VOLKSWAGEN BANK

GMBH

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

2022

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In the absence of any indication to the contrary, all figures shown in the tables have been rounded in accordance with standard commercial practice. Accordingly, minor discrepancies may arise if they are aggregated. A hyphen "-" in the table denotes the absence of any figure for the item in question. If the figure is less than €1 million after rounding, a zero is inserted.

Foreword

The Pillar 3 Disclosure Report for the period ended December 31, 2022 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. It revoked the guidelines effective January 1, 2023, meaning that these information are disclosed for a final time in this Pillar 3 report.

On January 24, 2022, the EBA published the final version of the EBA ITS on Pillar 3 disclosures of ESG risks in accordance with Art. 449a of the CRR (EBA/ITS/2022/01).

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.

The Pillar 3 report complies with applicable legal and regulatory requirements and has been prepared in accordance with the internal policies, procedures, systems and checks.

Management has approved this report for publication and confirmed that Volkswagen Bank GmbH has complied with the requirements of Article 431 (3) of the CRR.

Braunschweig, April 2023

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, 2022 (Column a) and the previous quarters (Columns b to e).

TABLE 1: EU KM1 – KEY METRICS TEMPLATE

		A	B	C	D	E
	in € millions	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	9,220.3	8,669.6	8,799.8	8,893.9	9,460.8
2	Tier 1 capital	9,220.3	8,669.6	8,799.8	8,893.9	9,460.8
3	Total capital	9,226.3	8,677.3	8,809.1	8,904.8	9,473.5
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	50,535.0	48,865.0	49,521.4	49,851.4	49,770.2
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	18.25%	17.74%	17.77%	17.84%	19.01%
6	Tier 1 ratio (%)	18.25%	17.74%	17.77%	17.84%	19.01%
7	Total capital ratio (%)	18.26%	17.76%	17.79%	17.86%	19.03%
	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 (%)	2.25%	2.25%	2.25%	2.25%	2.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.27%	1.27%	1.27%	1.27%	1.13%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.69%	1.69%	1.69%	1.69%	1.50%
EU 7d	Total SREP own funds requirements (%)	10.25%	10.25%	10.25%	10.25%	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 (%)	0.06%	0.01%	0.01%	0.02%	0.02%
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 (%)	2.56%	2.51%	2.51%	2.52%	2.52%
EU 11a	Overall capital requirements (%)	12.81%	12.76%	12.76%	12.77%	12.52%

		A	B	C	D	E
	in € millions	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021
12	CET1 available after meeting the total SREP own funds requirements (%)	8.01%	7.51%	7.54%	7.61%	9.03%
	Leverage ratio					
13	Total exposure measure	62,797.1	61,862.6	65,934.7	70,949.2	70,541.6
14	Leverage ratio (%)	14.68%	14.01%	13.35%	12.54%	13.41%
	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%	0.00%	0.00%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	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%	3.00%	3.00%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	11,845.9	13,567.2	14,383.8	13,888.6	12,208.0
EU 16a	Cash outflows - Total weighted value	7,802.8	8,326.4	8,789.3	8,834.8	8,524.4
EU 16b	Cash inflows - Total weighted value	2,768.1	2,696.3	2,665.0	2,627.7	2,676.3
16	Total net cash outflows (adjusted value)	5,034.7	5,630.0	6,124.3	6,207.0	5,848.1
17	Liquidity coverage ratio (%)	236.52%	244.59%	239.64%	227.44%	213.81%
	Net Stable Funding Ratio					
18	Total available stable funding	54,993.4	55,164.9	55,402.9	57,367.3	58,446.7
19	Total required stable funding	45,479.2	44,946.0	45,197.3	43,028.7	42,505.5
20	NSFR ratio (%)	120.92%	122.74%	122.58%	133.32%	137.50%

Volkswagen Bank GmbH’s total capital of €9,226.3 million is composed of Common Equity Tier 1 (CET1) capital of €9,220.3 million and Tier 2 (T2) capital of €6.0 million. The decrease in own funds compared to December 31, 2021 is mainly due to the lower 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 €50,535.0 million increased by €764.8 million compared to December 31, 2021 for volume-related reasons in connection with ordinary business operations.

The leverage ratio rose by 1.27 percentage points compared to December 31, 2021 to 14.68%, primarily due to the decline of the total risk exposure amount.

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%.

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 prescribed 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	3,542.8	3,543.2	n/a
2	Loans to and receivables from banks	232.8	235.7	n/a
3	Loans to and receivables from customers	48,185.6	49,476.4	n/a
4	Derivative financial instruments	51.3	47.6	n/a
5	Marketable securities	4,130.7	17,511.6	n/a
6	Equity-accounted joint ventures	244.9	-	n/a
7	Miscellaneous financial assets	3.2	3.2	n/a
8	Intangible assets	4.3	67.7	d)
9	Property and equipment	22.6	58.1	n/a
10	Lease assets	2,677.5	2,727.0	n/a
11	Investment property	0.2	0.2	n/a
12	Deferred tax assets	1,558.6	1,934.5	e)+f)
13	Income tax assets	90.6	94.5	n/a
14	Other assets	480.2	234.3	n/a
15	**Total assets**	**61,225.3**	**75,934.1**	**n/a**
Liabilities - Breakdown by liability clases according to the balance sheet in the published financial statements				
1	Liabilities to banks	11,185.4	11,185.4	n/a
2	Liabilities to customers	32,350.8	47,366.7	n/a
3	Notes, commercial paper issued	4,099.0	3,912.9	n/a
4	Derivative financial instruments	14.5	14.3	n/a
5	Provisions	171.2	175.1	n/a
6	Deferred tax liabilities	1,910.4	1,906.9	n/a
7	Income tax liabilities	200.3	201.5	n/a
8	Other liabilities	353.9	818.7	n/a
9	Subordinated capital	30.8	30.8	g)
10	Equity	10,909.2	10,321.7	n/a
11	**Total liabilities**	**61,225.3**	**75,934.1**	**n/a**
Shareholders' Equity				
1	Subscribed captital	318.3	318.3	a)
2	Capital reserves	8,880.6	8,880.6	c)
3	Retained earnings	2,045.3	1,244.6	b)
4	Other reserves	- 310.4	-310.4	c)
5	**Total shareholders' equity**	**10,909.2**	**10,321.7**	**n/a**

Total assets as shown in the consolidated financial statements amount to €61,225.3 million, whereas total assets in the FINREP report stand at €75,934.1 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	3,542.8	3,543.2	3,542.8	-	-	164.2	-
2	Loans to and receivables from banks	232.8	235.7	235.7	-	-	191.3	-
3	Loans to and receivables from customers	48,185.6	49,476.4	49,200.9	-	-	2,973.5	275.6
4	Derivative financial instruments	51.3	47.6	-	47.6	-	-	-
5	Marketable securities	4,130.7	17,511.6	3,639.6	-	491.1	491.1	13,380.9
6	Equity-accounted joint ventures	244.9	-	-	-	-	-	-
7	Miscellaneous financial assets	3.2	3.2	3.2	-	-	-	-
8	Intangible assets	4.3	67.7	-	-	-	3.1	67.7
9	Property and equipment	22.6	58.1	58.1	-	-	1.4	-
10	Lease assets	2,677.5	2,727.0	2,727.0	-	-	-	-
11	Investment property	0.2	0.2	0.2	-	-	-	-
12	Deferred tax assets	1,558.6	1,934.5	753.2	-	-	14.1	1,181.3
13	Income tax assets	90.6	94.5	94.5	-	-	2.3	-
14	**Other assets**	**480.2**	**234.3**	**234.3**	**-**	**-**	**5,298.4**	-
15	Total assets	61,225.3	75,934.1	60,489.5	47.6	491.1	9,139.4	14,905.5

		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	11,185.4	11,185.4	-	-	-	10.2	11,175.3
2	Liabilities to customers	32,350.8	47,366.7	-	-	-	540.1	46,826.6
3	Notes, commercial paper issued	4,099.0	3,912.9	-	-	-	-	3,912.9
4	Derivative financial instruments	14.5	14.3	-	-	-	-	14.3
5	Provisions	171.2	175.1	-	-	-	2.0	173.1
6	Deferred tax liabilities	-	-	-	-	-	-	-
7	Income tax liabilities	1,910.4	1,906.9	-	-	-	3.2	1,903.7
8	Other liabilities	200.3	201.5	-	-	-	4.3	197.2
9	Subordinated capital	353.9	818.7	-	-	-	10.9	807.8
10	Equity	30.8	30.8	-	-	-	-	30.8
11	**Total liabilities**	**61,225.3**	**75,934.1**	**-**	**-**	**-**	**866.2**	**75,067.9**

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 € millions		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)**	**61,287.8**	**60,748.7**	**491.1**	**47.6**	**9,139.4**
2	**Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)**	**-**	**-**	**-**	**-**	**866.2**
3	**Total net amount under the scope of prudential consolidation**	**61,287.8**	**60,748.7**	**491.1**	**47.6**	**8,273.2**
4	**Off-balance-sheet amounts**	**14,884.2**	**14,884.2**	**-**	**-**	
5	Differences in valuations	-	- 4.1	-	-	
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	
7	Differences due to consideration of provisions	-	-	-	-	
8	Differences due to the use of credit risk mitigation techniques (CRMs)	-	-	-	-	
9	Differences due to credit conversion factors	-	- 13,432.1	-	-	
10	Differences due to Securitisation with risk transfer	-	-	-	-	
11	Other differences	-	- 327.1	-	136.5	
12	**Exposure amounts considered for regulatory purposes**	**62,879.3**	**61,869.5**	**491.1**	**184.1**	**334.6**

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 globally system-relevant institution (G-SRI), disclosure in accordance with Art. 441 of the CRR is omitted.

With an NPL ratio of 3.76% (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 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 SEC2).

The quantitative data on the remuneration policy in accordance with Art. 450 of the CRR will be published as soon as this data is available (EU REM1, EU REM2, EU REM3, EU REM4, EU REM5).

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).

Volkswagen Bank GmbH does not provide information on the energy efficiency of the real estate assets pledged as collateral due to the immaterial proportion of real-estate-backed collateral in Volkswagen Bank GmbH's overall portfolio of collateral (Art. 432 (1) of the CRR - template 2 of EBA/ITS/2022/01).

Volkswagen Bank GmbH does not hold any finance or bonds issued in accordance with standards other than EU standards (i.e. in accordance with the Green Bond Principles, Green Loan Principles, Sustainability Linked Loan Principles, etc.). Accordingly, the disclosure of template 10 of EBA/ITS/2022/01 has been dispensed with.

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 European Central Bank (ECB) can decide in the Supervisory Review and Evaluation Process (SREP) to impose a capital add-on that must be satisfied in addition to the statutory minimum capital 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 10.25% and a Pillar II requirement of 2.25%. The Pillar 2 requirement calls for the provision of CET1 of at least 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

in € millions		A Amounts	B 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	0.0	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	1,514.5	b)
3	Accumulated other comprehensive income (and other reserves)	8,532.6	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	343.6	n/a
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	10,390.7	n/a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-4.1	n/a
8	Intangible assets (net of related tax liability) (negative amount)	-66.8	d)
9	Not applicable	0.0	
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)	0.0	e)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	6.6	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 € millions		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)	-922.1	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	-183.9	n/a
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-1,170.3	n/a
29	Common Equity Tier 1 (CET1) capital	9,220.3	n/a
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

in € millions		A Amounts	B Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
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)	9,220.3	n/a
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	6.0	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	6.0	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	0.0	n/a

in € millions		A Amounts	B Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		
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	6.0	n/a
59	Total capital (TC = T1 + T2)	9,226.3	n/a
60	Total risk exposure amount	50,535.0	n/a
Capital ratios and requirements including buffers			
61	Common Equity Tier 1	18.25%	n/a
62	Tier 1	18.25%	n/a
63	Total capital	18.26%	n/a
64	Institution CET1 overall capital requirements	8.33%	n/a
65	of which: capital conservation buffer requirement	2.50%	n/a
66	of which: countercyclical capital buffer requirement	0.06%	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	1.27%	n/a
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	8.01%	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)	26.1	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)	1,032.6	n/a

in € millions		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	n/a
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	580.9	n/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	n/a
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0.0	n/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	n/a
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0.0	n/a
82	Current cap on AT1 instruments subject to phase out arrangements	0.0	n/a
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0.0	n/a
84	Current cap on T2 instruments subject to phase out arrangements	0.0	n/a
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0.0	n/a

COMMON EQUITY TIER 1 CAPITAL

Common Equity Tier 1 capital primarily consists of equity reported in the balance sheet as defined in IFRS. 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. However, as the profit and loss transfer agreement between Volkswagen Bank GmbH and Volkswagen AG does not meet the CRR criteria, Volkswagen AG's share capital of €318.3 million currently does not count towards CET1. In order to meet the CRR eligibility requirements in the future, Volkswagen Bank and Volkswagen AG have decided to adjust the wording of the profit and loss transfer agreement accordingly.

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 decline of €240.5 million in Common Equity Tier 1 capital compared with December 31, 2021 is due to various effects. The reduction in Common Equity Tier 1 capital is primarily due to the non-eligibility of the share capital. In addition, accumulated profits increased by €700.4 million. However, this effect was largely offset by the decline in other reserves and cumulative other comprehensive income. Other reserves dropped by €218.4 million and cumulative other comprehensive income (OCI) by €230.8 million over the previous year due to the inclusion in OCI of recurring losses arising from negative remeasurement effects in connection with higher interest rates.

In addition, the CRR requirements with respect to the backstop for non-performing exposures (NPE) impacted the amount of Common Equity Tier 1 capital. 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 deduction from Common Equity Tier 1 capital for non-performing exposures increased by €102.4 million over the previous year.

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 €4.1 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 € millions	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)**								**4.1**	**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 decline in Tier 2 capital compared to December 31, 2021 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. Currently, only two subordinated bonds are included in own funds as Tier 1 instruments (Instrument 1 and 2) at Volkswagen Bank GmbH. 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
		Instrument 1	Instrument 2
1	Issuer	Volkswagen Bank GmbH	Volkswagen Bank GmbH
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0175737997	XS0193333613
2a	Public or private placement	Public placement	Public placement
3	Governing law(s) of the instrument	German law	German law
3a	Contractual recognition of write down and conversion powers of resolution authorities	n/a	n/a
	Regulatory treatment		
4	Current treatment taking into account, where applicable, transitional CRR rules	Tier 2 capital	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital	Tier 2 capital
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo and (sub)consolidated	Solo and (sub)consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated bond	Subordinated bond
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	€ 3.1 Mio.	€ 3.1 Mio.
9	Nominal amount of instrument	€ 20.0 Mio.	€ 10.0 Mio.
EU-9a	Issue price	€ 19.3 Mio.	€ 9.5 Mio.
EU-9b	Redemption price	€ 20.0 Mio.	€ 10.0 Mio.
10	Accounting classification	Liability – amortized cost	Liability – amortized cost
11	Original date of issuance	Sep 26, 2003	Jun 07, 2004
12	Perpetual or dated	Dated	Dated
13	Original maturity date	Sep 26, 2023	Jun 07, 2024
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Termination option for tax event	Termination option for tax event
16	Subsequent call dates, if applicable	n/a	n/a
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fix	Fix
18	Coupon rate and any related index	5.4 % p.a.	5.5 % p.a.
19	Existence of a dividend stopper	No	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger(s)	n/a	n/a
25	If convertible, fully or partially	n/a	n/a
26	If convertible, conversion rate	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a

		a	a
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	n/a	n/a
32	If write-down, full or partial	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a
34a	Type of subordination (only for eligible liabilities)	n/a	n/a
EU-34b	Ranking of the instrument in normal insolvency proceedings	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to insolvency creditors	Subordinate to insolvency creditors
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	n/a	n/a
37a	Link to the full term and conditions of the instrument (signposting)	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 in was based on the December 31, 2022 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, 2022, risk-taking potential amounted to €8.3 billion and comprised CET1 capital (€8.7 billion) and accumulated earnings[1] (€0.6 billion) less hidden charges and loss allowance shortfalls (€1.0 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 €4.9 billion as of December 31, 2022).

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

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

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 a historical scenario (a repeat of the financial crisis in the years 2008 to 2010) and a hypothetical scenario (a sharp drop in sales in the Volkswagen Group). These scenarios, which cover all categories of risk, are supplemented by sensitivity analyses specific to risk categories. Appended to these analyses are regular stress test analyses with a multi-year time horizon for the normative perspective. In addition, yearly 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. Stress tests using a multi-year time horizon (for example an economic downturn) are also prepared annually.

