VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

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

2017

Table of contents

Index of tables

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, 2017 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.

To comply with the requirements of Article 433 of the CRR, the Pillar 3 Disclosure Report is updated every six months 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, 2017, or in the management report for fiscal year 2017; in accordance with Article 434(2) of the CRR, it is therefore not repeated in this report. The structure of the remuneration systems and the relevant remuneration parameters are described in a separate report.

Braunschweig, April 2018

The Management

Overview

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

Volkswagen Bank GmbH together with its subsidiaries and equity investments constitutes an institution group within the meaning of section 10a(1) and (2) of the KWG in conjunction with Article 18ff. of the CRR. Following the restructuring of Volkswagen Financial Services effective September 1, 2017, Volkswagen Bank GmbH is now the parent undertaking within the institution group in accordance with section 10a(1) Sentence 2.

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 IFRSs 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. Insurance companies and insurance brokers are excluded from the prudential scope of consolidation of the institution group in accordance with section 10a(1) and (2) of the KWG in conjunction with Article 18ff. of the CRR. In part, Volkswagen Bank GmbH applies the exemption provided for in Article 19(1) of the CRR in conjunction with section 31(3) of the KWG for the entities reported to the competent supervisory authorities; these entities are not included in prudential consolidation for reasons of materiality.

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

TABLE 1: PRUDENTIAL SCOPE OF CONSOLIDATION

CLASSIFICATION IN ACCORDANCE WITH SECTION 1 OF THE KWG	NAME	REGULATORY TREATMENT				SCOPE OF CONSOLIDATION UNDER IFRS		
		Consolidation		Equity deduction or risk-weighting 250%	Risk-weighted equity interest			
		Full	Proportionate			Full	Equity method	At cost
CI	Volkswagen Bank GmbH, Braunschweig*	X				X		
	DFM N.V., Amersfoort	X					X	
	ŠkoFIN s.r.o., Prague	X				X		
	Volkswagen Bank Polska S.A., Warsaw	X				X		
	Volkswagen Finančné služby Slovensko s.r.o., Bratislava	X					X	
	Volkswagen Financial Services (UK) Ltd., Milton Keynes	X				X		
	Volkswagen Finans Sverige AB, Södertälje	X				X		
FSI	Volkswagen Financial Services Ireland Ltd., Dublin			X				X
ASU	Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	X					X	
Other	Volkswagen Service Sverige AB, Södertälje				X			X
	Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw				X			X
	Volkswagen Finančné služby Maklérska s.r.o., Bratislava				X			X
	MAN Financial Services plc., Swindon				X			X
	Volkswagen Financial Ltd, Milton Keynes				X			X
	Special purpose vehicles (SPV) (partly in compartment structures)							
	VW Bank:							
	Driver Ten GmbH, in liquidation, Frankfurt am Main					X		
	Driver Eleven GmbH, in liquidation, Frankfurt am Main					X		
	Driver Twelve GmbH, Frankfurt am Main					X		
	Driver thirteen UG (haftungsbeschränkt), Frankfurt am Main					X		
	Private Driver 2012-3 GmbH, in liquidation, Frankfurt am Main					X		
	Private Driver 2013-1 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main					X		
	Private Driver 2013-2 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main					X		
	Private Driver 2014-1 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main					X		
	Private Driver 2014-2 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main					X		
	Private Driver 2014-3 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main					X		
	Private Driver 2014-4 UG (haftungsbeschränkt), Frankfurt am Main					X		
	Private Driver 2015-1 UG (haftungsbeschränkt), Frankfurt am Main					X		
	SPV in compartment structures							
	Driver France FCT, Pantin					X		
	Compartment Driver France Two							
	Compartment Driver France Three							
	Driver Master S.A., Luxembourg					X		
	Compartment 1							
	Compartment 2							
	Driver Multicompartment S.A., Luxembourg					X		
	Driver fourteen							

	DFM Master S.A., Luxembourg						X	
	1 Compartment							
	Driver UK Master S.A., Luxembourg					X		
	2 Compartment							
	3 Compartment							
	Driver UK Multi-Compartment S.A., Luxembourg					X		
	Compartment Driver UK Two							
	Compartment Driver UK Three							
	Compartment Driver UK Four							
	Compartment Driver UK Five							
	Compartment Driver UK Six							
	Private Driver UK 2016-1							
	Private Driver UK 2018-1							
	Autofinance S.A., Luxembourg					X		
	*Branches of VW Bank GmbH							
	Volkswagen Bank Italy branch, Milan	X						
	Volkswagen Bank Ireland branch, Dublin	X						
	Volkswagen Bank Spain branch, Madrid	X						
	Volkswagen Bank France branch, Roissy-en-France	X						
	Volkswagen Bank Netherlands branch, Amersfoort	X						
	Volkswagen Bank Greece branch, Athens	X						
	Volkswagen Bank UK branch, Milton Keynes	X						
	Volkswagen Bank Portugal branch, Amadora	X						

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

With the exception of the People's Republic of China, no restrictions or other significant obstacles affecting the transfer of funds or equity within the institution group are known. In the People's Republic of China, transferring funds is either prohibited outright or, at the very least, requires permission from a government agency (transfer of own funds).

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 regulatory group in accordance with Article 72 of the CRR consist of Common Equity Tier 1 capital and Tier 2 capital. Additional Tier 1 capital instruments were not issued by Group entities included in the prudential scope of consolidation.

Common Equity Tier 1 capital

Common Equity Tier 1 capital primarily consists of equity reported in the balance sheet as defined in IFRS. Volkswagen Bank GmbH's share capital is fully paid up and unrestricted. The disclosed reserves consist of the capital reserves and retained earnings. Moreover, profits which have been approved and are not tied to planned dividend payouts or foreseeable expenses (e.g. tax expenses) are taken into account. 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. Under the transitional provisions, Common Equity Tier 1 capital additionally includes minority interests attributable to the consolidation of subsidiaries as defined in point (16) of Article 4(1) of the CRR.

The increase in Common Equity Tier 1 capital during the reporting period is primarily due to the increase in the capital reserve and retained earnings. The increase of a total of €2.5 billion in the capital reserve was due to capital injections and the structurally induced inclusion of holdings in subsidiaries as non-cash capital contributions in connection with Group restructuring. The inclusion of other fully consolidated subsidiaries in the prudential scope of consolidation caused retained earnings to rise by €1.3 billion.

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 slightly during the reporting period.

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

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

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

€ million as of December 31, 2017	Carrying amount in consolidated financial statements (IFRSs)	Adjustment to the prudential scope of consolida-tion	Carrying amount in prudential scope of consolida-tion	Regulatory adjustment	Items of own funds
Subscribed capital	318.3	0.0	318.3	0.0	318.3
(+) Capital reserves	8,531.1	0.0	8,531.1	0.0	8,531.1
(+) Retained earnings	2,621.7	–344.7	2,277.0	–238.1	2,038.9
of which: accumulated profits	769.6	–331.7	437.9	1,301.3	1,739.2
of which: actuarial gains and miscellaneous retained earnings	1,852.1	–13.0	1,839.1	–1,539.4	299.7
(+) Other reserves	–170.6	0.1	–170.5	52.6	–117.9
of which: currency translation	–190.7	63.1	–127.6	–9.3	–136.9
of which: cash flow hedges	0.0	0.0	0.0	6.5	6.5
of which: market valuation of marketable securities	20.1	–63.0	–42.9	55.4	12.5
of which: equity-accounted investments	0.0	0.0	0.0	0.0	0.0
= Total equity	**11,300.5**	**–344.6**	**10,955.9**	**–185.5**	**10,770.4**
(+) Minority interests	0.0	133.6	133.6	–108.4	25.2
= Common Equity Tier 1 (CET1) capital before regulatory adjustments	**11,300.5**	**–211.0**	**11,089.5**	**–293.9**	**10,795.6**
(–) Intangible assets	–48.0	–24.9	–72.9	–8.3	–81.2
(–) Deferred tax assets	–1,497.1	–137.7	–1,634.8	1,283.5	–351.3
(+/–) Cash flow hedge reserve	0.0	0.0	0.0	–6.5	–6.5
(–) Defined-benefit pension fund assets	0.0	0.0	0.0	0.0	0.0
(–) Additional valuation adjustments				–2.8	–2.8
(–) Fair value gains and losses arising from own credit risk related to derivative liabilities				–14.2	–14.2
(–) Securitization positions				–147.2	–147.2
(–) Losses deducted in accordance with Article 36(1)(a) of the CRR				–32.3	–32.3
(+) Regulatory adjustments to Common Equity Tier 1 capital that are added back to the deductions in connection with transitional provisions				84.9	84.9
(–) Regulatory adjustments in connection with unrealized profits and losses in accordance with Articles 467 and 468 of the CRR				–4.3	–4.3
(–) Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR				0.0	0.0
(–) Amount of items required to be deducted from Additional Tier 1 items that exceeds the institution's Additional Tier 1 capital				–8.1	–8.1
= Common Equity Tier 1 capital (CET1) after regulatory adjustments	**9,755.4**	**–373.6**	**9,381.8**	**850.8**	**10,232.6**
(+) Additional Tier 1 capital (AT1) after regulatory adjustments	0.0	0.0	0.0	0.0	0.0
= Tier 1 capital (T1) after regulatory adjustments	**9,755.4**	**–373.6**	**9,381.8**	**850.8**	**10,232.6**
(+) Tier 2 capital (T2) after regulatory adjustments	1,720.6	–1,685.9	34.7	–5.3	29.4
of which: subordinated liabilities	1,720.6	–1,685.9	34.7	–5.3	29.4
of which: Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR				0.0	0.0
= Own funds (T1+T2)	**11,476.0**	**–2,059.5**	**9,416.5**	**845.5**	**10,262.0**

