VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN BANK GMBH
ANNUAL REPORT (IFRS)

2018

Volkswagen Bank GmbH Group

Key Figures (IFRS)

in € million (as of December 31)	2018	2017
Total assets	83,042	78,747
Loans and receivables attributable to		
Retail financing	29,882	28,032
Dealer financing	12,162	12,430
Leasing business	18,829	18,858
Customer deposits	32,389	33,583
Equity	11,639	11,301
Operating profit	952	994
Profit before tax	978	992
Income tax expense	–275	–336
Profit after tax	703	656

in % (as of December 31)	2018	2017
Equity ratio	14.0	14.4
Common Equity Tier 1 capital ratio[1]	15.5	15.6
Tier 1 capital ratio[1]	15.5	15.6
Total capital ratio1[1]	15.5	15.7

Number (as of December 31)	2018	2017
Employees[2]	3,454	3,549

RATING(AS OF DECEMBER 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	stable

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

2 Due to the restructuring of the Volkswagen Bank GmbH Group, SkoFIN, s.r.o., Czech Republic, Volkswagen Finans Sverige AB, Sweden and Volkswagen Financial Services (UK) Ltd., United Kingdom, have been part of the Group since 2017.

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Fundamental Information about the Group

Continuous international growth confirms the validity of the Volkswagen Bank GmbH Group's business model

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 branches of the Bank in Italy, Ireland and Portugal, the Volkswagen Bank GmbH Group operates the finance lease business. The branch in France and the companies in the United Kingdom, Sweden and the Czech Republic are 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 THE 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 us to defend our 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 of Volkswagen Bank GmbH.

The Accounting, Controlling, Treasury & Investor Relations, Payments and Regulatory Requirements functions have been pooled under Finances, headed by Harald Heßke.

Christian Löbke is responsible for Risk Management, which until August 31, 2018 included the Credit Rating Analysis & Parameters, Markets & Coordination, Risk Measurement, Risk-Bearing Capacity & Stress Tests, Credit Analysis and Back Office functions. This area was restructured with effect from September 1, 2018. The new structure groups activities together to optimize interfaces, make responsibili-

ties clearer and ready the organization for future challenges. Risk Management now encompasses the 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, Direct Bank Process Management and Corporate Customer Process Management, rests with Dr. Volker Stadler.

The structure and the organization of Volkswagen Bank GmbH satisfy the requirements of the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements for Risk Management in Banks and Financial Services Institutions).

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, the United Kingdom, Ireland, Italy, the Netherlands, Portugal, Poland and Spain serviced the business in the country concerned.

With effect from September 28, 2018, the subsidiary Volkswagen Bank Polska S.A., Warsaw, was merged with Volkswagen Bank GmbH. Since then, the Polish business has been serviced at the newly established Poland branch. 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, Auto Europa Bank) 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, Wolfsburg and Zwickau, 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 operating profit. 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 to deliveries of Group vehicles, based on Volkswagen Bank GmbH's consolidated entities.
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, dealer financing, leasing business and direct banking
Volume of deposits	Customer deposits, i.e. total liabilities from deposits arising from direct banking business, dealer current account and from non-direct banking business
Operating profit	Interest income from lending transactions and marketable securities, net income from leasing transaction, interest expenses, net income from service contracts, net income from insurance business, provision for credit risks and 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/expense
Return on equity	Return on equity before tax, which is calculated by dividing profit before tax by average equity[1]
Cost/income ratio	Personnel expenses, material overheads and accounting depreciation and amortization/financial income and sales revenue net of risk costs, fee and commission payments, funding costs and other direct costs[2]

1 Average equity is calculated on the basis of the structure of the Volkswagen Bank GmbH Group prior to September 1, 2017, using the equity status as of December 31, 2016.
2 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

Volkswagen Bank GmbH established Volkswagen Financial Services S.p.A., Milan, Italy, on March 23, 2018. The company will commence operational activities in 2019 once the licensing process mandated by the Banca d'Italia has been completed.

Volkswagen Financial Services (UK) Ltd., Milton Keynes, UK, which is a wholly owned subsidiary of Volkswagen Bank GmbH, acquired Volkswagen Insurance Service Ltd., Milton Keynes, UK, from Volkswagen-Versicherungsdienst GmbH and Volkswagen Group United Kingdom Ltd. on May 4, 2018. This transaction was arranged to integrate Volkswagen Insurance Service Ltd., UK, and with it the company's insurance business, into Volkswagen Financial Services (UK) Ltd.

Volkswagen Bank GmbH established a branch office in Warsaw, Poland, on June 29, 2018. Volkswagen Bank Polska S.A., a wholly owned subsidiary of Volkswagen Bank GmbH, was merged with Volkswagen Bank GmbH on September 28, 2018. Since then, the business of Volkswagen Bank GmbH in Poland has been conducted from the Polish branch office.

Volkswagen Bank GmbH transferred its 100% shareholding in Volkswagen Financial Services Ireland Limited, Dublin, Ireland, to Volkswagen Financial Services AG on September 28, 2018. This transfer was completed with retroactive economic effect from January 1, 2018.

The process that was initiated in 2016 to reorganize the legal entities of Volkswagen Financial Services with the aim of bringing European lending and deposits business together consistently under Volkswagen Bank GmbH was continued as planned. Further project activities are scheduled to achieve the target structure in 2019.

Plans are in place to transfer Volkswagen Serwis Ubezpieczeniowy sp. z o.o. (Poland), ŠkoFIN s.r.o. (Czech Republic) and Volkswagen Financial Services S.p.A. (Italy) to Volkswagen Financial Services AG. If the United Kingdom leaves the European Union (EU) without a deal (hard Brexit), action will also be taken to transfer Volkswagen Financial Services (UK) Ltd., its subsidiaries MAN Financial Services plc. and Volkswagen Insurance Service (Great Britain) Ltd., and Volkswagen Financial Ltd. to Volkswagen Financial Services AG. The merger of VW Finance S.A.U. E.F.C. (Spain) with Volkswagen Bank GmbH is also planned.

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 2018, which will be available on the website https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2018/Nichtfinanzieller_Bericht_2018_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2018/Nonfinancial_Report_2018_e.pdf in English by no later than April 30, 2019.

Report on Economic Position

The robust growth of the global economy continued in fiscal year 2018 with a slight decrease in momentum. Global demand for vehicles was somewhat lower than in the previous year. Profit before tax generated by the Volkswagen Bank GmbH Group is on a level with the previous year.

DEVELOPMENTS IN THE GLOBAL ECONOMY

The global economy sustained its robust growth in 2018 with a slight decrease in momentum: global gross domestic product (GDP) rose by 3.2 (3.3)%. Economic momentum nearly matched the prior-year level both in advanced economies and emerging markets. With interest rates remaining comparatively low and prices for energy and other commodities rising year-on-year on the whole, consumer prices continued to increase worldwide. Growing upheaval in trade policy at international level and geopolitical tensions led to much greater uncertainty.

Europe

The solid GDP growth in Western Europe slowed to 1.8 (2.3)% as the year went on. The rate of change in the majority of countries in this region decreased compared with the previous year. The Brexit negotiations between the United Kingdom and the Euro¬pean Union (EU), which continued for the entire year, generated uncertainty, as did the related question of what form this relationship would take in the future. The unemployment rate in the eurozone continued to decrease, falling to an average of 8.1 (9.0)%, though rates remained considerably higher in Greece and Spain.

At 2.9 (4.0)%, the Central and Eastern Europe region also recorded a slower growth rate in the reporting period than in the previous year. While the comparatively high level of GDP growth in Central Europe slowed down on the whole, economic growth in Eastern Europe remained unchanged. Higher prices for energy and other commodities led to further stabilization of the economic situation in the countries from this region that export raw materials. Russia's economy improved somewhat with a growth rate of 1.6 (1.5)%.

Germany

Germany's GDP continued to grow in 2018 on the back of the good labor market, however, momentum diminished year-on-year to 1.5 (2.5)%. Both company and consumer sentiment darkened as the year progressed.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Demand for automotive financial services remained high in 2018 despite a slight contraction in the overall market. Service products such as maintenance/servicing agreements and insurance were especially popular, as customers in more advanced automotive financial services markets are putting greater focus on optimizing overall running costs. In the fleet segment, some customers made use of support from automotive financial service providers in order to optimize their entire mobility management beyond mere fleet operation. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than ownership.

In Europe, sales of financial services climbed further in the reporting period. Both increased vehicle sales and a significant rise in the number of finance and lease contracts were contributing factors. Growth was also generated in the used vehicle business, predominantly in Western and Central Europe. Demand for after-sales products, such as servicing, maintenance and spare parts agreements, as well as for automotive-related insurance saw an upward trend. The popularity of automotive financial services products continued to grow, especially in Spain and Italy. In the United Kingdom and France, the demand for financial services was sustained at a significant level.

In the German market, the share of loan-financed or leased vehicles once again remained stable at a high level in 2018. Alongside traditional products, integrated mobility services in the business customer segment and after-sales products were particularly popular.

In the commercial vehicles segment, the European market for financial services again performed positively.

TRENDS IN THE PASSENGER CAR MARKETS

In fiscal year 2018, the global market volume of passenger cars fell slightly below the prior-year level to 82.8 million vehicles (–1.2%) after increasing for eight years in a row. This decrease was attributable in particular to weaker performance in the Western Europe and Asia-Pacific regions in the fourth quarter. In the reporting period, stronger demand in Central and Eastern Europe as well as in South America was offset by declining volumes in the Asia-Pacific, Middle East, North America and Western Europe regions.

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 total number of new passenger car registrations in the reporting period was down 0.7% in total on the prior-year figure, at 14.2 million. The continuing strong macroeconomic environment, positive consumer sentiment and low interest rates generated a slight increase in the first half of the year. The changeover to the new WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) as of September 1, 2018 led to pull-forward effects in the months of July and August and to significant declines from September until December in some cases. New vehicle registrations were mixed in the largest single markets. Spain (+7.0%) and France (+3.0%) continued to record increases. Both countries benefited from a buoyant macroeconomic environment. In Italy, falling demand from both private and commercial customers put a damper on market development (–3.1%), among other things, as a consequence of the political uncertainty during and after the formation of government. The UK passenger car market saw a continuation of the negative trend from the previous year (–6.8%). This was due, among other things, to the uncertain outcome of the Brexit negotiations with the EU. The share of diesel vehicles (passenger cars) in Western Europe slipped to 36.4 (44.4)% in the reporting year.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2018 rose markedly by 11.0% year-on-year to 3.4 million vehicles. New passenger car registrations in the EU member states of Central Europe increased further by 8.0% to 1.4 million units. Passenger car sales in Eastern Europe also achieved a double-digit growth rate (+13.1%), starting from a low level. The Russian market was the main growth driver in the region with an increase of 13.2%. This was mainly attributable to government programs to promote sales as well as to pull-forward effects resulting from a value-added tax increase entering into force on January 1, 2019.

Germany

Amounting to 3.4 million units (–0.2%) in the reporting period, passenger car registrations in Germany sustained the previous year's high level. This was attributable not only to the buoyant macroeconomic environment but also to manufacturer discounts in the form of trade-in and scrapping bonuses for older diesel models as well as to an environmental bonus for electric-powered vehicles (all-electric and plug-in hybrid drives). The changeover to the WLTP test procedure as of September 1, 2018, which limited model availability in some cases, in total led to a declining overall market, whereas the rise in new registrations for private customers (+2.0%) in particular had a positive effect.

Domestic production and exports once again fell short of the comparable prior-year figures in 2018: passenger car production decreased by 9.3% to 5.1 million vehicles, while passenger car exports fell by 8.9% to 4.0 million units. This was primarily caused by declining volumes in Europe resulting to some extent from the changeover to the WLTP.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Overall demand for light commercial vehicles in fiscal year 2018 was slightly lower than in the previous year. A total of 9.0 (9.2) million vehicles were registered worldwide.

Despite the uncertain outcome of the Brexit negotiations between the EU and the UK, new registrations in Western Europe were up 2.8% to 2.0 million units. In Germany, the comparative figure for 2017 was exceeded by 6.0%. The market in Spain grew distinctly and the market in France recorded moderate growth, while Italy and the United Kingdom registered a decline.

The markets in Central and Eastern Europe grew noticeably on the whole, with 352 (324) thousand light commercial vehicle registrations including 130 (124) thousand in Russia alone. Most of the markets in this region succeeded in maintaining or exceeding their prior-year results.

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in fiscal year 2018 than in the previous year, with 591 thousand new vehicle registrations (+6.6%).

In Western Europe, the number of new truck registrations exceeded the prior-year figure by 2.2% at a total of 297 thousand vehicles. In Germany, Western Europe's largest market, the previous year's level was also exceeded slightly. While demand in the United Kingdom and in Spain witnessed a decline, it rose in France and Italy.

The Central and Eastern Europe region saw demand rise by 6.0% to 169 thousand units on the back of the positive economic performance. The Russian market deteriorated as

the year progressed and recorded only slight year-on-year growth over the year as a whole. New registrations there increased by 2.6% to 78 thousand vehicles.

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management of Volkswagen Bank GmbH considers the course of business in the year 2018 to have been satisfactory overall. As expected, the operating profit was slightly lower than the prior-year figure.

The number of contracts increased further compared with the previous year, and the total number of contracts in the Volkswagen Bank GmbH Group amounted to 6.4 million (previous year: 5.5 million) as of the reporting date.

In 2018, the associated volume of loans to and receivables from customers and the lease assets remained almost unchanged year-on-year as a result of the relatively stable economic development of the European markets.

The existing sales promotion programs with the brands and continuous expansion of the fleet business led to further growth in the volume of loans and receivables in the retail and corporate portfolio in the reporting period, especially in Germany and the United Kingdom. Measures previously put in place, such as intensifying the remarketing processes, were also sustained in fiscal year 2018.

Issues surrounding the WLTP led to a temporary fall in the volume of loans and receivables for certain brands in the dealer portfolio in fiscal year 2018. The first signs of recovery were already in evidence in the fourth quarter of 2018 and the volume of loans and receivables had regained the pre-WLTP level by the end of the year.

A new global cross-company efficiency program was launched in the year under review. The name of this program is Operational Excellence (OPEX).

It 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), IT measures (including the global introduction of standardized systems) and the optimization of selling costs (by outsourcing sales services to Volkswagen Financial Services AG companies, for example).

CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2018 COMPARED WITH PRIOR-YEAR FORECASTS

The Bank managed to expand the portfolio of new contracts and current contracts considerably on the back of continued highly successful collaboration with the brands and stronger than expected growth in the markets.

The total volume of business was expanded substantially in 2018 and exceeded the previous year's expectations. The penetration rate was above expectations and significantly higher than the prior-year level.

The volume of deposits, on the other hand, saw a moderate decline.

We forecasted an operating profit for fiscal year 2018 moderately below that achieved in 2017. This forecast was vindicated, despite the very substantial impact of positive one-time effects on the results for fiscal year 2017, thanks to an increase in the volume of business in 2018. Return on equity and the cost/income ratio were accordingly also largely as expected.

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	Actual 2017[1]	Forecast 2018	Actual 2018
Nonfinancial performance indicators			
Penetration (percent)	22.8	At 2017 level	30.8
Current contracts (thousands)[2]	6,032	At 2017 level	6,393
New contracts (thousands)[2]	4,292 [3]	At 2017 level	2,680
Financial performance indicators			
Volume of business (€ million)	59,592	At 2017 level	63,548
Volume of deposits (€ million)	33,583	At 2017 level	32,389
Operating profit (€ million)	994	Moderately below 2017 level	952
Return on equity (percent)	10.8	Lower than in 2017	8.4
Cost/income ratio (percent)	38.7	Above 2017 level	46.0

1 The operating profit for 2017 includes positive non-recurring items.
2 A new counting method for determining contract numbers was introduced on January 1, 2018.
3 The new contracts figure for 2017 includes 2,550 thousand contracts from first-time consolidation.

FINANCIAL PERFORMANCE

The Volkswagen Bank GmbH Group stabilized its overall earnings performance in fiscal year 2018 at the level posted in 2017.

At €952 million, the operating profit was moderately below the level achieved in the prior year (€994 million), as expected. At €978 million (–1.4%), profit before tax was also just slightly lower than the figure of €992 million achieved in the prior year. The share accounted for by the international branches and companies was €791.0 million or 81%. The figures particularly reflected the profits generated by the companies consolidated for the first time in the previous year, which amounted to €517.5 million. These profits were attributable to Volkswagen Bank GmbH Group for the full fiscal year for the first time in 2018.

While the interest income from lending and securities transactions fell slightly to €1,372.3 million (previous year: €1,426.5 million), the net income from leasing transactions rose significantly to €1,261.2 (previous year: €542.4 million). This development is due in particular to the first-time consideration of the net leasing income of Volkswagen Financial Services (UK) Ltd. for the full fiscal year (€939.3 million; previous year: €310 million).

Interest expense rose overall from €226.0 million to €366.4 million, also due to the first-time consideration of the interest expense of Volkswagen Financial Services (UK) Ltd. for the full fiscal year.

Net income from service contracts is generated exclusively in the branches and companies that also conduct leasing business.

The required expenditure for provision for credit risks of €648 million was more than double the equivalent expenditure in the previous year (€315 million). Income from the reversal of valuation allowances no longer required and income from loans and receivables previously written off totaled €554 million, significantly more than in the prior year (€466 million). This resulted in a net addition of provisions for credit risks in an amount of €94 million (previous year: net reversal of €150 million).

Net fee and commission income was in negative territory in 2018, with a net expense of €176 million (previous year: net expense of €13 million). This was mainly attributable to the decline in fee and commission income from insurance broking and the significant rise in fee and commission expenses at Volkswagen Financial Services (UK) Ltd. and at the branch in France.

From fiscal year 2018, the following income statement line items have been added within operating profit or loss to adjust the breakdown in line with the standard market presentation: net gain or loss on hedges, net gain or loss on financial instruments measured at fair value and net gain or loss on disposal of financial assets measured at fair value not recognized in profit or loss. Net income of €60.8 million (previous year: €9.6 million) was generated in total from these two items. Both figures were influenced significantly in a total amount of €59.1 million by Volkswagen Financial Services (UK) Ltd.

General and administrative expenses were up slightly on the prior-year level to €933 million (previous year: €916 million). The main reason for this was the increase of €133 million in personnel expenses, other administrative expenses having been reduced by €96 million.

Other operating income largely consisted of income from the remarketing of vehicles. In 2018, the net income in this

regard amounted to €299 million (previous year: €84 million). This also includes income from the reversal of provisions in an amount of €67 million (previous year: €68 million) and the reimbursement of costs from Group companies in an amount of €33 million (previous year: €165 million). Other operating expenses amounted to €666 million (€315 million). This includes expenses arising from the obligation to take over vehicles in an amount of €375 million and expenses for legal and litigation risks of €198 million.

Including the other components of financial gains or losses, the Volkswagen Bank GmbH Group generated profit after tax of €703 million (previous year: €656 million).

The profit of Volkswagen Bank GmbH determined in accordance with the HGB (after deduction of taxes) amounting to €204 million (previous year: €489 million) will be transferred to the parent company, Volkswagen AG, under the existing profit-and-loss transfer agreement.

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 up by 2.6% to €60.9 billion. The share of customer lending volume accounted for by European countries other than Germany fell slightly from €32.1 billion to €31.7 billion.

Retail financing

In the Volkswagen Bank GmbH Group, the total number of current customer financing contracts rose to 2.5 million (previous year: 2.4 million). 998 thousand new contracts were entered into in fiscal year 2018 (previous year: 847 thousand). As of December 31, 2018, the volume of loans and receivables in retail financing amounted to €29.9 billion (previous year: €28.0 billion). Of this total, €6.1 billion (previous year: €6.4 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 – declined by 2.2% or €0.3 billion to €12.1 billion.

The volume of loans and receivables related to the international branches and international subsidiaries came to €6.7 billion (previous year: €6.9 billion) at the end of 2018.

Leasing business

Receivables from leasing transactions amounted to €18.8 billion and were almost on a level with the previous year (€18.9 billion). Leasing business is offered exclusively in European countries other than Germany.

Marketable securities

The portfolio held by the Volkswagen Bank GmbH Group predominantly comprises bonds from various countries amounting to €3.3 billion (previous year: €2.1 billion) and ABS BONDS issued by the special purpose entities of Volkswagen Leasing GmbH and Volkswagen Finance S.A., Madrid, Spain, totaling €0.1 billion (previous year: €0.4 billion).

Noncurrent assets held for sale

The noncurrent assets held for sale are the assets that will be transferred as part of the intended transfer of SkoFIN s.r.o., Prague, Czech Republic, and the leasing portfolio of the Italian branch to the Volkswagen Financial Services AG Group within the one-year period.

Equity-accounted investments

The investments in DFM N.V., Amersfoort, Netherlands, Volkwagen 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

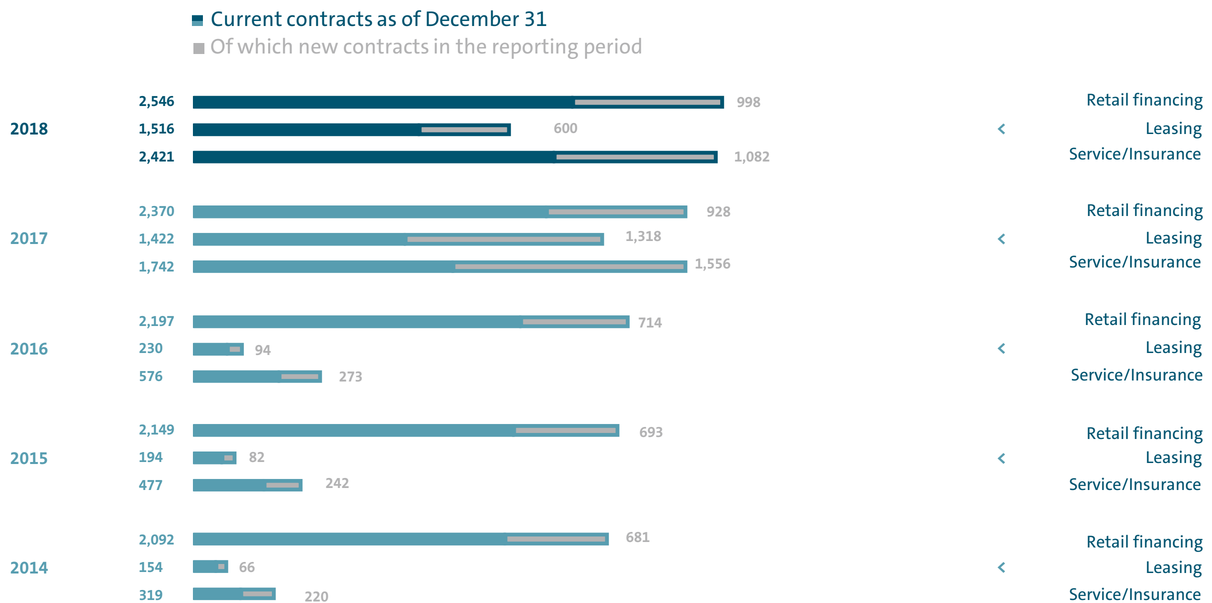
As of December 31, 2018, Volkswagen Bank GmbH held 1% of the equity in OOO Volkswagen Bank RUS, Moscow. This holding remained unchanged year-on-year. Following the merger of Volkswagen Bank Polska S.A., Warsaw, with Volkswagen Bank GmbH, the latter is the sole shareholder of Volkswagen Serwis Ubezpieczeniowy Sp. z.o.o., Warsaw. Volkswagen Finans Sverige AB, Södertälje, is the sole shareholder of Volkswagen Service Sverige AB, Södertälje.

CURRENT CONTRACTS AND NEW CONTRACTS

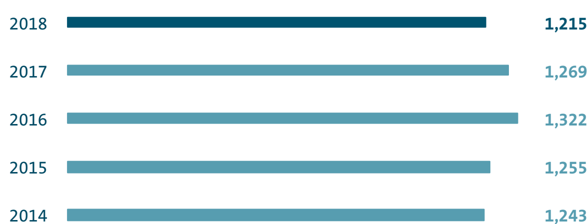
thousand [1,2]	Volkswagen Bank Group	of which: Germany	of which: Italy	of which: France	of which: United Kingdom	of which: other branches/subsidia ries
Current contracts[3]	6,393	1,755	719	744	1,727	1,448
Automotive retail financing	2,443	1,645	341	132	25	300
Consumer retail financing	103	92	–	–	–	11
Leasing business	1,516	–	59	218	979	260
Service/insurance	2,332	18	320	394	724	877
New contracts[3]	2,680	580	329	332	835	602
Automotive retail financing	970	553	136	68	61	153
Consumer retail financing	28	26	–	–	–	2
Leasing business	600	–	18	86	375	121
Service/insurance	1,082	1	176	178	400	326
€ million						
Loans to and receivables from customers attributable to						
Retail financing	29,882	23,736	3,240	870	199	1,838
Dealer financing	12,162	5,440	986	1,573	2,299	1,863
Leasing business[4]	18,829	–	–	2,466	14,084	2,279
Lease assets	5,491	–	–	1,265	2,908	1,317
Percent						
Penetration rates[5]	30.8	16.1	44.2	42.1	55.0	28.5

1 All figures shown are rounded; so minor discrepancies may arise from addition of these amounts.
2 A new counting method for determining contract numbers was introduced on January 1, 2018.
3 Current contracts and new contracts in each case in relation to the markets shown for the Volkswagen Bank GmbH Group.
4 Not including lease receivables of SkoFIN s.r.o. and the Italian branch given the intended transfer of these business operations to the Volkswagen Financial Services AG Group.
5 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.

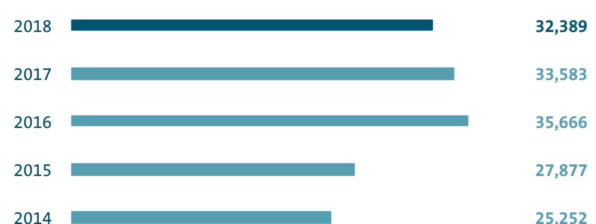
DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31
In thousands



DIRECT BANK CUSTOMERS AS OF DECEMBER 31
Lending and deposit business and borrowings (in thousands)



CUSTOMER DEPOSITS AS OF DECEMBER 31
in € million



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 3.6% to €39.6 billion (previous year: €41.1 billion), notes and commercial paper issued in the amount of €16.9 billion (previous year: €13.4 billion) and liabilities to banks in the amount of €8.9 billion (previous year: €8.0 billion).

DEPOSIT BUSINESS

Deposit business in the Volkswagen Bank GmbH Group contracted slightly compared with the prior year. As of the reporting date, the volume of customer deposits amounted to €32.4 billion, which equates to a year-on-year decrease of 3.6% (previous year: €33.6 billion). The deposit business is thus a significant contributing factor in helping the Volkswagen Group retain its customers. Customer deposits funded 39.0% (previous year: 42.6%) of the business volume, which rose by 5.4% to 4.3 billion year-on-year.

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 2018.

The capital reserves of Volkswagen Bank GmbH remained unchanged at €8.5 billion as of December 31, 2018.

The profit in accordance with the HGB to be transferred to Volkswagen AG under the existing profit-and-loss transfer agreement amounted to €204 million (previous year: €489 million).

Equity in accordance with IFRSs as of December 31, 2018 was €11.6 billion (previous year: €11.3 billion). This resulted in an equity ratio (equity divided by total assets) of 14.0% (previous year: 14.4%) based on total assets of €83.0 billion.

CAPITAL ADEQUACY ACCORDING TO REGULATORY REQUIREMENTS

Under the provisions of the Capital Requirements Regulation (CRR), a bank is deemed to have adequate capital backing if the Common Equity Tier 1 (CET1) capital ratio is at least 4.5%, the Tier 1 capital ratio is at least 6.0% and the total capital ratio is at least 8.0%. Banks must also comply with the capital buffer requirements in the form of CET1 capital.

The ECB, acting on the basis of Article 16 of Council Regulation No. 1024/2013 of October 15, 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of banks, issued a decision on December 8, 2017, establishing regulatory requirements for Volkswagen Bank GmbH. The decision was based on a supervisory review in 2017. The Volkswagen Bank GmbH Group satisfied the minimum requirements of the CRR, the capital buffer requirements and the additional requirements specified by the supervisory authorities at all times in the reporting period.

The total capital ratio (ratio of own funds to the total risk exposure amount) was 15.5% at the end of the reporting period (previous year: 15.7%), well above the statutory minimum ratio of 8%.

The Tier 1 capital ratio and Common Equity Tier 1 capital ratio were each 15.5% (previous year: 15.6%) at the end of the reporting period, likewise well above the respective minimum ratios of 6% and 4.5% specified in the CRR.

