VOLKSWAGEN BANK

GMBH

ANNUAL REPORT
HGB

2020

Fundamental Information about the Group

Within the Financial Services division of the Volkswagen Group as a whole, the Volkswagen Bank GmbH Group is responsible for the provision of banking transactions for retail and business customers.

BUSINESS MODEL

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

Financing

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

Leasing

At the Bank's branch in Portugal, the Volkswagen Bank GmbH Group operates the finance lease business. The branch in France is also involved in the operating lease business in addition to finance lease activities.

Direct Banking

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

Broking

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

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

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

ORGANIZATION OF VOLKSWAGEN BANK GMBH

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

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

The Accounting, Controlling, Treasury & Investor Relations, Payments and Regulatory Requirements functions have been pooled under Finances. This group of functions was headed by member of the Management Board Harald Heßke until September 30, 2020. From October 1, 2020, Oliver Roes was responsible for these areas of activity in his role as Chief Representative. Oliver Roes reported to Management

Board members Dr. Michael Reinhart (Group Treasury & Investor Relations only) and Christian Löbke (Finances excluding Group Treasury & Investor Relations) and the clear assignment of responsibilities ensures that the functions are separated. Oliver Roes was appointed as a member of the Management Board on February 1, 2021. At the same time, he took over full responsibility for the entire Finances function.

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

Responsibility for Operations, which encompasses IT Governance & Management, Direct Bank Customer Service and Direct Bank Process Management (and also included Corporate Customer Process Management until September 30, 2020), rests with Dr. Volker Stadler. As part of restructuring measures, the Corporate Customer Process Management organizational unit was dissolved on October 1, 2020 and its activities reassigned to other existing units. Together with other measures, this pooling of activities is intended to optimize processes and interfaces, combine responsibilities and reduce the duplication of work.

REPORT ON THE SUBSIDIARIES AND BRANCHES

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

Please refer to the section of this report covering equity investments for further information on changes in this regard.

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

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

INTERNAL MANAGEMENT

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

	Definition
Nonfinancial performance indicators	
Penetration	Amount of new contracts for new Group vehicles under retail financing and leasing business as a proportion of deliveries of Group vehicles, based on the Volkswagen Bank GmbH Group's relevant markets
Current contracts	Contracts recognized as of the reporting date
New contracts	Contracts recognized for the first time in the reporting period
Financial performance indicators	
Volume of business	Loans to and receivables from customers arising from retail financing, dealership financing (incl. factoring), leasing business and direct banking
Volume of deposits	Loans to and receivables from customers arising from retail financing, dealership financing (incl. factoring), leasing business and direct banking
Operating result	Interest income from lending transactions and marketable securities, net income from leasing transactions, interest expense, net income from service contracts, net income from insurance business, provision for credit risks, net fee and commission income, net gain or loss on hedges, net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income, general and administrative expenses and net other operating income/expenses
Return on equity	Return on equity before tax is calculated by dividing profit before tax by average equity
Cost/income ratio	Personnel expenses, material overheads and accounting depreciation and amortization minus income from services rendered / financial income and sales revenue net of risk costs, fee and commission payments, funding costs and other direct costs[1]

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

CHANGES IN EQUITY INVESTMENTS

The branch of Volkswagen Bank GmbH in Dublin, Ireland, was closed on June 30, 2020. Beforehand, on March 31, 2020, the non-regulated business (mainly comprising finance leases and dealer financing) of Volkswagen Bank GmbH, Ireland Branch, Dublin, Ireland, was sold to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig, and the branch's other business was transferred to Volkswagen Bank GmbH on March 1, 2020.

Effective June 2, 2020, DFM Payment Services B.V., Amersfoort, Netherlands, a wholly owned subsidiary of DFM N.V., Amersfoort, Netherlands, a joint venture between Volkswagen Bank GmbH and Pon Holdings B.V., was wound up.

Effective September 3, 2020, Credi2 GmbH, Vienna, Austria, in which Volkswagen Bank GmbH, Braunschweig, holds a 20% equity investment, acquired all the shares in C2 Circle GmbH, Munich. C2 Circle GmbH develops and manages business models focusing in particular on selling, rolling out, renting out and financing smartphones, tablets, laptops, watches and other electronic devices, together with accessories and associated services, for end customers in collaboration with trading companies and manufacturers.

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

The Volkswagen Bank GmbH Group has made use of the option under section 289b(2) HGB and section 315b(2) HGB exempting it from submission of a nonfinancial statement and nonfinancial group statement and refers to the combined separate nonfinancial report of Volkswagen AG for fiscal year 2020, which will be available on the website https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nonfinancial_Report_2020_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nonfinancial_Report_2020_e.pdf in English from April 30, 2021.

Report on Economic Position

The global economy was hit by negative growth in 2020 as a consequence of the Covid-19 pandemic. Global demand for vehicles was lower than in the previous year. Profit before tax generated by the Volkswagen Bank GmbH Group exceeded the prior-year figure.

GLOBAL SPREAD OF THE CORONAVIRUS (SARS-COV-2)

At the end of 2019, initial cases of a potentially fatal respiratory disease became known in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also appeared outside China from mid-January 2020. In Europe, the number of people infected rose continuously in the course of February, and especially in March and April 2020. While many European countries recorded declining numbers of new infections as the second quarter of 2020 progressed, the rate of new infections continued to rise in North, Central and South America, Africa and parts of Asia. In the second quarter, many of the measures taken to contain the Covid-19 pandemic were gradually eased, especially in Europe. This included partially lifting border controls and travel restrictions and easing lockdowns as well as the reopening of businesses and public facilities. In addition, the European Commission and numerous European governments approved aid packages to support the economy. In other regions, too, governments introduced measures aimed at shoring up the economy to counteract the enormous disruption to everyday life and economic activity caused by the Covid-19 pandemic. During the third quarter, and particularly during the fourth quarter of 2020, many regions outside China around the world saw a renewed – and in some cases very rapid – increase in new infections, which led to the easing of restrictions being reversed in certain situations.

Throughout the whole of 2020, the global spread of the SARS-CoV-2 virus brought enormous disruption to all areas of everyday life and the economy.

DEVELOPMENTS IN THE GLOBAL ECONOMY

The global spread of the SARS-CoV-2 virus, the associated restrictions, and the resulting downturn in demand and supply meant that growth in the world economy was negative in 2020, at –4.0 (2.6)%. The average rate of expansion of gross domestic product (GDP) was far below the previous year's level in both the advanced economies and the emerging markets. At country level, performance in the reporting period depended on the extent to which the negative impact of the Covid-19 pandemic was already materializing The governments and central banks of numerous countries responded in some cases with substantial fiscal and monetary policy measures. This meant cuts in the already relatively low interest rates. There was a significant drop in prices for energy resources, while other commodity prices increased slightly year-on-year on average. On a global average, consumer prices rose at a slower pace than in 2019, and global trade in goods declined in the reporting period.

Europe

At –7.2 (1.3)%, the economies of Western Europe as a whole, recorded a sharp fall in growth in 2020. This trend was seen in nearly all countries in Northern and Southern Europe. The impact of national measures to contain the pandemic, including border closures and physical distancing, caused deep cuts. In some states, the measures severely restricted everyday life and also had grave economic consequences. Governments of many countries in this region subsequently started to lift some of the restrictions imposed, spawning a gradual economic recovery. Due to the renewed increase in case numbers in many countries as the year went on, several of these measures were tightened again, or at least left in place. In addition, the uncertain outcome of the Brexit negotiations between the United Kingdom and the European Union (EU) generated uncertainty in fiscal year 2020, as did the related question of what form this relationship would take in the future.

The economies in Central and Eastern Europe reported a marked decline in the real absolute GDP in 2020 at –3.7 (2.5)%, with economic output falling by –3.4 (2.9)% in Central Europe and by –4.0 (2.0)% in Eastern Europe.

Germany

Germany's economic output showed a significantly negative trend in the reporting year at –5.3 (0.6)%. The labor market was in a favorable situation at the start of the year, but the pandemic led many companies to introduce short-time working (Kurzarbeit) throughout the course of the year. The temporary easing of restrictions in everyday life and economic activity as well as government assistance packages enacted to support the economy led to improved confidence among consumers and companies as the year progressed. However, it only occasionally matched the previous years' levels.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services were in high demand in 2020, particularly in the first three months of the year. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas. Nevertheless, the reporting period saw the Covid-19 pandemic exert downward pressure on the demand for financial services in virtually every region. The impact from the Covid-19 pandemic was noticeable around the globe, especially in the second quarter of 2020. Markets for automotive financial services staged a partial recovery in the third and fourth quarters.

The European passenger car market was affected by the Covid-19 pandemic especially in the second quarter of 2020, a downturn that unleashed a significant decline in demand in the automotive business over the reporting period as a whole. In these challenging market conditions, the proportion of vehicle sales accounted for by leases and financing agreements continued to rise in European markets, even though the absolute figures for signed contracts fell short of the level achieved in the previous year. In Germany, the number of new vehicles financed by loans or leases in 2020 went down compared with the previous year, reflecting the challenges presented by the Covid-19 pandemic. In the leasing business with individual customers, the shift from financing to leases, which had begun in 2019, continued in the reporting year.

The Covid-19 pandemic also led to a substantial drop in demand for new and used commercial vehicles in 2020. This gave rise to an equivalent fall in the number of leases and financing agreements in Europe.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2020, the global market volume of passenger cars fell significantly below the prior-year level due to the Covid-19 pandemic, decreasing to 67.7 million vehicles (–15.2%). This marked a decline for the third year in a row. All regions were affected by this slump. The overall market of Western Europe recorded above-average losses.

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

Sector-Specific Environment

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

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

Europe

In Western Europe, the number of new passenger car registrations in the reporting period was down substantially by as much as –24.5% on the prior-year figure, at 10.9 million. The negative impact from the spread of the SARS-CoV-2 virus was noticeable in all countries in the region as early as March. After the drastic decline at the beginning of the second quarter, recovery set in the months that followed, and by the end of the third quarter, figures even matched those of the prior year. The fourth quarter of 2020 witnessed a lateral movement in the market, keeping volumes noticeably below the previous year's level. New registrations saw declines on a similar scale in all major individual markets and were in negative territory at year-end: France (–25.4%), Italy (–27.9%), the UK (–29.4%) and Spain (–32.1%).

The volume of new registrations of light commercial vehicles in Western Europe fell significantly below the prior-year figure, essentially due to the pandemic.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2020 was down 15.9% on the prior-year level at 2.8 million vehicles. Following the slump in the second quarter and the recovery in the third quarter, the volume of new vehicle registrations flatlined in the fourth quarter and was moderately short of the previous year's figure. The development of demand in the reporting period differed from market to market. In Central Europe, the number of new registrations dropped substantially by 23.3% to 1.1 million units. By contrast, the decline in sales of passenger cars in Eastern Europe (–10.1%) was weaker.

Registration volumes for light commercial vehicles in Central and Eastern Europe were down significantly year-on-year.

Germany

New passenger car registrations in Germany in fiscal year 2020 fell significantly short of the previous year's high level, declining to 2.9 million units (–19.1%). Exacerbated by the Covid-19 pandemic and its fallout, demand for passenger cars fell to its lowest level since German reunification despite a temporary reduction in value-added tax and higher purchase premiums for electric vehicles.

Owing to the mandated temporary shutdowns driven by the pandemic and weak demand in important foreign markets, domestic production and exports in the reporting period again fell short of the comparable prior-year figures: passenger car production decreased by –24.6% to 3.5 million vehicles, largely due to the –24.1% drop in passenger car exports to 2.6 million units.

Demand for light commercial vehicles in Germany in the reporting period was significantly lower than in 2019.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

For 2021, we expect a significantly positive development in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year, with variations from region to region, in the markets that are relevant for the Volkswagen Group. Despite the ongoing uncertainty generated by the Covid-19 pandemic, a recovery could be seen in almost all of the markets that are relevant for the Volkswagen Group in the second half of 2020 compared with the first six months.

In the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was sharply down on the prior-year figure, dropping –27.4% to a total of 273. Registrations in Germany, the largest market in this region, fell substantially year-on-year. The previously anticipated downturn in the market for 2020 was amplified by the Covid-19 pandemic, especially in the second quarter of the year.

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management Board of Volkswagen Bank GmbH considers the course of business in the year 2020 to have been satisfactory. Profit before tax for the reporting period amounted to €844 million, which was higher than the figure for the corresponding prior-year period (€785 million). The total number of contracts in the Volkswagen Bank GmbH Group amounted to 3.7 million as of the reporting date. The number of new contracts acquired in the year under review was 1.1 million.

Following a moderate start to the year, performance over the rest of fiscal year 2020 was characterized by the Covid-19 pandemic. Alongside the statutory support measures decided upon by European governments, the Volkswagen Bank GmbH Group put in place various measures to avert or mitigate the economic effects of the Covid-19 pandemic on the Group's customers. Overall, the Volkswagen Bank GmbH Group identified only a slight deterioration in its credit risk during 2020. Residual value risk in the Volkswagen Bank GmbH Group generally remained steady.

The reorganization also led to a further decline in the extent of the credit risk portfolio and in the number of contracts with direct residual value risk because of the transfer of Volkswagen Bank Ireland to Volkswagen Financial Services AG.

The efficiency program referred to as Operational Excellence (OPEX), which was launched in fiscal year 2017, is becoming even more important because of the current situation (Covid-19 pandemic). OPEX is focused on achieving further cost savings by 2025 in addition to the requirements under current planning. The main components are action plans to enhance productivity (among other things by streamlining processes), the optimization of selling costs and the harmonization of IT systems through the global introduction of standardized systems.

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

The Covid-19 pandemic and the associated temporary economic stagnation in most European countries meant that the figures for penetration, new contracts and current contracts fell short of the forecasts.

The volume of business in 2020 reflected this situation.

As planned, the volume of deposits was moderately below the level of 2019.

The operating result for fiscal year 2020 was predicted to be moderately below the level of 2019, but actual figures were significantly better than this forecast because of positive non-recurring items in 2020. Because of these developments, the operating result and return on equity were higher than the corresponding prior-year figures. The cost/income ratio was in line with the projections.

	Actual 2019	Forecast 2020	Actual 2020
Nonfinancial performance indicators			
Penetration (percent)	23.0	Moderately below the level achieved in 2019	18.9
Current contracts (thousands)	3,932	At the level of 2019	3,700
New contracts (thousands)[1]	1,748	Moderately below the level achieved in 2019	1,074
Financial performance indicators			
Volume of business (€ million)	51,957	At the level of 2019	48,486
Volume of deposits (€ million)[2]	31,733	Moderately below the level achieved in 2019	28,694
Operating result (€ million)[3]	757	Moderately below the level achieved in 2019	840
Return on equity (percent)	7.2	Slightly below the level achieved in 2019	8.3
Cost/income ratio (percent)	49.2	Slightly above the level achieved in 2019	50.0

1 New contracts including additions from SkoFIN, s.r.o. and Volkswagen Financial Services (UK) Ltd. January to March 2019, and from Svenska Finans AB/Service Sverige January to July
2 Since January 1, 2019, the volume of deposits has been calculated without cash deposits from Group companies.
3 Actual value for 2019, excluding operating result of discontinued operations (FS UK and Svenska Finans AB: €143 million)

FINANCIAL PERFORMANCE

The earnings performance of the Volkswagen Bank GmbH Group in fiscal year 2020 was better than in fiscal year 2019.

At €840.0 million, the operating result was above the level of the previous year (€757.1 million). Profit before tax increased by €58.5 million year-on-year to €843.9 million. The share accounted for by the international branches and companies was €580.4 million (previous year: €524.9 million) or 69%.

Interest income from lending and securities transactions fell by €13.9 million to €1,436.8 million (previous year: €1,450.7 million). Net income from leasing business decreased by 10.9% to €241.5 million (previous year: €270.9 million).

The interest expenses of Volkswagen Bank GmbH declined from €161.5 million to €152.6 million.

Net income from service contracts is generated exclusively in the branches and companies that also conduct leasing business. In this case, the net income fell by €27.9 million to a net expense of €6.0 million (previous year: net income of €21.9 million).

The required provision for credit risks rose to €607.8 million (previous year: €410.8 million). Income from the reversal of valuation allowances no longer required and income from loans and receivables previously written off totaled €378.5 million and were hence up on the prior-year figure (€281.8 million). This resulted in a net addition of provisions for credit risks in an amount of €229.3 million (previous year: net addition of €129.1 million).

Net fee and commission income was in positive territory in 2020 with net income at €105.1 million (previous year: net expense of €0.7 million), which was mainly attributable to higher fee and commission income at Volkswagen Bank Germany and at the France branch.

The net gain or loss on hedges amounted to a net loss of €8.0 million (previous year: net loss of €28.5 million), whereas the net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income came to a net gain of €4.4 million (previous year: net gain of €2.0 million). Both figures were largely determined by activities at Volkswagen Bank GmbH, Germany.

General and administrative expenses were down on the prior-year level and amounted to €762.5 million (previous year: €793.9 million). The main reasons for this were the decrease of €13.1 million in administrative expenses and the fall of €17.1 million in personnel expenses to €198.2 million.

Other operating income amounted to €270.0 million (previous year: €173.9 million). This also included income from the reversal of provisions in an amount of €122.4 million (previous year: €63.4 million) and the gain on the sale of the portfolio in Ireland in an amount of €88.6 million. Other operating expenses amounted to €59.3 million (previous year: €48.7 million). This figure included expenses for legal and litigation risks amounting to €25.4 million (previous year: €1.5 million). Including the other components of financial gains or losses, the Volkswagen Bank GmbH Group generated profit after tax of €673.6 million (previous year: €559.7 million).

The profit of Volkswagen Bank GmbH determined in accordance with the HGB (after deduction of taxes) amounting to €382.9 million (previous year: €364.7 million) will be transferred to the parent company, Volkswagen AG, under the existing profit-and-loss transfer agreement. Volkswagen AG is planning to increase the capital of Volkswagen Bank GmbH by €383 million.

NET ASSETS AND FINANCIAL POSITION

Lending Business

The lending business of the Volkswagen Bank GmbH Group mainly consists of vehicle-related loans granted to retail customers, business customers and dealers. The volume of these loans and receivables went down by €3.4 billion to €48.2 billion.

Retail financing

In the Volkswagen Bank GmbH Group, the total number of current customer financing contracts fell to 2.8 million (previous year: 2.9 million). 779 thousand new contracts were entered into in fiscal year 2020 (previous year: 967 thousand). As of December 31, 2020, the volume of loans and receivables in retail financing amounted to €33.8 billion (previous year: €35.3 billion). Of this total, €10.7 billion (previous year: €10.6 billion) was accounted for by European countries other than Germany.

Dealer financing

The lending volume in dealer financing – which comprises loans to and receivables from dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – fell by 15.0% or €2.1 billion to €11.5 billion.

The volume of loans and receivables related to the international branches and international subsidiaries came to €6.5 billion (previous year: €7.2 billion) at the end of 2020.

Leasing business

Receivables from leasing transactions amounted to €2.8 billion (previous year: €2.8 billion). Leasing business is offered exclusively in European countries other than Germany.

Marketable securities

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

Equity-accounted investments

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

Long-term financial assets

As of December 31, 2020, Volkswagen Bank GmbH held 1% of the equity in OOO Volkswagen Bank RUS, Moscow, and 20% of the shares in Credi2 GmbH, Vienna, Austria. These holdings had remained unchanged year-on-year.

