VOLKSWAGEN BANK

GMBH

ANNUAL REPORT
IFRS

2019

Volkswagen Bank GmbH Group

Key Figures (IFRS)

in € million (as of December 31)	2019	2018
Total assets	68,445	83,042
Loans and receivables attributable to		
Retail financing	35,307	29,882
Dealer financing	13,588	12,162
Leasing business	2,752	18,829
Customer deposits[1]	31,733	29,349
Equity	10,027	11,639
Operating result	757	489
Profit before tax	785	515
Income tax expense	-226	-185
Profit after tax	560	330

in % (as of December 31)	2019	2018
Equity ratio	14.6	14.0
Common Equity Tier 1 capital ratio[2]	15.6	15.5
Tier 1 capital ratio[2]	15.6	15.5
Total capital ratio[2]	15.6	15.5

Number (as of December 31)	2019	2018
Employees[3]	1,954	3,454

RATING (AS OF DECEMBER31)		STANDARD & POOR´S			MOODY´S INVESTORS SERVICE		
		Short-Term	Long-Term	Outlook	Short-Term	Long-Term	Outlook
Volkswagen Bank GmbH		A–2	A–	negative	P–1	A1	stable

1 Since January 1, 2019, the volume of deposits has been calculated without cash deposits from Group companies; prior-year figure restated (previous year: €32,389 million).
2 Regulatory ratios in accordance with Article 92(1) of the CRR.
3 The changes in the number of employees arose from restructuring activities in the Volkswagen Bank GmbH Group.

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Fundamental Information about the Group

Continuous international growth confirms 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 Ireland and Portugal, the Volkswagen Bank GmbH Group operates the finance lease business. The branch in France is 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 VOLKSWAGEN BANK GMBH

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 the Bank to defend its position as a leading employer of choice.

Corporate Management is responsible for the Corporate Strategy & Market, Direct Bank Sales, Human Resources & Organization, Internal Audit, International Business and Legal & Compliance functions. Responsibility for Corporate Management rests with Dr. Michael Reinhart, Chairman of the Management Board of Volkswagen Bank GmbH.

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

Risk Management, which is the responsibility of Christian Löbke, encompasses the functions Financial & Nonfinancial Risks, Credit & Residual Value Risk Management, Big Data & Analytics, Back Office, Strategic Risk Management and Special Customer Care.

Responsibility for Operations, which encompasses IT Governance & Management, Direct Bank Customer Service,

Direct Bank Process Management and Corporate Customer Process Management, rests with Dr. Volker Stadler.

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).

REPORT ON THE SUBSIDIARIES AND BRANCHES

The Volkswagen Bank GmbH Group has a presence in numerous countries within the European market. Each of the Volkswagen Bank GmbH's international branches in France, Greece, the United Kingdom, Ireland, Italy, the Netherlands, Portugal, Poland and Spain serviced the business in the country concerned.

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 and Wolfsburg, 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 the operating result. 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, dealership financing (incl. factoring), leasing business and direct banking
Volume of deposits	Loans to and receivables from customers arising from retail financing, dealership financing (incl. factoring), leasing business and direct banking
Operating result	Interest income from lending transactions and marketable securities, net income from leasing transaction, interest expenses, net income from service contracts, net income from insurance business, provision for credit risks and net fee and commission income, net gain or loss on hedges, net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income, general and administrative expenses and net other operating income/expense
Return on equity	Return on equity before tax is calculated by dividing profit before tax by average equity
Cost/income ratio	Personnel expenses, material overheads and accounting depreciation and amortization minus income from services rendered / financial income and sales revenue net of risk costs, fee and commission payments, funding costs and other direct costs[1]

1 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

Effective January 10, 2019, DFM Payment Services B.V., Amersfoort, Netherlands, was established as a wholly owned subsidiary of DFM N.V., Amersfoort, Netherlands, a joint venture between Volkswagen Bank GmbH and Pon Holdings B.V. (60%/40%). This company has been established to provide payment services for DFM N.V., Amersfoort, Netherlands, and its customers.

The process that was initiated in 2016 to reorganize the legal entities of Volkswagen Financial Services with the aim of bringing the European lending and deposits business together consistently under Volkswagen Bank GmbH was continued.

Volkswagen Financial Services S.p.A., Milan, Italy, commenced operations on March 4, 2019.

On March 29, 2019, Volkswagen Bank GmbH transferred its equity investments in the following entities to Volkswagen Financial Services AG:

- Volkswagen Financial Services S.p.A., Milan, Italy
- Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom, incl. its subsidiaries MAN Financial Services plc. and Volkswagen Insurance Service (Great Britain) Ltd.
- Volkswagen Financial Ltd., Milton Keynes, United Kingdom
- ŠkoFIN s.r.o., Prague, Czech Republic
- Volkswagen Serwis Ubezpieczenia Sp.zo.o, Warsaw, Poland.

In addition, Volkswagen Finance S.A. E.F.C, Alcobendas (Madrid), Spain, was merged into Volkswagen Bank GmbH as of May 31, 2019. Since May 31, 2019, the business of Volkswagen Finance S.A. E.F.C has therefore been operated from the Spanish branch office of Volkswagen Bank GmbH.

On July 31, 2019, Volkswagen Bank GmbH transferred the equity investment in Volkswagen Finans Sverige AB, Södertälje, Sweden, including its wholly owned subsidiary Volkswagen Service Sverige AB, Södertälje, Sweden, to Volkswagen Financial Services AG by way of an asset transfer.

In December 2019, Volkswagen Bank GmbH, Braunschweig, acquired 20% of the shares in Credi2 GmbH, Vienna, Austria. The company develops software applications for processing lending products and digital procedures enabling customers to submit product applications/requests online. This equity investment in Credi2 continues Volkswagen Bank GmbH's growth strategy and accelerates the digitalization of the business model.

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 2019, which will be available on the website https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2019/Nichtfinanzieller_Bericht_2019_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2019/Nonfinancial_Report_2019_e.pdf in English from April 30, 2020.

Report on Economic Position

Global economic growth remained robust in 2019, albeit with weakening momentum. Worldwide demand for vehicles fell below the prior-year level. Profit before tax generated by the Volkswagen Bank GmbH Group is up on the prior year's level.

DEVELOPMENTS IN THE GLOBAL ECONOMY

The global economy sustained its robust growth in 2019 with a decrease in momentum: global gross domestic product (GDP) rose by 2.6 (3.2)%. Economic momentum weakened compared with the previous year, both in advanced economies and emerging markets. With interest rates remaining comparatively low and prices for energy and other commodities falling year-on-year on the whole, consumer prices also declined worldwide. Growing upheaval in trade policy at international level and continuing geopolitical tensions led to much greater economic uncertainty and resulted in a wane in the international trade of goods.

Europe

GDP growth in Western Europe slowed to 1.2 (1.8)% as the year went on. The rate of change in nearly all countries in northern and southern Europe declined compared with the previous year. The uncertain outcome of the Brexit negotiations between the United Kingdom and the European Union (EU) continued to generate uncertainty, as did the related 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 7.5 (8.1)%, though rates remained considerably higher – albeit declining – in Greece and Spain.

At 2.3 (3.3)%, the Central and Eastern Europe region also recorded a slower growth rate in the reporting period than in the previous year. In Central Europe, GDP growth tapered off at a relatively high level. Economic growth in Eastern Europe was also weaker. Lower prices for energy and other commodities led to a deterioration in the economic situation of the individual countries from this region that export raw materials. At 1.1 (2.2)%, the growth of the Russian economy, the region's largest economy, halved compared with the previous year.

Germany

Germany's GDP continued to grow in 2019 on the back of the strong labor market, though momentum diminished markedly year-on-year to 0.5 (1.5)%. Both business and consumer sentiment darkened further as the year progressed.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services were once again in high demand in 2019, despite a contraction in the overall market. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas. Service products such as maintenance and servicing agreements and insurance were especially popular, as customers in more advanced automotive financial services markets are putting greater focus on reducing total cost of ownership. In the fleet segment, more customers made use of support from 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.

The European market saw a slight increase in demand for new vehicles overall in 2019. As a consequence, the recognition of new leases and financing agreements also increased marginally.

In France and Spain, the proportion of new vehicles that were financed or leased remained steady, but the volume of vehicles in this category rose sharply in Italy. Used vehicle sales in Europe went up slightly, although new leases and financing agreements for used vehicles contracted a little. Demand for after-sales products such as inspection, maintenance and spare parts agreements went up in the year under review. Automotive-related insurance also saw a small increase.

In Germany, the number of new vehicles that were leased or financed by loans continued to rise in the reporting period. After-sales products and integrated mobility solutions in

the business customer segment were also the subject of greater demand.

In Europe, financial services in the commercial-vehicles segment including after-sales registered a slight increase compared to 2018.

TRENDS IN THE PASSENGER CAR AND LIGHT COMMERCIAL VEHICLES MARKETS

In fiscal year 2019, the global market volume of passenger cars fell below the prior-year level for the second year in a row, decreasing to 79.6 million vehicles (–4.0%). While new registrations in Western Europe and in Central and Eastern Europe exceeded the prior-year figure, the overall markets in the Middle East, North America, South America and especially Asia-Pacific recorded a dip in demand.

Global demand for light commercial vehicles in the reporting period was down moderately on the previous year.

Sector-Specific Environment

The sector-specific environment was influenced significantly by fiscal policy measures, which contributed considerably to the mixed trends in sales volumes in the markets last year. These measures included 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, the number of new passenger car registrations was up 0.6% on the prior-year figure at a total of 14.4 million vehicles. New vehicle registrations were mixed in the largest single markets. France (+1.6%) slightly exceeded the previous year's figure. While Italy stagnated (+0.3%), Spain recorded a moderate (–4.7%) decline. The UK passenger car market saw a weaker continuation of the negative trend from the previous years (–2.4%). This was due, among other things, to the uncertain outcome of the Brexit negotiations with the EU. The share of diesel vehicles (passenger cars) in Western Europe slipped to 32.0 (36.4)% in the reporting year.

Despite the uncertain outcome of the Brexit negotiations between the EU and UK, new light commercial vehicle registrations in Western Europe in the reporting period slightly exceeded the prior-year level. WLTP-related pull-forward effects provided a degree of stimulus.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2019 rose slightly by 2.7% year-on-year to 3.6 million vehicles. New passenger car registrations in the EU member states of Central Europe increased further by 5.8% to 1.5 million units. In Eastern Europe, passenger car sales matched the level of the previous year (+0.2%). Following a solid start in spite of the value-added tax increase as of January 1, 2019, the Russian passenger car market weakened as the year went on and was down the prior-year figure at the end of the reporting period (–2.2%).

Registration volumes of light commercial vehicles in Central and Eastern Europe were at the same level as the previous year, while the number of vehicles sold in Russia in the reporting period was distinctly lower than in the prior year.

Germany

New passenger car registrations in Germany in the reporting period exceeded the previous year's high level, rising to 3.6 million units (+5.0%). In addition to the strong labor market and the rise in commercial demand, sales incentives, particularly in the form of an environmental bonus, underpinned the positive trend.

However, domestic production and exports once again fell short of the comparable prior-year figures in 2019: passenger car production decreased by 9.0% to 4.7 million vehicles, mainly due to the 12.8% drop in passenger car exports to 3.5 million units. This was primarily a result of the slowdown in global market growth and markedly lower exports of passenger cars fitted with diesel engines.

Demand for light commercial vehicles in Germany in the reporting period was perceptibly higher than in 2018.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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 2019 than in the previous year, with 609 thousand new vehicle registrations (+2.8%).

In Western Europe, the number of new truck registrations was up 3.1% on the prior-year figure at a total of 306 thousand vehicles. In Germany, Western Europe's largest market, the previous year's level was exceeded moderately. While demand in the United Kingdom rose markedly due to pull-forward effects caused by the uncertain outcome of the Brexit negotiations with the EU, demand in Italy decreased perceptibly.

The Central and Eastern Europe region saw demand recede by 6.7% to 159 thousand units owing to the deterioration in the economic performance. The Russian market contracted further as the year progressed, recording a distinct year-on-year decrease. New registrations there were down 6.9% to 73 thousand vehicles.

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management Board of Volkswagen Bank GmbH considers the course of business in the year 2019 to have been satisfactory overall. As expected, the operating result was higher than the prior-year figure. The total number of contracts in the Volkswagen Bank GmbH Group amounted to 3.9 million as of the reporting date. The number of new contracts acquired in the year under review was 1.7 million.

The associated volume of customer loans and receivables and lease assets declined in fiscal year 2019 compared with the previous year as a result of the transfer of three entities belonging to Volkswagen Bank GmbH to Volkswagen Financial Services AG.

The existing sales promotion programs with the brands and continuous expansion of the fleet business led to further growth in the volume of loans and receivables in the retail and corporate portfolio in the reporting period, especially in Germany, Spain and the United Kingdom. Measures previously put in place, such as intensifying the remarketing processes, were also sustained in fiscal year 2019.

The efficiency program referred to as Operational Excellence (OPEX), which was launched in fiscal year 2017, is currently running successfully and is being continued.

OPEX is focused on achieving further cost savings by 2025 in addition to the requirements under current planning.

The main components are action plans to enhance productivity (among other things by streamlining processes), the optimization of selling costs and the harmonization of IT systems through the global introduction of standardized systems.

CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2019 COMPARED WITH PRIOR-YEAR FORECASTS

The penetration rate, new contracts and current contracts were lower than the forecasts because of the transfer of portfolios and entities to Volkswagen Financial Services AG in 2019 as part of the restructuring of the Group. The continuation of the highly successful partnerships with the brands and steady growth in the markets were insufficient to compensate for the transfers.

The volume of business in 2019 reflects these changes.

The volume of deposits, on the other hand, saw a moderate increase.

The operating result for fiscal year 2019 was predicted to be moderately below the level of 2018. This forecast was confirmed, taking into account the operating results from operations discontinued in 2019. In the circumstances described above, return on equity and the cost/income ratio were more or less as anticipated.

	Actual 2018	Forecast 2019	Actual 2019
Nonfinancial performance indicators			
Penetration (percent)	30.8	moderately below the level achieved in 2018	23.0 [2]
Current contracts (thousands)[1]	6,393	moderately below the level achieved in 2018	3,932
New contracts (thousands)[1,2]	2,680	moderately below the level achieved in 2018	1,748 [2]
Financial performance indicators			
Volume of business (€ million)[3]	61,160	at the level of 2018	51,957
Volume of deposits (€ million)[4]	29,349	at the level of 2018	31,733
Operating result (€ million)[5]	952	moderately below the level achieved in 2018	757
Return on equity (percent)	8.4	moderately below the level achieved in 2018	7.2
Cost/income ratio (percent)	46.0	at the level of 2018	49.2

1 A new counting method for determining contract numbers was introduced on January 1, 2018.
2 New contracts including additions from SkoFIN, s.r.o. and Financial Services (UK) Ltd. January to March, and from Svenska Finans AB/Service Sverige January to July.
3 Prior-year figure restated.
4 Since January 1, 2019, the volume of deposits has been calculated without cash deposits from Group companies; prior-year figure restated (previous year: €32,389 million)..
5 Actual value for 2019, excluding operating result of discontinued operations (FS UK and Svenska Finans AB: €143 million).

FINANCIAL PERFORMANCE

The earnings performance of the Volkswagen Bank GmbH Group in fiscal year 2019 was much better than in fiscal year 2018.

At €757.1 million, the operating result was well above the level of the previous year (€489.4 million). Profit before tax increased by €270.4 million year-on-year to €785.4 million. The share accounted for by the international branches and companies was €524.9 million or 67%.

Interest income from lending and securities transactions rose by €84.2 million to €1,450.7 million (previous year: €1,366.5 million). Net income from leasing business went up by 3.4% to €270.9 million (previous year: €261.9 million).

The interest expenses of Volkswagen Bank GmbH increased from €132.8 million to €161.5 million.

Net income from service contracts is generated exclusively in the branches and companies that also conduct leasing business. In this case, the net income rose by €3.1 million to €21.9 million (previous year: €18.8 million).

The required provision for credit risks of €410.8 million was lower than the equivalent expense in the previous year (€548.7 million). Income from the reversal of valuation allowances no longer required and income from loans and receivables previously written off totaled €281.8 million, significantly less than in the prior year (€484.6 million). This resulted in a net addition of provisions for credit risks in an amount of €129.1 million (previous year: net addition of €64.1 million).

Net fee and commission income was in negative territory in 2019, with a net expense of €0.7 million (previous year: net expense of €106.4 million). The lower net expense year-on-year was mainly attributable to lower fee and commission expenses at Volkswagen Bank Germany and at the France branch.

The net gain or loss on hedges amounted to a net loss of €28.5 million (previous year: net loss of €15.6 million), whereas the net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income came to a net gain of €2.0 million (previous year: net gain of €12.1 million). Both figures were largely determined by activities at Volkswagen Bank GmbH, Germany.

General and administrative expenses were up on the prior-year level to €793.9 million (previous year: €736.4 million). The main reason for this was the increase of €55.3 million in administrative expenses, although personnel expenses rose by €2.2 million to €215.3 million.

Other operating income amounted to €173.9 million (previous year: €137.4 million). This also includes income from the reversal of provisions in an amount of €63.4 million (previous year: €67.1 million) and the reimbursement of costs from Group companies in an amount of €41.6 million (previous year: €33.3 million). Other operating expenses amounted to €48.7 million (previous year: €252.0 million). This figure included expenses for legal and litigation risks amounting to €1.5 million (previous year: €197.8 million). Including the other components of financial gains or losses, the Volkswagen Bank GmbH Group generated profit after tax of €559.7 million (previous year: €330.0 million).

The profit of Volkswagen Bank GmbH determined in accordance with the HGB (after deduction of taxes) amounting to €364.7 million (previous year: €204.5 million) will be transferred to the parent company, Volkswagen 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 vehicle-related loans granted to retail customers, business customers and dealers. The volume of these loans and receivables went down by €9.2 billion to €51.6 billion. The share of customer lending volume accounted for by European countries other than Germany fell by €11.1 billion to €20.5 billion.

Retail financing

In the Volkswagen Bank GmbH Group, the total number of current customer financing contracts rose to 2.9 million (previous year: 2.5 million). 967 thousand new contracts were entered into in fiscal year 2019 (previous year: 998 thousand). As of December 31, 2019, the volume of loans and receivables in retail financing amounted to €35.3 billion (previous year: €29.8 billion). Of this total, €10.6 billion (previous year: €6.1 billion) was accounted for by European countries other than Germany.

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 10.5% or €1.4 billion to €13.6 billion.

The volume of loans and receivables related to the international branches and international subsidiaries came to €7.2 billion (previous year: €6.7 billion) at the end of 2019.

Leasing business

Receivables from leasing transactions amounted to €2.8 billion, down compared with the prior-year figure of €18.8 billion. This decline in receivables arose because of the transfer of three entities from Volkswagen Bank GmbH to Volkswagen Financial Services AG. Leasing business is offered exclusively in European countries other than Germany.

Marketable securities

The Volkswagen Bank GmbH Group's portfolio mainly consists of fixed-income securities from public-sector issuers amounting to €2.9 billion (previous year: €3.3 billion).

Noncurrent assets held for sale

The noncurrent assets held for sale are the assets that will be transferred as part of the intended transfer of the Irish branch, Dublin, Ireland, to the Volkswagen Financial Services AG Group within the one-year period.

Equity-accounted investments

The investments in DFM N.V., Amersfoort, Netherlands, Volkswagen Finančné služby Slovensko, s.r.o., Bratislava, Slovakia, and Volkswagen Financial Services Digital Solu-

tions GmbH continue to be reported as equity-accounted investments.

Long-term financial assets
As of December 31, 2019, Volkswagen Bank GmbH held 1% of the equity in OOO Volkswagen Bank RUS, Moscow. This holding remained unchanged year-on-year. In December 2019, Volkswagen Bank GmbH, Braunschweig, acquired 20% of the shares in Credi2 GmbH, Vienna, Austria.

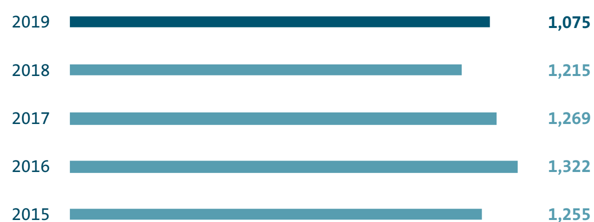
CURRENT CONTRACTS AND NEW CONTRACTS

in thousands[1,2]	Volkswagen Bank Group	of which: Germany	of which: Italy	of which: France	of which: Spain	of which: other branches/ subsidiaries
Current contracts[3]	3,932	1,768	536	800	468	359
Automotive retail financing	2,795	1,644	387	132	461	171
Consumer retail financing	106	95	-	-	7	4
Leasing business	331	-	-	242	1	89
Service/insurance	699	28	149	426	-	95
New contracts[3,4]	1,748	522	185	372	83	586
Automotive retail financing	937	492	147	72	83	142
Consumer retail financing	30	29	-	-	-	1
Leasing business	289	-	3	101	-	184
Service/insurance	492	1	35	198	-	258
€ million						
Loans to and receivables from customers attributable to						
Retail financing	35,307	24,678	4,119	912	4,579	1,020
Direct banking	310	97	-		1	212
Dealer financing	13,588	6,413	890	1,737	1,014	3,534
Leasing business	2,752	-	-	2,626	5	121
Assets leased out	1,657	1	-	1,656	-	-
Percent						
Penetration rates[4,5]	23.0	12.6	40.3	43.5	39.7	22.5

1 All figures shown are rounded; so minor discrepancies may arise from addition of these amounts.
2 A new counting method for determining contract numbers was introduced on January 1, 2018.
3 Current contracts and new contracts in each case in relation to the markets shown for the Volkswagen Bank GmbH Group.
4 New contracts including additions from SkoFIN, s.r.o. and Volkswagen Financial Services (UK) Ltd. January to March, and from Svenska Finans AB/Service Sverige January to July.
5 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.

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)



CUSTOMER DEPOSITS AS OF DECEMBER 31
in € million

Since January 1, 2019, the volume of deposits has been calculated without cash deposits from Group companies; prior-year figure restated (previous year: €32,389 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 decreased by 3.4% to €38.2 billion (previous year: €39.6 billion), notes and commercial paper issued in the amount of €9.6 billion (previous year: €16.9 billion) and liabilities to banks in the amount of €7.5 billion (previous year: €8.9 billion).

DEPOSIT BUSINESS

Deposit business in the Volkswagen Bank GmbH Group expanded slightly compared with the prior year. As of the reporting date, the volume of customer deposits amounted to €31.7 billion, which equates to a year-on-year increase of 8.1% (previous year: €29.3 billion). Since January 1, 2019, customer deposits have been calculated without cash deposits from Group companies; the prior-year figure has been restated (previous year: €32.4 billion). The deposit business is thus a significant contributing factor in helping the Volkswagen Group retain its customers.

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 2019.

The capital reserves of Volkswagen Bank GmbH remained unchanged at €8.5 billion as of December 31, 2019.

The profit in accordance with the HGB to be transferred to Volkswagen AG under the existing profit-and-loss transfer agreement amounted to €364.7 million (previous year: €204.5 million).

Equity in accordance with IFRSs as of December 31, 2019 was €10.0 billion (previous year: €11.6 billion). This resulted in an equity ratio (equity divided by total assets) of 14.6% (previous year: 14.0%) based on total assets of €68.4 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 banks, issued a decision on December 4, 2019, establishing regulatory requirements for Volkswagen Bank GmbH. The SREP decision specifies a total capital requirement of 10%. The decision was based on a supervisory review in 2019. 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: 15.5%), 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: 15.5%) at the end of the reporting period, likewise well above the respective minimum ratios of 6% and 4.5% specified in the CRR.

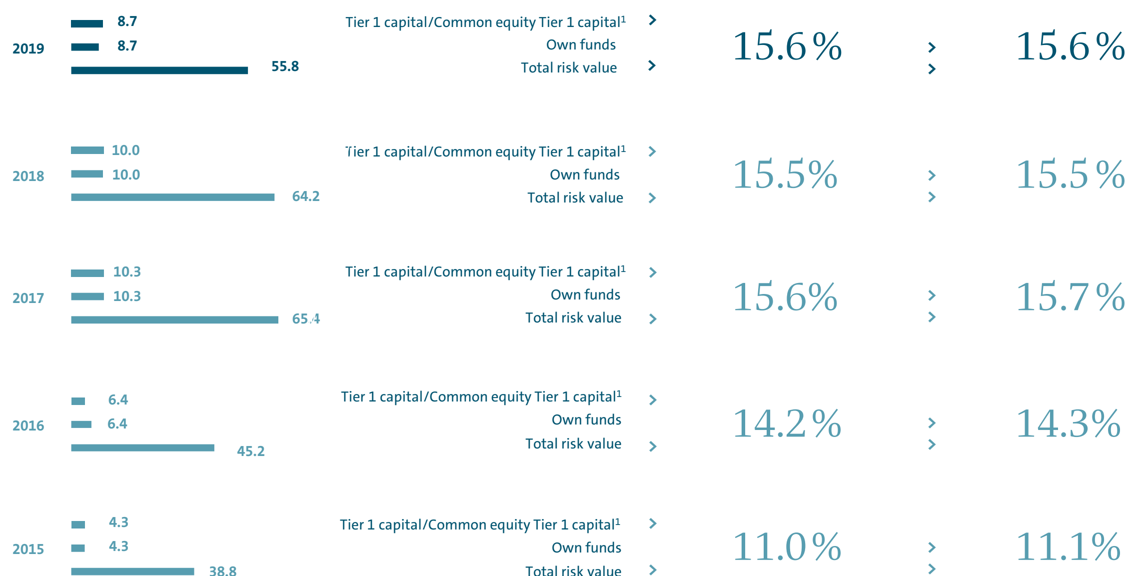
The total risk exposure amount is made up of credit risks, market risks, operational risks and credit valuation adjustment (CVA charge). The Standardized Approach for Credit Risk (CRSA) is used to quantify credit risk and to determine risk-weighted exposures. The Standardized Approach as specified in 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:

	December 31, 2019		December 31, 2018	
Total risk exposure amount[1] (€ million)		55,817		64,157
of which risk-weighted exposure amounts for credit risk	51,942		56,682	
of which own funds requirements for market risk *12.5	373		2,970	
of which own funds requirements for operational risk *12.5	3,485		4,417	
of which own funds requirements for credit valuation adjustments *12.5	17		88	
Eligible own funds (€ million)		8,724		9,973
Own funds (€ million)		8,724		9,973
of which Common Equity Tier 1 capital	8,697		9,945	
of which Additional Tier 1 capital	-		-	
of which Tier 2 capital	27		28	
Common Equity Tier 1 capital ratio[2] (percent)		15.6		15.5
Tier 1 capital ratio[2] (percent)		15.6		15.5
Total capital ratio[2] (percent)		15.6		15.5

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

REGULATORY RATIOS OF THE VOLKSWAGEN BANK GMBH AS OF DECEMBER 31



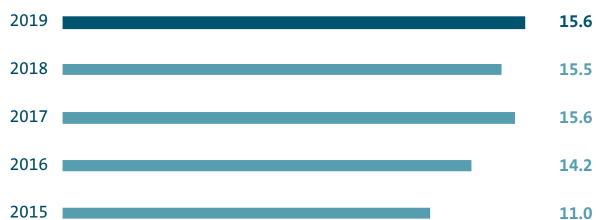
1 The amounts of Tier 1 capital and Common Equity Tier 1 capital are the same because Volkswagen Bank GmbH has not issued any Additional Tier 1 capital instruments.

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 fall in total risk exposure. This fall in total risk exposure was primarily caused by changes in the scope of prudential consolidation or by the transfer of three entities from Volkswagen Bank GmbH to Volkswagen Financial Services AG. Volkswagen Financial Services (UK) Ltd., Milton Keynes, and ŠkoFIN s.r.o., Prague, were removed from the scope of prudential consolidation in March 2019, and Volkswagen Finans Sverige AB, Södertälje, was removed in July 2019. Some of the contraction in the total risk exposure was offset by the acquisition of a lending portfolio in May 2019.

Own funds also declined year-on-year as a result of the change in the scope of prudential consolidation. In this regard, other reserves, which form part of own funds, decreased by €1.7 billion.

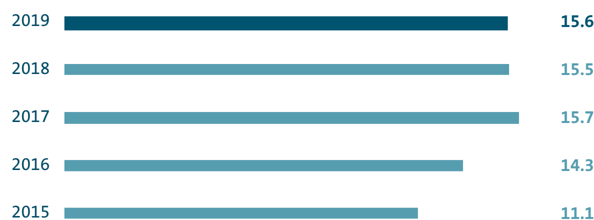
TIER 1 CAPITAL RATIO/COMMON EQUITY TIER 1 CAPITAL RATIO

figures in %



OVERALL RATIO/TOTAL CAPITAL RATIO

figures in %



The Volkswagen Bank GmbH Group has an adequate total capital ratio, which ensures that there is an appropriate level of capital even with a rising 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 mainly to irrevocable credit commitments. At the Volkswagen Bank GmbH Group, they amounted to €1,771 million as of December 31, 2019 (previous year: €2,313 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 senior ABS bonds issued by special purpose entities of Volkswagen Leasing GmbH and Volkswagen Bank GmbH totaling €10.7 billion as well as €2.8 billion of bonds from various countries, German federal states (Länder bonds), supranational institutions and multilateral development banks plus Pfandbriefe. 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 25 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 January to December in the year under review, this ratio varied between 118% and 199% for Volkswagen Bank GmbH and was therefore well above the lower regulatory limit of 100% 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. Highly liquid assets for the purposes of the LCR include central bank balances and government bonds plus other securities such as Länder bonds, supranational bonds and Pfandbriefe (mortgage bonds).

The requirement under the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements for 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 with the objective of safeguarding funding on a long-term basis and using this funding on optimum terms.

Implementation

In January and July 2019, 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.

Volkswagen Bank GmbH did not complete any securitization transactions in Europe in the reporting period.

The following table shows the transaction details:

CAPITAL MARKET

Issuer	Month	Country	Volume and Currency	Maturity
Volkswagen Bank GmbH	January	Germany	€ 300 Mio.	3.5 years
Volkswagen Bank GmbH	January	Germany	€ 500 Mio.	3.5 years
Volkswagen Bank GmbH	January	Germany	€ 850 Mio.	5 years
Volkswagen Bank GmbH	January	Germany	€ 850 Mio.	7.5 years
Volkswagen Bank GmbH	July	Germany	€ 500 Mio.	3 years

Customer deposit business amounted to €31.7 billion in the reporting year. Since January 1, 2019, customer deposits have been calculated without cash deposits from Group companies; the prior-year figure has been restated (previous year: €32.4 billion).

The Bank continued to implement its strategy of mainly obtaining maturity-matched funding 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. The diversified funding structure and 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 September 2019, S&P confirmed its short-term and long-term ratings for Volkswagen Bank GmbH at A–2 and A– respectively. The outlook remained negative over the course of the entire year. In November 2019, Moody's also confirmed its short-term and long-term ratings for Volkswagen Bank GmbH at P–1 and A1 respectively. The outlook remains "stable".

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, there are comments on the changes in the net assets, financial position and results of operations of Volkswagen Bank GmbH in accordance with the HGB.