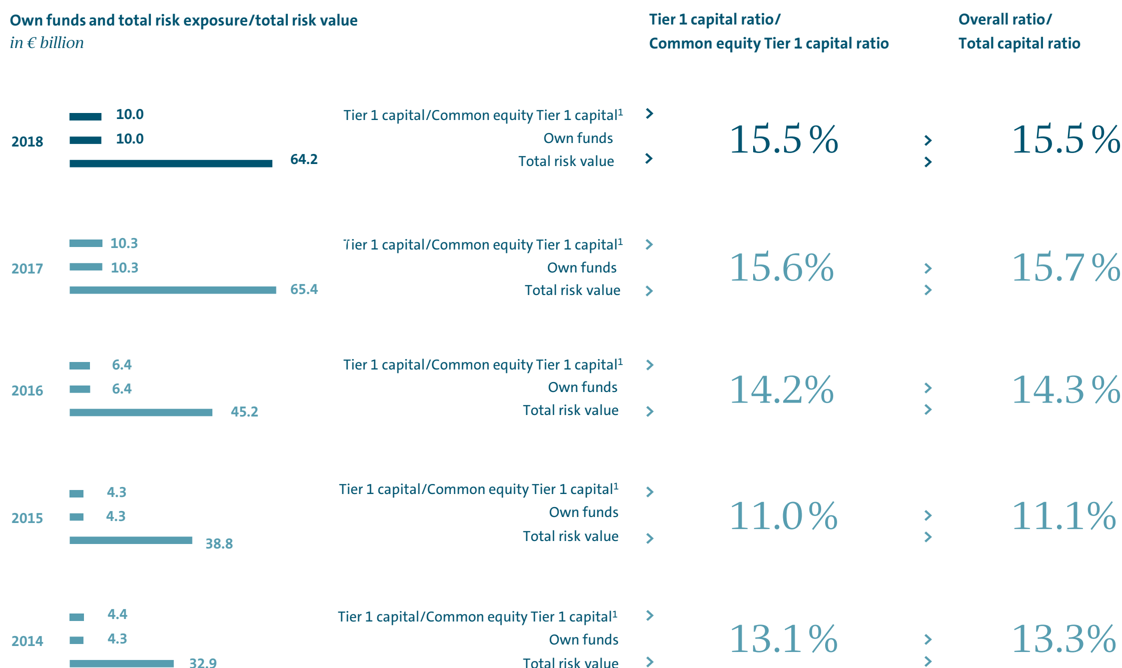
The total risk exposure amount is made up primarily of credit risks, market risks, operational risks and credit valuation adjustment (CVA charge). The Standardized Approach for Credit Risk (CRSA) is used to quantify credit risk and to determine risk-weighted exposures. The Standardized Approach as specified 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 the total risk exposure amount and own funds:

	Dec. 31, 2018		Dec. 31, 2017	
Total risk exposure amount[1] (€ million)		64,157		65,434
of which risk-weighted exposure amounts for credit risk	56,682		58,503	
of which own funds requirements for market risk *12.5	2,970		2,595	
of which own funds requirements for operational risk *12.5	4,417		4,240	
of which own funds requirements for credit valuation adjustments *12.5	88		96	
Eligible own funds (€ million)		9,973		10,262
Own funds (€ million)		9,973		10,262
of which Common Equity Tier 1 capital	9,945		10,233	
of which Additional Tier 1 capital	-		-	
of which Tier 2 capital	28		29	
Common Equity Tier 1 capital ratio[2](percent)		15.5		15.6
Tier 2 capital ratio[2] (percent)		15.5		15.6
Total capital ratio[2] (percent)		15.5		15.7

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



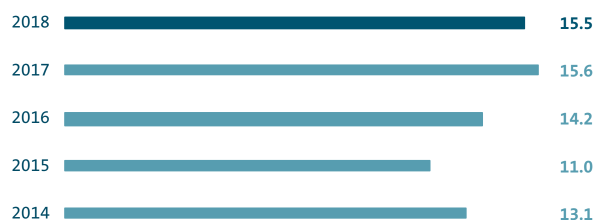
1 The amounts of Tier 1 capital and Common Equity Tier 1 capital are the same because Volkswagen Bank GmbH has not issued any Additional Tier 1 capital instruments

The year-on-year reduction in the regulatory capital ratios (CET1 capital ratio, Tier 1 capital ratio and total capital ratio) is largely attributable to the reduction in own funds. This reduction in own funds stems largely from the increase in the first loss position, which was deducted from the Common Equity Tier (CET) 1 capital.

The total risk exposure amount decreased, primarily because of the €3.8 billion reduction in the securitization position, although some of this reduction was offset by the increasing volume of business.

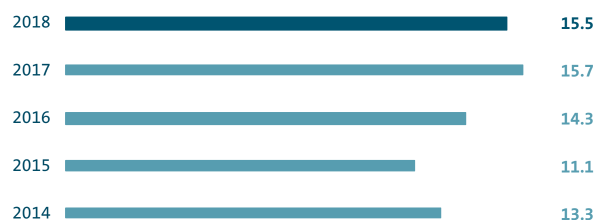
TIER 1 CAPITAL RATIO/COMMON EQUITY TIER 1 CAPITAL RATIO

figures in %



OVERALL RATIO/TOTAL CAPITAL RATIO

figures in %



The Volkswagen Bank GmbH Group has an adequate total capital ratio, which ensures that there is an appropriate level of capital even with a rising volume of business. 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. At the Volkswagen Bank GmbH Group, they amounted to €2,313 million as of December 31, 2018 (previous year: €2,112 million).

LIQUIDITY ANALYSIS

The Volkswagen Bank GmbH Group is funded largely through capital market and asset-backed security programs, and through direct banking deposits. 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. The securities deposited as collateral in the operational safe custody account include senior ABS bonds issued by special purpose entities of Volkswagen Leasing GmbH, Volkswagen Finance S.A. and Volkswagen Bank GmbH totaling €10.8 billion as well as €3.3 billion of bonds from various countries, German federal states (Länder bonds), supranational institutions and multilateral development banks plus Pfandbriefe (mortgage bonds). 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 liquidity.

To ensure there is appropriate liquidity management, Treasury prepares two different funding matrices, carries out cash flow forecasts and uses this information to determine the relevant range of liquidity coverage. In these calculations, the contractual cash flows are assumed for funding instruments, whereas estimated cash flows are used for other factors that affect liquidity. In the reporting period, the range of liquidity coverage taking into account simulated, limited funding and a partial withdrawal of overnight deposits came to a minimum of 30 weeks.

A stricter constraint on the management of 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 121% and 193% for Volkswagen Bank GmbH and was therefore well above the lower regulatory limit of 100% at all times. The changes in

the liquidity ratio are continuously monitored by Treasury 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 (mortgage bonds).

The requirement under the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements Risk Management) for Volkswagen Bank GmbH to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and thirty-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.

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 in the various regions and countries with the objective of safeguarding funding on a long-term basis at optimum terms.

Implementation

In June 2018, Volkswagen Bank GmbH issued unsecured bonds on the European capital market under its €10 billion capital market program. It also funded its activities by carrying out securitization transactions, using ECB funding instruments and attracting deposits.

Volkswagen Bank GmbH completed various securitization transactions in Europe in the reporting period, among them its first Italian securitization transaction.

The following tables show the transaction details:

CAPITAL MARKET

Issuer	Month	Country	Volume and currency	Maturity
Volkswagen Bank GmbH	June	Germany	EUR 600 million	3.3 years
Volkswagen Bank GmbH	June	Germany	EUR 600 million	3.5 years
Volkswagen Bank GmbH	June	Germany	EUR 800 million	6 years

ABS TRANSACTIONS

Issuer	Transaction name	Month	Country	Volume and currency
Volkswagen Finance S.A.	Driver España five	February	Spain	EUR 1.0 billion
Volkswagen Bank GmbH	Driver fourteen	March	Germany	EUR 900 million
Volkswagen Financial Services UK	Private Driver UK 2018-1	March	United Kingdom	GBP 1.25 billion
Volkswagen Bank GmbH, Italy Branch	Driver Italia one	May	Italy	EUR 500 million
Volkswagen Financial Services UK	Driver UK Master C4	June	United Kingdom	GBP 621 million
Volkswagen Bank GmbH	Driver fifteen	September	Germany	EUR 750 million

Customer deposit business contracted by €1.2 billion to €32.4 billion in the reporting year.

The Bank continued to implement its strategy of obtaining maturity-matched funding as far as possible by borrowing on terms with matching maturities and by using derivatives. Currency risks were largely 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. Our diversified funding structure and our proactive management of liquidity ensure that the Bank will also remain solvent at all times in the future. 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 October 2018, S&P confirmed its short-term and long-term ratings for Volkswagen Bank GmbH at A–2 and A– respectively. The outlook remained negative over the course of the entire year. Moody’s adjusted its long-term credit rating for Volkswagen Bank GmbH by two steps, from A3 to A1, in August 2018 in response to changes in German banking law. The outlook remains “stable”.

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 IFRS. In the section below, we comment on the changes in the net assets, financial position and results of operations of Volkswagen Bank GmbH in accordance with the HGB.

BUSINESS PERFORMANCE 2018

The result from ordinary activities amounted to €225.9 million compared with €678.0 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 €1,989.1 million compared with €1,700.5 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, increasing by €113.0 million year-on-year to €1,570.5 million. Volkswagen Bank GmbH earned interest income of €67.6 million (previous year: €71.0 million) from marketable securities. Of this amount, €18.6 million (previous year: €17.1 million) was attributable to marketable securities purchased from ABS special purpose entities of Volkswagen Bank GmbH. A further €13.6 million (previous year: €18.6 million) was accounted for by interest income on marketable securities purchased from special purpose entities of Volkswagen Financial Services (UK) Ltd., Milton Keynes, UK, Volkswagen Leasing GmbH, Braunschweig, and Volkswagen Finance S.A., Madrid, Spain.

Net income from leasing business amounted to €441.6 million (previous year: €394.3 million). Here, income from leasing transactions, which rose by €122.1 million or 17.1%, is set against expenses from leasing transactions, which were up by €74.7 million or 23.3%. Interest anomalies amounting to an expense of €82.3 million (previous year: expense of €12.3 million) resulted primarily from money market transactions in connection with the Bank's reserve balance at the ECB in excess of the minimum reserve requirement and from short-term deposits with domestic banks.

Fee and commission income amounted to €352.0 million, which equated to a year-on-year decline of €36.1 million, largely caused by lower fee and commission income derived from insurance broking. Other operating expenses amounted to €749.2 million (previous year: €500.5 million). This rise in other operating expenses stems from the new sales commission model applying between Volkswagen Bank GmbH and the companies of the Volkswagen Financial Services AG subgroup since 2018, which provides for all sales activities to be taken on by the companies of Volkswagen Financial Services AG. Volkswagen Bank GmbH consequently no longer bears the direct costs associated with sales activities. Net fee and commission income was in negative territory in 2018, with a net expense of €397.2 million (previous year: net income of €112.4 million).

General and administrative expenses decreased by €62.9 million to €752.4 million (previous year: €815.2 million). Personnel expenses rose by €91.8 million to €209.0 million. It should be noted in this connection that following the reorganization of the legal entities in 2018, personnel expenses are included in full in the income statement. The equivalent figure for the previous year includes the increased personnel expenses from the effective date of the restructuring (September 30, 2017).

Among cost transfers from affiliated companies, expenses declined by €59.3 million to €265.6 million. This is mainly because, following the restructuring, there is no longer any need for Volkswagen Financial Services AG to lease employees to Volkswagen Bank GmbH. Data processing costs decreased by €50.2 million to €28.7 million.

Other operating income fell by €171.6 million to €248.2 million as a consequence of the fact that under the reorganized company structure, certain costs are borne directly by affiliated companies and income from the on-debiting of indirect costs to affiliated companies is thus reduced.

Depreciation and write-downs on lease assets at the French and Italian branches rose by €75.4 million to

€437.9 million. Other operating expenses amounted to €316.0 million (previous year: €272.8 million).

In countries where additional credit risk had been identified in previous years, the provision for credit risk was reduced in the reporting period. This resulted in a net addition of provisions for credit risk, amounting to €106.0 million in the reporting year (previous year: net reversal of €125.7 million). The profit after tax of €204.5 million (previous year: €489.2 million) will be transferred to Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

The volume of customer loans and receivables reported in the balance sheet went up by €3.2 billion and amounted to €51.1 billion on the reporting date (previous year: €47.9 billion). Of this increase, a significant proportion (€2.4 billion) was accounted for by sales financing loans and receivables.

In 2018, loans and receivables in a nominal amount of €5.1 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 €1.9 billion (previous year: €1.7 billion).

Most of Volkswagen Bank GmbH's portfolio comprises securities from ABS transactions, of which €11.2 billion (previous year: €11.6 billion) is attributable to securities from own-account transactions. For investment purposes, the portfolio also included ABSs with a total value of €0.9 billion (previous year: €1.6 billion) issued by special purpose entities of Volkswagen Financial Services (UK) Ltd., Milton Keynes, UK, Volkswagen Leasing GmbH and Volkswagen Finance S.A., Madrid, Spain.

The main items on the equity and liabilities side of the balance sheet are liabilities to customers (including direct banking business) of €34.4 billion (previous year: €35.4 billion), other liabilities of €12.2 billion (previous year: €12.2 billion) and liabilities to banks of €8.9 billion (previous year: €7.2 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 legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers. They relate primarily to proceedings in relation to design aspects of loan agreements with customers that may obstruct the processing of statutory cancelation periods, provisions for legal disputes in connection with dealer financing agreements as well as customer financing broking claims. As of the reporting date, provisions for litigation and legal risks amounted to €338.8 million (previous year: €371.2 million).

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	2018	2017
Net interest income	1,547	1,306
Net leasing income	442	394
Net fee and commission income	–397	–112
Administrative expenses	752	815
Other comprehensive income	–508	–221
Income from the disposal of equity investments	0	0
Provision for credit risks	106	–126
Result from ordinary business activities	**226**	**678**
Extraordinary result	75	3
Tax expense	96	192
Profits transferred under a profit transfer agreement	204	489
Net income for the year	**0**	**0**
Retained profits brought forward	0	0
Net retained profits	**0**	**0**

BALANCE SHEET STRUCTURE OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	Dec. 31, 2018	Dec. 31, 2017
Assets		
Cash reserve	1,866	1,714
Loans to and receivables from banks	528	1,862
Loans to and receivables from customers	51,077	47,913
Marketable securities	15,419	15,094
Equity investments and shares in affiliated companies	635	720
Lease assets	1,408	1,198
Other assets	679	515
Total assets	**71,612**	**69,016**
Equity and liabilities		
Liabilities to banks	8,872	7,194
Liabilities to customers	34,444	35,434
Notes, commercial paper issued	5,671	3,803
Provisions	639	672
Subordinated liabilities	30	30
Funds for general banking risks	26	26
Equity	8,875	8,875
Other Liabilities	13,056	12,981
Total assets	**71,612**	**69,016**
Balance sheet disclosures		
Contingent liabilities	183	136
Other obligations	2,304	2,351

NUMBER OF EMPLOYEES

Volkswagen Bank GmbH employed 1,144 people at the end of 2018.

A total of 832 people (previous year: 809) 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

Sustainable business success for Volkswagen Bank GmbH through the balanced and proactive management of opportunities and risks

RISKS AND OPPORTUNITIES

In this section, we report on the risks and opportunities that arise in connection with our business activities. The risks and opportunities are grouped into various categories. Unless specifically stated, there were no material year-on-year changes to the individual risks or opportunities.

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

MACROECONOMIC OPPORTUNITIES

Against the backdrop of further economic growth in the majority of markets, the Management of Volkswagen Bank GmbH expects to see the number of vehicle deliveries to Volkswagen Group customers remain high, enabling it to build on its position in European markets on a sustainable basis. The Volkswagen Bank GmbH Group supports this positive trend by providing financial services products designed to promote sales.

The probability of a global recession is considered to be low overall. However, diminished rates of global economic growth or a period of below-average growth rates cannot be 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 forecasted.

STRATEGIC OPPORTUNITIES

The Volkswagen Bank GmbH Group will continue to grow in and with the European markets and thereby systematically press ahead with its strategy of internationalization. During 2018, various strategic projects were instrumental in setting the course in this regard. Particular focus is being given to continuous, dynamic optimization 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 our customers. In this way, we will continue to lay the foundations over the coming years for supporting the Group brands in each of the growth markets by providing innovative, country-specific financial products, thereby promoting sales in these markets over the long term while dealing responsibly with the related risks.

OPPORTUNITIES FROM CREDIT RISK

Opportunities may arise in connection with credit risk 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 RISK

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 internal risk management system (IRMS) related to the accounting system is concerned with the risk of misstatement in the bookkeeping systems 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 of Volkswagen Bank GmbH is the governing body with responsibility for the executive management of the business. In this role, the Management has set up accounting, customer service, treasury, risk management, controlling and compliance units, each with clearly separated functions and clearly assigned areas of responsibility and authority, to ensure that the Bank carries out accounting and financial reporting processes properly.
> 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 (IFRS).
> 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 include, 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 independent auditors 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 process 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 functions at Group level carried out by 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 of Volkswagen Bank GmbH.

To summarize, the existing internal monitoring and control system of the Volkswagen Bank GmbH Group is intended to ensure that the financial position of the individual entities in the Group and the Volkswagen Bank GmbH Group itself as of the reporting date December 31, 2018 has been based on information that is reliable and has been properly recognized. 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. No material changes

were made to the risk management methodology in the reporting period.

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

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 Management. In this function, the CRO submits regular reports on the overall risk position in the Volkswagen Bank GmbH Group to the other members of Management 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 unit underwent a reorganization in 2018. This move was intended to establish a more consistent end-to-end approach to processes in the risk management entities and to sharpen the focus of risk management activities on the key future topics of big data and advanced analytics by creating a corresponding department to look after these areas along with project management and support for the IT interfaces.

The risk management departments have the role of providing guidelines for the organization of risk management. This function includes drawing up risk policy guidelines, developing and maintaining methodologies and processes relevant to risk management as well as issuing and monitoring international framework standards for the procedures to be used 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 manage 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 and the integration of all information obtained into the operational risk management system form a foundation for the best possible leveraging of market potential based on conscious, effective management of the overall risk faced by the Volkswagen Bank GmbH Group.

RISK STRATEGY AND RISK MANAGEMENT

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

As part of this overall responsibility, the Management 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 of Volkswagen Bank GmbH on key matters relating to business policy. It includes the objectives for each major business activity and the strategic areas for action to achieve the relevant objectives. The business strategy also serves as the starting point for creating a consistent risk strategy.

The risk strategy is reviewed each year and as 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 substrategies and included in operational requirements as part of the planning round.

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

RISK 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 investigated to establish whether they arise in the Volkswagen Bank GmbH Group. In the risk inventory, the relevant categories of risk are examined in greater detail, quantified or, if they cannot be quantified, assessed by experts, and then evaluated to determine whether they are material for the Volkswagen Bank GmbH Group.

The ad-hoc risk inventory carried out on December 31, 2017 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk, earnings risk, direct residual value risk, market risk, liquidity risk and operational risk; it also concluded that reputational risk and strategic risk, which are not quantifiable, should also be considered material. Other exist-

ing subcategories of risk are taken into account within the categories specified above.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

A system has been set up to determine the risk-bearing capacity of the Volkswagen Bank GmbH Group, which compares the economic risk against available financial resources referred to as 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 risk-bearing capacity analysis using a going-concern approach, predominantly with a confidence level of 90% and a time horizon of one year. The risk categories of liquidity risk (funding risk), market risk and earnings risk are quantified with a confidence level of 99%. Risk-bearing capacity is also analyzed using the gone-concern approach in addition to the going-concern approach.

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

The establishment of the risk limit system as a core component of capital allocation limits the risk at different levels, thereby safeguarding the economic risk-bearing capacity of the Volkswagen Bank GmbH Group. Risk-taking potential is determined from the available equity and earnings components subject to various deductions. In line with the risk tolerance of the Management of Volkswagen Bank GmbH, only a portion of this risk-taking potential is specified as a risk ceiling in the form of an overall risk limit. The overall risk limit is apportioned to counterparty default risk, direct residual value risk, market risk, liquidity 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.

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 the 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, 2018 amounted to €1.6 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, 2018

	€ MILLION		SHARE IN PERCENT	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Risk category				
Credit risk	352	586	22	33
Shareholder, issuer and counterparty risk	3	5	0	0
Direct residual value risk	553	433	35	24
Earnings risk[1]	314	398	20	23
Market risk[1]	113	92	7	5
Liquidity risk (funding risk)[1]	11	14	1	1
Operational risk	168	152	11	9
Other risks[2]	80	88	5	5
Total	1,594	1,768	100	100

1 Confidence level 99%
2 Global amount for material non-quantifiable risks: reputational risk and strategic risk.

The risk-taking potential of €5.0 billion as of December 31, 2018 comprised reported equity plus the forecast result for the next twelve months (overall €12.3 billion) less regulatory minimum own funds requirements (€6.4 billion) and other adjustment items (€0.9 billion). As of December 31, 2018, 32% of risk-taking potential was utilized by the risks outlined above. In the period January 1, 2018 to December 31, 2018, the maximum utilization of the risk-taking potential in accordance with Pillar II was 37%.

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 directly to the Management. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of 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 addition, inverse stress tests are used to identify what events could represent a threat to the ability of the Volkswagen Bank GmbH Group to continue as a going concern. A business model risk analysis is also completed every year.

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 brands in the Volkswagen Group, causes concentrations of risk, which can take various forms.

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

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

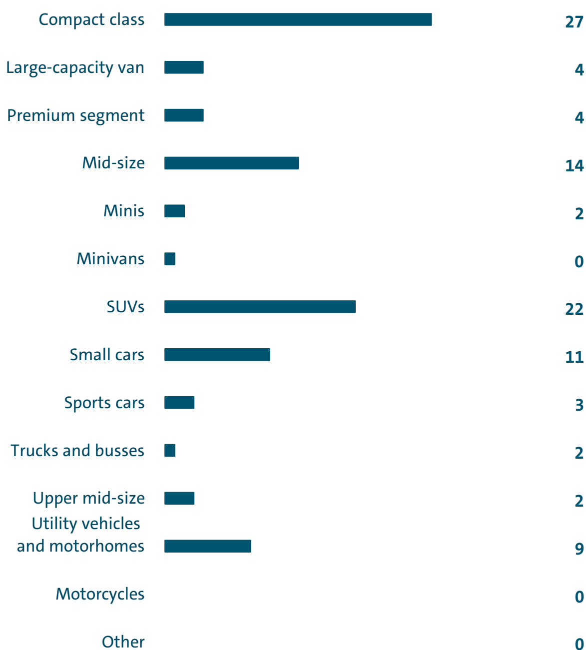
One of the objectives of the Volkswagen Bank GmbH Group's risk policy in its business model is to reduce such concentrations by means of broad diversification.

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 dealer business are part of the nature of the business for a captive provider and these concentrations are therefore individually analyzed. Overall, no particular impact has been identified, even in periods of economic downturn like the crisis experienced in recent years.

Likewise, a captive provider cannot avoid collateral concentrations because the vehicle is the predominant collateral asset by virtue of the business model. Risks can arise from concentrations of collateral if downward pricing trends in used vehicle markets or segments lead to lower proceeds from the recovery of assets and, as a consequence, there is a fall in the value of the collateral. Nevertheless, in terms of the vehicles used as collateral, 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, 2018
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 Volkswagen Bank GmbH Group's particular role in which it helps to promote sales in the Volkswagen Group gives rise to certain dependencies that directly affect income growth.

RISK REPORTING

A detailed risk management report is submitted to the Management and to the Supervisory Board of Volkswagen Bank GmbH on a quarterly basis. The starting point for the risk management report is risk-bearing capacity because of its importance from a risk perspective for the successful continued existence of the business as a going concern. To this end, the derivation of the available risk-taking potential, the utilization of limits and the current percentage allocation of the overall risk to the individual risk categories is also presented. In addition, Risk Management reports on counterparty default risk, direct residual value risk, liquidity risk and operational risk, both at an aggregate level and for markets. These reports include quantitative information (financial data) and also qualitative elements in the form of an evaluation of the current situation and expected developments, including recommendations for action where appropriate. Additional reports are produced for specific risk categories. Ad hoc reports are generated as needed to supplement the system of regular reporting.

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

RECOVERY AND RESOLUTION PLANNING

The EU's Bank Recovery and Resolution Directive (BRRD), i.e. the rules and regulations governing the recovery and resolution of banks, has been in force since the middle of 2014. The requirements have been transposed into German law with the Sanierungs- und Abwicklungsgesetz (SAG – Recovery and Resolution Act).

The Volkswagen Bank GmbH Group completed its first (Group) recovery plan and submitted it to the European Central Bank (the competent supervisory authority) in the first quarter of fiscal year 2018.

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. In particular, the recovery plan sets out the responsibilities and the processes to be followed in the management of a crisis.

The recovery plan will be updated and enhanced annually and submitted to the competent supervisory authority.

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

BREXIT

The Brexit negotiations with the United Kingdom did not have any impact on the Volkswagen Bank GmbH Group's risk situation in fiscal year 2018. Nevertheless, the Bank is continuing to monitor the risk situation closely so that it can take a proactive approach to any developments that may occur. Various scenarios were analyzed in 2018 in connection with the imminent Brexit vote, allowing the Bank to be prepared for all eventualities. Information is also regularly shared with the supervisory authorities concerning the latest developments.

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 inte-

grated 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 of Volkswagen Bank GmbH, and, in the case of new markets, also with the members of the Supervisory Board.

OVERVIEW OF RISK CATEGORIES

Financial risks	Nonfinancial risks
Counterparty default risk	Operational risk
Market risk	Compliance and conduct risk
Liquidity risk	Outsourcing risk
Direct residual value risk	Model risk
Earnings risk	Strategic risk
	Reputational 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 entities in the Volkswagen Group are also included in the analysis. The default is caused by the borrower's or lessee's insolvency or unwillingness to pay. This includes a situation in which the counterparty does not make interest payments or repayments of principal on time or does not pay the full amounts.

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

The aim of a systematic credit risk monitoring system is to identify potential borrower or lessee insolvencies at an early stage, initiate any corrective action in respect of a potential default in good time and anticipate possible losses by recognizing appropriate 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, depending on the amount of the loss. If, for example, an economic downturn leads to a higher number of insolvencies or greater unwillingness of borrowers or lessees to make payments, the recognition of a higher write-down expense is required. This in turn has an adverse effect on operating profit.

Risk identification and assessment

Lending or credit decisions at 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. These evaluations take into account both quantitative factors (mainly data from annual financial statements) and qualitative factors (such as the prospects for future business growth, quality of management, market and industry environment, and the customer's payments record). When the credit assessment has been completed, the customer is assigned to a rating class, which is linked to a probability of default. A centrally maintained, workflow-based rating application is used for the most part to support this analysis of credit quality. 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 that is available both internally and externally to 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 financing, dealer financing and the leasing of vehicles, the vehicles themselves are hugely important as collateral assets. For this reason, trends in the market values of vehicles are closely monitored and analyzed. Procedures provide for adjustments to evaluation systems and vehicle remarketing processes if there are substantial changes in the market values 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 rating and scoring processes.

With regard to impaired loans and receivables, a distinction is also made between significant and insignificant loans and receivables. Specific provisions are recognized for significant impaired loans and receivables, whereas specific provisions evaluated on a group basis are recognized for insignificant impaired loans and receivables. Portfolio (global) provisions are recognized to cover impaired loans or receivables for which no specific provisions have been recognized.

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 2.4%) (previous year: 2.3%); loss given default (LGD) of 25.5% (previous year: 25.9%) and total volume of loans and receivables based on the active portfolio of €72.8 billion (previous year: €67.7 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 management). Approval or reporting limits determined by (the) Volkswagen Bank GmbH (Group) are also used to manage credit risk. These limits are specified separately for each individual branch and subsidiary.

A credit risk portfolio rating, together with analyses of the breakdown of expected and unexpected risk, are used to monitor risk at portfolio level. This rating brings together various risk measures into one indicator, facilitating comparability between the international portfolios in the Volkswagen Bank GmbH Group.

Trends

Retail portfolio

In fiscal year 2018, further growth was achieved in the volume of loans and receivables in the Volkswagen Bank GmbH Group's retail business on the back of the established sales promotion program with the brands and continuous expansion of the fleet business. The increase in the retail portfolio is attributable largely to market developments in Germany, the United Kingdom and Italy. As in the previous year, the German portfolio was instrumental in driving growth based on its stable vehicle market environment. Persistently strong demand for our retail products in the United Kingdom and Italy markets also gave a boost to the volume of loans and receivables in fiscal year 2018. The decline in the volume of loans and receivables in the Dutch market stems from the transfer of the finance lease business of Volkswagen Bank GmbH, Netherlands Branch, Amersfoort to Volkswagen Pon Financial Services B.V. – and thus to Volkswagen Financial Services AG – in September 2018. The remaining lending business of Volkswagen Bank GmbH, Netherlands Branch, Amersfoort was transferred to DFM N.V., Amersfoort. Overall, the credit risk in the retail portfolio of the Volkswagen Bank GmbH Group remained stable.

