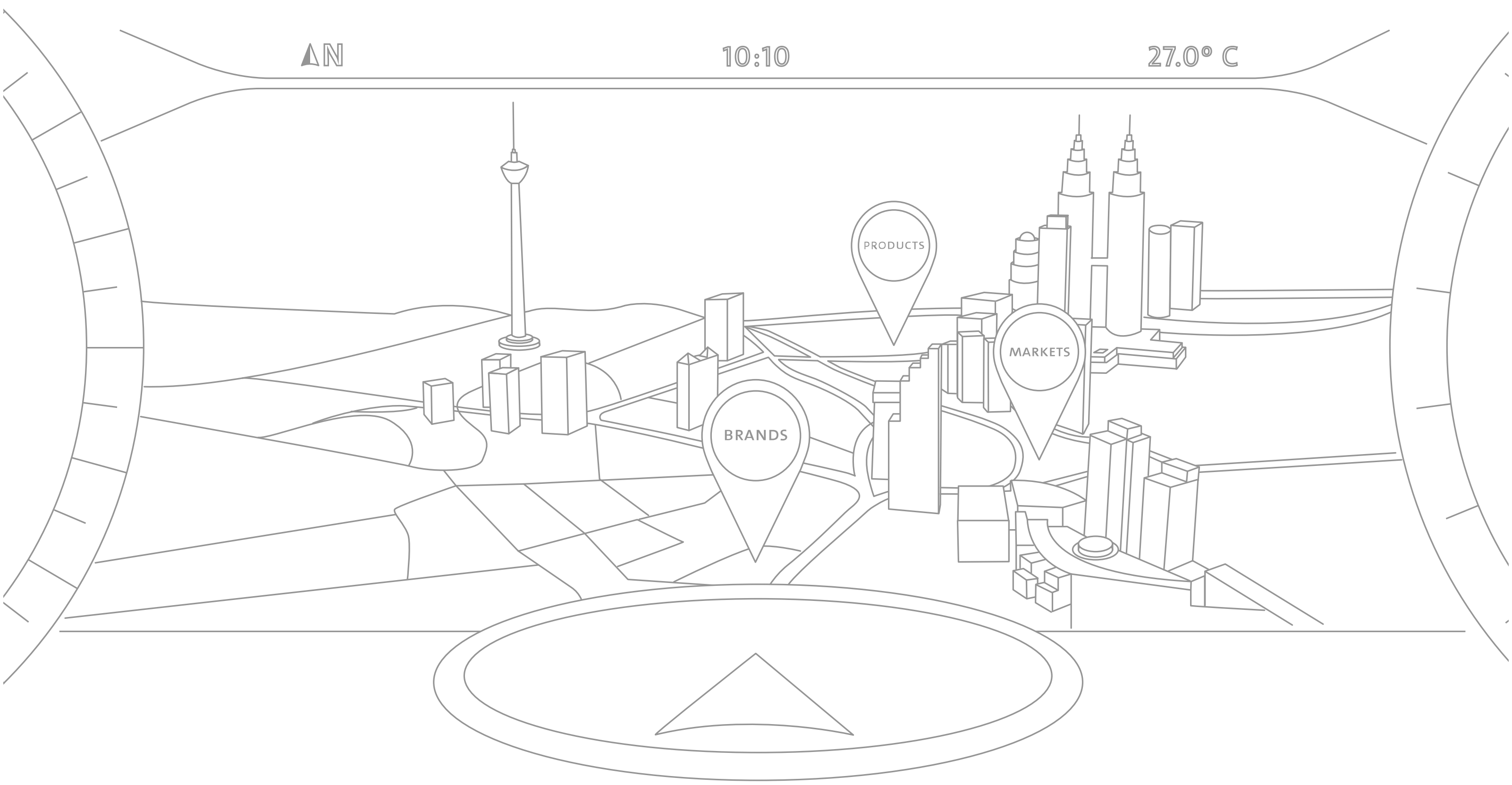
# VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY




ANNUAL REPORT

OF VOLKSWAGEN FINANCIAL SERVICES AG

2014

# *Worldwide presence*

Volkswagen Financial Services AG offers financial services for the Volkswagen Group brands in 49 countries worldwide – directly, as well as through equity investments and service contracts.

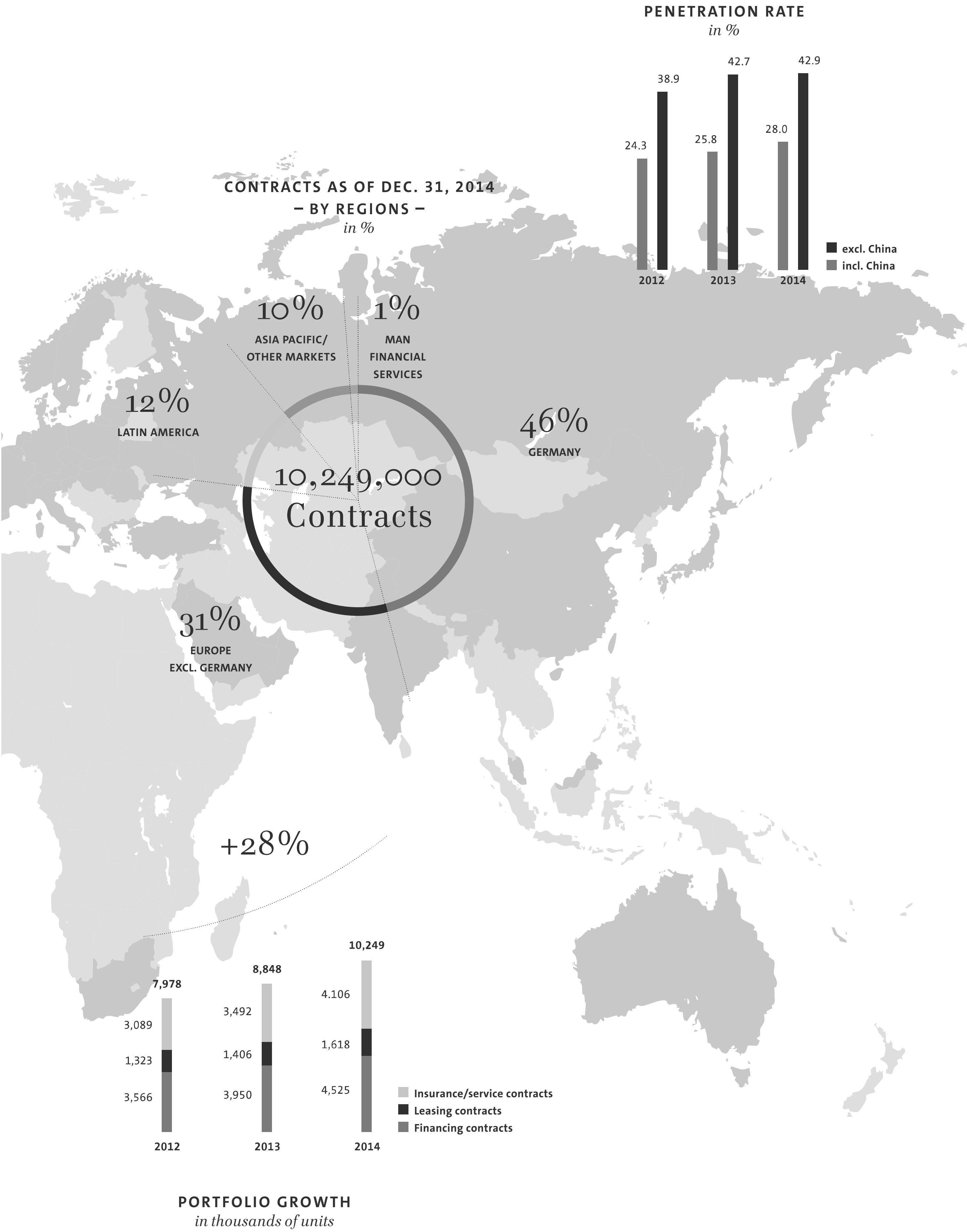
**GERMANY**

**EUROPE EXCL. GERMANY**
Austria
Belgium
Czech Republic
Denmark
Estonia
France
Greece
Hungary
Ireland
Italy
Latvia
Lithuania
Norway
Poland
Portugal
Romania
Russia
Sweden
Switzerland
Slovakia
Slovenia
Spain
The Netherlands
Turkey
Ukraine
United Kingdom

**NORTH AMERICA**
Mexico

**SOUTH AMERICA**
Argentina
Brazil
Chile

**ASIA AND THE REST OF THE WORLD**
Abu Dhabi
Australia
Bahrain
China
Dubai
India
Japan
Jordan
Kuwait
Lebanon
Malaysia
Oman
Qatar
Saudi Arabia
Singapore
South Africa
South Korea
Taiwan


PENETRATION RATE
in %
38.9
42.7
42.9
24.3
25.8
28.0
2012
2013
2014
excl. China
incl. China
CONTRACTS AS OF DEC. 31, 2014
– BY REGIONS –
in %
10%
ASIA PACIFIC/
OTHER MARKETS
1%
MAN
FINANCIAL
SERVICES
12%
LATIN AMERICA
46%
GERMANY
10,249,000
Contracts
31%
EUROPE
EXCL. GERMANY
+28%
7,978
3,089
1,323
3,566
8,848
3,492
1,406
3,950
10,249
4.106
1,618
4,525
2012
2013
2014
Insurance/service contracts
Leasing contracts
Financing contracts
PORTFOLIO GROWTH
in thousands of units

# *Key figures*

**VOLKSWAGEN FINANCIAL SERVICES AG**

| in € million (as of Dec. 31) | 2014 | 2013 | 2012[1] | 2011 | 2010 |
|---|---|---|---|---|---|
| Total assets | 107,231 | 90,992 | 87,378 | 76,946 | 65,332 |
| Receivables from customers arising from | | | | | |
| Retail financing | 47,663 | 40,284 | 38,127 | 33,261 | 30,505 |
| Wholesale financing | 12,625 | 11,082 | 10,781 | 10,412 | 8,828 |
| Leasing business | 18,320 | 16,298 | 15,312 | 14,252 | 13,643 |
| Leasing and rental assets | 10,766 | 8,545 | 7,474 | 6,382 | 4,974 |
| Customer deposits | 26,224 | 24,286 | 24,889 | 23,795 | 20,129 |
| Equity | 11,931 | 8,883 | 8,802 | 7,704 | 6,975 |
| Operating result | 1,293 | 1,214 | 945 | 814 | 720 |
| Profit before tax | 1,317 | 1,315 | 992 | 933 | 870 |
| Income tax expense | –420 | –373 | –264 | –275 | –247 |
| Profit after tax | 897 | 942 | 728 | 658 | 623 |

| in % (as of Dec. 31) | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Cost income ratio[2] | 60 | 58 | 60 | 60 | 60 |
| Equity ratio[3] | 11.1 | 9.8 | 10.1 | 10.0 | 10.7 |
| Common Equity Tier 1 capital ratio[4] | 10.3 | – | – | – | – |
| Tier 1 capital ratio[4] | 10.3 | 8.6 | 9.2 | 9.8 | 10.5 |
| Total capital ratio[4] | 10.7 | 9.6 | 9.8 | 10.1 | 10.5 |
| Return on equity[5] | 12.7 | 14.9 | 12.0 | 12.7 | 13.1 |

| Number (as of Dec. 31) | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Employees | 11,305 | 9,498 | 8,770 | 7,322 | 6,797 |
| In Germany | 5,928 | 5,319 | 4,971 | 4,599 | 4,297 |
| Abroad | 5,377 | 4,179 | 3,799 | 2,723 | 2,500 |

| | Standard & Poor's | | | Moody's Investors Service | | |
|---|---|---|---|---|---|---|
| Rating 2014 | Short-term | Long-term | Outlook | Short-term | Long-term | Outlook |
| Volkswagen Financial Services AG | A–1 | A | Stable | Prime-2 | A3 | positive |
| Volkswagen Bank GmbH | A–1 | A | Stable | Prime-2 | A3 | positive |

1 Adjustments were made in 2012 due to the amendment of IAS 19.
2 General and administrative expenses divided by net income from lending, leasing and insurance transactions after risk provisions and net commission income.
3 Equity divided by total assets.
4 The calculation of the regulatory capital ratios has been made for 2010 to 2013 in accordance with the Solvency Regulation. These capital ratios are calculated pursuant to Article 92 Capital Requirements Regulation (CRR) from January 1, 2014. According to the designation in the CRR, the Common Equity Tier 1 capital ratio was also included and the designation of the overall ratio was changed in total capital ratio.
5 Profit before tax divided by the average equity.

# *The key to mobility*

As the financial services provider for the Volkswagen Group, we generate successful performance within our three growth dimensions: brands, markets and products. We will also continue to consistently expand our product portfolio in future, thus boosting unit sales for the brands of the Volkswagen Group worldwide. We respond to our customers' desire for mobility with modern mobility concepts, services and products, and as a result sustainably increase customer loyalty along the automotive value chain.

## CONTENTS

# *Foreword of the Board of Management*

# *Ladies and Gentlemen,*

Volkswagen Financial Services AG can look back on a successful year of business in 2014. We were able to improve on all key figures and once again made a significant contribution to the financial result of the Volkswagen Group with €1.3 billion. As planned, our company achieved growth in three dimensions: with the brands of the Volkswagen Group, international expansion into new markets and the introduction of successful products in existing markets.

We acquired MAN Finance International GmbH in early 2014, and as a result financial services for trucks and buses are now also among our company's core businesses. We have been operating in the market under the name MAN Financial Services since September 2014.

Our entry into the Malaysian market in September 2014 means that we are now present in 49 countries. We also launched operations in South Africa. Around half of our currently 11,305 employees work outside Germany.

At the beginning of 2014, the "lease exchange" was launched in collaboration with the Volkswagen Passenger Cars brand. Our customers in Germany can use this online platform to find high-quality, young used cars. We introduced the "Charge & Fuel Card" in November 2014. As of January 2015, customers of the Volkswagen Passenger Cars and Audi brands can use the card to charge electricity and fill up with and pay for conventional fuel – an important contribution towards developing the topic of e-mobility in Germany and of particular interest to drivers of hybrid vehicles.

And in Beijing we launched the VRent pilot project through our subsidiary Volkswagen New Mobility Services Investment Company China, a promising and innovative car-sharing service for companies that is unique to the Chinese market.

The portfolio of customer financing, lease contracts and service and insurance contracts grew to more than 10.2 million as at the end of 2014. This corresponds to an increase of 1.4 million or nearly 16 percent compared to the previous year.

This dynamic growth can on the one hand be attributed to further increasing unit sales of the Volkswagen Group's brands, with the number of vehicles sold exceeding the 10 million mark for the first time ever. On the other hand, more customers chose our financial and mobility products when purchasing a vehicle from one of the Group's brands.

In order to maintain a high rate of growth, we intend to penetrate further new markets in 2015. Among other things, we also plan to offer our products and services to the Chilean market in a joint venture with Porsche Holding Salzburg. In addition to Malaysia, Chile will be the second market in which we apply our Small Markets Concept for smaller countries.

Despite significant investments, we once again improved our operating profit to €1.3 billion. Our total assets exceeded the €100 billion mark for the first time.

With respect to refinancing, we continue to pursue the successful strategy of refinancing locally and making optimal use of our tools. This enabled us to execute the largest European auto ABS transaction since the financial crisis worth €1.3 billion, bonds denominated in Russian rouble and South Korean won for the first time and place our first ABS bond in China.

In October 2014, we successfully completed the European Central Bank's comprehensive assessment and stress test. Since November 4, 2014, Volkswagen Financial Services AG has therefore been one of the significant banking groups in the eurozone under the direct supervision of the European Central Bank.

We strive in all of our activities to assume responsibility for society and the environment. which is why we established an environmental management system pursuant to ISO 14001 at our Braunschweig site last year. This system enables us to organize the company's environmental protection, incorporate environmental aspects into product development and sustainably improve our company's environmental performance. Our commitment to protecting bogs, which we pursue together with the German Nature and Biodiversity Conservation Union (Naturschutzbund Deutschland e. V.), was honored last year as a project of the "UN Decade on Biodiversity".

In 2014, we took a decisive step towards achieving our goal of Strategy WIR2018, to become the best automotive financial services provider in the world. Nevertheless, we must now develop a follow-up strategy with which to set the course for the continued success of Volkswagen Financial Services AG in the decades to come.

Two things will not change. Firstly, we are and will remain the key driver of unit sales for the brands of the Volkswagen Group. And secondly, as the key to mobility, we will deliver solutions for the ever changing mobility needs of our customers.

As you can see, 2014 was just as eventful for Volkswagen Financial Services AG as it was successful. The fact that we were able to come to grips with rapid growth, as well as the challenges presented by the markets, is largely due to the commitment of our employees. On behalf of the entire Board of Management, I would like to extend my gratitude to them for this and to thank our customers for the trust they placed in us.

I am confident that 2015 will see the continued dynamic growth of Volkswagen Financial Services AG and that we will bring the financial year to another successful close.

Sincerely,

Frank Witter
Chairman of the Board of Management

# *Board of Management*

**VOLKSWAGEN FINANCIAL SERVICES AG**


Lars-Henner Santelmann
Sales and Marketing

Christiane Hesse
Human Resources and Organization

Frank Fiedler
Finance


Dr. Mario Daberkow
IT and Processes

Frank Witter
Chairman of the Board of Management

Dr. Michael Reinhart
Risk Management

# *Our strategy*

Our strategy focuses on three growth dimensions: brands, markets and products. We successfully position ourselves along the automotive value chain in order to achieve growth in these dimensions. To do so, we combine the products of the Volkswagen Group brands with our customized financial services while always focusing on our objective to become the best automotive financial services provider in the world by 2018.


Products

PRODUCTS

Mobility is being redefined in many respects. Metropolitan areas in particular have a need for additional offers; this is both an opportunity and a challenge. By developing flexible mobility concepts, Volkswagen Financial Services AG is increasingly supplementing the traditional automotive business with innovative products and services.

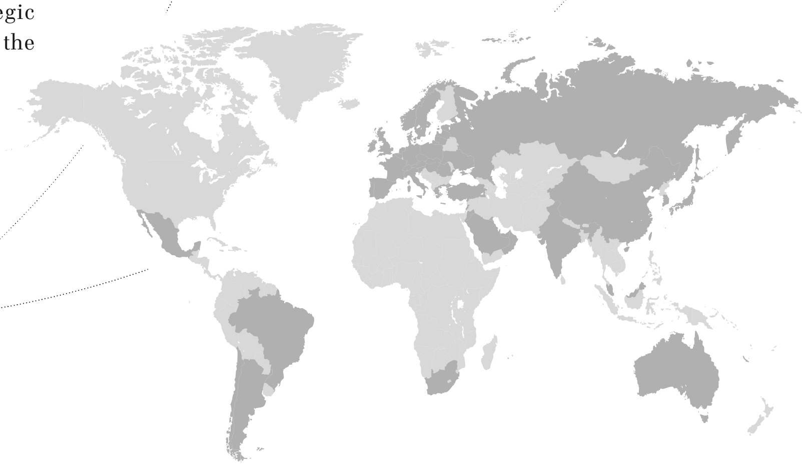
### BRANDS

The decision to buy a passenger car is often influenced by emotions, unlike the decision to purchase a truck or bus. The focus is usually on operating costs, which is why there are some considerable differences to be taken into account in the financial services offer. The new MAN Financial Services brand was created at the beginning of 2014 and there were already promising initial successes in the first half-year: MAN Financial Services increased the penetration rate from less than 30 percent to around 44 percent.

Brands

### MARKETS

Volkswagen Financial Services AG is currently active in 49 markets around the world. Malaysia and South Africa are new markets for us with growth potential. Volkswagen Financial Services AG pursues its ambitious internationalization goals with specific strategic approaches that correspond with the demands of the respective markets.



Markets

# More brands for greater efficiency

COMPLETE SERVICE FROM A SINGLE SOURCE

The new MAN Financial Services brand was created at the beginning of 2014. The business areas of MAN Finance International GmbH, its national subsidiaries and EURO-Leasing GmbH are consolidated under this brand, further increasing the diversification of the brand portfolio.

As early as the first half of 2014, MAN Financial Services was able to increase its global penetration rate from less than 30 percent to around 44 percent. In the German market, Volkswagen Financial Services AG and EURO-Leasing/MAN Rental together exceeded the 50-percent mark for the first time ever.

TRUCK AND BUS ACTIVITIES WILL BE A CORE BUSINESS OF VOLKSWAGEN FINANCIAL SERVICES

MAN Finance International GmbH is a wholly owned subsidiary of Volkswagen Financial Services AG. Both sides benefit from the new affiliation: Volkswagen Financial Services is an expert in the financing of passenger cars and motorcycles for private and corporate customers. MAN Financial Services, on the other hand, is focused on the B2B area, where a customer's decision whether or not to purchase a vehicle is driven less by emotions and more by economic factors. For economic reasons, a shipper must place greater emphasis on factors such as fuel consumption, tire wear, road hold and vehicle wear and tear in order to ensure the operating efficiency of his company. Comprehensive solutions play a decisive role. Today's fleet owner wants flexibility, low financing rates and leasing concepts customized to his needs. He wants the option of both short and long-term leases during seasonal peak

"By developing comprehensive mobility solutions, we aim to become the industry benchmark and the top-rated company in terms of reputation, customer benefit and customer loyalty. To do so, we combine the market expertise of MAN Financial Services with the service portfolio of Volkswagen Financial Services."

HOLGER MANDEL
SPOKESMAN OF THE BOARD OF MANAGEMENT
OF MAN FINANCE INTERNATIONAL GMBH

*Holger Mandel has been the spokesman of the Board of Management of MAN Finance International GmbH since February 1, 2014*

*Truck and bus activities are a core business of Volkswagen Financial Services.*


periods. MAN Financial Services plays a significant role in the total cost of ownership concept of MAN Truck & Bus in order to support customers in meeting their economic requirements.

This concept enables a fleet manager to use cost components to monitor and optimise his fleet deployment. Individual components such as maintenance, repairs, driver training and the MAN Card reveal the cost-saving potential in each case.

The differences between passenger car and commercial vehicle financing are also evident in the bus business. When financing a bus, personal contact between the financing and leasing advisors and the customer is of particular importance. The number of buses manufactured and sold annually cannot be compared to that of passenger cars. The production time is greater because many procedures are carried out individually. As a result, the financing of a motor-coach is different from that of a comparably low-priced passenger car. As a sales financier, MAN Financial Services not only supports the unit sales of MAN Truck & Bus but primarily also supports customers themselves, enabling it to offer customized solutions. Customers are mainly private bus operators in mass transit and long-distance tourist transportation or the operators of long-distance bus lines, which are in demand from a younger target group, in particular as an alternative to air and train travel.

We also focus our activities in the area of truck and bus financing to the needs of our customers. For this reason, we place great emphasis on maintaining a regular dialogue with our customers and partners of MAN Truck & Bus. Our objective is to further increase customer benefit in future, so that we can continue to support the brand's vehicle sales and grow it as a permanent component of the parent Group.

**VOLKSWAGEN AG**

**VOLKSWAGEN FINANCIAL SERVICES AG**

**MAN FINANCE INTERNATIONAL GMBH**

present in
29 countries

**MAN FINANCIAL SERVICES**

present in
6 countries

**MAN RENTAL/EURO-LEASING**

##### CONSOLIDATED PRODUCT PORTFOLIO: MORE DIVERSITY AND THE RIGHT PRODUCT FOR EVERY NEED

Thanks to the expansion of the business through the financing, leasing and rental activities of MAN Truck & Bus, it will be possible to develop comprehensive transport solutions. Customers will benefit directly from the increased flexibility: MAN Financial Services will provide them with an array of mobility solutions from a single source, ranging from traditional financing, three-way financing and hire-purchase systems, to individual leasing offers and which also comprise services such as maintenance and repairs or insurance for buses and passenger cars. The diverse services offered also includes short and long-term rentals and the professional marketing of used vehicles in Germany and abroad.

##### INTERNATIONAL DIMENSION OF MAN FINANCIAL SERVICES

The brand is currently represented in 29 countries through its own national subsidiaries, cooperations with national subsidiaries of Volkswagen Financial Services and external partners. We have already expanded into five additional countries in the last 18 months. Our product portfolio is customized to the needs of the respective countries, and international customers think of us as a reliable partner. We would like to further promote our international expansion with the brand's new positioning under the umbrella of Volkswagen Financial Services AG.

##### STRATEGIC ALIGNMENT AND POTENTIAL

Expansion is not only occurring at a geographic level; the expansion of the product portfolio is a fixed element of our strategy. As the vehicle sales financier of MAN Truck & Bus, the strategic alignment of MAN Financial Services focuses in particular on the needs of its partners. The objective is to become the industry benchmark. Volkswagen Financial Services and our partner MAN Truck & Bus give us the right foundation and the economic stability to achieve this goal and to penetrate new international markets together.

> "The acquisition of the financial services activities of MAN SE has allowed us to continue to grow with the Group's brands. Our medium-term objective is to position the financial services of MAN as the benchmark for the passenger car and bus business."

**FRANK WITTER**
CHAIRMAN OF THE BOARD OF MANAGEMENT



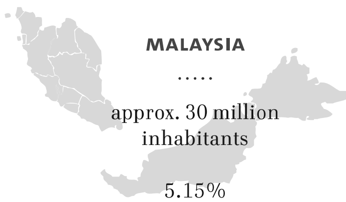
# *On the move worldwide*

**MALAYSIA**

The ASEAN markets (Southeast Asian nations) are becoming increasingly significant for the Volkswagen Group. Malaysia is a country that has generated impressive growth rates in recent years. In addition to Singapore, Malaysia plays a key role due to its stable political and economic conditions. Although it is a relatively small nation with a population of just under 30 million, around 45 percent of which are however under the age of 24, Malaysia is one of the region's leading economies.

*#49*

With the launch of operations in Malaysia, Volkswagen Financial Services is now active in 49 countries around the world.



**MALAYSIA**

approx. 30 million inhabitants

5.15%
GDP growth
(over the past three years)

USD 10,400
per capita income

341
cars per 1,000 people

With its entry into this market, Volkswagen Financial Services supports the brands of the Volkswagen Group. In 2013, Volkswagen Group Malaysia sold a total of 11,700 vehicles. Following a pilot phase, operations were commenced throughout the country in September 2014. The financing, insurance and guarantee products of local cooperation partners in particular are brokered, with a focus on providing support at the point of sale; the aim is to offer customers a range of products customized to their needs. In addition, we rely on the experience of local partners who have spent many years becoming attuned to the cultural and regulatory specificities there. This is especially helpful in matters of risk management and the application of local regulatory peculiarities.

In future, there will be many more areas of development in the fields of used cars and fleet services. Experience has shown that the holding period of vehicles decreases with increasing levels of motorisation and prosperity, which means there are more used cars available in the market. So far, fleet services are hardly or not at all present in Malaysia, so that the potential here can be increased in future growth steps.

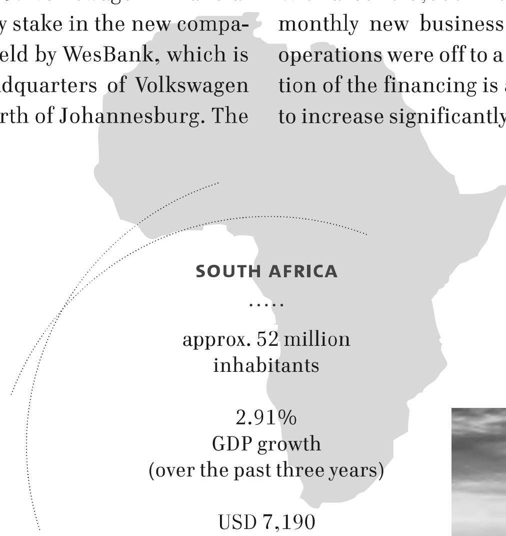
#### SOUTH AFRICA

The newly founded Volkswagen Financial Services South Africa PTY Limited began its operations on March 1, 2014. The objective is to support the sales activities of Volkswagen Group South Africa and its brands with a comprehensive range of competitive financial services products.

The Volkswagen Group has been successfully represented in the South African market for some time; it is one of the key players in the South African automotive industry. The local production of the original Volkswagen Beetle was launched there in August 1951. The Volkswagen Group is represented in South Africa by the Volkswagen Passenger Cars, Audi and Volkswagen Commercial Vehicles brands, making South Africa one of the top 20 sales markets in the world for the Volkswagen Group. In view of the strong presence of the Volkswagen Group in the automotive segment, it was only logical for us to establish our own financial services company in South Africa.

The newly created joint venture is a further evolution of a successful cooperation model between Volkswagen Group South Africa and WesBank that was started in 1999. Volkswagen Financial Services AG holds a 51-percent majority stake in the new company and the remaining 49 percent are held by WesBank, which is owned by FirstRand Limited. The headquarters of Volkswagen Financial Services SA is in Sandton, north of Johannesburg. The company combines the local expertise of WesBank as a specialist in the financing of vehicles and capital goods with the international experience of Volkswagen Financial Services. It strengthens the tie between the manufacturer and the financial services provider through even closer collaboration and puts the focus on offering attractive products and services.

With around 3,000 financing contracts per month, resulting in a monthly new business volume of about €60 million, business operations were off to a very promising start. The market penetration of the financing is already at over 20 percent and is expected to increase significantly.



**SOUTH AFRICA**

approx. 52 million
inhabitants

2.91%
GDP growth
(over the past three years)

USD 7,190
per capita income

112
cars per 1,000 people

# *Traditional business meets innovation*

*The Volkswagen Mobile Payment app offers an innovative solution for contactless payment.*


**FLEXIBLE PROGRESS**

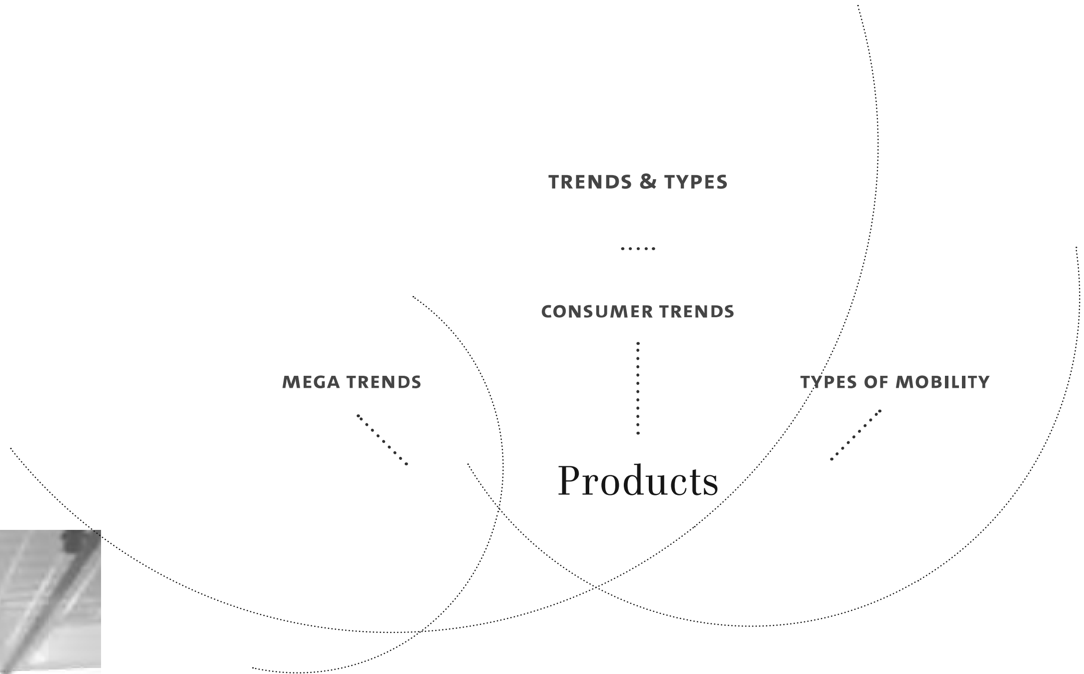
General societal and political conditions are increasingly impacting individual mobility behavior. New challenges are arising, in particular in large metropolitan areas. Ideally, there would be intelligent networking of public transport, motorized and non-motorized alternatives benefiting individual freedom. Individual mobility is being redefined in many respects.

