VOLKSWAGEN BANK

GMBH

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

2021

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All figures shown in tables are rounded, so minor discrepancies may arise from addition of these amounts.

Foreword

The Pillar 3 Disclosure Report for the period ended December 31, 2021 is published in accordance with the supervisory law requirements of the Basel III framework (Regulation (EU) No. 2019/876 – the Capital Requirements Regulation or "CRR II" – of the European Parliament and the Council of May 20, 2019 to amend Regulation (EU) 575/2013 (CRR)).

Effective July 27, 2019, the CRR was updated by CRR Amendment Regulation (EU) 2019/876 As Regulation (EU) 2019/876 is an amendment to Regulation (EU) 575/2013, this document uniformly uses the term CRR. Unless otherwise specified, the term CRR always refers to the most recent version that was amended by Regulation (EU) 2020/873 of the European Parliament and of the Council of June 24, 2020 and has been in force since June 27, 2020.

The Regulation is supplemented with the Implementing Technical Standards issued by the European Banking Authority (EBA) EBA/ITS/2020/04 of June 24, 2020 and the corresponding Commission Implementing Regulation (EU) 2021/637 of March 15, 2021, which provides further information on the tables included in the report. This Report is based on the legal requirements in force as of the reporting date.

The entry into force of the CRR provided in large measure a uniform legal basis for European banking supervisory law. The requirements of the CRR largely replaced the disclosure obligations regulated at national level.

Volkswagen Bank GmbH acts as the parent of the institution group for supervisory law purposes and is responsible for implementing the requirements of supervisory law within the Group. This also includes the obligation to make regular disclosures in accordance with Article 433 of the CRR. Volkswagen Bank GmbH is classed as a large institution in accordance with Article 4 (1) 146 of the CRR and therefore observes the frequency requirements stipulated in Art. 433a of the CRR.

In accordance with Art. 433 of the CRR, the Pillar 3 Disclosure Report is updated regularly to meet the requirements and published as a separate report on Volkswagen Bank GmbH's website shortly after the date on which the financial report is published. All requisite disclosures are made solely in this report.

Where available, the format templates stipulated by the EBA guidelines as well as the implementation and regulation standards for the disclosure of the information in accordance with Section 8 of the CRR have been utilized.

The EBA published the final "Guidelines on Covid-19 measures reporting and disclosure" (EBA/GL/2020/07) on June 2, 2020.

In addition to the information required under Art. 435 to 455 of Regulation (EU) No. 575/2013, the information required under section 26a of the German Banking Act is also disclosed. The country-by-country report is included in an annex to the annual financial statements in accordance with section 26 (1) sentence 2.

Braunschweig, April 2022

The Management Board

Disclosure of Key Metrics

The necessity of regulating the banking sector is derived from the objectives of banking supervision. The main objective of government regulation by supervisory authorities is to ensure the proper functioning of the financial system. In particular, minimum capital and liquidity requirements for banks have been defined in an EU regulation (CRR). In addition, this regulation defines maximum leverage levels.

To monitor its equity ratios, Volkswagen Bank GmbH has a capital planning process which ensures compliance with the minimum regulatory ratios including in the event of increasing business volumes. Monitoring of the leverage ratio is also embedded in this capital planning process. Observance of the liquidity ratios is safeguarded through liquidity management.

The relevant key parameters for determining the minimum ratios for equity, liquidity and leverage as well as other relevant information are summarized in the table below. This table sets out information from the COREP report on regulatory own funds, total risk exposure and the capital ratios as well as the combined capital buffer and total capital requirements. In addition, it shows the leverage ratio, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

Volkswagen Bank GmbH is required to publish a quarterly Pillar 3 report. Accordingly, the key metrics presented in the table relate to the current reporting period ending December 31, 2021 (Column a) and the previous quarters (Columns b to e).

TABLE 1: EU KM1 – KEY METRICS TEMPLATE

		A	B	C	D	E
	in € million	T	T-1	T-2	T-3	T-4
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	9,460.8	9,496.5	9,492.9	9,569.5	9,150.2
2	Tier 1 capital	9,460.8	9,496.5	9,492.9	9,569.5	9,150.2
3	Total capital	9,473.5	9,510.9	9,508.9	9,587.1	9,169.4
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	49,770.2	49,412.8	50,965.0	50,619.2	50,556.6
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	19.01%	19.22%	18.63%	18.90%	18.10%
6	Tier 1 ratio (%)	19.01%	19.22%	18.63%	18.90%	18.10%
7	Total capital ratio (%)	19.03%	19.25%	18.66%	18.94%	18.14%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.00%	2.00%	2.00%	2.00%	2.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.13%	1.13%	1.13%	1.13%	1.13%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.50%	1.50%	1.50%	1.50%	1.50%
EU 7d	Total SREP own funds requirements (%)	10.00%	10.00%	10.00%	10.00%	10.00%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.02%	0.02%	0.01%	0.01%	0.01%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer	0.00%	0.00%	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	2.52%	2.52%	2.51%	2.51%	2.51%
EU 11a	Overall capital requirements (%)	12.52%	12.52%	12.51%	12.51%	12.51%

	in € million	A T	B T-1	C T-2	D T-3	E T-4
12	CET1 available after meeting the total SREP own funds requirements (%)	4,496.5	4,569.6	4,412.4	4,525.2	4,113.7
	Leverage ratio					
13	Total exposure measure	70,541.6	70,619.0	67,225.1	66,283.8	66,701.7
14	Leverage ratio (%)	13.41%	13.45%	14.12%	14.44%	13.72%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%	0.00%	n/a	n/a
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	0.00%	n/a	n/a
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	n/a	n/a
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement (%)	0.00%	0.00%	0.00%	0.00	0.00
EU 14e	Overall leverage ratio requirements (%)	3.00%	3.00%	3.00%	n/a	n/a
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	14,844.6	14,487.2	10,547.1	10,058.4	10,007.9
EU 16a	Cash outflows - Total weighted value	8,189.5	8,718.6	7,971.2	7,754.5	7,765.9
EU 16b	Cash inflows - Total weighted value	2,780.4	2,295.9	2,884.7	2,898.3	2,735.4
16	Total net cash outflows (adjusted value)	0.0	0.0	0.0	0.0	0.0
17	Liquidity coverage ratio (%)	213.81%	201.03%	195.06%	207.13%	198.94%
	Net Stable Funding Ratio					
18	Total available stable funding	58,283.7	54,812.1	54,996.5	n/a	n/a
19	Total required stable funding	42,505.5	40,508.9	42,771.8	n/a	n/a
20	NSFR ratio (%)	137.50%	135.31%	128.58%	n/a	n/a

Volkswagen Bank GmbH’s total capital of €9,473.5 million is composed of Common Equity Tier 1 (CET1) capital of €9,460.8 million and Tier 2 (T2) capital of €12.7 million. The increase in own funds compared to December 31, 2020 is mainly due to the higher Common Equity Tier 1 capital. The changes in Common Equity Tier 1 capital are described in a separate chapter.

The total risk exposure amount of €49,770.2 million declined by €786.4 million compared to December 31, 2020 for volume-related reasons in connection with the reduction in the loan portfolio.

The leverage ratio shrank by 0.3 percentage points compared to December 31, 2020 to 13.41%, although this decline is due to the reduction in the total risk exposure amount, which was proportionally larger than the increase in Common Equity Tier 1 capital.

The liquidity coverage ratio (LCR) reflects the ratio between existing highly liquid assets and Volkswagen Bank GmbH’s net liquidity outflows (difference between cash outflow and cash inflow) over a 30-day horizon. The liquidity coverage ratio must not be any less than 100%. The data contained in the table above shows the amounts applicable on the respective reference dates.

The net stable funding ratio (NSFR) indicates Volkswagen Bank GmbH’s funding over a horizon of more than one year. NSFR is the ratio of the available amount of stable funding to the required amount of stable funding. It must not be any less than 100%. The data contained in the table above shows the amounts applicable on the respective reference dates. Following the entry into force of CRR II, there were changes to the calculation of NSFR as of June 30, 2021, which is why these figures are only reported from this reference date.

Scope of Application/ Companies Consolidated

Volkswagen Bank GmbH together with its subsidiaries and associates constitutes an institution group as defined in section 10a(1) and (2) of the KWG in connection with Article 18ff. of the CRR and is the superordinate company within the institution group in accordance with section 10(1) sentence 2 of the KWG.

Section 10a(4) sentence 1 of the KWG requires institution groups as a whole to have adequate own funds. Prudential consolidation in accordance with section 10a(4) of the KWG differs from consolidation under the International Financial Reporting Standards (IFRS) and the additional disclosures required by German commercial law under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code) in terms of both the consolidation methods used and the entities to be consolidated; to a certain extent, it also differs with respect to the accounting policies to be applied.

Whereas entities are included in the subgroup financial statements either through consolidation, using the equity method or at cost, for prudential purposes they must either be consolidated or proportionately consolidated. Participations that are not included as described above are accounted for in accordance with the CRR. In addition, special purpose entities are included in the consolidated financial statements in compliance with IFRS 10.

Volkswagen Bank GmbH uses the consolidated financial statements prepared in accordance with International Financial Reporting Standards to determine its consolidated own funds in accordance with Article 4(1) No. 77 of the CRR. Consequently, own funds and the exposure amounts for counterparty risk, operational risk and market risk of the subsidiaries included in the prudential scope of consolidation are normally determined in accordance with section 10a(5) of the KWG. Items reported in the IFRS consolidated financial statements that are relevant to entities that are not included in the prudential scope of consolidation are deconsolidated for regulatory purposes. As before, the entities that are not included in the IFRS consolidated financial statements but are included in the prudential scope of consolidation are aggregated using the method outlined in section 10a(4) of the KWG. For consolidated own funds, the prudential filters and deductions are additionally taken into account. The entities to be included in the IFRS consolidated financial statements differ from those in the prudential scope of consolidation owing to different reliefs (e.g. based on size) or consolidation requirements (e.g. due to different consolidation requirements) and the nature of their operating business. The prudential scope of consolidation is limited to entities that qualify under the CRR as institutions (Article 4(1) No. 3 of the CRR), financial institutions (Article 4(1) No. 26 of the CRR), or ancillary services undertakings (Article 4(1) No. 18 of the CRR). No such restriction exists under IFRS.

The following table reconciles the carrying amounts based on the IFRS consolidated financial statements of Volkswagen Bank GmbH prepared in accordance with German commercial law (companies consolidated under German commercial law) with the regulatory carrying amounts in accordance with FINREP (regulatory scope of consolidation) and creates a link with own funds. The differences between the amounts shown in the balance sheet and the positions within own funds are primarily due to the effects of the static principle. Accordingly, current profits as well as other comprehensive income (OCI) are not taken into account until the consolidated financial statements have been approved.

TABLE 2: EU CC2 – RECONCILIATION OF REGULATORY OWN FUNDS TO BALANCE SHEET IN THE AUDITED FINANCIAL STATEMENTS

		A)	B)	C)
		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
		As at period end	As at period end	
Assets - Breakdown by asset clases according to the balance sheet in the published financial statements				
1	Cash reserve	11,022.2	11,022.6	k.A.
2	Loans to and receivables from banks	340.2	341.2	k.A.
3	Loans to and receivables from customers	46,073.7	47,469.2	k.A.
4	Derivative financial instruments	10.3	9.9	k.A.
5	Marketable securities	4,704.4	21,267.8	k.A.
6	Equity-accounted joint ventures	283.9	-	k.A.
7	Miscellaneous financial assets	5.4	5.4	k.A.
8	Intangible assets	6.2	51.7	d)
9	Property and equipment	24.0	73.6	k.A.
10	Lease assets	2,236.3	2,283.9	k.A.
11	Investment property	0.3	0.3	k.A.
12	Deferred tax assets	1,999.0	2,177.1	e)+f)
13	Income tax assets	4.0	4.7	k.A.
14	Other assets	543.5	386.2	k.A.
15	Total assets	67,253.4	85,093.6	k.A.
Liabilities - Breakdown by liability clases according to the balance sheet in the published financial statements				
1	Liabilities to banks	13,177.0	13,204.0	k.A.
2	Liabilities to customers	34,342.5	52,283.1	k.A.
3	Notes, commercial paper issued	5,708.4	5,135.3	k.A.
4	Derivative financial instruments	52.2	51.9	k.A.
5	Provisions	348.1	350.8	k.A.
6	Deferred tax liabilities	2,154.7	2,151.2	k.A.
7	Income tax liabilities	312.4	319.4	k.A.
8	Other liabilities	262.1	821.9	k.A.
9	Subordinated capital	35.5	31.6	g)
10	Equity	10,860.6	10,744.4	k.A.
11	Total liabilities	67,253.4	85,093.6	k.A.
Shareholders' Equity				
1	Subscribed captital	318.3	318.3	a)
2	Capital reserves	8,880.6	8,880.6	c)
3	Retained earnings	1,701.3	1,585.0	b)
4	Other reserves	-39.5	-39.5	c)
5	**Total shareholders' equity**	**10,860.6**	**10,744.4**	**k.A.**

Total assets as shown in the consolidated financial statements amount to €67,253.4 million, whereas total assets in the RINREP report stand at €85,093.6 million. This difference is due to the differences in the treatment of the special purpose entities and, specifically, an ABS transaction under which Volkswagen Bank GmbH as the originator acquired all the ABS bonds and reported these in its balance sheet under securities. At the same time, however, the receivables sold are not removed from the balance sheet in the hypothetical single-entity financial statements prepared in accordance with IFRS for Volkswagen Bank GmbH. The recognition of the receivables sold as well as the ABS bonds results in an increase in total assets in the FINREP report. The simultaneous presentation of the receivables sold and the ABS bonds on the asset side initially results in a difference on the equity and liability side, which is filled by means of an adjustment item or a virtual loan. In the case of consolidation under German commercial law, under which the special purpose entities are consolidated, however, the ABS bonds and the virtual loan are eliminated for the purposes of consolidation accounting, resulting in a reduction in total assets.

The following table disaggregates the regulatory carrying amounts on the asset side by risk category according to Part 3 of the CRR

TABLE 3: EU LI1 – DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

		A	B	C	D	E	F	G
		Carrying values as reported in published financial statements	Carrying values under scope of prudential consolidation	Carrying values of items				
				Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
	Breakdown by asset clases according to the balance sheet in the published financial statements							
1	Cash reserve	11,022.2	11,022.6	11,022.2	-	-	41.0	-
2	Loans to and receivables from banks	340.2	341.2	341.2	-	-	160.1	-
3	Loans to and receivables from customers	46,073.7	47,469.2	46,522.3	-	-	2,791.5	946.9
4	Derivative financial instruments	10.3	9.9	-	9.9	-	-	-
5	Marketable securities	4,704.4	21,267.8	4,156.0	-	548.4	548.4	16,563.4
6	Equity-accounted joint ventures	283.9	-	-	-	-	-	-
7	Miscellaneous financial assets	5.4	5.4	5.4	-	-	-	-
8	Intangible assets	6.2	51.7	-	-	-	4.5	51.7
9	Property and equipment	24.0	73.6	73.6	-	-	1.8	-
10	Lease assets	2,236.3	2,283.9	2,283.9	-	-	-	-
11	Investment property	0.3	0.3	0.3	-	-	-	-
12	Deferred tax assets	1,999.0	2,177.1	1,343.0	-	-	8.9	834.1
13	Income tax assets	4.0	4.7	4.7	-	-	3.6	-
14	**Other assets**	**543.5**	**386.2**	**386.2**	**-**	**-**	**2,963.1**	**-**
15	Total assets	67,253.4	85,093.6	66,138.8	9.9	548.4	6,522.8	18,396.2

		A	B	C	D	E	F	G
		Carrying values as reported in published financial statements	Carrying values under scope of prudential consolidation	Carrying values of items				
				Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
	Breakdown by liability classes according to the balance sheet in the published financial statements							
1	Liabilities to banks	13,177.0	13,204.0	-	-	-	1.4	13,202.6
2	Liabilities to customers	34,342.5	52,283.1	-	-	-	444.4	51,838.6
3	Notes, commercial paper issued	5,708.4	5,135.3	-	-	-	-	5,135.3
4	Derivative financial instruments	52.2	51.9	-	-	-	-	51.9
5	Provisions	348.1	350.8	-	-	-	2.5	348.4
6	Deferred tax liabilities	2,154.7	2,151.2	-	-	-	3.4	2,147.8
7	Income tax liabilities	312.4	319.4	-	-	-	0.3	319.1
8	Other liabilities	262.1	821.9	-	-	-	10.9	811.0
9	Subordinated capital	35.5	31.6	-	-	-	-	31.6
10	Equity	10,860.6	10,744.4	-	-	-	216.4	10,528.0
11	**Total liabilities**	**67,253.4**	**85,093.6**	**-**	**-**	**-**	**679.3**	**84,414.3**

The main source of the differences between the carrying amounts in the FINREP report and those in the COREP report are shown in the following table, which also maps the individual risk categories in accordance with the CRR.

TABLE 4: EU LI2 – MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS

		A	B	C	D	E
		Total	Items subject to			
	in € million		Credit risk framework	Securitisation framework	CCR framework	Market risk framework
1	**Assets carrying value amount under the scope of prudential consolidation (as per template LI1)**	**66,697.5**	**66,138.8**	**9.9**	**548.4**	**6,522.8**
2	**Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)**	**-**	**-**	**-**	**-**	**679.3**
3	**Total net amount under the scope of prudential consolidation**	**66,697.5**	**66,138.8**	**9.9**	**548.4**	**5,843.5**
4	**Off-balance-sheet amounts**	**18,023.7**	**18,023.7**	**-**	**-**	
5	Differences in valuations	-	-4.2	-	-	
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	
7	Differences due to consideration of provisions	-	53.2	-	-	
8	Differences due to the use of credit risk mitigation techniques (CRMs)	-	-	-	-	
9	Differences due to credit conversion factors	-	-16,383.3	-	-	
10	Differences due to Securitisation with risk transfer	-	-159.9	-	-	
11	Other differences	-	1,424.0	277.0	0.0	
12	**Exposure amounts considered for regulatory purposes**	**70,137.6**	**69,092.3**	**286.8**	**548.4**	**210.0**

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

TABLE 5: EU LI3 – OUTLINE OF THE DIFFERENCES BETWEEN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY)

A	B	C	D	E	F	G	H
Name of the entity	Method of accounting consolidation	Method of prudential consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
DFM N.V.	At equity	x					Financial institution
Volkswagen Finančné služby Slovensko s.r.o.	At equity	x					Financial institution
Volkswagen Financial Services Digital Solutions GmbH	At equity	x					Ancillary services undertaking
Credi2 GmbH	At cost				x		Ancillary services undertaking
Volkswagen Finančné služby Maklérska s.r.o., Bratislava	At cost				x		Entitiy outside financial sector

As far as is known, there are no restrictions or other significant obstacles to the transfer of (own) funds within the institution group.

The institution group has not made use of the waiver provision under section 2a of the KWG.

The own funds requirements of the CRR are geared towards institutions as defined by Article 4(1) No. 3 of the CRR. Volkswagen Bank GmbH currently has no subsidiaries that have the characteristics of an institution as defined by the CRR and are not included in prudential consolidation. Accordingly, there are no disclosure requirements in accordance with Article 436(g) of the CRR.

SEPARATE CONSIDERATION FOR EXCLUSION DUE TO MATERIALITY – REGULATORY VIEW

Contrary to the requirements of Art. 433a of the CRR in connection with Art. 434a of the CRR, the following information is not disclosed:

The capital ratios are not calculated with the assistance of own funds components in any other way than on the basis of the CRR. Accordingly, disclosure in accordance with Art. 437 (f) of the CRR can be dispensed with.

As the institution group is not subject to the requirements of Art. 92 or 92b of the CRR, no information is disclosed in accordance with Art. 437a of the CRR.

As there is no specialized lending as defined in Art. 438 (e) of the CRR, no information is disclosed on this (EU CR10).

The information referred to in Art. 438 (f) and (g) of the CRR is not relevant for the institution group. Accordingly, this information is not disclosed (EU INS1, EU INS2).

As no internal models are used for risk-weighted exposure amounts, disclosure in accordance with Art. 438 (h) is dispensed with (EU CR8, EU CCR7, EU MR2-B, EU CCR6).

The Volkswagen Bank GmbH Group institution group does not conduct transactions in credit derivatives. It has not made use of the option to conclude netting agreements for derivatives. Accordingly, disclosure in accordance with Art. 439 (j) of the CRR is dispensed with.

The requirements with respect to the disclosure of information in accordance with Art. 439 (k) of the CRR do not apply. Accordingly, no information is disclosed (EU CCR1).

No information in accordance with Art. 439 (l) of the CRR in connection with Art. 452 of the CRR is disclosed as the institution group does not apply the IRB approach to calculate risk-weighted exposure amounts (EU CCR4, EU CR6, EU CR6-A, EU CR9, EU CR9.1). Accordingly, disclosure in accordance with Art. 453 (j) of the CRR (EU CR7) and Art. 453 (g) of the CRR (CR7-A) is dispensed with.

As Volkswagen Bank GmbH is not a G-SRI, disclosure in accordance with Art. 441 of the CRR is omitted.

Volkswagen Bank GmbH observes the requirements of EBA/GL/2018/10 in the disclosure of non-performing and forborne exposures. With an NPL ratio of 3.28% (FINREP), Volkswagen Bank GmbH is below the 5% threshold. Accordingly, the quantitative information required under Art. 442 of the CRR is only disclosed in accordance with the disclosure requirements (templates EU CQ7, EU CR2a, EU CQ2, EU CQ6, EU CQ8, EU CR2a not used).