BUSINESS PERFORMANCE 2019

The result from ordinary activities amounted to €486.8 million compared with €225.9 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 €2,039.4 million compared with €1,989.1 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 from €1,570.5 million year-on-year to €1,652.7 million. Volkswagen Bank GmbH earned interest income of €50.1 million (previous year: €67.6 million) from marketable securities. Of this amount, €11.9 million (previous year: €18.6 million) was attributable to marketable securities purchased from ABS special purpose entities of Volkswagen Bank GmbH. A further €10.6 million (previous year: €13.6 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 €531.1 million (previous year: €441.6 million). Here, income from leasing transactions, which rose by €160.0 million or 19.1%, is set against expenses from leasing transactions, which were up by €70.5 million or 17.8%. Interest anomalies amounting to an expense of €13.1 million (previous year: income of €82.3 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 €377.6 million, which equated to an increase of €25.6 million compared with the prior-year level. Fee and commission expenses came to €563.8 million (previous year: €749.2 million). Net fee and commission income was in negative territory in 2019, with a net expense of €186.2 million (previous year: net expense of €397.2 million).

General and administrative expenses rose by €43.0 million to €795.4 million (previous year: €752.4 million). Personnel expenses rose by €6.3 million to €215.3 million.

Expenses arising from cost transfers from affiliated companies went up by €5.0 million (1.9%) to €270.7 million. Data processing costs increased by €19.2 million to €47.9 million.

Other operating income declined by €19.6 million to €228.6 million.

Depreciation and write-downs on lease assets at the French branch rose by €67.0 million to €504.9 million. Other operating expenses amounted to €79.8 million (previous year: €316.0 million).

This resulted in a net addition of provisions for credit risk, amounting to €205.7 million in the reporting year (previous year: net addition of €106.0 million). The profit after tax of €364.7 million (previous year: €204.5 million) will be transferred to Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

Total assets rose by €5.1 billion to €76.7 billion (previous year: €71.6 billion). The volume of customer loans and receivables reported in the balance sheet went up by €4.6 billion and amounted to €55.7 billion on the reporting date (previous year: €51.1 billion). Of this increase, a significant proportion was accounted for by sales financing loans and receivables.

In 2019, loans and receivables in a nominal amount of €5.6 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 carrying amount of these loans and receivables was €1.2 billion (previous year: €1.9 billion).

Most of Volkswagen Bank GmbH's portfolio comprises securities from ABS transactions, of which €11.2 billion (previous year: €11.2 billion) is attributable to securities from own-account transactions. For investment purposes, the portfolio also included ABSs with a total value of €0.7 billion (previous year: €0.9 billion) issued by special purpose entities of Volkswagen Financial Services (UK) Ltd., Milton Keynes, 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 €38.2 billion (previous year: €34.4 billion), other liabilities of €13.0 billion (previous year: €12.2 billion), notes and commercial paper issued of €7.7 billion (previous year: €5.7 billion) and liabilities to banks of €7.5 billion (previous year: €8.9 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 customer financing broking claims. As of the reporting date, provisions for litigation and legal risks amounted to €244.2 million (previous year: €338.8 million).

The equity of Volkswagen Bank GmbH amounted to €8.9 billion (previous year: €8.9 billion) as of the reporting date.

INCOME STATEMENT OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	2019	2018
Net interest income	1,508	1,547
Net leasing income	531	442
Net fee and commission income	–186	–397
Administrative expenses	795	752
Other comprehensive income	–366	–508
Income from the disposal of equity investments	0	0
Provision for credit risks	206	106
Result from ordinary business activities	**487**	**226**
Extraordinary result	0	75
Tax expense	122	96
Profits transferred under a profit transfer agreement	365	204
Net income for the year	**0**	**0**
Retained profits brought forward	0	0
Asset transfer	–481	0
Withdrawals from capital reserves	481	0
Net retained profits	**0**	**0**

BALANCE SHEET STRUCTURE OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	Dec. 31, 2019	Dec. 31, 2018
Assets		
Cash Reserve	3,471	1,866
Loans to and receivables from banks	427	528
Loans to and Receivables from Customers	55,706	51,077
Marketable securities	14,704	15,419
Equity investments and shares in affiliated companies	220	635
Lease assets	1,644	1,408
Other assets	526	679
Total assets	**76,698**	**71,612**
Equity and liabilities		
Liabilities to banks	7,464	8,872
Liabilities to customers	38,199	34,444
Notes, commercial paper issued	7,677	5,671
Provisions	567	639
Subordinated liabilities	30	30
Funds for general banking risks	26	26
Equity	8,842	8,875
Other liabilities	13,893	13,056
Total assets	**76,698**	**71,612**
Balance sheet disclosures		
Contingent liabilities	233	183
Other obligations	1,771	2,304

NUMBER OF EMPLOYEES

Volkswagen Bank GmbH employed 1,121 people (previous year: 1,144) in Germany at the end of 2019.

A total of 833 people (previous year: 832) 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

Active management of opportunities and risks in challenging times: guarantee of a successful, sustainable business model at Volkswagen Bank GmbH.

RISKS AND OPPORTUNITIES

In this section, the risks and opportunities that arise in connection with the Bank's business activities are presented. 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.

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

MACROECONOMIC OPPORTUNITIES

In the event of further but slightly slower economic growth in the majority of markets, the Management Board of Volkswagen Bank GmbH expects the deliveries to customers of the Volkswagen Group to remain at a high level. Volkswagen Bank GmbH 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 in general. The macroeconomic environment could also give rise to opportunities for the Volkswagen Bank GmbH Group if actual trends turn out to be better than forecast.

STRATEGIC OPPORTUNITIES

The Volkswagen Bank GmbH Group is continuing to pursue a strategy that focuses on the digitalization and optimization of its product portfolio. It is increasingly leveraging the opportunities for growth in the areas of mobility-related consumer credit and used vehicle finance in all the markets in which the Group has a presence. A second area of focus is the continuous, dynamic streamlining 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 the customers. This will continue to lay the foundations for Volkswagen Bank GmbH to impress its customers over the coming years with innovative, country-specific financial products, thereby helping to nurture long-term customer loyalty.

OPPORTUNITIES FROM CREDIT RISKS

Opportunities may arise in connection with credit risks 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 RISKS

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) as regards the accounting process refers to the risk of misstatement in the bookkeeping at the 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 Board 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 provides 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 auditor 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 Board 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, 2019 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 acts responsibly when taking on these risks 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. Material changes were

carried out in the year under review in connection with the quantification of operational risk. Since January 1, 2019, the risk value for operational risk has been simulated quarterly using a loss distribution approach (LDA). No other material changes were made to the risk management methodology.

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

In the 2019 Supervisory Review and Evaluation Process (SREP), the ECB banking supervisor set Pillar 2 requirements (100% CET1 add-on) of 2.0% for Volkswagen Bank GmbH to apply from the first quarter of 2020. The Pillar 2 requirements must be satisfied in addition to the minimum capital requirements under Pillar 1 and cover risks that are underestimated or not covered by the minimum capital requirements.

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 the Management Board. In this function, the CRO submits regular reports on the overall risk position in the Volkswagen Bank GmbH Group to the other members of the Management Board 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 evaluating collateral. Risk Management is therefore responsible for identifying possible risks, analyzing, quantifying and evaluating 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.

To summarize, continuous monitoring of risks, transparent and direct communication with the Management Board 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 Board of Volkswagen Bank GmbH.

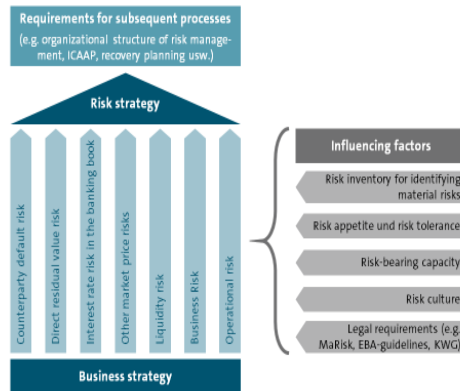
As part of this overall responsibility, the Management Board of Volkswagen Bank GmbH has introduced a MaRisk-compliant strategy process and implemented a business and risk strategy. The ROUTE2025 business strategy sets out the fundamental views of the Management Board of Volkswagen Bank GmbH on key matters 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 Board of Volkswagen Bank GmbH is responsible for specifying and subsequently implementing the overall risk strategy in the Volkswagen Bank GmbH Group.

RISK STRATEGY PROCESS



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. In accordance with the requirements set out in the "ECB Guide to the internal capital adequacy assessment process (ICAAP)", the risk inventory carried out as of December 31, 2018 used, for the first time, both the economic and normative perspectives and, in addition, a gross approach (i.e. an analysis of the risks without taking into account specific techniques designed to mitigate the underlying risks). A switch was also made to a confidence level of 99.9% as the basis for determining risk.

The risk inventory carried out on December 31, 2018 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk (credit risk, shareholder risk, issuer risk and counterparty risk), direct residual value risk, interest rate risk in the banking book, other market risk, business risk (earnings risk, strategic risk, reputational risk and business model risk), liquidity risk and operational risk. Other existing subcategories of risk are taken into account within the categories specified above.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

The Volkswagen Bank GmbH Group has set up a system for calculating risk-bearing capacity in accordance with the requirements specified in the "ECB Guide to the internal capital adequacy assessment process (ICAAP)". The system ensures that the Group maintains risk-bearing capacity from both economic and normative perspectives.

In the economic risk-bearing capacity analysis, the overall economic risk is compared against 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 economic risk-bearing capacity analysis with a confidence level of 99.9% and a time horizon of one year.

The objective of the normative perspective is to ensure that the Volkswagen Bank GmbH Group meets all relevant regulatory capital ratio requirements (in particular, the requirements for the total capital ratio and CET1 capital ratio) in the planning period. To this end, the Volkswagen Bank GmbH Group analyzes a baseline scenario and a multidimensional adverse scenario over a forward-looking time horizon of three years and constantly monitors its compliance with the regulatory capital requirements and its internally specified early warning thresholds.

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

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 Board 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, direct residual value risk, interest rate risk in the banking book, other market risk, funding 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, 2019 amounted to €2.5 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, 2019

	DEC. 31, 2019[1]			DEC. 31, 2018	
	€ million	Share in percent		€ million	Share in percent
Risk category			**Risk category**		
Credit risk	1,876	74	Credit risk	352	22
Shareholder, issuer and counterparty risk	225	9	Shareholder, issuer and counterparty risk	3	0
Residual value risk	52	2	Residual value risk	553	35
Interest rate risk in the banking book (IRRBB)	102	4	Earnings risk	314	20
Other market risks (currency risk and fund-price risk)	4	0	Market risk	113	7
Liquidity risk (funding risk)	16	1	Liquidity risk (funding risk)	11	1
Operational risk	246	10	Operational risk	168	11
Business risk	0	0	Other risks	80	5
Total	**2,521**	**100**	**Total**	**1,594**	**100**

1 Following the implementation of the ECB Guide to the ICAAP, the confidence level was increased to 99.9% as standard (as of December 31, 2018, it had stood at 90.0%, and at 99.0% for the risk types of earnings risk, market risk, liquidity risk and other risks [reputational risk and strategic risk]). For this reason, the risk exposure amounts included in the risk-bearing capacity statement have increased accordingly. In addition, there have been changes in the risk types. For example, market risk is no longer reported as an aggregate risk, but separately in the interest rate risk in the banking book (IRRBB) and other market risk items. Earnings risk, reputational risk, strategic risk and business model risk are covered under business risk. The planned result before tax is recognized as a deduction.

As of December 31, 2019, risk-taking potential amounted to €8.9 billion and comprised CET1 capital (€8.7 billion) and accumulated earnings after dividend deduction (€0.4 billion) less hidden charges and loss allowance shortfalls (€0.2 billion in total). As of December 31, 2019, 28% of risk-taking potential was utilized by the risks outlined above. In the period January 1, 2019 to December 31, 2019, the maximum utilization of the risk-taking potential in the economic perspective was 29%. 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 to the Management Board. 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 (including an economic downturn in Europe or a sharp drop in sales in the Volkswagen Group). In addition, reverse 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.

In 2019, 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. 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) or
- Volkswagen Bank GmbH's income is generated from just a few sources (income concentrations).

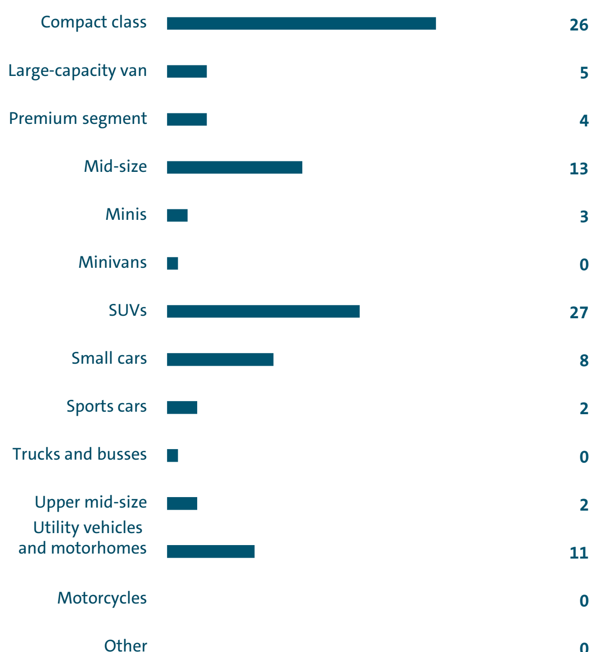
One of the objectives of the Volkswagen Bank GmbH Group's risk policy in its business model is to reduce such concentrations by means of broad diversification.

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 financial crisis some years ago.

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, 2019
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.

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

RISK REPORTING

A detailed risk management report is submitted to the Management Board and to the Supervisory Board of Volkswagen Bank GmbH on a quarterly basis. The following information is included in the risk management report:

- Overall commentary on the risk position
- Results of the risk-bearing capacity analysis using the economic and normative perspectives
- Key figures for credit risk and residual value risk at the level of the Volkswagen Bank GmbH Group, currently and over time
- Presentation and evaluation of other counterparty default risks (shareholder risk, issuer risk and counterparty risk)
- Presentation and evaluation of liquidity risk, interest rate risk in the banking book, other market risk and operational risk
- Overview of outsourcing activities and business continuity management
- Overview of ad hoc cases and newly authorized products

The following information is also presented to the Management Board in the quarterly ICAAP report:

- Presentation and evaluation of stress test results in various scenarios (historical and hypothetical)
- Normative/economic reconciliation of capital requirement (for each risk category)
- Commentary on the changes in risk-bearing capacity in the individual perspectives and scenarios

Ad hoc reports are generated as needed to supplement the system of regular reporting.

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

RECOVERY AND RESOLUTION PLANNING

During the course of fiscal year 2019, the Volkswagen Bank GmbH Group updated its Group-wide recovery plan and submitted it to the ECB (the competent supervisory authority).

The recovery plan covers matters including a system to ensure that adverse developments are identified promptly, and the possible measures that could be used by the Group in different stress scenarios to safeguard or restore a robust financial footing. In particular, the recovery plan sets out the responsibilities and the processes to be followed in the management of a crisis and specifies a Group-wide set of recovery indicators to support ongoing monitoring. The recovery indicators are spread over different corporate units so that a broad range of indicators is covered. The range includes capital, liquidity, profitability and market-based indicators, all of

which are continually monitored. The status of the recovery indicators as of the reporting date in question is notified to the Management Board and the Supervisory Board in the risk management report each quarter.

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

In fiscal year 2019, Volkswagen Bank GmbH received a minimum requirement for own funds and eligible liabilities (MREL) on a consolidated basis from the competent authorities. The Bank complied with the requirements at all times in the reporting year.

REGULATORY ISSUES IN RISK MANAGEMENT

As already observed in the past, it is likely that there will continue to be an uninterrupted flow of new regulatory requirements into the future.

The regulatory requirements on nonperforming loans (NPLs) are of particular relevance to risk management at Volkswagen Bank GmbH. The supervisory expectations for an appropriate level of loss allowances in accordance with the supplementary guidance from the ECB on NPLs are especially worthy of note in this regard in addition to the basic ECB expectations and EBA requirements for the management of NPLs. The Prudential Backstop Regulation, which came into force on April 26, 2019, also has implications for risk management. This regulation applies to new loans and receivables established since April 26, 2019 and to modifications that increase the risk on older loans and receivables if these new risk exposures become nonperforming. In addition, the new rules will have an impact on the recovery and resolution processes that Volkswagen Bank GmbH is refining and optimizing.

The EBA guidelines on outsourcing arrangements will also have implications for risk management. The guidelines include detailed requirements for due diligence, risk analysis and documentation for outsourcing arrangements extending beyond the current MaRisk requirements. For the purposes of assessing an outsourcing arrangement, the term “material” has been replaced by “critical or important”. There are also additional requirements relating to the terms and conditions in outsourcing agreements and their monitoring as well as relating to the extension of termination rights. These requirements especially concern compliance with IT security standards and outsourcing to cloud service providers. Under the EBA guidelines, the requirements relating to sub-outsourcing are also substantially expanded. Because the EBA guidelines on outsourcing arrangements will require modification of existing contracts, there will be a transition period up to December 31, 2021 for these changes.

Supervisory authorities are also increasingly focusing on interest rate risk in the banking book and on information and communication technology (ICT) risk. Volkswagen Bank GmbH is being guided by the corresponding requirements in the EBA guidelines on the management of interest rate risk in the banking book, the EBA guidelines on measuring ICT risk and in BaFin’s supervisory requirements for IT in financial institutions.

Going forward, the requirements in the EBA guidelines on loan origination and monitoring, which were issued for consultation in June 2019, could have implications for risk management. Even if further changes are still likely, one of the key features of the anticipated requirements is a significantly higher level of detail compared with the currently applicable rules under MaRisk, and this will probably have an impact on lending processes.

There is expected to be an effect on risk management from the anticipated delegated regulation and EBA guidelines relating to CRR II and CRD V, which will also include requirements relating to the inclusion of sustainability risk. Volkswagen Bank GmbH is closely monitoring developments in this regard and will plan and implement further activities depending on the specific regulatory requirements that emerge.

BREXIT

The Brexit negotiations with the United Kingdom did not have any impact on the Volkswagen Bank GmbH Group’s risk situation in fiscal year 2019. 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. Various scenarios were analyzed in 2019 in connection with the imminent Brexit, allowing the Bank to be prepared for all eventualities.

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 Board 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
Interest rate risk in the banking book (IRRBB)	Compliance and conduct-risk
Other market risks (currency risk and fund-price risk)	Outsourcing-risk
Liquidity risk	
Direct residual value risk	
Business 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 the operating result.

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 evaluations take into account both quantitative factors (mainly data from annual financial statements) and qualitative factors (such as the prospects for future business growth, quality of management, market and industry environment, and the customer's payments record). When the credit assessment has been completed, the customer is assigned to a rating class, which is linked to a probability of default. 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 that is available both internally and externally to 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 and dealer financing, 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 expected loss model in accordance with IFRS 9 and is also derived from the results of 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 2.7% (previous year: 2.4%); loss given default (LGD) of 27.9% (previous year: 25.5%) and total volume of loans and receivables based on the total portfolio less exposures in default of €56.8 billion (previous year: €72.8 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.

Trends
Once again in fiscal year 2019, the continued reorganization of the Volkswagen Bank GmbH Group had an impact on the scope of the credit risk portfolio and led to a significant contraction, as scheduled. A contributing factor was the derecognition of portfolios caused by the transfer of the international subsidiaries Volkswagen Financial Services UK, SkoFin s.r.o. and Volkswagen Finans Sverige AB as well as the finance leasing business of the Volkswagen Bank Italy branch to Volkswagen Financial Services AG. Some of the effects were offset by the merger of Volkswagen Finance S.A. into Volkswagen Bank Spain and – as a consequence – the integration of the portfolio into the Volkswagen Bank GmbH Group.

Retail portfolio

From an objective perspective, the reorganization described above (especially the transfer of Volkswagen Financial Services UK) led to a significant reduction in the volume of loans and receivables in the retail portfolio of the Volkswagen Bank GmbH Group in fiscal year 2019.

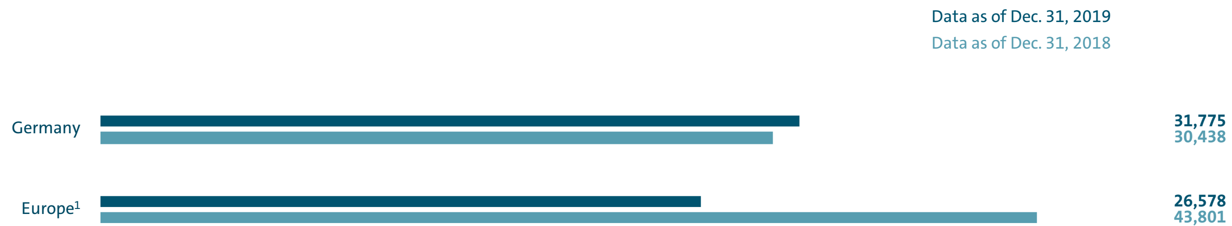
Disregarding this non-recurring item, the retail portfolio expanded in the year under review. The well-established sales promotion programs with the brands and continuous expansion of the fleet business were contributing factors in this growth. In this context, sustained strong demand for the Group's retail products was evident in the Italian and French markets in fiscal year 2019. The merger of Volkswagen Finance S.A. into Volkswagen Bank Spain also helped to expand the volume of loans and receivables. The change in the volume of loans and receivables in the German retail portfolio was aided by stability in the vehicle market environment in 2019. Overall, the credit risk in the retail portfolio of the Volkswagen Bank GmbH Group remained stable.

Corporate portfolio

Disregarding the non-recurring items from the reorganization (especially the transfer of the international subsidiaries Volkswagen Finans Sverige AB and SkoFin s.r.o), the volume of loans and receivables in the corporate portfolio of the Volkswagen Bank GmbH Group grew steadily in the reporting year. This uptrend was driven to a large extent by the volume growth generated by the dealer portfolio in the German market. Overall, a slight deterioration in credit risk was evident in the Volkswagen Bank GmbH Group's corporate portfolio (caused by the default of a dealer group in the German market).

BREAKDOWN OF CREDIT VOLUME BY REGION

in € million



1 Europe excluding Germany

BREAKDOWN BY LENDING VOLUME
€ million

PD-Band	Retail	Corporate	Total
< = 1 %	14,810	2,624	17,434
	25.4 %	4.5 %	29.9 %
> 1 % < 100 %	26.044	13,291	39,335
	44.6 %	22.8 %	67.4 %
100 %	767	817	1,584
	1.3 %	1.4 %	2.7 %
Total	**41,621**	**16,732**	**58,353**
	71.0 %	29.0 %	100.0 %

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 Board 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. The Group exercises influence over the business and risk policies of the equity investments through its representation in the relevant ownership or supervisory bodies. However, responsibility for the operational use of the risk management tools lies with the entities themselves.

Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book (IRRBB) consists of potential losses arising 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.

The objective of interest rate risk management is to keep the financial losses arising from this category of risk as low as possible. With this in mind, the Management Board has agreed limits for this category of risk. If limits are exceeded, the situation is escalated on an ad hoc basis to the Management Board 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.

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

Trends
The changes in interest rate risk in the banking book at the level of the Volkswagen Bank GmbH Group were within the strategic parameters.

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

Other Market Risk (Currency and Fund Price 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 foreign branches in the UK and Poland.

The risk in connection with fund investments arises from possible changes in market prices. Fund price risk describes the risk relating to changes in market prices which can 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 (pension fund price risk). 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.

The objective of currency and fund price risk management is to keep the financial losses arising from these categories of risk as low as possible. With this in mind, the Management Board has agreed limits for this category of risk. As part of risk management activities, currency risk and fund price risk are included in the quarterly risk report with a transparent analysis based on value at risk (VaR), a calculation

offsetting the risk against the loss ceiling set for the Volkswagen Bank GmbH Group.

The level of currency risk and fund price risk is not material in relation to the total portfolio of the Volkswagen Bank GmbH Group.

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

In line with the requirements of the ECB's Supervisory Review and Evaluation Process (SREP), the Volkswagen Bank GmbH Group has a sound and effective internal liquidity adequacy assessment process (ILAAP). In addition, the Volkswagen Bank GmbH Group has a comprehensive range of tools appropriate to its business model and business strategy to enable it to measure, monitor and control liquidity risk and the relevant risk subcategories.

In conjunction with various ILAAP metrics, the normative and economic perspectives of liquidity adequacy are assessed over short-, medium- and long-term time horizons. The Volkswagen Bank GmbH Group ensures that it has appropriate liquidity adequacy at all times by measuring and limiting the ILAAP metrics. In the normative perspective, the liquidity coverage ratio (LCR) is used to assess the short-term liquidity risk; this approach is complemented by an analysis of the net stable funding ratio (NSFR), which is a longer-term structural liquidity ratio. The economic perspective includes analysis of the liquidity coverage available up to insolvency, the survival period and the funding risk. Liquidity adequacy is evaluated using a baseline scenario, multiple adverse scenarios and reverse stress tests. 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. A risk assessment is a key component in the system to ensure appropriate liquidity adequacy at all times. All ILAAP metrics are linked with other elements of the ILAAP (including liquidity contingency plan, recovery plan) to ensure an effective overall process is in place. Funding risk is also included in the calculation of risk-bearing capacity for the Volkswagen Bank GmbH Group.

In addition to ensuring there is appropriate liquidity management, the Group prepares 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 regulations is the need to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and thirty-day time horizons. For this reason, a contingency plan with an appropriate list of action points for obtaining liquidity has already been drawn up so that it can be implemented in the event of any liquidity squeeze.

Risk communication

The ILAAP is a permanent component of the management framework. This means there is regular reporting on all key elements of the ILAAP to the Management Board.

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

Trends

Liquidity risk at the level of the Volkswagen Bank GmbH Group remained stable. The liquidity situation in 2019 was affected to a significant degree by the transfer of Volkswagen Sverige A.B. from the Volkswagen Bank GmbH Group.

The funding structure retained a good level of diversity in terms of the instruments utilized. Funding risk always remained within the specified limits.

Residual Value Risk

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

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 or impairment losses if the residual value risk were to materialize. As stated in the accounting policies for leases described in the notes to the consolidated financial statements, the impairment losses generally lead to a subsequent adjustment of future depreciation rates.

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 as of the measurement date of the remarketing proceeds on expiration of the contract 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 determined by aggregating the individual expected losses for all vehicles.

The expected losses arising from contracts subject to risk relate to the losses expected at the end of the term of the contracts concerned. These losses are recognized in profit or loss in the consolidated financial statements for the current period or prior periods. The ratio of the expected losses from contracts subject to risk to the contractually fixed residual values in the overall portfolio is expressed as a risk exposure. The results from the quantification of the expected loss and risk exposure are fed into the assessment of the risk situation.

To determine the UL, the change is measured between the projected residual value one year before the sale 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 the 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

As part of the reorganization, the portfolio with direct residual value risk in the Volkswagen Bank GmbH Group diminished significantly in fiscal year 2019, as planned. Although the Volkswagen Bank GmbH Group acquired a portfolio with direct residual value risk as a result of the merger of Volkswagen Finance S.A. into Volkswagen Bank Spain, it also derecognized portfolios as a consequence of the transfer of Volkswagen Financial Services UK, SkoFin s.r.o., Volkswagen Finans Sverige AB and the finance leasing business of Volkswagen Bank Italy to Volkswagen Financial Services AG. At consolidated level, the Volkswagen Bank GmbH Group was therefore still exposed to direct residual value risk as of December 2019 at the branches in France, Ireland, Portugal and Spain as well as in the international subsidiary Volkswagen Finančné služby Slovensko s.r.o. The direct residual value risk is only material in the France branch (which accounts for approximately 95% of the total direct residual value risk and around 45% of contracts) because the volumes in the other entities remain very low or the residual values are set such that the risk assessment can assume that the customers will take over the vehicle at the end of the contract term.

Disregarding the portfolio transfers, steady year-on-year growth in the number of contracts was evident, driven by growth strategies such as the expansion of the fleet business at the France branch. As a consequence, direct residual value risk at the France branch increased in line with volume and remained at a high level, reflecting the conservative evaluation of the residual value situation maintained by the branch.

Business Risk

The Volkswagen Bank GmbH Group defines business risk as the risk of direct or indirect loss from adverse changes in economic conditions, particularly in the financial services sector (equates to sector risk). Business risk include the following risk subcategories:

- Earnings risk
- Reputational risk
- Strategic risk
- Business model risk

All four risk subcategories relate to income drivers (e.g. business volume, margin, overheads, fees and commissions).

With respect to business risk, the planned profit before tax is deducted as a risk mitigation technique. In the economic perspective, this means that there is currently a risk value of zero. In contrast to the quantitative figure included in the economic perspective, business risk is included in risk management as a material category of risk.

Earnings Risk (Specific Profit or Loss Risk)

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

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

The objective is to regularly analyze and monitor the potential risk associated with earnings risk to ensure that values at variance 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 the operating result.

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 among 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 included in the calculation of business risk. The results are monitored by Risk Management.

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 Bank. 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 in the calculation of risk-bearing capacity by applying a flat-rate markdown as part of business risk. This global approach is reassessed each year from a qualitative perspective.

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 Bank 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 included in the calculation of risk-bearing capacity as part of business risk.

Business Model Risk

Business model risk arises as a result of the economic dependency of an entity on its group parent. The value for business model risk is derived from the capital requirement simulated in a scenario analysis that would be necessary in the event of insolvency of the Volkswagen Group to satisfy all creditor claims against the Volkswagen Bank GmbH Group. An analysis of business model risk is carried out annually and the value of this risk is currently assessed at €0.

NONFINANCIAL RISKS

Operational Risk

Operational risk (OpR) is defined as the risk of loss resulting from inadequate or failed internal processes (process risk), people (HR risk) or systems (technological risk), or resulting from external events (third-party risk). This definition includes legal risk.

Other categories of risk, such as reputational or strategic risk, do not fall within the scope of operational risk and are analyzed separately.

The objective of 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 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.

The risk value for operational risk is simulated quarterly on the basis of a loss distribution approach (LDA). The results from the annual risk self-assessment and actual losses incurred by the Volkswagen Bank GmbH Group are factored into the distribution amount and frequency. The simulation outputs the risk value as a value-at-risk at the relevant confidence level. This risk value is then distributed to the individual branches and subsidiaries using an allocation key.

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 (IT, Integrity/Legal & Compliance, and Human Resources & Organization). 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 in one coherent report. 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 is based on a number of factors including business growth. As part of the item relating to overall operational risk exposure in the past, legal risk also had an impact on a large part of the Volkswagen Bank GmbH Group.

The Volkswagen Bank GmbH Group attaches great importance to operational risk factors and their active management. Particularly in relation to cyber risk, preventive measures and countermeasures undergo continuous development to ensure the availability, integrity, confidentiality and authenticity of data.

In addition, a rolling program of training and briefing sessions ensures that awareness of operational risk in the Volkswagen Bank GmbH Group continues to grow. Experience and information gained about past loss events also means that future risks can be assessed more thoroughly and more accurately.

Compliance, Conduct and Integrity 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.

This differs from conduct risk, which 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.

In addition, integrity risk encompasses all risks that arise from a failure of employees to conduct themselves in an ethically acceptable manner or act in accordance with the Group's principles or the FS values, thereby presenting an obstacle to the long-term success of the business.

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

To counter compliance and conduct risks, it is the responsibility of the compliance function to ensure compliance with laws, other legal requirements, internal rules and self-

proclaimed values, and to create and foster an appropriate compliance culture. It is also the responsibility of the integrity function, on the basis of an integrity management system, to raise awareness of the ethical principles, code of conduct and the need for compliance, and to help employees choose the right course of action, responsibly and steadfastly, driven by their own personal conviction.

