VOLKSWAGEN BANK

GMBH

PILLAR 3 DISCLOSURE REPORT

IN ACCORDANCE WITH THE CAPITAL REQUIREMENTS REGULATION

AS OF DECEMBER 31,

2020

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

Foreword

The Pillar 3 Disclosure Report for the year ended December 31, 2020 is published in accordance with the supervisory law requirements of the Basel III framework (Regulation (EU) No. 575/2013 – the Capital Requirements Regulation or “CRR” – and Directive 2013/36/EU – the Capital Requirements Directive IV or “CRD IV”), which came into force as of January 1, 2014. This Report is based on the legal requirements in force as of the reporting date.

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

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

The accompanying report includes in particular disclosures by Volkswagen Bank GmbH concerning

> The level of own funds and own funds requirements
> The capital buffers in accordance with Article 440 of the CRR
> Credit risk adjustments and
> Credit risk mitigation techniques

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

It should be noted that some of the information required to be disclosed has already been included in the published annual financial statements as of December 31, 2020, or in the management report for fiscal year 2020; in accordance with Article 434(2) of the CRR, it is therefore not repeated in this report. The structure of the remuneration systems and the relevant remuneration (Article 450 of the CRR) parameters are described in a separate report.

Braunschweig, April 2021

The Management Board

Overview

of the structure of the prudential scope of consolidation and the IFRS scope of consolidation

Volkswagen Bank GmbH together with its subsidiaries and associates constitutes an institution group as defined in section 10a(1) and (2) of the KWG in connection with Article 18ff. of the CRR and is the superordinate company within the institution group in accordance with section 10(1) sentence 2 of the KWG.

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

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

Volkswagen Bank GmbH uses the consolidated financial statements prepared in accordance with International Financial Reporting Standards to determine its consolidated own funds in accordance with Article 4(1) No. 77 of the CRR. Consequently, own funds and the exposure amounts for counterparty risk, operational risk and market risk of the subsidiaries included in the prudential scope of consolidation are normally determined in accordance with section 10a(5) of the KWG. Items reported in the IFRS consolidated financial statements that are relevant to entities that are not included in the prudential scope of consolidation are deconsolidated for regulatory purposes. As before, the entities that are not included in the IFRS consolidated financial statements but are included in the prudential scope of consolidation are aggregated using the method outlined in section 10a(4) of the KWG. For consolidated own funds, the prudential filters and deductions are additionally taken into account. The entities to be included in the IFRS consolidated financial statements differ from those in the prudential scope of consolidation owing to different reliefs (e.g. based on size) or consolidation requirements (e.g. due to different consolidation requirements) and the nature of their operating business. The prudential scope of consolidation is limited to entities that qualify under the CRR as institutions (Article 4(1) No. 3 of the CRR), financial institutions (Article 4(1) No. 26 of the CRR), or ancillary services undertakings (Article 4(1) No. 18 of the CRR). No such restriction exists under IFRS.

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

TABLE 1: PRUDENTIAL SCOPE OF CONSOLIDATION

		REGULATORY TREATMENT				SCOPE OF CONSOLIDATION UNDER IFRS		
		Consolidation						
Classification in accordance with section 1 of the GBA	Name	Full	Proportionate	Equity deduction or risk-weighting 250 %	Risk-weighted equity interest	Full	Equity method	At cost
CI	**Volkswagen Bank GmbH, Braunschweig***	X				X		
	DFM N.V., Amersfoort	X					X	
	Volkswagen Finančné služby Slovensko s.r.o., Bratislava	X					X	
ASU	**Volkswagen Financial Services Digital Solutions GmbH, Braunschweig**	X					X	
Other	**DFM Payment Services B.V., Amersfoort**				X			X
	Credi2 GmbH, Wien				X			X
	Special purpose vehicles (SPV) (partly in compartment structures)							
	SPV in compartment structures					X		
	Driver France FCT, Pantin					X		
	Compartment Driver France Three i. L.							
	Driver Master S. A., Luxemburg					X		
	Compartment 1							
	Compartment 2							
	Driver Multi-Compartment S. A., Luxemburg					X		
	Driver 14							
	Driver 15							
	Driver Italia One S.r.l., Mailand					X		
	Private Driver 2020-1 S.r.l.					X		
	Private Driver Italia 2020-1							
	Private Driver España 2020-1, FONDO DE TITULIZACIÓN					X		
	Private Driver España 2020-1							
	DRIVER ESPAÑA four, FONDO DE TITULIZACIÓN					X		
	Driver Espana four							
	DRIVER ESPAÑA five, FONDO DE TITULIZACIÓN					X		
	Driver Espana five							
	DRIVER ESPAÑA six, FONDO DE TITULIZACIÓN					X		
	Driver Espana six							
	***Branches of Volkswagen Bank GmbH**							
	Volkswagen Bank Italy branch, Milan	X						
	Volkswagen Bank Spain branch, Madrid	X						
	Volkswagen Bank France branch, Roissy-en-France	X						
	Volkswagen Bank Netherlands branch, Amersfoort	X						
	Volkswagen Bank Greece branch, Athens	X						
	Volkswagen Bank UK branch, Milton Keynes	X						
	Volkswagen Bank Portugal branch, Amadora	X						
	Volkswagen Bank Poland branch, Warsaw	X						

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

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

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

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

Own Funds

STRUCTURE OF OWN FUNDS

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

Volkswagen Bank GmbH is currently not utilizing the "quick fix" regulatory transitional provisions governing the initial effects from first-time application of IFRS 9 under Article 473a of the CRR. The disclosures on own funds, capital and leverage ratios take into account the full impact of the introduction of IFRS 9.

Similarly, Volkswagen Bank GmbH does not apply the "quick fix" transitional provisions under Article 468 of the CRR. The disclosures on own funds, capital and leverage ratios reflect the full impact of the unrealized gains and losses measured at fair value through other comprehensive income.

Common Equity Tier 1 capital

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

The increase in Common Equity Tier 1 capital in the amount of €453 million during the reporting period is due mainly to an increase in retained earnings according to IFRS in the amount of €542 million. Furthermore, the deduction for deferred tax assets in the amount of €121 million increased in tandem with a reduction in Common Equity Tier 1 capital. The increase in retained earnings results from the effect that IFRS profits of the institution group is higher than HGB profits on single institution level of VW Bank GmbH. After full distribution of HGB profits in accordance with the profit transfer agreement the difference between IFRS profits and HGB profits are retained as retained earnings within the institution group.

The calculation of the Common Equity Tier 1 capital base on equity reported in the balance sheet according to IFRS after approval of the consolidated financial statements.

Tier 2 capital

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

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

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

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

€ million	Carrying amount in consolidated financial statements (IFRSs)	Adjustment to the prudential scope of consolidation	Carrying amount in prudential scope of consolidation	Regulatory adjustment	Items of own funds
Subscribed capital	318	0	318	0	318
(+) Capital reserves	8,498	0	8,498	0	8,498
(+) Retained earnings	1,511	-246	1,265	14	1,279
of which: accumulated profits	1,376	-233	1,143	14	1,158
of which: actuarial gains and miscellaneous retained earnings	135	-13	122	-1	121
(+) Other reserves	-14	-1	-14	1	-14
of which: Currency translation	-70	0	-70	0	-70
of which: cash flow hedges	1	-1	0	0	0
of which: Market valuation of marketable securities	56	0	56	0	56
of which: equity-accounted investments	0	0	0	0	0
= Total equity	**10,313**	**-246**	**10,067**	**14**	**10,081**
(+) Minority interests	0	197	197	-197	0
= Common Equity Tier 1 (CET1) capital before regulatory adjustments	**10,313**	**-49**	**10,264**	**-183**	**10,081**
(–) Intangible assets	-33	-29	-62	3	-60
(–) Deferred tax assets	-1,719	-140	-1,859	996	-864
(+/–) Cash flow hedge reserve	-1	1	0	0	0
(–) Defined-benefit pension fund assets	0	0	0	0	0
(–) Additional valuation adjustments				-3	-3
(–) Fair value gains and losses arising from own credit risk related to derivative liabilities				0	0
(–) Securitization positions				-4	-4
(–) Losses deducted in accordance with Article 36(1)(a) of the CRR				0	0
(+) Regulatory adjustments to Common Equity Tier 1 capital that are added back to the deductions in connection with transitional provisions				0	0
(–) Regulatory adjustments in connection with unrealized profits and losses in accordance with Articles 467 and 468 of the CRR				0	0
(–) Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR				0	0
(–) Amount of items required to be deducted from Additional Tier 1 items that exceeds the institution's Additional Tier 1 capital				0	0
= Common Equity Tier 1 capital (CET1) after regulatory adjustments	**8,560**	**-218**	**8,342**	**808**	**9,150**
(+) Additional Tier 1 capital (AT1) after regulatory adjustments	0	0	0	0	0
= Tier 1 capital (T1) after regulatory adjustments	**8,560**	**-218**	**8,342**	**808**	**9,150**
(+) Tier 2 capital (T2) after regulatory adjustments	49	-16	32	-13	19
of which: subordinated liabilities	49	-16	32	-13	19
of which: Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR				0	0
= Own funds (T1+T2)	**8,609**	**-234**	**8,375**	**795**	**9,169**

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

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

Annex II		Instrument type 1	Instrument type 2	Instrument type 3
1	Issuer	Volkswagen Bank GmbH Group	Volkswagen Bank GmbH	Volkswagen Bank GmbH
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Bilateral agreements	XS0175737997	XS0193333613
3	Governing law(s) of the instrument	German law	German law	German law
	Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital
6	Eligible at solo/(sub)consolidated/solo and (sub)consolidated	(Sub)consolidated	Solo and (sub)consolidated	Solo and (sub)consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated bond	Subordinated bond
8	Amount recognized in regulatory capital (currency in million, as of most recent reporting date)	EUR 318.3 million	EUR 11.7 million	EUR 7.5 million
9	Nominal amount of instrument	EUR 318.3 million	EUR 20.0 million	EUR 10.0 million
9a	Issue price	Various	EUR 19.3 million	EUR 9.5 million
9b	Redemption price	N/A	EUR 20.0 million	EUR 10.0 million
10	Accounting classification	Share capital	Liability – amortized cost	Liability – amortized cost
11	Original date of issuance	Various	26.09.2003	07.06.2004
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	26.09.2023	07.06.2024
14	Issuer call subject to prior supervisory approval	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Termination option for tax event	Termination option for tax event
16	Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons/dividends			
17	Fixed or floating dividend/coupon	Variable	Fixed	Fixed
18	Coupon rate and any related index	N/A	5.4% p.a.	5.5% p.a.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A

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

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

The own funds in accordance with Article 72 of the CRR and the capital ratios in accordance with Article 92 of the CRR as well as the capital buffers in accordance with section 10(c)ff. of the GERMAN BANKING ACT (Kreditwesengesetz – KWG) are composed of the following items:

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

No.	Capital instruments	(A) Amount at disclosure Date (€ million)	(B) Regulation (EU) No. 575/2013 Article Reference
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	318	26 (1), 27, 28, 29
	of which: share capital	318	EBA list 26 (3)
2	Retained earnings	1,158	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	8,605	26 (1)
3a	Funds for general banking risk	0	26 (1) (f)
4	Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase-out from CET1	0	486 (2)
5	Minority interests (amount allowed in consolidated CET1)	0	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**10,081**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-3	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-60	36 (1) (b), 37
9	Empty set in the EU	0	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	0	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	0	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	0	36 (1) (d), 40, 159
13	Any increase in equity that results from securitized assets (negative amount)	0	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	36 (1) (g), 44
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (h), 43, 45, 46, 49 (2) and (3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1)–(3), 79
20	Empty set in the EU	0	
20a	Exposure amount of the following items which qualify for a RW of 1,250%, where the institution opts for the deduction alternative	-4	36(1)(k)

No.	Capital instruments	(A) Amount at disclosure Date (€ million)	(B) Regulation (EU) No. 575/2013 Article Reference
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	36(1)(k)(i), 89 to 91
20c	of which: securitization positions (negative amount)	-4	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	0	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability where the conditions in 38(3) are met) (negative amount)	-864	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	0	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36 (1) (i), 48 (1) (b)
24	Empty set in the EU	0	
25	of which: deferred tax assets arising from temporary differences	0	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	0	36 (1) (a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0	36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-931**	
29	**Common Equity Tier 1 (CET1) capital**	**9,150**	**Row 6 minus row 28**
Additional Tier 1 (AT1) capital: Instruments			
30	Capital instruments and the related share premium accounts	0	51, 52
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	0	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0	85, 86
35	of which: instruments issued by subsidiaries subject to phase out	0	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**0**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0	52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	56 (d), 59, 79
41	Empty set in the EU		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	
44	**Additional Tier 1 (AT1) capital**	**0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**9,150**	

No.	Capital instruments	(A) Amount at disclosure Date (€ million)	(B) Regulation (EU) No. 575/2013 Article Reference
Tier 2 (T2) capital: Instruments and provisions			
46	Capital instruments and the related share premium accounts	19	62, 63
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	0	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0	87, 88
49	of which: instruments issued by subsidiaries subject to phase out	0	486 (4)
50	Credit risk adjustments	0	62 (c) and (d)
51	**Tier 2 (T2) capital before regulatory adjustments**	**19**	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	66 (b), 68
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	66 (d), 69, 79
56	Empty set in the EU		
57	Total regulatory adjustments to Tier 2 (T2) capital	0	
58	Tier 2 (T2) capital	19	
59	Total capital (TC = T1 + T2)	9,169	
60	**Total risk weighted assets**	**50,557**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	18.1	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	18.1	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	18.1	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92(1)(a), plus capital conservation and countercyclical buffer requirements, plus the systemic risk buffer, plus the systemically important institution buffer expressed as a percentage of risk exposure amount)	7.0	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.5	
66	of which: countercyclical buffer requirement	0.0	
67	of which: systemic risk buffer requirement	0.0	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	11.1	CRD 128
69	[not relevant in the EU Regulation]		
70	[not relevant in the EU Regulation]		
71	[not relevant in the EU Regulation]		

No.	Capital instruments	(A) Amount at disclosure Date (€ million)	(B) Regulation (EU) No. 575/2013 Article Reference
Amounts under the threshold for deductions (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	28	36 (1) (h), 45, 46, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings by the institution in CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	36 (1) (i), 45, 48
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10 % threshold, net of related tax liability where the conditions in Article 38(3) are met)	1,000	36 (1) (c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	N/A	62
77	Cap on inclusion of credit risk adjustments in T2 under standardized approach	N/A	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to application of the cap)	N/A	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	N/A	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	N/A	484(3), 486(2) and (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	484(3), 486(2) and (5)
82	Current cap on AT1 instruments subject to phase out arrangements	N/A	484(3), 486(2) and (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A	484(3), 486(2) and (5)
84	Current cap on T2 instruments subject to phase out arrangements	N/A	484(3), 486(2) and (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions andmaturities)	N/A	484(3), 486(2) and (5)

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

The following information must be disclosed with respect to the maintenance of the countercyclical capital buffer prescribed by Title VII Chapter 4 of Directive 2013/36/EU in conjunction with section 10(d) of the KWG:

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

	GENERAL CREDIT EXPOSURES		TRADING BOOK EXPOSURES		SECURITIZATION EXPOSURES		OWN FUNDS REQUIREMENTS					
€ million	Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitization exposures	Total	Own Funds requirements weights	countercyclical capital buffer rate
		020	030	040	050	060	070	080	090	100	110	120
ANDORRA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
ARGENTINA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
AUSTRALIA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
AUSTRIA	11	0	0	0	0	0	1	0	0	1	0.0 %	0.0 %
BELGIUM	70	0	0	0	0	0	6	0	0	6	0.2 %	0.0 %
BERMUDA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
BOTSWANA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
BRAZIL	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
BULGARIA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.5 %
CANADA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
CHILE	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
CHINA	2	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
CYPRES	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
CZECH REPUBLIC	88	0	0	0	0	0	7	0	0	7	0.2 %	0.5 %
DENMARK	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
ESTONIA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
FINLAND	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
FRANCE	5,883	0	0	0	0	0	401	0	0	401	11.5 %	0.0 %
GERMANY	29,196	0	0	0	0	0	1,845	0	0	1,845	53.0 %	0.0 %
GREECE	236	0	0	0	0	0	14	0	0	14	0.4 %	0.0 %
GUERNSEY	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
HONGKONG	0	0	0	0	0	0	0	0	0	0	0.0 %	1.0 %
HUNGARY	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
ICELAND	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
INDIA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
IRELAND	1	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
ISLE OF MAN	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
ITALY	5,485	0	0	0	0	0	343	0	0	343	9.9 %	0.0 %
JAPAN	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
JERSEY	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
KOREA, REPUBLIC of	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
LATVIA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
LIECHTENSTEIN	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
LITHUANIA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %

	€ million	GENERAL CREDIT EXPOSURES		TRADING BOOK EXPOSURES		SECURITIZATION EXPOSURES		OWN FUNDS REQUIREMENTS					
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitization exposures	Total	Own Funds requirements weights	counter-cyclical capital buffer rate
	LUXEMBOURG	0	0	0	0	0	0	0	0	0	0	0.0 %	0.3 %
	MALAYSIA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	MALTA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	MEXICO	9	0	0	0	0	0	1	0	0	1	0.0 %	0.0 %
	NETHERLANDS	2,106	0	0	0	0	0	165	0	0	165	4.7 %	0.0 %
	NEW ZEALAND	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	NORWAY	0	0	0	0	0	0	0	0	0	0	0.0 %	1.0 %
	OTHER	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	POLAND	993	0	0	0	0	0	72	0	0	72	2.1 %	0.0 %
	PORTUGAL	467	0	0	0	0	0	30	0	0	30	0.9 %	0.0 %
	ROMANIA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	RUSSIAN FEDERATION	69	0	0	0	0	0	6	0	0	6	0.2 %	0.0 %
	SINGAPORE	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	SLOVAKIA	515	0	0	0	0	0	38	0	0	38	1.1 %	1.0 %
	SLOVENIA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	SOUTH AFRICA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	SPAIN	5,509	0	0	0	0	0	351	0	0	351	10.1 %	0.0 %
	SWEDEN	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	SWITZERLAND	4	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	TAIWAN	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	THAILAND	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	TURKEY	76	0	0	0	0	0	6	0	0	6	0.2 %	0.0 %
	UGANDA	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	UKRAINE	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
	UNITED KINGDOM	2,375	0	0	0	517	0	188	0	8	196	5.6 %	0.0 %
	UNITED STATES	0	0	0	0	0	0	0	0	0	0	0.0 %	0.0 %
020	**Total**	**53,097**	**0**	**0**	**0**	**517**	**0**	**3,474**	**0**	**8**	**3,482**	**100.0 %**	**0.0 %**

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

Row		Column
		010
010	Total risk exposure amount in € million	50,557
020	Institution-specific countercyclical capital buffer rate	0.13 %
030	Institution-specific countercyclical capital buffer requirement in € million	6

RISK INVENTORY/RISK QUANTIFICATION

The objective of the risk inventory, which has to be carried out at least annually, is to identify the main categories of risk. To this end, all known categories of risk are investigated to establish whether they arise in the Volkswagen Bank GmbH Group. In the risk inventory, the relevant categories of risk are examined in greater detail, quantified or, if they cannot be quantified, assessed by experts, and then evaluated to determine whether they are material for the Volkswagen Bank GmbH Group. In accordance with the requirements set out in the "ECB Guide to the internal capital adequacy assessment process (ICAAP)", the risk inventory used 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 confidence level of 99.9% is also used as a basis for determining risk.

The risk inventory carried out in 2020 was based on the December 31, 2019 reporting date and 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 included within the categories specified above.

CAPITAL ADEQUACY (INCLUDING RISK-BEARING CAPACITY)

In addition to the quantification of the risk positions required by regulatory law (in accordance with the CRR), and the presentation of existing equity components the Volkswagen Bank GmbH Group has set up a system for calculating risk-bearing capacity in accordance with the requirements specified in the ICAAP guide. The system ensures that the Group maintains risk-bearing capacity from both economic and normative perspectives.

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. This system reflects the Pillar-2 requirements for risk-bearing capacity determined in the supervisory review and evaluation process (SREP).

In the economic risk-bearing capacity analysis, the overall economic risk is compared against the risk-taking potential.

The quarterly analysis of its risk-bearing capacity serves to examine whether the Volkswagen Bank GmbH Group is capable at all times of bearing the risks potentially arising from its current and future business activities. 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.

In addition, the Volkswagen Bank GmbH Group uses a system of limits derived from the economic risk-bearing capacity analysis to specifically manage the capital for risk coverage in accordance with the level of risk tolerance determined by the Management Board of Volkswagen Bank GmbH. Building on the Bank's risk appetite framework, the risk limit system that has been put in place limits the risk at different levels, thereby safeguarding the economic risk-bearing capacity of the Volkswagen Bank GmbH Group.

As of December 31, 2020, risk-taking potential amounted to €8.9 billion and comprised CET1 capital (€9.2 billion, taking into account retained earnings from 2020) and accumulated earnings[1] (€0.5 billion) less hidden charges and loss allowance shortfalls (€0.3 billion in total). This item is the reference point for risk tolerance and risk appetite and takes the form of an overall risk limit for the Group (fixed at €4.7 billion as of December 31, 2020).

In accordance with a moderate, overarching risk appetite, only a portion (a maximum of 90%) of this risk-taking potential is specified as a risk ceiling or overall risk limit. The overall risk limit is apportioned according to the relevant specific risk appetite 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. The specific risk appetite for each category of risk is set at moderate to low based on the business model and risk strategy of Volkswagen Bank GmbH.

The limit system is structured in a way that the adherence to the risk limits ensures not only the management of operating and strategic risk and earnings, but also compliance with regulatory requirements. Risk Management monitors compliance with the risk limits as part of its quarterly analysis of the risk-bearing capacity.