No advanced measurement approach is used; nor is it used in part for operational risks. Accordingly, no information is disclosed in accordance with Art. 446 (b) and (c) of the CRR.

Disclosure in accordance with Art. 449 (k) and (i) of the CRR is omitted for materiality reasons in accordance with Art. 432(1) of the CRR (EU SEC3).

Disclosure in accordance with Art. 451 (2) of the CRR is not necessary (EU LR2).

As an advanced measurement approach is not used for operational risk, no disclosure in accordance with Art. 454 of the CRR is required (EU OR1). Similarly, disclosure in accordance with Art. 455 of the CRR can be dispensed with as no internal models for market risk are used (EU MR2-A, EU MR3, EU MR4).

Own Funds

PILLAR I REQUIREMENTS

The own funds of an institution or an institution group are measured by reference to the prudential capital ratios. In this connection, Volkswagen Bank GmbH must observe the minimum capital ratios defined in Article 92 of the CRR at both the level of the individual institution and at the consolidated level of the institution group. According to this, a Common Equity Tier 1 capital ratio of at least 4.5%, a Tier 1 capital ratio of at least 6% and a total capital ratio of at least 8% are required.

In addition, Volkswagen Bank GmbH must comply with the regulatory capital buffer requirements. These provide for a capital conservation buffer of 2.5% and the institution-specific, countercyclical capital buffer. The countercyclical capital buffer is normally between 0% and 2.5%. It is calculated as a weighted average of the countercyclical buffer rates determined in the individual countries in which the relevant exposures are located.

The capital buffers for globally or otherwise systemically important institutions do not apply to Volkswagen Bank GmbH.

PILLAR II REQUIREMENTS

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

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

Structure of Own Funds

DISCLOSURE OF OWN FUNDS

The obligation to disclose own funds with the aim of increasing market discipline is derived from the CRR disclosure requirements. Disclosure of own funds and own funds requirements allows market participants to gain an insight into Volkswagen Bank GmbH's risk profile and capital adequacy.

The own funds in accordance with Article 72 of the CRR consist of Common Equity Tier 1 capital and Tier 2 capital. No additional Tier 1 capital has been issued by Volkswagen Bank GmbH or any of the group entities included in the prudential scope of consolidation.

Volkswagen Bank GmbH is currently not utilizing the "quick fix" regulatory transitional provisions governing the initial effects from first-time application of IFRS 9 under Article 473a of the CRR. The disclosures on own funds and the capital and leverage ratios take account of the full impact of the introduction of IFRS 9.

Similarly, Volkswagen Bank GmbH does not apply the "quick fix" transitional provisions under Article 468 of the CRR. Consequently, the disclosures on capital and leverage ratios reflect the full impact of the unrealized gains and losses measured at fair value through other comprehensive income.

COMPOSITION OF OWN FUNDS

The individual own funds components as well as the regulatory adjustments as of the latest reporting date are shown in the table.

The information in the table refers to Volkswagen Bank GmbH's institution group and is based on IFRS accounting.

TABLE 6: EU CC1 – COMPOSITION OF REGULATORY OWN FUNDS

		A	B
in € million		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	318.3	a)
	of which: Instrument type 1	0.0	n/a
	of which: Instrument type 2	0.0	n/a
	of which: Instrument type 3	0.0	n/a
2	Retained earnings	1,157.7	b)
3	Accumulated other comprehensive income (and other reserves)	8,981.9	c)
EU-3a	Funds for general banking risk	0.0	n/a
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0.0	n/a
5	Minority interests (amount allowed in consolidated CET1)	0.0	n/a
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0.0	n/a
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	10,457.8	n/a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-4.2	n/a
8	Intangible assets (net of related tax liability) (negative amount)	-87.3	d)
9	Not applicable		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-0.1	e)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	0.2	n/a
12	Negative amounts resulting from the calculation of expected loss amounts	0.0	n/a
13	Any increase in equity that results from securitised assets (negative amount)	0.0	n/a
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0.0	n/a
15	Defined-benefit pension fund assets (negative amount)	0.0	n/a
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0.0	n/a

in € million		A Amounts	B Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	n/a
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	n/a
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	n/a
20	Not applicable		
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0.0	n/a
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	0.0	n/a
EU-20c	of which: securitisation positions (negative amount)	0.0	n/a
EU-20d	of which: free deliveries (negative amount)	0.0	n/a
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-834.1	f)
22	Amount exceeding the 17,65% threshold (negative amount)	0.0	n/a
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0.0	n/a
24	Not applicable		
25	of which: deferred tax assets arising from temporary differences	0.0	n/a
EU-25a	Losses for the current financial year (negative amount)	0.0	n/a
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	0.0	n/a
26	Not applicable		
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	0.0	n/a
27a	Other regulatory adjusments	-71.6	n/a
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-997.1	n/a
29	Common Equity Tier 1 (CET1) capital	9,460.8	n/a

in € million		A Amounts	B Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	0.0	n/a
31	of which: classified as equity under applicable accounting standards	0.0	n/a
32	of which: classified as liabilities under applicable accounting standards	0.0	n/a
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0.0	n/a
EU-33a	Amount of qualifying items referred to in Article 494a(1) subject to phase out from AT1	0.0	n/a
EU-33b	Amount of qualifying items referred to in Article 494b(1) subject to phase out from AT1	0.0	n/a
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0.0	n/a
35	of which: instruments issued by subsidiaries subject to phase out	0.0	n/a
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0.0	n/a
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0.0	n/a
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	n/a
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	n/a
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0.0	n/a
41	Not applicable		
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	0.0	n/a
42a	Other regulatory adjustments to AT1 capital	0.0	n/a
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0.0	n/a
44	Additional Tier 1 (AT1) capital	0.0	n/a
45	Tier 1 capital (T1 = CET1 + AT1)	9,460.8	n/a

in € million		A Amounts	B Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	12.8	g)
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 as described in Article 486 (4) CRR	0.0	n/a
EU-47a	Amount of qualifying items referred to in Article 494a (2) subject to phase out from T2	0.0	n/a
EU-47b	Amount of qualifying items referred to in Article 494b (2) subject to phase out from T2	0.0	n/a
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0.0	n/a
49	of which: instruments issued by subsidiaries subject to phase out	0.0	n/a
50	Credit risk adjustments	0.0	n/a
51	Tier 2 (T2) capital before regulatory adjustments	12.8	n/a
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0.0	n/a
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	n/a
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	n/a
54a	Not applicable		
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0.0	n/a
56	Not applicable		
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	0.0	n/a
EU-56b	Other regulatory adjusments to T2 capital	0.0	n/a
57	Total regulatory adjustments to Tier 2 (T2) capital	0.0	n/a
58	Tier 2 (T2) capital	12.8	n/a
59	Total capital (TC = T1 + T2)	9,473.5	n/a
60	Total risk exposure amount	49,770.2	n/a

in € million		A Amounts	B Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Capital ratios and requirements including buffers			
61	Common Equity Tier 1	19.01%	n/a
62	Tier 1	19.01%	n/a
63	Total capital	19.03%	n/a
64	Institution CET1 overall capital requirements	8.14%	n/a
65	of which: capital conservation buffer requirement	2.50%	n/a
66	of which: countercyclical capital buffer requirement	0.02%	n/a
67	of which: systemic risk buffer requirement	0.00%	n/a
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	0.00%	n/a
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	1.13%	n/a
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	9.03%	n/a
69	Not applicable		
70	Not applicable		
71	Not applicable		
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	29.8	n/a
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	0.0	n/a
74	Not applicable		
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	1,035.2	n/a

in € million		A Amounts	B Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0.0	k.A.
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	568.8	k.A.
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0.0	k.A.
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0.0	k.A.
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	0.0	k.A.
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0.0	k.A.
82	Current cap on AT1 instruments subject to phase out arrangements	0.0	k.A.
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0.0	k.A.
84	Current cap on T2 instruments subject to phase out arrangements	0.0	k.A.
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0.0	k.A.

COMMON EQUITY TIER 1 CAPITAL

Common Equity Tier 1 capital primarily consists of equity reported in the balance sheet. In turn, the equity reported in the balance sheet is composed of ordinary share capital and disclosed reserves. Volkswagen Bank GmbH's share capital is fully paid up and unrestricted. The disclosed reserves consist of the capital reserves and retained earnings. Moreover, Common Equity Tier 1 capital includes retained profits which have not yet been approved and are not tied to planned dividend payouts or foreseeable expenses (e.g. tax expenses). A special reserve for general banking risks recognized by Volkswagen Bank GmbH in accordance with section 340g of the Handelsgesetzbuch (HGB – German Commercial Code) is reported in the eligible disclosed reserves.

The increase of €311 million in Common Equity Tier 1 capital compared with December 31, 2020 is primarily due to an allocation to the share premium of Volkswagen Bank GmbH. In March 2021, Volkswagen AG allocated the earnings of €383 million for 2020 under German GAAP (HGB), which had initially been distributed, to the share premium of Volkswagen Bank GmbH in consultation with the ECB. This was done in the light of the ECB's recommendations regarding the dividend-distribution policies of systemically relevant credit institutions. In this connection, the ECB had recommended omitting dividend distributions during the COVID-19 pandemic in order to strengthen credit institutions' own funds. Accordingly, the distribution of the earnings under German GAAP (HGB) and the allocation of the same amount to the share premium by Volkswagen AG is consistent with the ECB's recommendation.

In addition, the new CRR II requirements had an impact on Common Equity Tier 1 capital. In this connection, the new minimum coverage requirements for non-performing exposures (the "NPE backstop") came into effect. The purpose of the new rules is to reduce non-performing exposures held by banks on their balance sheets or to ensure that sufficient provisions are taken to cover them. If the minimum coverage requirement is not satisfied, the difference must be deducted from Common Equity Tier 1 capital in accordance with Article 36 (1) (m) of the CRR. The new requirements apply to non-performing exposures arising for the first time on or after April 26, 2019.

The following table shows the total amount of the additional valuation adjustments (AVAs) that are deducted from Common Equity Tier 1 capital as part of a prudent valuation of assets. In accordance with Art. 34 of the CRR in connection with Art. 105 of the CRR, this prudent valuation applies to all assets recognized at fair value. Regulatory law provides for two methods for determining the additional valuation adjustments. The simplified approach may be applied up to a threshold of €15 billion based on the sum total of the absolute exposure amounts on and off the balance sheet measured at fair value. The basic approach must be applied if this threshold is exceeded. As Volkswagen Bank GmbH remains below the threshold of €15 billion, it applies the simplified approach for calculating additional valuation adjustments. In view of the minor importance of exposures measured at fair value, a deduction of €4.2 million was made on the reporting date.

TABLE 7: EU PV1 – PRUDENT VALUATION ADJUSTMENTS (PVA)

		A	B	C	D	E	EU E1	EU E2	F	G	H
	in € million	Risk category					Category level AVA - Valuation uncertainty		Total category level post-diversification		
	Category level AVA	Equity	Interest Rates	Foreign exchange	Credit	Commodities	Unearned credit spreads AVA	Investment and funding costs AVA		Of which: Total core approach in the trading book	Of which: Total core approach in the banking book
1	Market price uncertainty	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	Not applicable										
3	Close-out cost	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	Concentrated positions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	Early termination	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	Model risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	Operational risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	Not applicable										
9	Not applicable										
10	Future administrative costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	Not applicable										
12	**Total Additional Valuation Adjustments (AVAs)**								**4.2**	**0.0**	**0.0**

TIER 2 CAPITAL

Tier 2 capital comprises long-term subordinated liabilities, reduced by amortization in accordance with Article 64 of the CRR.

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

The marginal decline in Tier 2 capital compared to December 31, 2020 is due to amortization in accordance with Art. 64 of the CRR.

MAIN CHARACTERISTICS OF OWN FUNDS INSTRUMENTS

The conditions set out in Art. 28 of the CRR must be satisfied for Common Equity Tier 1 instruments to be included. At Volkswagen Bank GmbH, only the share capital is classified as a Common Equity Tier 1 instrument and is duly included (Instrument 1).

In addition to this, two subordinated bonds are included in own funds as Tier 2 instruments (Instrument 2 and 3). The requirements for inclusion specified in Art. 63 of the CRR have been satisfied. These requirements particularly include subordination over insolvency creditors and an original term of at least five years. Both subordinated bonds have been publicly placed and can be identified by reference to their international securities identification number (ISIN).

The following table presents the main characteristics of these own funds instruments.

TABLE 8: EU CCA – MAIN CHARACTERISTICS OF REGULATORY OWN FUNDS INSTRUMENTS

		a	a	a
		Instrument 1	Instrument 2	Instrument 3
1	Issuer	Volkswagen Bank Gruppe	Volkswagen Bank GmbH	Volkswagen Bank GmbH
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Bilateral agreements	XS0175737997	XS0193333613
2a	Public or private placement	k.A.	Public placement	Public placement
3	Governing law(s) of the instrument	German law	German law	German law
3a	Contractual recognition of write down and conversion powers of resolution authorities	n/a	n/a	n/a
	Regulatory treatment			
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Common Equity Tier 1 capital	Tier 2 capital	Tier 2 capital
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	(Sub)consolidated	Solo and (sub)consolidated	Solo and (sub)consolidated
7	Instrument type (types to be specified by each jurisdiction)	ordinary shares	Subordinated bond	Subordinated bond
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	318,3 Mio. €	7,4 Mio. Euro	5,3 Mio. Euro
9	Nominal amount of instrument	318,3 Mio. €	20,0 Mio. €	10,0 Mio. €
EU-9a	Issue price	Various	19,3 Mio. €	9,5 Mio. €
EU-9b	Redemption price	n/a	20,0 Mio. €	10,0 Mio. €
10	Accounting classification	Share capital	Liability – amortized cost	Liability – amortized cost
11	Original date of issuance	Various	26.09.2003	07.06.2004
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	No maturity	26.09.2023	07.06.2024
14	Issuer call subject to prior supervisory approval	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	Termination option for tax event	Termination option for tax event
16	Subsequent call dates, if applicable	n/a	n/a	n/a
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Variable	Fix	Fix
18	Coupon rate and any related index	n/a	5,4 % p.a.	5,5 % p.a.
19	Existence of a dividend stopper	No	No	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a

		a	a	a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	n/a	n/a	n/a
32	If write-down, full or partial	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a
34a	Type of subordination (only for eligible liabilities)	n/a	n/a	n/a
EU-34b	Ranking of the instrument in normal insolvency proceedings	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to AT1 instruments	Subordinate to insolvency creditors	Subordinate to insolvency creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a
37a	Link to the full term and conditions of the instrument (signposting)	n/a	Link	Link

Own Funds Requirements

QUALITATIVE DISCLOSURE OF OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

RISK INVENTORY/RISK QUANTIFICATION

The objective of the risk inventory, which has to be carried out at least annually, is to identify the main categories of risk. To this end, all known categories of risk are investigated to establish whether they arise in the Volkswagen Bank GmbH Group. In the risk inventory, the relevant categories of risk are examined in greater detail, quantified or, if they cannot be quantified, assessed by experts, and then evaluated to determine whether they are material for the Volkswagen Bank GmbH Group. In accordance with the requirements set out in the "ECB Guide to the internal capital adequacy assessment process (ICAAP)", the risk inventory used both the economic and normative perspectives and, in addition, a gross approach (i.e. an analysis of the risks without taking into account specific techniques designed to mitigate the underlying risks). A confidence level of 99.9% is also used as a basis for determining risk.

The risk inventory carried out was based on the December 31, 2021 reporting date and came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk (credit risk, shareholder risk, issuer risk and counterparty risk), direct residual value risk, interest rate risk in the banking book, other market risk, business risk (earnings risk, strategic risk, reputational risk and business model risk), liquidity risk and operational risk. Other existing subcategories of risk are included within the categories specified above.

CAPITAL ADEQUACY (INCLUDING RISK-BEARING CAPACITY)

In addition to the quantification of the risk positions required by regulatory law (in accordance with the CRR), the Volkswagen Bank GmbH Group has set up a system for calculating risk-bearing capacity in accordance with the requirements specified in the ICAAP guide. The system ensures that the Group maintains risk-bearing capacity from both economic and normative perspectives.

The objective of the normative perspective is to ensure that the Volkswagen Bank GmbH Group meets all relevant regulatory capital ratio requirements (in particular, the requirements for the total capital ratio and CET1 capital ratio) in the planning period. To this end, the Volkswagen Bank GmbH Group analyzes a baseline scenario and a multidimensional adverse scenario over a forward-looking time horizon of three years and constantly monitors its compliance with the regulatory capital requirements and its internally specified early warning thresholds. This system reflects the Pillar-2 requirements for risk-bearing capacity determined in the supervisory review and evaluation process (SREP).

In the economic risk-bearing capacity analysis, the overall economic risk is compared against the risk-taking potential.

The quarterly analysis of its risk-bearing capacity serves to examine whether the Volkswagen Bank GmbH Group is capable at all times of bearing the risks potentially arising from its current and future business activities. 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.

In addition, the Volkswagen Bank GmbH Group uses a system of limits derived from the economic risk-bearing capacity analysis to specifically manage the capital for risk coverage in accordance with the level of risk tolerance determined by the Management Board of Volkswagen Bank GmbH. Building on the Bank's risk appetite framework, the risk limit system that has been put in place limits the risk at different levels, thereby safeguarding the economic risk-bearing capacity of the Volkswagen Bank GmbH Group.

As of December 31, 2021, risk-taking potential amounted to €9.7 billion and comprised CET1 capital (€9.5 billion including profits retained in 2021) and accumulated earnings[1] (€0.5 billion) less hidden charges and loss allowance shortfalls (€0.3 billion in total). This item is the reference point for risk tolerance and risk appetite and takes the form of an overall risk limit for the Group (fixed at €4.6 billion as of December 31, 2021).

In accordance with a moderate, overarching risk appetite, only a portion (a maximum of 90%) of this risk-taking potential is specified as a risk ceiling or overall risk limit. The overall risk limit is apportioned according to the relevant specific risk appetite to counterparty default risk, direct residual value risk, interest rate risk in the banking book, other market risk, funding risk and operational risk for the purposes of operational monitoring and control. In this process, the limit allocated to counterparty default risk, itself an overarching category

[1] Dividend claims are generally deducted from accrued profits in the interests of a conservative calculation of risk-taking potential.

of risk, is subdivided into individual limits for credit risk, shareholder risk, issuer risk and counterparty risk. The specific risk appetite for each category of risk is set at moderate to low based on the business model and risk strategy of Volkswagen Bank GmbH.

The limit system is structured in a way that the adherence to the risk limits ensures not only the management of operating and strategic risk and earnings, but also compliance with regulatory requirements. Risk Management monitors compliance with the risk limits as part of its quarterly analysis of the risk-bearing capacity.

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

Risk quantification

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

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

The main risks are quantified as part of the economic risk-bearing capacity analysis with a confidence level of 99.9% and a time horizon of one year. In addition to determining the risk-bearing capacity in a normal scenario, the Volkswagen Bank GmbH Group also conducts group-wide and cross-institutional stress tests and reports the results directly to the Management Board. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of the Volkswagen Bank GmbH Group. The purpose of these scenarios is to facilitate early identification of those risks that would be particularly affected by the trends simulated in the scenarios so that any necessary corrective action can be initiated in good time. The stress tests include both historical scenarios (such as a repetition of the financial crisis in the years 2008 to 2010) and hypothetical scenarios (such as a global economic downturn or a sharp drop in sales in the Volkswagen Group). In addition, inverse stress tests are used to identify what events could represent a threat to the ability of the Volkswagen Bank GmbH Group to continue as a going concern.

TABLE 9: METHODS FOR THE QUANTIFICATION OF INDIVIDUAL RISK TYPES UNDER THE RISK BEARING CAPACITY ANALYSIS

Risk type	Parameters/model	„Going Concern”-scenario (Normal Case)
Counterparty default risk		
Credit risk	Parameters: PD, LGD, EAD, CCF, ASRF model, incl. premium for estimation uncertainties for UL	CL = 99.9 %
Shareholder risk	Parameters: PD, LGD = 90%, carrying amount of equity investment acc. to IFRS, ASRF model	CL = 99.9 %
Issuer risk	Parameters: PD, LGD, EAD, Monte Carlo simulation	CL = 99.9 %
Counterparty risk	Parameters: PD, LGD, EAD, Monte Carlo simulation	CL = 99.9 %
Residual value risk	Comparison of expected sales proceeds (forecast with value deductions based on historical data) with contractually agreed residual value per vehicle	CL = 99.9 %
Interest Rate Risk in the Banking Book (IRRBB)	Historical simulation (40-trading-day holding period, 1,000-trading-day history)	CL = 99.9 %
Other market risks	Historical simulation (40-trading-day holding period, 1,000-trading-day history)	CL = 99.9 %
Business risk	Reconciliation of the planned profit with the earnings risk (parameters: actual and plan data of income drivers and their relative deviation; parametric variance-covariance model) and general value for strategic risk/reputation risk as well as the business model risk (scenario approach)	
Liquidity risk (funding risk)	Liquidity premium from historical spread data	CL = 99.9 %
Operational risk	Loss distribution method with Monte Carlo simulation	CL = 99.9 %

Aggregation of risks, analysis of results

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

The results of the analysis of risk-bearing capacity and of the stress tests are reported to the Management Board on a quarterly basis. The calculations of risk-bearing capacity confirmed that all significant risks that could adversely affect the financial position, financial performance or cash flows were adequately covered at all times by the available risk-taking potential. The stress tests did not indicate any immediate need for action.

