VOLKSWAGEN BANK

GMBH

ANNUAL REPORT
IFRS

2020

Volkswagen Bank GmbH Group

Key Figures (IFRS)

€ million (as of Dec. 31)	2020	2019
Total assets	66,941	68,445
Loans and receivables attributable to		
Retail financing	33,808	35,307
Dealer financing	11,549	13,588
Leasing business	2,814	2,752
Customer deposits	28,694	31,733
Equity	10,313	10,027
Operating result	840	757
Profit before tax	844	785
Income tax expense	–170	–226
Profit after tax	674	560

Percent (as of Dec. 31)	2020	2019
Equity ratio	15.4	14.6
Common Equity Tier 1 capital ratio[1]	17.1	15.6
Tier 1 capital ratio[1]	17.1	15.6
Total capital ratio[1]	17.1	15.6

Number (as of Dec. 31)	2020	2019
Employees	1,931	1,954

RATING (AS OF DEC. 31)		STANDARD & POOR'S			MOODY'S INVESTORS SERVICE		
		Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Volkswagen Bank GmbH		A–2	A–	negative	P–1	A1	negative

1 Regulatory ratio in accordance with Article 92(1) of the CRR.

COMBINED MANAGEMENT REPORT

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.

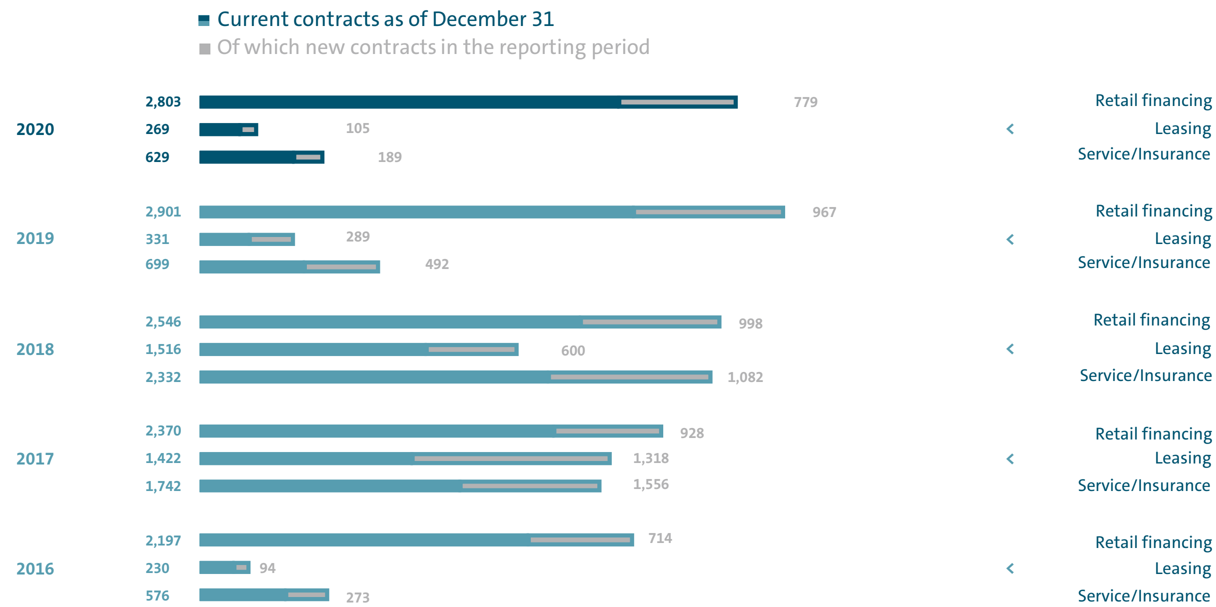
CURRENT CONTRACTS AND NEW CONTRACTS

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

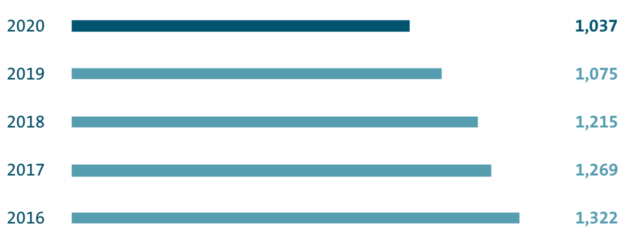
DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31

In thousands



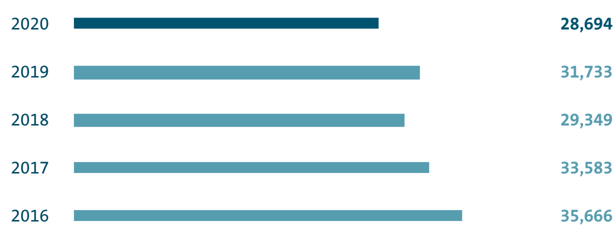
DIRECT BANK CUSTOMERS AS OF DECEMBER 31

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.

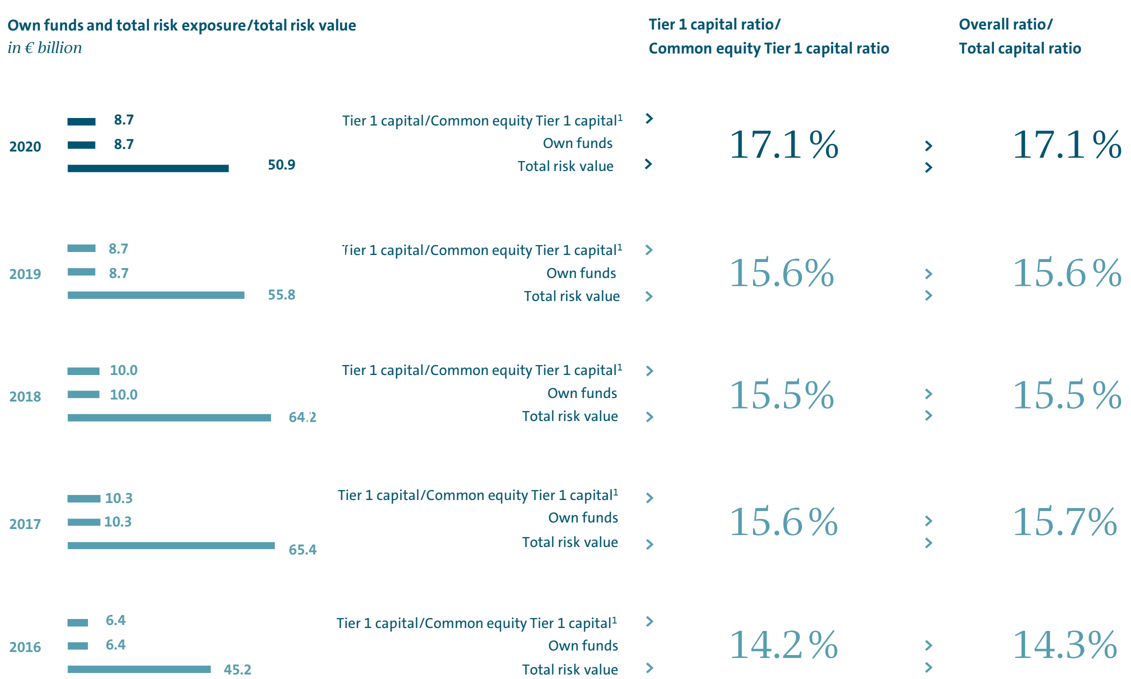
The Standardized Approach as specified in Article 317 of the CRR is used to calculate the own funds requirements for operational risk. The own funds requirements for the CVA charge are determined using the standardized method specified in Article 384 of the CRR.

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



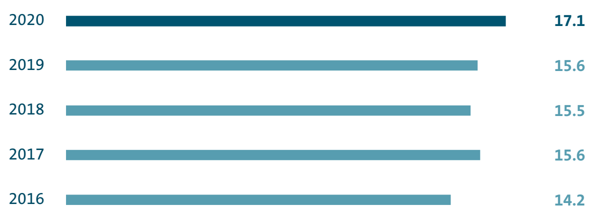
1 The amounts of Tier 1 capital and Common Equity Tier 1 capital are the same because Volkswagen Bank GmbH has not issued any Additional Tier 1 capital instruments.

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.

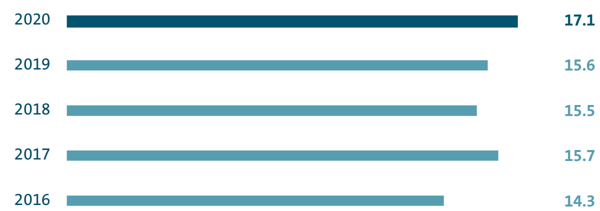
TIER 1 CAPITAL RATIO/COMMON EQUITY TIER 1 CAPITAL RATIO

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.

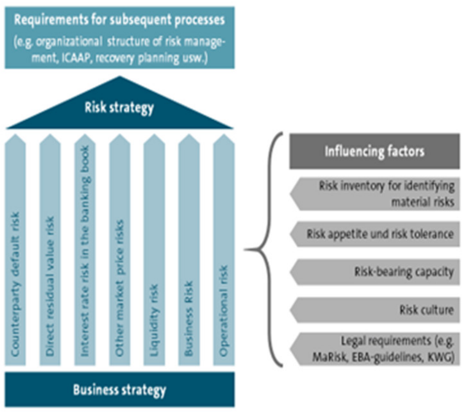
As part of this overall responsibility, the Management Board of Volkswagen Bank GmbH has introduced a MaRisk-compliant strategy process and implemented a business and risk strategy. The ROUTE2025 business strategy sets out the fundamental views of the Management Board of Volkswagen Bank GmbH on key matters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

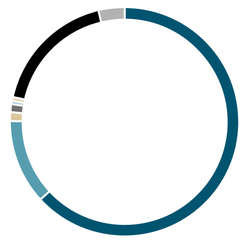
Risk-taking potential is determined from the available equity and earnings components subject to various deductions. In accordance with a moderate, overarching risk appetite, only a portion (a maximum of 90%) of this risk-taking potential is specified as a risk ceiling or overall risk limit. The overall 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).

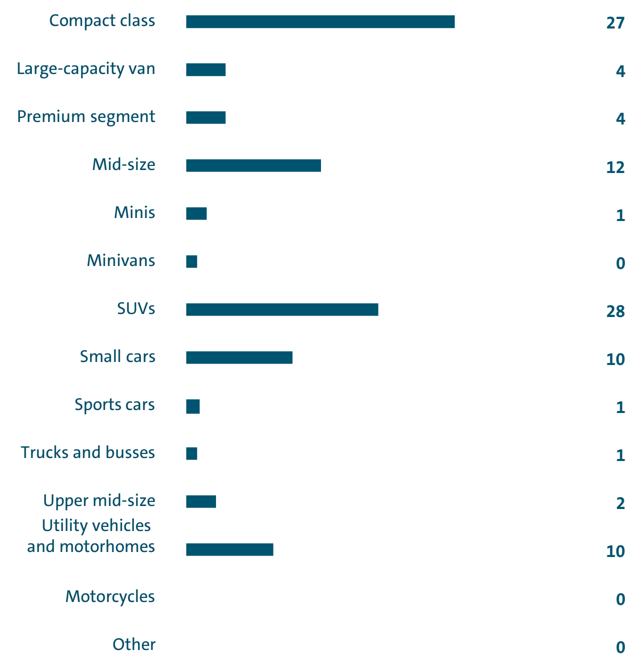
One of the objectives of the Volkswagen Bank GmbH Group's risk policy in its business model is to reduce such concentrations by means of broad diversification.

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 cooperation with the Group brands. Our end customers are looking, in particular, for mobility with predictable fixed costs. In addition, we intend to further expand the digitalization of our business.

The product packages 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

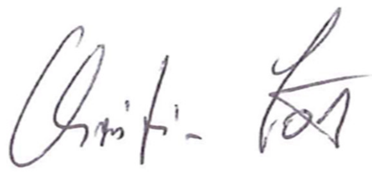
	Actual 2019	Actual 2020	Forecast for 2021
Nonfinancial performance indicators			
Penetration (percent)	23.0	18.9	At the level of 2020
Current contracts (thousands)	3,932	3,700	Moderately above the level achieved in 2020
New contracts (thousands)[1]	1,748	1,074	Moderately above the level achieved in 2020
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

CONSOLIDATED FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

Income Statement

of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019	Change in percent
Interest income from lending transactions and marketable securities	5, 8, 55	1,437	1,451	–1.0
Income from leasing transactions		965	1,017	–5.1
Depreciation, impairment losses and other expenses from leasing transactions		–723	–746	–3.1
Net income from leasing transactions	5, 13, 65	241	271	–11.1
Interest expense	5, 8, 20, 55	–153	–161	–5.0
Income from service contracts		74	64	15.6
Expenses from service contracts		–80	–42	90.5
Net income from service contracts	5, 21	–6	22	X
Provision for credit risks	8, 22, 55, 60	–229	–129	77.5
Fee and commission income		188	212	–11.3
Fee and commission expenses		–83	–212	–60.8
Net fee and commission income	5, 23	105	–1	X
Net gain or loss on hedges	8, 24	–8	–28	–71.4
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	8, 25, 55	4	2	100.0
General and administrative expenses	5, 10 – 13, 15, 16, 26	–763	–794	–3.9
Net other operating income		270	174	55.2
Other operating expenses		–59	–49	20.4
Net other operating income	5, 27	211	125	68.8
Operating result		**840**	**757**	**11.0**
Share of profits and losses of equity-accounted joint ventures		33	29	13.8
Net gain or loss on miscellaneous financial assets	9, 28	–1	0	X
Other financial gains or losses	29	–29	–1	X
Profit before tax		**844**	**785**	**7.5**
Income tax expense	6, 30	–170	–226	–24.8
Profit from continuing operations, net of tax		**674**	**560**	**20.4**
Profit/loss from discontinued operations, net of tax		–	–17	X
Profit after tax		**674**	**543**	**24.1**
Profit after tax attributable to the sole shareholder		674	543	24.1

Statement of Comprehensive Income

of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019
Profit after tax		**674**	**543**
Pension plan remeasurements recognized in other comprehensive income	48		
Pension plan remeasurements recognized in other comprehensive income, before tax		–12	–30
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	6, 30	4	9
Pension plan remeasurements recognized in other comprehensive income, net of tax		–8	–22
Fair value valuation of equity instruments that will not be reclassified to profit or loss, net of tax		0	3
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax		–	0
Items that will not be reclassified to profit or loss		**–8**	**–18**
Exchange differences on translating foreign operations	4		
Gains/losses on currency translation recognized in other comprehensive income		–23	76
Transferred to profit or loss		–	111
Exchange differences on translating foreign operations, before tax		–23	188
Deferred taxes relating to exchange differences on translating foreign operations		–	–
Exchange differences on translating foreign operations, net of tax		–23	188
Hedging transactions	8		
Fair value changes recognized in other comprehensive income (OCI I)		38	0
Transferred to profit or loss (OCI I)		–38	–2
Cash flow hedges (OCI I), before tax		0	–3
Deferred taxes relating to cash flow hedges (OCI I)	6, 30	0	1
Cash flow hedges (OCI I), net of tax		0	–2
Fair value changes recognized in other comprehensive income (OCI II)		–	0
Transferred to profit or loss (OCI II)		–	0
Cash flow hedges (OCI II), before tax		–	–
Deferred taxes relating to cash flow hedges (OCI II)		–	–
Cash flow hedges (OCI II), net of tax		–	–
Fair value valuation of debt instruments that may be reclassified to profit or loss	8		
Fair value changes recognized in other comprehensive income		38	20
Transferred to profit or loss		0	0
Fair value valuation of debt instruments that may be reclassified to profit or loss, before tax		38	19
Deferred taxes relating to fair value valuation of debt instruments that may be reclassified to profit and loss	6, 30	–11	–6
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax		26	14
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax		–	–
Items that may be reclassified to profit or loss		**4**	**199**
Other comprehensive income, before tax		3	177
Deferred taxes relating to other comprehensive income		–8	4
Other comprehensive income, after tax		**–4**	**181**
Total comprehensive income		**669**	**724**
Total comprehensive income attributable to noncontrolling interests		–	–
Total comprehensive income attributable to the sole shareholder		669	724

€ million	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019
Breakdown of total comprehensive income attributable to Volkswagen AG	669	724
Continuing operations	669	545
Discontinued operations	–	180

Balance Sheet

of the Volkswagen Bank GmbH Group

€ million	Note	Dec. 31, 2020	Dec. 31, 2019	Change in percent
Assets				
Cash reserve	7, 32, 55 – 59, 61, 63	7,056	3,471	X
Loans to and receivables from banks	8, 55 – 62	348	444	–21.6
Loans to and receivables from customers attributable to				
Retail financing		33,808	35,307	–4.2
Dealer financing		11,549	13,588	–15.0
Leasing business		2,814	2,752	2.3
Other loans and receivables		3,077	3,635	–15.4
Total loans to and receivables from customers	8, 13, 33, 55 – 60, 62	51,249	55,282	–7.3
Derivative financial instruments	8, 34, 55 – 59, 62 – 63	48	51	–6.3
Marketable securities	8, 35, 55 – 60, 62	3,806	3,556	7.0
Equity-accounted joint ventures	36, 56	278	245	13.6
Miscellaneous financial assets	8, 9, 37, 55 – 59	8	9	–6.6
Intangible assets	10, 12, 37	33	39	–15.2
Property and equipment	11 – 13, 38	27	25	7.5
Assets leased out	12, 13, 65	1,788	1,657	7.9
Investment property	12 – 14, 39, 65	0	1	–20.6
Deferred tax assets	6, 40	1,719	1,870	–8.1
Current tax assets	6, 55 – 59	17	51	–65.9
Other assets	13, 41, 55 – 59	563	549	2.5
Assets held for sale (IFRS 5)	42	–	1,195	X
Total		**66,941**	**68,445**	**–2.2**

€ million	Note	Dec. 31, 2020	Dec. 31, 2019	Change in percent
Equity and liabilities				
Liabilities to banks	8, 44, 55 – 59, 61 – 62	9,744	7,478	30.3
Liabilities to customers	8, 44, 55 – 59, 61 – 62	35,404	38,247	–7.4
Notes, commercial paper issued	8, 45, 46, 55 – 59, 61 – 62	8,702	9,563	–9.0
Derivative financial instruments	8, 47, 55 – 59, 61 – 63	24	70	–66.4
Provisions	15 – 16, 48	534	453	17.8
Deferred tax liabilities	6, 49	1,847	1,992	–7.3
Current tax liabilities	6, 55 – 59	155	139	11.4
Other liabilities	50, 55 – 59, 61	171	370	–53.9
Subordinated capital	8, 46, 51, 55 – 59, 61 – 62	49	105	–53.9
Equity	53	10,313	10,027	2.9
Subscribed capital		318	318	–
Capital reserves		8,498	8,498	–
Retained earnings		1,511	1,223	23.6
Other reserves		–13	–12	13.0
Total		**66,941**	**68,445**	**–2.2**

Statement of Changes in Equity

of the Volkswagen Bank GmbH Group

				OTHER RESERVES						
					Hedging transactions					
€ million	Subscribed capital	Capital reserves	Retained earnings	Currency translation	Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)	Equity and debt instruments	Equity-accounted investments	Non-controlling interests	**Total equity**
Balance on Jan. 1, 2019	**318**	**8,531**	**3,006**	**–235**	**1**	**–**	**18**	**0**	**–**	**11,639**
Profit after tax	–	–	543	–	–	–	–	–	–	543
Other comprehensive income, after tax	–	–	–22	188	–2	–	17	0	–	181
Total comprehensive income	**–**	**–**	**521**	**188**	**–2**	**–**	**17**	**0**	**–**	**724**
Capital increases	–	–	–	–	–	–	–	–	–	–
Profit transfer to Volkswagen AG[1]	–	–	–365	–	–	–	–	–	–	–365
Distribution of noncash assets from the disposal of companies[2]	–	–481	–2,143	–	–	–	–	–	–	–2,624
Changes resulting from noncash contribution by shareholder Volkswagen AG[2]	–	448	203	–	1	–	–	–	–	652
Other changes	–	–	–	0	–	–	–	–	–	0
Balance as of Dec. 31, 2019	**318**	**8,498**	**1,223**	**–48**	**0**	**–**	**35**	**0**	**–**	**10,027**
Balance as of Jan. 1, 2020	**318**	**8,498**	**1,223**	**–48**	**0**	**–**	**35**	**0**	**–**	**10,027**
Profit after tax	–	–	674	–	–	–	–	–	–	674
Other comprehensive income, after tax	–	–	–8	–23	0	–	26	–	–	–4
Total comprehensive income	**–**	**–**	**666**	**–23**	**0**	**–**	**26**	**–**	**–**	**669**
Capital increases	–	–	–	–	–	–	–	–	–	–
Profit transfer to Volkswagen AG[1]	–	–	–383	–	–	–	–	–	–	–383
Other changes	–	–	0	0	–	–	–	0	–	0
Balance as of Dec. 31, 2020	**318**	**8,498**	**1,511**	**–70**	**1**	**–**	**56**	**–**	**–**	**10,313**

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

Further information on equity is presented in note (53).

Cash Flow Statement

of the Volkswagen Bank GmbH Group

€ million	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019
Profit before tax[1]	**844**	**785**
Depreciation, amortization, impairment losses and reversals of impairment losses	431	634
Change in provisions	81	–61
Change in other noncash items	26	35
Loss on disposal of financial assets and items of property and equipment	1	–3
Net interest expense and dividend income	–1,431	–1,475
Other adjustments	0	4
Change in loans to and receivables from banks	93	–96
Change in loans to and receivables from customers	3,725	–3,049
Change in lease assets	–517	–1,041
Change in other assets related to operating activities	–18	249
Change in liabilities to banks	2,266	–1,461
Change in liabilities to customers	–2,815	3,228
Change in notes, commercial paper issued	–855	1,732
Change in other liabilities related to operating activities	–199	–59
Interest received	1,583	1,636
Dividends received	0	0
Interest paid	–153	–161
Income taxes paid	–121	–131
Cash flows from operating activities	**2,942**	**766**
Proceeds from disposal of investment property	–	–
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	–	0
Acquisition of subsidiaries and joint ventures	0	–6
Proceeds from disposal of other assets	1,328	490
Acquisition of other assets	–5	–11
Change in investments in marketable securities	–243	633
Cash flows from investing activities	**1,080**	**1,106**
Proceeds from changes in capital	–	0
Dividend payment/profit transfer to Volkswagen AG	–365	–204
Loss assumed by Volkswagen AG	–	–
Change in cash funds attributable to subordinated capital	–57	–53
Repayments of lease liabilities[2]	–2	–3
Cash flows from financing activities	**–424**	**–260**
Cash and cash equivalents at end of prior period	**3,471**	**1,858**
Cash flows from operating activities	2,942	766
Cash flows from investing activities	1,080	1,106
Cash flows from financing activities	–424	–260
Effect of exchange rate changes	–13	1
Cash and cash equivalents at end of period	**7,056**	**3,471**

1 The structure of the cash flow statement has been modified; prior-year figures have been adjusted accordingly (see section Changes to Prior-Year Figures).
2 Item presented separately in accordance with IAS 7.17e; prior-year figures have been adjusted accordingly (see section Changes to Prior-Year Figures).
Further information on the cash flow statement is presented in note (66).