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 is 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 a compliance and integrity 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 and integrity 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 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 Bank. The compliance theme coordinators immediately notify the compliance officer of any regulations and requirements that have been identified.

The internal Compliance Committee regularly conducts a materiality analysis on the basis of the outcomes of this legal monitoring. After taking into account the evaluated compliance risks, the Compliance Committee makes 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 fundamentally 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/capital market law,
- banking supervisory law,
- antitrust law and
- IT security 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.

As in the case of the compliance function, the central integrity function only specifies the framework for the Group. The responsibility for implementing the requirements, for example by raising awareness of the ethical principles among employees, remains with the local entity concerned.

The Compliance and Integrity Officer receives regular reports and carries out on-site visits on a risk-oriented basis to ensure that the local compliance and integrity units are meeting their responsibilities.

To meet the statutory reporting requirements of the compliance function, the Compliance Officer must submit to the Management Board 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 Board 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.

For its part, the Management Board has also entered into a voluntary undertaking regarding compliance and integrity. This ensures that compliance and integrity issues are always discussed and taken into account in connection with all decisions made by the Management Board.

Risk from Outsourcing Activities

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

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

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

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

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

A significant increase in risk can necessitate a change of service provider or, if possible and strategically desirable, the ending of the outsourcing arrangement. In this case, the activities may be performed by the 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 outsourcing or procurement from a third-party supplier. The risk analysis uses various criteria to determine the risk content in an outsourcing arrangement. The outcome is the classification of the outsourcing arrangement as material or immaterial. Material outsourcing arrangements are subject to more stringent levels of monitoring and control as well as special and stricter contractual provisions.

Risk monitoring and control

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

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

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 assured at all times in 2019, even after implementing the ICAAP guidelines and the accompanying higher confidence level. We do not believe that there are any risks to the continued existence of our business as a going concern.

The ongoing refinement of the system continued in 2019, with steps implemented including adjustments to 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 2020. 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.

Interest Rate Risk in the Banking Book Forecast

The Volkswagen Bank GmbH Group is expecting a generally stable situation as regards interest rate risk in the banking book in fiscal year 2020, based on an anticipated continuation of the relatively stable interest rate environment in the eurozone.

Liquidity Risk Forecast

The liquidity risk situation is projected to remain unchanged, assuming that the situation in the market as a whole remains stable. However, the trend in risk in the overall market going forward depends to a large degree on global political uncertainties, which could affect the funding situation of the Volkswagen Bank GmbH Group and lead to a greater funding and insolvency risk.

Residual Value Risk Forecast

We expect the volume of contracts with direct residual value risk to continue to grow in fiscal year 2020 overall. The main drivers behind this are the implemented growth program, continued economic recovery in the markets and further expansion in the fleet business, particularly in France.

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.

This report contains forward-looking statements on the business development of the Volkswagen Bank GmbH Group. 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 2019 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

Leadership and management in the digital revolution and fostering a willingness to change.

HEADCOUNT

Volkswagen Bank GmbH employed 1,121 people (previous year: 1,144) in Germany at the end of 2019.

A total of 833 people (previous year: 832) were employed at the international branches of Volkswagen Bank GmbH.

EMPLOYEES

Volkswagen Bank GmbH has deemed it its duty to offer employees a working environment worthy of a top employer. This primarily includes 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. It also offers remuneration commensurate with the work performed, profit-sharing and a number of social benefits.

Volkswagen Bank GmbH expects its top employees to have a high level of expertise, provide excellent performance, embrace change and flexible working arrangements, be willing to gain new qualifications (in particular with regard to future (digital) customer requirements), be willing to increase productivity and to apply themselves to their profession with commitment and passion. The long-term success of the Bank will only be made possible by the outstanding performance of its 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. Five strategic areas for action are listed under the heading “Top Employer/Top Employees”. These areas of activity are helping Volkswagen Bank GmbH to position itself as “The Key to Mobility”. With the support of the best employees, the objective is to continue to drive forward development around the other strategic cornerstones of customers, operational excellence, profitability and volume. Through the use of specific activities to develop and retain personnel, coupled with performance-based profit sharing, the Bank aims to encourage top performance, with the objective of ensuring outstanding customer service provided by top employees and still further improving its excellent globally recognized reputation as a top employer.

Responsibility for implementing the employee strategy at an international level lies with the branches and the international subsidiaries themselves, 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 local companies with a uniform basis to be applied around the globe. The local entities hold regular meetings with the head office – at least once a year – to report on their progress and share detailed information on this. Depending on the situation, support measures are agreed and/or highly positive examples are presented and discussed for the benefit of other branches in regional workshops and at the annual HR conference 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 was on strengthening employee willingness to change and on reinforcing leadership and management in times of digital transformation.

In 2019, the transformation office was set up in the Bank as part of the internal labor market in Germany; its function is to assist the change process in the internal labor market. The transformation office, which is managed centrally at the Braunschweig facilities, makes appointments to vacant positions, primarily with existing employees whose previous function has been discontinued. This ensures that there is a transparent procedure at the site. Employees affected by the change receive assistance from the FS Academy in the form of special training, for example focusing on job applications and willingness to change (“QualiQuick”). The aim is to give employees a rapid boost and encourage them to embrace change. The transformation office holds information events in the various departments and maintains continuous contact with employees and managers. It is a source of detailed advice and support in connection with all issues related to the internal labor market. There are similar approaches at the international facilities.

In the context of leadership and management in times of digital transformation, a global program entitled “Leadership in Transformation” has been initiated. The objective is to provide managers with the skills they need to deal with the

process of digital transformation. The three words "Learn – Inspire – Transfer" are intended to sum up the approach. To this end, in 2019, a global online platform was provided to deliver the learning content; leadership days were also organized, involving presentations to offer ideas and stimulus.

Furthermore, initial results were obtained from a voluntary pilot project to analyze language using the Precire system, which is based on artificial intelligence. This project raised awareness among the participants of the language that they use and of the impact of this language. It is also planned to extend the use of language analysis as a development tool. The aim is to help managers find the right way of communicating in times of change so that there is optimum support and engagement from employees.

In addition, the branches and international subsidiaries arranged a variety of discussion sessions and workshops for managers and experts (for example in Spain, the United Kingdom, the Netherlands) and went as far as integrating the topic into the General Management Program – the professional development scheme for prospective heads of branch and managing directors.

The Bank assesses the extent to which it has achieved its objective of being a top employer by regularly taking part in external employer competitions. The aim is to continue to enhance working conditions and implement corresponding action in an effort to be included in the list of the TOP20 international employers in the "Great Place to Work" employer ranking by 2025. Volkswagen Bank GmbH, together with Volkswagen Financial Services AG, took a further step on the road to this objective in 2019.

Volkswagen Financial Services was ranked number one in the relevant category by company size in both the "Best Employer in Lower Saxony-Bremen 2019" and "Best Employer in Germany 2019" competitions.

In a comparison within Europe, the company was placed eleventh in a ranking of the top 25 European employers, which was an improvement on the twelfth place achieved in 2016. These results were based on the rankings in each country, for example 28th place in Spain.

Customer satisfaction with the work of the 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. A system of internal customer feedback, which reflects satisfaction with internal collaboration, has now been introduced in ten countries (Germany, France, Greece, Italy, Ireland, Netherlands, Poland, Portugal, Spain and the United Kingdom).

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

IMPLEMENTATION OF THE CORPORATE STRATEGY

ROUTE2025 is complemented by "The FS Way" and the associated leadership and management principles. The FS Way describes the Bank's 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 the Bank to live up to the strategic vision, "The Key to Mobility", as an automotive financial services provider. The FS Way is anchored in the theme of integrity and the five FS values: living commitment to customers, responsibility, trust, courage and enthusiasm, combined with an attitude of continuously looking to improve and proactively making the changes this requires. The FS values fit very neatly into the new basic principles of the Volkswagen Group, known as the Essentials. The FS values are repeatedly explored and discussed at events for managers and employees, especially with a view to digital transformation, and then put into practice.

Together4Integrity (T4I), an integrity and compliance program for the whole of the Group launched in the second half of 2018, was introduced in two further countries in 2019 (UK and Italy). The program focuses on the strategic issues of compliance, culture and integrity in relation to processes, structures, attitudes and conduct. It contributes to the refinement and improvement of the corporate culture at Volkswagen Bank GmbH by organizing and tracking integrity and compliance initiatives throughout the Group.

The HR unit is using its processes, tools, rules and policies to make a significant contribution to the creation of a working environment in which the Bank's values and conduct requirements are taken seriously. The objectives of the T4I initiatives assigned to the HR unit are to enshrine the issues of integrity and compliance in key HR processes (recruitment, professional development, remuneration, disciplinary processes and employee retention), giving these issues greater focus. The implementation of the initiatives will be continued in 2020 and subsequent years in accordance with the framework plan for the Group.

REGULATORY REQUIREMENTS RELATING TO REMUNERATION SYSTEMS

In the reporting year, Volkswagen Bank GmbH was subject to direct supervision by the ECB and implemented, throughout the Group, the Institutsvergütungsverordnung (IVV – German Regulation Governing Remuneration at Institutions) of August 4, 2017, last amended by Article 1 of the Regulation of April 15, 2019. The special regulatory requirements relating to remuneration systems applied in addition to the general requirements. 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 and enhanced in fiscal year

2019. Furthermore, special governance functions (Remuneration Committee and Remuneration Officer) ensured that the adequacy of the remuneration systems was continuously monitored.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

In 2019, 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 and professional banking qualifications. The dual approach combines vocational training with study for a university degree. The Bachelor of Arts in Business Administration focusing on digital marketing & sales and financial services management is offered in collaboration with WelfenAkademie e. V.; the Bachelor of Science in Business Informatics is offered in collaboration with Leibniz University of Applied Sciences. In 2019, vocational trainees were once again recruited predominantly to train for specialist professional IT qualifications in application development, and dual vocational training students mainly to become business informatics specialists, with a view to designing vocational training on a forward-looking basis and incorporating the topic of digitalization. A degree study program in computer science is also offered at the Braunschweig University of Technology. Under a training collaboration agreement between Volkswagen Financial Services AG and Volkswagen Bank GmbH, vocational trainees, dual vocational training students and IT students will have the opportunity to obtain their professional qualifications in departments at Volkswagen Bank GmbH.

Skilled, committed employees are the cornerstones of the success of Volkswagen Bank GmbH as a business. To ensure that Volkswagen Bank GmbH structured to deal with future challenges, the Bank is recruiting specialists and experts to complement what is already a strong workforce.

In order to continue to attract qualified, committed employees, 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.

The strategic approaches of FS values have been incorporated at Volkswagen Bank GmbH in Germany as part of the comprehensive training program for new and experienced managers, which is aimed at developing effective leadership and management skills.

In addition to the mandatory and modular program “Erfolgreich durchstarten” (hit the ground running) 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 pit stop), 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 and enhance their leadership skills.

Volkswagen Bank GmbH thus ensures consistent quality standards of management conduct and know-how, as well as a shared understanding of the leadership culture 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 event, has now been introduced in all branches and international subsidiaries. Furthermore, professional development has become internationally established as an integral part of management. Some branches and international subsidiaries take care of management assessment centers (MAC) themselves or in collaboration with the Group brands in the country concerned. Alternatively, managers can participate in cross-regional MACs offered once or twice a year.

To promote an entrepreneurial spirit at Volkswagen Bank GmbH, an internal program known as FS.Start.Up has been running since 2018. The program was open to any employees who wished to contribute business ideas, such as new business models, new product suggestions or process improvements, that are in line with the ROUTE 2025 corporate strategy. The ideas were initially made accessible to anyone throughout the Bank using a web-based platform. A shortlist was then drawn up, after which the employees were required to briefly pitch their ideas to a selection panel comprising members of the Board of Management and senior managers. The teams that were able to make a convincing presentation to the panel received supplementary funding for the support needed to take their ideas to the next stage.

INCREASE IN THE PROPORTION OF WOMEN

As of December 31, 2019, women accounted for 56.3% of the workforce of Volkswagen Bank GmbH in Germany, but this is not yet reflected in the percentage of women in management positions. The target is to increase the proportion of women in management positions permanently. This will be achieved, for example, by giving special consideration to female candidates in succession planning, in combination with measures to improve work-life balance.

In 2018, the targets to be achieved by 2023 were redefined as a result of the separation of Volkswagen Bank GmbH from Volkswagen Financial Services AG and were then approved by the Management Board.

PROPORTION OF WOMEN – TARGET AND ACTUAL VALUES FOR GERMANY

	Target 2023	Target 2019	Actual 2019
Second management leve.	26.1	20.0	14.6
First management level	10.3	6.7	8.0
Management Board	20.0	–	0.0
Supervisory Board	30.0	–	33.3

DIVERSITY

In addition to the advancement of women, the concept of diversity has been an integral component of the corporate culture at Volkswagen BankGmbH. The Bank sent a clear signal with its corporate initiative around the Diversity Charter, which was signed in 2007. Under this initiative, Volkswagen Bank GmbH has pledged to respect and value diversity, and to promote it in accordance with skills and ability. In 2018, Volkswagen Bank GmbH adopted a Diversity Policy to reinforce this approach and enshrined the policy in its organizational manual. The Diversity Policy ensures that diversity is recognized as the norm rather than an exception. Diversity becomes a strength through the conscious appreciation of the diversity in the workforce. The diversity of its employees makes a significant contribution to the Bank's international commercial success.

The Diversity wins@Volkswagen program, which is binding for all managers throughout the Group, makes a further contribution to fostering the concept of diversity. The aim of the program is to raise awareness of diversity and equal opportunities, to ensure that the added value of diversity is recognized and learned, and to develop an understanding of the obstacles that need to be overcome on the way to diversity in the Bank.

Volkswagen Bank GmbH promotes a family-friendly environment and offers numerous, and continuously expanding, initiatives and programs aimed at achieving the right work-life balance, such as various working-time models and in-house childcare facilities.

Report on Expected Developments

Global economic growth in 2020 is expected to continue at the prior-year level. Global demand for passenger cars will probably vary from region to region and remain at the 2019 level on the whole. With its brand diversity, broad product range, technologies and services, the Volkswagen Group is well prepared for the future challenges in the mobility business.

Having set out the main opportunities and risks arising from operating activities in the report on opportunities and risks, we now outline the expected future developments in the section below. 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

Our forecasts are based on the assumption that global economic growth in 2020 will be at the same level as in the preceding year. We still believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. We anticipate that momentum in both the advanced economies and the emerging markets will be similar to that seen in 2019. We expect to see 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 2021 to 2024.

Europe

In Western Europe, economic growth in 2020 is likely to decline slightly compared to the reporting year. Resolving structural problems continues to pose a major challenge, as does the uncertain impact of the United Kingdom's exit from the EU.

In Central Europe, we estimate that growth rates in 2020 will remain approximately level with those for the past fiscal year. The economic situation in Eastern Europe should stabilize, providing the conflict between Russia and Ukraine does not worsen. The Russian economy is expected to see only muted growth.

Germany

We expect that gross domestic product (GDP) in Germany will increase only at a low rate in 2020. The situation in the labor market will probably remain stable and bolster consumer spending.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We believe that automotive financial services will be extremely important for vehicle sales worldwide in 2020. We expect demand to continue rising in emerging markets where market penetration has so far been low. Regions that already benefit from developed automotive financial services markets will see a continuation of the trend toward customers requiring mobility at the lowest possible total cost. Integrated end-to-end solutions, comprising mobility-related service modules such as insurance and innovative packages of services, will become increasingly important in this regard. Additionally, we expect demand to increase for new forms of mobility, such as car sharing, and for integrated mobility services including parking, refueling and charging. We anticipate that this trend will continue in the period from 2021 to 2024.

In the mid-sized and heavy commercial vehicles category, we expect rising demand for financial services products in emerging markets. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In mature markets, we are projecting increased demand in 2020 for telematics services and services aimed at reducing total operating costs. This trend is also expected to continue in the period 2021 to 2024.

TRENDS IN THE PASSENGER CAR AND LIGHT COMMERCIAL VEHICLES MARKETS

We expect trends in the markets for passenger cars in the individual regions to be mixed in 2020. Overall, the volume of global demand for new vehicles will probably match the 2019 level. We are forecasting growing demand for passenger cars worldwide in the period from 2021 to 2024.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2020; on the whole, we anticipate a slight dip in demand in 2020. We expect a return to the growth trajectory for the years 2021 to 2024.

The Volkswagen Group is well prepared for the future challenges pertaining to the automotive mobility business and the mixed developments in regional automotive markets. Our brand diversity, our presence in all major world markets, our broad and selectively expanded product range, and our technologies and services put us in a good competitive position worldwide. With electric drives, digital connectivity and autonomous driving, we want to make the automobile cleaner, more quiet, more intelligent and safer. We have set ourselves the goal of continuing to excite our customers in future and meeting their diverse needs with an appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions.

Europe

For 2020, we expect that the volume of new passenger car registrations in Western Europe will be distinctly below that recorded in the reporting period. The uncertain impact of the United Kingdom's exit from the EU is likely to further exacerbate the ongoing uncertainty among consumers, continuing to dampen demand. We expect a moderate decline on the British and Italian markets in 2020. In France and Spain, the markets are likely to fall perceptibly short of the level seen in the reporting year.

For light commercial vehicles, we expect demand in Western Europe in 2020 to be distinctly lower than the prior-year level owing to the uncertain impact of the United Kingdom's exit from the EU and the pull-forward effect on sales of the WLTP in 2019. In France, the United Kingdom, Italy and Spain we are forecasting a marked drop in some cases.

Sales of passenger cars in 2020 are expected to slightly fall short of the prior-year figures in markets in Central and Eastern Europe. In Russia, we anticipate a market volume that is slightly higher than in the previous year. The number of new registrations should recede in most of the other markets in this region.

Registrations of light commercial vehicles in the Central and Eastern European markets in 2020 will probably be noticeably lower than in the previous year. We expect a distinct decline in market volume for Russia.

Germany

After a positive performance overall in recent years, we assume that demand in the German passenger car market will fall noticeably year-on-year in 2020.

We anticipate that registrations of light commercial vehicles will be up slightly on the previous year's level.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Starting in fiscal year 2020, we are redefining the relevant markets of the Volkswagen Group for trucks and buses based on our core countries. Our relevant truck markets are the 27 EU member states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU27+3), as well as Brazil, Russia, Turkey and South Africa.

For 2020, we expect new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes to be distinctly lower than the 2019 level in markets that are relevant for the Volkswagen Group. We regard the declining incoming orders seen in 2019 and the anticipated drop in transport volumes as a sign of a downturn in the European truck market. For the EU27+3 countries, we expect a 10 to 20% downturn in the market in 2020. Russia will probably witness a distinct rebound in demand.

On average, we anticipate solid growth rates in the relevant truck markets for the years 2021 to 2024.

INTEREST RATE TRENDS

The period of low interest rates continued in Europe and the USA in 2019, and also at the beginning of the current fiscal year. Worries about a deterioration in the economic climate resulted in a number of central banks renewing or extending the easing of their monetary policy. Interest rates are still close to or at historic lows. There is currently no end to the period of low interest rates in sight, not least because concerns about a trade dispute between the USA and its trading partners have not yet been fully eliminated.

SUMMARY OF EXPECTED DEVELOPMENTS

The Volkswagen Bank GmbH Group predicts that the volume of business in the current fiscal year will be at the level of 2019. 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 European competitors will be further strengthened through strategic investment in structural projects as well as through the OPEX program aimed at process optimization and productivity gains.

OUTLOOK FOR 2020

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, continuing 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.

In 2019, new contracts and penetration included pro rata figures from portfolios and entities that were transferred to Volkswagen Financial Services AG during the year as part of the restructuring activities. We therefore anticipate that new contracts and penetration in 2020 will be moderately below the 2019 level. Current contracts and the volume of business are projected to remain stable in 2020, but the volume of deposits will probably experience a modest year-on-year decrease. Because of the transfers of entities referred to above and positive non-recurring items in 2019, we expect the operating result to fall moderately below and the return on equity to fall slightly below the prior-year level in fiscal year 2020. For the same reasons, we forecast that the cost/income ratio in 2020 will be slightly higher than the level of the previous year.

FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2020 COMPARED WITH PRIOR-YEAR FIGURES

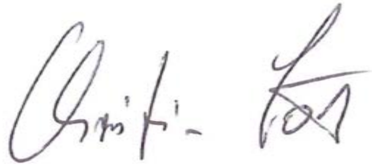
	Actual 2018	Actual 2019	Forecast for 2020
Nonfinancial performance indicators			
Penetration (percent)	30.8	23.0 [2]	moderately below the level achieved in 2019
Current contracts (thousands)[1]	6,393	3,932	at the level of 2019
New contracts (thousands)[1]	2,680	1,748 [2]	moderately below the level achieved in 2019
Financial performance indicators			
Volume of business (€ million)[3]	61,160	51,957	at the level of 2019
Volume of deposits (€ million)[4]	29,349	31,733	moderately below the level achieved in 2019
Operating result (€ million)[5]	952	757	moderately below the level achieved in 2019
Return on equity (percent)	8.4	7.2	slightly below the level achieved in 2019
Cost/income ratio (percent)	46.0	49.2	slightly above the level achieved in 2019

1 A new counting method for determining contract numbers was introduced on January 1, 2018.
2 New contracts including additions from Volkswagen Financial Services (UK) Ltd. and SkoFIN, s.r.o. January to March, and from Svenska Finans AB/Service Sverige January to July.
3 Prior-year figure restated.
4 Since January 1, 2019, the volume of deposits has been calculated without cash deposits from Group companies; prior-year figure restated (previous year: €32,389 million).
5 Actual value for 2019, excluding operating result of discontinued operations (FS UK and Svenska Finans AB: €143 million).

Braunschweig, February 19, 2020
The Management Board

Dr. Michael Reinhart

Harald Heßke



Christian Löbke

Dr. Volker Stadler

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Income Statement

of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec, 31, 2018 adjusted[1]	Change in percent
Interest income from lending transactions and marketable securities	18	1,451	1,367	6.1
Income from leasing transactions		1,017	1,138	–10.6
Depreciation, impairment losses and other expenses from leasing transactions		–746	–876	–14.8
Net income from leasing transactions	65	271	262	3.4
Interest expense	19	–161	–133	21.1
Income from service contracts		64	88	–27.3
Expenses from service contracts		–42	–70	–40.0
Net income from service contracts	20	22	19	15.8
Provision for credit risks	8, 21	–129	–64	X
Fee and commission income		212	217	–2.3
Fee and commission expenses		–212	–324	–34.6
Net fee and commission income	22	–1	–106	–99.1
Net gain or loss on hedges	8, 23	–28	–16	75.0
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	24	2	12	–83.3
General and administrative expenses	25	–794	–736	7.9
Other operating income		174	137	27.0
Other operating expenses		–49	–252	–80.6
Net other operating income/expenses	26	125	–115	X
Operating result		**757**	**489**	**54.8**
Share of profits and losses of equity-accounted joint ventures		29	23	26.1
Net gain or loss on miscellaneous financial assets	27	0	7	X
Other financial gains or losses	28	–1	–4	–75.0
Profit before tax		**785**	**515**	**52.4**
Income tax expense	6, 29	–226	–185	22.2
Profit from continuing operations, net of tax		**560**	**330**	**69.7**
Profit/loss from discontinued operations, net of tax		–17	373	X
Profit after tax		**543**	**703**	**–22.8**
Profit after tax attributable to the sole shareholder		543	703	–22.8

1 Prior year adjusted as described in the disclosures relating to the changes to the presentation of the income statement in the section "Adjustment of prior-year figures".

Statement of Comprehensive Income

of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018
Profit after tax		**543**	**703**
Pension plan remeasurements recognized in other comprehensive income	47		
Pension plan remeasurements recognized in other comprehensive income, before tax		–30	–5
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	6, 29	9	2
Pension plan remeasurements recognized in other comprehensive income, net of tax		–22	–3
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax		3	1
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax		0	0
Items that will not be reclassified to profit or loss		**–18**	**–2**
Exchange differences on translating foreign operations	4		
Gains/losses on currency translation recognized in other comprehensive income		76	–45
Transferred to profit or loss		111	–
Exchange differences on translating foreign operations, before tax		188	–45
Deferred taxes relating to exchange differences on translating foreign operations		–	–
Exchange differences on translating foreign operations, net of tax		188	–45
Hedging transactions	8		
Fair value changes recognized in other comprehensive income (OCI I)		0	7
Transferred to profit or loss (OCI I)		–2	–6
Cash flow hedges (OCI I), before tax		–3	1
Deferred taxes relating to cash flow hedges (OCI I)	6, 29	1	0
Cash flow hedges (OCI I), net of tax		–2	1
Fair value changes recognized in other comprehensive income (OCI II)		0	–
Transferred to profit or loss (OCI II)		0	–
Cash flow hedges (OCI II), before tax		–	–
Deferred taxes relating to cash flow hedges (OCI II)		–	–
Cash flow hedges (OCI II), net of tax		–	–
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss	8		
Fair value changes recognized in other comprehensive income		20	–2
Transferred to profit or loss		0	0
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax		19	–2
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	6, 29	–6	0
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax		14	–2
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax		–	–
Items that may be reclassified to profit or loss		**199**	**–46**
Other comprehensive income, before tax		177	–49
Deferred taxes relating to other comprehensive income		4	2
Other comprehensive income, net of tax		**181**	**–47**

Total comprehensive income		**724**	**656**
Total comprehensive income attributable to noncontrolling interests		–	–
Total comprehensive income attributable to the sole shareholder		724	656

€ million	Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018
Breakdown of total comprehensive income attributable to Volkswagen AG		
Continuing operations	545	315
Discontinued operations	180	341

Balance Sheet

of the Volkswagen Bank GmbH Group

€ million	Note	Dec. 31, 2019	Dec. 31, 2018	Change in percent
Assets				
Cash reserve	7, 31	3,471	1,858	86.8
Loans to and receivables from banks	8	444	661	–32.8
Loans to and receivables from customers attributable to				
Retail financing		35,307	29,882	18.2
Dealer financing		13,588	12,162	11.7
Leasing business		2,752	18,829	–85.4
Other loans and receivables		3,635	4,270	–14.9
Total loans to and receivables from customers	8, 32	55,282	65,143	–15.1
Derivative financial instruments	8, 33	51	257	–80.0
Marketable securities	8, 34	3,556	3,359	5.9
Equity-accounted joint ventures	35	245	216	13.5
Miscellaneous financial assets	9, 35	9	12	–24.3
Intangible assets	10, 36	39	40	–2.1
Property and equipment	11, 37	25	20	27.7
Lease assets	13, 65	1,657	5,491	–69.8
Investment property	13, 38	1	1	–17.1
Deferred tax assets	6, 39	1,870	1,642	13.9
Current tax assets	6	51	45	12.9
Other assets	40	549	1,370	–60.0
Assets held for sale (IFRS 5)	41	1,195	2,928	–59.2
Total assets		**68,445**	**83,042**	**–17.6**

€ million	Note	Dec. 31, 2019	Dec. 31, 2018	Change in percent
Equity and liabilities				
Liabilities to banks	43	7,478	8,898	–16.0
Liabilities to customers	43	38,247	39,602	–3.4
Notes, commercial paper issued	44, 45	9,563	16,868	–43.3
Derivative financial instruments	8, 46	70	214	–67.4
Provisions	14, 15, 47	453	536	–15.5
Deferred tax liabilities	6, 48	1,992	1,657	20.2
Current tax liabilities	6	139	184	–24.4
Other liabilities	49	370	699	–47.1
Subordinated capital	45, 50	105	2,103	–95.0
Liabilities related to the assets held for sale (IFRS 5)	54	–	639	X
Equity	52	10,027	11,639	–13.9
Subscribed capital		318	318	0.0
Capital reserves		8,498	8,531	–0.4
Retained earnings		1,223	3,006	–59.3
Other reserves		–12	–216	–94.5
Total equity and liabilities		**68,445**	**83,042**	**–17.6**

Statement of Changes in Equity

of the Volkswagen Bank GmbH Group

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES					Noncon-trolling interests	Total equity
					Hedging transactions					
				Currency translation	Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)	Equity and dept instruments	Equity-accounted invest-ments		
Balance before adjustment on Jan. 1, 2018	**318**	**8,531**	**2,622**	**–191**	**0**	**–**	**20**	**0**	**–**	**11,301**
Change in accounting treatment as a result of IFRS 9	–	–	–111	–	–	–	–1	–	–	–113
Balance as of Jan. 1, 2018	**318**	**8,531**	**2,510**	**–191**	**0**	**–**	**19**	**0**	**–**	**11,188**
Profit after tax	–	–	703	–	–	–	–	–	–	703
Other comprehensive income, net of tax	–	–	–3	–45	1	–	0	0	–	–47
Total comprehensive income	**–**	**–**	**700**	**–45**	**1**	**–**	**0**	**0**	**–**	**656**
Capital increases	–	–	–	–	–	–	–	–	–	–
Profit transfer to Volkswagen AG[1]	–	–	–204	–	–	–	–	–	–	–204
Other changes	–	0	–	–	–	–	–	–	–	0
Balance as of Dec. 31, 2018	**318**	**8,531**	**3,006**	**–235**	**1**	**–**	**18**	**0**	**–**	**11,639**
Balance as of Jan. 1, 2019	**318**	**8,531**	**3,006**	**–235**	**1**	**–**	**18**	**0**	**–**	**11,639**
Profit after tax	–	–	543	–	–	–	–	–	–	543
Other comprehensive income, net of tax	–	–	–22	188	–2	–	17	0	–	181
Total comprehensive income	**–**	**–**	**521**	**188**	**–2**	**–**	**17**	**0**	**–**	**724**
Capital increases	–	–	–	–	–	–	–	–	–	–
Profit transfer to Volkswagen AG[1]	–	–	–365	–	–	–	–	–	–	–365
Distribution of non-cash assets due to spin-offs[2]	–	–481	–2,143	–	–	–	–	–	–	–481
Changes due to non-cash contributions of Volkswagen AG[2]	–	448	203	–	1	–	–	–	–	449
Other changes	–	–	–	0	–	–	–	–	–	–1,940
Balance as of Dec. 31, 2019	**318**	**8,498**	**1,223**	**–48**	**0**	**–**	**35**	**0**	**–**	**10,027**

1 The figures show the share of HGB profit attributable to Volkswagen AG.
2 The disclosures relating to the changes are presented in the section "Basis of Consolidation".

Further information on equity is presented in note (52).

