

# VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

REMUNERATION REPORT

OF VOLKSWAGEN BANK GMBH

IN ACCORDANCE WITH SECTION 16 OF THE INSTITUTSVERGÜTUNGSVERORDNUNG

(GERMAN REGULATIONS GOVERNING REMUNERATION AT INSTITUTIONS,

INSTITUTSVERGV)

IN CONJUNCTION WITH ARTICLE 450 OF REGULATION (EU) NO. 575/2013 (CRR) AS OF

*2018*

# Remuneration Report of Volkswagen Bank GmbH

Volkswagen Bank GmbH (hereinafter VW Bank) was subject to supervision by the European Central Bank in 2018. VW Bank was therefore required to implement the Institutsvergütungsverordnung (InstitutsVergV – German Regulations Governing Remuneration at Institutions) as amended August 4, 2017 throughout the group.

Under section 16(1) InstitutsVergV, information regarding the remuneration policy and practices must be disclosed. The disclosure obligations are based on Article 450 of Regulation (EU) No. 575/2013 (CRR – Capital Requirements Regulation). Article 450 of the CRR specifies that certain quantitative and qualitative information must be disclosed for those categories of staff whose professional activities have a material impact on the risk profile of the organization (“risk takers”). This remuneration report includes the relevant information for fiscal year 2018.

Reporting is on an accrual basis. In other words, the report covers details of payments relating to expenses that were incurred in fiscal year 2018. It therefore also includes payments, such as payments of variable remuneration, that were made in 2019 but that were incurred in fiscal year 2018. The remuneration report is published on the website of VW Bank.

## REMUNERATION GOVERNANCE

The senior management team, which comprises the managing directors of the institution, is responsible for the design of the employee remuneration system. The remuneration of the managing directors is specified in their respective employment contracts and is the responsibility of the Supervisory Board.

VW Bank follows the management remuneration system operated by Volkswagen AG. The basic principles of this system are enshrined in writing in organizational policies and are reviewed each year by VW Bank to ensure that they remain appropriate. The works council agreement on variable remuneration, which was drawn up in cooperation with employee representatives to implement the requirements laid down in the InstitutsVergV, establish a common understanding and create more transparency for employees, was also applied in 2018.

After consulting the Supervisory Board, a Remuneration Officer and a deputy were appointed for VW Bank. The primary responsibility of the Remuneration Officer is to ensure that there is appropriate, permanent and effective monitoring and control of the remuneration systems and employee remuneration. Remuneration Officers have to monitor continuously the appropriateness of the remuneration of employees who are not senior managers. This is documented in the annual Remuneration Control Report.

In addition, they have to support the Supervisory Board and the Remuneration Committee in the performance of their monitoring and design duties for all remuneration systems.

A report on the design of the remuneration system and its appropriateness is submitted once a year to the Supervisory Board of VW Bank. VW Bank has established a Remuneration Committee in accordance with section 25d(12) of the German Banking Act (Kreditwesengesetz, KWG). The Remuneration Committee carries out the duties laid down in the KWG and in the InstitutsVergV. It supports the Supervisory Board in appropriately designing the Institution’s remuneration systems for senior managers. Furthermore, it provides

support in monitoring the appropriate design of the remuneration systems for employees.

The Remuneration Committee met five times in fiscal year 2018 and prepared relevant draft resolutions for the Supervisory Board.

#### BASIC PRINCIPLES OF REMUNERATION

The remuneration strategy and systems aid implementation of the business and risk strategy and are geared toward ensuring the sustainability of the business model. This fosters a responsible and risk-conscious approach by employees.

The remuneration system dovetails into the corporate culture and forms an important basis for one of the areas of activity derived from it in the ROUTE2025 corporate strategy, namely the positioning of the company as a top employer. The competitive, performance-oriented remuneration system enhances the appeal of VW Bank as an employer and is part of the HR strategy, enabling the company to attract the best applicants and to nurture its employees, providing them with professional development on a systematic and targeted basis. The system also helps to ensure that the company has adequate human resources in terms of both quality and quantity. The remuneration policy ensures that customer and consumer rights and interests are taken into account.

The remuneration system comprises fixed and variable components. There is a reasonable ratio between the components, ensuring that there are no incentives to take excessive risks. The fixed ratio between fixed and variable remuneration was applied. Generally speaking, the maximum ratio is 1:1. In this regard, the sole shareholder made a decision in accordance with section 6 of the InstitutsVergV in conjunction with section 25a(5) sentence 5 of the Kreditwesengesetz (KWG – German Banking Act) that there will be a maximum ratio of 1:2 between the fixed and variable remuneration components for the members of upper management and top management, and the senior management team. These details have been communicated to BaFin.