Notes

to the Consolidated Financial Statements of the Volkswagen Bank GmbH Group as of December 31, 2020

General Information

Volkswagen Bank GmbH is a limited liability company (Gesellschaft mit beschränkter Haftung, GmbH) under German law. It has its registered office at Gifhorner Strasse, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 1819).

The object of the Bank is to develop, sell and process its own and third-party financial services both in Germany and abroad, the purpose of such financial services being to support the business of Volkswagen AG and of Volkswagen AG's affiliated companies.

Volkswagen AG, Wolfsburg, is the sole shareholder of the parent company, Volkswagen Bank GmbH. Volkswagen AG and Volkswagen Bank GmbH have entered into a control and profit-and-loss transfer agreement.

The annual financial statements of the companies in the Volkswagen Bank GmbH Group are included in the consolidated financial statements of Volkswagen AG, Wolfsburg, which are published in the electronic German Federal Gazette and Company Register.

Basis of Presentation

Volkswagen Bank GmbH has prepared its consolidated financial statements for the year ended December 31, 2020 in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), and the interpretations issued by the IFRS Interpretations Committee (IFRS IC), as well as in accordance with the additional disclosures required by German commercial law under section 315e(1) of the Handelsgesetzbuch (HGB – German Commercial Code). All IFRSs issued by the International Accounting Standards Board (IASB) up to December 31, 2020 for which mandatory application was required in fiscal year 2020 in the EU have been taken into account in these consolidated financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the IFRS consolidated financial statements also include the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks associated with future development (report on opportunities and risks in accordance with section 315(1) of the HGB) can be found in the combined management report. This includes the qualitative disclosures on the nature and scope of risk from financial instruments required under IFRS 7.

All estimates and assumptions necessary for recognition and measurement in accordance with the IFRSs comply with the relevant standard, are continuously updated and are based on past experience and other factors, including expectations regarding future events that appear to be reasonable in the given circumstances. The assumptions made by the Bank are explained in detail in the disclosures on management's material estimates and assumptions.

The Management Board completed the preparation of these consolidated financial statements on February 16, 2021. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Changes to Prior-Year Figures

In the table of summarized financial information for material joint ventures in note 2, Basis of Consolidation, the prior-year figures of DFM N.V have been restated with corrections for the missing disclosures under current financial liabilities from €0 million to €1,770 million. The prior-year figure for depreciation and amortization under Volkswagen Finančné služby Slovensko s.r.o.has also been corrected from €1 million to €12 million.
In note 43, Noncurrent Assets, the prior-year figure for noncurrent loans to and receivables from customers has been restated from €26,418 million to €28,246 million following a correction in the classification of maturities in connection with lease receivables.

The structure of the cash flow statement for the Volkswagen Bank GmbH Group was modified in fiscal year 2020.

Firstly, in a voluntary change of accounting policy, the profit before tax has been used as the starting point for reconciling the cash flows from operating activities. This modification is in line with a generally accepted cash flow statement structure and creates a more meaningful presentation for the users of the consolidated financial statements.

In addition, modifications have been applied to the "Changes in liabilities to customers" and "Acquisition of other assets" line items to facilitate separate presentation of the repayment of liabilities arising from leases in accordance with IAS 7.17e within the cash flows from financing activities.

Prior-year figures have been adjusted as follows:

€ million	Before adjustment	Adjustment	After adjustment
Profit after tax	**543**	**–543**	**–**
Profit before tax	**–**	**785**	**785**
Change in other noncash items	277	–242	35
Change in liabilities to customers	3,227	1	3,228
Cash flows from operating activities	**765**	**–241**	**766**
Acquisition of other assets	–13	2	–11
Cash flows from investing activities	**1,104**	**2**	**1,106**
Repayment of liabilities arising from leases	–	–3	–3
Cash flows from financing activities	**–257**	**–3**	**–260**

Impact of the Covid-19 Pandemic

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. Automotive financial services were in high demand in 2020, particularly in the first three months of the year. Nevertheless, the reporting period saw the Covid-19 pandemic exert downward pressure on the demand for financial services in virtually every region. The effects of the Covid-19 pandemic were noticeable worldwide, especially in the second quarter of 2020. Markets for automotive financial services staged a partial recovery in the third and fourth quarters.
Taking into account the nature of the conditions in 2020 and the impact of the Covid-19 pandemic, the Management Board of Volkswagen Bank GmbH nevertheless considers the Group's business to have performed well. There are no indications that the ability of the business to continue as a going concern is impaired, as a result of which the consolidated financial statements have been prepared on a going concern basis. However, the Covid-19 pandemic has led to a higher level of estimation uncertainty overall.

Following a moderate start to the year, performance over the rest of fiscal year 2020 was shaped 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. In the context of the provision for credit risks recognized under the expected credit loss model specified in IFRS 9, a significant rise in credit risk has not been assumed for deferred contracts without differentiation in accordance with published technical guidance relating to handling the impact of the pandemic. Instead, the rise in credit risk has been assessed by taking into account all available information and estimates. The period of any granted payment deferral has not been treated as a period of default. However, the rise in significant credit risk is being closely monitored within the internal risk management systems. Estimation uncertainty relates primarily to projected credit quality, taking into account forward-looking factors and the associated uncertainty that the macroeconomic impact of the pandemic in the future could be deeper and more protracted than anticipated. Because of the short duration of deferrals, payment deferrals in connection with loans and leases do not have any material impact on the assets, liabilities or financial performance of the Volkswagen Bank GmbH Group, for example in relation to the accounting treatment of contractual modifications.
Liquidity risk at the level of the Volkswagen Bank GmbH Group remained stable.
The funding structure continued to be 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, 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 always remained within the specified limits.
In addition to the annual impairment tests carried out on goodwill and other intangible assets with an indefinite useful life, impairment tests were also conducted during the course of the year on equity investments in joint ventures and unconsolidated subsidiaries to assess the impact of the Covid-19 pandemic. As the Volkswagen Bank GmbH Group currently believes the pandemic to be a temporary event that will not have a lasting negative impact on the long-term performance of the Group, the planning years 2020 to 2021 used for the equity investment impairment tests related to the Covid-19 pandemic were based on last year’s planning information and adjusted in line with the latest projections regarding the effects of the pandemic. If a fully updated budget account, taking into account the effects of the Covid-19 pandemic, was already available at the time of the impairment test, this account was used as the basis for the equity investment impairment test in question. In each case, cost of capital rates were updated on the date of the impairment test. The Volkswagen Bank GmbH Group is subject to uncertainty in relation to estimate assumptions arising from the use of forward-looking planning information that could be affected by the development of the Covid-19 pandemic over time. Overall, the tests described above did not give rise to any requirement for the recognition of additional impairment losses.

The ECB has made additional liquidity available on favorable terms under its TLTRO III program in order to encourage banks to lend to consumers and businesses during the Covid-19 pandemic. Volkswagen Bank GmbH believes that this support constitutes a government grant. It therefore recognizes the income from this government grant within the meaning of IAS 20 under net interest income. A market interest rate of 0.00% has been assumed for the scenario in which the existence of a government grant has been identified. This is based on the alternative funding options available to Volkswagen Bank GmbH on the capital market.
The following two benefits have been identified as government grants. The special interest rate of –0.5% p.a. for the period June 2020 to June 2021 and the bonus for lending growth of >=1.15% for the period March 2019 to March 2021. The growth requirements for the second reporting period linked to the granting of the bonus will be satisfied with a reasonable degree of certainty. Please refer to notes (31) and (44) for details.

For further information on the effects of the Covid-19 pandemic, please refer to the details set out in the Report on Economic Position and in the Report on Opportunities and Risks in the Management Report.

Effects of New and Revised IFRSs

Volkswagen Bank GmbH has applied all financial reporting standards adopted by the EU and subject to mandatory application from fiscal year 2020.

In the previous year, the Volkswagen Bank GmbH Group had decided in favor of their voluntary early application. The amendments affect hedges in existence at the beginning of the reporting period or designated thereafter. In application of the accompanying exceptions available under the amendments, the Volkswagen Bank GmbH Group believes that the recognized hedges remained effective in the reporting period and are not adversely impacted by the IBOR reform and that therefore no hedges needed to be discontinued.

Amendments to IAS 1 and IAS 8 also came into effect on January 1, 2020, clarifying and standardizing the definition of “material”.

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

New and Revised IFRSs Not Applied

Volkswagen Bank GmbH has not applied in its consolidated financial statements the following financial reporting standards that have already been issued by the IASB but were not yet subject to mandatory application in fiscal year 2020.

Standard/ interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IFRS 3	Updating of references to the Conceptual Framework	May 14, 2020	January 1, 2022	No	No material impact
IFRS 4	Insurance Contracts – Extension of the Temporary Exemption from Applying IFRS 9	June 25, 2020	January 1, 2021	Yes	No impact
IFRS 4; IFRS 7; IFRS 9; IFRS 16 and IAS 39	Interest Rate Benchmark Reform (Phase 2)	August 27, 2020	January 1, 2021	Yes	No material impact
IFRS 17	Insurance Contracts	May 18, 2017	January 1, 2023[2]	No	No material impact
IFRS 17	Insurance Contracts – Amendments to IFRS 17	June 25, 2020	January 1, 2023	No	No material impact
IAS 1	Classification of liabilities	January 23, 2020	January 1, 2023	No	No material impact
IAS 16	Property, Plant and Equipment – Proceeds before Intended Use	May 14, 2020	January 1, 2022	No	No material impact
IAS 37	Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract	May 14, 2020	January 1, 2022	No	No material impact
	Annual Improvements to International Financial Reporting Standards 2020[3]	May 14, 2020	January 1, 2022	No	No material impact

1 Initial appllication requirement from Volkswagen Bank GmbH’s perspective
2 On June 25, 2020, the IASB published amendments to IFRS 17, which included deferral of the date of initial application to January 1, 2023.
3 Minor changes to a range of IFRSs (IFRS 1, IFRS 9 and IAS 41)

Accounting Policies

1. Basic Principles

All entities included in the basis of consolidation have prepared their annual financial statements to the reporting date of December 31, 2020.

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

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

Assets and liabilities are presented broadly in order of liquidity in accordance with IAS 1.60.

2. Basis of Consolidation

In addition to Volkswagen Bank GmbH, the consolidated financial statements cover all significant German and non-German subsidiaries, including all structured entities, that are controlled directly or indirectly by Volkswagen Bank GmbH. This is the case if Volkswagen Bank GmbH has power over potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and has the ability to use its power to influence those returns. In the case of the structured entities consolidated in the Volkswagen Bank GmbH Group, Volkswagen Bank GmbH holds no equity investment but nevertheless determines the main relevant activities remaining after the structure is created and thereby influences its own variable returns. The purpose of the structured entities is to facilitate asset-backed-securities transactions to fund the financial services business.

Subsidiaries are included in the consolidation from the date on which control comes into existence; they cease to be consolidated when control no longer exists. Subsidiaries in which activities are dormant or of low volume and that, individually and jointly, are of minor significance in the presentation of a true and fair view of the financial position, financial performance and cash flows of the Volkswagen Bank GmbH Group are not consolidated. They are recognized in the consolidated financial statements under financial assets at cost, taking into account any necessary impairment losses or reversals of impairment losses.

The equity method is used to account for material entities in which Volkswagen Bank GmbH has the opportunity, directly or indirectly, to exercise significant influence over financial and operating policy decisions (associates) or in which Volkswagen Bank GmbH directly or indirectly shares control (joint ventures). Joint ventures also include entities in which the Volkswagen Bank GmbH Group controls a majority of the voting rights but whose partnership agreements or articles of association specify that key decisions may only be made unanimously. Associates and joint ventures of minor significance are not accounted for using the equity method but are reported under financial assets at cost, taking into account any necessary impairment losses or reversals of impairment losses.

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

	2020	2019
Volkswagen Bank GmbH and consolidated subsidiaries		
Germany	1	1
International	–	–
Subsidiaries recognized in financial assets		
Germany	–	–
International	1[1]	1
Equity-accounted associates and joint ventures		
Germany	1	1
International	2	2
Associates, joint ventures and equity investments recognized in financial assets		
Germany	1	1
International	2	2
Total	**8**	**8**

1 This relates to Volkswagen Bank RUS, Moscow, a company fully consolidated in the consolidated financial statements of Volkswagen AG, Wolfsburg.

Volkswagen Bank GmbH maintains eight (previous year: nine) branches abroad. As of the balance sheet date, eleven (previous year: twelve) structured entities were consolidated in the consolidated financial statements. The list of all shareholdings in accordance with section 313(2) of the HGB and in accordance with IFRS 12.10 and IFRS 12.21 is included as an annex to the notes to the consolidated financial statements.
The following sections present the disclosures on the changes in the composition of the Volkswagen Bank GmbH Group.

SUBSIDIARIES

The following structured entities were liquidated in the reporting period, in each case with entry of the details in the commercial register:

> Driver Twelve GmbH, in liquidation, Frankfurt am Main, on January 24, 2020
> Driver thirteen UG (haftungsbeschränkt), in liquidation, Frankfurt am Main, on June 2, 2020
> Private Driver 2014-4 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main, on October 21, 2020
> Private Driver 2015-1 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main, on November 3, 2020

In addition, the following structured entities were established:

> Driver España six, Fondo de Titulización, Madrid, Spain, on February 24, 2020
> Private Driver Italia 2020-1 S.r.l., Milan, Italy, on September 4, 2020
> Private Driver España 2020-1, Fondo de Titulización, Madrid, Spain, on November 25, 2020

JOINT VENTURES

From a Group perspective, the equity-accounted joint ventures require separate presentation because they were deemed material on the reporting date because of their size. These joint ventures are strategically important to the Volkswagen Bank GmbH Group.

Volkswagen Financial Services Digital Solutions GmbH, Braunschweig

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

DFM N.V., Amersfoort

DFM N.V., whose registered office is situated in Amersfoort, Netherlands, is a financial institution that offers financing products for Volkswagen Group vehicles to business and private customers in the Netherlands and thus helps to promote vehicle sales in the Volkswagen Group. Volkswagen Bank GmbH and its partner in this joint venture, Pon-Holdings B.V., have entered into an agreement for a long-term strategic partnership. Effective June 2, 2020, DFM Payment Services B.V., whose registered office is situated in Amersfoort, Netherlands, a wholly owned subsidiary of DFM N.V., was liquidated.

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

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

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

€ million	DFM N.V. (NETHERLANDS) 2020	DFM N.V. (NETHERLANDS) 2019	VOLKSWAGEN FINANCIAL SERVICES DIGITAL SOLUTIONS GMBH (GERMANY) 2020	VOLKSWAGEN FINANCIAL SERVICES DIGITAL SOLUTIONS GMBH (GERMANY) 2019	VOLKSWAGEN FINANČNÉ SLUŽBY SLOVENSKO S.R.O. (SLOVAKIA) 2020	VOLKSWAGEN FINANČNÉ SLUŽBY SLOVENSKO S.R.O. (SLOVAKIA) 2019
Shareholding (percent)	60 %	60 %	51 %	51 %	58 %	58 %
Loans to and receivables from banks	–	–	34	25	2	1
Loans to and receivables from customers	2,010	2,200	48	41	457	472
Assets leased out	–	–	–	–	49	64
Other assets	30	6	151	138	16	21
Total	**2,040**	**2,206**	**233**	**204**	**525**	**557**
of which: noncurrent assets	583	519	130	122	365	408
of which: current assets	1,457	1,686	103	82	159	149
of which: cash	–	4	0	0	2	1
Liabilities to banks	1,702	1,893	8	18	441	467
Liabilities to customers	89	12	64	69	8	10
Notes, commercial paper issued	–	–	–	–	–	–
Other liabilities	14	91	12	5	4	8
Equity	234	210	150	112	72	73
Total	**2,040**	**2,206**	**233**	**204**	**525**	**557**
of which: noncurrent liabilities	116	136	3	2	132	104
of which: current liabilities	1,689	1,860	81	90	320	379
of which: noncurrent financial liabilities	116	135	–	–	131	99
of which: current financial liabilities	1,675	1,770[1]	71	87	317	377
Revenue	54	56	831	799	79	74
of which: interest income	51	53	–	–	17	17
Expenses	–22	–20	–794	–772	–79	–64
of which: interest expense	–3	–1	–1	–1	–1	–1
of which: depreciation and amortization	–1	–1	–35	–33	–12	–12[2]
Profit/loss from continuing operations, before tax	**32**	**35**	**37**	**27**	**–1**	**10**
Income tax expense or income	–8	–10	2	–9	–1	–2
Profit from continuing operations, net of tax	**24**	**26**	**38**	**18**	**–1**	**8**
Profit/loss from discontinued operations, net of tax	–	–	–	–	–	–
Other comprehensive income, after tax	–	0	–	–	–	–
Total comprehensive income	**24**	**26**	**38**	**18**	**–1**	**8**
Dividends received	–	–	–	–	–	–

1 Prior-year figures restated with a correction for the missing disclosures under current financial liabilities from €0 million to €1,770 million (see section Changes to Prior-Year Figures)
2 Prior-year figure corrected from €–1 million to €–12 million (see section Changes to Prior-Year Figures)

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

€ million	DFM N.V. (Netherlands)	Volkswagen Financial Services Digital Solutions GmbH (Germany)	Volkswagen Finančné služby Slovensko s.r.o. (Slovakia)
2019			
Equity of the joint venture as of Jan. 1, 2019	184	94	66
Profit/loss	26	18	8
Other comprehensive income	0	–	–
Change in share capital	–	–	–
Change due to spin-offs	–	–	–
Exchange differences on translating foreign operations	–	–	–
Dividend	–	–	–
Equity of the joint venture as of Dec. 31, 2019	**210**	**112**	**73**
Share of equity	126	57	42
Goodwill	19	0	–
Carrying amount of the share of equity as of Dec. 31, 2019	**145**	**57**	**42**
2020			
Equity of the joint venture as of Jan. 1, 2020	210	94	66
Profit/loss	24	38	–1
Other comprehensive income	–	–	–
Change in share capital	–	–	–
Change due to spin-offs	–	–	–
Exchange differences on translating foreign operations	–	–	–
Dividend	–	–	–
Equity of the joint venture as of Dec. 31, 2020	**234**	**150**	**72**
Share of equity	140	76	42
Goodwill	19	0	–
Carrying amount of the share of equity as of Dec. 31, 2020	**160**	**76**	**42**

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

ASSOCIATES

Credi2 GmbH, Vienna, Austria, develops software applications for processing lending products and digital procedures enabling customers to submit product applications/requests online. This equity investment in Credi2 GmbH accelerates Volkswagen Bank GmbH's digitalization of its business model. Effective September 3, 2020, Credi2 GmbH 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.

DISPOSAL GROUP

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, in return for a consideration of €1,328 million and the branch's other business was transferred to Volkswagen Bank GmbH on March 1, 2020.

The following table shows the carrying amounts of the assets and liabilities as of the derecognition date:

€ million	IFRS carrying amounts as of the derecognition date
Loans to and receivables from customers attributable to	1,244
Dealer financing[1]	185
Leasing business[1]	1,039
Other loans and receivables	20
Other assets	3
Total assets	**1,247**
Liabilities to customers	6
Current tax liabilities	2
Total liabilities	**8**
Net assets	**1,239**

1 Of the loans to and receivables from customers arising from dealer financing and from the leasing business, amounts of €231 million and €964 million respectively were classified as held for sale as of December 31, 2019 and reported in a separate balance sheet line item in accordance with IFRS 5.

A gain of €89 million was realized on the sale and this amount was recognized under other operating income.

The disposal formed part of the intragroup restructuring projects and continued the work begun in 2016 to reorganize Volkswagen's Financial Services division. As part of this restructuring, the European lending and deposits business was pooled in Volkswagen Bank GmbH and systematically separated from the other activities at Volkswagen Financial Services AG.

DISCONTINUED OPERATIONS

On March 29, 2019, Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom, including its subsidiaries and its structured entities, and on July 31, 2019, the Swedish company Volkswagen Finans Sverige AB, Södertälje, including its subsidiaries and instructed entities, were transferred to Volkswagen Financial Services AG.

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

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

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

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

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

€ million	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019
Interest income from lending transactions and marketable securities	–	11
Income from leasing transactions	–	2,291
Depreciation, impairment losses and other expenses from leasing transactions	–	–1,985
Net income from leasing transactions	–	305
Interest expense	–	–76
Income from service contracts	–	35
Expenses from service contracts	–	–27
Net income from service contracts	–	8
Provision for credit risks	–	–12
Fee and commission income	–	3
Fee and commission expenses	–	–20
Net fee and commission income	–	–16
Net gain or loss on hedges	–	4
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	–	38
General and administrative expenses	–	–62
Net other operating income	–	87
Other operating expenses	–	–144
Net other operating income	–	–57
Operating result from discontinued operations	**–**	**143**
Share of profits and losses of equity-accounted joint ventures	–	–
Net gain or loss on miscellaneous financial assets	–	–
Other financial gains or losses	–	–
Profit before tax from discontinued operations	**–**	**143**
Income tax expense	–	–29
Profit from discontinued operations, net of tax	**–**	**114**
Loss on the disposal of discontinued operations before tax	–	–131
Income tax expense on disposal	–	–
Loss on the disposal of discontinued operations	**–**	**–131**
Profit/loss from discontinued operations	**–**	**–17**
Profit/loss from discontinued operations attributable to the sole shareholder	–	–17

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

€ million	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019
Cash flows from operating activities	–	1,083
Cash flows from investing activities	–	74
Cash flows from financing activities	–	–3

3. Consolidation Methods

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

Acquisitions are accounted for by offsetting the carrying amounts of the equity investments with the proportionate amount of the remeasured equity of the subsidiaries on the date of acquisition or initial inclusion in the consolidated financial statements and in subsequent periods.