Corporate portfolio

The corporate portfolio in the Volkswagen Bank GmbH Group expanded in fiscal year 2018. This growth stemmed largely from developments in the German and UK markets. The driver in Germany was the non-dealer portfolio, although the dealer portfolio in Germany also saw an increase in the volume of loans and receivables due to higher utilization of credit lines. The growth recorded in the UK was driven by progress in the dealer portfolio, with higher utilization of the credit lines for new vehicle finance (especially for the VW and Audi brands) boosting the volume of loans and receivables. Issues surrounding the WLTP led to a temporary fall in the volume of loans and receivables for certain brands in the dealer portfolio in 2018. The first signs of recovery were already in evidence in the fourth quarter of 2018 and the pre-WLTP level had been regained by the end of the year. A slight improvement in the credit risk in the corporate portfolio of the Volkswagen Bank GmbH Group was apparent overall. This improvement was driven by declining losses in the dealer portfolio in the German market, resulting primarily from the recovery of a number of dealers. The completion of a portfolio realignment also contributed.

BREAKDOWN OF CREDIT VOLUME BY REGION

in € million

1 Europe excluding Germany

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 pensions benefits for employees. Issuer risk results from the purchase of securities to optimize liquidity management and to fulfill statutory and/or regulatory requirements. The primary objective in the management of counterparty and issuer risk is to identify potential defaults in a timely manner, so that corrective action can be initiated at an early stage as far as possible. Another important objective is to ensure that the 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, depending on the amount of the loss.

Risk identification and assessment

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

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 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 would need 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 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. The Group exercises influence over the business and risk policies of the equity investments through its representation in the relevant ownership or supervisory bodies. However, responsibility for the operational use of the risk management tools lies with the entities themselves.

Market risk

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

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

As part of risk management activities, market 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.

Interest Rate Risk

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

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

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

Currency 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 international subsidiaries/branches in the United Kingdom, Sweden, Czech Republic and Poland.

Fund Price Risk

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. 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.

Trends

Market risk at the level of the Volkswagen Bank GmbH Group developed in line with strategic specifications. The main factor influencing market risk, apart from the structural currency risk arising from the sterling zone, was interest rate risk.

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

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, 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

The expected cash flows in the Volkswagen Bank GmbH Group are brought together and evaluated by the Treasury unit.

The Risk Management unit is responsible for identifying and recording liquidity risk. 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. In the second approach, to ensure there is appropriate liquidity management, Treasury also prepares four different 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 thirty-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

As part of risk communication, 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.

The Management of Volkswagen Bank GmbH is informed of the prevailing liquidity position on a monthly basis.

Trends

The development of liquidity risk at the level of the Volkswagen Bank GmbH Group was stable. The liquidity situation in 2018 was affected to a significant degree by the portfolio and company transfers within Volkswagen Bank GmbH (Group).

The funding structure retained a good level of diversity in terms of the instruments utilized. Funding risk always remained within the specified limits.

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 if the residual value risk were to materialize.

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 remarketing proceeds as of the measurement date and the contractual residual value specified at the inception of the lease for each vehicle. Other parameters such as remarketing costs are also taken into account in the calculation. The portfolio EL is calculated by aggregating the individual ELs for all vehicles.

To determine the UL, the change is measured between the projected residual value one year before the end of the lease and the actual selling price achieved (adjusted for damage and mileage variances). 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 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

Within the Volkswagen Bank GmbH Group division, direct residual value risk arises at the branches in France, Italy, Ireland and Portugal, and at the international subsidiaries Volkswagen Financial Services (UK) Ltd., Volkswagen Finančné služby Slovensko s.r.o., SkoFIN s.r.o. and Volkswagen Finans Sverige AB. The number of contracts involving direct residual value risk and the direct residual value risk itself increased in fiscal year 2018. Steady year-on-year growth in the number of contracts was evident in all markets, driven by growth strategies such as the expansion of the fleet business. The most significant growth driver was the United Kingdom market. As a result of the inclusion of Volkswagen Financial Services (UK) Ltd. in the Volkswagen Bank GmbH Group in 2017, the largest market with direct residual value risk was integrated into Volkswagen Bank GmbH. In terms of the number of contracts with direct residual value risk, some 80% of these contracts are attributable to Volkswagen Financial Services (UK) Ltd. An analysis of residual value risk itself shows that Volkswagen Financial Services (UK) Ltd. alone accounts for approximately 50%. Other than the residual value risk attributable to Volkswagen Financial Services (UK) Ltd., there are only material direct residual value risks at the branch in France and at the international subsidiary in Sweden because the volume in the other companies is still very low or the residual values have been set at such a conservative level that it can be assumed the customers will take over the vehicle at the end of the lease term. In France, direct residual value risk continued to rise in fiscal year 2018 and therefore remained at a high level. The reason for the high level of residual value risk in France is the conservative evaluation of the residual value situation.

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 operating profit.

Risk identification and assessment

The Volkswagen Bank GmbH Group quantifies earnings risk using a parametric earnings at risk (EaR) model with the

confidence level specified in the calculation of risk-bearing capacity and a one-year forecast period.

The relevant income statement items provide the basis for these calculations. The estimates for earnings risk are then based on two perspectives: 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 fed into the calculation of risk-taking potential as a deduction from risk-bearing capacity. The results are monitored by Risk Management.

Trends

The change in earnings risk is due primarily to new parameters resulting in a lower earnings risk compared to the previous year's parameters.

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

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

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

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. 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 instigates 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 is based on a number of factors including business growth. As part of the item relating to overall operational risk exposure in the past, legal risk also had an impact on a large part of the Volkswagen Bank GmbH Group.

The Volkswagen Bank GmbH Group attaches great importance to operational risk factors and their active management. 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 potential future risks can be assessed more thoroughly and more accurately.

Compliance and Conduct 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.

Volkswagen Bank GmbH Group addresses both categories of risk by means of a local compliance 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.

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 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 communications initiatives, including distributing guidelines and other information media, and participating in compliance 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.

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

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

The Management 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.

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 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.

Risk identification and assessment

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

Risk monitoring and control

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

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.

The assessment results indicate that the models used for the risk-bearing capacity analysis overwhelmingly rank as “straightforward”, “transparent” and “conservative”. Possible drivers of model risk are additionally reviewed and validated regularly in the context of the particularly significant risk categories credit risk and residual value risk. Quantitative backing with own funds is provided where necessary for any model risks that arise.

Strategic Risk

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

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

The objective of the Volkswagen Bank GmbH Group is to manage its acceptance of strategic risk enabling it to systematically leverage earnings potential in its core business. 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 recognized quantitatively by applying a markdown to aggregate risk cover in the calculation of risk-bearing capacity.

Reputational risk

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

The responsibilities of the Corporate Communications unit include avoiding negative reports in the press or similar announcements that could inflict damage on the reputation of the Bank. 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 by applying a markdown in the calculation of risk-bearing capacity. This global approach is reassessed each year from a qualitative perspective.

SUMMARY

The Volkswagen Bank GmbH Group accepts 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. Risk-bearing capacity was maintained at all times in 2018. We do not believe that there are any risks to the continued existence of our business as a going concern.

The ongoing refinement of the system continued in 2018, with steps implemented including adjustments to methods, models, systems, processes and IT. These activities were supported by the reorganization of the Risk Management unit.

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.

Forecast of Material Risks

Credit Risk Forecast

Overall, a stable risk position and a further expansion in the volume of loans and receivables is anticipated for 2019. This growth is likely to be achieved on the back of the well-established sales promotion program with the brands and continuous expansion of the fleet business.

Market Risk Forecast

We are expecting a generally stable market price risk situation for fiscal year 2019, based on the expected relatively stable interest rate environment in the eurozone.

Liquidity Risk Forecast

The future trend in this risk depends to a large extent on global political uncertainties. For example, failure of the Brexit negotiations could lead to a disorderly exit from the European Union by the UK, plunging the financial markets into a new round of turmoil. In turn, this could affect the funding situation in the Volkswagen Bank GmbH Group, increasing funding risk and illiquidity risk.

Residual Value Risk Forecast

We expect the volume of contracts with direct residual value risk to continue to grow in fiscal year 2019. The main drivers behind this are the implemented growth program, continued economic recovery in the markets and further expansion in the fleet business.

Operational Risk Forecast

Based on future business growth and the trend in operational risk as described in the risk report, we anticipate a constant to moderately rising level of risk. 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.

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This report contains forward-looking statements on the business development of Volkswagen Bank GmbH. 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 2018 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

Leadership and management in the digital revolution and fostering a willingness to change.

HEADCOUNT

Volkswagen Bank GmbH employed 1,144 people (previous year: 1,110) at the end of 2018.

A total of 832 people (previous year: 809) were employed at the branches of Volkswagen Bank GmbH. The Volkswagen Bank GmbH Group comprises the bank branches plus the following international companies: SkoFIN s.r.o., Czech Republic – 247 employees (previous year: 239), Volkswagen Finans Sverige AB, Sweden – 213 employees (previous year: 204) and Volkswagen Financial Services (UK) Ltd., UK – 1,018 employees (previous year: 1,043).

EMPLOYEES

Volkswagen Bank GmbH has deemed it its duty to offer 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, taking an agile approach to collaboration and using innovative methods.

Human Resources Strategy

The ROUTE2025 program has created new areas of focus in terms of HR strategy. Six 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”. With the support of the best employees, the objective is to continue to drive forward development around the other strategic cornerstones of customers, volume, profitability and operational excellence. By implementing specific measures to develop and retain personnel, coupled with profit-sharing arrangements commensurate with the work performed, we aim to encourage top performance and ensure that we provide outstanding customer service with top employees, whilst also taking our excellent reputation as a top employer to yet another level.

Responsibility for implementing the employee strategy at an international level lies locally with the branches and international subsidiaries, supported by the international HR unit at the head office. 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 our local companies with uniform guidelines. The local entities hold regular meetings with the head office – at least once a year – to report on their progress and share detailed information in this regard. Depending on the situation, support measures are agreed and/or highly positive examples are systematically made available to other branches using the HR toolbox so that synergies can also be leveraged between the different branches and local companies.

In the year under review, the strategic focus both in Germany and at the international sites was on strengthening employee willingness to change and on reinforcing leadership and management in the digital revolution.

To foster a willingness to change, eight inhouse job fairs were held in 2018, which included motivational speeches and departmental “market stalls”. Other events included various seminars on the subject and a two-hour “Quali-Quick” session, in which the employees are given short motivational briefings. This is intended to promote employee willingness to change. On the subject of leadership and management in the digital revolution, the Company organized national IT innovation days, external presentations and an event for managers held over several days covering the topic of digital entrepreneurship. Many of the branches and international subsidiaries arranged a variety of discussion sessions and workshops for managers and experts (for example in Portugal) and went as far as integrating the topic into the General Management Program – the professional development event for prospective branch managers and managing directors.

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. Our aim is to continue to enhance the working conditions and implement corresponding action with a view to becoming one of the top 20 international employers in the "Great Place to Work" employer ranking by 2025. Working with Volkswagen Financial Services AG, Volkswagen Bank GmbH has once again entered the competition for an award from "Great Place to Work" in 2019 based on a comprehensive presentation of its HR activities (which is nearly 500 pages long) and a survey of 1,000 employees. Participation in "Great Place to Work" in Europe had been suspended in the previous year because of the Europe-wide reorganization.

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 eleven countries (Germany, France, Italy, Ireland, Netherlands, Poland, Portugal, Sweden, Spain, Czech Republic and the United Kingdom).

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

IMPLEMENTATION OF THE CORPORATE STRATEGY

ROUTE2025 is complemented by "The FS Way" and the associated leadership and management principles. The FS Way describes the 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 met to enable us to live up to the strategic vision, "The key to mobility", as an automotive financial services provider. The FS Way is anchored in the five FS values, living commitment to our customers, responsibility, trust, courage and enthusiasm, combined with an attitude of continuously looking for improvement and proactively making the changes this requires. The FS values fit very neatly into the new basic principles of the Volkswagen Group, known as the "Essentials". The FS values are repeatedly explored, discussed and turned into specific action at events for managers and employees, especially from the perspective of digital transformation.

Following the launch in the second half of 2018 of Together4Integrity (T4I), a groupwide integrity and compliance program, strategy has been focused on the issues of compliance, culture and integrity in relation to processes, structures, attitudes and conduct. T4I is a program aimed at organizing and tracking integrity and compliance initiatives throughout the Group but will also help to refine and improve the corporate culture at Volkswagen Bank GmbH so that the culture becomes more focused on integrity. The HR unit is using 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 Volkswagen Bank GmbH 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) and give these issues greater focus. The implementation of initiatives was launched at the end of 2018 and will be continued throughout 2019 and subsequent years in accordance with the framework plan for the Group.

REGULATORY REQUIREMENTS RELATING TO REMUNERATION SYSTEMS

In the reporting year, Volkswagen Bank GmbH was subject to direct supervision by the ECB and implemented the Institutsvergütungsverordnung (IVV – German Regulation Governing Remuneration at Institutions) of August 4, 2017 throughout the Group. 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, the IVV-compliant bonus process and the reporting system using a remuneration report, continued to be applied and enhanced in fiscal year 2018. Furthermore, special governance functions (Remuneration Committee and Remuneration Officer) ensured that the adequacy of the remuneration systems was continuously monitored.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

In 2018, 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, professional banking qualifications and professional insurance and finance qualifications. The dual approach combines vocational training with study for a university degree. The Bachelor of Arts in Business Administration is offered in collaboration with WelfenAkademie e. V.; the Bachelor of Science in Business Informatics is offered in collaboration with Leibniz University of Applied Sciences. In 2018 too, vocational trainees were recruited predominantly to train for specialist professional IT qualifications in application development, and dual vocational training students mainly to become business informatics specialists, with a view to designing vocational training on a forward-looking basis and incorporating the topic of digitalization. A degree study program in informatics is also offered. 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.

In order to continue to attract qualified, committed employees, Volkswagen Bank GmbH has a rigorous concept for recruiting and retaining young university graduates. For example, as part of the development program for young graduates, it offers a three-year doctoral program. Based on the introduction of a new recruiting tool (SAP Success Factors), the Bank has been pursuing the objective of enabling applicants to enjoy a simple, but optimum, comprehensive candidate experience in the recruitment process. For those involved in the process internally, the introduction of the Success Factors tool means that the process of managing applicants is faster and simpler.

Another critical element determining the successful implementation of ROUTE2025 is to identify talent in the existing workforce and to nurture this talent with professional development in the Bank. The objectives are to provide individual personal and professional development and to enhance the participant's profile in the Bank.

A wide variety of programs aimed at developing experts and management talent is also available in the branches and international subsidiaries of Volkswagen Bank GmbH.

The strategic approaches of the FS Values and the resulting leadership principles have also been incorporated at Volkswagen Bank GmbH in Germany as part of the holistic training program for new and experienced managers; the program is aimed at developing effective leadership and management skills.

In addition to the mandatory and modular "Erfolgreich durchstarten" (hit the ground running) program for new and newly appointed managers, there are advanced modules for enhancing the management 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 program is complemented by the "Boxenstopp Führung" (management pit stop), which gives all managers the opportunity to get information on current issues. Here they can obtain support for specific management situations; internal and external facilitators help them analyze their own leadership and in this way enhance their skills.

Volkswagen Bank GmbH thus ensures consistent quality standards of management know-how as well as a shared understanding of the leadership culture and principles as set out by the FS Way for employees with line management responsibilities.

The branches and international subsidiaries also attach great importance to continuously enhancing management skills. The international "leadership license" standard, comprising training modules and a concluding assessment center event, has now been introduced in all branches and international subsidiaries. Furthermore, professional development has become internationally established as an integral part of management. A few of the branches and international subsidiaries carry out the management assessment center (MAC) themselves or offer it in collaboration with the Group brands in the country concerned. As an alternative option, managers can participate in cross-regional MACs offered once or twice a year.

To promote an entrepreneurial spirit in Volkswagen Bank GmbH, an internal program known as FS.Start.Up was run for the first time in 2018. The program was open to any employees who wished to contribute business ideas, such as new business models, new product suggestions or process improvements that could also form part of the ROUTE 2025 corporate strategy. The ideas were initially made accessible to all employees throughout the Bank via a web-based platform. A shortlist was then drawn up, after which the employees or start-up teams were then required to pitch their ideas briefly to a selection panel comprising members of the Board of Management and senior managers. The teams that were able to make a convincing presentation to the panel received supplementary funding for the necessary support to enable them to take their ideas to the next stage.

INCREASE IN THE PROPORTION OF WOMEN

As of December 31, 2018, women accounted for 57.3% 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. We do so, for example, by giving special consideration to female candidates in recruitment and succession planning, in combination with measures to improve work-life balance as well as the development of HR tools.

The target figures for the period through 2023 were redefined and adopted by Management in 2018 following the separation of Volkswagen Bank GmbH from Volkswagen Financial Services AG.

Proportion of Women – Target and Actual Values for Germany

	Target 2023	Target 2018	Actual 2018
Second management level	26.1	19.0	16.3
First management level	10.3	3.7	4.0
Supervisory Board	–	–	–

A cross-brand mentoring program is run throughout the Group with the aim of increasing the proportion of women in management. The aim of the nine-month program is for

suitably qualified female employees to receive advice, support and coaching from managers in the Group.

DIVERSITY

In addition to the specific advancement of women, the notion of diversity is an integral component of the corporate culture at Volkswagen Financial Services AG. The Bank sent a clear signal with its corporate initiative around the Diversity Charter, which was signed in 2007. Under this initiative, Volkswagen Bank GmbH undertook to recognize and appreciate diversity, and to promote it according to skills and ability. Volkswagen Bank GmbH adopted a Diversity Policy in 2018 to reinforce this approach. The Diversity Policy ensures that diversity is recognized as the norm rather than some kind of special feature. Diversity becomes a strength through the conscious appreciation of the diversity in the workforce. The diversity of our employees makes a significant contribution to the commercial success of our multinational company.

Report on Expected Developments

The global economic growth is expected to slow down somewhat in 2019. We also assume that global demand for vehicles will vary from region to region and remain at the prior-year level on the whole. Based on its brand diversity, its broad range of products and its groundbreaking technologies and services, the Volkswagen Group is well prepared for the future challenges in the mobility business and the variety of different market conditions.

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 forecasts are based on the assumption that global economic growth will slow down somewhat in 2019. We still believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively affected by continuing geopolitical tensions and conflicts. We therefore anticipate weaker momentum than in 2018 in both the advanced economies and the emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2020 to 2023.

Europe

In Western Europe, economic growth is likely to slow down in 2019 compared with the reporting period. Resolving struc¬tural problems continues to pose a major challenge, as do the uncertain impacts of the United Kingdom's planned exit from the EU.

In Central Europe, we estimate that growth rates in 2019 will be lower than those for the past fiscal year. The economic situation in Eastern Europe should stabilize further, providing the conflict between Russia and Ukraine does not worsen. The growth of the Russian economy is expected to lose some of its momentum.

Germany

We expect that gross domestic product (GDP) in Germany will increase slower in 2019 than in the reporting period. The situation in the labor market will probably remain stable and bolster consumer spending.

DEVELOPMENTS IN THE FINANCIAL MARKETS

Volkswagen Bank GmbH believes that automotive financial services will be very important for vehicle sales worldwide in 2019. The Bank expects demand to continue rising in emerging markets where market penetration has so far been low, such as China. 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, demand is expected to increase for new forms of mobility, such as car sharing, and for integrated mobility services including parking, refueling and charging. The Bank anticipates that this trend will continue in the period from 2020 to 2023.

In the mid-sized and heavy commercial vehicles category, demand for financial services products is rising 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, Volkswagen Bank GmbH is projecting increased demand in 2019 for telematics services and services aimed at reducing total operating costs. This trend is also expected to continue in the period 2020 to 2023.

TRENDS IN THE PASSENGER CAR AND LIGHT COMMERCIAL VEHICLES MARKETS

We expect trends in the markets for passenger cars in the individual regions to be mixed in 2019. Overall, global demand for new vehicles will probably be at the 2018 level. We are forecasting growing demand for passenger cars worldwide in the period from 2020 to 2023.

Trends in the markets for light commercial vehicles in the individual regions will be mixed again in 2019; on the whole, we anticipate a slight dip in demand in 2019. We expect a return to the growth trajectory for the years 2020 to 2023.

The Volkswagen Group is well prepared for the future challenges pertaining to the automotive mobility business and the mixed developments in regional automotive markets. Our brand diversity, our presence in all major world markets, our broad, selectively expanded product range and pioneering technologies and services place us in a good competitive position worldwide. Our goal is to offer all customers mobility and innovations suited to their needs and thus ensuring long-term success.

Europe

For 2019, we anticipate that the volume of new passenger car registrations in Western Europe will be in line with that seen in the reporting period. The uncertain impact of the United Kingdom's planned exit from the EU is likely to further exacerbate the ongoing uncertainty among consumers, continuing to put a damper on demand. We expect to see slight growth in the Italian market in 2019, whereas growth momentum in Spain will probably slow somewhat. We anticipate volumes in the French passenger car market to be on a level with the previous year. In the United Kingdom, we estimate that new vehicle registrations in 2019 will be at the prior-year level.

For light commercial vehicles we expect demand in Western Europe in 2019 to narrowly miss the prior-year level owing to the uncertain impact of the United Kingdom's planned exit from the EU. We estimate a marked decline in Italy and a moderate decline in the United Kingdom and France. In Spain, we anticipate a noticeable increase in demand.

Sales of passenger cars in 2019 are expected to slightly exceed the prior-year figures in markets in Central and Eastern Europe. In Russia, we anticipate a market volume that is slightly higher than in the previous year following the marked recovery in the reporting period. The number of new registrations should continue to grow in most of the other markets in this region.

Registrations of light commercial vehicles in the Central and Eastern European markets in 2019 will probably be somewhat lower than in the previous year. In Russia, we expect the market volume to decline perceptibly compared with 2018.

Germany

After a positive performance overall in recent years, we expect demand in the German passenger car market to fall slightly year-on-year in 2019.

We anticipate that registrations of light commercial vehicles will be around the previous year's level.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2019 are set to be slightly up on the level seen in 2018. We anticipate a solid increase for the period from 2020 to 2023.

We assume that demand in Western Europe will taper off moderately year-on-year in 2019. In Germany, we also expect the market to decline slightly compared to the previous year.

Central and Eastern European markets should record a moderate increase in demand. In Russia we expect to see a marked rebound in demand in 2019.

INTEREST RATE TRENDS

In 2018 and also at the beginning of the current fiscal year, the overall picture regarding central banks' interest rate policies was somewhat varied. In the USA and the United Kingdom, the central banks have already hiked interest rates, whereas the ECB has continued to pursue its expansionary monetary policy. The level of interest rates still remains close to the historic lows. This divergence in central bank policy is likely to continue because there are signs of an end to the economic downturn in Europe, but also indications of an end to the overheating economy in the USA resulting from the expansionary fiscal policy. Further rises in interest rates in the US dollar and pound sterling zones will probably ensue.

If necessary, the ECB will gradually scale back its policy of cheap money in 2019. It is not anticipated that there will be any initial rise in interest rates before the ECB has completely ended its bond-buying program. Interest rates will therefore probably remain stable in the eurozone for the time being.

SUMMARY OF EXPECTED DEVELOPMENTS

Despite ongoing restructuring measures, the Volkswagen Bank GmbH Group predicts that the volume of business in the current fiscal year will be at the level of 2018. Please refer to the statements in the opportunities and risks report for information on the trends in credit risk, liquidity risk, and residual value risk.

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

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

The product packages and mobility solutions successfully launched in the last few years will be refined in line with customer needs.

In parallel with its market-based activities, the position of the Volkswagen Bank GmbH Group vis-à-vis its global competitors will be further strengthened through strategic investment in structural projects as well as through process optimization and productivity gains.

OUTLOOK FOR 2019

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 a slight increase in funding costs, greater levels of cooperation with the individual Group brands, further optimization of costs as part of our efficiency program and a continued high degree of uncertainty about macroeconomic conditions in the real economy and the impact of this uncertainty on factors such as risk costs.

New contracts, current contracts and penetration are likely to be moderately lower in 2019 than in fiscal year 2018 because of the transfer of portfolios and companies to Volkswagen Financial Services AG as part of the Group restructuring. The volume of business and deposits is nevertheless projected to remain stable in 2019. For the reasons outlined above, we expect both operating profit and return on equity for fiscal year 2019 to fall slightly below the prior-year levels. We expect the cost/income ratio in 2019 to be at the level of the previous year.

FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2019 COMPARED WITH PRIOR-YEAR FIGURES

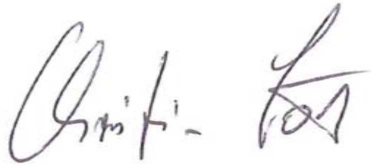
	Actual 2017	Actual 2018	Forecast for 2019
Nonfinancial performance indicators			
Penetration (percent)	22.8	30.8	Moderately below 2018 level
Current contracts (thousands)[1]	6,032	6,393	Moderately below 2018 level
New contracts (thousands)[1]	4,292[2]	2,680	Moderately below 2018 level
Financial performance indicators			
Volume of business (€ million)	59,592	63,548	At 2018 level
Volume of deposits (€ million)	33,583	32,389	At 2018 level
Operating profit (€ million)[3]	994	952	Moderately below 2018 level
Return on equity (percent)	10.8	8.4	Moderately below 2018 level
Cost/income ratio (percent)	38.7	46.0	At 2018 level

1 A new counting method for determining contract numbers was introduced on January 1, 2018.
2 The new contracts figure for 2017 includes 2,550 thousand contracts from first-time consolidation.
3 The operating profit for 2017 includes positive non-recurring items.

Braunschweig, February 19, 2019
The Management

Dr. Michael Reinhart

Harald Heßke



Christian Löbke

Dr. Volker Stadler

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Income Statement

of the Volkswagen Bank GmbH Group

€ million	Notes	Jan. 1 – Dec. 31, 2018	Jan. 1 – Dec. 31, 2017[1]	Change in percent
Interest income from lending transactions and marketable securities	19	1,372	1,427	–3.9
Income from leasing transactions		6,470	2,641	145.0
Depreciation, impairment losses and other expenses from leasing transactions		–5,209	–2,099	148.2
Net income from leasing transactions	20	1,261	542	132.7
Interest expense	21	–366	–226	61.9
Income from service contracts		160	85	88.2
Expenses from service contracts		–120	–66	81.8
Net income from service contracts	22	40	19	110.5
Provision for credit risks	8, 23	–94	150	–162.7
Fee and commission income		224	291	–23.0
Fee and commission expenses		–400	–304	31.6
Net fee and commission income	24	–176	–13	1,253.8
Net gain or loss on hedges	8, 25	12	–12	–200.0
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	26	48	3	1,500.0
General and administrative expenses	27	–933	–916	1.9
Other operating income		452	335	34.9
Other operating expenses		–666	–315	111.4
Net other operating income/expenses	28	–213	20	–1,165.0
Operating profit		**952**	**994**	**–4.2**
Share of profits and losses of equity-accounted joint ventures		23	29	–20.7
Net gain or loss on miscellaneous financial assets	29	8	13	–38.5
Other financial gains or losses	30	–4	–44	–90.9
Profit before tax		**978**	**992**	**–1.4**
Income tax expense	6, 31	–275	–336	–18.2
Profit from continuing operations, net of tax		**703**	**656**	**7.2**
Profit/loss from discontinued operations, net of tax		–	–	–
Profit after tax		**703**	**656**	**7.2**
Profit after tax attributable to the sole shareholder		703	656	7.2

1 Prior year adjusted as described in the disclosures relating to the changes to the presentation of the income statement in the section "Adjustment of prior-year figures".