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: CAPITAL INSTRUMENTS' MAIN FEATURES IN ACCORDANCE WITH ARTICLE 437(1)(C) OF THE CRR (IMPLEMENTING REGULATION 1423 ANNEX II GROUP)

Annex II		Instrument type 1	Instrument type 2	Instrument type 3
1	Issuer	Volkswagen Bank 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 19.6 million	EUR 9.8 million
9	Nominal amount of instrument	EUR 318.3 million	EUR 20.0 million	EUR 10.0 million
9a	Issue price	Various	EUR 19.3 million	EUR 9.5 million
9b	Redemption price	N/A	EUR 20.0 million	EUR 10.0 million
10	Accounting classification	Share capital	Liability – amortized cost	Liability – amortized cost
11	Original date of issuance	Various	26.09.2003	07.06.2004
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	26.09.2023	07.06.2024
14	Issuer call subject to prior supervisory approval	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Termination option for tax event	Termination option for tax event
16	Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons/dividends			
17	Fixed or floating dividend/coupon	Variable	Fixed	Fixed
18	Coupon rate and any related index	N/A	5.4% p.a.	5.5% p.a.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partly discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it	N/A	N/A	N/A

Annex II		Instrument type 1	Instrument type 2	Instrument type 3
	converts into			
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to AT1 instruments	Subordinate to insolvency creditors	Subordinate to insolvency creditors
36	Noncompliant transitioned features	No	No	No
37	If yes, specify noncompliant features	N/A	N/A	N/A

*Item 10 of instrument 1 relates to 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: TRANSITIONAL OWN FUNDS DISCLOSURE (IMPLEMENTING REGULATION 1423 ANNEX VI GROUP)

€ MILLION AS OF THE REPORTING DATE: DECEMBER 31, 2017		DECEMBER 31, 2017		
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
1	Capital instruments and the related share premium accounts	318.3	26(1), 27, 28, 29, EBA list 26(3)	N/A
	of which: equities	318.3	EBA list 26(3)	N/A
2	Retained earnings	1,739.2	26(1)(c)	N/A
3	Accumulated other comprehensive income (and other reserves, to include unrealized gains and losses under the applicable accounting standards)	8,712.9	26(1)	N/A
3a	Funds for general banking risks	0.0	26(1)(f)	N/A
4	Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase-out from CET1	0.0	486(2)	N/A
	Public sector capital injections grandfathered until January 1, 2018	0.0	483(2)	N/A
5	Minority interests (amount allowed in consolidated CET1)	25.2	84, 479, 480	–25.2
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0.0	26(2)	N/A
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	10,795.6		N/A
Common Equity Tier 1 (CET1): regulatory adjustments				
7	Additional value adjustments (negative amount)	–2.8	34, 105	0.0
8	Intangible assets (net of related tax liability) (negative amount)	–73.1	36(1)(b), 37, 472(4)	–8.1

€ MILLION AS OF THE REPORTING DATE: DECEMBER 31, 2017		DECEMBER 31, 2017		
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	–1.1	36(1)(c), 38, 472(5)	–0.3
11	Fair value reserves related to gains or losses on cash flow hedges	–6.5	33(a)	0.0
12	Negative amounts resulting from the calculation of expected loss amounts	0.0	36(1)(d), 40, 159, 472(6)	0.0
13	Any increase in equity that results from securitized assets (negative amount)	0.0	32(1)	0.0
14	Gains or losses on own liabilities valued at fair value resulting from changes in own credit standing	–14.2	33(b), 33(c)	0.0
15	Defined benefit pension fund assets (negative amount)	0.0	36(1)(e), 41, 472(7)	0.0
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0.0	36(1)(f), 42, 472(8)	0.0
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	36(1)(g), 44, 472(9)	0.0
18	Direct and indirect 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 the 10% threshold and net of eligible short positions) (negative amount)	0.0	36(1)(h), 43, 45, 46, 49(2) (3), 79, 472(10)	0.0
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	36(1)(i), 43, 45, 47, 48(1)(b), 49(1) to (3), 79, 470, 472(11)	0.0
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1,250%, where the institution opts for the deduction alternative	–147.2	36(1)(k)	N/A
20b	of which: qualifying holdings outside the financial sector (negative amount)	0.0	36(1)(k)(i), 89 to 91	N/A
20c	of which: securitization positions (negative amount)	–147.2	36(1) (k) (11), 243(1) (b), 244(1) (b) , 258	N/A
20d	of which: free deliveries (negative amount)	0.0	36(1)(k) (111), 379(3)	N/A
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)	–279.9	36(1)(c), 38, 48(1) (a), 470, 472(5)	–70.0
22	Amount exceeding the 15% threshold (negative amount)	0.0	48(1)	N/A
23	of which: direct and indirect holdings by the	0.0	36(1)(i), 48(1)(b),	N/A

€ MILLION AS OF THE REPORTING DATE: DECEMBER 31, 2017		DECEMBER 31, 2017		
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
	institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		470, 472(11)	
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary differences	0.0	36(1)(c), 38, 48(1) (a), 470, 472(5)	N/A
25a	Losses for the current financial year (negative amount)	–25.8	36(1)(a), 472(3)	–6.5
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0.0	36(1)(l)	N/A
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0.0		N/A
26a	Regulatory adjustments relating to unrealized gains and losses pursuant to Articles 467 and 468	–4.3		N/A
	of which: Filter for unrealized loss 1	2.8	467	N/A
	of which: Filter for unrealized loss 2		467	
	of which: Filter or unrealized gain 1	–5.6	468	N/A
	of which: Filter for unrealized gain 2		468	
26b	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	481	N/A
	of which: substantial equity investments in companies in the financial industry (below the threshold of 10%)	0.0	481	N/A
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	–8.1	36(1)(j)	N/A
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	–563.0		N/A
29	Common Equity Tier 1 (CET1) capital	10,232.6		N/A
Additional Tier 1 (AT1) capital: Instruments				
30	Capital instruments and the related share premium accounts	0.0	51.5	N/A
31	of which: classified as equity under applicable accounting standards	0.0		N/A
32	of which: classified as liabilities under applicable accounting standards	0.0		N/A
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase-out from AT1	0.0	486(3)	N/A
	Public sector capital injections grandfathered until January 1, 2018	0.0	483(3)	N/A
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0.0	85, 86, 480	N/A
35	of which: instruments issued by subsidiaries subject to phase-out	0.0	486(3)	N/A
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0.0		N/A
Additional Tier 1 (AT1) capital: regulatory adjustments				

€ MILLION AS OF THE REPORTING DATE: DECEMBER 31, 2017		DECEMBER 31, 2017		
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0.0	52(1)(b), 56(a), 57, 475(2)	0.0
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	56(b), 58, 475(3)	0.0
39	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	0.0	56(c), 59, 60, 79, 475(4)	0.0
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution does have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	0.0	56(d), 59, 79, 475(4)	0.0
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	0.0		N/A
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No. 575/2013	–8.1	472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a)	N/A
	of which: losses of the current year	0.0		N/A
	of which: intangible assets	–8.1		N/A
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No. 575/2013	0.0	477, 477(3), 477(4)(a)	N/A
	of which: items to be detailed line by line, e.g. reciprocal cross holdings in Tier 2 instruments, direct holdings of nonsignificant investments in the capital of other financial sector entities, etc.	0.0		N/A
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	8.1	467, 468, 481	N/A
	of which: possible filter for unrealized losses	0.0	467	N/A
	of which: possible filter for unrealized gains	0.0	468	N/A
	of which: substantial equity investments in companies in the financial industry (below the threshold of 10%)	0.0	481	N/A
	of which: qualifying AT1 deductions that exceed the AT1 capital of the institution (deduction from Common Equity Tier 1 capital)	8.1	36(1)(j)	N/A
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0.0	56(e)	N/A
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0.0		N/A

€ MILLION AS OF THE REPORTING DATE: DECEMBER 31, 2017		DECEMBER 31, 2017		
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
44	Additional Tier 1 (AT1) capital	0.0		N/A
45	Tier 1 capital (T1 = CET1 + AT1)	10,232.6		N/A
Tier 2 (T2) capital: Instruments and reserves				
46	Capital instruments and the related share premium accounts	29.4	62, 63	N/A
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase-out from T2	0.0	486(4)	N/A
	Public sector capital injections grandfathered until January 1, 2018	0.0	483(4)	N/A
48	Qualifying own fund 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	0.0	87, 88, 480	0.0
49	of which: instruments issued by subsidiaries subject to phase-out	0.0	486(4)	N/A
50	Credit risk adjustments	0.0	62(c) and (d)	N/A
51	Tier 2 (T2) capital before regulatory adjustments	29.4		N/A
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0.0	63(b)(i), 66(a), 67, 477(2)	0.0
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	66(b), 68, 477(3)	0.0
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	66(c), 69, 70, 79, 477(4)	0.0
54a	of which: new holdings not subject to transitional arrangements	0.0		0.0
54b	of which: holdings existing before January 1, 2013 and subject to transitional arrangements	0.0		0.0
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0.0	66(d), 69, 79, 477(4)	0.0
56	Regulatory adjustments applied to Tier 2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	0.0		N/A
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No. 575/2013	0.0	472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a)	N/A