When subsidiaries are consolidated for the first time, the assets and liabilities, together with contingent consideration, are recognized at fair value on the date of acquisition. Subsequent changes in the fair value of contingent consideration do not generally result in an adjustment of the acquisition-date measurement. Acquisition-related costs that are not equity transaction costs are not added to the purchase price, but instead recognized as expenses. Goodwill arises when the purchase price of the investment exceeds the fair value of the identified assets less liabilities. Goodwill is tested for impairment at least once a year and additionally if relevant events or changes in circumstances occur (impairment-only approach) to determine whether its carrying amount is recoverable. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized. If this is not the case, there is no change in the carrying amount of goodwill compared with the previous year. If the purchase price of the investment is less than the net value of the identified assets and liabilities, the difference is recognized in profit or loss in the year of acquisition. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries.

The net assets recognized at fair value as part of an acquisition transaction are depreciated or amortized over their relevant useful lives. If the useful life is indefinite, any requirement for the recognition of an impairment loss is determined at individual asset level using a procedure similar to that used for goodwill. Where hidden reserves and charges in the recognized assets and liabilities are uncovered during the course of purchase price allocation, these items are amortized over their remaining maturities.

The acquisition method described above is not applied when subsidiaries are newly established; no goodwill or negative goodwill can arise when newly established subsidiaries are included in the consolidation. The assets and liabilities of the subsidiaries are recognized at their values on the date of initial consolidation.

In the consolidation, the recognition and measurement arising from the independence of the individual companies is adjusted such that they are then presented as if they belonged to a single economic unit. Loans/receivables, liabilities, income and expenses relating to business relationships between consolidated entities are eliminated in the consolidation. Intragroup transactions are conducted on an arm's-length basis. Any resulting intercompany profits or losses are eliminated. Consolidation transactions recognized in profit or loss are subject to the recognition of deferred taxes.

Investments in companies that do not meet the consolidation requirements are reported as other equity investments under miscellaneous financial assets.

4. Currency Translation

Transactions in foreign currencies are translated in the single-entity financial statements of Volkswagen Bank GmbH and its consolidated subsidiaries at the rates prevailing on the transaction date. Foreign currency monetary items are reported in the balance sheet using the middle rate on the closing date and the resulting gains or losses are recognized in profit or loss.

The foreign branches and subsidiaries which form part of the Volkswagen Bank GmbH Group are independent subunits whose financial statements are translated using the functional currency principle. Under this principle, assets and liabilities, but not equity, must be translated as of the closing rate. With the exception of income and expense items recognized in other comprehensive income, equity is translated at historical rates. Until the disposal of the subsidiary concerned, the resulting exchange differences on translating foreign operations are recognized in other comprehensive income and are presented as a separate item in equity.

The transaction data in the statement of changes in noncurrent assets is translated into euros using weighted average rates. A separate “Foreign exchange differences” line is reported to reconcile the carryforwards translated at the middle spot rate on the prior-year reporting date and the transaction data translated at average rates with the final balances translated at the middle spot rate on the reporting date.

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

		BALANCE SHEET, MIDDLE SPOT RATE ON DEC. 31		INCOME STATEMENT, AVERAGE RATE	
	€1 =	2020	2019	2020	2019
United Kingdom	GBP	0.89925	0.84995	0.88932	0.87755
Poland	PLN	4.55615	4.25970	4.44411	4.29762
Sweden	SEK	n/a	10.44505	n/a	10.58601
Czech Republic	CZK	n/a	25.40650	n/a	25.66957

5. Recognition of Revenue and Expenses

Revenue and expenses are recognized in accordance with the accrual basis of accounting and are reported in profit or loss in the period in which the substance of the related transaction occurs.

Interest income is recognized in the income statement using the effective interest method. Income from financing activities is included in the interest income from lending and securities transactions; leasing income is reported in the income statement under “Income from leasing transactions”. The leasing revenue from operating lease contracts is recognized on a straight-line basis over the lease term.

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

In the Volkswagen Bank GmbH Group, contract origination costs are only capitalized and amortized on a straight-line basis over the term of the contract if the underlying contract has materialized and has a term of at least one year.

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

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

Net fee and commission income includes income and expenses from insurance brokerage as well as fees and commissions from the financing and financial services businesses. Fee and commission income from insurance brokerage is normally recognized in accordance with contractual arrangements when the entitlement arises, i.e. when the policyholder pays the related premium.

Other fee and commission income for services at a particular point in time is recognized on the date of performance. In the case of services that are provided over a particular period of time, income is recognized at the reporting date according to the stage of completion.

Fee and commission expenses arising from financing-business sales commission that are not included through the effective interest rate for the underlying financial assets are expensed in full on the date of performance.

Dividends are reported on the date on which the legal entitlement is established, i.e. generally the date on which a dividend distribution resolution is approved.

6. Income Taxes

Current income tax assets and liabilities are measured using the tax rates expected to apply in respect of the refund from or payment to the tax authorities concerned. Current income taxes are generally reported on an unnetted basis. Provisions are recognized for potential tax risks.

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and those in the tax base and in respect of tax loss carryforwards. This gives rise to expected income tax income or expense effects in the future (temporary differences). Deferred taxes are measured using the domicile-specific income tax rates expected to apply in the period in which the tax benefit is recovered or liability paid.

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

The tax expense attributable to the profit before tax is reported in the Group's income statement under the "Income tax expense" item and a breakdown into current and deferred taxes for the fiscal year is disclosed in the notes. Other non-income-related taxes are reported as a component of general and administrative expenses.

7. Cash Reserve

The cash reserve is carried at the nominal amount; this corresponds to amortized cost.

8. Financial Instruments

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

In the case of regular way purchases or sales, financial instruments are normally recognized on the settlement date, i.e. the date on which the asset is delivered. An exception to this rule arises in connection with the accounting treatment of derivatives, which are always recognized on the trade date.

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

IFRS 9 breaks down financial assets into the following categories:

- financial assets measured at fair value through profit or loss,
- financial assets measured at fair value through other comprehensive income (debt instruments),
- financial assets measured at fair value through other comprehensive income (equity instruments), and
- financial assets measured at amortized cost.

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

Of the categories shown above, the Volkswagen Bank GmbH Group uses “financial assets and liabilities measured at amortized cost” and “financial assets and liabilities measured at fair value” and allocates them to the relevant classes of financial instruments. The fair value option for financial assets and financial liabilities is not applied in the Volkswagen Bank GmbH Group.

Financial assets and financial liabilities are generally reported with their unnetted gross values. Offsetting is only applied if, at the present time, the offsetting of the amounts is legally enforceable by the Volkswagen Bank GmbH Group and there is an intention to settle on a net basis in practice.

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

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

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

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

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

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

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

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

Changes in fair value that extend beyond the changes in the amortized cost of these financial assets are recognized in other comprehensive income (taking into account deferred taxes) until the financial asset concerned is derecognized. Only then are the accumulated gains or losses reclassified to profit or loss.

The changes in amortized cost, such as impairment losses, interest determined in accordance with the effective interest method and foreign currency gains or losses, are immediately recognized in profit or loss.

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

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

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

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

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

LOANS AND RECEIVABLES

Loans to and receivables from banks, and loans to and receivables from customers, originated by the Volkswagen Bank GmbH Group are generally recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates.

For reasons of materiality, non-interest-bearing current loans and receivables (due within one year) are not discounted and no unwinding of discount is therefore recognized.

Loans and receivables are derecognized when they are repaid or settled. There are no indications of derecognition for loans/receivables from ABS transactions carried out by the Group.

MARKETABLE SECURITIES

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

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

EQUITY INVESTMENTS

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments comprise derivatives in effective hedges and derivatives not designated as hedging instruments. All derivatives are measured at fair value and are presented separately in notes (34) and (47).

The fair value is determined with the help of measurement software in IT systems using the discounted cash flow method and taking into account credit value adjustments and debt value adjustments.

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

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

When fair value hedges are applied, changes in the fair value of the derivative designated as the instrument used to hedge the fair value of a recognized asset or liability (hedged item) are recognized in profit or loss under net gain or loss on hedges. Changes in the fair value of the hedged item in connection with which the risk is being minimized are also reported in profit or loss under the same item. The effects in profit or loss from the changes in the fair value of the hedging instrument and the hedged item balance each other out depending on the extent of hedge effectiveness. Gains or losses arising from the ineffectiveness of fair value hedges are also recognized in gain or loss on hedges.

IFRS 9 allows entities to apply the provisions of IAS 39 to the hedging of the fair value of a portfolio of financial assets or financial liabilities (portfolio hedge accounting). In the reporting year, the Volkswagen Bank GmbH Group did not use any portfolio-based fair value hedges to hedge interest-rate risks or account for these hedges in accordance with the requirements of IAS 39.

In the case of derivatives that are designated as hedges of future cash flows and that satisfy the relevant criteria, the changes in the fair value of the derivative are recognized in separate items of other comprehensive income. The designated effective portion is recognized within other comprehensive income in OCI I. For non-designated forward components of currency forwards, the effective portion is determined on the basis of an aligned value test and reported within other comprehensive income in OCI II. Effects on profit or loss under net gain or loss on hedges arise from the ineffective portion of the change in fair value as well as from the reclassification (on recognition of the hedged item) of changes in fair value previously recognized in other comprehensive income. The measurement of the hedged item remains unchanged.

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

PROVISION FOR CREDIT RISKS

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

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

The general approach is used for financial assets measured at amortized cost (with the exception of trade receivables and lease receivables that fall within the scope of IFRS 16), financial assets (debt instruments) whose changes in fair value are recognized in other comprehensive income and for irrevocable credit commitments and financial guarantees unless there is already objective evidence of impairment on initial recognition. Financial assets are broken down into three stages in the general approach. Stage 1 consists of financial assets that are being recognized for the first time or that have not demonstrated any significant increase in default risk since initial recognition. In this stage, the model requires the calculation of an expected credit loss for the next 12 months. Stage 2 consists of financial assets for which the risk of default has increased significantly since initial recognition. Financial assets demonstrating objective indications of impairment are allocated to Stage 3. In Stages 2 and 3, an expected credit loss is calculated for the entire remaining maturity of the asset.

In the case of financial assets already impaired on initial recognition and classified as Stage 4 for the purposes of the disclosures, the provision for credit risks is recognized in subsequent measurement on the basis of the cumulative changes in the expected credit loss for the entire life of the asset concerned. Any financial instrument classified as impaired on initial recognition remains in this stage until it is derecognized.

The provision for credit risks is calculated on the basis of the individual financial asset. The parameters required for this calculation are established by assessing portfolios in which individual financial assets of a similar type are brought together. Such homogeneous portfolios are created, for example, on the basis of customer group (e.g. dealer), product (e.g. financing or leasing), or type of collateral (e.g. vehicle). In the case of significant financial assets (e.g. dealer financing loans/receivables and fleet customer business loans/receivables) with objective evidence of impairment, the measurement parameters are determined on the basis of the individual contract.

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

Both historical information, such as average historical default probabilities for each portfolio, and forward-looking information, such as macroeconomic factors and trends linked to expected credit losses, are used to determine the measurement parameters for calculating the provision for credit risks.

The Volkswagen Bank GmbH Group uses various scenarios to calculate the provision for credit risks. The scenarios assume different economic trends and reflect their impact on credit risk and the provision for credit risks. In this regard, VW Bank analyzes macroeconomic factors that are also used in internal management. These factors include gross domestic product, inflation, interest rates (long-term and short-term) and exchange rates. If statistical methods demonstrate that macroeconomic factors have an impact on credit risk, then the relevant forecast macroeconomic factors and their effects on credit risk are taken into account in the scenarios.

The Volkswagen Bank GmbH Group normally analyzes three scenarios: a baseline scenario, a positive scenario and a negative scenario.

The baseline scenario uses validated risk parameters as also used in the internal risk calculations. The positive scenario assumes lower probabilities of default for the next 12 months compared with the baseline scenario, whereas the negative scenario assumes a rise in defaults.

To take account of the Covid-19 pandemic, the Volkswagen Bank GmbH Group has included a fourth scenario (Covid scenario) in the calculations. The Covid scenario reflects a shift in all active risk classes of one level for all rating and behavioral scoring models.

Compared with the baseline scenario, the probability of default is reduced by 14% on average in the positive scenario, but is increased by an average of 9% in the negative scenario. The average increase in the probability of default in the Covid scenario is 85%.

When the scenarios are taken into account, there is a rise in the provision for credit risks of €90 million (8.5%).

The calculation to determine whether the credit risk has increased significantly at the reporting date generally takes into account the maturity of the agreement. The credit risk expected for the reporting date on the date of initial recognition is compared against the actual credit risk on the reporting date on the basis of the 12-month probability of default. For the purposes of the comparison, the expected probability of default for the reporting date is determined by taking into account the maturity. This procedure is also used in the event of insignificant modifications between the date of initial recognition and the reporting date. Depending on the internal risk management models applied, threshold values are specified for expected credit risk using statistical methods and expert assessments, taking into account transaction-specific variables (such as maturity, payment record and credit process). A credit risk higher than the threshold value indicates a significant increase in credit risk. Credit risk is assumed to have increased significantly, at the latest, if payments are past due by more than 30 days. The Volkswagen Bank GmbH Group classifies contracts that satisfy the watchlist criterion but were not impaired on initial recognition (Stage 4 or POCI assets) to Stage 2. The watchlist comprises customers with loans subject to intensified loan management (rating classes 7-9). A financial asset for which the credit risk is determined to be very low at the reporting date can normally be allocated to Stage 1. In the Volkswagen Bank Group, a very low credit risk can be assumed if the financial asset is classified as investment grade.

Objective evidence of impairment is identified in the Volkswagen Bank GmbH Group using the definition of default specified in Article 178 of the CRR. The existence of a variety of factors could be decisive in determining whether a default has occurred. Examples of such factors include payment more than 90 days past due, the initiation of enforcement measures, the threat of insolvency or overindebtedness, application for or the initiation of insolvency proceedings, or the failure of restructuring measures. In the reporting year, the Volkswagen Bank GmbH Group used for the first time the EBA's amended guidelines on the application of the definition of default under Article 178 of the CRR. In this regard, significant changes were made in the reporting year as a result of lowering the relative threshold for identifying arrears and inclusion of a cure period. The modification of the definition of default led to a rise in the provision for credit risks of €35 million. Reviews are regularly carried out to ensure the valuation allowances are appropriate.

Uncollectible loans or receivables that are already subject to a remediation for which all collateral has been recovered and all further options for recovering the loan or receivable have been exhausted are written off directly. Any valuation allowances previously recognized are utilized. Income subsequently collected in connection with loans or receivables already written off are recognized in profit and loss.

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

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

LIABILITIES

Liabilities to banks and customers, notes and commercial paper issued, and subordinated capital liabilities are recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates. For reasons of materiality, discounting or unwinding of discounting is not applied to non-interest-bearing current liabilities (due within one year).

They are therefore recognized at their repayment or settlement value.

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

9. Miscellaneous Financial Assets

Investments in subsidiaries that are not consolidated, other equity investments and investments in associates are reported as miscellaneous financial assets. Investments in unconsolidated subsidiaries are recognized at cost taking into account any necessary impairment losses. Impairment losses are recognized in profit or loss if there are country-specific indications of significant or permanent impairment (e.g. imminent payment difficulties or economic crises).

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

10. Intangible Assets

Purchased intangible assets (largely software and customer relationships) are recognized at cost and – provided they have a finite useful life – amortized on a straight-line basis over a useful life of three to five years (software) or ten years (customer relationships).

Subject to the conditions specified in IAS 38, internally developed software and all the direct and indirect costs that are directly attributable to the development process are capitalized. When assessing whether the development costs associated with internally generated software are to be capitalized or not, Volkswagen Bank GmbH takes into account not only the probability of a future inflow of economic benefits but also the extent to which the costs can be reliably determined. Research costs are not capitalized. Amortization is on a straight-line basis over the useful life of three to five years and is reported under general and administrative expenses. If one or more of the criteria for capitalization are not satisfied, costs are expensed in the year in which they are incurred. A test is carried out at every reporting date to establish whether there are any indications that an intangible asset with a finite useful life is impaired. An appropriate impairment loss is recognized if a comparison shows that the recoverable amount for the asset is lower than its carrying amount.
Intangible assets with indefinite useful lives are not amortized. An annual review is carried out to establish whether an asset has an indefinite useful life. In accordance with IAS 36, these assets are tested for impairment by comparing the carrying amount and recoverable amount at least once a year and additionally if relevant events or changes in circumstances should occur. If required, an impairment loss is recognized to reduce the carrying amount to a lower recoverable amount (see note (12)).

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

The recoverable amount of goodwill is derived from the value in use for the relevant cash-generating unit, which is determined using the discounted cash flow method. The basis is the latest planning data prepared by management for a planning period of five years, with growth in subsequent years estimated using a flat rate percentage. This planning is based on expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and on assumptions derived from these trends about financial services, taking into account market penetration, risk costs and margins. Planning assumptions are adjusted in line with the latest available information. The interest rate used is based on the long-term market interest rate relevant to each cash-generating unit (regions or markets). The calculations use a standard Group cost of equity of 6.9 % (previous year: 6.9 %). If necessary, the cost of equity rate is also adjusted using discount factors specific to the country and business concerned. If necessary, the standard cost of equity rate for the Group is also adjusted using discount factors specific to the country and business concerned. The calculation of cash flows is based on the forecast growth rates for the relevant markets. Cash flows after the end of the planning period are generally estimated using a growth rate of 1 % p.a. (previous year: 1 % p.a.).

11. Property and Equipment

Property and equipment (land and buildings plus operating and office equipment) is carried at cost less depreciation in accordance with estimated useful lives. Depreciation is applied on a straight-line basis over the estimated useful life. Useful lives are reviewed at every reporting date and adjusted where appropriate.

Depreciation is based on the following useful lives:

Property and equipment	Useful lives
Buildings and property facilities	10 to 50 years
Operating and office equipment	3 to 23 years

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

Depreciation expense and impairment losses are reported within general and administrative expenses. Income from the reversal of impairment losses is recognized in net other operating income/expenses. No reversals of impairment losses were recognized in the reporting period.

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

12. Impairment of Non-Financial Assets

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

An impairment loss is recognized when the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and fair value less value in use. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties. The value in use is defined as the net present value of future cash flows expected to be derived from the asset.

If the reasons for the recognition of an impairment loss in prior years now no longer apply, an appropriate reversal of the impairment loss is recognized. This does not apply to impairment losses recognized in respect of goodwill.

13. Leases

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

GROUP AS LESSOR

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

A finance lease is a lease that transfers substantial risks and rewards to the lessee. In the consolidated balance sheet, receivables from finance leases are reported within loans to and receivables from customers and the net investment in the lease generally equates to the cost of the lease asset. Interest income from these transactions is reported under leasing income in the income statement. The interest paid by the customer is allocated so as to produce a constant periodic rate of interest on the remaining balance of the lease receivable.

In the case of operating leases, the substantial risks and rewards related to the leased asset remain with the lessor. In this case, the assets involved are reported in a separate "Lease assets" item in the consolidated balance sheet, measured at cost and reduced by straight-line depreciation over the lease term to the calculated residual carrying amount. Any impairment identified as a result of an impairment test in accordance with IAS 36 in which the recoverable amount (normally the value in use) is found to have fallen below the carrying amount is taken into account by recognizing an impairment loss. Generally, future depreciation rates are adjusted as a consequence of impairment. If the reasons for the recognition of an impairment loss in prior years no longer apply, a reversal of the impairment loss is recognized. Impairment losses and reversals of impairment losses are included in the net income from leasing transactions. The leasing revenue is recognized on a straight-line basis over the lease term.

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

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

GROUP AS LESSEE

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

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

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

Exemptions are provided for short-term leases and leases in which the underlying asset is of low value. The Volkswagen Bank GmbH Group has elected to apply these exemptions and therefore does not recognize any right-of-use asset or lease liability for such leases. The associated lease payments are recognized as an expense under general and administrative expenses in the income statement. A lease is treated as a lease in which the underlying asset is of low value if the value of the underlying asset when new is no more than €5,000. The accounting requirements specified in IFRS 16 are not applied to leases for intangible assets either.

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

BUYBACK TRANSACTIONS

Leases in which the Volkswagen Bank GmbH Group has a firm agreement with the lessor regarding the return of the leased asset are recognized under “other loans and receivables” within loans to and receivables from customers at the amount of the resale value agreed at the inception of the lease and are also recognized in the amount equating to the right of use under lease assets (in the case of long-term (noncurrent) leases) or under other assets (in the case of short-term leases). In the case of noncurrent leases (maturity of more than one year), the agreed resale value is discounted at the inception of the lease. The unwinding of the discount during the term of the lease is recognized in interest income. The value of the right of use recognized under other assets is depreciated on a straight-line basis over the term of the lease. This depreciation is reported under expenses from the leasing business. Lease payments received under subleases are reported as income from leasing business.

14. Investment Property

Land and buildings held to earn rentals are reported under the “Investment property” item in the balance sheet and measured at amortized cost. The fair values disclosed in the notes are determined by the relevant entity by discounting the estimated future cash flows using the relevant long-term market discount rate. Depreciation is applied on a straight-line basis over useful lives of ten to 33 years. Any impairment identified as a result of an impairment test in accordance with IAS 36 is taken into account by recognizing an impairment loss.

15. Provisions for Pensions and Other Post-Employment Benefits

Provisions are recognized for commitments in the form of retirement, invalidity and surviving dependants’ benefits payable under pension plans. The benefits provided by the Group vary according to the legal, tax and economic circumstances of the country concerned, and usually depend on the length of service and remuneration of the employees.

The Volkswagen Bank GmbH Group provides occupational pensions in the form of both defined contribution and defined benefit plans. In the case of defined contribution plans, the Bank makes contributions to state or private pension schemes based on statutory or contractual requirements, or on a voluntary basis. Once the contributions have been paid, the Volkswagen Bank GmbH Group has no further obligations. In 2020, the total contributions made by the Volkswagen Bank GmbH Group came to €8 million (previous year: €8 million). This amount included contributions to the compulsory state pension system in Germany in an amount of €8 million (previous year: €8 million).