Statement of Comprehensive Income

of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2018	Jan. 1 – Dec. 31, 2017
Profit after tax		**703**	**656**
Pension plan remeasurements recognized in other comprehensive income	49		
Pension plan remeasurements recognized in other comprehensive income, before tax		–5	–15
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	6, 31	2	5
Pension plan remeasurements recognized in other comprehensive income, net of tax		–3	–11
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax		1	–
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax		0	0
Items that will not be reclassified to profit or loss		**–2**	**–11**
Exchange differences on translating foreign operations	4		
Gains/losses on currency translation recognized in other comprehensive income		–45	44
Transferred to profit or loss		–	–
Exchange differences on translating foreign operations, before tax		–45	44
Deferred taxes relating to exchange differences on translating foreign operations		–	–
Exchange differences on translating foreign operations, net of tax		–45	44
Hedging	8		
Fair value changes recognized in other comprehensive income (OCI I)		7	0
Transferred to profit or loss (OCI I)		–6	0
Cash flow hedges (OCI I), before tax		1	0
Deferred taxes relating to cash flow hedges (OCI I)	6, 31	0	0
Cash flow hedges (OCI I), net of tax		1	0
Fair value changes recognized in other comprehensive income (OCI II)		–	–
Transferred to profit or loss (OCI II)		–	–
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 securities and receivables (debt instruments) that may be reclassified to profit or loss	8		
Fair value changes recognized in other comprehensive income		–2	–24
Transferred to profit or loss		0	–3
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax		–2	–27
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	6, 31	0	9
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax		–2	–18
Share of other comprehensive income of equity-accounted investments that may be reclassifiedto profit or loss, net of tax		–	–
Items that may be reclassified to profit or loss		**–46**	**25**
Other comprehensive income, before tax		–49	1
Deferred taxes relating to other comprehensive income		2	13
Other comprehensive income, net of tax		**–47**	**14**
Total comprehensive income		**656**	**670**
Total comprehensive income attributable to the sole shareholder		656	670

Balance Sheet

of the Volkswagen Bank GmbH Group

€ million	Note	Dec. 31, 2018	Dec. 31, 2017	Change in percent
Assets				
Cash reserve	7, 33	1,858	1,866	–0.4
Loans to and receivables from banks	8	661	970	–31.9
Loans to and receivables from customers attributable to				
Retail financing		29,882	28,032	6.6
Dealer financing		12,162	12,430	–2.2
Leasing business		18,829	18,858	–0.2
Other loans and receivables		4,270	5,592	–23.6
Total loans to and receivables from customers	8, 34	65,143	64,912	0.4
Derivative financial instruments	8, 35	257	289	–11.1
Marketable securities	8, 36	3,359	2,509	33.9
Equity-accounted joint ventures	37	216	197	9.6
Miscellaneous financial assets	9, 37	12	3	300.0
Intangible assets	10, 38	40	48	–16.7
Property and equipment	11, 39	20	25	–20.0
Lease assets	13, 40	5,491	5,426	1.2
Investment property	13, 40	1	1	0.0
Deferred tax assets	6, 41	1,642	1,497	9.7
Current tax assets	6	45	53	–15.1
Other assets	42	1,370	952	43.9
Assets held for sale (IFRS 5)	43	2,928	–	–
Total		**83,042**	**78,747**	**5.5**

€ million	Note	Dec. 31, 2018	Dec. 31, 2017	Change in percent
Equity and liabilities				
Liabilities to banks	14, 45	8,898	8,032	10.8
Liabilities to customers	14, 45	39,602	41,066	–3.6
Notes, commercial paper issued	46, 47	16,868	13,446	25.4
Derivative financial instruments	8, 48	214	277	–22.7
Provisions	15, 16, 49	536	564	–5.0
Deferred tax liabilities	6, 50	1,657	1,502	10.3
Current tax liabilities	6	184	210	–12.4
Other liabilities	51	699	629	11.1
Subordinated capital	47, 52	2,103	1,721	22.2
Liabilities related to the assets held for sale (IFRS 5)	56	639	–	–
Equity	54	11,639	11,301	3.0
Subscribed capital		318	318	0.0
Capital reserves		8,531	8,531	0.0
Retained earnings		3,006	2,622	14.6
Other reserves		–216	–171	26.3
Total		**83,042**	**78,747**	**5.5**

Statement of Changes in Equity

of the Volkswagen Bank GmbH Group

€ million	Sub-scribed capital	Capital reserves	Retained earnings	OTHER RESERVES						Total equity
					Hedging transactions					
				Currency trans-lation	Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)	Equity and dept instru-ments	Equity-accoun-ted invest-ments	Non-control-ling interests	
As of Jan. 1, 2017	**318**	**6,026**	**826**	**–54**	**0**	**–**	**40**	**–**	**–**	**7,156**
Profit after tax	–	–	656	–	–	–	–	–	–	656
Other comprehensive income, net of tax	–	–	–11	44	0	–	–18	0	–	14
Total comprehensive income	–	–	645	44	0	–	–18	0	–	670
Capital increases	–	2,505	–	–	–	–	–	–	–	2,505
Profit transfer to Volkswagen AG[1]	–	–	–489	–	–	–	–	–	–	–489
Other changes	–	–	1,639	–180	–	–	–1	–	–	1,458
As of Dec. 31, 2017	**318**	**8,531**	**2,622**	**–191**	**0**	**–**	**20**	**0**	**–**	**11,301**
Balance before adjustment on Jan. 1, 2018	**318**	**8,531**	**2,622**	**–191**	**0**	**–**	**20**	**0**	**–**	**11,301**
Change in accounting treatment as a result of IFRS 9	–	–	–111	–	–	–	–1	–	–	–113
As of Jan. 1, 2018	**318**	**8,531**	**2,510**	**–191**	**0**	**–**	**19**	**0**	**–**	**11,188**
Profit after tax	–	–	703	–	–	–	–	–	–	703
Other comprehensive income, net of tax	–	–	–3	–45	1	–	0	0	–	–47
Total comprehensive income	–	–	700	–45	1	–	0	0	–	656
Capital increases	–	–	–	–	–	–	–	–	–	–
Profit transfer to Volkswagen AG[1]	–	–	–204	–	–	–	–	–	–	–204
Other changes	–	0	–	–	–	–	–	–	–	0
As of Dec. 31, 2018	**318**	**8,531**	**3,006**	**–235**	**1**	**–**	**18**	**0**	**–**	**11,639**

1 The figures show the share of HGB profit attributable to Volkswagen AG.

Further information on equity is presented in note (54).

Cash Flow Statement

of the Volkswagen Bank GmbH Group

€ million	Jan. 1 – Dec. 31, 2018	Jan. 1 – Dec. 31, 2017
Profit/loss after tax	**703**	**656**
Depreciation, amortization, impairment losses and reversals of impairment losses	984	311
Change in provisions	–23	117
Change in other noncash items	320	81
Gain/loss on disposal of financial assets and items of property and equipment	0	0
Net interest expense and dividend income	–2,041	–1,666
Other adjustments	8	3
Change in loans to and receivables from banks	304	1,065
Change in loans to and receivables from customers	–3,131	–4,605
Change in lease assets	–1,541	–1,013
Change in other assets related to operating activities	–506	–104
Change in liabilities to banks	1,084	2,229
Change in liabilities to customers	–762	–2,438
Change in notes, commercial paper issued	3,650	1,472
Change in other liabilities related to operating activities	94	72
Interest received	2,399	1,887
Dividends received	8	13
Interest paid	–366	–234
Income taxes paid	–216	–88
Cash flows from operating activities	**968**	**–2,242**
Proceeds from disposal of investment property	–	–
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	0	0
Acquisition of subsidiaries and joint ventures	–9	–211
Proceeds from disposal of other assets	1	0
Acquisition of other assets	–17	–13
Change in investments in marketable securities	–870	839
Cash flows from investing activities	**–895**	**615**
Proceeds from changes in capital	–	2,505
Distribution/profit transfer to the sole shareholder	–489	–414
Change in cash funds attributable to subordinated capital	409	–59
Cash flows from financing activities	**–80**	**2,032**
Cash and cash equivalents at end of prior period	**1,866**	**1,457**
Cash flows from operating activities	968	–2,242
Cash flows from investing activities	–895	615
Cash flows from financing activities	–80	2,032
Effect of exchange rate changes	–1	4
Cash and cash equivalents at end of period	**1,858**	**1,866**

See note 67 for disclosures on the cash flow statement.

Notes to the Consolidated Financial Statements

of the Volkswagen Bank GmbH Group for the Year Ended December 31, 2018

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, 2018 in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the interpretations issued by the IFRS Interpretations Committee 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 IFRS issued by the International Accounting Standards Board (IASB) up to December 31, 2018 for which mandatory application was required in fiscal year 2018 in the EU were 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 the estimates and assumptions necessary as part of recognition and measurement in accordance with IFRS 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. Where significant estimates have been necessary, the assumptions made by the Bank are explained in the disclosures on management's estimates and assumptions.

The Management completed the preparation of these consolidated financial statements on February 19, 2019. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Significant Events

With effect from September 28, 2018, the subsidiary Volkswagen Bank Polska S.A., Warsaw, was merged with Volkswagen Bank GmbH. Since then, the Polish business has been serviced at the newly established Poland branch.

The next few years will see further changes in the international subsidiaries within the European Economic Area as part of the progress toward the target structure.

Adjustment of Prior-Year Figures

The structure of the income statement prepared by the Volkswagen Bank GmbH Group has been modified to increase transparency in the reporting of the Group's performance as part of voluntary changes to accounting policies. Key elements are the introduction of a subtotal for operating profit/loss, the presentation of income and expenses from service business as separate items in the income statement and, as part of the implementation of IFRS 9, the reporting of gains and losses from the measurement of financial instruments in the new income statement items "Net gain or loss on hedges" and "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 following table shows a reconciliation of the prior-year comparative figures from the previous presentation of the income statement to the new presentation, broken down by reconciliation columns according to the reason for the change.

Previous presentation	Jan. 1 – Dec. 31, 2017 before adjustment	ADJUSTMENT OF THE PRESENTATION FOR: Reversal of provisions	Service contracts	Other adjustments	Jan. 1 – Dec. 31, 2017 adjusted	Amended presentation
Interest inome from lending transactions before provision for credit risks	1,429	–	–	–3	1,427	Interest income from lending transactions and marketable securities
Income from leasing transactions and service contracts	2,726	–	–85	–	2,641	Income from leasing transactions
Expenses from leasing transactions and service contracts	–1,733	–	–366	–	–2,099	Depreciation, impairment losses and other expenses from leasing transactions
Depreciation of and impairment losses on lease assets and investment property	–432	–	432	–	–	
Net income from leasing transactions before provision for credit risks	561	–	–19	–	542	Net income from leasing transactions
Interest expense	–234	–	–	8	–226	Interest expense
	–	–	85	–	85	Income from Service Contracts
	–	–	–66	–	–66	Expenses from service contracts
	–	–	19	–	19	Net Income from Service Contracts
Net income from lending and leasing transactions before provision for credit risks	1,756	–	–	–	–	
Provision for credit risks from lending and leasing business	150	–	–	–	150	Provision for credit risks
Net income from lending and leasing transactions after provision for credit risks	1,907	–	–	–	–	
Fee and commission income	291	–	–	–	291	Fee and commission income
Fee and commission expenses	–328	24	–	–	–304	Fee and commission expenses
Net fee and commission income	–37	24	–	–	–13	Net fee and commission income
Net gain/loss on the measurement of derivative financial instruments and hedged items	–48	–	–	48	–	
	–	–	–	–12	–12	Net Gain or Loss on Hedges
	–	–	–	3	3	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
Share of profits and losses of equity-accounted joint ventures	29	–	–	–29	–	
Net gain/loss on marketable securities and miscellaneous financial assets	16	–	–	–16	–	
General and administrative expenses	–931	15	–	1	–916	General and Administrative Expenses
Other operating income	374	–39	–	0	335	Other operating income
Other operating expenses	–317	–	–	2	–315	Other operating expenses
Net other operating income/expenses	57	–39	–	2	20	Net Other Operating Income/Expenses

Previous presentation	Jan. 1 – Dec. 31, 2017 before adjustment	Adjustment of the presentation for: Reversal of provisions	Service contracts	Other adjustments	Jan. 1 – Dec. 31, 2017 adjusted	Amended presentation
	–	–	–	–	994	Operating profit/loss
	–	–	–	29	29	Share of profits and losses of equity-accounted joint ventures
	–	–	–	13	13	Net Gain or Loss on Miscellaneous Financial Assets
	–	–	–	–44	–44	Other Financial Gains or Losses
Profit/loss before tax	**992**	**–**	**–**	**–**	**992**	**Profit/loss before tax**
Income tax expense	–336	–	–	–	–336	Income tax expense
Profit/loss from continuing operations, net of tax	656	–	–	–	656	Profit/loss from continuing operations, net of tax
Profit/loss from discontinued operations, net of tax	–	–	–	–	–	Profit/loss from discontinued operations, net of tax
Profit/loss after tax	**656**	**–**	**–**	**–**	**656**	**Profit/loss after tax**
Profit/loss after tax attributable to the sole shareholder	656	–	–	–	656	Profit/loss after tax attributable to the sole shareholder

The basis of the changes to the presentation of the income statement is described in the table below.

Basis for reconciliation column	Description
Reversal of provisions	Implementation of a voluntary change in accounting policy as permitted by IAS 8.14b) to improve the presentation of income from the reversal of provisions and accrued liabilities. Up to fiscal year 2018, income from the reversal of provisions and of accrued liabilities was only recognized under other operating income. From fiscal year 2018, some of the income from the reversal of provisions and of accrued liabilities is allocated to "Depreciation, impairment losses and other expenses from leasing transactions", "Fee and commission expenses" and "General and administrative expenses" on the income statement, in which the associated provisions were recognized in previous fiscal years. The reclassification of income from the reversal of provisions and accrued liabilities improves the presentation of the income statement for the Volkswagen Bank GmbH Group. The prior-year figures have been restated accordingly.
Service contracts	Implementation of a voluntary change in accounting policy as permitted by IAS 8.14b) to improve the presentation of the net income/expense from service contracts. a) Net income/expense from service contracts was previously included in the income statement under net income from leasing transactions before provision for credit risks. As service contracts do not arise solely in connection with leases, the associated income/expense is now presented separately under "Income from service contracts" and "Expenses from service contracts". b) As a consequence of separating out the net income/expense from service contracts, the expenses from leasing transactions previously reported under expenses from leasing transactions and service contracts can now be combined with depreciation of and impairment losses on lease assets and investment property in a new income statement item referred to as "Depreciation, impairment losses and other expenses from leasing transactions", thereby improving the presentation of the net income from leasing transactions in the same way as the other net income items on the face of the income statement.
Other adjustments	Implementation of a voluntary change in accounting policy as permitted by IAS 8.14b) to improve the presentation of the net income/loss from operating activities as a subtotal referred to as "Operating profit/loss". Net income/expenses and net gains/losses that are not allocated to operating profit/loss or the existing "Share of profits and losses of equity-accounted joint ventures" or "Net gain or loss on miscellaneous financial assets" line items have been recognized under the new "Other financial gains or losses" item.

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 2018.

Since January 1, 2018, there has been a requirement to apply amendments to IAS 40 Investment Property, which clarify when a property falls within the scope, or no longer falls within the scope, of IAS 40.

In addition, amendments to IFRS 1 and IAS 28 are applicable, which the International Accounting Standards Board issued as part of the improvements to International Financial Reporting Standards (Annual Improvement Project 2016). The short-term exemptions in IFRS 1 First-time Adoption of International Financial Reporting Standards available to entities applying IFRSs for the first time have been deleted. IAS 28 Investments in Associates and Joint Ventures now includes a clarification for investment entities.

IFRS 2 Share-based Payment has also been amended. These amendments relate to the clarification of how transactions with share-based payment are classified and measured.

In addition, amendments to IFRS 4 Insurance Contracts had to be applied from January 1, 2018. These amendments reduce the impact from the different initial application dates specified for IFRS 9 and IFRS 17.

IFRIC 22 (Foreign Currency Transactions and Advance Consideration) also applies; this interpretation clarifies the exchange rates to be used in foreign currency transactions with advance consideration.

The changes referred to above do not have any material impact on the financial position or financial performance of the Volkswagen Bank GmbH Group.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments revises the financial reporting provisions governing the classification and measurement of financial assets, impairment of financial assets and hedge accounting.

Financial assets are classified and measured on the basis of the business model operated by an entity and the structure of its cash flows. On initial recognition, a financial asset is classified as “at amortized cost”, “at fair value through other comprehensive income” or “at fair value through profit or loss”. The procedure for classifying and measuring financial liabilities under IFRS 9 is largely unchanged compared with the current accounting requirements under IAS 39.

The model for determining impairment and recognizing the provision for credit risks is changing from an incurred loss model to an expected loss model. The expected loss model breaks down the provision for credit risks into three stages. Financial assets that are newly acquired or issued and that are not deemed to be underperforming or non-performing on the date of initial recognition are allocated to Stage 1. Stage 1 includes expected defaults that could arise from potential default events within the subsequent twelve months. In the case of financial assets in which the credit risk has increased significantly since acquisition or issue but in which the financial asset is not underperforming (Stage 2) and non-performing financial assets (Stage 3), the provision for credit risks is recognized on the basis of the remaining maturity of the financial asset (lifetime expected loss). In addition, interest income on financial assets classified as Stage 3 is recognized on the basis of the net carrying amount, i.e. amortized cost less recognized impairment losses, in contrast to the rules applicable to Stages 1 and 2. The change in the measurement methodology to an expected loss model described above leads to an increase in the provision for credit risks. This increase in the provisions for credit risks results firstly from the requirement not only to recognize portfolio valuation allowances for losses that cannot yet be allocated but also to recognize a provision for credit risks for all performing assets that have not been affected by a significant increase in credit risk since initial recognition. Secondly, the increase arises from the requirement to recognize a provision for credit risks on the basis of the total expected time to maturity for financial assets that have been affected by a significant increase in credit risk since initial recognition.

As regards hedge accounting, IFRS 9 introduces wider designation options and the need to implement more complex recognition and measurement logic. IFRS 9 also removes the quantitative limits for the effectiveness test.

Overall, IFRS 9 also gives rise to significantly more extensive disclosures in the notes.

The following tables show the main effects of the new accounting requirements under IFRS 9 concerning the classification and measurement of financial assets and the impairment of financial assets.

Within the “Derivative financial instruments designated as hedges” class, there have been no reclassifications to or from other classes as a consequence of IFRS 9.

CHANGES IN BALANCE SHEET CARRYING AMOUNTS AS OF JANUARY 1, 2018 AS A RESULT OF IFRS 9

€ million	DEC. 31, 2017 Before adjustments	Adjustments	JAN. 1, 2018 After adjustments
Assets			
Cash reserve	1,866	–	1,866
Loans to and receivables from banks	970	0	970
Loans to and receivables from customers attributable to			
Retail financing	28,032	–42	27,990
Dealer financing	12,430	–5	12,425
Leasing business	18,858	–69	18,789
Other loans and receivables	5,592	7	5,599
Total loans to and receivables from customers	64,912	–109	64,803
Derivative financial instruments	289	–	289
Marketable securities	2,509	–2	2,507
Equity-accounted joint ventures	197	–3	194
Miscellaneous financial assets	3	–	3
Deferred tax assets	1,497	24	1,522
Current tax assets	53	–	53
Other assets	952	–	952
Equity and liabilities			
Liabilities to banks	8,032	–	8,032
Liabilities to customers	41,066	–	41,066
Notes, commercial paper issued	13,446	–	13,446
Derivative financial instruments	277	–	277
Provisions	564	–	564
Deferred tax liabilities	1,502	–14	1,488
Current tax liabilities	210	–	210
Other liabilities	629	5	634
Subordinated capital	1,721	–	1,721
Equity	11,301	–104	11,197
Retained earnings	2,622	–104	2,518

In addition to the adjustments set out in the table, the revised requirements relating to the recognition of the provision for credit risks also had an impact on the measurement of lease assets. The effect of the adjustment on the carrying amount of lease assets amounted to €9 million. This initial application effect has been recognized in other comprehensive income after taking into account deferred taxes.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE CLASS: RECONCILIATION FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

		RECLASSIFICATION		
	Measured at fair value, IAS 39	From measured at amortized cost	To measured at amortized cost	Measured at fair value, IFRS 9
€ million	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	Fair value Dec. 31, 2017	Carrying amount Jan. 1, 2018
Assets				
Cash reserve	–	–	–	–
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	1,252	–	1,252
Derivative financial instruments	52	–	–	52
Marketable securities	2,509	–	–	2,509
Equity-accounted joint ventures	–	–	–	–
Miscellaneous financial assets	0	–	–	0
Current tax assets	–	–	–	–
Other assets	–	–	–	–
Total	**2,561**	**1,252**	**–**	**3,813**
Equity and liabilities				
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Derivative financial instruments	230	–	–	230
Current tax liabilities	–	–	–	–
Other liabilities	–	–	–	–
Subordinated capital	–	–	–	–
Total	**230**	**–**	**–**	**230**

FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST CLASS: RECONCILIATION FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

	Measured at amortized cost IAS 39		RECLASSIFICATION From measured at fair value				RECLASSIFICATION To measured at fair value		Measured at amortized cost IFRS 9	
€ million	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	Fair value Dec. 31, 2017	Carrying amount adjustment Jan. 1, 2018	Provision for credit risks adjustment Jan. 1, 2018	Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	**Carrying amount Jan. 1, 2018**	**Fair value Jan. 1, 2018**
Assets										
Cash reserve	1,866	1,866	–	–	–	–	–	–	1,866	1,866
Loans to and receivables from banks	970	970	–	–	–	–	–	–	970	970
Loans to and receivables from customers	46,054	46,533	–	–	–	–	1,245	1,252	44,809	45,281
Derivative financial instruments	–	–	–	–	–	–	–	–	–	–
Marketable securities	–	–	–	–	–	–	–	–	–	–
Equity-accounted joint ventures	–	–	–	–	–	–	–	–	–	–
Miscellaneous financial assets	–	–	–	–	–	–	–	–	–	–
Current tax assets[1]	3	3	–	–	–	–	–	–	3	3
Other assets	512	512	–	–	–	–	–	–	512	512
Total	**49,405**	**49,884**	**–**	**–**	**–**	**–**	**1,245**	**1,252**	**48,160**	**48,632**
Equity and liabilities										
Liabilities to banks	8,032	7,919	–	–	–	–	–	–	8,032	7,919
Liabilities to customers	41,066	41,087	–	–	–	–	–	–	41,066	41,087
Notes, commercial paper issued	13,446	13,451	–	–	–	–	–	–	13,446	13,451
Derivative financial instruments	–	–	–	–	–	–	–	–	–	–
Current tax liabilities[1]	162	162	–	–	–	–	–	–	162	162
Other liabilities	184	184	–	–	–	–	–	–	184	184
Subordinated capital	1,721	1,730	–	–	–	–	–	–	1,721	1,730
Total	**64,610**	**64,533**	**–**	**–**	**–**	**–**	**–**	**–**	**64,610**	**64,533**

1 Revised presentation as a result of including financial instruments in “current tax assets” and “current tax liabilities”.

RECONCILIATION OF THE PROVISION FOR CREDIT RISKS IN RESPECT OF FINANCIAL ASSETS FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	From financial assets measured at fair value through OCI, IAS 39	From financial assets measured at amortized cost, IAS 39	No measurement category under IAS 39	Total
To financial assets measured at fair value through profit or loss, IFRS 9				
Dec. 31, 2017	–	–	–	–
Adjustments	2	–	–	2
Jan. 1, 2018	2	–	–	2
To financial assets measured at fair value through other comprehensive income, IFRS 9 (equity instruments)				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	–	–
Jan. 1, 2018	–	–	–	–
To financial assets measured at fair value through other comprehensive income, IFRS 9 (debt instruments)				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	–	–
Jan. 1, 2018	–	–	–	–
To financial assets measured at amortized cost, IFRS 9				
Dec. 31, 2017	–	866	–	866
Adjustments	–	50	–	50
Jan. 1, 2018	–	917	–	917
To lease receivables				
Dec. 31, 2017	–	–	220	220
Adjustments	–	–	68	68
Jan. 1, 2018	–	–	289	289
To credit commitments				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	5	5
Jan. 1, 2018	–	–	5	5
To financial guarantees				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	–	–
Jan. 1, 2018	–	–	–	–
Total as of Jan. 1, 2018	**2**	**917**	**293**	**1,211**

CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: RECONCILIATION FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifications	IFRS 9 adjustments	IFRS 9 carrying amount Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Financial assets measured at fair value through profit or loss, IAS 39	**52**	–	–	–	–
Additions					
Available-for-sale financial assets, IAS 39	–	359	–	359	–
Financial assets measured at amortized cost, IAS 39	–	1,252	–	1,252	–
Deductions					
Financial assets measured at amortized cost, IFRS 9	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income, IFRS 9	–	–	–	–	–
Financial assets measured at fair value through profit or loss, IFRS 9	–	–	–	**1,664**	–

CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: RECONCILIATION FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifications	IFRS 9 adjustments	IFRS 9 carrying amount Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Available-for-sale financial assets, IAS 39	**2,509**	–	–	–	–
Additions					
Financial assets measured at amortized cost, IAS 39	–	–	–	–	–
Financial assets measured at fair value through profit or loss, IAS 39	–	–	–	–	–
Deductions					
Financial assets measured at amortized cost, IFRS 9	–	–	–	–	–
Financial assets measured at fair value through profit or loss, IFRS 9	–	359	–	359	–
Financial assets measured at fair value through other comprehensive income, IFRS 9	–	–	–	**2,150**	–

CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: RECONCILIATION FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifications	IFRS 9 adjustments	IFRS 9 carrying amount Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Financial assets measured at amortized cost, IAS 39	**49,405**	–	–	–	–
Additions					
Available-for-sale financial assets, IAS 39	–	–	–	–	–
Financial assets measured at fair value through profit or loss, IAS 39	–	–	–	–	–
Deductions					
Financial assets measured at fair value through other comprehensive income, IFRS 9	–	–	–	–	–
Financial assets measured at fair value through profit or loss, IFRS 9	–	1,245	–	1,245	–
Financial assets measured at amortized cost, IFRS 9	–	–	–	**48,140**	–

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 revises the financial reporting requirements for revenue recognition. The Volkswagen Bank GmbH Group recognizes the main components of revenue from contracts with customers in accordance with IFRS 9 and IAS 17. For the components not covered by IFRS 9 or IAS 17, there are no changes resulting from the initial application of IFRS 15 as the approach applied to date is already in accordance with the new rules of IFRS 15 for the most part.

New and Revised IFRSs Not Applied

In its 2018 consolidated financial statements, Volkswagen Bank GmbH has not applied the following financial reporting standards that have already been issued by the IASB but were not yet subject to mandatory application in fiscal year 2018.

Standard/interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IFRS 3	Business Combinations: Definition of a Business	October 22, 2018	January 1, 2020	No	No material impact
IFRS 9	Financial Instruments: Prepayment Features with Negative Compensation	October 12, 2017	January 1, 2019	Yes	None
IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 11, 2014	Postponed[2]	–	None
IFRS 16	Leases	January 13, 2016	January 1, 2019	Yes	Detailed description following the table overview
IFRS 17	Insurance Contracts	May 18, 2017	January 1, 2021	No	Changes to presentation and measurement methods that, as a whole, do not have a material impact; extended disclosures in the notes
IAS 1 and IAS 8	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material	October 31, 2018	January 1, 2020	No	No material impact
IAS 19	Employee Benefits: Remeasurement on a Plan Amendment, Curtailment or Settlement	February 7, 2018	January 1, 2019	No	No material impact
IAS 28	Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures	October 12, 2017	January 1, 2019	Yes	None
	Improvements to International Financial Reporting Standards 2017[3]	December 12, 2017	January 1, 2019	No	No material impact
IFRIC 23	Uncertainty over Income Tax Treatments	June 7, 2017	January 1, 2019	Yes	No material impact

1 Requirement for initial application from Volkswagen Bank GmbH's perspective.
2 The IASB decided on December 15, 2015 to defer the effective date indefinitely.
3 Postponed until January 1, 2018 (IASB decision on September 11, 2015)

IFRS 16 LEASES

IFRS 16 amends the provisions governing the accounting treatment of leases and supersedes the previously applicable IAS 17 and the associated interpretations.

The main objective of IFRS 16 is to recognize all leases. Accordingly, the previous requirement for lessees to classify a lease as either a finance lease or operating lease has been eliminated. Instead, for all leases, lessees must recognize both a right-of-use asset and a lease liability in their balance sheet. The lease liability is measured at the present value of the outstanding lease payments, whereby the lease payments are discounted using the lessee's incremental borrowing rate, whereas the right-of-use asset is generally measured at the amount of the lease liability plus any initial direct costs. During the term of the lease, the right-of-use asset must be depreciated and the lease liability measured using the effective interest method, taking into account the lease payments. There are exemptions for short-term leases or those of low value. For these cases, the Volkswagen Bank GmbH Group will make use of the practical expedient provided for in IFRS 16, and opt not to recognize a right to use the leased asset or a lease liability arising from such lease agreements; instead it will continue to recognize the lease payments as expenses in profit or loss.

The required accounting treatment for leases by lessors will be largely the same as under the current provisions in IAS 17. In the future, lessors will still have to classify a lease as either a finance lease or an operating lease based on the allocation of opportunities and risks from the asset.

As of January 1, 2019, the Volkswagen Bank GmbH Group will for the first time account for leases in accordance with IFRS 16, using the modified retrospective transition method. On the changeover date, the lease liability is measured at the value of the remaining lease payments, discounted to present value using the lessee's incremental borrowing rate. To simplify matters, the right-of-use assets are recognized at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. As the amounts initially recognized for the right-of-use assets and lease liabilities will be virtually identical, the total assets (total equity and liabilities) are only expected to increase by a negligible amount (in the mid two-digit million range). This is due in part to the application of the exemptions described above. No material impact on equity is anticipated.

In contrast to the current procedure, in which operating lease expenses are reported in full under general and administrative expenses, only the depreciation charge in respect of the right-of-use assets is posted in general and administrative expenses under IFRS 16. Interest expenses from unwinding the discount on lease liabilities are recognized under interest expenses. It is anticipated that these changes will give rise to a slight decrease in general and administrative expenses and a marginal increase in interest expenses in the income statement.