The remuneration systems are designed such that they are not in conflict with the monitoring functions of the control units (e.g. risk management, compliance, back office, internal audit and HR). In particular, there is no risk that a conflict of interests will arise. Overall, remuneration in the control units focuses on the fixed remuneration component, enabling these units to have an appropriate level of human resources in terms of quantity and quality.

As a rule, employees are not granted any guaranteed variable remuneration or retention bonuses. Exceptions may be agreed in justified individual instances and in compliance with section 5(5) and (7) of the InstitutsVergV. If compensation or severance payments are made, they are in accordance with the long-term interests of VW Bank, section 5(6) of the InstitutsVergV and the severance payment framework. The corresponding payments are subject to the special deferral and payment conditions, if they fall within the scope of section 20 of the InstitutsVergV.

VW Bank recognizes a provision for variable remuneration in the fiscal year to which it is attributable based on the accrual principle. Variable remuneration is only measured and paid out when the criteria specified in section 7 of the InstitutsVergV have been satisfied at group level and it has been firmly established that VW Bank, including its subsidiary institutions and branches, has generated positive overall earnings for the fiscal year concerned. Risk-bearing capacity, multi-year capital planning and financial performance are taken into account. VW Bank must ensure that it has adequate capital and liquidity, and that it maintains over the long term, or re-establishes, compliance with the combined capital buffer requirements in accordance with section 10i of the KWG. The total amount of variable remuneration comprises the variable remuneration at VW Bank and the equivalent remuneration at all the subsidiary institutions or branches in the group.

The employees are forbidden to limit or remove the risk focus of variable remuneration by means of hedging or other countermeasures. This includes both external hedging measures by colluding with third parties and internal collusion with other employees.

#### REMUNERATION SYSTEM

The remuneration system comprises fixed and variable remuneration components (personal performance bonus and company bonus), benefits and occupational pension benefits. Reasonable remuneration in line with customary market practices is paid.

The remuneration framework is based on the significance of the role undertaken by the person concerned. It takes into account the requirements relating to specified assessment criteria applicable throughout the Group and a classification based on employee level and salary group. These categories are allocated basic salary bands and a bonus framework relevant for all the functions in these employee levels and salary groups. The remuneration structure for control functions is also based on the significance of the function in question. Action is taken to ensure that responsibilities of the same significance are given the same remuneration structure and also that there are no limitations on control activities.

When determining the levels of remuneration, any evaluation takes into account both standard market rates and the remuneration levels and structures in the Volkswagen Group to ensure that employees can transfer between the companies. The remuneration framework is structured in such a way that there is no incentive to take excessive risks.

#### FIXED (NON-PERFORMANCE-RELATED) REMUNERATION

The collective agreement between Volkswagen AG and IG Metall is applied by way of a follow-on collective agreement to those employees of VW Bank who are subject to the collective agreement (payscale employees).

The non-payscale employees of VW Bank are remunerated above the payscale. The individual monthly salary ensures a level of basic remuneration that is sufficient for the employees to meet their living expenses and that allows them to focus on the interests of the company without becoming dependent on variable remuneration. The basic remuneration recompenses the employees for their work. The underlying remuneration bands are reviewed on a regular basis and adjusted if required. Within this framework, VW Bank aims to pay remuneration at market rates to attract and retain employees with suitable skills and qualifications.

#### VARIABLE (PERFORMANCE-RELATED) REMUNERATION

For payscale employees, variable (performance-related) remuneration is granted in accordance with the collective agreement. However, pursuant to section 1(4) of the InstitutsVergV, this does not represent variable remuneration within the meaning of this Regulation.

The remuneration system rewards individuals for their contribution and enables employees to share in the success of the VW Bank and the Volkswagen Group as a whole. The variable remuneration within the meaning of the InstitutsVergV for salaried employees not covered by a collective agreement comprises two components: a personal performance bonus and a company bonus. The basis for variable remuneration is measured over a number of years and consists of performance at group, organizational unit and individual levels. The relevant key performance indicators and metrics are derived from the business and risk strategy and take into account the key figures specified for risk, capital and liquidity. Negative contributions to earnings reduce the amount of variable remuneration, including in situations in which employment contracts are terminated (prematurely). The bonus amount is accounted for and paid to employees after the relevant annual financial statements for the fiscal year concerned have been formally approved, generally in May of the subsequent year. The variable remuneration is granted to employees as a cash benefit; it is not a fixed component of the annual salary, but a voluntary benefit, allowing employees to share in the success of the business.