Cash Flow Statement

of the Volkswagen Bank GmbH Group

€ million	Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018
Profit after tax	**543**	**703**
Depreciation, amortization, impairment losses and reversals of impairment losses	634	984
Change in provisions	–61	–23
Change in other noncash items	277	320
Gain/loss on disposal of financial assets and items of property and equipment	–3	0
Net interest expense and dividend income	–1,475	–2,041
Other adjustments	4	8
Change in loans to and receivables from banks	–96	304
Change in loans to and receivables from customers	–3,049	–3,131
Change in lease assets	–1,041	–1,541
Change in other assets related to operating activities	249	–506
Change in liabilities to banks	–1,461	1,084
Change in liabilities to customers	3,227	–762
Change in notes, commercial paper issued	1,732	3,650
Change in other liabilities related to operating activities	–59	94
Interest received	1,636	2,399
Dividends received	0	8
Interest paid	–161	–366
Income taxes paid	–131	–216
Cash flows from operating activities	**765**	**968**
Proceeds from disposal of investment property	–	–
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	0	0
Acquisition of subsidiaries and joint ventures	–6	–9
Proceeds from disposal of other assets	490	1
Acquisition of other assets	–13	–17
Change in investments in marketable securities	633	–870
Cash flows from investing activities	**1,104**	**–895**
Proceeds from changes in capital	0	–
Distribution/profit transfer to the sole shareholder	–204	–489
Change in cash funds attributable to subordinated capital	–53	409
Cash flows from financing activities	**–257**	**–80**
Cash and cash equivalents at end of prior period	**1,858**	**1,866**
Cash flows from operating activities	765	968
Cash flows from investing activities	1,104	–895
Cash flows from financing activities	–257	–80
Effect of exchange rate changes	1	–1
Cash and cash equivalents at end of period	**3,471**	**1,858**

Further information on the cash flow statement is presented in note (66).

Notes to the Consolidated Financial Statements

of the Volkswagen Bank GmbH Group as of December 31, 2019

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 Bank 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 the parent company, 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.

Basis of Presentation

Volkswagen Bank GmbH has prepared its consolidated financial statements for the year ended December 31, 2019 in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), and the interpretations issued by the IFRS Interpretations Committee (IFRS IC), 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 IFRSs issued by the International Accounting Standards Board (IASB) up to December 31, 2019 for which mandatory application was required in fiscal year 2019 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 in accordance with section 315(1) of the HGB) can be found in the combined management report. This includes the qualitative disclosures on the nature and scope of risk from financial instruments required under IFRS 7.

All estimates and assumptions necessary for recognition and measurement in accordance with the IFRSs comply with the relevant standard, 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.

The Management Board completed the preparation of these consolidated financial statements on February 19, 2020. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Adjustment of prior-year figures

DISCONTINUED OPERATIONS

In the first half of 2019, Volkswagen Financial Services (UK) Ltd., Milton Keynes, together with its subsidiaries and structured companies, was spun off from Volkswagen Bank GmbH to Volkswagen Financial Services AG, and the profit or loss from these discontinued operations for the period January 1 to March 29, 2019 and for the prior-year period of January 1 to December 31, 2018 was therefore reclassified to profit/loss from discontinued operations in the income statement.

Additionally, the equity investment in Volkswagen Finans Sverige AB, Södertälje, including its subsidiaries and structured entities, was transferred to Volkswagen Financial Services AG in July 2019. As a consequence, the profit or loss of the Swedish entities (which had previously been presented as a separate segment in the Volkswagen Bank GmbH Group) for the period January 1 to July 31, 2019 and for the prior-year period January 1 to December 31, 2018 has been reclassified to profit/loss from discontinued operations in the income statement.

These spin-offs mean that there are discrepancies between the income statement disclosures, which relate only to continuing operations, and the balance sheet disclosures, which, as far as the prior year is concerned, include figures for both operations. Please refer to the details on the basis of consolidation for further disclosures relating to the changes arising from the reorganization of the legal entities.

The income statement for the prior-year period has been restated in relation to the discontinued operations as follows:

€ million	Jan. 1 – Dec. 31, 2018	Discontinued operation	Jan. 1 – Dec. 31, 2018 adjusted
Interest income from lending transactions and marketable securities	1,372	6	1,367
Income from leasing transactions	6,470	5,332	1,138
Depreciation, impairment losses and other expenses from leasing transactions	–5,209	–4,333	–876
Net income from leasing transactions	1,261	999	262
Interest expense	–366	–234	–133
Income from service contracts	160	72	88
Expenses from service contracts	–120	–51	–70
Net income from service contracts	40	21	19
Provision for credit risks	–94	–30	–64
Fee and commission income	224	6	217
Fee and commission expenses	–400	–76	–324
Net fee and commission income	–176	–70	–106
Net gain or loss on hedges	12	28	–16
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	48	36	12
General and administrative expenses	–933	–196	–736
Other operating income	452	315	137
Other operating expenses	–666	–414	–252
Net other operating income/expenses	–213	–99	–115
Operating result	**952**	**462**	**489**
Share of profits and losses of equity-accounted joint ventures	23	0	23
Net gain or loss on miscellaneous financial assets	8	1	7
Other financial gains or losses	–4	0	–4
Profit before tax	**978**	**463**	**515**
Income tax expense	–275	–90	–185
Profit from continuing operations, net of tax	**703**	**373**	**330**
Profit/loss from discontinued operations, net of tax	0	–373	373
Profit after tax	**703**	**0**	**703**
Profit after tax attributable to the sole shareholder	703	0	703

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 2019.

Various rules introduced under the Annual Improvements to IFRS Standards 2015–2017 Cycle came into force on January 1, 2019. These rules included clarification of provisions in IAS 12, IAS 23, IFRS 3 and IFRS 11. A clarification was added to IAS 12 Income Taxes to the effect that the income tax consequences of dividends must be recognized where the transactions or events that generated the distributable profits are recognized. Details clarifying the calculation of the weighted borrowing cost rate were also added to IAS 23 Borrowing Costs. Additions to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements clarify that when an entity obtains control of a business previously recognized as a joint operation, the principles relating to a step acquisition must be applied.

The amendments to IAS 28 (Investments in Associates and Joint Ventures) clarify that, with effect from January 1, 2019, long-term financial instruments that are a net investment in an associate or joint venture and are not accounted for using the equity method should be accounted for using the impairment rules of IFRS 9 (Financial Instruments).
Since January 1, 2019, there has also been a requirement to apply clarifications to the provisions in IFRS 9 Financial Instruments. As a result of the amendments, certain financial instruments that include prepayment features with negative compensation can be measured at amortized cost or at fair value through other comprehensive income.

In addition, IFRIC 23 Uncertainty over Income Tax Treatments applies. This interpretation specifies that tax risks must be recognized if it is probable that the tax authorities will not accept aspects of the tax calculation.

In another amendment, a clarification has been added to IAS 19 Employee Benefits, specifying that actuarial assumptions must be updated when there is a plan event (amendment, curtailment or settlement).

The provisions mentioned above and the other amended provisions do not materially affect the Volkswagen Bank GmbH Group's financial position and financial performance.

The Volkswagen Bank GmbH Group decided in favor of the early application of the interest rate benchmark reform amendments to IFRS 9, IAS 39 and IFRS 7 (published on September 26, 2019). These amendments would only have been subject to mandatory application from January 1, 2020. The amendments affect hedges in existence at the beginning of the reporting period or designated thereafter. In the context of the accompanying exceptions available under the amendments, the Volkswagen Bank GmbH Group is assuming that the IBOR reform will not have an adverse impact on the effectiveness of recognized hedges and that therefore no hedges will have to be discontinued.

IFRS 16 – LEASES

IFRS 16 amends the provisions governing the accounting treatment of leases and supersedes the previously applicable IAS 17 and the associated interpretations.

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 must generally recognize both a right-of-use asset and a lease liability in their balance sheet. At the Volkswagen Bank GmbH Group, the lease liability is measured at the present value of the outstanding lease payments, whereas the right-of-use asset is generally measured at the amount of the lease liability plus any direct costs. 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. IFRS 16 provides for exemptions for short-term leases and leases in which the underlying asset is of low value. The Volkswagen Bank GmbH Group has elected to apply these exemptions and therefore does not recognize any right-of-use asset or lease liability for such leases. The associated lease payments continue to be recognized as an expense in the income statement. On the date of initial application, leases in which the lease term was due to expire before January 1, 2020 were classified as short-term leases regardless of the commencement date of the lease concerned. In addition, existing leases were not reassessed on the date of initial application to establish whether they represented a lease on the basis of the criteria specified in IFRS 16. Instead, contracts that were already classified as a lease under IAS 17 or IFRIC 4 continued to be classified as such. Contracts that had already been deemed not to be a lease under IAS 17 or IFRIC 4 were retained in the same classification.

Lessors are required to account for leases largely in the same way as under the previous rules in accordance with IAS 17. Lessors 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.

On January 1, 2019, the Volkswagen Bank GmbH Group accounted for leases in accordance with the requirements specified in IFRS 16 using the modified retrospective method (within the meaning of IFRS 16.C5(b)). In this method, prior-year periods have not been adjusted as the lease liability is recognized on the changeover date at the present value of the outstanding lease payments. The present value was calculated using incremental borrowing rates as of January 1, 2019. In the Volkswagen Bank GmbH Group, the weighted average discount rate in this regard amounted to 3.3%. The initial recognition of right-of-use assets and lease liabilities had the following effects as of January 1, 2019:

> In the opening balance sheet, right-of-use assets amounting to €53 million were recognized under property and equipment.
> Lease liabilities of €53 million were recognized in the opening balance sheet and reported under liabilities to customers.
> There were no effects on equity from the initial application.

In contrast to the current procedure, in which operating lease expenses are reported in full under general and administrative expenses, only the depreciation charge in respect of the right-of-use assets is posted in general and administrative expenses under IFRS 16. Interest expense from unwinding the discount on lease liabilities is recognized under interest expenses.

The change in recognition of operating lease expenses only had a minor impact on the cash flow statement.

As part of the introduction of IFRS 16, the presentation of right-of-use assets in connection with long-term leases with a return agreement were reclassified from other assets to lease assets. This takes into account the procedure described above whereby right-of-use assets are recognized under the same item utilized for equivalent assets owned by Volkswagen Bank GmbH Group.

New and Revised IFRSs Not Applied

Volkswagen Bank GmbH has not applied in its consolidated financial statements the following financial reporting standards that have already been issued by the IASB but were not yet subject to mandatory application in fiscal year 2019.

Standard/interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IFRS 3	Business Combinations: Definition of a Business	October 22, 2018	January 1, 2020	No	No material impact
IFRS 17	Insurance Contracts	May 18, 2017	Jan. 1, 2021[2]	No	No material impact
IAS 1 and IAS 8	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Materiality	October 31, 2018	January 1, 2020	Yes	No material impact
IAS 1	Classification of Liabilities	January 23, 2020	January 1, 2022	No	No material impact

1 Pflicht zur erstmaligen Anwendung aus Sicht der Volkswagen Bank GmbH
2 Das IASB hat die Verschiebung des Erstanwendungszeitpunkts auf den 01.01.2022 vorgeschlagen

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, 2019.

Financial reporting in the Volkswagen Bank GmbH Group complies with IFRS 10 and is based on standard accounting policies.

Unless otherwise stated, amounts are shown in millions of euros (€ million). All amounts shown are rounded, and minor discrepancies may therefore arise when amounts are added together.

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 cover all significant German and non-German subsidiaries, including all structured entities, that are controlled directly or indirectly 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. In the case of the structured entities consolidated in the Volkswagen Bank GmbH Group, Volkswagen Bank GmbH holds no equity investment but nevertheless determines the main relevant activities remaining after the structure is created and thereby influences its own variable returns. The purpose of the structured entities is to facilitate asset-backed-securities transactions to fund the financial services business.

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.

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 made unanimously. Associates and joint ventures of minor significance are not accounted for using the equity method but are reported under financial assets at cost.

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

	2019	2018
Volkswagen Bank GmbH and consolidated subsidiaries		
Germany	1	1
International	–	3
Subsidiaries recognized in financial assets		
Germany	–	–
International	1	7
Equity-accounted associates and joint ventures		
Germany	1	1
International	2	2
Associates, joint ventures and equity investments recognized in financial assets		
Germany	1	1
International	2	1
Total	**8**	**16**

Volkswagen Bank GmbH maintains nine branches abroad. As of the balance sheet date, twelve (previous year: 24) structured entities were 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.vwfs.com/listofholdingsvwbank19.

SUBSIDIARIES

The following significant changes occurred at subsidiaries in the reporting period.

The Volkswagen Bank GmbH Group's basis of consolidation contracted in fiscal year 2019 as a consequence of intragroup restructuring projects that continued the work begun in 2016 to reorganize Volkswagen Financial Services. As part of this restructuring, the European lending and deposits business was pooled in Volkswagen Bank GmbH and systematically separated from the other activities at Volkswagen Financial Services AG.

As of March 29, 2019, the following subsidiaries were transferred from Volkswagen Bank GmbH to Volkswagen Financial Services AG:

- Volkswagen Financial Services S.p.A., Milan, Italy
- Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom, including its subsidiaries MAN Financial Services Ltd., Swindon and Volkswagen Insurance Service (Great Britain) Ltd., Milton Keynes, United Kingdom, and including its structured entities, Driver UK Master S.A., Luxembourg and Driver UK Multi-Compartment S.A., Luxembourg
- Volkswagen Financial Ltd., Milton Keynes, United Kingdom
- SkoFIN s.r.o., Prague, Czech Republic
- Volkswagen Serwis Ubezpieczeniowy Sp. Z o.o., Warsaw, Poland

Volkswagen Bank GmbH lost control of these subsidiaries when the transactions were entered in the commercial register on March 29, 2019.

As of July 31, 2019, the Swedish entity Volkswagen Finans Sverige AB, Södertälje and its subsidiary Volkswagen Service Sverige AB, Södertälje, as well as the structured entity Autofinance S.A., were transferred to Volkswagen Financial Services AG.

Volkswagen Bank GmbH lost control of these entities when the transactions were entered in the commercial register on July 31, 2019.

The entities were transferred without payment of a purchase consideration by Volkswagen Financial Services AG. Instead, the transfer was reported as a distribution of non-cash assets (within the meaning of IFRIC 17) from the equity of Volkswagen Bank GmbH. The transfer was effected at the amortized net carrying amount because Volkswagen Financial Services AG continues to be controlled by its ultimate parent, Volkswagen AG.

The following table shows the breakdown of the gain or loss on the derecognition of the discontinued operations Volkswagen Financial Services (UK) Ltd. and Volkswagen Finans Sverige AB, Södertälje:

€ million	VW FINANCIAL SERVICES (UK) LTD. Jan. 1 – March 29, 2019	VW FINANS SVERIGE AB Jan. 1 – July 31, 2019
Amounts reclassified for exchange differences on translating foreign operations	–65	–66
Amounts reclassified for cash flow hedges	–	–
Amounts reclassified for available-for-sale financial assets	–	–
Costs of disposal	–	–
Loss on disposal before tax	**–65**	**–66**
Income tax expense on disposal	–	–
Loss on disposal after tax	**–65**	**–66**

In the consolidated income statement for the Volkswagen Bank GmbH Group, the profit or loss generated up to the spin-off date by the discontinued operations is recognized separately from the income and expenses from continuing operations and these discontinued operations are therefore reported separately in an individual line as profit/loss from discontinued operations.

Consolidation effects between entities forming part of continuing operations and the two entities constituting discontinued operations are included in the income statement for the discontinued operations.

The following table shows the income statement for the discontinued operations:

€ million	Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018
Interest income from lending transactions and marketable securities	11	6
Income from leasing transactions	2,291	5,332
Depreciation, impairment losses and other expenses from leasing transactions	–1,985	–4,333
Net income from leasing transactions	305	999
Interest expense	–76	–234
Income from service contracts	35	72
Expenses from service contracts	–27	–51
Net income from service contracts	8	21
Provision for credit risks	–12	–30
Fee and commission income	3	6
Fee and commission expenses	–20	–76
Net fee and commission income	–16	–70
Net gain or loss on hedges	4	28
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	38	36
General and administrative expenses	–62	–196
Other operating income	87	315
Other operating expenses	–144	–414
Net other operating income/expenses	–57	–99
Operating result from discontinued operations	**143**	**462**
Share of profits and losses of equity-accounted joint ventures	–	–
Net gain or loss on miscellaneous financial assets	–	1
Other financial gains or losses	–	0
Profit before tax from discontinued operations	**143**	**463**
Income tax expense	–29	–90
Profit from discontinued operations, net of tax	**114**	**373**
Loss on the disposal of discontinued operations before tax	–131	–
Income tax expense on disposal	–	–
Loss on the disposal of discontinued operations	**–131**	**–**
Profit/loss from discontinued operations	**–17**	**373**
Profit/loss from discontinued operations attributable to the sole shareholder	–17	373

The following table shows the changes in the consolidated balance sheet resulting from the derecognized assets and liabilities relating to the discontinued operations as of the individual derecognition date:

	VOLKSWAGEN FINANCIAL SERVICES (UK) LTD	VOLKSWAGEN FINANS SVERIGE AB
€ million	March 29, 2019	July 31, 2019
Assets		
Cash reserve	–	–
Loans to and receivables from banks	–182	–45
Loans to and receivables from customers attributable to		
Retail financing	–210	–932
Dealer financing	–5	–113
Leasing business	–15,194	–1,198
Other loans and receivables	–327	801
Total loans to and receivables from customers	–15,735	–1,442
Derivative financial instruments	–42	–38
Marketable securities	846	–
Equity-accounted joint ventures	–	–
Miscellaneous financial assets	–7	0
Intangible assets	–	–3
Property and equipment	–50	–1
Lease assets	–3,190	–1,395
Investment property	–	–
Deferred tax assets	–65	–2
Current tax assets	–1	0
Other assets	–352	–101
Total assets	**–18,780**	**–3,027**
Equity and liabilities		
Liabilities to banks	0	–
Liabilities to customers	–5,878	–651
Notes, commercial paper issued	–8,558	–1,806
Derivative financial instruments	–215	0
Provisions	–15	–2
Deferred tax liabilities	–2	–54
Current tax liabilities	–38	–6
Other liabilities	–200	–40
Subordinated capital	–2,016	–65
Equity	–1,856	–402
Total equity and liabilities	**–18,780**	**–3,027**

The consolidated cash flow statement for the Volkswagen Bank GmbH Group presents the cash flows including the discontinued operations. The cash flows for the discontinued operations are shown separately in the following condensed cash flow statement:

€ million	Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018
Cash flows from operating activities	1,083	295
Cash flows from investing activities	74	–8
Cash flows from financing activities	–3	431

In addition, the Spanish company Volkswagen Finance S.A. E.F.C, Alcobendas, a direct subsidiary of Volkswagen AG, was merged into Volkswagen Bank GmbH as of May 31, 2019. The merger was effected without payment of a consideration by Volkswagen Bank GmbH and therefore represented a non-cash capital contribution by the shareholder Volkswagen AG. As the transaction was under the common control of Volkswagen AG, the transferred assets and liabilities were measured using the existing group carrying amounts on the date of initial recognition (known as predecessor accounting).

The consolidated structured entities Driver España Three, Fondo de Titulización, Madrid, Driver España Four, Fondo de Titulización, Madrid, and Driver España Five, Fondo de Titulización, Madrid, were included in the merger.

The following table shows the transferred assets and liabilities:

€ million	IFRS carrying amounts as of the date of initial recognition
Loans to and receivables from banks	54
Loans to and receivables from customers	4,493
Derivative financial instruments	2
Property and equipment	5
Current tax assets	30
Other assets	79
Total assets	**4,664**
Liabilities to banks	39
Liabilities to customers	2,876
Notes, commercial paper issued	1,001
Derivative financial instruments	1
Provisions	1
Current tax liabilities	28
Other liabilities	17
Subordinated capital	50
Equity	204
Total equity and liabilities	**4,216**
Net assets	**448**

JOINT VENTURES

From a Group perspective, the equity-accounted joint ventures require separate presentation because they were deemed material on the reporting date because of their size. These joint ventures are strategically important to the Volkswagen Bank GmbH Group. They run the financial services business in the respective countries and thus help to promote vehicle sales in the Volkswagen Group.

Volkswagen Financial Services Digital Solutions GmbH, Braunschweig

Volkswagen Financial Services Digital Solutions GmbH, which is headquartered in Braunschweig, is a financial services provider specializing in information technology services, particularly the development and operation of systems.

DFM N.V., Amersfoort

DFM N.V. and its subsidiary DFM Payment Services B.V. in Amersfoort, Netherlands, are financial services providers offering financing products for Volkswagen Group vehicles to business and private customers in the Netherlands. Volkswagen Bank GmbH and its partner in this joint venture, Pon-Holdings B.V., have entered into an agreement for a long-term strategic partnership.

Volkswagen Financné služby Slovensko s.r.o., Bratislava

Volkswagen Financné služby Slovensko s.r.o. and its subsidiary Volkswagen Finančné služby Maklérska s.r.o. which are registered in Bratislava, Slovakia, are financial services providers that carry out sales and processing work in connection with the financial services products of other entities. Volkswagen Bank GmbH and its partner in this joint venture, Porsche Bank AG, Salzburg, have entered into an agreement for a long-term strategic partnership.

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

€ million	DFM N.V. (NETHERLANDS) 2019	DFM N.V. (NETHERLANDS) 2018	VOLKSWAGEN FINANCIAL SERVICES DIGITAL SOLUTIONS GMBH (GERMANY) 2019	VOLKSWAGEN FINANCIAL SERVICES DIGITAL SOLUTIONS GMBH (GERMANY) 2018	VOLKSWAGEN FINANČNÉ SLUŽBY SLOVENSKO S.R.O. (SLOVAKIA) 2019	VOLKSWAGEN FINANČNÉ SLUŽBY SLOVENSKO S.R.O. (SLOVAKIA) 2018
Shareholding (percent)	60%	60%	51%	51%	58%	58%
Loans to and receivables from banks	–	–	25	26	1	1
Loans to and receivables from customers	2,200	1,923	41	39	472	428
Lease assets	–	–	–	–	64	51
Other assets	6	4	138	144	21	27
Total assets	**2,206**	**1,927**	**204**	**209**	**557**	**506**
of which: noncurrent assets	519	498	122	127	408	360
of which: current assets	1,686	1,429	82	82	149	146
of which: cash	4	–	0	0	1	1
Liabilities to banks	1,893	1,687	18	38	467	428
Liabilities to customers	12	52	69	68	10	9
Notes, commercial paper issued	–	–	–	–	–	–
Other liabilities	91	3	5	8	8	4
Equity	210	184	112	94	73	66
Total equity and liabilities	**2,206**	**1,927**	**204**	**209**	**557**	**506**
of which: noncurrent liabilities	136	201	2	3	104	114
of which: current liabilities	1,860	1,542	90	113	379	327
of which: noncurrent financial liabilities	135	201	–	–	99	113
of which: current financial liabilities	–	1,538	87	107	377	324
Revenue	56	44	799	720	74	61
of which: interest income	53	42	–	–	17	16
Expenses	–20	–13	–772	–701	–64	–53
of which: interest expense	–1	–2	–1	–1	–1	–1
of which: depreciation and amortization	–1	0	–33	–31	–1	–1
Profit from continuing operations, before tax	**35**	**31**	**27**	**20**	**10**	**9**
Income tax expense or income	–10	–9	–9	–8	–2	–3
Profit from continuing operations, net of tax	**26**	**22**	**18**	**12**	**8**	**6**
Profit/loss from discontinued operations, net of tax	–	–	–	–	–	–
Other comprehensive income, net of tax	0	0	–	–	–	–
Total comprehensive income	**26**	**22**	**18**	**12**	**8**	**6**
Dividends received	–	–	–	–	–	–

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

€ million	DFM N.V. (Netherlands)	Volkswagen Financial Services Digital Solutions GmbH (Germany)	Volkswagen Finančné služby Slovensko s.r.o. (Slovakia)
2018			
Equity of the joint venture as of Jan. 1, 2018	162	82	59
Profit/loss	22	12	6
Other comprehensive income	0	–	–
Change in share capital	–	–	–
Change due to spin-offs	–	–	–
Exchange differences on translating foreign operations	–	–	–
Dividend	–	–	–
Equity of the joint venture as of Dec. 31, 2018	**184**	**94**	**66**
Share of equity	111	48	38
Difference	19	0	–
Carrying amount of the share of equity as of Dec. 31, 2018	**130**	**48**	**38**
2019			
Equity of the joint venture as of Jan. 1, 2019	184	94	66
Profit/loss	26	18	8
Other comprehensive income	0	–	–
Change in share capital	–	–	–
Change due to spin-offs	–	–	–
Exchange differences on translating foreign operations	–	–	–
Dividend	–	–	–
Equity of the joint venture as of Dec. 31, 2019	**210**	**112**	**73**
Share of equity	126	57	42
Goodwill	19	0	–
Carrying amount of the share of equity as of Dec. 31, 2019	**145**	**57**	**42**

There were no unrecognized losses relating to interests in joint ventures. There are no contingent liabilities to joint ventures.

ASSOCIATES

In December 2019, Volkswagen Bank GmbH, Braunschweig, acquired 20% of the shares in Credi2 GmbH, Vienna, Austria. The company develops software applications for processing lending products, and digital procedures enabling customers to submit product applications/requests online. This equity investment in Credi2 GmbH continues Volkswagen Bank GmbH's growth strategy and accelerates the digitalization of the business model.

3. Consolidation Methods

The assets and liabilities of the German and international entities included in the consolidated financial statements are reported in accordance with the uniform accounting policies applicable throughout the Volkswagen Bank GmbH Group. In the case of the equity-accounted investments, the pro rata equity is determined on the basis of the same accounting policies. The relevant figures are taken from the most recently audited annual financial statements of the entity concerned.

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. 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 are instead recognized as expenses. Goodwill is tested for impairment at least once a year, and additionally if relevant events occur or circumstances change (impairment-only approach). 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 detected 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. The assets and liabilities of the subsidiaries are recognized at their values on the date of initial 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. Intragroup transactions are conducted on an arm's-length basis. Any resulting intercompany profits or losses are eliminated. 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.

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 on the transaction date. Foreign currency monetary items are reported in the balance sheet using the middle rate on the closing date and the resulting gains or losses are recognized in profit or loss.

The foreign branches and subsidiaries which form part of the Volkswagen Bank GmbH Group are independent subunits whose financial statements are translated using the functional currency principle. Under this principle, assets and liabilities, but not equity, must be translated as of 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.

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

	€1 =	BALANCE SHEET, MIDDLE SPOT RATE ON DEC. 31		INCOME STATEMENT, AVERAGE RATE	
		2019	2018	2019	2018
United Kingdom	GBP	0.84995	0.89690	0.87755	0.88479
Poland	PLN	4.25970	4.29780	4.29762	4.26220
Sweden	SEK	10.44505	10.25070	10.58601	10.26034
Czech Republic	CZK	25.40650	25.72450	25.66957	25.64840

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 activities is included in the interest income from lending and securities transactions; leasing income is reported in the income statement under “income from leasing transactions”. Leasing revenue from operating leases is recognized on a straight-line basis over the lease term and includes both the interest portion and the repayment of the principal.

Contingent payments under finance leases and operating leases are recognized when the conditions for the contingent payments are satisfied.

In the Volkswagen Bank GmbH Group, contract origination costs are capitalized and amortized on a straight-line basis over the term of the contract only if they are material, the underlying contract has a term of at least one year and these costs would not have been incurred if the contract concerned had not materialized.

Expenses relating to the funding of financing and leasing transactions are reported in interest expenses.

In the case of service contracts, such as maintenance or inspection agreements, revenue is recognized on either a percentage-of-completion or straight-line basis, depending on the type of service performed. Percentage of completion is normally calculated by considering the services provided up to the reporting date as a proportion of the total anticipated services (output-based). If the customer pays for services in advance, the Group recognizes a corresponding contractual liability until the relevant service is performed.

Net fee and commission income includes income and expenses from insurance brokerage as well as fees and commissions from the financing and financial services businesses. Fee and commission income from insurance brokerage 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.

Significant items reported within net other operating income are income arising from the allocation of costs to other entities in the Volkswagen Group and income from the reversal of provisions recognized in previous years within net other operating income.

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 not offset. 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 the liability is paid.

Deferred tax assets are recognized if it is probable that in the future taxable profits will be generated in the same tax unit. If it is no longer likely that it will be possible to recover deferred tax assets within a reasonable period, valuation allowances are applied. Deferred tax assets and liabilities with the same maturities and relating to the same tax authorities are offset.

The tax expense attributable to 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; this corresponds to amortized cost.

8. Financial Instruments

Financial instruments are contracts that give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

In the case of regular way purchases or sales, financial instruments are normally recognized on the settlement date, i.e. the date on which the asset is delivered.

Financial assets are classified and measured on the basis of the business model operated by an entity and the structure of its cash flows.

IFRS 9 breaks down financial assets into the following categories:
- financial assets measured at fair value through profit or loss,
- financial assets measured at fair value through other comprehensive income (debt instruments),
- financial assets measured at fair value through other comprehensive income (equity instruments), and
- financial assets measured at amortized cost.

Financial liabilities are classified using the following categories:
- financial liabilities measured at fair value through profit or loss, and
- financial liabilities measured at amortized cost.

In the Volkswagen Bank GmbH Group, the categories shown above are allocated to the classes "financial assets and liabilities measured at amortized cost" and "financial assets and liabilities measured at fair value".

The fair value option for financial assets and financial liabilities is not applied in the Volkswagen Bank GmbH Group.

Financial assets and financial liabilities are generally reported with their gross values. Offsetting is only 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.

FINANCIAL ASSETS MEASURED AT AMORTIZED COST CATEGORY AND FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST CATEGORY

Financial assets measured at amortized cost are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect" business model). The contractual cash flows of these financial assets consist solely of payments of principal and interest on the principal amount outstanding, such that the cash flow criterion is satisfied.

Financial liabilities are measured at amortized cost unless these liabilities are derivatives.

The amortized cost of a financial asset or financial liability is the amount:

- at which the financial asset or financial liability is measured on initial recognition,
- minus any repayments of principal,
- adjusted, in the case of financial assets, for any recognized valuation allowances, impairment losses or uncollectibility and
- plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount (premium, discount) using the effective interest method.

Gains and losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (DEBT INSTRUMENTS) CATEGORY

Financial assets (debt instruments) measured at fair value through other comprehensive income are held within a business model whose objective is to collect contractual cash flows and sell financial assets ("hold to collect and sell" business model). The contractual cash flows of these financial assets consist solely of payments of principal and interest on the principal amount outstanding.

Changes in fair value that extend beyond the changes in the amortized cost of these financial assets are recognized in other comprehensive income (taking into account deferred taxes) until the financial asset concerned is derecognized. Only then are the accumulated gains or losses reclassified to profit or loss. The changes in amortized cost, such as impairment losses, interest determined in accordance with the effective interest method and foreign currency gains or losses, are immediately recognized in profit or loss.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS CATEGORY AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS CATEGORY

Financial assets (debt instruments) for which the cash flow criterion is not satisfied, or that are managed within a business model whose objective is to sell these assets in order to realize cash flows ("sell" business model), together with derivatives, are measured at fair value through profit or loss. The same applies to financial liabilities that are not measured at amortized cost.

In the case of these financial assets and liabilities, any changes in fair value are recognized in profit or loss.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (EQUITY INSTRUMENTS) CATEGORY

In the Volkswagen Bank GmbH Group, financial assets that represent an equity instrument are measured at fair value through other comprehensive income in exercise of the fair-value-through-OCI option unless they are held for trading purposes. The accumulated gains or losses from remeasurement are transferred on derecognition to retained earnings and not to the income statement (i.e. they are not reclassified to profit or loss).

LOANS AND RECEIVABLES

Loans to/receivables from banks, and loans to/receivables from customers, originated by the Volkswagen Bank Group 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.

In individual cases, some loans to and receivables from customers are recognized at fair value through profit or loss because the cash flow criterion is not satisfied. Gains and losses arising from changes in fair value are recognized in profit or loss under net gain or loss on financial instruments measured at fair value.

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 are included in portfolio hedges. Loans to and receivables from customers assigned to portfolio hedges are measured at hedged fair value.