The Volkswagen Group has already responded in a comprehensive fashion to modern needs by developing fuel and emission-optimised vehicles. In collaboration with the automotive brands of the Volkswagen Group, Volkswagen Financial Services AG is making every effort to be a pioneer in the development of mobility packages. Mobility solutions will expand the traditional definition of what it means to own a vehicle. By developing mobility concepts, Volkswagen Financial Services AG is increasingly helping to supplement the traditional automotive business with innovative solutions and services and sustainably increasing added value in the Group.

**SUCCESSFUL RENTALS**

Simple, transparent, safe, reliable, affordable and flexible – these are the key requirements that our business must satisfy in future. The rental business area is emerging as an important part of Volkswagen Financial Services AG. It comprises long-term rentals*, the traditional car rental business and car sharing and enables us to consistently meet diverse customer needs with a range of usage periods.

** Rental period from one month up to 12 months.*




Shares of Euromobil Autovermietung GmbH were acquired in 2012. The company – with a vehicle pool consisting exclusively of Volkswagen Group brands – has since been gradually brought onto a growth course. With more than 25 percent fleet growth to over 27,000 vehicles, the company and its franchise partners are able to cover the mobility needs of Group customers in more than 2,400 locations in Germany.

Thanks to the integration of long-term rentals in 2014, which had previously been offered by Volkswagen Financial Services AG, Euromobil Autovermietung expanded its service portfolio of traditional short-term rentals to meet short to medium-term mobility needs. Euromobil Autovermietung offers a franchise system for brand dealers that is closely integrated with the products of Volkswagen Financial Services and now operates 45 of its own locations in major German cities. One key component of Euromobil's growth strategy is the introduction of a second franchise model called the Profi-Partner concept. This cooperation model offers participating dealers the ability to be active in the market as a car rental company with a broad, networked range of services and to generate considerable additional revenues for their businesses.

EURO-Leasing GmbH offers its customers innovative mobility solutions for short and long-term rentals under the MAN Financial Services brand. The product spectrum is designed for trucks of the MAN brand and for semi-trailers. The rental sector has a fleet of around 13,000 vehicles at its disposal in order to meet diverse customer needs and market requirements. According to the latest market research, the rental organization of MAN Financial Services is the largest commercial vehicle rental company in the German market.*

It also provides a variety of services, including innovative telematics services, which in 2014 were named the best telematics solutions in the rental industry under the patronage of the German Automotive Industry Association (Verband der Automobilindustrie e. V. – VDA). The portfolio is complemented by insurance products, the provision of Europe-wide toll processing, the Tyrecare ("Reifencare") product, the collection and delivery service and the assumption of the complete claims management process for customers. In addition to the short and long-term provision of transport capacities, MAN Financial Services also offers comprehensive fleet solutions which are based on the growing need for optimum flexibility. Thanks to its complete service, it is able to offer comprehensive expertise and advice from a single source.

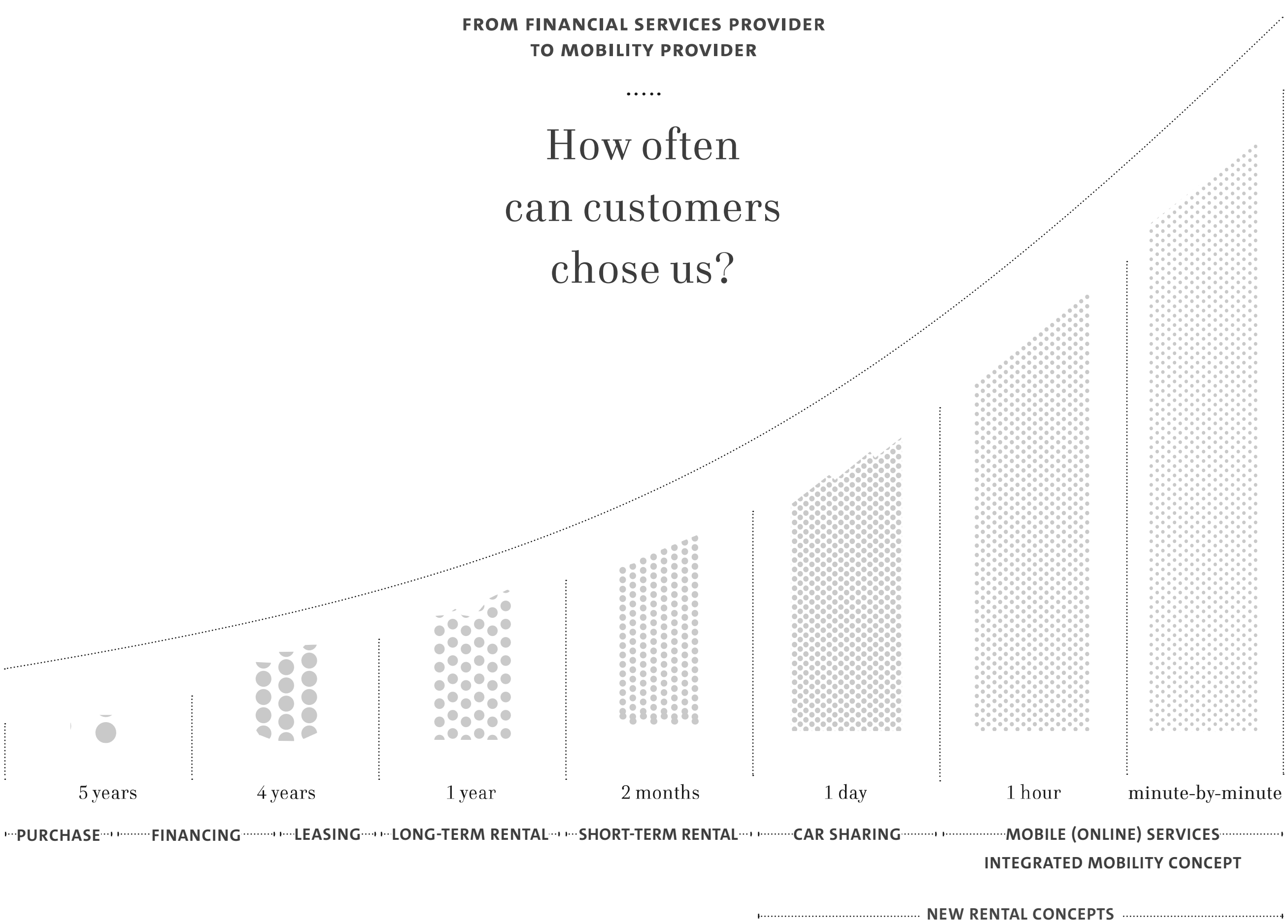
** Source: www.verkehrsrundschau.de, ranking of the top 10 commercial vehicle rental companies in Germany dated 10.10.2014.*

SHARING THE BENEFITS

A further development stage will also be reached in the coming years in car sharing. Quicar – Share a Volkswagen is a key project at the Hannover site through which practical findings are being collected on customers and products. Corporate car sharing, an special offer for companies, is currently in the pilot stage. New opportunities and perspectives for companies are also being derived for optimal fleet utilisation.

Moreover, Volkswagen Financial Services AG and its partner Pon Holdings B.V. have acquired shares in the Dutch car sharing provider Collect Car B.V., better known as Greenwheels. With a fleet of around 2,000 vehicles, Greenwheels is the leading car sharing provider in the Netherlands. The objective is to jointly advance the business model and the expansion of activities into additional countries, in particular in Europe.

In China, our company Volkswagen New Mobility Services has established the pilot project VRent in 2014 an as yet unrivalled corporate car sharing model for companies and their employees. With this concept, which is completely new to China, customers are afforded uncomplicated, flexible and direct access to a comprehensive vehicle fleet of diverse categories. A purely use-based fee schedule with monthly billing ensures transparency and cost control in the process.



# *A conversation with Frank Witter*

For Volkswagen Financial Services, it is our mission and duty to promote vehicle sales of the Volkswagen Group's brands and to increase the customers' loyalty to those brands. Frank Witter, Chairman of the Board of Management of Volkswagen Financial Services AG, discusses strategic positioning in view of challenges in the market and regulatory environment and how the company is responding to the changing conditions.

*Mr. Witter, how did Volkswagen Financial Services AG fare in 2014?*

**Frank Witter:** 2014 was another good year for us. We set new records in terms of volume and earnings and set the course for the future. Overall, we should be very pleased as the environment was not an easy one.

*The financial services activities of MAN, and therefore also Truck & Bus, have been part of your core business since 2014. What has changed as a result?*

This is a new business area for us, with customers who are less driven by emotions or the design of the car and instead focus more on the car as a means of subsistence. As we would say today, it's about total cost of ownership, or in other words how much it costs to operate a vehicle or fleet. Of course we already have experience with the fleet business, but adopting a global perspective in this area is an exciting challenge that we are looking forward to taking on.

*"We set new records in terms of volume and earnings."*

*Volkswagen and China make up a unique success story. What contribution does Financial Services make?*

The Volkswagen Group is now reaping the rewards of having embarked upon the Chinese adventure early on. No doubt there are still very many customers in this fast-growing market who are buying a car for the first time in their lives. The need for car-related mobility services is also growing very rapidly. In addition to pure financing, there are also insurance and service contracts. We were very successful in 2014 and generated excellent growth rates. We also executed the first auto-ABS transaction, i.e. the securitization of auto loans to refinance our activities. Moreover, we are proud to once again have been named the “Best Auto Finance Company” and to win the local award for “Top Employer” of the year.

*Volkswagen Financial Services AG is now active in 49 countries. What challenges does this international structure bring?*

We run the gamut from a full-service provider with the entire product range – as in Germany – to Malaysia, where we are currently only active in the brokerage business. One of our strengths is the ability to manage this spectrum. To do so in 49 countries while complying with all statutory provisions is a challenging task.

*Last year, you reported of an internal realignment of Volkswagen Financial Services AG as a holding company. What was your experience with this?*

The tasks of local operating responsibility and central international management of the sub-group by the holding company have now been allocated. The German market and the entire sub-group benefit from the new set-up. I am very pleased with the overall results, as it is a decisive project that will determine our course over the long run.

*IT and processes are critical in the digital age. How have Volkswagen Financial Services positioned themselves in this regard?*

We took an important step by making Mario Daberkow the sixth member of the Board of Management, with responsibility for the IT and Processes area. However, it is also important to understand how we can add value for customers and become faster and more efficient. These issues are crucial, for the customer ultimately decides how and when to communicate with us, for example in person or using a smartphone – this is the level of flexibility that has simply become standard. Today we can’t nearly imagine all the possibilities in the realm of digitalization. Of course this is a very exciting development, one in which we must invest early on, which is why we have already planned for the corresponding means.

*The past few years have been characterised by your corporate strategy WIR2018. What are the key objectives of the strategy and what will happen after 2018?*

The WIR2018 strategy has both quantitative as well as qualitative goals and it is well under way. However, the world is not static and neither is our strategy. We have pursued the entire topic of further developing our corporate culture, we have included the question of “How do we govern?” in the strategy, and now we must define what has been proven and, above all, what will continue to be relevant in future. For example, we will also address “operational excellence”, in other words how we can make and keep this international Group even leaner, more powerful and more compliant. Digitalization is another topic that will be included in the dynamic development of our strategy.

*The close relationship between Financial Services and the Volkswagen Group brands is a key cultural change.*

“It is important to understand how we can add value for customers and become faster and more efficient.”

FRANK WITTER
ON THE TOPIC OF DIGITALIZATION

*Volkswagen Financial Services AG passed the European Central Bank’s stress test. What does this mean for you?*

We are one of the approximately 130 largest financial institutions in Europe. Direct supervision means we are subject to the highest standards. The stress test was stressful, but we achieved a good result. We deal with risks in a responsible manner and therefore have good portfolios. Supervision is becoming more international and we must prepare ourselves for even stricter requirements.

*Success comes from teamwork, as we learned from the 2014 football World Cup. How do you train your team?*

We embrace a very open culture: The members of the Board of Management are visible and maintaining a regular dialogue is crucial. Our Group Management Conference for international managers, which was held at MAN in Munich this year, was an important and exciting component, not least because we made Truck & Bus into a tangible experience. I think we have to convince the management team that it is a joint strategy that we are implementing. In short, we have a highly qualified workforce, a strong management team and we are all committed to a strategy – this makes for an incredibly enjoyable atmosphere that can be felt every day.

*One final question: As Chairman of the Board of Management of Volkswagen Financial Services AG, what are you particularly proud of?*

I am very proud to have the honor of representing this company and to be surrounded by an outstanding team of Board members. We can rely on one another and we complement one another, but we still address the issues in a critical manner and always remain constructive. I think the team senses that we are a cohesive group. The record results that we once again achieved in 2014 are the product of this team effort. We can build on this momentum and success is an unbelievably motivating environment. The close relationship between Financial Services and the Volkswagen Group brands has been a key cultural change that has been reflected by good, profitable business. We should all be proud of this achievement.

# *Roll-out of international refinancing activities*

With the establishment of local refinancing in three new markets, the Volkswagen Financial Services continued to successfully implement their diversified refinancing strategy in 2014. The volumes and success of the bonds that were in some cases placed for the first time reflected the high level of investor confidence in the good name of Volkswagen and its financial services subsidiaries.

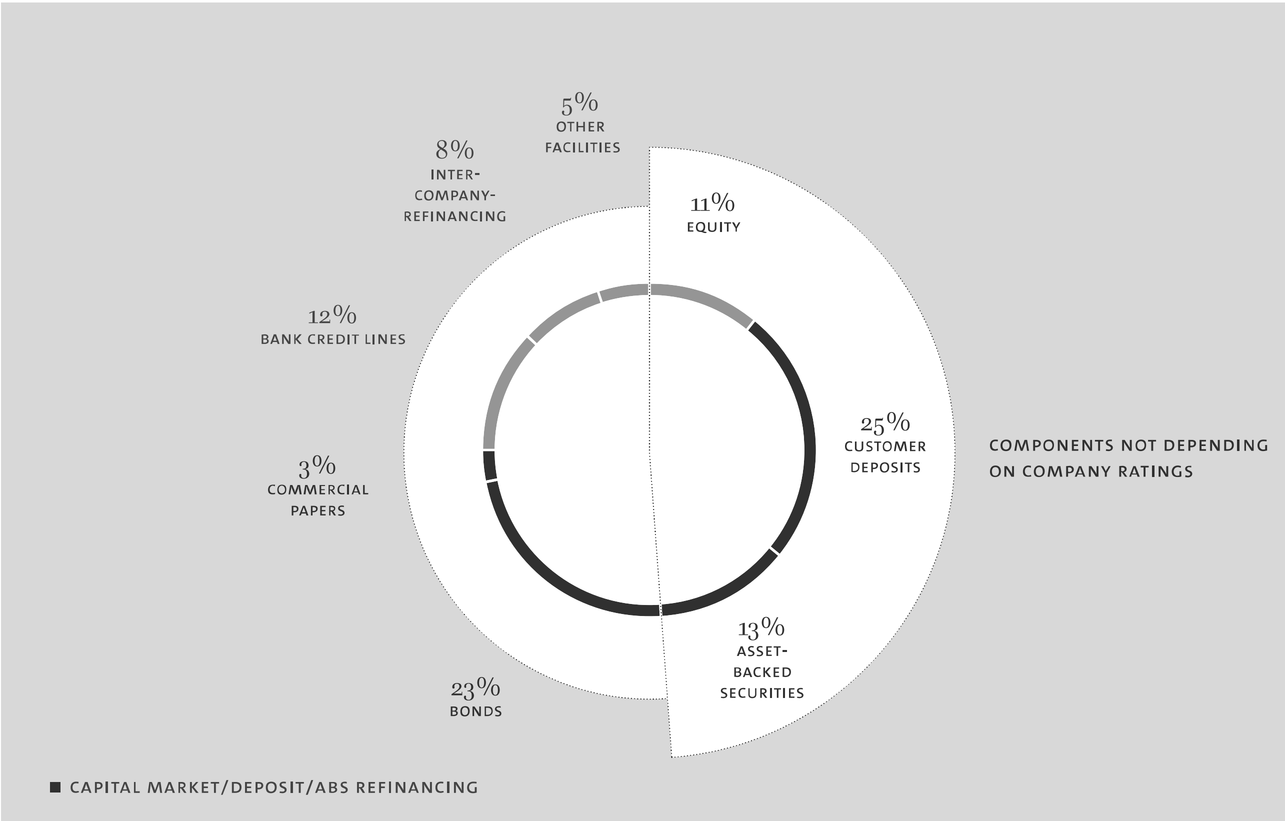
The 2014 financial year was a very successful one for Volkswagen Financial Services AG. The positive development of our operations requires us to simultaneously establish and increase debt financing. Thanks to their strategy of diversification, Volkswagen Financial Services AG and its subsidiaries have done this successfully. The key components of this strategy are the issuing of unsecured bonds on the capital market, secured auto-ABS (asset-back securities) transactions and deposits from the direct banking business. Diversification is achieved both in terms of the instruments used and by currencies and countries.

Volkswagen Financial Services AG was able to successfully utilise the refinancing conditions as early as the first half of the 2014 financial year. For example, Volkswagen Leasing GmbH issued three bonds in January and March with terms of 3.5 to 10 years, and Volkswagen Bank GmbH successfully placed three bonds in the market with terms of two to five years.

Volkswagen Financial Services also successfully placed secured bonds. Volkswagen Leasing GmbH marketed securitized lease contracts as part of the Volkswagen Car Lease 19 transaction (VCL 19) in January and its Volkswagen Car Lease 20 (VCL 20) transaction in September. In April Volkswagen Bank GmbH successfully placed the Driver 12 ABS transaction; with a volume of approximately €1.3 billion, it was the largest European ABS transaction since the start of the financial crisis in 2007; this underscores the central role of the Volkswagen Financial Services, which have a market share of around 35 percent in the European auto-ABS market.

At an international level, unsecured bonds were successfully issued outside the eurozone in the established markets of Australia, Brazil, India, Japan and Mexico. In February of this year, Volkswagen Financial Services AG marketed the third Japanese ABS transaction, Driver Japan Three, with a volume of around

**REFINANCING SOURCES AS AT DECEMBER 31, 2014**




€215 million. In September 2014 Volkswagen Financial Services placed the Driver UK Two securitization transaction with a volume equivalent to approximately €1.5 billion. This second auto-ABS transaction denominated in sterling is also the highest-volume issue to date in that currency and was met with high demand from investors.

New local markets were tapped in 2014 both in terms of secured and unsecured issues. As a result, Volkswagen Financial Services was able to sell its first securitized Chinese auto loans with a volume equivalent to around €96 million.

China is the eleventh country in which Volkswagen Financial Services are now executing ABS transactions.

Despite political unrest, Volkswagen Bank RUS issued its first unsecured bond denominated in roubles on the Russian capital market in June 2014. This transaction, with a volume of five billion roubles, was followed in October by two more bonds of the same volume as part of the local 50 billion rouble bond issuance framework Volkswagen Bank RUS.

Volkswagen Financial Services Korea Limited placed its first bond in the South Korean market in July 2014 with a volume of 100 billion Korean won. In November, a second bond worth more than 150 billion Korean won was also placed in this newly tapped capital market.

### RATING

The rating of Volkswagen Financial Services AG as a wholly owned subsidiary of Volkswagen AG corresponds to that of the Group parent by both Standard & Poor's (S&P) and Moody's Investors Service (Moody's). The S&P rating improved from A- (long-term) and A-2 (short-term) to A (long-term) and A-1 (short-term), with a stable outlook. Moody's confirmed its ratings of A3 (long-term) and P-2 (short-term), both with a positive outlook.

As a wholly owned subsidiary of Volkswagen Financial Services AG, Volkswagen Bank GmbH is given a separate rating by both firms. S&P also increased its rating of Volkswagen Bank GmbH to A (long-term) and A-1 (short-term) with a stable outlook. Moody's confirmed its rating of A3 (long-term) and P-2 (short-term) with a positive outlook.

Thanks to its good creditworthiness, which was confirmed by the increased S&P rating, convincing financial indicators and the high level of investor trust, Volkswagen Financial Services AG and its subsidiaries always have excellent access to the capital market.

### CENTRAL ASSET-LIABILITY MANAGEMENT

"We ensure that the business lines can focus fully on the operational business."

ANDREAS SCHUBERTH
HEAD OF ASSET-LIABILITY MANAGEMENT
& TREASURY MID-OFFICE

### ACTIVE MANAGEMENT OF BUSINESS RISKS

A successful financial services provider aligns itself with the needs of its customers and investors and offers the credit and investment products its customers want. Behind the scenes, the dedicated asset-liability management team ensures that balance sheets are harmonised with respect to interest fixings. For example, we use interest rate hedging products to bring short-term overnight funding in line with long-term auto financing transactions. This allows us to manage interest rate risks and secure the margin from customer business against fluctuations in the money and capital markets.

Asset-Liability Management (ALM) therefore acts within the conflicting priorities of risk limitation and taking advantage of earnings potential from term transformation which results from the use of favourable short-term borrowing for long-term investments. Our scope of action is thus defined by regulatory and financial requirements on the one hand and the desire to make a positive contribution to the operating result on the other. We provide regular reports about risks and measures in the Asset-Liability Management Committee, whose members include the Chief Financial Officer and Chief Risk Officer among others, provides regular reports about risks and measures. The Asset-Liability Management Committee determines the strategic focus of asset-liability management and monitors our activities.

The ALM team acts centrally for all companies of Volkswagen Financial Services. The spectrum ranges from directly managed companies for which we are centrally responsible for term transformation to local companies that are advised and supported by us. The approach depends on the size and type of business carried out by the respective company. That is how we enable that the business lines in the companies to focus fully on the operational business.

# Our regions

## Germany

### GENERAL DEVELOPMENT OF BUSINESS

In view of a generally positive economic trend in the German market, the already strong market position in Germany was maintained and even expanded in several business areas. Overall, approximately 712,000 new contracts were concluded in the area of financing and leasing of new vehicles and 263,000 new contracts were concluded for used vehicles. At 59.4 percent, the penetration rate in Germany remains on a very high level and 3.6 percent above the previous year. Today, more than every second vehicle of the Volkswagen Group is financed or leased through Volkswagen Financial Services AG.

### PRIVATE CUSTOMERS/CORPORATE CUSTOMERS

In 2014, the focus in the private customer business was on sustaining the strong position in the financing and leasing business and further expanding the insurance and services business.

Overall, Volkswagen Bank GmbH concluded 441,000 new financing contracts. The leasing business also delivered a strong performance – Volkswagen Leasing GmbH increased the number of new contracts with private customers to more than 122,000.

In 2014, the international "lease exchange" generated high usage figures for the Volkswagen Passenger Cars brand. It created new customer business for car dealers through the online channel, which had a direct positive effect on growth in the young used cars business, i. e. vehicles less than one year old.

As a competent partner for mobility products, in 2014 we once again convinced our customers with an attractive range of insurance and vehicle-related services. A new sales channel was also established for the dealers through the use of the service area for post-selling of selected service products.

In the corporate customers business, dealers again profited from a comprehensive range of financing, service, investment and deposit products, increasing the financing volume to €4.46 billion.

### FLEET CUSTOMERS

In 2014, Volkswagen Leasing GmbH further increased its market share in the fleet customers segment, thus maintaining its top position in the German and European fleet business. Around 166,000 new leases were added to the portfolio in 2014, and the lease contract portfolio rose again by 6 percent to around 505 vehicles. Along with its subsidiaries, Volkswagen Leasing GmbH offers customized mobility solutions for every period, vehicle type as well as vehicle technology and power engineering. With the expansion of its station network and service offering, Euromobil Autovermietung GmbH has taken a major step towards becoming a full-service rental company. Its vehicle portfolio also grew in 2014, up to 7,000 vehicles as at December 31, 2014.

Volkswagen Bank GmbH concluded around 27,000 new financing contracts in the fleet customers segment.

It also continued to grow its services business, increasing the figures in the service areas of maintenance, wear-and-tear and tires. The KaskoSchutz product also picked up momentum. Overall, Volkswagen Leasing GmbH concluded over 158,000 service contracts with its fleet customers in 2014.

Volkswagen Leasing GmbH achieved a particular success in December 2014 with the launch of the Charge & Fuel Card, a card for fuel and e-charging stations. In the context of the Charge & Fuel Card a standardized payment system that can be used at more than 1,100 charging stations from various providers throughout Germany could be established. Volkswagen Leasing herewith delivers a service that is unique to the German market with respect to choice and convenience. With the help of an app, customers can see all available charging stations and their capacity, identify themselves at the charging stations and obtain green electricity. With this program, Volkswagen Leasing GmbH is also making an important contribution to sustainability.

#### DIRECT BANK

As a business unit of Volkswagen Bank GmbH, the direct bank makes a significant contribution to refinancing for the Volkswagen Financial Services in the eurozone and to promoting customer loyalty to the Volkswagen Group brands.

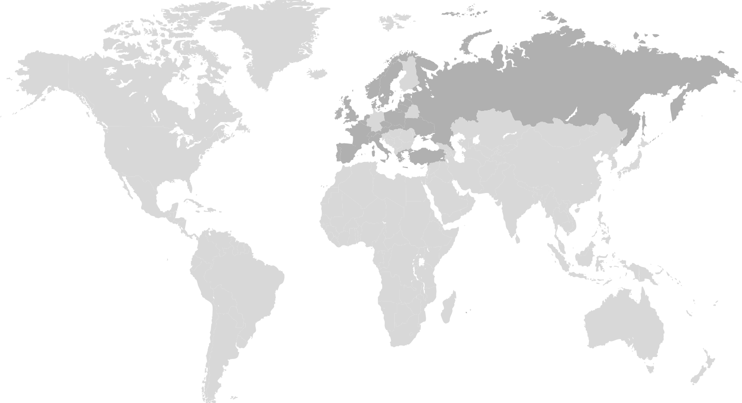
The 2014 financial year was characterized by qualitative growth. The deposit volume in the direct bank business grew by 10.9 percent to €24.7 billion despite historically low interest rates. In the same period, the number of customers grew by nearly 2 percent to 1,184,000. In a further segment, the consumer credit business was further expanded and the volume of gross receivables was sustainably increased.

As a financial services provider in the Volkswagen Group, it is the direct bank's mission to provide modern products and services, including innovative payment solutions. This year, the direct bank began offering its customers one of the first mobile payment solutions for iPhones and Android smartphones. It allows holders of a Volkswagen Visa card to use this up-to-date contactless payment method.

"The German market is largely saturated. We operate at a very high level in our core business of leasing and financing and cooperate closely with the brands of the Volkswagen Group and with dealers. In addition to stabilizing our market position, we therefore focus on building and expanding new business areas such as insurance and services as well as establishing new sales channels – always with the objective of being the most attractive financial services provider for the Volkswagen Group and to continue successfully fulfilling our mandate as a sales driver and strong partner for the dealers."

ANTHONY BANDMANN
REGIONAL MANAGER GERMANY

# Europe



COUNTRIES

AUSTRIA, BELGIUM, CZECH REPUBLIC, DENMARK, ESTONIA, FRANCE, GREECE, IRELAND, ITALY, LATVIA, LITHUANIA, NETHERLANDS, NORWAY, POLAND, PORTUGAL, RUSSIA, SLOVAKIA, SPAIN, SWEDEN, SWITZERLAND, TURKEY, UKRAINE, UNITED KINGDOM

## GENERAL DEVELOPMENT OF BUSINESS

The economic development of all countries in the region has been positive in 2014, which was a very pleasing result in view of strong economic pressure, weak auto sales and increased regulatory requirements. Above all, the EU4 nations (France, Italy, Spain and the UK) once again increased their market penetration and results in both the retail and the fleet segment.

The successful GO$^{40}$ growth program was systematically applied to further markets and countries in 2014 and the nationwide penetration of vehicle deliveries combined with financial services contracts increased to 40 percent and above.

Further measures were employed to expand and promote the brands' used car strategy in 2014. Among other things, this was underscored by the strong performance of Volkswagen Financial Services in the used cars segment in the United Kingdom and by the launch of a used car balloon credit for all brands in Ireland. One milestone was the ambitious "Used Car 50 *:plus*-agreement" with the Audi brand in the EU4 countries and Russia, among others. The objective of this joint investment programme is to increase the market share of new to five-year-old Audis sold by dealers to 50 percent within the next four years by implementing country-specific measures.

The close cooperation of Volkswagen Financial Services with the brands in the context of the launch of vehicle models was successfully continued in 2014. This was the case in particular for the launch of the new Passat, the introduction of which was supported from an early stage in selected European countries with an attractive maintenance and wear-and-tear program. The launch of the Audi e-tron and ŠKODA Fabia models was also supported by offering customized financial services.

## PRIVATE CUSTOMERS

In its 50th year of doing business in France, Volkswagen Finance generated a 50 percent penetration rate in the private customers segment thanks to its new balloon leasing strategy.

In Italy and Spain, the continuation of local sales strategies and the expansion of the after-sales business also resulted in successful penetration results among private customers of more than 50 percent in 2014.

A pilot digitalization program was launched in the Netherlands, and as a result, since 2014 private customers are able to obtain "private leasing" services from the receipt of an offer through to contract conclusion, all online.

In Belgium, the "weCARE program" for maintenance, wear-and-tear and insurance for private customers was expanded and the local range of services thus supplemented in a logical manner.

Despite the massive collapse of car sales in Russia, Volkswagen Financial Services was able to deliver another strong performance in the retail sector. This was due in particular to the switch from agency to own business transactions without losing market share and to the introduction of new products and the stepping up of special sales promotion campaigns together with the importer.

In Turkey, the retail business was aided by the launch of innovative e-commerce products such as mobile apps with web calculators, online applications and quick response (QR) code links. This resulted in pleasingly stable business performance despite an environment of new restrictive regulations for consumer credit.

Greece is showing initial signs of slight improvement in the retail business and increasing new car deliveries in the fleet and, in particular, the rental business for the first time since the start of the crisis.

#### FLEET CUSTOMERS

Joint activities and measures for SME (small and medium-sized enterprises) customers were implemented for the Volkswagen and Audi brands in Italy. We established ourselves as the market leader in the operational leasing segment and we met fleet customers' expectations by further enhancing the after-sales business.

We continued to expand our business areas in the Swedish market in 2014. A service company was established in January in order to take over the maintenance and wear-and-tear business from the importer. The integration of the new company and the number of contracts both developed on a positive note.