DISCLOSURE OF OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

The basis for the provisions concerning own funds requirements is formed by the regulatory provisions contained in Article 92 of the CRR. In this connection, it is necessary to calculate total risk exposure, which is derived from the calculation of the risk-weighted assets (RWA) for the credit risk including the counterparty credit risk as well as operational risk, market risk and for the credit valuation adjustments (CVA). The credit risk excluding the counterparty credit risk accounts for 91.3% of the total risk exposure amount, thus constituting the largest risk type.

The following table provides an overview of the breakdown of the total risk exposure amount and the own funds requirements. As Volkswagen Bank GmbH is subject to a quarterly disclosure duty, the figures in the table refer to the current reporting period (T) ending December 31, 2021 as well as the previous quarter ending September 30, 2021 (T-1).

TABLE 10: EU OV1 – OVERVIEW OF RISK WEIGHTED EXPOSURE AMOUNTS

		RISK WEIGHTED EXPOSURE AMOUNTS (RWEAS)		TOTAL OWN FUNDS REQUIREMENTS
		a	b	c
	in € million	T	T-1	T
1	Credit risk (excluding CCR)	45,445.0	45,018.4	3,635.6
2	Of which the standardised approach	45,445.0	45,018.4	3,635.6
3	Of which the Foundation IRB (F-IRB) approach	0.0	0.0	0.0
4	Of which: slotting approach	0.0	0.0	0.0
EU 4a	Of which: equities under the simple riskweighted approach	0.0	0.0	0.0
5	Of which the Advanced IRB (A-IRB) approach	0.0	0.0	0.0
6	Counterparty credit risk - CCR	132.5	88.3	10.6
7	Of which the standardised approach	57.4	47.3	4.6
8	Of which internal model method (IMM)	0.0	0.0	0.0
EU 8a	Of which exposures to a CCP	0.2	4.8	0.0
EU 8b	Of which credit valuation adjustment - CVA	74.9	36.1	6.0
9	Of which other CCR	0.0	0.0	0.0
10	Not applicable			
11	Not applicable			
12	Not applicable			
13	Not applicable			
14	Not applicable			
15	Settlement risk	0.0	0.0	0.0
16	Securitisation exposures in the non-trading book (after the cap)	193.8	188.9	15.5
17	Of which SEC-IRBA approach	0.0	0.0	0.0
18	Of which SEC-ERBA (including IAA)	193.8	188.9	15.5
19	Of which SEC-SA approach	0.0	0.0	0.0
EU 19a	Of which 1250%/ deduction	0.0	0.0	0.0
20	Position, foreign exchange and commodities risks (Market risk)	210.0	362.0	16.8
21	Of which the standardised approach	210.0	362.0	16.8
22	Of which IMA	0.0	0.0	0.0
EU 22a	Large exposures	0.0	0.0	0.0
23	Operational risk	3,788.9	3,755.2	303.1
EU 23a	Of which basic indicator approach	0.0	0.0	0.0
EU 23b	Of which standardised approach	3,788.9	3,755.2	303.1
EU 23c	Of which advanced measurement approach	0.0	0.0	0.0
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	2,588.0	2,592.0	207.0
25	Not applicable			
26	Not applicable			
27	Not applicable			
28	Not applicable			
29	Total	49,770.2	49,412.8	3,981.6

The credit risk excluding the counterparty credit risk stood at €45,445 million as of December 31, 2021 and was therefore up by €427 million over the previous quarter. Volkswagen Bank GmbH uses the Credit Risk Standardized Approach (CRSA) to quantify credit risks.

The increase in counterparty credit risk from €88.3 million to €132.5 million is chiefly due to the credit valuation adjustment (CVA). Further information on the composition of counterparty credit risk can be found in Tables 14 through 18.

At €3,788.9 million, operational risk increased slightly over the previous quarter's figure of €3,755.2 million. Volkswagen Bank GmbH applies the Standardized Approach in this connection.

Further information on market risk and the securitization positions is provided in a separate chapter.

DISCLOSURE OF COUNTERCYCLICAL CAPITAL BUFFERS

The countercyclical capital buffer (CCyB) has been introduced as a macro-prudential instrument for banking supervision. Its purpose is to increase credit institutions' resilience by stipulating additional capital requirements. To this end, banks are to accumulate an additional capital buffer in times of excessive lending growth which may be used to cover losses arising in a crisis. The accumulation of a capital buffer is intended to slow excessive credit growth and to avert a credit crunch, which would further aggravate a crisis, during a downswing. Accordingly, the capital buffer is determined on a countercyclical basis.

The capital buffer requirements are based on the provisions of CRD IV, which have been transposed into German law in Section 10d of the German Banking Act (KWG). The competent authority sets the capital buffer at between 0% and 2.5%. However, it is calculated separately for each individual credit institution. This means that each credit institution calculates the percentage of the institution-specific countercyclical capital buffer as the weighted average of the capital buffer rates for the countries in which the relevant credit risk exposures are located. This is based on the borrower's domicile and not the credit institution's domicile.

The following table shows the geographical distribution of the credit exposures relevant for the calculation of the countercyclical capital buffer.

TABLE 11: EU CCYB1 – GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

		A	B	C	D	E	F	G	H	I	J	K	L	M
	in € million	General credit exposures		Relevant credit exposures – Market risk				Own fund requirements						
010	Breakdown by country:	Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Securitisation exposures Exposure value for non-trading book	Total exposure value	Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total	Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
	GE	26,964.3	0.0	0.0	0.0	0.0	26,964.3	1,737.0	0.0	0.0	1,737.0	21,712.3	52.4%	0.0%
	ES	4,207.1	0.0	0.0	0.0	0.0	4,207.1	271.3	0.0	0.0	271.3	3,390.7	8.2%	0.0%
	FR	5,187.5	0.0	0.0	0.0	0.0	5,187.5	349.4	0.0	0.0	349.4	4,367.4	10.5%	0.0%
	GB	1,496.9	0.0	0.0	0.0	548.4	2,045.3	119.8	0.0	15.5	135.3	1,691.1	4.1%	0.0%
	IT	5,879.5	0.0	0.0	0.0	0.0	5,879.5	368.0	0.0	0.0	368.0	4,599.9	11.1%	0.0%
	LU	678.5	0.0	0.0	0.0	0.0	678.5	54.3	0.0	0.0	54.3	678.5	1.6%	0.5%
	NL	2,023.7	0.0	0.0	0.0	0.0	2,023.7	158.9	0.0	0.0	158.9	1,986.9	4.8%	0.0%
	PL	965.5	0.0	0.0	0.0	0.0	965.5	69.5	0.0	0.0	69.5	868.2	2.1%	0.0%
	PT	452.5	0.0	0.0	0.0	0.0	452.5	27.6	0.0	0.0	27.6	344.5	0.8%	0.0%
	SK	390.3	0.0	0.0	0.0	0.0	390.3	24.9	0.0	0.0	24.9	311.3	0.8%	1.0%
	Others	1,824.0	0.0	0.0	0.0	0.0	1,824.0	118.1	0.0	0.0	118.1	1,475.8	3.6%	0.1%
020	**Total**	**50,069.7**	**0.0**	**0.0**	**0.0**	**548.4**	**50,618.1**	**3,298.6**	**0.0**	**15.5**	**3,314.1**	**41,426.5**	**100.0%**	

At 52.4%, the own funds requirements for Germany of €1,737 million constitute the greatest proportion in the calculation of the countercyclical capital buffer. The countries listed cover more than 94% of Volkswagen Bank GmbH's own funds requirements. A further disaggregation of the countries listed under "Other" has been dispensed with for materiality reasons.

TABLE 12: EU CCYB2 – AMOUNT OF THE INSTITUTION-SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

	in € million	a
1	Total risk exposure amount	49,770.2
2	Institution specific countercyclical capital buffer rate	0.0157%
3	Institution specific countercyclical capital buffer requirement	7.8

Volkswagen Bank GmbH has a marginal institution-specific countercyclical capital buffer of 0.0157% as of December 2021 at a consolidated level. This is due to the fact that the competent authorities in most countries including Germany have set a countercyclical capital buffer of 0% against the backdrop of the Covid-19 pandemic.

RETURN ON CAPITAL

The return on capital in accordance with section 26a(1) sentence 4 of the KWG, calculated as the ratio of net profit to total assets, stood at 1.16% at December 31, 2021.

Risk Management Objectives and Policy

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

The Volkswagen Bank GmbH Group is exposed to a large number of risks typical of the financial services sector as part of its primary operating activities. The Company takes on these risks on a responsible basis so that it can specifically exploit associated market opportunities.

The Volkswagen Bank GmbH Group has implemented a risk management system to identify, assess, manage, monitor and communicate risks. The risk management system comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risks. The individual elements are 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 suitable corrective action can then be initiated.

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

The 2020 SREP (Supervisory Review and Evaluation Process) did not lead to any change in the existing Pillar 2 requirement for the Volkswagen Bank GmbH Group of 2.0%. The Pillar 2 requirement was set by the ECB as the banking regulator and must be satisfied in addition to the Pillar 1 minimum capital requirements.

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

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

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

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

To summarize, continuous monitoring of risks, transparent and direct communication with the Management Board and the integration of all information obtained into the operational risk management system 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 Board of Volkswagen Bank GmbH.

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

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

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

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

RISK CULTURE

A pronounced risk culture entrenched in the company and encompassing all employees forms part of responsible corporate governance and is the basis of efficient and sustained risk management. It defines the rules of conduct for handling risks within an institution. This also includes the way in which risks are identified, evaluated, reported and managed and forms the core of the ROUTE2025 corporate strategy comprising the following main areas of activity: “Making risks transparent and actively managing them”, “Act compliantly” and “Open feedback and discussion culture”.

The aim of an appropriate risk culture is to ensure that employees and management make decisions in their daily work based on a risk culture “imbued with life” (value of systems), that risks are addressed consciously and that an open and transparent dialog on risk-related matters is reinforced within the Volkswagen Bank GmbH Group.

At the Volkswagen Bank GmbH Group, risk culture is operationalized on the basis of the following risk culture elements: “leadership culture”, “organizational structure”, “communications”, “incentive structure” and “risk management framework”. The Management Board and line managers assume a role model with respect to risk culture. Among other things, it implements decision-making practices on the basis of the corporate values (leadership principles) which it has defined to provide employees with a framework within which they can implement standards and prepare future decisions.

Identifying, evaluating and managing risks is an integral part of bank organization beyond risk management. In practice, this takes the form of an open style of communications based on a constructive and objective approach to risks and accompanied by high risk awareness particularly in the light of the Volkswagen Bank GmbH Group’s reputation.

The sum total of the shared values and rules as well as the support provided by technological developments help to incorporate risk aspects in all corporate decisions.

RISK CONCENTRATIONS

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

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

One of the objectives of the Volkswagen Bank GmbH Group’s risk policy 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 financial crisis some years ago.

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

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.

RISK REPORTING

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

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

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

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

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

The high quality of the information contained in the risk 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

During the course of fiscal year 2021, the Volkswagen Bank GmbH Group updated its Group-wide recovery plan and submitted it to the ECB (the competent supervisory authority).

The recovery plan covers matters including a system to ensure that adverse developments are identified promptly, and the possible measures that could be used by the Group in different stress scenarios to safeguard or restore a robust financial footing. The update to the recovery plan in 2021 particularly entailed an analysis of the Group's ability to recover based on two adverse scenarios in a pandemic scenario. One of the scenarios simulated a serious pandemic and the second scenario assumed a massive cyber attack during a pandemic.

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

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

Volkswagen Bank GmbH complied with the applicable bank-specific minimum requirement for own funds and eligible liabilities (MREL) at all times in 2021.

REGULATORY ISSUES IN RISK MANAGEMENT

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

The regulatory requirements on nonperforming loans (NPLs) are currently of particular relevance to risk management at Volkswagen Bank GmbH. The supervisory expectations for an appropriate provision for credit risks in accordance with the supplementary guidance from the ECB on NPLs are especially worthy of note in this regard in addition to the basic ECB expectations and EBA requirements for the management of NPLs. The Prudential Backstop Regulation also has implications for risk management. Volkswagen Bank GmbH is continually refining and optimizing its recovery and resolution processes in the light of the regulations referred to above.

The Bank has updated its standards for assessing and granting loans in response to the new EBA guidelines on loan origination and monitoring. Some of the procedural aspects tailored to the particular needs of Volkswagen Bank GmbH were implemented for new loans by June 30, 2021. The aim was to generate added value in the sense of an improvement to the credit risk management system. The other requirements, including the necessary IT, are scheduled for gradual implementation by June 30, 2024 in accordance with the EBA's transitional provisions.

The requirements arising from the EBA guidelines on outsourcing arrangements must also be incorporated into the risk management system. The guidelines include detailed requirements for due diligence, risk analysis and documentation for outsourcing arrangements. There are also additional requirements relating to the terms and conditions in outsourcing agreements and their monitoring as well as relating to the extension of termination rights. These requirements especially concern compliance with IT security standards and outsourcing to cloud service providers. Under the EBA guidelines, the requirements relating to sub-outsourcing are also substantially expanded. Because the EBA guidelines on outsourcing arrangements will require modification of existing contracts, there was a transition period up to December 31, 2021 for these changes. Outsourcing is also subject to further requirements as a result of the Finanzmarktintegritätsstärkungsgesetz (FISG – Financial Market Integrity Strengthening Act), which provided for implementation by January 1, 2022. These requirements mainly concern an obligation to notify an intention to establish material outsourcing arrangements or make material changes to significant existing outsourcing arrangements and notify the implementation of such arrangements or changes. In this regard, the German Federal Financial Supervisory Authority (BaFin) launched a consultation process in December of the reporting year on the changes to the notification requirements.

Supervisory authorities are also increasingly focusing on information and communication technology (ICT) risk. Relevant requirements have been issued in the EBA guidelines on ICT risk assessment and in BaFin's supervisory requirements for IT in financial institutions (BAIT), which were most recently revised on August 16, 2021 and form the basis for Volkswagen Bank GmbH's approach. Against the background of the increasing risk of cyber attacks, the draft published by the European Commission last year for an EU regulation on digital operational resilience for the financial sector (DORA), the aim of which is to achieve a uniform high level of digital operational resilience, is of particular significance with regard to harmonized requirements for the security of network and information systems. Some of these requirements are already known from the EBA's guidelines on ICT and security risk management and BaFin's supervisory requirements for IT in financial institutions.

Further adjustment requirements arose from the revised MaRisk published on August 16, 2021, although the vast majority of the requirements had already been issued in EBA guidelines. Key aspects of the revised MaRisk entailed requirements relating to nonperforming loans, outsourcing arrangements, business continuity management (undoubtedly a response to the experience garnered during the COVID-19 pandemic) and operational risk, the management and prevention of which is becoming increasingly important for banks. With regard to the expansion of the data management requirements to include significant institutions, BaFin has clarified that this does not involve any extension of the requirements beyond the expectations communicated by the ECB in 2019. Volkswagen Bank GmbH is continuing to develop its data management systems with reference to regulatory expectations.

Regarding operational risk, the Basel Committee has in the last year extended its principles for managing operational risk to include ICT risk. The Basel Committee has also published a paper focusing on the principles for operational resilience at banks. For the purposes of creating a forward-looking risk management system, Volkswagen Bank GmbH has used these publications as a stimulus for further development as part of a preliminary study.

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

At the end of October in the reporting year, the European Commission published its Banking Package with its draft amendments to the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR). The aim is largely to implement Basel IV, which the Basel Committee also refers to as the completion of Basel III. The main requirements are to be implemented by January 1, 2025. One of the other key aspects in the draft CRD VI – which would still have to be transposed into German law after completion of the European legislative procedure – is the issue of ESG risks, including transition risks, that could arise if a business model is inadequately adjusted or upgraded. The Commission's draft for CRD VI therefore provides that banks should draw up transition plans for the future to counter these risks. Volkswagen Bank GmbH is a captive provider and its support for the transition to a low-carbon economy by offering appropriate financing arrangements is likely to depend to a large extent on the transition at Volkswagen AG and at the other brand manufacturers in the Volkswagen Group.

NEW PRODUCT AND NEW MARKET PROCESS

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

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

OVERVIEW OF RISK CATEGORIES

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. This risk can be broken down into different categories of risk. At the same time, the Volkswagen Bank GmbH Group also continuously analyzes and assesses the opportunities that arise from the risks that have been consciously taken. Business decisions taken by the Volkswagen Bank GmbH Group are therefore based on the risk-reward considerations described here.

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

IMPACT OF THE COVID-19 PANDEMIC ON RISK TYPES

The Covid-19 pandemic continued to present challenges for both employees and customers of the Volkswagen Bank GmbH Group in 2021.

The situation was compounded in 2021 by the semiconductor bottlenecks caused by a number of factors, such as lockdowns to cope with the COVID-19 pandemic, simultaneous heightened demand for semiconductors, especially in the consumer electronics industry, and logistics problems. The impact of the semiconductor shortage was reflected in lower new vehicle production and therefore fewer opportunities for the Volkswagen Bank GmbH Group to offer its financing solutions, leading to a sustained contraction in the volume of loans and receivables in 2021 (down by €5.5 billion as of December 2021 compared with December 2020). The shortage of new vehicles, and therefore of new vehicle financing, was only partially offset by the used vehicle business. To add to this, dealers sharply reduced their use of credit facilities in 2021 because of the lack of available new vehicles. Currently, manufacturers are unable to satisfy the high demand for new vehicles because of the persistent semiconductor bottlenecks and dealers are also unable to restock their inventories after selling vehicles.

Despite the volume challenges, the quality of the lending portfolio remained at a stable level in 2021. The default rate remained steady at 2.9% as of December 2021 (previous year: 2.9%). The percentage provision for credit risks declined slightly to 2.1% as of December 2021 (previous year: 2.3%). Any credit risks were taken into account in the recognition of the provision for credit risks in 2021. Based on various scenario calculations, the Volkswagen Bank GmbH Group should be prepared for potentially conceivable developments and has factored the current circumstances into the provisions for credit risks recognized as of the end of 2021.

In the reporting year, the semiconductor bottlenecks and thus the lower availability of new vehicles generated an uptrend in the used vehicle market and a gain for the Volkswagen Bank GmbH Group from the remarketing of vehicles. This trend had a positive impact on direct residual value risks.

We have not identified any implications of the Covid-19 pandemic in the other categories of risk. In 2022, we will continue to monitor developments in the Covid-19 pandemic and their impact on credit risk and other risk categories very closely, and will respond proactively as required.

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

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

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

“The risk management arrangements of the Volkswagen Bank GmbH Group comply with established standards and are proportional to the risk inherent in the exposures. This includes the processes which have been established for liquidity risk management.

The processes are appropriate for ensuring risk-bearing capacity and adequate liquidity resources on a sustained basis. The risk objectives described are measurable, transparent and manageable on account of the procedures used. They fit the strategy of the institution.

Consequently, we, as the Management Board of Volkswagen Bank GmbH, consider the risk management systems established by the Volkswagen Bank GmbH Group to be appropriate for the profile and strategy of the Volkswagen Bank GmbH Group.”

Concise risk statement (in accordance with Article 435(1)(f) of the CRR)

The business strategy of Volkswagen Bank GmbH (Group), ROUTE2025, serves as the starting point for the preparation and consistent derivation of our 2022 risk strategy. This provides a binding framework for risk-taking that reflects our risk-bearing capacity, risk tolerance and risk appetite, as well as the management of risks.

Our risk profile as well as the risk tolerance defined by the Management Board and the defined risk appetite of the Volkswagen Bank GmbH Group are modeled by the limit system or the distribution of risk capital across the individual risk types. As the risk profile shows, credit risk accounts for the greatest proportion of total risk. This reflects the business model of a captive.

TABLE 13: CHANGES IN RISK CATEGORIES

	31.12.2021		31.12.2020	
Risk categories	€ million	Share in %	€ million	Share in %
Credit risk	1.546	65	1.737	63
Shareholder, issuer and counterparty risk	347	15	330	12
Residual value risk	32	1	34	1
Interest rate risk in the banking book (IRRBB)	27	1	31	1
Other market risks (currency and fund price risk)	13	0	12	0
Liquidity risk (funding risk)	1	0	16	1
Operational risk	375	16	491	18
Business risk	40	2	100	4
Total	**2.381**	**100**	**2.752**	**100**

The confidence level is 99.9% as standard.

In addition, our risk profile is characterized by broad nationwide diversification, a large proportion of retail business and the use of motor vehicles as collateral. These comprise a large range of vehicles from the different brands of the Volkswagen Group as well as across all automotive segments. Furthermore, the Volkswagen Bank GmbH Group makes use of the exemption granted in Article 94 of the CRR, as it does not conduct any trading book activities.

The Volkswagen Bank GmbH Group has broadly diversified funding sources. At 20%, the target LCR (liquidity cover ratio) is above the regulatory minimum. This minimum ratio has always been achieved. The longer-term structural liquidity ratio NSFR is managed with an early warning threshold of 102%. This corresponds to the liquidity risk profile and is in line with the risk strategy as well as the defined risk tolerance. Liquidity risk management is suitable for detecting possible risks at an early stage and is therefore considered to be appropriate.