Loans and receivables are derecognized when they are repaid or settled. There are no indications that loans/receivables from ABS transactions need to be derecognized.

MARKETABLE SECURITIES

The “Marketable securities” balance sheet item largely comprises investments of resources in the form of fixed-income securities from public-sector issuers and asset-backed securities issued by special-purpose entities.

Asset-backed securities are allocated to the category of financial assets measured at fair value through profit or loss. The fixed-income securities are allocated to the category of financial assets (debt instruments) measured at fair value through other comprehensive income. Valuation allowances for marketable securities are recognized in profit or loss under the “Provision for credit risks” line item. Interest determined in accordance with the effective interest method and effects from changes in exchange rates are also recognized in profit or loss. In addition, the differences between the amortized cost and fair value arising from the remeasurement of fixed-income securities are recognized in other comprehensive income, taking into account deferred taxes.

EQUITY INVESTMENTS

The equity investments included in the “Miscellaneous financial assets” balance sheet item are measured as equity instruments generally at fair value through other comprehensive income in exercise of the fair-value-through-OCI option. As the equity investments are strategic financial investments, this classification provides a more meaningful presentation of the investments.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments comprise derivatives used to hedge against risk and derivatives not designated as hedging instruments. All derivatives are measured at fair value and are presented separately in notes (33) and (46).

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 value adjustments and debt value adjustments.

In the Volkswagen Bank GmbH Group, entities enter into derivative transactions solely for hedging purposes as part of their management of interest rate and/or currency risk.

Derivatives are used as hedging instruments to hedge fair values or future cash flows (referred to as hedged items). Hedge accounting in accordance with IFRS 9 is only applied in the case of hedges that can be demonstrated to be effective, both on designation and continuously thereafter. The Volkswagen Bank GmbH Group documents all relationships between hedging instruments and hedged items.

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 or loss on hedges. 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 the same 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. Gains or losses arising from the ineffectiveness of fair value hedges are also recognized in gain or loss on hedges.

IFRS 9 allows entities to apply the provisions in IAS 39 to the hedging of the fair value of a portfolio of financial assets or financial liabilities (portfolio hedge accounting). In the reporting period, the Volkswagen Bank GmbH Group used portfolio-based fair value hedges to hedge interest-rate risks and accounted for these hedges in accordance with the requirements of IAS 39. 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 designated effective portion of a change in the fair value of the derivative is recognized in other comprehensive income in OCI I, while the non-designated effective portion is recognized in OCI II. Effects on earnings from the net gain or loss on hedges arise both from the ineffective portion of the change in fair value and from the reclassification of changes in fair value recognized when the hedged item was originally recognized in other comprehensive income. The measurement of the hedged item remains unchanged.

Changes in the fair values of derivatives that do not satisfy the IFRS 9 criteria for hedge accounting and that are therefore accounted for in the category of financial assets and financial liabilities measured at fair value through profit or loss are recognized in profit or loss under net gain or loss on financial instruments measured at fair value.

PROVISION FOR CREDIT RISKS

The provision for credit risks, which is recognized in accordance with the expected credit loss model specified by IFRS 9 and in accordance with uniform standards applied throughout the Group, encompasses all financial assets measured at amortized cost, financial assets in the form of debt instruments measured at fair value through other comprehensive income, lease receivables that fall within the scope of IFRS 16 and credit risks from off-balance-sheet irrevocable credit commitments and financial guarantees. The calculation of the provision for credit risks generally takes into account the exposure at default, the probability of default and the loss given default.

Financial assets are subject to credit risks, which are taken into account by recognizing valuation allowances in the amount of the expected loss; such valuation allowances are recognized both for financial assets with objective evidence of impairment and for non-impaired financial assets. These allowances are posted to separate valuation allowance accounts.

The general approach is used for financial assets measured at amortized cost (with the exception of trade receivables), financial assets (debt instruments) whose changes in fair value are recognized in other comprehensive income and for irrevocable credit commitments and financial guarantees unless there is already objective evidence of impairment on initial recognition. Financial assets are broken down into three stages in the general approach. Stage 1 consists of financial assets that are being recognized for the first time or that have not demonstrated any significant increase in probability of default since initial recognition. In this stage, the model requires the calculation of an expected credit loss for the next twelve months. Stage 2 consists of financial assets for which the probability of default has increased significantly since initial recognition. Financial assets demonstrating objective indications of impairment are allocated to Stage 3. In Stages 2 and 3, an expected credit loss is calculated for the entire remaining maturity of the asset.
In the case of financial assets already impaired on initial recognition and classified as Stage 4 for the purposes of the disclosures, the provision for credit risks is recognized in subsequent measurement on the basis of the cumulative changes in the expected credit loss for the entire life of the asset concerned. Any financial instrument already classified as impaired on initial recognition remains in this stage until it is derecognized.

In the Volkswagen Bank GmbH Group, the provision for credit risks relating to trade receivables and to operating and finance lease receivables accounted for in accordance with IFRS 16 is uniformly determined using the simplified approach. In the simplified approach, an expected loss is calculated over the entire remaining maturity of the asset. The amount of the valuation allowance for trade receivables is calculated according to the amount by which the receivable is past due using a valuation allowance table (provision matrix).

Both historical information, such as average historical default probabilities for each portfolio, and forward-looking information is used to determine the measurement parameters for calculating the provision for credit risks. 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. In the case of significant individual impaired loans or receivables (e.g. dealer financing loans/receivables and fleet customer business loans/receivables), specific valuation allowances are recognized in the amount of the expected loss.

Impairment arises 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.

Reviews are regularly carried out to ensure that the valuation allowances are appropriate.

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 valuation allowances previously recognized are utilized. Income subsequently collected in connection with loans or receivables already written off is recognized in profit or loss.

Loans and receivables are reported in the balance sheet at the net carrying amount. The provision for credit risks relating to off-balance sheet irrevocable credit commitments and financial guarantees is recognized within other liabilities.

Disclosures relating to the provision for credit risks are presented separately in note (60).

LIABILITIES

Liabilities to banks and customers, notes and commercial paper issued, and subordinated capital 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, discounting or unwinding of discounting is not applied to current liabilities (due within one year).

They are therefore recognized at their repayment or settlement value.

Lease liabilities are carried at the present value of the lease payments.

9. Miscellaneous Financial Assets

Investments in subsidiaries that are not consolidated, other equity investments and investments in associates are reported as miscellaneous financial assets.

The accounting policies applicable to equity investments are set out in note (8) Financial Instruments.

10. 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).

Subject to the conditions specified in IAS 38, internally developed software and all the direct and indirect costs that are directly attributable to the development process are capitalized. When assessing whether the development costs associated with internally generated software are to be capitalized or not, Volkswagen Bank GmbH takes 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. Research costs are not capitalized. Amortization is on a straight-line basis over the 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. An appropriate impairment loss is recognized if a comparison shows that the recoverable amount for the asset is lower than its carrying amount.

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 at least once a year and additionally if relevant events or changes in circumstances should occur. If required, an impairment loss is recognized to reduce the carrying amount to a lower recoverable amount (see note (12)).

Goodwill is tested for impairment once a year and also if relevant events or changes in circumstances occur. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized. There can be no subsequent reversal of such impairment losses.

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 6.9% (previous year: 6.8%). 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.).

11. 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 23 years

An impairment loss is recognized in accordance with IAS 36 if the recoverable amount of the asset concerned has fallen below its carrying amount (see note (12)).

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.

The property and equipment line item on the balance sheet also includes right-of-use assets recognized on the balance sheet in connection with leases in which the Volkswagen Bank GmbH Group is the lessee. The accounting policies for these right-of-use assets are set out in note (13) Leases within the subsection covering the Group as lessee.

12. Impairment of Non-Financial Assets

Assets with an indefinite useful life are not depreciated or amortized; they are tested for impairment once a year and additionally if relevant events or changes in circumstances occur. Assets subject to depreciation and amortization are tested for impairment if relevant events or changes in circumstances indicate that the recoverable amount for the asset concerned is lower than its carrying amount.

An impairment loss is recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and fair value less value in use. Fair value 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.

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. This does not apply to impairment losses recognized in respect of goodwill.

13. Leases

Since January 1, 2019, the Volkswagen Bank GmbH Group has accounted for leases in accordance with IFRS 16. This standard defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

The accounting policies for leases in accordance with IAS 17, on which the prior-year comparative figures are based, have not been amended. In this context, please refer to the notes provided in the 2018 Annual Report.

GROUP AS LESSOR

The Volkswagen Bank GmbH Group operates both finance lease business and operating lease business. The leases are mainly vehicle leases, but to a lesser extent also involve land and buildings. The accounting treatment of a lease is based on whether the lease is classified as a finance lease or an operating lease. The classification is determined according to the distribution of the risks and rewards associated with ownership of the leased asset.

A finance lease is a lease that transfers the substantial risks and rewards 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 these transactions is reported under leasing income in the income statement. The interest paid by the customer is allocated so as to produce a constant periodic rate of interest on the remaining balance of the lease receivable.

In the case of operating leases, the substantial risks and rewards related to the lease asset remain with the lessor. In this case, the assets involved are reported in a separate "Lease assets" item in the consolidated balance sheet, 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 in which the recoverable amount (normally the value in use) is found to have fallen below the carrying amount is taken into account by recognizing an impairment loss. Generally, future depreciation rates are adjusted as a consequence of impairment. 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. The leasing revenue is recognized on a straight-line basis over the lease term.

Where the Volkswagen Bank GmbH Group is a lessor, one of the ways in which it counters the risks arising in connection with the underlying leased assets (primarily vehicles) is to take into account residual value guarantees received for parts of the lease portfolio and to include residual value forecasts on the basis of internal and external information within residual value management. Residual value forecasts are regularly verified by a process of backtesting.

The Volkswagen Bank GmbH Group takes full account of the credit risk arising in connection with lease receivables by recognizing loss allowances in accordance with the provisions specified in IFRS 9. The accounting policies covering loss allowances for the credit risk on lease receivables are included in note (8) Financial Instruments in the subsection addressing the provision for credit risks.

Land and buildings held to earn rentals are reported under the "Investment property" item in the balance sheet and measured at amortized cost. The fair values disclosed in the notes are determined by the relevant entity by discounting the estimated future cash flows using the relevant long-term market discount rate. 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

Where the Volkswagen Bank GmbH Group is a party to leases as a lessee, the Group generally recognizes a right-of-use asset and a lease liability in its balance sheet for all such leases. At the Volkswagen Bank GmbH Group, the lease liability is measured at the present value of the outstanding lease payments, whereas the right-of-use asset is generally measured at the amount of the lease liability plus any direct costs.

The right-of-use asset is depreciated on a straight-line basis over the term of the lease. The depreciation expense is reported under general and administrative expenses. In the subsequent measurement of the lease liability, the carrying amount is updated using the effective interest method and taking into account the lease payments made. The interest expenses arising from the application of the effective interest method are reported under interest expenses in the income statement.

The right-of-use assets recognized in the balance sheet are reported under those line items in which the lease's underlying assets would have been reported if these assets had been in the beneficial ownership of the Volkswagen Bank GmbH Group. The right-of-use assets are therefore reported as of the reporting date under property and equipment and lease assets and included in the impairment tests for property and equipment carried out in accordance with the requirements of IAS 36.

Exemptions are provided for short-term leases and leases in which the underlying asset is of low value. The Volkswagen Bank GmbH Group has elected to apply these exemptions and therefore does not recognize any right-of-use asset or lease liability for such leases. The associated lease payments are recognized as an expense

under general and administrative expenses in the income statement. A lease is treated as a lease in which the underlying asset is of low value if the value of the underlying asset when new is no more than €5,000. In addition, the accounting requirements specified in IFRS 16 are not applied to leases for intangible assets.

Leases may include extension or termination options. When determining the lease term, all relevant facts and circumstances that create an economic incentive for the lessee to exercise an option to extend the lease, or not to exercise an option to terminate the lease, must be taken into account. Periods covered by options are taken into account when determining the lease term if it is reasonably certain that the lessee will either exercise or not exercise the option.

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 in the amount equating to the right of use under lease assets (in the case of long-term (noncurrent) leases) or under other assets (in the case of short-term leases). 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.

14. Provisions for Pensions and Other Post-Employment Benefits

Provisions are recognized for commitments in the form of retirement, invalidity and surviving dependents' 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 Bank 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. In 2019, the total contributions made by the Volkswagen Bank GmbH Group came to €8 million (previous year: €12 million). This amount included contributions to the compulsory state pension system in Germany in an amount of €8 million (previous year: €7 million).

Pension schemes in the Volkswagen Bank GmbH Group are predominantly defined benefit plans in which there is a distinction between pensions funded by provisions (without plan assets) and externally funded 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. This means that 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 gains and losses are recognized in the period in which they arise in other comprehensive income (taking into account deferred taxes). Detailed disclosures on provisions for pensions and other post-employment benefits are set out in note (47).

15. 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 neither probable nor improbable, the amount concerned is deemed to be a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note (67).
Provisions for litigation and legal risks are recognized and measured using assumptions about the probability of an unfavorable outcome and the amount of possible utilization.

Income from the reversal of other provisions is generally recognized in the income statement item or net income item in which the associated expense was recognized in previous fiscal years. Provisions that are not related to an expected outflow of resources 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.

16. Trust Transactions

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

17. 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. 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 is part of the management report.

As future business performance is subject to unknown factors that, in part, lie outside the control of the Group, assumptions and estimates continue to be subject to considerable uncertainty. If changes in parameters are different from the assumptions, and beyond any influence that can be exercised by management, 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 accordingly.

The assumptions and estimates largely relate to the items set out below.

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 classes and scoring information based on experience combined with forward-looking parameters. Further information on determining valuation allowances can be found in the disclosures on the provision for credit risks in note (60).

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 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 Bank uses its own data, it applies appropriate adjustments to best reflect market conditions.

RECOVERABLE AMOUNT OF NON-FINANCIAL ASSETS, JOINT VENTURES AND EQUITY INVESTMENTS

The impairment tests applied to non-financial assets (particularly goodwill and brand names), equity-accounted joint ventures 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. In particular the forecasts for short- and medium-term cash flows, and the discount rates used, are subject to uncertainty outside the control of the Group.

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 when the leases expire 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 for lease vehicles. 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. Where available, the professional estimates are based on external data, 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.

LEASE TERM IN LESSEE ACCOUNTING

Under IFRS 16, the term of a lease is determined on the basis of the fundamental non-cancelable term of the lease plus an assessment of whether any option to extend the lease will be exercised or whether any option to terminate the lease will not be exercised. The lease term determined in this way and the discount rates used affect the amounts recognized for the right-of-use assets and the lease liabilities.

DEFERRED TAX ASSETS AND UNCERTAIN INCOME TAX ITEMS

When determining deferred tax assets, assumptions must be made 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.

Tax liabilities are recognized for potential retrospective tax payments in the future; other liabilities are recognized for any additional tax costs (such as surcharges, interest, penalties, etc.) incurred in this regard.

The entities in the Volkswagen Bank GmbH Group operate worldwide and are audited on an ongoing basis by the local tax authorities. Changes to tax legislation, decisions by the courts, and their interpretation by the tax authorities in the countries concerned could give rise to tax payments that are different from the estimates made in the financial statements.

The assessment of uncertain tax exposures is based on the most likely figure if the risk were to materialize. The Volkswagen Bank GmbH Group makes a decision on a case-by-case basis as to whether to account for several tax uncertainties individually or in groups, depending on which approach better serves to predict whether the tax risk will materialize.

The pricing of individual services is particularly complex in contracts for cross-border intragroup services because there are often no observable market prices, or the application of market prices for similar services is subject to some uncertainty because the services are not comparable. In such cases – and for tax purposes – the pricing is determined using uniform measurement methods applied in generally accepted business practice.

Actual figures may differ from the original estimates if the circumstances differ from the assumptions made in the estimates.

INCOME FROM SERVICE CONTRACTS

The calculation of contractual service rates in service contracts is subject to assumptions about expenses during the term of contracts; these assumptions are based on past experience. The parameters used in the calculation of contractual service rates are regularly reviewed. During the term of contracts, income from service contracts is recognized on the basis of expenses incurred, plus a margin derived from the contractual service rates.

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, 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, which are determined for each Group company depending on the economic environment.

Other provisions are measured on the basis of expected values, which often results in changes 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 litigation and legal 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 Bank’s past experience in comparable situations, and evaluations made by experts and lawyers.

Income Statement Disclosures

18. Interest Income from Lending Transactions and Marketable Securities

The interest income from financial assets measured at amortized cost or at fair value through other comprehensive income included in interest income from lending transactions and marketable securities amounted to €1,439 million (previous year: €1,338 million). Interest income of €12 million (previous year: €29 million) was attributable to financial assets measured at fair value through profit or loss.

19. Interest Expense

Interest expenses include funding expenses for lending and leasing business and relate in an amount of €160 million (previous year: €135 million) to financial instruments not measured at fair value through profit or loss. Of this amount, €2 million (previous year: €–3 million) was offset against the net expense arising from interest income and expenses on derivatives not designated as hedges in the reporting period.

Interest expenses included negative interest on money market transactions in an amount of €21 million (previous year: €19 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.

The disclosures relating to the interest expenses for lease liabilities reported under the interest expenses line item in the income statement can be found in note (65) Leases.

20. Net Income from Service Contracts

Of the total income recognized for service contracts, an amount of €51 million (previous year: €43 million) related to service contracts requiring the recognition of income at a specific time, and €13 million (previous year: €44 million) related to service contracts requiring the recognition of income over a period of time.

Of the income from service contracts recognized in the reporting period, income of €19 million (previous year: €47 million) had been included in the contractual liabilities for service contracts within liabilities to customers as of January 1, 2019.

21. Provision for Credit Risks

The provision for credit risks relates to the following balance sheet items: loans to and receivables from banks, loans to and receivables from customers, marketable securities and other assets; in the context of the provision for credit risks in respect of credit commitments and financial guarantees, it also relates to the "Other liabilities" balance sheet item.

The breakdown of the amount recognized in the consolidated income statement is as follows:

€ million	2019	2018
Additions to provision for credit risks	–338	–508
Reversals of provision for credit risks	250	463
Direct write-offs	–73	–41
Income from loans and receivables previously written off	31	22
Net gain or loss from significant modifications	–	–
Total	–129	–64

The provision for additional credit risks to which the Volkswagen Bank GmbH Group is exposed as a result of critical situations (economic crises, vehicle sales freezes) in some European countries was decreased by €12 million in the year under review (previous year: decreased by €64 million).

Nevertheless, an additional provision for credit risks of €15 million was recognized for the dealer finance portfolio to cover the risk of negative economic trends in the United Kingdom as a result of Brexit.

22. Net Fee and Commission Income

Net fee and commission income largely comprises income and expenses from insurance brokerage, together with fees and commissions from the financing business and financial services business. The breakdown is as follows:

€ million	2019	2018
Fee and commission income	212	217
of which commissions from insurance broking	133	138
Fee and commission expenses	–212	–324
of which sales commission in the financing business	–182	–293
Total	**–1**	**–106**

23. Net Gain or Loss on Hedges

The “Net gain or loss on hedges” item comprises gains and losses arising from the fair value measurement of hedging instruments and hedged items.

The details of the gains and losses were as follows:

€ million	2019	2018
Gains/losses on hedging instruments in fair value hedges	–71	280
Gains/losses on hedged items in fair value hedges	71	–280
Gains/losses on the ineffective portion of hedging instruments in fair value hedges	–29	–12
Gains/losses on the reclassification of cash flow hedge reserves	–7	9
Gains/losses on the translation of foreign currency loans/receivables and liabilities in cash flow hedges	7	–9
Gains/losses on the ineffective portion of hedging instruments in cash flow hedges	0	–3
Total	**–28**	**–16**

24. Net Gain or Loss on Financial Instruments Measured at Fair Value and on Derecognition of Financial Assets Measured at Fair Value through Other Comprehensive Income

This item comprises net gains or losses on derivatives not designated as hedging instruments, net gains or losses on marketable securities and loans/receivables measured at fair value through profit or loss, and net gains or losses on derecognition of marketable securities measured at fair value through other comprehensive income. Gains and losses arising from changes in the fair value of derivatives that do not satisfy the IFRS 9 requirements for hedge accounting at micro level or the IAS 39 requirements for portfolio hedging are recognized under gains and losses on derivatives not designated as hedging instruments.

The details of the gains and losses were as follows:

€ million	2019	2018
Gains/losses on derivatives not designated as hedging instruments	0	15
Gains/losses on marketable securities measured at fair value through profit or loss	2	4
Gains/losses on loans/receivables measured at fair value through profit or loss	–	–7
Gains/losses on the derecognition of marketable securities measured at fair value through other comprehensive income	1	0
Total	**2**	**12**

25. General and Administrative Expenses

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

€ million	2019	2018
Personnel expenses	–215	–213
Non-staff operating expenses	–557	–536
Advertising, public relations and sales promotion expenses	–10	–11
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–13	–11
Other taxes	–1	–1
Income from the reversal of provisions and accrued liabilities	2	35
Total	**–794**	**–736**

Personnel expenses comprise wages and salaries of €172 million (previous year: €170 million) as well as social security, post-employment and other employee benefit costs of €42 million (previous year: €43 million).

The disclosures relating to the expenses from the depreciation of right-of-use assets included in general and administrative expenses and to the expenses from short-term leases and leases in which the underlying asset is of low value can be found in note (65) 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 auditor of the consolidated financial statements as shown in the following table.

€ million	2019	2018
Financial statements audit services	1	1
Other attestation services	0	1
Tax consulting services	0	0
Other services	1	2
Total	**2**	**3**

The fee paid to the auditor for audit services in the year under review was mostly attributable to the audit of the consolidated financial statements of Volkswagen Bank GmbH and of the annual financial statements of German Group companies, as well as to reviews of the interim financial statements of German Group companies. Other attestation services related primarily to other audit services. The tax consulting services related to the evaluation of an impact analysis in connection with the flat-rate withholding tax. The other services performed by the auditor in the reporting period mainly consisted of issues relating to banking supervisory law, consulting services on process optimization and IT services.

26. Net Other Operating Income/Expenses

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

€ million	2019	2018
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	22	10
Income from cost allocations to other entities in the Volkswagen Group	39	33
Income from the reversal of provisions and accrued liabilities	63	67
Income from claims for damages	–	–
Income from the disposal of vehicles under loan agreements and finance leases	3	–
Income from non-significant modifications	–	–
Miscellaneous operating income	47	27
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	–22	–18
Litigation and legal risk expenses	–1	–198
Expenses from the disposal of vehicles under loan agreements and finance leases	–3	–
Expenses from non-significant modifications	–	–
Miscellaneous expenses	–22	–36
Total	**125**	**–115**

27. Net Gain or Loss on Miscellaneous Financial Assets

The net gain on miscellaneous financial assets largely resulted from the reversal of impairment losses on shares in an affiliated company.

28. Other Financial Gains or Losses

Other financial gains or losses mainly consist of interest income and interest expenses in connection with tax-related issues, pensions and other provisions.

29. Income Tax Expense

Income tax expense includes the taxes charged in respect of the Volkswagen AG tax group and taxes for which the international subsidiaries and branches are the taxpayers, as well as deferred taxes. The components of the income tax expense are as follows:

€ million	2019	2018
Current tax expense, Germany	23	34
Current tax expense, foreign	81	64
Current income tax expense	**104**	**98**
of which income (–)/expense (+) related to prior periods	–4	–4
Deferred tax income (–)/expense (+), Germany	89	61
Deferred tax income (–)/expense (+), foreign	32	26
Deferred tax income (–)/expense (+)	122	87
Income tax expense	**226**	**185**

The reported tax expense in 2019 of €226 million (previous year: €185 million) is €8 million lower (previous year: €31 million lower) than the expected tax expense of €234 million (previous year: €154 million) calculated by applying the tax rate of 29.8% (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	2019	2018
Profit before tax	**785**	**515**
multiplied by the domestic income tax rate of 29.8 % (previous year: 29.9 %)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**–234**	**–154**
+ Effects from tax credits	0	0
+ Effects from domestic/foreign tax rates	4	13
+ Effects from changes in tax rates	–13	17
+ Effects from permanent differences	1	–9
+ Effects from tax-exempt income	9	12
+ Effects from loss carryforwards	0	0
+ Effects from non-deductible operating expenses	–17	–66
+ Taxes attributable to prior periods	21	4
+ Other variances	3	–3
= Income tax expense	**–226**	**–185**

The statutory corporation tax rate in Germany for the 2019 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.8%.

In the German tax group, a tax rate of 29.8% (previous year: 29.9%) was used to measure deferred taxes.

The effects from different income tax rates outside Germany arise from the fact that the income tax rates in the individual countries in which the Group companies are domiciled are different to those that apply in Germany. These rates outside Germany vary between 12.5% and 34.3% (previous year: 12.5% and 30.0%).

The following table shows a breakdown of the as yet unused tax loss carryforwards:

	CURRENTLY UNUSED TAX LOSS CARRYFORWARDS		OF WHICH UNUSABLE TAX LOSS CARRYFORWARDS	
€ million	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Available for an indefinite period	0	1	0	0
Limit on utilization within the next 5 years	0	0	0	0
Limit on utilization between 5 and 10 years	0	0	0	0
Limit on utilization after 10 years	0	0	0	0
Total	**0**	**1**	**0**	**0**
Associated deferred tax assets recognized	0	0	0	0

The income taxes do not include any material amounts arising from the use of previously unrecognized tax losses, tax credits or temporary differences from previous periods. In addition, there were no material effects from the recognition of impairment losses or reversal of impairment losses in respect of deferred tax assets.

An effect on deferred taxes in an amount of €13 million (previous year: €–17 million) arose throughout the Group in 2019 as a consequence of changes in tax rates.

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

In accordance with IAS 12.39, deferred tax liabilities of €0 million (previous year: €25 million) have not been recognized for temporary differences and undistributed profits of subsidiaries because they are controlled by Volkswagen Bank GmbH.

Of the deferred taxes recognized in the balance sheet, an amount of €16 million (previous year: €14 million) relates to transactions reported in other comprehensive income. A breakdown of the changes in deferred taxes is presented in the statement of comprehensive income.

30. Further Income Statement Disclosures

The figures reported for fiscal years 2018 and 2019 do not include any commission income not accounted for using the effective interest method.

Balance Sheet Disclosures

31. Cash Reserve

The cash reserve primarily includes credit balances of €3,426 million (previous year: €1,782 million) held with Deutsche Bundesbank.

32. Loans to and Receivables from Customers

The “Loans to and receivables from customers” item includes deductions arising from the provision for credit risks recognized to cover the expected credit risk. The provision for credit risks is presented in note (21).

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.

The reconciliation to the balance sheet values is as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Loans to and receivables from customers	**55,282**	**65,143**
Fair value adjustment from portfolio hedging	0	–16
Loans to and receivables from customers, net of fair value adjustment from portfolio hedging	55,282	65,159

Receivables from leasing transactions include due receivables amounting to €47 million (previous year: €99 million). Of this amount, €45 million (previous year: €63 million) is attributable to finance leases and €2 million (previous year: €36 million) to operating leases. The due lease receivables are payable within one year.

At the end of the reporting year, the loans to and receivables from customers included loss allowances of €15 million recognized for the dealer finance portfolio in the United Kingdom to cover the risk of negative economic trends as a consequence of Brexit.

33. 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, 2019	Dec. 31, 2018
Transactions to hedge against		
currency risk on assets using fair value hedges	29	70
currency risk on liabilities using fair value hedges	–	–
interest-rate risk using fair value hedges	15	129
interest-rate risk using cash flow hedges	–	9
currency and pricing risk on future cash flows using cash flow hedges	1	–2
Hedging transactions	**45**	**206**
Assets arising from derivatives not designated as hedges	6	51
Total	**51**	**257**

34. Marketable Securities

Marketable securities largely comprise fixed-income securities from public-sector issuers amounting to €2,881 million (previous year: €3,284 million) and asset-backed securities issued by special-purpose entities controlled by Volkswagen Leasing GmbH, Braunschweig, amounting to €5 million (previous year: €18 million) and Volkswagen Financial Services (UK) Ltd., Milton Keynes, amounting to €659 million. Since Volkswagen Financial Services (UK) Ltd., Milton Keynes, was included in the consolidated financial statements until March 29, 2019, these marketable securities were not present in the prior year.

Marketable securities amounting to €415 million (previous year: €849 million) were pledged as collateral for 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.

35. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2018	**203**	**3**	**206**
Foreign exchange differences	–	0	0
Changes in basis of consolidation	–	–	–
Additions	0	9	9
Reclassifications	–	–	–
Held for sale (IFRS 5)	–	–	–
Disposals	–	0	0
Changes recognized in profit or loss	21	–	21
Dividends	–	–	–
Other changes recognized in other comprehensive income	0	0	0
Balance as of Dec. 31, 2018	**224**	**12**	**236**
Impairment losses Balance as of Jan. 1, 2018	**9**	**–**	**9**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	0	0
Reclassifications	–	–	–
Held for sale (IFRS 5)	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2018	9	0	9
Net carrying amount as of Dec. 31, 2018	**216**	**12**	**227**
Net carrying amount as of Jan. 1, 2018	**194**	**3**	**197**

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2019	**224**	**12**	**236**
Foreign exchange differences	–	0	0
Changes in basis of consolidation	–	–9	–9
Additions	–	6	6
Reclassifications	–	–	–
Held for sale (IFRS 5)	–	0	0
Disposals	–	0	0
Changes/remeasurements recognized in profit or loss	29	–	29
Dividends	–	–	–
Other changes recognized in other comprehensive income	0	0	0
Balance as of Dec. 31, 2019	**254**	**9**	**262**
Impairment losses Balance as of Jan. 1, 2019	**9**	**0**	**9**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	–	–
Reclassifications	–	–	–
Held for sale (IFRS 5)	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	0	0
Balance as of Dec. 31, 2019	**9**	**–**	**9**
Net carrying amount as of Dec. 31, 2019	**245**	**9**	**253**
Net carrying amount as of Jan. 1, 2019	**215**	**12**	**227**

36. Intangible Assets

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2018	**1**	**20**	**18**	**92**	**131**
Foreign exchange differences	0	–1	–1	–1	–2
Changes in basis of consolidation	–	–	–	–	–
Additions	–	–	–	13	13
Reclassifications	–	–	–	–	–
Held for sale (IFRS 5)	–	–	–	–26	–26
Disposals	–	–	–	1	1
Balance as of Dec. 31, 2018	**1**	**20**	**17**	**77**	**115**
Amortization and impairment losses					
Balance as of Jan. 1, 2018	**1**	**9**	**–**	**73**	**83**
Foreign exchange differences	0	0	–	–1	–1
Changes in basis of consolidation	–	–	–	–	–
Additions to cumulative amortization	–	1	–	8	9
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Held for sale (IFRS 5)	–	–	–	16	16
Disposals	–	–	–	0	0
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2018	**1**	**10**	**–**	**64**	**75**
Net carrying amount as of Dec. 31, 2018	**–**	**9**	**17**	**13**	**40**
Net carrying amount as of Jan. 1, 2018	**0**	**11**	**18**	**19**	**48**

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2019	**1**	**20**	**17**	**77**	**115**
Foreign exchange differences	0	0	0	0	0
Changes in basis of consolidation	–1	–	–	–	–1
Additions	–	–	–	10	10
Reclassifications	–	–	–	0	0
Held for sale (IFRS 5)	–	–	–	–9	–9
Disposals	–	–	–	0	0
Balance as of Dec. 31, 2019	**–**	**20**	**18**	**77**	**115**
Amortization and impairment losses					
Balance as of Jan. 1, 2019	**1**	**10**	**–**	**64**	**75**
Foreign exchange differences	0	0	–	–0	0
Changes in basis of consolidation	–1	–	–	–	–1
Additions to cumulative amortization	–	1	–	7	8
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Held for sale (IFRS 5)	–	–	–	7	7
Disposals	–	–	–	0	0
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2019	**–**	**12**	**–**	**64**	**75**
Net carrying amount as of Dec. 31, 2019	**–**	**8**	**18**	**13**	**39**
Net carrying amount as of Jan. 1, 2019	**0**	**10**	**17**	**13**	**40**

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. in 2012. Volkswagen Bank Polska S.A., Warsaw, was merged into Volkswagen Bank GmbH as of September 28, 2018. Since September 28, 2018, the Polish business of Volkswagen Bank GmbH has been operated from the Polish branch. The goodwill and the brand name 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 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 name 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 the brand name. As of the reporting date, intangible assets with indefinite useful lives amounted to €24 million (previous year: €24 million).