Pension schemes in the Volkswagen Bank GmbH Group are predominantly defined benefit plans in which there is a distinction between pensions funded by provisions (without plan assets) and externally funded plans (with plan assets). The pension provisions for defined benefit commitments are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19. This means that the future obligations are measured on the basis of the proportionate benefit entitlements earned as of the reporting date. The measurement of pension provisions takes into account actuarial assumptions regarding discount rates, salary and pension trends, life expectancy and employee turnover rates, which are determined for each Group company depending on the economic environment. Actuarial gains or losses arise from differences between actual trends and prior-year estimates as well as from changes in assumptions. These gains and losses are recognized in the period in which they arise in other comprehensive income (taking into account deferred taxes). Detailed disclosures on provisions for pensions and other post-employment benefits are set out in note (48).

16. Other Provisions

Under IAS 37, provisions are recognized if a present legal or constructive obligation to third parties has arisen as a result of a past event, it is probable that settlement in the future will result in an outflow of economic resources, and the amount of the obligation can be estimated reliably. If an outflow of resources is neither probable nor improbable, the amount concerned is deemed to be a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note (67).
Provisions for litigation and legal risks are recognized and measured using assumptions about the probability of an unfavorable outcome and the amount of possible utilization.

Income from the reversal of other provisions is generally recognized in the income statement item or net income item in which the associated expense was recognized in previous fiscal years. Provisions not related to an outflow of resources likely to take place in the subsequent year are recognized at their settlement amount discounted to the reporting date using market discount rates. The settlement amount also includes expected cost increases.

Any rights of recourse are not offset against provisions.

17. Trust Transactions

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

18. Estimates and Assumptions by Management

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the recognition and measurement of assets, liabilities, income and expenses, and disclosures relating to contingent assets and liabilities for the reporting period.

Assumptions and estimates are based on the latest available information. The circumstances prevailing at the time the consolidated financial statements are prepared and future trends in the global and sector environment considered to be realistic are taken into account in the projected future performance of the business. The estimates and assumptions used by management have been made, in particular, on the basis of assumptions relating to macroeconomic trends as well as trends in automotive markets, financial markets and the legal framework. These and other assumptions are explained in detail in the report on expected developments, which is part of the management report.

As future business performance is subject to unknown factors that, in part, lie outside the control of the Group, assumptions and estimates continue to be subject to considerable uncertainty. If changes in parameters are different from the assumptions and beyond any influence that can be exercised by management, the amounts actually arising could differ from the estimated values originally forecast. If actual performance varies with the forecasts, the assumptions and, where necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

Please refer to the separate section Impact of the Covid-19 Pandemic for information on the estimation uncertainty resulting from the effects of the Covid-19 pandemic.

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

FINANCIAL INSTRUMENTS

The procedure for determining the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. These estimates take into account the latest market data as well as rating classes and scoring information based on experience combined with forward-looking parameters. Further information on determining valuation allowances can be found in the disclosures on the provision for credit risks in note (60).

Management estimates are necessary to determine the fair value of financial instruments. This relates to both fair value as a measurement standard in the balance sheet and fair value in the context of disclosures in the notes. Fair value measurements are categorized into a three-level hierarchy depending on the type of inputs used in the valuation technique and each level requires different management estimates. Fair values in Level 1 are based on prices quoted in active markets. Management assessments in this case relate to determining the primary or most advantageous market. Level 2 fair values are measured on the basis of observable market data using market-based valuation techniques. Management decisions for this level relate to selecting generally accepted, standard industry models and specifying the market in which the relevant input factors are observable. Level 3 fair values are determined with recognized valuation techniques relying on some inputs that cannot be observed in an active market. Management judgment is required in this case when selecting the valuation techniques and determining the inputs to be used. These inputs are developed using the best available information. If the Bank uses its own data, it applies appropriate adjustments to best reflect market conditions.

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

The impairment tests applied to non-financial assets (particularly goodwill and brand names), equity-accounted joint ventures and equity investments measured at cost require assumptions related to the future cash flows in the planning period and, where applicable, beyond. The assumptions about the future cash flows factor in expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and expectations derived from these trends about financial services, taking into account market penetration, risk costs, margins and regulatory requirements. For further information on the assumptions relating to the detailed planning period, please refer to the report on expected developments, which forms part of the management report. The discount rates used in the discounted cash flow method applied when testing goodwill for impairment are based on specified cost of equity rates, taking into account historical experience and appropriate assumptions regarding macroeconomic trends. In particular the forecasts for short- and medium-term cash flows, and the discount rates used, are subject to uncertainty outside the control of the Group.

RECOVERABLE AMOUNT OF LEASE ASSETS

The recoverable amount of leased assets in the Group mainly depends on the residual value of the leased vehicles when the leases expire because this value represents a considerable proportion of the expected cash inflows. Continuously updated internal and external information on trends in residual values – based on particular local circumstances and empirical values from the marketing of used vehicles – is factored into the forecasts of residual values for leased vehicles. These forecasts require the Group to make assumptions, primarily in relation to future supply and demand for vehicles and in relation to trends in vehicle prices. These assumptions are based on either professional estimates or information published by third-party experts. The professional estimates are based on external data (where available), taking into account any additional information available internally, such as values from past experience and current sales data. Forecasts and assumptions are regularly verified by a process of backtesting.

LEASE TERM IN LESSEE ACCOUNTING

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

DEFERRED TAX ASSETS AND UNCERTAIN INCOME TAX ITEMS

When determining deferred tax assets, there is a need to make assumptions about future taxable income and the timings for any recovery of the deferred tax assets. The measurement of deferred tax assets for tax loss carryforwards is generally based on future taxable income within a planning horizon of five fiscal years. In the recognition of uncertain income tax items, the expected tax payment is used as the basis for the best estimate.

Tax liabilities are recognized for potential retrospective tax payments in the future; other liabilities are recognized for any additional tax costs incurred in this regard.

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

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

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

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

INCOME FROM SERVICE CONTRACTS

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

PROVISIONS

The recognition and measurement of provisions is also based on assumptions about the probability that future events will occur and the amounts involved, together with an estimation of the discount rate. Again, experience or reports from external experts are used as much as possible.

The measurement of pension provisions is based on actuarial assumptions regarding discount rates, salary and pension trends, and employee turnover rates, which are determined for each group company depending on the economic environment.

Other provisions are measured on the basis of expected values, which often results in changes involving either additions to the provisions or the reversal of unused provisions. Changes in the estimates of the amounts for other provisions are always recognized in profit or loss. The recognition and measurement of provisions for litigation and legal risks included within other provisions requires predictions with regard to decisions to be made by the courts and the outcome of legal proceedings. Each case is individually assessed on its merits based on developments in the proceedings, the company’s past experience in comparable situations and evaluations made by experts and lawyers.

Income Statement Disclosures

19. Interest Income from Lending Transactions and Marketable Securities

The interest income from financial assets measured at amortized cost or at fair value through other comprehensive income included in interest income from lending transactions and marketable securities amount to €1,427 million (previous year: €1,439 million). Interest income of €10 million (previous year: €12 million) was attributable to financial assets measured at fair value through profit or loss.

20. Interest Expense

Interest expenses include funding expenses for lending and leasing business and relate in an amount of €147 million (previous year: €160 million) to financial instruments not measured at fair value through profit or loss. Of this amount, €6 million (previous year: €2 million) was offset against the net expense arising from interest income and expenses on derivatives not designated as hedges in the reporting period.

Interest expenses included negative interest on money market transactions in an amount of €31 million (previous year: €21 million). This resulted primarily from the Bank's reserve balance at the ECB in excess of the minimum reserve requirement and from short-term deposits with domestic banks.

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

21. Net Income from Service Contracts

Of the total income recognized for service contracts, an amount of €57 million (previous year: €51 million) related to service contracts requiring the recognition of income at a specific time, and €16 million (previous year: €13 million) related to service contracts requiring the recognition of income over a period of time.

Of the income from service contracts recognized in the reporting period, income of €16 million had been included in the contractual liabilities for service contracts within liabilities to customers as of January 1, 2020. Of the income recognized in the prior year, income of €19 million had been included in the contractual liabilities for service contracts as of January 1, 2019.

22. Provision for Credit Risks

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

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

€ million	2020	2019
Additions to provision for credit risks	–463	–338
Reversals of provision for credit risks	362	250
Direct write-offs	–145	–73
Income from loans and receivables previously written off	16	31
Net gain or loss from significant modifications	–	–
Total	**–229**	**–129**

23. Net Fee and Commission Income

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

€ million	2020	2019
Fee and commission income	188	212
of which commissions from insurance broking	119	133
Fee and commission expenses	–83	–212
of which sales commission from financing business	–58	–182
Total	**105**	**–1**

24. Net Gain or Loss on Hedges

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

The details of the gains and losses are as follows:

€ million	2020	2019
Gains/losses on hedging instruments in fair value hedges	179	–71
Gains/losses on hedged items in fair value hedges	–179	71
Gains/losses from the ineffective portion of hedging instruments in fair value hedges	–8	–29
Gains/losses from the reclassification of cash flow hedge reserves	38	–7
Gains/losses from translation of foreign currency loans/receivables and liabilities in cash flow hedges	–38	7
Gains/losses from the ineffective portion of hedging instruments in cash flow hedges	0	0
Total	**–8**	**–28**

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

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

The details of the gains and losses are as follows:

€ million	2020	2019
Gains/losses on derivatives not designated as hedging instruments	0	0
Gains/losses on marketable securities measured at fair value through profit/loss	5	2
Gains/losses on loans/receivables measured at fair value through profit/loss	–	–
Gains/losses on the derecognition of marketable securities measured at fair value through OCI	0	1
Total	**4**	**2**

26. General and Administrative Expenses

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

€ million	2020	2019
Personnel expenses	–198	–215
Non-staff operating expenses	–546	–557
Advertising, public relations and sales promotion expenses	–8	–10
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–12	–13
Other taxes	–1	–1
Income from the reversal of provisions and accrued liabilities	3	2
Total	**–763**	**–794**

Personnel expenses comprise wages and salaries of €155 million (previous year: €172 million) as well as social security, post-employment and other employee benefit costs of €43 million (previous year: €42 million).

The disclosures relating to the expenses from the depreciation of right-of-use assets included in general and administrative expenses and to the expenses from short-term leases and leases in which the underlying asset is of low value can be found in note (65) Leases.

In accordance with the requirements specified in section 314(1) no. 9 of the HGB, the general and administrative expenses include the total fees charged in the reporting year by the auditor of the consolidated financial statements Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (previous year: PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft), as shown in the following table.

€ million	2020	2019
Financial statement audit services	1	1
Other attestation services	0	0
Tax consulting services	–	0
Other services	0	1
Total	**2**	**2**

The fee paid to the auditor for audit services in the year under review was mostly attributable to the audit of the consolidated financial statements of Volkswagen Bank GmbH and of the annual financial statements of German Group companies, as well as to reviews of the interim financial statements of German Group companies. Other attestation services related primarily to other mandatory audits. The other services performed by the auditor in the reporting period mainly consisted of topics relating to banking supervisory law and change management.

27. Net Other Operating Income/Expenses

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

€ million	2020	2019
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	9	22
Income from cost allocations to other entities in the Volkswagen Group	26	39
Income from the reversal of provisions and accrued liabilities	122	63
Income from claims for damages	–	–
Income from the disposal of vehicles under loan agreements and finance leases	7	3
Income from non-significant modifications	0	–
Miscellaneous operating income	106	47
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	–8	–22
Litigation and legal risk expenses	–25	–1
Expenses from the disposal of vehicles under loan agreements and finance leases	–8	–3
Expenses from non-significant modifications	–3	–
Miscellaneous operating expenses	–14	–22
Total	**211**	**125**

The other operating income mainly consisted of income generated by Volkswagen Bank GmbH, Ireland Branch, Dublin, Ireland, from the disposal of its non-regulated business (primarily finance leases and dealer financing).

28. Net Gain or Loss on Miscellaneous Financial Assets

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

29. Other Financial Gains or Losses

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

30. Income Tax Expense

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

€ million	2020	2019
Current tax income/expense, Germany	81	23
Current tax income/expense, foreign	91	81
Current income tax expense	**172**	**104**
of which income (–)/expense (+) related to prior periods	(0)	(–4)
Deferred tax income (–)/expense (+), Germany	–22	89
Deferred tax income (–)/expense (+), foreign	20	32
Deferred tax income (–)/expense (+)	–2	122
Income tax expense	**170**	**226**

The reported tax expense in 2020 of €170 million (previous year: €226 million) is €83 million lower (previous year: €8 million lower) than the expected tax expense of €253 million (previous year: €234 million) calculated by applying the tax rate of 30.0% (previous year: 29.8%) to the consolidated profit before tax.

The following reconciliation shows the relationship between the income tax expense and the profit before tax for the reporting period:

€ million	2020	2019
Profit before tax	**844**	**785**
multiplied by the domestic income tax rate of 30.0% (previous year: 29.8%)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**–253**	**–234**
+ Effects from tax credits	0	0
+ Effects from domestic/foreign tax rates	8	4
+ Effects from changes in tax rates	20	–13
+ Effects from permanent differences	–10	1
+ Effects from tax-exempt income	11	9
+ Effects from loss carryforwards	0	0
+ Effects from non-deductible operating expenses	–77	–17
+ Taxes attributable to prior periods	115	21
+ Other variances	16	3
= Current income tax expense	**–170**	**–226**

The statutory corporation tax rate in Germany for the 2020 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 30.0%.

In the German tax group, a tax rate of 30.0% (previous year: 29.8%) was used to measure deferred taxes.

The effects from different income tax rates outside Germany arise because of the different income tax rates in the individual countries in which the Group companies are domiciled compared with the rates in Germany. These rates outside Germany vary between 19.0 % and 32.0 % (previous year: 12.5 % and 34.3 %).

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

€ million	UNUSED TAX LOSS CARRYFORWARDS		OF WHICH UNUSABLE TAX LOSS CARRYFORWARDS	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Usable indefinitely	–1	–	–	–
Usable within the next 5 years	–	–	–	–
Limit on utilization between 5 and 10 years	–	–	–	–
Usable within more than 10 years	0	–	–	–
Total	**–1**	**–**	**–**	**–**
thereon deferred tax assets recognized	0	–	–	–

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

An effect on deferred taxes amounting to a decrease of €20 million (previous year: increase of €13 million) arose throughout the Group in 2020 as a consequence of changes in tax rates.

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

As there are no fully consolidated subsidiaries, no deferred tax liabilities for temporary differences or undistributed profits were recognized in 2020.

Of the deferred taxes recognized in the balance sheet, an amount of €8 million (previous year: €16 million) relates to transactions reported in other comprehensive income. A breakdown of the changes in deferred taxes is presented in the statement of comprehensive income.

31. Further Income Statement Disclosures

The figures reported for fiscal years 2019 and 2020 do not include any commission income not accounted for using the effective interest method.

The government grant related to the entire term of the tender transactions amounted to a total of €112.50 million on the basis of the volume of €7.5 billion drawn down as of the reporting date. The bonus for the special interest rate period accounted for €30.0 million of this total, while the bonus for the first regular reporting period accounted for €1.25 million and the bonus for the second regular reporting period €81.25 million. This measurement is based on the fact there is a reasonable degree of certainty that the lending target will be reached in full in the analysis period.

Interest income for the reporting year included €13.4 million in connection with the government grant involved in the tender drawdown under the targeted longer-term refinancing operations III (TLTRO III). Of this figure, €1.25 million related to the first regular reporting period from March to June 2020 and a pro rata amount of €12.17 million to the special reporting period.

Balance Sheet Disclosures

32. Cash Reserve

The cash reserve primarily includes credit balances of €6,990 million (previous year: €3,426 million) held with Deutsche Bundesbank.

33. Loans to and Receivables from Customers

The “Loans to and receivables from customers” item includes deductions arising from the provision for credit risks recognized to cover the expected credit risk. The provision for credit risks is presented in note (22).

Loans to and receivables from customers largely comprise loans to private and commercial customers for the financing of vehicles. The vehicle itself is normally pledged as collateral for the financing of vehicles. Dealer financing encompasses floor plan financing as well as loans to the dealer organization for operating equipment and investment. Assets are pledged as collateral, but guarantees and charges on real estate are also used as security. Receivables from leasing transactions include receivables from finance leases and receivables due in connection with lease assets. Other loans and receivables primarily relate to lines of credit and overdrafts drawn down by customers as well as loans to and receivables from Volkswagen Group entities.

The reconciliation to the balance sheet values is as follows:

€ million	Dec. 31 2020	Dec. 31, 2019
Loans to and receivables from customers	**51,249**	**55,282**
Fair value adjustment from portfolio hedging	–	0
Loans to and receivables from customers, net of fair value adjustment from portfolio hedging	51,249	55,282

Receivables from leasing transactions include due receivables amounting to €64 million (previous year: €47 million). Of this amount, €58 million (previous year: €45 million) is attributable to finance leases and €6 million (previous year: €2 million) to operating leases. The due lease receivables are payable within one year.

34. Derivative Financial Instruments

This item comprises the positive fair values from hedges and from derivatives not designated as a hedging instrument. The breakdown is as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Transactions to hedge against		
currency risk on assets using fair value hedges	30	29
currency risk on liabilities using fair value hedges	–	–
interest-rate risk using fair value hedges	1	15
interest-rate risk using cash flow hedges	4	–
currency and pricing risk on future cash flows using cash flow hedges	–1	1
Total hedging transactions	**34**	**45**
Assets arising from derivatives not designated as hedges	14	6
Total	**48**	**51**

35. Marketable Securities

The marketable securities mainly consisted of fixed-income bonds from public-sector issuers amounting to €3,277 million (previous year: €2,881 million) and asset-backed securities from Volkswagen Financial Services (UK) Ltd., Milton Keynes, amounting to €517 million (previous year: €659 million). In the previous year, these securities also included asset-backed securities from Volkswagen Leasing GmbH, Braunschweig, amounting to €5 million.

Marketable securities amounting to €412 million (previous year: €415 million) were pledged as collateral for own liabilities. They are deposited at Deutsche Bundesbank and are furnished as collateral in connection with open market operations.

This item also includes series A and C stocks in VISA Inc., USA, in an amount of €11 million (previous year: €11 million). The series A stocks are classified as equity instruments and are measured through the OCI reserve; the series C stocks are classified as debt instruments and measured through profit or loss.

36. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

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

€ million	Equity-accounted investments	Other equity investments	Total
Gross carrying amount as of Jan. 1, 2020	**254**	**9**	**262**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	0	0
Reclassifications	–	–	–
Classified as held for sale	–	–	–
Disposals	–	–	–
Changes/remeasurements recognized in profit or loss	33	–	33
Dividends	–	–	–
Other changes recognized in other comprehensive income	–	–	–
Balance as of Dec. 31, 2020	**287**	**9**	**296**
Impairment losses as of Jan. 1, 2020	**9**	**–**	**9**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	1	1
Reclassifications	–	–	–
Classified as held for sale	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2020	**9**	**1**	**10**
Net carrying amount as of Dec. 31, 2020	**278**	**8**	**286**
Net carrying amount as of Jan. 1, 2020	**245**	**9**	**253**

An impairment loss amounting to €1 million was recognized in the reporting year for the non-consolidated subsidiary included in miscellaneous financial assets.

The amount of the impairment losses equated to the amount by which the determined recoverable amount fell below the carrying amount before recognition of the impairment losses. The methodology used to determine the recoverable amount was largely the same as the methodology described in note (10) to determine impairment losses on goodwill.

37. Intangible Assets

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

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost as of Jan 1, 2020	**0**	**20**	**18**	**77**	**115**
Foreign exchange differences	0	–1	–1	–1	–4
Changes in basis of consolidation	0	–	–	0	0
Additions	0	–	–	4	4
Reclassifications	0	–	–	–	–
Held for sale (IFRS 5)	–	–	–	–	–
Disposals	–	–	–	0	0
Balance as of Dec. 31, 2020	**0**	**19**	**16**	**79**	**114**
Amortization and impairment losses as of Jan. 1, 2020	**–**	**12**	**–**	**64**	**75**
Foreign exchange differences	–	–1	–	–1	–2
Changes in basis of consolidation	–	–	–	0	0
Additions to cumulative amortization	–	1	–	7	8
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Held for sale (IFRS 5)	0	–	–	–	–
Disposals	0	–	–	0	0
Reversal of impairment losses	0	–	–	–	–
Balance as of Dec. 31, 2020	**–**	**12**	**–**	**69**	**81**
Net carrying amount as of Dec. 31, 2020	**0**	**7**	**16**	**10**	**33**
Net carrying amount as of Jan. 1, 2020	**–**	**8**	**18**	**13**	**39**

The goodwill of €16 million (previous year: €18 million) and the brand names of €6 million (previous year: €6 million) reported as of the balance sheet date resulted from the acquisition of Volkswagen Bank Polska S.A. in 2012. Volkswagen Bank Polska S.A., Warsaw, was merged into Volkswagen Bank GmbH as of September 28, 2018. Since September 28, 2018, the Polish business of Volkswagen Bank GmbH has been operated from the Polish branch. The goodwill and the brand name have indefinite useful lives. The indefinite useful life arises because goodwill and brand names are linked to the relevant cash-generating unit and will therefore remain in existence for as long as this unit remains in existence.

The acquired customer base of Volkswagen Bank Polska S.A. is amortized over ten years.

The impairment tests for the reported goodwill and brand name are based on the value in use. The values in use determined in the impairment tests for the recognized goodwill and brand name exceeded the corresponding carrying amounts, with the result that there was no requirement to recognize any impairment loss. Sensitivity analyses were also carried out as part of the impairment tests. No change in certain material assumptions would lead to the recognition of an impairment loss for the goodwill or brand name. As of the reporting date, intangible assets with indefinite useful lives amounted to €23 million (previous year: €24 million).