€ MILLION AS OF THE REPORTING DATE: DECEMBER 31, 2017		DECEMBER 31, 2017		
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No. 575/2013	0.0	475, 475(2)(a), 475 (3), 475(4)(a)	N/A
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR	0.0	467, 468, 481	N/A
57	Total regulatory adjustments to Tier 2 (T2) capital	0.0		N/A
58	Tier 2 (T2) capital	29.4		N/A
59	Total capital (TC = T1 + T2)	10,262.0		N/A
59a	Risk-weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	174.9		N/A
60	Total risk-weighted assets	65,717.2		N/A
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.6	92(2)(a), 465	N/A
62	Tier 1 (as a percentage of risk exposure amount)	15.6	92(2)(b), 465	N/A
63	Total capital (as a percentage of risk exposure amount)	15.6	92(2)(c)	N/A
64	Institution-specific buffer requirement (CET1 requirement in accordance with Article 92(1)(a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of the risk exposure amount)	5.8	CRD 128, 129, 130	N/A
65	of which: capital conservation buffer requirement	1.3		N/A
66	of which: countercyclical buffer requirement	0.1		N/A
67	of which: systemic risk buffer requirement	0.0		N/A
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institutions (O-SII) buffer	0.0	CRD 131	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.8	CRD 128	N/A
69	[not relevant in the EU Regulation]	N/A		N/A
70	[not relevant in the EU Regulation]	N/A		N/A
71	[not relevant in the EU Regulation]	N/A		N/A
Capital ratios and buffers				
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)	12.4	36(1)(h), 45, 46, 472 (10), 56(c), 59, 60, 475(4), 66(c), 69, 70, 477(4)	N/A
73	Direct and indirect holdings by the institution in CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0.0	36(1)(i), 45, 48, 470, 472(11)	0.0

€ MILLION AS OF THE REPORTING DATE: DECEMBER 31, 2017		DECEMBER 31, 2017		
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No. 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No. 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No. 575/2013
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 condition in Article 38(3) are met)	1,051.8	36(1)(c), 38, 48, 470, 472(5)	N/A
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	N/A
77	Cap on inclusion of credit risk adjustments in T2 under standardized approach	N/A	62	N/A
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	N/A
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	N/A	62	N/A
Capital instruments subject to phase-out arrangements (only applicable between Jan. 1, 2013 and Jan. 1, 2022)				
80	Current cap on CET1 instruments subject to phase-out arrangements	N/A	484(3), 486(2) and (5)	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	484(3), 486(2) and (5)	N/A
82	Current cap on AT1 instruments subject to phase-out arrangements	N/A	484(4), 486(3) and (5)	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A	484(4), 486(3) and (5)	N/A
84	Current cap on T2 instruments subject to phase-out arrangements	N/A	484(5), 486(4) and (5)	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A	484(5), 486(4) and (5)	N/A

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

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

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

€ MILLION	GENERAL CREDIT EXPOSURES		TRADING BOOK EXPOSURES		SECURITIZATION EXPOSURES		OWN FUNDS REQUIREMENTS					
	Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitization exposures	Total	OWN FUNDS REQUIREMENTS WEIGHTS	COUNTERCYCLICAL CAPITAL BUFFER RATE
	010	020	030	040	050	060	070	080	090	100	110	120
ANDORRA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
ARGENTINA	0.1	-	-	-	-	-	-	-	-	-	0.0%	0.0%
AUSTRALIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
AUSTRIA	6.5	-	-	-	-	-	0.5	-	-	0.5	0.0%	0.0%
BELGIUM	51.7	-	-	-	-	-	4.1	-	-	4.1	0.0%	0.0%
BERMUDA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
BOTSWANA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
BRAZIL	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
BULGARIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
CANADA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
CHILE	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
CHINA	2.2	-	-	-	-	-	0.2	-	-	0.2	0.0%	0.0%
CYPRUS	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
CZECH REPUBLIC	1,395.6	-	-	-	-	-	111.6	-	-	111.6	1.3%	0.5%
DENMARK	0.1	-	-	-	-	-	-	-	-	-	0.0%	0.0%
ESTONIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
FINLAND	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
FRANCE	4,659.8	-	-	-	-	-	372.8	-	-	372.8	4.5%	0.0%
GERMANY	22,618.5	-	-	-	3,817.0	-	1,809.5	-	3,817.0	5,626.5	68.0%	0.0%
GREECE	94.8	-	-	-	-	-	7.6	-	-	7.6	0.1%	0.0%
GUERNSEY	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
HONG KONG	-	-	-	-	-	-	-	-	-	-	0.0%	1.3%
HUNGARY	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
ICELAND	-	-	-	-	-	-	-	-	-	-	0.0%	1.3%
INDIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
IRELAND	914.1	-	-	-	-	-	73.1	-	-	73.1	0.9%	0.0%
ISLE OF MAN	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
ITALY	3,532.5	-	-	-	-	-	282.6	-	-	282.6	3.4%	0.0%
JAPAN	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
JERSEY	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
KOREA, REPUBLIC of	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
LATVIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
LIECHTENSTEIN	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
LITHUANIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
LUXEMBOURG	0.2	-	-	-	-	-	-	-	-	-	0.0%	0.0%
MALAYSIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
MALTA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
MEXICO	0.7	-	-	-	-	-	0.1	-	-	0.1	0.0%	0.0%
NETHERLANDS	2,348.0	-	-	-	-	-	187.8	-	-	187.8	2.3%	0.0%
NEW ZEALAND	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
NORWAY	-	-	-	-	-	-	-	-	-	-	0.0%	2.0%

	POLAND	755.7	-	-	-	-	-	60.5	-	-	60.5	0.7%	0.0%
	PORTUGAL	441.9	-	-	-	-	-	35.4	-	-	35.4	0.4%	0.0%
	ROMANIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	RUSSIAN FEDERATION	62.0	-	-	-	-	-	5.0	-	-	5.0	0.1%	0.0%
	SINGAPORE	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	SLOVAKIA	419.3	-	-	-	-	-	33.5	-	-	33.5	0.4%	0.5%
	SLOVENIA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	SOUTH AFRICA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	SPAIN	814.6	-	-	-	230.9	-	65.2	-	230.9	296.1	3.6%	0.0%
	SWEDEN	2,872.1	-	-	-	-	-	229.8	-	-	229.8	2.8%	2.0%
	SWITZERLAND	2.2	-	-	-	-	-	0.2	-	-	0.2	0.0%	0.0%
	TAIWAN	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	THAILAND	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	TURKEY	25.9	-	-	-	-	-	2.1	-	-	2.1	0.0%	0.0%
	UGANDA	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	UKRAINE	-	-	-	-	-	-	-	-	-	-	0.0%	0.0%
	UNITED KINGDOM	9,874.1	-	-	-	156.6	-	789.9	-	156.6	946.5	11.4%	0.0%
	UNITED STATES	0.2	-	-	-	-	-	-	-	-	-	0.0%	0.0%
020	Total	50,892.8	-	-	-	4,204.5	-	4,071.5	-	4,204.5	8,276.0	100.0%	

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

Row		Column
		010
010	Total risk exposure amount	65,717.2
020	Institution-specific countercyclical capital buffer rate	0.06%
030	Institution-specific countercyclical capital buffer requirement	42.3

RISK INVENTORY/RISK QUANTIFICATION

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

The ad hoc risk inventory carried out as of September 1, 2017 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk, earnings risk, direct residual value risk, market risk, liquidity risk, operational risk as well as the non-quantifiable risk types reputation and strategic risk. Other existing subcategories of risk are included within the categories specified above.

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

CAPITAL ADEQUACY (INCLUDING RISK-BEARING CAPACITY)

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

The risk-bearing capacity is adequate if all significant risks that could materially adversely affect the institution's financial position, financial performance or its cash flows are covered by its risk-taking potential. The quarterly analysis of its risk-bearing capacity serves to examine whether the Volkswagen Bank GmbH Group is capable at all times of bearing the risks potentially arising from its current and future business activities.

The Volkswagen Bank GmbH Group applies the going-concern approach based on a range of practice[1] criteria. The purpose of the going-concern approach is to ensure the continuation of the entity's regular business operations in the long term, but also serves to enable efficient management of the capital for risk coverage.

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

As of December 31, 2017, the risk-taking potential of the Volkswagen Bank GmbH Group stood at €5.6 billion (previous year: €3.5 billion) and comprises reported equity and the forecast result for the next twelve months (total of €12.2 billion) less the regulatory requirements for minimum equity (€6.1 billion) and other adjustment items (€0.5 billion). This item is the reference point for risk tolerance and risk appetite and takes the form of an overall risk limit for the Group (fixed at €2.3 billion as of December 31, 2017).