37. Property and Equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2018	**24**	**47**	**71**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions	1	3	4
Reclassifications	–	–	–
Held for sale (IFRS 5)	0	–8	–8
Disposals	0	3	4
Balance as of Dec. 31, 2018	**24**	**38**	**63**
Depreciation and impairment losses			
Balance as of Jan. 1, 2018	**18**	**27**	**46**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions to cumulative depreciation	1	4	5
Additions to cumulative impairment losses	–	1	1
Reclassifications	–	–	–
Held for sale (IFRS 5)	–	6	6
Disposals	0	3	3
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2018	**19**	**23**	**43**
Net carrying amount as of Dec. 31, 2018	**5**	**15**	**20**
Net carrying amount as of Jan. 1, 2018	**5**	**20**	**25**

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2019[1]	**77**	**38**	**115**
Foreign exchange differences	2	1	3
Changes in basis of consolidation	–30	–12	–42
Additions	2	1	3
Reclassifications	–18	–	–18
Held for sale (IFRS 5)	1	1	2
Disposals	1	2	3
Balance as of Dec. 31, 2019	**31**	**25**	**56**
Depreciation and impairment losses			
Balance as of Jan. 1, 2019	**19**	**23**	**43**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	4	–2	3
Additions to cumulative depreciation	3	2	5
Additions to cumulative impairment losses	–	–	–
Reclassifications	–17	–	–17
Held for sale (IFRS 5)	0	1	1
Disposals	0	2	2
Reversal of impairment losses	–	0	0
Balance as of Dec. 31, 2019	**9**	**21**	**30**
Net carrying amount as of Dec. 31, 2019	**22**	**4**	**25**
Net carrying amount as of Jan. 1, 2019	**58**	**15**	**73**

1 The opening carrying amount has been adjusted (see IFRS 16 disclosures).

Assets under construction with a carrying amount of €2 million (previous year: €1 million) are included in land and buildings.

38. Investment Property

The following table shows the changes in investment property assets in the prior year:

€ million	Investment property
Cost	
Balance as of Jan. 1, 2018	**3**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions	–
Reclassifications	–
Disposals	–
Balance as of Dec. 31, 2018	**3**
Depreciation and impairment losses	
Balance as of Jan. 1, 2018	**2**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions to cumulative depreciation	0
Additions to cumulative impairment losses	–
Reclassifications	–
Disposals	–
Reversal of impairment losses	–
Balance as of Dec. 31, 2018	**2**
Net carrying amount as of Dec. 31, 2018	**1**
Net carrying amount as of Jan. 1, 2018	**1**

The following table shows the changes in investment property assets in the reporting year:

€ million	Investment property
Cost	
Balance as of Jan. 1, 2019[1]	**3**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions	–
Reclassifications	–
Disposals	–
Balance as of Dec. 31, 2019	**3**
Depreciation and impairment losses	
Balance as of Jan. 1, 2019[1]	**2**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions to cumulative depreciation	0
Additions to cumulative impairment losses	–
Reclassifications	–
Disposals	–
Reversal of impairment losses	–
Balance as of Dec. 31, 2019	**2**
Net carrying amount as of Dec. 31, 2019	**1**
Net carrying amount as of Jan. 1, 2019	**1**

1 The opening carrying amount has been adjusted (see IFRS 16 disclosures).

The fair value of investment property amounts to €1 million (previous year: €1 million). The fair value is determined using an income approach based on internal calculations (Level 3 of the fair value hierarchy). Operating expenses in an immaterial amount were incurred for the maintenance of investment property in both the reporting period and in the previous year.

As in the previous year, the income from leasing transactions line item in the income statement did not include material rental income from investment property in the reporting period.

39. Deferred Tax Assets

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

€ million	Dec. 31, 2019	Dec. 31, 2018
Deferred tax assets	4,893	3,829
of which noncurrent	712	84
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	–	0
of which noncurrent	–	0
Offset (with deferred tax liabilities)	−3,023	−2,187
Total	**1,870**	**1,642**

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

€ million	Dec. 31, 2019	Dec. 31, 2018
Loans, receivables and other assets	772	436
Marketable securities and cash	3,369	3,335
Intangible assets/property and equipment	3	1
Lease assets	685	30
Liabilities and provisions	64	27
Valuation allowances for deferred tax assets on temporary differences	–	–
Total	**4,893**	**3,829**

40. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Vehicles returned for disposal	73	166
Restricted cash	248	438
Prepaid expenses	61	257
Other tax assets	47	115
Miscellaneous	119	395
Total	**549**	**1,370**

41. Assets Held for Sale

Within the year, it is planned to transfer the Ireland branch's dealer financing and lease finance portfolios to the Volkswagen Financial Services AG Group. As of December 31, 2019, assets in an amount of €1,195 million were therefore classified as "held for sale" and are presented in a separate line item in accordance with IFRS 5. The assets held for sale were measured at the lower of carrying amount and fair value. The amount of €2,928 million reported for the previous year related to the equity investment in SkoFIN, s.r.o., Prague, transferred on March 29, 2019, and to the leasing portfolio of the Italy branch. These assets were also classified as held for sale as of the prior-year reporting date. There were no material effects from the transactions on the Volkswagen Bank GmbH Group's financial performance or net liquidity.

The noncurrent assets held for sale are described below:

€ million	Dec. 31, 2019	Dec. 31, 2018
Assets held for sale (IFRS 5)		
Cash reserve	–	0
Loans to and receivables from banks	–	1
Loans to and receivables from customers attributable to		
Retail financing	–	470
Dealer financing	231	742
Leasing business	964	1,166
Other loans and receivables	–	97
Total loans to and receivables from customers	1,195	2,474
Intangible assets	–	10
Property and equipment	–	3
Lease assets	–	369
Other assets	–	71
Total	**1,195**	**2,928**

Please refer to the disclosures in note (54) for information on the liabilities associated with the assets.

42. Noncurrent Assets

€ million	Dec. 31, 2019	of which noncurrent	Dec. 31, 2018	of which noncurrent
Cash reserve	3,471	–	1,858	–
Loans to and receivables from banks	444	–	661	–
Loans to and receivables from customers	55,282	26,418	65,143	36,454
Derivative financial instruments	51	18	257	114
Marketable securities	3,556	–	3,359	–
Equity-accounted joint ventures	245	245	216	216
Miscellaneous financial assets	9	9	12	12
Intangible assets	39	39	40	40
Property and equipment	25	25	20	20
Lease assets	1,657	1,657	5,491	5,131
Investment property	1	1	1	1
Current tax assets	51	–	45	–
Other assets	549	10	1,370	281
Assets held for sale (IFRS 5)	1,195	0	2,928	1,525
Total	**66,574**	**28,422**	**81,399**	**43,792**

43. 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 include customer deposits of €32 million (previous year: €29 million). They comprise call deposits 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, 2019	Dec. 31, 2018
Liabilities to customers	**38,247**	**39,602**
Fair value adjustment from portfolio hedging	–	–
Liabilities to customers, net of fair value adjustment from portfolio hedging	38,247	39,602

44. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Dec. 31, 2019	Dec. 31, 2018
Bonds issued	8,924	15,160
Commercial paper issued	639	1,708
Total	**9,563**	**16,868**

45. 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, 2019	Dec. 31, 2018
Bonds issued	1,800	10,385
Subordinated liabilities	72	2,069
Total	**1,873**	**12,454**

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 is €1,862 million (previous year: €12,610 million). As of December 31, 2019, the fair value of the liabilities amounted to €1,881 million (previous year: €12,461 million). The fair value of the assigned loans/receivables that continued to be recognized amounted to €1,955 million as of December 31, 2019 (previous year: €13,059 million). Collateral is provided in the form of loans and receivables from retail financing and cash collateral, together amounting to €1,939 million (previous year: €12,894 million). In these arrangements, the expected payments are assigned to special purpose entities together with ownership of the collateral in the financed vehicles. 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 a 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. In this case, collateral must be furnished for the resulting compensation claims against the special purpose entity, for example if the rating of the Group company concerned declines to a contractually agreed 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.

46. 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, 2019	Dec. 31, 2018
Transactions to hedge against		
currency risk on assets using fair value hedges	64	13
currency risk on liabilities using fair value hedges	–	–
interest-rate risk using fair value hedges	0	4
interest-rate risk using cash flow hedges	–	–
currency and pricing risk on future cash flows using cash flow hedges	2	1
Hedging transactions	**67**	**18**
Liabilities arising from derivatives not designated as hedges	3	197
Total	**70**	**214**

47. Provisions

The provisions break down as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Provisions for pensions and other post-employment benefits	158	122
Other provisions	295	415
of which provisions for litigation and legal risks	245	347
of which for staff	35	41
of which other	15	27
Total	**453**	**536**

PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

€ million	Dec. 31, 2019	Dec. 31, 2018
Present value of funded obligations	92	102
Fair value of plan assets	45	77
Funded status (net)	**47**	**25**
Present value of unfunded obligations	111	95
Amount not recognized as an asset because of the ceiling in IAS 19	–	–
Net liability recognized in the balance sheet	**158**	**120**
of which provisions for pensions	158	122
of which other assets	–	2

Key Pension Arrangements in the Volkswagen Bank GmbH Group

For the period after the active working life of employees, the Volkswagen Bank GmbH Group 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 2018 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 Bank 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 2018 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	
%	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Discount rate	1.10	2.00	0.70 – 2.00	1.60 – 2.90
Pay trend	3.70	3.50	0.00	2.00
Pension trend	1.50	1.50	2.80	0.40 – 3.10
Staff turnover rate	1.10	1.00	2.00 – 3.50	0.03 – 2.10

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 "2018 G" 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	2019	2018
Net liability recognized in the balance sheet as of Jan. 1	**120**	**114**
Current service cost	8	6
Net interest expense	2	2
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	1
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	38	–7
Actuarial gains (–)/losses (+) arising from experience adjustments	–4	6
Income/expenses from plan assets not included in interest income	3	–5
Change in amount not recognized as an asset because of the ceiling in IAS 19	–	–
Employer contributions to plan assets	4	4
Employee contributions to plan assets	–	–
Pension payments from company assets	3	3
Past service cost (including plan curtailments)	0	0
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	1	–
Other changes	2	0
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**158**	**120**

The change in the amount not recognized as an asset because of the ceiling in IAS 19 includes an interest component, some of which is recognized in profit or loss under general and administrative expenses and some of which is recognized in other comprehensive income.

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

€ million	2019	2018
Present value of obligations as of Jan. 1	**197**	**191**
Current service cost	8	6
Interest cost (unwinding of discount on obligations)	3	4
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	1
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	38	–7
Actuarial gains (–)/losses (+) arising from experience adjustments	–4	6
Employee contributions to plan assets	0	0
Pension payments from company assets	3	3
Pension payments from plan assets	0	1
Past service cost (including plan curtailments)	0	0
Gains (–) or losses (+) arising from plan settlements	–8	–
Changes in basis of consolidation	–31	–
Other changes	3	0
Foreign exchange differences from foreign plans	0	0
Present value of obligations as of December 31	**203**	**197**

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, 2019 € million	DEC. 31, 2019 Change in percent	DEC. 31, 2018 € million	DEC. 31, 2018 Change in percent
Discount rate	is 0.5 percentage points higher	182	–10.54	177	–10.08
	is 0.5 percentage points lower	228	12.36	218	11.10
Pension trend	is 0.5 percentage points higher	212	4.51	205	4.35
	is 0.5 percentage points lower	195	–4.09	189	–4.02
Pay trend	is 0.5 percentage points higher	205	0.78	198	0.62
	is 0.5 percentage points lower	202	–0.73	195	–0.59
Longevity	increases by one year	210	3.37	203	3.05

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 23 years (previous year: 22 years).

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

€ million	2019	2018
Active members with pension entitlements	149	107
Members with vested entitlements who have left the Bank	10	32
Retirees	44	58
Total	**203**	**197**

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	2019	2018
Payments due within the next fiscal year	3	4
Payments due between two and five years	13	15
Payments due in more than five years	187	178
Total	**203**	**197**

Changes in plan assets are shown in the following table:

€ million	2019	2018
Fair value of plan assets as of Jan. 1	**77**	**77**
Interest income on plan assets determined using the discount rate	1	2
Income/expenses from plan assets not included in interest income	3	–5
Employer contributions to plan assets	4	4
Employee contributions to plan assets	0	0
Pension payments from plan assets	0	1
Gains (+) or losses (–) arising from plan settlements	8	–
Changes in basis of consolidation	–32	–
Other changes	1	0
Foreign exchange differences from foreign plans	0	0
Fair value of plan assets as of December 31	**45**	**77**

The investment of the plan assets to cover future pension obligations resulted in a net income of €4 million (previous year: net income of €2 million). Employer contributions to plan assets are expected to amount to €4 million (previous year: €5 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

	DEC. 31, 2019			DEC. 31, 2018		
€ 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	2	–	2	4	–	4
Equity instruments	1	–	1	5	–	5
Debt instruments	4	–	4	29	–	29
Direct investments in real estate	–	–	–	–	–	–
Derivatives	1	0	1	4	0	4
Equity funds	11	–	11	5	–	5
Bond funds	27	–	27	30	–	30
Real estate funds	0	–	0	0	–	0
Other funds	0	–	0	–	–	–
Asset-backed securities	–	–	–	–	–	–
Structured debt securities	–	–	–	–	–	–
Other	–	0	0	0	0	0

Of the total plan assets, 61% (previous year: 36%) are invested in German assets, 14% (previous year: 58%) in other European assets and 24% (previous year: 6%) 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	2019	2018
Current service cost	8	6
Net interest on the net defined benefit liability	2	2
Past service cost (including plan curtailments)	0	0
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	**11**	**9**

OTHER PROVISIONS

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

	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of Jan. 1, 2018	**40**	**381**	**27**	**448**
Foreign exchange differences	0	0	0	0
Changes in basis of consolidation	–	–	–	–
Utilization	23	17	16	57
Additions/new provisions	29	34	20	83
Unwinding of discount/effect of change in discount rate	–	0	–	0
Reversals	2	51	4	57
Balance as of Dec. 31, 2018	**41**	**347**	**27**	**415**
of which current	28	151	24	203
of which noncurrent	12	196	3	211
Balance as of Jan. 1, 2019	**41**	**347**	**27**	**415**
Foreign exchange differences	0	0	0	1
Changes in basis of consolidation	–14	–5	0	–19
Utilization	18	45	16	79
Additions/new provisions	28	0	8	36
Unwinding of discount/effect of change in discount rate	–	–1	–	–1
Reversals	0	51	4	55
Balance as of Dec. 31, 2019	**35**	**245**	**15**	**295**
of which current	20	84	14	118
of which noncurrent	15	161	1	177

Provisions for employee expenses are recognized primarily for annually recurring bonuses such as holiday or Christmas 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 to 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 and for provisions for customer financing brokerage 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. As of the reporting date, provisions for litigation and legal risks amounted to €245 million (previous year: €347 million).

The miscellaneous provisions also include provisions for indirect credit risks amounting to €0 million (previous year: €0 million).

The timing of the cash outflows in connection with other provisions is expected to be as follows: 40% in the following year, 57% in the years 2021 to 2024 and 3% from 2025.

48. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Deferred tax liabilities	5,015	3,844
of which noncurrent	2,570	1,544
Offset (with deferred tax assets)	–3,023	–2,187
Total	**1,992**	**1,657**

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, 2019	Dec. 31, 2018
Loans, receivables and other assets	1,734	779
Marketable securities and cash	0	3
Intangible assets/property and equipment	6	2
Lease assets	23	59
Liabilities and provisions	3,253	3,001
Total	**5,015**	**3,844**

49. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Deferred income	73	440
Other tax liabilities	55	88
Social security and payroll liabilities	42	45
Miscellaneous	201	126
Total	**370**	**699**

50. Subordinated capital

The breakdown of subordinated capital is as follows:

€ million	Dec. 31, 2019	Dec. 31, 2018
Subordinated liabilities	105	2,103
of which: to other Volkswagen Group companies	72	2,069
Total	**105**	**2,103**

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.

51. Noncurrent Liabilities

€ million	Dec. 31, 2019	of which noncurrent	Dec. 31, 2018	of which noncurrent
Liabilities to banks	7,478	5,094	8,898	6,518
Liabilities to customers	38,247	2,541	39,602	5,567
Notes, commercial paper issued	9,563	8,060	16,868	11,774
Derivative financial instruments	70	3	214	143
Current tax liabilities	139	–	184	–
Other liabilities	370	9	699	98
Subordinated capital	105	54	2,103	1,568
Liabilities related to assets held for sale (IFRS 5)	–	–	639	80
Total	**55,973**	**15,760**	**69,208**	**25,748**

52. 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, 2019, capital reserves amounted to €8,498 million (previous year: €8,531 million).

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

The HGB profit of €365 million (previous year: €204 million) will be transferred in accordance with the existing profit-and-loss transfer agreement to the sole shareholder, Volkswagen AG.

The accumulated deferred taxes in equity amounted to €16 million (previous year: €14 million).

53. Capital Management

In this context, "capital" is defined as equity in accordance with the IFRSs. The aim of capital management in the Volkswagen Bank GmbH Group is to support the Bank's credit rating by ensuring that the Group has adequate capital backing, to obtain capital for the growth planned for the next few years and to satisfy regulatory capital requirements.

Regulatory capital is different from equity as defined by the IFRSs (for the components thereof, 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 – the Capital Requirements Regulation (CRR), Kreditwesengesetz (KWG – German Banking Act) and 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%. Furthermore, the capital buffer requirements and the capital requirements from the SREP decision must be fulfilled. 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, 2019	Dec. 31, 2018
Total risk exposure amount (€ million)[1]	55,817	64,157
of which risk-weighted exposure amounts for credit risk	51,942	56,682
of which own funds requirements for market risk *12.5	373	2,970
of which own funds requirements for operational risk *12.5	3,485	4,417
of which own funds requirements for credit valuation adjustments *12.5	17	88
Eligible own funds (€ million)	8,724	9,973
Own funds (€ million)	8,724	9,973
of which Common Equity Tier 1 capital	8,697	9,945
of which Additional Tier 1 capital	–	–
of which Tier 2 capital	27	28
Common Equity Tier 1 capital ratio (percent)[2]	15.6	15.5
Tier 1 capital ratio (percent)[2]	15.6	15.5
Total capital ratio (percent)[2]	15.6	15.5

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

54. Liabilities Related to the Assets Held for Sale

The liabilities associated with the assets described in note (41) that had been classified as held for sale in the previous year were also reported in a separate line of the balance sheet. They resulted exclusively from the liabilities of SkoFIN, s.r.o., Prague.

€ million	Dec. 31, 2019	Dec. 31, 2018
Liabilities related to the assets held for sale (IFRS 5)		
Liabilities to banks	–	213
Liabilities to customers	–	333
Notes, commercial paper issued	–	44
Provisions	–	2
Current tax liabilities	–	25
Other liabilities	–	23
Total	–	639

Financial Instrument Disclosures

55. Carrying Amounts, Gains or Losses and Income or Expenses in respect of Financial Instruments, by Measurement Category

The carrying amounts of financial instruments (excluding hedge derivatives) broken down by IFRS 9 measurement category are shown in the following table:

€ million	Dec. 31, 2019	Dec. 31, 2018
Financial assets measured at fair value through profit or loss	670	119
Financial assets measured at fair value through other comprehensive income (debt instruments)	2,881	3,284
Financial assets measured at fair value through other comprehensive income (equity instruments)	11	7
Financial assets measured at amortized cost	56,812	49,508
Relevant balance sheet items held for sale and measured at amortized cost (assets, IFRS 5)	231	1,316
Financial liabilities measured at fair value through profit or loss	3	197
Financial liabilities measured at amortized cost	55,626	67,647
Relevant balance sheet items related to assets held for sale and measured at amortized cost (liabilities, IFRS 5)	–	600

Receivables from leasing transactions amounting to €2,752 million (previous year: €18,829 million) and liabilities from leasing transactions amounting to €14 million (previous year: none) are not allocated to any category.

The net gains or losses and income or expenses in respect of financial instruments (excluding hedge derivatives) broken down by IFRS 9 measurement category are shown in the following table:

€ million	2019	2018
Financial instruments measured at fair value through profit or loss	11	43
Financial assets measured at amortized cost	1,317	1,285
Financial assets measured at fair value through other comprehensive income (debt instruments)	5	10
Financial liabilities measured at amortized cost	–172	–158
Total	**1,161**	**1,179**

The net gains/losses and income/expenses are determined as follows:

Measurement category	Measurement method
Financial assets and financial liabilities measured at fair value through profit or loss	Fair value in accordance with IFRS 9 in conjunction with IFRS 13, including interest and effects from currency translation
Financial assets measured at amortized cost	Interest income using the effective interest method and expenses/income from the recognition of valuation allowances in accordance with IFRS 9 and effects from currency translation
Financial assets measured at fair value through other comprehensive income (debt instruments)	Fair value valuation in accordance with IFRS 9 in conjunction with IFRS 13, interest income using the effective interest method and expenses/income from the recognition of valuation allowances in accordance with IFRS 9 and effects from currency translation
Financial liabilities measured at amortized cost	Interest expense using the effective interest method in accordance with IFRS 9, including effects from currency translation

The interest income from financial assets measured at amortized cost or at fair value through other comprehensive income included in interest income from lending transactions and marketable securities amounted to €1,468 million (previous year: €1,374 million).

Interest expenses in an amount of €160 million (previous year: €135 million) relate to financial instruments not measured at fair value through profit or loss.

56. Classes of Financial Instruments

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

- Measured at fair value
- Measured at amortized cost
- Derivative financial instruments designated as hedges
- Not allocated to any measurement category
- Credit commitments and financial guarantees (off-balance-sheet)

Loans/receivables and liabilities designated as hedges with derivative financial instruments are included in the class "Measured at amortized cost".

Within "Miscellaneous financial assets", subsidiaries and joint ventures that are not consolidated for reasons of materiality are not deemed financial instruments in accordance with IFRS 9 and therefore do not fall within the scope of IFRS 7. Equity investments forming part of the miscellaneous financial assets are reported as financial instruments in accordance with IFRS 9 in the class "Measured at fair value".

Lease receivables and liabilities, receivables from insurance contracts, subsidiaries and joint ventures not consolidated for reasons of materiality, equity-accounted joint ventures and other instruments (other than financial instruments) are classified as "Not allocated to any measurement category" for the purposes of reconciliation to the balance sheet.

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[1]		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT ALLOCATED TO ANY MEASUREMENT CATEGORY	
	Dec. 31 2019	Dec. 31 2018	Dec. 31 2019	Dec. 31 2018	Dec. 31 2019	Dec. 31 2018	Dec. 31 2019	Dec. 31 2018	Dec. 31 2019	Dec. 31 2018
Assets							–	–	–	–
Cash reserve	3,471	1,858	–	–	3,471	1,858	–	–	–	–
Loans to and receivables from banks	444	661	–	–	444	661	–	–	–	–
Loans to and receivables from customers	55,282	65,143	–	–	52,531	46,314	–	–	2,752	18,829
Derivative financial instruments	51	257	6	51	–	–	45	206	–	–
Marketable securities	3,556	3,359	3,556	3,359	–	–	–	–	–	–
Equity-accounted joint ventures	245	216	–	–	–	–	–	–	245	216
Miscellaneous financial assets	9	12	0	0	–	–	–	–	9	11
Current tax assets	51	45	–	–	2	4	–	–	48	41
Other assets	549	1,370	–	–	364	671	–	–	185	699
Relevant balance sheet items from assets held for sale (IFRS 5)	1,195	2,547	–	–	231	1,316	–	–	964	1,231
Total	**64,852**	**75,467**	**3,562**	**3,411**	**57,043**	**50,824**	**45**	**206**	**4,202**	**21,026**
Liabilities										
Liabilities to banks	7,478	8,898	–	–	7,478	8,898	–	–	–	0
Liabilities to customers	38,247	39,602	–	–	38,186	39,348	–	–	61	254
Notes, commercial paper issued	9,563	16,868	–	–	9,563	16,868	–	–	–	–
Derivative financial instruments	70	214	3	197	–	–	67	18	–	–
Current tax liabilities	139	184	–	–	92	142	–	–	47	43
Other liabilities	370	699	–	–	202	289	–	–	168	410
Subordinated capital	105	2,103	–	–	105	2,103	–	–	–	–
Relevant balance sheet items from liabilities related to the assets held for sale (IFRS 5)	–	612	–	–	–	600	–	–	–	12
Total	**55,973**	**69,181**	**3**	**197**	**55,626**	**68,247**	**67**	**18**	**276**	**719**

[1] Some of the loans to and receivables from customers and liabilities to customers have been designated as hedged items in fair value hedges and are therefore subject to fair value adjustments. The loans to and receivables from customers and liabilities to customers in the class "Measured at amortized cost" are therefore measured neither entirely at fair value nor entirely at amortized cost.

The "Credit commitments and financial guarantees" class contains obligations under irrevocable credit commitments and financial guarantees amounting to €2,005 million (previous year: €2,491 million).

57. Fair Values of Financial Instruments

The following table shows the fair values of financial instruments in the classes “measured at amortized cost”, “measured at fair value” and “derivative financial instruments designated as hedges”, together with the fair values of receivables from customers relating to the leasing business classified as “not allocated to any measurement category”. The fair value is the amount at which financial assets or liabilities could be sold on fair terms as of the reporting date. Where market prices were available, they were used 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 taking 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.

The equity investments included in the “Miscellaneous financial assets” balance sheet item are measured as equity instruments generally at fair value through other comprehensive income (without recycling) in exercise of the fair-value-through-OCI option. 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 the financial guarantees is also not material.

€ million	Fair Value		Carrying Amount		Difference	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Assets						
Measured at fair value						
Loans to and receivables from customers	–	–	–	–	–	–
Loans to and receivables from banks	–	–	–	–	–	–
Derivative financial instruments	6	51	6	51	–	–
Marketable securities	3,556	3,359	3,556	3,359	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	3,471	1,858	3,471	1,858	–	–
Loans to and receivables from banks	444	661	444	661	–	–
Loans to and receivables from customers	53,159	46,432	52,531	46,314	628	118
Current tax assets	2	4	2	4	–	–
Other assets	364	671	364	671	–	–
Assets held for sale (IFRS 5)	1,246	2,507	1,195	2,482	51	26
Derivative financial instruments designated as hedges	45	206	45	206	–	–
Not allocated to any measurement category						
Lease receivables	2,732	19,347	2,752	18,829	–19	519
Liabilities						
Measured at fair value						
Derivative financial instruments	3	197	3	197	–	–
Measured at amortized cost						
Liabilities to banks	7,454	8,849	7,478	8,898	–24	–50
Liabilities to customers	38,277	39,371	38,186	39,348	91	24
Notes, commercial paper issued	9,571	16,874	9,563	16,868	8	6
Current tax liabilities	92	142	92	142	–	–
Other liabilities	202	289	202	289	0	–
Subordinated capital	107	2,110	105	2,103	2	7
Liabilities related to the assets held for sale (IFRS 5)	–	596	–	600	–	–4

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

%	EUR	GBP	PLN	SEK	CZK
Interest rate for six months	–0.377	0.765	1.716	0.185	2.145
Interest rate for one year	–0.367	0.739	1.698	0.197	2.295
Interest rate for five years	–0.120	0.884	1.792	0.390	2.060
Interest rate for ten years	0.211	1.017	1.880	0.690	1.725

58. Financial Instrument Measurement Levels

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. The following table shows the hierarchy breakdown for financial instruments in the classes “measured at amortized cost”, “measured at fair value” and “derivative financial instruments designated as hedges”. Classification to the individual levels is dictated by whether the main inputs used in determining the fair value are or are not observable in the market.

Level 1 is used to report the fair value of financial instruments such as marketable securities or notes and commercial paper issued for which a quoted price is directly observable 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 directly observable in an active market. Most of the loans to and receivables from banks and 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 57). Securities from ABS transactions of unconsolidated structured entities and, up to the date of the spin-off of Volkswagen Financial Services (UK) Ltd., derivative financial instruments in connection with the risk of early termination have also been reported under Level 3. The fair value of derivatives in connection with the risk of early termination is determined with forecasts and estimates of used car residual values for the models concerned, and yield curves Equity investments measured at fair value through other comprehensive income and using inputs that are not observable in the market are also reported under Level 3. The main inputs used to measure these equity investments are strategic planning and cost of equity rates.

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 the three-level fair value hierarchy by class:

€ million	LEVEL 1		LEVEL 2		LEVEL 3	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	–	–
Derivative financial instruments	–	–	6	51	–	–
Marketable securities	2,233	3,291	659	–	664	68
Miscellaneous financial assets	–	–	–	–	0	0
Measured at amortized cost						
Cash reserve	3,471	1,858	–	–	–	–
Loans to and receivables from banks	444	660	0	0	–	–
Loans to and receivables from customers	–	0	128	237	53,031	46,196
Current tax assets	–	–	2	4	–	–
Other assets	–	–	364	671	–	–
Assets held for sale (IFRS 5)	–	1	–	44	1,246	2,462
Derivative financial instruments designated as hedges	–	–	45	206	–	–
Total	**6,148**	**5,810**	**1,206**	**1,213**	**54,941**	**48,726**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	3	29	–	167
Measured at amortized cost						
Liabilities to banks	–	–	7,454	8,849	–	–
Liabilities to customers	–	–	38,277	39,371	–	–
Notes, commercial paper issued	191	8,806	9,377	8,067	–	–
Current tax liabilities	–	–	92	142	–	–
Other liabilities	–	–	202	289	–	–
Subordinated capital	–	–	107	2,110	–	–
Liabilities related to the assets held for sale (IFRS 5)	–	–	–	596	–	–
Derivative financial instruments designated as hedges	–	–	67	18	–	–
Total	**191**	**8,806**	**55,580**	**59,471**	**–**	**167**

The following table shows the changes in marketable securities and miscellaneous financial assets measured at fair value and allocated to Level 3.

€ million	2019	2018[1]
Balance as of Jan. 1	**68**	**1,672**
Foreign exchange differences	1	–
Portfolio changes	–203	–1,596
Changes in basis of consolidation	796	0
Measured at fair value through profit or loss	2	–8
Measured at fair value through other comprehensive income	–	–
Balance as of Dec. 31	**664**	**68**

1 The opening carrying amount has been adjusted for the loans to and receivables from customers and marketable securities due to IFRS 9.