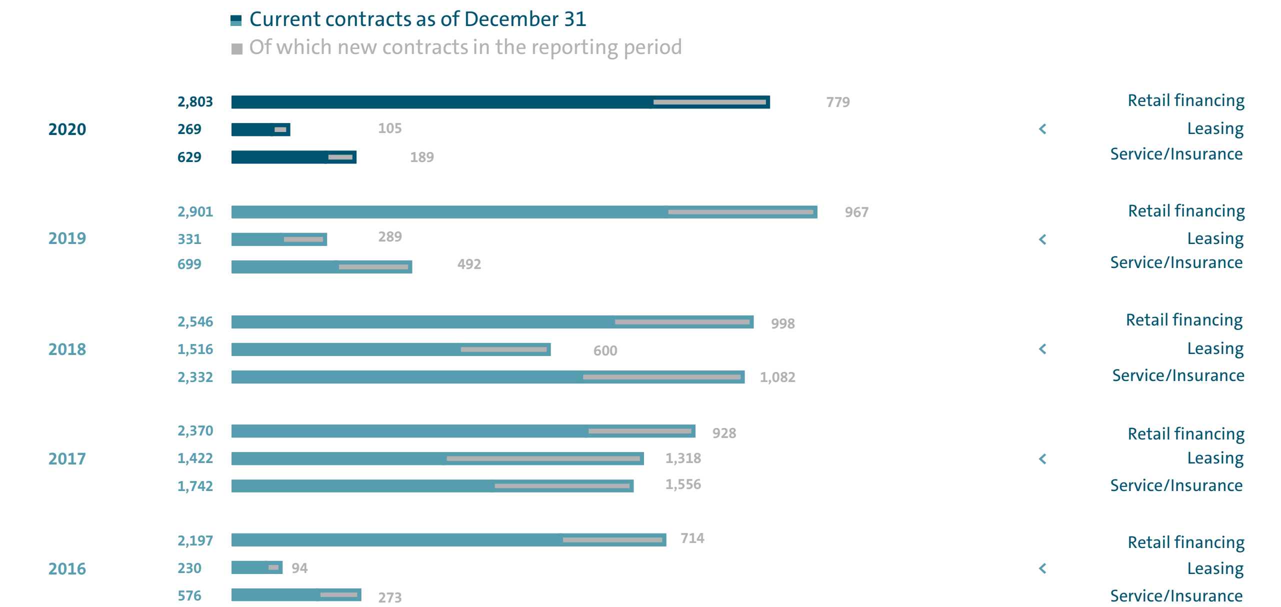
CURRENT CONTRACTS AND NEW CONTRACTS

in thousands[1]	Volkswagen Bank Group	of which: Germany	of which: Italy	of which: France	of which: Spain	of which: other branches/ subsidiaries
Current contracts[2]	3,700	1,663	482	828	467	261
Automotive retail financing	2,687	1,536	397	126	459	169
Consumer retail financing	116	105	–	–	7	4
Leasing business	269	–	–	255	0	14
Service/insurance	629	22	85	447	–	75
New contracts[2]	1,074	410	120	318	110	115
Automotive retail financing	757	389	120	56	110	83
Consumer retail financing	22	21	–	–	0	1
Leasing business	105	–	–	90	–	15
Service/insurance	189	1	–	172	-	17
€ million						
Loans to and receivables from customers attributable to						
Retail financing	33,808	23,124	4,500	812	4,558	814
Direct banking	314	303	–	0	1	10
Dealer financing	11,549	5,011	909	1,633	924	3,072
Leasing business	2,814	–	–	2,712	2	101
Assets leased out	1,788	1	–	1,785	–	2
Percent						
Penetration rates[3]	18.9	9.6	39.3	50.1	37.6	9.8

1 All figures shown are rounded; so minor discrepancies may arise from addition of these amounts.
2 Current contracts and new contracts in each case in relation to the markets shown for the Volkswagen Bank GmbH Group
3 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles in each case in relation to the markets shown for the Volkswagen Bank GmbH Group

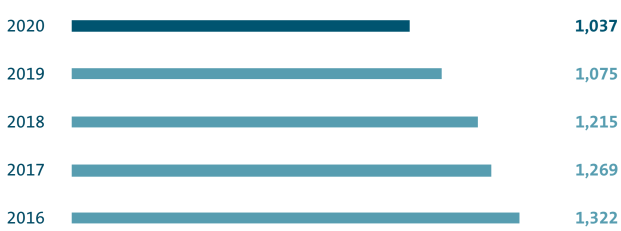
DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31

In thousands



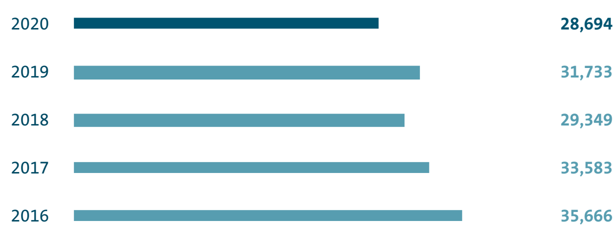
DIRECT BANK CUSTOMERS AS OF DECEMBER 31

Lending and deposit business and borrowings (in thousands)



CUSTOMER DEPOSITS AS OF DECEMBER 31

in € million



Since January 1, 2019, the volume of deposits has been calculated without cash deposits from Group companies.

Deposit Business and Borrowings

On the equity and liabilities side of the balance sheet, the main items other than equity are liabilities to customers, which decreased by €2.8 billion to €35.4 billion (previous year: €38.2 billion), liabilities to banks in the amount of €9.7 billion (previous year: €7.5 billion) and notes and commercial paper issued in the amount of €8.7 billion (previous year: €9.6 billion).

DEPOSIT BUSINESS

Deposit business in the Volkswagen Bank GmbH Group contracted compared with the prior year. As of the reporting date, the volume of customer deposits amounted to €28.7 billion, which equates to a year-on-year decrease of 9.6% (previous year: €31.7 billion). The deposit business is thus a significant contributing factor in helping the Volkswagen Group retain its customers.

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

EQUITY

The subscribed capital of Volkswagen Bank GmbH remained unchanged at €318.3 million in fiscal year 2020.

The capital reserves of Volkswagen Bank GmbH remained unchanged at €8.5 billion as of December 31, 2020.

The profit in accordance with the HGB to be transferred to Volkswagen AG under the existing profit-and-loss transfer agreement amounted to €382.9 million (previous year: €364.7 million).

Equity in accordance with IFRSs as of December 31, 2020 was €10.3 billion (previous year: €10.0 billion). This resulted in an equity ratio (equity divided by total assets) of 15.4% (previous year: 14.6%) based on total assets of €66.9 billion. Volkswagen AG is planning to increase the capital of Volkswagen Bank GmbH by €383 million.

CAPITAL ADEQUACY ACCORDING TO REGULATORY REQUIREMENTS

Under regulatory requirements, Volkswagen Bank GmbH must comply with the provisions in Regulation (EU) No. 575/2013 (Capital Requirements Regulation, CRR) and satisfy the minimum capital requirements. In this context, Volkswagen Bank GmbH must comply with the minimum capital ratios as specified in Article 92(1) of the CRR, both at the individual bank level (HGB) and at consolidated level (IFRS). The minimum ratio under the CRR for Common Equity Tier 1 (CET1) capital is 4.5%, for Tier 1 capital 6% and for total capital 8%.

In addition, Volkswagen Bank GmbH must satisfy the combined capital buffer requirement specified in section 10i of the Kreditwesengesetz (KWG – German Banking Act), i.e. the requirements for the capital conservation buffer and the institution-specific countercyclical capital buffer.

The capital buffer for other systemically important institutions no longer applies to Volkswagen Bank GmbH following the revocation decision of December 18, 2019, which applied with immediate effect.

In its capacity as the competent supervisory authority for Volkswagen Bank GmbH, the European Central Bank (ECB) can decide in the Supervisory Review and Evaluation Process (SREP) to impose a capital add-on that must be satisfied in addition to the statutory minimum ratios and the capital buffer requirements. The legal basis for this capital add-on, or Pillar 2 requirement (P2R), is Article 16 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions. The decision of the ECB requires Volkswagen Bank GmbH to satisfy, at consolidated level, a total SREP capital requirement (TSCR) of at least 10% and a Pillar 2 requirement of 2%. The ECB decision specifies that the Pillar 2 requirement must be satisfied in the form of CET1 capital. However, the ECB has granted a relaxation of the capital requirements for a limited period of time in response to the Covid-19 pandemic, as a result which the Pillar 2 requirement no longer has to be covered by CET1 capital in full, but with only a minimum proportion of 56.25%. The remainder of the Pillar 2 requirement can be met with Additional Tier 1 (AT1) capital and Tier 2 (T2) capital.

Volkswagen Bank GmbH complied with all minimum requirements at all times in the reporting period, both at individual bank level and at consolidated level.

The total capital ratio (ratio of own funds to total risk exposure) was 17.1% at the end of the reporting period (previous year: 15.6%), significantly above the statutory minimum ratio.

The Tier 1 capital ratio and Common Equity Tier 1 capital ratio were each 17.1% (previous year: 15.6%) at the end of the reporting period, and thus also significantly above the respective minimum ratios specified in the CRR.

Total risk exposure is calculated on the basis of credit risks, market risks, operational risks and risks arising from credit valuation adjustment (CVA charge). Volkswagen Bank GmbH uses the Standardized Approach for Credit Risk (CRSA) to quantify credit risk and to determine risk-weighted exposures.

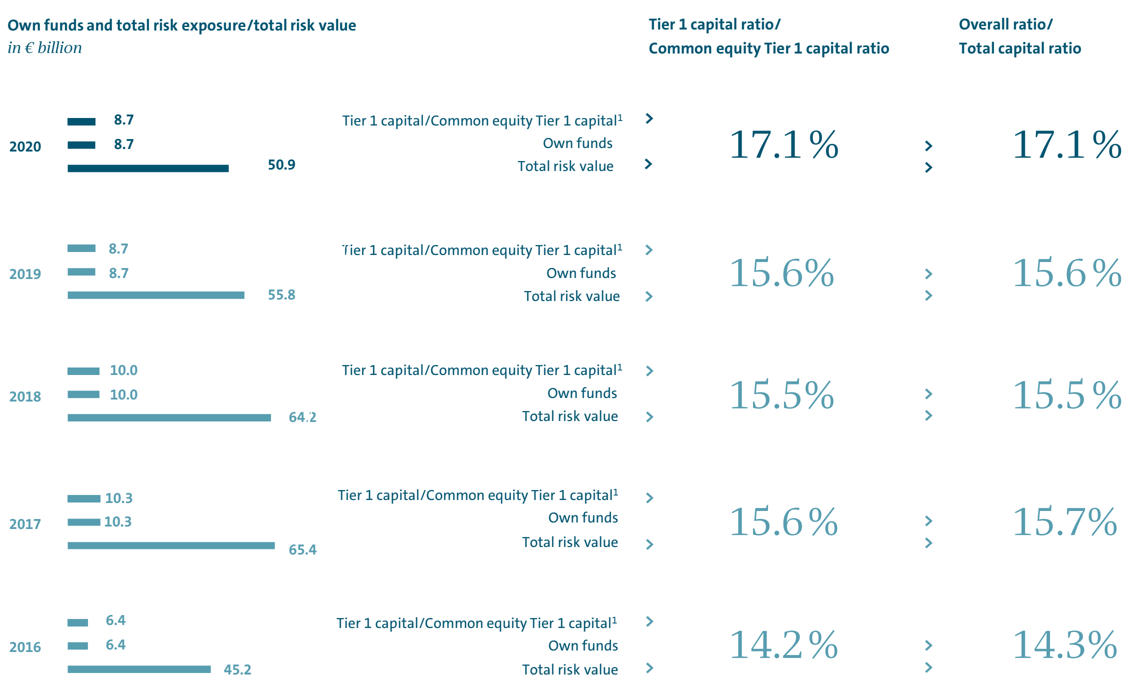
The Standardized Approach as specified in Article 317 of the CRR is used to calculate the own funds requirements for operational risk. The own funds requirements for the CVA charge are determined using the standardized method specified in Article 384 of the CRR.

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

		Dec. 31, 2020		Dec. 31, 2019
Total risk exposure[1] (€ million)		50,931		55,817
of which risk-weighted exposure amounts for credit risk	46,857		51,942	
of which own funds requirements for market risk * 12,5	308		373	
of which own funds requirements for operational risk * 12.5	3,752		3,485	
of which own funds requirements for credit valuation adjustments * 12.5	14		17	
Eligible own funds (€ million)		8,713		8,724
Own funds (€ million)		8,713		8,724
of which Common Equity Tier 1 capital	8,693		8,697	
of which Additional Tier 1 capital	-		-	
of which Tier 2 capital	20		27	
Common Equity Tier 1 capital ratio[2] (percent)		17.1		15.6
Tier 1 capital ratio[2] (percent)		17.1		15.6
Total capital ratio[2] (percent)		17.1		15.6

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

REGULATORY RATIOS OF THE VOLKSWAGEN BANK GMBH AS OF DECEMBER 31



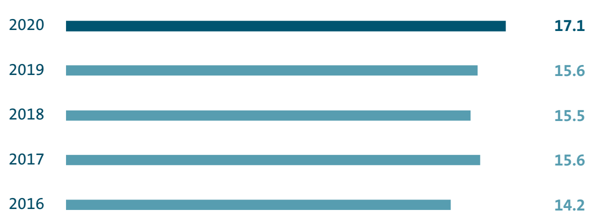
1 The amounts of Tier 1 capital and Common Equity Tier 1 capital are the same because Volkswagen Bank GmbH has not issued any Additional Tier 1 capital instruments.

The year-on-year increase in the regulatory capital ratios (CET1 capital ratio, Tier 1 capital ratio and total capital ratio) is largely attributable to the fall in total risk exposure. This fall was caused mainly by a lower volume of retail and corporate business and a reduction in credit risk in an amount of €5.1 billion.

There was only a marginal year-on-year change in own funds.

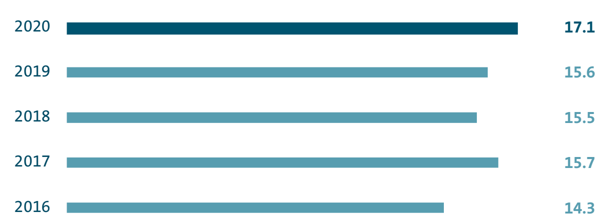
TIER 1 CAPITAL RATIO/COMMON EQUITY TIER 1 CAPITAL RATIO

figures in %



OVERALL RATIO/TOTAL CAPITAL RATIO

figures in %



Volkswagen Bank GmbH has a capital planning process, the aim of which is to ensure that the regulatory minimum capital ratios are satisfied, even when the volume of business grows. In addition to making additions to capital reserves and using Tier 2 capital in the form of subordinated liabilities, the Bank can also make use of ABS transactions to optimize its capital management. Volkswagen Bank GmbH therefore has the benefit of a sound foundation for further expansion of the financial services business.

CHANGES IN OFF-BALANCE-SHEET LIABILITIES

The off-balance-sheet liabilities relate mainly to irrevocable credit commitments. In the Volkswagen Bank GmbH Group, they amounted to €1,924 million as of December 31, 2020 (previous year: €1,771 million).

LIQUIDITY ANALYSIS

The Volkswagen Bank GmbH Group is funded largely through capital market and asset-backed security programs, and through direct banking deposits. The sources of funding are supplemented on an ad hoc basis by utilizing liquidity made available by the ECB in open market operations (TLTRO III). Volkswagen Bank GmbH holds liquidity reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. Proactive management of the operational safe custody account, which allows Volkswagen Bank GmbH to participate in funding facilities, has proven to be an efficient liquidity reserve approach. In addition to bonds from various countries, German federal states (Länder bonds), supranational institutions and multilateral development banks plus Pfandbriefe (mortgage bonds), all totaling €3.3 billion, Volkswagen Bank GmbH holds senior ABS bonds issued by special purpose entities of Volkswagen Bank GmbH in an amount of €16.0 billion that can be deposited as collateral in the operational safe custody account. These senior ABS bonds are not reported in the consolidated financial statements of Volkswagen Bank GmbH because these special purpose entities are themselves consolidated.

Certain standby lines of credit at other banks are also available to protect against unexpected fluctuations in cash flows. There are no plans to make use of these standby lines of credit; their sole purpose is to serve as backup to safeguard.

In conjunction with various ILAAP metrics, the normative and economic perspectives of liquidity adequacy are assessed over short-, medium- and long-term time horizons. The Volkswagen Bank GmbH Group ensures that it has appropriate liquidity adequacy at all times by measuring and limiting the ILAAP metrics. A significant ILAAP metric used by Treasury to manage short-term liquidity at Volkswagen Bank GmbH and in the entities within the regulatory basis of consolidation of the Volkswagen Bank GmbH Group is the liquidity coverage ratio (LCR). From January to December in the year under review, this ratio varied between 134% and 199% for the Volkswagen Bank GmbH Group and was therefore significantly above the lower regulatory limit of 100% at all times. The changes in the liquidity ratio are continuously monitored and proactively managed by issuing a lower limit for internal management purposes. Highly liquid assets for the purposes of the LCR include central bank balances and government bonds plus other securities such as Länder bonds, supranational bonds and Pfandbriefe.

The requirement under the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements for Risk Management) for the

Volkswagen Bank GmbH Group to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and 30-day time horizons was also satisfied at all times, even under various stress scenarios. Compliance with this requirement is determined and continuously reviewed as part of the liquidity risk management system. In this process, the cash flows for the coming twelve months are projected and compared against the potential funding available in each maturity band. Adequate potential funding to cover the liquidity requirements was available at all times, both in the normal scenario and in the stress tests required by MaRisk. Over the whole of the reporting year, the survival period recovery indicator showed a survival period of more than 12 months at all times.

FUNDING

Strategic Principles

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

Implementation

In the reporting year, Volkswagen Bank GmbH did not issue any unsecured bonds under its €10 billion capital market program. A public securitization transaction was carried out in Spain in 2020. ECB funding instruments and deposits constituted additional sources of funding.

The following table shows the transaction details:

ABS 2020

Issuer	Transaction name	Month	Country	Volume and currency
Volkswagen Finance S.A.	Driver España six	February	Spain	€1.1 billion

Customer deposit business amounted to €28.7 billion (previous year: €31.7 billion) in the reporting year. Since January 1, 2019, the volume of customer deposits has been calculated without cash deposits from Group companies.

The Bank continued to implement its strategy of mainly obtaining maturity-matched funding by borrowing on terms with matching maturities and by using derivatives. Currency risks were eliminated by using derivatives.

The Volkswagen Bank GmbH Group was able to meet its payment obligations when due at all times in the reporting period. A high level of liquidity was maintained on a permanent basis during the reporting period and the minimum regulatory ratio (LCR) was therefore satisfied.

In the opinion of the Management Board, Volkswagen Bank GmbH will continue to remain solvent at all times in the future due to its diversified funding structure and its proactive management of liquidity. No liquidity commitments have been issued to special purpose entities.

Ratings

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

In March 2020, S&P confirmed its short-term and long-term ratings for Volkswagen Bank GmbH at A–2 and A– respectively. The outlook remained unchanged at negative. In March 2020, Moody's announced that it would be carrying out a review of the long-term A1 corporate rating to establish whether a downgrade was required because of the Covid-19 pandemic. Moody's concluded the review in June 2020 and confirmed the A1 long-term rating but revised the outlook to negative.

Volkswagen Bank GmbH

(Condensed, in accordance with the HGB)

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

BUSINESS PERFORMANCE 2020

The result from ordinary activities amounted to €554.3 million compared with €486.8 million in the prior year. The net interest income earned by Volkswagen Bank GmbH, including interest anomalies from negative interest and net income from leasing transactions, came to €2,012.4 million compared with €2,039.4 million in the prior year.

As in the prior year, interest income from lending and money market transactions including finance leases arose predominantly from financing business with end customers and from vehicle and capital investment financing with dealers in the Volkswagen Group, decreasing by €109.7 million year-on-year to €1,543.0 million. Of this amount, €971.1 million (previous year: €1,059.5 million) was attributable to retail financing and €285.0 million (previous year: €312.5 million) to dealer financing.

Net income from leasing business amounted to €609.3 million (previous year: €531.1 million). Here, income from leasing transactions, which rose by €101.6 million or 10.2%, is set against expenses from leasing transactions, which were up by €23.4 million or 5.0%.

Fee and commission income amounted to €364.6 million, which equated to a decrease of €13.0 million compared with the prior-year level. Fee and commission expenses came to €536.8 million (previous year: €563.8 million). Net fee and commission income was in negative territory in 2020, with a net expense of €172.2 million (previous year: net expense of €186.2 million).

Net other operating income/expense rose by €127.4 million to net income of €356.1 million, which was predominantly attributable to the sale of the portfolio in Ireland and the reversal of provisions.

General and administrative expenses declined by €25.5 million to €769.9 million (previous year: €795.4 million). Personnel expenses fell by €24.5 million to €190.7 million.

Expenses arising from cost transfers from affiliated companies went up by €3.8 million to €274.5 million. Data processing costs increased by €6.8 million to €74.6 million.

Depreciation and write-downs on lease assets at the French branch amounted to €541.6 million (previous year: €505.0 million). Other operating expenses rose by €13.2 million to €93.0 million.

The provision for credit risks came to a net addition of €227.9 million in the reporting year (previous year: net addition of €205.7 million). This includes expenses of €49.6 million resulting from the first-time application of the guidance of IDW AcP BFA 7.

The profit after tax of €382.9 million (previous year: €364.7 million) will be transferred to Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement. Volkswagen AG is planning to increase the capital of Volkswagen Bank GmbH by €383 million.

Total assets rose by €4.9 billion to €81.6 billion (previous year: €76.7 billion). The volume of customer loans and receivables reported in the balance sheet declined by €4.1 billion and amounted to €51.6 billion on the reporting date (previous year: €55.7 billion). Retail financing loans and receivables accounted for a significant proportion of this decrease.

The cash reserve increased by €3.6 billion to €7.1 billion (previous year: €3.5 billion).

In 2020, loans and receivables in a nominal amount of €14.0 billion were sold to special purpose entities as part of revolving ABS structures. In the case of ABS transactions in which Volkswagen Bank GmbH has not acquired any securities from the special purpose entities concerned, the sold loans/receivables are derecognized and are no longer reported in the HGB balance sheet. As of the reporting date, the carrying amount of these loans and receivables was €0.5 billion (previous year: €1.2 billion).

Most of Volkswagen Bank GmbH's portfolio comprises securities from ABS transactions, of which €16.6 billion (previous year: €11.2 billion) is attributable to securities from own-account transactions. For investment purposes, the portfolio also included ABSS with a total value of €0.5 billion (previous year: €0.7 billion) issued by special purpose entities of Volkswagen Financial Services (UK) Ltd., Milton Keynes.

The main items on the equity and liabilities side of the balance sheet are liabilities to customers (including direct banking business) of €35.4 billion (previous year: €38.2 billion), other liabilities of €19.1 billion (previous year: €13.0 billion), notes and commercial paper issued of €7.0 billion (previous year: €7.7 billion) and liabilities to banks of €9.7 billion (previous year: €7.5 billion).