The change to the recognition of operating lease expenses is projected to have only a minor impact on the cash flow statement.

Moreover, there will be significantly more extensive disclosures in the notes.

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, 2018.

Financial reporting in the Volkswagen Bank GmbH Group complies with IFRS 10 and is on the basis of 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 comprise all significant German and foreign subsidiaries, including structured entities that are directly or indirectly controlled 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, the originator 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.

Significant companies where Volkswagen Bank GmbH is able, directly or indirectly, to significantly influence financial and operating policy decisions (associates), or that are directly or indirectly jointly controlled (joint ventures), are accounted for using the equity method. 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 resolved unanimously. Associates and joint ventures of minor significance are not accounted for using the equity method but are reported under financial assets at cost.

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

	2018	2017
VW Bank GmbH and consolidated subsidiaries		
Germany	1	1
International	3	4
Subsidiaries recognized at cost		
Germany	–	–
International	7	6
Equity-accounted associates and joint ventures		
Germany	1	1
International	2	2
Associates, joint ventures and equity investments recognized at cost		
Germany	1	1
International	1	1
Total	**16**	**16**

Volkswagen Bank GmbH maintains nine branches abroad. As of the balance sheet date, 24 (previous year: 31) 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 can be accessed at www.vwfsag.com/listofholdingsbank2018. Disclosures in accordance with IFRS 7.30 are not provided because they are of minor significance.

SUBSIDIARIES

A single significant change occurred at subsidiaries in the reporting period.
With effect from September 28, 2018, the subsidiary Volkswagen Bank Polska S.A., Warsaw, was merged with Volkswagen Bank GmbH. Since then, the Polish business has been serviced at the newly established Poland branch. Following the merger of Volkswagen Bank Polska S.A., Warsaw, with Volkswagen Bank GmbH, the latter is the sole shareholder of Volkswagen Serwis Ubezpieczeniowy Sp.z.o.o., Warsaw.

Neither the change referred to above nor any other changes have any material impact on the financial position or financial performance of the Volkswagen Bank GmbH Group.

JOINT VENTURES

From a Group perspective, the equity-accounted joint ventures require separate presentation because they were deemed material at the reporting date on the basis of the size of the entity concerned.

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

€ million	DFM N.V. (NETHERLANDS)		VOLKSWAGEN FINANCIAL SERVICES DIGITAL SOLUTIONS GMBH (GERMANY)		VOLKSWAGEN FINANČNÉ SLUŽBY SLOVENSKO S.R.O. (SLOVAKIA)	
	2018	2017	**2018**	2017	**2018**	2017
Shareholding (percent)	60 %	60 %	51 %	51 %	58 %	58 %
Loans to and receivables from banks	–	10	26	20	1	1
Loans to and receivables from customers	1,923	1,814	39	23	428	402
Lease assets	–	–	–	–	51	44
Other assets	4	71	144	140	27	22
Total	**1,927**	**1,895**	**209**	**183**	**506**	**469**
of which: noncurrent assets	498	480	127	8	360	249
of which: current assets	1,429	1,415	82	175	146	215
of which: cash	–	2	0	0	1	0
Liabilities to banks	1,687	1,477	38	24	428	389
Liabilities to customers	52	69	68	72	9	15
Notes, commercial paper issued	–	161	–	–	–	–
Other liabilities	3	23	8	6	4	3
Equity	184	165	94	82	66	62
Total	**1,927**	**1,895**	**209**	**183**	**506**	**469**
of which: noncurrent liabilities	201	286	3	5	114	116
of which: current liabilities	1,542	1,444	113	96	327	291
of which: noncurrent financial liabilities	201	286	–	2	113	115
of which: current financial liabilities	1,538	1,444	107	93	324	289
Revenue	44	23	720	232	61	23
of which: interest income	42	21	–	–	16	8
Expenses	–13	–9	–701	–220	–52	–20
of which: interest expense	–2	–6	0	0	–1	–1
of which: depreciation and amortization	0	–	–31	–9	–1	–3
Profit from continuing operations, before tax	**31**	**14**	**20**	**12**	**9**	**1**
Income tax expense or income	–9	–3	–8	33	–3	–1
Profit from continuing operations, net of tax	**22**	**10**	**12**	**45**	**6**	**0**
Profit/loss from discontinued operations, net of tax	–	–	–	–	–	–
Other comprehensive income, net of tax	0	0	–	–	–	–
Total comprehensive income	**22**	**10**	**12**	**45**	**6**	**0**
Dividends received	–	–	–	–	–	–

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

€ million	DFM N.V. (Netherlands)	Volkswagen Financial Services Digital Solutions GmbH (Germany)	Volkswagen Finančné služby Slovensko s.r.o. (Slovakia)
2017			
Equity of the joint venture as of the acquisition date	154	37	62
Profit	11	45	0
Other comprehensive income	0	–	–
Change in share capital	–	–	–
Change due to demerger of companies	–	–	–
Exchange differences on translating foreign operations	–	–	–
Dividends	–	–	–
Equity of the joint venture as of Dec. 31, 2017	**165**	**82**	**62**
Share of equity	99	42	36
Goodwill	21	–	–
Carrying amount of the share of equity as of Dec. 31, 2017	**120**	**42**	**36**
2018			
Equity of the joint venture as of Jan. 1, 2018	162	82	59
Profit/loss	22	12	6
Other comprehensive income	0	–	–
Change in share capital	–	–	–
Change due to demerger of companies	–	–	–
Exchange differences on translating foreign operations	–	–	–
Dividends	–	–	–
Equity of the joint venture as of Dec. 31, 2018	**184**	**94**	**66**
Share of equity	111	48	38
Difference	19	0	–
Carrying amount of the share of equity as of Dec. 31, 2018	**130**	**48**	**38**

1 As a consequence of the impact from the new IFRS 9 accounting requirements on financial assets in equity-accounted joint ventures, there is a difference between the carrying amounts as of December 31, 2017 and the carrying amounts as of January 1, 2018.

There were no unrecognized losses relating to interests in joint ventures. Cash attributable to joint ventures amounting to €31 million was pledged as collateral in connection with ABS transactions and was therefore not available to the Volkswagen Bank GmbH Group. There are no contingent liabilities to joint ventures.

3. Consolidation Methods

The assets and liabilities of the German and foreign 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, we determine the pro rata equity 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 or on the date of inclusion (for newly established subsidiaries). 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). 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.

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 at the transaction date. Foreign currency monetary items are recorded in the balance sheet using the middle rate at the closing date.

The foreign branches and subsidiaries forming part of the Volkswagen Bank GmbH Group are independent subunits whose financial statements are translated using the functional currency principle. Under this principle, all assets and liabilities, but not equity, are translated at 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.

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

	€ =	Balance sheet, middle spot rate on Dec. 31 2018	Balance sheet, middle spot rate on Dec. 31 2017	Income statement, average rate 2018	Income statement, average rate 2017
United Kingdom	GBP	0.89690	0.88730	0.88479	0.87679
Poland	PLN	4.29780	4.17490	4.26220	4.25797
Sweden	SEK	10.25070	9.83140	10.26034	9.63524
Czech Republic	CZK	25.72450	25.57900	25.64840	26.3276

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 under income from leasing transactions. Expenses relating to the funding of financing and leasing transactions are reported in interest expenses. Leasing revenue from operating leases is recognized on a straight-line basis over the lease term and includes both the interest portion and the repayment of the principal.

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

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.

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.

General and administrative expenses comprise personnel expenses, non-staff operating expenses, depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets, and other taxes.

Significant items reported within net other operating income are income arising from the allocation of costs to other entities in the Volkswagen Group and income from the reversal of provisions recognized in previous years within net other operating income.

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 netted.

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.

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.

In the Volkswagen Bank GmbH Group, the categories shown above are allocated to the classes "financial assets and liabilities measured at amortized cost" and "financial assets and liabilities measured at fair value".

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 gross values. Offsetting is only then 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 are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. 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. Note (14) Liabilities explains the accounting policies for financial liabilities measured at amortized cost.

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 or 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.

Financial assets (debt instruments) measured at fair value through other comprehensive income (with recycling) are held within a business model whose objective is to collect contractual cash flows and sell financial assets. 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. It is only at this point that the accumulated gains or losses are then recognized in 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 (debt instruments) for which the cash flow criterion is not satisfied, or that are managed within a business model that aims to sell these assets, are measured at fair value through profit or loss. The same applies to financial liabilities that are not measured at amortized cost.

Changes in the fair value are recognized in profit or loss.

In the Volkswagen Bank GmbH Group, financial assets that represent an equity instrument are measured at fair value through other comprehensive income (without recycling) in exercise of the fair-value-through-OCI option unless they are held for trading purposes. The accumulated gains or losses from remeasurement are reclassified on derecognition to retained earnings and not to the income statement (i.e. they are not recycled through profit or loss).

To adjust the presentation of the income statement in line with standard practice in the market, the following items will be reported within operating profit or loss from the reporting period onward: net gain or loss on hedges, net gain or loss on financial instruments measured at fair value, and net gain or loss on the measurement of non-hedge foreign currency loans/receivables and liabilities, together with the net gains and losses on the corresponding hedged items. For this reason, there are no comparative prior-year figures within operating profit or loss for certain income statement line items (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) or for some gains and losses from the measurement of foreign currency loans/receivables and liabilities under net other operating income/expense. The prior-year figures for the items referred to above are reported under the “Other financial gains or losses” income statement item.

Otherwise, the accounting policies for financial instruments in accordance with IAS 39, on which the prior-year comparative figures have been based, have not been changed. In this regard, please refer to the disclosures in the 2017 Annual Report.

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.

In individual cases, some loans to and receivables from customers are recognized at fair value through profit or loss because the cash flow criterion is not satisfied. Gains and losses arising from changes in fair value are recognized in profit or loss under net gain or loss on financial instruments measured at fair value.

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

Some of the loans to and receivables from customers are included in portfolio hedges. Loans to and receivables from customers assigned to portfolio hedges are measured at hedged fair value.

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 special-purpose entities.

The fixed-income securities are allocated to the category of debt instruments measured at fair value through other comprehensive income. Valuation allowances for fixed-income 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 (without recycling) 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 (35) and (48).

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 the 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.

IAS 39 permits the use of fair value hedging not only for individual hedged items, but also for a group of similar hedged items. In the reporting period, the Volkswagen Bank GmbH Group used portfolio-based fair value hedges to hedge interest-rate risks. In portfolio-based hedging, the accounting treatment of changes in fair value is the same as in fair value hedging at micro level.

The Volkswagen Bank GmbH Group has opted not to retain IAS 39 hedge accounting for all its hedges. Therefore, from the beginning of fiscal year 2018, only the provisions governing portfolio hedges under IAS 39 have been relevant in addition to the IFRS 9 provisions.

In the case of derivatives that are designated as hedges of future cash flows and that satisfy the relevant criteria, the designated effective portion of changes in the fair value of the derivative is recognized in other comprehensive income (OCI I). Effects on profit or loss under net gain or loss on hedges arise from the ineffective portion of hedges of changes 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 value of derivatives that do not satisfy the IFRS 9 criteria for hedge accounting are recognized in profit or loss under net gain or loss on financial instruments measured at fair value.

Derivatives not designated as hedging instruments are classified as financial assets or financial liabilities at fair value through profit or loss.

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 (with recycling), lease receivables that fall within the scope of IAS 17 and credit risks from off-balance-sheet irrevocable credit commitments and financial guarantees. The calculation of the provision for credit risks generally 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), 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 probability of default since initial recognition. In this stage, the model requires the calculation of an expected credit loss for the next twelve months. Stage 2 consists of financial assets for which the probability 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 already classified as impaired on initial recognition remains in this stage until it is derecognized.

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 IAS 17 is uniformly determined using the simplified approach. In the simplified approach, an expected loss is calculated over the entire lifetime of the asset. The amount of the valuation allowance for trade receivables is calculated according to the amount by which 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 is used to determine the measurement parameters for calculating the provision for credit risks. Insignificant loans/receivables and significant individual loans/receivables with no indication of impairment are grouped together into homogeneous portfolios using comparable credit risk features and broken down by risk category. In the case of significant individual impaired loans or receivables (e.g. dealer financing loans/receivables and fleet customer business loans/receivables), specific valuation allowances are recognized in the amount of the expected loss.

Impairment arises in a number of situations, such as delayed payment over a certain period, 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.

Reviews are regularly carried out to ensure that the valuation allowances are appropriate.

Uncollectible loans or receivables that are already subject to a workout process and 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 is recognized in profit or 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 (62).

9. Miscellaneous Financial Assets

Investments in subsidiaries that are not consolidated and other equity investments are reported as miscellaneous financial assets.

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 with finite useful lives (largely software and customer relationships) are recognized at cost and 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, we take 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.

At every reporting date, intangible assets with finite useful lives are tested to establish whether there are any indications of impairment. 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 6.8 % (previous year: 7.5 %). If necessary, the cost of equity rate 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 10 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).

The 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.

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 for the asset concerned is lower than its carrying amount.

An impairment loss is recognized in the amount by which 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. Leasing Business

GROUP AS LESSOR

The Volkswagen Bank GmbH Group operates the finance lease business and the operating lease business. Most of the lease assets are vehicles, but to a lesser extent also involve land, buildings and dealer equipment.

A finance lease is a lease that transfers beneficial ownership to the lessee. In the consolidated balance sheet, receivables from finance leases are therefore 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 finance leases is recognized using the effective interest method and 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, beneficial ownership of the lease asset remains with the lessor. In the consolidated balance sheet, the assets involved are reported separately under lease assets. They are 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 using the net selling price as

the recoverable amount is taken into account by recognizing an impairment loss and adjusting the depreciation rate. 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 before provision for credit risks. The leasing revenue is recognized on a straight-line basis over the lease term.

Land and buildings held to earn rentals are reported under the "Investment property" item in the balance sheet and measured at amortized cost. The land and buildings involved are generally leased out to dealer businesses. 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.

GROUP AS LESSEE

Lease payments made under operating leases are recognized under general and administrative expenses.

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 under other assets in the amount equating to the right of use. 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. Liabilities

Liabilities to banks and customers, notes and commercial paper issued, and subordinated 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, current liabilities (due within one year) are not discounted and no unwinding of discount is therefore recognized.

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. Current contributions are recognized as pension expenses in the period concerned. In 2018, the total contributions made by the Volkswagen Bank GmbH Group came to €12 million (previous year: €2 million). This amount included contributions to the compulsory state pension system in Germany in an amount of €7 million (previous year: €2 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 as to discount rates,

salary and pension trends, 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. They are recognized in other comprehensive income, net of deferred taxes, in the period in which they arise. Detailed disclosures on provisions for pensions and other post-employment benefits are set out in note 49.

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 deemed neither probable nor improbable, the amount concerned is treated as a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note 68.

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 resulting in an outflow of resources in the year immediately following are recognized at their settlement value discounted to the balance sheet date. Discounting is based on market interest 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 the disclosures relating to contingent assets and liabilities for the reporting period.

Assumptions and estimates are based on the latest available information. In particular, 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, our 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 is at variance with the forecasts, the assumptions and, where necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

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. As far as possible, 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 (note 62).

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 to the valuation techniques used 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 the lease assets in the Group mainly depends on the residual value of the lease 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 lease 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.

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.

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 far as possible.

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

In the case of other provisions, expected values are used as the basis for measurement, which means that changes are made on a regular basis, 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 Bank’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 amounted to €1,396 million. Interest income of €15 million was attributable to financial assets measured at fair value through profit or loss. Prior-year interest income from financial instruments not allocated to the category of financial assets or financial liabilities measured at fair value through profit or loss amounted to €1,362 million for the adjusted previous year.

20. Net Income from Leasing Transactions

The income from leasing transactions includes interest income on impaired loans and receivables amounting to a total of €11 million (previous year: €14 million).

As in the previous year, the income from leasing transactions includes rental income on investment property in an immaterial amount. As in the previous year, this income does not include any amounts from reversals of impairment losses on lease assets and investment property applied in prior years.

The impairment losses recognized as a result of the impairment test on lease assets amounted to €45 million (previous year: €25 million) and are included in the depreciation of impairment losses on lease assets. 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 €6 million (previous year: €1 million) and is included in income from leasing business.

21. Interest Expense

The interest expenses include funding expenses for the lending and leasing business, and an amount of €367 million (previous year: €233 million) relates to financial instruments not measured at fair value through profit or loss. Out of this amount, €1 million (previous year: €–1 million) was offset against the net expense arising from interest income and expenses on derivatives in ineffective hedges in the reporting period.

Interest expenses included negative interest on money market transactions in an amount of €19 million (previous year: €15 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.

22. Net Income from Service Contracts

Of the total income recognized for service contracts, an amount of €114 million related to service contracts requiring the recognition of income at a specific time, and €46 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 €102 million had been included in the contractual liabilities for service contracts as of January 1, 2018.

23. 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	2018	2017
Additions to provision for credit risks	–567	–269
Reversals of provision for credit risks	524	438
Direct write-offs	–81	–47
Income from loans and receivables previously written off	30	28
Net gain or loss from significant modifications	–	–
Total	**–94**	**150**

The provision for additional credit risks to which the Volkswagen Bank GmbH Group is exposed as a result of critical situations (economic crises, Brexit impact, block on sales of vehicles) in some European countries was decreased by €64 million in the year under review (previous year: decreased by €232 million).

24. 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	2018	2017[1]
Fee and commission income	224	291
of which commissions from insurance broking	141	208
Fee and commission expenses	–400	–304
of which sales commission in the financing business	–368	–277
Total	**–176**	**–13**

1 Prior year adjusted as described in the disclosures in the "Adjustment of Prior-Year Figures" section.

25. 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 detailed breakdown of the gains and losses for the reporting period is as follows:

€ million	2018
Gains on hedging instruments in fair value hedges	273
Losses on hedged items in fair value hedges	–273
Gains on the ineffective portion of hedging instruments in fair value hedges	15
Gains on the reclassification of cash flow hedge reserves	9
Losses on the translation of foreign currency loans/receivables and liabilities in cash flow hedges	–9
Losses on the ineffective portion of hedging instruments in cash flow hedges	–3
Total	**12**

As described in the disclosures on the adjustment of prior-year figures, these effects were included in other financial gains or losses in the previous year.

26. 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 detailed breakdown of the gains and losses for the reporting period is as follows:

€ million	2018
Gains on derivatives not designated as hedging instruments	57
Losses on marketable securities measured at fair value through profit or loss	–1
Losses on loans/receivables measured at fair value through profit or loss	–7
Gains/losses on the derecognition of marketable securities measured at fair value through other comprehensive income	0
Total	**48**

As described in the disclosures on the adjustment of prior-year figures, effects from derivatives not designated as hedging instruments were included in other financial gains or losses in the previous year.

27. General and Administrative Expenses

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

€ million	2018	2017[1]
Personnel expenses	–292	–158
Non-staff operating expenses	–647	–740
Advertising, public relations and sales promotion expenses	–19	–22
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–14	–10
Other taxes	–1	0
Income from the reversal of provisions and accrued liabilities	40	15
Total	**–933**	**–916**

1 Prior year adjusted as described in the disclosures in the "Adjustment of Prior-Year Figures" section.

Non-staff operating expenses include expenses of €108 million (previous year: €51 million) for assets (vehicles and real estate) leased under operating 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 independent auditors of the consolidated financial statements as shown in the following table.

€ million	2018	2017
Financial statements audit services	1	1
Other attestation services	1	0
Tax consulting services	0	–
Other services	2	2
Total	**3**	**3**

The fee for financial audit services in 2018 was mostly attributable to the audit of the consolidated financial statements of Volkswagen Bank GmbH and of annual financial statements of German Group companies as well as to reviews of interim financial statements of German Group companies. Other attestation services related primarily to other audit services. The other services performed by the independent auditors in the reporting period mainly consisted of issues relating to banking supervisory law, consulting services on process optimization and IT services.

28. Net Other Operating Income/Expenses

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

€ million	2018	2017[1]
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	25	4
Income from cost allocations to other entities in the Volkswagen Group	33	165
Income from the reversal of provisions and accrued liabilities	67	68
Income from claims for damages	–	–
Income from the disposal of vehicles under loan agreements and finance leases	299	84
Income from non-significant modifications	0	–
Miscellaneous operating income	29	15
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	–42	–3
Litigation and legal risk expenses	–198	–172
Expenses from the disposal of vehicles under loan agreements and finance leases	–375	–107
Expenses from non-significant modifications	0	–
Other operating expenses	–50	–32
Total	**–213**	**20**

1 Prior year adjusted as described in the disclosures in the “Adjustment of Prior-Year Figures” section.

As described in the disclosures on the adjustment of prior-year figures, gains and losses on the measurement of non-hedge foreign currency loans/receivables and liabilities were included in other financial gains or losses in the previous year.

29. Net Gain or Loss on Miscellaneous Financial Assets

The net gain/loss on miscellaneous financial assets includes dividend income.

30. 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.

In the previous year, other financial gains or losses also included the following components:

€ million	2017
Gains on hedging instruments in fair value hedges and cash flow hedges	164
Losses on hedged items in fair value hedges	–161
Ineffective portion of hedging instruments in cash flow hedges	–
Gains on the measurement of foreign currency loans/receivables and liabilities	–36
Losses on derivatives not designated as hedging instruments	–15
Total	**–48**

For the reporting period, the gains/losses on hedging instruments in fair value hedges and cash flow hedges, the gains/losses on hedged items in fair value hedges, and the ineffective portion of hedging instruments in cash flow hedges are reported in the new income statement item "Net gain or loss on hedges".

For the reporting period, the gains/losses on the measurement of foreign currency loans/receivables and liabilities, to the extent that they relate to foreign currency gains/losses on hedged items in cash flow hedges, are reported in the new income statement item "Net gain or loss on hedges", in all other cases, they are included in other operating income or other operating expenses.

For the reporting period, the gains/losses on derivatives not designated as hedging instruments are reported in the new income statement item "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".

31. Income Tax Expense

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

€ million	2018	2017
Current tax expense, Germany	34	140
Current tax expense, foreign	164	54
Current income tax expense	**198**	**194**
of which income (–)/expense (+) related to prior periods	4	–43
Deferred tax income (–)/expense (+), Germany	61	83
Deferred tax income (–)/expense (+), foreign	15	59
Deferred tax income (–)/expense (+)	77	142
Income tax expense	**275**	**336**

The reported tax expense in 2018 of €275 million (previous year: €336 million) is €18 million (previous year: €39 million) lower than the expected tax expense of €293 million (previous year: €297 million) calculated by applying a tax rate of 29.9 % (previous year: 29.9 %) 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	2018	2017
Profit before tax	**978**	**992**
multiplied by the domestic income tax rate of 29.9 % (previous year: 29.9 %)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**–293**	**–297**
+ Effects from tax credits	0	1
+ Effects from domestic/foreign tax rates	62	11
+ Effects from changes in tax rates	17	0
+ Effects from permanent differences	–8	–2
+ Effects from tax-exempt income	12	16
+ Effects from loss carryforwards	0	–
+ Effects from non-deductible operating expenses	–67	–17
+ Taxes attributable to prior periods	4	–43
+ Other variances	–3	–7
= Current income tax expense	**–275**	**–336**

The statutory corporation tax rate in Germany for the 2018 assessment period was 15 %. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.9 %.

The effects of different income tax rates outside Germany arise because of the different income tax rates in the individual countries in which the subsidiaries and branches have their registered offices compared with the rates in Germany. The rates outside Germany vary between 12.5 % and 30.0 % (previous year: 12.5 % and 35.7 %).

As of December 31, 2018, there were unused tax loss carryforwards of €1 million (previous year: €5 million) for which deferred tax assets of €0 million (previous year: €1 million) had been recognized. Of these unused tax loss carryforwards, an amount of €1 million is deemed usable in the short term and €0 million is deemed usable in the medium term (previous year: €0 million usable in the short term and €5 million usable in the medium term).

Tax loss carryforwards not deemed usable amounted to €0 million (previous year: €0 million). Changes in tax rates have given rise to deferred tax expenses throughout the Group of €–17 million (previous year: €–1 million).

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.

In accordance with IAS 12.39, deferred tax liabilities of €25 million (previous year: €21 million) have not been recognized for temporary differences and undistributed profits of subsidiaries because Volkswagen Bank GmbH has the relevant control.

Of the deferred taxes recognized in the balance sheet, an amount of €14 million (previous year: €11 million) relates to transactions reported in other comprehensive income. Within this figure, an amount of €19 million (previous year: €17 million) relates to actuarial gains or losses (IAS 19), €0 million (previous year: €0 million) to derivative financial instruments and another €–5 million (previous year: €–6 million) to the fair value measurement of marketable securities.

32. Further Income Statement Disclosures

The figures reported for fiscal years 2017 and 2018 do not include any commission income not accounted for using the effective interest method.

Balance Sheet Disclosures

33. Cash Reserve

The cash reserve primarily includes credit balances of €1,782 million (previous year: €1,705 million) held with Deutsche Bundesbank.

34. 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 (23).
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. They include subordinated loans in an amount of €0 million (previous year: €1,246 million).

Some of the fixed-income exposures under loans/receivables from retail financing have been hedged against fluctuations in the risk-free base interest rate using a portfolio fair value hedge.

The reconciliation to the balance sheet values is as follows:

€ million	Dec. 31, 2018	Dec. 31, 2017
Loans to and receivables from customers	**65,143**	**64,912**
Fair value adjustment from portfolio hedging	–16	–22
Loans to and receivables from customers, net of fair value adjustment from portfolio hedging	65,159	64,934

Receivables from leasing transactions include due receivables amounting to €99 million (previous year: €94 million). Of this amount, €63 million (previous year: €65 million) is attributable to finance leases and €36 million (previous year: €28 million) to operating leases. The due lease receivables are payable within one year.

The breakdown of receivables from finance leases as of December 31, 2017 and December 31, 2018 was as follows:

€ million	2018	2019 – 2022	from 2023	Total
Future payments from finance lease receivables	5,990	14,697	26	20,713
Unearned finance income from finance leases (discounting)	–532	–1,352	–1	–1,885
Present value of minimum lease payments outstanding at the reporting date	5,458	13,345	25	18,828

€ million	2019	2020 – 2023	from 2024	Total
Future payments from finance lease receivables	5,921	14,714	29	20,664
Unearned finance income from finance leases (discounting)	–553	–1,318	–1	–1,872
Present value of minimum lease payments outstanding at the reporting date	5,369	13,396	28	18,792

In the Volkswagen Bank GmbH Group, the present value of the minimum lease payments outstanding as of the reporting date equates to the net receivables from finance leases disclosed above. The provision for credit risks in respect of uncollectible outstanding minimum lease payments amounted to €73 million (previous year: €15 million).

Within loans to and receivables from customers, valuation allowances of €12 million (previous year: €76 million) had been recognized in relation to loans and receivables in countries subject to additional credit risk as a result of various critical situations (economic crises, Brexit impact, block on sales of vehicles) at the end of the reporting period.

35. 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, 2018	Dec. 31, 2017
Transactions to hedge against		
currency risk on assets using fair value hedges	70	195
currency risk on liabilities using fair value hedges	–	–
interest-rate risk using fair value hedges	129	41
of which hedges against interest-rate risk using portfolio fair value hedges	24	16
interest-rate risk using cash flow hedges	9	–
currency and pricing risk on future cash flows using cash flow hedges	–2	0
Total hedging transactions	**206**	**236**
Assets arising from derivatives not designated as hedges	51	52
Total	**257**	**289**

36. Marketable Securities

Marketable securities largely comprised purchased government bonds amounting to €3,284 million (previous year: €2,086 million) and asset-backed securities issued by special purpose entities of the following: Volkswagen Finance S.A., Madrid in the amount of €50 million (previous year: €114 million); Volkswagen Leasing GmbH, Braunschweig in the amount of €18 million (previous year: €302 million); and Volkswagen Financial Services (UK) Limited, Milton Keynes, United Kingdom in the amount of €879 million (previous year: 1,153 million). With the exception of Volkswagen Financial Services (UK) Limited, these special purpose entities are structured entities not consolidated by Volkswagen Bank GmbH. Please refer to note (73) for relevant disclosures in this regard.

Marketable securities with a total value of €849 million (previous year: €1,156 million) have been pledged as collateral for Volkswagen Bank GmbH's own liabilities. They are deposited at Deutsche Bundesbank and are furnished as collateral in connection with open market operations.

Due to immateriality, no disclosures are made on (class C) shares in VISA Inc., USA.

37. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2017	**–**	**3**	**3**
Foreign exchange differences	–	0	0
Changes in basis of consolidation	–34	0	–34
Additions	211	0	211
Reclassifications	–	–	–
Disposals	–	0	0
Changes recognized in profit or loss	29	–	29
Dividends	–	–	–
Other changes recognized in other comprehensive income	0	–	0
Balance as of Dec. 31, 2017	**206**	**3**	**209**
Impairment losses Balance as of Jan. 1, 2017	**–**	**–**	**–**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	9	–	9
Additions	–	–	–
Reclassifications	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2017	**9**	**–**	**9**
Net carrying amount as of Dec. 31, 2017	**197**	**3**	**200**
Net carrying amount as of Jan. 1, 2017	**–**	**3**	**3**

€ million	Equity-accounted investments[1]	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2018	**203**	**3**	**206**
Foreign exchange differences	–	0	0
Changes in basis of consolidation	–	–	–
Additions	0	9	9
Reclassifications	–	–	–
Held for sale	–	–	–
Disposals	–	0	0
Changes/remeasurements recognized in profit or loss	21	–	21
Dividends	–	–	–
Other changes recognized in other comprehensive income	0	0	0
Balance as of Dec. 31, 2018	**224**	**12**	**236**
Impairment losses Balance as of Jan. 1, 2018	**9**	**–**	**9**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions to cumulative amortization	–	–	–
Additions	–	0	0
Reclassifications	–	–	–
Held for sale	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2018	**9**	**0**	**9**
Net carrying amount as of Dec. 31, 2018	**216**	**12**	**227**
Net carrying amount as of Jan. 1, 2018	**194**	**3**	**197**

1 As a consequence of the impact from the new IFRS 9 accounting requirements on financial assets in equity-accounted joint ventures, there is a difference between the carrying amounts as of December 31, 2017 and the carrying amounts as of January 1, 2018. This difference is explained in the reconciliation of carrying amounts under Effects of New and Revised IFRSs – IFRS 9 Financial Instruments.

38. Intangible Assets

€ million	Internally generated software	Brand names, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2017	**–**	**20**	**17**	**57**	**95**
Foreign exchange differences	0	1	1	1	3
Changes in basis of consolidation	1	–	–	26	27
Additions	–	–	–	9	9
Reclassifications	–	–	–	–	–
Held for sale	–	–	–	–	–
Disposals	–	1	–	1	2
Balance as of Dec. 31, 2017	**1**	**20**	**18**	**92**	**131**
Amortization and impairment losses					
Balance as of Jan. 1, 2017	**–**	**9**	**–**	**47**	**56**
Foreign exchange differences	0	0	–	1	1
Changes in basis of consolidation	1	–	–	21	21
Additions to cumulative amortization	–	1	–	6	7
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Held for sale	–	–	–	–	–
Disposals	–	1	–	1	2
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2017	**1**	**9**	**–**	**73**	**83**
Net carrying amount as of Dec. 31, 2017	**–**	**11**	**18**	**19**	**48**
Net carrying amount as of Jan. 1, 2017	**–**	**11**	**17**	**11**	**39**

€ million	Internally generated software	Brand names, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2018	**1**	**20**	**18**	**92**	**131**
Foreign exchange differences	0	–1	–1	–1	–2
Changes in basis of consolidation	–	–	–	–	–
Additions	–	–	–	13	13
Reclassifications	–	–	–	–	–
Held for sale	–	–	–	–26	–26
Disposals	–	–	–	1	1
Balance as of Dec. 31, 2018	**1**	**20**	**17**	**77**	**115**
Amortization and impairment losses					
Balance as of Jan. 1, 2018	**1**	**9**	**–**	**73**	**83**
Foreign exchange differences	0	0	–	–1	–1
Changes in basis of consolidation	–	–	–	–	–
Additions to cumulative amortization	–	1	–	8	9
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Held for sale	–	–	–	16	16
Disposals	–	–	–	0	0
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2018	**1**	**10**	**–**	**64**	**75**
Net carrying amount as of Dec. 31, 2018	**–**	**9**	**17**	**13**	**40**
Net carrying amount as of Jan. 1, 2018	**–**	**11**	**18**	**19**	**48**

The goodwill of €17 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. These intangible assets 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 also 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 names are based on the value in use. The values in use determined for the recognized goodwill and brand name in the impairment tests exceeded the corresponding carrying amounts, so no impairment loss requirement was identified. Sensitivity analyses were also carried out as part of the impairment tests. No conceivable change in a material assumption would lead to the recognition of an impairment loss for goodwill and brand names. As of the reporting date, intangible assets with indefinite useful lives amounted to €24 million (previous year: €25 million).

39. Property and Equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2017	**21**	**21**	**42**
Foreign exchange differences	0	1	1
Changes in basis of consolidation	1	26	27
Additions	1	3	4
Reclassifications	–	–	–
Disposals	–	4	4
Balance as of Dec. 31, 2017	**24**	**47**	**71**
Depreciation and impairment losses			
Balance as of Jan. 1, 2017	**17**	**16**	**33**
Foreign exchange differences	0	0	1
Changes in basis of consolidation	0	12	12
Additions to cumulative depreciation	1	3	4
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Disposals	–	3	3
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2017	**18**	**27**	**46**
Net carrying amount as of Dec. 31, 2017	**5**	**20**	**25**
Net carrying amount as of Jan. 1, 2017	**4**	**5**	**9**

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2018	**24**	**47**	**71**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions	1	3	4
Reclassifications	–	–	–
Held for sale	0	–8	–8
Disposals	0	3	4
Balance as of Dec. 31, 2018	**24**	**38**	**63**
Amortization and impairment losses			
Balance as of Jan. 1, 2018	**18**	**27**	**46**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions to cumulative amortization	1	4	5
Additions to cumulative impairment losses	–	1	1
Reclassifications	–	–	–
Held for sale	–	6	6
Disposals	0	3	3
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2018	**19**	**23**	**43**
Net carrying amount as of Dec. 31, 2018	**5**	**15**	**20**
Net carrying amount as of Jan. 1, 2018	**5**	**20**	**25**

Assets under construction with a carrying amount of €1 million (previous year: €1 million) are included in land and buildings.

40. Lease Assets and Investment Property

€ million	Movable lease assets	Investment property	Total
Cost			
Balance as of Jan. 1, 2017	**1,211**	**3**	**1,213**
Foreign exchange differences	74	–	74
Changes in basis of consolidation	4,720	–	4,720
Additions	2,008	–	2,008
Reclassifications	–	–	–
Disposals	1,334	–	1,334
Balance as of Dec. 31, 2017	**6,679**	**3**	**6,682**
Depreciation and impairment losses			
Balance as of Jan. 1, 2017	**334**	**2**	**335**
Foreign exchange differences	17	–	17
Changes in basis of consolidation	811	–	811
Additions to cumulative depreciation	407	0	407
Additions to cumulative impairment losses	25	–	25
Reclassifications	–	–	–
Disposals	339	–	339
Reversal of impairment losses	1	–	1
Balance as of Dec. 31, 2017	**1,254**	**2**	**1,255**
Net carrying amount as of Dec. 31, 2017	**5,426**	**1**	**5,426**
Net carrying amount as of Jan. 1, 2017	**877**	**1**	**878**

In the prior year, we expected the following payments over the next few years from noncancelable leases:

€ million	2018	2019 – 2022	Total
Lease payments	177	160	337

€ million	Movable lease assets[1]	Investment property	Total
Cost			
Balance as of Jan. 1, 2018	**6,679**	**3**	**6,682**
Foreign exchange differences	–102	–	–102
Changes in basis of consolidation	–	–	–
Additions	5,492	–	5,492
Reclassifications	–	–	–
Disposals	4,701	–	4,701
Balance as of Dec. 31, 2018	**7,367**	**3**	**7,369**
Depreciation and impairment losses			
Balance as of Jan. 1, 2018	**1,254**	**2**	**1,255**
Foreign exchange differences	–16	–	–16
Changes in basis of consolidation	–	–	–
Additions to cumulative depreciation	971	0	971
Additions to cumulative impairment losses	45	–	45
Reclassifications	–	–	–
Disposals	751	–	751
Reversal of impairment losses	4	–	4
Balance as of Dec. 31, 2018	**1,499**	**2**	**1,501**
Net carrying amount as of Dec. 31, 2018	**5,868**	**1**	**5,869**
Net carrying amount as of Jan. 1, 2018	**5,426**	**1**	**5,426**

1 A difference between the carrying amounts as of December 31, 2017 and the carrying amounts as of January 1, 2018 arose as a result of the adjustment effects in respect of lease assets described under Effects of New and Revised IFRSs.

Since the fair value of investment property could not be determined without undue cost and effort, this item is carried at amortized cost in an amount of €1 million (previous year: €1 million). Operating expenses in an immaterial amount were incurred for the maintenance of investment property in both the reporting period and in the previous year.

In the reporting period, we expected the following payments over the next few years from noncancelable leases:

€ million	2019	2020 – 2023	Total
Lease payments	209	182	391

41. Deferred Tax Assets

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

€ million	Dec. 31, 2018	Dec. 31, 2017
Deferred tax assets	3,829	3,858
of which noncurrent	84	129
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	0	1
of which noncurrent	0	1
Offset (with deferred tax liabilities)	–2,187	–2,362
Total	**1,642**	**1,497**

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

€ million	Dec. 31, 2018	Dec. 31, 2017
Loans, receivables and other assets	436	287
Marketable securities and cash	3,335	3,453
Intangible assets/property and equipment	1	1
Lease assets	30	18
Liabilities and provisions	27	99
Valuation allowances for deferred tax assets on temporary differences	–	–
Total	**3,829**	**3,858**

42. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2018	Dec. 31, 2017
Vehicles returned for disposal	166	102
Restricted cash	438	438
Prepaid expenses	257	60
Other tax assets	115	117
Miscellaneous	395	236
Total	**1,370**	**952**

43. Non-current Assets Held for Sale

The equity investment in SkoFIN, s.r.o., Prague and the leasing portfolio of the Italian branch are to be transferred to the Volkswagen Financial Services AG Group within the one-year period. As of December 31, 2018, assets in a total amount of €2,928 million were classified as assets "held for sale" and reported in a separate line item of the balance sheet in accordance with IFRS 5. The assets "held for sale" were measured at the lower of carrying amount and fair value. The reported amount comprises the assets of SkoFIN, s.r.o., Prague (€1,714 million) and the leasing portfolio of the Italian branch (€1,214 million). The sales do not have any material impact on the Volkswagen Bank GmbH Group's results of operations or net liquidity.

The non-current assets held for sale are described below:

€ million	Dec. 31, 2018	Dec. 31, 2017	Change in percent
Assets held for sale (IFRS 5)			
Cash reserve	0	–	–
Loans to and receivables from banks	1	–	–
Loans to and receivables from customers attributable to			
Retail financing	470	–	–
Dealer financing	742	–	–
Leasing business	1,166	–	–
Other loans and receivables	97	–	–
Total loans to and receivables from customers	2,474	–	–
Intangible assets	10	–	–
Property and equipment	3	–	–
Lease assets	369	–	–
Other assets	71	–	–
Total	**2,928**	**–**	**–**

Regarding the liabilities attributable to the assets, please refer to the explanations under note (56).

44. Noncurrent Assets

€ million	Dec. 31, 2018	of which noncurrent	Dec. 31, 2017	of which noncurrent
Cash reserve	1,858	–	1,866	–
Loans to and receivables from banks	661	–	970	–
Loans to and receivables from customers	65,143	36,454	64,912	36,459
Derivative financial instruments	257	114	289	200
Marketable securities	3,359	–	2,509	–
Equity-accounted joint ventures	216	216	197	197
Miscellaneous financial assets	12	12	3	3
Intangible assets	40	40	48	48
Property and equipment	20	20	25	25
Lease assets	5,491	5,131	5,426	4,968
Investment property	1	1	1	1
Current tax assets	45	–	53	–
Other assets	1,370	281	952	182
Assets held for sale (IFRS 5)	2,928	1,525	–	–
Total	**81,399**	**43,792**	**77,250**	**42,083**

45. Liabilities to Banks and Customers

The liabilities to banks mainly comprise liabilities to Deutsche Bundesbank arising from targeted longer-term refinancing operations.

To cover the capital requirements for the leasing and financing activities, the entities in the Volkswagen Bank GmbH Group make use, among other things, of the funds provided by the Volkswagen Group.

The liabilities to customers item primarily contains customer deposits, such as overnight money 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, 2018	Dec. 31, 2017
Liabilities to customers	**39,602**	**41,066**
Fair value adjustment from portfolio hedging	–	–
Liabilities to customers, net of fair value adjustment from portfolio hedging	39,602	41,066

46. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Dec. 31, 2018	Dec. 31, 2017
Bonds issued	15,160	11,546
Commercial paper issued	1,708	1,899
Total	**16,868**	**13,446**

47. ABS Transactions

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

€ million	Dec. 31, 2018	Dec. 31, 2017
Bonds issued	10,385	8,287
Subordinated liabilities	2,069	1,686
Total	**12,454**	**9,973**

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 and finance leases is €12,610 million (previous year: €9,961 million). As of December 31, 2018, the fair value of the liabilities amounted to €12,461 million (previous year: €9,972 million). The fair value of the assigned loans and receivables that continue to be recognized, amounted to €13,059 million (previous year: €10,240 million) as of December 31, 2018. Security is provided in the form of loans and receivables from retail financing and finance leases as well as cash collateral amounting to €12,894 million (previous year: €10,233 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 the 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.

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.

48. 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, 2018	Dec. 31, 2017
Transactions to hedge against		
currency risk on assets using fair value hedges	13	35
currency risk on liabilities using fair value hedges	–	–
interest-rate risk using fair value hedges	4	12
of which hedges against interest-rate risk using portfolio fair value hedges	4	12
interest-rate risk using cash flow hedges	–	–
currency and pricing risk on future cash flows using cash flow hedges	1	0
Total hedging transactions	**18**	**47**
Liabilities arising from derivatives not designated as hedges	197	230
Total	**214**	**277**

49. Provisions

The provisions break down as follows:

€ million	Dec. 31, 2018	Dec. 31, 2017
Provisions for pensions and other post-employment benefits	122	114
Other provisions	415	451
of which provisions for litigation and legal risks	347	381
of which for staff	41	40
of which other	27	30
Total	**536**	**564**

PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

€ million	Dec. 31, 2018	Dec. 31, 2017
Present value of funded obligations	102	99
Fair value of plan assets	77	77
Funded status (net)	**25**	**22**
Present value of unfunded obligations	95	91
Amount not recognized as an asset because of the ceiling in IAS 19	–	–
Net liability recognized in the balance sheet	**120**	**114**
of which provisions for pensions	122	114
of which other assets	2	–

Key Pension Arrangements in the Volkswagen Bank GmbH Group

For the period after the active working life of employees, Volkswagen Bank GmbH 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. The main risks are therefore interest rate and equity price 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, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Discount rate	2.00	1.90	1.60 – 2.90	1.30 – 2.50
Pay trend	3.50	3.60	2.00	–
Pension trend	1.50	1.50	0.40 – 3.10	0.60 – 3.10
Staff turnover rate	1.00	0.95	0.03 – 2.10	1.50 – 2.43
Health care cost trend	–	–	–	–

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

With regard to life expectancy, consideration is given to the latest mortality tables in each country. For example, in Germany calculations are based on the "2018 G" generational 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.

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	2018	2017
Net liability recognized in the balance sheet as of January 1	**114**	**52**
Current service cost	6	1
Net interest expense	2	1
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	1	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–7	–4
Actuarial gains (–)/losses (+) arising from experience adjustments	6	20
Income/expenses from plan assets not included in interest income	–5	1
Change in amount not recognized as an asset because of the ceiling in IAS 19	–	–
Employer contributions to plan assets	4	1
Employee contributions to plan assets	–	–
Pension payments from company assets	3	2
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–	2
Other changes	0	46
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**120**	**114**

The change in the amount not recognized as an asset because of the ceiling in IAS 19 includes an interest component, some of which is recognized in profit or loss under general and administrative expenses and some of which is recognized in other comprehensive income.

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

€ million	2018	2017
Present value of obligations as of January 1	**191**	**64**
Current service cost	6	1
Interest cost (unwinding of discount on obligations)	4	2
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	1	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–7	–4
Actuarial gains (–)/losses (+) arising from experience adjustments	6	20
Employee contributions to plan assets	0	0
Pension payments from company assets	3	2
Pension payments from plan assets	1	1
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–	38
Other changes	0	74
Foreign exchange differences from foreign plans	0	–1
Present value of obligations as of December 31	**197**	**191**

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, 2018 € million	DEC. 31, 2018 Change in percent	DEC. 31, 2017 € million	DEC. 31, 2017 Change in percent
Discount rate	is 0.5 percentage points higher	177	–10.08	172	–9.77
	is 0.5 percentage points lower	218	11.10	212	11.34
Pension trend	is 0.5 percentage points higher	205	4.35	201	5.10
	is 0.5 percentage points lower	189	–4.02	182	–4.74
Pay trend	is 0.5 percentage points higher	198	0.62	192	0.40
	is 0.5 percentage points lower	195	–0.59	190	–0.39
Longevity	increases by one year	203	3.05	195	2.34

The sensitivity analysis shown above considers the change in one assumption at a time, leaving the other assumptions unchanged versus the original calculation. In other words, any correlation effects between the individual assumptions are ignored.

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 22 years (previous year: 21 years).

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

€ million	2018	2017
Active members with pension entitlements	107	94
Members with vested entitlements who have left the Company	32	39
Retirees	58	58
Total	**197**	**191**

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	2018	2017
Payments due within the next fiscal year	4	4
Payments due between two and five years	15	15
Payments due in more than five years	178	172
Total	**197**	**191**

Changes in plan assets are shown in the following table:

€ million	2018	2017
Fair value of plan assets as of January 1	**77**	**12**
Interest income on plan assets determined using the discount rate	2	1
Income/expenses from plan assets not included in interest income	–5	1
Employer contributions to plan assets	4	1
Employee contributions to plan assets	0	0
Pension payments from plan assets	1	1
Gains (+) or losses (–) arising from plan settlements	–	–
Changes in basis of consolidation	–	36
Other changes	0	28
Foreign exchange differences from foreign plans	0	–1
Fair value of plan assets as of December 31	**77**	**77**

The investment of the plan assets to cover future pension obligations resulted in income in the amount of €2 million (previous year: €2 million). Employer contributions to plan assets are expected to amount to €5 million (previous year: €9 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

€ million	DEC. 31, 2018			DEC. 31, 2017		
	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	4	–	4	3	–	3
Equity instruments	5	–	5	5	–	5
Debt instruments	29	–	29	29	–	29
Direct investments in real estate	–	–	–	–	–	–
Derivatives	4	0	4	4	0	4
Equity funds	5	–	5	5	–	5
Bond funds	30	–	30	23	–	23
Real estate funds	0	–	0	0	–	0
Other funds	–	–	–	8	–	8
Asset-backed securities	–	–	–	–	–	–
Structured debt securities	–	–	–	–	–	–
Other	0	0	0	0	–	0

Of the total plan assets, 36% (previous year: 32%) is invested in German assets, 58% (previous year: 62%) in other European assets and 6% (previous year: 6%) in assets in other regions. Investments of plan assets in debt instruments issued by the Volkswagen Group are of minor significance.

The following amounts have been recognized in the income statement:

€ million	2018	2017
Current service cost	6	1
Net interest on the net defined benefit liability	2	1
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	**9**	**2**

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, 2017	**20**	**282**	**70**	**372**
Foreign exchange differences	0	0	0	0
Changes in basis of consolidation	19	–	0	19
Utilization	15	9	16	40
Additions/new provisions	21	171	20	212
Unwinding of discount/effect of change in discount rate	–	2	–	2
Reversals	5	65	45	115
Balance as of Dec. 31, 2017	**40**	**381**	**30**	**451**
of which current	27	162	27	216
of which noncurrent	13	220	3	235
Balance as of Jan. 1, 2018	**40**	**381**	**30**	**451**
Foreign exchange differences	0	0	0	0
Changes in basis of consolidation	–	–	–	–
Held for sale	2	–	–	2
Utilization	23	17	16	57
Additions/new provisions	29	34	20	83
Unwinding of discount/effect of change in discount rate	–	0	–	0
Reversals	2	51	6	59
Balance as of Dec. 31, 2018	**41**	**347**	**27**	**415**
of which current	28	151	24	203
of which noncurrent	12	196	3	211

Provisions for employee expenses have been recognized for annually recurring bonuses, long-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 as well as for provisions for legal disputes in connection with dealer financing agreements and 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 €347 million (previous year: €381 million).

The miscellaneous provisions also include provisions for indirect credit risks amounting to €0 million (previous year: €2 million).

The timing of the cash outflows in connection with other provisions is expected to be as follows: 49 % in the next year, 49 % in the years 2020 to 2023 and 2 % in the years after 2024.

50. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2018	Dec. 31, 2017
Deferred tax liabilities	3,844	3,864
of which noncurrent	1,544	1,394
Offset (with deferred tax liabilities)	−2,187	−2,362
Total	**1,657**	**1,502**

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, 2018	Dec. 31, 2017
Loans, receivables and other assets	779	572
Marketable securities and cash	3	22
Intangible assets/property and equipment	2	3
Lease assets	59	60
Liabilities and provisions	3,001	3,207
Total	**3,844**	**3,864**

51. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2018	Dec. 31, 2017
Deferred income	440	341
Other tax liabilities	88	59
Social security and payroll liabilities	55	46
Miscellaneous	116	184
Total	**699**	**629**

52. Subordinated capital

The breakdown of subordinated capital is as follows:

€ million	Dec. 31, 2018	Dec. 31, 2017
Subordinated liabilities	2,103	1,721
of which: to other Volkswagen Group companies	2,069	1,686
Total	**2,103**	**1,721**

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.

53. Noncurrent Liabilities

€ million	Dec. 31, 2018	of which noncurrent	Dec. 31, 2017	of which noncurrent
Liabilities to banks	8,898	6,518	8,032	6,539
Liabilities to customers	39,602	5,567	41,066	5,993
Notes, commercial paper issued	16,868	11,774	13,446	8,603
Derivative financial instruments	214	143	277	180
Current tax liabilities	184	–	210	–
Other liabilities	699	98	629	250
Subordinated capital	2,103	1,568	1,721	1,257
Liabilities related to assets held for sale (IFRS 5)	639	80	–	–
Total	**69,208**	**25,748**	**65,380**	**22,824**

54. Equity

Volkswagen Bank GmbH’s subscribed capital amounted to €318 million. 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, 2018, capital reserves amounted to €8,531 million (previous year: €8,531 million).

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

The HGB profit of €204 million (previous year: €489 million) will be transferred in accordance with the existing profit-and-loss transfer agreement with the sole shareholder, Volkswagen AG.

The accumulated deferred taxes in equity amounted to €14 million (previous year: €11 million).

55. Capital Management

In this context, “capital” is generally 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 planned growth over the next few years and to satisfy regulatory capital requirements.

Regulatory capital is different from equity as defined by IFRS (for the components, 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 have an impact on both IFRS equity and regulatory capital.

Under the regulatory provisions – Capital Requirements Regulation (CRR), Kreditwesengesetz (KWG – German Banking Act), 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, 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, 2018	Dec. 31, 2017
Total risk exposure amount (€ million)[1]	64,157	65,434
of which risk-weighted exposure amounts for credit risk	56,682	58,503
of which own funds requirements for market risk *12.5	2,970	2,595
of which own funds requirements for operational risk *12.5	4,417	4,240
of which own funds requirements for credit valuation adjustments *12.5	88	96
Eligible own funds (€ million)	9,973	10,262
Own funds (€ million)	9,973	10,262
of which Common Equity Tier 1 capital	9,945	10,233
of which Additional Tier 1 capital	–	–
of which Tier 2 capital	28	29
Common Equity Tier 1 capital ratio (percent)[2]	15.5	15.6
Tier 1 capital ratio (percent)[2]	15.5	15.6
Total capital ratio (percent)[2]	15.5	15.7

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

56. Liabilities in Connection with Noncurrent Assets Held for Sale

As a result of the planned transfer of assets to the Volkswagen Financial Services AG Group described in note (43), the liabilities relating to these assets are reported in a separate balance sheet line item. They result exclusively from the liabilities of SkoFIN, s.r.o., Prague.

€ million	Dec. 31, 2018	Dec. 31, 2017	Change in percent
Liabilities related to the assets held for sale (IFRS 5)			
Liabilities to banks	213	–	–
Liabilities to customers	333	–	–
Notes, commercial paper issued	44	–	–
Provisions	2	–	–
Current tax liabilities	25	–	–
Other liabilities	23	–	–
Total	639	–	–

Financial Instrument Disclosures

57. Carrying Amounts of Financial Instruments, by Measurement Category

The carrying amounts of financial instruments (excluding hedge derivatives) as of December 31, 2017 broken down by IAS 39 measurement category are as follows:

€ MILLION	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE FINANCIAL ASSETS	FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST	FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS
Assets				
Cash reserve	1,866	–	–	–
Loans to and receivables from banks	970	–	–	–
Loans to and receivables from customers	46,054	–	–	–
Derivative financial instruments	–	–	–	52
Marketable securities	–	2,509	–	–
Miscellaneous financial assets	–	0	–	–
Current tax assets	3	–	–	–
Other assets	512	–	–	–
Total	**49,405**	**2,509**	**–**	**52**
Equity and liabilities				
Liabilities to banks	–	–	8,032	–
Liabilities to customers	–	–	41,066	–
Notes, commercial paper issued	–	–	13,446	–
Derivative financial instruments	–	–	–	230
Current tax liabilities	–	–	162	
Other liabilities	–	–	184	–
Subordinated capital	–	–	1,721	–
Total	**–**	**–**	**64,610**	**230**

The carrying amounts of financial instruments (excluding hedge derivatives) as of December 31, 2018 broken down by IFRS 9 measurement category are shown in the following table:

€ million	Dec. 31, 2018
Financial assets measured at fair value through profit or loss	119
Financial assets measured at fair value through other comprehensive income (debt instruments)	3,284
Financial assets measured at fair value through other comprehensive income (equity instruments)	7
Financial assets measured at amortized cost	49,508
Relevant balance sheet items held for sale and measured at amortized cost (assets, IFRS 5)	1,316
Financial liabilities measured at fair value through profit or loss	197
Financial liabilities measured at amortized cost	67,647
Relevant balance sheet items related to assets held for sale and measured at amortized cost (liabilities, IFRS 5)	600

Receivables from leasing business of €18,827 million (previous year: €18,858 million) do not have to be allocated to any of these categories.

The net gains or losses and income or expenses of the previous year (excluding hedge derivatives) broken down by IAS 39 measurement category are as follows:

€ million	2017
Loans and receivables	1,471
Available-for-sale financial assets	26
Financial liabilities measured at amortized cost	–183
Financial assets and financial liabilities measured at fair value through profit or loss	–26

The net gains or losses and income or expenses in respect of financial instruments (excluding hedge derivatives) for fiscal year 2018 broken down by IFRS 9 measurement category are shown in the following table:

Mio. €	2018
Financial instruments measured at fair value through profit or loss	40
Financial assets measured at amortized cost	1,319
Financial assets measured at fair value through other comprehensive income (debt instruments)	10
Financial liabilities measured at amortized cost	390

In 2018, 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 €1,411 million.

Prior-year interest income from financial instruments not allocated to the category of financial assets or financial liabilities measured at fair value through profit or loss amounted to €1,362 million for the adjusted previous year.

The interest expenses in an amount of €395 million (adjusted previous year: €239 million) relate to financial instruments not measured at fair value through profit or loss.

58. 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 miscellaneous financial assets are reported as financial instruments in accordance with IFRS 9 in the class “Measured at fair value”.

In connection with the initial application of IFRS 9 and IFRS 15, contractual liabilities from service contracts are reported in the class “Not allocated to any measurement category” from fiscal year 2018. At the same time, as part of the implementation of IFRS 9, the carrying amounts of lease receivables have been transferred from the “Measured at amortized cost” class to “Not allocated to any measurement category”. The prior-year figures for receivables from customers relating to the leasing business amounting to €18,858 million have been adjusted accordingly in the presentation of the classes.

In this regard, the class “Not within the scope of IFRS 7” has been renamed “Not allocated to any measurement category”. For reasons of materiality, unconsolidated subsidiaries and joint ventures, equity-accounted joint ventures and other instruments (other than financial instruments) are also classified as “Not allocated to any measurement category”, in addition to the lease receivables and the components described above, for 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, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Assets										
Cash reserve	1,858	1,866	–	–	1,858	1,866	–	–	–	–
Loans to and receivables from banks	661	970	–	–	661	970	–	–	–	–
Loans to and receivables from customers[2]	65,143	64,912	–	–	46,314	46,054	–	–	18,829	18,858
Derivative financial instruments	257	289	51	52	–	–	206	236	–	–
Marketable securities	3,359	2,509	3,359	2,509	–	–	–	–	–	–
Equity-accounted joint ventures	216	197	–	–	–	–	–	–	216	197
Miscellaneous financial assets	12	3	0	0	–	–	–	–	11	3
Current tax assets[3]	45	53	–	–	4	3	–	–	41	50
Other assets	1,370	952	–	–	671	512	–	–	699	440
Relevant balance sheets items from assets held for sale (IFRS 5)	2,547	–	–	–	1,316	–	–	–	1,231	–
Total	**75,467**	**71,751**	**3,411**	**2,561**	**50,824**	**49,405**	**206**	**236**	**21,026**	**19,548**
Equity and liabilities										
Liabilities to banks	8,898	8,032	–	–	8,898	8,032	–	–	–	–
Liabilities to customers[2]	39,602	41,066	–	–	39,348	41,066	–	–	254	–
Notes, commercial paper issued	16,868	13,446	–	–	16,868	13,446	–	–	–	–
Derivative financial instruments	214	277	197	230	–	–	18	47	–	–
Current tax liabilities[3]	184	210	–	–	142	162	–	–	43	48
Other liabilities	699	629	–	–	289	184	–	–	410	445
Subordinated capital	2,103	1,721	–	–	2,103	1,721	–	–	–	–
Relevant balance sheet items from liabilities related to the assets held for sale (IFRS 5)	612	–	–	–	600	–	–	–	12	–
Total	**68,569**	**69,181**	**197**	**230**	**68,247**	**64,610**	**18**	**47**	**719**	**493**

1 Some of the loans to and receivables from customers and liabilities to customers have been designated as hedged items in fair value hedges and are therefore subject to fair value adjustments. The loans to and receivables from customers and liabilities to customers in the class "Measured at amortized cost" are therefore measured neither entirely at fair value nor entirely at amortized cost.

