and legal risks reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers. They relate primarily to proceedings in relation to design aspects of loan agreements with customers that may obstruct the processing of statutory cancelation periods. For these provisions as well as for provisions for legal disputes in connection with dealer financing agreements and customer financing broking claims, Volkswagen Bank GmbH invokes the safeguard clause within the meaning of IAS 37.92 and opts not to disclose in detail any amounts, descriptions, or probability assumptions. Provisions for litigation and legal risks amounted to €381 million as of the balance sheet date (previous year: €282 million).

The miscellaneous provisions also include provisions for indirect credit risks amounting to €2 million (previous year: €42 million).

The timing of the cash outflows in connection with other provisions is expected to be as follows: 48% in the next year, 50% in the years 2019 to 2022 and 2% in the years after 2023.

45. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Deferred tax liabilities	3,864	2,596
of which noncurrent	1,394	1,021
Offset (with deferred tax assets)	–2,362	–1,526
Total	**1,502**	**1,070**

The deferred tax liabilities include taxes arising on temporary differences between amounts in the IFRS financial statements and those determined in the calculation of taxable profits in the Group entities.

Deferred tax liabilities have been recognized in connection with the following balance sheet items:

€ million	Dec. 31, 2017	Dec. 31, 2016
Loans, receivables and other assets	572	643
Marketable securities and cash	22	70
Intangible assets/property and equipment	3	3
Lease assets	60	34
Liabilities and provisions	3,207	1,846
Total	**3,864**	**2,596**

46. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Deferred income	341	97
Other tax liabilities	59	39
Social security and payroll liabilities	46	20
Other	184	60
Total	**629**	**217**

47. Subordinated capital

The breakdown of subordinated capital is as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Subordinated liabilities	1,721	155
of which: to other entities in the Volkswagen Group	1,686	120
Total	**1,721**	**155**

The Bank has not entered into any agreement to convert these liabilities into equity or another form of debt, nor is it planning any such conversion.

48. Noncurrent Liabilities

€ million	Dec. 31, 2017	of which noncurrent	Dec. 31, 2016	of which noncurrent
Liabilities to banks	8,032	6,539	4,930	4,662
Liabilities to customers	41,066	5,993	37,938	3,014
Notes, commercial paper issued	13,446	8,603	4,311	2,660
Derivative financial instruments	277	180	43	13
Current tax liabilities	210	–	89	–
Other liabilities	629	250	217	32
Subordinated capital	1,721	1,257	155	103
Total	**65,380**	**22,824**	**47,683**	**10,483**

49. Equity

Volkswagen Bank GmbH's subscribed capital amounted to €318 million. There are no preferential rights or restrictions in connection with the subscribed capital.

The capital contributions made by the sole shareholder, Volkswagen AG, are reported under the capital reserves of Volkswagen Bank GmbH. As of December 31, 2017, capital reserves amounted to €8,531 million (previous year: €6,026 million). The increase is attributable to cash contributions of €2,086 million made by the former sole shareholder, Volkswagen Financial Services AG and to the application of predecessor accounting to the companies acquired as a result of restructuring.

Retained earnings comprise undistributed profits from prior years and primarily contain other revenue reserves.

The HGB profit of €489 million (previous year: €414 million) will be transferred in accordance with the existing profit-and-loss transfer agreement with the sole shareholder, Volkswagen AG.

The accumulated deferred taxes in equity amounted to €11 million (previous year: €–4 million).

50. Capital Management

In this context, “capital” means equity as defined by IFRS. The aim of capital management in the Volkswagen Bank GmbH Group is to support the Company’s credit rating by ensuring that the Group has adequate capital backing, to obtain capital for the planned growth over the next few years and to satisfy regulatory capital requirements.
Regulatory capital is different from equity as defined by IFRS (for the components, see the statement of changes in equity). Regulatory capital consists of capital components referred to as Common Equity Tier (CET) 1 capital, Additional Tier 1 capital and Tier 2 capital net of certain deductions and adjustments and must meet specific requirements defined by law.

Corporate actions implemented by the parent company of Volkswagen Bank GmbH have an impact on both IFRS equity and regulatory capital.

Under the regulatory provisions – Capital Requirements Regulation (CRR), Kreditwesengesetz (KWG – German Banking Act), Solvabilitätsverordnung (SolvV – German Solvency Regulation) – the banking supervisor generally assumes that capital adequacy requirements are satisfied if the entity subject to supervision has a CET1 capital ratio of at least 4.5%, a Tier 1 capital ratio of at least 6.0% and a total capital ratio of at least 8.0%. Banks must also comply with the capital buffer requirements. In calculating these capital ratios, capital is measured against the own funds requirements determined in accordance with statutory provisions for counterparty risk, operational risk, market risk and credit value adjustments (CVAs). To ensure compliance with these requirements at all times, the Group has established a planning procedure that is integrated into the internal reporting system. In this procedure, the capital requirement is continuously determined based on actual and forecast business trends. This ensured that the minimum regulatory capital requirements continued to be satisfied at all times in the reporting period.

The following IFRS-based amounts and ratios were determined for Volkswagen Bank GmbH Group under the regulatory requirements:

	Dec. 31, 2017	Dec. 31, 2016
Total risk exposure amount[1] (€ million)	65,645	45,178
of which risk-weighted exposure amounts for credit risk	58,430	42,273
of which own funds requirements for market risk *12.5	2,879	384
of which own funds requirements for operational risk *12.5	4,240	2,469
of which own funds requirements for credit valuation adjustments *12.5	96	52
Eligible own funds (€ million)	10,262	6,444
Own funds (€ million)	10,262	6,444
of which Common Equity Tier 1 capital	10,233	6,415
of which Additional Tier 1 capital	–	0
of which Tier 2 capital	29	29
Common Equity Tier 1 capital ratio[2] (percent)	15.6	14.2
Tier 1 capital ratio[2] (percent)	15.6	14.2
Total capital ratio[2] (percent)[2]	15.6	14.3

1 According to Article 92(3) of the CRR
2 According to Article 92(1) of the CRR

Financial Instrument Disclosures

51. Carrying Amounts of Financial Instruments by IAS 39 Measurement Category

The measurement categories defined in IAS 39 are as follows for the Volkswagen Bank GmbH Group:

Loans and receivables are non-derivative financial instruments that are not traded in an active market and that are subject to fixed-payment agreements. The cash reserve also forms part of this category.

Financial assets and financial liabilities measured at fair value through profit or loss include derivative financial instruments. The Volkswagen Bank GmbH Group has no plans to specially allocate other financial instruments to this category.

Available-for-sale financial assets are either assets specifically allocated to this category as such or financial assets that cannot be allocated to any other category. In the Volkswagen Bank GmbH Group, marketable securities and miscellaneous financial assets are allocated to this category.

All non-derivative financial instruments are accounted for on the basis of the settlement date. Derivative financial instruments are accounted for on the basis of the trade date.

The carrying amounts of financial instruments (excluding hedge derivatives) by measurement category are as follows:

	LOANS AND RECEIVABLES		AVAILABLE-FOR-SALE FINANCIAL ASSETS		FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST		FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
€ million	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Assets								
Cash reserve	1,866	1,457	–	–	–	–	–	–
Loans to and receivables from banks	970	1,944	–	–	–	–	–	–
Loans to and receivables from customers[1]	46,054	41,972	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	52	8
Marketable securities	–	–	2,509	4,455	–	–	–	–
Miscellaneous financial assets	–	–	0	0	–	–	–	–
Other assets	512	258	–	–	–	–	–	–
Total[1]	**49,402**	**46,311**	**2,509**	**4,455**	**–**	**–**	**52**	**8**
Liabilities								
Liabilities to banks	–	–	–	–	8,032	4,930	–	–
Liabilities to customers	–	–	–	–	41,066	37,938	–	–
Notes, commercial paper issued	–	–	–	–	13,446	4,311	–	–
Derivative financial instruments	–	–	–	–	–	–	230	15
Other liabilities	–	–	–	–	184	60	–	–
Subordinated capital	–	–	–	–	1,721	155	–	–
Total	**–**	**–**	**–**	**–**	**64,448**	**47,396**	**230**	**15**

1 Previous year restated as explained in the disclosures on the leasing business in the Ireland branch in the section entitled “Restated Prior-Year Figures”.

Receivables from leasing transactions are not allocated to any of these categories.