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

The limit system that builds on the risk-bearing capacity is structured in a way that the adherence to the risk limits ensures not only the management of operating and strategic risk and earnings, but also compliance with regulatory requirements. In a first step, the overall risk limit established by management, which must not exceed the risk-taking potential, is apportioned to counterparty default risk, residual value risk, market risk, liquidity risk (funding risk) and operational risk, and compared against the risk-taking potential. Individual limits are defined for credit risk, shareholder risk, issuer risk and counterparty risk under the aggregate limit for counterparty credit risk as an overarching risk category. In a second step, the risk type limits (with the exception of the equity investment, issuer, and counterparty risk at the branch and subsidiary level) are split for the purposes of operational risk management. Risk Management monitors compliance with the risk limits as part of its quarterly analysis of the risk-bearing capacity.

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

Risk quantification

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

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

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

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

TABLE 7: METHODS USED TO QUANTIFY INDIVIDUAL TYPES OF RISKS WHEN ANALYZING RISK-BEARING CAPACITY

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

Aggregation of risks, analysis of results

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

The results of the analysis of risk-bearing capacity and of the stress tests are reported to management on a quarterly basis. The calculations of risk-bearing capacity confirmed that all significant risks that could adversely affect the financial position, financial performance or cash flows were adequately covered at all times by the available risk-taking potential. In the year under review, the capital utilized for risk coverage was below the overall risk limit set internally. 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, 2017:

TABLE 8: REGULATORY OWN FUNDS REQUIREMENTS AT GROUP LEVEL

€ million	Risk-weighted exposure amount (after SME Supporting Factor)	Own funds requirements
Credit risk	**58,503**	**4,680**
Exposures to central governments or central banks	2,957	237
Exposures to regional governments or local authorities	0	0
Exposures to public sector entities	19	2
Exposures to multilateral development banks	0	0
Exposures to international organizations	0	0
Exposures to institutions	429	34
Exposures to corporates	16,873	1,350
Retail exposures	28,308	2,265
Exposures secured by mortgages on immovable property	0	0
Exposures in default	1,553	124
Exposures associated with particularly high risk	0	0
Exposures in the form of covered bonds	0	0
Items representing securitization positions	0	0
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)	18	1
Equity exposures	4,141	331
Other items	4,205	336
Credit valuation adjustment risk	**96**	**8**
CVA risk (standard method)	96	8
Market risk	**2,879**	**230**
Position risk for trading book business		
Large exposures above the limit for trading book business		
Foreign currency risk	2,879	230
Settlement risk		
Commodity position risk		
Capital requirement for currency risks under the standardized approach		
Operational risks	**4,240**	**339**
Capital requirement for the standardized approach	4,240	339
Total	**65,717**	**5,257**

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

RETURN ON CAPITAL

The return on capital in accordance with section 26a(1) sentence 4 of the KWG, calculated as the ratio of the result from ordinary activities to total assets, was 1.0% as of December 31, 2017.

DISCLOSURE OF THE LEVERAGE RATIO

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

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

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

Volkswagen Bank GmbH’s Common Equity Tier 1 capital increased during the year under review primarily as a result of the total increase of €3.8 billion in the capital reserves and in retained earnings. The increase in the Common Equity Tier 1 capital had a positive effect on the leverage ratio.

TABLE 9: LEVERAGE RATIO DISCLOSURE TEMPLATE

Reference date	December 31, 2017
Entity name	Volkswagen Bank GmbH
Level of application	Consolidated level

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

		Applicable amount
1	Total assets as per published financial statements	78,747
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	13,083
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No. 575/2013)	0
4	Adjustments for derivative financial instruments	231
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)	1,875
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	–21,537
8	**Leverage ratio total exposure measure**	**72,399**

TABLE 11: LEVERAGE RATIO COMMON DISCLOSURE

	Item	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	70,679
2	(Asset amounts deducted in determining Tier 1 capital)	-428
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	70,251
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	57
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	231
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)	-14
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)	274
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	9,622
18	(Adjustments for conversion to credit equivalent amounts)	-7,748
19	Other off-balance sheet exposures (sum of lines 17 and 18)	1,875
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No. 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No. 575/2013 (on and off balance sheet))	0
EU–19b	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No. 575/2013 (on and off balance sheet)	0
Capital and total exposure measure		
20	Tier 1 capital	10,122
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU – 19a and EU – 19b)	72,399
Leverage ratio		
22	Leverage ratio	14.0%
Choice on transitional arrangements and amount of derecognized fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased-in
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	0

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

		CRR leverage ratio exposures
EU–1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**70,679**
EU–2	Trading book exposures	0
EU–3	Banking book exposures, of which:	70,679
EU–4	Covered bonds	0
EU–5	Exposures to central governments or central banks	7,124
EU–6	Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	71
EU–7	Institutions	1,014
EU–8	Secured by mortgages of immovable properties	0
EU–9	Retail exposures	37,802
EU–10	Corporate	16,855
EU–11	Exposures in default	1,130
EU–12	Other exposures (.e.g. equity, securitizations and other non-credit obligation assets)	6,684

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 tightly focused on the activities of the individual divisions. This structure makes it possible to identify at an early stage any trends that could represent a risk to the business as a going concern so that suitable corrective action can then be initiated. No material changes were made to the risk management methodology in the reporting period.

Appropriate procedures are in place to ensure the adequacy of the risk management system. Firstly, Risk Management continuously monitors the system. Secondly, the individual elements in the system are regularly reviewed on a risk-oriented basis by Internal Audit, the ECB (European Central Bank), the FMSA (German Federal Agency for Financial Market Stabilization) and, as part of the audit of the annual financial statements, by the independent auditors.

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

An important feature of the risk management system at the 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 any particular personnel involved.

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

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

As a significant company, the Volkswagen Bank GmbH Group is supervised by the European Central Bank (ECB) under the Single Supervisory Mechanism (SSM). As a result, the Volkswagen Bank GmbH Group continuously exchanges information with the ECB's Joint Supervisory Team. The Volkswagen Bank GmbH Group is also subject to requirements under the Supervisory Review and Evaluation Process (SREP). In 2017, Volkswagen Bank GmbH was in close contact with the ECB in connection with the planning and ensuing implementation of the activities for restructuring the Company.

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

RISK STRATEGY AND RISK MANAGEMENT

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

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

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

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

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

RISK CULTURE

The starting point for an efficient and sustainable risk management systems is the pronounced risk culture which is firmly entrenched within the Volkswagen Bank GmbH Group and includes all employees. It is a key component of the "ROUTE2025" corporate strategy with the elements "Rendering risks transparent and actively managing them", "Acting compliantly" and "Implementing an open feedback and discussion culture".

In addition to the Volkswagen Bank GmbH Group's corporate values, the Code of Conduct revised by the Volkswagen Group at the end of 2017 particularly provides guidance, assistance and advice on the correct conduct of all employees, fostering the risk culture within the Volkswagen Bank GmbH Group due to its binding nature regardless of hierarchical levels.

Management assumes a role model with respect to risk culture. It engages in a decision-making practice on the basis of the group values that it has defined (management principles) which provide a framework for employees for the implementation of standards and the preparation of future decisions.

Risk culture at the Volkswagen Bank GmbH Group is characterized by the clear definition of tasks, processes and responsibilities in a manner which is readily understandable for employees. A further key element is the 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.

RISK CONCENTRATIONS

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

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

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

Counterparty concentrations from customer business are of only 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 aims for broad nationwide diversification within the country. In contrast, sector concentrations in the dealer business are part of the nature of the business for a captive provider and these concentrations are therefore individually analyzed. Overall, no particular impact has been identified, even in periods of economic downturn like the crisis experienced in recent years.

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

RISK REPORTING

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

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

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

FIFTH REVISION OF THE MINIMUM REQUIREMENTS FOR RISK MANAGEMENT

In October 2017, the German Federal Financial Supervisory Authority (BaFin) published new minimum requirements for risk management (MaRisk). These particularly provide for more stringent regulation of risk data aggregation and reporting, the risk culture and outsourcing. The necessary adjustments and areas requiring attention were duly observed. The new requirements were implemented as planned in 2018.

On the basis of the statutory requirements pertaining to risks in banking business, the Volkswagen Bank GmbH Group is systematically expanding its system for measuring, monitoring and managing risk positions.

RECOVERY AND RESOLUTION PLANNING

The EU Banking Recovery & Resolution Directive came into force in mid-2014 The requirements have been transposed into German law with the Sanierungs- und Abwicklungsgesetz (SAG – Recovery and Resolution Act).

Up until August 30, 2017, Volkswagen Bank GmbH was part of the Volkswagen Financial Services AG Group and therefore included in its group recovery plan. Since September 2017, Volkswagen Bank GmbH has been working on its own recovery plan for the newly established Volkswagen Bank GmbH Group, which will take effect and be submitted to the European Central Bank as the responsible authority in the first quarter of 2018 for the first time.

Among other things, this plan describes the options and recovery potential available to the Bank in a crisis situation and the specific recovery measures that would be taken in defined stress scenarios. To this end, the recovery plan particularly defines the responsibilities and sequences for crisis management processes. The recovery plan is updated and submitted to the competent authority on an annual basis.

In the year under review, Volkswagen Bank GmbH additionally submitted the information required by the competent authority, i.e. the Federal Agency for Financial Market Stability (FMSA) in accordance with section 42 of the SAG for the preparation of a recovery plan for the Volkswagen Bank GmbH Group.