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

Risk quantification

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

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

The main risks are quantified as part of the economic risk-bearing capacity analysis with a confidence level of 99.9% and a time horizon of one year. In addition to determining the risk-bearing capacity in a normal scenario, the Volkswagen Bank GmbH Group also conducts group-wide and cross-institutional stress tests and reports the results directly to the Management Board. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of the Volkswagen Bank GmbH Group. The purpose of these scenarios is to facilitate early identification of those risks that would be particularly affected by the trends simulated in the scenarios so that any necessary corrective action can be initiated in good time. The stress tests include both historical scenarios (such as a repetition of the financial crisis in the years 2008 to 2010) and hypothetical scenarios (such as a global economic downturn or a sharp drop in sales in the Volkswagen Group). In 2020, an ad hoc stress test investigating various scenarios was also carried out as a result of the COVID-19 pandemic. In addition, inverse stress tests are used to identify what events could represent a threat to the ability of the Volkswagen Bank GmbH Group to continue as a going concern.

[1] Dividend claims are generally deducted from accrued profits in the interests of a conservative calculation of risk-taking potential.

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

Risk type	Parameters/model	"Going-concern" scenario (normal case)
Counterparty default risk		
Credit risk	Parameters: PD, LGD, EAD, CCF, ASRF model, incl. premium for estimation uncertainties for UL	CL = 99.9%
Shareholder risk	Parameters: PD, LGD = 90%, carrying amount of equity investment acc. to IFRS, ASRF model	CL = 99.9%
Issuer risk	Parameters: PD, LGD, EAD, Monte Carlo simulation	CL = 99.9%
Counterparty risk	Parameters: PD, LGD, EAD, Monte Carlo simulation	CL = 99.9%
Residual value risk	Comparison of expected sales proceeds (forecast with value deductions based on historical data) with contractually agreed residual value per vehicle	CL = 99.9%
Interest Rate Risk in the Banking Book (IRRBB)	Historical simulation (40-trading-day holding period, 1,000-trading-day history)	CL = 99.9%
Other market risks	Historical simulation (40-trading-day holding period, 1,000-trading-day history)	CL = 99.9%
Business risk	Reconciliation of the planned profit with the earnings risk (parameters: actual and plan data of income drivers and their relative deviation; parametric variance-covariance model) and general value for strategic risk/reputation risk as well as the business model risk (scenario approach)	
Liquidity risk (funding risk)	Liquidity premium from historical spread data	CL = 99.9%
Operational risk	Loss distribution method with Monte Carlo simulation	CL = 99,9%

Aggregation of risks, analysis of results

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

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

CRR OWN FUNDS REQUIREMENTS

The CRR own funds requirements relating to credit risk, the risk of a credit valuation adjustment (CVA risk), the market risk and operational risk were composed of the following items as of December 31, 2020:

TABLE 8: REGULATORY OWN FUNDS REQUIREMENTS AT GROUP LEVEL

€ million	Risk-weighted exposure amount (after SME Supporting Factor)	Own funds requirements
Credit risk	**46,480**	**3,718**
Exposures to central governments or central banks	2,516	201
Exposures to regional governments or local authorities	0	0
Exposures to public sector entities	5	0
Exposures to multilateral development banks	0	0
Exposures to international organizations	0	0
Exposures to institutions	439	35
Exposures to corporates	13,527	1,082
Retail exposures	27,164	2,173
Exposures secured by mortgages on immovable property	0	0
Exposures in default	1,078	86
Exposures associated with particularly high risk	0	0
Exposures in the form of covered bonds	28	2
Items representing securitization positions	100	8
Exposures to institutions and corporates with a short-term credit assessment	0	0
Exposures in the form of units or shares in collective investment undertakings (CIUs)	0	0
Equity exposures	33	3
Other items	1,589	127
Credit valuation adjustment risk	**14**	**1**
CVA risk (standard method)	14	1
Market risk	**308**	**25**
Position risk for trading book business	0	0
Large exposures above the limit for trading book business	0	0
Foreign currency risk	308	25
Settlement risk	0	0
Commodity position risk	0	0
Capital requirement for currency risks under the standardized approach	0	0
Operational risks	**3,755**	**300**
Capital requirement for the standardized approach	3,755	300
Total	**50,557**	**4,045**

The data presented above indicates clearly that counterparty credit risk is the most prominent exposure, with an own funds requirement of €3.7 billion.

RETURN ON CAPITAL

The return on capital in accordance with section 26a(1) sentence 4 of the KWG, calculated as the ratio of net profit to total assets, stood at 1.01% at December 31, 2020.

DISCLOSURE OF THE LEVERAGE RATIO

Under CRR/CRD IV, the leverage ratio was introduced as an instrument to cap the increase in leverage in the banking sector. The leverage ratio is the ratio of Common Equity Tier 1 capital to the total exposure measure, which is composed of on- and off-balance sheet items (including derivatives). The CRR "quick fix" permits an exception for the leverage ratio by excluding balances held with central banks from the total exposure measure. Volkswagen Bank GmbH does not make use of this option. The balances held with central banks are included in the total exposure measure.

Description of the processes used to manage the risk of excessive leverage

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

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

The leverage ratio rose significantly due to both the increase in Common Equity Tier 1 capital and the decline in the total exposure measure and in credit risks in retail and corporate business during the reporting period.

TABLE 9: CRR LEVERAGE RATIO – DISCLOSURE FORM

Reference date	12/31/2020
Entity name	Volkswagen Bank GmbH
Level of application	Consolidated level

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

€ million		Applicable Amount
1	Total assets as per published financial statements	66,941
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	17,509
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-2
4	Adjustments for derivative financial instruments	84
5	Adjustment for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	2,080
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-19,910
8	**Leverage ratio total exposure measure**	**66,702**

TABLE 11: LRCOM – LEVERAGE RATIO COMMON DISCLOSURE

€ million		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	65,246
2	(Asset amounts deducted in determining Tier 1 capital)	-927
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	64,320
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	218
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	84
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivatives exposures (sum of lines 4 to 10)	302
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	12,934
18	(Adjustments for conversion to credit equivalent amounts)	-10,854
19	Other off-balance sheet exposures (sum of lines 17 and 18)	2,080
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposure measure		
20	Tier 1 capital	9,150
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	66,702
Leverage ratio		
22	Leverage ratio	13.7 %
Choice on transitional arrangements and amount of derecognized fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased-in
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

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

€ million		CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**65,246**
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	65,246
EU-4	Covered bonds	282
EU-5	Exposures to central governments or central banks	12,055
EU-6	Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	9
EU-7	Institutions	535
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	36,067
EU-10	Corporate	13,238
EU-11	Exposures in default	867
EU-12	Other exposures (e.g. equity, securitizations and other non-credit obligation assets)	2,192

Risk Management Disclosures

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

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

The Volkswagen Bank GmbH Group has implemented a risk management system to identify, assess, manage, monitor and communicate risks. The risk management system comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risks. The individual elements are closely aligned with the activities of the individual divisions. This structure makes it possible to identify at an early stage any trends that could represent a risk to the business as a going concern so that suitable corrective action can then be initiated.

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

The 2020 SREP (Supervisory Review and Evaluation Process) did not lead to any change in the existing Pillar 2 requirement for the Volkswagen Bank GmbH Group of 2.0%. The Pillar 2 requirement was set by the ECB as the banking regulator and must be satisfied in addition to the Pillar 1 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 regularly reports to the Supervisory Board on the Volkswagen Bank GmbH Group's overall risk position.

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

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

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

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

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

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

RISK CULTURE

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

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

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

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

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

RISK CONCENTRATIONS

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

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

> Just a few borrowers/contracts account for a large proportion of the loans (counterparty concentrations)
> A small number of sectors account for a large proportion of the loans (sector concentrations)
> Many of the loans are to businesses within a defined geographical area (regional concentrations)
> Receivables are secured by just one type of collateral or by a limited range of collateral types (collateral concentrations), or
> The Volkswagen Bank GmbH Group’s income is generated from just a few sources (income concentrations)

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

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

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.

ESG RISK

The issue of "sustainability" has become a component of management and an irreversible trend in the financial industry. Volkswagen Bank GmbH sees sustainability as a business responsibility and strategic success factor in the financing of sales for the Volkswagen Group across Europe.

There are two dimensions to Volkswagen Bank GmbH's approach to sustainability. Firstly, it is striving to ensure that its own banking operations are broadly climate-neutral and physically prevent the danger of serious environmental damage. Secondly, it aims to support its customers in the transformation process by focusing on the greatest possible reduction in emissions with a view to protecting the climate and the environment.

In this context, the Bank has adopted a broadly based approach to the issue of sustainability, the various facets of which touch all areas of the Bank's business and are brought together in graduated activity planning covering the short and medium term. "Climate/environment" is a key area of focus.

The business and risk strategies set out the fundamental understanding of the focus area and, together with the risk strategy guidelines, describe the operational framework for addressing it. At the same time, the focus area of sustainability has become a further component of the risk culture principles as sustainability risks are handled with greater awareness and employees become actively involved in the process at an early stage. The ECB's supervisory expectations published in its guide on climate-related and environmental risks are incorporated into the Bank's methodologies.

A major focus of Volkswagen Bank GmbH is on handling those sustainability risks that could have adverse consequences for the Bank's financial position, financial performance and reputation in order to structure various risk drivers in the known risk categories.

Risk drivers of this nature are therefore also the subject of close supervisory attention and must be assessed, managed and reported by every bank.

Going forward, the risk drivers specific to climate and the environment will play a significant role in the risk category structure and will be included in the risk assessment and management system. Various approaches are being pursued in this regard. For example, the plans include scenario analyses, the further development of creditworthiness/rating systems and risk models/risk assessment methods and KPI-based risk management.

Volkswagen Bank GmbH is a captive provider and its vehicle financing business is specifically concentrated on the retail customer market and dealer financing. Support for an environmentally friendly transformation process is therefore very closely aligned to the asset for which finance is provided. Future support for electric vehicles will play an increasing role as part of the Volkswagen Group's switch to green transportation.

From the perspective of the Bank's own operations, a higher priority is being accorded to environmental protection measures such as reducing energy, water and paper consumption, cutting carbon emissions and generating less waste.

In addition, the Bank constantly examines factors, particularly those of an environmental nature, that could constitute a potential hazard for employees, buildings or technologies, investigates ways to minimize such risks and includes them in its impact analyses.

Traditionally, Volkswagen Bank GmbH itself contributes to specific social and environmental protection projects, (such as environmental protection projects run by NABU – Nature And Biodiversity Conservation Union) in Germany, through donations and sponsorship activities.

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, over time and by market
> 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 2020, 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. The update to the recovery plan in 2020 also included, in particular, an analysis of the Group's ability to recover in a pandemic scenario.

The recovery plan also 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.

Volkswagen Bank GmbH complied with the applicable bank-specific minimum requirement for own funds and eligible liabilities (MREL) at all times in 2020.

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 provision for credit risks 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.

There are also implications for credit risk management from regulatory requirements (that had to be implemented by the end of 2020) on determining days past due in order to establish whether there has been a default or not and from requirements in the form of EBA guidelines under which there had to be a closer alignment between the definition of default and the NPL definition from January 1, 2021. There is expected to be an impact on lending assessments and the lending process from the implementation of requirements under the EBA guidelines on loan origination and monitoring, the application of which is anticipated from June 30, 2021. Compared with MaRisk, these requirements have a significantly greater level of detail. Volkswagen Bank GmbH is working on implementation, taking into account the principle of proportionality. The aim is to generate added value in the sense of an improvement to the credit risk management system.