The net income/expense for each of the categories is as follows:

€ million	2017	2016
Loans and receivables	1,471	1,358
Available-for-sale financial assets	26	35
Financial liabilities measured at amortized cost	–183	–220
Financial assets and financial liabilities measured at fair value through profit or loss	–26	–11

The net income/expense is determined as follows:

Measurement category	Measurement method
Loans and receivables	Interest income using the effective interest method in accordance with IAS 39 and expenses/income from the recognition of valuation allowances in accordance with IAS 39, including effects from currency translation
Available-for-sale financial assets	Changes in fair value in accordance with IAS 39 in conjunction with IFRS 13, including interest and effects from currency translation and impairment
Financial liabilities measured at amortized cost	Interest expense using the effective interest method in accordance with IAS 39, including effects from currency translation
Financial assets and financial liabilities measured at fair value through profit or loss	Changes in fair value in accordance with IAS 39 in conjunction with IFRS 13, including interest and effects from currency translation and impairment

52. Classes of Financial Instruments

Financial instruments are divided into the following classes in the Volkswagen Bank GmbH Group:

- Measured at fair value
- Assets and liabilities measured at amortized cost
- Derivative financial instruments designated as hedges
- Credit commitments and financial guarantees
- Not within scope of IFRS 7.

Loans/receivables and liabilities designated as hedges with derivative financial instruments are included in the “Assets and liabilities measured at amortized cost” class. Subsidiaries that are not consolidated for reasons of materiality are not deemed financial instruments in accordance with IAS 39 and therefore do not fall within the scope of IFRS 7. Equity investments as financial instruments in accordance with IAS 39 are reported in the class “Measured at fair value”.

The following table shows a reconciliation of the relevant balance sheet items to the classes of financial instruments:

€ million	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT WITHIN THE SCOPE OF IFRS 7	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Assets										
Cash reserve	1,866	1,457	–	–	1,866	1,457	–	–	–	–
Loans to and receivables from banks	970	1,944	–	–	970	1,944	–	–	–	–
Loans to and receivables from customers	64,912	45,667	–	–	64,912	45,667	–	–	0	0
Derivative financial instruments	289	221	52	8	–	–	236	213	–	–
Marketable securities	2,509	4,455	2,509	4,455	–	–	–	–	–	–
Equity-accounted joint ventures	197	–	–	–	–	–	–	–	197	–
Miscellaneous financial assets	3	3	0	0	–	–	–	–	3	3
Other assets	952	396	–	–	512	258	–	–	440	139
Total	**71,698**	**54,143**	**2,561**	**4,463**	**68,260**	**49,326**	**236**	**213**	**641**	**141**
Liabilities										
Liabilities to banks	8,032	4,930	–	–	8,032	4,930	–	–	–	–
Liabilities to customers	41,066	37,938	–	–	41,066	37,938	–	–	–	–
Notes, commercial paper issued	13,446	4,311	–	–	13,446	4,311	–	–	–	–
Derivative financial instruments	277	43	230	15	–	–	47	28	–	–
Other liabilities	629	217	–	–	184	60	–	–	445	156
Subordinated capital	1,721	155	–	–	1,721	155	–	–	–	–
Total	**65,170**	**47,595**	**230**	**15**	**64,448**	**47,396**	**47**	**28**	**445**	**156**

The “Credit commitments and financial guarantees” class contains obligations under irrevocable credit commitments and financial guarantees amounting to €3,208 million (previous year: €1,544 million).

53. Measurement Hierarchy for Financial Instruments Measured at Fair Value and at Amortized Cost

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. Classification to the individual levels is dictated by the extent to which the main inputs used in determining the fair value are observable in the market or not.

Level 1 is used to report the fair value of financial instruments such as marketable securities for which a market price can be directly observed in an active market.

Level 2 fair values are measured on the basis of inputs observable in the markets, such as exchange rates or yield curves, using market-based valuation techniques. Fair values measured in this way include those for derivatives and liabilities to customers. Level 3 fair values are measured using valuation techniques incorporating at least one input that is not observable in an active market. Most of the loans to and receivables from customers are allocated to Level 3 because their fair value is measured using inputs that are not observable in active markets (see note 54). Derivative financial instruments in connection with the risk of early termination are also allocated to Level 3. Inputs for determining the fair value of derivatives in connection with the risk of early termination are forecasts and estimates of used vehicle residual values for the models concerned as well as yield curves.

There was no need to reclassify instruments between the hierarchy levels in the reporting period.

The following table shows the allocation of financial instruments to this three-level fair value hierarchy by class:

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Assets						
Measured at fair value						
Derivative financial instruments	–	–	52	8	–	–
Marketable securities	2,092	2,191	417	2,264	–	–
Miscellaneous financial assets	–	–	–	–	0	0
Measured at amortized cost						
Cash reserve	1,866	1,457	–	–	–	–
Loans to and receivables from banks	970	1,128	0	815	–	–
Loans to and receivables from customers	–	–	238	213	65,892	46,161
Other assets	–	–	512	258	–	–
Derivative financial instruments designated as hedges	–	–	236	213	–	–
Total	**4,928**	**4,776**	**1,455**	**3,771**	**65,892**	**46,161**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	38	15	192	–
Measured at amortized cost						
Liabilities to banks	–	–	7,919	4,835	–	–
Liabilities to customers	–	–	41,087	37,966	–	–
Notes, commercial paper issued	6,557	–	6,894	4,317	–	–
Other liabilities	–	–	184	60	–	–
Subordinated capital	–	–	1,730	168	–	–
Derivative financial instruments designated as hedges	–	–	47	28	–	–
Total	**6,557**	**–**	**57,899**	**47,390**	**192**	**–**

The following table shows the changes in the derivative financial instruments in connection with the risk of early termination measured at fair value based on Level 3 inputs.

€ million	2017	2016
Balance as of Jan. 1	**–**	**–**
Foreign exchange differences	4	–
Changes in basis of consolidation	111	–
Measurements through profit or loss	77	–
Balance as of Dec. 31	**192**	**–**

The measurements through profit or loss recognized in net gain/loss on the measurement of derivative financial instruments amounted to a net loss of €77 million (previous year: none). In the year under review, the net gain was attributable entirely to derivative financial instruments held as of the reporting date.

Risks of early termination may arise from country-specific consumer protection legislation that confers a right to return used vehicles under leases that have already been entered into. The impact on earnings arising from market-related fluctuations in residual values and interest rates is borne by the Volkswagen Bank GmbH Group.

The market prices of used vehicles are the main risk variable in the fair value of derivatives in connection with the risk of early termination. Sensitivity analyses are used to quantify the effects of changes in used vehicle prices on profit after tax.

If used vehicle prices for the vehicles taken into account in the derivatives in connection with the risk of early termination had been 10% higher as of December 31, 2017, profit after tax would have been higher by €88 million. If used vehicle prices for the vehicles taken into account in the derivatives in connection with the risk of early termination had been 10% lower as of December 31, 2017, profit after tax would have been lower by €108 million.

54. Fair Value of Financial Instruments in the Classes "Assets and Liabilities Measured at Amortized Cost", "Measured at Fair Value", and "Derivative Financial Instruments Designated As Hedges"

The table below shows the fair values of the financial instruments. The fair value is the amount at which financial instruments could be sold on fair terms as of the reporting date. Where market prices were available, we have used these prices without modification for measuring fair value. If no market prices were available, the fair values for loans/receivables and liabilities were calculated by discounting using a maturity-matched discount rate appropriate to the risk. The discount rate was determined by adjusting risk-free yield curves, where appropriate, by relevant risk factors and to take into account capital and administrative costs. For reasons of materiality, the fair values of loans/receivables and liabilities due within one year were deemed to be the same as the carrying amount.

Likewise, no fair value was determined for miscellaneous financial assets because there is no active market for the unlisted equity investments in the miscellaneous financial assets and fair values could not be reliably determined without disproportionate time, effort and expense. Due to the short maturity and the variable interest rate linked to the market interest rate, the fair value of irrevocable credit commitments is not material. The fair value of financial guarantees is not material either.

€ million	FAIR VALUE Dec. 31, 2017	FAIR VALUE Dec. 31, 2016	CARRYING AMOUNT Dec. 31, 2017	CARRYING AMOUNT Dec. 31, 2016	DIFFERENCE Dec. 31, 2017	DIFFERENCE Dec. 31, 2016
Assets						
Measured at fair value						
Derivative financial instruments	52	8	52	8	–	–
Marketable securities	2,509	4,455	2,509	4,455	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	1,866	1,457	1,866	1,457	–	–
Loans to and receivables from banks	970	1,944	970	1,944	–	0
Loans to and receivables from customers	66,130	46,373	64,912	45,667	1,218	706
Other assets	512	258	512	258	–	–
Derivative financial instruments designated as hedges	236	213	236	213	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	230	15	230	15	–	–
Measured at amortized cost						
Liabilities to banks	7,919	4,835	8,032	4,930	–113	–95
Liabilities to customers	41,087	37,966	41,066	37,938	21	28
Notes, commercial paper issued	13,451	4,317	13,446	4,311	6	5
Other liabilities	184	60	184	60	–	–
Subordinated capital	1,730	168	1,721	155	10	13
Derivative financial instruments designated as hedges	47	28	47	28	–	–

The fair values of financial instruments were determined on the basis of the following risk-free yield curves:

Percent	EUR	GBP	PLN	SEK	CZK
Interest rate for six months	–0,321	0,545	1,728	–0,382	0,482
Interest rate for one year	–0,283	0,623	1,790	–0,330	0,454
Interest rate for five years	0,317	1,033	2,480	0,498	1,620
Interest rate for ten years	0,884	1,274	2,910	1,200	1,845

55. Offsetting of Financial Assets and Liabilities

The table below contains information about the effects of offsetting in the consolidated balance sheet and the financial effects of offsetting in the case of instruments that are subject to a legally enforceable master netting agreement or a similar arrangement.