The personal performance bonus rewards employees for their individual performance in the previous year and is determined by the attainment of targets specified in an individual target agreement and by an appraisal carried out by line managers. The bonus is thus based on quantitative and qualitative factors. Following the same approach used by Volkswagen AG, the standard process of holding special meetings to agree targets applies to all managers worldwide. These meetings are used not only to determine the targets for the forthcoming fiscal year but also to evaluate the extent to which the previous year's targets have been met. They also assess how well the manager has performed in terms of professionalism, leadership and collaboration and how far the manager thinks and acts from a business perspective. The personal performance bonus is determined individually in a comparative review process from a number of angles involving the HR department, the line manager and the relevant member of the senior management team. A guidance matrix for personal performance bonuses is used as the basis for specifying the actual amounts. The matrix includes guide values for the different combinations of performance appraisal and target attainment levels, but individual interim stages are also explicitly permitted. The personal performance bonus can fluctuate within specified upper and lower limits.

The company bonus is a reward for the sustained successful performance of VW Bank. All employees entitled to receive this bonus participate according to their individual salary group. The amount depends on the performance of the relevant subsidiary institution or branch in which the employee works and is determined on the basis of a three-year measurement period. In this way, the bonus takes account of corporate success in the long term. The amount of the company bonus is decided by the relevant senior management team and is approved by the company's sole shareholder. The figures used to determine the performance of the company are profit before tax and operating profit compared with the prior year. In a second step, the preliminary level of target attainment/company bonus is multiplied by a risk factor reflecting the utilization of the limit at group level. The risk factor is specified by the Supervisory Board and the managing directors of VW Bank as they reasonably see fit, taking into account the utilization of the limit. The combination of operating profit and risk factor ensures that both the financial performance over a number of years and the level of risk taken on by the company are appropriately factored into the calculation of the company bonus.

#### OTHER BENEFITS

In addition to fixed and variable remuneration components, VW Bank also grants social security benefits to its employees. These are non-discretionary arrangements that are based on Group- or Bank-wide regulations and therefore do not represent incentives to take inappropriate risks.

#### REMUNERATION SYSTEM FOR SENIOR MANAGEMENT

The Supervisory Board of VW Bank is responsible for determining the remuneration of the senior managers of VW Bank. The remuneration of senior management comprises fixed and variable remuneration. In addition, other benefits are granted in line with customary market practice. The amount of the remuneration is commensurate with the duties and performance of the senior managers. The management remuneration system operated by the Volkswagen Group is used to measure the variable remuneration. This system is based on a multiyear assessment. The variable remuneration of senior managers is determined by the Supervisory Board in accordance with section 7 of the InstitutsVergV. In addition, the special requirements for risk takers are applied to senior managers.

#### SPECIAL CONSIDERATIONS FOR RISK TAKERS

Special requirements in the InstitutsVergV apply to risk takers, i.e. those employees whose professional activities have a material impact on the overall risk profile. Each year, VW Bank must carry out its own independent risk analysis to identify the risk takers. The analysis encompasses all subsidiary companies that have a material impact on the risk profile of the VW Bank Group, material business units (business units that account for a proportion of more than 2% of internal capital) and the branches of VW Bank.

The risk takers were identified on the basis of section 18 of the InstitutsVergV in conjunction with the regulatory technical standard in accordance with Article 94(2) of Directive 2013/36/EU, as amended by Directive 2016/861/EU of February 18, 2016. In Germany, 44 employees (including four senior managers and 12 members of the Supervisory Board) were identified as risk takers in this process. Outside Germany, 57 employees were assigned to this category. Exceptions in accordance with Article 4(2) of Commission Delegated Regulation (EU) No 604/2014 are approved by executive management and noted by the Remuneration Committee and the Supervisory Board.