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 (365-trading-day holding period, 1,460-trading-day history)	CL = 99.9 %
Other market risks	Historical simulation (365-trading-day holding period, 1,460-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) and as well as a possible add-on for the consideration of new business shares.	
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 91.9% 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 ending December 31, 2022 as well as the previous quarter ending September 30, 2022.

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

		RISK WEIGHTED EXPOSURE AMOUNTS (RWEAS)		TOTAL OWN FUNDS REQUIREMENTS
		a	b	c
	in € millions	Dec 31, 2022		Dec 31, 2022
1	Credit risk (excluding CCR)	46,443.4	44,375.0	3,715.5
2	Of which the standardised approach	46,443.4	44,375.0	3,715.5
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	59.2	94.8	4.7
7	Of which the standardised approach	31.5	48.6	2.5
8	Of which internal model method (IMM)	0.0	0.0	0.0
EU 8a	Of which exposures to a CCP	0.5	0.0	0.0
EU 8b	Of which credit valuation adjustment - CVA	27.2	46.2	2.2
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)	169.5	168.8	13.6
17	Of which SEC-IRBA approach	0.0	0.0	0.0
18	Of which SEC-ERBA (including IAA)	169.5	168.8	13.6
19	Of which SEC-SA approach	0.0	0.0	0.0
EU 19a	Of which 1250%	0.0	0.0	0.0
20	Position, foreign exchange and commodities risks (Market risk)	334.6	437.5	26.8
21	Of which the standardised approach	334.6	437.5	26.8
22	Of which IMA	0.0	0.0	0.0
EU 22a	Large exposures	0.0	0.0	0.0
23	Operational risk	3,528.3	3,788.9	282.3
EU 23a	Of which basic indicator approach	0.0	0.0	0.0
EU 23b	Of which standardised approach	3,528.3	3,788.9	282.3
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)	2,581.6	2,503.2	206.5
25	Not applicable			
26	Not applicable			
27	Not applicable			
28	Not applicable			
29	Total	50,535.0	48,865.0	4,042.8

The credit risk excluding the counterparty credit risk stood at €46,443.4 million as of December 31, 2022 and was therefore up by €2,068.3 million over the previous quarter. Volkswagen Bank GmbH uses the Credit Risk Standardized Approach (CRSA) to quantify credit risks. Further information on the composition of credit risk excluding counterparty credit risk can be seen in tables 23 and 24.

The increase in counterparty credit risk from €94.8 million to €59.2 million is chiefly due to the credit valuation adjustment (CVA). Further information on the composition of counterparty credit risk can be found in Tables 30 through 34.

At €3,528.3 million, operational risk decreased slightly over the previous quarter's figure of €3,788.9 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 € millions	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 (%)
	GER	27,105.3	0.0	0.0	0.0	0.0	27,105.3	1,750.9	0.0	0.0	1,750.9	21,885.8	48.1%	0.0%
	ES	3,891.3	0.0	0.0	0.0	0.0	3,891.3	238.7	0.0	0.0	238.7	2,983.2	6.6%	0.0%
	FR	7,682.5	0.0	0.0	0.0	0.0	7,682.5	539.1	0.0	0.0	539.1	6,738.4	14.8%	0.0%
	GB	2,034.2	0.0	0.0	0.0	491.1	2,525.2	162.8	0.0	13.6	176.3	2,204.1	4.8%	1.0%
	IT	6,201.2	0.0	0.0	0.0	0.0	6,201.2	373.8	0.0	0.0	373.8	4,672.1	10.3%	0.0%
	NL	2,804.8	0.0	0.0	0.0	0.0	2,804.8	224.9	0.0	0.0	224.9	2,810.7	6.2%	0.0%
	PL	999.0	0.0	0.0	0.0	0.0	999.0	73.2	0.0	0.0	73.2	914.6	2.0%	0.0%
	PT	554.0	0.0	0.0	0.0	0.0	554.0	34.9	0.0	0.0	34.9	436.7	1.0%	0.0%
	Others	3,445.2	0.0	0.0	0.0	0.0	3,445.2	229.4	0.0	0.0	229.4	2,867.4	6.3%	0.2%
020	**Total**	**54,717.5**	**0.0**	**0.0**	**0.0**	**491.1**	**55,208.5**	**3,627.5**	**0.0**	**13.6**	**3,641.0**	**45,513.1**	**100.0%**	

At 48.1%, the own funds requirements for Germany of €1,750.9 million constitute the greatest proportion in the calculation of the countercyclical capital buffer. The countries listed cover more than 93% 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 € millions	a
1	Total risk exposure amount	50,535.0
2	Institution specific countercyclical capital buffer rate	0.0579%
3	Institution specific countercyclical capital buffer requirement	29.3

Volkswagen Bank GmbH has a low-level institution-specific countercyclical capital buffer of 0.0579% as of December 2022 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. Since the second half of 2022 the countercyclical capital buffers set by the competent authorities have been increased again in various countries.

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 0.75% at December 31, 2022.

Risk Management Objectives and Policy

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

In the realm of its primary operating activities, the Volkswagen Bank GmbH Group is exposed to a large number of risks typical for the financial services sector. The Group takes on these risks within the limits of the approved risk strategy so that it can target and exploit any resulting 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 aligned with the activities of the individual divisions. This structure ensures early detection of any trends that could represent a risk to the business as a going concern so that appropriate countermeasures can then be initiated.

The Volkswagen Bank GmbH Group has implemented suitable procedures to make sure that the risk management system is fit for purpose. 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's banking supervision, the ESF (Deposit Protection Fund) and as part of the audit of the annual financial statements by the independent auditors.

In the 2021 Supervisory Review and Evaluation Process (SREP), the ECB banking supervisor set a Pillar 2 requirement of 2.25% (previously 2.00%) for the Volkswagen Bank GmbH Group, applicable from March 1, 2022. The Pillar II requirement must be satisfied in addition to the minimum capital requirements under Pillar I and covers risks that are underestimated or not covered by the minimum capital requirements.

The entire Management Board is responsible for risk management in the Volkswagen Bank GmbH Group, although responsibility for operational implementation lies with the Chief Risk Officer (CRO). In this function, the CRO regularly reports to the other members of the Managemet Board and the Supervisory Board on the Volkswagen Bank GmbH Group's overall risk position.

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

The risk management departments on Group level 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, open and direct communication with the Management Board and the integration of all findings into the operational risk management system together form the basis, in the view of the Management Board, 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 MOBILITY2030 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 initiatives 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, measured, reported and managed and forms the core of the MOBILITY2030 umbrella strategy with the strategic thrusts “Vehicle”, “Customer Loyalty”, “Data & Technology”, “Performance” and “Sustainability”.

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)
- Presentation and evaluation of the sensitivity analyses for the individual risk types
- 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 2022, 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 2022 focused in particular on an analysis of the Group’s ability to recover based on four different adverse scenarios.

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 2022.

CURRENT REGULATORY FACTORS

The experiences of the last financial market crisis have led to permanently more stringent regulatory ground rules for banks and ever more granular regulations. More and more powers to issue statutory instruments are being granted in the context of European regulations and directives and this is likely to result in a large quantity of new and revised delegated regulations and directives from the European banking supervisory authority over the next few years. Volkswagen Bank GmbH will scrutinize these new stipulations and take the actions necessary to comply with them.

The European Commission presented drafts of a CRR III and a CRD IV in October 2021. Now being discussed in the legislative procedure, these may well have implications for the Volkswagen Bank GmbH Group. While the CRR III draft is concerned primarily with the implementation of Basel IV (also referred to by the Basel Committee as the completion of Basel III), the draft CRD VI also addresses the subject of sustainability risks, among others. Its intention is that institutions should in future be required to create transition plans for their transition to sustainable operation.

Volkswagen Bank GmbH is considered to be a significant institution and is thus subject to the direct supervision of the EZB. This means that it must comply with the EBA guidelines, the requirements of the ECB and the requirements of the German Federal Financial Supervisory Authority (BaFin) insofar as the latter has not limited the scope of its requirements to less significant institutions. Volkswagen Bank GmbH is also subject to the ECB's Supervisory Review and Evaluation Process (SREP). The EBA has published guidelines concerning SREP implementation and assessment and updates them from time to time. The EBA published its most recent set of revised guidelines on SREP and supervisory stress testing, which are due to come into effect from January 1, 2023, on March 18, 2022. The revised SREP guidelines serve largely to implement requirements of CRD V, incorporate the stipulations of various new and revised EBA guidelines and are intended to help refine supervisory practice. Among the changes being introduced are that ESG risks are in future to be incorporated into business model analysis. The intention is that ESG risks and their consequences will be assessed in this context with regard to the viability and sustainability of the business model and the long-term resilience of the bank. This assessment will probably affect the level of the overall SREP score determined by the ECB.

Once the SREP has been completed, Volkswagen Bank GmbH, like other significant institutions, will be notified of the additional equity requirements and expectations in relation to Pillar II along with recommendations for implementation. Volkswagen Bank GmbH is bound to respect that notification.

The provisions of the Prudential Backstop Regulation for nonperforming loans as described in Article 47a of the CRR, which entered into force on April 26, 2019, also have a regulatory effect on the capital requirement for credit risk. Regulatory minimum capital requirements for risk exposures that have been nonperforming for more than two years have been in force since 2021. Failure to comply in full with the regulatory minimum capital requirement necessitates a deduction from the Common Equity Tier 1 capital. The regulator does not currently allow CRSA institutions like Volkswagen Bank GmbH to recognize collateral in the form of vehicles, which means that deductions from equity are a possibility. Such a deduction from equity would result in a reduction in the available equity in Pillar II.

The expectations of the ECB set out in its addendum to the guidance on nonperforming loans (prudential provisioning backstop for nonperforming exposures), most recently updated by the expectations regarding adequate prudential minimum provisioning published on August 22, 2019, also have a regulatory impact. Volkswagen Bank GmbH must also ensure that its management of nonperforming loans complies with the EBA Guidelines on the management of nonperforming and forborne exposures, the ECB's Guidance to banks on nonperforming loans and the revised MaRisk published in August 2021. More significant implications for the credit risk strategy can arise should the proportion of nonperforming risk exposures reach or exceed 5% at the level of the Volkswagen Bank GmbH Group or at the level of the single entity. Volkswagen Bank GmbH must additionally comply with the EBA Guidelines on loan origination and monitoring, which define wide-ranging requirements for the assessment of lending operations and thus have implications for credit decisions.
The necessary IT is scheduled for gradual implementation at Volkswagen Bank GmbH by June 30, 2024 in accordance with the EBA's transitional provisions.

Other regulatory effects on risk management in Pillar II stem in particular from the supervisory requirements for IT in financial institutions (BAIT), the EBA Guidelines on ICT and security risk management and the EBA Guidelines on outsourcing arrangements, which are considered in the MaRisk published in August 2021. The Regulation on digital operational resilience for the financial sector (DORA), which has now entered into force and will apply from January 17, 2025, is also of relevance in this connection, although many of the requirements it defines are already familiar and have already been satisfied on account of the requirements in the aforementioned EBA Guidelines on ICT and security risk management, EBA Guidelines on outsourcing arrangements, BAIT and MaRisk. What the regulation does, in effect, is elevate many requirements that are already known onto a statutory footing. It also contains a series of mandates. It will not be possible to determine conclusively what action is still required until the delegated acts springing from this regulation have been published and a detailed gap analysis has been completed.

The importance of factoring in climate and environmental risks, including transition risk, in risk management continues to grow in light of the stricter regulatory requirements anticipated. Particularly significant in this connection is the ECB's Guide on climate-related and environmental risks. Volkswagen Bank GmbH has established a special project to address activities defined in this guide and is reporting to the ECB regularly on their implementation. The requirements of Commission Implementing Regulation (EU) 2022/2453 concerning Article 449a CRR regarding the disclosure of environmental, social and governance risks, which has now been published and has entered into force, are being implemented as part of the same project. This regulation describes the disclosure of extensive sustainability-related information at staggered intervals, with the initial set of ESG information being published in the December 31, 2022 disclosure report, the green asset ratio being disclosed as of December 31 2023 and Scope 1, 2, and -3 CO_2 emissions being disclosed as of June 30, 2024. The green asset ratio expresses the proportion of loans and receivables that satisfy the taxonomy criteria in the Taxonomy Regulation and the current associated Delegated Regulation (EU) 2021/2139. It is to be expected that the green asset ratio will rise over the next few years as the proportion of battery-powered vehicles financed and leased rises. Th opposite effect will be seen in the area of emissions intensity, with an increase in the proportion of battery-powered vehicles financed and leased causing CO_2 emissions to fall relative to the portfolio of loans and receivables over the next few years. Vehicles with combustion engines will still be financed in the future, so measures to offset these emissions are currently being investigated.

Volkswagen Bank GmbH is currently involved in a general intensive review of climate-related and environmental risks that could be drivers of existing categories of risk and that are considered in the identification, assessment, monitoring and management of the categories of risk. A large quantity of data has to be collected in this process for internal risk management and, in future, for disclosure purposes as well.

Further increasing the importance of this subject, a revised draft for the 7th MaRisk amendment published by BaFin on September 26, 2022 provides for the comprehensive consideration of ESG risks and their consequences in risk management for all categories of risk and in all relevant risk management processes. The draft proposes that as part of this, strategy development will have to be based on a thorough, forward-looking analysis of the business model. Changed environmental conditions and the transition to sustainable operation will also be factored in over an appropriately long period, taking account of possible developments, when defining and adapting the business strategy in future. The requirements of the revised MaRisk draft as they relate to climate and environmental risks overlap in many respects with the expectations expressed in the ECB guide and the feedback received following the ECB's thematic review. The implementation of the EBA Guidelines on loan origination and monitoring mentioned above represents another central aspect of this MaRisk amendment. Volkswagen Bank GmbH Risk Management is of the opinion that at the moment, there are no additional requirements to be anticipated in this area above and beyond those of the EBA guides already discussed.

Finally, the Corporate Sustainability Reporting Directive (CSRD) has entered into force and is now to be implemented in national law. Like similar institutions, Volkswagen Bank GmbH, a large Volkswagen AG subsidiary active in the capital markets, will as a result have to disclose extensive sustainability-related information for the Volkswagen Bank GmbH Group and Volkswagen Bank GmbH as a single entity in future. This includes the required disclosure in accordance with Article 8 of the Taxonomy Regulation and the Delegated Regulation (EU) 2021/2178. The sustainability and transformation strategy and the transition plans with defined target dates for reducing CO_2 emissions will also be covered by the disclosure requirements. It is intended that the details be set down in a delegated regulation, and EFRAG submitted comprehensive drafts of what are being referred to as European Sustainability Reporting Standards to the European Commission on November 22, 2022 in this regard.

The intention now is for the European Commission, having consulted with the Member States, to adopt a corresponding delegated regulation by June 2023 that will then have to go forward for approval by the Council and the European Parliament under the “silent procedure”. Based on the current situation, Volkswagen Bank GmbH assumes that the date of mandatory initial disclosure for the Bank and the associated Bank Group will be December 31, 2024.

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	

IMPACTS OF THE RUSSIA-UKRAINE CONFLICT ON THE CATEGORIES OF RISK

The Russia-Ukraine conflict gave rise to an elevated level of uncertainty in the financial markets in fiscal year 2022 and had an impact on the risk situation of banks. The risk profile of the Volkswagen Bank GmbH Group, however, did not show any sign of effects directly attributable to the Russia-Ukraine conflict in the reporting period.

The Volkswagen Bank GmbH Group has no business operations in Ukraine or Russia. Volkswagen Bank GmbH has done nothing more in Russia for many years than issue two bank guarantees for OOO Volkswagen Bank RUS, Moscow, which are fully secured by cash deposits of Volkswagen Financial Services AG and Volkswagen AG. Volkswagen Bank GmbH also has a one percent equity investment, accounted for at cost, in Russian international subsidiary Volkswagen Bank RUS, Moscow. The carrying amount of this equity investment was written down to €1 as of December 2022, further greatly reducing the low shareholder risk of Volkswagen Bank GmbH.

The Russia-Ukraine conflict and the associated high inflation (including increased energy prices and a higher cost of living) had no negative effects on the quality of the credit risk portfolio or the direct residual value risk of the Volkswagen Bank GmbH Group in fiscal year 2022. Whether that will remain the case is uncertain at the moment though and depends to a large extent on the Russia-Ukraine conflict and its effects on energy prices, the cost of living, inflation and interest rates. The scenarios relating to the recognition of provisions for credit risk in accordance with the IFRS 9 requirements were accordingly adjusted and applied for the forward-looking recognition of provisions. This resulted in an increased provision for credit risk as of the end of 2022.