Financial assets and financial liabilities are generally reported with their gross values. Offsetting is only then applied if, at the present time, the offsetting of the amounts is legally enforceable by the Volkswagen Bank GmbH Group and there is an intention to settle on a net basis in practice.

The “Financial instruments” column shows the amounts that are subject to a master netting agreement but have not been netted because the relevant criteria have not been satisfied. Most of the amounts involved are positive and negative fair values of derivative financial instruments entered into with the same counterparty.

The “Collateral received/pledged” column shows the cash collateral amounts and collateral in the form of financial instruments received in connection with the total sum of assets and liabilities. It includes such collateral relating to assets and liabilities that have not been offset against each other. The collateral amounts primarily consist of pledged cash collateral in connection with ABS transactions and marketable securities pledged as collateral.

							AMOUNTS NOT OFFSET IN THE BALANCE SHEET					
	Gross amount of recognized financial assets/liabilities		Gross amount of recognized financial assets/liabilities offset in the balance sheet		Net amount of financial assets/liabilities reported in the balance sheet		Financial instruments		Collateral received/pledged		Net amount	
€ million	**Dec. 31, 2017**	Dec. 31, 2016	**Dec. 31, 2017**	Dec. 31, 2016	**Dec. 31, 2017**	Dec. 31, 2016	**Dec. 31, 2017**	Dec. 31, 2016	**Dec. 31, 2017**	Dec. 31, 2016	**Dec. 31, 2017**	Dec. 31, 2016
Assets												
Cash reserve	1,866	1,457	–	–	1,866	1,457	–	–	–	–	1,866	1,457
Loans to and receivables from banks	970	1,944	–	–	970	1,944	–	–	–	–	970	1,944
Loans to and receivables from customers	65,009	45,748	–97	–81	64,912	45,667	–	–	–	–	64,912	45,667
Derivative financial instruments	289	221	0	–	289	221	–72	–19	–197	–175	20	27
Marketable securities	2,509	4,455	–	–	2,509	4,455	–	–	–	–	2,509	4,455
Miscellaneous financial assets	0	0	–	–	0	0	–	–	–	–	0	0
Other assets	532	272	–20	–14	512	258	–	–	–	–	512	258
Total	**71,174**	**54,097**	**–116**	**–95**	**71,058**	**54,002**	**–72**	**–19**	**–197**	**–175**	**70,789**	**53,808**
Liabilities												
Liabilities to banks	8,032	4,930	–	–	8,032	4,930	–	–	–1,967	–2,657	6,065	2,273
Liabilities to customers	41,162	38,019	–97	–81	41,066	37,938	–	–	–		41,066	37,938
Notes, commercial paper issued	13,446	4,311	–	–	13,446	4,311	–	–	–410	–188	13,036	4,123
Derivative financial instruments	284	43	–7	–	277	43	–72	–19	–12	–24	193	0
Other liabilities	196	74	–13	–14	184	60	–	–	–	–	184	60
Subordinated capital	1,721	155	–	–	1,721	155	–	–	–	–	1,721	155
Total	**64,841**	**47,533**	**–116**	**–95**	**64,725**	**47,438**	**–72**	**–19**	**–2,390**	**–2,869**	**62,263**	**44,551**

56. Counterparty Default Risk

For qualitative information, please refer to the risk report (Credit Risk section, pages 26 to 28), which forms part of the management report.

The credit and default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the amount of the claims against the counterparty concerned arising from recognized carrying amounts and irrevocable credit commitments. The maximum credit and default risk is reduced by collateral and other credit enhancements amounting to €41,283 million (previous year: €24,489 million). The collateral held is in respect of loans to and receivables from customers in the class “Assets measured at amortized cost”. The types of collateral held include vehicles, other assets pledged as collateral, guarantees and charges on real estate. Cash deposits are also used as collateral in connection with derivative financial instruments. The following table shows the credit quality of financial assets:

	GROSS CARRYING AMOUNT		NEITHER PAST DUE NOR IMPAIRED		PAST DUE BUT NOT IMPAIRED		IMPAIRED	
€ million	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Measured at fair value	2,561	4,463	2,561	4,463	–	–	–	–
Measured at amortized cost								
Cash reserve	1,866	1,457	1,866	1,457	–	–	–	–
Loans to and receivables from banks	970	1,944	970	1,944	–	–	–	–
Loans to and receivables from customers	65,998	46,807	63,924	45,236	674	330	1,401	1,241
Other assets	512	258	512	258	–	–	–	–
Derivative financial instruments designated as hedges	236	213	236	213	–	–	–	–
Total	**72,144**	**55,142**	**70,069**	**53,571**	**674**	**330**	**1,401**	**1,241**

The maximum default risk from irrevocable credit commitments and financial guarantees is €3,208 million (previous year: €1,544 million).

The breakdown of neither past due nor impaired financial assets by risk class is as follows:

€ million	Neither past due nor impaired		Risk class 1		Risk class 2	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Measured at fair value	2,561	4,463	2,561	4,463	–	–
Measured at amortized cost						
Cash reserve	1,866	1,457	1,866	1,457	–	–
Loans to and receivables from banks	970	1,944	970	1,944	–	–
Loans to and receivables from customers	63,924	45,236	55,656	43,283	8,268	1,953
Other assets	512	258	512	256	0	1
Derivative financial instruments designated as hedges	236	213	236	213	–	–
Total	**70,069**	**53,571**	**61,801**	**51,617**	**8,268**	**1,954**

In the financial services business, the group evaluates the credit quality of the borrower before entering into any lending contract or lease. In the retail business, this evaluation is carried out by using scoring systems, whereas rating systems are used for fleet customers and dealer financing transactions. Lending evaluated as “good” is included in risk class 1. Loans to and receivables from customers whose credit quality has not been classified as “good” but who have not yet defaulted are included under risk class 2.

Age analysis of financial assets past due but not impaired, by class:

€ million	Past due but not impaired		In the following aged past due categories					
			Up to 1 month		1 to 3 months		More than 3 months	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Measured at fair value	–	–	–	–	–	–	–	–
Measured at amortized cost								
Cash reserve	–	–	–	–	–	–	–	–
Loans to and receivables from banks	–	–	–	–	–	–	–	–
Loans to and receivables from customers	674	330	428	201	240	129	6	–
Other assets	–	–	–	–	–	–	–	–
Derivative financial instruments designated as hedges	–	–	–	–	–	–	–	–
Total	**674**	**330**	**428**	**201**	**240**	**129**	**6**	**–**

The Volkswagen Bank GmbH Group intends to recover the following collateral accepted in the reporting period for financial assets:

€ million	Dec. 31, 2017	Dec. 31, 2016
Vehicles	41	32
Real estate	–	–
Other movable assets	–	–
Total	**41**	**32**

57. The vehicles are remarketed to Volkswagen Group dealers through direct sales and auctions.Liquidity Risk

Please refer to the management report for information on the funding and hedging strategy.

The maturity profile of assets held to manage liquidity risk is as follows:

	ASSETS		REPAYABLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS	
€ million	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Cash reserve	1,866	1,457	1,866	1,457	–	–	–	–	–	–
Loans to and receivables from banks	970	1,944	425	1,031	545	470	–	121	–	322
Marketable securities	2,086	2,186	–	–	2,086	2,186	–	–	–	–
Total	**4,922**	**5,587**	**2,291**	**2,487**	**2,631**	**2,656**	**–**	**121**	**–**	**322**

The following table shows the maturity profile of undiscounted cash outflows from financial liabilities:

€ million	Cash outflows		REMAINING CONTRACTUAL MATURITIES Up to 3 months		3 months to 1 year		1 to 5 years		More than 5 years	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Liabilities to banks	8,414	4,940	1,695	224	173	47	6,435	4,571	111	98
Liabilities to customers	41,535	38,258	31,540	31,159	3,632	3,831	4,995	2,609	1,368	658
Notes, commercial paper issued	13,688	4,332	2,027	219	2,897	1,440	7,489	2,673	1,274	–
Derivative financial instruments	7,458	5,465	3,501	2,065	2,620	1,874	1,337	1,527	–	–
Other liabilities	184	60	89	34	10	0	83	26	1	1
Subordinated capital	1,803	172	37	16	475	39	1,253	76	37	41
Irrevocable credit commitments	3,072	1,408	761	253	2,310	1,154	0	0	0	–
Total	**76,153**	**54,635**	**39,652**	**33,969**	**12,117**	**8,386**	**21,592**	**11,482**	**2,792**	**798**

The maximum possible calls under financial guarantees at any time can be assumed to be €137 million (previous year: €136 million).