38. Property and Equipment

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

1 The opening carrying amount has been adjusted (see IFRS 16 disclosures in the 2019 Annual Report).

€ million	Land and buildings	Operating and office equipment	Total
Cost as of Jan 1, 2020	**31**	**25**	**56**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–1	–1
Additions	11	1	12
Reclassifications	0	0	–
Held for sale (IFRS 5)	–	–	–
Disposals	5	5	10
Balance as of Dec. 31, 2020	**36**	**19**	**56**
Depreciation and impairment losses as of Jan. 1, 2020	**9**	**21**	**30**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	0	0
Additions to cumulative depreciation	3	1	4
Additions to cumulative impairment losses	–	–	–
Reclassifications	0	0	–
Held for sale (IFRS 5)	–	–	–
Disposals	1	5	5
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2020	**12**	**17**	**29**
Net carrying amount as of Dec. 31, 2020	**25**	**2**	**27**
Net carrying amount as of Jan. 1, 2020	**22**	**4**	**25**

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

39. Investment Property

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

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

1 The opening carrying amount has been adjusted (see IFRS 16 disclosures in the 2019 Annual Report).

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

€ million	Investment property
Cost as of Jan 1, 2020	**3**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions	–
Reclassifications	–
Disposals	–
Balance as of Dec. 31, 2020	**3**
Depreciation and impairment losses as of Jan. 1, 2020	**2**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions to cumulative depreciation	0
Additions to cumulative impairment losses	–
Reclassifications	–
Disposals	–
Reversal of impairment losses	–
Balance as of Dec. 31, 2020	**2**
Net carrying amount as of Dec. 31, 2020	**0**
Net carrying amount as of Jan. 1, 2020	**1**

The fair value of investment property amounts to €0 million (previous year: €1 million). The fair value is determined using an income approach based on internal calculations (Level 3 of the fair value hierarchy). Operating expenses in an immaterial amount were incurred for the maintenance of investment property in both the reporting period and in the previous year.

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

40. Deferred Tax Assets

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

€ million	Dec. 31, 2020	Dec. 31, 2019
Deferred tax assets	5,253	4,893
of which noncurrent	699	712
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	0	–
of which noncurrent	0	–
Offset (with deferred tax liabilities)	–3,534	–3,023
Total	**1,719**	**1,870**

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

€ million	Dec. 31, 2020	Dec. 31, 2019
Loans, receivables and other assets	531	772
Marketable securities and cash	4,029	3,369
Intangible assets/property and equipment	36	3
Assets leased out	638	685
Liabilities and provisions	18	64
Valuation allowances for deferred assets on temporary differences	–	–
Total	**5,253**	**4,893**

41. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Vehicles returned for disposal	117	73
Restricted cash	302	248
Prepaid expenses	47	61
Other tax assets	22	47
Miscellaneous	75	119
Total	**563**	**549**

42. Assets Held for Sale

There were no assets held for sale as of the reporting date of December 31, 2020.

The reported prior-year figure of €1,195 million related to the disposal of the non-regulated business (mainly comprising finance leases and dealer financing) of Volkswagen Bank GmbH, Ireland Branch, Dublin, Ireland, to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, on March 31, 2020. A gain of €89 million was realized on the sale and this amount was recognized under other operating income.

The assets held for sale are described below:

€ million	Dec. 31, 2020	Dec. 31, 2019
Assets held for sale (IFRS 5)		
Cash reserve	–	–
Loans to and receivables from banks	–	–
Loans to and receivables from customers attributable to		
Retail financing	–	–
Dealer financing	–	231
Leasing business	–	964
Other loans and receivables	–	–
Total loans to and receivables from customers	–	1,195
Intangible assets	–	–
Property and equipment	–	–
Assets leased out	–	–
Other assets	–	–
Total	**–**	**1,195**

43. Noncurrent Assets

€ million	Dec. 31, 2020	of which noncurrent	Dec. 31, 2019[1]	of which noncurrent
Cash reserve	7,056	–	3,471	–
Loans to and receivables from banks	348	–	444	–
Loans to and receivables from customers	51,249	26,136	55,282	28,243
Derivative financial instruments	48	4	51	18
Marketable securities	3,806	–	3,556	–
Equity-accounted joint ventures	264	264	245	245
Miscellaneous financial assets	8	8	9	9
Intangible assets	33	33	39	39
Property and equipment	27	27	25	25
Assets leased out	1,788	1,788	1,657	1,657
Investment property	0	0	1	1
Current tax assets	17	–	51	–
Other assets	561	5	549	10
Assets held for sale (IFRS 5)			1,195	–
Total	**65,208**	**28,267**	**66,574**	**30,246**

1 The figure for noncurrent loans to and receivables from customers has been restated as a result of an error correction. Some maturities of non-current loans and receivables were omitted as a consequence of an error in transferring figures relating to lease receivables from customers. The error correction related only to this disclosure concerning non-current loans to and receivables from customers. There were no further effects on the balance sheet, statement of comprehensive income or other disclosures (see section Changes to Prior-Year Figures).

44. Liabilities to Banks and Customers

The liabilities to banks mainly comprise liabilities to Deutsche Bundesbank arising from the tender transactions under the TLTRO III program, which have a provisional term of three years.

The liabilities to customers include customer deposits of €29 billion (previous year: €32 billion). They comprise call deposits and time deposits, as well as various savings bonds and savings plans. In terms of maturity, the “Direkt-Sparplan” and “Plus Sparbrief” savings products currently offer the longest investment horizon. The maximum maturity is ten years.

The reconciliation to the balance sheet values is as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Liabilities to customers	**35,404**	**38,247**
Fair value adjustment from portfolio hedging	–	–
Liabilities to customers, net of fair value adjustment from portfolio hedging	35,404	38,247

45. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Dec. 31, 2020	Dec. 31, 2019
Bonds issued	8,692	8,924
Commercial paper issued	11	639
Total	**8,702**	**9,563**

46. ABS Transactions

The Volkswagen Bank GmbH Group uses ABS transactions for funding purposes. The related liabilities are recognized in the following items:

€ million	Dec. 31, 2020	Dec. 31, 2019
Bonds issued	1,539	1,800
Subordinated liabilities	16	72
Total	**1,556**	**1,873**

The asset-backed securities of the Volkswagen Bank GmbH Group are backed exclusively by financial assets. The corresponding carrying amount of the securitized loans and receivables from retail financing is €1,444 million (previous year: €1,862 million). As of December 31, 2020, the fair value of the liabilities amounted to €1,561 million (previous year: €1,881 million). The fair value of the assigned loans/receivables that continued to be recognized amounted to €1,594 million as of December 31, 2020 (previous year: €1,955 million). Collateral is provided in the form of loans and receivables from retail financing and cash collateral, together amounting to €1,558 million (previous year: €1,939 million). In these arrangements, the expected payments are assigned to special purpose entities and the ownership of the collateral in the financed vehicles is transferred. The assigned loans/receivables cannot be assigned again to anyone else or used in any other way as collateral. The rights of the bond holders are limited to the assigned loans/receivables, and the payment receipts arising from these loans/receivables are used to repay the corresponding liability.

These asset-backed securities transactions did not lead to a derecognition of the loans or receivables from the financing business because the credit risk and timing risk were retained in the Group. The difference between the amount of the assigned loans/receivables and the associated liabilities results from the different terms and conditions and from the proportion of the ABSs held by the Volkswagen Bank GmbH Group itself or granted subordinated loans, which reduce the liabilities in the consolidation process.

The Volkswagen Bank GmbH Group is under a contractual obligation to transfer funds in certain circumstances to the structured entities included in its consolidated financial statements. As the loans/receivables are transferred to the special purpose entity by way of undisclosed assignment, it is possible that the loan/receivable has already been reduced in a legally binding manner at the originator, for example if the debtor effectively offsets it against amounts it is owed by the Volkswagen Bank GmbH Group. In this case, collateral must be furnished for the resulting compensation claims against the special purpose entity, for example if the rating of the Group company concerned declines to a contractually agreed reference value.

The ABS transactions in the Volkswagen Bank GmbH Group can be repaid early (with a clean-up call) when less than 10% of the original transaction volume remains outstanding.

47. Derivative Financial Instruments

This item comprises the negative fair values from hedges and from derivatives not designated as a hedging instrument. The breakdown is as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Transactions to hedge against		
currency risk on assets using fair value hedges	19	64
currency risk on liabilities using fair value hedges	–	–
interest-rate risk using fair value hedges	–	0
interest-rate risk using cash flow hedges	–	–
currency and pricing risk on future cash flows using cash flow hedges	0	2
Total hedging transactions	**20**	**67**
Liabilities arising from derivatives not designated as hedges	4	3
Total	**24**	**70**

48. Provisions

The provisions break down as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Provisions for pensions and other post-employment benefits	176	158
Other provisions	358	295
of which provisions for litigation and legal risks	310	245
of which for staff	37	35
of which other	10	15
Total	534	453

PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

€ million	Dec. 31, 2020	Dec. 31, 2019
Present value of funded obligations	112	92
Fair value of plan assets	52	45
Funded status (net)	**60**	**47**
Present value of unfunded obligations	116	111
Amount not recognized as an asset because of the ceiling in IAS 19	–	–
Net liability recognized in the balance sheet	**176**	**158**
of which provisions for pensions	176	158
of which other assets	–	–

Key Pension Arrangements in the Volkswagen Bank GmbH Group

For the period after the active working life of employees, the Volkswagen Bank GmbH Group offers its employees benefits under occupational pension arrangements. Most of the arrangements in the Volkswagen Bank GmbH Group are pension plans for employees in Germany classified as defined benefit plans under IAS 19. The majority of these obligations are funded by provisions recognized in the balance sheet. These plans are now closed for new members. To reduce the risks associated with defined benefit plans, in particular longevity, salary increases and inflation, the Volkswagen Bank GmbH Group has introduced new defined benefit plans in recent years in which the benefits are funded by appropriate external plan assets. The risks referred to above have been significantly reduced in these pension plans. The proportion of the total defined benefit obligation attributable to pension obligations funded by plan assets will continue to rise in the future. The main pension commitments are described below.

German Pension Plans Funded Solely by Provisions

The pension plans funded solely by recognized provisions comprise both defined contribution plans with guarantees and final salary plans. For defined contribution plans, an annual pension expense dependent on income and status is converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlements). The annuity factors include a guaranteed rate of interest. The modular pension entitlements earned annually are added together at retirement. For final salary plans, the underlying salary is multiplied at retirement by a percentage that depends on the years of service up to the retirement date. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk. The pension system provides for lifelong pension payments. The companies therefore bear the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the “Heubeck 2018 G” mortality tables – which already reflect future increases in life expectancy. To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

German Pension Plans Funded by External Plan Assets

The pension plans funded by external plan assets are defined contribution plans with guarantees. In this case, an annual pension expense dependent on income and status is either converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlement) or paid out in a single lump sum or in installments. In some cases, employees also have the opportunity to provide for their own retirement through deferred compensation. The annuity factors include a guaranteed rate of interest. The modular pension entitlements earned annually are added together at retirement. The pension expense is contributed on an ongoing basis to a separate pool of assets that is administered independently of the Bank in trust and invested in the capital markets. If the plan assets exceed the present value of the obligations calculated using the guaranteed rate of interest, surpluses are allocated (modular pension bonuses). As the assets administered in trust meet the IAS 19 criteria for classification as plan assets, they are offset against the obligations.

The amount of the pension assets is exposed to general market risk. The investment strategy and its implementation are therefore continuously monitored by the trusts' governing bodies, on which the companies are also represented. For example, investment policies are stipulated in investment guidelines with the aim of limiting market risk and its impact on plan assets. In addition, asset-liability management analyses are conducted at regular intervals so as to ensure that investments are in line with the obligations that need to be covered. The pension assets are currently invested primarily in fixed-income or equity funds. Interest rates and equity prices therefore present the main risk. To mitigate market risk, the pension system also provides for funds to be set aside in an equalization reserve before any surplus is allocated.

The present value of the obligation is reported as the maximum of the present value of the guaranteed obligation and of the plan assets. If the value of the plan assets falls below the present value of the guaranteed obligation, a provision must be recognized for the difference. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk. In the case of lifelong pension payments, the Volkswagen Bank GmbH Group bears the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the "Heubeck 2018 G" mortality tables – which already reflect future increases in life expectancy. In addition, independent actuaries carry out annual risk monitoring as part of the review of the assets administered by the trusts.

To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law. The calculation of the present value of the defined benefit obligations was based on the following actuarial assumptions:

	GERMANY		INTERNATIONAL	
Percent	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Discount rate	0.70	1.10	0.50 – 1.40	0.70 – 2.00
Pay trend	3.40	3.70	0.00 – 2.00	0.00
Pension trend	1.50	1.50	0.00 – 2.70	2.80
Staff turnover rate	1.10	1.10	0.00 – 3.50	2.00 – 3.50
Annual increase in healthcare costs	–	–	–	–

These assumptions are averages that were weighted using the present value of the defined benefit obligation.

With regard to life expectancy, the latest mortality tables in every country are taken into account. For example, in Germany calculations are based on the "2018 G" mortality tables developed by Professor Dr. Klaus Heubeck. The discount rates are generally determined to reflect the yields on prime-rated corporate bonds with matching maturities and currencies. The iBoxx AA 10+ Corporates index was taken as the basis for the obligations of German Group companies. Similar indices were used for foreign pension obligations.

During the reporting year, individual steps in the procedure for determining the EUR discount rate were adjusted to take better account of the persistently low level of interest rates in the measurement method. The adjustment resulted in an increase in the discount rate of 0.1 percentage points and a resulting fall of €6 million in actuarial losses.

The pay trends cover expected wage and salary trends, which also include increases attributable to career development. The pension trends either reflect the contractually guaranteed pension adjustments or are based on the rules on pension adjustments in force in each country. The employee turnover rates are based on past experience and future expectations.

The following table shows changes in the net defined benefit liability recognized in the balance sheet:

€ million	2020	2019
Net liability recognized in the balance sheet as of January 1	**158**	**120**
Current service cost	11	8
Net interest expense	2	2
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	19	38
Actuarial gains (–)/losses (+) arising from experience adjustments	–5	–4
Income/expenses from plan assets not included in interest income	3	3
Change in amount not recognized as an asset because of the ceiling in IAS 19	–	–
Employer contributions to plan assets	4	4
Employee contributions to plan assets	–	–
Pension payments from company assets	3	3
Past service cost (including plan curtailments)	0	0
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–	0
Other changes	0	2
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**176**	**158**

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

€ million	2020	2019
Present value of obligations as of January 1	**203**	**197**
Current service cost	11	8
Interest cost (unwinding of discount on obligations)	2	3
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	19	38
Actuarial gains (–)/losses (+) arising from experience adjustments	–5	–4
Employee contributions to plan assets	–	0
Pension payments from company assets	3	3
Pension payments from plan assets	0	0
Past service cost (including plan curtailments)	–	0
Gains (–) or losses (+) arising from plan settlements	–	–8
Changes in basis of consolidation	–	–31
Other changes	0	3
Foreign exchange differences from foreign plans	0	0
Present value of obligations as of December 31	**228**	**203**

Changes in the relevant actuarial assumptions would have had the following effects on the defined benefit obligation:

Present value of defined benefit obligation if		DEC. 31, 2020 € million	DEC. 31, 2020 Change in percent	DEC. 31, 2019 € million	DEC. 31, 2019 Change in percent
Discount rate	is 0.5 percentage points higher	203	–10.80	182	–10.54
	is 0.5 percentage points lower	257	12.70	228	12.36
Pension trend	is 0.5 percentage points higher	238	4.29	212	4.51
	is 0.5 percentage points lower	219	–3.91	195	–4.09
Pay trend	is 0.5 percentage points higher	230	0.69	205	0.78
	is 0.5 percentage points lower	226	–0.64	202	–0.73
Longevity	increases by one year	236	3.53	210	3.37

The sensitivity analysis shown above considers the change in one assumption at a time, leaving the other assumptions unchanged versus the original calculation.

To examine the sensitivity of the present value of the defined benefit obligation to a change in assumed longevity, the estimates of mortality were reduced as part of a comparative calculation by a measure that was roughly equivalent to an increase in life expectancy of one year.

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 24 years (previous year: 23 years).

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

€ million	2020	2019
Active members with pension entitlements	172	149
Members with vested entitlements who have left the Bank	12	10
Retirees	44	44
Total	**228**	**203**

The maturity profile of payments attributable to the defined benefit obligation is presented in the following table, which classifies the present value of the obligation by the maturity of the underlying payments:

€ million	2020	2019
Payments due within the next fiscal year	3	3
Payments due between two and five years	14	13
Payments due in more than five years	211	187
Total	**228**	**203**

Changes in plan assets are shown in the following table:

€ million	2020	2019
Fair value of plan assets as of January 1	**45**	**77**
Interest income on plan assets determined using the discount rate	1	1
Income/expenses from plan assets not included in interest income	3	3
Employer contributions to plan assets	4	4
Employee contributions to plan assets	–	0
Pension payments from plan assets	0	0
Gains (+) or losses (–) arising from plan settlements	–	8
Changes in basis of consolidation	–	–32
Other changes	0	1
Foreign exchange differences from foreign plans	0	0
Fair value of plan assets as of December 31	**52**	**45**

The investment of the plan assets to cover future pension obligations resulted in a net income of €3 million (previous year: €4 million). Employer contributions to plan assets are expected to amount to €5 million (previous year: €4 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

	DEC. 31, 2020			DEC. 31, 2019		
€ million	Quoted prices in active markets	No quoted prices in active markets	Total	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	2	–	2	2	–	2
Equity instruments	1	–	1	1	–	1
Debt instruments	3	–	3	4	–	4
Direct investments in real estate	–	–	–	–	–	–
Derivatives	0	0	0	1	0	1
Equity funds	16	–	16	11	–	11
Bond funds	29	–	29	27	–	27
Real estate funds	0	–	0	0	–	0
Other funds	0	–	0	0	–	0
Asset-backed securities	–	–	–	–	–	–
Structured debt	–	–	–	–	–	–
Other	–	0	0	–	0	0

Of the total plan assets, 56% (previous year: 61%) are invested in German assets, 13% (previous year: 14%) in other European assets and 31% (previous year: 24%) in assets in other regions.

The following amounts have been recognized in the income statement:

€ million	2020	2019
Current service cost	11	8
Net interest on the net defined benefit liability	2	2
Past service cost (including plan curtailments)	0	0
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	**13**	**11**

OTHER PROVISIONS

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

	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of Jan. 1, 2019	**41**	**347**	**27**	**415**
Foreign exchange differences	0	0	0	1
Changes in basis of consolidation	–14	–5	0	–19
Utilization	18	45	16	79
Additions/new provisions	28	0	8	36
Unwinding of discount/effect of change in discount rate	–	–1	–	–1
Reversals	0	51	4	55
Balance as of Dec. 31, 2019	**35**	**245**	**15**	**295**
of which current	20	84	14	118
of which noncurrent	15	161	1	177
Balance as of Jan. 1, 2020	**35**	**245**	**15**	**295**
Foreign exchange differences	0	–	0	0
Changes in basis of consolidation	0	–	0	0
Utilization	19	6	10	35
Additions/new provisions	22	191	6	219
Unwinding of discount/effect of change in discount rate	–	–1	–	–1
Reversals	0	119	0	120
Balance as of Dec. 31, 2020	**37**	**310**	**10**	**358**
of which current	22	197	10	229
of which noncurrent	16	113	1	129

Provisions for employee expenses are recognized primarily for annually recurring bonuses such as long-term-service awards and other employee expenses.

The provisions for litigation and legal risks reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers. They relate primarily to proceedings in relation to design aspects of loan agreements with customers that may obstruct the processing of statutory cancelation periods. For these provisions and for provisions for customer financing brokerage claims, Volkswagen Bank GmbH invokes the safeguard clause within the meaning of IAS 37.92 and opts not to disclose in detail any amounts, descriptions, or probability assumptions. As of the reporting date, provisions for litigation and legal risks amounted to €310 million (previous year: €245 million).

The timing of the cash outflows in connection with other provisions is expected to be as follows: 64 % in the following year, 33 % in the years 2022 to 2025 and 3 % from 2026.

49. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Deferred tax liabilities	5,382	5,015
of which noncurrent	2,349	2,570
Offset (with deferred tax assets)	–3,534	–3,023
Total	**1,847**	**1,992**

The deferred tax liabilities include taxes arising on temporary differences between amounts in the IFRS financial statements and those determined in the calculation of taxable profits in the Group entities.

Deferred tax liabilities have been recognized in connection with the following balance sheet items:

€ million	Dec. 31, 2020	Dec. 31, 2019
Loans, receivables and other assets	1,139	1,734
Marketable securities and cash	–5	0
Intangible assets/property and equipment	5	6
Assets leased out	32	23
Liabilities and provisions	4,212	3,253
Total	**5,382**	**5,015**

50. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Prepaid expenses and accrued income	49	73
Other tax liabilities	45	55
Social security and payroll liabilities	41	42
Miscellaneous	35	201
Total	**171**	**370**

51. Subordinated Capital

The breakdown of subordinated capital is as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Subordinated liabilities	49	105
of which: to other Volkswagen Group companies	16	72
Total	**49**	**105**

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.

52. Noncurrent Liabilities

€ million	Dec. 31, 2020	of which noncurrent	Dec. 31, 2019	of which noncurrent
Liabilities to banks	9,744	7,687	7,478	5,094
Liabilities to customers	35,404	2,522	38,247	2,541
Notes, commercial paper issued	8,702	5,837	9,563	8,060
Derivative financial instruments	24	1	70	3
Current tax liabilities	155	–	139	–
Other liabilities	171	7	370	9
Subordinated capital	49	34	105	54
Total	**54,247**	**16,089**	**55,973**	**15,760**

53. Equity

Volkswagen Bank GmbH's subscribed capital amounted to €318 million and was fully paid up. The sole shareholder is Volkswagen AG, Wolfsburg. There are no preferential rights or restrictions in connection with the subscribed capital.

The capital contributions made by the sole shareholder, Volkswagen AG, are reported under the capital reserves of Volkswagen Bank GmbH. As of December 31, 2020, capital reserves stood unchanged at €8,498 million.

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

The HGB profit of €383 million (previous year: €365 million) will be transferred in accordance with the existing profit-and-loss transfer agreement to the sole shareholder, Volkswagen AG.

The accumulated deferred taxes in equity amounted to €8million (previous year: €16 million).

54. Capital Management

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

Regulatory capital is different from equity as defined by the IFRSs (for the components thereof, see the Statement of Changes in Equity). Regulatory capital consists of capital components referred to as Common Equity Tier (CET) 1 capital, Additional Tier 1 capital and Tier 2 capital net of certain deductions and adjustments and must meet specific requirements defined by law.

Corporate actions implemented by the parent company of Volkswagen Bank GmbH generally have an impact on both IFRS equity and regulatory capital. No corporate action aimed at increasing equity was carried out in the reporting year.