BREXIT

The Brexit negotiations with the UK did not have any impact on the risk situation in terms of credit or residual value risk in fiscal year 2017. Nevertheless, the Bank is continuing to monitor the risk situation closely so that it can take a proactive approach to any developments that may occur. In addition, there is a regular exchange of information with the regulatory authorities on current developments.

NEW PRODUCT AND NEW MARKET PROCESS

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

RISK CATEGORIES

At 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 TYPES

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

Please see Volkswagen Bank GmbH's 2017 Annual Report for additional reporting on currency risk, fund price risk and country risk.

FINANCIAL RISKS

Counterparty default risk

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

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

Credit risk

Credit risk is defined as the danger of incurring losses as a result of defaults in customer business, specifically the default of the borrower or lessee. In addition, amounts due from Volkswagen Group companies are viewed. The default is caused by the borrower's or lessee's insolvency or unwillingness to pay. This includes a situation in which the counterparty does not make interest payments or repayments of principal on time or does not pay the full amounts.

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

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

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

Risk identification and assessment

Lending or credit decisions by the Volkswagen Bank GmbH Group are made primarily on the basis of the borrower credit check. These credit checks use rating or scoring systems, that provide the relevant departments with an objectified basis for reaching a decision on a loan or a lease. A set of procedural instructions outlines the requirements for developing and maintaining the rating systems. The Bank also has a rating manual which specifies how the rating systems are to be applied as part of the loan approval process. Likewise, working instructions set out the underlying conditions for the development, use and validation of scoring methods in 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 calculation uses an asymptotic single risk factor model (ASRF model) in accordance with the capital requirements specified by the Basel Committee on Banking Supervision (Gordy formula) taking into account the credit quality assessments from the individual rating and scoring systems used.

Rating systems for corporate customers

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

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

A workflow-based rating application with centralized data storage is used worldwide to create the rating.

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

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

Scoring systems in the retail business

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

To classify the risk in the credit portfolio, both behavioral scorecards and 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. Each risk pool is assigned a probability of default which is assigned on the basis of all loan transactions in the risk pool and is used in the ensuing credit risk measurement process as a basis for quantifying the probability of default of all transactions in the risk pool. Provided corresponding data histories are available, this probability of default is determined based on long-term averages of realized default rates and normally validated on a yearly basis.

Supervision and review of retail and corporate systems

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

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

Risk monitoring and control

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

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

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

HEDGING AND MITIGATION OF CREDIT RISK

Collateral

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

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

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

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 AS OF DECEMBER 31, 2017

Exposure classes	Eligible financial collateral and other eligible collateral € million
Exposures to institutions	287
Exposures to corporates	1,179
Total	**1,466**

DISCLOSURES ON INDIVIDUAL EXPOSURE CLASSES AND EXTERNAL CREDIT ASSESSMENT INSTITUTIONS (ECAI) IN ACCORDANCE WITH ARTICLE 135 ET SEQ. AND ARTICLE 444 OF THE CRR.

In order to calculate the risk weights in the credit risk standard approach (CRSA) and to assess creditworthiness, Standard & Poor's Financial Services LLC was disclosed to the German Federal Financial Supervisory Authority and Deutsche Bundesbank for the CRSA positions of the exposure classes "institutions and central governments" and Moody's Investors Service and The McGraw-Hill Companies under the brand Standard & Poor's Rating Services (S&P) and DBRS Rating Limited for the exposure classes "securitizations".

For the time being, no rating agency for the exposure class “corporates” is designated as the number of customers with an external rating awarded by a rating agency is small in view of the fact that the customer structure is mostly made up of small and mid-size companies.

The Volkswagen Bank GmbH regulatory group does not engage in any transactions for which a transfer of credit ratings for the corresponding issues of the counterparty/debtor are required for assessing creditworthiness.

The following section sets out the values of the positions (other than those which equal zero) before and after the application of credit risk mitigation techniques as defined in Article 197(1)(a) of the CRR. The impact of the application of credit risk mitigation techniques is highlighted by the reclassification of outstanding secured credit amounts from higher to lower risk weights required for reporting purposes:

TABELLE 14: RISIKOPOSITIONSWERTE VOR UND NACH KREDITRISKOMINDERUNGEN ZUM 31.12.2017

RISK WEIGHTING %	EXPOSURE VALUES (STANDARD APPROACH)	
	before credit risk mitigation € million	after credit risk mitigation € million
0	4,262	5,728
4	48	48
20	2,663	2,376
50	409	409
75	38,584	38,584
100	22,963	21,784
150	900	900
250	1,124	1,124
307	1,221	1,221
805	20	20
806	5	5
Capital deduction	–147	–147

1: 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.

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 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.

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 risks

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

Provisions are recognized in accordance with the incurred loss model described in IAS 39. To this end, the Volkswagen Bank GmbH Group recognizes specific provisions and portfolio-based provisions. The Volkswagen Bank GmbH Group draws a distinction between portfolio-based valuation allowances and individual specific valuation allowances. The principal distinguishing factor is whether an exposure is classified as an individually significant exposure or as a nonsignificant exposure.

Recognition of specific valuation allowances

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

Recognition of flat-rate specific valuation allowances

Flat-rate specific valuation allowances are recognized for receivables that are not considered to be individually significant and for which there is objective evidence of an 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 valuation allowances

Portfolio-based valuation allowances are recognized to reflect impairments incurred but not yet reported affecting all exposures for which there is not yet any evidence of impairment. The amount of the impairment is recognized based on the results of the credit assessment (including rating and scoring results), the expected loss and the loss identification period (LIP). 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. LIP expresses the period of time between the occurrence of objective evidence of impairment and the date on which it becomes known.

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

QUANTITATIVE DISCLOSURES ON THE COUNTERPARTY CREDIT RISK OF VOLKSWAGEN BANK GMBH

The following tables present the aggregate amount of the exposure values of Volkswagen Bank GmbH after accounting offsets net of the effect of credit risk mitigation and the disaggregated average amounts by exposure classes broken down by significant geographical areas and remaining maturities as of December 31, 2017. The information is based on the supervisory reports as of December 31, 2017. Disclosures in accordance with Article 442(e) of the CRR are omitted for materiality reasons as defined in Article 432(1) of the CRR.

TABLE 15: TOTAL AMOUNT OF EXPOSURES AFTER ACCOUNTING OFFSETS AND WITHOUT TAKING INTO ACCOUNT THE EFFECTS OF CREDIT RISK MITIGATION AS WELL AS AVERAGE AMOUNT OF EXPOSURES BROKEN DOWN BY EXPOSURE CLASS IN € MILLION AS OF DECEMBER 31, 2017

Exposure classes	Exposure value Dec. 31, 2017	Average 2017
Exposures to central governments or central banks	5,620	5,180
Exposures to regional governments or local authorities	38	128
Exposures to public sector entities	78	47
Exposures to multilateral development banks	0	0
Exposures to international organizations	0	0
Exposures to institutions	1,801	1,830
Exposures to corporates	18,407	17,474
Retail exposures	38,584	32,787
Exposures secured by mortgages on immovable property	0	0
Exposures in default	1,134	949
Exposures associated with particularly high risk	0	0
Exposures in the form of covered bonds	0	0
Items representing securitization positions	2,469	3,051
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	14	44
Other items	4,201	2,402
Total	**72,346**	**63,893**

TABLE 16: TOTAL AMOUNT OF EXPOSURES BY SIGNIFICANT GEOGRAPHICAL AREAS

Exposure classes	Germany	Europe/Other	Asia/Pacific	Latin America
Exposures to central governments or central banks	4,489	1,131	0	0
Exposures to regional governments or local authorities	1	37	0	0
Exposures to public sector entities	6	73	0	0
Exposures to multilateral development banks	0	0	0	0
Exposures to international organizations	0	0	0	0
Exposures to institutions	612	1,186	3	0
Exposures to corporates	6,808	11,596	2	1
Retail exposures	21,458	17,126	0	0
Exposures secured by mortgages on immovable property	0	0	0	0
Exposures in default	776	357	0	0
Exposures associated with particularly high risk	0	0	0	0
Exposures in the form of covered bonds	0	0	0	0
Items representing securitization positions	1,587	882	0	0
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIUs)	0	0	0	0
Equity exposures	11	3	0	0
Other items	137	4,064	0	1
Total	**35,884**	**36,455**	**5**	**2**

TABLE 17: EXPOSURES BY RESIDUAL MATURITY AND EXPOSURE CLASS AS OF DECEMBER 31, 2017

Exposure classes	< 3 months	> 3 months < 1 year	> 1 to 5 years	more than 5 years
Exposures to central governments or central banks	2,356	1,270	1,583	411
Exposures to regional governments or local authorities	3	9	26	0
Exposures to public sector entities	9	8	61	0
Exposures to multilateral development banks	0	0	0	0
Exposures to international organizations	0	0	0	0
Exposures to institutions	1,567	1	3	230
Exposures to corporates	5,139	2,734	2,441	8,093
Retail exposures	997	3,422	32,451	1,714
Exposures secured by mortgages on immovable property	0	0	0	0
Exposures in default	225	88	286	535
Exposures associated with particularly high risk	0	0	0	0
Exposures in the form of covered bonds	0	0	0	0
Items representing securitization positions	279	729	1,461	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	4	0	0	10
Other items	895	1,049	2,250	7
Total	**11,474**	**9,310**	**40,562**	**11,000**

The figures in Tables 18 to 20 are presented on the basis of the external IFRS financial statements as of December 31, 2017.