58. Market Risk

For qualitative information, please refer to the risk report within the management report.

For quantitative risk measurement, interest rate and currency translation risk are measured using a value-at-risk (VaR) model on the basis of a historical simulation. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 40 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from non-derivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in determining the value-at-risk covers a period of 1,000 trading days.

This approach has produced the following values:

€ million	2017	2016
Interest-rate risk	26	21
Currency translation risk	102	1
Total market risk[1]	**91**	**21**

1 Due to correlation effects, the total market risk is not equivalent to the sum of individual risks.

59. Hedging Policy Disclosures

HEDGING POLICY AND FINANCIAL DERIVATIVES

Given its international financial activities, the Volkswagen Bank GmbH Group is exposed to fluctuations in interest rates on international money and capital markets. The general rules governing the Group-wide currency and interest rate hedging policy are specified in internal Group guidelines and satisfy the Minimum Requirements for Risk Management (MaRisk – Mindestanforderungen an das Risikomanagement) issued by the German Federal Financial Supervisory Authority (BaFin). The partners used by the Group when entering into appropriate financial transactions are national and international banks with strong credit ratings whose credit quality is continuously monitored by leading rating agencies. The Group enters into suitable hedging transactions to limit currency and interest rate risks. Regular derivative financial instruments are used for this purpose.

MARKET RISK

Market risk arises when changes in prices on financial markets (interest rates and exchange rates) have a positive or negative effect on the value of traded products. The fair values listed in the tables were determined using the market information available on the reporting date and represent the present values of the financial derivatives. They were determined on the basis of standardized techniques or quoted prices.

INTEREST RATE RISK

Changes in the level of interest rates in the money and capital markets represent an interest rate risk in the case of any funding that is not maturity-matched. Interest rate risk is managed on the basis of recommendations made by the Asset-Liability Management Committee (ALM Committee). Interest rate risk is quantified using interest rate gap analyses to which various scenarios involving changes in interest rates are applied. The hedging contracts entered into comprise interest rate swaps and cross-currency swaps.

CURRENCY RISK

The Volkswagen Bank GmbH Group avoids currency risk by entering into currency hedging contracts, which may be currency forwards, currency swaps or cross-currency swaps. All cash flows in foreign currency are hedged as a matter of principle.

LIQUIDITY RISK, FUNDING RISK

The Volkswagen Bank GmbH Group takes precautions to minimize the risk from any potential liquidity squeeze by holding a confirmed credit line at Volkswagen AG and by using debt issuance programs with multicurrency capability. It also holds marketable securities from public-sector issuers that are readily marketable and can be deposited with central banks, and can thus be used to help safeguard liquidity.

DEFAULT RISK

The default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the balance due from the counterparty concerned.

Given that only counterparties with strong credit ratings are used for transactions and limits are set for each counterparty as part of the risk management system, the actual default risk is deemed to be low. Furthermore, the default risk in the Group's transactions is also minimized in accordance with regulatory requirements by the use of collateral to be furnished by the counterparty.

Risk concentrations arise in the Volkswagen Bank GmbH Group in a variety of forms. A detailed description can be found in the report on opportunities and risks within the combined management report.

The breakdown of the notional volume of the derivative financial instruments is as follows:

	REMAINING CONTRACTUAL MATURITIES					
	Up to 1 year		1 to 5 years		More than 5 years	
€ million	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Cash flow hedges						
Interest rate swaps	–	–	–	–	–	–
Cross-currency interest rate swaps	–	–	–	–	–	–
Currency forward contracts	6	7	–	–	–	–
Currency swaps	–	–	–	–	–	–
Other						
Interest rate swaps	4,118	3,374	9,851	3,623	15,399	0
Cross-currency interest rate swaps	232	261	516	585	–	–
Currency forward contracts	3,013	1,337	–	–	–	–
Currency swaps	2,761	2,233	818	921	–	–
Total	**10,129**	**7,213**	**11,184**	**5,128**	**15,399**	**0**

The timings of the future payments for the hedged items in the cash flow hedges match the maturities of the hedging instruments.

As of the reporting date, none of the recognized cash flow hedges involved a hedged item in which the transaction was no longer expected to occur in the future.

Segment Reporting

60. Breakdown by Geographical Market

Based on the internal reporting structure, the Volkswagen Bank GmbH Group has the following reporting units, which are defined as reportable segments within the meaning of IFRS 8: Germany, Italy, France, United Kingdom, Sweden and Other; Volkswagen Bank Polska S.A., ŠkoFIN s.r.o. as well as the branches in the Netherlands, Spain, Ireland, Greece and Portugal and Volkswagen Bank Polska S.A. which are attributable to the "Other" segment. The United Kingdom branch and Volkswagen Financial Services (UK) Ltd are assigned to the "United Kingdom" segment.

The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting.

The profit or loss for each individual segment is measured on the basis of the operating profit or loss and profit or loss before tax.

Operating profit or loss includes net income from lending and leasing transactions after provision for credit risks, net fee and commission income, the net gain/loss on the measurement of derivative financial instruments and hedged items, general and administrative expenses, and other operating income and expenses. The interest expenses, net gain/loss on the measurement of derivative financial instruments and hedged items, net gain/loss on equity-accounted joint ventures, net gain/loss on marketable securities and miscellaneous financial assets, general administrative expenses as well as net other operating income/expenses that are not components of operating profit or loss largely comprise net hedge accounting gains/losses, income from shares in affiliated companies, interest expenses from tax audits, interest costs from unwinding the discount on other provisions, interest expenses for pension provisions and the expected return on plan assets for externally funded pension obligations.

Interest income not classified as revenue is interest income that is not attributable to the financial services business. This interest income is not a component of operating profit or loss.

Based on the internal reporting structure, the additional provisions for credit risks recognized on receivables in countries at the center of the euro crisis are allocated to the Germany segment.

The Volkswagen Bank Group generated 13.8% of its sales revenue (€625 million) through transactions with other Volkswagen Group companies. This affects all segments – to varying degrees.

€ million	FISCAL YEAR 2017 Germany	Italy	France	United Kingdom	Sweden	Other	Consoli-dation	Total
Revenue from lending transactions with third parties	1,023	119	45	169	8	147	–	1,510
Intersegment revenue from lending transactions	82	–	–	5	–	–	–87	–
Total segment revenue from lending transactions	1,105	119	45	174	8	147	–87	1,510
Revenue from leasing transactions	–	91	605	697	1,172	160	–	2,725
Fee and commission income	120	84	47	1	0	38	–	291
Revenue	**1,225**	**294**	**697**	**872**	**1,180**	**345**	**–87**	**4,526**
Cost of sales attributable to lending and leasing transactions	–	–68	–232	–344	–1,108	–88	–	–1,840
reversals of impairment losses on lease assets and investment property	–	–	–	1	0	–	–	1
depreciation of and impairment losses on lease assets and investment property	–	–	–208	–151	–50	–22	–	–432
of which impairment losses in accordance with IAS 36	–	–	–22	0	–1	–2	–	–25
Interest expense (component of operating profit or loss)	–145	–15	–22	–100	–4	–26	87	–226
Provision for credit risks from lending and leasing business	163	–19	7	–6	2	3	–	150
Fee and commission expenses	–172	–44	–52	–38	–1	–21	–	–328
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	–12	–	–	–	–	–	–	–12
Net gain/loss on marketable securities and miscellaneous financial assets (component of operating profit or loss)	–	–	–	–	3	–	–	3
General and administrative expenses (component of operating profit or loss)	–598	–59	–97	–75	–14	–91	4	–930
Net other operating income/expenses (component of operating profit or loss)	65	6	14	–5	0	6	–4	82
Segment profit or loss (operating profit or loss)	**525**	**96**	**107**	**155**	**8**	**104**	**0**	**994**
interest income not classified as revenue	2	–	–	–	–	–	–	2
Interest expense (not a component of operating profit or loss)	–8	–	–	–	–	–	–	–8
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	5	–	0	–40	0	–	–	–35
Net gain/loss on equity-accounted joint ventures	–	–	–	–	–	–	29	29
Net gain/loss on marketable securities and miscellaneous financial assets (not a component of operating profit or loss)	0	–	–	–	–	13	–	13
General and administrative expenses (not a component of operating profit or loss)	–1	0	–	0	–	0	–	–1
Net other operating income/expenses (not a component of operating profit or loss)	–2	0	–	–	–	–	–	–2
Profit before tax	**521**	**96**	**107**	**114**	**8**	**117**	**29**	**992**
Income tax expense	–223	–31	–40	–20	–2	–20	–	–336
Profit after tax	**298**	**65**	**67**	**94**	**7**	**97**	**29**	**656**
Profit after tax attributable to the sole shareholder	298	65	67	94	7	97	29	656
Segment assets	**27,279**	**4,420**	**5,644**	**18,247**	**3,602**	**5,827**	**–**	**65,018**
of which: noncurrent assets	16,611	2,270	2,105	9,808	1,824	1,741	–	34,359
Segment liabilities	**46,077**	**3,768**	**4,774**	**17,904**	**3,573**	**5,304**	**–19,160**	**62,241**