Under the regulatory provisions – the Capital Requirements Regulation (CRR), Kreditwesengesetz (KWG – German Banking Act) and Solvabilitätsverordnung (SolvV – German Solvency Regulation) – the banking supervisor generally assumes that capital adequacy requirements are satisfied if the entity subject to supervision has a CET1 capital ratio of at least 4.5%, a Tier 1 capital ratio of at least 6.0% and a total capital ratio of at least 8.0%. Furthermore, the capital buffer requirements and the capital requirements from the SREP decision must be fulfilled. In calculating these capital ratios, regulatory capital is measured against the own funds requirements determined in accordance with statutory provisions for counterparty risk, operational risk, market risk and credit value adjustments (CVAs). To ensure compliance with these requirements at all times, the Group has established a planning procedure that is integrated into the internal reporting system. In this procedure, the capital requirement is continuously determined based on actual and forecast business trends. This ensured that the minimum regulatory capital requirements continued to be satisfied at all times in the reporting period.

The following IFRS-based amounts and ratios were determined for Volkswagen Bank GmbH Group under the regulatory requirements:

	Dec. 31, 2020	Dec. 31, 2019
Total risk exposure amount (€ million)[1]	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]	17.1	15.6
Tier 1 capital ratio[2]	17.1	15.6
Total capital ratio[2]	17.1	15.6

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

Financial Instrument Disclosures

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

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

€ million	Dec. 31, 2020	Dec. 31, 2019
Financial assets measured at fair value through profit or loss	537	670
Financial assets measured at fair value through other comprehensive income (debt instruments)	3,277	2,881
Financial assets measured at fair value through other comprehensive income (equity instruments)	5	11
Financial assets measured at amortized cost	56,219	56,812
Relevant balance sheet items held for sale and measured at amortized cost (assets, IFRS 5)	–	231
Financial liabilities measured at fair value through profit or loss	4	3
Financial liabilities measured at amortized cost	54,007	55,626

Receivables from leasing transactions amounting to €2,814 million (previous year: €2,752 million) and liabilities from leasing transactions amounting to €19 million (previous year: €14 million) are not allocated to any category.

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

€ million	2020	2019
Financial instruments measured at fair value through profit or loss	9	11
Financial assets measured at amortized cost	1,221	1,317
Financial assets measured at fair value through other comprehensive income (debt instruments)	2	5
Financial liabilities measured at amortized cost	–174	–172
Total	**1,058**	**1,161**

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

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

The interest income from financial assets measured at amortized cost or at fair value through other comprehensive income included in interest income from lending transactions and marketable securities amounted to €1,434 million (previous year: €1,468 million).

Interest expenses in an amount of €147 million (previous year: €160 million) relate to financial instruments not measured at fair value through profit or loss.

56. Classes of Financial Instruments

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

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

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

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

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

The following table shows a reconciliation of the relevant balance sheet items to the classes of financial instruments:

€ million	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST[1]		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT ALLOCATED TO ANY MEASUREMENT CATEGORY	
	Dec. 31 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
Assets								–		–
Cash reserve	7,056	3,471	–	–	7,056	3,471	–	–	–	–
Loans to and receivables from banks	348	444	–	–	348	444	–	–	–	–
Loans to and receivables from customers	51,249	55,282	–	–	48,434	52,531	–	–	2,814	2,752
Derivative financial instruments	48	51	14	6	–	–	34	45	–	–
Marketable securities	3,806	3,556	3,806	3,556	–	–	–	–	–	–
Equity-accounted joint ventures	278	245	–	–	–	–	–	–	278	245
Miscellaneous financial assets	8	9	0	0	–	–	–	–	8	9
Current tax assets	17	51	–	–	9	2	–	–	9	48
Other assets	563	549	–	–	372	364	–	–	191	185
Relevant balance sheet items from assets held for sale (IFRS 5)	–	1,195	–	–	–	231	–	–	–	964
Total	**63,373**	**64,852**	**3,820**	**3,562**	**56,219**	**57,043**	**34**	**45**	**3,300**	**4,202**
Equity and liabilities										
Liabilities to banks	9,744	7,478	–	–	9,744	7,478	–	–	–	–
Liabilities to customers	35,404	38,247	–	–	35,317	38,186	–	–	87	61
Notes, commercial paper issued	8,702	9,563	–	–	8,702	9,563	–	–	–	–
Derivative financial instruments	24	70	4	3	–	–	20	67	–	–
Current tax liabilities	155	139	–	–	151	92	–	–	5	47
Other liabilities	171	370	–	–	45	202	–	–	126	168
Subordinated capital	49	105	–	–	49	105	–	–	–	–
Relevant balance sheet items from liabilities related to the assets held for sale (IFRS 5)	–	–	–	–	–	–	–	–	–	–
Total	**54,247**	**55,973**	**4**	**3**	**54,007**	**55,626**	**20**	**67**	**217**	**276**

The "Credit commitments and financial guarantees" class contains obligations under irrevocable credit commitments and financial guarantees amounting to €2,124 million (previous year: €2,005 million).

57. Fair Values of Financial Assets and Liabilities

The following table shows the fair values of financial instruments in the classes “measured at amortized cost”, “measured at fair value”, “derivative financial instruments designated as hedges” and the fair values of receivables from customers relating to the leasing business classified as “not allocated to any measurement category”. The fair value is the amount at which financial assets or liabilities could be sold on fair terms as of the reporting date. Where available, Volkswagen Bank GmbH used market prices without modification for measuring fair value. If no market prices were available, the fair values for loans/receivables and liabilities were calculated by discounting using a maturity-matched discount rate appropriate to the risk. The discount rate was determined by adjusting risk-free yield curves, where appropriate, by relevant risk factors and taking into account capital and administrative costs. For reasons of materiality, the fair values of loans/receivables and liabilities due within one year were deemed to be the same as the carrying amount.

The equity investments included in the “Miscellaneous financial assets” balance sheet item are measured as equity instruments generally at fair value through other comprehensive income (without recycling) in exercise of the fair-value-through-OCI option.

€ million	Fair Value Dec. 31, 2020	Fair Value Dec. 31, 2019	Carrying Amount Dec. 31, 2020	Carrying Amount Dec. 31, 2019	Difference Dec. 31, 2020	Difference Dec. 31, 2019
Assets						
Measured at fair value						
Loans to and receivables from customers	–	–	–	–	–	–
Loans to and receivables from banks	–	–	–	–	–	–
Derivative financial instruments	14	6	14	6	–	–
Marketable securities	3,806	3,556	3,806	3,556	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	7,056	3,471	7,056	3,471	–	–
Loans to and receivables from banks	348	444	348	444	–	–
Loans to and receivables from customers	49,928	53,159	48,434	52,531	1,494	628
Current tax assets	9	2	9	2	–	–
Other assets	372	364	372	364	–	–
Assets held for sale (IFRS 5)	–	1,246	–	1,195	–	51
Derivative financial instruments designated as hedges	34	45	34	45	–	–
Not allocated to any measurement category						
Lease receivables	2,776	2,732	2,814	2,752	–38	–19
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	4	3	4	3	–	–
Measured at amortized cost						
Liabilities to banks	9,622	7,454	9,744	7,478	–122	–24
Liabilities to customers	35,466	38,277	35,317	38,186	149	91
Notes, commercial paper issued	8,704	9,569	8,702	9,563	2	6
Current tax liabilities	151	92	151	92	–	–
Other liabilities	45	202	45	202	0	0
Subordinated capital	51	107	49	105	2	2
Derivative financial instruments designated as hedges	20	67	20	67	–	–

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

Percent	EUR	GBP	PLN	SEK	CZK
Interest rate for six months	–0.471	0.015	0.179	0.049	0.454
Interest rate for one year	–0.515	–0.013	0.152	0.003	0.555
Interest rate for five years	–0.465	0.193	0.610	0.133	1.115
Interest rate for ten years	–0.265	0.397	1.080	0.388	1.285

58. Measurement Levels of Financial Assets and Liabilities

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. The following table shows the hierarchy breakdown for financial instruments in the classes “Measured at amortized cost”, “Measured at fair value”, “Assets held for sale (IFRS 5)” and “Derivative financial instruments designated as hedges”. Classification to the individual levels is dictated by whether the main inputs used in determining the fair value are or are not observable in the market.

Level 1 is used to report the fair value of financial instruments such as marketable securities or notes and commercial paper issued for which a quoted price is directly observable in an active market.

Level 2 fair values are measured on the basis of inputs observable in the markets, such as exchange rates or yield curves, using market-based valuation techniques. Fair values measured in this way include those for derivatives and liabilities to customers.

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not directly observable in an active market. The fair values of loans to and receivables from customers measured at amortized cost are largely allocated to Level 3 because these fair values are measured using inputs that are not observable in active markets (see note 57). Securities from ABS transactions of unconsolidated structured entities are also allocated to Level 3, as are equity investments measured at fair value through other comprehensive income and using inputs that are not observable in the market. The main inputs used to measure these equity investments are strategic planning and cost of equity rates.

There was no need to reclassify instruments to different hierarchy levels in the reporting period.

The following table shows the allocation of financial instruments to the three-level fair value hierarchy by class:

€ million	LEVEL 1 Dec. 31, 2020	LEVEL 1 Dec. 31, 2019	LEVEL 2 Dec. 31, 2020	LEVEL 2 Dec. 31, 2019	LEVEL 3 Dec. 31, 2020	LEVEL 3 Dec. 31, 2019
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	–	–
Derivative financial instruments	–	–	14	6	–	–
Marketable securities	3,288	2,233	–	659	517	664
Miscellaneous financial assets	–	–	–	–	0	0
Measured at amortized cost						
Cash reserve	7,056	3,471	–	–	–	–
Loans to and receivables from banks	348	444	0	0	–	–
Loans to and receivables from customers	–	–	103	128	49,825	53,031
Current tax assets	–	–	9	2	–	–
Other assets	–	–	372	364	0	–
Assets held for sale (IFRS 5)	–	–	–	–	–	1,246
Derivative financial instruments designated as hedges	–	–	34	45	–	–
Total	**10,693**	**6,148**	**532**	**1,206**	**50,342**	**54,941**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	4	3	–	–
Measured at amortized cost						
Liabilities to banks	–	–	9,622	7,454	–	–
Liabilities to customers	–	–	35,466	38,277	–	–
Notes, commercial paper issued	–	191	8,704	9,377	–	–
Current tax liabilities	–	–	151	92	–	–
Other liabilities	–	–	45	202	–	–
Subordinated capital	–	–	51	107	–	–
Derivative financial instruments designated as hedges	–	–	20	67	–	–
Total	**–**	**191**	**54,062**	**55,580**	**–**	**–**

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

€ million	2020	2019
Balance as of Jan. 1	**664**	**68**
Foreign exchange differences	–37	1
Portfolio changes	–114	–203
Changes in basis of consolidation	–	796
Measured at fair value through profit or loss	4	2
Measured at fair value through other comprehensive income	–	–
Balance as of Dec. 31	**517**	**664**

The remeasurements recognized in profit or loss amounting to €4 million (previous year: €2 million) have been reported under net gain or loss on financial instruments measured at fair value. In the year under review, the net remeasurement loss was attributable entirely to securities from ABS transactions of unconsolidated structured entities held as of the reporting date.

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

If risk-adjusted interest rates as of the reporting date had been 100 basis points higher, profit after tax would have been €0 million (previous year: €1 million) lower. If risk-adjusted interest rates as of the reporting date had been 100 basis points lower, profit after tax would have been €0 million (previous year: €1 million) higher.

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

€ million	2020	2019
Balance as of Jan. 1	**–**	**167**
Foreign exchange differences	–	8
Changes in basis of consolidation	–	–168
Measured at fair value through profit or loss	–	–7
Balance as of Dec. 31	**–**	**–**

59. Offsetting of Financial Assets and Liabilities

The table below contains information about the effects of offsetting in the consolidated balance sheet and the financial effects of offsetting in the case of instruments that are subject to a legally enforceable master netting agreement or a similar arrangement.

The “Financial instruments” column shows the amounts that are subject to a master netting agreement but have not been offset because the relevant criteria have not been satisfied. Most of the amounts involved are positive and negative fair values of derivative financial instruments entered into with the same counterparty.

The “Collateral received/pledged” column shows the cash collateral amounts and collateral in the form of financial instruments received in connection with the total sum of assets and liabilities. It includes such collateral relating to assets and liabilities that have not been offset against each other. The collateral amounts primarily consist of pledged cash collateral in connection with ABS transactions and marketable securities pledged as collateral.

							AMOUNTS NOT OFFSET IN THE BALANCE SHEET					
	Gross amount of recognized financial assets/liabilities		Gross amount of recognized financial assets/liabilities offset in the balance sheet		Net amount of financial assets/liabilities reported in the balance sheet		Financial Instruments		Collateral received/pledged		Net amount	
€ million	**Dec. 31, 2020**	Dec. 31, 2019	**Dec. 31, 2020**	Dec. 31, 2019	**Dec. 31, 2020**	Dec. 31, 2019	**Dec. 31, 2020**	Dec. 31, 2019	**Dec. 31, 2020**	Dec. 31, 2019	**Dec. 31, 2020**	Dec. 31, 2019
Assets												
Cash reserve	7,056	3,471	–	–	7,056	3,471	–	–	–	–	7,056	3,471
Loans to and receivables from banks	348	444	–	–	348	444	–	–	–	–	348	444
Loans to and receivables from customers	51,249	55,282	–	–	51,249	55,282	–	–	–	–	51,249	55,282
Derivative financial instruments	213	197	–165	–146	48	51	–12	–5	–35	–45	2	1
Marketable securities	3,806	3,556	–	–	3,806	3,556	–	–	–507	–658	3,299	2,898
Miscellaneous financial assets	0	0	–	–	0	0	–	–	–	–	0	0
Current tax assets	9	2	–	–	9	2	–	–	–	–	9	2
Other assets	372	218	–	146	372	364	–	–	–	–	372	364
Relevant balance sheet items from assets held for sale (IFRS 5)	–	1,195	–	–	–	1,195	–	–	–	–	–	1,195
Total	**63,053**	**64,366**	**–165**	**0**	**62,888**	**64,366**	**–12**	**–5**	**–542**	**–703**	**62,334**	**63,659**
Equity and liabilities												
Liabilities to banks	9,901	7,478	–157	–	9,744	7,478	–	–	–570	–	9,174	7,478
Liabilities to customers	35,336	38,200	–	–	35,336	38,200	–	–	–	–	35,336	38,200
Notes, commercial paper issued	8,702	9,563	–	–	8,702	9,563	–	–	–273	–765	8,429	8,798
Derivative financial instruments	31	70	–8	0	24	70	–12	–5	–2	–53	10	13
Income tax liabilities	151	92	–	–	151	92	–	–	–	–	151	92
Other liabilities	45	202	–	–	45	202	–	–	–	–	45	202
Subordinated capital	49	105	–	–	49	105	–	–	–	–	49	105
Total	**54,214**	**55,711**	**–165**	**0**	**54,049**	**55,711**	**–12**	**–5**	**–845**	**–818**	**53,192**	**54,888**

60. Default Risk

The default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the amount of the claims against the counterparty concerned arising from recognized carrying amounts and irrevocable credit commitments.
The maximum default risk is reduced by collateral and other credit enhancements. The collateral held relates to loans to and receivables from banks and customers in the classes "Measured at amortized cost", "Measured at fair value" and "Not allocated to any measurement category". The types of collateral held include vehicles, vehicles pledged as collateral, financial guarantees, marketable securities, cash collateral and charges on real estate.
In the case of financial assets with an objective indication of impairment as of the reporting date, the collateral reduced the risk by €685 million (previous year: €795 million). For financial assets in the "Measured at fair value" class to which the IFRS 9 impairment requirements are not applied, the maximum credit and default risk was reduced by collateral with a value of €556 million (previous year: €703 million).
For financial assets on which impairment losses were recognized during the fiscal year and that are subject to enforcement measures, the contractually outstanding amounts total €12 million (previous year: €15 million).
As a consequence of the international distribution of business activities and the resulting diversification, there are no material concentrations of default risk in individual counterparties or individual markets. Sector concentrations in the dealership business are a natural part of the business for a captive financial services provider in the automotive industry and these concentrations are individually analyzed in the existing risk management processes. The loans and receivables from dealership business subject to the inherent sector concentrations described above are included in the loans to and receivables from customers arising from dealer financing.
As derivatives are only entered into with counterparties demonstrating strong credit ratings, and limits are set for each counterparty as part of the risk management system, the actual default risk arising from derivative transactions is deemed to be low.
For qualitative information, please refer to the risk report (Credit Risk section), which forms part of the management report.

PROVISION FOR CREDIT RISKS

Please refer to the provision for credit risks section in note (22) for disclosures on the accounting policies relating to the provision for credit risks.

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

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

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount as of Jan. 1, 2020	**269**	**233**	**384**	**27**	**69**	**982**
Exchange differences on translating foreign operations	–1	–2	–1	0	0	–4
Changes in basis of consolidation	1	–	–	0	–	1
Newly extended/purchased financial assets (additions)	102	–	–	38	18	159
Other changes within a stage	–36	43	–85	13	2	–62
Transfers to						
Stage 1	16	–44	–4	–	–	–32
Stage 2	–31	141	–35	–	–	74
Stage 3	–96	–22	268	–	–	150
Financial instruments derecognized during the period (derecognitions)	–50	–64	–101	–22	–1	–239
Utilizations	–	–	–41	0	–14	–56
Model or risk parameter changes	7	12	0	–	2	21
Carrying amount as of Dec. 31, 2020	**182**	**296**	**383**	**57**	**76**	**995**

In 2020, the gross carrying amount of assets measured at amortized cost went down by €577 million to €57,215 million. At Stage 1, the gross carrying amount declined by €10,313 million to €35,960 million. This was primarily attributable to other portfolio changes within Stage 1 amounting to a decrease of €7,622 million, the net transfer of gross carrying amounts from Stage 1 to other stages amounting to a net decrease of €4,012 million and changes in the basis of consolidation amounting to an increase of €1,475 million.

The gross carrying amount at Stage 2 rose by €9,010 million to €16,624 million. This was mainly attributable to other portfolio changes within Stage 2 amounting to an increase of €6,441 million and the net transfer of gross carrying amounts into Stage 2 from other stages amounting to a net increase of €2,651 million.

At Stage 3, the gross carrying amount rose by €16 million to €974 million. This was attributable to net transfers into Stage 3 amounting to an increase of €375 million and other portfolio changes amounting to a decrease of €359 million.

The gross carrying amount within the simplified approach rose by €727 million to €3,247 million. This increase arose largely because of other portfolio changes, accounting for an increase of €715 million.

At Stage 4, the gross carrying amount went down by €17 million to €409 million, mainly because of other portfolio changes amounting to a decrease of €16 million.

In 2019, the gross carrying amount of assets measured at amortized cost rose by €6,299 million to €58,028 million. At Stage 1, the gross carrying amount rose by €7,100 million to €46,478 million. This increase was mainly attributable to changes in the basis of consolidation and associated consolidation effects amounting to an increase of €4,557 million, a net transfer of gross carrying amounts from Stage 1 to other stages amounting to a net decrease of €894 million and other portfolio changes within Stage 1 amounting to an increase of €3,353 million.

The gross carrying amount at Stage 2 fell by €281 million to €7,640 million. This was mainly attributable to other portfolio changes within Stage 2 amounting to a decrease of €1,082 million and the net transfer of gross carrying amounts into Stage 2 from other stages amounting to a net increase of €797 million.

At Stage 3, the gross carrying amount rose by €69 million to €961 million. This was attributable to net transfers into Stage 3 amounting to an increase of €335 million and other portfolio changes amounting to a decrease of €292 million.

The gross carrying amount within the simplified approach declined by €477 million to €2,523 million. This decrease largely arose because of changes to the basis of consolidation amounting to a decrease of €520 million and portfolio changes amounting to an increase of €42 million.

At Stage 4, the gross carrying amount went down by €112 million to €426 million as a result of portfolio changes.

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

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

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount as of Jan. 1, 2019	**2**	**–**	**–**	**–**	**–**	**2**
Exchange differences on translating foreign operations	0	–	–	–	–	0
Changes in basis of consolidation	–	–	–	–	–	–
Newly extended/purchased financial assets (additions)	3	–	–	–	–	3
Other changes within a stage	0	0	–	–	–	0
Transfers to						
Stage 1	0	0	–	–	–	0
Stage 2	–3	3	–	–	–	0
Stage 3	–	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	0	–1	–	–	–	–2
Utilizations	–	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–	–
Carrying amount as of Dec. 31, 2019	**2**	**1**	**–**	**–**	**–**	**3**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount as of Jan. 1, 2020	**2**	**1**	**–**	**–**	**–**	**3**
Exchange differences on translating foreign operations	–	–	–	–	–	–
Changes in basis of consolidation	–	–	–	–	–	–
Newly extended/purchased financial assets (additions)	0	–	–	–	–	0
Other changes within a stage	0	0	–	–	–	–1
Transfers to						
Stage 1	0	0	–	–	–	0
Stage 2	0	0	–	–	–	0
Stage 3	–	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	0	0	–	–	–	0
Utilizations	–	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–	–
Carrying amount as of Dec. 31, 2020	**2**	**1**	**–**	**–**	**–**	**3**

In 2020, the gross carrying amount of assets measured at fair value through other comprehensive income went up by €401 million to €3,285 million. At Stage 1, the gross carrying amount rose by €1,181 million to €2,501 million. This increase was attributable for the most part to other portfolio changes within Stage 1 amounting to an increase of €1,332 million and the net transfer of gross carrying amounts from Stage 1 to other stages amounting to a net decrease of €151 million.

The gross carrying amount at Stage 2 fell by €780 million to €785 million. This was mainly attributable to other portfolio changes within Stage 2 amounting to a decrease of €679 million and the net transfer of gross carrying amounts from Stage 2 to other stages amounting to a net decrease of €101 million. There were no assets in the other stages or in the simplified approach.

In 2019, the gross carrying amount of assets measured at fair value through other comprehensive income went down by €401 million to €2,884 million. At Stage 1, the gross carrying amount declined by €1,566 million to €1,320 million. This decrease was attributable for the most part to other portfolio changes within Stage 1 amounting to a decrease of €1,355 million and the net transfer of gross carrying amounts from Stage 1 to other stages amounting to a net decrease of €217 million.

The gross carrying amount at Stage 2 rose by €1,165 million to €1,565 million. This was mainly attributable to other portfolio changes within Stage 2 amounting to an increase of €950 million and the net transfer of gross carrying amounts into Stage 2 from other stages amounting to a net increase of €214 million. There were no assets in the other stages or in the simplified approach.