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. 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 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 German Federal Financial Supervisory Authority’s (BaFin) supervisory requirements for IT in financial institutions (BAIT). The latter requirements are currently being revised again, notably so that they take into account EBA requirements. Against the background of the increasing risk of cyber attacks, the draft published by the European Commission last year for an EU regulation on digital operational resilience for the financial sector (DORA), the aim of which is to achieve a uniform high level of digital operational resilience, is of particular significance with regard to harmonized requirements for the security of network and information systems. Some of these requirements are already known from the EBA’s guidelines on ICT and security risk management and BaFin’s supervisory requirements for IT in financial institutions.

Further implementation requirements will arise from the EBA’s guidelines on internal governance (currently being revised) and from MaRisk. As regards MaRisk, it is evident that these requirements, in addition to the implementation of EBA guidelines with, in some cases, more extensive requirements, could also make it necessary to implement requirements that previously only applied to systemically important banks and that, according to the current consultation draft, are to be extended to cover significant institutions deemed major and complex under MaRisk in the future.

To add to this, regulatory requirements to include climate and environmental risks, including transition risk, as part of ESG risks will become more important over the next few years. These risks will need to be included when identifying, assessing, monitoring and controlling risk if they are determined as material drivers behind known categories of risk. In this regard, it is worth noting the ECB’s guide on climate-related and environmental risks for banks published on November 27, 2020, the provisions of which Volkswagen Bank GmbH is taking into account in its action plans going forward.

In the fallout from the accounting scandal surrounding Wirecard AG, it is also likely that regulatory requirements relating to governance and financial reporting checks will be substantially tightened.

In addition, 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 and from the adoption of the provisions of Basel IV by the EU.

BREXIT

The withdrawal of the United Kingdom from the EU (Brexit) did not have any impact on the Volkswagen Bank GmbH Group's risk situation in fiscal year 2020. 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 2020 in connection with the imminent Brexit, allowing the Bank to be prepared for all eventualities.

COVID-19 PANDEMIC

The Covid-19 pandemic presented challenges for both employees and customers of Volkswagen Bank GmbH in 2020. The impact on the lending business was reflected by a contraction in the volume of loans and receivables. The main cause was a lower level of new business following the closure of dealers in the lockdowns accompanying the first and second waves of the Covid-19 pandemic. However, the pandemic only resulted in a slight deterioration in the quality of the lending portfolio. Contributing factors were the government support programs, payment moratoriums and the measures implemented by Volkswagen Bank GmbH itself. Any credit risks were comprehensively taken into account in the recognition of the provision for credit risks in 2020. This also included effects that might only become evident after a period of time on expiry of government support measures (such as short-time working allowance, payment deferrals in respect of principal and interest) or in the financial statements of our business customers, leading to heightened credit risk. Based on various scenario calculations, Volkswagen Bank GmbH is prepared for these developments and has factored the circumstances into the provision for credit risks recognized as of the 2020 year-end.

We have not identified any implications of the Covid-19 pandemic in the other categories of risk.

In 2021, we will continue to monitor developments in the Covid-19 pandemic and their impact on credit risk and other risk categories very closely, and will respond prudently and proactively as required.

NEW PRODUCT AND NEW MARKET PROCESS

Before launching new products or commencing activities in new markets, the new product and new market process must be completed. All the units involved (such as Risk Management, Controlling, Accounting, Legal Affairs, Compliance, Treasury, IT) are integrated in the process. The process 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.

The Bank maintains a product catalogue containing details of all products and markets intended to form part of the business activities.

RISK CATEGORIES

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

OVERVIEW OF RISK CATEGORIES

Financial risks	Nonfinacial risks
Counterparty default risk	Operational risk
Interest rate risks in the banking book (IRRBB)	Compliance and conduct risk
Other market risks (currency risk and fund price risk)	Outsourcing risk
Liquidity risk	
Residual value risk	
Business risk	

Please see Volkswagen Bank GmbH's 2020 Annual Report for additional reporting on other market risks (currency risk and fund price risk) and country risk.

FINANCIAL RISKS

COUNTERPARTY DEFAULT RISK

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

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

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

Risk identification and assessment

Lending or credit decisions by the Volkswagen Bank GmbH Group are made primarily on the basis of the borrower credit check. These credit checks use rating or scoring systems, 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 process in corporate business

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

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

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

The rating systems were calibrated to a unified master scale to ensure comparability of the risk assessment within the Group by rating class. This provides for 15 rating classes (individual rating processes) or nine rating classes (FS rating) for the portfolio not in default as well as three nonperforming classes. Fixed PD bands are allocated to the non-defaulting rating classes. The median probability of default of the relevant rating class is always within the rating class of the PD band apportioned on the basis of uniform criteria.

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

Scoring process in retail business

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

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

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

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

Supervision and review of retail and corporate systems

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

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

Risk monitoring and control

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

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

HEDGING AND MITIGATION OF CREDIT RISK

Collateral

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

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

In order to enforce any financial claims arising from the financed or leased vehicle, the Volkswagen Bank GmbH Group contractually secures access rights to the vehicle so as to be able to use it as collateral if necessary. In Germany, for example, as a rule the registration document (Zulassungsbescheinigung Teil 2) for the vehicle is generally retained as a security deposit. In addition to the vehicles, other physical collateral (liens on real property, pledges, etc.) and personal guarantees are used to secure loans. Loan collateral is measured during the loan application process and generally also once a year during the term of the loan.

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

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

Credit risk mitigation

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

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

> Cash on deposit for loan commitments of Volkswagen Bank GmbH within the meaning of Article 197(1)(a) of the CRR.
> Collateral or shares in liability towards KfW under express pandemic loans

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

TABLE 13: OVERVIEW OF THE EXPOSURE CLASSES FOR WHICH CREDIT RISK MITIGATION METHODS ARE USED

Exposure classes	Eligible financial collateral and other eligible collateral in € million
Exposures to institutions	0
Exposures to corporates	1,796
Total	**1,796**

NONPERFORMING AND FORBORNE EXPOSURES

Volkswagen Bank GmbH observes the requirements of EBA/GL/2018/10 in the disclosure of non-performing and forborne exposures. At 3.87%, Volkswagen Bank GmbH's NPL ratio is below the 5% threshold. Accordingly, the following tables 1, 3, 4 and 9 provided for in EBA/GL/2018/10 are disclosed annually.

TABLE 14: CREDIT QUALITY OF FORBORNE EXPOSURES (TEMPLATE 1)

		GROSS CARRYING AMOUNT/NOMINAL AMOUNT OF EXPOSURES WITH FORBEARANCE MEASURES				ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS		COLLATERAL RECEIVED AND FINANCIAL GUARANTEES RECEIVED ON FORBORNE EXPOSURES	
			Non-performing forborne						
	€ million	Performing forborne		Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	**Loans and advances**	**502**	**737**	**399**	**399**	**23**	**177**	**1,039**	**310**
2	Central banks	0	0	0	0	0	0	0	0
3	General governments	0	0	0	0	0	0	0	0
4	Credit institutions	0	0	0	0	0	0	0	0
5	Other financial corporations	0	3	2	2	0	1	2	1
6	Non-financial corporations	156	238	144	144	14	77	303	95
7	Households	346	496	253	253	9	98	734	87
8	**Debt securities**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
9	**Loan commitments given**	**74**	**52**	**29**	**29**	**0**	**0**	**0**	**0**
10	Total	576	788	428	428	23	177	1,039	310

The increase in non-performing exposures is chiefly attributable to the "Households" position. Many contracts, particularly in "Bank Germany", already had a forborne status before migrating in 2020 to "Non-performing exposure" status as a result of forbearance and/or being past due by 30 days.

TABLE 15: INFORMATION ON CREDIT QUALITY OF PERFORMING/NONPERFORMING EXPOSURES BY PAST DUE DAYS (TEMPLATE 3)

		GROSS CARRYING AMOUNT/NOMINAL AMOUNT											
		Performing exposures			Non-performing exposures								
	€ million		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	**Loans and advances**	**59,254**	**59,155**	**100**	**2,090**	**1,389**	**148**	**221**	**89**	**142**	**50**	**50**	**1,531**
2	Central banks	7,403	7,403	0	0	0	0	0	0	0	0	0	0
3	General governments	2	2	0	0	0	0	0	0	0	0	0	0
4	Credit institutions	31	31	0	0	0	0	0	0	0	0	0	0
5	Other financial corporations	1,959	1,959	0	5	4	0	0	0	0	0	0	3
6	Non-financial corporations	15,604	15,576	28	979	621	31	120	23	103	47	34	825
7	Of which SMEs	10,770	10,746	24	837	508	18	112	17	101	47	34	675
8	Households	34,255	34,184	71	1,105	764	117	100	66	39	3	16	703
9	**Debt securities**	**20,414**	**20,414**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
10	Central banks	0	0	0	0	0	0	0	0	0	0	0	0
11	General governments	2,993	2,993	0	0	0	0	0	0	0	0	0	0
12	Credit institutions	287	287	0	0	0	0	0	0	0	0	0	0
13	Other financial corporations	17,134	17,134	0	0	0	0	0	0	0	0	0	0
14	Non-financial corporations	0	0	0	0	0	0	0	0	0	0	0	0
15	**Off-balance-sheet exposures**	**11,036**			**375**								**29**
16	Central banks	0			0								0
17	General governments	0			0								0
18	Credit institutions	0			0								0
19	Other financial corporations	574			1								0
20	Non-financial corporations	8,975			351								29
21	Households	1,487			22								0
22	**Total**	**90,705**	**79,569**	**100**	**2,465**	**1,389**	**148**	**221**	**89**	**142**	**50**	**50**	**1,560**

The increase in non-performing exposures in 2020 is primarily attributable to the “Households” and “SME” positions. Many contracts, particularly in “Bank Germany”, already had a forborne status before migrating in 2020 to “Non-performing exposures“ status as a result of forbearance and/or being past due by 30 days.