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

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

INCOME STATEMENT OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	2020	2019
Net interest income	1,403	1,508
Net leasing income	609	531
Net fee and commission income	–172	–186
Administrative expenses	770	795
Other comprehensive income	–288	–366
Income from the disposal of equity investments	0	0
Provision for credit risks	228	206
Result from ordinary business activities	**554**	**487**
Extraordinary result	1	0
Tax expense	172	122
Profits transferred under a profit transfer agreement	383	365
Net income for the year	**0**	**0**
Retained profits brought forward	0	0
Asset transfer	0	–481
Withdrawals from capital reserves	0	481
Net retained profits	**0**	**0**

BALANCE SHEET STRUCTURE OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	Dec. 31, 2020	Dec. 31, 2019
Assets		
Cash reserve	7,056	3,471
Loans to and receivables from banks	349	427
Loans to and receivables from customers	51,573	55,706
Marketable securities	20,363	14,704
Equity investments and shares in affiliated companies	219	220
Lease assets	1,778	1,644
Other assets	247	526
Total assets	**81,584**	**76,698**
Equity and liabilities		
Liabilities to banks	9,690	7,464
Liabilities to customers	35,432	38,199
Notes, commercial paper issued	7,048	7,677
Provisions	596	567
Subordinated liabilities	30	30
Funds for general banking risks	26	26
Equity	8,842	8,842
Other liabilities	19,920	13,893
Total equity and liabilities	**81,584**	**76,698**
Balance sheet disclosures		
Contingent liabilities	200	233
Other obligations	1,924	1,771

NUMBER OF EMPLOYEES

Volkswagen Bank GmbH employed 1,138 people (previous year: 1,121) in Germany at the end of 2020.

A total of 793 people (previous year: 833) were employed at the international branches of Volkswagen Bank GmbH.

OPPORTUNITIES AND RISKS FACING VOLKSWAGEN BANK GMBH

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

Report on Opportunities and Risks

In response to the challenges presented by 2020, a year shaped by the pandemic, Volkswagen Bank GmbH is continuing to take a proactive approach to the management of opportunities and risks to safeguard the long-term success of the business.

RISKS AND OPPORTUNITIES

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

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

MACROECONOMIC OPPORTUNITIES

Against a backdrop of economic recovery in 2021 and provided that the Covid-19 pandemic is successfully contained, the Management Board of Volkswagen Bank GmbH predicts that deliveries to customers of the Volkswagen Group in 2021 will significantly exceed those of the previous year, although market conditions will remain challenging. Volkswagen Bank GmbH supports this positive trend by providing financial services products designed to promote sales.

However, a further contraction in global economic growth or a protracted period of below-average growth rates cannot be completely ruled out. The macroeconomic environment could also give rise to opportunities for the Volkswagen Bank GmbH Group if actual trends turn out to be better than forecast.

STRATEGIC OPPORTUNITIES

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

OPPORTUNITIES FROM CREDIT RISK

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

OPPORTUNITIES FROM RESIDUAL VALUE RISKS

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

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

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

> The Management Board of Volkswagen Bank GmbH is the governing body with responsibility for the executive management of the business. In this role, the Management Board has set up accounting, customer service, treasury, risk management, controlling and compliance divisions, each with clearly distinct functions and clearly defined areas of responsibility and authority, to ensure that the accounting and financial reporting processes are legally compliant and in line with the relevant standards.

> Group-wide rules and regulations have been put in place as the basis for a standardized, proper and continuous financial reporting process.

> For example, the accounting policies applied by the domestic and foreign entities included in the consolidated financial statements of Volkswagen Bank GmbH are governed by the Volkswagen AG Group's accounting policies, including the accounting requirements specified in the International Financial Reporting Standards (IFRSs).

> The Volkswagen Bank GmbH Group's accounting standards also set out the specific formal requirements for the consolidated financial statements. The standards determine the basis of consolidation and also describe in detail the components of the reporting packages to be prepared by the Group companies. The formal requirements include the mandatory use of a complete, standardized set of forms. The accounting standards also define, for example, specific details relating to the recognition and processing of intragroup transactions and the associated reconciliation of balances.

> At Group level, specific control activities aimed at ensuring that the consolidated financial reporting provides a true and fair view include the analysis and any necessary adjustment of single-entity financial statements submitted by the consolidated entities, taking into account the reports submitted by the auditor and the related discussions concerning the financial statements.

> These activities are supplemented by the clear delineation of areas of responsibility and by various monitoring and review mechanisms. The overall aim is to ensure that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.

> These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT processing controls account for a significant proportion of the integrated process activities alongside manual process controls, such as double-checking by a second person. These controls are enhanced by specific Group functions at the parent company Volkswagen AG, for example functions within the responsibility of the Group tax department.

> Internal auditing is a key component of the Volkswagen Bank GmbH Group's monitoring and control system. The Internal Audit department carries out regular audits of accounting-related processes in Germany and abroad as part of its risk-oriented auditing activities and reports on these audits directly to the Management Board of Volkswagen Bank GmbH.

To summarize, the aim of the existing internal monitoring and control system of the Volkswagen Bank GmbH Group is to ensure that the financial position of the individual entities in the Group and the Volkswagen Bank GmbH Group itself has been based on information that is reliable and has been properly recognized as of the reporting date December 31, 2020. No material changes were made to the internal monitoring and control system of the Volkswagen Bank GmbH Group after the reporting date.

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

In the Volkswagen Bank GmbH Group, risk is defined as the danger of loss or damage that could occur if an expected future development turns out to be less favorable than planned.

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

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

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

The 2020 SREP did not lead to any change in the existing Pillar 2 requirement for the Volkswagen Bank GmbH Group of 2.0%. The Pillar 2 requirement, which is specified by the ECB banking supervisor, must be satisfied in addition to the minimum capital requirements under Pillar 1 and covers risks that are underestimated or not covered by the minimum capital requirements.

Within the Volkswagen Bank GmbH Group, responsibility for risk management and credit analysis is assigned to the Chief Risk Officer (CRO) as the relevant member of the Management Board. In this function, the CRO submits regular reports on the overall risk position in the Volkswagen Bank GmbH Group to the other members of the Management Board and to the Supervisory Board.

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

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

In particular, these activities involve providing models for carrying out credit assessments, quantifying the different categories of risk, determining risk-bearing capacity and evaluating collateral. Risk Management is therefore responsible for identifying possible risks, analyzing, quantifying and evaluating risks, and for determining the resulting measures to respond to the risks.

Local risk management units ensure that the requirements specified by Volkswagen Bank GmbH Group Risk Management are implemented and complied with in each market.

To summarize, continuous monitoring of risks, transparent and direct communication with the Management Board and the integration of all information obtained into the operational risk management system together form the basis for the best possible leveraging of market potential based on conscious, effective management of the overall risk faced by the Volkswagen Bank GmbH Group.

RISK STRATEGY AND RISK MANAGEMENT

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

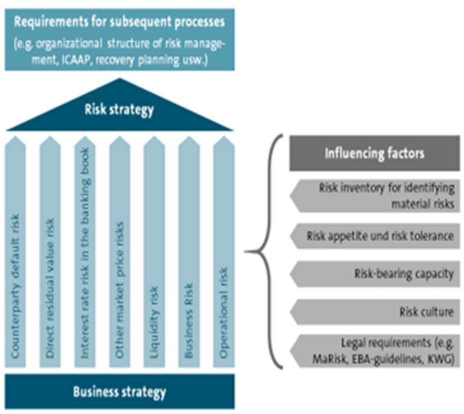
As part of this overall responsibility, the Management Board of Volkswagen Bank GmbH has introduced a MaRisk-compliant strategy process and implemented a business and risk strategy. The ROUTE2025 business strategy sets out the fundamental views of the Management Board of Volkswagen Bank GmbH on key matters relating to business policy. It covers 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 whenever required on the basis of a risk inventory, risk-bearing capacity and legal requirements. It is adjusted where appropriate and discussed with the Supervisory Board of Volkswagen Bank GmbH. The risk strategy describes the main risk management goals and action plans for each category of risk, taking into account the business policy focus (business strategy), risk tolerance and risk appetite. A review is carried out annually to establish whether the goals have been attained. The causes of any variances are analyzed and then discussed with the Supervisory Board of Volkswagen Bank GmbH.

The risk strategy includes all material quantifiable and non-quantifiable risks. Further details and specifics for the individual risk categories are set out in risk sub-strategies and included in operational requirements during the planning round process.

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

RISK STRATEGY PROCESS



RISK INVENTORY

The objective of the risk inventory, which has to be carried out at least once a year, is to identify the main categories of risk. To this end, all known categories of risk are examined to establish whether they arise in the Volkswagen Bank GmbH Group. In the risk inventory, the relevant categories of risk are examined in greater detail, quantified or, if they cannot be quantified, assessed by experts, and then evaluated to determine whether they are material for the Volkswagen Bank GmbH Group. In accordance with the requirements set out in the "ECB Guide to the internal capital adequacy assessment process (ICAAP)", the risk inventory is carried out using both the economic and normative perspectives and, in addition, a gross approach (i.e. an analysis of the risks that does not take into account specific techniques designed to mitigate the underlying risks). A confidence level of 99.9% is also used as a basis for determining risk.

The risk inventory carried out as per December 31, 2019 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk (credit risk, shareholder risk, issuer risk and counterparty risk), direct residual value risk, interest rate risk in the banking book, other market risk, business risk (earnings risk, strategic risk, reputational risk and business model risk), liquidity risk and operational risk. Other existing subcategories of risk are taken into account within the categories specified above.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

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

In the economic risk-bearing capacity analysis, the overall economic risk is compared against the risk-taking potential. An institution has the capacity to bear its risk if, as a minimum, all material risks to which the institution are exposed are covered at all times by the institution's risk-taking potential.

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

The main risks are quantified as part of the economic risk-bearing capacity analysis with a confidence level of 99.9% and a time horizon of one year.

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

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

Building on the Bank's risk appetite framework, the risk limit system that has been put in place limits the risk at different levels, thereby safeguarding the economic risk-bearing capacity of the Volkswagen Bank GmbH Group.

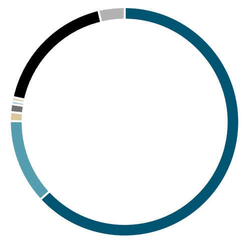
Risk-taking potential is determined from the available equity and earnings components subject to various deductions. In accordance with a moderate, overarching risk appetite, only a portion (a maximum of 90%) of this risk-taking potential is specified as a risk ceiling or overall risk limit. The overall risk limit is apportioned according to the relevant specific risk appetite to counterparty default risk, direct residual value risk, interest rate risk in the banking book, other market risk, funding risk and operational risk for the purposes of operational monitoring and control. In this process, the limit allocated to counterparty default risk, itself an overarching category of risk, is subdivided into individual limits for credit risk, shareholder risk, issuer risk and counterparty risk. The specific risk appetite for each category of risk is set at moderate to low based on the business model and risk strategy of Volkswagen Bank GmbH.

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

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

The overall economic risk of the Volkswagen Bank GmbH Group as of December 31, 2020 amounted to €2.8 billion. The apportionment of this total risk by individual risk category was as follows:

DISTRIBUTION OF RISKS BY TYPE OF RISK
as of December 31, 2020



CHANGES IN RISK CATEGORY APPORTIONMENT[1]

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

1 The confidence level is 99.9% as standard.

As of December 31, 2020, risk-taking potential amounted to €8.9 billion and comprised CET1 capital (€8.7 billion) plus accumulated earnings after dividend deduction (€0.5 billion) less hidden charges and loss allowance shortfalls (€0.3 billion in total). As of December 31, 2020, 31% of risk-taking potential was utilized by the risks outlined above. In the period January 1, 2020 to December 31, 2020, the maximum utilization of the risk-taking potential in the economic perspective was 32%. In addition to determining the risk-bearing capacity in a normal scenario, the Volkswagen Bank GmbH Group also conducts bank-wide stress tests and reports the results to the Management Board. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of Volkswagen Bank GmbH Group. The purpose of these scenarios is to facilitate early identification of those risks that would be particularly affected by the trends simulated in the scenarios so that any necessary corrective action can be initiated in good time. The stress tests include both historical scenarios (such as a repeat of the financial crisis in the years 2008 to 2010) and hypothetical scenarios (including an economic downturn in Europe or a sharp drop in sales in the Volkswagen Group). In 2020, an ad hoc stress test investigating various scenarios was also carried out as a result of the Covid-19 pandemic. In addition, reverse stress tests are used to identify what events could represent a threat to the ability of the Volkswagen Bank GmbH Group to continue as a going concern.

In 2020, the calculations of risk-bearing capacity confirmed that all material risks that could adversely impact the financial position or financial performance were adequately covered by the available risk-taking potential at all times. The stress tests did not indicate any need for action.

RISK CONCENTRATIONS

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

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

- just a few borrowers/contracts account for a large proportion of the loans (counterparty concentrations)
- a small number of sectors account for a large proportion of the loans (sector concentrations)
- many of the loans are to businesses within a defined geographical area (regional concentrations)
- loans/receivables are secured by just one type of collateral or by a limited range of collateral types (collateral concentrations) or
- Volkswagen Bank GmbH's income is generated from just a few sources (income concentrations).

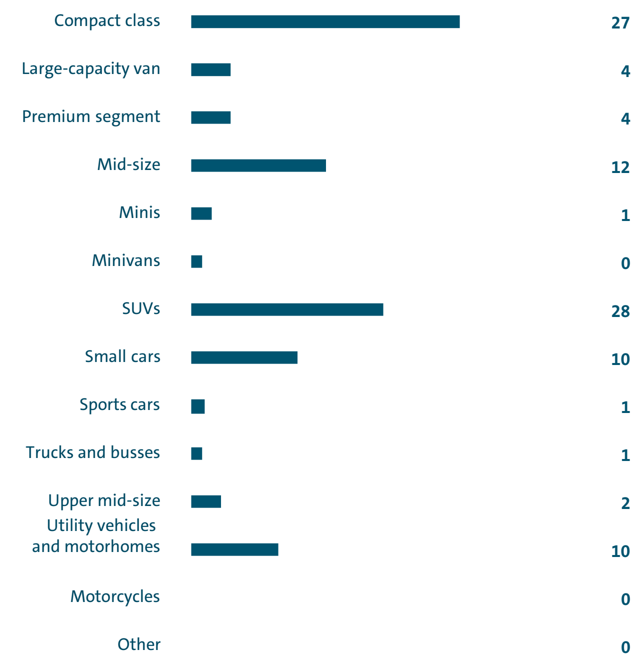
One of the objectives of the Volkswagen Bank GmbH Group's risk policy in its business model is to reduce such concentrations by means of broad diversification.

Counterparty concentrations from customer business are only of minor significance in the Volkswagen Bank GmbH Group because of the large proportion of business accounted for by retail lending. From a regional perspective, the Volkswagen Bank GmbH Group has a concentration of business in the German market, but looks to achieve broad nationwide diversification within the country.

In contrast, sector concentrations in the dealership business are a natural part of the business for a captive and these concentrations are therefore individually analyzed. Overall, no particular impact has been identified, even in periods of economic downturn like the financial crisis some years ago.

Likewise, a captive 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 a broad diversification across all vehicle segments (see following diagram) based on a large range of vehicles from the different brands in the Volkswagen Group.

COLLATERAL STRUCTURE AS OF DECEMBER 31, 2020
figures in %



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

Income concentration arises from the very nature of the business model. The special constellation in which the Bank serves to promote Volkswagen Group sales results in certain dependencies that directly affect income growth.

MODEL RISK

Model risk arises from inaccuracies in the risk values and must be taken into account, particularly in the case of underestimated risk and complex models.

Depending on the complexity of the model, model risk can occur in a number of areas of model development and application.

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

ESG RISK

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

There are two dimensions to Volkswagen Bank GmbH's approach to sustainability. Firstly, it is striving to ensure that its own banking operations are broadly climate-neutral and physically prevent the danger of serious environmental damage.

Secondly, it aims to support its customers in the transformation process by focusing on the greatest possible reduction in emissions with a view to protecting the climate and the environment.

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

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

A major focus of Volkswagen Bank GmbH is on the handling of those sustainability risks that, if they materialized, could have adverse consequences for the Bank's financial position, financial performance and reputation.

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

Going forward, the risk drivers specific to climate and the environment will play a significant role in the risk category structure and will be included in the risk assessment and management system. Various approaches are being pursued in this regard. For example, the plans include scenario analyses, reviews to establish whether creditworthiness/rating systems and risk models/risk assessment methods can be appropriately refined, or risk management via KPIs.

Volkswagen Bank GmbH is a captive provider and its vehicle financing business is specifically concentrated on the retail customer market and dealer financing. To this extent, the Bank's business model does not cover particularly emissions-intensive industries, but its support for an environmentally friendly transformation process does focus very sharply on the financed asset. Future support for electric vehicles will play an increasing role as part of the Volkswagen Group's switch to green transportation.

More attention is also being paid to sustainability principles from a funding perspective. In this case, the objective is to base funding to a greater extent on sustainability criteria from now on. The aim is also to include these criteria in the Bank's own investment guidelines in the future.

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

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

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

RISK REPORTING

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

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

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

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

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

Volkswagen Bank GmbH strives to maintain the high quality of the information contained in the risk reports about structures and trends in the portfolios by a process of constant refinement and ongoing adjustment in line with current circumstances.

RECOVERY AND RESOLUTION PLANNING

During the course of fiscal year 2020, the Volkswagen Bank GmbH Group updated its Group-wide recovery plan and submitted it to the ECB (the competent supervisory authority).

The recovery plan covers matters including a system to ensure that adverse developments are identified promptly, and the possible measures that could be used by the Group in different stress scenarios to safeguard or restore a robust financial footing. The update to the recovery plan in 2020 also included, in particular, an analysis of the Group's ability to recover in a pandemic scenario.

The recovery plan also sets out the responsibilities and the processes to be followed in the management of a crisis and specifies a Group-wide set of recovery indicators to support ongoing monitoring. The recovery indicators are spread over different corporate units so that a broad range of indicators is covered. The range includes capital, liquidity, profitability and market-based indicators, all of which are continually monitored. The status of the recovery indicators as of the reporting date in question is notified to the Management Board and the Supervisory Board in the risk management report each quarter.

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

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

REGULATORY ISSUES IN RISK MANAGEMENT

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

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

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

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

Supervisory authorities are also increasingly focusing on interest rate risk in the banking book and on information and communication technology (ICT) risk. Volkswagen Bank GmbH is guided by the corresponding requirements in the EBA guidelines on the management of interest rate risk in the banking book, the EBA guidelines on measuring ICT risk, and BaFin's supervisory requirements for IT in financial institutions (BAIT). The latter requirements are currently being revised again, notably so that they take into account EBA requirements. Against the background of the increasing risk of cyber attacks, the draft published by the European Commission last year for an EU regulation on digital operational resilience for the financial sector (DORA), the aim of which is to achieve a uniform high level of digital operational resilience, is of particular significance with regard to harmonized requirements for the security of network and information systems. Some of these requirements are already known from the EBA's guidelines on ICT and security risk management and BaFin's supervisory requirements for IT in financial institutions.

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

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

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

In addition, there is expected to be an effect on risk management from the anticipated delegated regulation and EBA guidelines relating to CRR II and CRD V and from the adoption of the provisions of Basel IV by the EU.

BREXIT

The withdrawal of the United Kingdom from the EU (Brexit) did not have any impact on the Volkswagen Bank GmbH Group's risk situation in fiscal year 2020. Nevertheless, the Bank is continuing to monitor the risk situation closely so that it can respond proactively to any emerging developments. Various scenarios were analyzed in 2020 in connection with the approach of Brexit, allowing the Bank to be prepared for all eventualities.

COVID-19 PANDEMIC

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

We have not identified any implications of the Covid-19 pandemic in the other categories of risk. In 2021, we will continue to monitor developments in the Covid-19 pandemic and their impact on credit risk and other risk categories very closely, and will respond prudently and proactively as required.

NEW PRODUCT AND NEW MARKET PROCESS

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

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

OVERVIEW OF RISK CATEGORIES

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

FINANCIAL RISKS

Counterparty Default Risk

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

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

Credit Risk

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

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

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

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

Risk identification and assessment

Lending or credit decisions in the Volkswagen Bank GmbH Group are made primarily on the basis of the borrower credit check. These credit checks use rating or scoring systems, which provide the relevant departments with an objective basis for reaching a decision on a loan or a lease.

A set of procedural instructions outlines the requirements for developing and maintaining the rating systems. The Bank also has a rating manual which specifies how the rating systems are to be applied as part of the loan approval process. Similarly, other written procedures specify the parameters for developing, using and validating the scoring systems in the retail business.

To quantify credit risk, an expected loss (EL) and an unexpected loss (UL) are determined at portfolio level for each entity. The UL is the value at risk (VaR) less the EL. The calculations use an asymptotic single risk factor model (ASRF model) in accordance with the capital requirements specified by the Basel Committee on Banking Supervision (Gordy formula) taking into account the credit quality assessments from the individual rating and scoring systems used.

Rating systems for corporate customers

The Volkswagen Bank GmbH Group uses rating systems to assess the credit quality of corporate customers. This evaluation takes 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 payment record). When the credit assessment has been completed, the customer is assigned to a rating class, which is linked to a probability of default. A centrally maintained, workflow-based rating application is used for the most part to support this analysis of credit worthiness. The rating determined for the customer serves as an important basis for decisions on whether to grant or renew a loan and for decisions on provisions.

Scoring systems in the retail business

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

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

Supervision and review of retail and corporate systems

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

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

Collateral

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

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

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

Provisions

The calculation of provisions is based on the expected loss model in accordance with IFRS 9 and is also derived from the results of the rating and scoring processes.

The following average values have been determined for the aggregate active portfolio (i.e. portfolio of loans and receivables not in default) based on a time horizon of twelve months: probability of default (PD) of 3.0% (previous year: 2.7%); loss given default (LGD) of 29.2% (previous year: 27.9%) and total volume of loans and receivables based on the total portfolio less exposures in default of €52.8 billion (previous year: €56.8 billion).

Risk monitoring and control

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

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

Trends

Following a moderate trend in credit risk initially, the risk level over the rest of fiscal year 2020 was shaped by the Covid-19 pandemic.