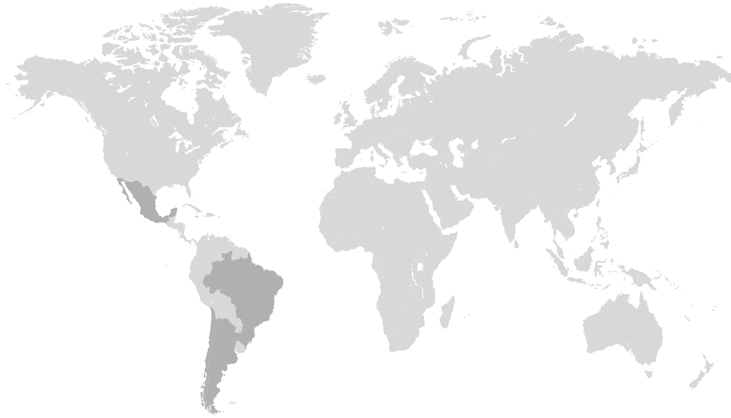
#### OTHER

Following the acquisition of the Truck & Bus financial services business in the Netherlands and after its introduction in Belgium in 2013, it was possible to successfully grow the business. Moreover, the joint venture financial services company in Turkey also completed the acquisition and integration of Scania Finance Turkey. The insurance business was also further strengthened and expanded throughout the region in 2014. Thanks to the introduction of a brand-specific insurance product and its complete integration into the vehicle configurator of the brand, the Czech Republic became the precursor and pioneer of this approach. Italy launched a series of insurance products and generated a very good number of contracts as a result. With the launch of the GOInsurance program, Spain increased the overall brand capacity of the country's workshops and thus also supported the brands' strategy.

"The consequently continuation and expansion of the $GO^{40}$ growth program is one of the many success factors in the Europe region. These factors include beside a variety of new retail and fleet products that strengthen our market position also a sustained improvement of our processes and systems. Among other things, the constructive and close cooperation with the brands is reflected in the support for growth programs such as the Audi Used Car 50 *:plus*-program, 'Maintenance and Wear-and-Tear' and 50 percent products for the launch of the Passat. We will continue to consequently follow this multilayered path."

JENS LEGENBAUER
REGIONAL MANAGER EUROPE

# *Latin America*



**COUNTRIES**

ARGENTINA, BRAZIL, CHILE, MEXICO

**GENERAL DEVELOPMENT OF BUSINESS**

Key Latin American markets were impacted by an ongoing economic slowdown on the continent and macroeconomic indicators were weak.

Brazil, the largest market in the region, generated weak growth in 2014 and the automotive industry felt the effects of the economic slump. Against this backdrop, the Volkswagen Group sold 647,948 units in 2014 around 10 percent less than in the previous year.

Moderate growth of 2.4 percent was achieved in Mexico in 2014, which was therefore greater than the previous year. Inflation, unemployment rate and the political environment are stable, meaning that the overall economic situation and the outlook for the coming year are also stable. With an increase in market share and improved industrial sector performance, the Volkswagen Group increased its volume by 2.9 percent and sold a total of 195,676 units in 2014.

Argentina experienced considerable economic turmoil which had a negative effect on large parts of society. This had a direct impact on the automotive industry and the Volkswagen Group held onto its position as the market leader with a market share of 16.7 percent.

The region accounts for approximately 10.7 percent of the global new financing volume of Volkswagen Financial Services and it therefore plays a significant role in the global growth strategy. As at the end of 2014, 370,988 new financing contracts were concluded in the region, which is an increase of 6 percent over the previous year.

**PRIVATE CUSTOMERS/CORPORATE CUSTOMERS**

Sales in Brazil were boosted and the campaign business expanded in close collaboration with the brands. In a difficult market environment, Volkswagen Financial Services Brazil closed the year with a penetration rate of 38 percent, compared to 38.4 percent in the previous year.

The Consórcio product, a combination of financing and lottery, was not able to escape the overall framework conditions and generated 149,000 contracts (previous year: 166,000).

In Mexico, the willingness of private customers to finance their purchase increased. This factor in addition to the close collaboration with the brands improved the result of Volkswagen Financial Services Mexico. As a result, an all-time high penetration rate of 44.1 percent was achieved, 6.9 percentage points higher than the previous year. In the captives market, Volkswagen Financial

Services Mexico defended its second-place position and completed the year with 94,163 new contracts (financing of new and used cars, leasing), an increase of 24 percent compared to the previous year.

Volkswagen Credit Argentina concluded a new partnership with BBVA to broker financing for private customers.

As in previous years, the dealer financing once again achieved consistently positive results across the entire region. Volkswagen Financial Services Brazil financed 97 percent of the Volkswagen and MAN dealers. At Volkswagen Financial Services Mexico, the increased volume contributed to the growth of the portfolio. In Mexico, the insurance segment generated 25 percent growth compared to 2013 and ended the year 2014 with a total of 159,000 insurance contracts.

**OTHER**

In July 2014, Porsche Volkswagen Servicios Financieros Chile SpA, a joint venture with Porsche Bank, commenced business operations in Chile.

"Volkswagen Financial Services AG is continuing to increase its market potential in Latin America by implementing strategic projects and expanding its campaign business. Its presence in new markets, financial services for Ducati and increased cooperation with Audi in Brazil prove how important the region is to the Volkswagen Group.

Despite changing overall market conditions, we have experienced a phase of strong growth in recent years thanks to our close cooperation with the brands of the Volkswagen Group."

ROBERT LÖFFLER
REGIONAL MANAGER LATIN AMERICA

# *China, India, ASEAN*

**COUNTRIES**

CHINA, INDIA, MALAYSIA, SINGAPORE, TAIWAN

#### GENERAL DEVELOPMENT OF BUSINESS

In China, economic growth slowed somewhat in 2014 and is now at around 7.3 percent of gross national product. The Chinese government has implemented additional monetary and fiscal policy measures to stimulate the economy. In addition to a reduction in the minimum reserve ratio for financial institutions and lower interest rates, increased investments in infrastructure and environmental protection in particular are aimed at achieving the growth targets. Additional stimulation measures by the government are likely, provided inflation remains well below the target level of 3.5 percent. Rising vehicle sales figures and increased demand for vehicle financing resulted in another record year for Volkswagen Finance China in 2014.

The considerable growth in Taiwan in 2014 was largely due to sharply rising exports in the electronics industry, which plays a key role in the economy. The strong overall economic situation also stimulated domestic consumer demand. It is therefore likely that these favorable developments will continue in 2015. With a penetration rate of around 26 percent, increased vehicle sales by the Volkswagen Group had a positive impact on the financial services business in Taiwan.

In India, the landslide victory of the Bharatiya Janata party in the 2014 parliamentary elections and the subsequent election successes in the key federal states of Haryana and Maharashtra significantly increased the power of Prime Minister Narendar Modi, making it possible to introduce the necessary reforms. The overall investment climate improved slightly. The exchange rate of the Indian rupee stabilized at a moderate level and inflation is within the target range defined by the Indian Central Bank. However, economic growth, which was lower than in the previous year, had a dampening effect on car sales and on the growth of the financial services business.

The revived export business in Malaysia led to higher growth of the gross national product in 2014. Despite weak credit growth and budget consolidation, the strong labor market and a consistent increase in wages are driving private demand. The vehicle financing business remains highly competitive with financing rates of more than 90 percent.

#### PRIVATE CUSTOMERS/CORPORATE CUSTOMERS

Rising vehicle sales figures and increased demand for vehicle financing resulted in another record year for Volkswagen Finance China in 2014. A total of around 407,000 new contracts resulted in growth of 78.2 percent compared to the previous year. For the first time, more than 11.2 percent of the Volkswagen Group's vehicle sales were financed by Volkswagen Finance China. The close collaboration with the brands of the Volkswagen Group was thereby consequently continued and intensified. For example, the first product combination of financing and factory service product was launched in the market. Varying regional growth rates are likely in the coming years. While growth will slow down in the coastal regions due to increasing traffic density and entry restrictions, interior regions will offer additional growth potential. The subsequently necessary expansion of the brands' dealer network will be actively supported by the provision of dealer financing.

The cooperation with the brands of the Volkswagen Group in Taiwan was further boosted by the wide range of products in both the financing and insurance sectors. This had the extremely positive effect of very quickly providing the brands with customized solutions for increasing vehicle sales. The highly successful insurance brokerage business, with a volume more than 32,000 new contracts, now makes a significant contribution to the overall result of Volkswagen Financial Services Taiwan.

Volkswagen Finance Pvt. Ltd. in Mumbai besides its offer of new car financing and dealer financing expanded its product range for dealers in the areas of spare part and used car financing. The introduction in the private customer business of new mobility products that offer customers all-in packages and worry-free driving, resulted in portfolio growth of 36 percent (around 12,000 contracts).

In Malaysia, following the incorporation of Volkswagen Capital Advisory Sdn Bhd business operations were started in what is now the 49th market for Volkswagen Financial Services. As a wholly owned subsidiary of Volkswagen Financial Services AG, the company brokers vehicle financing from Maybank and insurance from three selected insurance companies for all Volkswagen Passenger Cars through its own retail sales staff at the dealers. It should be noted in particular that the financing services are designed to conform with the rules of Islam.

#### FLEET CUSTOMERS AND CAR SHARING

Headquartered in Beijing, China, Volkswagen New Mobility Services expanded its leasing services to a total of 16 Chinese metropolitan areas in 2014. The leasing portfolio grew by 196 percent as a result of the successful participation in nationwide tender offers. In this context, steadily increasing licensing restrictions for new vehicles in cities such as Beijing, Shanghai, Guangzhou and Tianjin pose major challenges.

As a further business area of Volkswagen New Mobility Services, additional experience was garnered in corporate car sharing. The station-based B2B car sharing offer in Beijing enabled selected companies with pilot operations to secure their mobility needs starting at one hour.

"The growth markets in the ASEAN region are becoming increasingly important for the Volkswagen Group. Volkswagen is already manufacturing some models in Malaysia and is expanding its dealer network as a result. In our role as a captive provider of financing services, we are following the Volkswagen Group's brands and are now continuing to pursue our global growth strategy by entering the Malaysian market. We aim to promote the unit sales of the Volkswagen Group brands and strengthen the relationship between dealers and customers by offering attractive products."

REINHARD FLEGER
REGIONAL MANAGER CHINA, INDIA AND ASEAN

# International

**COUNTRIES**

AUSTRALIA, JAPAN, SOUTH AFRICA, SOUTH KOREA

**GENERAL DEVELOPMENT OF BUSINESS**

For the countries of the international region, 2014 was characterized by the strategic growth dimensions of markets, brands and products and the financial services business was successfully expanded.

In 2014, the Australian gross domestic product grew compared to the previous year and the annual growth rate of 2.6 percent was roughly equivalent to the average of the last 25 years. The total sales volume of the Volkswagen Group's brands exceeded the previous year's level. The vehicle financing business remains highly competitive with financing rates of more than 90 percent.

Despite shrinking exports to China, the Korean economy once again posted year-on-year growth. The demand for imported vehicles is again on the rise in Korea and the import market for passenger cars grew by around 25 percent compared to the previous year. Both Audi and Volkswagen Passenger Cars were able to increase their vehicle sales from 2013.

The annual growth rate of the Japanese economy remains weak. The import market contracted slightly in the last reporting year, in particular due to an increase in the consumer tax from five to eight percent. Nevertheless, the Volkswagen Passenger Cars and Audi brands were once again able to increase their vehicle sales figures year-on-year.

The South African economy was only able to generate very moderate growth. The overall new car market contracted slightly compared to the previous year due to a weaker rand.

**PRIVATE CUSTOMERS/CORPORATE CUSTOMERS/FLEET CUSTOMERS**

Year-on-year, Volkswagen Financial Services Australia (Pty) Ltd. continued to grow in all product segments in a generally competitive market environment: Last year, nearly one in three newly registered Group vehicles was financed or leased through the Australian subsidiary. The previous year's results were also exceeded in the service and insurance product areas, with the insurance area posting gains of as much as 25 percent. Increased cooperation with the Group brands and retail partners provided the basis for the positive business trend. Structural investments that were made in various areas over recent years have also paid off: The "Audi Choice" residual value product, a flexible three-option financing model, was introduced for the Audi brand at the beginning of 2014. Volkswagen Financial Services Australia (Pty) Ltd. also began doing business with fleet customers in the middle of the year, thus paving the way for further growth, as this customer group accounts for around 30 percent of the overall market.

In Korea, Volkswagen Financial Services Korea Co. Ltd. continued on its growth course in 2014. It further increased its already high share of the financing/leasing of newly registered vehicles compared to the previous year, with nearly half of all newly registered Group vehicles being financed or leased through the Korean financial services company. The already close collaboration with both Group brands was further intensified within the scope of joint structural and optimisation projects intended to sustainably increase the company's competitiveness. The MAN Truck & Bus financing business also delivered a strong performance in its first full financial year.

Volkswagen Financial Services Japan Ltd. grew the volume of new contracts year-over-year in 2014. It further increased its overall high share of the financing and leasing of newly registered vehicles to nearly 40 percent. In the year under review, the Japanese subsidiary added financial services for the Ducati brand to its service portfolio. Since the beginning of the year, products such as balloon and traditional instalment credits have been offered to private end customers by the dealer network under the Ducati Financial Services brand. Financing campaigns customized to end customers were successfully placed in the market in collaboration with the Ducati Japan brand.

Volkswagen Financial Services South Africa (PTY) Limited launched its nationwide business operations on March 1, 2014. Volkswagen Financial Services AG owns 51 percent of the shares of the new financial services provider and the South African company FirstRand Limited holds 49 percent through WesBank, its business area active in the financing of vehicles and various capital goods. The portfolio of products and services offered by Volkswagen Financial Services South Africa currently comprises financing and leasing products such as insurance for the end customer and retail purchase financing. The first 10 months of nationwide business operations were extremely promising, and more than 30,000 new and used cars were financed in this period.

"The established countries in the international region were able to successfully hold their course in 2014 and generated consequently growth in the brand and product dimensions. Further growth potential was developed by entering the South African market. By maintaining a close cooperation with the Group brands at various levels and business areas and consistently focusing on the needs of our customers, we have laid the essential groundwork for sustained success."

**OLIVER SCHMITT**
REGIONAL MANAGER INTERNATIONAL

# Combined management report

CONTENTS

# *Fundamental information about the Group*

Steady international growth confirms the business model of Volkswagen Financial Services AG.

## BUSINESS MODEL

Over the years, the companies in the Volkswagen Financial Services AG Group have evolved increasingly dynamically into providers of comprehensive mobility services. As in the past, the key objectives of Volkswagen Financial Services AG include:

> Promotion of Group product sales in the interest of the Volkswagen Group brands and the partners appointed to distribute them, and strengthening of customer loyalty to the Volkswagen Group brands along the automotive value chain,
> Acting as a service provider for the Volkswagen Group and its brands, with optimized products, processes and information systems,
> Intensification of the cross-border transfer of experience and know-how, and close cooperation with the national companies,
> Utilization of synergies from close cooperation with the Group Treasury of Volkswagen AG for the best possible refinancing.

## ORGANIZATION OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

The companies of the Volkswagen Financial Services AG Group provide financial services to the following customer groups: private/corporate customers, fleet customers and direct banking customers. The close integration of marketing, sales and customer service focused on customers' needs goes a long way towards keeping our processes lean and our sales strategy efficient. Volkswagen Financial Services AG consolidated all aftersales matters in a separate key account structure for purposes of exploiting the services business to optimal effect.

Following the in-depth analysis in 2013 of the tasks of all companies in the Volkswagen Financial Services AG Group in Germany, the clear organizational, legal and personnel separation of the functions and areas of activity between the holding company and the German market was introduced as of January 1, 2014. The aim of this restructuring is to outline clear responsibilities, avoid duplicated functions and leverage further potential for optimization. A further consequence was that in 2014 all of the holding functions adapted to the new structure and division of responsibilities. It was also necessary for them to review their respective worldwide responsibility and make adjustments where necessary.

The IT strategy was redefined and the structure adjusted accordingly with effect from July 1, 2014. This new structure will promote and support the achievement of the core targets set out in the IT strategy. These core targets include strengthening project management, creating a key account structure, and focusing application development on the provision of sustainable and stable solutions.

## INTERNAL MANAGEMENT

The company's control variables are calculated based on IFRS and presented in its internal reporting. The most important non-financial control variables are penetration, current contracts and new contracts. The key financial control variables are the business volume, deposit volume, the operating result, return on equity and the cost/income ratio.

## KEY CONTROL VARIABLES

| | Definition |
|---|---|
| **Non-financial key performance indicators** | |
| Penetration | Ratio of new contracts for new Group vehicles arising from retail financing and leasing to deliveries of Group vehicles based on the fully consolidated entities of Volkswagen Financial Services AG |
| Current contracts | Number of contracts recognized in the reporting period as of the reporting date |
| New contracts | Number of contracts recognized in the reporting period for the first time |
| **Financial key performance indicators** | |
| Volume of business | Receivables from customers arising from retail financing, wholesale financing, leasing business as well as leasing and rental assets |
| Deposit volume | Customer deposits = sum of liabilities arising from deposits from the direct banking business, current wholesale accounts, the non-direct banking business |
| Operating result | Net income from lending, leasing and insurance transactions after risk provisions and net commission income as well as general and administrative expenses and other operating income and expenses. Similar to the segment reporting, portions of net interest income, the other operating result and general and administrative expenses are eliminated. |
| Return on equity | Return on equity before taxes = profit before taxes / average equity |
| Cost/income ratio | General and administrative expenses / by net income from lending, leasing and insurance transactions after risk provisions and net commission income |

## CHANGES WITH RESPECT TO EQUITY INVESTMENTS

With effect from January 1, 2014 Volkswagen Financial Services AG acquired MAN Finance International GmbH. In addition, Volkswagen Capital Advisory Sdn. Bhd., Kuala Lumpur was established in February 2014 as a wholly owned subsidiary of Volkswagen Financial Services AG in Malaysia, and in June 2014 Porsche Volkswagen Servicios Financieros Chile Spa., Santiago was founded, a joint venture in which Volkswagen Financial Services AG holds a 50% interest. Further information is provided in the overall assessment of the course of business.

In light of the expected business growth in existing and new markets, Volkswagen AG increased the capital of Volkswagen Financial Services AG by €2.3 billion.

During the reporting year Volkswagen Financial Services AG implemented the following material capital increases to strengthen the respective capital bases:

- Volkswagen Bank GmbH, Braunschweig, Germany by €150 million,
- Volkswagen Finance (China) Co., Ltd., Beijing, China by approximately €117 million,
- Volkswagen Financial Services N.V., Amsterdam, Netherlands by €105 million,
- Volkswagen Financial Services South Africa (Pty) Ltd., Sandton, South Africa by approximately €40 million,
- Volkswagen Financial Services Korea Co., Ltd, Seoul, South Korea by around €37 million,
- Volkswagen Autoversicherung AG, Braunschweig, Germany by approximately €27 million,
- OOO Volkswagen Bank RUS, Moscow, Russia by about €25 million,
- Volkswagen Financial Services Australia Pty. Ltd., Chullora, Australia by around €21 million,
- Volkswagen Moller Bilfinans A/S, Oslo, Norway by approximately €8 million and
- Volkswagen-Versicherungsvermittlung GmbH, Braunschweig, Germany by around €5 million.

These measures serve to expand our business and support the growth strategy we are pursuing together with the brands of the Volkswagen Group.

There were no other significant changes with respect to equity investments. For detailed disclosures, please see the section on shareholdings pursuant to sections 285 and 313 of the Handelsgesetzbuch (German Commercial Code – HGB) at www.vwfsag.com/listofholdings2014.

# *Report on economic position*

During the 2014 fiscal year the world's economy experienced moderate growth that was slightly above the previous year's level. Global demand for automobiles continued to rise and Volkswagen Financial Services AG's profit increased year-on-year.

## MODERATE GROWTH IN THE GLOBAL ECONOMY

During 2014 the global economy grew slightly faster at a rate of 2.7% (previous year: 2.6%). The economic situation in many industrialized countries improved despite persistent structural impediments. In spite of the expansionary monetary policy adopted by many central banks, inflation remained moderate on the whole. In a number of emerging markets, economic developments were slowed by exchange rate fluctuations and structural deficits. The declining price of oil also had a negative impact on the economies of oil-producing countries.

### Europe/Other markets

Growth in the gross domestic product (GDP) of Western Europe recovered from the previous year's figure of 0.0% and rose to 1.2%. The Northern European countries largely returned to a path of moderate growth, and in most crisis countries of Southern Europe there were indications of an end to the recession. The unemployment rate in the eurozone fell slightly to 12.1% (previous year: 12.5%). This figure was still well above average in Greece and Spain.

In Central and Eastern Europe, GDP growth rates fell to an average of 1.6% (previous year: 2.2%). While the economy continued to develop positively in Central Europe, it weakened significantly in Eastern Europe, primarily due to the uncertainties resulting from the conflict between Russia and Ukraine. Russia's economic output was up only marginally during the reporting period, rising by 0.4% (previous year: 1.3%).

In South Africa, GDP in 2014 expanded by a mere 1.5% and was down on the already comparatively low prior-year figure of 2.2%. Structural deficits and social conflicts had a negative impact on the country's economic performance.

### Germany

On the back of positive consumer sentiment and a stable labor market, the German economy underwent a slight upturn in 2014 to grow by 1.5% year-on-year (previous year: 0.2%).

### North America

After the reserved start to the year caused by poor weather, the US economy began to pick up speed. Falling jobless figures and a positive mood among consumers breathed life into the economy and contributed to a growth rate of 2.4% (previous year: 2.2%). The US dollar was stronger against the euro overall during the year under review and gained in value during the second six months. Canada's GDP rose by 2.4% (previous year: 2.0%).

### Latin America

After expanding at a rate of 2.5% during 2013, Brazil found itself on the edge of a recession during the reporting period, with zero growth. The Mexican economy gained slight momentum and grew by 2.0% (previous year: 1.4%). In Argentina, the economy suffered from structural deficits and what remained a very high level of inflation, causing economic output to fall by 0.8% overall (previous year: +2.9%).

### Asia Pacific

China continued to enjoy robust growth, despite the economy being slightly less dynamic, with an increase of 7.4% (previous year: 7.7%). Japanese GDP was hampered by tax increases, and the rate of growth in 2014 was 0.2% (previous year: 1.6%). After early weakness, the economy in India expanded by 5.9%, which was slightly up on the growth rate of 5.0% in the prior year. In the ASEAN region, growth was down slightly on the prior year at 4.4% (previous year: 5.1%).

## FINANCIAL MARKETS

### Continuing expansionary monetary policy worldwide

In 2014, developments on the global financial markets continued to be dominated by expansionary monetary policies and were hampered by the geopolitical tensions in Ukraine and Syria.

The situation in the emerging markets led to an economic slowdown, particularly in the second half of the year. The major nations such as Russia, Brazil and India are having to battle with high inflation rates and depreciation in their currencies.

Although the forecast for China has dropped considerably, the country still remains one of the most important driving forces behind the global economy.

### Sector-specific environment

The European Central Bank (ECB) continued its expansionary monetary policy and cut its key interest rate to 0.15% at the start of June. At the start of September, the ECB reduced the key interest rate again to the historically low level of 0.05% and at the same time additionally decided to set a negative interest rate of 0.2% on cash deposits in its accounts.

In the US, the expansionary monetary policy gradually began to bear fruit, which led to the discontinuation of the quantitative easing program and created expectations that an end to the current low interest rate period is in sight.

### Europe

The outlook for the eurozone as a whole is one of stagnation, despite the monetary measures that have been taken, and average annual inflation remains extremely low.

In addition to its unusually sharp cuts in key interest rates, the ECB launched a quantitative easing program in the third quarter and began purchasing asset-backed securities. In the short term, this lent impetus to the money and capital markets, but it brought distortions, too. In addition, yields on eurozone government bonds plummeted, with those for the German government even falling into negative territory at times.

A further ECB measure – the provision of liquidity through two tranches of so-called Targeted Longer-Term Refinancing Operations (TLTROs) – was significantly less effectual than expected due to weak demand among banks for both the first tranche in September and the second in December.

Rather than bringing about a short-term revival in eurozone economic growth, the ECB measures actually led to a further fall in yields on European securities, creating an extremely volatile global equity bull market. As a result, the DAX reached a historic high of over 10,000 points in June 2014 and, like the world's other leading stock exchanges, continues to find itself in a phase of sharp fluctuations at a high level.

One major step for numerous European Union banks in 2014 was a change in their supervision. The 120 banks classed as significant were placed under the direct supervision of the European Central Bank with joint supervisory teams from the ECB and the national authorities, and have been monitored under the Single Supervisory Mechanism (SSM) for banks since November 4, 2014. Responsibility for the operational supervision of the banks classed as less significant remains with the national supervisory authorities.

### Germany

Despite signs of deterioration in the outlook, Germany remained the driving force behind the European economy in 2014. Forecasts for economic growth declined, and higher demand on the bond market for low-risk German debt securities as well as increasing interest among international investors caused yields to reach historically low or even negative levels. The reluctance to invest was coupled with a weakening in the economy over the course of the year, although private consumption continued to make a substantial contribution to gross domestic product, in part due to the lack of incentives to save.

### North America

The US economy recovered in 2014, helped by a stable fiscal policy, and inflation slowed. At the beginning of the year the Federal Reserve began gradually scaling back its program to buy securities, before ending it altogether. The lack of incentives may result in a trend reversal in interest rates in the US in 2015, i.e. an interest rate hike. This would result in higher US yields.

### Latin America

Brazil's economic performance remained muted. The Central Bank acted at the start of the year to prevent the real from entering a downward spiral by increasing key interest rates and also intervening on the forex market. The presidential elections in late October and slightly improved exchange rates attracted foreign investors and improved the impact of fiscal policy measures.

Following the significant devaluation of the currency over recent years, the Mexican economy put in a positive performance during the period under review after the Mexican government cut interest rates.

### Asia Pacific

Economic developments in the ASEAN countries varied considerably. While the economies in Malaysia, the Philippines and Taiwan were dynamic, there was a slight upturn in India, a robust trend in China and ongoing weakness in South Korea, Singapore and Thailand.

The Chinese government is expected to introduce new economic stimulus measures after this year's fall in economic growth. An easing of the restrictions on the real estate market coupled with expectations of improved access for foreign investors also supported the equities market. Each of the five major state banks were provided with 100 billion yuan by the Chinese central bank in a bid to support lending and meet the 2014 growth target.

In Japan, the deflation of earlier years was brought to an end in 2014. The increase in value added tax in April, up from 5% to 8%, initially caused GPD to fall. By the second half of the year, however, the economy was recovering again. South Korea's economy was only moderately dynamic, with its central bank attempting to counter this low growth with an accommodating monetary policy. In India high rates of inflation were accompanied by positive economic growth rates, with the new government attempting to cushion the marked fall in the value of the rupee.

## GLOBAL DEMAND FOR PASSENGER CARS HITS NEW RECORD HIGH

In the 2014 fiscal year the number of global registrations of new passenger cars rose by 4.5% to 73.4 million vehicles, surpassing the previous year's record level. The regions of Asia-Pacific, North America as well as Western and Central Europe were particularly strong contributors to this growth. By contrast, the passenger vehicle markets as a whole in Eastern Europe and South America were down significantly on 2013.

### Sector-specific environment

Passenger car markets around the world performed quite differently during the reporting year. While demand in key industrial countries recovered and markets in the Asia-Pacific region continued to experience strong growth, some markets in Eastern Europe and South America reported considerable declines.

Two trends that are still very important to the automotive industry are the ongoing development of the major markets of China and Brazil as well as the expansion of activities in Russia, India and the ASEAN region.

Trade restrictions were relaxed in many of Asia's markets. However, it cannot be ruled out that governments will resort to protectionist measures again if there is a renewed downturn in the global economy.

### Europe/Other markets

In Western Europe, the stabilization of the passenger car markets that had begun in the second half of 2013 continued in the reporting year. After four years of declines, the number of new registrations rose again for the first time. However, at 12.1 million vehicles (+4.9%), the market volume was still well below the levels seen before the start of the financial and economic crisis (2007: 14.9 million vehicles). While the French market practically stagnated (+0.5%), Italy experienced a moderate increase (+4.9%) compared with the previous year's low volume. In Spain the continuation of the government incentive program accelerated the recovery process (+18.3%), while sustained strong demand from private customers generated market growth of 9.3% in the United Kingdom.

In Central and Eastern Europe, demand fell by 6.7% to 3.6 million vehicles. This was mainly attributable to the sharp decline in vehicle sales in the politically beleaguered Russian market, which accounts for around two thirds of total sales in the region. Even the state scrapping program introduced in Russia on September 1, 2014 and designed to promote the purchase of new vehicles from local production was not enough to stop the collapse in demand, with a slump of 10.0% to 2.3 million vehicles. In contrast, the Central European EU markets recorded significant growth, up by 14.8% to 0.9 million passenger cars.

Sales of passenger cars on the South African market dropped by 2.5% to 439 thousand vehicles. The major factors responsible for this decline were weaker economic growth and rising mobility costs.

### Germany

At 3.0 million units, the demand for passenger cars in Germany during the 2014 fiscal year was 2.9% above the previous year's low level thanks to the positive macroeconomic environment, marking the first time growth has been recorded since 2011. New passenger car registrations rose only among commercial customers (5.8%), with demand among private customers falling by 1.9%. An increase in exports, particularly to the EU countries and East Asia, generated higher growth than in 2013, both among passenger car exports (up by 2.5% to 4.3 million vehicles) and in domestic production of passenger cars (+3.0% to 5.6 million vehicles).

### North America

Sales of passenger cars and light trucks (up to 6.35 t) continued to rise in North America during the reporting period. With an increase of 6.0% to 19.5 million vehicles, the NAFTA region recorded its highest total market volume since 2005. Besides the positive basic macroeconomic environment, favorable finance conditions in the US, attractive sales promotion campaigns on the part of manufacturers, catch-up effects and low fuel prices combined to push up the market volume by 5.9% to 16.5 million units. Demand for SUV models was particularly strong.

With sales growth of 6.2% to 1.9 million vehicles, the Canadian automotive market recorded a new sales record in the 2014 fiscal year.

### Latin America

As far as South America was concerned, demand for passenger cars was well down in the reporting period compared with the previous year, with the highest absolute decline in the market of any region in the world. The main reason for the lowest number of passenger car registrations since 2009 was the weak state of the automotive sector in Brazil. The number of new registrations there plunged by 9.4% to 2.5 million units. As a result of a weak economic environment, high interest rates and waning consumer confidence, the market volume in Brazil was also at its lowest level for the past five years. Given the disproportionately marked drop in imported passenger cars, which was also a result of depreciation of the real, their share of new registrations fell to 15.3% (previous year: 17.0%). Brazilian exports of motor vehicles collapsed dramatically, not least due to the weakness of the Argentinian market, falling by 40.9% to 335 thousand units.

Meanwhile, the sector grew more dynamic in Mexico as the year progressed. Demand increased by 6.8% to 1.1 million units, thereby reaching its highest level for the past eight years.

The passenger car market in Argentina was hit by major losses in 2014 compared with the record year in 2013, down by 28.8% to 461 thousand units. In addition to the higher tax rates imposed at the start of the year on the purchase of higher-value passenger cars, key factors responsible for this trend included consumer reticence based on falling levels of real incomes, major interest rate hikes and import restrictions on new vehicles.

Asia Pacific

Asia Pacific was once again the principal growth driver with regard to global demand for passenger cars during the reporting period. The Chinese passenger car market proved particularly important, with double-digit growth of 12.1% resulting in 17.9 million units, a new all-time high. Despite further registration restrictions in some metropolitan areas and a slight easing in the pace of economic growth, the positive momentum continued on the world's largest automotive market in the 2014 fiscal year. In particular, above-average increases in sales of SUV models boosted this development.