The segment reporting for the corresponding period in the previous year is shown in the following table:

€ million	FISCAL YEAR 2016 RESTATED[1] Germany	Italy	France	United Kingdom	Sweden	Other	Consoli-dation	Total
Revenue from lending transactions with third parties	929	107	54	88	–	115	–	1,294
Intersegment revenue from lending transactions	88	0	0	–	–	0	–88	–
Total segment revenue from lending transactions	1,018	107	54	88	–	115	–88	1,294
Revenue from leasing transactions	–	84	523	–	–	42	–	648
Fee and commission income	170	72	53	–	–	21	–	315
Revenue	**1,187**	**263**	**629**	**88**	**–**	**178**	**–88**	**2,257**
Cost of sales attributable to lending and leasing transactions	–	–60	–200	–	–	–2	–	–262
reversals of impairment losses on lease assets and investment property	–	–	6	–	–	–	–	6
depreciation of and impairment losses on lease assets and investment property	–	–	–186	–	–	–	–	–186
of which impairment losses in accordance with IAS 36	–	–	–15	–	–	–	–	–15
Interest expense (component of operating profit or loss)	–192	–19	–27	–37	–	–20	88	–207
Provision for credit risks from lending and leasing business	29	–23	–51	5	–	2	–	–38
Fee and commission expenses	–214	–46	–66	–	–	–20	–	–345
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	–11	–	–	–	–	–	–	–11
General and administrative expenses (component of operating profit or loss)	–595	–54	–90	–11	–	–79	1	–827
Net other operating income/expenses (component of operating profit or loss)	210	3	39	2	–	7	–1	259
Segment profit or loss (operating profit or loss)	**415**	**64**	**54**	**47**	**–**	**65**	**–**	**645**
interest income not classified as revenue	6	–	–	–	–	–	–	6
Interest expense (not a component of operating profit or loss)	0	–	–	–	–	–	–	0
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	3	0	0	–	–	–	–	3
Net gain/loss on equity-accounted joint ventures	–	–	–	–	–	–	–	–
Net gain/loss on marketable securities and miscellaneous financial assets	11	–	0	–	–	8	–	20
General and administrative expenses (not a component of operating profit or loss)	–1	0	–	0	–	0	–	–1
Net other operating income/expenses (not a component of operating profit or loss)	–3	0	–	–	–	–	–	–3
Profit before tax	**431**	**64**	**53**	**47**	**–**	**74**	**–**	**669**
Income tax expense	–129	–18	–16	–11	–	–12	–	–186
Profit after tax	**302**	**45**	**38**	**36**	**–**	**62**	**–**	**482**
Profit after tax attributable to the sole shareholder	302	45	38	36	–	62	–	482
Segment assets	**24,935**	**3,744**	**5,222**	**2,154**	**–**	**3,571**	**–**	**39,625**
of which: noncurrent assets	15,182	1,915	1,977	99	–	1,178	–	20,350
Segment liabilities	**45,275**	**3,619**	**4,405**	**3,503**	**–**	**3,508**	**–14,199**	**46,111**

1 Previous year restated as explained in the disclosures on the leasing business in the Ireland branch in the section entitled “Restated Prior-Year Figures”.

All business transactions between the segments are conducted on an arm's-length basis.

The consolidation in revenue from lending transactions and interest expenses resulted from the provision of intragroup funding between the reporting units of the Volkswagen Bank GmbH Group.

Information on the main products can be taken directly from the income statement.

The following additions were made to property and equipment, intangible assets, lease assets and investment property: €0 million (previous year: none) in the German segment, €4 million (previous year: €3 million) in the Italian segment, €493 million (previous year: €459 million) in the French segment, €607 million (previous year: none) in the British segment, €796 million (previous year: none) in the Swedish segment and €121 (previous year: €2 million) in the other reporting units. The related depreciation, amortization and impairment losses were as follows: €1 million (previous year: €1 million) in the German segment, €3 million (previous year: €3 million) in the Italian segment, €209 million (previous year: €188 million) in the French segment, €152 million (previous year: none) in the British segment, €51 million (previous year: none) in the Swedish segment and €27 million (previous year: €4 million) in the other reporting units.

Individual line items in the financial statements are aggregated for the purposes of internal reporting. The following table shows the reconciliation of these line items in the financial statements to the segment reporting disclosures.

€ million	Dec. 31, 2017	Dec. 31, 2016
Interest income from lending transactions	1,429	1,336
minus interest income not classified as revenue	2	6
Net income from leasing transactions before provision for credit risks	561	170
minus expenses from insurance business	–1,733	–262
minus depreciation of and impairment losses on lease assets and investment property	–432	–186
minus reversals of impairment losses on lease assets and investment property	1	6
Fee and commission income	291	315
Revenue included in net other operating income/expenses	84	–
Consolidated revenue	**4,526**	**2,257**
Net income from leasing transactions before provision for credit risks	561	170
minus income from leasing transactions	2,726	618
minus depreciation of and impairment losses on lease assets and investment property	–432	–186
Cost of sales included in net other operating income/expenses	–107	–
Consolidated cost of sales attributable to lending and leasing transactions	**–1,840**	**–262**
Loans to and receivables from customers attributable to		
Retail financing	28,032	24,940
Dealer financing	12,430	10,538
Leasing business	18,858	3,014
Other loans and receivables	5,592	7,175
of which not included in segment assets	–5,320	–6,919
Lease assets	5,426	877
Consolidated assets in accordance with segment reporting	**65,018**	**39,625**
Liabilities to banks	8,032	4,930
of which not included in segment liabilities	0	0
Liabilities to customers	41,066	37,938
of which not included in segment liabilities	–2,006	–1,208
Notes, commercial paper issued	13,446	4,311
of which not included in segment liabilities	–17	–16
Subordinated capital	1,721	155
Consolidated liabilities in accordance with segment reporting	**62,241**	**46,111**

Other Disclosures

61. Cash Flow Statement

Volkswagen Bank GmbH Group's cash flow statement documents changes in cash and cash equivalents attributable to cash flows from operating, investing and financing activities. Cash flows from investing activities comprise purchase payments and disposal proceeds relating to investment property and other assets. Cash flows from financing activities reflect all cash flows arising from transactions involving equity, subordinated capital and other financing activities. All other cash flows are classified as cash flows from operating activities in accordance with standard international practice for financial services companies.

The narrow definition of cash and cash equivalents comprises the cash reserve, which consists of cash-in-hand and central bank balances.

The changes in the balance sheet items used to determine the changes in the cash flow statement cannot be derived directly from the balance sheet because effects from the changes in the basis of consolidation have no impact on cash and are eliminated.

The following table shows the breakdown of the changes in subordinated capital (as part of financing activities) into cash and non-cash transactions.

			NON-CASH TRANSACTIONS			
€ million	Balance as of Jan. 1, 2017	Cash changes	Exchange rate changes	Changes in basis of consolidation	Measurement changes	As of December 31, 2017
Subordinated capital	155	–59	51	1,573	–	1,721

62. Off-Balance-Sheet Liabilities

€ million	Dec. 31, 2017	Dec. 31, 2016
Contingent liabilities under bank and other financial guarantees	137	136
Other contingent liabilities	–	–
Total	**137**	**136**

€ million	DUE 2017	DUE 2018 – 2021	DUE From 2022	TOTAL 31.12.2016
Purchase commitments in respect of				
Property and Equipment	–	–	–	–
Intangible Assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
irrevocable credit and leasing commitments to customers	1,465	0	–	1,465
long-term leasing and rental contracts	3	5	5	13
Miscellaneous financial obligations	19	2	–	21

€ million	DUE 2018	DUE 2019 – 2022	DUE From 2023	TOTAL 31.12.2017
Purchase commitments in respect of				
Property and Equipment	–	–	–	–
Intangible Assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
irrevocable credit and leasing commitments to customers	3,072	0	0	3,072
long-term leasing and rental contracts	6	14	36	56
Miscellaneous financial obligations	10	–	–	10

Drawdowns on irrevocable credit commitments are possible at any time.