The following table shows a breakdown of nonperformance and past due risk exposures by counterparty type:

TABLE 18: NON-PERFORMING AND PAST DUE EXPOSURES BY TYPE OF COUNTERPARTY IN € MILLION AS OF DECEMBER 31, 2017

Types of counterparty	Exposures not in default (gross)	of which: not past due/ past due up to 30 days	of which: past due 30–90 days	Non-performing exposures (gross)	of which: not past due/ past due up to 90 days	of which: past due > 90 days	Specific credit risk adjustments	Specific credit risk adjustments in the reporting period	General credit risk adjustments	General credit risk adjustments in the reporting period
Central banks	5	5	–	–	–	–	–	–	–	–
Sovereigns	1,993	1,993	0	0	0	–	0	0	0	0
Credit institutions	1,300	1,300	–	–	–	–	–	–	–	–
Other financial institutions	20,776	20,776	0	2	1	1	–1	6	–1	–1
Nonfinancial corporates	18,220	18,169	52	927	635	292	–355	22	–209	–105
Households	27,326	27,267	59	748	576	173	–183	–52	–189	–95
Total	**69,620**	**69,509**	**111**	**1,677**	**1,212**	**466**	**–539**	**–24**	**–399**	**–201**

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

TABLE 19: BREAKDOWN OF NON-PERFORMING AND PAST DUE EXPOSURES BY SIGNIFICANT GEOGRAPHICAL AREAS IN € MILLION AS OF DECEMBER 31, 2017

Significant geographical areas	Exposures not in default (gross)	of which: not past due/ past due up to 30 days	of which: past due 30–90 days	Non-performing exposures (gross)	of which: not past due/ past due up to 90 days	of which: past due > 90 days	Specific credit risk adjustments	General credit risk adjustments
Germany	64,893	64,856	37	1,172	901	270	–331	–233
Europe	4,728	4,654	74	506	310	196	–207	–166
Total	**69,620**	**69,510**	**111**	**1,678**	**1,212**	**466**	**–538**	**–399**

The following table shows the changes in specific and general credit risk adjustments for impaired exposures:

TABLE 20: CHANGES IN THE SPECIFIC AND GENERAL CREDIT RISK ADJUSTMENTS FOR IMPAIRED EXPOSURES AS OF DECEMBER 31, 2017

€ million	Specific credit risk adjustments (specific valuation allowances)	General credit risk adjustments in the reporting period (portfolio-based valuation allowances)	Total risk provisions
Opening balance	–515	–599	–1,114
Addition	–162	–84	–245
Unwinding	10	–	10
Reclassification	0	0	0
Utilization	44		44
Reversal	84	283	367
Changes arising from foreign exchange rates	0	0	0
Closing balance	**–539**	**–399**	**–937**

The “reclassified” column contains reclassified amounts.

The specific credit risk adjustments reported directly through profit and loss take the form of expenses of €29 million for direct write-downs and income of €24 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 presented are median values calculated on the basis of the last two quarterly reporting dates in fiscal year 2017. 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 provided as collateral for own liabilities under open market operations. These securities are deposited with and pledged to Deutsche Bundesbank.

Receivables from retail financing and contractual claims from the leasing business are partially refinanced through ABS transactions. In the process, virtual loans are recognized on the liabilities side to reflect the obligation to forward to the special purpose vehicles (SPVs) the cash flows that are sold. 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.

As of December 31, 2017, the encumbered assets had a carrying amount of €30,744 million (previous year: €41,499 million).

In the absence of encumbrances, information about the encumbrance structure between entities of the Volkswagen Bank 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 line item “Other assets”, 33% are generally not suitable for encumbrance in normal business. This relates in particular to property and equipment and other receivables.

TABLE 21: DISCLOSURE OF ASSET ENCUMBRANCE

TEMPLATE 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	30,060	0			60,880	4,142		
030	Equity instruments	0	0			6	0		
040	Debt securities	7,058	0	7,058	0	7,514	2,073	7,514	2,073
050	of which: covered bonds	0	0	0	0	0	0	0	0
060	of which: asset-backed securities	7,058	0	7,058	0	4,128	0	4,128	0
070	of which: issued by general governments	0	0	0	0	2,124	2,073	2,124	2,073
080	of which: issued by financial corporations	7,058	0	7,058	0	5,330	0	5,330	0
090	of which: issued by non-financial corporations	0	0	0	0	0	0	0	0
120	Other assets	0	0			7,707	1		
121	of which: Leasing and rental assets (movable)	0	0			5,038	0		

TABLE 22: DISCLOSURE OF ASSET ENCUMBRANCE

TEMPLATE B – COLLATERAL RECEIVED

		FAIR VALUE OF ENCUMBERED COLLATERAL RECIEVED OR OWN DEBT SECURITIES ISSUED		UNENCUMBERED	
				FAIR VALUE OF COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED AVAILABLE FOR ENCUMBRANCE	
			OF WHICH NOTIONALLY ELIGIBLE EHQLA AND HQLA		OF WHICH EHQLA AND HQLA
		010	030	040	060
130	Collateral received by the reporting institution	0	0	0	0
140	Loans on demand	0	0	0	0
150	Equity instruments	0	0	0	0
160	Debt securities	0	0	0	0
170	of which: covered bonds	0	0	0	0
180	of which: asset-backed securities	0	0	0	0
190	of which: issued by general governments	0	0	0	0
200	of which: issued by financial corporations	0	0	0	0
210	of which: issued by non-financial corporations	0	0	0	0
220	Loans and advances other than loans on demand	0	0	0	0
230	Other collateral received	0	0	0	0
231	of which: ...	0	0	0	0
240	Own debt securities issued other than own covered bonds or asset-backed securities	0	0	0	0
241	Own covered bonds and asset-backed securities issued and not yet pledged			0	0
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	30,060	0		

TABLE 23: DISCLOSURE OF ASSET ENCUMBRANCE
TEMPLATE 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	64,924	30,060
011	of which: Collateralised deposits other than repurchase agreements	64,907	30,032

DISCLOSURES RELATED TO SECURITIZATION TRANSACTIONS

For Volkswagen Bank GmbH's entities, securitization activity in accordance with Article 242ff. of the CRR is limited to the use of asset-backed securities transactions (ABS). Investments in securitizations of Volkswagen Bank GmbH are carried out solely via the banking book. Volkswagen Bank GmbH's investment policy precludes taking over or retaining resecuritization positions.

Objectives of securitization activity

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

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

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

Types of risk associated with securitization

With the exception of moral hazard, Volkswagen Bank GmbH 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

Volkswagen Bank GmbH 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, establishing contact with external partners and coordinating the transaction overall (with lawyers, investment banks, credit rating agencies, swap partners, auditors, regulatory authorities). The entity also manages the contract pool that has been sold (collection and dunning procedures) and forwards the resulting payments to the special purpose vehicle (SPV, i.e. the servicer). Finally, they also assume responsibility for reporting to investors, banks and credit rating agencies. Since 2008, Volkswagen Bank GmbH has additionally invested in securitization positions related to own ABS transactions of the Volkswagen Financial Services AG financial holding group or Volkswagen AG so as to be able to use the securities thus created as collateral for funding from the European Central Bank.

Scope of the institution's activities

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

TABLE 24: SECURITISATIONS: 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 partners and other external parties
Servicer	Contract pool management
	Collection of receivables, dunning services
	Forwarding of payments received to the single purpose vehicle
	Monthly reports to rating firms, investors and other parties involved in the transaction

Risk monitoring of securitization positions

The securitization positions held by Volkswagen Bank GmbH 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 Volkswagen Bank GmbH.

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 in conjunction with (2) sentence 2 of the KWG. Models based on internal ratings and the IRBA approach are not applied. In the case of SACR, the relevant risk weighting is calculated by allocating the external short and long-term ratings to creditworthiness levels. At the Group level, the requirements for the transfer of the significant risk in accordance with Article 243 of the CRR are fulfilled and options to reduce the risk-weighted exposure amounts to be calculated under Article 245 of the CRR are exercised. Risk-weighted exposure amounts for counterparty default risk are determined for the securitization positions. As of the reporting date, no options to reduce the risk-weighted exposure amounts to be calculated are exercised for the transactions issued by entities of the Volkswagen Bank GmbH Group Driver Master Compartment 2 and Private Driver 2015-1.

Within Volkswagen Bank GmbH, securitization positions arise from the retention of securities issued by originators within the Volkswagen Bank GmbH institution group. In addition, Volkswagen Bank GmbH invests in securitization positions of entities of Volkswagen Financial Services AG and of the Volkswagen Group whose originator is not included in the prudential scope of consolidation of Volkswagen Bank GmbH. This refers to Driver España two, Driver España three, Private Driver España 2013-1 (maturing in May 2017), Private VCL 2016-1 and VCL Master Compartment 1. A risk weight for determining capital backing is allocated to the securitization tranches using the rating of the securitization tranches that is issued based on the granularity and their seniority. If a rating cannot be allocated to a retained securitization position, this position will be deducted from the available modified own funds providing expected losses have not already been taken into account by making provisions in the HGB accounting. In addition, the risk weight of the securitization position is determined in part by applying Article 253 of the CRR.