In response to the pandemic, the Management Board put in place various measures to provide protection and mitigate the economic impact on the customers of the Volkswagen Bank GmbH Group. It set out action plans to provide assistance for the dealer network, which were implemented on a case-by-case basis following screening. The measures were mainly aimed at stabilizing liquidity at an adequate level and adjusting payment terms. Retail customers, together with business and fleet customers, made the most of the opportunities presented by statutory payment moratoria introduced in various European countries and were also able to make use of the Bank’s own measures, such as deferral or extension of existing financing obligations and postponement of vehicle returns that were not possible because dealers were closed. Assistance was only granted if requested by the customer.

These support measures cushioned any effects from the Covid-19 pandemic on credit risk at the Volkswagen Bank GmbH Group in fiscal year 2020.

In addition, the continued reorganization of the Volkswagen Bank GmbH Group once again had an impact on the scope of the credit risk portfolio in 2020 and led to a further contraction, as scheduled. Volkswagen Bank Ireland was transferred to Volkswagen Financial Services AG in the first quarter of 2020.

Retail portfolio

The reorganization referred to above led to a fall in the volume of loans and receivables in the Volkswagen Bank GmbH Group's retail portfolio in 2020.

Disregarding this non-recurring item, there was only a marginal contraction in the retail portfolio. This was attributable to changes in the German retail portfolio. On the other hand, sustained strong demand for our retail products in the Italian and French markets in 2020 led to a further expansion in the volume of loans and receivables.

In April 2020, the Volkswagen Bank GmbH Group saw a sharp drop in new business in its retail portfolio, attributable to the first lockdown resulting from the Covid-19 pandemic. However, the first signs of recovery were evident as early as May 2020 and business returned to the pre-crisis level in June 2020.

Despite the challenging risk situation caused by the Covid-19 pandemic, credit risk in the Volkswagen Bank GmbH Group's retail portfolio only deteriorated slightly overall, among other things because of the support measures that had been put in place.

Corporate portfolio

The volume of loans and receivables in the corporate portfolio of the Volkswagen Bank GmbH Group declined considerably in fiscal year 2020. This was attributable to the changes in the dealer financing portfolio in the German market, in which dealers made less use of their credit lines.

The Covid-19 pandemic led to a challenging risk situation in the corporate portfolio in the reporting year. The support measures that were put in place cushioned the effects on the corporate portfolio to the extent that only a slight deterioration was observed in the risk within the portfolio.

BREAKDOWN OF CREDIT VOLUME BY REGION

in € million

1 Europe excluding Germany

BREAKDOWN OF LENDING VOLUME BY PD BAND AND PORTFOLIO
€ million

PD band	Retail	Corporate	Total
< = 1%	16,540	3,853	20,393
	30.4%	7.1%	37.5%
> 1% < 100%	22,715	9,719	32,434
	41.8%	17.9%	59.6%
100%	864	709	1,574
	1.6%	1.3%	2.9%
Total	**40,119**	**14,281**	**54,400**
	73.7%	26.3%	100.0%

Counterparty/Issuer Risk

The Volkswagen Bank GmbH Group defines counterparty risk as the risk of financial loss that could arise from monetary investments or investments in marketable securities or notes if the counterparty fails to make payments of interest or repayments of principal as contractually required.

Similarly, issuer risk is the risk that the issuer of a financial product could become insolvent during the maturity of the product and, as a consequence, some or all of the invested capital, including the expected interest payments, has to be written off.

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

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

Risk identification and assessment

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

Risk monitoring and control

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

Country Risk

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

Shareholder Risk

Shareholder risk refers to the risk that losses with a negative impact on the carrying amount of an equity investment could be incurred after the contribution of capital or loans regarded as equity (e.g. silent contributions). In principle, the Volkswagen Bank GmbH Group only makes such equity investments to help it achieve its corporate objectives. The investments must therefore support its own operating activities and are intended to be held on a long-term basis.

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

Risk identification and assessment

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

Risk monitoring and control

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

Interest Rate Risk in the Banking Book (IRRBB)

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

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

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

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

Risk identification and assessment

Interest rate risk for the Volkswagen Bank GmbH Group is determined as part of the monthly monitoring process using the value at risk (VaR) method with a 40-day holding period and a confidence level of 99%.

The model is based on a historical simulation and calculates potential losses taking into account 1,000 historical market fluctuations (volatilities). Negative interest rates can also be processed in the historical simulation and are factored into the risk assessment.

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

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

Risk monitoring and control

Treasury is responsible for the management of this risk on the basis of decisions made by the ALM Committee. Interest rate risk is managed by using interest rate derivatives at both micro and portfolio levels. The derivatives are recognized in the banking book. Risk Management is responsible for monitoring and reporting on interest rate risk.

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

Trends

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

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

Other Market Risk (Currency and Fund Price Risk)

Currency risk arises from foreign exchange exposures and potential changes in the corresponding exchange rates. The Volkswagen Bank GmbH Group is exposed to structural currency risks. These risks arise from the equity investments in the relevant local currency in the foreign branches in the UK and Poland.

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

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

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

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

Liquidity Risk

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

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

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

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

Risk identification and assessment

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

In conjunction with various ILAAP metrics, the normative and economic perspectives of liquidity adequacy are assessed over short-, medium- and long-term time horizons. The Volkswagen Bank GmbH Group ensures that it has appropriate liquidity adequacy at all times by measuring and limiting the ILAAP metrics. In the normative perspective, the liquidity coverage ratio (LCR) is used to assess the short-term liquidity risk; this approach is complemented by an analysis of the net stable funding ratio (NSFR), which is a longer-term structural liquidity ratio. The economic perspective also distinguishes between the analysis time horizons. For the purposes of safeguarding solvency at all times, utilization limits are specified for potential funding over the short- and medium-term time horizons. In this regard, the survival period functions as a key indicator as part of the recovery plan. Unexpected funding risks are quantified in order to manage the medium- to long-term funding structure. Liquidity adequacy is evaluated using a baseline scenario and multiple adverse scenarios, and is complemented by reverse stress tests. Stress tests are applied to funding matrices using a scenario approach with scenario triggers from the Bank itself or the market, or a combination of the two. Two approaches are used to determine the parameters for these stress scenarios. The first approach uses observed historical events and specifies different degrees of impact from hypothetical, but conceivable events. To quantify the funding risk, this approach takes into account the relevant aspects of illiquidity risk and changes in spreads driven by credit ratings or the market. A risk assessment is a key component in the system to ensure appropriate liquidity adequacy at all times. All ILAAP metrics are linked with other elements of the ILAAP (including liquidity contingency plan, recovery plan) to ensure an effective overall process is in place. Funding risk is also included in the calculation of risk-bearing capacity for the Volkswagen Bank GmbH Group.

In addition to ensuring there is appropriate liquidity management, the Group prepares funding matrices, carries out cash flow forecasts and uses this information to determine the relevant range of liquidity coverage.

Risk monitoring and control

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

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

A further strict requirement imposed under banking regulations is the need to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and 30-day time horizons. For this reason, a contingency plan with an appropriate list of action points for obtaining liquidity has already been drawn up so that it can be implemented in the event of any liquidity squeeze.

Risk communication

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

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

Trends

Liquidity risk at the level of the Volkswagen Bank GmbH Group remained stable.

The funding structure remained well diversified. The Group was able to make up short-term fluctuations in the deposit business in the context of the Covid-19 pandemic in line with forecasts. Funding instruments remained available and stable at all times. The general effects of the Covid-19 pandemic observable throughout the markets, such as a temporary lack of access, limited availability only or the need to pay significant premiums in some cases, did not have any impact in the Volkswagen Bank GmbH Group because current funding planning does not rely on any concentrations in the sources of funding, such as short-term commercial paper or capital market bonds. Funding risk remained within the specified limits at all times.

Residual Value Risk

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

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

The objective of residual value risk management is to keep the risks within the agreed limits. The net assets and financial performance of the Volkswagen Bank GmbH Group would be adversely affected by losses on disposal or impairment losses if the residual value risk were to materialize. As stated in the accounting policies for leases described in the notes to the consolidated financial statements, the impairment losses generally lead to a subsequent adjustment of future depreciation rates.

Risk identification and assessment

Direct residual value risks are quantified on the basis of expected loss (EL) and unexpected loss (UL). The EL equates to the difference between the latest forecast as of the measurement date of the remarketing proceeds on expiration of the contract and the contractual residual value specified at the inception of the lease for each vehicle. Other parameters such as remarketing costs are also taken into account in the calculation. The portfolio EL is determined by aggregating the individual expected losses for all vehicles.

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

To determine the UL, the change is measured between the projected residual value one year before the sale and the actual selling price achieved (adjusted for damage and mileage variances). In a first step, the change in value is determined for each individual lease for each period. However, given the size of the portfolio and the huge number of vehicles, systematic risk is significant and a second step is therefore carried out in which the average change in value compared with projected residual values is determined over several periods. The resulting markdown is calculated using the quantile function of the normal distribution with a specified confidence level.

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

In the case of indirect residual value risk, the method used to quantify residual value risk is generally similar to that used for direct residual value risk. In addition, this method takes into account the probability of default of the residual value guarantor (dealer) and, if appropriate, other factors specific to this category of risk.

The general requirements for developing, using and validating the risk parameters for direct and indirect residual value risk are laid down in a set of procedural instructions.

Risk monitoring and control

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

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

Based on the resulting potential residual value risk, various measures are initiated as part of a proactive risk management approach to limit the residual value risk. Residual value recommendations for new lease originations must take into account prevailing market circumstances and future influences. There are also a number of stress tests for direct residual value risks for creating a comprehensive picture of the risk sensitivity of residual values. These stress tests are carried out by experts with the involvement of risk specialists at the head office and in the local units. Indirect residual value risks faced by the Volkswagen Bank GmbH Group are subject to plausibility checks and are assessed from the perspectives of risk amount and significance.

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

Trends

As part of the reorganization, the portfolio with direct residual value risk in the Volkswagen Bank GmbH Group continued to diminish as planned in fiscal year 2020. The transfer of Volkswagen Bank Ireland to Volkswagen Financial Services AG led to a significant decrease in the number of contracts with direct residual value risk. At consolidated level, the Volkswagen Bank GmbH Group was therefore still exposed to direct residual value risk as of December 2020 at the branches in France, Portugal and Spain as well as in the international subsidiary Volkswagen Finančné služby Slovensko s.r.o. The direct residual value risk is only material in the France branch (which accounts for approximately 96% of the total direct residual value risk and around 61% of contracts) because the volumes in the other entities either remain very low or the residual values are set such that the risk assessment can assume that the customers will take over the vehicle at the end of the contract term.

Disregarding the portfolio transfers, steady year-on-year growth in the number of contracts was evident, driven by growth strategies such as the expansion of the fleet business at the France branch. Direct residual value risk at the France branch declined marginally but nevertheless remained at a high level, reflecting the conservative evaluation of the residual value situation maintained by the branch.

Business Risk

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

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

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

With respect to business risk, the planned profit before tax is deducted as a risk mitigation technique. A risk value of zero was determined using the economic perspective in the last risk inventory check as of December 31, 2019. In contrast to the quantitative figure included in the economic perspective, business risk is included in risk management as a material category of risk.

Earnings Risk (Specific Profit or Loss Risk)

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

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

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

Risk identification and assessment

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

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

Risk monitoring and control

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

The results from the quarterly quantification of earnings risk are included in the calculation of business risk. The results are monitored by Risk Management.

Reputational Risk

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

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

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

Strategic Risk

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

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

The objective of the Volkswagen Bank GmbH Group is to manage its acceptance of strategic risk enabling it to systematically leverage earnings potential in its core business. In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Bank as a going concern.

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

Business Model Risk

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

NONFINANCIAL RISKS

Operational Risk

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

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

The objective of operational risk management is to present operational risks transparently and to initiate precautionary or corrective measures with the aim of preventing or, when this is not possible, mitigating the risks or losses. If an operational risk materializes, this represents an operational loss with the resulting loss of a business asset, which has a negative impact on financial position and financial performance.

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

Risk identification and assessment

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

The risk self-assessment is used to determine a monetary assessment of future risks. A standardized risk questionnaire is provided once a year for this purpose. The local experts use these questionnaires to determine and record the details for various risk scenarios. The details include the possible amount of the risk and the probability of occurrence, in each case with typical and maximum figures.

The central loss database is used to ensure that information about monetary operational losses is collected internally on an ongoing basis and the relevant data is stored. A standardized loss form is made available to the local experts to aid this process. The experts use this form to determine and record the relevant data, including the amount and cause of the loss.

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

Risk monitoring and control

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

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

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

Trends

The increase in operational risk in the past was based on a number of factors including business growth. Another influencing factor is legal risk, which accounts for the largest portion of the overall operational risk exposure in the Volkswagen Bank GmbH Group.

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

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

Compliance, Conduct and Integrity Risk

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

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

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

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

To counter compliance and conduct risks, it is the responsibility of the compliance function to ensure compliance with laws, other legal requirements, internal rules and self-proclaimed values, and to create and foster an appropriate compliance culture. It is also the responsibility of the integrity function, on the basis of an integrity management system, to raise awareness of the ethical principles, code of conduct and the need for compliance, and to help employees choose the right course of action, responsibly and steadfastly, driven by their own personal conviction.

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

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

The compliance function has been set up on a decentralized basis. The departments are responsible for complying with the rules and regulations in their respective areas of activity. A compliance theme coordinator is appointed for all key and core rules and regulations. The coordinator is responsible for adhering to and implementing the defined compliance requirements (such as documenting responsibilities, setting up controls, raising awareness and training employees).

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

The compliance officer is responsible for coordinating ongoing legal monitoring, the purpose of which is to ensure that new or amended legal regulations and requirements are identified promptly. For their part, the compliance theme coordinators must work in collaboration with the legal department and the various other departments to implement measures aimed at identifying new or amended regulations and requirements relevant to their areas of responsibility at an early stage and, if such relevance is established, furnishing an analysis of materiality for the Bank. The compliance theme coordinators immediately notify the compliance officer of any regulations and requirements that have been identified.

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

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

> Prevention of money laundering and terrorist financing
> Prevention of corruption and other criminal acts
> Data protection
> Consumer protection
> Securities trading law/capital market law
> Banking supervisory law
> Antitrust law and
> IT security law

The compliance requirements for the Volkswagen Bank GmbH Group are specified centrally and must be implemented autonomously in the local companies. Any deviation from the minimum requirements or guidelines is only possible if accompanied by a description of the reasons (such as local statutory requirements) and only in consultation with, and with the consent of, the Compliance Officer at the institution concerned.

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

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

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

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

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

Risk from Outsourcing Activities

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

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

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

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

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

A significant increase in risk can necessitate a change of service provider or, if possible and strategically desirable, the ending of the outsourcing arrangement. In this case, the activities may be performed by the Bank itself or may be eliminated entirely.

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

Risk identification and assessment

Risks arising in connection with outsourced activities are identified by examining the circumstances with a focus on risk. In the first step, an examination of the circumstances is used to establish whether the planned activity constitutes outsourcing, other procurement from a third-party supplier, or other procurement of IT services from a third-party supplier. A further check is carried out to establish whether the activity to be outsourced is permitted outsourcing or prohibited for regulatory reasons. In the case of outsourcing, the related risk content is then determined using a risk assessment based on various criteria, the outcome of which is the classification of the arrangement as one of the following: outsourcing with medium risk, outsourcing with high risk or critical outsourcing. Depending on the level of risk, the arrangement may be subject to more stringent levels of monitoring and control as well as special and stricter contractual provisions.

Risk monitoring and control

The risks from outsourcing activities are documented as part of operational risk. To ensure effective management of outsourcing risk, the Volkswagen Bank GmbH Group has issued a framework policy specifying the constraints that outsourcing arrangements must observe. Before any activity is outsourced, the circumstances must be examined with a focus on risk to determine the risk in each case. This analysis procedure is one of the components of the constraints and ensures that an adequate level of monitoring and control is applied. In this regard, the Outsourcing Coordination function carries out checks, in particular in subsequent procedures, to establish whether the quality of performance is in line with the contractually agreed targets and, where appropriate, initiates corrective measures to ensure such quality of performance is delivered. The framework policy also specifies that all outsourced activities must be agreed with the Group Outsourcing Coordination unit. This coordination unit is therefore informed about all outsourcing activities and the associated risks, and communicates these risks to the Management Board on a quarterly basis.

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

SUMMARY

The Volkswagen Bank GmbH Group strives to handle risks in a responsible manner as part of its operating activities. This approach is based on a comprehensive system for identifying, measuring, analyzing, monitoring and controlling risks, which is part of a holistic risk- and return-oriented management system.

The ongoing refinement of the system continued in 2020, with steps implemented including adjustments to methods, models, systems, processes and IT.

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

With the exception of the impact on credit risk described above, the Volkswagen Bank GmbH Group has not identified any effects of the Covid-19 pandemic in the other risk categories.

Forecast of Material Risks

Credit Risk Forecast

Overall, it is anticipated that the risk situation will remain challenging in 2021 because of the ongoing Covid-19 pandemic. Nevertheless, the volume of loans and receivables is projected to grow.

The Bank is continuing to monitor the risk situation closely so that it can respond proactively to any emerging developments.

Interest Rate Risk in the Banking Book Forecast

The Volkswagen Bank GmbH Group is expecting a generally stable situation as regards interest rate risk in the banking book in fiscal year 2021, based on an anticipated continuation of the relatively stable interest rate environment in the eurozone.

Liquidity Risk Forecast

Volkswagen Bank GmbH predicts that its funding instruments will still be permanently available in 2021, even though the year will continue to be affected by the Covid-19 pandemic. It is projected that the deposit business will remain stable. Accordingly, liquidity risk is also likely to remain stable.

Residual Value Risk Forecast

We expect the volume of contracts with direct residual value risk to continue to grow in fiscal year 2021 overall. The main drivers behind this are the implemented growth program and further expansion in the fleet business, particularly in France.

Operational Risk Forecast

Based on the ongoing Covid-19 pandemic alone, we do not anticipate any material rise in operational risk in 2021. The year 2020 demonstrated that we can effectively manage the potential operational risk that could arise from the pandemic so that no operational risk materializes to any significant extent. We are assuming that we will be able to maintain this successful approach in 2021 and therefore anticipate a steady to moderately rising level of operational risk, taking into account a slight increase in the volume of business. In this context, we expect the effectiveness of fraud protection to remain stable and the high level of quality in processes, staff skills and qualifications, and IT systems to be maintained.

This report contains forward-looking statements on the business development of the Volkswagen Bank GmbH Group. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and of the financial and automotive markets, which we have made on the basis of the information available to us and which we currently consider to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of our business. The same applies in the event of material changes in exchange rates against the euro. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2020 Annual Report develop differently to our current expectations, or additional risks and opportunities or other factors emerge that affect the development of our business.

Human Resources Report

HR modernization – focus on the customer

HEADCOUNT

Volkswagen Bank GmbH employed 1,138 people (previous year: 1,121) in Germany at the end of 2020.

A total of 793 people (previous year: 833) were employed at the international branches of Volkswagen Bank GmbH.

EMPLOYEES

Volkswagen Bank GmbH has dedicated itself to offering employees a working environment worthy of a top employer. This primarily includes a wide range of attractive tasks, a comprehensive range of opportunities for personal and professional development, options for international assignments and working conditions that enable employees to achieve a good work-life balance. It also offers remuneration commensurate with the work performed, profit-sharing and a number of social benefits.

Volkswagen Bank GmbH expects its top employees to have a high level of expertise, provide excellent performance, embrace change and flexible working arrangements, be willing to gain new qualifications (in particular with regard to future (digital) customer requirements), be willing to increase productivity and to apply themselves to their profession with commitment and passion. The long-term success of the Bank will only be made possible by the outstanding performance of its employees, who take an agile approach to collaboration and use innovative methods.

Human Resources Strategy

The ROUTE2025 strategy has created new areas of focus in terms of HR strategy. Five strategic areas for action are listed under the heading “Top Employer/Top Employees”. These areas of activity are helping Volkswagen Bank GmbH to position itself as “The Key to Mobility”. The objective is to attract, develop and retain the best employees. With the support of these employees, the objective is to continue to drive forward development around the other strategic cornerstones of customers, operational excellence, profitability and volume. Through the use of specific activities to develop and retain personnel, coupled with performance-based profit sharing, the Bank aims to encourage top performance, with the objective of ensuring outstanding customer service provided by top employees and still further improving its excellent globally recognized reputation as a top employer.

Responsibility for implementing the employee strategy at an international level lies with the branches and the international subsidiaries themselves, supported by the international HR unit at the head office in Braunschweig. The Human Resources Strategy Card remains the most important management tool for implementing the HR strategy. The objectives and definitions set out in the tool provide local companies with a uniform basis to be applied around the globe. The local entities hold regular meetings with the head office in Braunschweig – at least once a year – to report on their progress and share detailed information on this. Depending on the situation, support measures are agreed and/or highly positive examples are presented and discussed for the benefit of other branches in regional workshops and at the annual HR conference so that synergies can also be leveraged between the different branches and local companies.

The HR unit was fundamentally restructured in the reporting year. Until now, administrative tasks have accounted for a high proportion of HR activities. Going forward, HR will be expected to be more proactive in influencing corporate strategy. The requirement is for an innovative partner capable of providing the impetus for the continued strategic development of various topics. At the same time, the focus is on separating the two functions of supporting employees and providing advice for managers. A further requirement from now on is for HR to provide advisory expertise rather than an administrative service.

The HR unit has clearly oriented itself around customer needs with a structure based on a business partner model. The provision of strategic advice for managers on HR issues has been taken over by the customer function, whereas the new employee service center at Volkswagen Financial Services AG now looks after all employee-related matters across the legal entities. The two functions are backed by a broad range of specialist expertise in other components of the structure, enabling all matters to be treated on a holistic and long-term basis. The aim is thus to ensure that HR supports all customers efficiently and effectively and that it is involved in forward-looking issues for the business as appropriate for the right target group.