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

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

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Carrying amount as of Jan. 1, 2020	**7**	**2**	**0**	**0**	**8**
Exchange differences on translating foreign operations	0	0	–	0	0
Changes in basis of consolidation	–	–	–	–	–
Newly extended/purchased financial assets (additions)	5	0	0	0	5
Other changes within a stage	1	1	0	0	3
Transfers to					
Stage 1	0	0	–	–	–0
Stage 2	0	1	–	–	1
Stage 3	0	0	0	–	0
Financial instruments derecognized during the period (derecognitions)	–4	–1	–	0	–5
Utilizations	–	–	–1	–	–1
Model or risk parameter changes	–	–	–	–	–
Carrying amount as of Dec. 31, 2020	**8**	**3**	**0**	**0**	**11**

In 2020, the gross carrying amount of financial guarantees and credit commitments went down by €20 million to €2,124 million. At Stage 1, the gross carrying amount declined by €78 million to €1,819 million. This decrease was attributable primarily to the net transfer of gross carrying amounts from Stage 1 to other stages amounting to a net decrease of €71 million.

The gross carrying amount at Stage 2 rose by €46 million to €292 million. This was mainly attributable to other portfolio changes within Stage 2 amounting to a decrease of €18 million and the net transfer of gross carrying amounts into Stage 2 from other stages amounting to a net increase of €66 million. There were no significant portfolios of assets in the other stages.

In 2019, the gross carrying amount of financial guarantees and credit commitments went down by €338 million to €2,153 million. At Stage 1, the gross carrying amount declined by €253 million to €1,897 million. This decrease was attributable for the most part to other portfolio changes within Stage 1 amounting to an increase of €47 million, consolidation effects amounting to a decrease of €111 million and the net transfer of gross carrying amounts from Stage 1 to other stages amounting to a net decrease of €187 million.

The gross carrying amount at Stage 2 fell by €73 million to €246 million. This was mainly attributable to other portfolio changes within Stage 2 amounting to a decrease of €111 million and the net transfer of gross carrying amounts into Stage 2 from other stages amounting to a net increase of €41 million. There were no significant portfolios of assets in the other stages.

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

	SIMPLIFIED APPROACH	
€ million	2020	2019
Balance as of Jan. 1	**114**	**278**
Exchange differences on translating foreign operations	–	5
Changes in basis of consolidation	–	–159
Newly extended/purchased financial assets (additions)	36	21
Other changes within a stage	–6	24
Financial instruments derecognized during the period (derecognitions)	–11	–39
Utilizations	–17	–16
Model or risk parameter changes	6	–
Balance as of Dec. 31	**122**	**114**

In 2020, the gross carrying amount of lease receivables in the class “Not allocated to any measurement category” rose by €78 million to €2,937 million as a consequence of portfolio changes.

In 2019, the gross carrying amount of lease receivables in the class “Not allocated to any measurement category” declined by €16,443 million to €3,829 million. This decrease largely arose because of changes to the basis of consolidation amounting to a decrease of €17,720 million, currency translation differences amounting to an increase of €623 million and portfolio changes amounting to an increase of €653 million.

MODIFICATIONS

During the reporting period and the prior-year period, there were contractual modifications of financial assets that did not lead to a derecognition of the asset concerned. These modifications were caused not only by changes in credit ratings but also, in the reporting year, by targeted measures such as payment deferrals to mitigate the economic effects of the Covid-19 pandemic on customers. The amortized cost, before contractual modification, of financial assets whose provision for credit risks was calculated in the amount of the lifetime expected credit losses amounted to €48 million (previous year: €3 million). In the reporting period, the contractual modifications of these financial assets gave rise to an overall net expense of €2 million (previous year: €0 million). To simplify matters, in the case of trade receivables and lease receivables, the analysis only takes into account credit-quality-related modifications where the receivables concerned are more than 30 days past due.

At the reporting date, the gross carrying amount of financial assets that had been modified since initial recognition and that, in the reporting period, had also been transferred from Stage 2 or Stage 3 to Stage 1 amounted to €1 million (previous year: €0 million). As a consequence, the measurement of the provision for credit risks for these financial assets was switched from the lifetime expected credit loss to a 12-month expected credit loss.

MAXIMUM CREDIT RISK

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

€ million	Dec. 31, 2020	Dec. 31, 2019
Financial assets measured at fair value	3,277	2,881
Financial assets measured at amortized cost	55,755	57,042
Financial guarantees and credit commitments	2,038	2,145
Not allocated to any measurement category	3,027	3,716
Total	**64,349**	**65,784**

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

€ million	Dec. 31, 2020	Dec. 31, 2019
Vehicles	67	48
Real estate	–	–
Other movable assets	–	–
Total	**67**	**48**

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

DEFAULT RISK RATING CLASSES

The Volkswagen Bank GmbH Group uses internal risk management and control systems to evaluate the credit quality of the borrower before entering into any lending contract or lease. In the retail business, this evaluation is carried out by using scoring systems, whereas rating systems are used for fleet customers and dealer financing transactions. In addition, the gross carrying amounts of the financial assets are broken down into three default risk rating classes so that default risk exposures can be presented on a uniform basis throughout the Group. Loans and receivables for which the credit quality is classified as “good” are allocated to default risk rating class 1. Loans to and receivables from customers whose credit quality has not been classified as “good” but who have not yet defaulted are included under default risk rating class 2. Accordingly, all loans and receivables in default are allocated to default risk rating class 3.

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

FISCAL YEAR 2019

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

FISCAL YEAR 2020

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1 (loans/receivables not at risk of default – normal loans)	35,656	7,789	–	5,816	68
Default risk rating class 2 (loans/receivables at risk of default – intensified loan management)	2,805	9,620	–	198	61
Default risk rating class 3 (loans/receivables in default – non-performing loans)	–	–	974	170	280
Total	**38,461**	**17,409**	**974**	**6,184**	**409**

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

FISCAL YEAR 2019

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

FISCAL YEAR 2020

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1 (loans/receivables not at risk of default – normal loans)	1,709	198	–	0
Default risk rating class 2 (loans/receivables at risk of default – intensified loan management)	45	83	–	1
Default risk rating class 3 (loans/receivables in default – non-performing loans)	–	–	10	2
Total	**1,754**	**281**	**10**	**3**

61. Liquidity Risk

Liquidity risk is defined primarily as the risk of not being able to meet payment obligations in full or when due. A rolling liquidity planning system, a liquidity reserve in the form of cash and confirmed lines of credit that can be accessed at any time at short notice, together with capital market and asset-backed securities (ABS) programs, ensure that the Volkswagen Bank GmbH Group remains solvent and has an adequate supply of liquidity. Further details on the funding and hedging strategy can be found in the management report in the sections Liquidity Analysis (page 14) and Funding (page 15) and in the risk report within the disclosures on interest-rate risk (page 33) and liquidity risk (page 34).

The maturity profile of assets held to manage liquidity risk is as follows:

	ASSETS		REPAYABLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS	
€ million	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Cash reserve	7,056	3,471	7,056	3,471	–	–	–	–	–	–	–	–
Loans to and receivables from banks	348	444	348	444	0	0	–	–	–	–	–	–
Marketable securities	3,277	2,881	–	–	3,277	2,881	–	–	–	–	–	–
Total	**10,682**	**6,797**	**7,404**	**3,915**	**3,277**	**2,882**	**–**	**–**	**–**	**–**	**–**	**–**

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

			REMAINING CONTRACTUAL MATURITIES							
	Cash outflows		up to 3 months		3 months to 1 year		1 to 5 years		more than 5 years	
€ million	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Liabilities to banks	9,748	7,485	2,026	910	28	1,475	7,615	5,005	79	94
Liabilities to customers	35,336	38,233	32,290	34,417	569	1,306	1,316	1,608	1,161	903
Notes, commercial paper issued	8,858	9,942	393	296	2,511	1,256	5,083	6,943	871	1,448
Derivative financial instruments	3,834	4,117	1,906	1,725	1,894	2,030	34	361	–	–
Other liabilities	45	202	30	17	14	183	1	1	1	2
Subordinated capital	51	105	4	18	11	33	36	51	0	3
Irrevocable credit commitments	1,924	1,771	205	387	1,718	1,385	0	0	0	0
Total	**59,797**	**61,856**	**36,855**	**37,770**	**6,746**	**7,668**	**14,084**	**13,969**	**2,113**	**2,450**

Financial guarantees with a maximum possible drawdown of €200 million (previous year: €234 million) are always assumed to be payable on demand.

A notable important source of funding for the reporting year and for the subsequent year is Volkswagen Bank GmbH's participation in Deutsche Bundesbank's third series of longer-term refinancing operations.

62. Market Risk

For qualitative information, please refer to the risk report within the management report.

For quantitative risk measurement, interest rate and foreign currency risk are measured using a value-at-risk (VaR) model on the basis of a historical simulation. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 40 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from non-derivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in determining value at risk covers a period of 1,000 trading days.

This approach has produced the following values:

€ million	2020	2019
Interest rate risk	21	81
Currency translation risk	0	0
Total market risk[1]	**21**	**81**

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

63. Hedging Policy Disclosures

HEDGING POLICY AND FINANCIAL DERIVATIVES

Given its international financial activities, the Volkswagen Bank GmbH Group is exposed to fluctuations in interest rates and foreign exchange rates on international money and capital markets. The general rules governing the Group-wide currency and interest rate hedging policy are specified in internal Group guidelines and satisfy the Minimum Requirements for Risk Management (MaRisk – Mindestanforderungen an das Risikomanagement) issued by the German Federal Financial Supervisory Authority (BaFin). The partners used by the Group when entering into appropriate financial transactions are national and international banks with strong credit ratings whose credit quality is continuously monitored by leading rating agencies. The Group enters into suitable hedging transactions to limit currency and interest rate risks. Regular derivative financial instruments are used for this purpose.

MARKET RISK

Market risk arises when changes in prices on financial markets (interest rates and exchange rates) have a positive or negative effect on the value of traded products. The fair values listed in the tables in the notes were determined using the market information available on the reporting date and represent the present values of the financial derivatives. They were determined on the basis of standardized techniques or quoted prices.

INTEREST RATE RISK

Changes in the level of interest rates in the money and capital markets represent an interest rate risk if the funding is not maturity-matched. Interest rate risk is managed at the level of the individual company based on an overall interest rate risk limit set for the entire Group and broken down into specific limits for each company. Interest rate risk is quantified using interest rate gap analyses to which various scenarios involving changes in interest rates are applied. The calculations take into account uniform risk ceilings applicable throughout the Group.

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

CURRENCY RISK

The Volkswagen Bank GmbH Group avoids currency risk by entering into currency hedging contracts, which may be currency forwards, cross-currency swaps or cross-currency interest rate swaps. Generally speaking, all cash flows in foreign currency are hedged.

DESCRIPTION OF HEDGES AND METHODOLOGIES FOR MONITORING HEDGE EFFECTIVENESS

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

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

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

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

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

This uncertainty relates to the GBP LIBOR and WIBOR PLN interest rate benchmarks.

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

The Volkswagen Bank GmbH Group is currently focusing its attention on the SONIA interest rate benchmark because this benchmark is already widely accepted by the market and because of the materiality of the transactions involved.

DISCLOSURES ON GAINS AND LOSSES FROM FAIR VALUE HEDGES

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

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

€ million	2020	2019
Interest rate risk hedging	0	1
Currency risk hedging	–8	–30
Combined interest rate and currency risk hedging	0	1

DISCLOSURES ON GAINS AND LOSSES FROM CASH FLOW HEDGES

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

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

€ million	2020	2019
Interest rate risk hedging		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	–	0
Recognized in profit or loss	0	0
Reclassifications from the cash flow hedge reserve to profit or loss		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	0	–
Currency risk hedging		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	–15	0
Recognized in profit or loss	0	0
Reclassifications from the cash flow hedge reserve to profit or loss		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	15	0
Combined interest rate and currency risk hedging		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	–22	–1
Recognized in profit or loss	–1	1
Reclassifications from the cash flow hedge reserve to profit or loss		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	23	–1

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

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

NOTIONAL AMOUNTS OF DERIVATIVE FINANCIAL INSTRUMENTS

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

FISCAL YEAR 2019

	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
€ million	Up to 1 year	1 to 5 years	more than 5 years	Dec. 31, 2019
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	3,050	5,000	1,350	9,400
Currency risk hedging				
Currency forwards/cross-currency swaps CZK	107	91	–	198
Currency forwards/cross-currency swaps GBP	2,586	82	–	2,668
Currency forwards/cross-currency swaps PLN	263	–	–	263
Currency forwards/cross-currency swaps TRY	4	–	–	4
Currency forwards, other currencies	–	–	–	–
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	82	–	–	82
Cross-currency interest rate swaps PLN	387	–	–	387
Cross-currency interest rate swaps, other foreign currencies	247	–	–	247
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	2,168	1,868	0	4,036
Currency risk hedging				
Currency forwards/cross-currency swaps	258	–	–	258
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps, other foreign currencies	–	110	–	110

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

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

The average interest rate used for cross-currency interest rate swaps (cash flow hedges) in the previous year was 0.05 % for PLN.

In the previous year, the notional amounts of the hedging instruments described above amounted to €720 million. In addition to the due hedging instruments, the prior-year figure included the notional amounts of hedging instruments subject to the PLN WIBOR and NOK OIBOR, which the Volkswagen Bank GmbH Group believes are no longer exposed to any uncertainty from the IBOR reform.

FISCAL YEAR 2020

€ million	Residual maturity: Up to 1 year	1 to 5 years	more than 5 years	Total notional amount Dec. 31, 2020
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	2,100	3,400	850	6,350
Currency risk hedging				
Currency forwards/cross-currency swaps CZK	59	29	–	88
Currency forwards/cross-currency swaps GBP	2,545	–	–	2,545
Currency forwards/cross-currency swaps PLN	512	–	–	512
Currency forwards/cross-currency swaps TRY	77	–	–	77
Currency forwards, other currencies	–	–	–	–
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	–	–	–	–
Cross-currency interest rate swaps PLN	78	–	–	78
Cross-currency interest rate swaps, other foreign currencies	–	–	–	–
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	1,923	4,647	0	6,571
Currency risk hedging				
Currency forwards/cross-currency swaps	398	–	–	398
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps, other foreign currencies	110	–	–	110

In the year under review, the average exchange rates used in the measurement of currency hedges were as follows for the following currencies with significant nominal amounts: CZK 25.44 (cash flow hedge) and 25.966 (fair value hedge), GBP 0.9106 (cash flow hedge) and 0.8987 (fair value hedge), PLN 4.5109 (cash flow hedge) and 4.4864 (fair value hedge).

The average exchange rates used in the measurement of interest rate/currency hedges in the year under review were as follows for the following currencies with significant nominal amounts: PLN 4.4490 (cash flow hedge).

The average interest rate used for cross-currency interest rate swaps (cash flow hedges) in the year under review was 0.97 % for PLN (previous year: 0.23 %).

The timings of the future payments for the hedged items in the cash flow hedges match the maturities of the hedging instruments.

As of the reporting date and the prior-year reporting date, none of the cash flow hedges recognized involved a hedged item whose underlying transaction was no longer expected to occur in the future.

The hedging instruments that were exposed to the uncertainty of the IBOR reform described above became due in the reporting year. As of the reporting date, there were therefore no longer any hedging instruments in the Volkswagen Bank GmbH Group that were exposed to uncertainty from the IBOR reform.
In addition to the due hedging instruments, the reporting year included the notional amounts of hedging instruments subject to the PLN WIBOR, which the Volkswagen Bank GmbH Group believes are no longer exposed to any uncertainty from the IBOR reform.

DISCLOSURES ON HEDGING INSTRUMENTS USED IN HEDGE ACCOUNTING

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

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

FISCAL YEAR 2019

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

FISCAL YEAR 2020

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	6,350	1	–	135
Currency risk hedging				
Currency forwards and option contracts, cross-currency swaps	3,194	30	19	11
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	–	–	–	–

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

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

FISCAL YEAR 2019

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

FISCAL YEAR 2020

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	–	–	–	–
Currency risk hedging				
Currency forwards/cross-currency swaps	27	1	0	1
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	78	2	–	2

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

DISCLOSURES ON HEDGED ITEMS TO WHICH HEDGE ACCOUNTING IS APPLIED

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

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

FISCAL YEAR 2019

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

FISCAL YEAR 2020

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/ fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Liabilities to banks	1,506	6	–2	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	4,980	130	5	–
Subordinated capital	–	–	–	–
Currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	139	1	1	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–
Combined interest rate and currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–

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

FISCAL YEAR 2019

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

FISCAL YEAR 2020

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

CHANGES IN THE CASH FLOW HEDGE RESERVE

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

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

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

€ million	Interest rate risk	Currency risk	Combined interest rate and currency risk	Commodity price risk	Total
Balance as of Jan. 1, 2020	**1**	**1**	**–1**	**–**	**0**
Gains or losses from effective hedges	–	0	1	–	2
Reclassifications resulting from a change in expected materialization of the hedged item	–	–	–	–	–
Reclassifications resulting from the recovery of the hedged item	0	–1	0	–	–2
Balance as of Dec. 31, 2020	**1**	**0**	**0**	**–**	**1**

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

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

€ million	CURRENCY RISK 2020	CURRENCY RISK 2019
Balance as of Jan. 1	**–**	**–**
Gains and losses from undesignated forward elements and CCBS		
Hedged item is recognized at a point in time	–	0
Reclassification due to realization of the hedged item		
Hedged item is recognized at a point in time	–	0
Reclassification due to changes in whether the hedged item is expected to occur		
Hedged item is recognized at a point in time	–	–
Balance as of Dec. 31	**–**	**–**

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

LIQUIDITY RISK, FUNDING RISK

The Volkswagen Bank GmbH Group takes precautions to minimize the risk from any potential liquidity squeeze by holding confirmed credit lines with Volkswagen AG and by using debt issuance programs with multicurrency capability. It also holds marketable securities from public-sector issuers that are readily marketable and can be deposited with central banks, and can thus be used to help safeguard liquidity.

Segment Reporting

64. Breakdown by Geographical Market

The presentation of the reportable segments within the meaning of IFRS 8 is based on the internal control and reporting structure of the Volkswagen Bank GmbH Group and is broken down according to the geographical markets in which the Volkswagen Bank GmbH Group operates.
Accordingly, the reportable segments are as follows: Germany, Italy, Spain, France and Other; the branches in the Netherlands, Greece, the United Kingdom, Portugal and Poland are reported on in the "Other" segment. The branch in Ireland was closed on June 30, 2020. The Ireland Branch, the income it generated and the expenses it incurred up to the date of disposal of its non-regulated business (mainly comprising finance leases and dealer financing) to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, and the transfer of its other business to Volkswagen Bank GmbH was also allocated to the "Other" segment.

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

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

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

FISCAL YEAR 2019:

€ million	Germany	Italy	Spain	France	Other	Consoli-dation	Total
	JAN. 1 – DEC. 31, 2019						
Interest income from lending transactions and marketable securities in respect of third parties	903	174	118	46	210	–	1,451
Intersegment interest income from lending transactions and marketable securities	98	0	–	–	–	–98	–
Income from leasing transactions with third parties	–	29	0	865	122	–	1,017
of which impairment losses in accordance with IAS 36	–	–	–	1	1	–1	1
Intersegment income from leasing transactions	–	–11	–	–	–	11	–
Depreciation, impairment losses and other expenses from leasing transactions	0	–12	–	–657	–70	–6	–746
of which impairment losses in accordance with IAS 36	–	0	–	–18	–	0	–18
Net income from leasing transactions	0	6	0	208	52	5	271
Interest expense	–142	–15	–10	–24	–68	98	–161
Income from service contracts with third parties	–	0	–	53	11	–	64
Expenses from service contracts	–	0	–	–30	–12	–	–42
Net income from service contracts	–	0	–	23	–1	–	22
Provision for credit risks	–82	–17	–14	–7	–12	5	–129
Fee and commission income from third parties	46	73	28	38	23	3	212
Fee and commission expenses	–38	–66	–27	–55	–23	–4	–212
Net fee and commission income	8	7	1	–17	0	0	–1
Net gain or loss on hedges	–28	–	0	–	0	–	–28
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	–1	0	0	0	3	0	2
General and administrative expenses	–510	–59	–33	–121	–71	0	–794
Net other operating income	113	12	4	20	8	17	174
Other operating expenses	–28	–6	–3	–4	–4	–4	–49
Net other operating income/expenses	85	6	1	16	5	13	125
Operating result	**331**	**101**	**63**	**124**	**116**	**23**	**757**

FISCAL YEAR 2020:

€ million	Germany	Italy	Spain	France	Other	Consoli-dation	Total
	JAN. 1 – DEC. 31, 2020						
Interest income from lending transactions and marketable securities in respect of third parties	836	205	201	41	154	–	1,437
Intersegment interest income from lending transactions and marketable securities	104	0	0	–	–	–104	–
Income from leasing transactions with third parties	–	–	0	947	18	–	965
of which impairment losses in accordance with IAS 36	–	–	–	4	–	–	4
Intersegment income from leasing transactions	–	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–	–	–	–721	–3	–	–723
of which impairment losses in accordance with IAS 36	–	–	–	–9	–	–	–9
Net income from leasing transactions	–	–	–	226	15	–	241
Interest expense	–134	–23	–29	–29	–41	104	–153
Income from service contracts with third parties	16	–	–	57	–	–	74
Expenses from service contracts	–16	–	–	–63	–	–	–80
Net income from service contracts	0	–	–	–6	–	–	–6
Provision for credit risks	–100	–29	–38	–39	–22	–1	–229
Fee and commission income from third parties	39	38	46	38	28	–	188
Fee and commission expenses	6	–29	–34	–11	–14	–	–83
Net fee and commission income	45	9	12	27	13	–	105
Net gain or loss on hedges	–8	–	0	–	–	–	–8
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	52	0	1	–	5	–53	4
General and administrative expenses	–491	–50	–52	–122	–51	2	–762
Net other operating income	151	8	9	7	98	–2	270
Other operating expenses	–37	–6	–10	–3	–4	–	–59
Net other operating income/expenses	114	2	–1	5	94	–2	211
Operating result	**417**	**113**	**94**	**103**	**167**	**–54**	**840**

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

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

€ million	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019
Breakdown of segment profit or loss (operating result) for the Group	**840**	**757**
Continuing operations	840	757
Discontinued operations	–	–

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

	DEC. 31, 2019						
€ million	Germany	Italy	Spain	France	Other	Consolidation	Total
Noncurrent assets	252	6	5	1,679	40	–	1,983
Additions to noncurrent lease assets	0	5	–	922	34	–36	925

	DEC. 31, 2020						
€ million	Germany	Italy	Spain	France	Other	Consolidation	Total
Noncurrent assets	285	8	5	1,803	37	–	2,138
Additions to noncurrent lease assets	0	–	–	780	4	–	785

Investment recognized under other assets was of minor significance.