Ukraine is a supplier of cable harnesses for Volkswagen AG, so the Russia-Ukraine conflict exacerbated the shortage of supplier parts in fiscal year 2022. The reduced availability of new vehicles impacted positively on the direct residual value risk and led to a significant increase in remarketing performance (remarketing gains).

The course of the Russia-Ukraine conflict and its impact on credit risk, residual value risk and other categories of risk will be monitored closely once again in 2023 and Volkswagen Bank GmbH Risk Management will respond proactively if required.

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 2022.

Fiscal year 2022 was significantly impacted by the persistent shortage of supplier parts, which was further exacerbated in some instances by the Russia-Ukraine conflict (for further information about the Russia-Ukraine conflict and its impact on the on the risk situation, refer to the section headed “Impacts of the Russia-Ukraine Conflict on the Categories of Risk”). The impact of the supplier parts shortage was reflected in lower new vehicle production and therefore fewer opportunities for the Volkswagen Bank GmbH Group to offer its financing solutions. The volume of loans and receivables in lending business was increased again nevertheless in fiscal year 2022 (year-on-year increase of €3.1 billion as of December 2022). The principal driver is the increased utilization of credit lines for dealer financing (year-on-year increase of €3.8 billion as of December 2022). The retail portfolio, in contrast, has seen a persistent fall in the volume of loans and receivables (year-on-year decrease of €1.5 billion as of December 2022).

The quality of the lending portfolio remained at a stable level in 2022. The default rate rose slightly to 3.1% as of December 2022 (previous year: 2.9%). The percentage provision for credit risks remained steady and was still at 2.1% as of December 2022 (previous year: 2.1%). Using various scenario calculations, the Volkswagen Bank GmbH Group has factored the general economic conditions into the provision for credit risks recognized as of the end of 2022 and should be prepared for potentially conceivable developments in 2023.

In the reporting year, the supply bottlenecks and thus the lower availability of new vehicles generated an uptrend in the used vehicle market and a sustained 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 2023, 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), MOBILITY2030, serves as the starting point for the preparation and consistent derivation of our 2023 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

Risk categories	DEC. 31, 2022 € million	DEC. 31, 2022 Share in %	DEC. 31, 2021 € million	DEC. 31, 2021 Share in %
Credit risk	2.049	66	1.546	65
Shareholder, issuer and counterparty risk	326	11	347	15
Residual value risk	43	1	32	1
Interest rate risk in the banking book (IRRBB)	437	14	27	1
Other market risks (currency and rund price risk)	24	1	13	0
Liquidity risk (funding risk)	0	0	1	0
Operational risk	209	7	375	16
Business risk	0	0	40	2
Total	**3.088**	**100**	**2.381**	**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 Dec. 31, 2022	of which management functions in the Volkswagen Group as of Dec. 31, 2022	Number of supervisory functions as of Dec. 31, 2022	of which supervisory functions in the Volkswagen Group as of Dec. 31, 2022
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 Dec. 31, 2022	of which management functions in the Volkswagen Group as of Dec. 31, 2022	Number of supervisory functions as of Dec. 31, 2022	of which supervisory functions in the Volkswagen Group as of Dec. 31, 2022
Dr. Ingrun-Ulla Bartölke	0	0	2	2
Björn Bätge	0	0	6	6
Silvia Stelzner	0	0	1	1
Sarah Ameling-Zaffiro	0	0	1	1
Markus Bieber	0	0	1	1
Dr. Christian Dahlheim	1	1	14	13
Frank Fiedler	1	1	9	9
Prof. Dr. Susanne Homölle	0	0	1	1
Markus Konradt	0	0	1	1
Katrin Rohmann	0	0	3	1
Conny Schönhardt	0	0	4	4
Mirco Thiel	0	0	1	1

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, are members of the science community or are long-standing members of works councils. The members of the Supervisory Board possess the necessary expertise to perform their supervisory duties and to assess and monitor the Company's business as well as knowledge of accounting and auditing matters.

Policy on diversity with regard to selection of members of the Management 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 50% (target: 30%). There is adequate representation of employees on the Supervisory Board. The target for female representation in management is 20%.

Information about the Risk Committee

The Risk Committee held five 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. The Committee has four members. The average attendance rate was 95%.

At its meeting on March 8, 2022, the Risk Committee discussed the auditors' findings relating to risk management in the 2021 audit of the annual financial statements. The Committee then addressed the retrospective analysis of the 2021 risk strategy and the risk strategy and risk limits for 2022. The Committee also heard a report on the current position regarding climate-related and sustainability risks. Eventually, following an appropriate review, the Risk Committee confirmed that the incentives set by the Bank's risk, capital, and liquidity structure and the probability and timing of income take into account.

At its meeting on April 28, 2022, the Committee examined the 2022 internal liquidity adequacy assessment process (ILAAP), the liquidity adequacy statement (LAS) and the 2022 ILAAP gap analysis.

At its meeting on June 13, 2022, the Risk Committee discussed the design and establishment of cross-bank adverse scenarios (ILAAP and ICAAP) and the integration of the scenarios into the Bank's management processes. In addition, the Committee heard a presentation on the narrative and assumptions for the 2022 ICAAP and ILAAP stress tests and a report on the status of the 2022 ECB climate stress test, and discussed the Committee's remaining work program for 2022.

At its meeting on October 14, 2022, the Risk Committee discussed the early warning system for the retail lending portfolio, the future procedure for leveraged transactions and various matters relating to the ECB, including the feedback on the ECB climate stress test and the result of the ECB's 2022 thematic review on climate-related and environmental risks. The Committee also reviewed the current interest rate trend and its implications for interest rate risk as well as receiving an explanation of the "Ad-hoc OPR loss reporting/standard software reporting system of July 15, 2022".

On December 6, 2022, the Risk Committee heard about ICAAP governance (in particular the responsibilities of the Supervisory Board in this connection) and about the results of the 2022 SREP, the result and priorities of resolution planning for 2023 and the latest developments regarding the interest rate risk in the banking book (IRRBB).

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 as well as interest rate risks in the banking book, other market price risks and further aspects of risk management 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. The members of the Supervisory Board are informed of risk-related matters at their meetings (including five meetings of the Supervisory Board’s Risk Committee in 2022). 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 reporting in accordance with Article 99 (4) of the CRR or in connection with 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 Systems for Corporate Customers

The Volkswagen Bank GmbH Group uses rating systems to assess the credit quality of corporate customers. These evaluations take into account both quantitative factors (mainly data from annual financial statements) and qualitative factors (such as the prospects for future business growth, quality of management 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 Systems in the Retail Business

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

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

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, 2022.

TABLE 16: EU CR1-A – MATURITY OF EXPOSURES

		A	B	C	D	E	F
		Net exposure value					
	in € millions	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	185.6	6,201.2	1,060.2	169.9	42,070.3	49,687.3
2	Debt securities	0.0	666.2	2,253.2	880.5	13,705.7	17,505.6
3	Total	185.6	6,867.4	3,313.5	1,050.4	55,776.0	67,192.9

NONPERFORMING AND FORBORNE EXPOSURES

At 3.76%, 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 € millions	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**	**309.8**	**217.0**	**198.3**	**198.3**	**-1.9**	**-30.4**	**370.3**	**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	15.2	1.8	0.2	0.2	0.0	0.0	10.0	0.0
060	Non-financial corporations	246.3	142.6	130.9	130.9	-1.1	-22.5	274.4	0.0
070	Households	48.2	72.7	67.3	67.3	-0.8	-7.9	85.8	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**	**15.8**	**126.8**	**125.7**	**125.7**	**0.0**	**0.0**	**0.0**	**0.0**
100	**Total**	**325.6**	**343.9**	**324.1**	**324.1**	**-1.9**	**-30.4**	**370.3**	**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 € millions		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**	**3,726.9**	**3,726.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
010	**Loans and advances**	**48,503.8**	**48,290.6**	**213.1**	**2,040.0**	**1,329.0**	**189.5**	**284.1**	**108.3**	**82.7**	**10.3**	**36.2**	**1,609.1**
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	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
040	Credit institutions	88.4	88.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
050	Other financial corporations	1,297.2	1,296.3	0.9	31.0	26.9	1.7	1.2	0.5	0.5	0.0	0.0	10.3
060	Non-financial corporations	21,845.1	21,731.5	113.6	1,204.5	843.0	79.6	173.2	37.5	31.4	6.2	33.6	940.7
070	Of which SMEs	6,449.6	6,386.9	62.8	433.8	346.7	26.4	24.7	12.6	9.9	3.2	10.3	295.3
080	Households	25,272.8	25,174.1	98.7	804.6	459.0	108.2	109.7	70.2	50.8	4.1	2.7	658.2
090	**Debt Securities**	**17,513.3**	**17,513.3**	**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	3,307.2	3,307.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
120	Credit institutions	330.9	330.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
130	Other financial corporations	13,875.2	13,875.2	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**	**14,242.8**			**391.4**								**125.7**
160	Central banks	0.0			0.0								0.0
170	General governments	0.0			0.0								0.0
180	Credit institutions	0.0			0.0								0.0
190	Other financial corporations	773.9			0.0								0.0
200	Non-financial corporations	11,306.4			385.2								125.5
210	Households	2,162.5			6.1								0.2
220	**Total**	**83,986.8**	**65,804.0**	**213.1**	**2,431.4**	**1,329.0**	**189.5**	**284.1**	**108.3**	**82.7**	**10.3**	**36.2**	**1,734.8**

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 € millions			of which: defaulted	of which: subject to impairment			
010	**On balance sheet exposures**	**71,784.01**	**2,040.04**	**1,609.08**	**0.05**	**-864.20**		**0.00**
020	Germany	31,188.84	1,028.61	965.00	31,164.45	-369.82		0.00
030	Luxenburg	11,228.67	0.00	0.00	522.76	-30.09		0.00
040	Italy	8,429.92	64.01	59.66	6,170.47	-71.70		0.00
050	Spain	6,517.06	97.94	97.55	5,010.25	-111.40		0.00
060	France	5,756.78	697.08	357.25	5,668.89	-176.22		0.00
070	Others	8,662.74	152.40	129.63	-48,536.75	-104.98		0.00
080	**Off balance sheet exposures**	**14,634.17**	**391.38**	**125.74**			**92.22**	
090	Germany	9,367.26	358.29	125.48			82.51	
100	United States of America	2,015.57	0.77	0.00			2.54	
110	France	261.70	12.89	0.00			0.88	
120	The Netherlands	1,566.53	0.80	0.26			1.16	
130	Spain	451.09	4.55	0.00			1.65	
140	Others	972.03	14.08	0.00			3.48	
150	**Total**	**86,418.19**	**2,431.42**	**1,734.82**	**0.05**	**-864.20**	**92.22**	**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 € millions			Davon: ausgefallen			
010	Agriculture, forestry and fishing	54.6	1.8	1.1	54.6	-1.8	0.0
020	Mining and quarrying	2.4	0.1	0.1	2.4	-0.1	0.0
030	Manufacturing	359.3	11.1	9.4	359.3	-8.6	0.0
040	Electricity, gas, steam and air conditioning supply	8.8	0.1	0.1	8.8	-0.1	0.0
050	Water supply	27.4	1.1	0.5	27.4	-0.8	0.0
060	Construction	682.9	41.7	36.7	682.9	-29.3	0.0
070	Wholesale and retail trade	17,991.6	567.5	556.1	17,991.6	-309.4	0.0
080	Transport and storage	411.8	51.7	46.0	411.8	-27.6	0.0
090	Accommodation and food service activities	114.6	4.9	2.9	114.6	-3.7	0.0
100	Information and communication	83.2	5.3	3.6	83.2	-3.6	0.0
110	Financial and insurance actvities	0.0	0.0	0.0	0.0	0.0	0.0
120	Real estate activities	292.8	13.0	9.0	292.8	-7.3	0.0
130	Professional, scientific and technical activities	1,039.0	15.9	13.4	1,039.0	-42.5	0.0
140	Administrative and support service activities	1,582.9	71.8	63.9	1,582.9	-31.2	0.0
150	Public administration and defense, compulsory social security	0.0	0.0	0.0	0.0	0.0	0.0
160	Education	69.0	2.3	1.3	69.0	-2.1	0.0
170	Human health services and social work activities	209.7	4.6	3.3	209.7	-4.3	0.0
180	Arts, entertainment and recreation	33.9	1.1	0.5	38.9	-1.0	0.0
190	Other services	85.9	3.1	2.1	85.9	-2.3	0.0
200	**Total**	**23,049.6**	**797.1**	**749.8**	**23,049.6**	**-476.1**	**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 € millions	Gross carrying amount
010	Initial stock of non-performing loans and advances	1,591.9
020	Inflows to non-performing portfolios	572.1
030	Outflows from non-performing portfolios	-123.9
040	Outflows due to write-offs	0.0
050	Outflow due to other situations	-123.9
060	Final stock of non-performing loans and advances	2,040.0

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 € millions		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**	**3,726.9**	**3,726.9**	**0.0**	**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**	**48,503.8**	**33,966.2**	**14,187.1**	**2,040.0**	**431.0**	**1,278.2**	**-441.9**	**-182.6**	**-271.2**	**-414.5**	**-19.8**	**-375.4**	**0.0**	**22,510.9**	**988.7**
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	0.0	0.0	0.0
030	General governments	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
040	Credit institutions	88.4	88.2	0.2	0.0	0.0	0.0	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.3	0.0
050	Other financial corporations	1,297.2	742.7	278.9	31.0	21.2	9.6	-2.2	-0.6	-1.6	-1.7	-0.1	-1.6	0.0	197.7	15.7
060	Non-financial corporations	21,845.1	14,478.1	7,299.9	1,204.5	255.1	752.8	-255.5	-124.8	-134.6	-220.6	-6.5	-187.2	0.0	10,730.7	637.3
070	Of which: SMEs	6,449.6	3,722.0	2,716.7	433.8	136.8	261.0	-109.3	-71.9	-38.3	-79.9	-2.9	-67.0	0.0	2,981.7	226.9
080	Households	25,272.8	18,657.1	6,607.9	804.6	154.7	515.8	-183.7	-56.7	-135.0	-192.3	-13.2	-186.6	0.0	11,582.2	335.6
090	**Debt Securities**	**17,513.3**	**1,070.7**	**2,567.4**	**0.0**	**0.0**	**0.0**	**-7.8**	**-1.7**	**-6.0**	**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	0.0	0.0	0.0
110	General governments	3,307.2	892.4	2,414.8	0.0	0.0	0.0	-5.5	-1.4	-4.0	0.0	0.0	0.0	0.0	0.0	0.0
120	Credit institutions	330.9	178.3	152.6	0.0	0.0	0.0	-2.3	-0.3	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
130	Other financial corporations	13,875.2	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
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	**14,242.8**	**10,215.9**	**4,026.9**	**391.4**	**28.7**	**362.7**	**40.9**	**22.4**	**18.4**	**51.4**	**0.0**	**51.4**	**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	0.0	0.0	0.0	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	0.0	0.0	0.0	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 € millions		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
190	Other financial corporations	773.9	769.0	4.9	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	11,306.4	7,765.4	3,541.0	385.2	27.7	357.5	39.4	21.9	17.5	51.4	0.0	51.4	0.0	0.0	0.0
210	Households	2,162.5	1,681.6	480.9	6.1	1.0	5.1	1.2	0.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0
220	**Total**	**83,986.8**	**48,979.7**	**20,781.4**	**2,431.4**	**459.7**	**1,640.9**	**-408.8**	**-161.9**	**-258.8**	**-363.2**	**-19.8**	**-324.1**	**0.0**	**22,510.9**	**988.7**

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

		RISK WEIGHT																
	in € millions	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Sonstige	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	5,716.1	0.0	0.0	0.0	318.0	0.0	0.0	0.0	0.0	0.0	0.0	1,032.6	0.0	0.0	0.0	7,066.8	0.0
2	Regional government or local authorities	949.3	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	949.9	0.0
3	Public sector entities	1,118.9	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.0	3.6	0.0	0.0	0.0	0.0	0.0	1,125.3	0.0
4	Multilateral development banks	43.4	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	0.0	43.4	43.4
5	International organisations	98.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	98.0	98.0
6	Institutions	0.0	0.0	0.0	0.0	330.8	0.0	10.8	0.0	0.0	107.0	0.3	0.0	0.0	0.0	0.0	449.0	0.0
7	Corporates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16,390.6	0.0	0.0	0.0	0.0	0.0	16,390.6	16,390.6
8	Retail	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32,592.5	0.0	0.0	0.0	0.0	0.0	0.0	32,592.5	32,592.5
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	197.4	576.9	0.0	0.0	0.0	0.0	774.4	774.4
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	292.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	292.9	23.3
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	25.1	0.0	0.0	0.0	0.0	0.0	25.1	25.1
16	Other items	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,059.0	0.0	0.0	0.0	0.0	0.0	2,061.7	2,061.7
17	**TOTAL**	**7,928.4**	**0.0**	**0.0**	**292.9**	**652.2**	**0.0**	**10.9**	**0.0**	**32,592.5**	**18,782.7**	**577.3**	**1,032.6**	**0.0**	**0.0**	**0.0**	**61,869.5**	**52,008.9**