Another key aspect of HR activities has been the need to deal with the Covid-19 pandemic and the associated new requirements for managers and employees to work remotely, both in Germany and in the international offices. Because of the pandemic, the vast majority of employees have been working from home. To facilitate this, processes have been transformed and technical requirements put in place in the shortest possible time. Employees have been equipped with laptops and the necessary access authorizations have been established. In this context, a large number of initiatives for digitalizing HR products and processes have been implemented. For example, seminars and mandatory training sessions are offered online and events are held using Skype. Job interviews and employee appraisal sessions are also conducted remotely. In addition, the Occupational Health & Safety department conducted work station approvals and hygiene protocols have been implemented. These measures aim to ensure that employees who can only do their jobs at the Bank's offices are provided with the best possible protection. Necessary measures are regularly discussed, decided upon and then communicated by the crisis team with the involvement of appropriate experts. In order to ensure employees and managers were informed quickly and comprehensively, a total of 55 HR bulletins were sent to the entire workforce and 44 special notices to managers in 2020 via e-mail.

The Transformation Office, set up in 2019, supports the change process in respect of the internal labor market. Its centralized management at the Braunschweig facilities ensures that vacant positions are filled primarily by internal job applicants whose previous roles have been discontinued. This aims to ensure that there is a transparent procedure throughout the whole site. Employees affected by the transformation receive assistance in the form of special training. The Transformation Office holds information events in the various departments and maintains continuous contact with employees and managers. It is a source of detailed advice and support in connection with all issues related to the internal labor market. There are similar approaches at the international facilities.

The objective of the Leadership in Transformation program initiated in 2019 is to provide managers with the capability to deal with digital transformation successfully. The three words "Learn – Inspire – Transfer" are intended to sum up the approach. In addition to the mandatory and modular program "Erfolgreich durchstarten" (hit the ground running) for new and newly appointed managers, there are advanced modules for enhancing the managerial know-how of experienced managers, as well as the option of an individual review to assess the current level of a manager's skills.

The branches and international subsidiaries also attach great importance to continuously enhancing management skills in line with prevailing requirements.

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

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

In a comparison within Europe, the company was placed eleventh in a ranking of the top 25 European employers, which was an improvement on the twelfth place achieved in 2016. These results were based on the rankings in each country, for example 28th place in Spain. The company entered the competition again in 2020. The rankings in the German and European competitions are expected to be announced during the course of 2021.

Customer satisfaction with the work of the employees is given top priority at Volkswagen Bank GmbH. The results of external and internal customer satisfaction surveys are used as indicators of target achievement. A system of internal customer feedback, which reflects satisfaction with internal collaboration, has now been introduced in nine out of ten countries (Germany, France, Greece, Italy, Netherlands, Poland, Portugal, Spain and the United Kingdom).

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

IMPLEMENTATION OF THE CORPORATE STRATEGY

The ROUTE2025 strategy is complemented by "The FS Way" and the associated leadership and management principles. The FS Way describes Volkswagen Financial Services corporate and leadership culture, i.e. the way in which the objectives of the five strategic areas for action – customers, employees, operational excellence, profitability and volume – can be achieved to enable the company, as an automotive financial services provider, to live up to its strategic vision of being "The Key to Mobility". The FS Way is anchored in the theme of integrity and the five FS values: living commitment to customers, responsibility, trust, courage and enthusiasm, combined with an attitude of continuously looking to improve and proactively making the changes this requires. The FS values are complemented by the new basic principles of the Volkswagen Group, known as the Essentials. The FS values are repeatedly explored and discussed at events for managers and employees, especially in terms of digital transformation, and then put into practice.

Together4Integrity (T4I), an integrity and compliance program for the entire Group launched in the second half of 2018, was continued in 2020. The program has been rolled out internationally in a number of countries, notably Poland, Portugal and France. The program focuses on the strategic issues of compliance, culture and integrity in relation to processes, structures, attitudes and conduct. It contributes to the refinement and improvement of the corporate culture at Volkswagen Bank GmbH by organizing and tracking integrity and compliance initiatives throughout the Group. Following the successful completion of the U.S. Compliance Monitorship in 2020, the program will be continued in 2021 and thereafter in accordance with the Group's master plan.

The HR unit aims to use its processes, tools, rules and policies to make a significant contribution to the creation of a working environment in which the values and conduct requirements of the Bank are taken seriously. The objectives of the T4I initiatives assigned to the HR unit are to enshrine the issues of integrity and compliance in key HR processes (recruitment, professional development, remuneration, disciplinary processes and employee retention), giving these issues greater focus. The Group's minimum standards underlying the initiatives have been set down in an organizational policy.

REGULATORY REQUIREMENTS RELATING TO REMUNERATION SYSTEMS

In the reporting year, Volkswagen Bank GmbH was subject to direct supervision by the ECB and implemented, throughout the Group, the Institutsvergütungsverordnung (IVV – German Regulation Governing Remuneration at Institutions) of August 4, 2017, last amended by Article 1 of the Regulation of April 15, 2019. The special regulatory requirements relating to remuneration systems applied in addition to the general requirements. Strategies and instruments already introduced, such as the Works Council agreement on variable remuneration, the variable remuneration ceiling, national and international risk-taker identification and the reporting system using a remuneration report, continued to be applied and enhanced in fiscal year 2020. Furthermore, special governance functions (Remuneration Committee and Remuneration Officer) were used to ensure that the adequacy of the remuneration systems was continuously monitored.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

In 2020, 44 new vocational trainees/dual vocational training students started their professional careers at Volkswagen Financial Services AG in Braunschweig, focusing on specialist professional IT qualifications in application development and professional banking qualifications. The dual approach combines vocational training with study for a university degree. The Bachelor of Arts in Business Administration focusing on digital marketing & sales and financial services management is offered in collaboration with WelfenAkademie e. V.; the Bachelor of Science in Business Informatics and the Bachelor of Science in IT Security are offered in collaboration with Leibniz University of Applied Sciences. In 2020, vocational trainees were once again recruited predominantly to train for specialist professional IT qualifications in application development, and dual vocational training students were hired mainly to become business informatics specialists, with the aim of designing vocational training on a forward-looking basis and incorporating the topic of digitalization. A degree study program in computer science is also offered at the Braunschweig University of Technology. The training offering has been expanded to include training as a media designer. Under a training collaboration agreement between Volkswagen Financial Services AG and Volkswagen Bank GmbH, vocational trainees, dual vocational training students and IT students will have the opportunity to obtain their professional qualifications in departments at Volkswagen Bank GmbH.

Skilled, committed employees are the cornerstone of the success of Volkswagen Bank GmbH as a business. To ensure that Volkswagen Bank GmbH is structured to deal with future challenges, the Bank aims to recruit specialists and experts to complement the existing workforce. Volkswagen Bank GmbH is also pursuing a rigorous approach to recruiting and retaining young talent.

The range of options for skills development is concentrated mainly on issues connected with preparing for change as part of the business and cultural transformation. Key areas are skills and vocations of the future alongside social and methodological know-how, for example in an agile working environment. The training needs of the various departments are assessed regularly. The results are used as a basis to expand training activities for future viability.

The importance of digitalization knowledge and experience is growing steadily. An additional range of training options has been developed so that employees have the capability to adapt to changing job requirements. In 2020, digitalization study programs and courses held over several months were offered for the first time. This development opportunity is presented entirely online and can therefore be completed at any time or place at the convenience of the employee concerned. These skills development activities support the HR Transformation program.

To promote employee participation in the transformation and thereby support the transformation processes in the Bank, Volkswagen Bank GmbH initiated a new ideas and innovation management system in the reporting year under the name "FS.IDEAS". All employees are encouraged to submit their ideas for conventional improvements or innovative changes.

INCREASE IN THE PROPORTION OF WOMEN

As of December 31, 2020, women accounted for 56.5% of the workforce of Volkswagen Bank GmbH in Germany, but this is not yet reflected in the percentage of women in management positions. The target is to increase the proportion of women in management positions permanently. This will be achieved, for example, by giving special consideration to female candidates in succession planning, in combination with measures to improve work-life balance.

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

PROPORTION OF WOMEN – TARGET AND ACTUAL VALUES FOR GERMANY

	Target 2023	Target 2020	Actual 2020
Second management level	26.1	22.0	16.3
First management level	10.3	6.7	12.5
Management Board	20.0	–	0.0
Supervisory Board	30.0	–	33.3

DIVERSITY

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

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

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

Report on Expected Developments

Growth in the global economy is expected to recover overall in 2021. Global demand for passenger cars will probably vary from region to region and increase noticeably year-on-year. With its brand diversity, broad product range, technologies and services, the Volkswagen Group believes it is well prepared for the future challenges in the mobility business.

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

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

Our planning is based on the assumption that global economic output will recover overall in 2021, provided lasting containment of the Covid-19 pandemic is achieved. This growth will most likely be sufficient for the economy to recover to approximately its pre-pandemic level. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. We anticipate that both the advanced economies and the emerging markets will experience positive momentum.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2022 to 2025.

Europe

In Western Europe, we expect moderate economic growth in 2021 after the downturn in the last fiscal year. The impact of the Covid-19 pandemic and the uncertain consequences of the United Kingdom’s withdrawal from the EU will fundamentally pose major challenges.

We also anticipate moderate growth rates in Central Europe in 2021. The economic situation in Eastern Europe is expected to recover as well, albeit at a somewhat slower pace.

Germany

We expect gross domestic product (GDP) in Germany to grow at a relatively robust pace in 2021 but to remain short of its pre-pandemic level. The labor market situation is likely to deteriorate somewhat depending, among other things, on a delayed increase in corporate insolvencies following the suspension of the obligation to file for insolvency during the pandemic.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We believe that automotive financial services will play a significant role in global vehicle sales in 2021, particularly because of the ongoing challenges resulting from the Covid-19 pandemic. We expect demand to rise in emerging markets where market penetration has so far been low. Regions that already benefit from developed automotive financial services markets will see a continuation of the trend toward customers requiring mobility at the lowest possible total cost. Integrated end-to-end solutions, comprising mobility-related service modules such as insurance and innovative packages of services, will become increasingly important in this regard. Additionally, we expect demand to increase for new forms of mobility, such as rental services, and for integrated mobility services, for example parking, refueling and charging and that the initiated shift from financing to lease contracts will continue in the leasing business. We anticipate that this trend will continue in the period from 2022 to 2025.

In the mid-sized and heavy commercial vehicles category, we expect rising demand for financial services products in emerging markets. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In mature markets, we are projecting increased demand in 2021 for telematics services and services aimed at reducing total operating costs. This trend is also expected to continue in the period 2022 to 2025.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2021. Overall, the volume of demand worldwide for new vehicles is expected to be noticeably up on the reporting year, but will not reach the pre-pandemic level, provided successful containment of the Covid-19 pandemic is achieved. We are forecasting growing demand for passenger cars worldwide in the period from 2022 to 2025.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2021; on the whole, we anticipate a moderate rise in demand for 2021, assuming a successful containment of the Covid-19 pandemic. For the years 2022 to 2025, we expect demand for light commercial vehicles to increase globally.

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

Europe

For 2021, we anticipate that the volume of new passenger car registrations in Western Europe will be significantly above that recorded in the reporting year. At the same time, however, possible consequences of the pandemic and the uncertain impact of the United Kingdom's exit from the EU may result in ongoing uncertainty among consumers and dampen demand. Despite this, we expect a strong increase in the United Kingdom in 2021. In Italy, Spain and France, the markets are likely to significantly exceed the level seen in the reporting year.

For light commercial vehicles, we anticipate demand in Western Europe in 2021 to be noticeably up on the previous year's level despite the possible consequences of the pandemic and the uncertain impact of the United Kingdom's exit from the EU. We predict a moderate to large increase in Italy, France, Spain and the United Kingdom.

Sales of passenger cars in 2021 are expected to distinctly exceed the prior-year figures in markets in Central and Eastern Europe. In the region's markets, a slight to strong rise in the number of new registrations is expected.

Registrations of light commercial vehicles in the Central and Eastern European markets in 2021 will probably be distinctly higher than in the previous year.

Germany

In the German passenger car market, we expect a moderate year-on-year increase in demand in 2021.

We also anticipate that registrations of light commercial vehicles will be noticeably up on the previous year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

For 2021, we expect a significantly positive development in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year, with variations from region to region, in the markets that are relevant for the Volkswagen Group.

Significant market growth is expected for the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3).

On average, we anticipate moderate growth rates in the relevant truck markets for the years 2022 to 2025.

INTEREST RATE TRENDS

The period of low interest rates continued in Europe, the USA and numerous other economies in 2020, and also at the beginning of the current fiscal year. The outbreak of the pandemic in the spring of 2020 led to economic setbacks, to which central banks around the globe responded by further loosening monetary policy. Interest rates are still at historic lows. There is currently no end to the period of low interest rates in sight.

SUMMARY OF EXPECTED DEVELOPMENTS

The Volkswagen Bank GmbH Group predicts that the volume of business in the current fiscal year will be at the level of 2020. Please refer to the statements in the opportunities and risks report for information on the trends in credit risk, liquidity risk, and residual value risk.

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

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

The product packages that the Bank believes it has successfully launched in the last few years will be refined in line with customer needs.

In parallel with its market-based activities, the Volkswagen Bank GmbH Group aims to further strengthen its position vis-à-vis its European competitors through strategic investment in structural projects as well as through the OPEX program focusing on process optimization and productivity gains.

OUTLOOK FOR 2021

When the above factors and the market trends are considered, the following overall picture emerges for Volkswagen Bank GmbH, from both single entity and Group perspectives: our earnings expectations assume stable funding costs, greater levels of cooperation with the individual Group brands and continuing optimization of costs as part of our efficiency program. In addition, our earnings forecasts take into account a continued high degree of uncertainty about macroeconomic conditions in the real economy because of the ongoing Covid-19 pandemic and the impact of this uncertainty on factors such as risk costs.

For 2021, we therefore predict that the penetration rate will be at the level of the previous year, although it is anticipated that there will be a return to growth in deliveries. New contracts and current contracts are expected to be moderately higher than the prior-year level. Business volume is expected to stabilize at the 2020 level. Likewise, the volume of deposits is projected to remain at the level of the reporting year. In view of the significant positive non-recurring items in 2020, we expect the operating result and return on equity for fiscal year 2021 to be well below the level of the previous year. Based also on a slight rise in overhead costs, the cost/income ratio for 2021 is therefore likely to be much higher than the prior-year figure.

Looking ahead to subsequent years, the maintenance of the current business strategy is expected to enable performance to recover to the pre-crisis level from 2023/2024.

FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2021 COMPARED WITH PRIOR-YEAR FIGURES

	Actual 2019	Actual 2020	Forecast for 2021
Nonfinancial performance indicators			
Penetration (percent)	23.0	18.9	At the level of 2020
Current contracts (thousands)	3,932	3,700	Moderately above the level achieved in 2020
New contracts (thousands)[1]	1,748	1,074	Moderately above the level achieved in 2020
Financial performance indicators			
Volume of business (€ million)	51,957	48,486	At the level of 2020
Volume of deposits (€ million)[2]	31,733	28,694	At the level of 2020
Operating result (€ million)[3]	757	840	Significantly below the level achieved in 2020
Return on equity (percent)	7.2	8.3	Significantly below the level achieved in 2020
Cost/income ratio (percent)	49.2	50.0	Significantly above the level achieved in 2020

1 New contracts including additions from Volkswagen Financial Services (UK) Ltd. and SkoFIN, s.r.o. January to March 2019, and from Svenska Finans AB/Service Sverige January to July
2 Since January 1, 2019, the volume of deposits has been calculated without cash deposits from Group companies.
3 Actual value for 2019, excluding operating result of discontinued operations (FS UK and Svenska Finans AB: €143 million)

Braunschweig, February 16, 2021
The Management Board

Dr. Michael Reinhart

Oliver Roes

Christian Löbke

Dr. Volker Stadler

Balance Sheet

of Volkswagen Bank GmbH, Braunschweig, for the Year Ended December 31, 2020

€ thousand		Dec. 31, 2020	Dec. 31, 2019
Assets			
1. Cash reserve			
a) Cash-in-hand	1,917		987
b) Central bank balances	7,054,251		3,469,985
of which:			
at Deutsche Bundesbank €6,989,738 thousand			(3,425,826)
c) Post office bank balances	0		28
		7,056,168	3,470,999
2. Loans to and receivables from banks			
a) Repayable on demand	342,693		314,759
b) Other receivables	6,018		112,290
		348,711	427,050
3. Loans to and receivables from customers		51,572,531	55,706,184
of which:			
mortgages			
€379,220 thousand			(372,505)
4. Bonds and other fixed-income securities			
a) Bonds			
aa) From public-sector issuers	1,697,829		1,320,059
of which:			
eligible as collateral at Deutsche Bundesbank €1,697,829 thousand			(1,320,059)
ab) From other issuers	18,664,844		13,384,346
of which:			
eligible as collateral at Deutsche Bundesbank € 18,157,659 thousand			(12,731,100)
		20,362,674	14,704,406
5. Equities and other variable-yield securities		0	0
6. Long-term equity investments		94,022	93,893
7. Shares in affiliated companies		125,205	125,907
of which:			
in banks €1,927 thousand			(2,627)
8. Trust assets		1,737	0
of which:			
Trust loans €1,737 thousand			(0)
9. Intangible fixed assets			
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	8,259		13,127
b) Goodwill	0		0
c) Prepayments	1,799		149
		10,058	13,275
10. Property and equipment		10,831	13,168
11. Lease assets		1,777,837	1,644,148
12. Other assets		205,745	375,997
13. Prepaid expenses		18,172	123,211
Total assets		**81,583,690**	**76,698,236**

€ thousand		Dec. 31, 2020	Dec. 31, 2019
Equity and liabilities			
1. Liabilities to banks			
a) Repayable on demand	85,901		52,575
b) With agreed maturity or notice period	9,603,812		7,411,687
		9,689,714	7,464,262
2. Liabilities to customers			
a) Other liabilities			
aa) Repayable on demand	24,931,738		24,847,615
ab) With agreed maturity or notice period	10,500,197		13,351,639
		35,431,935	38,199,254
3. Notes, commercial paper issued			
a) Bonds issued	7,037,857		7,037,916
b) Other notes, commercial paper issued	10,589		639,477
of which:			
Commercial paper €10,589 thousand			(639,477)
		7,048,446	7,677,393
4. Trust liabilities		1,737	0
of which:			
Trust loans €1,737 thousand			(0)
5. Other liabilities		19,128,713	13,040,123
6. Deferred income		790,014	852,742
7. Provisions			
a) Provisions for pensions and similar obligations	110,597		100,774
b) Provisions for taxes	5,633		44,290
c) Other provisions	479,773		422,267
		596,002	567,332
8. Special tax-allowable reserve		0	0
9. Subordinated liabilities		30,000	30,000
10. Fund for general banking risks		25,565	25,565
11. Equity			
a) Subscribed capital	318,279		318,279
b) Capital reserves	8,497,681		8,497,681
c) Revenue reserves			
ca) Other revenue reserves	25,604		25,604
d) Net retained profits	0		0
		8,841,565	8,841,565
Total equity and liabilities		**81,583,690**	**76,698,236**
1. Contingent liabilities			
a) Liabilities under guarantees and indemnity agreements		200,458	233,062
of which:			
to affiliated companies		130,252	173,462
2. Other obligations			
a) Irrevocable credit commitments		1,923,678	1,771,244
of which:			
to affiliated companies		43,793	30,260

Income Statement

of Volkswagen Bank GmbH, Braunschweig, for the Period January 1 to December 31, 2020

€ thousand			2020	2019
1. Interest income from				
a) Lending and money market transactions	1,496,887			1,602,677
b) Fixed-income securities and debt register claims	46,151			50,073
		1,543,038		1,652,750
2. Interest expense		133,535		131,385
3. Interest anomalies				
a) Positive interest from banking business (collateral deposits)	23,542			6,834
b) Negative interest from money market transactions	29,940			19,957
		–6,398		–13,123
			1,403,105	1,508,241
4. Current income from				
a) Equities and other variable-yield securities		63		54
b) Long-term equity investments		0		0
			63	54
5. Leasing income		1,099,191		997,608
6. Leasing expenses		489,917		466,498
			609,273	531,111
7. Fee and commission income		364,651		377,571
8. Fee and commission expense		536,822		563,751
			–172,171	–186,180
9. Other operating income			356,057	228,642
10. Income from the reversal of special tax-allowable reserve			0	1,128
11. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	154,344			177,765
ab) Social security, post-employment and other employee benefit costs	36,399			37,516
of which:		190,743		215,281
in respect of post-employment benefits €10,193 thousand				(8,089)
b) Other administrative expenses		579,108		580,100
			769,851	795,381
12. Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment and lease assets				
a) Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment		8,939		10,695
b) Depreciation and write-downs of lease assets		541,577		504,928
			550,516	515,623
13. Other operating expenses			93,050	79,843
14. Amortization and write-downs of receivables and certain securities, and additions to provisions in the lending business			227,942	205,691
15. Write-downs of long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			701	10

€ thousand			2020	2019
16. Income from reversals of write-downs of long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			0	305
17. Result from ordinary activities			554,267	486,753
18. Extraordinary income		1,144		0
19. Extraordinary expenses		0		2
20. Extraordinary result			1,144	–2
21. Income tax expense			172,434	121,931
22. Other taxes, unless reported under item 13			62	95
23. Profits transferred under a profit-and-loss transfer agreement			382,914	364,726
24. Net income			0	0
25. Reduction in assets as a result of demerger			0	–481,099
26. Withdrawal from capital reserves			0	481,099
27. Net retained profits			**0**	**0**

Notes

to the Annual Financial Statements of Volkswagen Bank GmbH, Braunschweig, for the Year Ended December 31, 2020
Registration Court: Braunschweig
Commercial Register Number: HRB 1819

I. General Information

The annual financial statements have been prepared in accordance with the requirements of the Handelsgesetzbuch (HGB – German Commercial Code) and the Verordnung über die Rechnungslegung der Kreditinstitute (RechKredV – German Bank Accounting Regulation).