The remeasurements recognized in profit or loss amounting to €2 million (previous year: €–8 million) have been reported under net gain or loss on financial instruments measured at fair value. In the year under review, the net remeasurement loss was attributable entirely to loans to and receivables from customers held as of the reporting date and to securities from ABS transactions of unconsolidated structured entities. The remeasurements for equity investments recognized directly under capital reserves amounted to €0 million in the fiscal year (previous year: €0 million).

The risk variables relevant to the fair value of the loans to and receivables from customers or marketable securities are risk-adjusted interest rates. A sensitivity analysis is used to quantify the impact from changes in risk-adjusted interest rates on profit or loss after tax.

If risk-adjusted interest rates as of the reporting date had been 100 basis points higher, profit after tax would have been €1 million (previous year: €4 million) lower. If risk-adjusted interest rates as the reporting date had been 100 basis points lower, profit after tax would have been €1 million (previous year: €2 million) higher.

The following table shows the change in derivatives measured at fair value in connection with the risk of early termination based on Level 3 measurement.

€ million	2019	2018
Balance as of Jan. 1	**167**	**192**
Foreign exchange differences	8	2
Changes in basis of consolidation	–168	–
Measured at fair value through profit or loss	–7	23
Balance as of Dec. 31	**–**	**167**

The remeasurements recognized in profit or loss amounting to €–7 million have been reported in the income statement under net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income. The net gain was accounted for entirely by derivatives held as of the reporting date.

The risk of early termination can arise from country-specific consumer protection legislation, under which customers may have the right to return used vehicles for which a lease has been signed. The impact on earnings arising from market-related fluctuations in residual values and interest rates is borne by the Volkswagen Bank GmbH Group.

59. 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.

The “Financial instruments” column shows the amounts that are subject to a master netting agreement but have not been offset 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.

	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		AMOUNTS NOT OFFSET IN THE BALANCE SHEET				Net amount	
							Financial instruments		Collateral received/pledged			
€ million	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Assets												
Cash reserve	3,471	1,858	–	–	3,471	1,858	–	–	–	–	3,471	1,858
Loans to and receivables from banks	444	614	–	47	444	661	–	–	–	–	444	661
Loans to and receivables from customers	55,282	65,401	–	–258	55,282	65,143	–	–	–	–	55,282	65,143
Derivative financial instruments	197	304	–146	–47	51	257	–5	–76	–45	–171	1	10
Marketable securities	3,556	3,359	–	–	3,556	3,359	–	–	–658	–68	2,898	3,291
Miscellaneous financial assets	0	0	–	–	0	0	–	–	–	–	0	0
Current tax assets	2	4	–	–	2	4	–	–	–	–	2	4
Other assets	218	686	146	–15	364	671	–	–	–	–	364	671
Relevant balance sheet items from assets held for sale (IFRS 5)	1,195	2,482	–	–	1,195	2,482	–	–	–	–	1,195	2,482
Total	**64,366**	**74,708**	**0**	**–273**	**64,366**	**74,435**	**–5**	**–76**	**–703**	**–239**	**63,659**	**74,120**
Liabilities												
Liabilities to banks	7,478	8,898	–	–	7,478	8,898	–	–	–	–911	7,478	7,988
Liabilities to customers	38,200	39,605	–	–258	38,200	39,348	–	–	–	–	38,200	39,348
Notes, commercial paper issued	9,563	16,868	–	–	9,563	16,868	–	–	–765	–396	8,798	16,472
Derivative financial instruments	70	214	0	0	70	214	–5	–76	–53	–1	13	138
Current tax liabilities	92	142	–	–	92	142	–	–	–	–	92	142
Other liabilities	202	304	–	–15	202	289	–	–	–	–	202	289
Subordinated capital	105	2,103	–	–	105	2,103	–	–	–	–	105	2,103
Relevant balance sheet items from liabilities related to the assets held for sale (IFRS 5)	–	600	–	–	–	600	–	–	–	–	–	–
Total	**55,711**	**68,735**	**0**	**–273**	**55,711**	**68,462**	**–5**	**–76**	**–818**	**–1,307**	**54,888**	**66,479**

60. Counterparty Default Risk

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

PROVISION FOR CREDIT RISKS

Please refer to the provision for credit risks section in note (21) for disclosures on the accounting policies relating to the provision for credit risks.

The following tables show a reconciliation for the provision for credit risks relating to financial assets measured at amortized cost:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2018	**158**	**219**	**425**	**10**	**105**	**917**
Exchange differences on translating foreign operations	0	0	0	0	0	–1
Changes in basis of consolidation	4	6	15	0	0	24
Purchased or originated financial assets (additions)	31	–	–	2	26	60
Other changes within a stage	6	60	102	0	18	187
Transfer to						
Stage 1	9	–40	–8	–	–	–39
Stage 2	–30	131	–22	–	–	78
Stage 3	–12	–20	130	–	–	98
Financial instruments derecognized during the period (derecognitions)	–32	–102	–148	–5	–31	–318
Utilizations	–	–	–76	0	–1	–77
Model or risk parameter changes	–4	–4	–14	–	–2	–25
Assets held for sale	–	–	–	–	–	–
Balance as of Dec. 31, 2018	**130**	**249**	**403**	**8**	**115**	**904**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2019	**130**	**249**	**403**	**8**	**115**	**904**
Exchange differences on translating foreign operations	1	1	0	0	0	2
Changes in basis of consolidation	32	9	6	–3	0	44
Purchased or originated financial assets (additions)	191	–	–	25	–6	210
Other changes within a stage	–28	–15	–42	0	–26	–111
Transfer to						
Stage 1	28	–55	–6	–	–	–33
Stage 2	–37	115	–9	–	–	69
Stage 3	–3	–20	140	–	–	116
Financial instruments derecognized during the period (derecognitions)	–42	–51	–68	–3	–2	–165
Utilizations	0	–	–39	–	–12	–51
Model or risk parameter changes	–	–	–	–	–	–
Assets held for sale	–	–	–	–	–	–
Balance as of Dec. 31, 2019	**271**	**233**	**385**	**27**	**69**	**985**

The undiscounted expected credit losses on the initial recognition of purchased or originated credit-impaired financial assets that were recognized for the first time in the reporting period amounted to €3 million (previous year: €0 million).

The following tables show a reconciliation for the provision for credit risks relating to financial assets measured at fair value through other comprehensive income:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2018	**2**	**–**	**–**	**–**	**–**	**2**
Exchange differences on translating foreign operations	0	–	–	–	–	0
Changes in basis of consolidation	–	–	–	–	–	–
Purchased or originated financial assets (additions)	0	–	–	–	–	0
Other changes within a stage	–	–	–	–	–	–
Transfer to	–	–	–	–	–	–
Stage 1	–	–	–	–	–	–
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	–	–	–	–	–	–
Utilizations	–	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–	–
Assets held for sale	–	–	–	–	–	–
Balance as of Dec. 31, 2018	**2**	**–**	**–**	**–**	**–**	**2**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2019	**2**	**–**	**–**	**–**	**–**	**2**
Exchange differences on translating foreign operations	0	–	–	–	–	0
Changes in basis of consolidation	–	–	–	–	–	–
Purchased or originated financial assets (additions)	3	–	–	–	–	3
Other changes within a stage	0	0	–	–	–	0
Transfer to			–	–	–	
Stage 1	0	0	–	–	–	0
Stage 2	–3	3	–	–	–	0
Stage 3	–	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	0	–1	–	–	–	–2
Utilizations	–	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–	–
Assets held for sale	–	–	–	–	–	–
Balance as of Dec. 31, 2019	**2**	**1**	**–**	**–**	**–**	**3**

The following tables show a reconciliation for the provision for credit risks relating to financial guarantees and credit commitments:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2018	**2**	**2**	**1**	**–**	**0**	**5**
Exchange differences on translating foreign operations	0	0	0	–	–	0
Changes in basis of consolidation	–	–	–	–	–	–
Purchased or originated financial assets (additions)	8	–	–	–	1	9
Other changes within a stage	0	0	0	–	0	0
Transfer to				–		
Stage 1	0	0	–	–	–	0
Stage 2	–1	0	0	–	–	0
Stage 3	0	0	1	–	–	1
Financial instruments derecognized during the period (derecognitions)	–1	–1	0	–	–1	–3
Utilizations	–	–	0	–	–	0
Model or risk parameter changes	0	0	0	–	0	0
Assets held for sale	–	–	–	–	–	–
Balance as of Dec. 31, 2018	**8**	**1**	**1**	**–**	**0**	**10**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2019	**8**	**1**	**1**	**–**	**0**	**10**
Exchange differences on translating foreign operations	0	0	0	–	–	0
Changes in basis of consolidation	0	0	–	–	–	0
Purchased or originated financial assets (additions)	6	0	0	–	0	6
Other changes within a stage	0	0	–1	–	0	0
Transfer to				–		
Stage 1	0	0	–	–	–	0
Stage 2	–2	1	–	–	–	–1
Stage 3	0	0	–	–	–	0
Financial instruments derecognized during the period (derecognitions)	–6	0	–	–	0	–6
Utilizations	–	–	0	–	–	0
Model or risk parameter changes	–	–	–	–	–	–
Assets held for sale	–	–	–	–	–	–
Balance as of Dec. 31, 2019	**7**	**2**	**0**	**–**	**0**	**8**

The following table shows a reconciliation for the provision for credit risks relating to lease receivables in the class "Not allocated to any measurement category":

€ million	SIMPLIFIED APPROACH 2019	2018
Balance as of Jan. 1	**278**	**289**
Exchange differences on translating foreign operations	5	–2
Changes in basis of consolidation	–159	–
Purchased or originated financial assets (additions)	21	128
Other changes	24	–32
Financial instruments derecognized during the period (derecognitions)	–39	–88
Utilizations	–16	–5
Model or risk parameter changes	–	–11
Classified as held for sale	–	–
Balance as of Dec. 31	**114**	**278**

MODIFICATIONS

During the reporting period and the prior-year period, there were contractual modifications of financial assets that did not lead to a derecognition of the asset concerned. These modifications were largely caused by changes in credit quality and related to financial assets in Levels 2 and 3 for which the associated provision for credit risks equated to the lifetime expected credit loss. To simplify matters, in the case of trade receivables and lease receivables, the analysis only takes into account credit-quality-related modifications where the receivables concerned are more than 30 days past due. Prior to the contractual modification, the amortized cost amounted to €3 million (previous year: €44 million). In the reporting period, the contractual modifications gave rise to a total net income/net expense of €0 million (previous year: €0 million).

At the reporting date, the gross carrying amount of financial assets that had been modified since initial recognition and that, in the reporting period, had also been transferred from Stage 2 or Stage 3 to Stage 1 amounted to €0 million (previous year: €0 million). As a consequence, the measurement of the provision for credit risks for these financial assets was switched from the lifetime expected credit loss to a twelve-month expected credit loss.

MAXIMUM CREDIT RISK

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. The collateral held relates to loans to and receivables from banks and customers in the classes “Measured at amortized cost”, “Measured at fair value” and “Not allocated to any measurement category”. The types of collateral held include vehicles, other assets pledged as collateral, financial guarantees, marketable securities, cash collateral and charges on real estate. In the case of financial assets with an objective indication of impairment as of the reporting date, the collateral reduced the risk by 703 million (previous year: €760 million). For financial assets in the “Measured at fair value” class to which the IFRS 9 impairment requirements are not applied, the maximum credit and default risk was reduced by collateral with a value of €5 million (previous year: €68 million).

For financial assets on which impairment losses were recognized during the fiscal year and that are subject to enforcement measures, the contractually outstanding amounts total €15 million (previous year: €12 million).

The following table shows the maximum credit risk, broken down by class, to which the Volkswagen Bank GmbH Group was exposed as of the reporting date and to which the impairment model was applied.

€ million	Dec. 31, 2019	Dec. 31, 2018
Financial assets measured at fair value	2,881	3,284
Financial assets measured at amortized cost	57,042	50,824
Financial guarantees and credit commitments	2,145	2,481
Not allocated to any measurement category	3,716	19,995
Total	**65,784**	**76,584**

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

€ million	Dec. 31, 2019	Dec. 31, 2018
Vehicles	48	46
Real estate	–	–
Other movable assets	–	–
Total	**48**	**46**

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

DEFAULT RISK RATING CLASSES

The Volkswagen Bank GmbH 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 rating 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 rating class 2. Accordingly, all loans and receivables in default are allocated to rating class 3.

The following table presents the gross carrying amounts of financial assets broken down by rating class:

FISCAL YEAR 2018

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1 (loans/receivables not at risk of default – normal loans)	40,854	5,913	–	18,401	72
Default risk rating class 2 (loans/receivables at risk of default – loans with intensified loan management)	616	2,285	–	2,997	33
Default risk rating class 3 (loans/receivables in default – non-performing loans)	–	–	877	204	433
Total	**41,470**	**8,198**	**877**	**21,602**	**538**

FISCAL YEAR 2019

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1 (loans/receivables not at risk of default – normal loans)	46,731	6,631	–	5,981	86
Default risk rating class 2 (loans/receivables at risk of default – loans with intensified loan management)	1,066	2,573	–	288	37
Default risk rating class 3 (loans/receivables in default – non-performing loans)	–	–	961	83	303
Total	**47,797**	**9,204**	**961**	**6,353**	**426**

The following tables show the default risk exposures for financial guarantees and credit commitments broken down by rating class:

FISCAL YEAR 2018

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1 (loans/receivables not at risk of default – normal loans)	2,075	304	–	1
Default risk rating class 2 (loans/receivables at risk of default – loans with intensified loan management)	76	15	–	0
Default risk rating class 3 (loans/receivables in default – non-performing loans)	–	–	17	4
Total	**2,150**	**319**	**17**	**5**

FISCAL YEAR 2019

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1 (loans/receivables not at risk of default – normal loans)	1,858	175	–	0
Default risk rating class 2 (loans/receivables at risk of default – loans with intensified loan management)	84	24	–	0
Default risk rating class 3 (loans/receivables in default – non-performing loans)	–	–	7	3
Total	**1,942**	**200**	**7**	**4**

61. 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:

€ million	ASSETS		REPAYABLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Cash reserve	3,471	1,858	3,471	1,858	–	–	–	–	–	–	–	–
Loans to and receivables from banks	444	661	444	660	0	0	–	–	–	–	–	–
Marketable securities	2,881	3,284	–	–	2,881	3,284	–	–	–	–	–	–
Total	**6,797**	**5,802**	**3,915**	**2,518**	**2,882**	**3,284**	**–**	**–**	**–**	**–**	**–**	**–**

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

			REMAINING CONTRACTUAL MATURITIES							
€ million	Cash outflows		Up to 3 months		3 months to 1 year		1 to 5 years		More than 5 years	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Liabilities to banks	7,485	8,906	910	2,360	1,475	21	5,005	6,423	94	101
Liabilities to customers	38,233	39,652	34,417	32,223	1,306	1,782	1,608	4,579	903	1,068
Notes, commercial paper issued	9,942	17,200	296	2,481	1,256	2,723	6,943	10,660	1,448	1,336
Derivative financial instruments	4,117	5,550	1,725	2,758	2,030	2,009	361	784	–	–
Other liabilities	202	289	17	119	183	169	1	1	2	1
Subordinated capital	105	2,196	18	55	33	540	51	1,588	3	14
Irrevocable credit commitments	1,771	2,313	387	452	1,385	1,860	0	0	0	0
Total	**61,856**	**76,106**	**37,770**	**40,448**	**7,668**	**9,103**	**13,969**	**24,035**	**2,450**	**2,520**

The maximum possible calls under financial guarantees at any time can be assumed to be €234 million (previous year: €179 million).

62. Market Risk

For qualitative information, please refer to the risk report within the management report.
For quantitative risk measurement, interest rate and foreign currency 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	2019	2018
Interest rate risk	81	68
Currency translation risk	0	99
Total market risk[1]	**81**	**113**

1 As a result of correlation effects, the total market risk is not identical to the sum of the individual risks.

63. 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 by the Group mainly comprise interest rate swaps and cross-currency interest rate swaps. Micro-hedges and portfolio hedges are used for interest rate hedging. Fixed-income assets and liabilities included in this hedging strategy are recognized at fair value rather than at amortized cost, the method used in their original subsequent measurement. The resulting effects in the income statement are generally offset by the opposite effects from the corresponding gains and losses on the interest rate hedging instruments (swaps).

CURRENCY RISK

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

DESCRIPTION OF HEDGES AND METHODOLOGIES FOR MONITORING HEDGE EFFECTIVENESS

If possible, the hedge strategy aims to recognize hedges for suitable underlying transactions (hedged items) using micro- or portfolio hedges. The vast majority of hedged items are assets or liabilities on the balance sheet. The volume represented by the hedging instruments is generally exactly the same as the volume represented by the designated hedged items.

In the Volkswagen Bank GmbH Group, hedges to which micro-hedge accounting is applied are normally held to maturity. Individual risk components are not separated out and designated for the purposes of hedge accounting.

In portfolio hedge accounting, derivatives are designated as hedges for interest rate hedging on a quarterly basis. Hedge effectiveness is reviewed for each maturity band. Derivatives are only included in portfolio hedge accounting for a hedging period if a high level of hedge effectiveness is achieved, both prospectively and retrospectively.

With the introduction of IFRS 9, hedge effectiveness in the Volkswagen Bank GmbH Group is mostly measured prospectively using the critical terms match method. Hedge effectiveness is analyzed retrospectively by testing for ineffectiveness using the dollar offset method. The dollar offset method compares the changes in the value of the hedged item expressed in monetary units with the changes in the value of the hedging instrument expressed in monetary units.

Hedge ineffectiveness in micro-hedge accounting largely results from differences between the mark-to-market (fair value) measurement of hedged items and that of hedging instruments. Individual yield curves are used when determining forward interest rates and prices and also when discounting future cash flows for hedged items and hedging instruments in order to obtain a measurement in line with the market. Other factors (e.g. in relation to counterparty risk) are only of minor significance as regards hedge ineffectiveness.

In portfolio hedge accounting, ineffectiveness generally arises where the changes in the fair values of hedging instruments do not fully offset those of the hedged items.

In connection with hedges involving interest rate swaps, cross currency swaps or cross-currency interest rate swaps, the IBOR reform exposes the Volkswagen Bank GmbH Group to uncertainty in terms of the timing and amount of the IBOR-based cash flows and of the hedged risk relating to the hedged item and hedging instrument. Regardless of the residual maturity of the hedged items and hedging instruments in hedging relationships, the Volkswagen Bank GmbH Group makes use of the exceptions available under the amendments to the standards for all hedges affected by the aforementioned uncertainty arising from the IBOR reform.

This uncertainty relates to the GBP LIBOR and NOK OIBOR interest rate benchmarks.

In the case of fair value hedges, the uncertainty relates to the ability to identify the risk component as the change in fair value for the purposes of hedging the risk of changes in the fair value of financial assets and financial liabilities. In the case of cash flow hedges, which hedge the risk arising from changes in future cash flows, the uncertainty relates to the extent to which hedged variable future cash flows can be expected to be highly probable.

The expected impact of the IBOR reform is continuously assessed, and any necessary action will be initiated in good time. The aim of such action is to adapt the systems and processes in such a way that the benchmark interest rates covered by the IBOR reform can be replaced in good time by the new benchmark interest rates. The Volkswagen Bank GmbH Group is currently focusing its attention on the SONIA interest rate benchmark because this benchmark is already widely accepted by the market and because of the materiality of the transactions involved.

DISCLOSURES ON GAINS AND LOSSES FROM FAIR VALUE HEDGES

In fair value hedges, the transactions hedge the risk from changes in the fair value of financial assets and financial liabilities. Changes in fair value that arise from the recognition of hedging instruments at fair value and those from the recognition of the associated hedged items at the hedged fair value generally have an offsetting effect and are reported under the net gain or loss on hedges.

The following table shows the degree of hedge ineffectiveness from fair value hedges broken down by type of risk, equating to the differences between the gains or losses on hedging instruments and those on hedged items:

€ million	2019	2018
Interest rate risk hedging	1	0
Currency risk hedging	–30	–16
Combined interest rate and currency risk hedging	1	3

DISCLOSURES ON GAINS AND LOSSES FROM CASH FLOW HEDGES

Cash flow hedges are recognized with the aim of hedging risks arising from changes in future cash flows. These cash flows can arise from a recognized asset or a recognized liability.

The following table covering gains and losses from cash flow hedges shows the gains and losses on hedges recognized in other comprehensive income in the year under review, the hedge ineffectiveness recognized under net gain or loss on hedges and the gains or losses arising from the reclassification of cash flow hedge reserves recognized under net gain or loss on hedges:

€ million	2019	2018
Interest rate risk hedging		
Gain or loss from changes in the fair value of hedged items within hedge accounting		
recognized in other comprehensive income	0	–
recognized in profit or loss	0	–
Reclassifications from the cash flow hedge reserve to profit or loss		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	–	–
Currency risk hedging		
Gain or loss from changes in the fair value of hedge transactions within hedge accounting		
recognized in other comprehensive income	0	2
recognized in profit or loss	0	–3
Reclassifications from the cash flow hedge reserve to profit or loss		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	0	–2
Combined interest rate and currency risk hedging		
Gain or loss from changes in the fair value of hedged items within hedge accounting		
recognized in other comprehensive income	–1	3
recognized in profit or loss	1	0
Reclassifications from the cash flow hedge reserve to profit or loss		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	–1	–3

In the table, effects recognized directly in equity are presented net of deferred taxes.

The gain or loss from changes in the fair value of hedges within hedge accounting reflects the basis for determining hedge ineffectiveness. Those gains or losses on changes in the fair value of hedging instruments that exceed the changes in the fair value of the hedged items constitute the ineffective portion of cash flow hedges. This ineffectiveness within a hedge arises as a result of differences in the parameters applicable to the hedging instrument and the hedged item. These gains or losses are recognized immediately under the gain or loss on hedges.

NOTIONAL AMOUNTS OF DERIVATIVE FINANCIAL INSTRUMENTS

The following tables present a maturity analysis of the notional amounts of hedging instruments reported under the hedge accounting rules and those of derivatives to which hedge accounting is not applied:

	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNTS
€ million	More than 1 year	1 to 5 years	More than 5 years	Dec. 31, 2018
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	5,026	13,777	1,300	20,103
Currency risk hedging				
Currency forwards/cross currency swaps, GBP	3,321	268	–	3,588
Currency forwards/cross currency swaps, PLN	596	196	–	791
Currency forwards, other currencies	279	5	–	284
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps, PLN	99	182	–	281
Cross-currency interest rate swaps, NOK	133	81	–	215
Cross-currency interest rate swaps, other currencies	178	–	–	178
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	1,118	1,973	17,742	20,833
Currency risk hedging				
Currency forwards/cross currency swaps	132	–	–	132
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	352	509	–	862

The average exchange rates used in the measurement of currency hedges in the previous year were as follows for the following currencies with significant nominal amounts: CZK 25.3861 (cash flow hedge) and 25.9765 (fair value hedge), GBP 0.8937 (cash flow hedge) and 0.8824 (fair value hedge), PLN 4.3032 (cash flow hedge) and 4.2994 (fair value hedge).

The average exchange rates used in the measurement of interest rate/currency hedges in the previous year were as follows for the following currencies with significant nominal amounts: PLN 4.2239 (cash flow hedge) and 4.3065 (fair value hedge), GBP 0.772 (fair value hedge), NOK 9.133 (fair value hedge).

The average interest rate used for cross-currency interest rate swaps (cash flow hedge) was 0.23% for PLN.

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.

The notional amounts of hedging instruments that are exposed to the uncertainties of the IBOR reform described above amount to a total of €247 million for GBP LIBOR, €385 million for PLN WIBOR and €88 million for OIBOR NOK.

	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNTS
€ million	More than 1 year	1 to 5 years	More than 5 years	Dec. 31, 2019
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	3,050	5,000	1,350	9,400
Currency risk hedging				
Currency forwards/cross currency swaps, DKK	–	–	–	–
Currency forwards/cross currency swaps, NOK	–	–	–	–
Currency forwards/cross currency swaps, TRY	4	–	–	4
Currency forwards, other currencies	2,956	173	–	3,129
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps, NOK	82	–	–	82
Cross-currency interest rate swaps, other currencies	634	–	–	634
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	2,168	1,868	0	4,036
Currency risk hedging				
Currency forwards/cross currency swaps	258	–	–	258
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps, other currencies	–	110	–	110

The average exchange rates used in the measurement of currency hedges were as follows for the following currencies with significant nominal amounts: CZK 25.3870 (cash flow hedge) and 26.0911 (fair value hedge), GBP 0.8723 (cash flow hedge) and 0.8608 (fair value hedge), PLN 4.3055 (cash flow hedge) and 4.3049 (fair value hedge).

The average exchange rates used in the measurement of interest rate/currency hedges were as follows for the following currencies with significant nominal amounts: PLN 4.2775 (cash flow hedge) and 4.3065 (fair value hedge), GBP 0.8495 (fair value hedge), NOK 9.1750 (fair value hedge).

The average interest rate used for cross-currency interest rate swaps (cash flow hedge) was –0.05% for PLN.

DISCLOSURES ON HEDGING INSTRUMENTS USED IN HEDGE ACCOUNTING

The Volkswagen Bank GmbH Group regularly uses hedging instruments to hedge changes in the fair value of financial assets and financial liabilities.

The following overviews show the notional amounts, fair values and changes in fair value to determine ineffectiveness in hedging instruments used in fair value hedges to hedge risk arising from changes in fair value:

FISCAL YEAR 2018

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	16,167	35	4	59
Currency risk hedging				
Currency forwards and option contracts, cross currency swaps	4,222	117	13	110
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	410	47	0	48

FISCAL YEAR 2019

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	9,400	3	0	118
Currency risk hedging				
Currency forwards and option contracts, cross currency swaps	3,065	35	64	–26
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	405	6	1	6

The Volkswagen Bank GmbH Group also uses hedging instruments to hedge the risk arising from changes in future cash flows.

The following tables set out the notional amounts, fair values and changes in fair value to determine ineffectiveness in hedging instruments used in cash flow hedges:

FISCAL YEAR 2018

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	–	–	–	–
Currency risk hedging				
Currency forwards and option contracts, cross currency swaps	441	3	0	3
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	206	4	1	4

FISCAL YEAR 2019

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging:				
Interest rate swaps	–	–	–	–
Currency risk hedging:				
Currency forwards and option contracts, cross currency swaps	69	1	0	1
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	311	0	2	–1

The change in fair value to determine ineffectiveness equates to the change in the fair value of the designated components of the hedging instruments.

DISCLOSURES ON HEDGED ITEMS TO WHICH HEDGE ACCOUNTING IS APPLIED

Disclosures on hedged items, broken down by risk category and type of designation, are required in addition to the disclosures on hedging instruments.

The tables below show the hedged items hedged in fair value hedges:

FISCAL YEAR 2018

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	9,116	–15	7	–
Liabilities to banks	–4,516	–33	–16	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–3,423	–42	–20	–
Subordinated capital	–	–	–	–
Currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	107	–59	–11	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–
Combined interest rate and currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	333	–14	6	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–

FISCAL YEAR 2019

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	35	–
Liabilities to banks	–4,512	–29	–4	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–4,957	–125	–85	–
Subordinated capital	–	–	–	–
Currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–534	–42	0	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–
Combined interest rate and currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	82	–19	1	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–

The following tables present the hedged items hedged in cash flow hedges:

FISCAL YEAR 2018

€ million	Fair value change to determine ineffectiveness	Reserve for: Existing cash flow hedges	Reserve for: Terminated cash flow hedges
Interest rate risk hedging			
Designated components	–	–	–
Non-designated components	–	–	–
Deferred taxes	–	–	–
Total interest rate risk	–	–	–
Currency risk hedging			
Designated components	–	0	–
Non-designated components	–	–	–
Deferred taxes	–	0	–
Total currency risk	–	1	–
Combined interest rate and currency risk hedging			
Designated components	–	0	–
Non-designated components	–	–	–
Deferred taxes	–	0	–
Total combined interest rate and currency risk	–	0	–

FISCAL YEAR 2019

€ million	Fair value change to determine ineffectiveness	Reserve for Existing cash flow hedges	Reserve for Terminated cash flow hedges
Interest rate risk hedging:			
Designated components	–	2	–
Non-designated components	–	–	–
Deferred taxes	–	0	–
Total interest rate risk	–	1	–
Currency risk hedging:			
Designated components	0	1	–
Non-designated components	–	–	–
Deferred taxes	–	0	–
Total currency risk	0	1	–
Combined interest rate and currency risk hedging			
Designated components	8	–2	0
Non-designated components	–	–	–
Deferred taxes	–	1	0
Total combined interest rate and currency risk	8	–2	0

CHANGES IN THE CASH FLOW HEDGE RESERVE

In the accounting treatment of cash flow hedges, the designated effective portion of a hedge is reported in other comprehensive income (in “OCI I”). All changes in the fair value of hedging instruments in excess of the effective portion are reported in profit or loss as hedge ineffectiveness.

The following tables show a reconciliation for the cash flow hedge reserve (OCI I):

€ million	Interest rate risk	Currency risk	Combined interest rate and currency risk	Commodity price risk	Total
Balance as of Jan. 1, 2018	**–**	**0**	**–**	**–**	**0**
Gains or losses from effective hedges	–	2	3	–	5
Reclassifications resulting from a change in expected materialization of the hedged item	–	–	–	–	–
Reclassifications resulting from the recovery of the hedged item	–	–2	–3	–	–4
Balance as of Dec. 31, 2018	**–**	**1**	**0**	**–**	**1**

€ million	Interest rate risk	Currency risk	Combined interest rate and currency risk	Commodity price risk	Total
Balance as of Jan. 1, 2019	**–**	**1**	**0**	**–**	**1**
Gains or losses from effective hedges	0	1	–1	–	0
Reclassifications resulting from a change in expected materialization of the hedged item	–	–	–	–	–
Reclassifications resulting from the recovery of the hedged item	–	0	–1	–	–2
Balance as of Dec. 31, 2019	**1**	**1**	**–1**	**–**	**0**

The changes in the fair value of non-designated forward components in currency forwards and in currency hedging within cash flow hedges are initially reported in other comprehensive income (hedging costs) in the Volkswagen Bank GmbH Group. Therefore, changes in the fair value of non-designated components (or parts thereof) are reported immediately in profit or loss only if they relate to ineffective portions of the hedge.

The following table presents an overview of the changes in the hedging costs reserve arising from the non-designated components of currency hedges:

€ million	CURRENCY RISK 2019	2018
Balance as of Jan. 1	**–**	**–**
Gains and losses from non-designated forward components and CCBS		
Hedging of an underlying transaction as of a specific date	0	–
Reclassifications resulting from the recovery of the hedged item		
Hedging of an underlying transaction as of a specific date	0	–
Reclassifications resulting from a change in expected materialization of the hedged item		
Hedging of an underlying transaction as of a specific date	–	–
Balance as of Dec. 31	**–**	**–**

In the tables, the effects reported in equity are reduced by deferred taxes.

LIQUIDITY RISK, FUNDING RISK

The Volkswagen Bank GmbH Group takes precautions to minimize the risk from any potential liquidity squeeze by holding confirmed credit lines with 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.

Segment Reporting

64. Breakdown by Geographical Market

The presentation of the reportable segments within the meaning of IFRS 8 is based on the internal control and reporting structure of the Volkswagen Bank GmbH Group and is broken down according to the geographical markets in which the Volkswagen Bank GmbH Group operates.
Accordingly, the reportable segments are as follows: Germany, Italy, France and Other; the branches in Ireland, Spain, the Netherlands, Greece, the United Kingdom, Portugal and Poland are assigned to the “Other” segment.