TABLE 16: DETAILED INFORMATION ON PERFORMING AND NONPERFORMING EXPOSURES AND RELATED PROVISIONS (TEMPLATE 4)

		GROSS CARRYING AMOUNT/NOMINAL AMOUNT						ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS						ACCUMULATED PARTIAL WRITE-OFF	COLLATERAL AND FINANCIAL GUARANTEES RECEIVED	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
	€ million		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
1	**Loans and advances**	**59,254**	**42,261**	**15,965**	**2,090**	**622**	**1,468**	**462**	**188**	**273**	**704**	**149**	**557**	**0**	**26,152**	**891**
2	Central banks	7,403	7,403	0	0	0	0	0	0	0	0	0	0	0	0	0
3	General governments	2	1	1	0	0	0	0	0	0	0	0	0	0	0	0
4	Credit institutions	31	30	1	0	0	0	1	1	0	0	0	0	0	0	0
5	Other financial corporations	1,959	853	78	5	3	3	2	1	1	2	0	2	0	49	2
6	Non-financial corporations	15,604	7,767	7,837	979	215	765	221	79	141	405	85	321	0	10,011	451
7	Of which SMEs	10,770	5,571	5,199	837	184	653	140	46	94	345	24	321	0	6,196	375
8	Households	34,255	26,207	8,048	1,105	405	701	237	107	130	298	64	234	0	16,092	438
9	**Debt securities**	**20,414**	**2,204**	**1,076**	**0**	**0**	**0**	**3**	**2**	**1**	**0**	**0**	**0**	**0**	**0**	**0**
10	Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11	General governments	2,993	1,963	1,030	0	0	0	2	2	1	0	0	0	0	0	0
12	Credit institutions	287	241	46	0	0	0	0	0	0	0	0	0	0	0	0
13	Other financial corporations	17,134	0	0	0	0	0	0	0	0	0	0	0	0	0	0
14	Non-financial corporations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15	**Off-balance-sheet exposures**	**11,036**	**8,537**	**2,499**	**375**	**48**	**327**	**11**	**8**	**3**	**0**	**0**	**0**		**0**	**0**
16	Central banks	0	0	0	0	0	0	0	0	0	0	0	0		0	0
17	General governments	0	0	0	0	0	0	0	0	0	0	0	0		0	0
18	Credit institutions	0	0	0	0	0	0	0	0	0	0	0	0		0	0
19	Other financial corporations	574	526	48	1	1	0	1	1	0	0	0	0		0	0
20	Non-financial corporations	8,975	6,524	2,451	351	47	305	5	3	2	0	0	0		0	0
21	Households	1,487	1,487	0	22	0	22	4	4	0	0	0	0		0	0
22	**Total**	**90,705**	**53,002**	**19,541**	**2,465**	**670**	**1,795**	**475**	**198**	**276**	**704**	**149**	**557**	**0**	**26,152**	**891**

The increase in non-performing exposures in 2020 is primarily attributable to the “Households” and “SME” positions. Many contracts, particularly in “Bank Germany”, already had a forborne status before migrating in 2020 to “Non-performing exposures“ status as a result of forbearance and/or being past due by 30 days.

TABLE 17: OVERVIEW OF COLLATERALS OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES (TEMPLATE 9)

		COLLATERAL OBTAINED BY TAKING POSSESSION	
	€ million	Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)	0	0
2	Other than PP&E	0	0
3	Residential immovable property	0	0
4	Commercial Immovable property	0	0
5	Movable property (auto, shipping, etc.)	0	0
6	Equity and debt instruments	0	0
7	Other	0	0
8	**Total**	**0**	**0**

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

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

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

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

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

TABLE 18: RISK POSITIONS BEFORE AND AFTER CREDIT RISK MITIGATION*

RISK WEIGHT %	EXPOSURE VALUES (STANDARD APPROACH) before credit risk mitigation € million	after credit risk mitigation € million
0	10,027	11,823
4	29	29
10	282	282
20	542	542
50	175	175
75	38,175	38,175
100	26,785	24,990
150	730	730
250	1,003	1,003
Capital deduction	-4	-4

* Calculated in accordance with Article 253 of the CRR

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

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

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

An obligor is deemed to be nonperforming if,

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

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

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

> Debt waivers
> Distressed restructurings
> Significant reduction in credit rating
> Insolvency
> Negative information from external credit information agencies
> Court payment orders
> Termination
> Sale of receivables at a loss

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

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

Description of the procedures applied when recognizing provisions for credit risks

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

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

Recognition of specific value allowances

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

Recognition of portfolio-based specific value allowances

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

Recognition of portfolio-based provisions for credit risks

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

The amount of the provision for credit risks and the existence of evidence of impairment are regularly reviewed and updated.

QUANTITATIVE DISCLOSURES ON THE COUNTERPARTY CREDIT RISK OF VOLKSWAGEN BANK GMBH

The following tables present the aggregate amount of the exposure values of Volkswagen Bank GmbH after accounting offsets net of the effect of credit risk mitigation and the disaggregated average amounts by exposure classes broken down by significant geographical areas and remaining maturities as of December 31, 2020. The information is based on the supervisory reports as of December 31, 2020. Disclosures in accordance with Article 442(e) of the CRR are omitted for materiality reasons as defined in Article 432(1) of the CRR.

TABLE 19: TOTAL AMOUNT OF EXPOSURES AFTER ACCOUNTING OFFSETS AND WITHOUT TAKING INTO ACCOUNT THE EFFECTS OF CREDIT RISK MITIGATION AS WELL AS AVERAGE AMOUNT OF EXPOSURES BROKEN DOWN BY EXPOSURE CLASS

Exposure classes in € million	Exposure value	Average 2019
Exposures to central governments or central banks	8,528	9,269
Exposures to regional governments or local authorities	1,148	1,148
Exposures to public sector entities	1,276	1,276
Exposures to multilateral development banks	52	52
Exposures to international organizations	102	102
Exposures to institutions	1,132	1,232
Exposures to corporates	24,420	24,219
Retail exposures	38,175	38,550
Exposures secured by mortgages on immovable property	0	0
Exposures in default	1,178	1,142
Exposures associated with particularly high risk	0	0
Exposures in the form of covered bonds	282	285
Items representing securitization positions	517	517
Exposures to institutions and corporates with a short-term credit assessment	0	0
Exposures in the form of units or shares in collective investment undertakings (CIUs)	0	0
Equity exposures	29	29
Other items	1,642	1,890
Total	**78,480**	**79,710**

TABLE 20: TOTAL AMOUNT OF EXPOSURES BY SIGNIFICANT GEOGRAPHICAL AREAS

Exposure classes in € million	Germany	France	Spain	Italy	Rest of Europe	Other
Exposures to central governments or central banks	7,992	27	3	142	363	0
Exposures to regional governments or local authorities	1,147	0	0	0	0	0
Exposures to public sector entities	1,272	0	0	3	2	0
Exposures to multilateral development banks	0	0	0	0	0	52
Exposures to international organizations	0	0	0	0	0	102
Exposures to institutions	553	7	21	152	393	6
Exposures to corporates	9,723	2,718	1,433	1,964	8,570	12
Retail exposures	24,613	3,374	4,424	4,472	1,290	2
Exposures secured by mortgages on immovable property	0	0	0	0	0	0
Exposures in default	1,029	8	49	16	77	0
Exposures associated with particularly high risk	0	0	0	0	0	0
Exposures in the form of covered bonds	282	0	0	0	0	0
Items representing securitization positions	0	0	0	0	517	0
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIUs)	0	0	0	0	0	0
Equity exposures	20	0	0	0	9	0
Other items	433	1,052	4	7	146	0
Total	**47,064**	**7,186**	**5,934**	**6,755**	**11,367**	**173**

TABLE 21: TOTAL AMOUNT OF EXPOSURES BY RESIDUAL MATURITY AND EXPOSURE CLASS

Exposure classes in € million	≤ 3 months	> 3 months ≤ 1 year	> 1 to 5 years	more than 5 years
Exposures to central governments or central banks	5,474	1,000	266	1,788
Exposures to regional governments or local authorities	10	66	502	569
Exposures to public sector entities	3	2	1,026	245
Exposures to multilateral development banks	0	0	52	0
Exposures to international organizations	0	0	102	0
Exposures to institutions	636	0	0	495
Exposures to corporates	8,008	2,343	936	13,134
Retail exposures	1,641	4,743	28,406	3,385
Exposures secured by mortgages on immovable property	0	0	0	0
Exposures in default	137	70	282	690
Exposures associated with particularly high risk	0	0	0	0
Exposures in the form of covered bonds	0	0	180	103
Items representing securitization positions	0	0	517	0
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIUs)	0	0	0	0
Equity exposures	0	0	0	29
Other items	348	359	930	5
Total	**16,257**	**8,583**	**33,197**	**20,442**

The figures in Tables 22 to 24 are presented on the basis of the external IFRS financial statements as of December 31, 2020.

The following table breaks down nonperforming and past due exposures by type of counterparty

TABLE 22: NONPERFORMING AND PAST DUE EXPOSURES BY TYPE OF COUNTERPARTY

Types of counterparty in € million	Exposures not in default (gross)	of which: not past due/ past due up to 30 days	of which: past due 30–90 days	Exposures in default (gross)	of which: not past due/ past due up to 90 days	of which: past due > 90 days	individually measured allowances	individually measured allowances in the reporting year	collectively measured allowances	collectively measured allowances in the reporting year
Central banks	7,403	7,403	0	0	0	0	0	0	0	0
Sovereigns	2,995	2,995	0	0	0	0	0	0	2	1
Credit institutions	318	318	0	0	0	0	0	0	1	-1
Other financial institutions	19,093	19,093	0	5	4	1	2	1	3	0
Non-financial corporations	15,604	15,576	28	979	621	358	321	-9	305	-35
Households	34,255	34,184	71	1,105	764	341	234	71	301	10
Total	**79,669**	**79,569**	**100**	**2,090**	**1,389**	**701**	**557**	**62**	**612**	**-25**

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

TABLE 23: BREAKDOWN OF NONPERFORMANCE AND PAST DUE RISK EXPOSURES BY SIGNIFICANT GEOGRAPHICAL AREAS

Significant geographical areas in € million	Exposures not in default (gross)	of which: not past due/past due up to 30 days	of which: past due 30–90 days	Exposures in default (gross)	of which: not past due/past due up to 90 days	of which: past due > 90 days	Individually measured allowances	Collectively measured allowances
Germany	55,950	55,906	43	1,496	1,002	494	313	261
Europe	23,719	23,663	56	594	387	207	244	351
Total	**79,669**	**79,569**	**100**	**2,090**	**1,389**	**701**	**557**	**612**

The following table shows the changes in the individually and collectively measured loss allowances:

TABLE 24: CHANGES IN INDIVIDUALLY AND COLLECTIVELY MEASURED LOSS ALLOWANCES

€ million	Individually measured allowances (specific valuation allowances)	Collectively measured allowances (portfolio-based valuation allowances)	Total risk provisions
Opening balance	637	494	1,132
Addition	137	253	391
Unwinding	0	0	0
Reclassification	-32	-4	-37
Utilization	0	-74	-74
Reversal	-130	-113	-243
Changes arising from foreign exchange rates	0	0	0
Closing balance	**612**	**557**	**1,169**

The “reclassified” column contains reclassified amounts.

The specific credit risk adjustments reported directly through profit and loss take the form of expenses of €145 million for direct write-offs and income of €16 million from derecognized exposures.

DISCLOSURE OF ASSET ENCUMBRANCE

The tables below show the carrying amounts and fair values of the unencumbered and encumbered assets, the fair values of the collateral received and utilized or collateral available for encumbrance as well as the nominal amount of the collateral that is not available for encumbrance. The figures shown are medians calculated on the basis of the last four quarterly reporting dates in 2020. Information about the source of the encumbrance is also provided.

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

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

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

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

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

As of the December 31, 2020 reporting date, the carrying amount of the encumbered assets was €27,066 million (previous year: €21,168 million).