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

Accounting policies

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

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

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

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

An amount is withheld from the special purpose entities for the overcollateralization of the transaction. A further deduction from the purchase price is transferred to a cash deposit account. The overcollateralization does not lead to the presentation of a separate balance sheet item because the receivables are never derecognized on account of the special purpose entity being 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. The securities are measured at fair value outside profit or loss. Permanent impairments are recognized in profit or loss. If no price can be determined directly for securities not traded on an active market, the present value of the expected future cash flows is used for measurement, discounted to the reporting date using the risk-adjusted yield curve.

The subordinated loans granted are reported with other receivables from customers. They are measured at amortized cost using the effective interest method.

The accounting policies used in the reporting period are the same as those used in the previous year. 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

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

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

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

- Fitch Ratings

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

Disclosures in accordance with Art. 449(l) of the CRR can be omitted because no internal ratings-based approaches are used.

Changes versus the previous year

Volkswagen Bank GmbH regularly securitized customer finance under the revolving Driver Master Compartment 1 (since 7/2015) and Driver Master Compartment 2 (since 7/2015).

The increase in the volume of Driver Master Compartment 2 is due to the transfer of the following revolving transactions: Driver Master Compartment 3 (since 7/2015) and Driver Master Compartment 4 (since 8/2015) were implemented within Driver Master Compartment 2 in March 2017. This was followed in April 2017 by Driver Master Compartment 5 (since 8/2015), Driver Master Compartment 6 (since 11/2015) and Driver Master Compartment 7 (since 11/2015).

A further securitization transaction executed by the French branch of Volkswagen Bank GmbH is Driver France three (5/2017).

Following the contractually agreed buyback right when the materiality threshold is breached ("clean-up call"), the outstanding exposures under the securitization transactions Driver 12 (11/2017) and Driver France two (12/2017) were duly bought back.

Information on quantitative disclosure requirements

The securitization transactions of Volkswagen Bank GmbH 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 Volkswagen Bank GmbH and its subsidiaries exists after the transactions have been executed. Purchased securitization positions are also shown. With the exception of the ordinary operations of Volkswagen Bank GmbH, there are no significant changes in accordance with Article 449(m) of the CRR.

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

TABLE 25: TOTAL AMOUNT OF THE OUTSTANDING EXPOSURES SECURITIZED BY THE INSTITUTION, SEPARATELY FOR TRADITIONAL AND SYNTHETIC SECURITIZATIONS, AND SECURITIZATIONS FOR WHICH THE INSTITUTION ACTS SOLELY AS SPONSOR, AS OF DECEMBER 31, 2017

Exposure type in € million	Outstanding exposures
Traditional securitization transactions	
Retail financing	14,198
Dealer financing	0
Leases	0
Synthetic securitization transactions	
Total	**14,198**
of which as sponsor	

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

TABLE 26: AGGREGATE AMOUNT OF SECURITIZATION POSITIONS RETAINED OR PURCHASED AS OF DECEMBER 31, 2017

Exposure types	Securitization positions in € million
On-balance sheet	
Retail financing	203
Dealer financing	
Leases	2,266
Off-balance sheet	
Aggregate amount of securitization positions	**2,469**

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

TABLE 27: AGGREGATE AMOUNT OF ASSETS AWAITING SECURITIZATION AS OF DECEMBER 31, 2017

Exposure type in € million	Outstanding exposures
Traditional securitization transactions	
Retail financing	1,250
Dealer financing	0
Leases	0
Total	**1,250**

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

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

TABLE 28: AMOUNT OF SECURITIZATION POSITIONS THAT ARE DEDUCTED FROM OWN FUNDS OR RISK-WEIGHTED AT 1,250% AS OF DECEMBER 31, 2017

Exposure type in € million	Amount of securitization positions
Traditional securitization transactions	
Retail financing	64
Dealer financing	
Leases	83
Total	**147**

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

TABLE 29: AGGREGATE AMOUNT OF SECURITIZATION POSITIONS RETAINED OR PURCHASED BROKEN DOWN BY RISK WEIGHT BANDS AS OF DECEMBER 31, 2017

Risk weight bands	Aggregate amount of SACR securitization positions in € million	SACR own funds requirements in € million
Securitization exposures		
20%	943	15
50%	133	5
307%	1,221	300
805%	20	13
806%	5	3
1,250%/capital deduction	147	147
Re-securitization exposures		
Total	**2,469**	**483**

* Calculated in accordance with Article 253 of 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.

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

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

Exposure type/securitization	Securitization activity in the current year		
	Amount of securitized exposures € million	Gain on sales in € million	Loss on sales in € million
Retail financing	500	0	0
Dealer financing	0	0	0
Leases	0	0	0
Total	**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 Volkswagen Bank GmbH is considered the originator:

TABLE 31: DISCLOSURES ON IMPAIRED/PAST DUE ASSETS SECURITIZED RELATING TO EXPOSURES SECURITIZED BY THE INSTITUTION AS OF DECEMBER 31, 2017

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	82	3
Dealer financing	0	0
Leases	0	0
Synthetic securitization transactions	**0**	**0**
Total	**82**	**3**

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

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

COUNTERPARTY/ISSUER RISK

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

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

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

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

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

Risk identification and assessment

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

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

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

TABLE 32: DISCLOSURES ON THE AMOUNT OF COLLATERAL THE INSTITUTION WOULD HAVE TO PROVIDE GIVEN A DOWNGRADE IN ITS CREDIT RATING AS OF DECEMBER 31, 2017

Securitization transactions	Total collateral requirement given credit rating downgrade in € million
Traditional securitization transactions	
Retail financing	297
Dealer financing	0
Leases	0
Total	**297**

Risk monitoring and control

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

REGULATORY CONSIDERATION

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

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

SHAREHOLDER RISK

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

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

Risk identification and assessment

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

Risk monitoring and control

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

MARKET RISK

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

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

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

INTEREST RATE RISK

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

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

Risk identification and assessment

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

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

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

Risk monitoring and control

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

TABLE 33: INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK AS OF DECEMBER 31, 2017*

CURRENCY	INTEREST RATE RISK SHOCK 1 (+200/–200 BP)	
	Decrease in economic value in € million	Increase in economic value in € million
EUR	121.4	–36.5
GBP	234.0	62.4
TRY	3.2	0.0
SEK	8.7	–0.1
RUB	0.0	0.0
CZK	14.1	0.3
NOK	10.3	0.0
PLN	10.5	0.1
USD	0.2	0.0
Total	**402.6**	**26.3**

* Negative interest rate are floored, i.e. no further deterioration is assumed in the – 200 BP scenario.

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. The own funds requirement amounts to €230 million. Own risk models are not in use at this time.

LIQUIDITY RISK

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

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

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

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

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

TABLE 34: DISCLOSURE OF QUANTITATIVE INFORMATION ON LCR

	Scope of consolidation (consolidated) / Currency and units (€ million)	Total unweighted value (average)	Total weighted value (average)
	Quarter ending on	December 31, 2017	December 31, 2017
	Number of data points used in the calculation of averages	4	4
	HIGH-QUALITY LIQUID ASSETS		
1	Total high-quality liquid assets (HQLA)		4,272
	CASH – OUTFLOWS		
2	Retail deposits and deposits from small business customers, of which:	20,153	1,275
3	*Stable deposits*	15,898	795
4	*Less stable deposits*	4,202	427
5	Unsecured wholesale funding	4,198	1,781
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	0	0
7	*Non-operational deposits (all counterparties)*	4,046	1,629
8	*Unsecured debt*	152	152
9	Secured wholesale funding		0
10	Additional requirements	10,960	1,293
11	*Outflows related to derivative exposures and other collateral requirements*	117	96
12	*Outflows related to loss of funding on debt products*	0	0
13	*Credit and liquidity facilities*	10,380	1,197
14	Other contractual funding obligations	4,134	3,774
15	Other contingent funding obligations	0	0
16	**TOTAL CASH OUTFLOWS**		8,123
	CASH – INFLOWS		
17	Secured lending (e.g. reverse repos)	0	0
18	Inflows from fully performing exposures	5,378	3,512
19	Other cash inflows	898	898
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		0
EU-19b	(Excess inflows from a related specialised credit institution)		0
20	**TOTAL CASH INFLOWS**	6,276	4,410
EU-20a	***Fully exempt inflows***	0	0
EU-20b	***Inflows subject to 90% cap***	0	0
EU-20c	***Inflows subject to 75% cap***	6,276	4,410
			TOTAL ADJUSTED VALUE
21	**LIQUIDITY BUFFER**		4,272
22	**TOTAL NET CASH OUTFLOWS**		3,713
23	**LIQUIDITY COVERAGE RATIO (%)**		120.20 %

The calculation of the LCR disclosure template for quantitative information on LCR is based on the averages of the last four reporting dates in 2017. These cover the period from September 30, 2017 to December 31, 2017. The deviation from the Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 (EBA/GL/2017/01) is due to the restructuring of the Volkswagen Bank GmbH Group in the year under review.