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

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

Number of directorships held by members of the Management Board

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

TABLE 14: NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT BOARD

	Number of management functions as of 31.12.2021	of which management functions in the Volkswagen Group as of 31.12.2021	Number of supervisory functions as of 31.12.2021	of which supervisory functions in the Volkswagen Group as of 31.12.2021
Dr. Michael Reinhart	1	1	2	2
Oliver Roes	1	1	1	1
Christian Löbke	1	1	0	0
Dr. Volker Stadler	2	2	0	0

TABLE 15: NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE SUPERVISORY BOARD

	Number of management functions as of 31.12.2021	of which management functions in the Volkswagen Group as of 31.12.2021	Number of supervisory functions as of 31.12.2021	of which supervisory functions in the Volkswagen Group as of 31.12.2021
Dr. Ingrun-Ulla Bartölke	0	0	3	3
Lutz Meschke	7	7	7	4
Silvia Stelzner	0	0	1	1
Björn Bätge	0	0	6	6
Markus Bieber	0	0	1	1
Frank Fiedler	2	2	9	9
Prof. Dr. Susanne Homölle	0	0	1	1
Thomas Kähms	0	0	1	1
Reinhard Mathieu	0	0	1	1
Jürgen Rosemann	0	0	1	1
Lars Henner Santelmann	1	1	11	11
Conny Schönhardt	0	0	3	3

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

The selection strategy is based on statutory requirements, particularly those governed by the KWG, the regulatory requirements and the rules of procedure of the Supervisory Board and its committees and the Company's articles of association.

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

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

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

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

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

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

Information about the Risk Committee

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

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

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

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

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

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

Ad hoc reports are generated as needed to supplement the system of regular reporting. All Group companies are required to prepare these reports. In a two-step process, the Management Board is first informed of events that may have a significant impact on or damage the overall risk profile; then, if necessary, the Supervisory Board is notified of these events. Depending on the risk type and reporting level, various thresholds then lead to these risks being reported immediately.

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

Credit Risk and Credit Risk Mitigation

Receivables that are past due by at least one day but by no more than 90 days (1 day ≤ past due in days ≤ 90 days) and not classified as nonperforming – taking into account the materiality threshold in accordance with section 16 of the SolvV – are considered to be past due.

The Volkswagen Bank GmbH Group defines nonperforming in accordance with Article 442(a) of the CRR in line with Article 178 of the CRR as follows:

An obligor is deemed to be nonperforming if,

a. based on concrete indications, the entity is of the opinion that the obligor is unlikely to discharge its payment obligations from the granting of credit or from lease liabilities without recourse by the entity to actions such as realizing any existing security, or

b. a significant portion of its aggregate liability from the granting of credit or from lease liabilities is past due for more than 90 consecutive calendar days – taking into account the materiality threshold in accordance with section 16 of the SolvV. In the case of retail risk exposures, the criteria set out above are applied to individual credit facilities and not to a borrower's total liabilities.

The events that are regarded as indications that it is unlikely that payment obligations will be discharged include:

- debt waivers
- distressed restructurings
- significant reduction in credit rating
- insolvency
- negative information from external credit information agencies
- court payment orders
- termination
- sale of receivables at a loss

In 2014, the final draft Implementing Technical Standards on supervisory reporting on forbearance and nonperforming exposures published by the EBA in February 2014 was implemented. This essentially defines forborne exposures as debt instruments in which concessions were granted to the debtor (for example, modification of the terms and conditions of the contract or its refinancing, deferrals and/or restructuring) that would not have been granted had the debtor not been facing or about to face financial difficulties.

The data is collected each quarter in the prudential scope of consolidation of Volkswagen Bank GmbH for the reporting in accordance with Article 99(4) of Regulation (EU) No. 575/2013 CRR or in the course of the FINREP framework and reported to the EBA.

Description of the procedures applied when recognizing provisions for credit risks

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

Provisions for credit risks are calculated using the expected credit loss model described in IFRS 9. To this end, the Volkswagen Bank GmbH Group recognizes specific value allowances and portfolio-based provisions for credit risks. In the case of specific value allowances, it additionally draws a distinction between portfolio-based specific value allowances and other specific value allowances. The principal distinguishing factor is whether an exposure is classified as an individually significant exposure or as a nonsignificant exposure.

Recognition of specific value allowances

Specific value allowances are recognized for individually significant exposure if there is any evidence of impairment. The specific valuation allowance is recognized in the amount required to cover the entire expected loss. To identify any objective evidence of impairment, the Volkswagen Bank GmbH Group applies the definition of default used for risk management in accordance with Article 178 of the CRR in connection with section 16 of the SolvV. Depending on the complexity and importance of the transaction, the Volkswagen Bank GmbH

Group classifies customers in the corporate exposures class as individually significant. In terms of the customer segments of the Volkswagen Bank GmbH Group, this means that dealers are classified as individually significant.

Recognition of portfolio-based specific value allowances
Portfolio-based specific valuation allowances are recognized for exposures that are not classified as individually significant but for which there is objective evidence of impairment. The amount of the valuation allowances corresponds to the expected loss, which is estimated using statistical techniques on the basis of expected recovery proceeds and cash flows.

Recognition of portfolio-based provisions for credit risks
Portfolio-based provisions for credit risks for covering expected impairments are recognized for exposure in cases in which there is not yet any specific evidence of impairment. Provisions for exposure for which a significant increase in the credit risk since origination has been determined (Stage 2) equal the amount of the lifetime expected credit loss. Provisions for exposure for which no significant increase in credit risk has been identified are measured on the basis of the 12-month expected loss. The determination of a significant increase in credit risk is based on any changes in the credit rating of the exposure. The amount of the provisions for credit risks is determined on the basis of the results of the creditworthiness assessment (e.g. rating or score), expected loss and the applicable level. The methods used to estimate the expected loss correspond to the methods used to estimate the loss for which portfolio-based valuation allowances are recognized.

The amount of the provision for credit risks and the existence of evidence of impairment are regularly reviewed and updated.

Credit Risk

Credit risk is defined as the danger of incurring losses as a result of defaults in retail and corporate 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 provisions.

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

Risk identification and assessment
Lending or credit decisions by the Volkswagen Bank GmbH Group are made primarily on the basis of the borrower credit check. These credit checks use rating or scoring systems, 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 process in corporate business

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 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.

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

A Europe-wide workflow-based rating application drawing on centrally held data is used to calculate ratings.

The rating systems were calibrated to a unified master scale to ensure comparability of the risk assessment within the Group by rating class. This provides for 15 rating classes (individual rating processes) or nine rating classes (FS rating) for the portfolio not in default as well as three nonperforming classes. Fixed PD bands are allocated to the non-defaulting rating classes. The median probability of default of the relevant rating class is always within the rating class of the PD band apportioned on the basis of uniform criteria.

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

Scoring process in retail business

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

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

Besides the customer's individual payments record, a variety of other external and internal data on the borrower is used in the behavioral scorecards to estimate the probability of default for the customer transaction. Similar transactions (in terms of the counterparty default risk) are assigned to a single risk class to enable standardized and uniform measurement in portfolio management. The behavioral scorecards in use were developed using statistical methods and models based on historical data covering a number of years and have predominantly been calibrated to a unified master scale. As a rule, all scorecards are validated annually.

Risk classification in the portfolios for which no behavioral scorecards are employed generally entails allocating the loans to different risk pools based on the borrower's payments record. A probability of default is assigned to each risk pool and, following this, to each loan in the risk pool. It is also used further along the credit risk measurement process as a basis for quantifying the probability of default of all the transactions in a risk pool. Provided corresponding data histories are available, this probability of default is determined based on long-term averages of realized default rates and normally validated on a yearly basis.

Supervision and review of retail and corporate systems

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

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

Risk monitoring and control

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

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

QUANTITATIVE DISCLOSURE OF CREDIT AND DILUTION RISK

Table EU CR1-A shows the net credit exposure for loans and advances as well as bonds by maturity as of December 31, 2021.

TABLE 16: EU CR1-A – MATURITY OF EXPOSURES

		A	B	C	D	E	F
		Net exposure value					
	in € million	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	252.7	16,712.7	14,433.2	0.0	16,340.8	47,739.4
2	Debt securities	0.0	206.9	2,529.0	1,398.2	17,127.7	21,261.8
3	Total	252.7	16,919.6	16,962.2	1,398.2	33,468.5	69,001.2

NONPERFORMING AND FORBORNE EXPOSURES

Volkswagen Bank GmbH observes the requirements of EBA/GL/2018/10 in the disclosure of non-performing and forborne exposures. At 3.28%, Volkswagen Bank GmbH's NPL ratio is below the 5% threshold.

TABLE 17: EU CQ1 – CREDIT QUALITY OF FORBORNE EXPOSURES

		A	B	C	D	E	F	G	H
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
	in € million	Performing forborne		Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
005	**Cash balances at central banks and other demand deposits**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
010	**Loans and advances**	**388.4**	**540.4**	**407.9**	**407.9**	**-6.2**	**-105.8**	**760.8**	**0.0**
020	Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
030	General governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
040	Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
050	Other financial corporations	0.4	1.9	1.4	1.4	0.0	-0.9	1.4	0.0
060	Non-financial corporations	123.5	208.0	181.4	181.4	-3.6	-60.4	253.2	0.0
070	Households	264.5	330.5	225.1	225.1	-2.5	-44.5	506.2	0.0
080	**Debt Securities**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
090	**Loan commitments given**	**78.0**	**106.8**	**99.1**	**99.1**	**0.0**	**0.0**	**0.0**	**0.0**
100	**Total**	**466.4**	**647.2**	**506.9**	**506.9**	**-6.2**	**-105.8**	**760.8**	**0.0**

The table provides an overview of the credit quality of the forborne exposures of Volkswagen Bank GmbH. It shows the gross carrying amounts of the exposures as well as the related credit risk adjustments, provisions and collateral received.

TABLE 18: EU CQ3 – CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS

		A	B	C	D	E	F	G	H	I	J	K	L
		Gross carrying amount / Nominal amount											
		Performing exposures			Non-performing exposures								
	in € million		Not past due or Past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past-due or past-due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 years	Of which defaulted
005	**Cash balances at central banks and other demand deposits**	**11,273.4**	**11,273.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
010	**Loans and advances**	**46,995.8**	**46,861.4**	**134.5**	**1,591.9**	**1,017.1**	**117.4**	**152.5**	**142.7**	**124.8**	**17.7**	**19.8**	**1,355.7**
020	Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
030	General governments	1.4	1.4	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
040	Credit institutions	171.7	171.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
050	Other financial corporations	1,963.4	1,963.2	0.2	5.5	4.5	0.2	0.1	0.4	0.2	0.0	0.0	4.8
060	Non-financial corporations	14,072.4	14,029.1	43.3	743.2	495.6	20.3	56.0	62.8	80.4	12.5	15.5	648.8
070	Of which SMEs	7,322.2	7,303.4	18.7	519.1	334.7	14.6	53.1	18.7	70.3	12.3	15.4	429.6
080	Households	30,786.9	30,695.9	91.0	843.2	516.9	96.9	96.4	79.5	44.2	5.1	4.2	702.2
090	**Debt Securities**	**21,268.4**	**21,268.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
100	Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
110	General governments	3,773.5	3,773.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
120	Credit institutions	377.1	377.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
130	Other financial corporations	17,117.8	17,117.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
140	Non-financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
150	**Off-balance sheet exposures**	**16,286.1**			**568.2**								**99.1**
160	Central banks	0.0			0.0								0.0
170	General governments	0.6			0.2								0.0
180	Credit institutions	0.2			0.0								0.0
190	Other financial corporations	1,015.1			1.6								0.0
200	Non-financial corporations	12,913.3			535.7								96.9
210	Households	2,357.0			30.7								2.1
220	**Total**	**84,550.3**	**68,129.8**	**134.5**	**2,160.0**	**1,017.1**	**117.4**	**152.5**	**142.7**	**124.8**	**17.7**	**19.8**	**1,454.8**

The table provides an overview of the gross carrying amounts of performing and non-performing risk exposure of Volkswagen Bank GmbH broken down by past due days.

TABLE 19: EU CQ4 – QUALITY OF NON-PERFORMING RISK EXPOSURES BY GEOGRAPHY

		A	B	C	D	E	F	G
		Gross carrying/Nominal amount				Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			of which: non-performing					
	in € million			of which: defaulted	of which: subject to impairment			
010	**On balance sheet exposures**	**81,129.55**	**1,591.89**	**1,355.71**	**0.05**	**-854.89**		**0.00**
020	Germany	39,132.75	980.37	889.02	39,132.61	-395.81		0.00
030	Luxenburg	14,315.57	0.00	0.00	42.04	0.00		0.00
040	Italy	8,170.15	59.03	58.42	5,707.11	-66.46		0.00
050	Spain	6,792.46	93.13	92.90	5,104.02	-120.17		0.00
060	France	5,353.40	348.70	207.90	5,244.97	-159.95		0.00
070	Others	7,365.22	110.68	107.48	-55,230.69	-112.51		0.00
080	**Off balance sheet exposures**	**16,286.12**	**568.16**	**99.09**			**62.73**	
090	Germany	8,626.42	511.94	96.59			49.37	
100	United States of America	2,263.67	1.01	0.00			1.65	
110	France	1,464.75	40.90	2.36			2.30	
120	The Netherlands	1,726.27	0.80	0.00			1.24	
130	Spain	660.34	3.18	0.00			2.50	
140	Others	1,544.69	10.33	0.15			5.69	
150	**Total**	**97,415.68**	**2,160.05**	**1,454.80**	**0.05**	**-854.89**	**62.73**	**0.00**

The table sets out non-performing risk exposures by geographical regions. Most of these exposures are related to the Germany region.

TABLE 20: EU CQ5 – CREDIT QUALITY OF LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS BY INDUSTRY

		A	B	C	D	E	F
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			of which: non-performing		of which: loans and advances subject to impairment		
	in € million			Davon: ausgefallen			
010	Agriculture, forestry and fishing	36.4	1.3	0.8	36.4	-0.9	0.0
020	Mining and quarrying	2.4	0.0	0.0	2.4	0.0	0.0
030	Manufacturing	279.2	10.2	6.7	279.2	-6.9	0.0
040	Electricity, gas, steam and air conditioning supply	7.2	0.1	0.1	7.2	-0.1	0.0
050	Water supply	29.7	1.6	0.6	29.7	-0.7	0.0
060	Construction	594.6	44.9	27.1	594.6	-21.6	0.0
070	Wholesale and retail trade	11,256.3	519.6	474.2	11,256.3	-274.9	0.0
080	Transport and storage	352.8	63.7	39.1	352.8	-23.9	0.0
090	Accommodation and food service activities	87.6	5.0	2.8	87.6	-3.1	0.0
100	Information and communication	80.2	6.8	5.6	80.2	-4.3	0.0
110	Real estate activities	0.0	0.0	0.0	0.0	0.0	0.0
120	Financial and insurance actvities	286.0	18.3	16.4	286.0	-8.2	0.0
130	Professional, scientific and technical activities	328.9	16.1	10.6	328.9	-12.0	0.0
140	Administrative and support service activities	1,222.1	47.2	32.8	1,222.1	-31.4	0.0
150	Public administration and defense, compulsory social security	0.5	0.0	0.0	0.5	0.0	0.0
160	Education	53.4	1.8	0.8	53.4	-1.4	0.0
170	Human health services and social work activities	105.7	2.6	1.4	105.7	-1.8	0.0
180	Arts, entertainment and recreation	27.4	1.6	1.0	27.4	-1.0	0.0
190	Other services	65.3	2.6	1.9	65.3	-3.2	0.0
200	**Total**	**14,815.6**	**743.2**	**621.9**	**14,815.6**	**-395.4**	**0.0**

With respect to non-financial corporations, the table sets out the proportion of non-performing exposures and corresponding credit risk adjustments by industry. Most of these are attributable to wholesale and retail trade.

The change in the stock of non-performing loans and advances are as follows:

TABLE 21: EU CR2 – CHANGE IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES

		A
	in € million	Gross carrying amount
010	Initial stock of non-performing loans and advances	2,090.0
020	Inflows to non-performing portfolios	0.2
030	Outflows from non-performing portfolios	-498.4
040	Outflows due to write-offs	0.0
050	Outflow due to other situations	-498.4
060	Final stock of non-performing loans and advances	1,591.9

Volkswagen Bank GmbH's performing and non-performing exposures and related provisions break down as follows:

TABLE 22: EU CR1 – PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
		Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures - Accumulated impairment and provisions			Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
in € million			of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		On performing exposures	On non-performing exposures
005	**Cash balances at central banks and other demand deposits**	**11,273.4**	**11,273.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
010	**Loans and advances**	**46,995.8**	**33,388.9**	**12,560.8**	**1,591.9**	**265.6**	**973.7**	**-419.9**	**-131.5**	**-273.6**	**-428.5**	**-17.9**	**-459.1**	**0.0**	**24,105.3**	**739.2**
020	Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
030	General governments	1.4	0.8	0.6	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.0
040	Credit institutions	171.7	171.2	0.5	0.0	0.0	0.0	-0.9	-0.9	0.0	0.0	0.0	0.0	0.0	0.1	0.0
050	Other financial corporations	1,963.4	917.8	98.6	5.5	0.8	4.3	-3.2	-1.9	-1.3	-3.4	0.0	-3.4	0.0	122.2	1.6
060	Non-financial corporations	14,072.4	8,231.0	5,784.1	743.2	94.4	439.0	-169.7	-42.4	-125.5	-225.7	-7.0	-273.4	0.0	8,987.8	379.3
070	Of which: SMEs	7,322.2	4,008.1	3,303.4	519.1	78.2	284.2	-98.6	-24.6	-72.5	-169.4	-3.8	-220.8	0.0	2,751.0	261.0
080	Households	30,786.9	24,068.1	6,677.0	843.2	170.3	530.3	-246.1	-86.3	-146.8	-199.3	-10.8	-182.4	0.0	14,994.4	358.4
090	**Debt Securities**	**21,268.4**	**3,180.3**	**970.3**	**0.0**	**0.0**	**0.0**	**-6.6**	**-3.4**	**-3.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
100	Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
110	General governments	3,773.5	2,803.2	970.3	0.0	0.0	0.0	-6.0	-2.8	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
120	Credit institutions	377.1	377.1	0.0	0.0	0.0	0.0	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
130	Other financial corporations	17,117.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
		Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures - Accumulated impairment and provisions			Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
in € million			of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		of which: stage 1	of which: stage 2		of which: stage 2	of which: stage 3		On performing exposures	On non-performing exposures
140	Non-financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
150	Off-balance sheet exposures	**15,718.0**	**140.4**	**568.2**	**99.1**	**0.0**	**0.0**	**39.9**	**19.6**	**20.3**	**22.8**	**0.0**	**22.8**	**0.0**	**0.0**	**0.0**
160	Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
170	General governments	0.4	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
180	Credit institutions	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
190	Other financial corporations	1,013.5	0.0	1.6	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
200	Non-financial corporations	12,377.6	137.8	535.7	96.9	0.0	0.0	38.9	19.0	19.9	22.8	0.0	22.8	0.0	0.0	0.0
210	Households	2,326.3	2.6	30.7	2.1	0.0	0.0	0.8	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
220	**Total**	**95,255.6**	**47,983.0**	**14,099.2**	**1,691.0**	**265.6**	**973.7**	**-386.5**	**-115.3**	**-256.5**	**-405.7**	**-17.9**	**-436.4**	**0.0**	**24,105.3**	**739.2**

QUALITATIVE DISCLOSURE OF THE USE OF THE STANDARDIZED APPROACH

In order to measure the risk weighting in the credit risk standard approach (CRSA) and to assess creditworthiness, Standard & Poor's Financial Services LLC has been disclosed to the BaFin and Deutsche Bundesbank for the "institutes and central governments" risk position classes, Moody's Investors Service, The McGraw-Hill Companies under the brand name Standard & Poor's Rating Services (S&P), Creditreform AG, DBRS Rating Limited and Fitch Ratings for the "securitizations" risk position classes for the CRSA positions and Standard & Poor's Rating Services, Fitch Ratings and Moody's Investors Service for the "covered bonds" risk position classes in the CRSA.

The nomination of a rating agency for the "corporates" risk position class has been dispensed with for the time being as the number of customers with an external rating is small in view of the predominance of small and mid-size enterprises in the customer structure.

There are no transactions within the Volkswagen Bank GmbH institution group for which the rating of the counterparty/debtor is applied to assess the corresponding issue.

QUANTITATIVE DISCLOSURE OF THE USE OF THE STANDARDIZED APPROACH

The following table provides quantitative information on the use of the Credit Risk Standardized Approach.

For the purpose of determining the risk-weighted assets for quantifying counterparty credit risk, the risk exposures are weighted with a flat-rate risk weight depending on the respective exposure classes in accordance with Article 112 of the CRR. For this purpose, the following table breaks down the credit risk exposures by exposure class and risk weights.

TABLE 23: EU CR5 – STANDARDIZED APPROACH

	in € million	RISK WEIGHT																
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	Total	Of which unrated
	Exposure classes	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1	Central governments or central banks	13,297.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,035.2	0.0	0.0	0.0	14,332.9	0.0
2	Regional government or local authorities	1,251.5	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,251.8	0.0
3	Public sector entities	1,153.7	0.0	0.0	0.0	155.1	0.0	0.0	0.0	0.0	3.5	0.0	0.0	0.0	0.0	0.0	1,312.4	0.0
4	Multilateral development banks	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0	50.0
5	International organisations	99.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	99.7	99.7
6	Institutions	0.0	0.0	0.0	0.0	689.0	0.0	7.6	0.0	0.0	5.4	0.0	0.0	0.0	0.0	0.0	702.0	0.0
7	Corporates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13,013.4	0.0	0.0	0.0	0.0	0.0	13,013.4	13,013.4
8	Retail	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34,180.4	0.0	0.0	0.0	0.0	0.0	0.0	34,180.4	34,180.4
9	Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10	Exposures in default	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	231.4	596.4	0.0	0.0	0.0	0.0	827.8	825.7
11	Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	Covered bonds	0.0	0.0	0.0	362.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	362.3	0.0
13	Institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	Unit or shares in collective investment undertakings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.4	0.0	0.0	0.0	0.0	0.0	13.4	13.4
16	Other items	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,945.8	0.0	0.0	0.0	0.0	0.0	2,946.2	2,946.2
17	**TOTAL**	**15,853.0**	**0.0**	**0.0**	**362.3**	**844.5**	**0.0**	**7.6**	**0.0**	**34,180.4**	**16,212.8**	**596.4**	**1,035.2**	**0.0**	**0.0**	**0.0**	**69,092.3**	**51,128.7**

HEDGING AND MITIGATION OF CREDIT RISK

Collateral

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

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

In order to enforce any financial claims arising from the financed or leased vehicle, the Volkswagen Bank GmbH Group contractually secures access rights to the vehicle so as to be able to use it as collateral if necessary. In Germany, for example, as a rule the registration document (Zulassungsbescheinigung Teil 2) for the vehicle is generally retained as a security deposit. In addition to the vehicles, other physical collateral (liens on real property, pledges, etc.) and personal guarantees are used to secure loans. Loan collateral is measured during the loan application process and generally also once a year during the term of the loan.