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

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

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

TABLE 25: DISCLOSURE ON ASSET ENCUMBRANCE: OVERVIEW A – ASSETS

		CARRYING AMOUNT OF ENCUMBERED ASSETS		FAIR VALUE OF ENCUMBERED ASSETS		CARRYING AMOUNT OF UNENCUMBERED ASSETS		FAIR VALUE OF UNENCUMBERED ASSETS	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	23,589	7,988			60,614	5,058		
030	Equity instruments	0	0			11	0		
040	Debt securities	7,988	7,988	7,988	7,988	9,926	5,270	9,926	5,270
050	of which: covered bonds	0	0	0	0	287	287	287	287
060	of which: asset-backed securities	7,988	7,988	7,988	7,988	5,457	4,853	5,457	4,853
070	of which: issued by general governments	0	0	0	0	2,248	418	2,248	418
080	of which: issued by financial corporations	7,988	7,988	7,988	7,988	8,317	4,853	8,317	4,853
090	of which: issued by non-financial corporations	0	0	0	0	0	0	0	0
120	Other assets	15,446	0			50,676	0		
121	of which: Leased assets (movable)	0	0			1,702	0		

TABLE 26: DISCLOSURE ON ASSET ENCUMBRANCE: OVERVIEW B – COLLATERAL RECEIVED

		Fair value of encumbered collateral received or own debt securities issued in € million		UNENCUMBERED Fair value of collateral received or own debt securities issued available for encumbrance in € million	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	Collateral received by the reporting institution	0	0	0	0
140	Loans on demand	0	0	0	0
150	Equity instruments	0	0	0	0
160	Debt securities	0	0	0	0
170	of which: covered bonds	0	0	0	0
180	of which: asset-backed securities	0	0	0	0
190	of which: issued by general governments	0	0	0	0
200	of which: issued by financial corporations	0	0	0	0
210	of which: issued by non-financial corporations	0	0	0	0
220	Loans and advances other than loans on demand	0	0	0	0
230	Other collateral received	0	0	0	0
240	Own debt securities issued other than own covered bonds or asset-backed securities	0	0	0	0
241	Own covered bonds and asset-backed securities issued and not yet pledged			0	0
250	Total assets; collateral received and own debt securities issued	23,589	7,988		

TABLE 27: DISCLOSURE ON ASSET ENCUMBRANCE: OVERVIEW C – SOURCES OF ENCUMBRANCE

		MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED
		010	030
010	Carrying amount of selected financial liabilities in € million	58,046	23,589
011	of which: Secured deposits with the exception of repurchasing agreements in € million	58,043	23,520

DISCLOSURES RELATED TO SECURITIZATION TRANSACTIONS

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

Objectives of securitization activity

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

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

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

Types of risk associated with securitization

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

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

Roles in the securitization process

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

Scope of the institution's activities

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

TABLE 28: SECURITIZATION: SCOPE OF THE INSTITUTION'S ACTIVITIES

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

Risk monitoring of securitization positions

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

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

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

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

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

No resecuritization positions are held.

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

The entities of the Volkswagen Bank GmbH institution group determine their own funds requirements using the Standardized Approach to Credit Risk (SACR) based on the IFRS consolidated financial statements of Volkswagen Bank GmbH, taking into account the scope of consolidation in accordance with section 10a(1) sentence 2 of the KWG. Models based on internal ratings or the IRBA approach are not used. In the case of SACR, the relevant risk weighting is determined by allocating the external short and long-term ratings to credit assessment levels or is based on the risk weighting stipulations applicable to the relevant exposure classes (Article 114ff. of the CRR). At the Group level, the requirements for the transfer of the significant risk in accordance with Article 244 of the CRR are fulfilled and options to reduce the risk-weighted exposure amounts to be calculated under Article 247 of the CRR are exercised. Risk-weighted exposure amounts for counterparty default risk are determined for the securitization positions. For this purpose, whereby as of December 31, 2020, the standardized approach according to Art. 251 CRR a. F. or SEC-ERBA is applied in accordance with Article 263 and 264 of the CRR as of the December 31, 2020 reporting date. The options to reduce the risk-weighted exposure amounts are utilized for the transactions issued by the Volkswagen Bank GmbH Group companies for Driver 14, Driver 15 and Driver Italia One S.r.l. as of the reporting date.

Within Volkswagen Bank GmbH, securitization positions arise from the retention of securities issued by originators within the Volkswagen Bank GmbH institution group. In addition, Volkswagen Bank GmbH invests in securitization positions of entities of the Volkswagen Financial Services AG Group whose originator is not included in the prudential scope of consolidation of Volkswagen Bank GmbH.

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

Accounting policies

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

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

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

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

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

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

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

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

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

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

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

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

Credit rating agencies

The Volkswagen Bank GmbH Group invests in securities issued under Driver transactions. The investment in VCL transactions, which were issued by Volkswagen Leasing GmbH, expired in mid-2020. The Driver transactions involve securitizations of retail financing, while the VCL transactions entail lease securitizations.

Ratings from at least two credit rating agencies were used for the securitized exposures.

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

> Moody's Investors Service
> Standard & Poor's Corporation
> DBRS
> Creditreform Rating AG

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

Changes versus the previous year

Volkswagen Bank GmbH regularly securitized customer finance under the revolving Driver Master Compartment 1 (since July 2015, discontinued in April 2020) and Driver Master Compartment 2 (since July 2015).

Private Driver Italia 2020-1 (11/2020) and Private Driver España 2020-1 (11/2020) were issued from the portfolio of Volkswagen Bank GmbH, Italian Branch and the portfolio of Volkswagen Bank GmbH, Spanish Branch.

Information on quantitative disclosure requirements

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

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

TABLE 29: TOTAL AMOUNT OF THE OUTSTANDING EXPOSURES SECURITIZED BY THE INSTITUTION, SEPARATELY FOR TRADITIONAL AND SYNTHETIC SECURITIZATIONS AND SECURITIZATIONS FOR WHICH THE INSTITUTION ACTS SOLELY AS SPONSOR

Exposure type in € million	Outstanding exposures
Traditional securitization transactions	
Retail financing	19,773
Dealer financing	0
Leases	0
Synthetic securitization transactions	**0**
Total	**19,773**
of which as sponsor	0

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

TABLE 30: AGGREGATE AMOUNT OF SECURITIZATION POSITIONS RETAINED OR PURCHASED

Exposure types	Securitization positions in € million
On-balance sheet	
Retail financing	517
Dealer financing	0
Leases	0
Off-balance sheet	**0**
Aggregate amount of securitization positions	**517**

No securitizations are planned for 2021. Accordingly, disclosure of the sum total of exposures to be securitized in accordance with Article 449 n) No. iii) of the CRR has been omitted.

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

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

TABLE 31: AMOUNT OF SECURITIZATION POSITIONS THAT ARE DEDUCTED FROM OWN FUNDS OR RISK WEIGHTED AT 1.250%

Exposure type in € million	Amount of securitization positions
Traditional securitization transactions	
Retail financing	4
Dealer financing	0
Leases	0
Total	**4**

The following table shows a subclassification of the securitization positions retained or purchased broken down by risk weight bands, including securitization positions whose securitization risk weight is 1.250% or which are securitization positions to be deducted in accordance with Article 258 of the CRR, as well as the resulting own funds requirements:

TABLE 32: AGGREGATE AMOUNT OF SECURITIZATION POSITIONS RETAINED OR PURCHASED BROKEN DOWN BY RISK WEIGHT BANDS

Risk weight bands	Aggregate amount of SACR securitization positions in € million	SACR own funds requirements in € million
Securitization exposures		
20%	0	0
50%	0	0
Other risk weight bands**	517	8
1,250%/capital deduction	4	4
Re-securitization exposures	0	0
Total	**522**	**12**

* Calculated in accordance with Article 253 of the CRR
** Includes risk weights in accordance with the new EU securitization rules accompanying the amendments to the CRR.

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

TABLE 33: SUMMARY OF SECURITIZATION ACTIVITY IN THE CURRENT DISCLOSURE PERIOD

EXPOSURE TYPE/SECURITIZATION	SECURITIZATION ACTIVITY IN THE CURRENT YEAR		
	Amount of securitized exposures in € million	Gain on sales in € million	Loss on sales in € million
Retail financing	3,500	0	0
Dealer financing	0	0	0
Leases	0	0	0
Total	**3,500**	**0**	**0**

The following table shows the amount of the impaired/past due assets securitized that would have to be allocated to the banking book had they not been securitized and for which the Volkswagen Bank GmbH Group is considered the originator:

TABLE 34: DISCLOSURES ON IMPAIRED/PAST DUE ASSETS SECURITIZED RELATING TO EXPOSURES SECURITIZED BY THE INSTITUTION

Exposure type in € million	Amount of impaired/past due securitization exposures at the reporting date	Losses recorded by the institution in the current disclosure period
Traditional securitization transactions		
Retail financing	205	1
Dealer financing	0	0
Leases	0	0
Synthetic securitization transactions	**0**	**0**
Total	**205**	**1**

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

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

Counterparty/issuer risk

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

Counterparty risk arises in connection with interbank overnight and term deposits, derivatives and the purchase of pension fund units as part of the provision of pensions benefits for employees. Issuer risk results from the purchase of securities to optimize liquidity management and to fulfill statutory and/or regulatory requirements. The primary objective in the management of counterparty and issuer risk is to identify potential defaults in a timely manner so that corrective action can be initiated at an early stage as far as possible. Another important objective is to ensure that the Company only takes on risks within the approved limits.

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

Risk identification and assessment

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

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

TABLE 35: DISCLOSURES ON THE AMOUNT OF COLLATERAL THE INSTITUTION WOULD HAVE TO PROVIDE GIVEN A DOWNGRADE IN ITS CREDIT RATING

Securitization transactions	Total collateral requirement given credit rating downgrade in € million
Traditional securitization transactions	
Retail financing	774
Dealer financing	0
Leases	0
Total	**774**

Risk monitoring and control

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

Within Volkswagen Bank GmbH, derivatives may only be transacted with counterparties that meet defined credit criteria. The notes to the IFRS financial statements for the Volkswagen Bank GmbH Group describe the collateral provided for derivatives and the provisions recognized for derivatives in accordance with Article 439 b) of the CRR. This description can be found in “Derivative financial instruments and hedge accounting” in the chapter on “Financial Instruments” in the section on accounting policies. A large part of the Volkswagen Bank GmbH’s derivatives transactions are collateralized via central counterparties or bilaterally. In accordance with IFRS 13 in conjunction with IDW RS HFA 47, the company’s own default risk (DVA) and the default risk of the counterparty (CVA) are calculated for unsecured derivatives and included in the measurement of the derivatives.

Correlation risks in the form of “wrong-way risks” (WWR) may arise with derivatives if there is a positive correlation between the market price risk and the counterparty default risk. Volkswagen Bank GmbH achieves an effective reduction in WWR by transacting the majority of its OTC derivatives via central counterparties (CCPs) or securing them bilaterally.

Reports on counterparty and issuer risks to the Management Board are included in the quarterly risk management report.

REGULATORY CONSIDERATION

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

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

SHAREHOLDER RISK

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

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

Risk identification and assessment

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

Risk monitoring and control

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

EQUITY EXPOSURES IN THE BANKING BOOK

This section discloses details of exposures in equities in accordance with Article 447 of the CRR which are not consolidated companies for regulatory purposes but which are considered to be material in view of their strategic importance for the Bank's orientation.