2 Presentation of receivables from customers relating to the leasing business has been changed: these items are now in the "Not allocated to any measurement category" class.

3 Revised presentation as a result of including financial instruments in "current tax assets" and "current tax liabilities".

The "Credit commitments and financial guarantees" class contains obligations under irrevocable credit commitments and financial guarantees amounting to €2,313 million (adjusted previous year: €2,112 million).

59. Measurement Levels for Financial Instruments in the Classes "Measured at Amortized Cost", "Measured at Fair Value" and "Derivative Financial Instruments Designated as Hedges"

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. Classification to the individual levels is dictated by the extent to which the main inputs used in determining the fair value are observable in the market or not.

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 observable in an active market. Most of the loans to and receivables from customers are allocated to Level 3 because their fair value is measured using inputs that are not observable in active markets (see note 60). Securities from ABS transactions of unconsolidated, structured entities and derivative financial instruments in connection with the risk of early termination continue to be reported under Level 3. Inputs for determining the fair value of derivatives in connection with the risk of early termination are forecasts and estimates of used vehicle residual values for the models concerned as well as yield curves. An equity investment measured at fair value through other comprehensive income and using inputs that are not observable in the market is also reported under Level 3 miscellaneous financial assets. The main inputs used to measure this equity investment are strategic planning and cost of equity rates.

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

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

€ million	LEVEL 1		LEVEL 2		LEVEL 3	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Assets						
Measured at fair value						
Loans to and receivables from customers[1]	–	–	–	–	–	–
Derivative financial instruments	–	–	51	52	–	–
Marketable securities[2]	3,291	2,092	–	–	68	417
Miscellaneous financial assets	–	–	–	–	0	0
Measured at amortized cost						
Cash reserve	1,858	1,866	–	–	–	–
Loans to and receivables from banks	660	970	0	0	–	–
Loans to and receivables from customers	0	–	237	238	46,195	46,294
Current tax assets[3]	–	–	4	3	–	–
Other assets	–	–	671	512	–	–
Assets held for sale (IFRS 5)	1	–	44	–	1,294	–
Derivative financial instruments designated as hedges	–	–	206	236	–	–
Total	**5,810**	**4,928**	**1,213**	**1,041**	**47,557**	**46,711**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	29	38	167	192
Measured at amortized cost						
Liabilities to banks	–	–	8,849	7,919	–	–
Liabilities to customers	–	–	39,371	41,087	–	–
Notes, commercial paper issued	8,806	6,557	8,067	6,894	–	–
Current tax liabilities[3]	–	–	142	162	–	–
Other liabilities	–	–	289	184	–	–
Subordinated capital	–	–	2,110	1,730	–	–
Liabilities related to assets held for sale (IFRS 5)	–	–	596	–	–	–
Derivative financial instruments designated as hedges	–	–	18	47	–	–
Total	**8,806**	**6,557**	**59,472**	**58,061**	**167**	**192**

1 Prior-year figures have been adjusted as a result of the removal of lease receivables from the "Measured at amortized cost" class.
2 Prior year adjusted.
3 Revised presentation as a result of including financial instruments in "current tax assets" and "current tax liabilities".

The fair value of receivables from customers relating to the leasing business in the "Not allocated to any measurement category" class is €19,347 million (previous year: €19,597 million) and is allocated to Level 3 in the fair value hierarchy.

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

€ million	2018[1]	2017
Balance as of Jan. 1	**1,672**	**917**
Foreign exchange differences	–	–
Portfolio changes	–1,596	–500
Measured at fair value through profit or loss	–8	–
Measured at fair value through profit or loss	0	–
Balance as of Dec. 31	**68**	**417**

1 The opening carrying amount has been adjusted for the loans to and receivables from customers and marketable securities (see IFRS 9 disclosures).

The remeasurements recognized in profit or loss amounting to €–8 million (previous year: none) 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 loans to and receivables from customers held as of the reporting date and to securities from ABS transactions of unconsolidated, structured entities. In the year under review, as in the previous year, there were no remeasurements for equity investments recognized directly under capital reserves.

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 €4 million lower (previous year: €25 million). If the risk-adjusted interest rates as of the reporting date had been 100 basis points lower, earnings after tax would have been €2 million (previous year: €12 million) higher.

The following table shows the changes in the derivative financial instruments in connection with the risk of early termination measured at fair value based on Level 3 inputs.

€ million	2018	2017
Balance as of Jan. 1	**192**	**–**
Foreign exchange differences	2	4
Changes in basis of consolidation	–	111
Measured at fair value through profit or loss	23	77
Balance as of Dec. 31	**167**	**192**

The remeasurements recognized in profit or loss under other net operating income/expense amounted to €23 million (previous year: €–77 million). In the year under review, the net gain was attributable entirely to derivative financial instruments held as of the reporting date.

Risks of early termination may arise from country-specific consumer protection legislation that confers a right to return used vehicles under leases that have already been entered into. The impact on earnings arising from market-related fluctuations in residual values and interest rates is borne by the Volkswagen Bank GmbH Group.

The market prices of used vehicles are the main risk variable in the fair value of derivatives in connection with the risk of early termination. Sensitivity analyses are used to quantify the effects of changes in used vehicle prices on profit after tax.

If used vehicle prices for the vehicles taken into account in the derivatives in connection with the risk of early termination had been 10% higher as of the reporting date, profit after tax would have been higher by €89 million (previous year: €88 million). If used vehicle prices for the vehicles taken into account in the derivatives in connection with the risk of early termination had been 10% lower as of the reporting date, profit after tax would have been lower by €128 million (previous year: €108 million).

60. Fair Values of Financial Instruments in the Classes "Measured at Amortized Cost", "Measured at Fair Value" and "Derivative Financial Instruments Designated as Hedges"

The table below shows the fair values of the financial instruments. The fair value is the amount at which financial instruments could be sold on fair terms as of the reporting date. Where market prices were available, we have used these 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. Due to the short maturity and the variable interest rate linked to the market interest rate, the fair value of irrevocable credit commitments is not material. The fair value of financial guarantees is not material either.

€ million	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Assets						
Measured at fair value						
Loans to and receivables from customers[1]	–	–	–	–	–	–
Derivative financial instruments	51	52	51	52	–	–
Marketable securities	3,359	2,509	3,359	2,509	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	1,858	1,866	1,858	1,866	–	–
Loans to and receivables from banks	661	970	661	970	–	–
Loans to and receivables from customers	46,432	46,532	46,314	46,054	118	478
Current tax assets[2]	4	3	4	3	–	–
Other assets	671	512	671	512	–	–
Assets held for sale (IFRS 5)	1,339	–	1,316	–	23	–
Derivative financial instruments designated as hedges	206	236	206	236	–	–
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	197	230	197	230	–	–
Measured at amortized cost						
Liabilities to banks	8,849	7,919	8,898	8,032	–50	–113
Liabilities to customers[1]	39,371	41,087	39,348	41,066	24	21
Notes, commercial paper issued	16,874	13,451	16,868	13,446	6	6
Current tax liabilities[2]	142	162	142	162	–	–
Other liabilities	289	184	289	184	–	–
Subordinated capital	2,110	1,730	2,103	1,721	7	10
Liabilities related to assets held for sale (IFRS 5)	596	–	600	–	–4	–
Derivative financial instruments designated as hedges	18	47	18	47	–	–

1 Prior-year figures have been adjusted as a result of the removal of lease receivables from the “Measured at amortized cost” class.
2 Revised presentation as a result of including financial instruments in “current tax assets” and ”current tax liabilities”.

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	–0.306	0.917	1.789	–0.104	1.729
Interest rate for one year	–0.263	0.984	1.775	–0.066	1.924
Interest rate for five years	0.197	1.305	2.125	0.508	1.830
Interest rate for ten years	0.815	1.437	2.481	1.128	1.760

61. 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 netted 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.

€ million	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		AMOUNTS NOT OFFSET IN THE BALANCE SHEET: Financial instruments		AMOUNTS NOT OFFSET IN THE BALANCE SHEET: Collateral received/pledged		Net amount	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Assets												
Cash reserve	1,858	1,866	–	–	1,858	1,866	–	–	–	–	1,858	1,866
Loans to and receivables from banks	614	970	47	–	661	970	–	–	–	–	661	970
Loans to and receivables from customers	46,572	46,151	–258	–97	46,314	46,054	–	–	–	–	46,314	46,054
Derivative financial instruments	304	289	–47	0	257	289	–76	–72	–171	–197	10	20
Marketable securities	3,359	2,509	–	–	3,359	2,509	–	–	–68	–	3,291	2,509
Miscellaneous financial assets	0	0	–	–	0	0	–	–	–	–	0	0
Current tax assets[1]	4	3	–	–	4	3	–	–	–	–	4	3
Other assets	686	628	–15	–20	671	512	–	–	–	–	671	512
Relevant balance sheets items from assets held for sale (IFRS 5)	1,316	–	–	–	1,316	–	–	–	–	–	–	–
Total	**54,713**	**52,416**	**–273**	**–117**	**54,440**	**52,203**	**–76**	**–72**	**–239**	**–197**	**52,809**	**51,934**
Equity and liabilities												
Liabilities to banks	8,898	8,032	–	–	8,898	8,032	–	–	–911	–1,967	7,988	6,065
Liabilities to customers	39,605	41,162	–258	–97	39,348	41,066	–	–	–	–	39,348	41,066
Notes, commercial paper issued	16,868	13,446	–	–	16,868	13,446	–	–	–396	–410	16,472	13,036
Derivative financial instruments	214	284	0	–7	214	277	–76	–72	–1	–12	138	193
Current tax liabilities[1]	142	162	–	–	142	162	–	–	–	–	142	162
Other liabilities	304	196	–15	–13	289	184	–	–	–	–	289	184
Subordinated capital	2,103	1,721	–	–	2,103	1,721	–	–	–	–	2,103	1,721
Relevant balance sheet items from liabilities related to the assets held for sale (IFRS 5)	600	–	–	–	600	–	–	–	–	–	600	–
Total	**68,734**	**65,003**	**–273**	**–117**	**68,462**	**64,888**	**–76**	**–72**	**–1,308**	**–2,390**	**67,080**	**62,426**

1 Revised presentation as a result of including financial instruments in “current tax assets” and “current tax liabilities”.

62. Counterparty Default Risk

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 (23) for disclosures on the accounting policies relating to the provision for credit risks.

The following table shows a reconciliation for 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
Carrying amount on Jan. 1, 2018	**158**	**219**	**425**	**10**	**105**	**917**
Exchange differences on translating foreign operations	0	0	0	0	0	–1
Changes in basis of consolidation	4	6	15	0	0	24
Newly granted/purchased financial assets (additions)	31	–	–	2	26	60
Other changes within a stage	6	60	102	0	18	187
Transfer to						
Stage 1	9	–40	–8	–	–	–39
Stage 2	–30	131	–22	–	–	78
Stage 3	–12	–20	130	–	–	98
Financial instruments derecognised during the period (derecognitions)	–32	–102	–148	–5	–31	–318
Utilizations	–	–	–76	0	–1	–77
Model or risk parameter changes	–4	–4	–14	–	–2	–25
Carrying amount on Dec. 31, 2018	**130**	**249**	**403**	**8**	**115**	**904**

The provision for credit risks for marketable securities measured at fair value through other comprehensive income amounted to €–2 million after adjustments on the basis of IFRS 9 as of January 1, 2018. As there were only immaterial changes within Stage 1 in the year under review and the provision for credit risks remained unchanged at €–2 million as of December 31, 2018, these figures are not presented in a separate table.

The following table shows 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
Carrying amount on Jan. 1, 2018	**2**	**2**	**1**	**0**	**5**
Exchange differences on translating foreign operations	0	0	0	–	0
Changes in basis of consolidation	–	–	–	–	–
Newly granted/purchased financial assets (additions)	8	–	–	1	9
Other changes within a stage	0	0	0	0	0
Transfer to					
Stage 1	0	0	0	–	0
Stage 2	–1	0	0	–	0
Stage 3	0	0	1	–	1
Financial instruments derecognised during the period (derecognitions)	–1	–1	0	–1	–3
Utilizations	–	–	0	–	0
Model or risk parameter changes	0	0	0	0	0
Carrying amount on Dec. 31, 2018	**8**	**1**	**1**	**0**	**10**

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”:

€ million	Simplified approach
Carrying amount on Jan. 1, 2018	**289**
Exchange differences on translating foreign operations	–2
Changes in basis of consolidation	–
Newly granted/purchased financial assets (additions)	128
Other changes	–32
Financial instruments derecognised during the period (derecognitions)	–88
Utilizations	–5
Model or risk parameter changes	–11
Carrying amount on Dec. 31, 2018	**278**

The following table shows the reconciliation for the provision for credit risks relating to lending and leasing business for the previous year:

€ million	Specific valuation allowances	Portfolio-based valuation allowances	2017
Balance as of Jan. 1	**532**	**608**	**1,140**
Exchange rate and other changes	2	0	2
Changes in basis of consolidation	43	87	129
Additions	177	90	266
Utilization	40	–	40
Reversals	100	296	396
Interest income on impaired loans and receivables	14	–	14
Reclassification	0	0	0
Balance as of Dec. 31	**598**	**488**	**1,086**

MODIFICATIONS

During the reporting period, there were contractual modifications of financial assets that did not lead to a derecognition of the asset concerned. These modifications were largely caused by changes in credit quality and related to financial assets in Stages 2 and 3 for which the associated provision for credit risks equated to the lifetime expected credit loss. 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. Prior to the contractual modification, the amortized cost amounted to €44 million. In the reporting period, the contractual modifications gave rise to total net income/net expenses of €0 million.

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 €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 twelve-month expected credit loss.

MAXIMUM CREDIT RISK

The credit and 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 credit and default risk is reduced by collateral and other credit enhancements. The collateral held is in respect of 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, other assets pledged as collateral, financial guarantees, marketable securities, cash collateral and charges on real estate. In the case of financial assets with objective indicators of impairment at the reporting date, the collateral reduced the risk by €760 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 at the reporting date by collateral held with a value of €68 million.

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

€ million	Dec. 31, 2018
Financial assets measured at fair value	3,284
Financial assets measured at amortized cost	49,508
Financial guarantees and credit commitments	2,481
Not allocated to any measurement category	18,829
Total	**74,102**

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

€ million	Dec. 31, 2018	Dec. 31, 2017
Vehicles	46	41
Real estate	–	–
Other movable assets	–	–
Total	**46**	**41**

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

DEFAULT RISK RATING CLASSES

The Volkswagen Bank GmbH Group evaluates 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. Lending evaluated as "good" is included in 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 rating class 2. Accordingly, all loans and receivables in default are allocated to rating class 3.

The following table presents the gross carrying amounts of financial assets as of December 31, 2018, broken down by rating class:

€ 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)	41,647	5,913	0	19,446	72
Default risk rating class 2 (loans/receivables at risk of default – loans with intensified loan management)	616	2,407	0	3,550	33
Default risk rating class 3 (loans/receivables in default – non-performing loans)	0	0	893	223	433
Total	**42,263**	**8,320**	**893**	**23,219**	**538**

The following table shows the default risk exposures for financial guarantees and credit commitments as of the reporting date, broken down by rating class:

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1 (loans/receivables not at risk of default – normal loans)	2,075	304	–	1
Default risk rating class 2 (loans/receivables at risk of default – loans with intensified loan management)	76	15	–	0
Default risk rating class 3 (loans/receivables in default – non-performing loans)	–	–	17	4
Total	**2,150**	**319**	**17**	**5**

The following table presents the credit quality of financial assets as of December 31, 2017:

€ million	Gross carrying amount	Neither past due nor impaired	Past due but not impaired	Impaired
Measured at fair value	2,561	2,561		
Measured at amortized cost				
Cash reserve	1,866	1,866		
Loans to and receivables from banks	970	970		
Loans to and receivables from customers[1]	65,998	63,924	674	1,401
Other assets	512	512		
Derivative financial instruments designated as hedges	236	236		
Total	**72,144**	**70,069**	**674**	**1,401**

1 Presentation of receivables relating to the leasing business changed in the “Not allocated to any measurement category” class.

The breakdown of neither past due nor impaired financial assets by risk class as of December 31, 2017, is as follows:

€ million	Neither past due nor impaired	Risk class 1	Risk class 2
Measured at fair value	2,561	2,561	–
Measured at amortized cost			
Cash reserve	1,866	1,866	–
Loans to and receivables from banks	970	970	–
Loans to and receivables from customers[1]	63,924	55,656	8,268
Other assets	512	512	0
Derivative financial instruments designated as hedges	236	236	–
Total	**70,069**	**61,801**	**8,268**

The age analysis of financial assets past due but not impaired, by class, as of December 31, 2017, is as follows:

€ million	Past due but not impaired	IN THE FOLLOWING AGED PAST DUE CATEGORIES		
		Up to 1 month	1 to 3 months	More than 3 months
Measured at fair value	–	–	–	–
Measured at amortized cost				
Cash reserve	–	–	–	–
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers[1]	674	428	240	6
Other assets	–	–	–	–
Derivative financial instruments designated as hedges	–	–	–	–
Total	**674**	**428**	**240**	**6**

63. Liquidity Risk

Please refer to the management report for information on the funding and hedging strategy.

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

€ million	ASSETS		REPAYABLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Cash reserve	1,858	1,866	1,858	1,866	–	–	–	–	–	–	–	–
Loans to and receivables from banks	661	970	660	425	0	545	–	–	–	–	–	–
Marketable securities	3,284	2,086	–	–	3,284	2,086	–	–	–	–	–	–
Total	**5,802**	**4,922**	**2,518**	**2,291**	**3,284**	**2,631**	**–**	**–**	**–**	**–**	**–**	**–**

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, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Liabilities to banks	8,906	8,414	2,360	1,695	21	173	6,423	6,435	101	111
Liabilities to customers	39,652	41,535	32,223	31,540	1,782	3,632	4,579	4,995	1,068	1,368
Notes, commercial paper issued	17,200	13,688	2,481	2,027	2,723	2,897	10,660	7,489	1,336	1,274
Derivative financial instruments	5,550	7,458	2,758	3,501	2,009	2,620	784	1,337	–	–
Other liabilities	289	184	119	89	169	10	1	83	1	1
Subordinated capital	2,196	1,803	55	37	540	475	1,588	1,253	14	37
Irrevocable credit commitments[1]	2,313	2,112	452	381	1,860	1,731	0	0	0	0
Total	**76,106**	**75,193**	**40,448**	**39,271**	**9,103**	**11,538**	**24,035**	**21,592**	**2,520**	**2,792**

1 The prior-year figure was adjusted by an amount of €–960 million.

The maximum possible calls under financial guarantees at any time can be assumed to be €179 million (previous year: €137 million).

64. Market Risk

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

For quantitative risk measurement, interest rate and currency translation 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 the value-at-risk covers a period of 1,000 trading days.

This approach has produced the following values:

€ million	2018	2017
Interest rate risk	68	26
Currency translation risk	99	102
Total market risk[1]	**113**	**91**

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

65. 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 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 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 in the case of any funding that is not maturity-matched. Interest rate risk is managed on the basis of recommendations made by the Asset-Liability Management Committee (ALM Committee). Interest rate risk is quantified using interest rate gap analyses to which various scenarios involving changes in interest rates are applied. The hedging contracts entered into comprise interest rate swaps and cross-currency 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. All cash flows in foreign currency are hedged as a matter of principle.

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- or portfolio 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 exactly 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.

In portfolio hedge accounting, derivatives are designated as hedges for interest rate hedging on a quarterly basis. Hedge effectiveness is reviewed for each maturity band. Derivatives are only included in portfolio hedge accounting for a hedging period if a high level of hedge effectiveness is achieved, both prospectively and retrospectively.

With the introduction of IFRS 9, hedge effectiveness in the Volkswagen Bank GmbH Group is measured mostly 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 largely 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 portfolio hedge accounting, ineffectiveness generally arises where the changes in the fair values of hedging instruments do not fully offset those of the hedged items.

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	2018
Interest rate risk hedging:	28
Currency risk hedging:	–16
Combined interest rate and currency risk hedging:	3

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 in the reporting period, 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	2018
Interest rate risk hedging:	
Gain or loss from changes in the fair value of hedged items	
within hedge accounting	
recognized in other comprehensive income	–
recognized in profit or loss	–
Reclassifications from the cash flow hedge reserve to the	
income statement	
As a result of the early termination of hedges	–
As a result of the recovery of the hedged item	–
Currency risk hedging:	
Gain or loss from changes in the fair value of hedged items	
within hedge accounting	
recognized in other comprehensive income	2
recognized in profit or loss	–3
Reclassifications from the cash flow hedge reserve to the	
income statement	
As a result of the early termination of hedges	–
As a result of the recovery of the hedged item	–2
Combined interest rate and currency risk hedging:	
Gain or loss from changes in the fair value of hedged items	
within hedge accounting	
recognized in other comprehensive income	3
recognized in profit or loss	0
Reclassifications from the cash flow hedge reserve to the	
income statement	
As a result of the early termination of hedges	–
As a result of the recovery of the hedged item	–3

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 reflects 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 breakdown of the notional volume of the derivative financial instruments as of December 31, 2017 was as follows:

	REMAINING CONTRACTUAL MATURITIES		
	Up to 1 year	1 to 5 years	More than 5 years
€ million			
Cash flow hedges			
Interest rate swaps	–	–	–
Cross-currency interest rate swaps	–	–	–
Currency forwards	6	–	–
Cross currency swaps	–	–	–
Miscellaneous			
Interest rate swaps	4,118	9,851	15,399
Cross-currency interest rate swaps	232	516	–
Currency forwards	3,013	–	–
Cross currency swaps	2,761	818	–
Total	**10,129**	**11,184**	**15,399**

The following table presents 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 as of December 31, 2018:

€ million	RESIDUAL MATURITY Up to 1 year	1 – 5 years	More than 5 years	TOTAL NOTIONAL AMOUNTS Dec. 31, 2018
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging:				
Interest rate swap	5,026	13,777	1,300	20,103
Currency risk hedging:				
Currency forwards/cross currency swaps, GBP	3,321	268	–	3,588
Currency forwards/cross currency swaps, PLN	596	196	–	791
Currency forwards, other currencies	279	5	–	284
Combined interest rate and currency risk hedging:				
Cross-currency interest rate swaps, PLN	99	182	–	281
Cross-currency interest rate swaps, NOK	133	81	–	215
Cross-currency interest rate swaps, other currencies	178	–	–	178
Notional amounts of other derivatives				
Interest rate risk hedging:				
Interest rate swap	1,118	1,973	17,742	20,833
Currency risk hedging:				
Currency forwards/cross currency swaps	132	–	–	132
Combined interest rate and currency risk hedging:				
Cross-currency interest rate swaps	352	509	–	862

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, none of the recognized cash flow hedges involved a hedged item in which the transaction was no longer expected to occur in the future.

The average exchange rates used in the measurement of currency hedges were as follows for the following currencies with significant nominal amounts: CZK 25.3861 (cash flow hedge) and 25.9765 (fair value hedge), GBP 0.8937 (cash flow hedge) and 0.8824 (fair value hedge), PLN 4.3032 (cash flow hedge) and 4.2994 (fair value hedge).

The average exchange rates used in the measurement of interest rate/currency hedges were as follows for the following currencies with significant nominal amounts: PLN 4.2239 (cash flow hedge) and 4.3065 (fair value hedge), GBP 0.772 (fair value hedge), NOK 9.133 (fair value hedge).

The average interest rates used for cross-currency interest rate swaps (cash flow hedge) was 0.23 % for PLN.

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 overview for the period under review shows 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:

€ million	Notional amount	Other assets	Other liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swap and interest option contracts	16,167	35	4	59
Currency risk hedging				
Currency forwards and option contracts, cross currency swaps	4,222	117	13	110
Combined interest rate and currency risk hedging:				
Cross-currency interest rate swaps	410	47	0	48

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

The following table for the period under review sets out the notional amounts, fair values and changes in fair value to determine ineffectiveness in hedging instruments used in cash flow hedges:

€ 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	441	3	0	3
Currency option contracts	–	–	–	–
Combined interest rate and currency risk hedging:				
Cross-currency interest rate swaps	206	4	1	4

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 table below shows the hedged items hedged in fair value hedges as of December 31, 2018:

€ 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	9,116	–15	7	–
Liabilities to banks	–4,516	–33	–16	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–3,423	–42	–20	–
Subordinated capital	–	–	–	–
Currency risk hedging:				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	107	–59	–11	–
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	333	–14	–11	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–

The following table presents the hedged items hedged in cash flow hedges as of December 31, 2018:

€ million		RESERVE FOR	
	Fair value change to determine ineffectiveness	Existing cash flow hedges	Terminated cash flow hedges
Interest rate risk hedging			
Designated components	–	–	–
Deferred taxes	–	–	–
Total interest rate risk	–	–	–
Currency risk hedging:			
Designated components	0	1	–
Deferred taxes	–	0	–
Total currency risk	0	1	–
Combined interest rate and currency risk hedging:			
Designated components	–	0	–
Deferred taxes	–	0	–
Total combined interest rate and currency risk	–	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 table shows a reconciliation for the cash flow hedge reserve (OCI I):

€ million	Interest rate risk	Currency risk	Combined interest rate and currency risk	Total
Balance as of Jan. 1, 2018	**–**	**0**	**–**	**0**
Gains or losses from effective hedges	–	2	3	5
Reclassifications resulting from a change in expected materialization of the hedged item	–	–	–	–
Reclassifications resulting from the recovery of the hedged item	–	–2	–3	–4
Balance as of Dec. 31, 2018	**–**	**1**	**0**	**1**

In the hedges used by the Volkswagen Bank GmbH Group, no derivative components are undesignated.

LIQUIDITY RISK, FUNDING RISK

The Volkswagen Bank GmbH Group takes precautions to minimize the risk from any potential liquidity squeeze by holding a confirmed credit line at 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.

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 balance due from the counterparty concerned.

Given that only counterparties with strong credit ratings are used for transactions, and limits are set for each counterparty as part of the risk management system, the actual default risk is deemed to be low. Furthermore, the default risk in the Group's transactions is also minimized in accordance with regulatory requirements by the use of collateral to be furnished by the counterparty.

Risk concentrations arise in the Volkswagen Bank GmbH Group in a variety of forms. A detailed description can be found in the report on opportunities and risks within the combined management report.

Segment Reporting

66. 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 Volkswagen Bank GmbH Group has the following reportable segments: Germany, Italy, France, United Kingdom, Sweden and Other; the branches in the Netherlands, Spain, Ireland, Greece, Portugal and Poland (from September 28, 2018) and Volkswagen Bank Polska S.A. (until September 27, 2018) are attributable to the “Other” segment. The United Kingdom branch and Volkswagen Financial Services (UK) Ltd are assigned to the “United Kingdom” segment.

Operating profit or loss 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. There were no intersegment transactions in the fiscal year under review.

In accordance with IFRS 8, non-current assets are reported exclusive of financial instruments, deferred tax assets, post-employment benefits and rights under insurance contracts.