The measurement of the value of the collateral respectively the calculation of the unsecured loan volume which is based on this measurement, are relevant for the loan approval process and – especially in the dealer financing business – also for decisions to extend loans.

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

The following table presents the credit risk and the effect of credit mitigation techniques. To this end, on- and off-balance sheet exposures before credit conversion factors and credit risk mitigation are compared with the corresponding figures after credit conversion factors and credit risk mitigation. This information is supplemented with figures on risk-weighted assets (RWA) and RWA density. RWA density refers to the average risk weight of an exposure per exposure class.

TABLE 24: EU CR4 – STANDARDIZED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS

		EXPOSURES BEFORE CCF AND BEFORE CRM		EXPOSURES POST CCF AND POST CRM		RWAS AND RWAS DENSITY	
	Exposure classes	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWEA	RWEA density (%)
	in € million	a	b	c	d	e	f
1	Central governments or central banks	13,390.9	0.3	14,293.0	39.9	2,588.0	18.1%
2	Regional government or local authorities	1,251.8	0.4	1,251.8	0.0	0.1	0.0%
3	Public sector entities	1,310.7	0.6	1,312.4	0.0	34.5	2.6%
4	Multilateral development banks	50.0	0.0	50.0	0.0	0.0	0.0%
5	International organisations	99.7	0.0	99.7	0.0	0.0	0.0%
6	Institutions	672.8	423.7	672.8	29.2	147.0	20.9%
7	Corporates	13,123.4	13,995.9	12,220.0	793.4	12,980.9	99.7%
8	Retail	33,407.7	3,296.6	33,407.7	772.7	25,573.2	74.8%
9	Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	0.0	0.0%
10	Exposures in default	823.0	306.3	822.7	5.1	1,126.0	136.0%
11	Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0%
12	Covered bonds	362.3	0.0	362.3	0.0	36.2	10.0%
13	Institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0.0%
14	Collective investment undertakings	0.0	0.0	0.0	0.0	0.0	0.0%
15	Equity	13.4	0.0	13.4	0.0	13.4	100.0%
16	Other items	2,946.2	0.0	2,946.2	0.0	2,945.8	100.0%
17	**TOTAL**	**67,451.9**	**18,023.7**	**67,451.9**	**1,640.4**	**45,445.0**	**65.8%**

Credit risk mitigation techniques are only used in specific cases for capital backing purposes. Compliance with the minimum requirements for recognizing this credit risk mitigation technique in accordance with the CRR is ensured in such cases.

At present, credit risk mitigation within the meaning of Article 192ff. of the CRR is applied in the following cases:

Cash on deposit for loan commitments of Volkswagen Bank GmbH within the meaning of Article 197(1)(a) of the CRR.

Collateral or shares in liability towards KfW under express pandemic loans

Limited use is made of the option to enter into netting agreements within the meaning of Article 205 ff. of the CRR for mitigating credit risk in the calculation of own funds.

USE OF CREDIT RISK MITIGATION TECHNIQUES

The following table EU CR3 shows the level of collateralization according to the type of exposure. There is a breakdown by type of collateral.

TABLE 25: EU CR3 – CRM TECHNIQUES OVERVIEW: DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES

		UNSECURED CARRYING AMOUNT	SECURED CARRYING AMOUNT			
				Of which secured by collateral	Of which secured by financial guarantees	
						Of which secured by credit derivatives
	in € million	a	b	c	d	e
1	Loans and advances	35,016.6	24,844.6	24,812.5	32.0	0.0
2	Debt securities	21,261.8	0.0	0.0	0.0	0.0
3	Total	56,278.4	24,844.6	24,812.5	32.0	0.0
4	Of which non-performing exposures	852.6	739.2	739.2	0.0	0.0
EU-5	Of which defaulted	323.9	572.6	572.6	0.0	0.0

Encumbered and Unencumbered Assets

The tables below show the carrying amounts and fair values of the unencumbered and encumbered assets, the fair values of the collateral received and utilized or collateral available for encumbrance as well as the nominal amount of the collateral that is not available for encumbrance. The figures shown are medians calculated on the basis of the last four quarterly reporting dates in 2021. Information about the source of the encumbrance is also provided.

Information about the most important sources and types of encumbrance as well as a general description of the terms and conditions of the collateral agreements concluded for the purpose of securing liabilities

A portion of liquidity in the regulatory amount is deposited with central banks as a minimum reserve.

Bonds are used as collateral for the Group's own liabilities under open-market transactions. These securities are deposited with and pledged to Deutsche Bundesbank.

Receivables from retail financing are partially refinanced through ABS transactions. Liabilities include virtual loans representing the obligation to transfer the sold cash flows to special purpose vehicles (SPVs). The assigned receivables cannot be assigned again to anyone else or used in any other way as collateral.

Derivatives of Volkswagen Bank GmbH are secured with cash (cash collateral). If the fair value of all derivatives entered into with a counterparty is negative, cash collateral must be provided, which is recognized as an encumbered asset. If the fair value of all derivatives entered into with a counterparty is positive, Volkswagen Bank GmbH receives cash collateral, which is presented as collateral received but not encumbered. In addition, collateral is provided for derivatives subject to central clearing.

As of the December 31, 2021 reporting date, the carrying amount of the encumbered assets was €31,978 million (previous year: €27,066 million).

In the absence of encumbrances, information about the encumbrance structure between entities of the Volkswagen Bank GmbH Group can be omitted. Special purpose entities (see ABS transactions above) are consolidated in accordance with IFRS 10 but are not part of the prudential scope of consolidation.

Receivables are transferred to special purpose entities at no charge during securitization transactions within the framework of overcollateralization.

Of the "Other assets" item, 33% are not suitable for encumbrance in normal business. This relates in particular to property and equipment and other receivables.

TABLE 26: EUR AE1 – ENCUMBERED AND UNENCUMBERED ASSETS

		CARRYING AMOUNT OF ENCUMBERED ASSETS		FAIR VALUE OF ENCUMBERED ASSETS		CARRYING AMOUNT OF UNENCUMBERED ASSETS		FAIR VALUE OF UNENCUMBERED ASSETS	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
	in € million	010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**29,995.0**	**0.0**			**53,701.0**	**3,809.0**		
030	Equity instruments	0.0	0.0	0.0	0.0	6.0	0.0	0.0	0.0
040	Debt securities	10,883.0	0.0	10,883.0	0.0	9,876.0	3,809.0	9,876.0	3,809.0
050	of which: covered bonds	0.0	0.0	0.0	0.0	283.0	0.0	283.0	0.0
060	of which: securitisations	10,883.0	0.0	10,883.0	0.0	5,677.0	0.0	5,677.0	0.0
070	of which: issued by general governments	0.0	0.0	0.0	0.0	3,537.0	3,527.0	3,537.0	3,527.0
080	of which: issued by financial corporations	10,883.0	0.0	10,883.0	0.0	6,503.0	283.0	6,503.0	283.0
090	of which: issued by non-financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
120	**Other assets**	**18,435.0**	**0.0**			**44,670.0**	**0.0**		

TABLE 27: EU AE2 – COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED

		Fair value of encumbered collateral received or own debt securities issued		UNENCUMBERED: Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
	in € million	010	030	040	060
130	**Collateral received by the reporting institution**	**0.0**	**0.0**	**0.0**	**0.0**
140	Loans on demand	0.0	0.0	0.0	0.0
150	Equity instruments	0.0	0.0	0.0	0.0
160	Debt securities	0.0	0.0	0.0	0.0
170	of which: covered bonds	0.0	0.0	0.0	0.0
180	of which: securitisations	0.0	0.0	0.0	0.0
190	of which: issued by general governments	0.0	0.0	0.0	0.0
200	of which: issued by financial corporations	0.0	0.0	0.0	0.0
210	of which: issued by non-financial corporations	0.0	0.0	0.0	0.0
220	Loans and advances other than loans on demand	0.0	0.0	0.0	0.0
230	Other collateral received	0.0	0.0	0.0	0.0
240	**Own debt securities issued other than own covered bonds or securitisations**	**0.0**	**0.0**	**0.0**	**0.0**
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			**0.0**	**0.0**
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**29,995.0**	**0.0**		

TABLE 28: EU AE3 – SOURCES OF ENCUMBRANCE

		MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND SECURITISATIONS ENCUMBERED
	in € million	010	030
010	Carrying amount of selected financial liabilities	60,638.0	29,995.0

Counterparty Credit Risk (CCR)

DISCLOSURE OF COUNTERPARTY CREDIT RISK

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

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

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

Risk identification and assessment

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

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

TABLE 29: DISCLOSURES ON THE AMOUNT OF COLLATERAL THE INSTITUTION WOULD HAVE TO PROVIDE GIVEN A DOWNGRADE IN ITS CREDIT RATING

Securitization transactions	Total collateral requirement given credit rating downgrade in € million
Traditional securitization transactions	
Retail financing	750
Dealer financing	0
Leases	0
Total	**750**

Risk monitoring and control

Limits are assigned for counterparty/issuer risk on an aggregated basis and backed by internal capital under the Group ICAAP (internal capital adequacy assessment process) process. To establish effective monitoring and control, volume limits are specified for each counterparty and issuer. The Treasury Backoffice, in its role as a subsidiary function of Risk Management, is responsible for monitoring compliance with these limits. The volume limit is set at an appropriate level based on the needs of the market and the credit assessment. The Back Office department is responsible for the initial classification and then regular reviews. Within Volkswagen Bank GmbH, derivatives may only be transacted with counterparties that meet defined credit criteria. The notes to the IFRS financial statements for the Volkswagen Bank GmbH Group describe the collateral provided for derivatives and the provisions recognized for derivatives in accordance with Article 439 b) of the CRR. This description can be found in “Derivative financial instruments and hedge accounting” in the chapter on “Financial Instruments” in the section on accounting policies. A large part of the Volkswagen Bank GmbH’s derivatives transactions are collateralized via central counterparties or bilaterally. In accordance with IFRS 13 in conjunction with IDW RS HFA 47, the company's own default risk (DVA) and the default risk of the counterparty (CVA) are calculated for unsecured derivatives and included in the measurement of the derivatives.

Correlation risks in the form of "wrong-way risks" (WWR) may arise with derivatives if there is a positive correlation between the market price risk and the counterparty default risk. Volkswagen Bank GmbH achieves an effective reduction in WWR by transacting the majority of its OTC derivatives via central counterparties (CCPs) or securing them bilaterally.

Reports on counterparty and issuer risks to the Management Board are included in the quarterly risk management report.

QUANTITATIVE DISCLOSURE OF COUNTERPARTY CREDIT RISK

Counterparty credit risk is the risk of a business partner being unable to repay amounts of principal or interest owed in accordance with the contract. This risk forms part of credit risk and must be backed by own funds under the CRR requirements.

Volkswagen Bank GmbH hedges its counterparty credit risk from derivative transactions by entering into margin agreements with its business partners. The amount of the initial margins and variation margins are calculated on a daily basis. The necessary cash collateral is made available to or by the business partners on this basis.

The following table shows the composition of the collateral provided or deposited to cover or reduce the counterparty credit risk in connection with derivative transactions.

TABLE 30: EU CCR5 – COMPOSITION OF COLLATERAL FOR CCR EXPOSURES

		A	B	C	D	E	F	G	H
		Collateral used in derivative transactions				Collateral used in SFTs			
	in € million	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
	Collateral type	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
1	Cash – domestic currency	0.0	94.0	0.0	82.0	0.0	0.0	0.0	0.0
2	Cash – other currencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Domestic sovereign debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	Other sovereign debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	Government agency debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	Corporate bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	Equity securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	Other collateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	**Total**	**0.0**	**94.0**	**0.0**	**82.0**	**0.0**	**0.0**	**0.0**	**0.0**

Under the revised Capital Requirements Regulation (CRR II), the methodology for calculating the risk exposure amount for counterparty credit risk for derivative transactions was applied in accordance with the new Standardized Approach (SA-CCR) among other things. SA-CCR still entails replacement expense and the potential future replacement value as well as a multiplier. In addition, a distinction is drawn between margin and non-margin transactions as well recognized netting, hedging and collateralization. As of June 30, 2021, Volkswagen Bank GmbH applies solely SA-CCR for calculating risk exposure for derivatives. The following table shows the composition of the risk exposure determined in accordance with SA-CCR.

Risk exposures that are cleared via central counterparties (CCP) are presented separately in Table 17.

TABLE 31: EU CCR1 – ANALYSIS OF CCR EXPOSURE BY APPROACH

		A	B	C	D	E	F	G	H
	in € million	Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU1	EU - Original Exposure Method (for derivatives)	0.0	0.0		1.4	0.0	0.0	0.0	0.0
EU2	EU - Simplified SA-CCR (for derivatives)	0.0	0.0		1.4	0.0	0.0	0.0	0.0
1	SA-CCR (for derivatives)	182.7	16.5		1.4	278.8	278.8	278.8	57.4
2	IMM (for derivatives and SFTs)			0.0	0.0	0.0	0.0	0.0	0.0
2a	Of which securities financing transactions netting sets			0.0		0.0	0.0	0.0	0.0
2b	Of which derivatives and long settlement transactions netting sets			0.0		0.0	0.0	0.0	0.0
2c	Of which from contractual cross-product netting sets			0.0		0.0	0.0	0.0	0.0
3	Financial collateral simple method (for SFTs)					0.0	0.0	0.0	0.0
4	Financial collateral comprehensive method (for SFTs)					0.0	0.0	0.0	0.0
5	VaR for SFTs					0.0	0.0	0.0	0.0
6	**Total**					**278.8**	**278.8**	**278.8**	**57.4**

The introduction of the new method under SA-CCR for calculating risk exposure for derivatives in connection with counterparty credit risk also changes the basis for calculating the risk arising from a change to a credit valuation adjustment (CVA risk). Risk exposure and the own funds requirements for credit valuation adjustments are shown in the following table:

TABLE 32: EU CCR2 – TRANSACTIONS SUBJECT TO OWN FUNDS REQUIREMENTS FOR CVA RISK

		A	B
	in € million	Exposure value	RWEA
1	Total transactions subject to the Advanced method	0.0	0.0
2	(i) VaR component (including the 3× multiplier)		0.0
3	(ii) stressed VaR component (including the 3× multiplier)		0.0
4	Transactions subject to the Standardised method	277.6	74.9
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	0.0	0.0
5	Total transactions subject to own funds requirements for CVA risk	277.6	74.9

Volkswagen Bank GmbH handles part of its interest rate derivatives indirectly via clearing members or via EUREX. EUREX is recognized as a qualifying central counterparty in accordance with Article 4 (88) of the CRR. The scope of these transactions breaks down as follows as of the reporting date:

TABLE 33: EU CCR8 – EXPOSURES TO CCPS

		A	B
	in € million	Exposure value	RWEA
1	**Exposures to QCCPs (total)**		**0.2**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	8.0	0.2
3	(i) OTC derivatives	8.0	0.2
4	(ii) Exchange-traded derivatives	0.0	0.0
5	(iii) SFTs	0.0	0.0
6	(iv) Netting sets where cross-product netting has been approved	0.0	0.0
7	Segregated initial margin	0.0	
8	Non-segregated initial margin	30.0	0.0
9	Prefunded default fund contributions	0.0	0.0
10	Unfunded default fund contributions	0.0	0.0
11	**Exposures to non-QCCPs (total)**		**0.0**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	0.0	0.0
13	(i) OTC derivatives	0.0	0.0
14	(ii) Exchange-traded derivatives	0.0	0.0
15	(iii) SFTs	0.0	0.0
16	(iv) Netting sets where cross-product netting has been approved	0.0	0.0
17	Segregated initial margin	0.0	
18	Non-segregated initial margin	0.0	0.0
19	Prefunded default fund contributions	0.0	0.0
20	Unfunded default fund contributions	0.0	0.0

All counterparties with which Volkswagen Bank GmbH has transacted derivatives are assigned to the regulatory exposure class “Institutions”. The following table shows risk exposure by credit risk mitigation, broken down by risk weight and regulatory exposure class.

TABLE 34: EU CCR3 – STANDARDIZED APPROACH – CRR RISK EXPOSURES BY REGULATION RISK EXPOSURE CLASS AND RISK WEIGHTS

		RISIKOGEWICHT											
	in € million	a	b	c	d	e	f	g	h	i	j	k	l
	Exposure classes	0%	2%	4%	###	20%	50%	###	###	100%	150%	Others	Total exposure value
1	Central governments or central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	Regional government or local authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Public sector entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	Multilateral development banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	International organisations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	Institutions	0.0	8.0	0.0	0.0	276.2	1.0	0.0	0.0	1.6	0.0	0.0	286.8
7	Corporates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	Retail	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	Institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10	Other items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	**Total exposure value**	**0.0**	**8.0**	**0.0**	**0.0**	**276.2**	**1.0**	**0.0**	**0.0**	**1.6**	**0.0**	**0.0**	**286.8**

Market Risk

All companies in the Volkswagen Bank GmbH institution group are classified as non-trading book institutions. The institution group does not run a trading book. In the area of market risk, the institution group currently enters into currency risk. Own funds requirements stand at €17 million. Own risk models are not in use at this time.

QUANTITATIVE DISCLOSURE OF MARKET RISK

Market risk as part of total risk exposure must be quantified in accordance with Article 92 (3) (c) of the CRR and backed by own funds. With respect to the calculation of own funds requirements for market risk, Volkswagen Bank GmbH is only required to provide backing for foreign-currency risks. As a non-trading book institution, Volkswagen Bank GmbH does not have any trading book transactions that require own-funds backing.

The own funds required for foreign-currency risks multiplied by a factor of 12.5 equal €210 million as of December 31, 2021, equivalent to 0.4% of total risk exposure.

TABLE 35: EU MR1 – MARKET RISK UNDER THE STANDARDIZED APPROACH

		A
	in € million	RWEAs
	Outright products	
1	Interest rate risk (general and specific)	0.0
2	Equity risk (general and specific)	0.0
3	Foreign exchange risk	210.0
4	Commodity risk	0.0
	Options	
5	Simplified approach	0.0
6	Delta-plus approach	0.0
7	Scenario approach	0.0
8	Securitisation (specific risk)	0.0
9	**Total**	**210.0**

Foreign-currency risks primarily arise from the translation of the capital resources held by the two branches in Poland and the United Kingdom from a foreign currency into euros. The decrease of €231 million in foreign-currency risks from €441 million to €210 million is mainly due to exchange-rate fluctuations and changes in the amount of the capital resources.

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

The OpR strategy defines the approach to be applied in the management of operational risks. The OpR manual defines the implementation process and responsibilities.

Risk identification and assessment

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

The risk self-assessment is used to determine a monetary assessment of future 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. This loss database provides local experts with a standardized approach for recording loss. The experts use this form to determine and record the relevant data, including the amount and cause of the loss.

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

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

Risk monitoring and control

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

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

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

Quantitative disclosure of operational risk

The Volkswagen Bank GmbH institution group uses the Standardized Approach to determine the capital requirement for operational risks. Own funds requirements stand at €303 million.

TABLE 36: EU OR1 – OPERATIONAL RISK OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

		A	B	C	D	E
	Banking activities		Relevant indicator		Own funds requirements	Risk exposure amount
	in € million	Year-3	Year-2	Last year		
1	Banking activities subject to basic indicator approach (BIA)	0.00	0.00	0.00	0.00	0.00
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	2,309.28	2,361.70	2,046.91	303.11	3,788.88
3	Subject to TSA:	2,309.28	2,361.70	2,046.91		
4	Subject to ASA:	0.00	0.00	0.00		
5	Banking activities subject to advanced measurement approaches AMA	0.00	0.00	0.00	0.00	0.00

Other Financial Risks

SHAREHOLDER RISK

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

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

Risk identification and assessment

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

Risk monitoring and control

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

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 bearer of the residual value risk. If the guarantor of the residual value risk defaults, the Volkswagen Bank GmbH Group's indirect residual value risk becomes relevant in that the indirect residual value risk passes back to the Volkswagen Bank GmbH Group and becomes a direct residual value risk. In other words, the Volkswagen Bank GmbH Group re-assumes responsibility for remarketing the vehicles.

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

Risk identification and assessment

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

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

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

The UL is calculated by multiplying the latest projected residual value by the markdown. As in the calculation of the EL, the UL portfolio is determined by aggregating the ULs of the individual vehicles. This figure is determined quarterly. The results from the calculation of the EL and UL are fed in to the assessment of the risk situation, e.g. they are one of the factors used in assessing the adequacy of the provisions for credit 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. When the risk is quantified, the calculation also takes into account the probability of default for the bearer of the residual value risk (the dealership for example), because this represents the likelihood that the risk will revert, and any other factors specific to this category of risk.