The qualitative information refers to the purpose linked to the equity exposure in question and the manner in which it is included in the consolidated financial statements:

TABLE 36: QUALITATIVE INFORMATION ON EQUITY EXPOSURES NOT INCLUDED IN THE TRADING BOOK

	Objectives, including strategic goals	Intention to make a profit
Credi2 GmbH, Vienna	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.	Yes

The investment in Credi2 GmbH is accounted for at cost in the consolidated financial statements of Volkswagen Bank GmbH prepared in accordance with German GAAP (HGB).

TABLE 37: QUANTITATIVE INFORMATION ON EQUITY EXPOSURES NOT INCLUDED IN THE TRADING BOOK

	MEASUREMENT IN ACCORDANCE WITH ARTICLE 447 (B) OF THE CRR	DISCLOSURES IN ACCORDANCE WITH ARTICLE 447 (C) OF THE CRR		CUMULATIVE REALIZED GAINS/LOSSES FROM SALES AND LIQUIDATIONS DURING THE REPORTING PERIOD IN ACCORDANCE WITH ARTICLE 447 (D) OF THE CRR		UNREALIZED GAINS/LOSSES, DEFERRED REVALUATION GAINS/LOSSES AND ANY OF THESE AMOUNTS INCLUDED IN COMMON EQUITY TIER 1 CAPITAL IN ACCORDANCE WITH ARTICLE 447 € OF THE CRR	
Investee	Carrying amount/ fair value in thousands	Type	Amount in thousands	Gains	Losses	Gains	Losses
Credi2 GmbH, Vienna	6,180	GmbH shares	6,180	–	–	–	–

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. IRRBB occur 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 VaR method with a 40-day holding period and a confidence level of 99%. The model is based on a historical simulation and calculates potential losses taking into account 1,000 historical market fluctuations (volatilities). Negative interest rates can also be processed in the historical simulation and included in the risk evaluation.

The VaR calculated for operational management purposes estimates potential losses under historical market conditions, but stress tests are also carried out for forward-looking situations in which interest rate exposures are subject to exceptional changes in interest rates and worst-case scenarios. The results from the simulations are analyzed to assess whether any of the situations could represent a serious potential risk. This process also includes the monthly quantification and monitoring of the changes in present value resulting from the interest rate shock scenarios of +200 basis points and –200 basis points as specified by the 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 receives a report on the current interest risk situation for the Volkswagen Bank GmbH Group each month.

TABLE 38: INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

CURRENCY	INTEREST RATE RISK SHOCK* (+200 / -200 BP)	
	Decrease in economic value in € million	Increase in economic value in € million
EUR	-249	46
GBP	-2	0
PLN	-2	1
CZK	-2	0
Total	**-255**	**47**

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

DISCLOSURE OF MARKET RISK

All companies in the Volkswagen Bank GmbH institution group are classified as non-trading book institutions. The institution group does not run a trading book. In the area of market risk, the institution group currently enters into currency risk. Own funds requirements stand at €25 million. Own risk models are not in use at this time.

LIQUIDITY RISK

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

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

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

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

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

TABLE 39: DISCLOSURE OF QUANTITATIVE INFORMATION ON LCR

	SCOPE OF CONSOLIDATION (CONSOLIDATED) CURRENCY AND UNITS (€ MILLION)	TOTAL UNWEIGHTED VALUE (AVERAGE)				TOTAL WEIGHTED VALUE (AVERAGE)			
	Quarter ends on	31 Mar, 2020	30 Jun, 2020	30 Sep, 2020	31 Dec, 2020	31 Mar, 2020	30 Jun, 2020	30 Sep, 2020	31 Dec, 2020
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total high-quality liquid assets (HQLA)					7,601	8,450	9,422	10,709
Cash outflows									
2	Retail deposits and deposits from small business customers, of which:	18,729	19,459	20,249	21,104	1,169	1,165	1,156	1,149
3	Stable deposits	15,334	15,177	15,078	15,011	767	759	754	751
4	Less stable deposits	3,328	3,296	3,276	3,281	334	331	329	329
5	Unsecured wholesale funding	5,727	6,134	6,622	6,761	2,631	2,683	2,875	2,941
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	5,586	6,015	6,544	6,708	2,490	2,565	2,798	2,887
8	Unsecured debt	141	118	77	54	141	118	77	54
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	7,031	5,351	4,309	4,265	1,006	843	733	662
11	Outflows related to derivative exposures and other collateral requirements	108	107	115	97	84	87	94	87
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	6,923	5,244	4,193	4,167	922	756	639	575
14	Other contractual funding obligations	3,335	3,502	3,903	4,226	3,067	3,227	3,599	3,874
15	Other contingent funding obligations	3,507	5,241	6,870	7,515	193	288	377	413
16	**Total cash outflows**					**8,065**	**8,206**	**8,739**	**9,039**
Cash inflows									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	3,683	3,381	3,352	3,230	2,114	1,932	1,916	1,853
19	Other cash inflows	788	729	753	797	788	729	753	797
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialized credit institution)					-	-	-	-

SCOPE OF CONSOLIDATION (CONSOLIDATED) CURRENCY AND UNITS (€ MILLION)		TOTAL UNWEIGHTED VALUE (AVERAGE)				TOTAL WEIGHTED VALUE (AVERAGE)			
Quarter ends on		31 Mar, 2020	30 Jun, 2020	30 Sep, 2020	31 Dec, 2020	31 Mar, 2020	30 Jun, 2020	30 Sep, 2020	31 Dec, 2020
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
20	**Total cash inflows**	**4,471**	**4,110**	**4,105**	**4,027**	**2,902**	**2,661**	**2,669**	**2,650**
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90 % cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75 % cap	4,471	4,110	4,105	4,027	2,902	2,661	2,669	2,650
						Adjusted total amount			
21	Cash buffer					7,601	8,450	9,422	10,709
22	Total net cash outflows					5,163	5,545	6,070	6,390
23	Liquidity coverage ratio (%)					148.2 %	152.3 %	153.0 %	167.1 %

The calculation of the liquidity coverage ratio (LCR) disclosure template on quantitative information on LCR in accordance with the guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 is based on the averages of the last 12 reporting dates prior to the disclosure date December 31, 2020. These are simple averages of the figures reported at the end of the month over the twelve months prior to the end of each quarter.

Concentration of liquidity and funding sources

The Volkswagen Bank GmbH Group is funded primarily through direct bank deposits as well as capital market and asset-backed security (ABS) programs. Volkswagen Bank GmbH also participates opportunistically in the ECB's targeted longer-term refinancing operations (TLTRO). In addition to a highly diversified number of funding sources, the Volkswagen Bank GmbH Group has two funding concentrations: with Deutsche Bundesbank (TLTRO) and within the Volkswagen Group (cash collateral & deposits of subsidiaries, in its function as principal bank).

In addition to funding as such, the Volkswagen Bank GmbH Group pursues a central approach for creating liquidity reserves to ensure daily solvency and the fulfillment of liquidity risk indicators and regulatory ratios (including LCR, NSFR) at all times.

Derivative exposures and potential collateral calls

Interest-rate and currency swaps are traded within the Volkswagen Bank GmbH Group and are included in the LCR calculation. OTC derivative contracts are hedged via collateral for each individual counterparty. Derivatives that are settled by a central counterparty (CCP) are collateralized in the form of variation and initial margins.

Derivatives are expected to generate only minor liquidity effects.

Currency mismatch in the LCR

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

Description of the degree of centralization of liquidity management and the interaction between the individual Group institutions

Within the Volkswagen Bank GmbH Group, the LCR is steered centrally by the Group Treasury of Volkswagen Bank GmbH. The HQLA for the supervisory group of the Volkswagen Bank GmbH are held centrally and also managed by Group Treasury.

Other items in the LCR calculation which are not included in the LCR disclosure template, but are considered relevant due to the liquidity profile, are planned liquidity inflows (e.g. ABSs or capital market issues) which cannot be considered as legal cash flows for purposes of the LCR.

LIQUIDITY PLANNING

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

The expected liquidity flows of Volkswagen Bank GmbH are pooled and evaluated by Treasury. Daily liquidity requirements are calculated by the Cash Management in the Treasury Back Office of Volkswagen Bank GmbH. Liquidity surpluses and shortages are covered by investing or borrowing funds from external banks as well as through tender transactions with the ECB.

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 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 also distinguishes between the analysis time horizons. For the purposes of safeguarding solvency at all times, utilization limits are specified for potential funding over the short- and medium-term time horizons. In this regard, the survival period functions as a key indicator as part of the recovery plan. Unexpected funding risks are quantified in order to manage the medium- to long-term funding structure. Liquidity adequacy is evaluated using a baseline scenario and multiple adverse scenarios, and is complemented by 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. This approach takes account of the relevant aspects of insolvency risk (e.g. non-availability of any external funds as well as heightened outflow of capital from deposits held with the Volkswagen Bank GmbH Group) and rating- or market-driven changes in spreads to quantify the funding risk. 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.

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

The Volkswagen Bank GmbH Group's external rating has an impact on the funding costs of money and capital market programs. As of December 31, 2020, credit rating agencies give Volkswagen Bank GmbH a long-term rating of A- (S&P) with a negative outlook and A1 (Moody's) with a negative outlook.

Risk monitoring and control

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

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

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

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 Board 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.

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

RESIDUAL VALUE RISK

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

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

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

Risk monitoring and control

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

As part of risk management procedures, the adequacy of the provision for credit 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.

Within the Volkswagen Bank GmbH Group, provisions for direct residual value risk are recognized in accordance with the guidance contained in the International Financial Reporting Standards (IFRSs). Loan loss provisions are calculated on the basis of a point-in-time view of the risks accepted. For this purpose, the quantified residual value risks are spread over the term of the contract.

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

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

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

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

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 (specific profit or loss 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. A risk value of zero was determined using the economic perspective in the last risk inventory check in 2020 as of the December 31, 2019 reporting date. 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 variances compared with budgeted values are identified at an early stage and any necessary corrective action is initiated. If the risk were to materialize, this would reduce income or increase costs and thereby also adversely impact operating profit.

Risk identification and assessment

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

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

Risk monitoring and control

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

The results from the 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 Company. If this is unsuccessful, the unit is then responsible for assessing the situation and initiating appropriate communications aimed at specific target groups to limit the reputational damage as far as possible. The objective is therefore to prevent or reduce any negative variance between actual reputation and the level of reputation the Company expects. A loss of reputation or damage to the Company’s image could have a direct impact on financial performance.

Reputational risk is recognized quantitatively 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 company in the market.

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

In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern. Strategic risk is 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 OpR management is to present operational risks transparently and initiate precautionary or corrective measures with a view to preventing or, when this is not possible, mitigating the risks or losses. If an operational risk materializes, this represents an operational loss with the resulting loss of a business asset, which has a negative impact on financial position or financial performance, depending on the amount of the loss.

The OpR strategy defines the approach to be applied in the management of operational risks. The OpR manual defines the implementation process and responsibilities.

Risk identification and assessment

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

The risk self-assessment is used to determine a monetary assessment of future 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.