63. Trust Transactions

As in the previous year, there were no unrecognized trust transactions as of the balance sheet date.

64. Average Number of Employees during the Reporting Period

	2017	2016
Salaried employees	2,414	1,230
of which senior managers	44	24
of which part time	349	69
Vocational trainees	23	15

65. Related Party Disclosures

Related parties within the meaning of IAS 24 are deemed to be individuals or entities who can be influenced by Volkswagen Bank GmbH, who can exercise an influence over Volkswagen Bank GmbH, or who are under the influence of another related party of Volkswagen Bank GmbH.

Volkswagen AG, Wolfsburg, is the sole shareholder of Volkswagen Bank GmbH.

The following disclosures apply to Porsche:

Porsche Automobil Holding SE, Stuttgart, controlled 52.2% of the voting rights in Volkswagen AG as of the reporting date and therefore held a majority. The Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved the creation of rights of appointment for the State of Lower Saxony. As a result of these rights, Porsche SE can no longer appoint a majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore deemed to be a related party within the meaning of IAS 24. According to a notification submitted on January 5, 2016, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights in Volkswagen AG as of December 31, 2016 and therefore indirectly had significant influence over the Volkswagen Bank GmbH Group. In addition, as referred to above, the Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved a resolution under which the State of Lower Saxony could appoint two members of the Supervisory Board (right of appointment).

The sole shareholder, Volkswagen AG, and Volkswagen Bank GmbH have entered into a control and profit-and-loss transfer agreement.

Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities provide the entities in the Volkswagen Bank GmbH Group with funding on an arm's-length basis. Volkswagen AG and its subsidiaries have also furnished collateral in our favor as part of the operating business.

The production and importer companies in the Volkswagen Group provide the entities in the Volkswagen Bank GmbH Group with financial subsidies to support sales promotion campaigns.

All business transactions with unconsolidated subsidiaries and joint ventures and other related parties in Volkswagen AG's group of consolidated entities are processed at arm's length.

The two tables below show the transactions with related parties. In these tables, the exchange rates used in connection with the figures are the closing rate for asset and liability items, and the average rates for the year for income statement items.

€ million	FISCAL YEAR 2017 Supervisory Board/ Audit Committee	Management/ Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities[1]	Non-consolidated subsidiaries	Joint ventures	Associates
Loans and receivables	0	0	1	–	4,227	6	1,477	–
Valuation allowances on loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	4	6	2,556	–	8,356	54	4	–
Interest income	0	0	0	–	109	–	5	–
Interest expense	0	0	0	–	–141	0	–	–
Goods and services provided	–	–	2	–	625	5	30	–
Goods and services received	–	–	–66	–	–5,425	–1	–71	–

1 Following the reorganization in 2017, Volkswagen Financial Services AG, the former sole shareholder of Volkswagen Bank GmbH, is reported in the "Other related parties in the group of consolidated entities" column.

The "Goods and services received" line item primarily contains sales revenue from vehicle sales. The "Goods and services provided" line item consists primarily of income from leasing transactions.

€ million	FISCAL YEAR 2016 Supervisory Board/ Audit Committee	Management/ Board of Management	Volkswagen AG	Porsche SE	Volkswagen Financial Services AG	Other related parties in the consolidated entities	Non-consolidated subsidiaries	Joint ventures	Associates
Loans and receivables	0	0	1	–	615	9,020	1	–	–
Valuation allowances on loans and receivables	–	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–	–
Obligations	3	12	2,627	–	647	1,218	3	–	–
Interest income	0	0	0	–	0	140	1	–	–
Interest expense	0	0	–2	0	–1	–6	0	–	–
Goods and services provided	–	–	0	–	44	293	10	–	–
Goods and services received	–	–	–75	–	–697	–229	0	–	–

In the previous year, the goods and services shown in the "Volkswagen Financial Services AG" column included support payments from Volkswagen Financial Services AG.
The "Other related parties in the group of consolidated entities" column includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG's group of consolidated entities. Service relationships with the Supervisory Board/Audit Committee, and the Management/Board of Management include relationships with the relevant groups of individuals at Volkswagen Bank GmbH, the Group parent company Volkswagen AG and, until August 31, 2017, the former sole shareholder Volkswagen Financial Services AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of lesser significance.

Members of the Management and Supervisory Board/Audit Committee of Volkswagen Bank GmbH are members of supervisory boards of other entities in the Volkswagen Group with which we sometimes conduct transactions in the normal course of business. All transactions with these companies are on an arm's-length basis.

In accordance with a resolution passed by the Annual General Meeting, the members of the Supervisory Board who are not employees of the Volkswagen Group are entitled to annual remuneration. This remuneration is independent of the performance of the Company and the Supervisory Board role undertaken by the person concerned. The members of the Supervisory Board who are employees of the Volkswagen Group receive flat-rate remuneration from Volkswagen Bank GmbH. If they are also members of other supervisory boards of Group companies of Volkswagen AG, remuneration received for these functions is deducted from their entitlement. As a result, a total amount of less than €0.03 million was granted to the members of the Supervisory Board in the reporting period.

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

€ million	2017	2016
Short-term benefits	2	1
Long-term benefits	1	1
Termination benefits	–	–
Post-employment benefits	0	2

In the previous year, the total payments made to the Management were borne by Volkswagen Financial Services AG. As in the previous year, the total payments made to former members of the Management and their surviving dependents amounted to less than €0.5 million in the reporting period. The provisions recognized for this group of people to cover current pensions and other post-employment benefits amounted to €5 million (previous year: €5 million).

66. Governing Bodies of the Volkswagen Bank GmbH Group

The members of the Management are as follows:

DR. MICHAEL REINHART (AS OF SEPTEMBER 1, 2017)
Chairman of the Board
Corporate Management of VW Bank GmbH

ANTHONY BANDMANN (UNTIL AUGUST 31, 2017)
Spokesman of the Management
Sales and Marketing
Customer Service, Retail Customers
Human Resources

HARALD HEßKE
Back Office VW Bank GmbH (as of September 1, 2017)
Finance/Corporate Management (until August 31, 2017)
Back Office/Dealer Recovery/Risk Management (until August 31, 2017)

JENS LEGENBAUER (UNTIL AUGUST 31, 2017)
Europe (excluding Germany)

CHRISTIAN LÖBKE (AS OF SEPTEMBER 1, 2017)
Risk Management VW Bank GmbH

DR. VOLKER STADLER (AS OF SEPTEMBER 1, 2017)
Operations VW Bank GmbH

TORSTEN ZIBELL (UNTIL AUGUST 31, 2017)
Direct Bank
Corporate Development

Until August 30, 2017, the Audit Committee had the following members:

DR. JÖRG BOCHE
Chairman
Executive Vice President of Volkswagen AG
Head of Group Treasury

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

DR. ARNO ANTLITZ
Member of the Board of Management Volkswagen Brand
Controlling and Accounting

GABOR POLONYI
Head of Fleet Customer Management at Volkswagen Leasing GmbH

On August 30.08, 2017, a Supervisory Board was constituted, which had the following members as of the reporting date on December 31, 2017:

DR. JÖRG BOCHE
Chairman
Executive Vice President of Volkswagen AG
Head of Group Treasury

DR. INGRUN-ULLA BARTÖLKE
Deputy Chairwoman
Head of Group Accounting and External Reporting at Volkswagen AG

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

MARKUS BIEBER
Managing director of the General Works Council of Volkswagen AG

BIRGIT DIETZE
Board Member of IG Metall Berlin
Member of the Supervisory Board of Volkswagen AG

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

PROF. DR. SUSANNE HOMÖLLE
Chair of Banking and Finance, University of Rostock

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

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

DR. HANS-JOACHIM NEUMANN
Head of the Back Office of the Volkswagen Bank GmbH

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

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

The following committees of the Supervisory Board of Volkswagen Bank GmbH were set up with effect from September 20, 2017:

MEMBERS OF THE AUDIT COMMITTEE

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

MEMBERS OF THE RISK COMMITTEE

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

MEMBERS OF THE NOMINATION COMMITTEE

Dr. Ingrun-Ulla Bartölke (Chairwoman)
Waldemar Drosdziok (Deputy Chairman)
Lars Henner Santelmann

MEMBERS OF THE REMUNERATION COMMITTEE

Dr. Jörg Boche (Chairman)
Dr. Ingrun-Ulla Bartölke (Deputy Chairwoman)
Waldemar Drosdziok
Lars Henner Santelmann

67. Disclosures Relating to Unconsolidated Structured Entities

A structured entity is designed so that voting rights or similar rights are not the deciding factor in determining control over the entity.

Typical features of a structured entity are as follows:

- limited scope of activities;
- narrowly defined business purpose;
- inadequate equity to finance the business activities;
- financing through a number of instruments that contractually bind investors and that give rise to a concentration of credit risk and other risks.