As of December 31, 2020, both a control agreement and a profit-and-loss transfer agreement have been in place with Volkswagen AG.

Under section 285 no. 21 of the HGB, Volkswagen Bank GmbH is subject to an obligation to disclose material related-party transactions that have not been conducted on an arm's-length basis. All transactions with related parties have been conducted at arm's length.

II. Accounting Policies

Assets and liabilities are measured in accordance with the provisions in section 252ff. of the HGB and additionally in accordance with those in section 340ff. of the HGB. Unless otherwise stated, the other accounting policies are the same as those applied in the prior year.

Foreign currency transactions in the non-trading portfolio are measured in accordance with section 340h in conjunction with section 256a of the HGB. In compliance with Volkswagen Bank GmbH's risk strategy, the portfolio of assets, liabilities and forward contracts specifically hedged in accordance with section 340h of the HGB includes all material transactions denominated in foreign currency. These items are measured using the middle spot rate at the reporting date. Income and expenses arising from the translation of foreign currency exposures specifically hedged in the same currency are recognized in net other operating income/expense.

Foreign currency assets and liabilities that are not specifically hedged in the same currency are translated at the middle spot rate at the reporting date in accordance with section 256a sentence 1 of the HGB and in compliance with the historical cost convention and the principle of imparity (whereby unrealized losses are recognized but unrealized gains are not). If the items have a residual maturity of one year or less, the net gains or losses from translation are recognized in full in the income statement in accordance with section 256a sentence 2 of the HGB.

Currency forwards in the non-trading portfolio that are intended to hedge interest-bearing balance sheet items and that have not yet been settled as of the reporting date are measured and recognized by applying a split forward rate method. In this method, the forward rate in the contract is broken down into its two components of spot rate and swap rate, the latter being the forward premium or forward discount. The forward premium or discount is allocated and recognized over the term of the forward contract in the same way as interest. It is measured by comparing the spot basis in the forward contract with the middle spot rate at the reporting date. Positive and negative spot rate differences within the same currency are offset against each other. The net amount is reported as an adjustment item from foreign exchange transactions under the “Other assets” or “Other liabilities” item.

Interest rate and currency derivative transactions entered into by Volkswagen Bank GmbH are used as part of general economic hedges. The Bank does not make use of the option to apply specific hedge accounting arrangements in accordance with section 254 of the HGB.

The cash reserve is carried at the nominal amount.

Receivables are recognized at their principal amounts, net of provisions for credit risks. In dealer financing, specific valuation allowances are recognized on a contract-by-contract basis, while in retail financing they are determined on a collective basis. The model used in this process has been derived from the regulatory risk quantification method. Global valuation allowances are recognized to cover risks arising in connection with receivables for which no specific valuation allowances have been recognized. On December 31, 2020, Volkswagen Bank GmbH voluntarily opted for early implementation of accounting principle IDW AcP BFA 7 and now applies the expected credit loss model of IFRS 9 to determine global valuation allowances.

Volkswagen Bank GmbH has acquired all of its own Driver Master Compartment 2, Private Driver Italia 2020-1 and Private Driver España 2020-1 asset-backed securities (ABSs). Under the principles specified in IDW AcP HFA 8, significant credit risks thus remain with Volkswagen Bank GmbH. There has been no transfer of the beneficial ownership in the receivables underlying these ABS transactions, and these receivables therefore continue to be reported under loans to and receivables from customers. A miscellaneous liability is recognized in the amount of the purchase price received. When the payments from the sold receivables are forwarded, this liability is reduced on a pro rata basis in the amount of the change in the present value of the underlying receivables. The difference compared with the payments received is recognized as an interest expense. No subsequent measurement is carried out for purchased securities derived from the Bank's own securitization transactions because these transactions securitize the Bank's own receivables and any counterparty default risk is already recognized as part of the measurement of the receivables concerned.

Current bonds and other fixed and variable-income securities held in the liquidity reserve and measured using parameters derived from the market are recognized at historical cost, applying the strict lower of cost or market principle and the requirement to reverse write-downs when the reasons for them no longer exist (section 340e(1) sentence 2 in conjunction with section 253(4) sentence 1 of the HGB and section 253(5) sentence 1 of the HGB).

Equities, long-term equity investments and shares in affiliated companies are measured at the lower of cost and fair value.

Trust loans are granted in the name and for the account of KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main. The receivable from the dealer is recognized at its principal amount. KfW grants a 100% exemption from liability for the refinancing loan for the entire term of the loan.

Items of property and equipment with finite useful lives are depreciated, and intangible assets with finite useful lives are amortized on a straight-line basis over the course of their useful lives. They are initially recognized at cost. The useful lives applicable to goodwill, which are based on economic useful lives, were eight years (VWV Retail) or two years (Volkswagen Finance S.A., France).

Straight-line depreciation is applied to vehicles reported under the "Lease assets" item in accordance with their expected useful lives. They are initially recognized at cost. If property and equipment, intangible assets, or lease assets are identified as impaired and this impairment is likely to be permanent, the carrying amounts of the assets concerned are written down to fair value. When vehicles recognized as lease assets are sold, the proceeds are recognized under leasing income and the derecognized residual carrying amounts are reported under leasing expenses.

Differences between the amount received and the nominal amount are recognized in prepaid expenses or deferred income and then amortized over the maturity of the liability concerned.

Liabilities are recognized at the settlement amount.

Provisions are measured using the best estimate of the amount required to settle the obligations concerned.

Some of the pension commitments are direct pension commitments, while others are funded through Volkswagen Pension Trust e. V. The commitments funded through Volkswagen Pension Trust e. V. are unit-linked pension commitments. Their amount is determined on the basis of the fair values of the associated securities in accordance with section 253(1) sentence 3 of the HGB. The fair value of the securities is offset against the funded provisions in accordance with section 246(2) of the HGB.

Other pension obligations (time asset bonds) are also linked to securities funds. Time asset bonds provide the opportunity to save for early retirement by acquiring time asset bond units. The securities measured at fair value are offset as plan assets against the corresponding provisions.

The pension provision that is not externally funded is recognized at present value.

The 2018 G mortality tables published by Professor Klaus Heubeck are used to measure pension obligations. The provisions for pension obligations are discounted using an average discount rate in accordance with section 253(2) sentence 1 of the HGB, whereby it is assumed that the obligations have a general residual maturity of 15 years. The recognized provisions for pensions equate to the pension obligations net of the associated plan assets, which are measured at fair value. If the value of the plan assets is higher than that of the pension provisions, the difference is reported as an excess of plan assets over pension liability.

For reasons of materiality, individual provisions with a maturity of more than one year are not discounted as would be required in accordance with section 253(2) of the HGB. The materiality assessment is continually reviewed.

The banking book of Volkswagen Bank GmbH was reviewed in accordance with IDW ACP BFA 3 to assess whether there was any need to recognize a provision for expected losses. The discounted cash flow method was used for the evaluation. The discount rate used to discount the cash flows included a component to cover risk costs still expected to be incurred together with a risk costs premium and administrative expenses. The present value determined in this way was then compared against the carrying amounts recognized in the HGB financial statements for the assets in the banking book. There was no indication that a provision for expected losses was required.

All identifiable risks have been adequately provided for in the annual financial statements by the recognition of specific valuation allowances and provisions. Latent risk in the lending business is covered by global valuation allowances.

In the reporting period, the negative interest from financial assets and the positive interest from financial obligations are reported separately in the income statement as interest anomalies. This method of presentation makes the composition of net interest income more transparent.

III. Balance Sheet Disclosures

LOANS TO AND RECEIVABLES FROM BANKS

Loans to and receivables from banks include loans to and receivables from affiliated companies amounting to €6,018 thousand (previous year: €6,005 thousand). There are no loans to and receivables from investees or investors included in the item (previous year: €0 thousand).

The maturity analysis of loans to and receivables from banks is as follows:

> Repayable on demand €342,693 thousand (previous year: €314,759 thousand)
> Up to three months: €12 thousand (previous year: €106,284 thousand)
> More than three months and up to one year €6,006 thousand (previous year: €0 thousand)
> More than one year and up to five years €0 thousand (previous year: €6,005 thousand).
> More than five years: €0 thousand (previous year: €0 thousand).

No loans to or receivables from banks are evidenced by certificates.

LOANS TO AND RECEIVABLES FROM CUSTOMERS

This item includes loans to and receivables from affiliated companies amounting to €2,724,780 thousand (previous year: €3,330,485 thousand).

The maturity analysis of the total amount of loans to and receivables from customers, none of which are evidenced by certificates, is as follows:

> Up to three months: €10,412,458 thousand (previous year: €10,572,894 thousand)
> More than three months and up to one year €10,671,228 thousand (previous year: €10,845,964 thousand)
> More than one year and up to five years €26,685,969 thousand (previous year: €28,567,506 thousand)
> More than five years €698,000 thousand (previous year: €729,055 thousand)

Loans to and receivables from customers include receivables with an indefinite maturity (in accordance with the disclosure requirements in section 9(3) no. 1 of the RechKredV) amounting to €3,104,876 thousand (previous year: €4,990,765 thousand).

Loans to and receivables from customers include subordinated loans and receivables of €989,645 thousand (previous year: €559,104 thousand), of which €989,645 thousand (previous year: €559,104 thousand) is attributable to subordinated receivables arising from ABS transactions entered into by Volkswagen Bank GmbH.

The receivables from leasing business included in loans to and receivables from customers amount to €2,906,130 thousand (previous year: €2.794.174 thousand), of which €2,795,182 thousand (previous year: €2,667,656 thousand) is attributable to the Bank's branch in France.

Receivables from retail financing amounting to €795,516 thousand (previous year: €908,075 thousand) are attributable to the Bank's branch in France.

LOANS TO AND RECEIVABLES FROM SHAREHOLDERS

As of the reporting date, loans to and receivables from the sole shareholder, Volkswagen AG, Wolfsburg, have amounted to €0 thousand (previous year: €384 thousand).

BONDS AND OTHER FIXED-INCOME SECURITIES

To help safeguard the supply of liquidity, Volkswagen Bank's branches in Italy and Spain have set up ABS structures. However, the securities issued by the special purpose entities purchasing the assets concerned have not been sold to investors but have instead been purchased by Volkswagen Bank GmbH and pledged as collateral for its participation in the open market operations of Deutsche Bundesbank. The total portfolio of these securities amounts to €3,126,000 thousand. All the securities involved are allocated to the liquidity reserve. They are measured at the lower of cost or market value under the strict HGB approach. Although these securities are marketable and listed, the Bank uses its own valuation model to determine their value because the market for the securities is insufficiently liquid. In this model, the cash flows determined for the securities are discounted using a standard swap yield curve for the Volkswagen Group plus a credit spread. The credit spread is validated using an indirect method based on indicative prices from various banks.

The item also includes purchased securities from Volkswagen Bank GmbH's own ABS transactions. These securities amount to €13,504,700 thousand (previous year: €11,199,700 thousand) and are backed by the Bank's own receivables; no subsequent measurement is applied because the counterparty default risk is already factored into the measurement of the receivables themselves. During the term of the deals, the bonds are recognized at cost, net of any redemptions.

To accumulate collateral for participation in open market operations and to ensure that requirements in accordance with the liquidity coverage ratio are satisfied in the future, the Bank made repeated purchases of fixed-income securities with strong credit ratings. As of the reporting date, these bonds have amounted to a total of €3,219,801 thousand (previous year: €2,842,605 thousand). The securities are allocated to the liquidity reserve and measured at market prices, applying the strict lower of cost or market principle under the HGB.

The securities and bonds reported under this balance sheet item – all of which are marketable, listed securities – total €20,362,674 thousand (previous year: €14,704,406 thousand).

As of the reporting date, securities within the portfolio amounting to €12,453,740 thousand (previous year: €10,173,059 thousand) had been deposited in the operational safe custody account maintained with Deutsche Bundesbank. These securities serve as collateral for funding transactions. There were open market loans of €9,388,425 thousand (previous year: €7,183,234 thousand) as of the reporting date.

Of the bonds and other fixed-income securities, a nominal amount of €3,626,376 thousand (previous year: €3,126,908 thousand) was due to mature in the fiscal year following the reporting date.

Bonds and other fixed-income securities include securities issued by affiliated companies amounting to €16,630,700 thousand (previous year: €11,204,200 thousand).

LONG-TERM EQUITY INVESTMENTS AND SHARES IN AFFILIATED COMPANIES

An overview of long-term equity investments and information on shares in affiliated companies can be found in the list of shareholdings in these annual financial statements.

The shares in affiliated companies and other long-term equity investments held by Volkswagen Bank GmbH are neither marketable nor listed.

INTANGIBLE FIXED ASSETS

Intangible fixed assets increased by €3,217 thousand to €10,058 thousand (previous year: €13,275 thousand).

PROPERTY AND EQUIPMENT

The total value of buildings and properties used for the Bank's own operations amounts to €6,725 thousand (previous year: €7,188 thousand). The amount within property and equipment attributable to other equipment, operating and office equipment is €1,720 thousand (previous year: €3,488 thousand).

LEASE ASSETS

This item comprises vehicles leased out as part of the leasing business operated by the branches in France and Italy and amounts to €1,777,837 thousand (previous year: €1,644,148 thousand).

OTHER ASSETS

This item includes receivables from interest rate hedging transactions amounting to €39,148 thousand (previous year: €38,480 thousand) and tax receivables of €31,418 thousand (previous year: €94,677 thousand), of which €14,054 thousand relates to tax receivables at the Bank's branch in Italy and €15,784 thousand to tax receivables at the Bank's branch in France. A significant component of the remaining other assets comprises receivables of €45,450 thousand (previous year: €58,782 thousand) from the ABS special purpose entities relating to the return of pledged collateral (not yet due) and service fees.

Derivatives to hedge currency risk gave rise to a currency adjustment item of €22,869 thousand (previous year: €0 thousand), which has been recognized under other assets.

PREPAID EXPENSES

This item contains deferred discounts of €9,125 thousand (previous year: €11,796 thousand), advance insurance premiums of €1 thousand (previous year: €1 thousand) and advance fees and commissions amounting to €9,827 thousand (previous year: €14,261 thousand) paid in connection with a rise in the level of new business at the Bank's branches.

LIABILITIES TO BANKS

The maturity analysis of the liabilities to banks, all of which comprise deposits or other liabilities not evidenced by certificates, is as follows:

> Repayable on demand €85,901 thousand (previous year: €52,575 thousand)
> Up to three months: €1,881,299 thousand (previous year: €856,326 thousand)
> More than three months and up to one year: €20,634 thousand (previous year: €4,448,292 thousand)
> More than one year and up to five years €7,624,849 thousand (previous year: €2,015,377 thousand)
> More than five years €77,030 thousand (previous year: €91,692 thousand)

Liabilities to banks include liabilities to an affiliated company in the amount of €0 thousand (previous year: €126 thousand).

Liabilities to Deutsche Bundesbank amounting to €9,386,656 thousand (previous year: €7,163,778 thousand) have been secured by collateral in the same amount in the form of securities.

LIABILITIES TO CUSTOMERS

This item includes liabilities to affiliated companies not evidenced by certificates amounting to €6,414,654 thousand (previous year: €6,083,490 thousand).

Customer deposits amount to €28,693,540 thousand (previous year: €31,733,064 thousand). Since January 1, 2019, customer deposits have been calculated without cash deposits from Group companies.

The item also includes accrued liabilities to dealers, customers and other creditors, i.e. incurred liabilities still to be billed.

The maturity breakdown of subitem "ab) With agreed maturity or notice period" is as follows:

- Up to three months: €7,545,960 thousand (previous year: €9,650,959 thousand)
- More than three months and up to one year: €1,809,065 thousand (previous year: €1,203,417 thousand)
- More than one year and up to five years: €1,011,536 thousand (previous year: €1,600,215 thousand)
- More than five years: €133,636 thousand (previous year: €897,048 thousand)

LIABILITIES TO SHAREHOLDERS

As of the reporting date, liabilities to the sole shareholder, Volkswagen AG, Wolfsburg, amounted to €3,075,044 thousand (previous year: €3,556,620 thousand).

NOTES, COMMERCIAL PAPER ISSUED

This item comprises bonds and commercial paper.

"a) Bonds issued" comprises: Bonds issued: €7,037,857 thousand (previous year: €7,037,916 thousand).

Residual maturities:

- Up to three months: €37,857 thousand (previous year: €37,916 thousand)
- More than three months and up to one year: €1,950,000 thousand (previous year: €0 thousand)
- More than one year and up to five years: €4,200,000 thousand (previous year: €5,650,000 thousand)
- More than five years: €850,000 thousand (previous year: €1,350,000 thousand)

"b) Other notes, commercial paper issued" comprises: commercial paper €10,589 thousand (previous year: €639,477 thousand).

Residual maturities:

- Up to three months: €0 thousand (previous year: €127,805 thousand)
- More than three months and up to one year: €10,589 thousand (previous year: €500,413 thousand)
- More than one year and up to five years: €0 thousand (previous year: €11,259 thousand)

The "notes, commercial paper issued" item does not include any liabilities to an affiliated company or to an investor or investee of Volkswagen Bank GmbH.

Of the total bonds issued, an amount of €1,950,000 thousand matures in the subsequent year.

OTHER LIABILITIES

Of the total liabilities, liabilities in an amount of €18,140,429 thousand (previous year: €12,048,801 thousand) are backed by collateral. These liabilities have arisen from ABS transactions in which Volkswagen Bank GmbH has retained beneficial ownership of the sold receivables after the sale.

The following are also reported under this item: outstanding debt servicing amounts in connection with ABS transactions amounting to €749,239 thousand (previous year: €544,439 thousand), liabilities from interest rate hedging transactions amounting to €8,465 thousand (previous year: €12,327 thousand), liabilities to tax authorities of €36,895 thousand (previous year: €51,945 thousand) and accrued interest liabilities related to subordinated bonds and profit-sharing rights amounting to €597 thousand (previous year: €597 thousand).

Derivatives to hedge currency risk gave rise to a currency adjustment item of €0 thousand (previous year: €22,507 thousand), which has been recognized under other liabilities.

DEFERRED INCOME

This item largely comprises deferred income in connection with manufacturer and partner participation in sales promotion campaigns amounting to €736,061 thousand (previous year: €764,764 thousand), which will be recognized in the income statement over the term of the relevant agreements.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The pension obligations are determined annually by an independent actuary using the projected unit credit method.

The main measurement assumptions and parameters applied in the actuarial calculations by Volkswagen Bank GmbH were as follows:

	Germany	Other countries
Discount rate	2.30%	2.30%
Expected rate of salary increases	3.40%	0.00% – 0.00%
Expected rate of pension increases	1.50%	0.00% – 2.70%
Employee turnover rate	1.10%	0.00%

For Germany, the discount rate applied was the discount rate of 2.30% published by Deutsche Bundesbank for December 2020 in accordance with section 253(2) of the HGB (average market interest rate for the past ten years).

For reasons of materiality, the actuarial assumptions used for other countries are reported as a range of values.

Pension funds with a value equivalent to a settlement amount of €51,822 thousand and fair value funds with a corresponding value of €48,406 thousand were offset against the liabilities for pensions and similar obligations. The cost of the pension fund securities amounted to €50,734 thousand and the cost of the fair value fund securities amounted to €45,748 thousand. The fair value of the pension fund totaled €51,822 thousand and that of the fair value fund was €48,406 thousand at the reporting date. The securities were measured at closing prices as of the reporting date.

Income of €1,561 thousand from the measurement of the funds at fair value was offset against interest expense from provisions of €1,561 thousand as part of the netting of the obligation (measured at the fair value of the securities) and of the securities fund for the fair value securities.

In the year under review, the amount of the difference for Germany determined in accordance with section 253(6) of the HGB is €10,729 thousand for the pension provisions not funded externally and €13,889 thousand for the commitments funded through Volkswagen Pension Trust e. V. The amount of the difference determined in accordance with section 253(6) of the HGB is €3 thousand for the Bank's branch in Italy and €746 thousand for the Bank's branch in the UK.

OTHER PROVISIONS

Other provisions mainly comprise provisions to cover costs associated with litigation and legal risks. The provisions for litigation and legal risks reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers. They relate primarily to proceedings in relation to design aspects of loan agreements with customers that may obstruct the processing of statutory cancelation periods, provisions for legal disputes in connection with dealer financing agreements as well as customer financing broking claims. In total, provisions for litigation and legal risks amounted to €305,373 thousand (previous year: €244,249 thousand).

SPECIAL TAX-ALLOWABLE RESERVE

The special tax-allowable reserve was recognized in accordance with section 3 of the Zonenrandförderungsgesetz (ZRFG – German Border Regions Development Act). Net income was increased by a reversal in the reporting period of €0 thousand (previous year: €1,128 thousand).

SUBORDINATED LIABILITIES

The total portfolio of subordinated liabilities amounts to €30,000 thousand (previous year: €30,000 thousand).

Subordinated liabilities amounting to €19,702 thousand (previous year: €26,983 thousand) are deemed to be a component of equity under the provisions of article 62(a) of the Capital Requirements Regulation (CRR).

The overall portfolio includes subordinated bonds in the amount of €30,000 thousand (previous year: €30,000 thousand), which have been placed on public capital markets.

There are no early repayment obligations for the subordinated liabilities.