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

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

Risk monitoring and control

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

As part of risk management procedures, the adequacy of the provision for credit 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. The preparation of the risk management report includes a review of adequacy in which the level of existing direct residual value risk is compared against the level of the recognized provisions for risks.

Within the Volkswagen Bank GmbH Group, provisions for direct residual value risk are recognized in accordance with the guidance contained in the International Financial Reporting Standards (IFRSs). Loan loss provisions are calculated on the basis of a point-in-time view of the risks accepted. For this purpose, the quantified residual value risks are spread over the term of the contract.

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

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

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

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

BUSINESS RISK

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

- Earnings risk (specific profit or loss risk)
- Reputational risk
- Strategic Risk
- Business Model Risk

All four risk subcategories relate to income drivers (e.g. business volume, margin, overheads, fees and commissions). With respect to business risk, the planned profit before tax is deducted as a risk mitigation technique. Business risk is included in risk management as a material risk type.

Earnings risk (specific profit or loss risk)

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

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

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

Risk identification and assessment

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

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

Risk monitoring and control

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

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

Reputational risk

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

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

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

Strategic Risk

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

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

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

In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern. Strategic risk is included in the calculation of risk-bearing capacity as part of business risk.

Business Model Risk

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

LIQUIDITY RISK

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

The expected liquidity flows of Volkswagen Bank GmbH are pooled and evaluated by Treasury. Daily liquidity requirements are calculated by Cash Management in the Treasury Back Office of Volkswagen Bank GmbH. Liquidity surpluses and shortfalls are eliminated by investing or raising cash with external banks as well as through ECB tenders.

Risk identification and assessment

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

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

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

The decision of the specific type of funding to be performed is influenced by market conditions, e.g. investor demand, on the one hand and by the maturity profiles of the existing funding operations on the other.

The Volkswagen Bank GmbH Group's external rating has an impact on the funding costs of money and capital market programs. As of December 31, 2020, credit rating agencies give Volkswagen Bank GmbH a long-term rating of A- (S&P) with a negative outlook and A1 (Moody's) with a negative outlook.

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 been drawn up so that it can be implemented in the event of any liquidity squeeze. A contingency situation may be triggered either by liquidity risk management (risk management) or by liquidity management and planning (OLC). These action points stipulate immediate notification of a set group of recipients including the Management Board in the event that a severe liquidity squeeze should occur. A crisis committee is convened to make all liquidity-related decisions and/or lay the groundwork for decisions by the Management Board.

Risk Communication

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

The members of the Management Board 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.

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

Qualitative disclosure of liquidity requirements

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

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

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

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

To reduce the funding risk, the capital that the companies need is largely raised by matching maturities.

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

Composition of the liquidity buffer
The normative liquidity buffer (HQLA) of the VW Bank Group is composed of LCR Level 1 securities and balances held with Deutsche Bundesbank. The economic view includes the unencumbered part of the ECB safe custody account in the liquidity buffer.

Concentration of liquidity and funding sources
The Volkswagen Bank GmbH Group is funded largely through direct banking deposits and by capital market and asset-backed security programs. Volkswagen Bank GmbH also participates opportunistically in the ECB's targeted longer-term refinancing operations (TLTRO).

In addition to a broadly diversified range of funding, Volkswagen Bank GmbH has two main sources of funding: Deutsche Bundesbank (TLTRO) and sources within the Volkswagen Group (cash collateral and deposits from subsidiaries in its function as a house bank).

In addition to funding as such, the Volkswagen Bank GmbH Group pursues a central approach for creating liquidity reserves to ensure daily solvency and the observance of liquidity risk indicators and regulatory ratios (including LCR, NSFR) at all times.

Derivative exposures and potential collateral calls
Interest-rate and currency swaps are traded within the Volkswagen Bank GmbH Group and included in the calculation of the LCR. OTC derivative contracts are hedged via collateral for each individual counterparty. Derivatives handled by a central counterparty (CCP) are collateralized in the form of variation and initial margins.

Derivatives are expected to generate only minor liquidity effects.

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

Description of the degree of centralization of liquidity management and the interaction between the individual Group institutions
Within the Volkswagen Bank GmbH Group, the LCR is managed centrally by Group Treasury Volkswagen Bank GmbH. The HQLAs for the prudential scope of consolidation of the Volkswagen Bank GmbH Group are held centrally and also managed by Group Treasury.

Other items in the LCR calculation which are not included in the LCR disclosure template but which are considered to be relevant in view of the liquidity profile are planned liquidity inflows (e.g. ABSs or capital market issues) which are not classed as legal cash flows for LCR purposes.

Quantitative disclosure of liquidity requirements

The calculation of the liquidity coverage ratio (LCR), for quantitative information on the LCR, is based on simple averages of the end-of-month reports over the twelve months prior to the end of each quarter.

TABLE 37: EU LIQ1 – QUANTITATIVE DISCLOSURES ON LCR

		A	B	C	D	E	F	G	H
	in € million	Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYY)	31.12.2021	30.09.2021	30.06.2021	31.03.2021	31.12.2021	30.09.2021	30.06.2021	31.03.2021
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA), after application of haircuts in line with Article 9 of regulation (EU) 2015/61					12,208.0	11,457.7	11,267.5	11,404.8
CASH - OUTFLOWS									
2	retail deposits and deposits from small business customers, of which:	22,904.6	22,511.0	22,219.2	22,056.4	1,206.3	1,169.3	1,148.5	1,144.1
3	*Stable deposits*	15,182.4	15,076.3	15,016.1	14,990.5	759.1	753.8	750.8	749.5
4	*Less stable deposits*	3,868.8	3,625.8	3,437.3	3,320.3	388.3	364.0	345.1	333.5
5	Unsecured wholesale funding	6,282.9	6,217.6	6,328.1	6,561.6	4,293.3	3,767.5	3,341.7	3,048.0
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	*Non-operational deposits (all counterparties)*	6,119.5	6,104.2	6,262.0	6,515.2	4,130.0	3,654.1	3,275.6	3,048.0
8	*Unsecured debt*	163.4	113.4	66.1	46.4	163.4	113.4	66.1	46.4
9	*Secured wholesale funding*					0.0	0.0	0.0	0.0
10	Additional requirements	4,479.2	4,355.7	4,340.2	4,306.6	686.0	672.4	669.1	664.8
11	*Outflows related to derivative exposures and other collateral requirements*	115.6	119.0	115.7	105.3	85.3	93.0	93.2	89.0
12	*Outflows related to loss of funding on debt products*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	*Credit and liquidity facilities*	4,363.5	4,236.7	4,224.5	4,201.3	600.7	579.4	575.9	575.8
14	Other contractual funding obligations	2,246.2	2,876.4	3,618.6	4,268.6	1,781.3	2,444.6	3,231.3	3,904.1
15	Other contingent funding obligations	10,153.7	9,362.8	8,767.5	8,169.4	557.4	514.0	481.3	448.5
16	TOTAL CASH OUTFLOWS					8,524.4	8,567.8	8,872.0	9,255.9

		A	B	C	D	E	F	G	H
	in € million	Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYY)	31.12.2021	30.09.2021	30.06.2021	31.03.2021	31.12.2021	30.09.2021	30.06.2021	31.03.2021
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
18	Inflows from fully performing exposures	3,101.7	3,198.1	3,356.0	3,224.5	1,727.4	1,782.0	1,887.1	1,832.5
19	Other cash inflows	1,304.4	1,213.6	1,072.8	923.1	948.9	938.1	900.4	843.6
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0.0	0.0	0.0	0.0
EU-19b	(Excess inflows from a related specialised credit institution)					0.0	0.0	0.0	0.0
20	TOTAL CASH INFLOWS	4,406.1	4,411.6	4,428.8	4,147.6	2,676.3	2,720.0	2,787.5	2,676.1
EU-20a	*Fully exempt inflows*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EU-20b	*Inflows subject to 90% cap*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EU-20c	*Inflows subject to 75% cap*	4,406.1	4,411.6	4,428.8	4,147.6	2,676.3	2,720.0	2,787.5	2,676.1
TOTAL ADJUSTED VALUE									
21	LIQUIDITY BUFFER					12,208.0	11,457.7	11,267.5	11,404.8
22	TOTAL NET CASH OUTFLOWS					5,848.1	5,847.8	6,084.5	6,579.8
23	LIQUIDITY COVERAGE RATIO					213.8%	201.0%	189.8%	174.8%

Changes in LCR over time

The quarterly averages for LCR are at a high level and significantly exceed the required minimum ratio of 100% on every reference date. This is mainly due to the large portfolio of HQLAs. HQLAs increased during the reporting period in the form of central bank balances and an accumulation of LCR Level 1 securities. At the same time, there was a decline in outflows, while there were virtually no changes in inflows. This resulted in a continuous increase in the LCR ratio.

TABLE 38: EU LIQ2 – NET STABLE FUNDING RATIO

		A	B	C	D	E
		Unweighted value by residual maturity				Weighted value
	in € million	No maturity[1]	< 6 months	6 months to < 1yr	≥ 1yr	
	Available stable funding (ASF) Items					
1	**Capital items and instruments**	**10,457.8**	**0.0**	**0.0**	**12.8**	**10,470.6**
2	Own funds	10,457.8	0.0	0.0	12.8	10,470.6
3	Other capital instruments		0.0	0.0	0.0	0.0
4	**Retail deposits**		**22,624.3**	**45.2**	**1,481.7**	**22,748.2**
5	Stable deposits		17,252.7	26.4	1,000.5	17,415.6
6	Less stable deposits		5,371.6	18.8	481.2	5,332.6
7	**Wholesale funding:**		**8,878.5**	**1,351.2**	**17,487.5**	**20,898.7**
8	Operational deposits		0.0	0.0	0.0	0.0
9	Other wholesale funding		8,878.5	1,351.2	17,487.5	20,898.7
10	**Interdependent liabilities**		**0.0**	**0.0**	**0.0**	**0.0**
11	**Other liabilities:**	**0.0**	**2,113.3**	**270.9**	**4,030.8**	**4,166.2**
12	NSFR derivative liabilities	0.0				
13	All other liabilities and capital instruments not included in the above categories		2,113.3	270.9	4,030.8	4,166.2
14	**Total available stable funding (ASF)**					**58,283.7**

		A	B	C	D	E
		Unweighted value by residual maturity				Weighted value
	in € million	No maturity[1]	< 6 months	6 months to < 1yr	≥ 1yr	
	Required stable funding (RSF) Items					
15	**Total high-quality liquid assets (HQLA)**					**26.4**
EU-15a	**Assets encumbered for a residual maturity of one year or more in a cover pool**		**0.0**	**0.0**	**0.0**	**0.0**
16	**Deposits held at other financial institutions for operational purposes**		**0.0**	**0.0**	**0.0**	**0.0**
17	**Performing loans and securities:**		**8,027.9**	**6,870.0**	**29,235.1**	**34,345.7**
18	Performing securities financing transactions with financial customerscollateralised by Level 1 HQLA subject to 0% haircut		0.0	0.0	0.0	0.0
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		488.6	94.0	986.5	1,082.3
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		7,539.3	4,009.3	13,836.3	17,535.1
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		0.0	0.0	0.0	0.0
22	Performing residential mortgages, of which:		0.0	0.0	0.0	0.0
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		0.0	0.0	0.0	0.0
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		0.0	2,766.8	14,412.4	15,728.2
25	**Interdependent assets**		**0.0**	**0.0**	**0.0**	**0.0**
26	**Other assets:**	**-**	**2,486.8**	**160.9**	**6,578.7**	**7,958.2**
27	Physical traded commodities				0.0	0.0
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		30.0	0.0	0.0	25.5
29	NSFR derivative assets		44.6			44.6
30	NSFR derivative liabilities before deduction of variation margin posted		0.0			0.0
31	All other assets not included in the above categories		2,412.2	160.9	6,578.7	7,888.1
32	**Off-balance sheet items**		**3,290.6**	**6.2**	**34.7**	**175.2**
33	**Total RSF**					**42,505.5**
34	**Net Stable Funding Ratio (%)**					**137.12%**

Other Nonfinancial Risks

Compliance, Conduct and Integrity Risk

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

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

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

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

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

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

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

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

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

The Compliance Officer is responsible for coordinating the ongoing legal monitoring used for identifying any new or modified legal requirements and rules with minimum delay. For their part, the compliance theme coordinators must work in collaboration with the legal department and the various other departments to implement measures aimed at identifying new or amended regulations and requirements relevant to their areas of responsibility at an early stage and, if such relevance is established, furnishing an analysis of materiality for the Bank. The respective compliance officer is notified of any identified regulations and requirements in accordance with the process description.

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

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,
> Capital market law
> Market abuse regulation
> banking supervisory law,
> antitrust law and
> IT security law.

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

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

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

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

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

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

Risk from Outsourcing Activities

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

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

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

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

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

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

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

Risk identification and assessment

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

Risk monitoring and control

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

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

Business continuity management

Business continuity management (BCM) aims at enabling the continuation of time-critical business processes in the event of an unplanned interruption as well as a structured return to normal business operations through adequate and effective planning.

To reinforce business resilience in emergency and crisis situations, the Volkswagen Bank GmbH Group implemented a business continuity management system (BCMS) – based on international standard ISO 22301 – that is continuously refined and improved. The general Group-wide BCM requirements are regularly reviewed with regard to their effectiveness and modified as requirements change. Local management is responsible for observing these requirements and for implementing, enhancing and continuously improving the preventive and reactive organizational structures and workflows within the scope of the BCM.

Time-critical business processes are identified using a process map. Tactics and business continuity plans are defined in the light of local risk situations to ensure continued business and a return to normal operations. In this connection, the Volkswagen Bank GmbH Group has defined the following scenarios as relevant: loss of buildings, IT, human resources and external service providers The effectiveness of the business continuity plans is reviewed in annual tests and, in this way, the operational capability of the processes demonstrated within the scope of locally implemented structures.

The annual BCM lifecycle ensures the timeliness, appropriateness and effectiveness of the BCMS.

Exposures to Interest Rate Risk on Positions Not Held in the Trading Book

DISCLOSURE OF INTEREST RATE RISK ON POSITIONS NOT HELD IN THE TRADING BOOK

The impact of interest rate shocks on the economic value of the Group's asset books is simulated on a monthly basis in accordance with regulatory requirements. In accordance with the Banking Directive, BaFin and the ECB have, among other things, defined six scenarios for uniform, sudden and unexpected interest rate changes for all institutions (parallel and turnaround scenarios subject to an interest floor) and request quarterly reports on the results.

TABLE 39: EU IRRBB1 – IMPACT OF THE SUPERVISORY INTEREST RATE SHOCK SCENARIOS

		A	B	C	D
Supervisory shock scenarios		Changes of the economic value of equity		Changes of the net interest income	
	in € million	Current period	Last period	Current period	Last period
1	Parallel up	-125.4	-255.4	106.4	-58.8
2	Parallel down	31.9	53.1	-142.7	-94.2
3	Steepener	21.7	38,4		
4	Flattener	-86.1	-122,6		
5	Short rates up	-121.1	-189,2		
6	Short rates down	43.4	77,1		

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Interest rate risk in the banking book (IRRBB) consists of potential losses arising as a result of changes in market interest rates. IRRBB occur because of interest rate mismatches between asset and liability items in a portfolio or on the balance sheet. The Volkswagen Bank GmbH Group is exposed to interest rate risk in its banking book. Changes in interest rates that cause interest rate risk to materialize can have a negative impact on financial performance.

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

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

Risk identification and assessment

Interest rate risk for the Volkswagen Bank GmbH Group is determined as part of the monthly monitoring process using the VaR method with a 60-day holding period and a confidence level of 99%. The model is based on a historical simulation and calculates potential losses taking into account 1,460 historical market fluctuations (volatilities). Negative interest rates can also be processed in the historical simulation and included in the risk evaluation.

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

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

Risk monitoring and control

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

TABLE 40: INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

CURRENCY	INTEREST RATE RISK SHOCK* (+200 / -200 BP)	
	Decrease in economic value in € million	Increase in economic value in € million
EUR	124	31
GBP	-2	0
PLN	0	1
CZK	0	0
Total	**-125**	**32**

* In accordance with BaFin Circular 06/2019 on interest rate risks in the non-trading book (para. 3.2e), negative interest rates were floored, i.e. in the case of negative interest rates, a small or no change was assumed with the –200 BP scenario.

Exposure to Securitization Positions

QUALITATIVE DISCLOSURE OF THE RISK FROM SECURITIZATION POSITIONS

Volkswagen Bank GmbH's securitization activities in accordance with Article 242ff. of the CRR are limited to the use of asset-backed securities transactions (ABS). Investments in securitizations of Volkswagen Bank GmbH Group are carried out solely via the banking book. The investment policy of the Volkswagen Bank GmbH and members of the institution group precludes taking over or retaining resecuritization positions.

Objectives of securitization activity

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

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

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

Types of risk associated with securitization

With the exception of moral hazard, the Volkswagen Bank GmbH Group does not retain any risks in connection with the securitization of receivables.

As resecuritization positions are neither assumed nor retained, the associated disclosures are omitted in accordance with Article 449(c) of the CRR.

Roles in the securitization process

The Volkswagen Bank GmbH Group assumes clearly defined roles in the securitization process in the light of the legal framework for securitization transactions. As the originator, it generates receivables under financing agreements. The structuring and selling process entails selecting and separating the portfolio and contacting external partners as well as the overall coordination of the transaction (attorneys, investment banks, rating agencies, swap partners, auditors, regulatory authorities). The entity also manages the contract pool that has been sold (collection and dunning procedures) and forwards the resulting payments to the special purpose vehicle (SPV, i.e. the servicer). Finally, they also assume responsibility for reporting to investors, banks and credit rating agencies. The Volkswagen Bank GmbH Group also invests in securitization positions related to its own ABS transactions as well as those of the Volkswagen Financial Services AG subgroup so as to be able to use the securities thus created as collateral for funding from the ECB.

Scope of the institution's activities

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

TABLE 41: SECURITIZATION: SCOPE OF THE INSTITUTION'S ACTIVITIES

Roles	Scope
Originator	Generation of receivables in the form of financing contracts
	"True sale", i.e. nonrecourse sale of receivables to a single purpose vehicle (SPV)
Structurer	Execution of the feasibility study
	Overall project management
	Definition of portfolio criteria
	Coordination of banks, legal counsel and rating firms to be involved
	Selection of swap partner and other third parties
Servicer	Contract pool management
	Collection of receivables, dunning services
	Forwarding of payments received to the single purpose vehicle
	Monthly reports to rating agencies, investors and other parties involved in the transaction

Risk monitoring of securitization positions

The securitization positions held by the Volkswagen Bank GmbH Group may be tranches of any seniority (senior, mezzanine, junior). Prior to their sale or issue, a loan approval process is performed in which the Bank front office and back office are involved.

The reports prepared by external credit assessment institutions in connection with an internal evaluation and plausibility check as part of the existing safeguards are used to assess the level of risk.

An internal rating is awarded if an external rating is not available. The only exception is the first loss position, which is deducted directly from the liable capital of the Volkswagen Bank GmbH Group.

Transaction performance is regularly reviewed using the monthly investor reports. The positions are also reviewed as part of an annual resubmission process.

The credit risks arising from the securitization positions are not hedged.

No resecuritization positions are held.

Description of the approaches used to calculate the risk-weighted exposure amounts

The entities of the Volkswagen Bank GmbH institution group determine their own funds requirements using the Standardized Approach to Credit Risk (SACR) based on the IFRS consolidated financial statements of Volkswagen Bank GmbH, taking into account the scope of consolidation in accordance with section 10a(1) sentence 2 of the KWG. Models based on internal ratings or the IRBA approach are not used. In the case of SACR, the relevant risk weighting is determined by allocating the external short and long-term ratings to credit assessment levels or is based on the risk weighting stipulations applicable to the relevant exposure classes (Article 114ff. of the CRR). At the Group level, the requirements for the transfer of the significant risk in accordance with Article 244 of the CRR are fulfilled and options to reduce the risk-weighted exposure amounts to be calculated under Article 247 of the CRR are exercised. Risk-weighted exposure amounts for counterparty default risk are determined for the securitization positions. For this purpose, SEC-ERBA is applied in accordance with Article 263 and 264 of the CRR as of the December 31, 2021 reporting date. The options to reduce the risk-weighted exposure amounts are utilized for the transactions issued by the Volkswagen Bank GmbH Group companies for Driver 15 as of the reporting date.

Within Volkswagen Bank GmbH, securitization positions arise from the retention of securities issued by originators within the Volkswagen Bank GmbH institution group. In addition, Volkswagen Bank GmbH invests in securitization positions of entities of the Volkswagen Financial Services AG Group whose originator is not included in the prudential scope of consolidation of Volkswagen Bank GmbH.

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

Accounting policies

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

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

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

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

If a transaction is overcollateralized, additional exposures are transferred to the special purpose entities. In addition, the special purpose entities place a discount on the purchase price in a cash deposit. Surplus collateralization is not reported in a separate line item of the balance sheet as the receivables are never taken off the balance sheet due to the fact that the special purpose entities are consolidated. The claim to payment of the cash deposit is also not capitalized because, from the Group's perspective, no sale took place owing to the consolidation of the special purpose entities. However, the cash deposit is reported separately under assets in the IFRS subgroup consolidated financial statements because the special purpose entities are consolidated.

Subsequent entries are made when the originator collects the installments from the customers as these fall due and transfers them to the special purpose entities. These special purpose entities particularly use these funds to cover recurring costs and to make interest and capital payments on the bonds and subordinated loans issued by them.