Volkswagen Bank GmbH maintains business relationships with structured entities. These entities are ABS special purpose entities that securitize assets from lending agreements and leases for vehicle finance as asset-backed securities. Volkswagen Bank GmbH acquired these securities in full or in part or granted subordinated loans to structured entities. Under the principles specified in IFRS 10, these entities are not controlled by Volkswagen Bank GmbH and are therefore not included in the consolidated financial statements.

The purchase of the securities and the granting of subordinated loans give rise to counterparty default risk on the part of the issuer and interest rate risk. The maximum risk exposure of Volkswagen Bank GmbH arising from its interests in unconsolidated structured entities is limited to the fair value of the acquired bonds reported in the balance sheet and the carrying amount of any subordinated loans granted to the entities concerned. The following table contains disclosures on Volkswagen Bank GmbH's assets reported in the balance sheet that are related to unconsolidated structured entities and the maximum risk exposure of the Volkswagen Bank GmbH Group (disregarding collateral). The nominal volume of the securitized assets is also disclosed.

€ million	ABS SPECIAL PURPOSE ENTITIES 2017	2016
Reported in the balance sheet as of December 31		
Marketable securities	417	2,264
Loans to and receivables from customers	1,245	1,144
Maximum loss risk	1,662	3,408
Nominal volume of securitized assets	7,046	14,842

Volkswagen Bank GmbH Group companies did not provide unconsolidated structured entities with any non-contractual support during the reporting period.

68. Letter of Comfort for Our Affiliated Companies

With the exception of political risks, Volkswagen Bank GmbH hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to lenders in the agreed manner. Moreover, Volkswagen Bank GmbH confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders.

69. Events After the Balance Sheet Date

Up to February 21, 2018, there were no significant events that would have required a substantially different presentation of the assets, liabilities, financial position and profit or loss.

Responsibility Statement

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

Braunschweig, February 21, 2018

Volkswagen Bank GmbH
The Management

Dr. Michael Reinhart

Harald Heßke

Christian Löbke

Dr. Volker Stadler

Country-by-Country Reporting of Volkswagen Bank GmbH

The requirements of country-by-country reporting laid down in Article 89 of EU Directive 2013/36/EU (Capital Requirements Directive, CRD IV) have been transposed into German law in section 26a(1) sentence 2 of the KWG – GERMAN BANKING ACT.

In this country-by-country report, required in accordance with section 26a(1) nos. 1 to 6 of the KWG, the Volkswagen Bank Group makes the disclosures listed below as of December 31, 2017:

- Name, nature of activities and geographical location of branch
- Turnover (revenue)
- Number of employees on a full-time equivalent basis
- Profit or loss before tax
- Tax on profit or loss
- Public subsidies received

The report encompasses the disclosures required for all fully consolidated entities included in the IFRS consolidated financial statements. Branches are understood to be the individual subsidiaries and, if appropriate, branches maintained by subsidiaries in individual countries. All figures included in this report were determined on an unconsolidated basis. Revenue has been adjusted for intragroup transactions within the same country.

Revenue is defined as the sum of the following components of the IFRS income statement:

- Interest income from lending transactions less interest expenses
- Income from leasing transactions and service contracts
- Net fee and commission income
- Net gain/loss on the measurement of derivative financial instruments and hedged items
- Net gain/loss on marketable securities and miscellaneous financial assets
- Other operating income

The number of employees is reported as an average on a full-time equivalent basis.

Tax on profit or loss is reported as effective income tax expense. Information on how the figure is determined can be found under income tax expense in the notes to the consolidated financial statements of Volkswagen Bank GmbH as of December 31, 2017.

Public subsidies received are defined as direct EU subsidies.

Country	Revenue (€ million)	Employees	Profit or loss before tax (€ million)	Tax on profit or loss (€ million)	Public subsidies received (€ million)
EU countries					
Germany	1,061	471	443	–140	–
France	659	367	128	–4	–
Greece	12	44	6	–1	–
United Kingdom	776	1,007	151	–12	–
Ireland	62	72	41	–4	–
Italy	260	220	111	–31	–
Luxembourg	–	–	–	–	–
The Netherlands	37	2	12	–2	–
Poland	61	238	31	–3	–
Portugal	20	33	7	–1	–
Sweden	1,179	182	9	4	–
Spain	11	20	12	2	–
Czech Republic	136	222	18	0	–

Name of company	Nature of activity	Location of registered office	Country
EU countries			
Volkswagen Bank GmbH	Bank	Braunschweig	Germany
Driver Ten GmbH i.L.	Special purpose entity	Frankfurt am Main	Germany
Driver Eleven GmbH i.L.	Special purpose entity	Frankfurt am Main	Germany
Driver Twelve GmbH	Special purpose entity	Frankfurt am Main	Germany
Driver thirteen UG (haftungsbeschränkt)	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2012-3 GmbH i.L.	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2013-1 UG (haftungsbeschränkt) i.L.	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2013-2 UG (haftungsbeschränkt) i.L.	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2014-1 UG (haftungsbeschränkt) i.L.	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2014-2 UG (haftungsbeschränkt) i.L.	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2014-3 UG (haftungsbeschränkt) i.L.	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2014-4 UG (haftungsbeschränkt)	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2015-1 UG (haftungsbeschränkt)	Special purpose entity	Frankfurt am Main	Germany
Volkswagen Bank GmbH, France Branch	Bank	Roissy en France	France
Driver France FCT	Special purpose entity	Pantin	France
Volkswagen Bank GmbH, Greece Branch	Bank	Glyfada, Athens	Greece
Volkswagen Bank GmbH, United Kingdom Branch	Bank	Milton Keynes	United Kingdom
Volkswagen Financial Services (UK) Ltd.	Financial institution	Milton Keynes	United Kingdom
Volkswagen Bank GmbH, Ireland Branch	Bank	Dublin	Ireland
Volkswagen Bank GmbH, Italy Branch	Bank	Milan	Italy
Volkswagen Bank GmbH, Italy Branch	Bank	Verona	Italy
Volkswagen Bank GmbH, Italy Branch	Bank	Bolzano	Italy
Autofinance S.A., Luxemburg	Special purpose entity	Luxembourg	Luxembourg
Driver Master S.A.	Special purpose entity	Luxembourg	Luxembourg
Driver UK Master S.A.	Special purpose entity	Luxembourg	Luxembourg
Driver UK Multi-Compartment S.A.	Special purpose entity	Luxembourg	Luxembourg

Volkswagen Bank GmbH, Netherlands Branch	Bank	Amersfoort	The Netherlands
Volkswagen Bank Polska S.A.	Bank	Warsaw	Poland
Volkswagen Bank GmbH, Portugal Branch	Bank	Amadora	Portugal
Volkswagen Finans Sverige AB	Bank	Södertälje	Sweden
Volkswagen Bank GmbH, Spain Branch	Bank	Alcobendas, Madrid	Spain
ŠkoFIN s.r.o.	Financial institution	Prague	Czech Republic

Independent Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of Volkswagen Bank GmbH, Braunschweig, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Volkswagen Bank GmbH, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of the statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] (statements on female quota) in accordance with the German legal requirements.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not extend to the content of the statement referred to above or of the statement on corporate governance.

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

BASIS FOR THE AUDIT OPINIONS

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

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

❶ Acquisition of several long-term equity interests in the course of the purchase and transactions covered by transformation law

❷ Provisions for legal risks

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

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ **Acquisition of several long-term equity interests in the course of the purchase and transactions covered by transformation law**

① In financial year 2016, Volkswagen Financial Services AG resolved to comprehensively restructure its subgroup under project "Panda". This restructuring project was implemented in 2017. Part of the project involved consolidating the European banking business of Volkswagen Bank GmbH. To that end, various wholly owned subsidiaries of Volkswagen Financial Services AG (the transferring legal entity) which conduct European lending business alongside Volkswagen Bank GmbH were spun off to Volkswagen Bank GmbH (the acquiring legal entity).
In addition, as of July 1, 2017 the Company acquired from Volkswagen Financial Services AG majority interests in two joint ventures and in Volkswagen Financial Services Digital Solutions GmbH, Braunschweig, which was formed by virtue of "economic re-establishment".
The relevant companies were thus included in Volkswagen Bank GmbH's consolidated financial statements for the first time as at July 1 and September 1, 2017. Given that the restructuring related to mergers subject to joint control, the assets and liabilities of the companies to be consolidated in the consolidated financial statements were measured at the carrying amounts recognized in the consolidated financial statements of the ultimate parent. In view of the material total impact of the restructuring on the net assets, financial position and results of operations of the Group and in light of the complexity of measure-

ment of acquisitions and the accounting treatment of transactions under transformation law, this matter was of particular significance for our audit.