In Japan, new passenger car registrations, at 4.7 million units during the reporting period (+2.9%), were moderately up on the previous year. The rise in value added tax with effect from April 1, 2014 had resulted in higher sales during the first quarter in anticipation of the increase, with demand then slowing significantly over the rest of the year.

On the Indian market, passenger car sales grew slightly, up by 2.2% to 2.4 million units. The automotive market was bolstered in particular by the reduction in consumer tax rates (applicable to goods including motor vehicles), which was extended until the end of 2014.

In the ASEAN countries, sales of passenger cars fell on the back of a significant collapse in demand from Thailand, declining by 4.4% overall to 2.3 million units. At the same time, some of the other markets in the ASEAN region grew strongly.

### DEMAND FOR COMMERCIAL VEHICLES VARIES BY REGION

Demand for light commercial vehicles was slightly down on the previous year's level during the reporting period. Worldwide, 10.7 million vehicles were sold, which equates to a decline of 1.3%.

Demand in Western Europe developed positively in response to the improved economic environment. Sales totaled 1.5 million vehicles, an 8.5% increase on the prior-year figure. The highest growth rates were recorded on the UK, Spanish and Italian markets. Germany improved on its previous year's figure by 4.6%.

The sales volume on the markets of Central and Eastern Europe was down on the 2013 figures. Some 296 thousand (previous year: 323 thousand) vehicles were sold during the reporting period. As a result of the political tension and its impact on the economy, demand fell in both Russia and Ukraine. In contrast, many smaller markets in Central Europe were able to record growth.

In North America, light trucks are allocated to the passenger car market.

Demand for light commercial vehicles in South America declined to 1.2 million units during the reporting year, which equates to a year-on-year decline of 7.8%. The difficult economic conditions in the region were one of the factors in this decline. In Brazil, as a result of higher demand for new SUVs which are classed as light commercial vehicles there, the 2013 figure was exceeded. Despite a rise in the registration of SUV models, there was a significant fall in demand for light commercial vehicles in Argentina, attributable to the tax increase on higher-value vehicles at the start of the year.

In the Asia-Pacific region, the sales volume in 2014, at 6.8 million vehicles, was just slightly lower than in the previous year (–1.6%). The Chinese market, which dominates the region, recorded considerably more registrations than in 2013. Overall, 4.3 (previous year: 4.1) million units were sold in China. In India, sales were down compared with the prior year as a result of high interest rates, which weighed on the economy. In Japan, sales made in anticipation of the value added tax increase with effect from April 1, 2014 boosted demand temporarily, but sales were then weaker than expected over the remainder of the year. For the year as a whole, the Japanese market was down on the previous year.

In the ASEAN region, demand for light commercial vehicles differed strongly from one country to another. The expiry of state-backed buying incentives caused demand in Thailand to dip sharply. In contrast, some small markets were able to record significant growth.

In 2014 the demand for medium and heavy-duty commercial vehicles with a total weight of more than 6 tons did not match the previous year's level. With 2.4 million new registrations, 6.7% fewer vehicles were sold than in 2013. Meanwhile, demand on the truck markets relevant to the Volkswagen Group fell by 13.0%.

In the West European market, demand in the reporting year totaled 225 thousand, 9.1% down on the previous year. In 2013 vehicle sales benefited from purchases brought forward from 2014 into 2013 due to the introduction of the Euro-6 emission standard. In Germany, new registrations were slightly down on 2013.

The number of vehicle registrations in Central and Eastern Europe fell by 15.1% to 142 thousand units. In Russia, the biggest market in the region, sales were down on a year-on-year basis, falling by 21.3% to 81 thousand units. The main reasons for this decline were the weak oil price, ongoing currency weakness and the difficult finance conditions due to the tense political situation.

On the markets of North America, sales of medium and heavy-duty trucks (from 6.35 tons) totaled 470 thousand (previous year: 438 thousand) units. Positive momentum from the labor market and the construction and energy sector as well as an ongoing high level of replacement purchase needs in the heavy-duty segment generated higher demand on the US market in particular. New registrations in the US rose by 10.2% to 398 thousand units.

Demand in South America was weaker than in 2013, falling to 198 thousand (previous year: 235 thousand) units. The deterioration in the macroeconomic environment in Brazil, coupled with high inflation and signs of recession in Argentina, were the main reasons for this decline. Sales on the Brazilian market, at 134 thousand vehicles, were 10.5% lower year-on-year.

The volume of vehicle registrations in the Asia-Pacific region, at 469 thousand units excluding the Chinese market, was on a par with the previous year. In China, the world's largest truck market, demand in the reporting year totaled 783 thousand units, a 14.5% decline on the prior year. Besides slightly less dynamic economic growth, another factor responsible for this dip was the introduction of the most recent emission standard, which prompted buyers to purchase vehicles in 2013 that they might have purchased in 2014, thereby distorting the comparison to the reporting period. Overall, demand in India developed positively during 2014, with 195 thousand units being registered there in 2014, a 5.5% increase on 2013. An improved investment climate following the change of government in May 2014, the start of new infrastructure projects and replacement purchase needs in the heavy-duty segment all contributed to this trend.

Globally, and on the markets relevant to the Volkswagen Group, demand for buses was down on the previous year. Similarly, fewer buses were required in Western Europe compared with demand in 2013. One reason for this fall was the introduction of the Euro-6 emission standard, causing some sales that would otherwise have been made in 2014 to be brought forward to 2013 in anticipation of the change.

### WORLDWIDE DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP*

| | VEHICLE DELIVERIES | | |
|---|---|---|---|
| | 2014 | 2013 | Change in % |
| **Worldwide** | **10,137,387** | **9,730,587** | **+4.2** |
| Volkswagen Passenger Cars | 6,118,617 | 6,021,750 | +1.6 |
| Audi | 1,741,129 | 1,575,480 | +10.5 |
| ŠKODA | 1,037,226 | 920,750 | +12.7 |
| SEAT | 390,505 | 355,004 | +10.0 |
| Bentley | 11,020 | 10,120 | +8.9 |
| Lamborghini | 2,530 | 2,121 | +19.3 |
| Porsche | 189,849 | 162,145 | +17.1 |
| Volkswagen Commercial Vehicles | 446,596 | 462,373 | −3.4 |
| Scania | 79,782 | 80,464 | −0.8 |
| Bugatti | 45 | 47 | −4.3 |
| MAN | 120,088 | 140,333 | −14.4 |

* Deliveries for 2013 have been updated to reflect subsequent statistical trends. Including the Chinese joint ventures. The Saveiro model has been presented as a passenger car retroactively as of January 1, 2013.

### OVERALL ASSESSMENT OF THE COURSE OF BUSINESS AND THE POSITION OF THE GROUP

In the view of the Board of Management of Volkswagen Financial Services AG, the business performed well in 2014. Operating profit developed better than forecast and was higher than in 2013. Globally, new business trends were positive during the year. The increase in funding costs was disproportionately low compared with the increase in business volume thanks to favorable interest rates, among other factors. Provisions for risks arising from lending and leasing business were down year-on-year, while margins remained stable.

In October 2014 the Volkswagen Financial Services AG Group successfully completed the European Central Bank's Comprehensive Assessment and Stress Test. This means that since November 4, 2014, Volkswagen Financial Services AG, as one of the most important financial groups in the eurozone, has been under the direct supervision of the European Central Bank.

In the 2014 fiscal year Volkswagen Financial Services AG boosted its business volume year-on-year as a result of its acquisition of MAN Finance International GmbH, Munich, the first-time consolidations of the companies in India, South Korea and Russia, and through growth, particularly in Europe, Mexico and China.

Furthermore, Volkswagen Financial Services AG continued with its measures to enhance the leveraging of potential along the automotive value chain. Among other things, the integration of our financial services into the sales activities of the Volkswagen Group brands, which we have already expanded significantly in recent years, was intensified even further. A key factor in this success was the GO40 growth program, which was launched in 2011 in conjunction with the vehicle brands and has been enhanced since then. Increased penetration rates are intended to boost customer loyalty and strengthen the dealer network through the creation of additional sources of income. In particular, integrating service and maintenance packages further increased the contribution that customers make to raising the enterprise value of the Volkswagen Group. An initiative for customers and dealers was launched with the Audi brand during the reporting year designed to further expand financial services in the second-hand car segment.

Compared with the previous year, the number of financed or leased vehicles as a proportion of total global deliveries by the Group (penetration) rose once again and reached 28.0% (previous year: 25.8%) by the 2014 year-end. The positive development in penetration on the Chinese market was a main factor in this increase.

The credit risk situation stabilized overall during the reporting year. Slight signs of recovery were observed in the markets hit by the euro crisis in southern Europe in particular. The positive credit risk development continued on the German and UK markets. Following currency fluctuations in some emerging markets and the onset of gloomier economic prospects in Europe, the recovery lost speed.

The trend in vehicle residual values from leasing contacts was solid in 2014. This was attributable to the recovery of the motor vehicle market in Europe. Additionally, the marketing activities that had been stepped up in earlier years had a stabilizing effect on residual value risks and on the marketing results.

With effect from January 1, 2014 Volkswagen Financial Services AG acquired MAN Finance International GmbH, thereby extending its financial services business to include the leasing, finance and rental activities of the MAN brand. This move is aimed at strengthening the company's financial services activities and thus promoting the sales targets in the MAN Truck & Bus business. Volkswagen Versicherungsvermittlung GmbH, Braunschweig also acquired Munich-based MAN Versicherungsvermittlung GmbH as of January 1, 2014. The systematic consolidation of the industrial insurance brokerage business at Volkswagen Financial Services AG adds to the further optimization of the service range and terms for intragroup customers.

In February 2014 Volkswagen Capital Advisory Sdn. Bhd., Kuala Lumpur was founded as a wholly owned subsidiary of Volkswagen Financial Services AG in Malaysia. Operations were launched in early September 2014 and encompass the arrangement of finance and insurance services.

With effect from March 1, 2014 Volkswagen Financial Services South Africa (Pty) Ltd., Sandton began operating nationwide across its full range of activities. Its product portfolio includes customer and dealer finance and the arrangement of insurance products. Volkswagen Financial Services AG holds a 51% interest in the newly founded business, while the joint venture partner, WesInvest Holdings Proprietary Limited, owns a 49% interest. Volkswagen Financial Services AG is continuing its international growth in a key sales market for the Volkswagen Group and promoting sales of the Group brands through attractive offers and services.

In May 2014, Porsche Bank AG, Salzburg and Volkswagen Financial Services AG signed a joint venture agreement on the creation of a sales finance company in Santiago de Chile. The joint venture company, known as Porsche Volkswagen Servicios Financieros Chile Spa., Santiago, was then established in June 2014 and began pilot operations at the end of the year.

In the Netherlands, Volkswagen Leasing B.V., Amersfoort, acquired the leasing portfolio of Lease Unlimited B.V., Deventer, as of July 1, 2014 and the leasing portfolio of Avenu Autolease B.V., Almere, as of October 1, 2014. These acquisitions support the successful growth strategy of Volkswagen Leasing B.V. in operational leasing. Volkswagen Leasing B.V. is a subsidiary of Volkswagen Pon Financial Services B.V., Amersfoort, a joint venture in which Volkswagen Financial Services AG owns a 60% interest and Pon Holdings B.V. the other 40%.

In Turkey, Volkswagen Doğuş Finansman A.Ş., Kağıthane-Istanbul, acquired Scania Finansman A.Ş., Istanbul as of September 30, 2014. The company was merged into Volkswagen Doğuş Finansman A.Ş. with effect as of December 4, 2014. Scania Finansman A.Ş. offers Scania-branded finance solutions for small and medium-sized enterprises and international fleet customers. The entry into truck financing in Turkey is targeted to expand the local captive finance activities.

As of November 7, 2014, Volkswagen Financial Services AG entered into an agreement on the planned, staggered acquisition of the remaining 50% interest in Collect Car B.V., Rotterdam, which operates carsharing under the brand Greenwheels in the Netherlands and in Germany. Following completion in the first quarter of

2015, 100% of the shares will be held by Kever Beheer B.V., Almere, in which Volkswagen Financial Services AG owns a 60% interest and Pon Holdings B.V. the other 40%.

With a view to strengthening after-sales activities in the Truck & Bus business area, the business with maintenance and parts contracts that is carried out under the MAN brand was acquired from companies in the PON Group as of December 31, 2014.

**DEVELOPMENT OF KEY CONTROL VARIABLES FOR FISCAL YEAR 2014 COMPARED WITH THE PRIOR-YEAR FORECAST**

| | Actual 2013 | Forecast for 2014 | | Actual 2014 |
|---|---|---|---|---|
| **Non-financial key performance indicators** | | | | |
| Penetration in % | 25.8 | > 25.8 | slightly rising | 28.0 |
| Number of current contracts, in thousands of units | 8,848 | > 8,848 | constant increase | 10,249 |
| Number of new contracts, in thousands of units | 3,518 | > 3,518 | constant increase | 4,137 |
| **Financial key performance indicators** | | | | |
| Volume of business, in € million | 76,209 | > 76,209 | significant increase | 89,374 |
| Deposit volume, in € million | 24,286 | > 24,286 | slight increase | 26,224 |
| Operating result in € million | 1,214 | < 1,214 | slightly lower or at prior-year level | 1,293 |
| Return on equity, in % | 14.9 | < 14.9 | significantly lower | 12.7 |
| Cost/income ratio in % | 58 | ≥ 58 | or slightly above the prior-year level | 60 |

## RESULTS OF OPERATIONS

The global economy witnessed only moderate growth in the 2014 fiscal year. Nevertheless, Volkswagen Financial Services AG performed well.

Its operating profit rose significantly by 6.5% to €1,293 million (previous year: €1,214 million). Larger volumes at stable margins from the lending and leasing business had a particularly positive effect, as did lower risk costs.

The profit before tax of €1,317 million (previous year: €1,315 million) was on a par with the previous year's level.

As equity was higher, the return on equity therefore fell to 12.7% (previous year: 14.9%).

At €3,466 million, the net income from lending, leasing and insurance transactions before risk provisions substantially surpassed the previous year's result (€3,261 million) due to the positive manner in which business developed across almost all regions.

At €469 million, risk costs were down on the previous year (€615 million). Default risks arising for the Volkswagen Financial Services AG Group as a result of the crisis situation in a number of eurozone countries and in Russia were accounted for by recognizing allowances for doubtful accounts, which increased by €80 million year-on-year to €428 million.

Net commission income was slightly down on the previous year.

At €1,893 million, general administration expenses were higher year-on-year. Volume effects arising from the expansion of business as well as the implementation of strategic projects and compliance with stricter regulatory requirements are the main drivers in this regard. At 60%, the cost/income ratio was worse than in the previous year (previous year: 58%). A total of €298 million was allocated to provisions for legal risks.

At €34 million, the net income from equity investments accounted for using the equity method was down €43 million year-on-year. The decline is primarily due to an intragroup restructuring of the 50% equity investment by Volkswagen Bank GmbH in Global Mobility Holding B.V., Amsterdam, which holds 100% of LeasePlan Corporation N.V. and was sold to Volkswagen AG in January 2013. The sale generated a non-recurring gain of €32 million in 2013.

Taking into account the result from the measurement of derivative financial instruments and hedged items in the amount of €–12 million (previous year: €8 million) and the remaining components of profit and loss, the profit after tax of the Volkswagen Financial Services AG Group was €897 million (–4.8%).

The profit earned by Volkswagen Financial Services AG in the amount of €147 million based on its single-entity financial statements under the German Commercial Code was transferred to Volkswagen AG, the company's sole shareholder, under the existing control and profit transfer agreement.

Accounting for approximately 45.6% of the contract portfolio, the German companies once again generated the highest business volume, thus providing a solid and strong basis. They generated a profit before tax of €568 million (previous year: €644 million).

Volkswagen Bank GmbH successfully maintained its strong market position in 2014, supported by an attractive product range and the loyalty of customers and dealers alike. This enabled Volkswagen Bank GmbH to once again make a substantial contribution to the success of Volkswagen Financial Services AG.

In 2014 Volkswagen Leasing GmbH again managed to increase the number of leasing contracts year-on-year despite the intensely competitive market environment, thus also making a key contribution to the Group's profit.

In terms of motor vehicle insurance business, 2014 was dominated by the establishment on the market of Volkswagen Autoversicherung AG products. Volkswagen-Versicherungsdienst GmbH acts as an insurance broker primarily for this new company. The effects of the diminishing policy portfolio from the original partnership with Allianz Versicherungs AG and the resulting small reduction in the portfolio during the previous year were offset by the faster pace of growth in policies now emanating from this new cooperation arrangement. Overall, the portfolio grew by 4%. The product line of purchase price protection insurance continued to develop very positively in 2014, with the number of policies increasing by 68% compared with the previous year.

Volkswagen Versicherung AG successfully concluded the financial year with a portfolio of 794 thousand warranty insurance contracts in the German, French, Spanish, Italian, Polish, Czech and Swedish markets.

The portfolio of active reinsurance mainly encompasses the German credit protection insurance business generated by Volkswagen Bank GmbH.

## NET ASSETS AND FINANCIAL POSITION

### Lending business

Receivables from customers plus leasing and rental assets – which represent the core business of the Volkswagen Financial Services AG Group – amounted to €96.6 billion, and thus accounted for approximately 90% of consolidated total assets.

The loan volume from retail financing increased by €7.4 billion or 18.3% to €47.7 billion in the year just ended. The number of new contracts, at 1,733 thousand (+7.5% compared with 2013), was up on the previous year. This meant that the number of current contracts rose to 4,525 thousand by the end of the year (+14.5%). With a volume of 2,109 thousand contracts (+3.0%), Volkswagen Bank GmbH remained the largest individual company.

The loan volume in the wholesale financing business – which consists of receivables from Group dealers in connection with the financing of vehicles in stock plus equipment and investment loans – rose to €12.6 billion (+13.9%).

Receivables from leasing transactions amounted to €18.3 billion, which represents a substantial year-on-year increase (+12.4%). Leasing and rental assets also saw significant growth of €2.2 billion, rising to €10.8 billion (+26.0%).

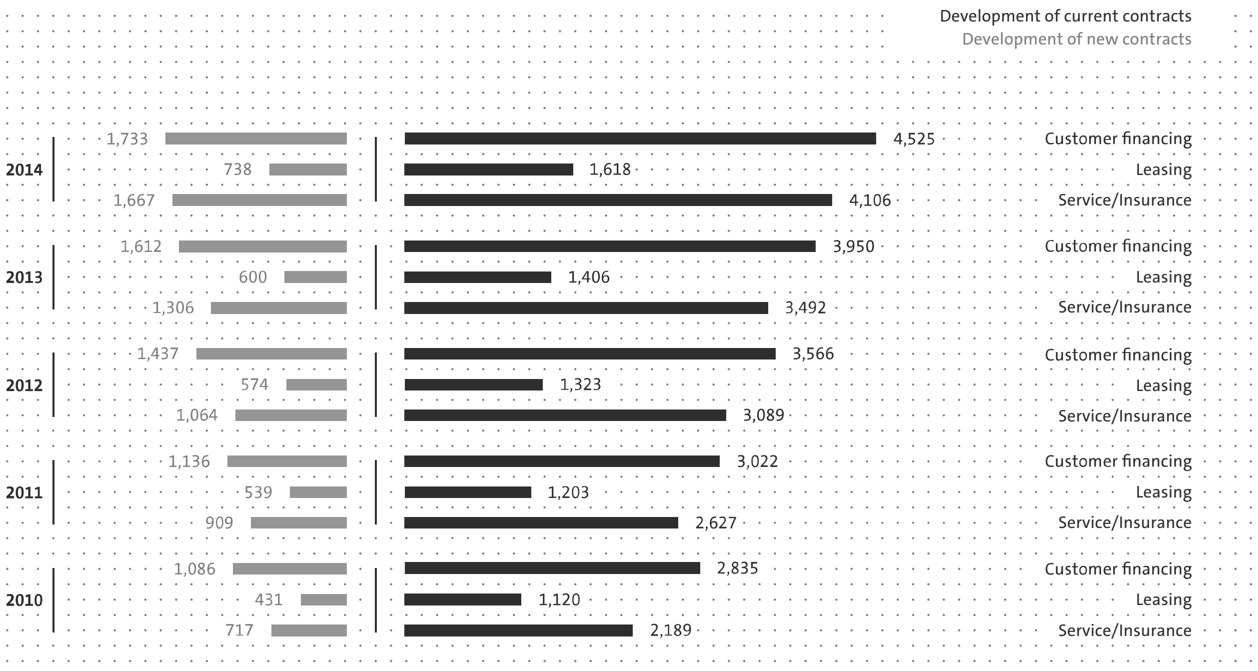
At 738 thousand, the number of new leasing contracts in the reporting year was considerably up on the previous year's level (+22.9%). As of December 31, 2014 there were 1,618 thousand leased vehicles in stock, which is an increase of 15.1% compared with the previous year. As in previous years, Volkswagen Leasing GmbH once again made the largest contribution, with a current contract portfolio consisting of 1,110 thousand (+9.5%) leased vehicles.

KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2014[1]

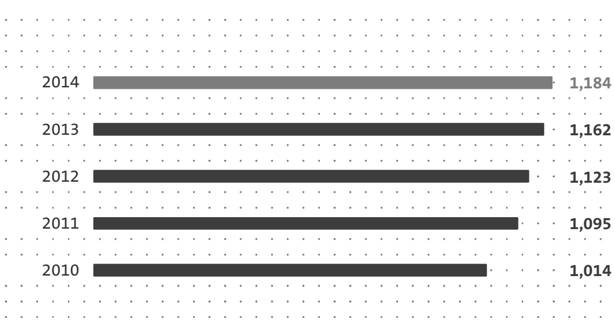
| in thousands | VW FS AG | Germany | Europe | Asia Pacific | Latin America | MAN FS |
|---|---|---|---|---|---|---|
| **Current contracts** | **10,249** | **4,675** | **3,206** | **1,073** | **1,207** | **87** |
| Retail financing | 4,525 | 1,552 | 1,261 | 830 | 876 | 6 |
| Leasing business | 1,618 | 1,051 | 415 | 23 | 61 | 67 |
| Service/insurance | 4,106 | 2,072 | 1,530 | 220 | 270 | 14 |
| **New contracts** | **4,137** | **1,750** | **1,413** | **591** | **356** | **28** |
| Retail financing | 1,733 | 506 | 533 | 511 | 181 | 2 |
| Leasing business | 738 | 497 | 180 | 13 | 27 | 20 |
| Service/insurance | 1,667 | 746 | 701 | 66 | 149 | 6 |
| | | | | | | |
| in € million | | | | | | |
| Receivables from customers arising from | | | | | | |
| Retail financing | 47,663 | 17,498 | 14,684 | 8,248 | 6,957 | 275 |
| Wholesale financing[2] | 12,625 | 4,057 | 5,389 | 1,484 | 1,286 | 42 |
| Leasing business | 18,320 | 12,375 | 3,838 | 220 | 497 | 1,390 |
| Leasing and rental assets | 10,766 | 7,071 | 2,910 | 643 | 6 | 135 |
| Investments[3] | 4,558 | 2,705 | 1,436 | 398 | 5 | 14 |
| Operating result[2] | 1,293 | 562 | 437 | 153 | 348 | 8 |
| | | | | | | |
| in % | | | | | | |
| Penetration | 28.0 | 59.4 | 33.6 | 13.1 | 39.4 | 40.6 |

1 The individual figures are rounded, which may result in small deviations when they are added.
2 Financing companies are included in the VW FS AG column.
3 Corresponds to the additions to noncurrent leasing and rental assets.

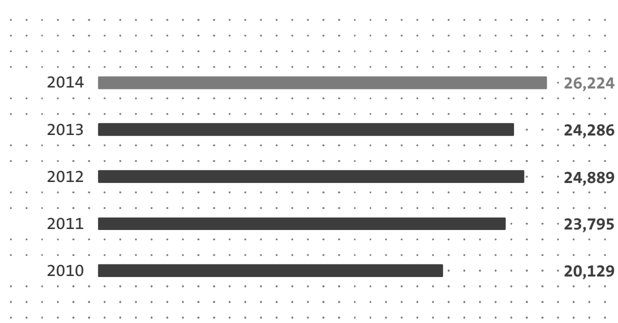
**DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31**
*In thousand contracts*




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




**CUSTOMER DEPOSITS AS OF DECEMBER 31**
*in € million*




Compared with the previous year, the total assets of the Volkswagen Financial Services AG Group rose to €107.2 billion (+17.8%). This increase is mainly attributable to the rise in receivables from customers (+17.3%) as well as leasing and rental assets (+26.0%) and reflects the business growth over the past fiscal year. As of year-end, the portfolio contained 4,106 thousand service and insurance contracts (previous year: 3,492 thousand). The new business volume of 1,667 thousand contracts (previous year: 1,306 thousand) is 27.6% higher than in the prior year.

### Deposit business and borrowings

With regard to the capital structure, the significant items in liabilities and equity include liabilities to banks in the amount of €13.1 billion (+18.0%), liabilities to customers in the amount of €38.7 billion (+14.9%) and securitized liabilities in the amount of €37.2 billion (+18.2%). Details concerning the company's refinancing and hedging strategy are provided in a separate section of this management report.

The deposit business, which is reported as part of the liabilities to customers and is primarily attributable to Volkswagen Bank GmbH, was up year-on-year by 8.0% to €26.2 billion. Based on its level of deposits, Volkswagen Bank GmbH continues to be one of the largest direct banks in Germany. As of December 31, 2014 the bank had 1,184 thousand direct banking customers (+1.9%).

### Subordinated capital

The subordinated capital amounted to €2.2 billion, which was just above the previous year's figure (+3.3%).

### Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at €441 million in the 2014 financial year. IFRS-based equity was €11.9 billion (previous year: €8.9 billion). This yields an equity ratio (equity divided by total assets) of 11.1% relative to the total assets of €107.2 billion.

### Capital adequacy according to regulatory requirements and Basel III

International capital adequacy regulations require a minimum Tier 1 capital ratio of 6.0% and a total capital ratio of at least 8.0% (without transitional provisions). The requirements defined under the "Basel III" framework comprise three pillars: minimum capital requirements (Pillar I), a supervisory review process to ensure that banks have adequate capital to support all the risks in their business (Pillar II), as well as disclosure requirements (Pillar III). Both Volkswagen Bank GmbH and the financial holding group of Volkswagen Financial Services AG have applied the provisions of the Capital Requirements Regulation (CRR) since 2014. When doing so, Volkswagen Bank GmbH and the financial holding group use the so-called standardized approach to determine capital adequacy in connection with credit risks and operational risks.

The risk-weighted position of the financial holding group in accordance with the credit risk standardized approach (CRSA) stood at €86.4 billion as of the end of 2014, an increase compared with the previous year's figure of €74.0 billion. The main factor responsible for the increase is the rise in business volume.

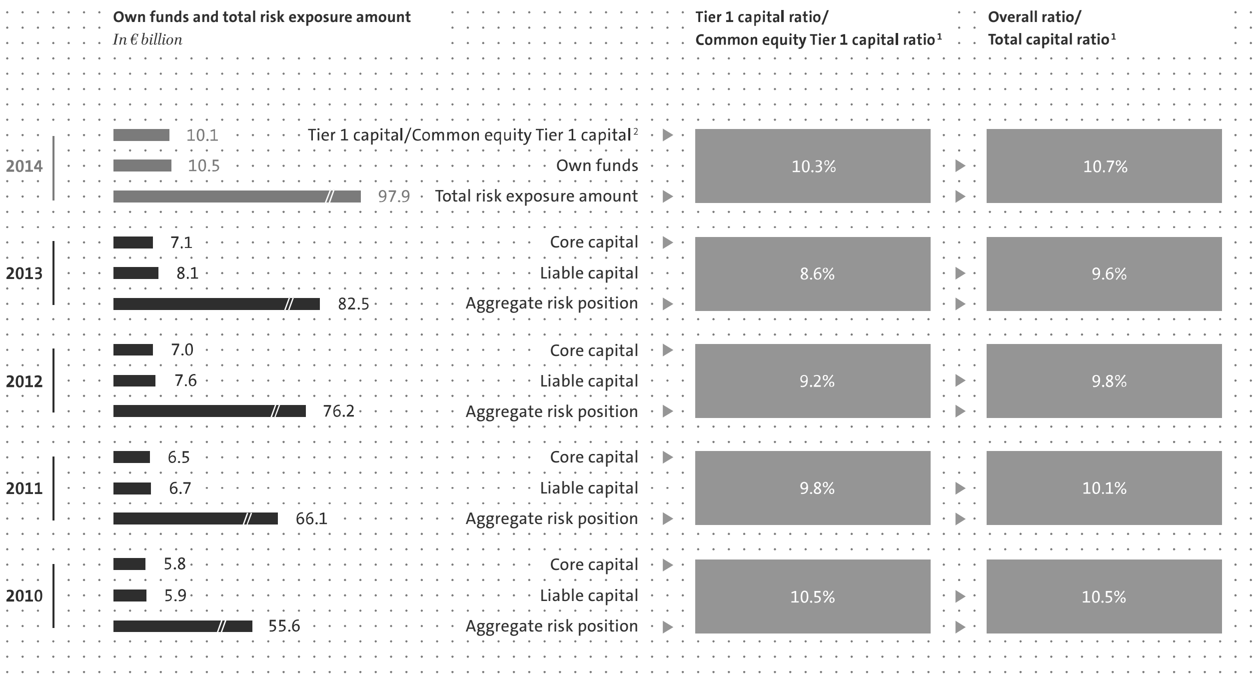
The following chart contains details regarding the composition of own funds and their changes compared with 2013 as well as the total risk exposure amount:

**OWN FUNDS AND TOTAL RISK EXPOSURE AMOUNT**

| | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Total risk exposure amount (€ million) | 97,931 | 82,549 |
| of which risk-weighted position according to the standardized approach to credit risks | 86,416 | 73,987 |
| of which market risk positions * 12.5 | 4,725 | 3,599 |
| of which operational risks * 12.5 | 6,381 | 4,963 |
| of which risk positions for the credit valuation adjustment (CVA) * 12.5 | 409 | 0 |
| Eligible capital (€ million)[1] | 10,484 | 8,083 |
| Own funds (€ million) | 10,484 | 7,961 |
| of which Common Equity Tier 1 capital | 10,122 | 7,135 |
| of which Additional Tier 1 capital | 0 | 0 |
| of which Tier 2 capital | 362 | 826 |
| Common Equity Tier 1 capital ratio (%)[2] | 10.3 | – |
| Tier 1 capital ratio (%)[2] | 10.3 | 8.6 |
| Total capital ratio (%)[2] | 10.7 | 9.6 |

1 In 2013 liable capital is reported in this item.
2 The calculation of the regulatory capital ratios has been made for 2010 to 2013 in accordance with the Solvency Regulation. These capital ratios are calculated pursuant to Article 92 Capital Requirements Regulation (CRR) from January 1, 2014. According to the designation in the CRR, the Common Equity Tier 1 capital ratio was also included and the designation of the overall ratio was changed in total capital ratio.