For more information, please see the accounting policies described in the IFRS consolidated financial statements of Volkswagen Bank GmbH.

Because only entities that are part of the prudential scope of consolidation may be included in regulatory Group reporting, the special purpose entities that are included in the scope of consolidation under IFRSs but not in the prudential scope of consolidation are deconsolidated for the purposes of the regulatory Group reporting.

Purchased securities and subordinated loans granted are disclosed under assets as securitization positions. These securities are measured at fair value through profit and loss.

The subordinated loans granted are reported with other receivables from customers. They are measured at fair value through profit and loss.

There are no liabilities reported in the balance sheet that are based on obligations to provide financial support for securitized receivables.

Credit rating agencies

Volkswagen Bank GmbH invests in securities of its own ABS transactions which securitize the amounts owed under retail financing.

Ratings from at least two credit rating agencies were used for the securitized exposures.

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

- Moody's Investors Service
- Standard & Poor's Corporation
- DBRS
- Creditreform Rating AG

Disclosures in accordance with Article 449 I of the CRR can be dispensed with as no internal-ratings-based approaches are applied.

Changes versus the previous year

Volkswagen Bank GmbH has securitized retail financing continuously by means of Driver Master Compartment 2 (since July 2015). In the case of Volkswagen Bank GmbH, Italian Branch, this is done with Private Driver Italia 2020-1 (since November 2020) and in the case of Volkswagen Bank GmbH, Spanish Branch also with Private Driver España 2020-1 (since November 2020).

Volkswagen Bank GmbH did not issue any new transactions in 2021.

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

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

All securitization transactions in which the Volkswagen Bank GmbH Group is the originator or the investor are traditional securitizations. The options to reduce the risk-weighted exposure amounts provided for in Article 244 of the CRR are applied to the Driver 15 transaction issued by Volkswagen Bank GmbH.

Compared to the previous year, the securitization transaction Driver UK Master Compartment 3, in which Volkswagen Bank GmbH is active as an investor, lost its STS status (STS: simple, transparent and standardized) and, hence, also the differentiated own funds treatment under Article 243 of the CRR as a result of Brexit as of the reporting date December 31, 2021. In view of the contractually agreed buyback right if the materiality threshold is breached ("clean-up call"), the outstanding exposures under the securitization transactions Driver 14 (exercised in February 2021), Driver Italia One (exercised in March 2021), Driver España (exercised in February 2021) and Driver España five (exercised in November 2021) were duly bought back. No new securitization transactions arose in the reporting period. Nor did Volkswagen Bank GmbH invest in any additional securitization transactions.

QUANTITATIVE DISCLOSURE OF THE RISK FROM SECURITIZATION POSITIONS

The following table shows the securitization positions held. The columns for the originator and sponsor roles (a – k) also include amounts from retained exposures for securitizations for which no significant risk transfer (SRT) was achieved. These amounts represent the regulatory retention of our share in the volumes securitized as an originator or sponsor. The amounts shown are nominal amounts where no SRT was achieved and otherwise the regulatory exposure amounts.

TABLE 42: EU SEC1 – SECURITIZATION POSITIONS IN THE NON-TRADING BOOK

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
		Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
		Traditional				Synthetic		Sub-total	Traditional				Traditional			
		STS		Non-STS									STS	Non-STS	Synthetic	Sub-total
	in € million		of which SRT		of which SRT		of which SRT		STS	Non-STS	Synthetic	Sub-total				
1	**Total exposures**	**0.0**	**0.0**	**15,216.4**	**0.0**	**0.0**	**0.0**	**15,216.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**548.4**	**0.0**	**548.4**
2	Retail (total)	0.0	0.0	15,216.4	0.0	0.0	0.0	15,216.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	residential mortgage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	credit card	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	other retail exposures	0.0	0.0	15,216.4	0.0	0.0	0.0	15,216.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	re-securitisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	Wholesale (total)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	548.4	0.0	548.4
8	loans to corporates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	commercial mortgage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10	lease and receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	548.4	0.0	548.4
11	other wholesale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	re-securitisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

The entities of the Volkswagen Bank GmbH institution group determine their own funds requirements using the SACR based on the IFRS consolidated financial statements of Volkswagen Bank GmbH, taking into account the scope of consolidation in accordance with section 10a(1) sentence 2 of the KWG. Models based on internal ratings or the IRBA approach are not used. In the case of SACR, the relevant risk weighting is determined by allocating the external short and long-term ratings to credit assessment levels or is based on the risk weighting stipulations applicable to the relevant exposure classes (Article 114ff. of the CRR). Risk-weighted exposure amounts for counterparty credit risks are determined for the securitization positions. For this purpose, SEC-ERBA is applied in accordance with Article 263 and 264 of the CRR as of the December 31, 2021 reporting date as all securitization positions currently held are externally rated.

The following two tables show the securitization positions which have been retained (originator positions) or acquired (investor positions) broken down by risk weighting bands and regulatory approaches.

TABLE 43: EU SEC3 – SECURITIZATION POSITIONS IN THE NON-TRADING BOOK AND ASSOCIATED REGULATORY OWN FUNDS REQUIREMENTS – INSTITUTION ACTING AS AN ORIGINATOR OR SPONSOR

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
	in € million	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW/ deductions
1	**Total exposures**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
2	Traditional transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Securitisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	Retail underlying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	Of which STS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	Wholesale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	Of which STS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	Re-securitisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	Synthetic transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10	Securitisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	Retail underlying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	Wholesale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	Re-securitisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

TABLE 44: EU SEC4 – SECURITIZATION POSITIONS IN THE NON-TRADING BOOK AND ASSOCIATED REGULATORY OWN FUNDS REQUIREMENTS – INSTITUTION ACTING AS AN INVESTOR

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEA (by regulatory approach)				Capital charge after cap			
	in € million	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW/ deductions
1	**Total exposures**	**0.0**	**548.4**	**0.0**	**0.0**	**0.0**	**0.0**	**548.4**	**0.0**	**0.0**	**0.0**	**193.8**	**0.0**	**0.0**	**0.0**	**15.5**	**0.0**	**0.0**
2	Traditional securitisation	0.0	548.4	0.0	0.0	0.0	0.0	548.4	0.0	0.0	0.0	193.8	0.0	0.0	0.0	15.5	0.0	0.0
3	Securitisation	0.0	548.4	0.0	0.0	0.0	0.0	548.4	0.0	0.0	0.0	193.8	0.0	0.0	0.0	15.5	0.0	0.0
4	Retail underlying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	Of which STS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	Wholesale	0.0	548.4	0.0	0.0	0.0	0.0	548.4	0.0	0.0	0.0	193.8	0.0	0.0	0.0	15.5	0.0	0.0
7	Of which STS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8	Re-securitisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	Synthetic securitisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10	Securitisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	Retail underlying	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	Wholesale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	Re-securitisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

The following table sets out all outstanding nominal amounts for which the Volkswagen Bank GmbH Group acts as an originator together with the risk exposures classified as in default in accordance with Article 178 of the CRR and the associated specific credit risk adjustments in accordance with Article 110 of the CRR.

TABLE 45: EU SEC5 – EXPOSURES SECURITIZED BY THE INSTITUTION – EXPOSURES IN DEFAULT AND SPECIFIC CREDIT RISK ADJUSTMENTS

		A	B	C
		Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount		
	in € million		Of which exposures in default	Total amount of specific credit risk adjustments made during the period
1	**Total exposures**	**18,917.3**	**230.6**	**71.9**
2	Retail (total)	18,917.3	230.6	71.9
3	residential mortgage	0.0	0.0	0.0
4	credit card	0.0	0.0	0.0
5	other retail exposures	18,917.3	230.6	71.9
6	re-securitisation	0.0	0.0	0.0
7	Wholesale (total)	0.0	0.0	0.0
8	loans to corporates	0.0	0.0	0.0
9	commercial mortgage	0.0	0.0	0.0
10	lease and receivables	0.0	0.0	0.0
11	other wholesale	0.0	0.0	0.0
12	re-securitisation	0.0	0.0	0.0

The outstanding total nominal amount for securitized exposures in the role as originator stands at €18.9 billion as of December 31, 2021. Of this, €231 million or 1.2% is classified as in default.

Environmental, Social and Governance Risks (ESG Risks)

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

There are two dimensions to Volkswagen Bank GmbH’s approach to sustainability. Firstly, it is striving to ensure that its own banking operations are broadly climate-neutral and physically prevent the danger of serious environmental damage. Secondly, it aims to support its customers in the transformation process by focusing on the greatest possible reduction in emissions with a view to protecting the climate and the environment.

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

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

A major focus of Volkswagen Bank GmbH is on handling those sustainability risks that could have adverse consequences for the Bank’s financial position, financial performance and reputation in order to structure various risk drivers in the known risk categories.

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

Going forward, the risk drivers specific to climate and the environment will play an especially significant role in the risk category structure and will be included in the risk assessment and management system.

Accordingly, the relevance of the risk drivers in the main risk types was analyzed in accordance with the ECB guidelines and their quality evaluated (credit risk, market risk, operational risk, liquidity risk).

As a result, “extreme weather events” as a form of **physical risk** have a low impact on credit risk in the short term but medium relevance in the medium/long term. Minor relevance for operational risk is expected across all time horizons. Other physical risk drivers such as environmental changes (e.g. rising temperatures) and resource shortages have a minor impact on credit risk in the short term and medium relevance in the medium/long term. Further potential risk drivers (biodiversity and pollution) are not considered to be relevant. These risk drivers are not relevant for the other risk types analyzed.

With respect to “**transitory risk drivers**”, carbon transition/costs have medium relevance (short and medium/long term) for the main risk type, i.e. credit risk. The “legislation/regulations” risk driver is expected to have only a minor impact on credit risk and operational risk in the short term. However, in the medium/long term it has medium relevance for credit risk and minor relevance for operational risk. Further transitory risk drivers of general importance are “technological changes”, “customer sentiment” and other environmentally driven transitory events” (e.g. waste disposal). These have minor relevance (short and medium/long term) for credit risk and operational risk.

The transitory risk drivers do not have any significance for the other risk types analyzed either.

An overall assessment indicates that Volkswagen Bank GmbH is primarily exposed to transitory climate and environmental risk drivers with respect to credit risk in the medium term.

Climate and environmental risk drivers currently do not have any influence on VW Bank GmbH's risk profile.

However, the business strategy and business model will be aligned towards supporting the transformation process of our corporate customers in the interests of sustainable trading operations. The resultant credit risks will be identified, evaluated and managed by means of corresponding analyses at the portfolio level and in the lending process.

For the most part, scenario analyses and a climate stress tests are being prepared for the analyses at the portfolio level. Looking forward, ESG criteria will also be taken into account at the level of the individual borrower throughout the entire loan origination process.

Volkswagen Bank GmbH is a captive provider and its vehicle financing business is specifically concentrated on the retail customer market and dealer financing. Support for an environmentally friendly transformation process is therefore very closely aligned to the asset for which finance is provided. Future support for electric vehicles will play an increasing role as part of the Volkswagen Group's switch to green transportation.

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

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

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

As ESG risks exhibit interdependencies with all other types of risk and should therefore not be considered in isolation, the management of Volkswagen Bank GmbH has decided to integrate issues relating to ESG risks in its current governance structure and in committee/line responsibility.

In addition, the Chief Risk Officer has been appointed as Sustainability Officer. In this function, he is responsible for aspects of the ESG taxonomy, related definitions and the determination of Volkswagen Bank GmbH's overall ESG strategy. In addition, the Sustainability Officer sets the framework for consistent and integrated reporting and ensures that regulatory and market developments touching on ESG matters are monitored and that, where necessary, preliminary impact and gap analyses are initiated.

Remuneration Policy

Under Art. 450 of the CRR, certain quantitative and qualitative disclosures are required on the categories of employees whose activities have a material impact on the overall risk profile (“risk-takers”). This report contains the relevant information for 2021 for the regulatory scope of consolidation including the foreign branches and subsidiaries.

The reporting logic is based on the origin principle, meaning that payments attributable to 2021 are reported. Accordingly, it includes payments that have been made in 2022 for 2021, such as the payment of variable remuneration.

REMUNERATION GOVERNANCE

Management, which consists of the institution’s managing directors, is responsible for structuring the employee remuneration system. The remuneration of the managing directors is governed by their service contracts and comes within the responsibility of the Supervisory Board.

Volkswagen Bank GmbH has adopted Volkswagen AG’s management remuneration system, the principles of which are set out in writing in organizational guidelines and whose appropriateness is reviewed annually by Volkswagen Bank GmbH. The “Variable Remuneration” company agreement, which implements the requirements of the Remuneration Ordinance for Institutions (InstitutsVergV) in conjunction with the employee representatives and creates a uniform understanding and greater transparency for employees, was again applied in 2021.

External consulting company Willis Towers Watson (WTW) was retained to analyze the new requirements arising from the fourth amendment to the Remuneration Ordinance for Institutions (InstitutsVergV).

After the Supervisory Board was heard, a Remuneration Officer and a Deputy Remuneration Officer were appointed for Volkswagen Bank GmbH. The Remuneration Officer’s main duty is to ensure appropriate, permanent and effective control of the remuneration system and the remuneration of the employees. Remuneration Officers are required to monitor the appropriateness of the remuneration for employees who are not managing directors. This is documented in the annual remuneration control report. In addition, they are required to support the Supervisory Board and the remuneration control committee with their monitoring and structuring duties with respect to all remuneration systems.

Volkswagen Bank GmbH’s Supervisory Board receives an annual report on the structure and appropriateness of the remuneration system. A remuneration control committee has been established at Volkswagen Bank GmbH in accordance with section 25d (12) of the German Banking Act.

This committee performs the statutory duties specified by the German Banking Act and the Remuneration Ordinance for Institutions. It supports the Supervisory Board in appropriately structuring the institution’s management remuneration system. It also provides assistance with monitoring the appropriate structuring of the remuneration systems for non-management employees, particularly for the head of the risk-controlling and compliance functions as well as for employees who exert a material influence on the company’s overall risk profile. In addition, it assesses the impact of the remuneration systems on risk, capital and liquidity management and seeks to ensure that they are aligned to the business and risk strategy, which takes due account of the company’s assets and sustainability risks. The remuneration control committee also supports the Supervisory Board in monitoring the proper inclusion of the internal control function and all other relevant areas in the structuring of the remuneration systems.

It is composed of the Chairman of the Supervisory Board as well as three other Supervisory Board members, one of whom is an employee representative. Under the remuneration control committee’s rules of procedure, at least one member must have sufficient specific knowledge and professional experience in the area of risk management and risk controlling, particularly with regard to mechanisms for the alignment of the remuneration systems with the company’s overall risk appetite and risk strategy and its equity position. The remuneration control committee met a total of five times in 2021, preparing corresponding resolutions for the Supervisory Board.

PRINCIPLES OF THE REMUNERATION SYSTEM

The remuneration strategy is materially shaped by the business and risk strategy, which takes account of the company's corporate culture and sustainability risks (ESG). The remuneration system supports the corporate culture and provides an important basis for one aspect of the ROUTE2025 corporate strategy derived from it, namely, the company's status as a "top employer". The competitive and performance-oriented remuneration system enhances employer branding. Within the scope of the personnel strategy, this makes it possible to recruit the best candidates for the company and to nurture and develop employees systematically on a target-oriented basis. Moreover, it ensures the availability of human resources in terms of both quantity and quality. The remuneration policy makes sure that customer and consumer rights and interests are duly taken into account.

The remuneration policy for all employees is gender-neutral, i.e. employees receive equal pay for the same or equivalent work regardless of their gender. The remuneration system includes fixed and variable components. These are appropriately balanced to prevent any incentives for accepting unreasonably high risks. As a general rule, a maximum ratio of 1:1 is applied. In this connection, the sole owner has passed a resolution pursuant to section 6 of the Remuneration Ordinance for Institutions in connection with section 25a (5) sentence 5 of the German Banking Act stipulating that the ratio of fixed to variable remuneration may not exceed 1:2 in the case of members of the management group, the upper management group and the top management group as well as other management. This has been reported to BaFin.

The remuneration systems are structured in such a way as to ensure that they are not inconsistent with the monitoring function of the control units (e.g. risk management, compliance, back office, internal auditing and human resources). In particular, there is no risk of any conflict of interests. Overall, remuneration in the control units permits adequate human resources in terms of both quantity and quality and primarily comprises fixed components. As a general principle, no guaranteed variable remuneration or retention bonus are granted. Exceptions are only possible in justified individual cases and within the scope permitted by section 5 (6) of the Remuneration Ordinance for Institutions. Any compensation or severance payments that are made are consistent with the long-term interests of Volkswagen Bank GmbH and section 5 (6) of the Remuneration Ordinance for Institutions as well as the severance payment framework. Corresponding payments that come within the scope of section 20 of the Remuneration Ordinance for Institutions are subject to the special retention and pay-out requirements.

Provisions are set aside for the year to which the variable remuneration is attributable on the basis of the reasons for vesting. Variable remuneration is awarded and paid only if the conditions set out in section 7 of the Remuneration Ordinance for Institutions have been satisfied and the variable remuneration is consistent with the company's earnings for the year. Allowance is made for risk-bearing capacity, multi-year capital planning and the earnings situation. Appropriate equity and liquidity resources as well as the permanent maintenance or restoration of the combined capital buffer requirements in accordance with section 10i of the German Banking Act must be ensured. Total variable remuneration is composed of the variable remuneration provided by Volkswagen Bank GmbH and all subordinate companies or branches.

Employees may not restrict or nullify the risk-orientation of variable remuneration by means of hedging or other counter measures. This includes external hedging by means of agreements with third parties as well as internal arrangements with other employees.

THE REMUNERATION SYSTEM

The remuneration system includes fixed and variable components, ancillary benefits and company pension scheme commitments. Reasonable remuneration in line with customary market practices is paid.

The remuneration framework is aligned to the value of the function performed. Allowance is made for requirements with regard to defined and Group-wide evaluation criteria as well as allocation to employee levels and salary groups. These are assigned to basic salary bands and a bonus framework that applies to all the functions of these employee levels and salary groups. The remuneration framework for the control functions is also based on the value of these functions. This ensures that tasks of the same value are assigned to the same remuneration framework and that the control activity is not restricted.

In addition to market practice, the remuneration levels and structures within the Volkswagen Group are taken into account for the purposes of determining remuneration levels to ensure appropriate employee mobility between the Group companies. The remuneration structure is such that no incentive is created for accepting unreasonably high risks.

FIXED REMUNERATION

The collective bargaining agreement between Volkswagen AG and IG Metall also applies to the employees of Volkswagen Bank GmbH, who are bound by it under a subordinate collective bargaining agreement.

The employees of Volkswagen Bank GmbH who are not subject to the collective bargaining agreement receive remuneration in excess of the payscale. The individual monthly salary ensures basic remuneration sufficient to cover the cost of living, allowing the individual employee to align their performance to the company's interests without becoming dependent on the variable remuneration. In this way, performance of the duties arising from the function in question is duly recompensed. The underlying remuneration bands are regularly reviewed and adjusted. At the same time, Volkswagen Bank GmbH endeavors to grant remuneration in line with the market levels in order to recruit and retain qualified employees.

VARIABLE REMUNERATION

Employees coming within the scope of the collective bargain agreement receive variable remuneration in line with that agreement. However, in accordance with section 1 (4) of the Remuneration Ordinance for Institutions, this does not constitute variable remuneration as defined in that ordinance.

The remuneration system recompenses the individual's performance and gives employees a share of the profits earned by Volkswagen Bank GmbH and the Volkswagen Group. The variable remuneration as defined in the Remuneration Ordinance for Institutions for employees outside the scope of the collective bargaining agreement is composed of an annual bonus and a long-term bonus. The variable remuneration is measured on a single-year (annual bonus) and multi-year (long-term bonus) basis and includes three aspects – group/institution, organizational unit and individual. The control and measurement parameters are derived from the business and risk strategy and take account of the defined risk, equity and liquidity indicators. Negative contributions to performance reduce the amount of the variable remuneration, including in the event of (premature) termination of the employment contract. The bonus is settled in May of the year following the approval of the applicable annual financial statements and subsequently paid out. The variable remuneration is granted in cash and is not a fixed part of the annual salary. Rather, it is a voluntary benefit with which the employees are given a share of the company's profit.

The annual bonus reflects the performance of Volkswagen Bank GmbH and partly also VW AG. All bonus-entitled employees participate on the basis of their individual salary group. The amount depends on the institution's performance and, in the case of the upper management group, additionally also on the Group's performance and is determined on the basis of a one-year measurement period. The annual bonus is determined by the management or the Supervisory Board and approved by the sole owner. Performance is calculated on the basis of Volkswagen Bank GmbH's adjusted return on equity (ROE) and, in the case of the upper management group, additionally on VW AG's operating return on sales (ROS) and the return on investment (ROI). In a second step, the provisional target achievement level/annual bonus is multiplied with a risk parameter representing limit utilization at the group and institution level; this risk parameter is determined annually at the discretion of the managing directors and the Supervisory Board of Volkswagen Bank GmbH in the light of limit utilization. The combination of ROE/ROS and ROI with a risk parameter ensures that the calculation of the annual bonus takes account of both performance and the risks assumed.

The long-term bonus takes account of internal and external success factors and reflects the development of Group enterprise value and management performance. With its focus on earnings per share, the share price and the dividend, it links the Group's profitability with investor interests on the basis of a three-year measurement period. All bonus-entitled employees participate on the basis of their individual salary group. The absolute amount of the long-term bonus is capped.