BREAKDOWN BY GEOGRAPHICAL MARKET 2017:

€ million	JAN. 1 – DEC. 31, 2017							
	Germany	Italy	France	United Kingdom	Sweden	Other	Consoli-dation	Total
Interest income from lending transactions and marketable securities in respect of third parties	1,023	119	45	85	8	147	–	1,427
Intersegment interest income from lending transactions and marketable securities	82	–	–	5	–	–	–87	–
Income from leasing transactions with third parties	–	90	566	664	1,172	149	–	2,641
Intersegment income from leasing transactions	–	–	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–	–67	–408	–364	–1,158	–102	–	–2,099
of which impairment losses in accordance with IAS 36	–	–	–22	0	–1	–2	–	–25
Net income from leasing transactions	–	23	158	300	14	47	–	542
Interest expense	–145	–15	–22	–100	–4	–26	87	–226
Income from service contracts with third parties	–	1	38	34	–	11	–	85
Expenses from service contracts	–	–1	–32	–24	–	–9	–	–66
Net income from service contracts	–	0	7	10	–	2	–	19
Provision for credit risks	163	–19	7	–6	2	3	–	150
Fee and commission income from third parties	120	84	47	1	0	38	–	291
Fee and commission expenses	–151	–44	–49	–38	–1	–21	–	–304
Net fee and commission income	–31	41	–2	–37	–1	18	–	–13
Net gain or loss on hedges	–12	–	–	–	–	–	–	–12
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	–	–	–	–	3	–	–	3
General and administrative expenses	–593	–59	–89	–75	–14	–90	4	–916
Other operating income	215	9	5	89	1	20	–4	335
Other operating expenses	–178	–3	–2	–115	–1	–16	–	–315
Net other operating income/expenses	37	6	3	–26	0	4	–4	20
Operating profit	**525**	**96**	**107**	**155**	**8**	**104**	**0**	**994**

BREAKDOWN BY GEOGRAPHICAL MARKET 2018:

€ million	JAN. 1 – DEC. 31, 2018							
	Germany	Italy	France	United Kingdom	Sweden	Other	Consoli-dation	Total
Interest income from lending transactions and marketable securities in respect of third parties	895	142	50	83	22	180	–	1,372
Intersegment interest income from lending transactions and marketable securities	92	–	–	13	–	–	–105	–
Income from leasing transactions with third parties	–	84	702	2,245	3,087	352	–	6,470
Intersegment income from leasing transactions	–	–	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–	–53	–523	–1,305	–3,028	–300	–	–5,209
of which impairment losses in accordance with IAS 36	–	–	–22	–17	–6	0	–	–45
Net income from leasing transactions	–	30	179	939	60	52	–	1,261
Interest expense	–111	–12	–18	–288	–7	–36	105	–366
Income from service contracts with third parties	–	1	46	72	–	41	–	160
Expenses from service contracts	–	–1	–27	–51	–	–42	–	–120
Net income from service contracts	–	0	19	21	–	0	–	40
Provision for credit risks	–48	–15	6	–58	–4	–1	26	–94
Fee and commission income from third parties	54	95	42	3	3	27	–	224
Fee and commission expenses	–157	–61	–79	–74	–2	–27	–	–400
Net fee and commission income	–104	34	–37	–71	1	0	–	–176
Net gain or loss on hedges	–16	–	–	28	–	–	–	12
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	7	0	0	36	10	0	–5	48
General and administrative expenses	–485	–64	–83	–170	–43	–96	8	–933
Other operating income	88	7	22	306	16	21	–8	452
Other operating expenses	–57	–166	–19	–389	–25	–9	–	–666
Net other operating income/expenses	31	–160	3	–83	–9	12	–8	–213
Operating profit/loss	**262**	**–44**	**120**	**451**	**31**	**110**	**21**	**952**

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

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

€ million	DEC. 31, 2017							
	Germany	Italy	France	United Kingdom	Sweden	Other	Consoli-dation	Total
Noncurrent assets	89	32	1,055	2,879	866	297	110	5,327
Additions to noncurrent assets	88	7	284	457	131	62	153	1,180

€ million	DEC. 31, 2018							
	Germany	Italy	France	United Kingdom	Sweden	Other	Consoli-dation	Total
Noncurrent assets	210	42	1,280	3,006	961	316	–188	5,627
Additions to noncurrent assets	121	10	344	849	223	167	23	1,737

Investment recognized under other assets was of minor significance.

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

€ million	2018	2017
Segment revenue	**8,626**	**4,613**
Other companies	–	–
Consolidation	–105	–87
Group revenue	**8,521**	**4,526**
Segment profit or loss (operating profit or loss)	**933**	**994**
Other companies	–	–
Consolidation	19	0
Operating profit	**952**	**994**
Share of profits and losses of equity-accounted joint ventures	23	29
Net gain or loss on miscellaneous financial assets	8	13
Other financial gains or losses	–4	–44
Profit before tax	**978**	**992**

Other Disclosures

67. 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 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 cash-in-hand and central bank balances.

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 table shows the breakdown of the changes in subordinated capital (as part of financing activities) into cash and non-cash transactions for the reporting year and the prior year.

			NON-CASH TRANSACTIONS			
€ million	As of Jan. 1, 2017	Cash changes	Exchange rate changes	Changes in basis of consolidation	Measurement changes	As of Dec. 31, 2017
Subordinated capital	155	–59	51	1,573	–	1,721

			NON-CASH TRANSACTIONS			
€ million	As of Jan. 1, 2018	Cash changes	Exchange rate changes	Changes in basis of consolidation	Measurement changes	As of Dec. 31, 2018
Subordinated capital	1,721	409	–27	–	–	2,103

68. Off-Balance-Sheet Liabilities

Eventualverbindlichkeiten

€ million	Dec. 31, 2018	Dec. 31, 2017
Contingent liabilities under bank and other financial guarantees	179	137
Other contingent liabilities	–	–
Total	**179**	**137**

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2018	DUE 2019 – 2022	DUE from 2023	TOTAL 31.12.2017
Purchase commitments in respect of				
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
Irrevocable credit and leasing commitments to customers[1]	2,112	0	0	2,112
Long-term leasing and rental contracts	6	14	36	56
Miscellaneous financial obligations	10	–	–	10

1 As part of the implementation of IFRS 9, Volkswagen Bank GmbH Group's obligations under irrevocable credit commitments were analyzed. This resulted in a change to the basis. The prior-year figure was adjusted by an amount of €–960 million.

Mio. €	DUE 2019	DUE 2020-2023	DUE from 2024	TOTAL 31.12.2018
Purchase commitments in respect of				
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
Irrevocable credit and leasing commitments to customers	2,312	0	0	2,313
Long-term leasing and rental contracts	8	23	34	64
Miscellaneous financial obligations	8	–	–	8

Drawdowns on irrevocable credit commitments are possible at any time.

69. Trust Transactions

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

70. Average Number of Employees during the Reporting Period

	2018	2017
Salaried employees	3,486	2,414
of which: senior managers (OMK)	62	44
of which: part-time employees	639	349
Vocational trainees	34	23

71. Related Party Disclosures

Related parties within the meaning of IAS 24 are deemed to be individuals or entities who can be influenced by Volkswagen Bank GmbH, who can exercise an 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.

The following disclosures apply to Porsche:

Porsche Automobil Holding SE, Stuttgart, controlled 52.2 % of the voting rights in Volkswagen AG as of the reporting date and therefore held a majority. 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 of these rights, Porsche SE can no longer appoint a majority of the members of 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 within the meaning of IAS 24. According to a notification submitted on January 5, 2016, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00 % of the voting rights in Volkswagen AG as of December 31, 2016 and therefore indirectly had significant influence over the Volkswagen Bank GmbH Group. In addition, as referred to above, the Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved a resolution under which the State of Lower Saxony could 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 our favor as part of the operating business.

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

All business transactions with unconsolidated subsidiaries and joint ventures 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 2017

€ million	Supervisor Board/ Audit Committee	Manage-ment/ Board of Management	Volks-wagen AG	Porsche SE	Other related parties in the consolidated entities	Non-consolidated subsidiaries	Joint ventures	Associates
Loans and receivables	0	0	1	–	4,227	6	1,477	–
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	4	6	2,556	–	8,356	54	4	–
Interest income	0	0	0	–	109	–	5	–
Interest expense	0	0	0	–	–141	0	–	–
Goods and services provided	–	–	2	–	625	5	30	–
Goods and services received	–	–	–66	–	–5,425	–1	–71	–

FISCAL YEAR 2018

€ million	Supervisor Board/ Audit Committee	Manage-ment/ Board of Management	Volks-wagen AG	Porsche SE	Other related parties in the consolidated entities	Non-consolidated subsidiaries	Joint ventures	Associates
Loans and receivables	0	0	1	–	2,539	1	2,066	–
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	6	7	–2,727	–	9,190	53	47	–
Interest income	0	0	0	–	100	–	2	–
Interest expense	0	0	0	–	–130	0	–	–
Goods and services provided	–	–	1	–	1,435	16	–1	–
Goods and services received	–	–	–629	–	–4,393	–	–215	–

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. The relationships with the Supervisory Board/Audit Committee and the Management/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” line item primarily contains sales revenue from vehicle sales. The “Goods and services provided” line item consists primarily of income from leasing transactions.

If the United Kingdom leaves the European Union (EU) without a deal (hard Brexit), action will be taken to transfer Volkswagen Financial Services (UK) Ltd., its subsidiaries MAN Financial Services plc. and Volkswagen Insurance Service (Great Britain) Ltd., and Volkswagen Financial Ltd. to Volkswagen Financial Services AG.

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

MANAGEMENT REMUNERATION

€ million	2018	2017
Short-term benefits	3	2
Long-term benefits	0	1
Termination benefits	–	–
Post-employment benefits	0	0

As in the previous year, the total payments made to former members of the Management 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 other post-employment benefits amounted to €8 million (previous year: €7 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 €0.07 million was granted to the members of the Supervisory Board in the reporting period.

The employee representatives on the Supervisory Board of 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.

72. Governing Bodies of the Volkswagen Bank GmbH Group

The members of the Management are as follows:

DR. MICHAEL REINHART
Chairman of the Board
Corporate Management of VW Bank GmbH

HARALD HEẞKE
Member of the Board of VW Bank GmbH. Responsible for Finance.

CHRISTIAN LÖBKE
Member of the Board of VW Bank GmbH. Responsible for Risk Management.

DR. VOLKER STADLER
Member of the Board of VW Bank GmbH. Responsible for Operations.

The Supervisory Board had the following members as of the reporting date, December 31, 2018:

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 at Volkswagen AG

WALDEMAR DROSDZIOK
Deputy Chairman
Chairman of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

MARKUS BIEBER
Managing Director of the General Works Council of Volkswagen AG

BIRGIT DIETZE
Board Member of IG Metall Berlin
Member of the Supervisory Board of Volkswagen AG

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 and Euromobil Autovermietung GmbH

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

DR. HANS-JOACHIM NEUMANN
Head of the Back Office of Volkswagen Bank GmbH

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

SILVIA STELZNER
Member of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

The composition of the committees of the Supervisory Board of Volkswagen Bank GmbH was as follows as of the reporting date, December 31, 2018:

MEMBERS OF THE AUDIT COMMITTEE

Dr. Ingrun-Ulla Bartölke (Chairwoman)
Prof. Dr. Susanne Homölle (Deputy Chairwoman)
Frank Fiedler
Dr. Hans-Joachim Neumann

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)
Waldemar Drosdziok (Deputy Chairman)
Lars Henner Santelmann

MEMBERS OF THE REMUNERATION COMMITTEE

Dr. Jörg Boche (Chairman)
Dr. Ingrun-Ulla Bartölke (Deputy Chairwoman)
Waldemar Drosdziok
Lars Henner Santelmann

73. Disclosures Relating to Unconsolidated Structured Entities

A structured entity is 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 maintains business relationships with structured entities. These 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 acquired these securities in full or in part. 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 purchase of the securities gave rise to counterparty default risk on the part of the issuer and interest rate risk. The maximum risk exposure of Volkswagen Bank GmbH arising from its interests in unconsolidated structured entities is limited to the fair value of the acquired bonds reported in the balance sheet. 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.

€ million	ABS SPECIAL PURPOSE ENTITIES	
	2018	2017
Reported in the balance sheet as of December 31		
Marketable securities	68	417
Loans to and receivables from customers	0	1,245
Maximum loss risk	68	1,662
Nominal volume of securitized assets	1,822	7,046

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

74. 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.

75. Events After the Balance Sheet Date

Up to February 19, 2019, there were no significant events that would have required a substantially different presentation of the assets, liabilities, financial position and profit or loss.

Responsibility Statement

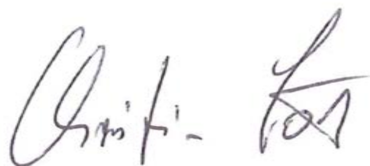
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development 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 19, 2019

Volkswagen Bank GmbH
The Management

Dr. Michael Reinhart

Harald Heßke



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 – GERMAN BANKING ACT.

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, 2018:

- 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 fully consolidated entities included in the IFRS consolidated financial statements. 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
- 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, 2018.

Public subsidies received are defined as subsidies from local authorities and direct EU subsidies.

Country	Sales revenue (€ million)	Employees	Profit/loss before tax (€ million)	Income tax (€ million)	Public subsidies received (€ million)
EU countries					
Germany	757	956	181	–34	0
France	783	375	137	1	–
Greece	14	48	10	–2	–
United Kingdom	2,468	1,012	511	–111	–
Ireland	66	48	46	–5	–
Italy	266	154	–33	–36	–
Luxembourg	–	–	–	–	–
Netherlands	31	1	12	–5	–
Poland	45	98	28	–4	–
Portugal	21	17	3	–1	–
Sweden	3,133	200	35	0	–
Spain	11	23	10	–1	–
Czech Republic	388	232	26	–2	–

Company name	Company type	Domicile	Country
EU countries			
Volkswagen Bank GmbH	Bank	Braunschweig	Germany
Driver Ten GmbH i.L.	SPV	Frankfurt am Main	Germany
Driver Eleven GmbH i.L.	SPV	Frankfurt am Main	Germany
Driver Twelve GmbH	SPV	Frankfurt am Main	Germany
Driver thirteen UG (haftungsbeschränkt)	SPV	Frankfurt am Main	Germany
Private Driver 2014-4 UG (haftungsbeschränkt)	SPV	Frankfurt am Main	Germany
Private Driver 2015-1 UG (haftungsbeschränkt)	SPV	Frankfurt am Main	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 Financial Services (UK) Ltd.	Financial institution	Milton Keynes	United Kingdom
Volkswagen Bank GmbH, Ireland branch	Bank	Dublin	Ireland
Driver Italia ONE S.R.L.	SPV	Milan	Italy
Volkswagen Bank GmbH, Italy branch	Bank	Milan	Italy
Autofinance S.A., Luxembourg	SPV	Luxembourg	Luxembourg
Driver Master S.A.	SPV	Luxembourg	Luxembourg
Driver Multicompartment S.A.	SPV	Luxembourg	Luxembourg
Driver UK Master S.A.	SPV	Luxembourg	Luxembourg
Driver UK Multi-Compartment 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 Finans Sverige AB	Bank	Södertälje	Sweden
Volkswagen Bank GmbH, Spain branch	Bank	Alcobendas-Madrid	Spain
ŠkoFIN s.r.o.	Financial institution	Prague	Czech Republic

INDEPENDENT AUDITOR'S REPORT

To Volkswagen Bank GmbH, Braunschweig

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of Volkswagen Bank GmbH, Braunschweig, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Volkswagen Bank GmbH, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetz¬buch: German Commercial Code] (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 § 315e Abs. 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 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, 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 audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [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 AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") 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 prin-ciples 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 Article 10 (2) point (f) of the EU Audit

Regulation, we declare that we have not provided non-audit services prohibited under Article 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 audit 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 financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:
❶ Risk provisions in dealer financing
❷ Provisions for legal risks
❸ First-time application of new rules for measuring financial instruments in accordance with IFRS 9

Our presentation of these key audit matters has been structured in each case as follows:
① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ **Risk provisions in dealer financing**

① In the Company's consolidated financial statements receivables from dealer financing amounting to EUR 12.2 billion are reported under the “Loans to and receivables from customers” balance sheet item. As at December 31, 2018, risk provisions for the loan portfolio consisting of individual and general valuation allowances are reported in the balance sheet. The measurement of the risk provisions for the dealer financing business is determined in particular by the executive directors’ estimates with respect to future loan defaults, the structure and quality of the loan portfolios and general economic factors. The amount of the individual valuation allowances for dealer financing reflects the difference between the outstanding amount of the loan and the lower value assigned to it as at the balance sheet date. Existing collaterals are taken into account. A portfolio allowance is recognized for deferred credit default risks and is measured in accordance with the expected credit loss model set out in IFRS 9. The amounts of the valuation allowances in the dealer financing business are highly significant for the financial performance of the Company and they involve considerable judgment on the part of the executive directors. Furthermore, the measurement parameters applied, which are subject to material uncertainties, have a significant impact on the recognition and the amount of any valuation allowances required. Against this background, this matter was of particular significance during our audit.

② As part of our audit, we initially assessed the appropriateness of the design of the controls in the Company's relevant internal control systems and tested the controls’ effectiveness. In doing so, we considered the business organization, the IT systems and the relevant measurement models. Moreover, we evaluated the measurement of the receivables in dealer financing, including the appropriateness of estimated values, on the basis of sample testing of loan exposures. For this purpose, we assessed, among other things, the available documentation of the Company with respect to the economic circumstances as well as the recoverability of the collaterals. For real estate as collateral, we obtained an understanding of and critically assessed the source data, measurement parameters applied and assumptions made on which the expert valuations provided to us by the Company were based and evaluated whether they lay within an acceptable range. In addition, for the purpose of assessing the individual and global valuation allowances applied, we evaluated the calculation methodology applied by the Company together with the underlying assumptions and parameters. Based on our audit procedures, we were able to satisfy ourselves that overall the assumptions made by the executive directors for the purpose of testing the recoverability of the receivables in dealer financing are appropriate, and that the processes implemented by the Company are appropriate and effective.

③ The Company's disclosures on risk provisions in dealer financing are contained in numbers 8 and 23 of the notes to the consolidated financial statements and in the section entitled “Financial Performance” in the Group management report.

❷ **Provisions for legal risks**

① The Company is exposed to various legal risks; during the financial year, these related in particular to potential claims in connection with the brokerage of customer financing and proceedings in relation to the structuring of customer lending agreements, which can have a negative impact on statutory rescission periods, impeding certain processes. At the balance sheet date, the Company had recognized EUR 347 million in litigation and legal risk provisions. The determination of whether or not a provision should be recognized to cover the risks to which the Company is exposed, and if so, in what amount, is subject to a high degree of uncertainty. In light of this background, we consider these matters to be of particular importance for our audit.

② As part of our audit, we assessed risk assessment carried out by the executive directors on the basis of the process established by the Company to ensure that a legal dispute is recorded and accounted for. In this connection, we also examined the content of the material legal risks and assessed the risk estimates made in that regard. As of the balance sheet date, we also obtained external legal conformations that support management's risk assessments with regard to the provisions specified in the section above. Furthermore, we also held regular meetings with the Company's legal department in order to receive updates on current developments and the reasons for the corresponding assessments. Our assessment took into account the knowledge obtained in the course of these meetings as well as the current development of the material legal disputes. We were able to follow the assumptions applied by the Management, and deem appropriate the assessments arrived at by the Management to serve as a basis for the measurement of these provisions.

③ The Company's disclosures relating to provisions for legal disputes are contained in numbers 16 and 49 of the notes to the consolidated financial statements.

❸ **First-time application of new rules for measuring financial instruments in accordance with IFRS 9**

① The Company has been applying the IFRS 9 accounting standard entitled “Financial Instruments” since January 1, 2018. Financial assets are now split into three categories, resulting in differences in measurement for the purposes of subsequent recognition in each case. The business model in which the financial instruments are held and the contractual structure of these financial instruments are decisive factors in their classification under IFRS 9. For those financial instruments that are measured at amortized cost or at fair value outside profit or loss, in other comprehensive income, the new impairment provisions (expected credit loss model) replace the previous incurred credit loss model. Risk provisions are now presented in a three-stage model, with financial instruments being added to stage 1 as a general rule. Expected twelve-month losses are to be recognized for these financial instruments. If the default risk increases considerably compared with the time of initial recognition, the amount of the expected losses over the entire remaining term is recognized under risk provisions (stage 2). The same applies to financial instruments that are credit-impaired (stage 3). Within this context, the Company has adjusted its internal models and processes for the calculation of the expected loss pursuant to IFRS 9. The first-time application of the rules of IFRS 9 resulted overall in a EUR –104 million effect after taxes on recognized equity as of January 1, 2018, which was attributable primarily to the new rules for calculating risk provisions. Due to the scope for judgment and uncertainties in the estimations made in connection with the initial application of IFRS 9 and subsequent measurement, and given the material impact of the overall amounts involved on the results of operations of the Group, these matters were of particular significance in the context of our audit.

② Our audit involved evaluating the technical and procedural implementation of the require-ments for the classification and measurement of financial instruments pursuant to IFRS 9, including the calculation of valuation allowances. Among other things, we evaluated the technical concepts, the allocation of the financial instruments to business models, the models for calculating the expected loss and their implementation in the Company's processes in order to determine whether they were consistent with IFRS 9. In order to do so, we used sample testing to check whether the financial instruments had been classified to the various measurement categories in accordance with IFRS 9 and whether the models used by the Company to calculate the ex-

pected loss met the requirements set out in IFRS 9. We also assessed whether the data used in these models was valid and complete. In addition, we reviewed whether significant increases in default risk had been appropriately defined by the Company and used sample testing to analyze whether the classification of financial instruments within the Company's portfolio had been performed correctly. In addition, we calculated the probabilities of default used in the models for selected sub-portfolios and the risk provision calculated using the model on a test basis for all three risk provisioning levels. We examined the concept established by the Company for validating the risk provisioning model for appropriateness and assessed the Company's validation activities conducted during the fiscal year. Based on our audit procedures, we were able to satisfy ourselves that the assumptions used by the executive directors to classify and measure financial instruments including the calculation of valuation allowances in connection with the initial application of IFRS 9 and subsequent measurement are appropriate overall.

③ The Company's disclosures on the first-time application of IFRS 9 are contained in the section "Effects of new and amended IFRSs" of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards).

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit 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 audit 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.

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 § 315e Abs. 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 audit 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 § 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 audit 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 audit 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 audit 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, liabili-

ties, 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 § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit 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 audit 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

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 20 March 2018. We were engaged by the supervisory board on 14 June 2018. We have been the group auditor of the Volkswagen Bank GmbH, Braunschweig, without interruption since the financial year 1949.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 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 Burkhard Eckes.

Hanover, 21 February 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes	ppa. Mirko Braun
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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 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, 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. It held four regular meetings in the reporting period; there were no extraordinary meetings. The average attendance rate was 94%. Three Supervisory Board members attended three meetings, all others attended all four meetings. Two resolutions were passed in writing, and one resolution was adopted by the Chairman of the Supervisory by way of 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 and one extraordinary meeting 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 Audit Committee were present at the meetings.

At the meeting held on the March 2, 2018, the Audit Committee reviewed 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, 2017 together with the proposal for the appropriation of profit. As part of this review, the Audit Committee discussed with the external auditors 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. The Committee gathered details to establish the extent to which there were relationships of a professional, financial or other nature between the external auditors and the Bank and/or its governing bodies with a view to assessing the independence of the external auditors. In this regard, the Audit Committee obtained information on the services that the external auditors had provided for the Bank in addition to the auditing activities and on whether there were any grounds for disqualification or partiality. Following a detailed evaluation of the independence of the external auditors, the Audit Committee submitted a recommendation to the sole shareholder regarding the election of the external auditors and drew up the resolution covering the issue of the audit engagement in preparation for the Annual General Meeting. In addition, the Committee received reports on progress with the implementation of IFRS 9, the implementation of the European General Data Protection Regulation and on internal and external audit procedures and the related findings. The Committee dealt, moreover, with the preselection result in the process for choosing a new auditor.

The Audit Committee devoted its entire extraordinary meeting held on November 1, 2018 to the selection process for appointing a new auditor from 2020 onward and submitted its recommendation in this regard to the Supervisory Board. The Audit Committee's recommendation consisted of two proposals and an indication of its preference for one of the two firms proposed.

At its meeting on December 13, 2018, the Audit Committee discussed the audit planning, key audit matters and the obligations of the external auditors to provide information and subsequently prepared a proposal to the Supervisory Board for the election of the auditor for the current fiscal year. The external auditors also reported on significant results of the preliminary audits. The Committee then heard a report on the findings of a number of external reviews as well as a report from the Head of Internal Audit. Finally, the Committee concerned itself with the services provided by the auditors in the reporting period.

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 were present at the meetings.

At its meeting on March 2, 2018, the Risk Committee discussed the frequency and intensity of reports on strategy and risk that the Management is required to present to the Committee. After that, the Committee dealt with risk management, in particular the risk strategy and risk mitigation, and heard a report on the ECB's ongoing activities and a progress report on the cancellation of loan agreements.

At its meeting on May 28, 2018, the Risk Committee debated the recovery plan for Volkswagen Bank, the current status of the cancellation of loan agreements and of the review of how risk, capital, and liquidity structures are taken into account, and the probability/due dates of income in the context of setting incentives in the remuneration system.

At the meeting held on December 13, 2018, the Committee heard reports on the risk culture, the results of Volkswagen Bank GmbH in the ECB's 2018 stress test and the recovery and resolution plan. The Committee also discussed interest rate and exchange rate management and limit utilization in the UK subsidiary Volkswagen Financial Services (UK) and in the UK Branch of Volkswagen Bank GmbH, as well as the terms and conditions in the customer business as compared to the business model and risk structure.

Remuneration Committee

The Remuneration Committee held one regular meeting in the reporting period. A resolution on consent for the Management's anticipatory resolution on loans to executive bodies was passed in writing. All members of the Remuneration Committee were present at the meetings.

At its meeting on March 2, 2018, 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), the review of negative performance contributions in accordance with section 20(5) of the IVV, and the approval of higher variable remuneration.

At its meeting on April 23, 2018, the Committee's only discussion point was Management remuneration. On May 28, 2018, the Committee asked the remuneration officer to explain the plan for implementing IVV version 3.0.

On September 19, 2018, dealt with the appointment of the deputy remuneration officer and the appropriateness of remuneration in accordance with section 12 of the IVV. In addition, the Committee requested an explanation of the risk taker analysis process.

The focus of the Remuneration Committee's meeting held on December 13, 2018 was on determining the company bonus at Volkswagen Bank, the IVV-specific changes in the areas of negative performance contributions and sustainability, and the results of the risk taker analysis. Finally, the remuneration officer presented the remuneration report.

Nomination Committee

The Nomination Committee held one meeting in the reporting period, which was attended by all its members. There were no written resolutions in the reporting period.

The issues addressed by the Committee at its meeting on October 01, 2018 included the annual assessment of Management and Supervisory Board, the training offering for the members of the Supervisory Board (lifelong learning), and the definition of targets for the proportion of women at Volkswagen Bank GmbH. Finally, the Committee addressed the extension of the appointment of one of the Managing Directors.

Credit Committee

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

No other committee meetings were held in the reporting period.

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

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on March 2, 2018, the Supervisory Board reviewed in detail and subsequently approved the 2017 consolidated financial statements prepared by the Management and the annual financial statements of Volkswagen Bank GmbH. Other issues that were discussed included a guideline on how to deal with conflicts of interest, capex planning and an update to the investment guideline. Finally, the Supervisory Board approved a number of company law measures in connection with the separation of Volkswagen Bank GmbH's European lending business from Volkswagen Financial Services AG's other activities.

Both at this meeting and at the meetings held on May 29, September 19 and December 13, the Management provided us with comprehensive reports on the economic and financial position of the Bank.

At the meeting on May 28, 2018, the Board concerned itself in particular with the OPEX (operational excellence) program and heard a report from the Management on regulatory requirements.

On September 19, the Supervisory Board first dealt with organizational matters. After that, following detailed consultation, it approved the medium-term financial and investment planning of the Bank and Group and heard a report on Volkswagen Bank's strategic orientation. Other topics included the closure of Direct Bank branches, management mechanisms for the market in France, and preparations for the impending ECB review. Finally, the Supervisory Board approved further company law measures in connection with the bundling of Volkswagen Bank GmbH's European lending business and its separation from the other activities of Volkswagen Financial Services AG.

At its meeting on December 13, 2018, the main focus was on the Volkswagen Group's "Together 4 Integrity" project, a progress report on the ECB review, and the purchase policy for ABS transactions. Other points of discussion were the effects of WLTP on Volkswagen Bank GmbH, the definition of targets for the proportion of women and the selection of a new external auditor from 2020 onward. The Supervisory Board also discussed the results of the annual assessment of Management and the Supervisory Board in accordance with section 25d of the Kreditwesengesetz (KWG – German Banking Act) and the training programs available to the members of the Supervisory Board. Finally, we extended a management mandate and approved the establishment of a payment services company in the Netherlands.

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

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers 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, 2018, 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, 2018, together with the management reports, were submitted to the Supervisory Board. The auditor, PricewaterhouseCoopers 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 agrees with the findings of these audits. The Supervisory Board had no reservations after its review of the consolidated financial statements and the annual financial statements, including the management reports. The independent 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 March 7, 2019, the Supervisory Board approved both the consolidated financial statements and annual financial statements of Volkswagen Bank GmbH prepared by the Management. The consolidated financial statements and annual financial statements have thus been adopted.

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, 2018 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, 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, March 7, 2019

Dr. Jörg Boche
Chairman of the Supervisory Board

NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements on the 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 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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