The Bank has not entered into any agreement to convert these liabilities into equity or another form of debt, nor is it planning any such conversion. Volkswagen Bank GmbH has entered into derivative contracts to mitigate interest rate risk. The expenses incurred in connection with raising subordinated loans and issuing subordinated bonds amounted to €1,630 thousand (previous year: €1,630 thousand).

There are no subordinated liabilities to affiliated companies (previous year: €0 thousand).

SUBORDINATED BONDS

AS OF:	DEC. 31, 2020		LISTED ON A STOCK EXCHANGE		
Dated date	€ million	Coupon	Valid until	New coupon agreement based on	Maturity date
Sept. 26, 2003	20.0	5.40000%	Sept. 26, 2023	Fixed interest rate	Sept. 26, 2023
June 7, 2004	10.0	5.50000%	June 7, 2024	Fixed interest rate	June 7, 2024

Both of the subordinated bonds exceed 10% of the total amount of the subordinated liabilities. If the issuer is wound up, liquidated, or files for insolvency, the liabilities under these bonds will rank behind the claims of all the non-subordinated third-party creditors of the issuer such that no amount will be repayable in connection with these bonds until the claims of all these non-subordinated third-party creditors of the issuer have been satisfied in full. No agreement may be made retrospectively to limit the subordination or shorten the maturity of these bonds. The bonds may be redeemed early, but no earlier than five years after the issue date, and the issuer must first call the bond in question before any such redemption can take place. The issuer is only permitted to call the bond concerned if one of the following two requirements is satisfied: an equivalent amount of liable capital within the meaning of the Kreditwesengesetz (KWG – German Banking Act) and the CRR has been paid in to replace the redemption amount; or, the German Federal Financial Supervisory Authority (BaFin) and the European Banking Authority have consented to the early redemption. The bonds may also be called and redeemed early as a result of changes in the tax laws or regulations in the Federal Republic of Germany or as a result of a change in the official interpretation of these laws and regulations.

EQUITY

The capital reserves of Volkswagen Bank GmbH were unchanged at €8.5 billion as of December 31, 2020 (previous year: €8.5 billion).

CHANGES IN FIXED ASSETS OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG, FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2020

€ thousand	Long-term equity investments	Shares in affiliated companies	Purchased concessions and similar rights	Payments on account for intangible fixed assets	Goodwill	Land, land rights and buildings on third-party land	Other equipment, operating and office equipment	Prepayments and assets under construction	Lease assets
Cost as of Dec. 31, 2019	**94,051**	**125,906**	**80,618**	**148**	**144,482**	**34,835**	**24,593**	**1,507**	**2,491,499**
Additions in 2020	129	0	1,125	1,651	0	259	513	54	994,347
Disposals in 2020	0	0	426	0	0	598	6,466	0	742,889
Reclassifications in 2020	0	0	0	0	0	13	0	–13	0
Currency translation	0	0	–240	0	0	0	0	0	0
Cost as of Dec. 31, 2020	**94,180**	**125,906**	**81,077**	**1,799**	**144,482**	**34,509**	**18,640**	**1,548**	**2,742,956**
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2019	**158**	**0**	**67,491**	**0**	**144,482**	**26,661**	**21,106**	**0**	**847,352**
Additions in 2020	0	701	5,967	0	0	879	1,118	0	541,970
Reversals of write-downs in 2020	0	0	0	0	0	0	0	0	0
Disposals in 2020	0	0	400	0	0	441	5,456	0	424,203
Reclassifications in 2020	0	0	0	0	0	0	0	0	0
Currency translation	0	0	240	0	0	0	0	0	0
Accumulated depreciation, amortization and write-downs as of Dec. 31, 2020	**158**	**701**	**72,818**	**0**	**144,482**	**27,099**	**16,768**	**0**	**965,119**
Carrying amount as of Dec. 31, 2020	**94,022**	**125,205**	**8,259**	**1,799**	**0**	**7,410**	**1,873**	**1,548**	**1,777,837**
Carrying amount as of Dec. 31, 2019	**93,893**	**125,906**	**13,127**	**148**	**0**	**8,174**	**3,488**	**1,507**	**1,644,148**

IV. Income Statement Disclosures

INTEREST INCOME FROM LENDING AND MONEY MARKET TRANSACTIONS

The proportion of interest income generated in the foreign branches is 51.6% (previous year: 52.9%). The branches in Italy and France account for the largest share of this foreign income.

Interest income from lending and money market transactions includes income from finance leases amounting to €202,998 thousand (previous year: €197,216 thousand).

INTEREST ANOMALIES

The negative interest from money market transactions results from the Bank's reserve balance at the ECB in excess of the minimum reserve requirement and from short-term deposits with domestic banks. The positive interest from banking transactions results from the recharged negative interest on deposits of affiliated companies, the provision of short-term collateral for derivatives by banks and the participation in the tender operations of Deutsche Bundesbank.

LEASING INCOME

Income from leasing transactions comprises net income from operating leases and is generated primarily by the Bank's branch in France. The total amount of this income is €1,099,191 thousand (previous year: €997,608 thousand).

LEASING EXPENSES

The expenses from leasing transactions amount to €489,917 thousand (previous year: €466,498 thousand).

NET FEE AND COMMISSION INCOME

The proportion net fee and commission income generated in the foreign branches is 48.0% (previous year: 52.6%). The branches in Italy and France account for the largest share of this foreign income.

Fee and commission income is derived largely from insurance broking, especially in connection with credit protection insurance, from the administration and collection of receivables sold as part of ABS transactions and from miscellaneous fees relating to the retail business.

It includes prior-period income of €1,118 thousand (previous year: €1,519 thousand) largely generated from special fees for credit protection insurance, from the card payment system and from the credit card business.

Most of the fee and commission expenses are fees and commissions paid to dealers in connection with consumer credit business.

OTHER OPERATING INCOME

Other operating income amounted to €356,057 thousand (previous year: €228,642 thousand) and comprises mainly cost reimbursements from Group companies of €21,774 thousand (previous year: €28,527 thousand). The decrease is due to the fact that the options for recharging overheads to affiliated companies has been curtailed as a result of the reorganization of the corporate structure.

The proportion of other operating income generated in the foreign branches is 7.4% (previous year: 22.0%). The branches in France and Italy account for the largest share of this foreign income.

This item includes prior-period income of €132,100 thousand (previous year: €78,439 thousand), of which €126,392 thousand (previous year: €66,166 thousand) is income from the reversal of provisions. Other income includes the effects from the discounting of provisions amounting to €1,379 thousand (previous year: €352 thousand).

This item also includes income from the premature termination of ABS transactions amounting to €35,575 thousand (previous year: €11,096 thousand) and income from currency translation amounting to €8,735 thousand (previous year: €34,713 thousand).

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amount to €769,851 thousand (previous year: €795,381 thousand). Significant elements are personnel expenses of €190,743 thousand (previous year: €215,281 thousand) and cost allocations from Group companies amounting to €274,457 thousand (previous year: €270,681 thousand).

These cost allocations were mainly attributable to staff leasing arrangements. The fee for financial audit services paid to the auditor in the current fiscal year was mostly attributable to the audit of the annual and consolidated financial statements of Volkswagen Bank GmbH as well as to reviews of interim financial statements. Further assurance services related primarily to other audit services, such as the audit of the safe custody and securities services business pursuant to section 89 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act). The tax advisory services relate to the assessment of an impact analysis in connection with withholding tax. The other services performed by the auditor in the reporting period mainly consisted of issues relating to banking supervisory law, consulting services on process optimization and IT services. For further disclosures of the total fee charged by the auditor for the fiscal year, please refer to the notes to the consolidated financial statements of Volkswagen Bank GmbH.

AMORTIZATION AND WRITE-DOWNS OF INTANGIBLE FIXED ASSETS, AND DEPRECIATION AND WRITE-DOWNS OF PROPERTY AND EQUIPMENT AND LEASE ASSETS

Depreciation and write-downs of lease assets amounting to €541,577 thousand (previous year: €504,928 thousand) are reported within this line item as a separate subitem.

The “Depreciation and write-downs of lease assets” subitem is mainly used to recognize the depreciation and impairment of lease vehicles at the branch in France. Depreciation is calculated on a straight-line basis.

AMORTIZATION AND WRITE-DOWNS OF RECEIVABLES AND CERTAIN SECURITIES, AND ADDITIONS TO PROVISIONS IN THE LENDING BUSINESS

Amortization and write-downs increased by €320 million to €742.5 million. Income from the reversal of valuation allowances no longer required and income from loans and receivables previously written off totaled €514.6 million and were hence up on the prior-year figure (€216.8 million). This resulted in a net addition of provisions for credit risk, amounting to €227.9 million in the reporting year (previous year: net addition of €205.7 million). This includes expenses of €49.6 million resulting from the first-time application of the guidance of IDW AcP BFA 7.

WRITE-DOWNS OF LONG-TERM EQUITY INVESTMENTS, SHARES IN AFFILIATED COMPANIES, AND SECURITIES TREATED AS FIXED ASSETS

In fiscal year 2020, write-downs of €701 thousand were recognized on long-term equity investments and shares in affiliated companies.

OTHER OPERATING EXPENSES

This item is essentially the aggregation of a large number of individual items. These include prior-period expenses of €10,136 thousand (previous year: €8,642 thousand), of which €3,298 thousand (previous year: €4,405 thousand) relate to the branch in Italy and €3,088 thousand (previous year: €3,166 thousand) to the branch in France. Other operating expenses include expenses from currency translation amounting to €28,815 thousand (previous year: €20,151 thousand). Expenses of €24,426 thousand (previous year: €402 thousand) were recognized for identifiable litigation risks. The item also comprises the effects from the discounting of provisions amounting to €16,708 thousand (previous year: €17,646 thousand).

TAXES ON INCOME

This item comprises domestic and foreign taxes on income. The domestic income taxes for the reporting period amounting to €80,813 thousand (previous year: €22,606 thousand) were recharged to Volkswagen Bank GmbH within the existing tax group by Volkswagen AG, the controlling entity in the tax group.

The income taxes item includes prior-period expenses of €149 thousand (previous year: €696 thousand) and tax refunds for prior years amounting to €502 thousand (previous year: €4,638 thousand).

The deferred taxes of the independently taxable branches are determined separately in a dedicated statement using the appropriate local tax rates of between 12.5% and 33.52% in accordance with local tax laws. The deferred tax liabilities of the branch in France, most of which are attributable to lease assets, are offset against deferred tax assets of the other branches arising from valuation allowances and legal provisions. The option not to recognize the resulting total excess of assets over liabilities of €123,261 thousand (previous year: €40,561 thousand) is exercised in accordance with section 274(1) sentence 2 of the HGB.

In Germany, deferred taxes are determined using a tax rate of 30%. Due to the tax group with Volkswagen AG, the resulting net deferred tax assets of €85,952 thousand (previous year: €193,124 thousand) are attributable to Volkswagen AG.

PROFITS TRANSFERRED UNDER A PROFIT-AND-LOSS TRANSFER AGREEMENT

The profit remaining after tax, which amounts to €382.9 million (previous year: €364.7 million), is transferred to Volkswagen AG pursuant to the existing profit and loss transfer agreement. Volkswagen AG is planning to implement a capital increase of €383 million at Volkswagen Bank GmbH.

V. Other Disclosures

REPORT ON POST-BALANCE SHEET DATE EVENTS

No significant events had occurred by February 16, 2021 that would have required a substantially different presentation of the net assets, financial position and results of operations.

GROUP ACCOUNTING

The annual financial statements of Volkswagen Bank GmbH, Braunschweig, are included in the consolidated financial statements of Volkswagen Bank GmbH, Braunschweig, which are prepared in accordance with the International Financial Reporting Standards. The consolidated financial statements of Volkswagen Bank GmbH are included in the consolidated financial statements of Volkswagen AG, Wolfsburg (smallest and largest consolidated group within the meaning of section 285 no. 14 and no. 14a of the HGB). The annual financial statements of Volkswagen Bank GmbH, the consolidated financial statements of Volkswagen Bank GmbH and those of Volkswagen AG are all published in the German Federal Gazette.

CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

The irrevocable credit commitments are commitments that have arisen as part of the general banking business. The agreed credit amounts can be drawn down at any time. Once drawn down, the loans concerned are subject to the general rules and regulations for credit monitoring.

The contingent liabilities amounting to €200,458 thousand (previous year: €233,062 thousand) consist exclusively of guarantees. Of these guarantees, an amount of €174,089 thousand (previous year: €92,341 thousand) is secured by collateral in the form of deposits. Volkswagen Bank GmbH is therefore not exposed to any loss risk up to this amount if the guarantees were to be called upon.

OFF-BALANCE-SHEET TRANSACTIONS AND OTHER FINANCIAL OBLIGATIONS

Derivative financial instruments

Volkswagen Bank GmbH has entered into derivative contracts to mitigate interest rate and currency risks. The derivatives used are interest rate swaps, cross-currency swaps, cross-currency interest rate swaps and currency forwards, all of which are used solely for hedging purposes. The fair values of interest rate swaps, cross-currency swaps and currency forwards are determined with the help of suitable IT-based valuation techniques (discounted cash flow method) based on market swap rates; the levels vary in line with changes in interest or exchange rates. The fair values are not reported in the balance sheet. In the case of interest rate swaps, the interest is allocated and recognized over the maturity of the instrument.

The breakdown of derivative financial instruments in accordance with section 285 no. 19 of the HGB is as follows:

€ million	NOTIONAL VALUES	NOTIONAL VALUES	POSITIVE FAIR VALUES[1]	POSITIVE FAIR VALUES[1]	NEGATIVE FAIR VALUES[1]	NEGATIVE FAIR VALUES[1]
	Dec. 31, 2019	**Dec. 31, 2020**	Dec. 31, 2019	**Dec. 31, 2020**	Dec. 31, 2019	**Dec. 31, 2020**
Interest rate risks						
Interest rate swaps	11,779.2	11,385.3	150.1	167.8	2.4	9.7
Currency risks						
Currency forwards	1,165.9	2,096.5	1.8	11.8	16.6	16.4
Cross-currency swaps	2,066.9	1,434.4	33.7	20.6	46.9	5.0
Cross-currency interest rate risks						
Cross-currency interest rate swaps	830.5	190.0	8.1	11.2	2.7	0.0
Total derivatives	15,842.5	15,106.2	193.7	211.4	68.6	31.1

1 Fair value including accrued interest is shown for all contracts.

The maturity analysis for the derivatives is as follows:

NOMINAL VALUES € million	INTEREST RATE RISKS	INTEREST RATE RISKS	CURRENCY RISKS	CURRENCY RISKS	CROSS-CURRENCY INTEREST RATE RISKS	CROSS-CURRENCY INTEREST RATE RISKS
	Dec. 31, 2019	**Dec. 31, 2020**	Dec. 31, 2019	**Dec. 31, 2020**	Dec. 31, 2019	**Dec. 31, 2020**
Residual maturities						
<= 3 months	868.4	1,930.0	509.8	283.8	0.0	110.0
<= 1 year	3,589.4	1,135.0	1,376.7	1,121.3	720.5	80.0
<= 5 years	5,971.4	7,470.3	180.4	29.3	110.0	0.0
> 5 years	1,350.0	850.0	0.0	0.0	0.0	0.0

OTHER FINANCIAL OBLIGATIONS

Other financial obligations amount to €13,609 thousand (previous year: €15,035 thousand).

FOREIGN CURRENCIES

As of the reporting date, the total amount of assets denominated in foreign currency (translated into euros) amounted to €4,266,512 thousand (previous year: €5,024,832 thousand); liabilities in foreign currency (translated into euros) came to €579,543 thousand (previous year: €727,649 thousand).

The volume of spot exchange transactions not yet settled as of the reporting date was €99,774 thousand (previous year: €128,957 thousand), while the volume of currency forwards was €2,096,468 thousand (previous year: €1,165,867 thousand). The notional value of cross-currency swaps was €1,434,366 thousand (previous year: €2,066,902 thousand); that of cross-currency interest rate swaps amounted to €190,000 thousand (previous year: €830,488 thousand).

GOVERNING BODIES DISCLOSURES

Since fiscal year 2020, the members of the Management Board have received their remuneration from Volkswagen Bank GmbH. The total remuneration of the members of the Management Board amounted to €2,666 thousand.

In accordance with a resolution passed by the Annual General Meeting, the members of the Supervisory Board who are not employees of the Volkswagen Group are entitled to annual remuneration. This remuneration is independent of the performance of the Bank and the Supervisory Board role undertaken by the person concerned. The members of the Supervisory Board who are employees of the Volkswagen Group receive flat-rate remuneration from Volkswagen Bank GmbH. If they are also members of other supervisory boards of Group companies of Volkswagen AG, remuneration received for these functions is deducted from their entitlement. As a result, a total amount of less than €0.07 million was granted to the members of the Supervisory Board in the reporting period.

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

The members of the Management Board are as follows:

DR. MICHAEL REINHART (UNTIL SEPTEMBER 30, 2020)

Chairman of the Management Board
Corporate Management, Volkswagen Bank GmbH

DR. MICHAEL REINHART (FROM OCTOBER 1, 2020 TO JANUARY 31, 2021)

Chairman of the Management Board
Corporate Management, Volkswagen Bank GmbH
Finance, Volkswagen Bank GmbH (Group Treasury & Investor Relations only)

DR. MICHAEL REINHART (AS OF FEBRUARY 1, 2021)

Chairman of the Management Board
Corporate Management, Volkswagen Bank GmbH

HARALD HEßKE (UNTIL SEPTEMBER 30, 2020)

Finance, Volkswagen Bank GmbH

OLIVER ROES (AS OF FEBRUARY 1, 2021)

Finance, Volkswagen Bank GmbH

CHRISTIAN LÖBKE (UNTIL SEPTEMBER 30, 2020)

Risk Management, Volkswagen Bank GmbH

CHRISTIAN LÖBKE (FROM OCTOBER 1, 2020 TO JANUARY 31, 2021)

Risk Management, Volkswagen Bank GmbH
Finance, Volkswagen Bank GmbH (excl. Group Treasury & Investor Relations)

CHRISTIAN LÖBKE (AS OF FEBRUARY 1, 2021)

Risk Management, Volkswagen Bank GmbH

DR. VOLKER STADLER

Operations, Volkswagen Bank GmbH

The Supervisory Board had the following members as of the reporting date, December 31, 2020:

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

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

SILVIA STELZNER
Deputy Chairwoman
Member of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

MARKUS BIEBER
General Secretary of the Joint Works Council of Volkswagen AG

BIRGIT DIETZE
District Manager of IG Metall Berlin-Brandenburg-Saxony

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

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

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

REINHARD MATHIEU (AS OF SEPTEMBER 1, 2020)
Head of Basic Regulatory Issues & Reporting at Volkswagen Bank GmbH

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

DR. HANS-JOACHIM NEUMANN (UNTIL AUGUST 31, 2020)
Head of Business Back Office, Volkswagen Bank GmbH

JÜRGEN ROSEMANN
Member of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

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

The composition of the committees of the Supervisory Board of Volkswagen Bank GmbH was as follows as of the reporting date, December 31, 2020:

MEMBERS OF THE AUDIT COMMITTEE
Dr. Ingrun-Ulla Bartölke (Chairwoman)
Prof. Dr. Susanne Homölle (Deputy Chairwoman)
Frank Fiedler
Dr. Hans-Joachim Neumann (until August 31, 2020)
Silvia Stelzner (as of October 8, 2020)

MEMBERS OF THE RISK COMMITTEE
Prof. Dr. Susanne Homölle (Chairwoman)
Dr. Jörg Boche (Deputy Chairman)
Frank Fiedler
Silvia Stelzner

MEMBERS OF THE NOMINATION COMMITTEE
Dr. Ingrun-Ulla Bartölke (Chairwoman)
Thomas Kähms (Deputy Chairman)
Lars Henner Santelmann

MEMBERS OF THE REMUNERATION COMMITTEE
Dr. Jörg Boche (Chairman)
Dr. Ingrun-Ulla Bartölke (Deputy Chairwoman)
Thomas Kähms
Lars Henner Santelmann

Provisions of €4,439 thousand (previous year: €8,030 thousand) were recognized for pensions and similar obligations in favor of former members of the Management Board or their surviving dependants. In the reporting period, payments to these individuals amounted to €233 thousand (previous year: €335 thousand).

Assets include receivables of €21 thousand (previous year: €39 thousand) relating to loans falling within the scope of section 15(1) nos. 1 and 3 of the KWG. Of this amount, receivables of €14 thousand (previous year: €36 thousand) are due from members of the Supervisory Board and an amount of €7 thousand (previous year: €3 thousand) is due from the members of the Management Board.