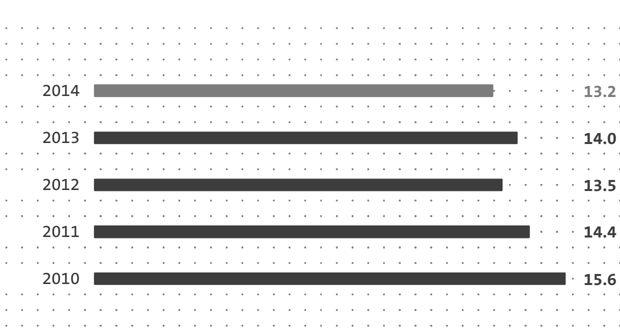
**REGULATORY RATIOS OF THE FINANCIAL HOLDING GROUP AS OF DECEMBER 31**



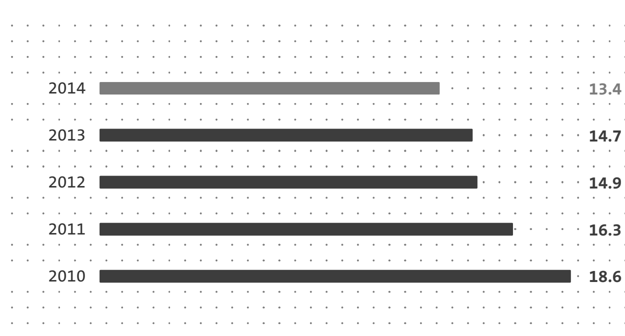

1 From 2010 to 2013 the calculation was made based on the German Solvency Regulation and from January 1, 2014 in accordance with the CRR.
2 The amount of the core capital equals the amount of the hard core capital because the financial holding company has not issued any additional core-capital instruments.

Given the significance of Volkswagen Bank GmbH, the charts below show the development of both the Tier 1 capital ratio/Common Equity Tier 1 capital ratio and the overall ratio/total capital ratio of Volkswagen Bank GmbH:

**TIER 1 CAPITAL RATIO/COMMON EQUITY TIER 1 CAPITAL RATIO UNDER CRR/SOLVV***
*Figures in %*




**OVERALL RATIO/TOTAL CAPITAL RATIO UNDER CRR/SOLVV***
*Figures in %*




* From 2010 to 2013 the calculation was made based on the German Solvency Regulation and from January 1, 2014 in accordance with the CRR.

Even with a rapidly increasing business volume and geographic expansion, the financial holding group of Volkswagen Financial Services AG is in a position to secure adequate capital resources for itself at short notice and in a cost-optimized manner. This is mainly achieved in the form of payments into its reserves by Volkswagen AG. In addition, asset-back-securities (ABS) transactions are utilized to optimize equity management. As a result, the companies belonging to the Volkswagen Financial Services AG financial holding group have a sound basis for the further expansion of their financial services business.

In response to the financial crisis, the Basel Committee has published a new set of rules on the regulation of banks. Besides stricter capital adequacy requirements and a maximum leverage ratio, this comprehensive package of reforms, known as Basel III, for the first time contains specific quantitative requirements with regard to liquidity risks as a means of enhancing the resilience of the banking sector.

The legal basis for implementing Basel III is provided by EU Regulation No. 575/2013 (CRR) and EU Directive No. 2013/36.

### Changes in off-balance-sheet commitments

Off-balance-sheet commitments increased by a total of €830 million year-on-year to €4,490 million as of December 31, 2014. The increase is mainly attributable to higher irrevocable credit acceptances, which rose by €669 million to €4,036 million.

### Liquidity analysis

The refinancing of the companies belonging to Volkswagen Financial Services AG Group is mainly executed using capital market and ABS programs as well as through the direct bank deposits of Volkswagen Bank GmbH. Volkswagen Bank GmbH has liquid reserves in the form of securities deposited in the collateral deposit account with Deutsche Bundesbank. Active management of the collateral deposit account, which enables Volkswagen Bank GmbH to avail itself of the refinancing facilities, has proven to be an efficient liquidity reserve. In addition to bonds issued by various countries in the amount of €1.3 billion, senior ABS commercial paper and notes issued by special purpose entities of Volkswagen Leasing GmbH and Volkswagen Bank GmbH in the amount of €4.2 billion have been deposited as security in the collateral deposit account. In addition, the company has access to a small number of standby lines of credit at other banks to protect it from unexpected fluctuations in cash flow. As a rule, standby credit lines are not planned to be utilized; they serve solely to secure liquidity.

To ensure adequate liquidity management, Treasury prepares four different cash flow development statements, performs cash flow forecasts and determines the period for which cash will suffice. On this basis it then initiates any required measures to take. Liquidity, together with a simulated, limited refinancing arrangement and a partial withdrawal of the overnight deposits, was adequate during the reporting period for at least 26 weeks.

Compliance with the liquidity ratio prescribed by the Liquiditätsverordnung (German Liquidity Regulation – LiqV) is a stricter prerequisite for managing the liquidity of Volkswagen Bank GmbH. This ratio ranged between 1.55 and 2.84 from January to December of the reporting year and was thus always substantially higher than the regulatory floor of 1.0. Treasury continually monitors this liquidity ratio and actively manages it by imposing a floor for internal management purposes. Following the introduction of the new liquidity coverage ratio (LCR) for Volkswagen Bank GmbH and the companies of the regulatory group of consolidated companies of Volkswagen Financial Services AG, liquidity management in 2015 will be based on this ratio.

The ability of Volkswagen Bank GmbH and Volkswagen Leasing GmbH in accordance with the Mindestanforderungen an das Risikomanagement (German Minimum Requirements for Risk Management – MaRisk) to bridge any liquidity need over a time horizon of seven and 30 days with a highly liquid cushion and the corresponding liquidity reserve was ensured at all times, including under various stress scenarios. Compliance with this requirement is determined and continually reviewed in the course of liquidity risk management. To this end, cash flows are forecast for the next twelve months and compared against the refinancing potential in the relevant maturity band. The resulting utilization of the refinancing potential through liquidity requirements did not exceed 18% at any time in the normal case or 63% during the stress tests that Volkswagen Bank GmbH is required to perform in accordance with MaRisk.

## REFINANCING

### Strategic principles

In terms of its refinancing activities, Volkswagen Financial Services AG generally follows a strategy aimed at diversification, conceived as the best possible weighing of cost and risk factors. This entails developing a diverse range of funding sources in the various regions and countries with the aim of ensuring sustained refinancing at optimum terms. Investors' substantial interest in the bonds and securitization transactions demonstrates the confidence market participants have in the performance of Volkswagen Financial Services AG and its subsidiaries, as well as in the Volkswagen Group as a whole.

### Implementation

In spite of the volatility on the markets, the refinancing situation in the past fiscal year was stable and all instruments could be used at the best possible terms. Furthermore, both the secured and unsecured capital market activities were successfully rolled out internationally, enabling new markets to be developed.

Shortly after the beginning of the year, Volkswagen Leasing GmbH placed a public bond of €1.25 billion, which enjoyed keen interest from investors given its ten-year term. A further public transaction followed in April 2014 in the form of a dual-tranche bond comprising two fixed-interest tranches with terms of 3.5 and 8 years. The volume of each tranche was €750 million.

Volkswagen Bank GmbH was also able to successfully cover its liquidity requirements on the euro capital market. A fixed-interest, five-year public bond of €750 million was placed in February 2014. This was followed later in the year by two variable-interest bonds of €600 million and €500 million, each with a term of two years. Eight further bonds were placed during the fiscal year with a total volume of €775 million.

The strong growth enjoyed by the UK subsidiary was principally funded on the local capital market through the issuance of bonds denominated in pounds sterling. Volkswagen Financial Services N.V., Amsterdam placed four bonds with a total volume of GBP 950 million for this purpose in 2014.

In addition to these large-volume issues in key currencies, the Volkswagen Financial Services AG companies were also active in various local capital markets and currencies.

In 2014 they made use of the local capital markets in South Korea and Russia for the first time. Volkswagen Financial Services Korea Co., Ltd., Seoul, issued a bond for the first time in July 2014. This had a volume of KRW 100 billion and a term of three years. A second three-year bond with a volume of KRW 150 billion followed in November 2014.

In Russia, the Moscow-based OOO Volkswagen Bank RUS placed its first bond, with a volume of RUB 5 billion and a term of five years, in June 2014. Due to special characteristics of the Russian capital market, this bond has a repayment option after two years. Despite the difficult market environment, two further bonds with a volume of RUB 5 billion in each case were issued with the same conditions in October.

Capital market access in Mexico has been in place for several years now. During the reporting year Volkswagen Leasing S.A. de C.V., Puebla, issued two bonds there. An issue worth MXN 2 billion with a two-year term was carried out in April 2014, followed by a MXN 2.5 billion issue with a four-year term in October. Volkswagen Bank S.A., Puebla, also made use of the local capital market to procure liquidity, issuing a bond with a four-year team and a volume of MXN 1 billion in December 2014.

In Brazil, a “Letra Financeira” issue, placed by Banco Volkswagen S.A., São Paulo, with a volume of BRL 500 million, was successfully carried out in June 2014.

Volkswagen Financial Services Japan Ltd., Tokyo issued a total of nine bonds with a total volume of JPY 31 billion in 2014.

The local company in Australia used its access to the local capital market to issue two bonds with a total volume of AUD 400 million. A total of six bonds, amounting to INR 8 billion, were issued by our Indian financing company during the period under review.

The 2014 financial year was also a good success in the area of asset-backed securities. For instance, Driver China one, which securitized auto loans for the first time in China, was placed with investors. This transaction was issued from the portfolio of Volkswagen Finance China Co., Ltd. and had a volume of RMB 800 million. It formed part of the ABS pilot program which, subject to supervision by the China Banking Regulatory Commission (CBRC) and the People’s Bank of China (PBoC), granted access to the local ABS market for the first time to wholly owned foreign automotive banks.

In the United Kingdom, Driver UK two represented the largest ABS transaction ever issued in pounds sterling. With a volume of GBP 1.18 billion, it was twice as big as the previous record holder.

Volkswagen financial service providers were active in Japan, too, launching what is in the meantime the third ABS transaction from the successful Driver Japan program. Driver Japan three had a total volume of JPY 32 billion and was placed with investors at the lowest risk premium of this series to date.

German receivables were also securitized. For instance, Volkswagen Bank GmbH was active on the market with its Driver twelve issue. This transaction had a volume of €1.35 billion, making it the largest European ABS transaction in the automotive sector since the financial crisis. Receivables with a total volume of €1.82 billion were placed from the Volkswagen Leasing GmbH portfolio; this took place through the Volkswagen Car Lease 19 (VCL 19) transaction in January 2014 and the Volkswagen Car Lease 20 (VCL 20) transaction in September 2014.

Overall, receivables totaling €5.0 billion were securitized on the global capital markets via ABS transactions during 2014.

Customer deposits amounted to €26.2 billion as of December 31, 2014 (+8.0%).

The company borrowed at corresponding maturities and used derivatives in line with its strategy of refinancing largely at matching maturities. Raising funds in local currencies complied with the approach of refinancing at matching currencies; currency risks were hedged through the use of derivatives.

During the reporting year the Investor Relations team briefed investors and analysts on the development of business and the refinancing strategy at national and international investor meetings and conferences as well as in individual discussions. Current information and presentations were promptly published on the Investor Relations website at www.vwfs.com/ir.

# *Volkswagen Financial Services AG*

(Condensed, according to the German Commercial Code)

## DEVELOPMENT OF BUSINESS IN 2014

In the 2014 financial year our profit from ordinary business activities was €339 million.

Other operating income totaled €639 million (previous year: €712 million), with other operating expenses amounting to €624 million (previous year: €688million). These items include income from costs charged to Group companies and expenses from the cost transfer of personnel and administrative expenses. Net investment income fell by €523 million to €536 million (previous year: €1,059 million). Only three domestic companies did not transfer profits. The result from ordinary business activities recorded by Volkswagen Bank GmbH dropped by €564 million compared with the previous year to €469 million. This year-on-year decrease was caused because the 2013 figure had been significantly boosted by the sale of an equity investment. A dividend from a foreign investee amounting to €7 million is also included in this figure. The remaining profit after tax of €147 million will be transferred to Volkswagen AG pursuant to the existing control and profit transfer agreement. The intangible assets reported under fixed assets totaling €6 million declined by 21.5%, while property, plant and equipment increased by 71.1% to €40 million. Financial assets were down by 13.8% to €8,976 million. The change resulted from capital payments to affiliated companies and investees and from the acquisition of MAN Finance International GmbH for €1,024 million, from write-ups of €22 million, from write-downs totaling €9 million and from the decline of €2,472 million in loans to affiliated companies. Receivables from affiliated companies rose by €1,243 million (91.6%), mainly as a result of time deposits and loans. Receivables from other investees or investors fell by €41 million (4.8%) due to the repayment of time deposits and loans. The increase of €82 million (25%) in provisions is primarily due to personnel expenses and IT costs, accounting for €64 million and €9 million, respectively. Bonds decreased year-on-year by €3,000 million, or 90.9%, to now €300 million. Liabilities to affiliated companies rose by €379 million (10.7%), largely due to the assumption of loans. €2,255 million was paid into the capital reserves by Volkswagen AG. The equity ratio is 60.3% (previous year: 41.4%). Total assets in the reporting year amounted to €12,458 million.

## NUMBER OF EMPLOYEES

Volkswagen Financial Services AG had a total of 5,586 employees as of December 31, 2014 (previous year: 5,125). The employee turnover in Germany of <1.0% was significantly below the industry average. Due to the structure of the German legal entities of the Volkswagen Financial Services AG, the employees of Volkswagen Financial Services AG also work for the subsidiaries. At the close of 2014, 2,600 (previous year: 2,198) employees were leased to Volkswagen Bank GmbH, and 1,194 (previous year: 789) worked for Volkswagen Leasing GmbH. In addition, 62 (previous year: 340) were leased to Volkswagen-Versicherungsdienst GmbH, 56 employees (previous year: 43) to Volkswagen Versicherungsvermittlung GmbH, 22 employees (previous year: 18) to Volkswagen Versicherung AG, 19 employees (previous year: 19) to Volkswagen Autoversicherung AG, and 2 employees (previous year: 2) to Volkswagen Financial Services Beteiligungsgesellschaft mbH. Volkswagen Financial Services AG employed 130 trainees as of December 31, 2014.

## MANAGEMENT AS WELL AS OPPORTUNITIES AND RISKS OF THE DEVELOPMENT OF BUSINESS OF VOLKSWAGEN FINANCIAL SERVICES AG

As a mainly pure holding company, Volkswagen Financial Services AG is integrated into the internal management concept of the Volkswagen Financial Services Group and is thus subject to the same control variables and the same opportunities and risks as the Volkswagen Financial Services Group. Here, the legal requirements governing the management of the legal entity Volkswagen Financial Services AG are taken into account using commercial law indicators such as net assets, net income and liquidity. We explain this internal management concept and these opportunities and risks in the section on the fundamental information about the Volkswagen Financial Services Group (pages 37 and 38) as well as in the report on opportunities and risks (pages 54 to 68) of this annual report.

## INCOME STATEMENT OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG FOR THE 2014 FISCAL YEAR

| € million | 2014 | 2013 |
|---|---|---|
| General administration expenses | –196 | –155 |
| Other operating income | 639 | 712 |
| Other operating expenses | –624 | –688 |
| Net income from equity investments | 536 | 1,059 |
| Financial result | –16 | –27 |
| **Result from ordinary business activities** | **339** | **901** |
| Taxes on income and earnings | –192 | –284 |
| Profits transferred under a profit transfer agreement | –147 | –617 |
| **Net income** | **–** | **–** |
| Profit brought forward | 2 | 2 |
| **Net retained profits** | **2** | **2** |

## BALANCE SHEET OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS OF DECEMBER 31, 2014

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Assets** | | |
| **A. Fixed assets** | | |
| I. Intangible assets | 6 | 8 |
| II. Property, plant and equipment | 40 | 23 |
| III. Financial assets | 8,976 | 10,410 |
| | **9,022** | **10,441** |
| **B. Current assets** | | |
| I. Accounts receivable and other assets | 3,426 | 2,240 |
| II. Cash on hand and bank balances | 1 | 1 |
| | **3,427** | **2,241** |
| **C. Prepaid expenses** | **9** | **3** |
| **Total assets** | **12,458** | **12,685** |
| | | |
| **Liabilities** | | |
| **A. Equity** | | |
| I. Subscribed capital | 441 | 441 |
| II. Capital reserve | 6,964 | 4,709 |
| III. Retained earnings | 100 | 100 |
| IV. Net retained profits | 2 | 2 |
| | **7,507** | **5,252** |
| **B. Provisions** | **410** | **328** |
| **C. Liabilities** | **4,541** | **7,105** |
| **D. Deferred income** | **–** | **–** |
| **Total equity and liabilities** | **12,458** | **12,685** |

# *Report on opportunities and risks*

Responsible risk-taking and targeted utilization of market opportunities ensure sustainable financial success at the Volkswagen Financial Services AG Group.

## RISKS AND OPPORTUNITIES

In this section we report on the risks and opportunities the company faces, summarized in various different categories. Unless explicitly mentioned, there were no significant changes to individual risks and opportunities in comparison with the previous year.

We use competition and environment analyses as well as market monitoring to identify not only the risks we face but also the opportunities we have that will provide a positive impact on the design of our products, their success in the market and our cost structure. Opportunities and risks which we expect to materialize are already taken into account in our medium-term planning and our forecast. In the following section we therefore report on both fundamental opportunities which could lead to a positive deviation in our forecast as well as on detailed risks in the risk reporting section.

### Macroeconomic risks and opportunities

Anticipating continued global economic growth in the majority of markets, the Board of Management of Volkswagen Financial Services AG expects slight growth in the number of vehicle deliveries to Volkswagen Group customers and thus a sustained increase in global market share. Volkswagen Financial Services AG supports this positive trend through financial services products designed to boost vehicle sales.

The overall probability of a global recession is estimated to be low. However, a decline in global economic growth or a phase of below-average growth rates cannot be ruled out. The macroeconomic environment may also create opportunities for Volkswagen Financial Services AG if the actual trend is better than forecast.

### Strategic opportunities

In addition to maintaining its international orientation by entering new markets, Volkswagen Financial Services AG sees further opportunities in the development of innovative products that are aligned with customers' changed mobility requirements. Growth segments such as new mobility and service products (long-term rental, car sharing) are being tapped and expanded systematically. Further opportunities could be generated by introducing established products in additional markets.

If the interest rate spreads between the long and short end of the interest curve increase in key currency regions, the outlook points to a boost in earnings.

### Opportunities arising from credit risks

An opportunity can arise from credit risk if the loss incurred from a lending transaction is lower than the previously calculated expected loss and the risk provision recognized based on this. Especially in some countries in which a conservative risk approach is followed due to an uncertain economic climate, there is a chance that the realized losses will be less than the expected losses if the economic situation stabilizes and borrower credit ratings improve as a result.

### Opportunities arising from residual value risks

When vehicles are disposed of, Volkswagen Financial Services AG may obtain a higher price than the calculated residual value if residual values are continually adjusted in line with current conditions and market values exceed expectations due to growing demand.

## MATERIAL CHARACTERISTICS OF THE INTERNAL CONTROL AND THE INTERNAL RISK MANAGEMENT SYSTEM RELEVANT FOR THE FINANCIAL REPORTING PROCESS

The internal control system (ICS) for the consolidated and annual financial statements of Volkswagen Financial Services AG is defined as the sum of all principles, methods and actions aimed at ensuring the effectiveness, economy and propriety of the company's accounting as well as ensuring compliance with applicable legal requirements. In terms of the accounting system, the internal risk management system (IRMS) concerns the risk of misstatements in the bookkeeping at the individual entity and Group level as well as in the external reporting system. The primary elements of the ICS/IRMS as they relate to the accounting process at Volkswagen Financial Services AG are described below:

- Given its function as the corporate body tasked with managing the company's business and in view of ensuring proper accounting, the Board of Management of Volkswagen Financial Services AG has established Accounting, Customer Service, Treasury, Risk Management and Controlling departments and has clearly delineated their respective spheres of responsibility and authority. Key interdisciplinary functions are managed by the Board of Management of Volkswagen Financial Services AG and by the Boards of Management of Volkswagen Bank GmbH and Volkswagen Leasing GmbH.
- group-wide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process. For instance, the accounting standards of the Volkswagen Financial Services AG Group – including International Financial Reporting Standards – govern the accounting policies applied by the domestic and foreign entities that are included in the consolidated financial statements of the Volkswagen Financial Services AG Group.
- The accounting standards of Volkswagen Financial Services AG also govern concrete formal requirements that the consolidated financial statements must fulfil. They not only determine which companies to include in consolidation, they also fix the components of the reporting packages that the Group companies must prepare in detail. Among other things, these formal requirements serve to ensure the mandatory use of a standardized and complete set of forms. For example, the accounting standards also contain specific requirements regarding the treatment and settlement of intragroup transactions and the reconciliation of accounts based thereon.
- Specific elements of control designed to ensure the propriety and reliability of Group accounting principles at the level of the Volkswagen Financial Services AG Group comprise analyses and possibly revisions of Group companies' single-entity financial statements, with due regard for the reports submitted by the auditors or the discussions held with them to this end.
- All of this is supplemented by a clear delineation of spheres of responsibility and a variety of controlling and monitoring mechanisms. The aim is to ensure that all transactions are accurately recognized, processed, evaluated and included in the company's financial accounting.
- These controlling and monitoring mechanisms are designed to be process-integrated and independent of processes. Hence, automated IT process controls in addition to manual process controls (such as the "four-eyes" principle) comprise material components of the process-integrated activities. These controls are supplemented by specific Group functions of the parent company, Volkswagen AG, for example Group Controlling.
- Internal Audit is a key component of the controlling and monitoring system of the Volkswagen Financial Services AG Group. Applying risk-based audit procedures, it regularly performs audits of processes relevant to accounting, both in Germany and abroad, and reports its findings directly to the Board of Management of Volkswagen Financial Services AG.

In sum, the existing internal controlling and monitoring system of the Volkswagen Financial Services AG Group is designed to ensure that the information on the financial position of Volkswagen Financial Services AG and the Volkswagen Financial Services AG Group as of the December 31, 2014 reporting date is proper and reliable. No material changes were made to the internal controlling and monitoring system of Volkswagen Financial Services AG after the reporting date.

### ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

Volkswagen Financial Services AG understands risk to entail a risk of loss or damage that arises when an anticipated future development takes a more negative course than planned.

Volkswagen Financial Services AG including its subsidiaries and investees (hereafter: "Volkswagen Financial Services AG") is faced with a multitude of risks typical for financial services in the pursuit of its primary business activities; the company responsibly assumes these risks in order to take advantage of the resulting market opportunities.

As the superordinate credit institution of the financial holding group, Volkswagen Financial Services AG has set up a group-wide risk management system for identifying, assessing, managing, monitoring and communicating risks. The risk management system encompasses a framework of risk principles, organizational structures and processes for risk measurement and monitoring that is tightly integrated in the activities of the individual divisions. This structure enables the company to identify at an early stage trends that could endanger its continued existence so that suitable countermeasures can be introduced. In the past fiscal year, no material changes were made to risk management methods.

The adequacy of the risk management system is ensured with appropriate procedures. On the one hand, the system is monitored on an ongoing basis by Group Risk Management & Methods and, on the other the individual elements of the system are regularly reviewed in a risk-oriented manner by the Internal Audit department of Volkswagen Financial Services AG and by external auditors during the audit of the annual financial statements.

Within Volkswagen Financial Services AG, the Chief Risk Officer (CRO) is responsible for risk management and credit analysis. In this capacity, the CRO reports regularly on the overall risk position of Volkswagen Financial Services AG to both the Supervisory Board and Board of Management of Volkswagen Financial Services AG.

Risk management at Volkswagen Financial Services AG is characterized by the fact that the company's ability to function permanently and independently of individual persons is ensured by a clear separation of functions and areas of activities in organizational and personnel terms between the holding company (Group Risk Management and Methods area) and the markets (local risk management). This separation was also fully implemented for the German market in 2014 in connection with a task analysis.

The role of Group Risk Management & Methods in the risk management organization is to set boundary conditions. This includes formulating risk management guidelines, developing and maintaining risk management-related methods and processes as well as defining and tracking international parameters for the procedures used around the globe, in particular models for performing credit checks, calculating risk types relevant to Volkswagen Financial Services AG and risk-bearing capacity as well as measuring collateral. Group Risk Management & Methods thus is responsible for the identification of potential risks, the analysis and quantification as well as the assessment of risks and the resulting determination of risk management measures. As a neutral and independent department, Group Risk Management & Methods reports directly to the Board of Management of Volkswagen Financial Services AG.

Local risk management ensures that the requirements of Group Risk Management & Methods are implemented and complied with in the relevant markets.

This includes assuming responsibility for the detailed design of models and procedures for risk measurement and control as well as carrying out local procedural and technical implementation. There is a direct reporting line from local risk management to Group Risk Management & Methods.

Taken together, ongoing risk monitoring, transparent and direct communication with the Board of Management and integrating newly acquired findings into operational risk management form the foundation for the best possible utilization of market potentials based on the deliberate and effective control of the total risk of Volkswagen Financial Services AG.

#### RISK STRATEGY AND RISK MANAGEMENT

The basic decisions relating to strategy and tools for risk management rest with the Boards of Management of Volkswagen Financial Services AG, Volkswagen Bank GmbH, Volkswagen Leasing GmbH and Volkswagen Versicherung AG.

As part of its overall responsibility, the Board of Management of Volkswagen Financial Services AG has implemented both a strategy process that conforms to the Mindestanforderungen an das Risikomanagement (German Minimum Requirements for Risk Management – MaRisk) as well as a business and risk strategy. The company's "WIR2018" business strategy sets out the fundamental views of the Board of Management of Volkswagen Financial Services AG on key matters of business policy. It contains the targets for every key business activity as well as the steps required to achieve these targets. The WIR2018 business strategy also serves as the starting point for the creation and systematic determination of the risk strategy.

The risk strategy is reviewed annually based on the risk inventory, the risk-bearing capacity and legal requirements, adjusted as necessary and discussed with the Supervisory Board of Volkswagen Financial Services AG. The risk strategy sets out the key risk management objectives and measures for each type of risk, taking into account the company's approach to business (business strategy) and its risk tolerance. The achievement of targets is assessed annually. The causes of any deviations that arise are analyzed and subsequently discussed with the Supervisory Board of Volkswagen Financial Services AG.

The group-wide risk strategy comprises all material quantifiable and unquantifiable risks. More extensive details and specifics concerning the individual types of risk are formulated in secondary risk strategies and operationalized in the budget planning process.

The Board of Management of Volkswagen Financial Services AG is responsible for ensuring that the group-wide risk strategy established under its overall responsibility is realized within Volkswagen Financial Services AG. After the group-wide business and risk strategy is decided, it is communicated throughout the Volkswagen Financial Services AG Group.

#### RISK INVENTORY

The objective of the annual risk inventory is to identify the main types of risk. For this, all known types of risk are analyzed to determine whether they arise at Volkswagen Financial Services AG. In the risk inventory, the relevant risk types are analyzed in greater detail and quantified, or in the case of unquantifiable types of risk, expert opinions are obtained in order to assess the risks and then determine their materiality for the Group.

The risk inventory performed based on data as of December 31, 2013 showed that the quantifiable types of risk – counterparty credit risk, earnings risk, direct residual value risk, market risk, liquidity risk and operational risk – and the unquantifiable types of risk – reputational and strategic risk – qualify as material types of risk. Indirect residual value risk and underwriting risk were classified as immaterial because they represent only a small proportion of the overall risk at the Group level. Other existing subcategories of risk are taken into consideration in the above-mentioned risk types.

#### RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

A system is in place at Volkswagen Financial Services AG to determine the company's risk-bearing capacity by comparing its economic risk to its risk-taking potential. A credit institution's risk-bearing capacity is given if, at a minimum, all of its material risks are continuously covered through its risk-taking potential.

The material risks of Volkswagen Financial Services AG are identified at least once a year in the risk inventory described above. This provides a detailed basis for designing the risk management process and including it in the risk-bearing capacity. In line with standard banking practice, risks are assessed using the net method.

Material risks are quantified as part of the analysis of risk-bearing capacity based on the going-concern approach with a uniform confidence level of 90% and an observation period of one year.

In addition, Volkswagen Financial Services AG uses a limit system derived from its analysis of risk-bearing capacity in order to specifically limit the risk coverage capital used by Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Leasing GmbH. Volkswagen Versicherung AG has its own limit system, which is based on MaRisk (VA).

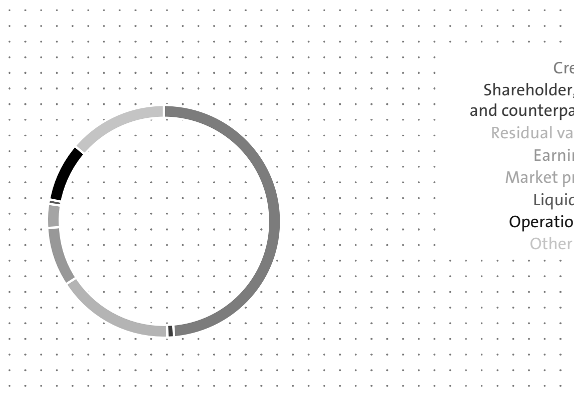
Establishing the risk limit system as the core element in capital allocation limits risks at different levels, thus ensuring the subgroup's economic risk-bearing capacity. The risk-taking potential is determined based on the available equity and income components, taking various deductible items into account. In keeping with the risk tolerance of the Board of Management of Volkswagen Financial Services AG, only a part of this risk-taking potential is defined as the upper risk limit of an overall risk limit. In the next step, the overall risk limit is allocated to the risk types of credit risk, residual value risk and market risk for monitoring and steering purposes at the operating level. Furthermore, a system of risk limits has been put in place for these risks at the company level.

Since 2014, limits have also been set for operational risk and liquidity risk. In addition, an aggregate limit is implemented for counterparty credit risk, a higher-level risk type, under which credit risk, shareholder risk, issuer risk and counterparty risk are defined individually.

The limit system makes a management tool available to management such that it can fulfil its responsibility to manage the company's business strategically and operationally in accordance with statutory requirements.

The overall economic risk of Volkswagen Financial Services AG as of September 30, 2014 amounted to €2.6 billion and is distributed as follows across the individual types of risk:

**DISTRIBUTION OF RISKS BY TYPE OF RISK**
*Figures as of September 30, 2014*




**DEVELOPMENT OF RISK TYPES**

| | IN € MILLION | | SHARE IN % | |
|---|---|---|---|---|
| | 30.09.2014 | 31.12.2013 | 30.09.2014 | 31.12.2013 |
| Risk types | | | | |
| Credit risk | 1,255 | 1,104 | 49 | 48 |
| Shareholder, issuer and counterparty risk | 24 | 43 | 1 | 2 |
| Residual value risk | 422 | 336 | 16 | 15 |
| Earnings risk | 212 | 244 | 8 | 11 |
| Market price risk | 86 | 112 | 3 | 5 |
| Liquidity risk | 15 | – | 1 | – |
| Operational risk | 213 | 334 | 8 | 15 |
| Other risks[1, 2] | 355 | 114 | 14 | 5 |
| **Total** | **2,582** | **2,289** | **100** | **100** |

1 Flat amount for unquantifiable risks: strategic risk and reputational risk. (as of December 31, 2013 also including liquidity risk).
2 Including €238 million in risks from MAN FS.

As of September 30, 2014 the risk-taking potential amounted to €4.9 billion and was 53% utilized by the aforementioned risks.