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 € millions	a	b	c	d	e	f
1	Central governments or central banks	5,481.4	1.0	6,832.9	233.9	2,645.2	37.4%
2	Regional government or local authorities	949.9	0.4	949.9	0.0	0.1	0.0%
3	Public sector entities	1,123.7	0.8	1,125.3	0.0	4.1	0.4%
4	Multilateral development banks	43.4	0.0	43.4	0.0	0.0	0.0%
5	International organisations	98.0	0.0	98.0	0.0	0.0	0.0%
6	Institutions	426.2	299.8	403.8	45.2	179.1	39.9%
7	Corporates	17,389.4	10,312.4	16,090.7	299.8	16,032.0	97.8%
8	Retail	31,725.9	3,882.7	31,725.9	866.7	24,406.6	74.9%
9	Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	0.0	0.0%
10	Exposures in default	799.9	387.1	767.9	6.5	1,062.9	137.3%
11	Exposures associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0%
12	Covered bonds	292.9	0.0	292.9	0.0	29.3	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	25.1	0.0	25.1	0.0	25.1	100.0%
16	Other items	2,061.7	0.0	2,061.7	0.0	2,059.0	99.9%
17	**TOTAL**	**60,417.4**	**14,884.2**	**60,417.4**	**1,452.1**	**46,443.4**	**75.1%**

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 € millions	a	b	c	d	e
1	Loans and advances	30,771.1	23,499.6	23,386.6	112.9	0.0
2	Debt securities	17,505.6	0.0	0.0	0.0	0.0
3	Total	48,276.7	23,499.6	23,386.6	112.9	0.0
4	Of which non-performing exposures	1,051.3	988.7	988.7	0.0	0.0
EU-5	Of which defaulted	562.5	671.1	671.1	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 2022. 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, 2022 reporting date, the carrying amount of the encumbered assets was €27,454 million (previous year: €31,978 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: EU 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 € millions	010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**27,454.0**	**0.0**			**51,348.0**	**3,792.0**		
030	Equity instruments	0.0	0.0	0.0	0.0	6.0	0.0	0.0	0.0
040	Debt securities	11,822.0	0.0	11,822.0	0.0	6,588.0	3,792.0	6,588.0	3,792.0
050	of which: covered bonds	0.0	0.0	0.0	0.0	341.0	0.0	341.0	0.0
060	of which: securitisations	11,822.0	0.0	11,822.0	0.0	2,274.0	0.0	2,274.0	0.0
070	of which: issued by general governments	0.0	0.0	0.0	0.0	3,457.0	3,451.0	3,457.0	3,451.0
080	of which: issued by financial corporations	11,822.0	0.0	11,822.0	0.0	3,127.0	341.0	3,127.0	341.0
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**	**15,632.0**	**0.0**			**44,206.0**	**0.0**		

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

				Unencumbered	
		Fair value of encumbered collateral received or own debt securities issued		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 € millions	010	030	040	060
130	**Collateral received by the disclosing 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 securitiation issued and not yet pledged**			**0.0**	**0.0**
250	**TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**27,454.0**	**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 € millions	010	030
010	Carrying amount of selected financial liabilities	56,940.0	27,454.0

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
Traditional securitization transactions	
Retail financing	742
Dealer financing	0
Leases	0
Total	**742**

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 € millions	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	32.2	0.0	164.6	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**	**32.2**	**0.0**	**164.6**	**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 € millions	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)	81.5	31.2		1.4	157.7	157.7	157.7	31.5
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**					**157.7**	**157.7**	**157.7**	**31.5**

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 € millions	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	139.8	27.2
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	139.8	27.2

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 € millions	Exposure value	RWEA
1	**Exposures to QCCPs (total)**		**0.5**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	26.4	0.5
3	(i) OTC derivatives	26.4	0.5
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 € millions	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	26.4	0.0	0.0	157.7	0.0	0.0	0.0	0.0	0.0	0.0	184.1
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**	**26.4**	**0.0**	**0.0**	**157.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**184.1**

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 €26.8 million. Own risk models are not in use at this time.

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 €334.6 million as of December 31, 2022, equivalent to 0.7% of total risk exposure.

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

		A
	in € millions	RWEAs
	Outright products	
1	Interest rate risk (general and specific)	0.0
2	Equity risk (general and specific)	0.0
3	Foreign exchange risk	334.6
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**	**334.6**

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 €102.9 million in foreign-currency risks from €437.5 million to €334.6 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 operational risk management is to present operational risks transparently and to initiate precautionary or corrective measures with the aim of preventing or, when this is not possible, mitigating the risks or losses. If an operational risk materializes, this represents an operational loss with the resulting loss of a business asset, which has a negative impact on financial position 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. The local 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 at Group level. This risk value is then distributed to the individual branches and subsidiaries using an allocation key.

Risk monitoring and control

Operational risk is managed by the companies/divisions (operational risk units) on the basis of the guidelines in force and the requirements laid down by the special operational risk units responsible for specific risk categories (IT, Integrity/Legal & Compliance, and Human Resources & Organization). 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 operational risk 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 and operational risk special units, a review to check compliance with the risk sub-strategies for operational risks and a review of the methods and procedures used for risk measurement.

Communications relating to operational risks are provided quarterly as part of the risk management reports. The quarterly details are supplemented by an annual 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 €282.3 million.

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

		A	B	C	D	E
	anking activities	Relevant indicator			Own funds requirements	Risk exposure amount
	in € millions	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	2,361.70	2,046.91	1,796.10	282.26	3,528.30
3	Subject to TSA:	2,361.70	2,046.91	1,796.10		
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 bearer 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 currently 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 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 sensitivities for direct residual value risks are also in place to create a comprehensive picture of the risk sensitivity of residual values. These sensitivities are applied under expert leadership with the involvement of the central and local risk specialists.

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

Risk identification and assessment

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

The relevant income statement items provide the basis for these calculations. The estimates for earnings risk are then based on two perspectives: 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 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, 2022, credit rating agencies give Volkswagen Bank GmbH a long-term rating of BBB+ (S&P) with a stable outlook and A1 (Moody's) with a stable 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 Volkswagen Bank GmbH Group is composed of LCR Level1 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 € millions	Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYY)	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022
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					11,845.9	13,567.2	14,383.8	13,888.6
CASH - OUTFLOWS									
2	retail deposits and deposits from small business customers, of which:	23,988.7	24,039.5	23,773.9	23,352.0	1,335.6	1,327.9	1,295.2	1,254.7
3	*Stable deposits*	15,746.1	15,735.2	15,574.6	15,366.8	787.3	786.8	778.7	768.3
4	*Less stable deposits*	4,725.8	4,676.2	4,460.7	4,168.0	473.5	468.7	447.3	418.1
5	Unsecured wholesale funding	5,543.3	6,032.1	6,546.8	6,715.2	3,885.5	4,385.8	4,823.1	4,886.7
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)*	5,430.4	5,869.7	6,403.5	6,552.6	3,772.5	4,223.4	4,679.8	4,724.2
8	*Unsecured debt*	112.9	162.4	143.3	162.6	112.9	162.4	143.3	162.6
9	*Secured wholesale funding*					0.0	0.0	0.0	0.0
10	Additional requirements	5,287.5	5,291.0	5,144.1	4,823.2	726.3	736.1	732.7	710.6
11	*Outflows related to derivative exposures and other collateral requirements*	74.2	73.9	82.7	100.7	58.5	56.8	64.2	75.7
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*	5,213.3	5,217.1	5,061.4	4,722.5	667.8	679.2	668.5	634.9
14	Other contractual funding obligations	1,749.9	1,759.4	1,849.1	1,902.1	1,269.5	1,273.0	1,333.8	1,395.5
15	Other contingent funding obligations	10,673.4	10,994.8	11,008.9	10,697.1	586.0	603.6	604.4	587.3
16	TOTAL CASH OUTFLOWS					7,802.8	8,326.4	8,789.3	8,834.8

		A	B	C	D	E	F	G	H
	in € millions	Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYY)	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022
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	3,279.3	3,109.7	3,040.3	3,004.4	1,801.5	1,713.6	1,684.4	1,669.7
19	Other cash inflows	1,393.1	1,364.4	1,331.0	1,315.9	966.6	982.8	980.6	958.0
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	4,672.3	4,474.2	4,371.3	4,320.4	2,768.1	2,696.3	2,665.0	2,627.7
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*	4,672.3	4,474.2	4,371.3	4,320.4	2,768.1	2,696.3	2,665.0	2,627.7
TOTAL ADJUSTED VALUE									
21	LIQUIDITY BUFFER					11,845.9	13,567.2	14,383.8	13,888.6
22	TOTAL NET CASH OUTFLOWS					5,034.7	5,630.0	6,124.3	6,207.0
23	LIQUIDITY COVERAGE RATIO					236.5%	244.6%	239.6%	227.4%

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. HQLAs decreased during the reporting period in the form of central bank balances and of LCR Level 1 securities. At the same time, there was a decline in outflows, while there were virtually no changes in inflows.

TABLE 38: EU LIQ2 – NET STABLE FUNDING RATIO

		A	B	C	D	E
		Unweighted value by residual maturity				Weighted value
	in € millions	No maturity[1]	< 6 months	6 months to < 1yr	≥ 1yr	
	Available stable funding (ASF) Items					
1	**Capital items and instruments**	**10,390.7**	**0.0**	**0.0**	**3.3**	**10,393.9**
2	Own funds	10,390.7	0.0	0.0	3.3	10,393.9
3	Other capital instruments		0.0	0.0	0.0	0.0
4	**Retail deposits**		**20,968.8**	**254.6**	**2,468.9**	**22,377.4**
5	Stable deposits		15,980.0	169.9	1,707.4	17,049.8
6	Less stable deposits		4,988.8	84.8	761.5	5,327.7
7	**Wholesale funding:**		**7,480.1**	**828.3**	**15,143.0**	**18,364.4**
8	Operational deposits		0.0	0.0	0.0	0.0
9	Other wholesale funding		7,480.1	828.3	15,143.0	18,364.4
10	**Interdependent liabilities**		**0.0**	**0.0**	**0.0**	**0.0**
11	**Other liabilities:**	**90.1**	**2,149.9**	**424.9**	**3,645.2**	**3,857.6**
12	NSFR derivative liabilities	90.1				
13	All other liabilities and capital instruments not included in the above categories		2,149.9	424.9	3,645.2	3,857.6
14	**Total available stable funding (ASF)**					**54,993.4**

		A	B	C	D	E
		Unweighted value by residual maturity				Weighted value
	in € millions	No maturity[1]	< 6 months	6 months to < 1yr	≥ 1yr	
	Required stable funding (RSF) Items					
15	**Total high-quality liquid assets (HQLA)**					**23.1**
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:**		**9,085.0**	**7,231.0**	**30,442.9**	**35,605.8**
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		317.5	46.2	477.6	532.5
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		8,767.5	4,039.0	18,629.7	22,238.5
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	3,145.8	11,335.6	12,834.8
25	**Interdependent assets**		**0.0**	**0.0**	**0.0**	**0.0**
26	**Other assets:**	-	**2,490.2**	**363.2**	**7,316.8**	**8,820.3**
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		0.0			0.0
30	NSFR derivative liabilities before deduction of variation margin posted		0.0			0.0
31	All other assets not included in the above categories		2,460.1	363.2	7,316.8	8,794.8
32	**Off-balance sheet items**		**12,950.1**	**6.6**	**37.9**	**1,030.0**
33	**Total RSF**					**45,479.2**
34	**Net Stable Funding Ratio (%)**					**120.92%**

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 a decentralized structure. 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.

As a result, the following main legal areas have been identified as being of material relevance for 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 that must be met by the Volkswagen Bank GmbH Group are determined centrally and must be implemented autonomously by 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 Company 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 banking books is calculated on a monthly basis and their impact on the periodic value on a quarterly 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 – INTEREST RATE RISKS ON BANKING BOOK ACTIVITIES

		A	B	C	D
Supervisory shock scenarios		Changes of the economic value of equity		Changes of the net interest income	
	in € millions	Current period	Last period	Current period	Last period
1	Parallel up	-264.0	-264.6	-101.1	-92.4
2	Parallel down	282.4	248.8	97.8	3.6
3	Steepener	38.1	54.1		
4	Flattener	-84.2	-105.7		
5	Short rates up	-157.1	-177.1		
6	Short rates down	165.6	152.6		

The "Last period" presented corresponds to the figures as of June 30, 2022. The main change in net interest income as of June 30, 2022 is primarily due to a technical adjustment in funding operations.

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 set limits and observation thresholds for this category of risk. If the limits or observation thresholds 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. In addition, periodic risk measures for changes in net interest income are calculated and monitored with the help of the limits.

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 periodic interest rate risk identifies the risk of negative deviations in planned income due to changes in market yield curves in the +200 and -200 basis points interest rate shock scenarios defined by BaFin as well as the scenarios defined by the ECB and the Basel Committee. The periodic interest rate risk comprises conventional interest income (interest income and interest expense based on the external interest rate, also known as the product interest rate) and the results from fair value measurements relevant for interest.

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. The maximum duration of the interest rate adjustment is 5 years. The average duration of the interest rate adjustment is 1.5 years.

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 and/or Controlling are responsible for monitoring and reporting on interest rate risk. The Management Board receives a monthly report on the current interest risk situation with respect to present value and a quarterly report with respect to periodic value for the Volkswagen Bank GmbH Group.

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, responsibility is assumed for reporting to investors, banks and credit rating agencies as well as for the regulatory disclosure requirements. 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 40: 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 as well as regulators

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, 2022 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(f) 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. If the investors are not companies of the Volkswagen Bank Group, bonds and subordinated loans are reported within liabilities. 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 also 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

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 2022.

For funding-related reasons, a decision was made to reduce the Driver Master Compartment 2 securitization transaction in two asset take-outs.

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.

In view of the contractually agreed buyback right when the materiality threshold is breached (“clean-up call”), the outstanding exposures under the Driver 15 securitization transaction (June 2022) 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 41: 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 € millions		of which SRT		of which SRT		of which SRT		STS	Non-STS	Synthetic	Sub-total				
1	**Total exposures**	**0.0**	**0.0**	**12,116.7**	**0.0**	**0.0**	**0.0**	**12,116.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**491.1**	**0.0**	**491.1**
2	Retail (total)	0.0	0.0	12,116.7	0.0	0.0	0.0	12,116.7	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	12,116.7	0.0	0.0	0.0	12,116.7	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	491.1	0.0	491.1
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

	in € millions	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
			of which SRT		of which SRT		of which SRT		STS	Non-STS	Synthetic	Sub-total				
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	491.1	0.0	491.1
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-securitisa-tion	0.0	0.0	0.0	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 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 42: 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 € millions	≤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	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW
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 43: 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 € millions	≤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	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW
1	**Total exposures**	**0.0**	**491.1**	**0.0**	**0.0**	**0.0**	**0.0**	**491.1**	**0.0**	**0.0**	**0.0**	**169.5**	**0.0**	**0.0**	**0.0**	**13.6**	**0.0**	**0.0**
2	Traditional securitisation	0.0	491.1	0.0	0.0	0.0	0.0	491.1	0.0	0.0	0.0	169.5	0.0	0.0	0.0	13.6	0.0	0.0
3	Securitisation	0.0	491.1	0.0	0.0	0.0	0.0	491.1	0.0	0.0	0.0	169.5	0.0	0.0	0.0	13.6	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	491.1	0.0	0.0	0.0	0.0	491.1	0.0	0.0	0.0	169.5	0.0	0.0	0.0	13.6	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 44: 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 € millions		Of which exposures in default	Total amount of specific credit risk adjustments made during the period
1	**Total exposures**	**15,359.6**	**251.2**	**141.5**
2	Retail (total)	15,359.6	251.2	141.5
3	residential mortgage	0.0	0.0	0.0
4	credit card	0.0	0.0	0.0
5	other retail exposures	15,359.6	251.2	141.5
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 €15.4 billion as of December 31, 2022. Of this, €251.2 million or 1.6% is classified as in default.