Average number of employees during the reporting period:

	2020	2019
Salaried employees	1,855	1,899
of which senior managers	38	39
of which part time	430	420
Vocational trainees	27	25

BRANCHES

Zweigniederlassungen
Audi Bank, Braunschweig
SEAT Bank, Braunschweig
ŠKODA Bank, Braunschweig
AutoEuropa Bank, Braunschweig
ADAC FinanzService, Braunschweig
Ducati Bank, Braunschweig

Zweigstellen
Volkswagen Bank, Braunschweig
Volkswagen Bank, Emden
Volkswagen Bank, Hannover
Volkswagen Bank, Kassel
Volkswagen Bank, Salzgitter
Volkswagen Bank, Wolfsburg
Audi Bank, Ingolstadt
Audi Bank, Neckarsulm

Filialen
Volkswagen Bank GmbH, St. Denis-Paris, France
Volkswagen Bank GmbH, Glyfada-Athen, Greece
Volkswagen Bank GmbH, Milton Keynes, United Kingdom
Volkswagen Bank GmbH, Milan, Italy
Volkswagen Bank GmbH, Verona, Italy
Volkswagen Bank GmbH, Amersfoort, Netherlands
Volkswagen Bank GmbH, Warsaw, Poland
Volkswagen Bank GmbH, Lisbon, Portugal
Volkswagen Bank GmbH, Alcobendas-Madrid, Spain

Appointments to Supervisory Bodies – Disclosures in accordance with Section 340a(4) of the HGB

DR. MICHAEL REINHART

> Volkswagen Finančné služby Slovensko s.r.o., Bratislava, Slovakia
> Chairman of the Supervisory Board
> DFM N.V., Amersfoort, Netherlands
> Chairman of the Supervisory Board
> BASKETBALL LÖWEN Braunschweig GmbH, Braunschweig, Germany
> Member of the Supervisory Board

BERND BODE

> Volkswagen Financial Services N.V., Amsterdam, Netherlands
> Member of the Supervisory Board

Shareholdings

Shareholdings of Volkswagen Bank GmbH and the Volkswagen Bank Group in accordance with sections 285 and 313 of the HGB and presentation of the companies included in the consolidated financial statements of the Volkswagen Bank Group in accordance with IFRS 12 as of December 31, 2020.

		EXCHANGE RATE (1 EURO =)	VW BANK GMBH'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/LOSS IN THOUSANDS		
Name and registered office of the company	Currency	Dec. 31, 2020	Direct	Indirect	Total	local currency	local currency	Footnote	Year
I. PARENT COMPANY									
Volkswagen Bank GmbH, Braunschweig									
II. SUBSIDIARIES									
A. Consolidated companies									
1. Germany									
2. International									
Driver España five, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	9)	2019
Driver España four, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	9)	2019
Driver España six, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	3) 5) 9)	2020
Driver France FCT, in liquidation, Pantin	EUR		–	–	–	–	–75	1) 9)	2019
Driver Italia One S.r.l., Mailand	EUR		–	–	–	10	–	9)	2019
Driver Master S.A., Luxembourg	EUR		–	–	–	31	–	9)	2019
Driver Multi-Compartment S.A., Luxembourg	EUR		–	–	–	16	–	9)	2019
Private Driver España 2020-1, Fondo de Titulización, Madrid	EUR		–	–	–	–	–	3) 5) 9)	2020
Private Driver Italia 2020-1 S.r.l., Milan	EUR		–	–	–	10	–	3) 5) 9)	2020
B. Unconsolidated companies									
1. Germany									
2. International									
OOO Volkswagen Bank RUS, Moscow	RUB	91.7754	1.00	–	1.00	16,250,171	1,258,821	8) 10)	2019

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW BANK GMBH'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR		51.00	–	51.00	77,147	22,642		2019
2. International									
DFM N.V., Amersfoort	EUR		60.00	–	60.00	208,577	23,555	8)	2019
Volkswagen Financné služby Slovensko s.r.o., Bratislava	EUR		58.00	–	58.00	74,591	7,592	8)	2019
B. Companies accounted for at cost									
1. Germany									
2. International									
IV. ASSOCIATES									
A. Equity-accounted associates									
1. Germany									
2. International									
B. Associates accounted for at cost									
1. Germany									
2. International									
Credi2 GmbH, Vienna	EUR		20.00	–	20.00	–	–	6)	2020
V. EQUITY INVESTMENTS									
1. Germany									
paydirekt Beteiligungsgesellschaft privater Banken mbH, in liquidation, Berlin	EUR		2.02	–	2.02	33	–547	1) 2) 4)	2020
2. International									
Society for Worldwide Interbank Financial Telecommunications SCRL, La Hulpe	EUR		0.01	–	0.01	442,950	39,830	7) 8)	2019

1) In liquidation
2) Different fiscal year
3) Short fiscal year
4) Currently not trading
5) Newly established company
6) Newly acquired company
7) Consolidated financial statements
8) Figures in accordance with IFRSs
9) Structured company in accordance with IFRS 10 and IFRS 12
10) Company included in the consolidated financial statements of Volkswagen AG, Wolfsburg

Braunschweig, February 16, 2021

The Management Board

Dr. Michael Reinhart

Oliver Roes

Christian Löbke

Dr. Volker Stadler

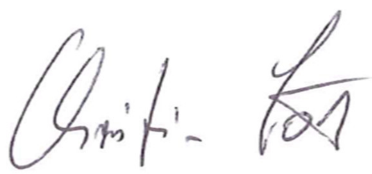
Responsibility Statement

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

Braunschweig, February 16, 2021
The Management Board

Dr. Michael Reinhart

Oliver Roes



Christian Löbke

Dr. Volker Stadler

Independent Auditor's Report

(Translation of the German independent auditor's report concerning the audit of the consolidated financial statements and group management report prepared in German)

To Volkswagen Bank GmbH, Braunschweig

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

OPINIONS

We have audited the annual financial statements of Volkswagen Bank GmbH, Braunschweig, which comprise the balance sheet as at 31 December 2020, and the income statement for the fiscal year from 1 January 2020 to 31 December 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Volkswagen Bank GmbH, which is combined with the group management report, for the fiscal year from 1 January 2020 to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration pursuant to Sec. 289f (4) in conjunction with Sec. 289f (2) No. 4 HGB ["Handelsgesetzbuch": German Commercial Code] included in the Human Resources Report section of the management report (disclosures on the quota for women on executive boards).

In our opinion, on the basis of the knowledge obtained in the audit,

> the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020 and of its financial performance for the fiscal year from 1 January 2020 to 31 December 2020 in compliance with German legally required accounting principles, and

> the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the corporate governance declaration referred to above (disclosures on the quota for women on executive boards).

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Identification of impaired loans and determination of specific valuation allowances in dealer financing
Reasons why the matter was determined to be a key audit matter
The valuation of loans to dealers and the related identification of impaired loans and the determination of specific valuation allowances are significant areas in which the executive directors of Volkswagen Bank exercise judgment. The identification of impaired loans and the determination of an appropriate specific valuation allowance entail uncertainties, which include various assumptions and estimation inputs, particularly regarding the dealer's financial performance, expected future cash flows and the valuation of collateral. As it is not yet possible to make a conclusive assessment of the impact of the global COVID-19 pandemic, these uncertainties are significantly increased in the fiscal year. Even minimal changes in the assumptions and estimation inputs can lead to significant variation in values.

In view of Volkswagen Bank's business model and the significance of dealer financing for its assets and financial performance, we determined the identification of impaired loans and the determination of specific valuation allowances in dealer financing to be a key audit matter.

Auditor's response
During our audit, we analyzed the accounting-related processes for the identification of impaired loans and the determination of specific valuation allowances. We tested the operating effectiveness of the controls implemented in these processes for identifying impaired loans and determining specific valuation allowances. Our audit procedures focused on the processes for evaluating the borrowers' economic situation, monitoring early warning indicators, applying impairment triggers and thus for applying internal risk classification procedures and for valuing collateral.

In addition, we performed substantive audit procedures on a sample basis and assessed the need for any specific valuation allowance and the determining of the specific valuation allowances. We selected our sample applying a risk-based approach, using criteria such as the listing of loans on watch lists for increased default risks, rating class, the level of exposure and specific valuation allowances already recognized.

As part of our risk-based sampling, we assessed whether the significant assumptions and estimates relating to dealers' expected cash flows including the carrying amounts of collateral held are consistent with the borrower's economic situation and market expectations. Furthermore, we checked the arithmetical accuracy of the specific valuation allowances determined.

Our audit procedures did not lead to any reservations relating to the identification of impaired loans and the determination of specific valuation allowances in dealer financing.

Reference to related disclosures
The Company's disclosures on the valuation of the loan portfolios (including the dealer financing portfolio) are contained in the "Accounting Policies" section of the notes to the financial statements as well as in the section "Report on Opportunities and Risks," subsection "Credit Risk," passages "Collateral" and "Provisions" of the management report, which is combined with the group management report.

Recognition and valuation of the provision for legal risks from cancelations of customer loan agreements

Reasons why the matter was determined to be a key audit matter
The Company is exposed to legal risks in relation to certain design aspects of loan agreements with customers that may obstruct the processing of statutory cancelation periods. Due in particular to differing decisions by the courts, the recognition of provisions for the resulting legal risks entails a high level of uncertainty and is thus, in principle and in amount, a significant area in which the executive directors exercise judgment. Against this background, we determined this to be a key audit matter.

Auditor's response
In connection with our audit of the recognition and valuation of the provision for legal risks from cancelations of customer loan agreements, we examined the processes and controls set up by Volkswagen Bank to identify affected agreements and assess the potential future expenses therefrom.

In order to determine whether the estimates by the executive directors of the anticipated cash outflows were appropriate, our audit procedures included making inquiries of the executive directors and the internal Legal department of the Company.

As of the reporting date, we also obtained assessments by an external law firm engaged by the Bank and opinions from experts engaged by the Bank for the valuation of the estimated cash outflows and their probability and, with the assistance of internal lawyers, determined that they were suitable for use in our audit. Furthermore, we inspected and analyzed the court rulings and proceedings concluded in the past. On this basis we formed our own expectations. We analyzed the estimates and assumptions made by the executive directors as to whether they were consistent with the knowledge obtained from using the documents by the experts engaged by the Bank and with our expectations. Moreover, we checked the arithmetical accuracy of the provision calculated by the Company.

Our audit procedures did not lead to any reservations relating to the recognition and valuation of the provision for legal risks from cancelations of customer loan agreements.

Reference to related disclosures
The Company's disclosures on the provisions and obligations are contained in the section "Balance Sheet Disclosures," subsection "Other Provisions" of the notes to the financial statements and in the "Business Performance" section of the management report, which is combined with the group management report.

OTHER INFORMATION
The Supervisory Board is responsible for the Report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. The other information comprises the corporate governance declaration (disclosures on the quota for women on executive boards). The other information also comprises additional parts of the annual report, of which we obtained a version prior to issuing this auditor's report, such as the Report of the Supervisory Board and the Responsibility Statement, but not the annual financial statements, not the management report disclosures whose content is audited and not our auditor's report thereon.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company’s position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company’s financial reporting process for the preparation of the annual financial statements and of the management report.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company’s position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the annual financial statements and the management report prepared for publication purposes

Opinion

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the attached electronic file Volkswagen Bank_GmbH_JA+LB_ESEF-2020-12-31.zip and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the fiscal year from 1 January 2020 to 31 December 2020 contained in the "Report on the audit of the annual financial statements and of the management report" above.

Basis for the opinion
We conducted our assurance work on the reproduction of the annual financial statements and the management report contained in the abovementioned attached electronic file in accordance with Sec. 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Sec. 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the "Auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the requirements for quality control systems set forth in IDW Standard on Quality Control: "Requirements for Quality Control in Audit Firms" (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents
The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the annual financial statements and the management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Sec. 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and the audited management report as well as other documents to be published to the operator of the Bundesanzeiger [German Federal Gazette].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Auditor's responsibilities for the assurance work on the ESEF documents
Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

> Identify and assess the risks of material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
> Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
> Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.
> Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited annual financial statements and to the audited management report.

FURTHER INFORMATION PURSUANT TO ART. 10 OF THE EU AUDIT REGULATION
We were elected as auditor by the Annual General Meeting on 24 March 2020. We were engaged by the Supervisory Board on 3 December 2020. We have been the auditor of Volkswagen Bank GmbH since fiscal year 2020.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Laura Gundelach.

Hanover, 17 February 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Gundelach	Meyer
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

Volkswagen Bank GmbH

During the reporting period, the Supervisory Board has regularly concerned itself closely with the situation and development of the Bank. The Management Board regularly provided the Supervisory Board with timely and comprehensive information, both written and oral, on the key aspects of planning, on the situation of the Bank, including the risk position and risk management, and on business development. On the basis of these reports by the Management Board, the Supervisory Board continually monitored the conduct of the Bank's business and was thus able to perform the functions entrusted to it by law and under the articles of association without any restrictions. All decisions of fundamental importance to the Bank and other transactions requiring the approval of the Supervisory Board in accordance with the rules of procedure were reviewed and discussed with the Management before a resolution was adopted.

The Supervisory Board has twelve members. In the reporting year, the Supervisory Board held four regular meetings and one extraordinary meeting. The average attendance rate was approximately 98%. One Supervisory Board member attended four meetings; all others attended all five meetings. Three decisions were made by circulation of written resolutions for approval; in the reporting period, there were no decisions made by the Chairman of the Supervisory Board using the expedited procedure.

COMMITTEE ACTIVITIES

The Supervisory Board set up committees in accordance with section 25d of the Kreditwesengesetz (KWG – German Banking Act).

Audit Committee

The Audit Committee held two regular meetings in the reporting period. During the reporting year, there were no extraordinary meetings or urgent transactions that would have required a decision by circulation of written resolutions for approval. One Supervisory Board member attended one committee meeting; the other members attended all meetings.

At the meeting held on March 11, 2020, the Audit Committee concerned itself with the annual financial statements and the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH for the year ended December 31, 2019 together with the proposal for the appropriation of profit. As part of this review, the Audit Committee discussed with the auditor the reports on the audit of the annual financial statements, the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH as well as material transactions and issues related to financial reporting. Following a detailed consultation, the Audit Committee submitted a recommendation to the sole shareholder regarding the election of the auditor and drew up the resolution covering the issue of the audit engagement in preparation for the Annual General Meeting. In addition, the Head of Internal Audit provided further information relating to Internal Audit's 2019 Annual Report for the benefit of the Audit Committee. Under further agenda items, the Audit Committee received reports on the Deep Dive Sales Commission Model with the ECB and on the schedule for external audits in 2020.

At the meeting held on December 11, 2020, the Audit Committee received reports on the latest performance of the Volkswagen Bank Group and discussed the audit planning, key audit matters and the obligations of the auditor to provide information. The Committee gathered details to establish the extent to which there were relationships of a professional, financial or other nature between the auditor and the Bank and/or its governing bodies with a view to assessing the independence of the auditor. In this regard, the Audit Committee obtained information on the services that the auditor had provided for the Bank in addition to the auditing activities. In addition, the Committee heard a report on the announced audit by the German Financial Reporting Enforcement Panel and on the results of the review of the presenter file by the Auditing Association of German Banks (Prüfungsverband deutscher Banken e.V.). Finally, the Head of Internal Audit reported on the auditing activities in the reporting year, outstanding action and the key audit matters for 2021.

Risk Committee

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

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

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

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

Remuneration Committee

The Remuneration Committee held four meetings in the reporting period. Resolutions on consent for the Management Board's two anticipatory resolutions on loans to executive bodies were passed in writing. All members of the Remuneration Committee attended the meetings.

At its meeting on March 11, 2020, the Remuneration Committee discussed the constraints and determination of the total amount available for variable remuneration (bonus pool) in accordance with the Institutsvergütungsverordnung (IVV – German Remuneration Regulation for Institutions) and the review of negative performance contributions (malus) in accordance with section 18(5) of the IVV.

At its meeting on April 17, 2020, the Committee's only discussion point was Management Board remuneration.

On October 8, 2020, the Committee discussed the remuneration report for fiscal year 2019. The Committee obtained a report on the review of the remuneration of monitoring units in accordance with section 15(3) of the IVV and the transition of Managing Director agreements to the new remuneration system. In addition, the Committee gave a recommendation to the Supervisory Board to amend the criteria in accordance with section 7 of the IVV for the Managing Directors of the Bank.

On December 11, 2020, the Committee concerned itself with the risk taker analysis and received an explanation of the review process for the prohibition on hedging activities relating to risk takers in accordance with section 8 of the IVV. The Remuneration Officer presented the remuneration control report for fiscal year 2019/2020 and the report on the appropriateness of employee remuneration. Furthermore, the Committee dealt with the appropriateness of Management Board remuneration and the remuneration of the new Managing Director to be appointed, and submitted corresponding recommendations to the Supervisory Board.

Nomination Committee

The Nomination Committee held two meetings in the reporting year, each of which was attended by all members of the Committee. One decision was made by circulation of written resolutions for approval in the reporting period.

At its meetings on March 11, July 29 and December 2, 2020, the Committee discussed the filling of vacancies on the Management Board and Supervisory Board and made corresponding recommendations to the Supervisory Board.

Credit Committee

The Credit Committee is responsible for approving issues that the Supervisory Board has to deal with by law and under the rules of procedure relating to loan commitments, the assumption of sureties, guarantees and similar liabilities, Bank borrowings, the purchasing of receivables and for master agreements governing the assumption of receivables. The Credit Committee is composed of three members of the Supervisory Board and makes its decisions by means of written resolutions and electronic loan documents.

The members of the committees also consulted each other on several occasions and were in constant contact with the Management Board outside committee meetings. The activities of the committees (where such activities took place) were reported at the plenary meetings of the Supervisory Board.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on March 11, 2020, following a detailed examination, the Supervisory Board recommended to the Annual General Meeting to adopt the annual financial statements of Volkswagen Bank GmbH prepared by the Management Board for 2019 and commented on the consolidated financial statements. In addition, it discussed the key issues for fiscal year 2020, the status of the Bank's strategy and the IT strategy. In addition, the Supervisory Report heard a report on the status of the ECB's ICAAP review. The Supervisory Board approved the optimization of the investment guidelines for securities and the closure of the payment services company DFM Payment Services B.V., Amersfoort, Netherlands.

The Supervisory Board's extraordinary meeting on April 21, 2020 was used exclusively to hear reports on the effects of the coronavirus pandemic, in particular in relation to operating policy measures and the work situation, the risk situation and limit utilization, communication with the ECB, refinancing and liquidity, and the outlook on business performance.

At the meeting on May 15, 2020, the Supervisory Board received an update on the current situation and the measures taken in response to the coronavirus pandemic. In addition, it heard reports on including the new ad hoc criterion, "Falling short of the regulatory capital recommendation/requirement (normative perspective of risk-bearing capacity)", in accordance with the ECB's guide to ICAAP and on the impact of the strategic measures on employees. Finally, the Chairwoman of the Audit Committee presented the compliance report.

On October 8, 2020, the Supervisory Board appointed a new member to the Audit Committee in accordance with a succession plan and discussed the results of the annual assessment of the Management and Supervisory Board in accordance with section 25d of the Kreditwesengesetz (KWG – German Banking Act). It resolved to amend the criteria of section 7 of the IVV for the Managing Directors of the Bank. The Management Board reported on the current situation of the Bank, in particular the current risk situation, and gave an outlook. Other topics included the standardization of ABS operations, the results of the ECB's on-site inspections and the status of IT in selected major projects. In addition, the Supervisory Board heard reports on the latest status of withdrawals from consumer credit agreements and the action plan to combat money laundering.

At its meeting on December 11, 2020, the Supervisory Board resolved the appointment and remuneration of a new Managing Director. It also considered the remuneration of the Management Board appropriate. In addition, it asked the Management Board to report on the current risk situation, on the financial performance of the Bank and the Group, and on the progress of initiatives in the lending business. It took note of the planning round and approved the investment planning. Moreover, it approved an increase in the limit for the purchase of securities of external issuers. It also received status reports on the agency business, selected IT topics and the "Together4Integrity" project.

At each of the meetings, the chairpersons of the respective committees or their deputies reported in detail on the contents of their committee meetings, as far as these have taken place.

EDUCATION AND TRAINING

The members of the Supervisory Board took, under their own responsibility, the education and training measures required to perform their tasks. The members of the Risk and Audit Committees received training on sustainable finance and the effects on a sustainable business model of the Bank. Further training was provided to the entire Board on artificial intelligence, in particular on ways of using it, the latest research developments and the success factors for their use.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hanover, was appointed to audit both the consolidated financial statements of the Volkswagen Bank GmbH Group in accordance with the IFRSs and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2020, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Bank GmbH Group in accordance with the IFRSs and the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB for the year ended December 31, 2020, together with the management reports, were submitted to the Supervisory Board. The auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hanover, audited these financial statements, including the bookkeeping system and the management reports, and issued an unqualified auditor's opinion in each case.

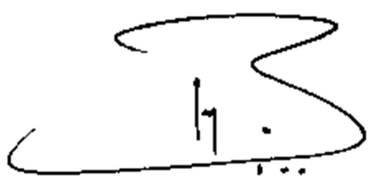
The Supervisory Board had no reservations after its review of the consolidated financial statements and the annual financial statements, including the management reports. The auditors were present when this agenda item was addressed at the Supervisory Board meeting and they reported on the main findings of their audit.

At its meeting on February 18, 2021, the Supervisory Board commented on the consolidated financial statements and annual financial statements of Volkswagen Bank GmbH prepared by the Management Board and recommended to the Annual General Meeting to adopt the annual financial statements for 2020 and to approve the consolidated financial statements.

In accordance with the existing control and profit-and-loss transfer agreement, the profits reported in the financial statements of Volkswagen Bank GmbH for the year ended December 31, 2020 have been transferred to Volkswagen AG.

The Supervisory Board would like to take this opportunity to express its gratitude and appreciation for the work of the members of the Management Board, the members of the Works Council, the managerial staff and all employees of Volkswagen Bank GmbH and its affiliated companies. The high level of commitment from all of them has helped to sustain the ongoing growth of Volkswagen Bank GmbH.

Braunschweig, February 18, 2021



Dr. Jörg Boche
Chairman of the Supervisory Board

NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements on the future business development of Volkswagen Bank GmbH. These statements are based on assumptions relating to the development of the global economy and of the financial and automotive markets, which Volkswagen Bank GmbH has made on the basis of the information available to it and which it considers to be realistic at the time of going to press. The estimates given entail a degree of risk, and the actual developments may differ from those forecast.

Should actual developments turn out to be different, contrary to expectations and assumptions, or unforeseen events occur that have an impact on the business of Volkswagen Bank GmbH, this will have a corresponding effect on the business development of the Bank.

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