The management remuneration system operated by the Volkswagen Group is also used to measure the variable remuneration for the risk takers. The special requirements laid down in the InstitutsVergV apply to the payment of this variable remuneration. Some of it must be extended over a number of years and also linked to the long-term performance of the business. An amount of 40% of the variable remuneration for risk takers is granted immediately. The remaining 60% is deferred over a retention period of three years. In the case of members of the senior management team, the retention period is five years. If the variable remuneration computed for a fiscal year is below the exemption limit for the fiscal year specified by the competent supervisory authority (currently €50,000 gross), the bonus amount is treated as a cash amount for immediate payment. In the case of risk takers, the variable remuneration determined for a fiscal year does not give rise to the establishment of any claim for a corresponding bonus or the establishment of a corresponding entitlement. The bonus value is solely a value for use in calculations and only confers a right to have the bonus determined without error. A proportion of 50% of the portions granted or deferred depends on a sustained change in the enterprise value of VW Bank (sustainability component). The amount paid out from the sustainability component is based on a KPI-related determination of enterprise value that reflects the changes in adjusted Tier 1 capital. It is subject to an additional holding period of twelve months.

The deferred portion of variable remuneration for risk takers is subject to a penalty review before it is paid out. It is possible for the variable remuneration to be reduced or withdrawn altogether, depending on the findings of the penalty review, e.g. in cases of improper conduct or breaches of duty. In addition to the penalty review, back testing is also performed, i.e. a subsequent review of whether the variable remuneration originally determined is still applicable.

The senior management team decides at its discretion whether deferred tranches will be reduced or withdrawn. For senior managers, this decision is taken by the Supervisory Board.

In addition, the remuneration system for risk takers at VW Bank specifies that variable remuneration already paid can be claimed back under certain conditions and entitlements to payment expire if there is negative deviation in the contribution to profit pursuant to section 18(5) of the InstitutsVergV (clawback).

The penalty review in respect of the deferred payments for risk takers in accordance with section 20(5) of the InstitutsVergV was applied in the 2018 fiscal year. The payments of deferred portions of variable remuneration relating to prior years were reduced in some cases because of negative contributions to profit.

#### DISCLOSURE OF REMUNERATION DETAILS

The details required in accordance with the disclosure obligations specified in section 16 of the InstitutsVergV in conjunction with Article 450 of Regulation (EU) No. 575/2013 are presented below. The tables include discrepancies caused by rounding. Aggregate figures are reported in order to comply with the requirements relating to materiality, data protection and confidentiality, as specified in section 26a of the KWG.

Aggregated Quantitative Disclosures on Remuneration, Broken Down by Division (Number of Employees as of December 31, 2018)

Information on remuneration in accordance with section 16(1) no. 3 of the InstitutsVergV:

Fiscal year 2018 in € (unless otherwise indicated)	Supervisory Board	Executive Board	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	Other divisions	Total
Number of members	12	4							
Total number of employees			-	377	46	62	123	589	1,197
Total number of employees measured in FTE			-	309.5	42.0	53.5	108.5	493.0	1,006.5
Total remuneration	36,000	3,110,827	-	37,211,034	5,662,107	9,219,472	25,299,385	57,022,939	137,561,764
of which total fixed remuneration	36,000	1,947,527	-	33,154,443	5,111,616	8,269,220	23,025,335	49,013,272	120,557,413
of which total bonus	-	1,163,300	-	4,056,591	550,491	950,252	2,274,050	8,009,667	17,004,351

The table includes discrepancies caused by rounding.

- 1) In order to maintain confidentiality in accordance with the interpretation of § 16 of the Institute Compensation Regulation, the information is reported in aggregated form if required, in case that certain information could be attributed to one or two individual persons and would therefore result in the disclosure of personal data of natural persons.
- 2) The table has been adjusted compared to the previous version and the compensation data for the areas "Executive Board" has been disclosed in detail.

## Aggregated Quantitative Disclosures on Remuneration for Risk Takers, Broken Down by Senior Management and Employees (Number of Employees as of December 31, 2018):

Information on the remuneration of risk takers in accordance with Article 450(1)(h) of the CRR:

Fiscal year 2018 in € (unless specified differently)	Supervisory Board	Executive Board	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	Other divisions	Total
Number of risk takers (headcount)	12	4	-	4	2	4	9	66	101
Number of risk takers (FTE)	12	4	-	4	2	4	9	63	98
of which: number of risk takers belonging to the next management level (FTE)	-	-	-	4	1	4	6	29	44
Total fixed remuneration for 2018	36,000	1,947,527	-	710,513	n/a <sup>1)</sup>	648,963	1,581,280	9,786,740	14,711,023
of which: fixed in cash/payments in kind/payments to pension schemes/non-cash benefits	36,000	1,947,527	-	710,513	n/a <sup>1)</sup>	648,963	1,581,280	9,786,740	14,711,023
of which: fixed in Common Equity Tier 1 (CET1) instruments/Tier 2 capital instruments/other instruments	-	-	-	-	-	-	-	-	-
Total variable remuneration for 2018	-	1,163,300	-	339,300	n/a <sup>1)</sup>	333,000	833,600	4,766,082	7,435,282
of which: variable in cash/payments in kind/payments to pension schemes/non-cash benefits	-	581,650	-	169,650	k.A. <sup>1)</sup>	166,500	416,800	2,383,041	3,717,641
of which: variable in shares/equivalent interests/share-based or equivalent instruments that sustainably reflect the company value in acc. with section 20(5) sentence 1 no. 1 InstitutsVergV	-	581,650	-	169,650	n/a <sup>1)</sup>	166,500	416,800	2,383,041	3,717,641
of which: variable in instruments in acc. with Section 20(5) sentence 1 no. 2 InstitutsVergV	-	-	-	-	-	-	-	-	-
Total amount of deferred remuneration for 2018	-	930,640	-	271,440	n/a <sup>1)</sup>	266,400	666,880	3,812,865	5,948,225
of which: deferred variable remuneration for 2018 in cash/payments in kind/payments to pension schemes/non- cash benefits	-	348,990	-	101,790	n/a <sup>1)</sup>	99,900	250,080	1,429,824	2,230,584
of which: deferred variable remuneration for 2018 in shares/equivalent interests/share-based or equivalent instruments that sustainably reflect the company value in acc. with section 20(5) sentence 1 no. 1	-	581,650	-	169,650	n/a <sup>1)</sup>	166,500	416,800	2,383,041	3,717,641
of which: deferred variable remuneration for 2018 in instruments in acc. with section 20(5) sentence 1 no. 2 InstitutsVergV	-	-	-	-	-	-	-	-	-
Additional information on variable remuneration	-	-	-	-	-	-	-	-	-
<b>Article 450(1)(h)(iii) of the CRR in conjunction with Article 450(1)(h)(iv) of the CRR on variable remuneration deferred from previous years and explicit risk adjustment</b>									
Total amount of variable remuneration deferred from previous years and still outstanding at the start of 2018	-	1,229,243	-	624,670	-	179,420	269,560	3,113,752	5,416,645
of which: vested in 2018	-	419,285	-	347,740	-	100,830	150,730	1,575,847	2,594,432
of which: already paid	-	419,285	-	347,740	-	100,830	150,730	1,515,452	2,534,037
of which: not yet vested in 2018 and therefore still deferred at the end of 2018	-	809,958	-	276,930	-	78,590	118,830	1,598,300	2,882,608
Total amount of explicit risk adjustment (malus in acc. with section 20(4) no. 3 InstitutsVergV and clawbacks in acc. with Section 20(6) InstitutsVergV applied in 2018 to previously granted remuneration	-	-	-	-	-	-	-	-60,395	-60,395
<b>Article 450(1)(h)(v) of the CRR on payments for new sign-ons in acc. with Section 5(5) InstitutsVergV</b>									
Number of beneficiaries of a guaranteed variable remuneration (sign-ons for new hires) in acc. with section 5(5) InstitutsVergV (by headcount/FTE)	-	-	-	-	-	-	-	-	-
Total amount of guaranteed variable remuneration (sign-ons for new hires) in acc. with section 5(5) InstitutsVergV	-	-	-	-	-	-	-	-	-
<b>Section 450(1)(h)(v) and (vi) of the CRR on severance payments in acc. with section 2(5) in conjunction with Section 5(6) InstitutsVergV</b>									
Total amount of severance payments granted in 2018	-	-	-	-	-	-	-	n/a <sup>1)</sup>	n/a <sup>1)</sup>
Number of beneficiaries of severance payments granted in 2018 (by headcount/FTE)	-	-	-	-	-	-	-	1	1
Highest severance payment granted to a single individual in 2018	-	-	-	-	-	-	-	n/a <sup>1)</sup>	n/a <sup>1)</sup>

The table includes discrepancies caused by rounding.

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- 2) The table has been adjusted compared to the previous version and the compensation data for the areas "Executive Board", "Retail Banking", "Corporate Function" have been disclosed in detail.

One severance payment was made in the reporting period. To maintain confidentiality, no further details are provided.

Remuneration bands in accordance with Article 450(1)(i) of Regulation (EU) No 575/2013: One person received more than €1 million in fiscal year 2018. The remuneration of one person amounted to between €1 million and €1.5 million.



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