The maximum rate of utilization of risk-taking potential in accordance with Pillar II was 53% during the period from January 1, 2014 to September 30, 2014. Up to December 31, 2014, there were no indications of significant changes in the utilization of the risk-taking potential.

In addition to determining the risk-bearing capacity in a normal scenario, Volkswagen Financial Services AG also performs quarterly stress tests throughout the Group and across institutions and reports the results directly to the Board of Management and Supervisory Board. The stress tests determine what effects extraordinary, but plausible, events could have on the risk-bearing capacity and earning power of Volkswagen Financial Services AG. These scenarios serve to identify at an early stage those risks that would be particularly affected by the trends simulated in the scenarios so that timely countermeasures can be introduced, if necessary. The stress tests also take into account historical scenarios (e.g. repeat of the 2008–2010 financial crisis) and hypothetical scenarios (e.g. worldwide economic downturn, sharp downturn in the Volkswagen Group's vehicle sales). These are complemented by so-called inverse stress tests in order to examine what events could expose the Volkswagen Financial Services AG Group to a going-concern risk. The results of the inverse stress test did not indicate a necessity to update the measures already in place.

Based on calculations of risk-bearing capacity, all material risks that could adversely affect the net assets, results of operations or liquidity situation were sufficiently covered at all times through the available risk-taking potential. During the financial year, risk-taking capital used was kept below the overall internal risk limit. The stress tests performed do not indicate any need for action.

### CONCENTRATIONS OF RISK

Volkswagen Financial Services AG is a manufacturer-associated automotive financial services provider (captive). Risk concentrations can arise to various degrees due to the company's business model, which focuses on promoting vehicle sales of the various Volkswagen Group brands. For instance, concentrations of risk can be caused by an unbalanced distribution of a large share of loans

- to only a few borrowers (concentrations of counterparties),
- to only a few industries (concentrations of industries) or
- to companies within a geographically limited area (concentrations of regions) and
- when receivables are only secured with one or a few types of collateral (concentrations of collateral),
- a major portion of the risky residual values are limited to a few automotive segments and models (concentrations of residual value) or
- the income of Volkswagen Financial Services AG is only generated from a few sources (concentrations of income).

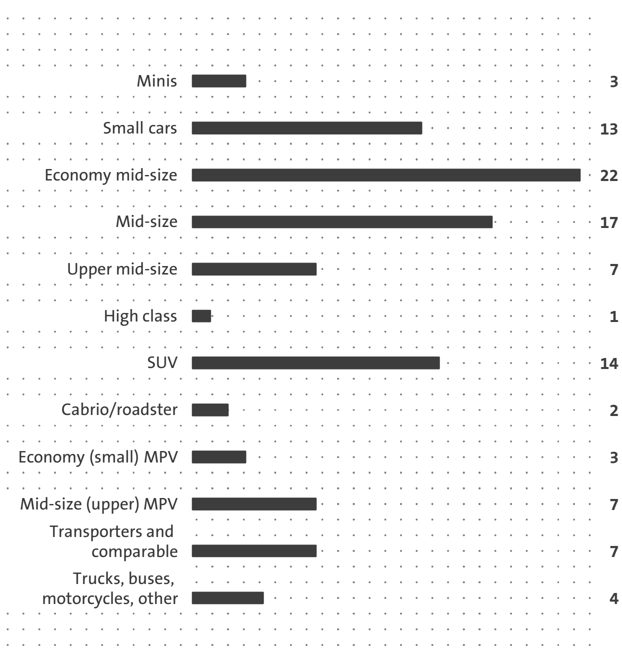
Volkswagen Financial Services AG's risk policy aims for broad diversification in order to reduce concentrations.

Concentrations of counterparties are insignificant for Volkswagen Financial Services AG because a large part of the lending business deals with small (retail) loans. Regarding regions, Volkswagen Financial Services AG's business is concentrated in the German market, but it strives for broad, international diversification.

Conversely, industry concentrations in the dealer business are inherent to a captive finance company and are therefore analyzed individually. It was determined that on the whole, specific industries did not have a particularly pronounced impact, even in downturns such as the recent economic crisis.

Concentrations of collateral are also unavoidable for captive finance companies, since vehicles are the dominant type of collateral due to the company's business model. Risks from concentrations of collateral can arise if negative price movements in used car markets or segments reduce proceeds from the disposal of collateral, resulting in a decline in the value of collateral. However, with regard to the vehicles serving as collateral, Volkswagen Financial Services AG is broadly diversified across all automotive segments with a large range of various Volkswagen Group vehicle brands.

**COLLATERAL STRUCTURE AS OF SEPTEMBER 30, 2014**
*Figures in %*



Because of this broad selection of vehicles, there are no concentrations of residual value at Volkswagen Financial Services AG.

A concentration of income arises per se due to the company's business model. The specialized role as a sales promoter for Volkswagen Group vehicles gives rise to dependencies that directly affect the development of income.

#### RISK REPORTING

Risk reporting is conducted quarterly in the form of an extensive risk management report to the Board of Management and Supervisory Board. The starting point for the risk management report is the risk-bearing capacity due to its importance for the successful continuation of the company from a risk perspective. Also presented are the calculation of available risk-taking potential, limit utilization and the current percentage breakdown of overall risk by individual risk types. Moreover, Group Risk Management & Methods also reports in detail about credit, market price, liquidity, operational, residual value, shareholder and underwriting risks in aggregate and, to a large degree, at the market level. In addition to a quantitative presentation of financial indicators, this includes a qualitative component comprising analyses of the current and expected situation in which recommendations for action are outlined. Other risk-type-specific reports are also produced. Regular reporting is supplemented as needed with ad hoc reports at the Group level.

The information contained in the risk management report about structures and trends in the portfolios is continually refined and updated on an ongoing basis in view of current circumstances. This is undertaken in order to ensure the report contains high-quality information.

#### NEW PRODUCT- AND NEW MARKET PROCESS

The New Product- and New Market Process of Volkswagen Financial Services AG must be applied before new products are brought to market or activities are launched in new markets. All departments that participate in the process are included (e.g. Risk Management, Controlling, Accounting, Legal Services, Compliance, Treasury, IT). A written concept is prepared in which factors including the risk level of the new product/market are analyzed and possible consequences for managing the risks are outlined. Approvals or rejections are issued by the responsible members of the Board of Management of Volkswagen Financial Services AG and in the case of new markets by the members of the Supervisory Board of Volkswagen Financial Services AG as well.

#### TYPES OF RISK

##### Risk of counterparty default

The risk of counterparty default is defined as the potential negative deviation of the actual counterparty risk outcome from the planned one. The deviation in outcome occurs when the actual loss exceeds the expected loss due to changes in credit ratings or credit losses. In this connection, an approach that addresses risk-bearing capacity typically considers the credit risk from customer transactions as well as counterparty, issuer, country, shareholder and reinsurance risks.

##### Credit risk

The credit risk concerns the risk of loss through defaults in customer transactions, specifically, non-payments by a borrower or lessee or the loss of receivables from an insurance policyholder. The loss is contingent on the inability or unwillingness of the borrower or lessee to make payments. This includes scenarios where the contracting party makes payments on interest and principal late or not in full.

Credit risks, which also include counterparty credit risks relating to leasing contracts, represent by far the largest component of the risk positions among the risks of counterparty default.

One target of systematic monitoring of credit risk is identifying the possible insolvency of a borrower or lessee early on and, if necessary, taking timely measures to counteract a default and recognizing provisions on receivables.

The consequences of credit losses include a loss of the company's assets, which would adversely affect the company's net assets, financial position and results of operations depending on the amount of the loss. If, for example, an economic downturn leads to increased inability or unwillingness to pay on the part of borrowers or lessees, more write-downs will be required, which in turn adversely affects the operating profit.

##### Risk identification and assessment

Volkswagen Financial Services AG bases its lending decisions on credit assessments of the given borrowers using rating and scoring methods, which provide an objective basis for the departments' decisions on granting loans and leases.

Parameters for developing and maintaining rating systems are described in a working guideline. There is also a rating manual, which governs the application of rating systems as part of the loan approval process. Similarly, the underlying conditions for developing, using and validating scoring procedures in the retail business are described in work instructions.

An expected loss (EL) and an unexpected loss (UL) are calculated at the portfolio level for each company in order to quantify credit risks. The UL is equal to the value at risk (VaR) less the EL. This figure is quantified using an Asymptotic Single Risk Factor (ASRF) model in accordance with the capital requirements of the Basel Committee on Banking Supervision (Gordy formula) and takes into account the quality assessment of the individual rating and scoring procedures used.

Rating procedure in the corporate business

Volkswagen Financial Services AG assesses the creditworthiness of its corporate customers based on rating procedures. The assessment includes both quantitative (primarily key figures from annual financial statements) and qualitative factors (such as the outlook for future business development, the quality of management, market and sector conditions as well as the customer's payment behavior). The credit assessment results in the assignment of customers to a rating class, which is connected to a probability of default. A centrally maintained workflow-based rating application is primarily used to support the assessments of creditworthiness. The result of the rating provides an important basis for decisions on the approval and prolongation of lending commitments and provision adjustments.

Scoring procedure in the retail business

To analyze the creditworthiness of private customers, scoring systems are integrated into the process for granting loans and managing existing loans in order to provide an objective basis for making decisions about granting loans. These scoring systems utilize internally and externally available data on the borrowers and generally estimate the probability of default of the requested customer transaction based on several years of historical data using statistic methods. Deviating from the latter procedure both generic and robust score cards as well as expert systems are also used, largely for smaller, low-risk portfolios, to measure the risk inherent in loan requests.

Depending on the portfolio's size and risk content, behavioral score cards as well as simple estimates at the risk pool level are used to classify the risk of the loan portfolio.

Control and review of retail and corporate procedures

The models and procedures controlled by Group Risk Management & Methods are regularly validated and monitored, adjusted as necessary and refined on the basis of standardized procedural models for validating and monitoring risk classification processes. This concerns the models and procedures for assessing creditworthiness and estimating the probability of default (such as rating and scoring procedures), loss given default and credit conversion factors.

Using validation procedures performed decentrally, Group Risk Management & Methods reviews the quality of the retail credit assessment models and procedures supervised by the local risk management units abroad. In addition, when the need for action is identified, the unit develops measures in cooperation with the local risk management departments and monitors implementation of these measures. Validation refers in particular to checking whether the models are separable and calibrated in ways adequate to the risks. The treatment of corporate procedures is analogous. However, a centralized approach is taken to supervising and validating the procedures.

Collateral

In principle, lending transactions are secured in ways adequate to the risks concerned. In addition, a group-wide guideline establishes the requirements that collateral as well as assessment procedures and principles must satisfy. Additional local guidelines (collateral guidelines) prescribe concrete valuations as well as regional specificities to follow.

The valuations in the collateral guidelines are based on historical data and many years of expert experience. Automobiles, as a form of collateral, are very important for this approach because the activities of Volkswagen Financial Services AG focus on financing customer purchases and dealer sales as well as vehicle leasing. For this reason, the development of vehicles' market values is monitored and analyzed. Adjustments of the valuation methods and disposal processes are made in the event of major changes in these market values.

In addition, Group Risk Management & Methods regularly assesses the quality of the local collateral guidelines, which also includes a review and, if necessary, adjustments to the collateral valuation methods.

Provision adjustments

Provision adjustments are based on the incurred loss model pursuant to IAS 39 and are determined using rating and scoring processes.

Furthermore, where receivables are in default, a distinction is drawn between significant and insignificant receivables. Specific provision adjustments for doubtful accounts are recognized for significant receivables in default. Conversely, collective specific provisions for doubtful accounts are recognized for insignificant receivables in default. General provisions are recognized for receivables for which specific provisions have not been set up.

The following average values were determined for the aggregate active portfolio (i.e. portfolio not in default) over a period of twelve months: for the probability of default (PD): 3.4%; the loss given default (LGD): 32.2%; and for the total receivable volume in relation to the active portfolio: €87.9 billion.

Risk management and monitoring

Group Risk Management & Methods establishes boundary conditions for the management of credit risks. These guidelines constitute the central risk management system's mandatory external framework within which the divisions/markets can pursue their activities, plans and decisions in accordance with their competencies.

Appropriate processes are used to monitor all loans in regards to the underlying economic conditions and collateral, compliance with limits, contractual obligations as well as both external and internal requirements. To do this, commitments are assigned to suitable levels of control (normal, intensive or problem loan monitoring) in accordance with their risk content. Furthermore, credit risks are also managed by applying Volkswagen Financial Services AG's reporting limits, which are determined individually for each company.

The portfolio is analyzed with the help of the credit risk portfolio rating to monitor risks at the portfolio level. This rating compiles various risk parameters into a single indicator to make the international portfolios of Volkswagen Financial Services AG comparable. In addition, risk reviews are conducted by Group Risk Management & Methods in companies where problems are identified.

Development

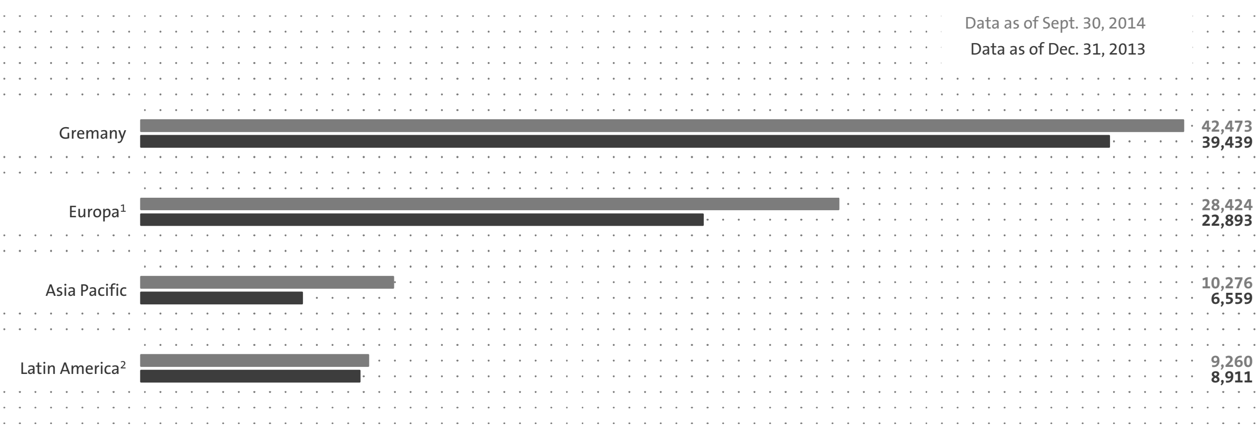
Retail portfolio

The programs to promote vehicle sales that were implemented with the brands and a stepped-up expansion of the fleet business have led to further growth in receivables in the retail business in many markets. The French market in particular benefited from these measures. Compared with the previous year, the growth drivers were primarily the German, UK and Chinese markets due to their stable passenger vehicle markets. On the whole, risk in the portfolio remained stable.

Corporate portfolio

The passenger vehicle markets recovered from their lows in 2013 in the wake of the incipient economic recovery in the euro-crisis countries. This revival can be seen in the growing volume of lending in Europe. In the United Kingdom the positive business trend of the previous year continued, with the dealer business enjoying considerable growth. Stagnating economic growth in Latin America, particularly in the Brazilian market, is being more than offset by disproportionately strong growth in the Asia Pacific region. We were also able to continue growing our large-scale leasing and fleet customer business. On the whole, credit risk remained stable.

**DISTRIBUTION OF CREDIT VOLUME BY REGION**
*in € million*




1 Europe region excluding Germany.
2 Latin America region includes the markets Mexico and Brazil.

**Counterparty/issuer risk**

Volkswagen Financial Services AG takes the counterparty risk to mean the risk that may arise from the loss of assets in connection with investments in money market investments, marketable securities or bonds because counterparties discontinue to repay the principal and/or the interest as contractually required. Similarly, issuer risk arises from the risk that the issuer of a financial product will become insolvent during the term of the product, resulting in the need, in full or in part, to write down the invested capital including the expected interest payments.

Counterparty risk arises from interbank overnight and term deposits, the conclusion of derivatives as well as the acquisition of pension fund shares for employee pensions. Issuer risks arise from the purchase of government bonds.

The primary target of counterparty and issuer risk management is the timely identification of potential defaults so that countermeasures can be introduced early, if possible. The objective is to restrict risk exposure to the approved limits.

If counterparty and issuer risks were to materialize, the consequences would be a potential loss of the company's assets, which would adversely affect the company's net assets, financial position and results of operations depending on the amount of the loss.

Risk identification and assessment
Counterparty and issuer risk are both included under counterparty credit risks. Both risk types are calculated using a Monte Carlo simulation to determine the unexpected loss (value-at-risk and expected shortfall) and the expected loss from both a normal scenario and stress scenarios.

Risk management and monitoring
Volume limits for each counterparty and issuer are defined in advance to ensure effective management and monitoring. Daily compliance with these limits is monitored by Treasury. The volume limit amounts are based on an assessment of the credit rating, which is initially categorized and regularly reviewed by the Credit and Process Management department. Group Risk Management & Methods combines counterparty and issuer risks monthly, analyzes them and communicates this information in both the monthly market risk report and the quarterly risk management report.

#### Country risk

Country risk comprises risks that arise in international business, which exist not on account of the contractual partner as such, but due to its head office being located abroad. As a result, political or economic crises or problems in the financial system as a whole of a country can, for example, lead to a stoppage of cross-border capital transfer services due to transfer difficulties resulting from governmental actions taken by a foreign state. In the VW Financial Services AG Group, country risk would primarily be an issue with regard to the funding and equity investments in foreign companies as well as in the lending business of the bank and leasing branches. However, due to the positioning of the Group's business there is virtually no chance that country risks (e.g. exchange rate risks and legal risks) will arise.

Volkswagen Financial Services AG generally does not make any significant cross-border loans to borrowers outside of the scope of consolidation. In principle, Volkswagen Financial Services AG is not involved in cross-border lending, with the exception of intercompany lending. The classic country risk approach is not applicable to intercompany lending because if the aforementioned difficulties arise, financing provided to Group companies with borrowings is extended, if necessary, in order to guarantee continuation of strategic market activities. For this reason, setting up country or regional limits for the business as a whole, to limit transfer risks for example, is not necessary.

#### Shareholder risk

Shareholder risk denotes the risk that losses with negative effects on the carrying amount of the equity investment might occur for Volkswagen Financial Services AG after contributions of equity capital or receivables similar to equity capital (e.g. undisclosed contributions) are made to the entity. Generally, Volkswagen Financial Services AG makes equity investments in other companies only if the investments serve to achieve its own corporate targets and are commensurate with its long-term investment planning.

If shareholder risk occurs in the form of a loss of market value or even the complete loss of an equity investment, the consequences would have a direct effect on the corresponding financial indicators. The net assets and results of operations of Volkswagen Financial Services AG would be adversely affected by impairment losses recognized through profit or loss.

Risk identification and assessment
Shareholder risk is quantified using an ASRF model based on the carrying amounts of equity investments, a probability of default assigned to each equity investment and a loss given default ratio of 90%. Moreover, stress scenarios with a change in the rating (upgrade and downgrade) or the complete loss of equity investments are simulated.

Risk management and monitoring
Equity investments are integrated in the annual strategy and planning processes of Volkswagen Financial Services AG. The company influences the business and risk policies of its equity investments through its representatives on ownership or supervisory boards. However, responsibility for implementing risk management tools at the operating level rests with the relevant business units.

#### Reinsurance risk

Reinsurance risk stems from the total or partial loss of receivables from reinsurers and retrocessionaires. At Volkswagen Financial Services AG, this risk principally resides with its subsidiary Volkswagen Versicherung AG. Volkswagen Versicherung AG currently only assigns its portfolios in part, which limits reinsurance risk.

Furthermore, the company aims to select only reinsurers and retrocessionaires whose external rating corresponds with an internal financial strength rating of "very good" to "good" to reduce reinsurance risk.

If a reinsurer or retrocessionaire falls below the minimum credit rating required, suitable protective measures must be taken as a consequence.

Risk identification and assessment

To identify its materiality, reinsurance risk is measured using a qualitative assessment of the risks by loss amount and the attendant probability of occurrence. This risk is quantified based on the current Draft Technical Specifications on Solvency II as developed by the European Insurance and Occupational Pensions Authority (EIOPA).

Risk management and monitoring

Risk management is performed by local risk management of Volkswagen Versicherung AG and is verified for plausibility by Group Risk Management & Methods in close coordination with the local unit. Subsequently, the findings are communicated to the appropriate individuals and departments. Group Risk Management & Methods is responsible for risk monitoring.

#### Market price risk

Market price risk refers to the potential loss resulting from unfavorable changes in market prices or parameters that influence prices. Volkswagen Financial Services AG is exposed to material market risks due to price changes that trigger a change in the value of open interest rate or currency positions.

The target of market price risk management is to minimize the financial losses caused by this risk type. Risk limits were agreed by the Board of Management to address this risk. If limits are exceeded, this is escalated ad hoc to the Board of Management and the Asset Liability Management Committee (ALM Committee). Risk-reduction measures are discussed and approved by the ALM Committee.

Risk management includes transparently assessing market price risks in the monthly risk report using value-at-risk (VaR), offsetting these risks against the ceiling for losses of Volkswagen Financial Services AG and recommending targeted risk management measures.

#### Interest rate risk

Interest rate risk includes potential losses from changes in market rates. It arises from non-matching fixed-interest periods of a portfolio's assets and liabilities. Interest rate risks are incurred in the banking book of Volkswagen Financial Services AG.

If interest rates change, this would adversely affect the results of operations.

Risk identification and assessment

Interest rate risks are determined for Volkswagen Financial Services AG as part of the monthly monitoring process using the value-at-risk (VaR) method based on a 40-day holding period and a confidence level of 99%. This model is based on a historical simulation and calculates potential losses taking 1,000 historical market fluctuations (volatilities) into account.

Whereas the VaR calculated for operational management serves to estimate potential losses under historical market conditions, future-oriented stress test scenarios are also run in which the interest rate positions are subjected to extraordinary changes in interest rates and worst-case scenarios, and are subsequently analyzed in terms of the at-risk potential using the simulated results. This analysis involves, among other things, quantifying and monitoring on a monthly basis the changes in present value using the +200 and –200 basis points interest rate shock scenarios defined by the Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority – BaFin).

The calculation of interest rate risks uses theoretical scenarios to account for early repayments under termination rights. The behavior of investors in connection with unlimited bank deposits is analyzed using internal models and procedures for managing and monitoring interest rate risks.

Risk management and monitoring

Treasury is responsible for risk management based on the resolutions of the ALM Committee. Interest rate risk is managed using interest rate derivatives. Group Risk Management & Methods is tasked with monitoring interest rate risks and reporting on them.

A separate report concerning Volkswagen Financial Services AG's current exposure to interest rate risks is submitted to the Board of Management on a monthly basis.

#### Foreign currency risk

Currency risks arise when there is a difference in the carrying amounts of assets and liabilities denominated in foreign currency. However, such open currency items are permitted only in individual cases.

If foreign currency risks were to materialize, the consequence would be losses in all positions impacted by a foreign currency.

#### Fund price risk

The risk from fund investments arises from possible changes in the market price. It expresses the danger that the respective holding of marketable securities may lose value due to changes in the market price and thereby causes a loss to occur.

Volkswagen Financial Services AG incurs fund price risks in connection with the fund-based pension plan for its employees (pension fund). Volkswagen Financial Services AG and Volkswagen Bank GmbH have undertaken to meet these pension obligations in the event the fund can no longer satisfy our employees' guaranteed claims. Additional fund price risks can arise indirectly from the investments of Volkswagen Versicherung AG. These investments are made consistent with the investment guidelines adopted by the Board of Management, duly considering both the company's risk tolerance and the regulations of BaFin. All such investments aim to hedge reinsurance liabilities. For this purpose, all portfolios are regularly monitored and measured.

Development
On the whole, market price risks showed a stable development in the past year. The quantified risk remained within the established limits at all times.

### Earnings risk (specific profit/loss risk)

Earnings risks describe the danger that specific income statement items not covered by risk types described elsewhere deviate from the targets. This includes the risks of

> unexpectedly low commissions (commission risk),
> unexpectedly high costs (cost risk),
> excessively high targets for income from (new) business volume (sales risk), and
> unexpectedly low net investment income.

The objective here is to regularly analyze and monitor the risk potential associated with earnings risks in order to ensure early identification of deviations from targets and, if necessary, to initiate countermeasures. An occurrence of the risk would reduce profits and thus affect the operating result.

Risk identification and assessment
Volkswagen Financial Services AG quantifies its earnings risks based on a parametric earnings-at-risk (EaR) model, taking into account the confidence level determined in connection with the calculation of its risk-bearing capacity as well as a one-year forecasting horizon.

The relevant income statement items provide the basis for these calculations. Earnings risks are estimated, first, based on the observed, relative actual-to-plan deviations and second, by determining the volatilities and interdependency of the individual items with each other. Both components are included in the EaR quantification.

Risk management and monitoring
During the year, the actual values of the items subject to earnings risks are compared to the targeted values at the market level. This comparison takes place as part of Controlling's regular reporting.

The results of the quarterly risk quantification of earnings risks are included in the determination of risk-taking potential as a deductible item in connection with the analysis of risk-bearing capacity. The results are monitored by Group Risk Management & Methods.

### Liquidity risk

Liquidity risk entails the risk of a negative deviation between actual and expected cash inflows and outflows.

Liquidity risk means the risk of not being able to fulfil payment obligations that are due in full or in timely fashion or – in the event of a liquidity crisis – of only being able to raise refinancing funds at higher market rates or only being able to sell assets at discounted market prices. This leads to the distinction between insolvency risks (day-to-day operational liquidity risk including call and maturity risk), funding risks (structural liquidity risk) and market liquidity risks.

The prime objective of liquidity management at Volkswagen Financial Services AG is to ensure the ability to pay at all times. For this purpose, Volkswagen Bank GmbH has liquidity reserves in the form of marketable securities deposited in its operational safe custody account with Deutsche Bundesbank. In addition, the company has access to standby lines of credit at other banks to protect against unexpected fluctuations in cash flow. In principle, standby credit lines are not utilized; they serve solely to secure liquidity.

In the event that liquidity risk materializes, funding risk would result in higher costs and market liquidity risk would result in lower selling prices for assets – both would put downward pressure on the results of operations. In the worst-case scenario, the consequence of insolvency risk is insolvency due to a lack of liquidity, which liquidity risk management at Volkswagen Financial Services AG prevents.

Risk identification and assessment
Treasury bundles and evaluates the expected cash flows of Volkswagen Financial Services AG.

Liquidity risks are identified and recorded by Group Risk Management & Methods. These cash flow development statements are subjected to scenario-based stress tests using triggers specific to the credit institution itself, market-wide triggers as well as combinations thereof. The given parametrization of these stress scenarios is based on two methods. On the one hand, historically analyzed events are used, and the different degrees of hypothetically conceivable events are defined. To quantify the funding risk, this approach takes into account the material manifestations of the insolvency risk as well as changes in spreads that are driven by credit ratings or the market. On the other hand, Treasury also prepares four different cash flow development statements to ensure adequate liquidity management; it also prepares cash flow forecasts and determines the period for which cash will suffice.

Risk management and monitoring
In order to manage liquidity, the Operational Liquidity Committee (OLC) monitors both the current liquidity situation and the sufficiency of cash in bi-weekly meetings. It decides on refinancing measures and prepares the requisite decisions for the decision makers.

Group Risk Management & Methods communicates the material risk management data and relevant early warning indicators pertaining to insolvency risk and funding risk. In terms of insolvency risk, this entails adequate thresholds for the utilization rates – taking into account access to the relevant refinancing sources – across different time horizons. The potential refinancing costs are used to assess the funding risk.

### Operational risk

Operational risk (OpR) is defined as the risk of losses that arise from the inappropriateness or failure of internal processes (process risks), people (personnel risks), systems (technology risks) or from external events (external risks). This definition includes legal risks.

Other risk types, such as reputational risks or strategic risks, are not included in the OpR definition.

The aim of OpR management is to transparently identify operational risks as well as to take preventive measures or countermeasures with the aim of averting or minimizing losses. If an operational loss occurs, the consequence would be a loss with a financial impact that varies on a case-by-case basis.

The approach for managing operational risks is laid down in the OpR strategy, and the OpR manual governs the implementation process and responsibilities.

#### Risk identification and assessment

Operational risks and losses are identified and assessed by local experts using the OpR tools of self-assessment and a loss database; these analyses are based on the "four-eyes" principle (assessor and approver).

A monetary appraisal of future potential risks is performed within the scope of the self-assessment. To this end, a standardized risk questionnaire is made available once a year in which the local experts determine and record the potential amount of risk and the probability of occurrence of various risk scenarios, including minimum/typical/maximum figures for each.

A central loss database ensures that relevant data pertaining to monetary operational losses are collected internally and saved on an ongoing basis. Local experts are furnished with a standardized loss form for this purpose in which they determine and record a variety of information including the loss amount and the course of events that led to the loss.

#### Risk management and monitoring

Operational risks are managed by the companies/divisions based on the guidelines that have been put in place as well as the requirements applicable to the specific units responsible for the relevant risk categories. For this purpose, a decision must be made regarding how to handle risks and losses in the future, i.e. whether to prevent (risk avoidance), minimize (risk mitigation), consciously enter into (risk acceptance) or forward (risk transfer) them to a third party.

BCM & Operational Risk checks the plausibility of the data provided by the companies/divisions in the self-assessments as well as the reported losses, and takes any required corrective measures. It also validates the effectiveness of the OpR system and initiates any necessary adjustments. This includes, in particular, the full inclusion of all OpR divisions, verifying compliance with the partial risk strategy for operational risks as well as reviewing risk measurement methods and procedures.

Operational risks are communicated on a quarterly basis within the risk management reports. Additionally, an annual report is prepared for OpR which contains another summary of the key events of the fiscal year under review as well as an assessment of these events. Regular reporting is supplemented by ad hoc notifications where the criteria to do so are met.

#### Development

The increase in operational risks in the past is due to factors including the growth in the business, even after taking legal risks into account, of Volkswagen Financial Services AG. Furthermore, training and efforts to raise awareness of the issue of operational risks led to improved documentation of losses. This is also reflected simultaneously in the estimates of future operational risk, which are based on the experience and expertise of the persons responsible locally. The insights gained from losses that have occurred allow potential risks to be estimated better and can also lead to the implementation of new scenarios.

### Risk arising from outsourcing activities

Outsourcing means hiring another company (outsourcing company) to conduct activities and processes associated with services that would otherwise be performed by the company itself.

This does not include one-time or occasional procurement of third-party goods and services, or services that are typically obtained from a supervised company and, due to actual circumstances or legal requirements, usually cannot be performed either at the time of external procurement or in the future by the company outsourcing the work.

The aim of managing outsourcing risk is to identify and minimize the risks of all outsourcing. As part of outsourcing management and the intensity of control, measures are taken, if necessary, that monitor deviations from an identified risk and ensure that the original outsourcing risk situation can be reinstated.

Ultimately, a deviation from the calculated risk can lead to a mandatory change in service providers, or, if possible and strategically desirable, the outsourcing of the activity can be terminated. The activities in this case can be performed by the bank itself or are eliminated entirely.