Concentration of liquidity and funding sources:

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

Derivative exposures and potential collateral calls:

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

Derivatives are expected to generate only very minor liquidity effects.

Currency mismatch in the LCR:

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

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

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

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

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

Liquidity planning

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

The expected liquidity flows of Volkswagen Bank GmbH are pooled and evaluated by Treasury. Daily liquidity needs are determined by the Cash Management office of Volkswagen Bank GmbH's Treasury back office for all companies domiciled in Germany. The companies' accounts are monitored and peak liquidity requirements are balanced out (cash pooling).

Risk identification and assessment

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

To ensure appropriate liquidity management, Treasury prepares two different funding matrices, carries out cash flow forecasts and uses this information to determine the relevant range of liquidity coverage. In these calculations, the legally determined cash flows are assumed for funding instruments, whereas estimated cash flows are used for other factors that affect liquidity. In the reporting period, the range of liquidity coverage taking into account simulated, limited funding and a partial withdrawal of overnight deposits came to a minimum of 51 weeks.

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

A decision on the funding actually executed is influenced by market factors, e.g. investor demand, on the one hand, and the maturity profile of the existing funding operations on the other.

The Volkswagen Bank GmbH Group's external rating has an impact on the funding costs of money and capital market programs. Currently, credit rating agencies give Volkswagen Bank GmbH a long-term rating of A- (S&P) with a negative outlook and A3 (Moody's) with a negative outlook.

Compliance with the liquidity ratio specified by the Liquiditätsverordnung (LiqV – German Liquidity Regulation) and observance of the liquidity coverage ratio (LCR) constitute strict conditions for managing the liquidity of the Volkswagen Bank GmbH Group.

Risk monitoring and control

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

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

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

Risk Communication

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

The management of Volkswagen Bank GmbH is informed of the current liquidity situation on a monthly basis via the liquidity risk report and at least quarterly by the ALM Committee.

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

RESIDUAL VALUE RISK

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

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

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

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

Risk identification and assessment

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

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

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

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

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

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

Risk monitoring and control

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

As part of risk management procedures, the adequacy of provisions for risk and the potential residual value risk are regularly reviewed in respect of direct residual value risk. Within the Volkswagen Bank GmbH Group, provisions for direct residual value risk are recognized in accordance with the guidance contained in the 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. Residual value opportunities are disregarded in the recognition of provisions for risks.

The sum total of loan loss provisions set aside at the portfolio level is sufficient to cover the overall risk (EL) as contracts with residual value risks are netted against those with residual value opportunities in order to quantify overall risk. If the portfolio is mostly exposed to residual value risks, the existing risk provisioning may not be sufficient to cover the risks in full. In these cases, the gaps in risk provisioning would need to be filled with equity.

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

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

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

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

EARNINGS RISK (SPECIFIC PROFIT OR LOSS RISK)

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

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

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

Risk identification and assessment

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

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

Risk monitoring and control

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

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

NONFINANCIAL RISKS

Operational risk

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

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

Risk identification and assessment

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

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

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

Risk monitoring and control

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

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

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

DISCLOSURE OF OPERATIONAL RISK

The Volkswagen Bank GmbH institution group uses the Standardized Approach to determine the capital requirement for operational risks. The own funds requirement amounts to €339 million.

Compliance and conduct risk

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

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

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

In order to avert compliance and conduct risks, the compliance function ensures that statutory provisions and rules as well as internal rules and self-imposed values are duly observed and that a corresponding compliance ethos is established.

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

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

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

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

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

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

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

- prevention of money laundering and terror finance,
- prevention of corruption and other criminal acts,
- data protection,
- consumer protection,
- securities trading law,
- banking regulatory law and
- antitrust law.

The compliance requirements that must be met by the Volkswagen Bank GmbH Group are determined centrally and must be implemented autonomously by the local companies. Any departure from the minimum requirements or the guidelines is only possible if reasons are stated (e.g. local statutory requirements) and only in consultation with and subject to the approval of the institution's compliance officer.

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

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

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

Risk from outsourcing activities

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

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

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

Ultimately, a variance from a determined risk may mean that the service provider has to be changed or, if possible and strategically desirable, the outsourcing arrangement ended. In this case, the activities may be performed by the Company itself or may be eliminated entirely.

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

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

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

Business continuity management

Business continuity management (BCM) aims to ensure the continuation of time-critical business processes in the event of an unplanned interruption as well as a structured, coordinated and rapid return to normal business operations through adequate and effective planning and preparation.
To ensure business resilience in crisis situations, the Volkswagen Bank GmbH Group introduced a business continuity management program – based on international standard ISO 22301 – that is continuously refined and improved. The general Group-wide BCM requirements are regularly reviewed with regard to their effectiveness and modified as requirements change. Local management is responsible for implementing these requirements and for implementing, enhancing and continuously improving the preventive and reactive organizational structures and workflows in a local business continuity management system (BCMS).

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

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

Model risk

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

In an annual model risk process, potential risk model risks are assessed qualitatively by the model owners. The purpose is to determine own funds coverage.

This is assessed on the basis of the criteria “simple”, “transparent”, “conservative”. If a model risk is identified, it is evaluated by means of a further qualitative assessment of the model risk driver. A test is then performed to determine whether the risk drivers can be minimized and/or must be backed by own funds.

Strategic risk

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

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

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

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

Reputational risk

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

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

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

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

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

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

"The risk management arrangements of the Volkswagen Bank GmbH Group comply with established standards and are proportional to the risk inherent in the exposures. This includes the processes installed 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 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 2018 risk strategy. This provides a binding framework for risk-taking that reflects our risk-bearing capacity, risk tolerance and risk appetite, as well as the management of risks.

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

TABLE 35: DEVELOPMENT OF RISK TYPES
As of September 30, 2017

	€ MILLION		SHARE IN %	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Risk categories				
Credit risk	567	453	32	51
Shareholder, issuer and counterparty risk	5	5	0	1
Residual value risk	396	6	23	1
Earnings risk	449 *	227	26	25
Market risk	89 *	12	5	1
Liquidity risk (funding risk)	13	0	1	0
Operational risk	153	142	9	16
Other risks**	88	44	5	5
Total	1,760	889	100	100

* Confidence level: 99%
** Global amount for material non-quantifiable risks: reputation and strategic risk

In addition, our risk profile is characterized by broad regional diversification, a large share of business in the retail sector and vehicles that serve 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, 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.
Volkswagen Bank GmbH (Group) has broadly diversified funding sources. The target LCR (liquidity cover ratio) is set at 20% above the regulatory minimum. This minimum ratio has always been achieved. This corresponds to the liquidity risk profile and is in line with the risk strategy as well as the defined risk tolerance. Liquidity risk management is suitable for detecting possible risks at an early stage and is therefore considered to be appropriate.

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

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

Number of directorships held by members of the management

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

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

	Number of management functions as of Dec. 31, 2017	of which management functions in the Volkswagen Group as of Dec. 31, 2017	Number of supervisory functions as of Dec. 31, 2017	of which supervisory functions in the Volkswagen Group as of Dec. 31, 2017
Dr. Michael Reinhart	1	1	5	4
Harald Heßke	1	1	3	3
Christian Löbke	1	1	0	0
Dr. Volker Stadler	1	1	1	1

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

	Number of management functions as of Dec. 31, 2017	of which management functions in the Volkswagen Group as of Dec. 31, 2017	Number of supervisory functions as of Dec. 31, 2017	of which supervisory functions in the Volkswagen Group as of Dec. 31, 2017
Dr. Jörg Boche	–	–	3	3
Dr. Ingrun-Ulla Bartölke	–	–	3	3
Waldemar Drosdziok	–	–	1	1
Markus Bieber	–	–	1	1
Birgit Dietze	–	–	2	2
Frank Fiedler	1	1	15	14
Prof. Dr. Susanne Homölle	–	–	1	1
Thomas Kähms	–	–	1	1
Lutz Meschke	2	2	24	23
Dr. Hans-Joachim Neumann	–	–	1	1
Lars Henner Santelmann	1	1	8	8
Silvia Stelzner	–	–	1	1

The disclosures include mandates that were grandfathered in accordance with section 64r of the KWG.

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

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

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

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

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

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

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

Information about the Risk Committee

Under a resolution passed on September 20, 2017, the Company's Supervisory Board formed a Risk Committee and an Audit Committee from among its members. In 2017 the Committee held an ordinary meeting following the corporate restructuring.

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

Risk reporting to the management and Supervisory Board occurs quarterly in the form of a comprehensive risk management report. The starting point for the risk management report is risk-bearing capacity because of its importance from a risk perspective for the successful continued existence of the business as a going concern. The report also presents the calculation of the available risk coverage potential, the utilization of limits and the current percentage allocation of the overall risk to the individual risk categories. In addition, Risk Management reports on counterparty default risk, direct residual value risk, liquidity risk and operational risk, both at an aggregate level and for markets. Additional reports are produced for specific risk categories.
Ad hoc reports are generated as needed to supplement the system of regular reporting. All Group companies are required to prepare these reports. In a two-step process, the management is first informed of events that may have a significant impact on or damage the overall risk profile; then, if necessary, the Supervisory Board is notified of these events. Depending on the risk type and reporting level, various thresholds then lead to these risks being reported immediately.

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

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