Environmental, Social and Governance Risks (ESG Risks)

QUALITATIVE REPORTING

Both the financial industry and the automotive industry are key sectors in the sustainability-driven transformation of society and the economy. At Volkswagen Bank GmbH (Group), we hold the key role of supporting, accompanying and, in particular, financing the Volkswagen Group's transformation across Europe. This is a challenge but also a major opportunity.

At the same time, the needs and expectations of Volkswagen Group customers are our top priority. Accordingly, in addition to providing transformation finance for business customers or financing zero-emission mobility for private customers, our task continues to be to finance all Group vehicles in our classic business. As long as there is demand for new vehicles with conventional combustion engines, we will offer suitable financing solutions. The same thing applies to used-car business. At the same time, we need to meet the expectations of our customers, investors and other stakeholders regarding our own transformation and that of our business model towards climate neutrality.

In line with the targets adopted in the European Union's Green Deal and the interim targets for 2030 set out in the "Fit for 55" package, we as a captive bank are aligning ourselves to the emission-reduction targets for the mobility sector. Under these targets, automobile emissions are to be cut by 55% over 1990 levels by 2030 and no new vehicles fitted with internal combustion engines may be registered in the EU from 2035.

As enshrined in the European Commission's action plan for financing sustainable growth, the financial sector is to play a key role in Green Deal projects. The ECB's expectations for banks provide the preliminary framework for integrating climate and environmental risks within risk management and disclosure. Meeting these expectations is an important step for us to implement climate-relevant aspects in our business strategy and operations. At the same time, it can be expected that regulatory requirements will tend to increase rather than decline.

As our business is closely linked to the Volkswagen Group's sales plans, we are part of the automotive transformation. One challenge for Volkswagen Bank GmbH (Group) is the realignment of the sales strategies for battery electric vehicles (BEV), which are increasingly being marketed on a lease basis. Accordingly, they will account for only a small proportion of the classic financing business of Volkswagen Bank GmbH (Group) in the medium term. Combined with the gradual phasing-out of internal combustion engines, classic business will therefore shrink. To compensate for this, we will be increasingly engaging in transitory business in which the purpose of the asset being financed is directly linked to the transition to climate neutrality.

As a captive financial services company and provider of sales finance within the Volkswagen Group, Volkswagen Bank GmbH (Group) as a wholly owned subsidiary of Volkswagen AG will align itself to the Group's automotive brands and support them in their market development activities.

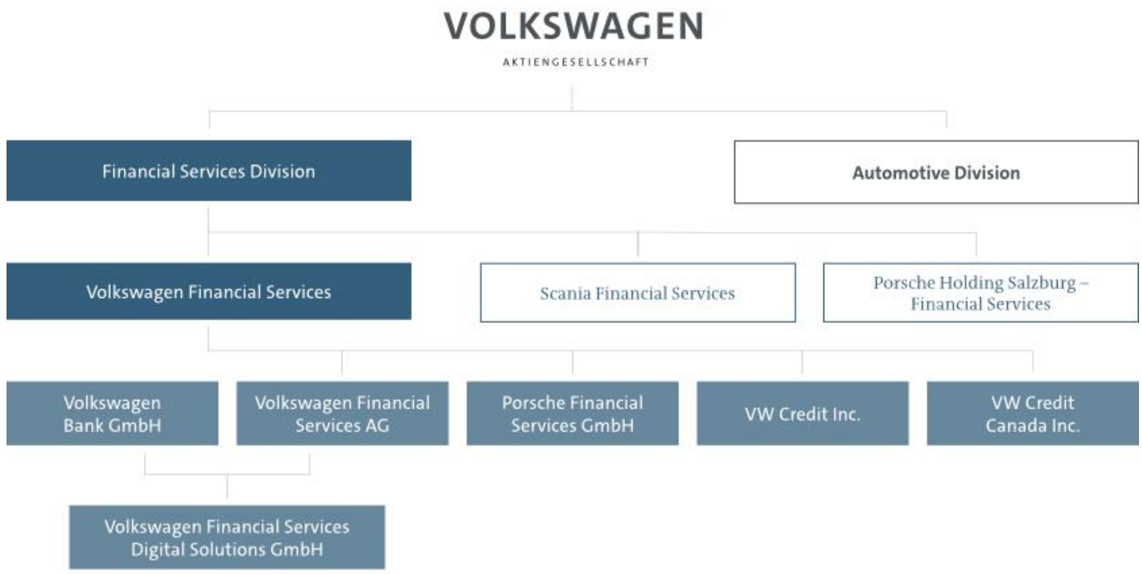

Figure 1: Financial Services Division of the Volkswagen Group

With its NEW AUTO strategy, the Volkswagen Group has defined the roadmap for its transformation into a software-driven mobility company. In this connection, the development and expansion of mobility solutions has been defined as an important core element. As part of this, we at Volkswagen Bank GmbH (Group) are assuming a central role, which is why our MOBILITY2030 strategy is closely linked to the strategic targets of the Volkswagen Group.

For us, sustainability means striving to achieve economic, social and ecological goals simultaneously and with the same priority. We want to create lasting value, offer good working conditions and treat the environment and natural resources with care.

Under our sustainability policy, we want to ensure that we identify environmental, social and governance risks at all stages along the value chain at an early stage. In this way, our corporate social responsibility activities will help to enhance our reputation and our Company's value in the long term.

Sustainability is an integral part of the Group's 2030 NEW AUTO strategy as well as the "Mobility for Generations to Come" Group purpose. Moreover, we are pursuing the goal of aligning the sustainability strategy more and more closely to the United Nations Sustainability Development Goals, SDGs.

The six priorities (decarbonization, circular economy, responsibility for supply chains and business, diversity, people in transformation and integrity) are being backed with goals that are to be achieved by 2030, specific, measurable and deadline-related targets, indicators to measure progress in achieving the targets, measures to reach the targets and the development and implementation of programs and initiatives.

ESG (Environmental, Social, and Governance) refers to the basic principles of doing business sustainably. Group stakeholders (e.g. investors, employees, customers, NGOs) have high expectations of the Company's ESG performance, including decarbonization and integrity. Accordingly, ESG performance directly influences the Group's market capitalization as well as its attractiveness as an employer, for example. Accordingly, the aim of the Group ESG initiative is to improve its ESG performance in order to safeguard its appeal as an investment and to optimize the cost of capital, among other things.

At Volkswagen Bank GmbH (Group), we have defined five strategic thrusts as part of our MOBILITY2030 strategy in order to implement our vision of “We are the key to mobility” and our mission of “We meet our customers’ mobility needs with sustainable solutions along the entire vehicle cycle”. These are: Customer Loyalty, Vehicle, Performance, Data & Technology and Sustainability.

By expressly including sustainability as a strategic thrust of our overall MOBILITY2030 strategy, we at Volkswagen Bank GmbH (Group) are underscoring the high relevance that it has for our Company as well as for our customers, employees and other stakeholders. We are vigorously driving forward the transition to zero-emission mobility. In doing so, we are particularly concentrating on environmentally friendly products, operations and IT and on achieving zero emissions in the long term.

We are evolving from a provider of sales finance to an enabler of sustainability and sustainable mobility in the Volkswagen Group. Specifically, this means a clear focus on reducing carbon emissions. Our products, operations and IT will be carbon-neutral (including carbon offsetting) by 2030. At the same time, we want to achieve the transition to carbon neutral with a neutral effect on profit and loss.

Progress towards carbon neutrality is to be measured using a specific key performance indicator (KPI) in order to assess the effectiveness of the measures and initiatives taken. We are using the carbon footprint that has been calculated as a KPI for measuring achievement of carbon-neutral business operations. Across Europe, we aim to reduce our emissions by 50% by 2025 compared to 2022 and to achieve climate neutrality (including carbon offsetting) in all our markets by 2030 at the latest.

The measures for achieving carbon neutrality by 2030 are derived from an assessment of the relevant carbon footprints of our classic products as well as our business operations and IT.

Within our traditional products, we draw a distinction between vehicle financing in the retail segment (households and corporate customers) and business customer financing in the corporate segment. In the retail segment, the corresponding carbon footprints are based on the emissions of the vehicles financed and in the corporate segment on the emissions of the financed operations.

A preliminary assessment of the carbon emissions shows that the value chain of our business partners, on the one hand, and vehicle finance for private customers, on the other, account for the two largest proportions of carbon emissions. Accordingly, it is necessary to take a closer look at these two segments in order to define appropriate measures.

Our plans are based on the long-term production and sales planning figures for the Volkswagen Group brands. In classic new and used vehicle financing, we are following the sales targets for both ICE and electric vehicles. The BEVs that we finance do not emit any greenhouse gases. Consequently, they have zero specific carbon emissions. For this reason, we classify these vehicles as zero-emission vehicles in terms of the carbon emissions they produce.

In order to enable mobility for all customer groups, we are continuing to offer finance for new and used ICE (internal combustion engine) vehicles. However, the declining production planning figures for ICEs mean that this portfolio will disappear by 2035 in the case of new vehicles and with a corresponding delay in the case of used vehicles. At the same time, carbon emissions in the retail segment will gradually drop to zero. This means that, if we are to reach our goal of carbon neutrality by 2030, carbon offsets will be required for the carbon emissions of the relevant vehicles until they have been fully phased out.

Despite this, the average emissions of the vehicles financed by Volkswagen Bank GmbH (Group) are already below the decarbonization trajectory specified in the IEA’s net zero 2050 scenario. Accordingly, the task at hand is to remain on the trajectory that has been adopted by following the Volkswagen Group’s sales policies.

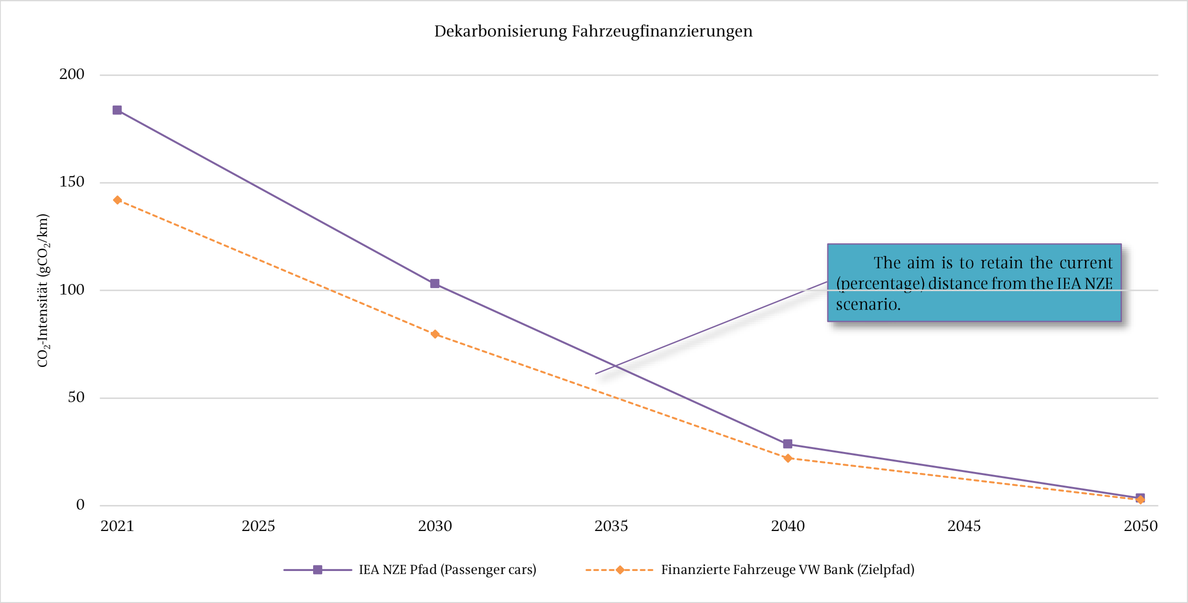

Figure 2: Decarbonization trajectory for passenger cars

We aim to actively support our dealers in their transformation efforts in close alignment with the "goTOzero" environmental mission statement. To help dealers reduce their own carbon footprint, we offer attractive financing for charging infrastructure (including photovoltaic systems) or investments in energy-efficient construction and refurbishment, among other things. We are budgeting for an annual increase in volumes here. In this way, we will be steadily increasing the proportion of green financing in our classic business.

Looking forward, we will be focusing from the outset on transition products that are as climate-neutral as possible in our new business areas, namely mobility as a service (MaaS), transportation as a service (TaaS) and rental cars. These are grouped together under the term "green products". Further business ideas include SME finance for solar parks, urban and rural charging infrastructures and charging services.

To achieve the target of carbon-neutral operations by 2030 at the latest, we are utilizing an environmental management system (EMS) in accordance DIN EN ISO 14001. Corresponding reporting on carbon emissions is based on ISO 14064.

With respect to our operations, we are concentrating on the following main drivers of carbon emissions:

1. the emissions arising from our electricity consumption,
2. the production of heat at our sites (especially the data center),
3. the emissions from our own fleet of company cars.

Accordingly, we have three primary levers for reducing emissions from our business operations: green power, green heat and green company cars. This has been an established and constant process since 2015, which we are systematically continuing to pursue with our MOBILITY2030 strategy.

The Braunschweig campus, which is the largest property within Volkswagen Bank GmbH (Group), has already switched to natural electricity, resulting in zero carbon emissions for this site. In order to further reduce consumption despite this, other initiatives include the replacement of light bulbs, the modernization of air conditioning systems and the optimization of building automation.

With respect to heating, we were able to significantly reduce our emissions by replacing gas-fueled systems with biomass-powered district heating in 2022. In addition, the building on the campus with the lowest energy efficiency was vacated, the building shell renovated and the lease canceled for the facility that is heated using fuel oil.

To reduce the emissions of our own fleet of company vehicles, we are currently rolling out initiatives that provide incentives for more sustainable employee mobility. Moreover, we are also launching pilot tests for climate-neutral business operations at our operations in the Netherlands, the United Kingdom and Ireland.

As we will be offsetting unavoidable residual emissions as part of the net-zero initiative, we will achieve carbon neutrality in our national and international business operations and IT by 2030 at the latest.

The following initiatives exemplify the range of actions that we are taking to achieve our strategic sustainability goals.

1. Support for the United Nations Sustainable Development Goals
   We are supporting the United Nations Sustainable Development Goals. With our sustainability strategy and our specific internal and external sustainable business activities, we are particularly working towards the following SDGs: 5. Gender equality, 7. Affordable and clean energy, 8. Decent work and economic growth, 11. Sustainable cities and communities and 13. Climate action.

2. Sustainability project
   Launched in mid-2021, the sustainability project is making a decisive contribution to initiating and implementing sustainability-related measures. The focus is on ESG-relevant risk, data and regulatory matters. In particular, the project addresses the integration of ESG-relevant aspects within the business operations of Volkswagen Bank GmbH (Group), e.g. the step-by-step implementation of climate stress tests in the Bank's stress testing program. In order to meet supervisory and regulatory requirements within the requisite period, milestones and core deliverables have been defined for each subproject and the working groups that have been installed on the basis of the project.

3. Carbon footprint task force
   A carbon footprint task force was established in 2022 to address the complex issues relating to the carbon footprint. The task force is responsible for quantifying the financed emissions of Volkswagen Bank GmbH (Group) in accordance with the PCAF standard for the first time. In addition, it aims to develop methods and solutions that cover the different perspectives and requirements from the Bank's point of view in the context of carbon emissions. In addition to the carbon footprint according to the PCAF standard, this particularly entails disclosure requirements and (stakeholder) communications. In addition, the findings of the task force serve as a basis for the planned development of a specific carbon reduction plan in accordance with international standards.

4. Green product management
   As well as this, we are highlighting the relevance of green financing by establishing special green product management within the product development unit at Volkswagen Bank GmbH (Group). The focus is on the (further) development of green financing and deposit-taking products, the expansion of relevant partnerships and the establishment of a framework for achieving our green volume targets.

5. Cooperation with the Volkswagen "goTOzero Retail" initiative
   To support the Volkswagen Group's car dealers in their efforts to reduce carbon emissions, Volkswagen has launched a "goTOzero Retail" initiative specially tailored to retail outlets. Car dealerships are playing a crucial role in the overall transformation process as this is where the journey to a new, climate-friendly mobility world is beginning for more and more people. At Volkswagen Bank GmbH (Group), we support this customer group-specific initiative across Europe particularly by providing finance for medium- and long-term investments, e.g. for the internal production of green electricity, more efficient building technologies or the construction or renovation of buildings and outdoor facilities. In particular, the Netherlands have been advising national dealers since 2020 on tool-based measures for reducing the carbon footprint of the individual dealership operations.