Risk identification and assessment

Risks arising from outsourcing situations are identified by reviewing the circumstances and performing a risk analysis. The first step is to use the review of the circumstances to determine whether the planned activity constitutes external procurement or outsourcing. Using various criteria, the risk analysis determines the level of risk inherent in an outsourcing activity; then the activity is deemed either “nonmaterial” or “material” outsourcing. Stricter control and management intensity is applicable to “material” outsourcing activities along with special and stricter contract clauses.

Risk management and monitoring

The risks arising from outsourcing activities are documented within operational risks. For effective management of these risks, general guidelines were drawn up stipulating the boundary conditions to observe when outsourcing processes. These guidelines require that prior to the outsourcing of an activity, a risk analysis must be prepared to determine the risk in each case. This analytical process serves as a component of the boundary conditions and ensures that sufficient management and control intensity is applied. The general guidelines also set out that all outsourcing activities must be agreed with the Group Outsourcing Coordination department. This coordination office therefore has information about all outsourcing activities and the associated risks. It also informs the Board of Management about these risks once a quarter.

Moreover, all risks arising from outsourcing activities are subject to risk monitoring and management by way of the operational risk loss database and the annual self-assessment.

### Residual value risk

A residual value risk arises if the estimated market value of a leased asset at the time of disposal is less than the residual value calculated at the time the contract was concluded. However, it is also possible to realize more than the calculated residual value through disposal.

Direct and indirect residual value risks are differentiated relative to the bearer of the residual value risks. A direct residual value risk is present when the residual value risk is borne directly by Volkswagen Financial Services AG or one of its companies (because of contractual provisions). An indirect residual value risk is present if the residual value risk has been transferred to a third party based on the guaranteed residual value (e.g. dealerships). In these cases, the initial risk is that the counterparty guaranteeing the residual value might default. If the guarantor of the residual value defaults, the residual value risk is transferred to Volkswagen Financial Services AG.

The aim of residual value risk management is to maintain risks within the agreed limits. If the residual value risk becomes significant, impairment losses or losses on disposal are recognized, if necessary, which can adversely affect the results of operations.

Risk identification and assessment

Direct residual value risks are quantified in respect of both the EL and the UL. The EL is the difference between the current expected proceeds on disposal as of the measurement date and the contractually agreed residual value of each vehicle set when the contract was established. In addition, other parameters are taken into account in the calculation, such as the costs of disposal. The portfolio EL is determined by adding the individual ELs of all vehicles.

The UL is quantified by measuring the change in the projected residual value one year prior to contract expiry against the sales price actually achieved (adjusted for losses and deviations between actual and expected distances traveled). In a first step, the change in value is analyzed per individual contract and period. However, given the size of the portfolios and the multitude of vehicles, the systematic risk is significant so that, in a second step, the median change in value of the projected residual values is determined across several periods. The resulting deduction is determined using the quantile function of the normal distribution based on a prescribed confidence level.

The UL is determined by multiplying the current residual value forecast with the discount. It is calculated for every vehicle contained in the portfolio irrespective of the EL. Analogous to the EL, the portfolio’s UL is the sum of the ULs of all vehicles and must be determined on a quarterly basis. The results of the quantification of the EL and UL are used to assess exposure to risk, i.e. including assessments of the adequacy of the risk provisions as well as the risk-bearing capacity.

Indirect residual value risks are quantified for the purpose of determining the residual value risk analogous to the method used for direct residual value risks; other risk parameters are also taken into account (dealer defaults and other factors specific to the risk types.)

Parameters for developing, using and validating the risk parameters for direct and indirect residual value risks are described in a working guideline.

Risk management and monitoring

Group Risk Management & Methods monitors residual value risks within Volkswagen Financial Services AG.

For direct residual risks, the adequacy of the risk provisions as well as the residual value risk potential are regularly monitored as part of risk management. Opportunities from residual values are not considered when recognizing risk provisions.

Given risk distribution, the risks incurred may not always be covered in full at the level of the individual contract due to the difference between the residual value curve (degressive) and the incoming payments curve (linear) during the term of the contract. As far as previously identified risks are concerned, the amounts of risk allocated to the residual term in the future must therefore still be earned and recognized as impairment losses (in accordance with IAS 36).

The resulting residual value risk potential is used to take a variety of measures as part of proactive risk management in order to limit the residual value risk. Residual value recommendations regarding new business must take both prevailing market conditions and future influences into account. For a comprehensive view of the risk sensitivity of the residual value business, various additional stress tests for direct residual value risks are planned; these procedures are conducted by experts together with risk specialists from the corporate office and the local unit. The indirect residual value risks of Volkswagen Financial Services AG or one of its Group companies are subject to plausibility checks and measured based on the amount of the risk and its significance.

As part of risk management, Group Risk Management & Methods regularly monitors the adequacy of the risk provisions for indirect residual value risks and the residual value risk potential. The resulting residual value risk potential is used to take a variety of measures in close cooperation with the brands and dealerships in order to limit the indirect residual value risk.

Development
Year-on-year, the volume in most markets rose in the period under review. This volume growth also causes a rise in residual value risks in total, and the risk per vehicle increased overall as well. However, the countermeasures introduced (e.g. stepping up the remarketing process, aligning residual values to the current new business market situation, etc.) are showing initial success.

### Underwriting risk

Insurance companies are inherently exposed to underwriting risks. At Volkswagen Financial Services AG, this risk principally resides with its subsidiary Volkswagen Versicherung AG. Underwriting risk arises when the payment streams material to the insurance business deviate from the expected value. Among other reasons, this risk stems from the uncertainty whether or not the sum total of the actual claims payments will correspond to the sum total of the expected claims payments. At Volkswagen Financial Services AG, underwriting risk is divided into two types of branch-specific underwriting risk – loss events and health. Each type of risk consists of premium and reserve risk, cancellation risk and catastrophe risk, with cancellation risk constituting a negligible risk type for Volkswagen Versicherung AG.

The business purpose of Volkswagen Versicherung AG is to support the unit sales of the Volkswagen Group's products. This is to be achieved through the warranty insurance business as the primary insurer and via the active reinsurance of portfolios which a Volkswagen Group subsidiary brokered for other primary insurers.

The objective of underwriting risk management is not to avoid these risks entirely, but to manage them in a target-oriented, systematic way. Only predictable and sustainable risks are incurred.

If the total of actual claims payments is significantly higher than the premium determined, the portfolios' risk exposure must be reviewed.

Risk identification and assessment
To identify its materiality, underwriting risk for loss events and health is measured using a qualitative assessment of the risks by their loss amount and the associated probability of occurrence. This risk is quantified based on the current EIOPA Draft Technical Specifications on Solvency II.

Risk management and monitoring
Risk management is performed by local risk management and verified for plausibility by Group Risk Management & Methods in close coordination with the local unit. Subsequently, the findings are communicated to the appropriate individuals and departments. Group Risk Management & Methods is responsible for risk monitoring.

### Strategic risk

Strategic risk means the risk of a direct or indirect loss through strategic decisions that are flawed or based on false assumptions.

Strategic risk also encompasses all risks arising from the integration/reorganization of technical systems, personnel and corporate culture. This may be rooted in fundamental decisions on the company's structure, which management makes in respect of its positioning in the market.

Volkswagen Financial Services AG's objective is controlled assumption of strategic risks for systematic leveraging of earnings potential in its core business. In the worst-case scenario, the occurrence of strategic risk could endanger the company's existence as a going concern.

Strategic risk is addressed quantitatively through a reduction in risk-bearing capacity.

### Reputational risk

Reputational risk denotes the danger that an event or several successive events might cause reputational damage (public opinion), which might limit the company's current and future business opportunities and activities (potential success) and thus lead to indirect financial losses (customer base, sales, refinancing costs, etc.) or direct financial losses (penalties, litigation costs, etc.).
The responsibilities of the corporate communications department include avoiding negative reports in the press or similar reputation-damaging reports or, if this effort is unsuccessful, assessing and initiating adequate, target-group-specific communication activities to limit the damage to the company's reputation as much as possible. The strategic target is therefore to avoid or reduce any negative deviations between the actual reputation of the company and what the reputation is expected to be. Damage to the company's reputation or image can result in a direct effect on the financial success of the company.

Reputational risk is addressed quantitatively through a reduction in risk-bearing capacity.

## SUMMARY

Volkswagen Financial Services AG responsibly assumes risks in connection with its business activities. This is based on a comprehensive system for identifying, measuring, analyzing, monitoring and controlling risks as an integral component of an integrated risk/return-oriented control system.

Risk-bearing capacity was assured throughout 2014.

The system was continuously refined in 2014 as well, for example in terms of methods and models, systems, processes and IT.

Volkswagen Financial Services AG succeeded in mastering the economic challenges it faced in 2014, particularly in view of the sovereign debt crisis.

Volkswagen Financial Services AG will continue to invest in the optimization of its comprehensive control system and risk management systems in order to fulfil the business and statutory requirements for risk management and control.

## MATERIAL RISK FORECAST

### Credit risk forecast

We expect the economic environment in 2015 to remain difficult, although the initial signs of recovery in countries affected by the ongoing sovereign debt crisis should continue. Besides this, the nominal risk costs could also be influenced by the expected growth trend overseas and in Asia. On the whole, the risk situation remains unchanged and stable.

### Residual value risk forecast

Driven by growth programs and further expansion of the fleet business, residual value portfolios will continue to grow overall in 2015 as well. As the economic environment continues to be difficult, the situation in most European passenger vehicle markets will remain strained in 2015. However, the countermeasures taken, such as the adjustment of residual values in the new vehicle business, are expected to counteract the rise in risk levels.

### Market price risk forecast

Considering an interest rate environment anticipated to remain stable and moderate volatility in exchange rates, the market price risk situation is projected to remain unchanged in the 2015 fiscal year.

### Operational risk forecast

Due to the trends in operational risks and future business growth already presented in the risk reporting section, a moderate increase in risks is expected. In this context, it is assumed that the effectiveness of efforts to prevent fraud and maintain the level of quality of processes and employee qualifications will remain unchanged.

# *Report on post-balance sheet date events*

In January 2015, Volkswagen AG increased the equity of Volkswagen Financial Services AG by €1,060 million due to the anticipated business growth.

On January 2, 2015, Volkswagen Financial Services AG paid €4.5 million into the capital reserves of Kever Beheer B.V., Almere, and on January 23, 2015 it paid €210 million into the capital reserves of Volkswagen Financial Services N.V., Amsterdam.

On January 5, 2015, Kever Beheer B.V., Almere acquired the remaining 50% of outstanding shares in Collect Car B.V., Rotterdam with effect as of January 1, 2015. This means that Kever Beheer B.V. now holds 100% of the shares in Collect Car B.V., Rotterdam.

No other important events occurred after the close of the 2014 fiscal year.

# *Corporate responsibility*

Roads to the future

As a global financial services provider in the Volkswagen Group, we firmly believe that our business model can be successful only if we act in a sustainable and responsible manner – now and in the future. For this reason we further intensified in the 2014 reporting period our focus on the topic of corporate responsibility (CR) and specified our understanding of CR.

For us, taking responsibility means aligning our decisions with the needs of the company, our customers and employees, and our owner.

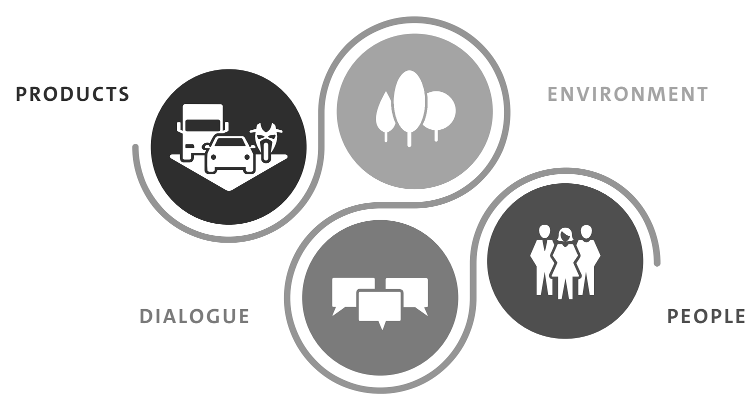
We offer automotive services from a single source and also develop solutions for the mobility needs of tomorrow.

We operate internationally, but with local roots. Conducting business in a sustainable, responsible manner is important to us. We act in a reliable, environmentally oriented manner, are an attractive employer and are committed to operating a sustainable company.

As a matter of course, we comply with the law and our values, and we feel it is important to give something back to society.

At Volkswagen Financial Services AG we assume responsibility to a degree that goes beyond just compliance with statutory requirements (corporate governance). In our core business, for example, we include environmental aspects in the development of our products and create incentives for resource-friendly mobility. A key aspect of our corporate responsibility is ensuring that our operating processes also protect the environment. As a result, it was a logical step for us to introduce an environmental management system (EMS) in accordance with the DIN EN ISO 14001:2009 standard for our location in Braunschweig. Outside its core business, Volkswagen Financial Services AG also accepts its social responsibility and is involved, for example, in CR projects in the Braunschweig region. By supporting and funding social projects, sporting activities and cultural events, it demonstrates how multifaceted a local commitment can be. CR is now a firmly entrenched part of the corporate culture of Volkswagen Financial Services AG, and we will continue to breathe life into the four areas of action that we have defined for our company in this regard, namely people, environment, products and dialogue.

CORPORATE RESPONSIBILITY AREAS OF ACTION OF VOLKSWAGEN FINANCIAL SERVICES AG GROUP



An overview of the key activities in these areas of action is provided below:

### PEOPLE

#### Creating value and perspectives

We are a top employer to our staff because we have their interests in mind and enable a collaborative environment. We actively contribute to sustainable development at our locations.

#### Employees

Our company's sustained success is only possible thanks to our employees' excellent work. For this reason, our human resources strategy is geared toward consistently attracting the best candidates to our company and taking a focused and systematic approach to promoting and developing employees in our company. Our WIR2018 strategy also entails continuing to establish ourselves as a top employer. Moreover, we fulfil our social responsibility by engaging in the region in a socially responsible way.

#### Our employees worldwide

The Volkswagen Financial Services AG Group had a total of 11,305 employees as of December 31, 2014 (previous year: 9,498). Of these, 5,928 (previous year: 5,319), or 52%, were employed in Germany and 5,377 (previous year: 4,179), or 48%, were employed at our international locations. The staff turnover in Germany of less than 1% was significantly below the industry average.

The MAN financial services subgroup has been part of the Volkswagen Financial Services AG Group since the beginning of 2014. As of December 31, 2014, a total of 538 employees worked in 15 companies. In August 2014, the Volkswagen Financial Services Group added four companies in Russia, India and South Korea. OOO Volkswagen Bank RUS, Moscow had 221 employees as of year-end, and 57 employees worked for OOO Volkswagen Group Finanz, Moscow. The Indian company Volkswagen Finance Pvt. Ltd., Mumbai had 302 employees as of December 31, 2014. As of year-end, 49 employees worked for the South Korean company Volkswagen Financial Services Korea Co., Ltd, Seoul.

In accordance with the substance-over-form principle, 300 employees of Volkswagen Servicios S.A. de C.V., Puebla, Mexico, an unconsolidated company, are included in the overall workforce figures.

**EMPLOYEES BY REGION**
*As of December 31*


* Excluding Germany.

### Our human resources strategy

Our human resources strategy and its guiding principle, "We are a top team!", support the achievement of our goals in the four areas of action of our WIR2018 strategy: customers, employees, profitability and volume. Through the targeted development of skills and the encouragement of commitment and satisfaction, our employees deliver first-class performance and delight our customers. We are consciously leveraging in-house talent as we strive to achieve our goal of becoming a top employer by 2018.

The talent program we launched in 2010 was continued in 2014. Since the launch of the program, more than 110 talented individuals in Germany, who are divided into the three groups of "young talent", "experts" and "up-and-coming managers", have received individual guidance, supported by core modules for the individual talent groups. In the summer, an international talent summit was held for the members of the "management" talent group, in which a total of 100 high-performing managers from 24 countries took part to build and expand their own personal and professional networks with colleagues from subsidiaries worldwide.

Volkswagen Financial Services AG already offers competitive and performance-based compensation. The introduction of performance appraisals in employee performance reviews in Germany in 2011 also involved adding an individual performance-based component to the compensation of all employees subject to collectively agreed terms. This component is set out in a special collective agreement.

As the superordinate company of the financial holding group, Volkswagen Financial Services AG is regulated by the European Central Bank and must implement the new version of the Institutsvergütungsverordnung (German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems – InstitutsVergV) of December 16, 2013 on a group-wide basis. In addition to the newly formulated and stricter general requirements, this ordinance stipulates that for the first time remuneration systems must also meet special regulatory requirements. Human resources work during the 2014 fiscal year was therefore characterized by assessments of the remuneration system, which were aimed at implementing the requirements of InstitutsVergV. While remuneration systems had previously limited the variable remuneration component, these limits were expanded to include fixed caps for the ratio between fixed and variable components of remuneration. The remuneration systems' existing link to the business and risk strategy was strengthened and enhanced by a more risk-oriented performance measurement method, among other things. A group-wide risk analysis was conducted for the first time to identify employees whose activities have a material impact on the risk profile of an individual bank or financial holding group. Special deferred and payment models were developed for the variable remuneration of these employees. To ensure universal monitoring of the appropriateness of remuneration systems, special governance functions were created (Remuneration Control Committee and Remuneration Officer).

The internationally standardized Human Resources Strategy Card is the most important leadership tool for implementing our human resources strategy. We have used this strategy card to set clear goals for ourselves as an employer and for our employees, and have broken these down into specific individual targets. The achievement of targets is assessed annually in a global self-assessment. We measure the degree of achievement of our goal, "We are a top team!", externally based on our participation in employer competitions as well as internally with the "mood barometer", our internal employee survey. The internal employee survey is now being conducted on a regular basis by our national companies in 29 countries.

In 2013 (for 2014) Volkswagen Financial Services AG participated for the sixth time in the "Great Place to Work – Germany's Best Employer" competition, and once again achieved the best possible score. After being reclassified as a company with more than 5,000 employees, Volkswagen Financial Services AG took first place and also received a special award in the "Health Promotion" category. The results from the employee survey and culture audit conducted as part of the benchmark study show an improvement on the excellent ratings from 2011 (for 2012), indicating to us that we have embarked on the right path for shaping our corporate and leadership culture. In 2014 Volkswagen Financial Services AG also took first place in the FOCUS study entitled "Germany's Best Employers" in the large corporation category "Banks and Financial Services".

Volkswagen Financial services AG also performed well in 2013 (for 2014) in the European competition conducted by the Great Place to Work Institute. Volkswagen Financial Services AG made an excellent showing to take 11th place in the category "Best Multinational Employers in Europe", which simultaneously makes it the best company headquartered in Germany. This success is the overall result of the extremely good rankings achieved by our companies in the national competitions of Germany, Italy and the United Kingdom. Other country organizations, such as China, have also participated successfully in national employer competitions. The successful rankings as a top employer and the insights from the studies are important strategic parameters and indicators that help us to safeguard and expand what we have achieved.

It is up to the foreign subsidiaries to implement the international human resources strategy locally. The international human resources department based at our headquarters provides support for our journey to achieving top employer status by providing best practice examples in an HR toolbox. Two international workshops centered around establishing the concept of "optimal human resources work" took place in 2014. The results were communicated and refined at the annual human resources manager conference.

The WIR2018 corporate strategy is being complemented by our "FS Way". It describes our leadership and corporate culture, i.e. how to attain the goals in the four strategic areas of action of customers, employees, profitability and volume, how to approach projects and how to act in the work environment in order to become the world's best automotive financial services provider. The FS way is rooted in the five "FS values", "a living commitment to our customers", "responsibility", "trust and confidence", "courage" and "enthusiasm". The framework works agreement regarding the FS way served to both confirm and specify the fundamental principle of a balanced give-and-take between Volkswagen Financial Services AG as a top employer and the workforce as top employees: Volkswagen Financial Services AG offers job security and wage insurance, a comprehensive range of training options and the environment of a top employer as set out in the WIR2018 strategy. The employees, in turn, shall be open to change and flexibility, willing to improve their qualifications and committed to making an active contribution to increasing the productivity of their work.

The works agreement entitled "Leadership Principles" underscores executive management's key responsibility for implementing our corporate strategy and the binding principles of the FS way.

### Human resources planning and development

In 2014, the Training team of Volkswagen Financial Services AG hired 44 new trainees/dual-track students of Welfen Akademie and Leibniz-Akademie, two universities of co-operative education that offer dual-track courses of study leading respectively to a Bachelor of Arts and a Bachelor of Science in vocational training programs in the fields of banking, insurance and IT. The trainees/students were chosen from a pool of 1,554 applicants.

As of December 31, 2014, a total of 130 trainees and dual-track students were employed with us in Germany for the duration of the apprenticeship programs and in all occupational groups. A female trainee/dual-track student of Volkswagen Financial Services AG was once again awarded the Best Apprentice Award as the year's best trainee by Volkswagen Group Academy. Furthermore, three additional trainees were honored by the Braunschweig Chamber of Commerce and Industry as the best graduates in their professional training program. Immediately following the completion of their training in 2014, four trainees/dual-track students were given the opportunity to broaden their horizons in a 12-month assignment abroad. This "Year Abroad" program is designed for trainees and dual-track students who have completed their apprenticeship and studies with above-average credentials and development potential. Additionally, three trainees from Volkswagen Financial Services AG participated in the Monument Preservation project in 2014, spending a week working at the memorial in Auschwitz with preparation and follow-up.

In 2014 – after the successful launch of a pilot program in 2013 – an additional "automotive competence" qualification was added to the commercial apprenticeship program to ensure that vocational training at Volkswagen Leasing GmbH continues to meet the needs of sales, the dealers and the brands. In total, 42 trainees successfully transitioned into jobs in the reporting year.

In order to continue to attract highly qualified, committed employees for our company going forward, Volkswagen Financial Services AG has a strict concept for recruiting and retaining young academics. Partnerships with selected universities provide a fixed framework for this. For example, in addition to the existing partnerships with Harz University of Applied Sciences, Ostfalia University of Applied Sciences, Braunschweig University of Technology and the Institute of Insurance Economics at the University of Leipzig, a partnership agreement was also signed in 2014 with Hanover University of Applied Sciences and Arts. By awarding "Deutschlandstipendien" (scholarships in Germany jointly funded by the German federal government and private sectors), Volkswagen Financial Services AG supports students at an individual level. The number of scholarships awarded was increased to 16 in 2014. In addition to scholarship holders from our cooperating universities, students from Martin-Luther University in Halle-Wittenberg also received funding for the first time.

The objective of these activities is to enable students to participate in an internship or work-study program, thus encouraging them to work directly for or join the trainee program at Volkswagen Financial Services AG. Outstanding students are further supported through a special talent pool. The 12-month development program, which takes place both at home and abroad, further prepares the ground for ensuring the company's viability in the future. Furthermore, the creation of a doctoral program in 2014 represented a rigorous expansion of the development program for young academics. Our aim is to ensure the early identification, nurturing, long-term retention and recruitment of academic talent so that the future need for specialists and managers at Volkswagen Financial Services AG can be met as part of a forward-looking student talent management program.

In 2013, Volkswagen Financial Services AG founded the FS Academy for the financial services family with the slogan "Erfolg braucht Kompetenz" (Success requires expertise). The FS Academy promotes systematic, specialist training in all automotive financial services offered by the Volkswagen Financial Services AG Group: banking, leasing, insurance, mobile services and FS-specific risk management. In 2013, around 30 skills profiles were created in the pilot areas, and as a result, approximately 880 employees were able to discuss individual qualification measures in employee training reviews for the first time in 2014. A subsequent evaluation determined that 90% of the participating employees were satisfied with the initiative.

Furthermore, training conferences were held for the first time as part of a top-down approach. At these conferences, managers from the business areas focused on the element of skills development and, together with the FS Academy, discussed the areas where action is required in the future and the resulting strategic qualification requirements.

This is then used as a basis to devise, plan and implement customized training measures, enabling requirements to be defined and prioritized via training reviews and training conferences.

Various "internal specialist forums" were held in an effort to design new learning formats. They offer an internal opportunity to share knowledge with high practical value, enabling participants to discuss technical issues from their day-to-day work with a trainer from the internal training center and an expert from their own ranks. By the end of 2014, 91 such events were conducted and around 750 employees were trained.

The “Automotive Competence” seminar was held under the motto “vehicle knowledge for financial services employees” with the aim of combining service and automotive competence. Topics of the seminar included the interaction of Group brands, trading partners and Volkswagen Financial Services AG in the automotive value chain, and there was a particular emphasis on the structure and philosophy of our trade partners.

The concept of “internal teachers” was developed based on the expert concept of the Volkswagen Group. Under this concept, internal knowledge management for the financial services family is structured and the knowledge of internal employees is drawn on to a greater degree. Internal teachers network across specialist areas, creating a mutual understanding of interfacing processes and thereby improving cooperation.

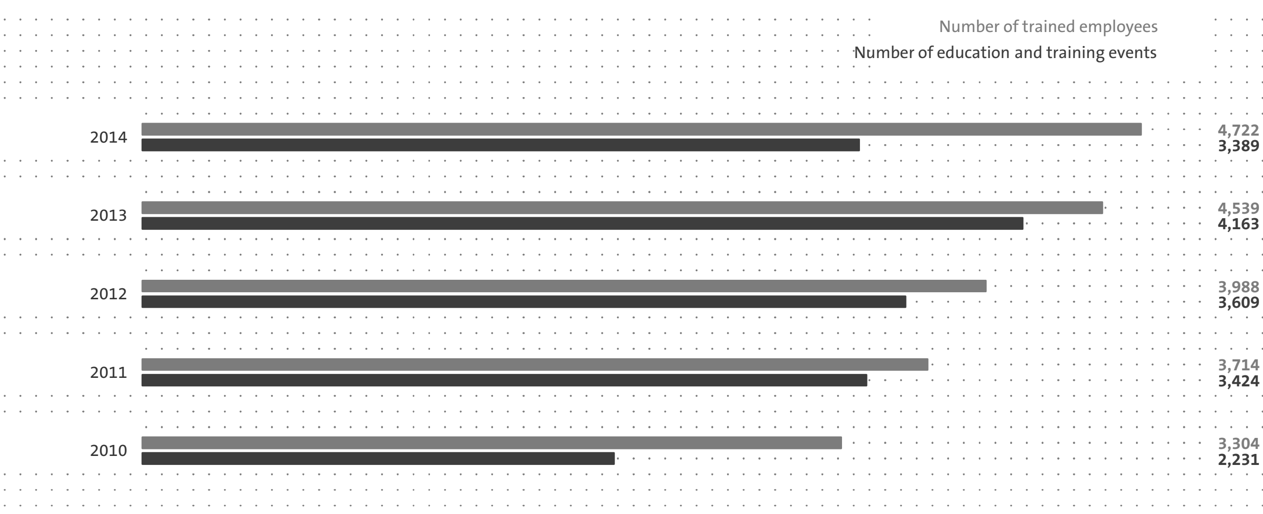
Technical training was offered to employees who require technical skills. Because of the growing significance of e-mobility for the Volkswagen Group, a series of lectures on the topic of high-voltage batteries and an e-mobility training session were created in collaboration with Volkswagen Vertriebsbetreuungsgesellschaft. Using the e-up! and e-Golf initiatives as a foundation, these lectures illustrated the strategic objectives and concepts of the Volkswagen brand and the technical specificities of e-mobility.

Besides the ongoing expansion of the training options, the further rollout plan for the FS Academy in Germany was agreed: All areas of the financial services family are to be integrated into the concept in Germany by 2018.

The international rollout of the "fleet management" topic also began in selected pilot markets. In 2014 the Czech Republic, Spain, the United Kingdom, Brazil and the Netherlands gradually enhanced and harmonized the skills profiles of fleet customer, sales and contract management.

In addition, cooperation with other family academies and the AutoUni of the Volkswagen Group Academy, in particular the Institute for Sales and Marketing, is gradually being increased. This networking within the Group provides two benefits; first, it represents a qualitative increase in the range of training options available and second, synergies can and should result across job families.

**EDUCATIONAL AND TRAINING PROGRAMS***
*As of December 31*




* Due to the revised reporting format in 2014 the previous year’s figures have been restated accordingly.

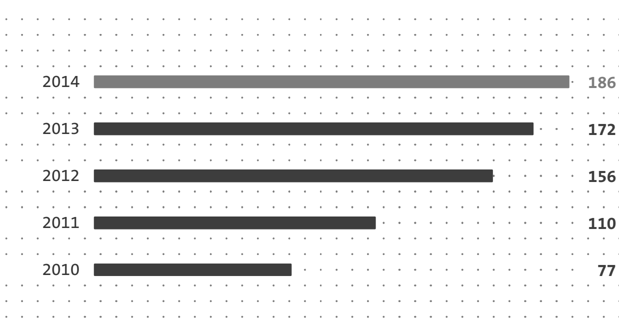
We conduct a standardized procedure for performance target meetings with all managers worldwide, analogously to our parent company Volkswagen AG. In these discussions, we not only set the goals for the coming fiscal year, but also evaluate the degree of target achievement for the year ended and the manager’s performance in terms of professional skills, leadership and cooperation as well as entrepreneurial thinking and action. The performance appraisal along with the degree of target achievement is the basis for determining personal bonuses. At the same time, the assessment of the manager’s potential lays the foundation for our management planning.

Internationally, we continued to work on the broad-based introduction and optimization of Group standards. One focal point of our international human resources activities in 2014 was to optimize the uniform management selection process in all companies. The rollout of the management license – a development program to acquire relevant management skills including a final confirmation process – was further advanced at an international level.

The General Management Program, which started for the fifth time in 2014 with 14 international participants, was comprehensively overhauled. In addition to optimizing the selection process, the contents were revised to focus more strongly on interactive learning methods.

Those attending the Business Campus Week – first-liners from all national subsidiaries – were given the opportunity for a third time to obtain information about specialist topics of strategic importance. The international “FS Way Leadership Training” module also focuses on the definition of leadership within Volkswagen Financial Services AG, taking into account the FS values and the promotion of a positive leadership and feedback culture. This module, which is aimed at country managers and those who report to them directly, was implemented in five regions in 2014. Cross-regional training was also offered for the first time in 2014. A total of 186 foreign assignments and thus yet another increase by more than 11% clearly reflects the internationalization of our business model. A group-wide satisfaction survey on the deployment process was carried out for the first time in 2014, on which Volkswagen Financial Services AG received good marks.

**ASSIGNMENTS**
*As of December 31*




### Raising the percentage of women in the company

Women constitute 53% of the workforce of Volkswagen Financial Services AG in Germany – a level that is not yet reflected in leadership positions. We have made it our goal to permanently raise the share of women in leadership positions to 30%. It was against this backdrop that special human resources marketing measures aimed at women were initiated and executed successfully in 2014.

We are working to achieve the targets that we set for ourselves in 2010 with respect to women in management by giving female candidates special consideration in both recruitment and successor planning and by launching campaigns aimed at achieving a work-life balance. Systematic successor planning and the development of human resources tools play a role, too. For instance, female university graduates are hired in proportion to the number of women who have completed the given course of studies. This rising number of highly qualified women joining the company will enable us to boost the percentage of female executives for different management tiers on a continuous basis in the years to come.

In 2014, the percentage of women in management positions at Volkswagen Financial Services AG Germany was 9.9% in upper management and 18.9% in middle management. Internationally, the percentages were 10.1% in upper management and 27.3% in middle management. Regular reporting makes the progress of this matter transparent for the Board of Management.