In the reporting period, Volkswagen Financial Services (UK) Ltd. and Volkswagen Finans Sverige AG were spun off to Volkswagen Financial Services AG and this discontinued operation is therefore no longer included in the segment reporting.

The operating result is reported as the primary key performance indicator to the chief operating decision-makers. The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting.

All business transactions between the segments – where such transactions take place – are conducted on an arm’s-length basis.

In accordance with IFRS 8, noncurrent assets are reported exclusive of financial instruments, deferred tax assets, post-employment benefits and rights under insurance contracts.

BREAKDOWN BY GEOGRAPHICAL MARKET 2018:

€ million	JAN. 1 – DEC. 31, 2018					
	Germany	Italy	France	Other	Consolidation	Total
Interest income from lending transactions and marketable securities in respect of third parties	907	142	50	268	–	1,367
Intersegment interest income from lending transactions and marketable securities	80	–	–	–	–80	–
Income from leasing transactions with third parties	–	84	702	352	–	1,138
Intersegment income from leasing transactions	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–	–53	–523	–300	–	–876
of which impairment losses in accordance with IAS 36	–	–	–22	0	–	–22
Net income from leasing transactions	–	30	179	52	–	262
Interest expense	–111	–12	–18	–72	80	–133
Income from service contracts with third parties	–	1	46	41	–	88
Expenses from service contracts	–	–1	–27	–42	–	–70
Net income from service contracts	–	0	19	0	–	19
Provision for credit risks	–48	–15	6	–9	0	–64
Fee and commission income from third parties	54	95	42	27	–	217
Fee and commission expenses	–157	–61	–79	–27	–	–324
Net fee and commission income	–104	34	–37	0	–	–106
Net gain or loss on hedges	–16	–	–	–	–	–16
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	7	0	0	5	–	12
General and administrative expenses	–485	–64	–83	–107	2	–736
Other operating income	88	7	22	24	–4	137
Other operating expenses	–57	–166	–19	–9	–	–252
Net other operating income/expenses	31	–160	3	15	–4	–115
Operating result	**262**	**–44**	**120**	**152**	**–1**	**489**

BREAKDOWN BY GEOGRAPHICAL MARKET 2019:

€ million	Germany	Italy	France	Other	Consolidation	Total
	JAN. 1 – DEC. 31, 2019					
Interest income from lending transactions and marketable securities in respect of third parties	903	174	46	328	–	1,451
Intersegment interest income from lending transactions and marketable securities	98	0	–	–	–98	–
Income from leasing transactions with third parties	–	29	865	123	–	1,017
Intersegment income from leasing transactions	–	–11	–	–	11	–
Depreciation, impairment losses and other expenses from leasing transactions	0	–12	–657	–70	–6	–746
of which impairment losses in accordance with IAS 36	–	0	–18	–	0	–18
Net income from leasing transactions	0	6	208	52	5	271
Interest expense	–142	–15	–24	–78	98	–161
Income from service contracts with third parties	–	0	53	11	–	64
Expenses from service contracts	–	0	–30	–12	–	–42
Net income from service contracts	–	0	23	–1	–	22
Provision for credit risks	–82	–17	–7	–27	5	–129
Fee and commission income from third parties	46	73	38	51	3	212
Fee and commission expenses	–38	–66	–55	–50	–4	–212
Net fee and commission income	8	7	–17	1	0	–1
Net gain or loss on hedges	–28	–	–	0	–	–28
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	–1	0	0	3	0	2
General and administrative expenses	–510	–59	–121	–104	0	–794
Other operating income	113	12	20	12	17	174
Other operating expenses	–28	–6	–4	–7	–4	–49
Net other operating income/expenses	85	6	16	6	13	125
Operating result	**331**	**101**	**124**	**179**	**23**	**757**

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

The following table shows a breakdown of the segment profit or loss and the profit before tax between continuing and discontinued operations:

€ million	Jan. 1 – Dec. 31, 2019	Jan. 1 – Dec. 31, 2018
Breakdown of segment profit or loss (operating result) for the Group		
Continuing operations	757	489
Discontinued operations	–	–

The breakdown of noncurrent assets in accordance with IFRS 8 and of the additions to noncurrent lease assets by geographical market is shown in the following tables:

	JAN. 1 – DEC. 31, 2018					
€ million	Germany	Italy	France	Other	Consolidation	Total
Noncurrent assets	210	42	1,280	316	–188	1,660
Additions to noncurrent lease assets	–	–	347	160	–	507

	Jan. 1 – DEC. 31, 2019					
€ million	Germany	Italy	France	Other	Consolidation	Total
Noncurrent assets	95	6	1,679	45	157	1,983
Additions to noncurrent lease assets	0	0	563	23	–21	566

Investment recognized under other assets was of minor significance.

The following table shows the reconciliation to consolidated revenue, consolidated operating result and consolidated profit before tax.

€ million	2019	2018
Segment revenue	**2,854**	**2,887**
Other companies	–	–
Consolidation	–84	–80
Group revenue	**2,770**	**2,807**
Segment profit or loss (operating result)	**735**	**490**
Other companies	–	–
Consolidation	23	–1
Operating result	**757**	**489**
Share of profits and losses of equity-accounted joint ventures	29	23
Net gain or loss on miscellaneous financial assets	0	7
Other financial gains or losses	–1	–4
Profit before tax	**785**	**515**

Other Disclosures

65. Leases

LESSOR ACCOUNTING FOR FINANCE LEASES

In the reporting year, interest income from the net investment in the lease amounting to €186 million (previous year: €200 million) was generated from finance leases.

The following table shows a reconciliation of the undiscounted lease payments under finance leases to the net investment in the leases.

€ million	Dec. 31, 2019
Undiscounted lease payments	2,962
Non-guaranteed residual value	–
Unearned interest income	–108
Loss allowance for lease receivables	–105
Other	–
Net investments	**2,750**

In the Volkswagen Bank GmbH Group, the net investment equates to the net receivables from finance leases.

In the reporting year, the outstanding, undiscounted lease payments from finance leases expected for subsequent years were as follows:

€ million	2020	2021	2022	2023	2024	from 2025	Total
Lease payments	1,026	751	570	387	204	24	2,962

As of the reporting date, the breakdown of finance lease receivables was as follows:

€ million	2019	2020 – 2023	from 2024	Total
Future payments from finance lease receivables	5,921	14,714	29	20,664
Unearned finance income from finance leases (discounting)	–553	–1,318	–1	–1,872
Present value of minimum lease payments outstanding at the reporting date	**5,369**	**13,396**	**28**	**18,792**

LESSOR ACCOUNTING FOR OPERATING LEASES

Income generated from operating leases is included in the income from leasing transactions in the income statement. The following table shows a breakdown between income from leases without variable lease payments and income from leases with variable lease payments.

€ million	2019	2018
Lease income	350	355
Income from variable lease payments	–	–
Total	**350**	**355**

The lease income generated in the reporting year from subleases in connection with buyback transactions is included in the lease income from operating leases shown in the table.

The impairment losses recognized as a result of the impairment test on lease assets amounted to €22 million (previous year: €45 million) and are included in the depreciation, impairment losses and other expenses from leasing transactions. 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 €3 million (previous year: €4 million) and is included in income from leasing business.

The following table shows the changes in the prior year for lease assets under operating leases:

€ million	Lease assets
Cost	
Balance as of Jan. 1, 2018	**6,679**
Foreign exchange differences	–102
Changes in basis of consolidation	–440
Additions	5,492
Reclassifications	–
Disposals	4,701
Balance as of Dec. 31, 2018	**6,926**
Depreciation and impairment losses	
Balance as of Jan. 1, 2018	**1,263**
Foreign exchange differences	–16
Changes in basis of consolidation	–72
Additions to cumulative amortization	971
Additions to cumulative impairment losses	45
Reclassifications	–
Disposals	751
Reversal of impairment losses	–4
Balance as of Dec. 31, 2018	**1,436**
Net carrying amount as of Dec. 31, 2018	**5,491**
Net carrying amount as of Jan. 1, 2018	**5,417**

In the prior year, the following payments were expected over the next few years from noncancelable leases:

€ million	2019	2020 – 2023	from 2024	Total
Lease payments	209	182	–	391

The following table shows the changes in the reporting year for lease assets under operating leases:

€ million	Lease assets
Cost	
Balance as of Jan. 1, 2019[1]	**7,184**
Foreign exchange differences	137
Changes in basis of consolidation	–5,715
Additions	2,706
Reclassifications	18
Disposals	2,106
Balance as of Dec. 31, 2019	**2,225**
Depreciation and impairment losses	
Balance as of Jan. 1, 2019[1]	**1,567**
Foreign exchange differences	35
Changes in basis of consolidation	–1,204
Additions to cumulative amortization	576
Additions to cumulative impairment losses	22
Reclassifications	17
Disposals	441
Reversal of impairment losses	–3
Balance as of Dec. 31, 2019	**568**
Net carrying amount as of Dec. 31, 2019	**1,657**
Net carrying amount as of Jan. 1, 2019[1]	**5,617**

1 The opening carrying amounts for lease assets have been adjusted (see disclosures relating to IFRS 16).

From the perspective of the Volkswagen Bank GmbH Group as lessor, the value of the right of use under non-current leases recognized in connection with buyback transactions is presented under the lease assets item in the balance sheet.

In the reporting year, the outstanding, undiscounted lease payments from operating leases expected for subsequent years were as follows:

€ million	2020	2021	2022	2023	2024	from 2025	Total
Lease payments	248	53	55	59	62	20	497

The minimum lease payments expected in the reporting year from subleases in connection with buyback transactions are included in the presentation of the outstanding, undiscounted lease payments from operating leases.

In the previous year, minimum lease payments of €194 million were expected from noncancelable subleases in connection with buyback transactions.

LESSEE ACCOUNTING

The Volkswagen Bank GmbH Group is a party to leases as a lessee in various aspects of the business. These leases mainly involve the leasing of land and buildings and operating and office equipment.

Interest expenses of €1 million were recognized for lease liabilities under the interest expenses line item in the income statement in the reporting year.

The subleasing of right-of-use assets gave rise to income of €8 million in the reporting year.

No right-of-use assets are recognized for short-term leases or leases in which the underlying asset is of low value. In the reporting year, expenses for leases in which the underlying assets are of low value amounted to €4 million. Expenses for short-term leases were €3 million. There were no variable lease expenses in the reporting year that were not taken into account in the measurement of the lease liabilities.

In the previous year, general and administrative expenses included expenses of €108 million for leased assets under operating leases related in particular to land and buildings as well as office and operating equipment.

Right-of-use assets derived from leases are reported in the balance sheet of the Volkswagen Bank GmbH Group within property and equipment under the following items:

€ million	Rights of use for land, land rights and buildings, including buildings on third-party land	Rights of use for technical equipment and machinery	Rights of use for other equipment, operating and office equipment	Total
Gross carrying amount (or amortized cost)				
As of Jan. 1, 2019	**53**	**–**	**0**	**53**
Foreign exchange differences	2	–	0	2
Changes in basis of consolidation	–39	–	–	–39
Additions	1	–	0	1
Reclassifications	–	–	–	–
Classified as held for sale	1	–	–	1
Disposals	–	–	–	–
Balance as of Dec. 31, 2019	**16**	**–**	**0**	**16**
Depreciation and impairment losses				
Balance as of Jan. 1, 2019	**–**	**–**	**–**	**–**
Foreign exchange differences	0	–	0	0
Changes in basis of consolidation	0	–	–	0
Additions to cumulative amortization	2	–	0	2
Additions to cumulative impairment losses	–	–	–	–
Reclassifications	–	–	–	–
Classified as held for sale	0	–	–	0
Disposals	–	–	–	–
Reversal of impairment losses	–	–	0	0
Balance as of Dec. 31, 2019	**2**	**–**	**0**	**2**
Net carrying amount as of Dec. 31, 2019	**14**	**–**	**0**	**14**

The values of the rights of use under noncurrent leases recognized in connection with buyback transactions under lease assets in the balance sheet are presented as part of the disclosures on lessor accounting for operating leases.

When assessing the lease term underlying a lease liability, the Volkswagen Bank GmbH Group makes a best estimate as to whether an extension option will be exercised or a termination option will not be exercised. In the event of a material change in the general parameters used for this estimate or a modification of the lease, this estimate is updated.

In the balance sheet, lease liabilities are reported under liabilities to customers. The following table shows a breakdown of the contractual maturities of lease liabilities:

	REMAINING CONTRACTUAL MATURITIES			
€ million	More than 1 year	1 to 5 years	More than 5 years	Total
Lease liabilities as of Dec. 31, 2019	2	7	5	14
Lease liabilities as of Dec. 31, 2018	–	–	–	–

Overall, leases in which the Volkswagen Bank GmbH Group is a lessee gave rise to total cash outflows of €6 million in the reporting year. In the case of assets leased in as part of buyback transactions, the total cash outflows were reported in an amount equating to the value of the right of use recognized in the reporting year.

In the previous year, payments of €22 million had been recognized as an expense for the assets leased in as part of buyback transactions.

The following table shows an overview of potential future cash outflows for lease liabilities that have not been included in the measurement of the lease liabilities.

€ million	2019	2018
Potential future cash outflows due to		
Variable lease payments	–	–
Residual Value guarantees	–	–
Extension options	2	–
Termination options	0	–
Leases not yet commenced (contractual obligation)	–	–
Total	**2**	**–**

66. 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 tables show the breakdown of the changes in subordinated capital (as part of financing activities) into cash and non-cash transactions for the reporting year and the prior year.

€ million	Balance as of Jan. 1, 2018	Cash changes	NONCASH TRANSACTIONS Exchange rate changes	Changes in basis of consolidation	Changes in valuation	Balance as of Dec. 31, 2018
Subordinated capital	1,721	409	–27	–	–	2,103

€ million	Balance as of Jan. 1, 2019	Cash changes	NONCASH TRANSACTIONS Exchange rate changes	Changes in basis of consolidation	Changes in valuation	Balance as of Dec. 31, 2019
Subordinated capital	2,103	–52	87	–1,966	–	171

67. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

€ million	Dec. 31, 2019	Dec. 31, 2018
Contingent liabilities under bank and other financial guarantees	234	179
Other contingent liabilities	1	–
Total	**235**	**179**

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2019	DUE 2020 – 2023	DUE from 2024	TOTAL Dec. 31, 2018
Purchase commitments in respect of				
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
Irrevocable credit commitments to customers	2,312	0	0	2,313
Lease and rental contracts	8	23	34	64
Miscellaneous financial obligations	8	–	–	8

€ million	DUE 2020	DUE 2021 – 2024	DUE from 2025	TOTAL Dec. 31, 2019
Purchase commitments in respect of				
Property and equipment	0	–	–	0
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
Irrevocable credit commitments to customers	1,771	0	0	1,771
Lease and rental contracts	4	0	–	4
Miscellaneous financial obligations	11	–	–	11

Drawdowns on irrevocable credit commitments are possible at any time.

68. Trust Transactions

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

69. Average Number of Employees During the Reporting Period

	2019	2018
Salaried employees	1,899	3,486
of which: upper management (OMK)	39	62
of which: part-time employees	420	639
Vocational trainees	25	34

70. 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. In addition, Porsche Automobil Holding SE, Stuttgart, controlled the majority of the voting rights in Volkswagen AG as of the reporting date. 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 8, 2019, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held more than 20% of the voting rights in Volkswagen AG as of December 31, 2019 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 the Bank's 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.

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 are the closing rate for asset and liability items, and the weighted average rates for the year for income statement items.

FISCAL YEAR 2018

€ million	Supervisory Board	Management/ Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Unconsolidated subsidiaries	Joint ventures
Loans and receivables	0	0	1	–	2,539	1	2,066
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–
Obligations	6	7	–2,727	–	9,190	53	47
Interest income	0	0	0	–	100	–	2
Interest expense	0	0	0	–	–130	0	–
Goods and services provided	–	–	1	–	1,435	16	–1
Goods and services received	–	–	629	–	4,393	–	215

FISCAL YEAR 2019

€ million	Supervisory Board	Management/ Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Unconsolidated subsidiaries	Joint ventures
Loans and receivables	0	0	1	–	2,025	0	2,370
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–
Obligations	6	11	3,454	–	2,919	172	54
Interest income	0	0	0	–	99	–	2
Interest expense	0	0	0	–	–44	–	–
Goods and services provided	–	–	1	–	297	0	2
Goods and services received	–	–	6	–	675	–	220

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. The relationships with the Supervisory Board and the Board of Management comprise relationships with the relevant groups of people at Volkswagen Bank GmbH and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of lesser significance.

The “Goods and services received” line item primarily contains sales revenue from vehicle sales. The “Goods and services provided” line item consists mainly of income from finance cost subsidies received.

In the reporting year, the Volkswagen Bank GmbH Group received capital contributions from Volkswagen AG amounting to €171 million (previous year: €0 million) and provided capital contributions to related parties of €58 million (previous year: €2 million).

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

MANAGEMENT BOARD REMUNERATION

€ million	2019	2018
Short-term benefits	2	3
Long-term benefits	1	0
Termination benefits	–	–
Post-employment benefits	2	0

As in the previous year, the total payments made to former members of the Management Board 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 €10 million (previous year: €9 million).

SUPERVISORY BOARD REMUNERATION

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 allowance is independent of the performance of the Bank and the Supervisory Board role undertaken by the person concerned. The members of the Supervisory Board who are employees of the Volkswagen Group receive flat-rate remuneration from Volkswagen Bank GmbH. If they are also members of other supervisory boards of Group companies of Volkswagen AG, remuneration received for these functions is deducted from their entitlement. As a result, a total amount of less than €0.1 million (previous year: €0.1 million) was paid out 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 Bank. The same also applies to the representative of the senior executives on the Supervisory Board.

71. Disclosures Relating to Unconsolidated Structured Entities

A structured entity is normally 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 maintained business relationships with structured entities in the year under review. These are ABS special purpose entities within Volkswagen AG's group of consolidated entities. The entities carry out a process of securitization by taking assets from lending agreements and leases for vehicles and transforming them into securities (asset-backed securities) on a maturity-matched basis. Volkswagen Bank GmbH purchased some of these securities. In the Volkswagen Bank GmbH Group, the securities have been allocated to the

category of assets measured at fair value through profit or loss. 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 financial services business of the associated entity in Volkswagen AG's group of consolidated entities is being funded as a result of the purchase of the securities issued by ABS special purpose entities within Volkswagen AG's group of consolidated entities.

The purchase of the securities gives rise to issuer counterparty default risk 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.

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 amount of the securitized assets is also disclosed.

	ABS SPECIAL PURPOSE ENTITIES	
€ million	2019	2018
Reported in the balance sheet as of Dec. 31		
Marketable securities	664	68
Loans to and receivables from customers	–	–
Maximum loss risk	664	68
Nominal volume of securitized assets	3,318	1,822

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

72. Governing Bodies of Volkswagen Bank GmbH

The members of the Management Board were as follows in the year under review:

DR. MICHAEL REINHART
Chairman of the Management Board
Corporate Management of Volkswagen Bank GmbH

HARALD HEßKE
Member of the Management Board of Volkswagen Bank GmbH. Responsible for Finance.

CHRISTIAN LÖBKE
Member of the Management Board of Volkswagen Bank GmbH. Responsible for Risk Management.

DR. VOLKER STADLER
Member of the Management Board of Volkswagen Bank GmbH. Responsible for Operations.

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

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

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

WALDEMAR DROSDZIOK (UNTIL MARCH 31, 2019)
Deputy Chairman
Chairman of the Joint Works Council of Volkswagen Financial Services AG
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

SILVIA STELZNER (AS OF APRIL 1, 2019)
Deputy Chairwoman
Member of the Joint Works Council of Volkswagen Financial Services AG
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

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

BIRGIT DIETZE
Principal Representative of IG Metall Berlin

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

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

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

LUTZ MESCHKE
Deputy Chairman 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 Volkswagen Bank GmbH

JÜRGEN ROSEMANN (AS OF APRIL 1, 2019)
Member of the Joint Works Council of Volkswagen Financial Services AG
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

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

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

MEMBERS OF THE AUDIT COMMITTEE

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

MEMBERS OF THE RISK COMMITTEE

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

MEMBERS OF THE NOMINATION COMMITTEE

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

MEMBERS OF THE REMUNERATION COMMITTEE

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

73. 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.

74. Events After the Balance Sheet Date

Up to February 19, 2020, 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

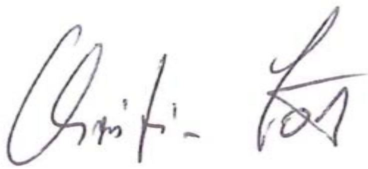
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the 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 19, 2020

Volkswagen Bank GmbH
The Management Board

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.

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, 2019:

- 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 consolidated entities included in the IFRS consolidated financial statements. From January 1 to March 29, 2019, the company SkoFIN s.r.o., Czech Republic, was a consolidated entity. The disclosures for this company are therefore reported using the pro rata figures applicable to this period.

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 or loss on hedges
- Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income
- Net 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, 2019.

Public subsidies received are defined as subsidies from local authorities and direct EU subsidies.

Country	Sales revenue (€ million)	Employees	Profit/loss before tax (€ million)	Income tax (€ million)	Public subsidies received (€ million)
EU countries					
Germany	850	932	251	23	0
France	966	397	148	9	–
Greece	19	47	9	2	–
United Kingdom	94	45	73	6	–
Ireland	62	19	46	6	–
Italy	222	131	115	34	–
Luxembourg	–	–	–	–	–
Netherlands	0	1	0	0	–
Poland	53	57	28	4	–
Portugal	22	17	11	1	–
Spain	119	44	71	18	–
Czech Republic	109	237	25	1	–

Company name	Company type	Domicile	Country
EU countries			
Volkswagen Bank GmbH	Bank	Braunschweig	Germany
Driver Twelve GmbH	SPV	Frankfurt am Main	Germany
Driver thirteen UG (haftungsbeschränkt)	SPV	Frankfurt am Main	Germany
Private Driver 2014-4 UG (haftungsbeschränkt)	SPV	Frankfurt am Main	Germany
Private Driver 2015-1 UG (haftungsbeschränkt)	SPV	Frankfurt am Main	Germany
Volkswagen Bank GmbH, France branch	Bank	Roissy en France	France
Driver France FCT	SPV	Pantin	France
Volkswagen Bank GmbH, Greece branch	Bank	Glyfada-Athens	Greece
Volkswagen Bank GmbH, United Kingdom branch	Bank	Milton Keynes	United Kingdom
Volkswagen Bank GmbH, Ireland branch	Bank	Dublin	Ireland
Driver Italia ONE S.R.L.	SPV	Milan	Italy
Volkswagen Bank GmbH, Italy branch	Bank	Milan	Italy
Driver Master S.A.	SPV	Luxembourg	Luxembourg
Driver Multicompartment S.A.	SPV	Luxembourg	Luxembourg
Volkswagen Bank GmbH, Netherlands branch	Bank	Amersfoort	Netherlands
Volkswagen Bank GmbH, Poland branch	Bank	Warsaw	Poland
Volkswagen Bank GmbH, Portugal branch	Bank	Amadora	Portugal
Volkswagen Bank GmbH, Spain branch	Bank	Alcobendas-Madrid	Spain
DRIVER ESPAÑA three, FONDO DE TITULIZACIÓN	SPV	Madrid	Spain
DRIVER ESPAÑA four, FONDO DE TITULIZACIÓN	SPV	Madrid	Spain
DRIVER ESPAÑA five, FONDO DE TITULIZACIÓN	SPV	Madrid	Spain
SkoFIN s.r.o.	Financial institution	Prague	Czech Republic

Independent Auditor's Report

To Volkswagen Bank GmbH, Braunschweig

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 31 December 2019, 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 1 January to 31 December 2019, 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 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

In 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 § 315e Abs. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, 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 cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the 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") 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 Consolidated Financial Statements and of the Group 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 1 January to 31 December 2019. 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 Risk provisions in dealer financing
❷ Provisions for legal risks
❸ Deconsolidation of subsidiaries and treatment as dividend in kind

Our presentation of these key audit matters has been structured in each case as follows:
① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ **Risk provisions in dealer financing**

① In the Company's consolidated financial statements receivables from dealer financing amounting to EUR 13.6 billion are reported under the “Loans to and receivables from customers” balance sheet item. As at December 31, 2019, risk provisions for the loan portfolio consisting of individual and general valuation allowances are reported in the balance sheet. The measurement of the risk provisions for the dealer financing business is determined in particular by the executive directors' estimates with respect to future loan defaults, the structure and quality of the loan portfolios and general economic factors. The amount of the individual valuation allowances for dealer financing reflects the difference between the outstanding amount of the loan and the lower value assigned to it as at the balance sheet date. Existing collaterals are taken into account. A portfolio allowance is recognized for deferred credit default risks and is measured in accordance with the expected credit loss model set out in IFRS 9. The amounts of the valuation allowances in the dealer financing business are highly significant for the financial performance of the Company and they involve considerable judgment on the part of the executive directors. Furthermore, the measurement parameters applied, which are subject to material uncertainties, have a significant impact on the recognition and the amount of any valuation allowances required. Against this background, this matter was of particular significance during our audit.

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

③ The Company's disclosures on risk provisions in dealer financing are contained in numbers 8, 21 and 32 of the notes to the consolidated financial statements and in the section entitled “Financial Performance” in the Group management report.

❷ **Provisions for legal risks**

① The Company is exposed to various legal risks; during the financial year, these related in particular to potential claims in connection with the brokerage of customer financing and proceedings in relation to the structuring of customer lending agreements, which can have a negative impact on statutory rescission periods, impeding certain processes. At the balance sheet date, the Company had recognized EUR 245 million in litigation and legal risk provisions. The determination of whether or not a provision should be recognized to cover the risks to which the Company is exposed, and if so, in what amount, is subject to a high degree of uncertainty. In light of this background, we consider these matters to be of particular importance for our audit.

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

③ The Company's disclosures relating to provisions for legal disputes are contained in numbers 15 and 47 of the notes to the consolidated financial statements.

❸ **Deconsolidation of subsidiaries and treatment as dividend in kind**

① In fiscal year 2019, Volkswagen Bank GmbH spun off several subsidiaries, including in par-ticular the 100 % stake in Volkswagen Financial Services (UK) Ltd., Milton Keynes (United Kingdom), Volkswagen Finans Sverige AB, Södertalje (Sweden), and ŜkoFin s.r.o., Prague (Czech Republic), to Volkswagen Financial Services AG, Brunswick. The spin-offs were carried out at the book value of the net assets disposed of at the time of their entry in the Commercial Register on 31 March 2019 and 31 July 2019 respectively and were treated as distributions in the form of a dividend in kind under IFRS. This reduced the company's consolidated equity by € 481 million.
Volkswagen Bank GmbH relinquished control over the subsidiaries concerned as a result of their spin-offs and consequently deconsolidated them. In addition to the reduction in net as-sets that was recognised directly in equity, the deconsolidation resulted in a loss at Group level due to the realization through profit or loss of currency translation losses previously recognised directly in equity as accumulated other comprehensive income.
As a result of the deconsolidation of the subsidiaries, Volkswagen Financial Services (UK) Ltd. and Volkswagen Finans Sverige AB were reported as discontinued operations as defined by IFRS 5 in the consolidated financial statements as at 31 December 2019.
In our opinion, this matter was of particular significance for our audit due to the complexity of the accounting treatment and the numerous material effects on the consolidated financial statements.

② For the purpose of assessing the proper accounting treatment of the spin-off of the subsidiaries, we examined, among other things, the legal basis of the spin-offs in accordance with company law and companies reorganization law and evaluated the related contractual agreements.
We also assessed whether the classification as discontinued operations in accordance with IFRS 5 was appropriate and whether the presentation in the consolidated financial statements was consistent with IFRS accounting standards. We evaluated the underlying assumptions regarding the treatment of the spin-offs as dividends in kind and their measurement at book values and verified that they were correctly derived from the accounting records of Volkswagen Bank GmbH.

We examined the spin-off agreements and the entries in the commercial register that led to the loss of control and thus to deconsolidation in order to ensure that the date of deconsolidation was correctly determined. In addition, we assessed whether the deconsolidation was correct from a technical standpoint and whether the gain or loss on deconsolidation was correctly determined and correctly recorded in the accounts.
As a result of our audit, we were able to satisfy ourselves that the accounting treatment of the spin-offs is sufficiently documented and comprehensible on the basis of the information available.

③ The Company's disclosures relating to the presentation as discontinued operations and the deconsolidation are contained in Note 2 "Scope of consolidation" in the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards).

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our 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 FINAN-CIAL 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 of 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 control.
- 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 18 March 2019. We were engaged by the supervisory board on 23 May 2019. We have been the group auditor of the Volkswagen Bank GmbH, Braunschweig, without interruption since the financial year 1949.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Hanover, 20 February 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

Report of the Supervisory Board

of Volkswagen Bank GmbH

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

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

COMMITTEE ACTIVITIES

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

Audit Committee

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

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

At the meeting held on November 29, 2019, the Audit Committee received reports on the latest performance of the Volkswagen Bank Group and discussed the audit planning, key audit matters and the obligations of the auditor to provide information. The Committee gathered details to establish the extent to which there were relationships of a professional, financial or other nature between the auditor and the Bank and/or its governing bodies with a view to assessing the independence of the auditor. In this regard, the Audit Committee obtained information on the services that the auditor had provided for the Bank in addition to the auditing activities. In addition, the Audit Committee received detailed reports on the preparatory activities for the change in auditor, on the findings of various external audits and on outstanding audits. Finally, the Head of Internal Audit reported on the auditing activities in the reporting year, outstanding action and the key audit matters for 2020.

Risk Committee

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

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

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

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

Remuneration Committee

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

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

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

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

Nomination Committee

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

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

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

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

Credit Committee

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

No other committee meetings were held in the reporting period.

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

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

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

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

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

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

At the meeting on November 29, 2019, the deliberations of the Supervisory Board mainly focused on results from the annual assessment of the Management Board and Supervisory Board pursuant to section 25d of the KWG and on the preparation and current status of the ECB audits. Reports were also presented to the meeting on the subject of leadership and management in the digital revolution and concerning the "Together4Integrity" project in the Volkswagen Group.

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

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

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

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

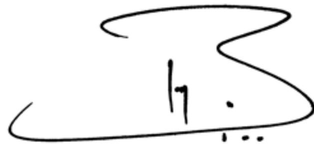
The Supervisory Board had no reservations after its review of the consolidated financial statements and the annual financial statements, including the management reports. The auditors were present when this agenda item was addressed at the Supervisory Board meeting and they reported on the main findings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

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

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

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

Braunschweig, Wednesday, March 11, 2020



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 Bank.

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Volkswagen Bank GmbH
Gifhorner Strasse 57
38112 Braunschweig, Germany
Telephone +49 (0) 531 212- 0
info@vwfs.com
www.vwfs.com

INVESTOR RELATIONS

Telephone +49 (0) 531 212- 30 71
ir@vwfs.com

Produced in-house with firesys

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VOLKSWAGEN BANK GMBH

Gifhorner Strasse 57 · 38112 Braunschweig · Germany · Phone +49 (0) 531 212-0
info@vwfs.com · www.vwfs.com · www.facebook.com/vwfsde
Investor Relations: Phone +49 (0) 531 212-30 71 · ir@vwfs.com