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

Risk monitoring and control

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

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

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

Disclosure on operational risk

The Volkswagen Bank GmbH institution group uses the Standardized Approach to determine the capital requirement for operational risks. Own funds requirements stand at €300 million.

Compliance, Conduct and Integrity Risk

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

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

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.

As well as this, additional regular measures are taken to promote a compliance and integrity culture. These particularly include constant reminders of the Volkswagen Group's code of conduct, measures to heighten employees' awareness on a risk-oriented basis (e.g. "tone from the top", face-to-face training, e-learning programs, other media), communications including the distribution of guidelines and other information media and participation in compliance 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, an evaluation is performed on the basis of the results of various auditing activities to determine whether there is any evidence indicating that the compliance requirements that have been implemented are not effective or material residual risks requiring further action are discernible.

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

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

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 from 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.

The legal bases are derived mainly from the KWG, MaRisk and the EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02).

Risk identification and assessment

Risks arising in connection with outsourced activities are identified by examining the circumstances with a focus on risk. In the first step, an examination of the circumstances is used to establish whether the planned activity constitutes outsourcing, other procurement from a third-party supplier, or other procurement of IT services from a third-party supplier. A further check is carried out to establish whether the activity to be outsourced is permitted outsourcing or prohibited for regulatory reasons. In the case of outsourcing, the related risk content is then determined using a risk assessment based on various criteria, the outcome of which is the classification of the arrangement as one of the following: outsourcing with medium risk, outsourcing with high risk or critical outsourcing. Depending on the level of risk, the arrangement may be 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, the circumstances must be examined with a focus on risk 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. In this regard, the Outsourcing Coordination function carries out checks, in particular in subsequent procedures, to establish whether the quality of performance is in line with the contractually agreed targets and, where appropriate, initiates corrective measures to ensure such quality of performance is delivered. 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.

Business continuity management

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

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

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

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

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

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

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

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

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

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

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

The business strategy of Volkswagen Bank GmbH (Group), ROUTE2025, serves as the starting point for the preparation and consistent derivation of our 2021 risk strategy. This provides a binding framework for risk-taking that reflects our risk-bearing capacity, risk tolerance and risk appetite, as well as the management of risks.

Our risk profile as well as the risk tolerance defined by the Management Board and the defined risk appetite of the Volkswagen Bank GmbH Group are modeled by the limit system or the distribution of risk capital across the individual risk types. As the risk profile shows, credit risk accounts for the greatest proportion of total risk. This reflects the business model of a captive.

TABLE 40: CHANGES IN RISK CATEGORIES

	DEC. 31, 2020		DEC. 31, 2019	
Risk categories	€ million	Share in %	€ million	Share in %
Credit risk	1,737	63	1,876	74
Shareholder, issuer and counterparty risk	330	12	225	9
Residual value risk	34	1	52	2
Interest rate risk in the banking book (IRRBB)	31	1	102	4
Other market risks (currency and fund price risk)	12	0	4	0
Liquidity risk (funding risk)	16	1	16	1
Operational risk	491	18	246	10
Business risk	100	4	0	0
Total	**2,752**	**100**	**2,521**	**100**

The confidence level is 99.9% as standard.

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

The Volkswagen Bank GmbH Group has broadly diversified funding sources. At 20%, the target LCR (liquidity cover ratio) is above the regulatory minimum. This minimum ratio has always been achieved. The longer-term structural liquidity ratio NSFR is managed with an early warning threshold of 102%. This corresponds to the liquidity risk profile and is in line with the risk strategy as well as the defined risk tolerance. Liquidity risk management is suitable for detecting possible risks at an early stage and is therefore considered to be appropriate.

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

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

Number of directorships held by members of the Management Board

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

TABLE 41: NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT BOARD

	Number of management functions as of Dec. 31, 2020	of which management functions in the Volkswagen Group as of Dec. 31, 2020	Number of supervisory functions as of Dec. 31, 2020	of which supervisory functions in the Volkswagen Group as of Dec. 31, 2020
Dr. Michael Reinhart	1	1	3	2
Christian Löbke	1	1	0	0
Dr. Volker Stadler	2	2	0	0

TABLE 42: NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE SUPERVISORY BOARD

	Number of management functions as of Dec. 31, 2020	of which management functions in the Volkswagen Group as of Dec. 31, 2020	Number of supervisory functions as of Dec. 31, 2020	of which supervisory functions in the Volkswagen Group as of Dec. 31, 2020
Dr. Jörg Boche	0	0	3	3
Dr. Ingrun-Ulla Bartölke	0	0	3	3
Markus Bieber	0	0	1	1
Birgit Dietze	0	0	3	3
Frank Fiedler	2	2	10	9
Prof. Dr. Susanne Homölle	0	0	1	1
Thomas Kähms	0	0	1	1
Reinhard Mathieu	0	0	1	1
Lutz Meschke	7	7	8	6
Jürgen Rosemann	0	0	1	1
Lars Henner Santelmann	1	1	14	14
Silvia Stelzner	0	0	1	1

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

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

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

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

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

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

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

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

Information about the Risk Committee

The Risk Committee held three regular meetings in the reporting period. During the reporting period, there were no urgent matters that would have required a decision by circular resolutions. All members of the Risk Committee attended the meetings.

At its meeting held on March 11, 2020, the Risk Committee discussed the findings relating to risk management in the 2019 annual report, the ECB's SREP decision and the revocation of the classification of Volkswagen Bank GmbH as an other systemically important institution. In addition, the Committee obtained a progress report on the measures to optimize the equity ratio. The Committee then addressed the retrospective analysis of the 2019 risk strategy and the risk strategy and risk limits for 2020. The Remuneration Officer presented the Bank's remuneration system and explained how it provides incentives. In this regard, the Committee also discussed the assessment of how risk, capital, and liquidity structures are taken into account.

At its meeting on May 15, 2020, the Risk Committee dealt with the ECJ's judgment of March 26, 2020 on withdrawal rights and the current status of the withdrawals from consumer credit agreements, as well as the current state of affairs with regard to the EBA/ECB 2020 stress test. The Committee also heard reports on the impact of the coronavirus situation on dealing with OSI findings and other supervisory measures taken by the ECB, as well as the effect on economic risk-bearing capacity.

On December 11, 2020, the stress test program for 2021 was presented to the Committee. Moreover, the Risk Committee received reports on the current status of recovery and resolution planning, on the main comments on the SREP decision in 2020 and on regulatory changes in derivatives trading.

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

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

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

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

Additional Information on Covid-19 Response

TABLE 43: INFORMATION ON LOANS AND CREDITS SUBJECT TO STATUTORY AND NON-STATUTORY REPAYMENT HOLIDAYS

		GROSS CARRYING AMOUNT							ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK							GROSS CARRYING AMOUNT
			Performing			Non performing				Performing			Non performing			
	€ million			Of which: exposures with forbear-ance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbear-ance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbear-ance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbear-ance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures*
1	Loans and advances subject to moratorium	292.3	289.1	0.0	153.7	3.2	0.0	0.3	-7.4	-6.9	0.0	-5.8	-0.5	0.0	-0.2	0
2	of which: Households	30.0	29.7	0.0	8.5	0.3	0.0	0	-0.9	-0.8	0.0	-0.7	0.0	0.0	0	0
3	of which: Collateralised by residential immovable property	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4	of which: Non-financial corporations	248.0	245.2	0	145.1	2.9	0	0.3	-6.4	-6.0	0	-5.1	-0.4	0	-0.2	0
5	of which: Small and Medium-sized Enterprises	150.2	147.3	0	88.9	2.9	0	0.3	-4.7	-4.3	0	-3.8	-0.4	0	-0.2	0
6	of which: Collateralised by commercial immovable property	0.2	0.2	0	0	0	0	0	0	0	0	0	0	0	0	0

*No disclosure due to non-available information on inflows regarding COVID-19 measures.

Governments in numerous European countries have taken initiatives to create and implement the legislative basis for loan-repayment holidays. Numerous customers of Volkswagen Bank GmbH have also made use of these possibilities. In addition, the bank has offered internal support in the form of loan-repayment holidays or extensions to repayment plans (capital and interest payments) of up to three months in the case of private customers and of up to six months in the case of commercial customers. Corporate customers (such as automotive dealers) have received support in the form of additional liquidity, temporary increases in credit in tandem with extended payment periods as well as payment deferrals (interest-free) for a defined period.

All measures were taken solely in response to an active request by customers and subject to a detailed review of their necessity, i.e. difficulties experienced by customers as a result of Covid-19 in meeting payment obligations towards Volkswagen Bank GmbH.

TABLE 44: BREAKDOWN BY RESIDUAL MATURITY OF LOANS AND CREDITS SUBJECT TO STATUTORY AND NON-STATUTORY REPAYMENT HOLIDAYS

			GROSS CARRYING AMOUNT							
						Residual maturity of moratoria				
	€ million	Number of obligors		Of which: legislative moratoria	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <=12 months	> 1 year
1	Loans and advances for which moratorium was offered	36,651	2,809.2							
2	Loans and advances subject to moratorium (granted)	23,669	2,540.1	505.4	2,247.8	191.7	42.9	0.2	0.7	56.8
3	of which: Households		516.4	237.2	486.4	26.9	0.4	0.1	0	2.5
4	of which: Collateralised by residential immovable property		0	0	0	0	0	0	0	0
5	of which: Non-financial corporations		1,993.4	253.7	1,745.4	150.7	42.4	0.1	0.6	54.3
6	of which: Small and Medium-sized Enterprises		1,579.7	202.4	1,429.5	108.3	22.6	0.1	0.6	18.5
7	of which: Collateralised by commercial immovable property		2.6	0.2	2.4	0	0	0	0	0.2

The loan-repayment holidays were limited to a maximum of three months in the case of private customers, a maximum of six months in the case of commercial customers and a maximum of nine months in the case of corporate customers. Exceptions to this may arise as a result of local government measures impacting individual national companies. There are currently no plans to modify the periods applicable under the agreed internal measures.

TABLE 45: INFORMATION ON NEW LOANS AND CREDITS GRANTED UNDER NEW PUBLIC-SECTOR GUARANTEES ISSUED IN RESPONSE TO THE COVID-19 CRISIS.

		GROSS CARRYING AMOUNT		MAXIMUM AMOUNT OF THE GUARANTEE THAT CAN BE CONSIDERED	GROSS CARRYING AMOUNT
	€ million		of which: forborne	Public guarantees received	Inflows to non-performing exposures*
1	Newly originated loans and advances subject to public guarantee schemes	48.0	0	0	0
2	of which: Households	0			0
3	of which: Collateralised by residential immovable property	0			0
4	of which: Non-financial corporations	48.0	0	0	0
5	of which: Small and Medium-sized Enterprises	48.0			0
6	of which: Collateralised by commercial immovable property	0			0

*No disclosure due to non-available information on inflows regarding COVID-19 measures.

In Spain as well as in Germany, government guarantees were granted in lending business to alleviate the impact of the coronavirus pandemic. Corporate customers of Volkswagen Bank GmbH in both countries made use of these possibilities (e.g. KfW loan backed by government guarantee covering the credit risk).

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