A personal performance factor rewards the employee's individual performance in the previous year on the basis of the achievement of the targets defined in the individual target agreement and the line manager's assessment of the employee's performance. Accordingly, the overall bonus is determined on the basis of quantitative and qualitative factors. Volkswagen AG's standardized process for target agreement discussions is applied to all managers worldwide. This not only involves defining the targets for the coming year but also includes an assessment of the target achievement level reached in the previous year and of the manager's performance in terms of professionalism, leadership and cooperation as well as entrepreneurial thinking and behavior. The personal performance factor is determined individually in a multi-year process involving Human Resources and the line manager as well as the responsible member of management within the framework of comparative discussions. It is fixed on the basis of firmly defined assumptions and benchmarks for the various combinations of performance assessment and target achievement subject to reasonable discretion.

This ensures that any negative deviations in the individual contribution to the company's performance may result in a reduction in or even the full loss of the variable remuneration. The personal performance factor is subject to defined lower and upper limits.

However, payment of the variable remuneration components does not depend only on solely economic parameters but also on compliance with the culture and integrity rules in force in the Volkswagen Group and at Volkswagen Bank GmbH. Against this backdrop, a review is performed to determine if a corrective is required on the basis of the culture and integrity rules in force in the Volkswagen Group and at Volkswagen Bank GmbH ("culture and integrity corrective"). The deciding factor for the culture and integrity corrective is whether relevant misconduct has occurred during the assessment period. The review is performed on the basis of individual misconduct and organizational fault. In the case of the upper management group, the company may at its own reasonable discretion reclaim the full amount of the gross payout if it subsequently becomes aware of or discovers any misconduct which, had such misconduct been known from the outset, would have justified the imposition of a 100% culture and integrity corrective.

OTHER SECONDARY BENEFITS

In addition to fixed and variable remuneration, Volkswagen Bank GmbH grants its employees secondary and social benefits. These are non-discretionary arrangements that are based on Group-wide or Bank-wide rules and therefore do not constitute any incentive to take unreasonable risks.

MANAGEMENT REMUNERATION SYSTEM

The Supervisory Board of Volkswagen Bank GmbH is responsible for determining the remuneration for the managing directors of Volkswagen Bank GmbH. Management remuneration is composed of fixed and variable remuneration. In addition, secondary benefits are provided in line with standard market practice. The amount of the remuneration appropriately reflects the managing directors' duties and performance. The variable remuneration is measured in accordance with the Volkswagen Group's management remuneration system. This system provides for a multi-year measurement basis. In accordance with section 7 of the Remuneration Ordinance for Institutions, the Supervisory Board determines the variable remuneration for the managing directors on the basis of the criteria that also apply to the employees of Volkswagen Bank GmbH. In addition, the special risk-taker requirements apply to the managing directors.

RISK-TAKER REQUIREMENTS

The special requirements defined in the Remuneration Ordinance for Institutions apply to risk-takers, i.e. employees whose activities exert a material influence on the overall risk profile. At its own instigation, Volkswagen Bank GmbH performs an annual risk analysis to identify the risk-takers. This includes all subordinate companies as well as the branches of VW Bank.

The risk-takers were identified for 2021 on the basis of section 18 of the Remuneration Ordinance for Institutions in connection with Delegated Regulation (EU) No. 923/2021 to supplement Directive 2013/36/EU. In Germany, 47 employees (including four managing directors and 14 members of the Supervisory Board) were identified as risk-takers. Outside Germany, 17 employees were duly identified.

The variable remuneration of risk-takers is also measured in accordance with the Volkswagen Group's management remuneration system. Payment of the variable remuneration is subject to the special requirements defined in the Remuneration Ordinance for Institutions. In some cases, payment must be spread over several years and is tied to the company's sustained development. 40% of the variable remuneration for risk-takers is paid immediately. 60% is deferred over a period of three to five years. In the case of managing directors, a deferral period of five years applies. If the variable remuneration calculated for a given year is below the exemption limit set by the competent authority for that year, the bonus is paid out immediately in cash. The variable remuneration calculated for risk-takers for a given year does not give rise to any claim to such a bonus or a corresponding entitlement. The value of the bonus is merely a variable giving rise to the right to error-free calculation of the bonus. 50% of the part granted or deferred is tied to Volkswagen Bank GmbH's sustainable further development ("sustainability component"). The amount paid out under the sustainability component is tied to an indicator-based calculation of enterprise value, reflecting changes in the adjusted Tier 1 capital. It is subject to an additional vesting period of twelve months.

In the case of risk-takers, the deferred parts of the deferred shares of the variable remuneration are subject to a penalty check before payment. A reduction in or complete forfeiture of the variable remuneration is possible if the penalty check provides evidence of any breach of duty or integrity. In addition to the penalty check, backtesting is carried out to determine whether the original calculation of the variable remuneration is retrospectively still correct.

Management or, in the case of the managing directors, the Supervisory Board make a discretionary decision concerning a possible reduction or forfeiture of any deferred tranches.

In addition, the remuneration system for risk-takers at Volkswagen Bank GmbH provides for the possibility of reclaiming variable remuneration that has already been paid out under certain conditions and for claims to payment to expire in the event of any negative deviations in the contribution to the company's performance as defined in section 18 (5) in connection with section 20 (5) of the Remuneration Ordinance for Institutions ("clawback").

The penalty check for the deferred payments for risk-takers in accordance with section 20 (5) of the Remuneration Ordinance for Institutions was applied for 2021. Some parts of the variable remuneration retained from previous years were reduced in the reporting period due to negative contributions to the bank's performance.

QUANTITATIVE DISCLOSURE

TABLE 46: EU REM1 – REMUNERATION AWARDED FOR THE FINANCIAL YEAR

			A	B	C	D
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	14	4	0	46
2		Total fixed remuneration	0.1	1.7	-	8.1
3		Of which: cash-based	0.1	1.7	-	8.1
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests	0.0	0.0	-	0.0
5		Of which: share-linked instruments or equivalent non-cash instruments	0.0	0.0	-	0.0
EU-5x		Of which: other instruments	0.0	0.0	-	0.0
6		(Not applicable in the EU)				
7		Of which: other forms	0.0	0.0	-	0,0
8	Variable remuneration	(Not applicable in the EU)				
9		Number of identified staff	14	4	0	46
10		Total variable remuneration	0.0	1.9	-	6.5
11		Of which: cash-based	0.0	1.0	-	3.2
12		Of which: deferred	0.0	0.8	-	2.6
EU-13a		Of which: shares or equivalent ownership interests	0.0	0.0	-	0.0
EU-14a		Of which: deferred	0.0	0.0	-	0.0
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	0.0	1.0	-	3.2
EU-14b		Of which: deferred	0.0	0.8	-	2.6
EU-14x		Of which: other instruments	0.0	0.0	-	0,0
EU-14y		Of which: deferred	0.0	0.0	-	0,0
15		Of which: other forms	0.0	0.0	-	0,0
16		Of which: deferred	0.0	0.0	-	0,0
17	**Total remuneration (2 + 10)**		**0.1**	**3.6**	**-**	**14.5**

TABLE 47: EU REM2 – SPECIAL PAYMENTS TO STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTIONS' RISK PROFILE (IDENTIFIED STAFF)

		A	B	C	D
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards - Number of identified staff				
1	Guaranteed variable remuneration awards - Number of identified staff	0.0	0.0	0.0	0.0
2	Guaranteed variable remuneration awards -Total amount	0.0	0.0	0.0	0.0
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	0.0	0.0	0.0	0.0
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	0.0	0.0	0.0	0.0
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	0.0	0.0	0.0	0.0
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	0.0	0.0	0.0	0.0
7	Severance pay[illegible] Total amount	0.0	0.0	0.0	0.0
8	Of which [illegible]	0.0	0.0	0.0	0.0
9	Of which [illegible]	0.0	0.0	0.0	0.0
10	Of which [illegible] financial y[illegible] bonus cap[illegible]	0.0	0.0	0.0	0.0
11	Of which [illegible] a single pe[illegible]	0.0	0.0	0.0	0.0

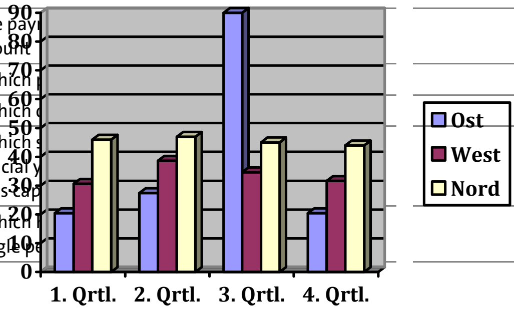

TABLE 48: EU REM3 – DEFERRED REMUNERATION

	Deferred and retained remuneration	A Total amount of deferred remuneration awarded for previous performance periods	B Of which due to vest in the financial year	C Of which vesting in subsequent financial years	D Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	E Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	F Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	EU - G Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	EU - H Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function								
2	Cash-based	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Shares or equivalent ownership interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	Share-linked instruments or equivalent non-cash instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	Other instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	Other forms	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	MB Management function								
8	Cash-based	1.5	0.0	1.1	0.0	0.0	0.0	0.3	0.0
9	Shares or equivalent ownership interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10	Share-linked instruments or equivalent non-cash instruments	1.5	0.0	1.1	0.0	0.0	0.0	0.3	0.1
11	Other instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	Other forms	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	Other senior management								
14	Cash-based	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	Shares or equivalent ownership interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16	Share-linked instruments or equivalent non-cash instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

	Deferred and retained remuneration	A Total amount of deferred remuneration awarded for previous performance periods	B Of which due to vest in the financial year	C Of which vesting in subsequent financial years	D Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	E Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	F Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	EU - G Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	EU - H Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
17	Other instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
18	Other forms	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
19	Other identified staff								
20	Cash-based	4.0	0.0	2.9	0.0	0.0	0.0	1.1	0.4
21	Shares or equivalent ownership interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
22	Share-linked instruments or equivalent non-cash instruments	4.0	0.0	2.9	0.0	0.0	0.0	1.1	0.4
23	Other instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
24	Other forms	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
25	**Total amount**	**10.9**	**0.0**	**8.0**	**0.0**	**0.0**	**0.0**	**2.9**	**0.9**

TABLE 49: EU REM4 – REMUNERATION OF 1 MILLION EUR OR MORE PER YEAR

		A
	EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	0
2	1 500 000 to below 2 000 000	1
3	2 000 000 to below 2 500 000	0
4	2 500 000 to below 3 000 000	0
5	3 000 000 to below 3 500 000	0
6	3 500 000 to below 4 000 000	0
7	4 000 000 to below 4 500 000	0
8	4 500 000 to below 5 000 000	0
9	5 000 000 to below 6 000 000	0
10	6 000 000 to below 7 000 000	0
11	7 000 000 to below 8 000 000	0
x	To be extended as appropriate, if further payment bands are needed.	

TABLE 50: EU REM5 – INFORMATION ON REMUNERATION OF STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTIONS' RISK PROFILE (IDENTIFIED STAFF)

		A	B	C	D	E	F	G	H	I	J
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	**Total number of identified staff**										**64**
2	Of which: members of the MB	14	4	**18**							
3	Of which: other senior management				0	0	0	0	0	0	
4	Of which: other identified staff				0	6	0	7	7	26	
5	**Total remuneration of identified staff**	**0.1**	**3.6**	**3.7**	**-**	**1.8**	**-**	**2.2**	**2.5**	**8.1**	**18.2**
6	Of which: variable remuneration	-	1.9	**1.9**	-	0.7	-	1.0	0.8	4.0	**8.4**
7	Of which: fixed remuneration	0.1	1.7	**1.8**	-	1.0	-	1.3	1.7	4.1	**9.8**

Leverage

QUALITATIVE DISCLOSURE OF THE LEVERAGE RATIO

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

Reference should be made to the separate chapter for details of the changes in Common Equity Tier 1 capital and Tier 1 capital.

QUANTITATIVE DISCLOSURE OF THE LEVERAGE RATIO

The following table reconciles the assets shown in the annual report published by Volkswagen Bank GmbH on an IFRS basis with the total exposure measure used to calculate the regulatory leverage ratio.

TABLE 51: EU LR1 – LRSUM – SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

		A
	in € million	Applicable amount
1	Total assets as per published financial statements	67,253.4
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	17,840.2
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	0.0
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	0.0
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from total exposure measure in accordance with point (i) of Article 429a(1) CRR)	-1.7
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	0.0
7	Adjustment for eligible cash pooling transactions	0.0
8	Adjustments for derivative financial instruments	289.3
9	Adjustment for securities financing transactions (SFTs)	0.0
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3,137.4
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	0.0
EU-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	0.0
EU-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)	0.0
12	Other adjustments	-17,977.1
13	**Total exposure measure**	**70,541.6**

The adjustment for companies which are consolidated for accounting purposes but excluded from the regulatory consolidation group contain effects from the deconsolidation of special-purpose entities in connection with securitization transactions.

The following table provides an overview of the individual components of the total exposure measure and compares the current reporting period with the previous quarter.

TABLE 52: EU LR2 – LRCOM – LEVERAGE RATIO COMMON DISCLOSURE

		CRR LEVERAGE RATIO EXPOSURES	
		a	b
	in € million	T	T-1
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	67,998.7	66,484.4
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0.0	0.0
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0.0	0.0
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	0.0	0.0
5	(General credit risk adjustments to on-balance sheet items)	0.0	0.0
6	(Asset amounts deducted in determining Tier 1 capital)	-921.5	-908.6
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**67,077.2**	**65,575.8**
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	257.2	180.6
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	0.0	0.0
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	69.8	226.7
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	0.0	0.0
EU-9b	Exposure determined under Original Exposure Method	0.0	0.0
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	0.0	0.0
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	0.0	0.0
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (original Exposure Method)	0.0	0.0
11	Adjusted effective notional amount of written credit derivatives	0.0	0.0
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0.0	0.0
13	**Total derivatives exposures**	**326.9**	**407.3**
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	0.0	0.0
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0.0	0.0
16	Counterparty credit risk exposure for SFT assets	0.0	0.0
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	0.0	0.0
17	Agent transaction exposures	0.0	0.0
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	0.0	0.0
18	Total securities financing transaction exposures	0.0	0.0
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	18,173.3	17,818.7
20	(Adjustments for conversion to credit equivalent amounts)	-15,035.8	-13,184.5
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)	0.0	0.0
22	**Off-balance sheet exposures**	**3,137.4**	**4,634.2**
Excluded exposures			
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	0.0	0.0
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a (1) CRR (on and off balance sheet))	0.0	0.0

	in € million	CRR LEVERAGE RATIO EXPOSURES a T	b T-1
EU-22c	(-) (Excluded exposures of public development banks (or units) - Public sector investments)	0.0	0.0
EU-22d	(Excluded exposures of public development banks (or units) - Promotional loans): - Promotional loans granted by a public development credit institution - Promotional loans granted by an entity directly set up by the central government, regional governments or local authorities of a Member State - Promotional loans granted by an entity set up by the central government, regional governments or local authorities of a Member State through an intermediate credit institution)	0.0	0.0
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units)): - Promotional loans granted by a public development credit institution - Promotional loans granted by an entity directly set up by the central government, regional governments or local authorities of a Member State - Promotional loans granted by an entity set up by the central government, regional governments or local authorities of a Member State through an intermediate credit institution)	0.0	0.0
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	0.0	0.0
EU-22g	(Excluded excess collateral deposited at triparty agents)	0.0	0.0
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	0.0	0.0
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	0.0	0.0
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	0.0	0.0
EU-22k	**(Total exempted exposures)**	**0.0**	**0.0**
Capital and total exposure measure			
23	Tier 1 capital	9,460.8	9,496.5
24	**Total exposure measure**	**70,541.6**	**70,617.3**
Leverage ratio			
25	Leverage ratio (%)	13.41%	13.45%
EU-25	Leverage ratio excluding the impact of the exemption of public sector investments and promotional loans) (%)	13.41%	13.45%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	13.41%	13.45%
26	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%
EU-26b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%
27	Leverage ratio buffer requirement (%)	0.00%	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%	3.00%
Choice on transitional arrangements and relevant exposures			
EU-27b	Choice on transitional arrangements for the definition of the capital measure	n/a	n/a
Disclosure of mean values			
28	Mean value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	0.0	0.0
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	0.0	0.0
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	70,541.6	70,617.3
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	70,541.6	70,617.3
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	13.41%	13.45%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	13.41%	13.45%

The leverage ratio excluding the impact of any temporary exclusions for central bank reserves stands at 13.41% in the current reporting period. This ratio corresponds to the leverage ratio including the impact of any temporary exclusions for central bank reserves. This is due to the fact that Volkswagen Bank GmbH does not make use of the option to temporarily apply the exemption for central bank reserves.

TABLE 53: EU LR3 – LRSPL – SPLIT-UP OF ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

		A
	in € million	CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	68,000.3
EU-2	Trading book exposures	0.0
EU-3	Banking book exposures, of which:	68,000.3
EU-4	Covered bonds	362.3
EU-5	Exposures treated as sovereigns	16,848.8
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	158.1
EU-7	Institutions	672.8
EU-8	Secured by mortgages of immovable properties	0.0
EU-9	Retail exposures	33,407.7
EU-10	Corporates	12,220.0
EU-11	Exposures in default	822.7
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	3,508.0

As a non-trading book institution, Volkswagen Bank GmbH has on-balance-sheet exposures of €68 billion that are held solely in the banking book. At 49.1%, retail risk exposures of €33.4 billion constitute the largest item.

Additional Information on Covid-19 Response

TABLE 54: INFORMATION ON LOANS AND CREDITS SUBJECT TO STATUTORY AND NON-STATUTORY REPAYMENT HOLIDAYS

		GROSS CARRYING AMOUNT							ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK							GROSS CARRYING AMOUNT
			Performing			Non performing				Performing			Non performing			
	in € million			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbear-ance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with for-bearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
1	Loans and advances subject to moratori-um	19.7	18.9	0.0	4.0	0.8	0.0	0.4	-1.3	-0.8	0.0	-0.7	-0.5	0.0	-0.3	0.0
2	of which: Households	3.8	3.5	0.0	0.2	0.3	0.0	0.1	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
3	of which: Collater-alised by residential immovable property	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4	of which: Non-financial corporations	15.8	15.4	0.0	3.8	0.5	0.0	0.4	-1.2	-0.7	0.0	-0.6	-0.4	0.0	-0.3	0.0
5	of which: Small and Medium-sized Enterprises	15.5	15.0	0.0	3.8	0.5	0.0	0.3	-1.1	-0.7	0.0	-0.6	-0.4	0.0	-0.3	0.0
6	of which: Collater-alised by commercial immovable property	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

*Omitted due to the non-availability of information in connection with COVID-19 restrictions.

Governments in numerous European countries have taken initiatives to create and implement the legislative basis for loan-repayment holidays. Numerous customers of Volkswagen Bank GmbH have also made use of these possibilities. In addition, the bank has offered internal support in the form of loan-repayment holidays or extensions to repayment plans (capital and interest payments) of up to three months in the case of private customers and of up to six months in the case of commercial customers. Corporate customers (such as automotive dealers) have received support in the form of additional liquidity, temporary increases in credit in tandem with extended payment periods as well as payment deferrals (interest-free) for a defined period.

All measures were taken solely in response to an active request by customers and subject to a detailed review of their necessity, i.e. difficulties experienced by customers as a result of Covid-19 in meeting payment obligations towards Volkswagen Bank GmbH.

TABLE 55: BREAKDOWN BY RESIDUAL MATURITY OF LOANS AND CREDITS SUBJECT TO STATUTORY AND NON-STATUTORY REPAYMENT HOLIDAYS

			GROSS CARRYING AMOUNT							
						Residual maturity of moratoria				
	in € million	Number of obligors		Of which: legislative moratoria	Of which: expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	27,732	1,952.8							
2	Loans and advances subject to moratorium (granted)	25,975	1,494.0	192.7	1,474.3	14.1	0.8	0.3	0.6	4.0
3	of which: Households		214.0	119.9	210.1	2.7	0.1	0.1	0.1	0.9
4	of which: Collateralised by residential immovable property		0.7	0.7	0.7	0.0	0.0	0.0	0.0	0.0
5	of which: Non-financial corporations		1,267.1	65.7	1,251.3	11.4	0.7	0.2	0.5	3.1
6	of which: Small and Medium-sized Enterprises		660.5	59.2	645.0	11.2	0.7	0.2	0.5	2.9
7	of which: Collateralised by commercial immovable property		2.3	0.2	2.1	0.0	0.0	0.0	0.0	0.2

TABLE 56: INFORMATION ON NEW LOANS AND CREDITS GRANTED UNDER NEW PUBLIC-SECTOR GUARANTEES ISSUED IN RESPONSE TO THE COVID-19 CRISIS.

		GROSS CARRYING AMOUNT		MAXIMUM AMOUNT OF THE GUARANTEE THAT CAN BE CONSIDERED	GROSS CARRYING AMOUNT
	in € million		of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	Newly originated loans and advances subject to public guarantee schemes	37.5	0.0	0.0	0.0
2	of which: Households	0.0			0.0
3	of which: Collateralised by residential immovable property	0.0			0.0
4	of which: Non-financial corporations	37.5	0.0	0.0	0.0
5	of which: Small and Medium-sized Enterprises	6.8			0.0
6	of which: Collateralised by commercial immovable property	0.0			0.0

In Spain as well as in Germany, government guarantees were granted in lending business to alleviate the impact of the coronavirus pandemic. Corporate customers of Volkswagen Bank GmbH in both countries made use of these possibilities (e.g. KfW loan backed by government guarantee covering the credit risk).

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