② For the purposes of our audit and in order to ensure the proper accounting treatment of the spin-off from Volkswagen Financial Services AG and subsequent inclusion of the companies by Volkswagen Bank GmbH, inter alia, we examined the company and stock corporation law basis for the spin-off and assessed the relevant contractual arrangements and spin-off documents, in particular the spin-off report and the spin-off agreement. We have evaluated the relevant purchase agreements for the companies acquired. We then also assessed whether the figures reported in the consolidated balance sheet, consolidated statement of comprehensive income, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity were recognized in accordance with the relevant standards and the generally accepted accounting principles and interpretations. With respect to the measurement of the companies included in the basis of consolidation as at September 1, 2017, we have verified the calculation of the carrying amounts in the consolidated financial statements and in this connection assessed the correct derivation of the figures from the bookkeeping records of the ultimate parent. By means of these and other audit procedures, we were able to satisfy ourselves overall that the accounting treatment of the restructuring was sufficiently documented and comprehensible on the basis of the available information.

③ The Company's disclosures relating to the transactions are contained in note 2 of the notes to the financial statements and sections “Report on the subsidiaries and branches”, “Overall Assessment of Business Performance” and “Shareholder Risk” of the combined management report.

❷ Provisions for legal risks

① Volkswagen Bank GmbH is exposed to various legal risks; during the financial year, these related in particular to legal disputes in connection with dealer financing agreements, claims in connection with the brokerage of customer financing and proceedings in relation to the structuring of customer lending agreements, which can have a negative impact on statutory rescission periods, impeding certain processes. At the balance sheet date, Volkswagen Bank GmbH had recognized EUR 381 million in litigation and legal risk provisions. The determination of whether or not a provision should be recognized to cover the risks to which Volkswagen Bank GmbH is exposed, and if so, in what amount, is subject to a high degree of uncertainty. In light of this background, we consider these matters to be of particular importance for our audit.

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

③ The Company's disclosures on provisions are contained in note 44 of the notes to the financial statements and section “Business Performance 2017” of the combined management report.

OTHER INFORMATION

The executive directors are responsible for the other information. Other information includes the statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] (statements on female quota) obtained by us prior to the date of this auditor's report.

The annual report is expected to be made available to us after the date of this auditor's report.

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

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

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on March 6, 2017. We were engaged by the supervisory board on June 9, 2017. We have been the group auditor of Volkswagen Bank GmbH, Braunschweig, without interruption since financial year 1949.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Hannover, February 23, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes	ppa. Jan Alexander Fischer
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

of Volkswagen Bank GmbH

On August 30, 2017, a Supervisory Board was constituted for the Company. Up to that date, there was an Audit Committee in accordance with the provisions of section 324 of the HGB, which concerned itself in particular with the tasks described in section 107(3) sentence 2 of the Aktiengesetz (AktG – German Stock Corporation Act).

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

The Supervisory Board has twelve members. It held two regular meetings in the reporting period; there were no extraordinary meetings. The average attendance rate of the members of the Supervisory Board was 96%. One Supervisory Board member attended only one meeting; all other Supervisory Board members attended both meetings. There were no written resolutions in the reporting period.

COMMITTEE ACTIVITIES

Audit Committee in accordance with section 324 of the HGB

Volkswagen Bank GmbH is a capital market-oriented limited liability company within the meaning of section 264d of the HGB. Until August 30, 2017, the Company had an Audit Committee, established in accordance with the provisions of section 324 of the HGB, which concerned itself in particular with the tasks described in section 107(3) sentence 2 of the Aktiengesetz (AktG – German Stock Corporation Act). The Audit Committee had four members.

The Audit Committee held one regular meeting in the reporting period. There were no extraordinary meetings. During the reporting period, there were no urgent transactions that would have required a decision by circulation of written resolutions for approval. All members of the Audit Committee were present at the meeting.

At the meeting held on the March 1, 2017, the Audit Committee reviewed the annual financial statements and the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH for the year ended December 31, 2016 together with the proposal for the appropriation of profit. As part of this review, the Audit Committee discussed with the external auditors the reports on the audit of the annual financial statements, the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH as well as material transactions and issues related to financial reporting. It also received reports on risk management, the business and risk strategy and the planned separation of the European lending business from Volkswagen Financial Services AG as well as on internal and external audit procedures and the resulting findings. The Committee also gathered details to establish the extent to which there were relationships of a professional, financial or other nature between the external auditors and the Company and/or its governing bodies with a view to assessing the independence of the external auditors. In this regard, the Audit Committee obtained information on the services that the external auditors had provided for the Company in addition to the auditing activities and on whether there were any grounds for disqualification or partiality. Following a detailed evaluation of the independence of the external auditors, the Audit Committee submitted a recommendation to the sole shareholder regarding the election of the external auditors and drew up the resolution covering the issue of the audit engagement in preparation for the Annual General Meeting.

Committees in accordance with section 25d of the Kreditwesengesetz (KWG – German Banking Act)/Credit Committee

In order to perform its duties, at its meeting held on September 20, 2017, the Supervisory Board set up a Risk Committee, an Audit Committee, a Nomination Committee, a Remuneration Committee and a Credit Committee.

At its meeting held on November 27, 2017, the Risk Committee concerned itself closely with the Company's overall risk appetite and strategy, the current risk position and the effects of the separation of Volkswagen Bank GmbH and Volkswagen Financial Services AG. In addition, the Committee received information on the regulatory audits and discussions with the regulatory authorities. The Risk Committee has four members. It held one meeting in the reporting period.

At its meeting held on November 27, 2017, the Audit Committee concerned itself closely with the internal and external audit procedures and the resulting findings. In addition, it received detailed reports from the compliance officers. The committee dealt with the annual review of the guidelines for audit-related services and resolved to amend the guidelines. Moreover, it discussed and resolved the procedure for selecting external auditors. The committee discussed with the external auditors the audit planning, key audit matters and the obligations of the external auditors to provide information. The Audit Committee has four members. It held one meeting in the reporting period.

The Remuneration Committee met on October 25, 2017 and discussed the remuneration at the reorganized Volkswagen Bank GmbH, taking into account the requirements of the Institutsvergütungsverordnung (InstitutsVergV – German Remuneration Regulation for Institutions). The remuneration officer also submitted the remuneration report and reported on the implementation of the InstitutsVergV. The committee has four members. It held one meeting in the reporting period.

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

No other committee meetings were held in the reporting period.

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

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At our constituent meeting held on September 20, 2017, we initially dealt with governing body and personnel matters. We elected Dr. Jörg Boche Chairman, Dr. Ingrun-Ulla Bartölke Deputy Chairwoman and Waldemar Drosdziok Second Deputy Chairman of the Supervisory Board. In addition, we adopted new rules of procedure for the Supervisory Board and updated the rules of procedure for the Management. We set up committees in accordance with section 25d of the KWG, issued rules of procedure for each of these committees, and also constituted the Credit Committee. Finally, we resolved the process for issuing powers of attorney ("Prokura") of Volkswagen Bank GmbH and appointed the remuneration officer.

Both at this meeting and at the meeting held on November 27, 2017, the Management provided us with comprehensive reports on the economic and financial position of the Company.

At our meeting held on November 17, 2017, we concerned ourselves with the current situation of the Company against the backdrop of the ongoing reallocation of the European business to the Volkswagen Bank Group and the Volkswagen Financial Services Group. In this context, we approved the reorganization of the financial services companies in Spain and other measures relating to the allocation of portfolios in Portugal, the Netherlands, Italy and France. We also received detailed reports on the control of outsourcing arrangements. The chairpersons of the committees reported on the proceedings of the meetings of the Remuneration Committee, Audit Committee and Risk Committee. We adopted rules of procedure for the Credit Committee.

Moreover, we received a report from the remuneration officer on the implementation of the InstitutsVergV and on remuneration in the reorganized Volkswagen Bank GmbH. In accordance with the provisions of the InstitutsVergV, we followed the recommendations of the Remuneration Committee and defined remuneration parameters.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, was appointed to audit both the consolidated financial statements of the Volkswagen Bank GmbH Group in accordance with IFRS and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2017, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Bank GmbH Group in accordance with IFRS and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2017, together with the management reports, were submitted to the Supervisory Board. The auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, audited these financial statements, including the bookkeeping system and the management reports, and issued an unqualified auditor's opinion in each case.

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

At its meeting on March 2, 2018, the Supervisory Board approved both the consolidated financial statements and annual financial statements of Volkswagen Bank GmbH prepared by the Management. The consolidated financial statements and annual financial statements have thus been adopted.

In accordance with the existing control and profit-and-loss transfer agreement, the profits reported in the financial statements of Volkswagen Bank GmbH for the year ended December 31, 2017 have been transferred to Volkswagen AG.

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

Braunschweig, March 2, 2018

Dr. Jörg Boche
Chairman of the Supervisory Board

NOTE ON FORWARD-LOOKING STATEMENTS

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

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

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