6. Partnership with Naturschutzbund Deutschland e.V. (NABU)
   In addition to our bank-specific initiatives, we are also committed to environmental and climate protection. For this reason, Volkswagen Financial Services and Volkswagen Bank GmbH have been working with NABU since 2008 as part of a project and dialog partnership. Our joint focus is on moorland protection as a highly effective climate protection measure together with the positive impact on biodiversity. Since the partnership was forged, a sum of roughly €6 million has been invested in national and international moorland protection projects. In addition, the #MailfuersMoor initiative alone, which aims to reduce the volume of mail sent, generated more than €100,000 for moorland conservation in 2021 and 2022. Alongside moorland protection, Volkswagen Financial Services and Volkswagen Bank GmbH, together with NABU, are also committed to the renaturation of flowing waters. One specific project, for example, concerns the renaturation of the Aller River near Verden in Lower Saxony. The aim is to improve biodiversity and flood protection. These joint activities have already won several national and international environmental awards.

7. ESG market monitoring through market research and analysis
   We engage in active market research and analysis to keep abreast of the dynamic developments in ESG. In addition to general market observation on matters relating to sustainability and e-mobility, this also involves a differentiated view of strategies, customer expectations, products and advertising initiatives. As well as this, we are gradually incorporating sustainability within our own customer surveys, including at a European level. This market monitoring is supplemented by the activities performed by the "Political Affairs" unit.

In summary, these activities and initiatives underscore our mission as a captive bank to accompany and support our parent in its transformation into a mobility company. From the perspective of Volkswagen Bank GmbH, automotive financing entails mobile assets, for which physical hazards are not a dominant risk driver and therefore play only a subordinate role in the alignment of its business policy. Even so, physical risks are included in risk management.

The transformation of society and the economy towards greater sustainability entails opportunities and also various risks for the financial industry as well as the automotive sector. It is therefore up to Volkswagen Bank GmbH to identify and manage these.

Accordingly, Volkswagen Bank GmbH has integrated ESG risks as a core element of its risk management framework step by step.

As ESG risks exhibit interdependencies with all 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. This avoids duplicate structures and also involves all employees in ESG matters in their existing roles.

Specific ESG topics have been assigned to the Equity and Risk Committee, the Stress Testing Committee and the ALM Committee. Relevant matters are discussed by the regular committees on an ad hoc basis. Strategy operationalization, business and risk management in terms of pricing and strategy implementation and data constitution are located within Market. The Business Strategy and Market unit is responsible for Volkswagen Bank's sustainability strategy. This also includes the development of KPIs. The back office is responsible for developing policies for ESG pricing processes and methodologies. Communications takes care of the Bank's general market perception with regard to ESG aspects. Adjustments to risk strategies, the identification and assessment of ESG risks and corresponding ESG risk reporting are assigned to Risk Management. One aspect of compliance involves regular RADAR screening, also with regard to ESG aspects as well as the monitoring of statutory sustainability requirements and tasks in accordance with MaRisk, MaGo and KAMaRisk. As part of its auditing activities, Internal Audit is responsible for ensuring that sustainability risks are addressed appropriately and incorporates the aspects associated with climate and environmental risks within the audit strategy and the definition of the audit objectives.

In addition, the Chief Risk Officer also acts as the Sustainability Officer. This entrenches the management relevance of sustainability at the highest decision-making level and simultaneously creates the basis for rolling out ESG initiatives on a Group-wide basis and across individual business units. The Sustainability Officer is, for example, responsible for aspects of the ESG taxonomy, corresponding definitions and Volkswagen Bank GmbH's overall ESG strategy. In addition, he 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.

The main focus is on addressing climate and environmental risks and on structuring them by reference to a full list of potential risk drivers based on publicly available information, occurrence of which may have adverse effects on the Bank's net assets, results of operations, financial position and reputation. To gain a full and well-documented overview of the impact of these risk drivers, the transmission channels of the risk drivers are reconciled with the risk types in existence and their potential financial impact. An example of this is shown in the following chart:

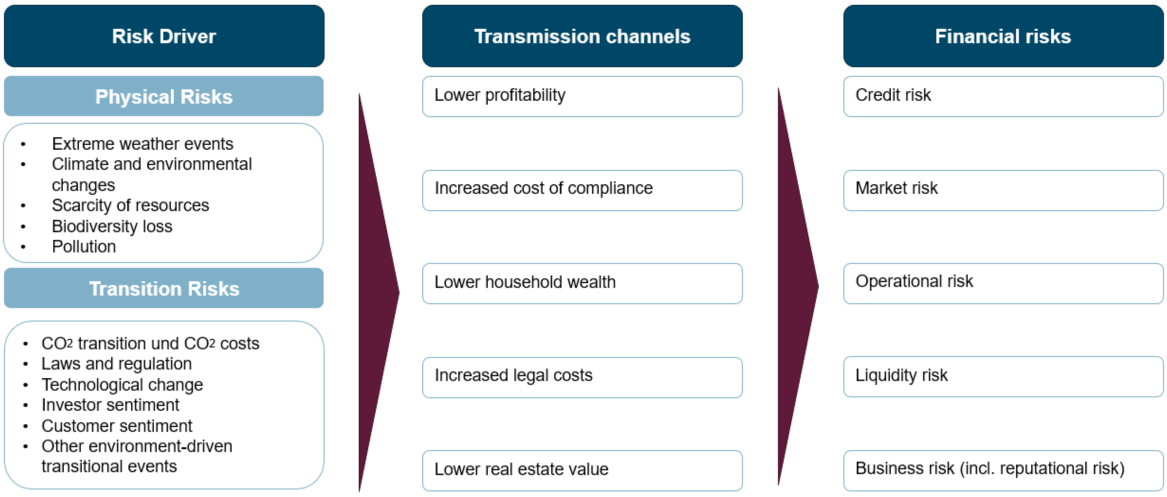

Figure 3: Risk drivers, transmission channels and financial impact

On top of this, the current portfolio structure is analyzed to identify the main portfolios in the light of Volkswagen Bank GmbH's business model and strategy as well the emissions financed. Geographical risks for the individual portfolios are also examined. This information is used to perform a relevance analysis of all risk drivers in the relevant risk types in the light of the transmission channels on the basis of qualitative expert opinions and quantitative information. A general risk assessment is performed for less relevant risk types. Finally, the materiality of the risk drivers is assessed in the short term (< 1 year), medium term (1-5 years) and long term (> 5 years). The materiality assessment for these risk drivers is performed as part of the Management Board's existing annual inventory process.

Volkswagen Bank GmbH has identified the following material transmission channels for physical and transitory risk drivers for the various risk types:

Risk type	Transmission channel for physical risks	Transmission channel for transitory risks
credit risk/residual value risk	Natural disasters such as droughts, floods or storms are increasing in frequency under different climate scenarios, causing significant economic damage to homes and cars, which would result in rising repair costs or total loss of assets. The solvency of counterparties would be adversely affected, particularly those operating in sectors heavily dependent on natural resources or in particularly vulnerable locations. The risk of increasing car damage could be mitigated by (car) insurance. Environmental changes and resource scarcity can lead to rising costs for car repairs and negatively impact supply chains.	The solvency and the assets of counterparties could be adversely affected by changes in regulation and by the implementation of measures to reduce greenhouse gas emissions. For example, stricter standards for CO_2 emissions or higher CO_2 prices could lead to rising purchase and maintenance costs for cars or mean rising fuel costs. The EU regulation to only allow CO_2-free new cars from 2035 can result in a possible decrease in the residual values of used cars.
interest rate risk/other market price risk	Extreme events and long-term climate trends such as desertification and sea-level rise could trigger instabilities that affect supply chains and commodity prices, and induce volatility in market variables.	Expectations regarding new regulatory frameworks, stricter CO_2 guidelines or newly developed green technologies could influence the volatility of market variables such as interest rates.
liquidity risk		Evolving consumer preferences could negatively impact deposits and result in higher funding costs for the Group. The enforcement of new regulatory frameworks and stricter CO_2 guidelines could affect the value of securities, which could lead to the posting of additional collateral.
operational risk	Severe weather events could affect the business continuity ability of the bank and its outsourcing. The well-being of employees and their ability to work and enter premises could be affected.	Legal risks can result in liability claims in the event of non-compliance with laws and regulations in the climate context.
business risk		Customer demand may change due to future regulations. This could lead to higher demand for electric cars with lower demand for used combustion cars.

With respect to **physical risks**, “extreme weather events” have low relevance for credit risk, residual value risk, liquidity risk, operational risk and business risk in the short, medium and long term. “Environmental changes” (e.g. temperature increases) and “resource scarcity” are rated as having a lower relevance for the dealer portfolio in the short term but medium relevance in the medium and long term. Only minor risks are identified for residual value risk, liquidity risk, operational risk and business risk across all time horizons. 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 risks**, "carbon transition/costs" in the main risk type credit risk are rated as having medium relevance (medium and long term), while the residual value risk is seen as having minor relevance in the long term.

The risk driver "laws/regulations" is assumed to have a low impact on credit risk (short-term), residual value risk, liquidity risk and operational risk (in the short, medium and long term in each case); in the long-term perspective, however, credit risk is rated as having medium relevance. The risk driver for business risk is also seen as having minor relevance in the medium term and medium relevance in the long term.

Further transitory risk drivers of general relevance are "technological changes" and "customer sentiment". However, these have minor relevance for credit risk (short, medium and long term). These risk drivers likewise play only a minor role for residual value risk in the medium and long term.

The drivers "customer sentiment" and "investor sentiment" are also rated as having only minor relevance (short, medium and long term) for business risk.

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

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

Looking forward, the risk strategy defines the basic understanding and lays the framework for activities in this area by defining the main elements of the risk strategy. 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.

Last year, Volkswagen Bank GmbH conducted climate sensitivity analyses as part of its stress testing program to analyze climate and environmental risks in greater detail. In this connection, the hypothetical adverse effects of various climate risk drivers and individual effects on the risk profile were investigated. For the purposes of credit risk, declining collateral values as a result of higher carbon prices were assumed. In addition, the impact of rising energy costs and falling sales in new car and service business on dealers' creditworthiness was simulated. Furthermore, the liquidity situation was stress-tested particularly on the basis of assumptions with respect to changes in the recognition by the ECB of eligible securities. The impact was always within the scope of the usual sensitivity analyses already carried out regularly by Volkswagen Bank GmbH. Accordingly, there were no discernible changes in Volkswagen Bank GmbH's quantitative risk profile. As well as this, the impact of various scenarios relevant to reputational risk was analyzed. The effects of reputation problems within the Volkswagen Group, the banking sector, climate sanctions, rating downgrades and climate neutrality shortfalls on funding costs and new business were investigated. The results were incorporated in the materiality assessment.

In addition, Volkswagen Bank GmbH took part in the ECB's climate stress test in 2022. As part of these activities, the carbon emissions of the vehicles financed directly by Volkswagen Bank GmbH or indirectly via the dealers were particularly analyzed on a highly granular basis. The activities support the implementation by Volkswagen Bank GmbH of steps to identify Scope 3 emissions in internal and external carbon accounting and the management of transitory risks.

Moreover, a climate stress-testing framework has been developed and provides for the standardized integration of climate and environmental risks in the stress testing program. The risk drivers and risk transmission channels to be considered are therefore identified and evaluated as part of the risk inventory. Climate scenarios and climate sensitivity analyses are defined on the basis of this analysis. The results are in turn incorporated in the risk inventory. The framework is already being applied in 2023 and thus supporting the systematic analysis of the risk profile including an assessment of the potential impact via a feedback process.

Volkswagen Bank GmbH's goal when providing finance is to only accept ESG risks that it is able to assess with a high degree of effectiveness on the basis of broad-based expertise in the front office and back office units.

Starting with dealer business, ESG aspects have become an integral component in identifying ESG risks. For this reason, several instruments have been incorporated in the lending and decision-making processes. Thus, for example, an "ESG-Scoring light" questionnaire was introduced in 2022 to address sustainability aspects in the light of the "climate & environment, "social" and "governance" goals. Since then, front office employees have been discussing sustainability aspects with dealer customers and evaluating the ESG scoring system on this basis. The same thing applies to ESG risk evaluation, i.e. the "ESG guide questions", which are utilized and evaluated within the back office. These "ESG guide questions" initially also apply to significant dealer exposures that must be approved at the "Management Board" and "Supervisory Board" competence levels from November 1, 2022. From April 1, 2023, "ESC-Scoring light" and the "ESG guide questions" must also be used for all risk-relevant corporate customers regardless of the competence level and irrespective of the industry in which they operate. These tools will be extended across the entire corporate portfolio from April 1, 2023, and it is assumed that all risk-relevant corporate customers will have been assessed using "ESG-Scoring light" and the "ESG guide questions" by the end of March 2024.

"ESG-Scoring light" is not a self-assessment performed by the dealer customers. In line with the approach of supporting dealer customers on their transformation journey, "ESG-Scoring light" is to be used as an opportunity and occasion for intensive discussions with dealer customers on ESG matters and their future orientation and transformation under a sustainability strategy. For this reason, "ESG-Scoring light" must be completed by the responsible key account/relationship manager in the front office. Potential findings can be leveraged in the dealer customers' transformation process. Volkswagen Bank GmbH requires detailed ESG-relevant information from dealer customers to ensure appropriate risk management and compliance with regulatory expectations. In this connection, each ESG pillar counts. To this end, "ESG-Scoring light" encompasses the three ESG pillars. Within "Climate & Environment" it concentrates on climate protection (emissions reduction and energy supplies), environmental protection and the sparing use of commodities and energy. Within "Social", it takes account of occupational health and safety as well as employee co-determination. The "Governance" pillar covers aspects related to good corporate governance and compliance.

At the end of 2022, 20% of the risk-relevant dealers had already been assessed using "ESG-Scoring light". The proportion of assessed retailers is higher in Germany (32%) than in other markets (13%) due to the later launch date of "ESG-Scoring light" at the foreign subsidiaries. All in all, most dealers have been rated "green" or "amber" in the traffic-light system. Most dealers are rated "green" in the "Social" sub-category and this has a positive impact on the overall rating as it offsets the larger proportion of "amber" ratings in the "Governance" sub-category.

In addition, corresponding "ESG guide questions" for assessing ESG risks are included in the credit rating for dealer customers within Volkswagen Bank GmbH. These "ESG guide questions" cover all ESG pillars in full. The results of "ESG-Scoring light" must be considered and taken into account in the assessment of the "ESG guide questions".

In addition, sustainability strategies or sustainability reports already published by borrowers are taken into account when loans are granted and lending decisions made.

The guidelines drawn up in connection with these instruments form a basis for employees' work and have been included in the German and European organization manuals. As part of this integration process, Volkswagen Bank GmbH holds several internal conferences and training sessions for target groups for the three lines of defense, including front office, financial risk (back office) and internal audit. To date, more than 250 employees have participated in these special ESG risk sessions.

Volkswagen Bank GmbH follows high ethical principles in its business activities and complies with applicable German and European laws and regulations, for example on conflict management, anti-money laundering, anti-corruption and conflicts of interest, and also observes other regulatory requirements. In accordance with its ESG criteria, Volkswagen Bank GmbH does not finance companies and projects that involve controversial business and economic practices and consequently excludes these customers.

In this context, new guidelines have been drawn up as a viable basis for issuing work instructions for employees and are included in the German and European organization manual.

As physical risks can result in significant operating losses, all units of Volkswagen Bank GmbH in Europe have been assessed with this in mind. The assessment was based on research into historical events, geographic data and possible future physical events. The study focused solely on first-round effects (loss of buildings). The results were visualized in a heat map which groups the risks by flood/precipitation and heat/fire. Physical risks are monitored through regular updating of the heat map. The process is documented in the operational risk manual.

On the basis of the outside-in perspective and Volkswagen Bank GmbH's asset structure, no major physical risks are currently expected. Even so, there are individual BCM (business continuity management) plans in place for all units. In this connection, remote working has been defined as a relevant strategy in the event of a BCM incident. In addition, the annual BCM risk analysis assesses possible reasons (including physical risks) for the failure of resources and is carried out by all BCM-relevant units in Europe.

Since the main facility is located in Braunschweig, a second, more detailed analysis was performed for the headquarters. Storms and heavy rainfall have been identified as medium hazards for the site in accordance with data from the Federal Institute for Research on Building, Urban Affairs and Spatial Development. Comprehensive insurance cover against physical threats and detailed BCM plans mitigate the risk of significant losses for Volkswagen Bank GmbH in Braunschweig. To further minimize risks, annual inspections of the building substance are now being performed. The annual process has been incorporated in the facility management guideline.