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

€ million	2020	2019
Segment revenue	**2,792**	**2,854**
Other companies	–	–
Consolidation	–105	–84
Group revenue	**2,687**	**2,770**
Segment profit or loss (operating result)	**894**	**735**
Other companies	–	–
Consolidation	–54	23
Operating result	**840**	**757**
Share of profits and losses of equity-accounted joint ventures	33	29
Net gain or loss on miscellaneous financial assets	–1	0
Other financial gains or losses	–29	–1
Profit before tax	**844**	**785**

Other Disclosures

65. Leases

LESSOR ACCOUNTING FOR FINANCE LEASES

In the reporting year, interest income from the net investment in the lease amounting to €146 million (previous year: €186 million) was generated from finance leases. There was no income from variable lease payments that was not taken into account in the measurement of the net investment in the lease where finance leases were concerned.

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

€ million	Dec. 31, 2020	Dec. 31, 2019
Non-discounted lease payments	2,985	2,962
Non-guaranteed residual value	0	–
Unearned interest income	–69	–108
Loss allowance on lease receivables	–108	–105
Other	–	–
Net investment	**2,808**	**2,750**

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

In the previous year, the following payments were anticipated over the subsequent years from expected, outstanding, non-discounted lease payments under finance leases.

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

In the year under review, the following payments are anticipated over the next few years from expected, outstanding, non-discounted lease payments under finance leases.

€ million	2021	2022	2023	2024	2025	From 2026	Total
Lease payments	1,047	751	570	387	203	28	2,985

LESSOR ACCOUNTING FOR OPERATING LEASES

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

€ million	2020	2019
Lease income	366	350
Income from variable lease payments	–	–
Total	**366**	**350**

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

The impairment losses recognized as a result of the impairment test on lease assets amounted to €9 million (previous year: €22 million) and are included in the depreciation, impairment losses and other expenses from leasing transactions. Impairment losses are based on continuously updated internal and external information, which is then fed into the forecasts of residual values for vehicles.

Income from reversals of impairment losses on lease assets applied in prior years amounted to €4 million (previous year: €3 million) and is included in income from leasing business.

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

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

1 The opening carrying amounts for lease assets have been adjusted (see IFRS 16 disclosures in the 2019 Annual Report).

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

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

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

€ million	Movable lease assets
Cost as of Jan 1, 2020	**2,225**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions	785
Reclassifications	–
Disposals	572
Balance as of Dec. 31, 2020	**2,438**
Depreciation and impairment losses as of Jan. 1, 2020	**568**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions to cumulative depreciation	381
Additions to cumulative impairment losses	9
Reclassifications	–
Disposals	305
Reversal of impairment losses	4
Balance as of Dec. 31, 2020	**649**
Net carrying amount as of Dec. 31, 2020	**1,788**
Net carrying amount as of Jan. 1, 2020	**1,657**

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

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

€ million	2,021	2022	2023	2024	2025	From 2026	Total
Lease payments	266	54	57	61	64	18	520

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

LESSEE ACCOUNTING

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

In the reporting year, interest expenses of €1 million (previous year: €1 million) were recognized under the interest expenses line item in the income statement in respect of lease liabilities reported under liabilities to customers on the balance sheet.

The subleasing of right-of-use assets gave rise to income of €4 million (previous year: €8 million) in the reporting year.

No right-of-use assets are recognized for short-term leases or leases in which the underlying asset is of low value.

In the reporting year, expenses for leases in which the underlying assets are of low value amounted to €3 million (previous year: €4 million). Expenses for short-term leases were €3 million (previous year: €3 million). There were no variable lease expenses in the reporting year that were not taken into account in the measurement of the lease liabilities.

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

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

€ million	Right of use on land, land rights and buildings incl. buildings on third party land	Rights of use for technical equipment and machinery	Right of use on other equipment, operational and office equipment	Total
Gross carrying amount (or cost) as of Jan. 1, 2020	**16**	**–**	**0**	**16**
Foreign exchange differences	0	–	0	0
Changes in basis of consolidation	–	–	–	–
Additions	10	–	1	11
Reclassifications	–	–	–	–
Classified as held for sale	–	–	–	–
Disposals	4	–	0	4
Balance as of Dec. 31, 2020	**22**	**–**	**1**	**22**
Depreciation and impairment losses as of Jan. 1, 2020	**2**	**–**	**0**	**2**
Foreign exchange differences	0	–	0	0
Changes in basis of consolidation	–	–	–	–
Additions to cumulative depreciation	2	–	0	3
Additions to cumulative impairment losses	–	–	–	–
Reclassifications	–	–	–	–
Classified as held for sale	–	–	–	–
Disposals	0	–	–	0
Reversal of impairment losses	–	–	–	–
Balance as of Dec. 31, 2020	**4**	**–**	**0**	**4**
Net carrying amount as of Dec. 31, 2020	**18**	**–**	**0**	**18**

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

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

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

€ million	REMAINING CONTRACTUAL MATURITIES			
	Up to 1 year	1 – 5 years	more than 5 years	Total
Lease liabilities as of Dec. 31, 2020	1	7	10	19
Lease liabilities as of Dec. 31, 2019	2	7	5	14

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

€ million	2020	2019
Future cash outflows to which the lessee is potentially exposed		
Variable lease payments	–	–
Residual value guarantees	–	–
Extension options	2	2
Termination options	0	0
Obligations under leases not yet commenced (contractual obligations)	–	–
Total	**2**	**2**

66. Cash Flow Statement

Volkswagen Bank GmbH Group's cash flow statement documents changes in cash and cash equivalents attributable to cash flows from operating, investing and financing activities. Cash flows from investing activities comprise purchase payments and disposal proceeds relating to investment property, subsidiaries, joint ventures and other assets. Cash flows from financing activities reflect all cash flows arising from transactions involving equity, subordinated capital and other financing activities. All other cash flows are classified as cash flows from operating activities in accordance with standard international practice for financial services companies.

The narrow definition of cash and cash equivalents comprises the cash reserve, which consists of central bank balances and cash-in-hand.

The changes in the balance sheet items used to determine the changes in the cash flow statement cannot be derived directly from the balance sheet because effects from the changes in the basis of consolidation have no impact on cash and are eliminated.

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

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

€ million	Balance as of Jan. 1, 2020	Cash changes	NONCASH TRANSACTIONS Exchange rate changes	Changes in basis of consolidation	Measurement changes	Balance as of Dec. 31, 2020
Subordinated capital	105	–57	–	–	–	49

67. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

€ million	Dec. 31, 2020	Dec. 31, 2019
Contingent liabilities under financial guarantees	200	234
Other contingent liabilities	–	1
Total	**200**	**235**

The maximum credit risk associated with the financial guarantees in accordance with IFRS 7.B10 amounts to €200 million (previous year: €234 million).

There were other contingent liabilities only in the previous year and their amount was immaterial. No disclosures have therefore been provided on their financial impact, uncertainty or potential reimbursement.

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2020	DUE 2021 – 2024	DUE From 2025	TOTAL Dec. 31, 2019
Purchase commitments in respect of				
Property and equipment	0	–	–	0
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
irrevocable lending and lease commitments to customers	1,771	0	0	1,771
long-term leasing and rental contracts	4	0	–	4
Miscellaneous financial obligations	11	–	–	11

€ million	DUE 2021	DUE 2022 – 2025	DUE From 2026	TOTAL Dec. 31, 2020
Purchase commitments in respect of				
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
irrevocable credit commitments to customers	1,924	0	0	1,924
long-term leasing and rental contracts	3	0	–	3
Miscellaneous financial obligations	11	–	–	11

Drawdowns on irrevocable credit commitments are possible at any time.

68. Trust Transactions

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

69. Average Number of Employees during the Reporting Period

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

70. Related Party Disclosures

Related parties as defined by IAS 24 are natural persons and entities that Volkswagen Bank GmbH has control over or over which it has significant influence, or natural persons and entities that have control over or can exercise significant influence over Volkswagen Bank GmbH, or who are under the influence of another related party of Volkswagen Bank GmbH.

Volkswagen AG, Wolfsburg, is the sole shareholder of Volkswagen Bank GmbH. Porsche Automobil Holding SE, Stuttgart, held the majority of the voting rights in Volkswagen AG as of the reporting date. The Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved the creation of rights of appointment for the State of Lower Saxony. As a result, Porsche SE cannot elect, via the Annual General Meeting, all the shareholder representatives on Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore deemed to be a related party as defined by IAS 24. According to a notification dated January 4, 2021, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20% of the voting rights in Volkswagen AG on December 31, 2020 and therefore indirectly had significant influence over the Volkswagen Bank GmbH Group. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment).

The sole shareholder, Volkswagen AG, and Volkswagen Bank GmbH have entered into a control and profit-and-loss transfer agreement.

Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities provide the entities in the Volkswagen Bank GmbH Group with funding on an arm's-length basis. Volkswagen AG and its subsidiaries have also furnished collateral in the Bank's favor as part of the operating business.

The production companies and importers in the Volkswagen Group provide the entities in the Volkswagen Bank GmbH Group with financial subsidies to support sales promotion campaigns.

Business transactions with unconsolidated subsidiaries, joint ventures, associates and other related parties in Volkswagen AG's group of consolidated entities are processed at arm's length.

The two tables below show the transactions with related parties. In these tables, the exchange rates used are the closing rate for asset and liability items, and the weighted average rates for the year for income statement items.

FISCAL YEAR 2019

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

FISCAL YEAR 2020

€ million	Supervisory Board	Management Board	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Unconsolidated subsidiaries	Joint ventures	Associates
Loans and Receivables	0	0	2	–	2,054	0	2,202	–
Valuation allowances on loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	4	8	3,031	–	3,645	129	98	1
Interest income	0	0	10	–	–72	–	4	–
Interest expense	0	0	–	–	–1	–	–	–
Goods and services provided	–	–	36	–	324	0	1	–
Goods and services received	–	–	4	–	306	–	220	0

The “Other related parties in the group of consolidated entities” column includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG’s group of consolidated entities but do not directly belong to Volkswagen Bank GmbH. The relationships with the Supervisory Board and the Board of Management comprise relationships with the relevant groups of people at Volkswagen Bank GmbH and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of lesser significance.

The “Goods and services received” mainly related to IT and other services in connection with financing transactions. “Goods and services provided” largely arose in connection with income from finance cost subsidies received and with the sale of the non-regulated finance lease and dealer financing business at

Volkswagen Bank GmbH, Ireland Branch, Dublin, Ireland, to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig.

The Volkswagen Bank GmbH Group did not receive any capital contributions from Volkswagen AG in the reporting year (previous year: €171 million). However, the Volkswagen Bank GmbH Group made capital contributions to related parties amounting to €4 million (previous year: €58 million).

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

MANAGEMENT BOARD REMUNERATION

€ million	2020	2019
Short-term benefits	2	2
Long-term benefits	1	1
Termination benefits	–	–
Post-employment benefits	1	2

As in the previous year, the total payments made to former members of the Management Board and their surviving dependents amounted to less than €0.5 million in the reporting period. The provisions recognized for this group of people to cover current pensions and pension entitlements amounted to €5 million (previous year: €10 million).

SUPERVISORY BOARD REMUNERATION

In accordance with a resolution passed by the Annual General Meeting, the members of the Supervisory Board who are not employees of the Volkswagen Group are entitled to annual remuneration. This 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 €0.1 million (previous year: €0.1 million) was paid out to the members of the Supervisory Board in the reporting period.

The employee representatives on the Supervisory Board 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.

71. Disclosures Relating to Unconsolidated Structured Entities

A structured entity is normally designed so that voting rights or similar rights are not the deciding factor in determining control over the entity.

Typical features of a structured entity are as follows:
> Limited scope of activities
> Narrowly defined business purpose
> Inadequate equity to finance the business activities
> Financing through a number of instruments that contractually bind investors and that give rise to a concentration of credit risk and other risks.

Volkswagen Bank GmbH maintained business relationships with structured entities in the year under review. These are ABS special purpose entities within Volkswagen AG's group of consolidated entities. The entities carry out a process of securitization by taking assets from lending agreements and leases for vehicles and transforming them into securities (asset-backed securities) on a maturity-matched basis. Volkswagen Bank GmbH has acquired some of these securities with an average term of seven years. In the Volkswagen Bank GmbH Group, the securities have been allocated to the category of assets measured at fair value through profit or loss. The securities give rise to the following items reported in the consolidated income statement: interest income, which is recognized under interest income from lending transactions and marketable securities, and remeasurement effects, which are recognized under net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income.

Under the principles specified in IFRS 10, these entities are not controlled by Volkswagen Bank GmbH and are therefore not included in the consolidated financial statements.
The financial services business of the associated entity in Volkswagen AG's group of consolidated entities is being funded as a result of the purchase of the securities issued by ABS special purpose entities within Volkswagen AG's group of consolidated entities.

The acquisition of the securities gives rise to counterparty default risk (from the assets contained in the issuer's securitized portfolio) and interest rate risk. The maximum risk of Volkswagen Bank GmbH from shares in unconsolidated structured entities is limited to the fair value of the purchased debt instruments reported in the balance sheet, among other things because the purchased securities have senior ranking in their exposure to losses incurred by the unconsolidated structured entities.

The following table contains disclosures on Volkswagen Bank GmbH's assets reported in the balance sheet that are related to unconsolidated structured entities and the maximum risk exposure of the Volkswagen Bank GmbH Group (disregarding collateral). The nominal amount of the securitized assets is also disclosed.

	ABS SPECIAL PURPOSE ENTITIES	
€ million	2020	2019
Reported in the balance sheet as of December 31		
Marketable securities	517	664
Loans to and receivables from customers	–	–
Maximum loss risk	517	664
Nominal volume of securitized assets	739	3,318

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

72. Governing Bodies of Volkswagen Bank GmbH

The members of the Management Board 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,
Volkswagen Bank GmbH and Euromobil Autovermietung 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
Volkswagen Bank GmbH Group

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 the Back Office of 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

73. Letter of Comfort for Our Affiliated Companies

With the exception of political risks, Volkswagen Bank GmbH hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to lenders in the agreed manner. Moreover, Volkswagen Bank GmbH confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders.

74. Events After the Balance Sheet Date

Up to February 16, 2021, there were no significant events that would have required a substantially different presentation of the assets, liabilities, financial position and profit or loss.

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 THOUS- ANDS		
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 THOUS-ANDS 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) Newsly 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

Volkswagen Bank GmbH
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 consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Braunschweig, February 16, 2021

Volkswagen Bank GmbH
The Management Board

Dr. Michael Reinhart

Oliver Roes

Christian Löbke

Dr. Volker Stadler

Country-by-Country Reporting of Volkswagen Bank GmbH

The requirements of country-by-country reporting laid down in Article 89 of EU Directive 2013/36/EU (Capital Requirements Directive, CRD IV) have been transposed into German law in section 26a(1) sentence 2 of the KWG.

In this country-by-country report, required in accordance with section 26a(1) nos. 1 to 6 of the KWG, the Volkswagen Bank Group makes the disclosures listed below as of December 31, 2020:

> Name, nature of activities and geographical location of branch
> Turnover (revenue)
> Number of employees on a full-time equivalent basis
> Profit or loss before tax
> Tax on profit or loss
> Public subsidies received

The report encompasses the disclosures required for all consolidated entities included in the IFRS consolidated financial statements. The branch of Volkswagen Bank GmbH in Dublin, Ireland, was closed on June 30, 2020. Up to this date, the branch was fully consolidated in the consolidated financial statements. 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 in Germany on March 1, 2020. The disclosures for this branch are therefore reported using the pro rata figures applicable to the relevant period.

Branches are understood to be the individual subsidiaries and, if appropriate, branches maintained by subsidiaries in individual countries. All figures included in this report were determined on an unconsolidated basis. Revenue has been adjusted for intragroup transactions within the same country.

Revenue is defined as the sum of the following components of the IFRS income statement:

> Interest income from lending transactions less interest expenses
> Income from leasing transactions and service contracts
> Net fee and commission income
> Net gain or loss on hedges
> Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income
> Net other operating income

The number of employees is reported as an average on a full-time equivalent basis.

Tax on profit or loss is reported as effective income tax expense. Information on how the figure is determined can be found under income tax expense in the notes to the consolidated financial statements of Volkswagen Bank GmbH as of December 31, 2020.

In the country-by-country reporting, only direct EU subsidies are deemed public subsidies received.

Country	Sales revenue (€ million)	Employees	Profit/loss before tax (€ million)	Income tax (€ million)	Public subsidies received (€ million)
EU countries					
Germany	903	912	244	81	–
France	1,079	415	131	0	–
Greece	15	42	3	2	–
United Kingdom	79	35	67	9	–
Ireland	109	10	102	14	–
Italy	221	97	136	30	–
Luxembourg	–	–	–	–	–
Netherlands	0	0	0	0	–
Poland	54	61	30	3	–
Portugal	24	17	1	0	–
Spain	211	57	111	35	–

Company name	Company type	Domicile	Country
EU countries			
Volkswagen Bank GmbH	Bank	Braunschweig	Germany
Volkswagen Bank GmbH, France branch	Bank	Roissy en France	France
Driver France FCT	SPV	Pantin	France
Volkswagen Bank GmbH, Greece branch	Bank	Glyfada-Athens	Greece
Volkswagen Bank GmbH, United Kingdom branch	Bank	Milton Keynes	United Kingdom
Volkswagen Bank GmbH, Ireland branch	Bank	Dublin	Ireland
Driver Italia ONE S.R.L.	SPV	Milan	Italy
Private Driver Italia 2020-1 S.r.l.,	SPV	Milan	Italy
Volkswagen Bank GmbH, Italy branch	Bank	Milan	Italy
Driver Master S.A.	SPV	Luxembourg	Luxembourg
Driver Multicompartment S.A.	SPV	Luxembourg	Luxembourg
Volkswagen Bank GmbH, Netherlands branch	Bank	Amersfoort	Netherlands
Volkswagen Bank GmbH, Poland branch	Bank	Warsaw	Poland
Volkswagen Bank GmbH, Portugal branch	Bank	Amadora	Portugal
Volkswagen Bank GmbH, Spain branch	Bank	Alcobendas-Madrid	Spain
DRIVER ESPAÑA four, FONDO DE TITULIZACIÓN	SPV	Madrid	Spain
DRIVER ESPAÑA five, FONDO DE TITULIZACIÓN	SPV	Madrid	Spain
DRIVER ESPAÑA six, FONDO DE TITULIZACIÓN	SPV	Madrid	Spain
Private Driver España 2020-1, Fondo de Titulización	SPV	Madrid	Spain

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 consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of Volkswagen Bank GmbH, Braunschweig, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the fiscal year from 1 January 2020 to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the segment reporting in the notes to the consolidated financial statements. In addition, we have audited the group management report of Volkswagen Bank GmbH, which is combined with the management report for the Company, 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 consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020 and of its financial performance for the fiscal year from 1 January to 31 December 2020, and

> the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group 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 consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group 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 consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with 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 consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the consolidated 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 the provision for Stage 3 credit risks in dealer financing

Reasons why the matter was determined to be a key audit matter

The valuation of loans to dealers, the related identification of impaired loans and the determination of the provision for Stage 3 credit risks are significant areas in which the executive directors exercise judgment. The identification of impaired loans and the determination of an appropriate provision for Stage 3 credit risks 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 assets and financial performance, we determined the identification of impaired loans and the determination of provisions for Stage 3 credit risks 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 the provision for Stage 3 credit risks. We tested the operating effectiveness of the controls implemented in these processes for identifying impaired loans and determining the provision for Stage 3 credit risks. Our audit procedures focused on the processes for evaluating the borrowers' economic situation, monitoring early warning indicators, applying impairment triggers and thus for correctly 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 provision for credit risks and the determining of the provision for Stage 3 credit risks. We selected our sample applying a risk-based approach, using in particular criteria such as the listing of loans on watch lists for increased default risks, rating class, the level of exposure and the provision for credit risks 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 provision determined for Stage 3 credit risks.

Our audit procedures did not lead to any reservations relating to the identification of impaired loans and the determination of the provision for credit risks in Stage 3 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 section "Accounting Policies" (note 8) of the notes to the consolidated financial statements as well as in the section "Report on Opportunities and Risks," subsection "Credit Risk," passages "Collateral" and "Provisions" of the group management report, which is combined with the management report of the Company.

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 recognition and valuation of the provision for legal risks are contained in the section "Accounting Policies" (notes 16 and 18) and section "Balance Sheet Disclosures" (note 48) of the notes to the consolidated financial statements as well as in the section "Report on Opportunities and Risks," subsection "Credit Risk," passages "Collateral" and "Provisions" of the group management report, which is combined with the management report of the Company.

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 consolidated financial statements, not the management report disclosures whose content is audited and not our auditor's report thereon.

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

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information
- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

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 consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated financial statements and this group management report.

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

> Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
> Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
> Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
> Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
> Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
> Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
> Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
> Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

Other legal and regulatory requirements

Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the group 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 consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file Volkswagen Bank_GmbH_KA+KLB_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 consolidated financial statements and the group 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 consolidated financial statements and the group 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 consolidated financial statements and the accompanying group management report for the fiscal year from 1 January 2020 to 31 December 2020 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above.

Basis for the opinion

We conducted our assurance work on the reproduction of the consolidated financial statements and the group 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 "Group 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 consolidated financial statements and the group management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Sec. 328 (1) Sentence 4 No. 2 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 consolidated financial statements and the audited group 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.

Group 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, as amended on 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 consolidated financial statements and to the audited group management report.
> Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group 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 group 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."

Hannover, February 17, 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Gundelach	Meyer
Wirtschaftsprüferin	Wirtschaftsprüfer

Report of the Supervisory Board

of Volkswagen Bank GmbH

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

The members of the committees also consulted each other on several occasions and were in constant con-tact 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 its 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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