Although the data centers in Braunschweig are not part of the Bank's assets, they are crucial for business continuity. Numerous precautions have been implemented in the past (e.g. technical systems, annual operational risk self-assessments and tests of time-critical IT services). These ensure business continuity in the event of any physical threats. However, should one of the data centers be disrupted, production can be relocated within hours.

In summary, Volkswagen Bank GmbH has not identified any fundamental risk of physical loss of its relevant assets or of significant business interruptions. According to scientific studies, climate change is expected to gain momentum, something that requires regular monitoring of threats on the basis of the procedures and processes described above.

The inclusion in risk reporting of information on the treatment of climate and environmental risks constitutes another key priority in an ESG context. For this reason, the Management Board and the Supervisory Board of Volkswagen Bank GmbH are kept abreast of the current status of activities for the identification, measurement and assessment of climate and environmental risks in separate special risk reports that are currently being prepared every six months. Even though the reports deal primarily with climate and environmental risks, they also address social and governance risks. The Management Board and the Supervisory Board are able to assess the impact of ESG risks on the Bank's risk profile on the basis of the aggregated and updated data contained in these reports. Such information is also being integrated in the existing risk reporting framework. After specific KRIs have been defined and integrated, reporting will be expanded accordingly.

Existing data routes for risk management and reporting are being used to provide the necessary ESG data. This data is supplemented with further ESG information derived from interim queries in the Bank's markets, external sources and sources within the Volkswagen Group. In some cases, interim methods for obtaining data have been developed where information is currently not available.

Looking forward, existing data routes will be supplemented with ESG information and standard processes implemented to collect data. This will replace the interim solutions and substitute methodologically derived data with higher-quality real data. Furthermore, permanent solutions are planned with regard to external data and the integration of group sources, e.g. for dealer and vehicle data.

In addition to the inclusion of sustainability aspects for our customers, these are also relevant aspects for Volkswagen Bank GmbH as an employer. We are seen by our employees as a top employer because we respect their interests and encourage joint activities. We actively contribute to the sustainable development of our employees at our sites. The concept of diversity forms an integral part of our corporate culture and is reflected in the Diversity Charter signed in 2007 as well as our current diversity management initiatives. We have also taken measures to improve female representation in order to manage and sustainably widen the proportion of women at management levels in line with our targets.

Our initiatives to anchor the topics of integrity and compliance in the key HR processes are derived from the Group “Together4Integrity” initiative. Further aspects concerning compliance, conduct and integrity risks are explained under other non-financial risks.

The latest Volkswagen Group Sustainability Report sets out further Group-wide regulations relating to environmental, social and governance matters and provides additional specific guidelines on how these issues area addressed within the Group.

QUANTITATIVE REPORTING

TABLE 45: BANKING BOOK – INDICATORS OF POTENTIAL TRANSITORY RISKS RELATING TO CLIMATE CHANGE: CREDIT QUALITY OF THE EXPOSURES BY SECTOR, EMISSIONS AND REMAINING TERM

	SECTOR/SUBSECTOR	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
		Gross carrying amount (Mln EUR)					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (Mln EUR)			GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	in € millions		Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	Of which environmentally sustainable (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which Stage 2 exposures	Of which non-performing exposures		Of which Scope 3 financed emissions						
1	**Exposures towards sectors that highly contribute to climate change***	**19,946.2**	**194.6**	**n/a**	**6,638.6**	**693.0**	**-389.2**	**-124.0**	**-184.4**	**n/a**	**n/a**	**n/a**	**10,824.6**	**327.6**	**359.5**	**8,654.0**	**2**
2	A - Agriculture, forestry and fishing	54.6	0.0	n/a	20.0	1.8	-1.8	-0.5	-1.1	n/a	n/a	n/a	51.9	1.2	0.0	0.0	2
3	B - Mining and quarrying	2.4	0.7	n/a	0.5	0.1	-0.1	0.0	-0.1	n/a	n/a	n/a	2.4	0.0	0.0	0.0	2
4	B.05 - Mining of coal and lignite	0.2	0.2	n/a	0.0	0.0	0.0	0.0	0.0	n/a	n/a	n/a	0.2	0.0	0.0	0.0	2
5	B.06 - Extraction of crude petroleum and natural gas	0.0	0.0	n/a	0.0	0.0	0.0	0.0	0.0	n/a	n/a	n/a	0.0	0.0	0.0	0.0	3
6	B.07 - Mining of metal ores	0.0	0.0	n/a	0.0	0.0	0.0	0.0	0.0	n/a	n/a	n/a	0.0	0.0	0.0	0.0	2
7	B.08 - Other mining and quarrying	1.7	0.0	n/a	0.5	0.1	-0.1	0.0	-0.1	n/a	n/a	n/a	1.7	0.0	0.0	0.0	2
8	B.09 - Mining support service activities	0.5	0.5	n/a	0.0	0.0	0.0	0.0	0.0	n/a	n/a	n/a	0.5	0.0	0.0	0.0	2
9	C - Manufacturing	359.3	0.6	n/a	109.8	11.1	-8.6	-2.5	-6.0	n/a	n/a	n/a	371.1	2.7	0.3	29.8	2
10	C.10 - Manufacture of food products	28.5	0.0	n/a	11.7	1.0	-0.8	-0.3	-0.8	n/a	n/a	n/a	43.2	0.3	0.0	0.0	2
11	C.11 - Manufacture of beverages	5.0	0.0	n/a	2.8	0.1	-0.1	0.0	-0.1	n/a	n/a	n/a	4.9	0.0	0.0	0.0	2
12	C.12 - Manufacture of tobacco products	0.0	0.0	n/a	0.0	0.0	0.0	0.0	0.0	n/a	n/a	n/a	0.0	0.0	0.0	0.0	0
13	C.13 - Manufacture of textiles	6.5	0.0	n/a	2.2	0.3	-0.2	0.0	-0.1	n/a	n/a	n/a	6.4	0.1	0.0	0.0	2
14	C.14 - Manufacture of wearing apparel	10.5	0.0	n/a	2.7	0.2	-0.9	-0.1	-0.5	n/a	n/a	n/a	10.1	0.5	0.0	0.0	2
15	C.15 - Manufacture of leather and related products	3.4	0.0	n/a	1.1	0.0	-0.1	0.0	-0.1	n/a	n/a	n/a	3.3	0.1	0.0	0.0	2
16	C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	19.8	0.0	n/a	5.4	1.4	-0.8	-0.1	-0.6	n/a	n/a	n/a	19.8	0.1	0.0	0.0	2
17	C.17 - Manufacture of pulp, paper and paperboard	3.3	0.0	n/a	1.6	0.0	0.0	0.0	0.0	n/a	n/a	n/a	3.3	0.0	0.0	0.0	1
18	C.18 - Printing and service activities related to printing	10.7	0.0	n/a	3.2	0.2	-0.2	-0.1	-0.1	n/a	n/a	n/a	10.6	0.0	0.0	0.0	2
19	C.19 - Manufacture of coke oven products	0.1	0.1	n/a	0.0	0.0	0.0	0.0	0.0	n/a	n/a	n/a	0.1	0.0	0.0	0.0	1
20	C.20 - Production of chemicals	6.6	0.0	n/a	2.3	0.2	-0.2	-0.1	-0.1	n/a	n/a	n/a	6.5	0.0	0.0	0.0	2
21	C.21 - Manufacture of pharmaceutical preparations	1.0	0.0	n/a	0.2	0.2	-0.1	0.0	-0.1	n/a	n/a	n/a	1.0	0.0	0.0	0.0	1
22	C.22 - Manufacture of rubber products	13.0	0.0	n/a	5.2	0.6	-0.3	-0.1	-0.2	n/a	n/a	n/a	12.9	0.1	0.0	0.0	2
23	C.23 - Manufacture of other non-metallic mineral products	12.7	0.0	n/a	4.2	0.3	-0.2	-0.1	-0.1	n/a	n/a	n/a	12.6	0.1	0.0	0.0	2
24	C.24 - Manufacture of basic metals	7.4	0.5	n/a	2.0	0.2	-0.1	0.0	-0.1	n/a	n/a	n/a	7.2	0.1	0.0	0.0	1
25	C.25 - Manufacture of fabricated metal products, except machinery and equipment	63.4	0.0	n/a	20.4	1.3	-1.4	-0.6	-0.9	n/a	n/a	n/a	92.3	0.3	0.3	0.0	2
26	C.26 - Manufacture of computer, electronic and optical products	10.4	0.0	n/a	3.1	0.6	-0.4	0.0	-0.3	n/a	n/a	n/a	10.4	0.0	0.0	0.0	2
27	C.27 - Manufacture of electrical equipment	11.5	0.0	n/a	3.6	0.2	-0.2	-0.1	-0.1	n/a	n/a	n/a	11.4	0.0	0.0	0.0	2
28	C.28 - Manufacture of machinery and equipment n.e.c.	32.7	0.0	n/a	10.1	1.2	-0.9	-0.2	-0.7	n/a	n/a	n/a	31.9	0.3	0.0	0.5	2
29	C.29 - Manufacture of motor vehicles, trailers and semi-trailers	34.7	0.0	n/a	3.4	0.3	-0.1	0.0	-0.1	n/a	n/a	n/a	6.0	0.0	0.0	28.7	2
30	C.30 - Manufacture of other transport equipment	3.7	0.0	n/a	1.4	0.2	-0.1	0.0	-0.1	n/a	n/a	n/a	3.6	0.1	0.0	0.0	2
31	C.31 - Manufacture of furniture	9.3	0.0	n/a	3.2	0.4	-0.3	-0.1	-0.1	n/a	n/a	n/a	9.0	0.3	0.0	0.0	2
32	C.32 - Other manufacturing	19.8	0.0	n/a	5.5	0.6	-0.6	-0.1	-0.4	n/a	n/a	n/a	19.8	0.0	0.0	0.0	2
33	C.33 - Repair and installation of machinery and equipment	45.6	0.0	n/a	14.5	1.6	-0.7	-0.3	-0.6	n/a	n/a	n/a	44.8	0.3	0.0	0.6	2
34	D - Electricity, gas, steam and air conditioning supply	8.8	8.8	n/a	1.9	0.1	-0.1	-0.1	-0.1	n/a	n/a	n/a	9.1	0.2	0.0	0.0	2
35	D35.1 - Electric power generation, transmission and	7.5	7.5	n/a	1.6	0.1	-0.1	-0.1	-0.1	n/a	n/a	n/a	7.8	0.2	0.0	0.0	2

	SECTOR/SUBSECTOR	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
		Gross carrying amount (Mln EUR)					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (Mln EUR)			GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)		GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
	in € millions		Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	Of which environmentally sustainable (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which Stage 2 exposures	Of which non-performing exposures		Of which Scope 3 financed emissions						
	distribution																
36	D35.11 - Production of electricity	4.9	4.9	n/a	1.2	0.1	-0.1	-0.1	0.0	n/a	n/a	n/a	4.9	0.0	0.0	0.0	2
37	D35.2 - Manufacture of gas; distribution of gaseous fuels through mains	0.8	0.8	n/a	0.2	0.0	0.0	0.0	0.0	n/a	n/a	n/a	0.8	0.0	0.0	0.0	2
38	D35.3 - Steam and air conditioning supply	0.5	0.5	n/a	0.1	0.0	0.0	0.0	0.0	n/a	n/a	n/a	0.5	0.0	0.0	0.0	2
39	E - Water supply; sewerage, waste management and remediation activities	27.4	0.0	n/a	15.4	1.1	-0.8	-0.5	-0.5	n/a	n/a	n/a	26.1	0.3	0.0	0.0	3
40	F - Construction	682.9	0.0	n/a	255.3	41.7	-29.3	-8.4	-22.4	n/a	n/a	n/a	655.5	7.1	0.0	0.9	2
41	F.41 - Construction of buildings	111.7	0.0	n/a	36.1	10.1	-6.2	-1.4	-4.6	n/a	n/a	n/a	108.9	2.0	0.0	0.9	2
42	F.42 - Civil engineering	46.1	0.0	n/a	14.5	1.2	-0.9	-0.4	-0.4	n/a	n/a	n/a	44.6	1.4	0.0	0.0	2
43	F.43 - Specialised construction activities	525.1	0.0	n/a	204.7	30.5	-22.2	-6.6	-17.3	n/a	n/a	n/a	502.0	3.7	0.0	0.0	2
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	17,991.6	172.8	n/a	5,900.5	567.5	-309.4	-101.4	-127.6	n/a	n/a	n/a	9,076.2	264.0	293.7	8,611.0	2
45	H - Transportation and storage	411.8	11.7	n/a	219.1	51.7	-27.6	-6.4	-19.6	n/a	n/a	n/a	324.0	7.3	0.0	0.4	2
46	H.49 - Land transport and transport via pipelines	363.6	10.9	n/a	186.9	36.8	-21.4	-4.7	-15.4	n/a	n/a	n/a	227.0	5.6	0.0	0.0	2
47	H.50 - Water transport	3.4	0.6	n/a	0.4	0.0	-0.1	0.0	0.0	n/a	n/a	n/a	3.4	0.0	0.0	0.0	1
48	H.51 - Air transport	0.7	0.0	n/a	0.2	0.2	-0.1	0.0	-0.1	n/a	n/a	n/a	0.7	0.0	0.0	0.0	2
49	H.52 - Warehousing and support activities for transportation	69.4	0.3	n/a	24.3	10.0	-4.0	-1.2	-2.6	n/a	n/a	n/a	68.2	1.1	0.0	0.1	2
50	H.53 - Postal and courier activities	25.4	0.0	n/a	7.4	4.6	-2.0	-0.5	-1.4	n/a	n/a	n/a	24.5	0.6	0.0	0.3	2
51	I - Accommodation and food service activities	114.6	0.0	n/a	42.3	4.9	-3.7	-1.2	-2.8	n/a	n/a	n/a	123.6	1.6	0.0	0.0	2
52	L - Real estate activities	292.8	0.0	n/a	73.8	13.0	-7.8	-3.0	-4.4	n/a	n/a	n/a	184.6	43.3	65.5	11.9	6
53	**Exposures towards sectors other than those that highly contribute to climate change***	**3,103.3**	**0.0**	**n/a**	**916.4**	**104.1**	**-86.9**	**-17.2**	**-36.5**				**1,993.7**	**28.6**	**30.0**	**831.5**	**3**
54	K - Financial and insurance activities	0.0	0.0	n/a	0.0	0.0	0.0	0.0	0.0				0.0	0.0	0.0	0.0	0
55	Exposures to other sectors (NACE codes J, M - U)	3,103.3	0.0	n/a	916.4	104.1	-86.9	-17.2	-36.1				1,993.7	28.6	30.0	831.5	3
56	**TOTAL**	**23,049.6**	**194.6**	**n/a**	**7,555.0**	**797.1**	**-476.1**	**-141.1**	**-220.6**	**n/a**	**n/a**	**n/a**	**12,818.3**	**356.3**	**389.5**	**9,485.6**	**2**

* In accordance with Commission Delegated Regulation (EU) 2020/1818 supplementing Regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks - Regulation on climate benchmark standards - Recital 6: Sectors listed in Sections A to H and Section L of Annex 1 to Regulation (EC) No. 1893/2006

Table 45 is required to show those assets that are exposed to ESG risks as a result of the transition to a carbon-neutral economy. The focus is particularly on exposures to non-financial corporates operating in carbon-intensive sectors. Exposures affected by the exclusion of the Paris-aligned EUR benchmarks must also be presented transparently.

To identify these corporates, the Volkswagen Bank GmbH's entire portfolio of financial and non-financial corporates was analyzed at the customer level. Classification based on NACE codes[2] was used to determine the corporates affected by exclusions in connection with the Paris-aligned EU benchmarks in points d) to g) and Art. 12.2. This was generally done on the basis of the two-digit NACE codes, with the four-digit NACE codes applied where necessary. An analysis was performed to determine whether a corporate whose main activities corresponded to this NACE code came within one of the four categories d) to g) or Art. 12.2. Where this was the case, the customer with the corresponding NACE code was classified as affected. If it was not possible to evaluate the criteria on the basis of the NACE code, an expert opinion based on external information was applied to determine whether the customer was affected.

On balance, only a very small proportion of Volkswagen Bank GmbH's business involves sectors that are affected by the exclusion of the Paris-aligned EU benchmarks. The proportion stands at 0.97% in the case of non-financial corporates, with the total coming to only 0.84%.

Due to the immaterial share of immovable property in its collateral portfolio Volkswagen Bank GmbH relinquishes to disclose information on energy performance classification of its immovable property collaterals.

[2] Nomenclature statistique des activités économiques dans la Communauté européenne (NACE) is the system for the statistical classification of economic activities in the European Union. It is a four-digit classification system that provides the framework for the collection and presentation of a wide range of statistical data broken down by economic activity in the economy (e.g. production, employment, national accounts) and from other domains within the European Statistical System (ESS)

TABLE 46: BANKING BOOK – INDICATORS OF POTENTIAL CLIMATE RISKS: EXPOSURES TO THE 20 MOST CARBON-INTENSIVE CORPORATES

	A	B	C	D	E
	Gross carrying amount (aggregate)	Gross carrying amount towards the counterparties compared to total gross carrying amount (aggregate)*	Of which environmentally sustainable (CCM)	Weighted average maturity	Number of top 20 polluting firms included
1	0.1	0.00%	n/a	3	2

* For counterparties that are among the world's 20 largest carbon-emitting corporates.

Table 46 discloses Volkswagen Bank GmbH's banking book exposure to the world's largest greenhouse gas emitters. The aim is to provide transparency regarding a possible deterioration in the credit quality of exposures to the largest greenhouse gas emitters due to transition risks as well as possible concentration risks in this context.

To identify such counterparties, a list from "InfluenceMAP" based on the ongoing work of the Carbon Disclosure Project in collaboration with the Climate Accountability Institute was used. The list is based on total carbon emissions produced by corporates in 2021 and mainly comprises corporates from the oil sector. On balance, Volkswagen Bank GmbH has almost no exposure at all to these corporates in its banking book. The exposures that were identified entail finance or leases for vehicles.

TABLE 47: BANKING BOOK – INDICATORS OF POTENTIAL CLIMATE CHANGE PHYSICAL RISK: EXPOSURES SUBJECT TO PHYSICAL RISK

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
		Gross carrying amount (Mln EUR)													
			of which exposures sensitive to impact from climate change physical events												
			Breakdown by maturity bucket					of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Europe		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity							of which Stage 2 exposures	Of which non-performing exposures
1	A - Agriculture, forestry and fishing	54.6	15.2	0.4	0.0	0.0	2	7.8	5.4	2.4	5.8	1.1	-0.7	-0.2	-0.5
2	B - Mining and quarrying	2.4	0.4	0.0	0.0	0.0	2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0
3	C - Manufacturing	359.3	74.5	0.9	0.0	0.0	2	27.9	39.4	8.1	24.5	4.1	-2.8	-0.6	-2.0
4	D - Electricity, gas, steam and air conditioning supply	8.8	2.3	0.1	0.0	0.0	2	0.4	1.9	0.1	0.4	0.0	-0.1	0.0	0.0
5	E - Water supply; sewerage, waste management and remediation activities	27.4	9.2	0.2	0.0	0.0	3	1.6	3.9	3.8	6.2	0.3	-0.2	-0.2	-0.1
6	F - Construction	682.9	155.1	3.2	0.0	0.0	2	39.2	102.5	16.6	60.2	17.2	-9.9	-2.4	-7.7
7	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	17,991.6	1,713.2	100.3	252.5	421.1	4	436.8	1507.8	542.6	758.7	136.1	-57.1	-19.6	-30.5
8	H - Transportation and storage	411.8	131.1	5.8	0.0	0.0	3	22.6	94.2	20.0	83.2	19.9	-9.0	-2.4	-6.6
9	L - Real estate activities	292.8	49.1	15.3	36.3	1.9	8	13.5	76.7	12.4	20.9	8.0	-1.9	-0.5	-1.2
10	Loans collateralised by residential immovable property	39.8	0.2	3.0	0.7	9.0	12	0.7	12.2	0.0	0.1	1.2	-0.5	0.0	-0.5
11	Loans collateralised by commercial immovable property	411.2	19.5	22.6	61.0	67.5	11	20.0	138.6	12.0	21.1	23.2	-4.0	-0.6	-3.2
12	Repossessed colalterals	0.0	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	Other relevant sectors (breakdown below where relevant)	3,218.2	920.7	6.6	12.0	65.5	3	118.7	833.9	52.2	161.5	46.1	-52.0	-3.5	-17.3

Table 47 requires the disclosure of information on banking book positions (including loans and advances, debt securities, and equity instruments not held for trading or sale) with nonfinancial corporates, loans secured by real estate, and repossessed real estate collateral that are particularly exposed to the physical risks of climate change and related chronic and acute climate-related hazards. The exposures identified are allocated to those economic sectors (NACE sectors) and geographic areas in which the counterparty operates or the asset underlying the collateral is located that are subject to acute and chronic climate change events.

Volkswagen Bank GmbH's activities are for the most part confined to the countries of the European Union as well as the United Kingdom. Although the physical risks differ in the way they impact different locations, they are still similar in the individual countries from a portfolio perspective. Hazards caused by flood, heavy rain, water shortages, heat and fire are generally relevant in all European countries, although fire and heat are assumed to pose somewhat greater hazards in southern regions. On the other hand, the exposure of Volkswagen Bank GmbH's portfolio to tsunamis, hurricanes and earthquakes is considered to be generally low. Accordingly, no distinction is made in the disclosures in table 47 between the individual countries in which Volkswagen Bank GmbH operates.

A physical risk analysis methodology has been developed to assess the exposure of non-financial corporates and real estate to various hazards. This allows the impact of physical risks on the portfolio of Volkswagen Bank GmbH to be analyzed and the non-financial corporates and real estate exposed to physical risks to be identified.

Volkswagen Bank GmbH has used the NUTS (Nomenclature of territorial units for statistics) breakdown to identify potential exposure to physical risks. In this context, it uses small regions for specific diagnoses, i.e. NUTS 3 level, for analytical purposes. Data provided by GFDRR - ThinkHazard! is mainly used as the input for the analysis. In addition to uniform data and maps on a wide range of physical natural hazards, it also offers an elaborate and transparent approach to homogeneous risk classification. To ensure the broadest possible coverage of hazards, additional scientific data suitable for the purposes relevant here was obtained from various portals or providers. The analysis included hazards arising from river and coastal flooding, tsunamis, earthquakes, hurricanes, fires, heavy rain, heat and water shortages.

It initially examined the exposure of the various portfolios of Volkswagen Bank GmbH to the individual hazards. The situation with respect to the individual hazards in the various locations was assessed on the basis of hazard maps and defined thresholds. The hazards were broken down into different levels depending on the assessed exposure in combination with the assumed probability of the hazard. This gave Volkswagen Bank GmbH granular results on exposure to individual hazards at the NUTS 3 level that can be allocated to the individual items in the banking book.

As a distinction is drawn between acute and chronic physical risks in terms of exposure to physical risks, the hazards considered by Volkswagen Bank GmbH were also classified accordingly. To this end, heat and water shortages are classified as chronic risks, while the other hazards are classified as acute physical risks.

The analysis shows that although the exposures in Volkswagen Bank GmbH's banking book are subject to acute and chronic risks, their proportion can be assumed to be moderate. This is due to the fact that exposure to physical risks tends to be lower in the case of vehicle-related financing or leasing business, as vehicles are mobile and are initially not exposed to certain hazards (e.g. heat, water shortages, heavy rain). In the real estate portfolio, on the other hand, the situation is somewhat different as exposure to acute and chronic risks is greater due to the immobility of the asset used as collateral. Overall, no mitigating effects (e.g. insurance) were taken into account in the assessment of exposure to individual hazards.

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 2022 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 2022 are reported. Accordingly, it includes payments that have been made in 2023 for 2022, 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 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. 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 2022.

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. 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'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 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 four times in 2022, 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) to encourage responsible and risk-conscious conduct on the part of all employees.

The business and risk strategy is based on the MOBILITY2030 strategy of the Financial Services Group Division, which also includes Volkswagen Bank GmbH. Within MOBILITY2030, particular importance is attached to ESG as part of the strategic thrust "Sustainability" with the overall objective of "We drive the transition to emission-free mobility along the Volkswagen Group's ESG principles". This includes both the achievement of carbon neutrality of our products by 2030 and the goal of carbon-neutral operations and IT by 2030 at the latest.

The remuneration policy makes sure that customer and consumer rights and interests are duly taken into account. Moreover, it ensures the availability of human resources in terms of both quantity and quality.

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. Volkswagen Bank GmbH's remuneration policy supports equal pay in practice. In addition to the application of the Pay Transparency Act, various internal committees are responsible for ensuring equal pay (e.g. "Remuneration Committee" and "Remuneration Commission"). The neutral framework is provided by the "Variable Remuneration" company agreement, the existing salary bands and job evaluation. The remuneration processes stipulate that one line manager alone cannot decide on an employee's remuneration, but that an adjustment to remuneration is always decided in accordance with the dual sign-off principle. In addition, awareness of the purposes of the General Equal Treatment Act is raised in all remuneration negotiations. Moreover, the diversity guideline is applied. In addition to gender diversity, it also addresses age, cultural background, sexual identity and inclusion.

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 and internal auditing). 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 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 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, who are bound by it under a subordinate collective bargaining agreement.

The employees of Volkswagen Bank 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 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 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 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's adjusted return on equity (ROE) and, in the case of the upper and top 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 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 innovation, team spirit, results and reflection. 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. 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 ("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 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 is responsible for determining the remuneration for the managing directors of Volkswagen Bank. 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. 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 performs an annual risk analysis to identify the risk-takers. This includes all subordinate companies as well as the branches of Volkswagen Bank.

The risk-takers were identified for 2022 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, 44 employees (including four managing directors and 14 members of the Supervisory Board[3]) were identified as risk-takers. Outside Germany, 19 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 four 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'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 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 2022. The payments of deferred portions of variable remuneration relating to prior years were unabridged.

[3] including 11 employees in the Volkswagen Group and three externals

QUANTITATIVE REPORTING

TABLE 48: 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	36	9
2		Total fixed remuneration	0.1	1.7	6.0	1.0
3		Of which: cash-based	0.1	1.7	6.0	1.0
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests	0.0	0.0	0.0	0.0
5		Of which: share-linked instruments or equivalent non-cash instruments	0.0	0.0	0.0	0.0
EU-5x		Of which: other instruments	0.0	0.0	0.0	0.0
6		(Not applicable in the EU)				
7		Of which: other forms	0.0	0.0	0.0	0.0
8	Variable remuneration	(Not applicable in the EU)				
9		Number of identified staff	14	4	36	9
10		Total variable remuneration	0.0	1.6	3.2	0.6
11		Of which: cash-based	0.0	0.8	1.7	0.3
12		Of which: deferred	0.0	0.5	0.9	0.1
EU-13a		Of which: shares or equivalent ownership interests	0.0	0.0	0,0	0.0
EU-14a		Of which: deferred	0.0	0.0	0,0	0.0
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	0.0	0.8	1.5	0.2
EU-14b		Of which: deferred	0.0	0.8	1.5	0.2
EU-14x		Of which: other instruments	0.0	0.0	0.0	0,0
EU-14y		Of which: deferred	0.0	0.0	0.0	0,0
15		Of which: other forms	0.0	0.0	0.0	0,0
16		Of which: deferred	0.0	0.0	0.0	0,0
17	**Total remuneration (2 + 10)**		**0.1**	**3.3**	**9.2**	**1.5**

TABLE 49: 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 payments awarded during the financial year - Total amount	0.0	0.0	0.0	0.0
8	Of which paid during the financial year	0.0	0.0	0.0	0.0
9	Of which deferred	0.0	0.0	0.0	0.0
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	0.0	0.0	0.0	0.0
11	Of which highest payment that has been awarded to a single person	0.0	0.0	0.0	0.0

TABLE 50: EU REM3 – DEFERRED REMUNERATION

		A	B	C	D	E	F	EU - G	EU - H
	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	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)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	4.5	1.0	3.5	0.0	0.0	0.0	1.0	0.7
8	Cash-based	1.7	0.3	1.4	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	2.8	0.7	2.1	0.0	0.0	0.0	0.7	0.7
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	10.2	2.8	7.3	0.0	0.0	0.1	2.9	2.0
14	Cash-based	3.7	1.0	2.7	0.0	0.0	0.0	1.0	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	6.5	1.8	4.7	0.0	0.0	0.1	1.9	2.0

	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	2.5	0.8	1.7	0.0	0.0	0.0	0.8	0.5
20	Cash-based	0.9	0.3	0.6	0.0	0.0	0.0	0.3	0.0
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	1.6	0.5	1.1	0.0	0.0	0.0	0.5	0.5
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**	**17.2**	**4.7**	**12.5**	**0.0**	**0.0**	**0.2**	**4.8**	**3.2**

TABLE 51: 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 52: 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**										**63**
2	Of which: members of the MB	14	4	**18**							
3	Of which: other senior management				0	3	1	8	6	18	
4	Of which: other identified staff				0	2	0	0	1	6	
5	**Total remuneration of identified staff**	**0.1**	**3.3**	**3.4**	**-**	**1.4**	**n.a.1)**	**1.5**	**1.9**	**5.9**	**14.2**
6	Of which: variable remuneration	-	1.6	**1.6**	-	0.6	n.a.1)	0.5	0.5	2.3	**5.4**
7	Of which: fixed remuneration	0.1	1.7	**1.8**	-	0.9	n.a.1)	1.0	1.5	3.6	**8.8**

1) To avoid disclosure of personal information relating to particular employees disclosure is done aggregated here.

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

		A
	in € millions	Applicable amount
1	Total assets as per published financial statements	61,225.3
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	14,708.7
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)	-1.6
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	180.3
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)	2,677.4
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	-15,993.0
13	**Total exposure measure**	**62,797.1**

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 June 30, 2022.

TABLE 54: EU LR2 – LRCOM – LEVERAGE RATIO COMMON DISCLOSURE

		CRR LEVERAGE RATIO EXPOSURES	
		a	b
	in € millions	T	T-1
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	60,908.5	63,974.8
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)	-989.0	-1,226.4
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**59,919.5**	**62,748.3**
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	127.8	142.3
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	72.5	57.5
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**	**200.2**	**199.8**
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	14,905.7	16,029.6
20	(Adjustments for conversion to credit equivalent amounts)	-12,228.3	-13,043.0
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**	**2,677.4**	**2,986.6**
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 € millions	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)	0.0	0.0
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))	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	9,220.3	8,799.8
24	**Total exposure measure**	**62,797.1**	**65,934.7**
Leverage ratio			
25	Leverage ratio (%)	14.68%	13.35%
EU-25	Leverage ratio excluding the impact of the exemption of public sector investments and promotional loans) (%)	14.68%	13.35%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	14.68%	13.35%
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)	62,797.1	65,934.7
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)	62,797.1	65,934.7
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)	14.68%	13.35%
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)	14.68%	13.35%

The leverage ratio excluding the impact of any temporary exclusions for central bank reserves stands at 14.68% 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 55: EU LR3 – LRSPL – SPLIT-UP OF ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

		A
	in € millions	CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	60,908.5
EU-2	Trading book exposures	0.0
EU-3	Banking book exposures, of which:	60,908.5
EU-4	Covered bonds	292.9
EU-5	Exposures treated as sovereigns	9,044.4
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	5.1
EU-7	Institutions	403.8
EU-8	Secured by mortgages of immovable properties	0.0
EU-9	Retail exposures	31,725.9
EU-10	Corporates	16,090.7
EU-11	Exposures in default	767.9
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2,577.8

As a non-trading book institution, Volkswagen Bank GmbH has on-balance-sheet exposures of €60.9 billion that are held solely in the banking book. At 52.1%, retail risk exposures of €31.7 billion constitute the largest item.

Additional Information on Covid-19 Response

TABLE 56: 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 € millions			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 forbearance 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 forbearance 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 moratorium	1.9	1.8	0.0	0.8	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	of which: Households	0.4	0.4	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
3	of which: Collateralised 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	1.5	1.4	0.0	0.8	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	of which: Small and Medium-sized Enterprises	1.5	1.4	0.0	0.8	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	of which: Collateralised by commercial 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

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

			GROSS CARRYING AMOUNT							
						Residual maturity of moratoria				
	in € millions	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	22,481	1,980.0							
2	Loans and advances subject to moratorium (granted)	21,371	1,864.4	106.0	1,862.5	0.2	0.1	0.1	0.5	1.1
3	of which: Households		155.2	60.2	154.8	0.0	0.0	0.0	0.1	0.2
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		1,696.9	44.8	1,695.4	0.1	0.1	0.1	0.4	0.8
6	of which: Small and Medium-sized Enterprises		293.8	20.7	292.4	0.1	0.1	0.1	0.4	0.8
7	of which: Collateralised by commercial immovable property		1.3	0.2	1.3	0.0	0.0	0.0	0.0	0.0

TABLE 58: 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 € millions		of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	Newly originated loans and advances subject to public guarantee schemes	26.9	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	26.9	0.0	0.0	0.0
5	of which: Small and Medium-sized Enterprises	1.1			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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