Under Volkswagen Financial Services AG’s mentoring program, female managers serve as mentors for the up-and-coming generation of executives in order to impart their practical knowledge and know-how. This mentoring program entails making transparent issues of leadership competence and day-to-day management and providing individual assistance. The second year of the program came to a successful close with six mentees.

A new round of the group-wide mentoring program began this year after undergoing a fundamental redesign. New elements include, in particular, the systematic integration into the human resources development strategy and the program’s Group focus. The 12-month program is aimed at advising, assisting and coaching qualified female staff by the Group’s managers.

The mentoring program consists of three core elements: firstly, the mentor-mentee interaction between the participant and an experienced member of management; secondly, work on a beacon task with a subsequent presentation; and thirdly, a framework program with seminars and information and discussion events.

As a result of the overhaul of the program, Volkswagen Financial Services AG was able in 2014 for the first time to appoint eight female participants to the program instead of two.

Furthermore, internal events (the Pit Stop and Fireside Chat) increased the awareness and attention of managers and selected high-potential employees for the targeted promotion of female talent.

### Diversity

Besides the targeted promotion of women, diversity has been an integral part of our corporate culture since 2002. Among other ways, this is reflected in the findings of the employer benchmark study entitled “Great Place to Work”. Volkswagen Financial Services AG sent a clear signal in 2007 by signing the Diversity Charter. Its participation in the second German Diversity Day with an internal event confirmed this commitment.

Volkswagen Financial Services AG is active in different markets for a highly diverse range of customer groups. As a result, we promote a work environment that is characterized by openness, a sense of community, respect and high regard as well as a global organization where the working life is defined by the effective and achievement-oriented cooperation of all colleagues.

### Health and family

As necessary and taking into account the target group, we raise the topic of promoting health as early as the trainee stage, while human resources managers also bring this message to the individual departments.

One of our most important tools is the "FS CheckUp", which is available to all employees free of charge and upon request during working hours. This program includes state-of-the-art medical diagnostic procedures. First, the check-up determines the employees' current state of health and second, it focuses on the promotion and maintenance of health for the long term thanks to personalized advice.

Special coaching, events and workshops on all relevant issues are designed to identify employees' health problems as early as possible in order to counteract these risks in a timely fashion through a multitude of comprehensive and integrated steps. All health management measures are already aligned with demographic developments. We are continuously refining our integrated approach to health as necessary. For instance, this includes implementing new approaches to issues such as "active relaxation break" and "analyzing stress factors in the workplace". Work and the family are very important to Volkswagen Financial Services AG. This is why the company promotes a family-friendly environment and offers a diverse range of campaigns and programs aimed at achieving a work-life balance.

As a result of our commitment, vision and strategic approach to promoting occupational health, we won the "Health Promotion" special award of the renowned "Great Place to Work – Germany's Best Employer" competition in 2014.

The "Frech Daxe" (cheeky kids) children's house – Volkswagen Financial Services AG's child care center run by Impuls Soziales Management GmbH & Co. KG – is located immediately adjacent to our offices. This facility is unparalleled in Germany in terms of the number of children it can care for (180) and the flexible hours it offers. Both the response to the program and the use of the children's house have been excellent. Children aged a few months up to school-aged children can be cared for between 7:00 a.m. and 8:30 p.m. in a total of ten groups. In 2014, daycare for school-aged children was offered for the first time for all weeks of the Easter, summer and autumn holidays.

The children's house has already received several awards: The German Choir Association gives its Felix Award to kindergartens that are particularly active in the field of music and carry out exemplary work in it. The "House of the Little Researchers" Award is a national brand that is bestowed by the Network of the Braunschweig Research Region. In addition, Niedersächsischer Turner-Bund awarded the center the designation "Bewegungskinderstätte" (a label that recognizes child care centers for offering exercise and sports activities). All awards were won again in 2014.

### Education and mobility

Since May 2013, Volkswagen Financial Services AG has sponsored My Finance Coach Stiftung GmbH in conjunction with other partners. The initiative aims to establish a fundamental interest among children and adolescents in economic matters and to impart practical skills for handling money. Since the start of the collaboration, around 220 employees of Volkswagen Financial Services AG have volunteered to be trained as finance coaches. Then, in teams of two, they voluntarily visit primary school classes and bring illustrative materials in order to partner with the teacher to help teach students about complex issues and independent handling of money and finances. Moreover, since this year Volkswagen Financial Services AG has served on the jury of Bundeswettbewerb Finanzen (a national finance competition for school children), which represents a key component of the My Finance Coach learning offer. Adolescents from a range of different schools participate in the competition for an entire school year.

In addition, the "Bus Project" was created more than ten years ago. Volkswagen Financial Services AG gives children, adolescents and senior citizens the opportunity to view works of contemporary art in the art museum for 16 weeks per year by providing free mobility. Since its launch in 2002, over 54,000 school students and around 8,300 senior citizens have visited the exhibitions.

### Social and regional responsibility

Volkswagen Financial Services AG has sponsored selected nonprofit projects throughout the region for many years. Our employees volunteered at the Braunschweig campaign day "Brücken bauen – Unternehmen engagieren sich" (Building bridges – companies get involved) for the seventh time. In 2014 we were again able to support three social service institutions due to our large number of volunteers. The projects we selected benefited children and parents, seniors and the mentally disabled.

Established by Volkswagen Financial Services AG in December 2008, the non-profit foundation "Our Children in Braunschweig" focuses on socially disadvantaged children. It substantially intensified its involvement in troubled neighborhoods of Braunschweig, the site of the company's headquarters, thus underscoring its deep roots in the region. We supported the foundation with a sizeable donation once again in the reporting year. True to the motto "Together we are making Braunschweig's children strong for a promising future!", employees of Volkswagen Financial Services AG are encouraged to contribute their money, time and ideas. For example, regular donations are collected in voluntary fundraising efforts at sporting events, anniversary and Christmas parties as well as via the monthly workplace giving initiative "1 for All".

Seven institutions – four daycare centers, two primary schools and one lower secondary school – currently receive permanent needs-based support in education, healthy nutrition, physical education and early instruction in music, and other institutions such as sports and youth clubs receive support from one-off campaigns. The focus is on sustainable projects that were established many years ago, including the varied, healthy daily breakfast, the acquisition of the "nutrition passport" or lunch specials for secondary school students, which help to promote vital nutrition education. The swimming classes offered during school holidays aimed at getting children to swim in and under water without fear have enjoyed brisk demand and are very successful. In addition, the foundation cofinances existing projects for early music instruction to a large degree, for example by purchasing the necessary musical instruments and remunerating the required teachers. The "Non-violent Learning" and "Preparing for Working Life" projects, in which students learn how to handle aggression, practice social behavior and build self-esteem, among other things, expanded their support program in 2014.

Volkswagen Financial Services AG also carries out donation drives at regular intervals. The so-called “May Employee Donation” benefited one social institution in the region. The monthly “Remaining Cent Donation” is given to the Terre des Hommes campaign, “One Hour for the Future”. The workforce’s third donation drive to collect donations in kind for the second-hand Fairkauf department store was also very successful. On World AIDS Day in December 2014, the company collected donations for Braunschweig’s AIDS relief charity. As part of the “Donations Instead of Gifts” Christmas campaign, which was initiated in 2010, the company dispensed yet again with presenting gifts to business partners in the fiscal year just ended and instead donated a certain amount of funds to the “Our Children in Braunschweig” foundation. The Works Council’s Xmas tree wish list campaign in collaboration with a number of social institutions has also become an integral part of employees’ activities as volunteers. It enabled each employee to fulfil the Xmas wish of a socially disadvantaged child.

Volkswagen Financial Services AG focuses its sponsoring activities on long-term commitments in the fields of sports, culture and social issues in the Braunschweig region. In sports, among other things, we are a premium sponsor and payment partner for the VfL Wolfsburg football club, exclusive partner for the Eintracht Braunschweig football club, and a main sponsor and jersey sponsor for Braunschweig’s first division basketball club, Basketball Löwen Braunschweig. Our cultural activities enable such events in Braunschweig as the Braunschweig International Film Festival or the event known as “Classics in the Park”, where the State Orchestra of Braunschweig’s State Theatre gives a free concert in a park. Aside from the aforementioned foundation, we also assume social responsibility in connection with projects such as the “Gemeinsam-Preis” (Together Prize) of the Braunschweiger Zeitung, which aims to get people to engage as citizens.

## ENVIRONMENT

### Our contribution to preservation

We reduce the impact of our activities on the environment through systematic management, which ensures that we act in a sustainable manner and make an active contribution to protecting our environment.

### Introduction of an environmental management system

In 2014 we established an environmental management system that created a transparent, ongoing improvement process for corporate environmental protection in all centralized and decentralized areas in order to support the sustainable development of the company. We will have this environmental management system certified pursuant to the DIN EN ISO 14001:2009 standard. In order to ensure steady progress, we involve all of our employees in the corporate environmental protection effort.

A key component of our environmental management system is sustainable facility management. Sustainability is therefore very much at the forefront in both new constructions and renovation projects. This is mainly supported by an integrated planning process, through which building costs can be reduced even further compared to the benchmark. In this process we also consider the follow-up costs, i.e. in particular the operating costs. Such an approach enables us to comply with the standards set by the DGNB, the German Sustainable Building Council, to obtain the necessary certificates.

Among other things, Volkswagen Financial Services is also piloting in its portfolio a new process for new construction, referred to as building information modelling (BIM). It enables sustainable planning processes over the entire life cycle of a building, from planning through to its operation. For example, the BIM method makes it possible to more quickly evaluate new acoustics concepts with optimized noise protection and indoor climate concepts with a long-term cost perspective, and thus further reduce the burden for employees.

As part this ongoing improvement process, we began in 2014 to restructure the vehicle fleet to provide logistics support for the manufacturing facilities at the Braunschweig location and to gradually equip the fleet with electric vehicles. This involves installing charging stations and wall boxes at the site that are easily accessible to both employees and our customers. The charging stations are equipped with state-of-the-art fast charging technology (direct current technology).

### Resource-conserving paper consumption

Our company has launched several projects aimed at implementing measures to reduce the use of paper. By implementing the "Digitales Autohaus" (Digital Car Dealership) project, we will significantly reduce the amount of mail that is sent between car dealerships and Volkswagen Financial Services AG. Furthermore, documents relevant to dealers will be stored electronically, thus eliminating the need for printouts for dealer files. Digitalization will generate considerable optimization potential throughout the entire process between the car dealership and Volkswagen Financial Services AG. The rollout of the system was started at selected dealerships in the reporting year and will be continued in 2015. The ecological potential of this measure will be measured on an ongoing basis.

## PRODUCTS

### Offering intelligent mobility solutions

Our customers expect from us solutions for intelligent and environmentally friendly mobility. We develop attractive financing and service offers to this end.

### Environmental programs

When developing new products we consider not only economic factors but also the impact on the environment.

This aspect is particularly evident in the partnership between Volkswagen Financial Services and the German Nature and Biodiversity Conservation Union (Naturschutzbund Deutschland e.V. – NABU). The objectives of the collaboration are to support our fleet customers in making the switch to especially environmentally friendly fleets and to realize bog protection projects through NABU.

Since it was introduced, this environmental program of Volkswagen Financial Services has yielded clear results, with the average $CO_2$ emissions of new fleet customer leases falling by 17.7% over the last six years.

In 2014 both cooperation partners were once again recognized for their commitment. Ms. Ulrike Scharf, the Bavarian Minister of State for the Environment and Consumer Protection, presented the award as a project of the UN Decade on Biodiversity. This demonstrates once again that ecology and economy go hand-in-hand when it comes to environmental programs. The protection of bogs in Bavaria has also benefited from the environmental program since 2014. The rehydration of the "Königsdorfer Weidfilz" bog in Bavaria creates valuable habitats for rare animals and plants and represents a key contribution to climate protection.

In addition to the significance of the environmental program for climate and environmental protection, the UN jury also acknowledged that this commitment sets an important example for biological diversity in Germany. The designation of the environmental program as a project within the UN Decade for Biodiversity is now the third accolade awarded by an independent party. As early as 2010 Volkswagen Financial Services and NABU received the ÖkoGlobe environmental prize for their cooperation. In 2012 the environmental program was also awarded the "Landmark in a Land of Ideas" prize.

### Electromobility

Volkswagen Financial Services AG supports the increasing electrification of the product portfolio of the Volkswagen Group's brands through the targeted expansion of its e-mobility services. The Charge&Fuel card and app were developed in 2014 together with the Volkswagen Passenger Cars brand. It enables customers all across Germany to charge electricity and refuel gasoline with one card. In connection with Volkswagen Financial Services AG's other green electricity tariffs ("Volkswagen BluePower" and "Audi Energy"), e-mobility contributes to an even more positive customer experience with a good environmental conscience.

### Mobility concepts

Global trends and changing general social and political conditions are permanently changing the mobility needs of countless people. The megatrends of urbanization, digitalization and sustainability in particular are giving rise to the demand for needs-based mobility.

In response to these developments, Volkswagen Financial Services AG has firmly entrenched the topic of new mobility in its corporate strategy. For this reason, we are emphasizing the development of new mobility services in close collaboration with the brands of the Volkswagen Group to make sure that our business model remains viable and to continue meeting the needs of our customers to the highest degree in the future.

### Responsible lending

Volkswagen Bank GmbH is aware of its responsibility as a lender, which is why it has been one of the signatories of the voluntary "Responsible Lending to Consumers" code of conduct since 2010.

This code sets standards for lending and applies to all instalment and revolving credits. Volkswagen Bank GmbH has a fundamental interest in granting loans responsibly. After all, it wants its customers to be able to repay what they have borrowed, which is why there are high standards for the issue of consumer loans.

The code provides an overview of these standards and contains a series of consumer-friendly regulations that go beyond the requirements of law. It comprises a total of ten points based on the lending process, from advertising to handling liquidity problems. In signing the code, the member banks also commit to assuming social responsibility as an enterprise and to promoting general financial education.

During the reporting year Volkswagen Bank GmbH participated in a new publication of the signatories of the code of conduct. This statement uses specific practical examples to document how participating institutions guarantee quality in retail financing. In it, Volkswagen Bank GmbH explains its newly published certification as an "advisor for financial products", which comprises an examination and offers dealership sales staff comprehensive training measures on financial products and the underlying processes. This ensures a high quality of advice when financial services are provided at the car dealership.

## DIALOGUE

### Embodying transparency

We embody dialogue and create transparency through our actions. Social acceptance and an ongoing communication with our stakeholders form the basis of our success.

In the 2014 reporting year we boosted even further the involvement of our employees and our communication with stakeholders.

In 2014 we once again entered into a dialogue with our internal stakeholders - our employees. We did this by holding events such as "WIR2018 in Dialogue" (English: a dialogue about us in 2018), a round table with interested staff formed to discuss elementary strategic issues with management, and also by holding monthly meetings with the CR Excellence team, in which we continue to develop the CR strategy together. The introduction of the environmental management system in particular was communicated to employees using various channels.

The exchange is intensified by integration and networking with many committees of the Volkswagen Group, such as membership of the Group's Environment & Energy and CSR & Sustainability steering committees, as well as with working groups of trade associations.

Another key component is good stakeholder management. In this context, for example, we invited stakeholders from the fields of politics, academia and the economy with knowledge of educational policy to participate in a critical discussion about our commitment in the area of basic economic education.

These measures reflect the results of the stakeholder survey conducted in 2013 and the priority findings that were derived therefrom. We will repeat the stakeholder survey in 2015 in order to once again ascertain stakeholders' expectations of Volkswagen Financial Services AG.

### GREEN FLEET AWARD

"THE GREEN FLEET" environmental award, presented this year for the fifth time, represents what has now become a permanent dialogue format. The award, created in conjunction with NABU, was given in 2014 for ecologically responsible fleets with the largest proportion of environmentally friendly vehicles from the Volkswagen Group. Three categories of fleet sizes were defined: fleets of up to 100, up to 200 and more than 200 vehicles. This award creates an incentive for companies to continue expanding their sustainable image and cost benefits. The success of the GREEN FLEET AWARD is evidenced by the large number of fleet customers – more than 100 for the first time ever – that participated in the fifth anniversary of the presentation of the award in Munich. This year, the Bavarian Minister of State for the Environment and Consumer Protection, Ms. Ulrike Scharf, was the guest speaker and presented the award.

## CORPORATE GOVERNANCE

Volkswagen Financial Services AG is bound by more than just statutory and internal requirements. Commitments that the company has made voluntarily as well as ethical standards are likewise an integral part of our corporate culture and serve at the same time as the guiding principle for our decision making.

Compliance is a basic requirement for sustainable business.

The Board of Management of Volkswagen Financial Services AG therefore ensures compliance with and adherence to both statutory requirements and intragroup guidelines within the Volkswagen Financial Services AG Group. The Supervisory Board monitors this matter.

Our compliance activities are rooted in a group-wide compliance strategy that follows a preventive approach. This means that we make our employees and business partners aware of the relevant topics, train them and hold them contractually responsible where necessary.

The Code of Conduct, which also applies throughout the Volkswagen Financial Services Group, is a key document in this context. Employees receive the relevant training through in-person events or online training programs and the Code of Conduct is given to them in printed or digital format. Suppliers are obligated to meet the Volkswagen Group's requirements with regard to sustainability when it comes to their relationships with business partners (Code of Conduct for Business Partners).

The Volkswagen Group has a worldwide anti-corruption system with independent lawyers as ombudsmen and an internal anti-corruption officer. Volkswagen Financial Services AG has joined this system. The ombudsman system is a worldwide platform through which employees and third parties can report breaches of statutory provisions – in particular corruption and other criminal activities. Two external lawyers ensure that any reported case is investigated further and guarantee the anonymity of the person providing the information.

In order to combat corruption risks, Volkswagen Financial Services AG also has a set of framework instructions to guide employees. Articles are published on the intranet and special information events are held on a regular basis to raise awareness.

In case of doubt or questions, employees may obtain information about compliance from Compliance staff members over the phone or by e-mail.

# *Report on expected developments*

The global economy is expected to grow in 2015. The global economy continues to be driven primarily by the emerging, rapidly growing Asian economies. Many automotive markets are likewise set to expand further in 2015.

After the material opportunities and risks of the company 's business and their forecasts have been set out in the report on opportunities and risks, below we wish to sketch its likely future development. It gives rise to both opportunities and potentials that are integrated into our planning process on an ongoing basis such that we can tap into them in a timely manner.

Our assumptions are based on current assessments of external institutions, among them economic research institutes, banks, multinational organizations and consulting firms.

## GLOBAL ECONOMIC DEVELOPMENT

Our planning assumes that the global economy will grow somewhat more robustly in 2015 than in the reporting year. The emerging markets of Asia are likely to experience the highest growth rates. We expect the economies of the large industrialized countries to revive, but the expansion rates will remain moderate.

The global economy should also grow further in the period from 2016 to 2019.

### Europe/Other markets

In Western Europe, the economic recovery should continue in 2015. Nonetheless, the upturn remains dependent on the resolution of structural problems.

Depending on the further development of the conflict between Russia and Ukraine, the situation in Central and Eastern European economies should remain stable. We anticipate the Russian economy will post negative growth rates for 2015.

Political uncertainties and social tension, in particular due to high unemployment, are likely to impact the South African economy in 2015; nevertheless, growth there should pick up again somewhat.

### Germany

In Germany we expect 2015 to bring solid economic development with steady growth rates on a par with those seen during the reporting year. The labor market situation should also remain positive.

### North America

We forecast a further revival of economic activity in North America during 2015, with economic growth in the US accelerating compared to the previous year.

### Latin America

In 2015 we expect only a modest year-on-year recovery in Brazil's GDP growth. Compared with the previous year, Mexico's economy should gain momentum, and the Argentinian economy is likely to continue shrinking in 2015 due to continued high inflation and the bleak business climate.

### Asia Pacific

In China economic growth is likely to remain strong in 2015. We expect GDP growth in Japan in 2015 to exceed the previous year's level. After a recent slight improvement in the development in India, we forecast the growth rate to stabilize at the same level as in the reporting year. In the ASEAN region, the economic trend in 2015 should improve compared to the reporting year.

## FINANCIAL MARKETS

The global economy will recover slightly in 2015 and moderate, global economic growth is anticipated. Geopolitical uncertainty, characterized by the unresolved Russian-Ukrainian crisis, the centers of conflict in the Middle East as well as the Ebola epidemic, remains high and will continue to weigh on global markets in 2015.

While a continuation of the slight upturn is expected on the whole, in part due to the considerably lower price of oil as well as improved financing conditions, this will be overshadowed by the eurozone's unresolved debt problems.

The depreciation of the euro against the US dollar, the British pound and the Swiss franc will have a particularly positive impact on the corporate profits of export-oriented companies. Capital market developments will continue to weigh on yields as a result of the ECB's sustained expansive monetary policy, which is aimed at preventing deflation.It was decided to implement a government bond buy-buying program as practiced by other central banks.

Thanks to low oil prices and the weaker euro, Germany's economy is likely to remain solid, despite cost increases expected to result from the minimum wage introduced in 2015.

Further developments in Russia depend on international circumstances, most notably the sanctions policy, which could lead to slightly negative growth in the country's GDP. Western sanctions are leading to import substitutions and isolation, which are accompanied by weak performance of the rouble and declining prices for crude oil on the global market.

In the United Kingdom, the Monetary Policy Committee can be expected in the middle of 2015 to reach a decision on whether to raise interest rates, and strong economic growth is likely to continue.

The economic data in the US are slowly recovering, and following the country's expansive monetary policy in the past, forecasts call for economic growth to improve in 2015 with the US Federal Reserve raising interest rates at the end of the first half of 2015. This could potentially lead to a US monetary policy that is contrary to the ECB's monetary policy easing, which would cause the euro to depreciate even further against the dollar.

The euro is faced with the threat of losing investors to foreign markets due to the ECB's decision to purchase government bonds.

The development of the emerging markets is being impacted by a deteriorated global financing environment.

In Mexico, successful reforms and the renewed competitiveness of exporting companies have generated increased interest from investors, which should persist.

The devaluation of the real is expected to continue in Brazil.

China's slower economic growth and the stability of its financial system need to be monitored, as an increase in investing activities could lead to increased lending and the further expansion of shadow banks. Although the central bank can prevent a credit crunch and keep the renminbi exchange rate generally stable thanks to largely domestic sources of financing and strong control measures by supervisory bodies, it will still open the local market to international investors in order to create a positive environment for investing. Despite government support programs, the annual growth rates of gross domestic product are expected to decline.

India will continue to generate a positive growth trend amid ongoing weak state finances, while persistently high structural inflation will limit the scope of action for fiscal and monetary policy.

In Japan, we predict fiscal policy to remain restrictive and value added tax to rise further in 2015. It is difficult to predict whether the goal of a 2% inflation rate can be met in the future.

### DEVELOPMENT OF THE PASSENGER CAR MARKETS

We project different trends for the passenger car markets in the various regions in 2015. On the whole, worldwide demand for new vehicles will likely rise more slowly than in the reporting year.

The Volkswagen Group is extremely well positioned to deal with a heterogeneous development of global automotive markets. Our broad, steadily growing product range, which includes the most recent generation of fuel-optimized engines and a variety of alternative drive systems, gives us a competitive advantage worldwide. Our goal is to offer every customer the mobility and innovations they need and thereby strengthen our competitive position for the long term.

We anticipate that global demand for passenger cars will continue growing in the period from 2016 to 2019 as well.

#### Europe/Other markets

Following the conclusion of the downward trend in Western Europe during the reporting year, and with growth being reported for the first time following four years of declines, we expect demand for automobiles to increase moderately again in 2015. No return to pre-crisis levels is anticipated in the medium term, however. The prolonged sovereign debt crisis will continue to cause uncertainty among consumers in many countries in the region and limit their financial options for buying new cars. The moderate recovery in Spain and Italy is expected to continue; we anticipate the market volume in the United Kingdom will be slightly less than the high level seen during the reporting year. We expect growth in France to exceed that of 2014 due to a scrappage premium for diesel vehicles that came into effect in 2015.

In the Central and Eastern European markets, passenger car demand in 2015 is likely to be down sharply year-on-year. This will be due in large part to the Russian market, which will probably be far short of last year's level because of the political crisis. In contrast, we expect further growth or flat year-on-year market volume in many Central European markets.

Following a weak 2014, we forecast the volume of South Africa's automotive market in 2015 will be similar to the previous year.

#### Germany

The German automotive market succeeded in halting its downward trend during the reporting year and reported growth. We expect demand to grow slightly in 2015 as well, provided there is no deterioration in economic conditions.

#### North America

For 2015 we expect that the market for passenger cars and light trucks (up to 6.35 t) in the US will benefit from the positive situation in the labor market and attractive financing conditions, and that last year's trend will continue, albeit at a noticeably weaker pace. Growth will be driven mainly by the SUV segment. Demand in the Canadian market should be slightly below the high level of the previous year.

### Latin America

Because of their dependence on the demand for commodities, the South American markets are strongly influenced by developments in the global economy. Furthermore, increasingly protectionist tendencies are also adversely affecting the region's vehicle markets, especially in Brazil and Argentina, which have imposed restrictions on vehicle imports. In South American passenger car markets, volume in 2015 will probably be much less than in 2014. In Brazil, South America's largest market, we anticipate the market volume in 2015 will be far short of the prior-year level. We expect a slightly positive trend in Mexico. In the wake of the market collapse in 2014, we expect another sharp decline in demand in the Argentinian market due to persistently high inflation and the difficult overall economic situation.

### Asia Pacific

The passenger car markets in the Asia Pacific region are likely to continue their growth in 2015, albeit at a slower pace. In China, the ongoing growing need for individual mobility will continue to boost demand, but the tempo will slow. While volume in the Japanese passenger vehicle market was moderately higher in 2014 compared with 2013, we expect it will fall sharply in 2015, primarily due to the expiration of tax benefits. On the other hand, we anticipate the Indian passenger vehicle market will see volumes in 2015 that are slightly higher than in the prior year.

We expect that passenger vehicle sales in the ASEAN markets will grow in 2015 compared with the reporting year, when a slump in demand in the passenger vehicle market in Thailand resulted in lower year-on-year passenger vehicle sales figures for the overall ASEAN region.

## DEVELOPMENT OF THE COMMERCIAL VEHICLE MARKETS

We project different trends for the light commercial vehicle markets in the various regions in 2015. Overall, we expect demand to increase moderately, a trend which should continue between 2016 and 2019.

Against the backdrop of ongoing economic stabilization expected in 2015, we predict slight growth in the light commercial vehicle markets of many Western European countries. In Germany, we project that vehicle sales will match the previous year's level.

In the Central and Eastern European markets, sales of light commercial vehicles should reach the previous year's level in 2015. We expect the market volume in Russia to decline further in 2015.

In North America, light trucks are allocated to the passenger car market.

We anticipate that demand on the South American market in 2015 will significantly exceed the previous year's level. The popularity of pickup and SUV models in particular will increase. In Brazil, market growth will be driven by newly introduced SUV models that are registered as commercial vehicles. Due to the overall economic situation in Argentina, we expect demand in 2015 to fall short of the previous year's level.

In the Asia Pacific region, the market volume in 2015 will likely be moderately higher than in the previous year. The Chinese market will grow slightly less than in the prior year. In Japan, we forecast the current slight downward trend will continue in 2015.

In 2015 we project further growth in a majority of the Asian markets for light commercial vehicles, including the ASEAN markets.

In the markets for medium and heavy-duty commercial vehicles that are relevant to the Volkswagen Group, new registrations in 2015 are likely to fall well short of the previous year's level. However, we expect a positive trend to develop between 2016 and 2019.

Due to the economic recovery, we expect demand in the Western European markets to slightly exceed the previous year's level, which was negatively impacted by pull-forward effects from 2014 into 2013 following the introduction of the Euro-6 emission standard. In Germany, the volume of new registrations in 2015 should also slightly exceed the previous year's level.

We anticipate that demand in the markets of Central and East Europe – excluding Russia – will be similar to 2014. In view of the very weak overall economic development in Russia during the reporting period and the sanctions associated with the political crisis, we expect the market volume to decrease in 2015.

In the US market, sales should increase markedly in 2015 due to high demand for energy-efficient vehicles and the resulting higher need to make replacement purchases in the heavy-duty segment.

We project the Brazilian market will develop in 2015 at a rate that falls significantly short of the previous year's level. This is due to the persistently weak macroeconomic environment and the savings measures introduced by the government, which means, among other things, that very little subsidized financing will be provided for products in the automotive industry.

In China, the world's largest truck market, we predict that sales in 2015 will nearly reach the previous year's level. In India, on the other hand, we expect that the change of government in May 2014 will lead to further investment momentum, from infrastructure projects among other areas, and forecast a market volume for 2015 that significantly exceeds the previous year's level.

We expect that in 2015 the bus markets relevant for the Volkswagen Group will see markedly fewer new registrations due to negative economic trends in the South American markets. While we anticipate that demand in Western Europe during 2015 will reach the previous year's level, and that the markets in Central and Eastern Europe should grow somewhat, we expect the South American markets to contract significantly.

For 2016 to 2019, we project moderate overall growth in the bus markets that are relevant to the Volkswagen Group.

### INTEREST RATE TRENDS

The central banks boosted the global economy and the financial system with their expansive monetary policy during the 2014 fiscal year and also at the start of the current fiscal year. This continues to be reflected in historically low interest rates. Sustained uncertainty about global economic growth will likely prompt central banks to maintain their monetary policy stimulus programs. As 2015 progresses, we anticipate that the European Central Bank will adhere to its policy of low interest rates, meaning the level of interest rates in Europe will continue to languish at a low level. The interest rate policies of other central banks, on the other hand, particularly those in the US and the United Kingdom, seem to have ushered in the end of the low interest rate period, which is why rising interest rates are more likely there.

### MOBILITY CONCEPTS

Social and political parameters increasingly impact many people's approach to mobility. Large metropolitan areas in particular are giving rise to new challenges in connection with the design of an intelligent mobility mix comprising public transportation as well as motorized and nonmotorized private transport. Mobility is being redefined in many respects.

The Volkswagen Group has already responded in a comprehensive fashion to these challenges by developing fuel- and emission-optimized vehicles. In collaboration with the automotive brands of the Volkswagen Group, Volkswagen Financial Services AG is working intensely to be a pioneer in the development of new mobility concepts, just as has been the case for a long time in the classical automotive business.

New mobility solutions will expand the traditional definition of what it means to own an automobile. With its wide product range, including leasing, long-term and short-term rental for cars and trucks as well as carsharing, Volkswagen Financial Services AG together with its subsidiaries now meets an even larger share of its customers' mobility needs.

Simple, transparent, safe, reliable, affordable and flexible – these are the key requirements that our business must satisfy in the future. Volkswagen Financial Services AG continues to carefully track the development of the mobility market, and is already working on new models to support alternative marketing approaches and to establish new mobility concepts in order to secure and expand its business model.

In doing so, we will realize the core of our brand promise in the future too and remain the "key to mobility" in the long term.

### NEW MARKETS/INTERNATIONALIZATION/NEW SEGMENTS

The financing, leasing and mobility services businesses are becoming increasingly important globally for attracting and ensuring customer loyalty for the long term. Volkswagen Financial Services AG, as the financial services provider for the Volkswagen Group brands, will further extend these business activities to additional geographical locations, and specifically review expansion of our local presence in the ASEAN countries, Latin America and the Middle East by way of various market entry concepts.

### SUMMARY OF THE COMPANY'S EXPECTED DEVELOPMENT

Volkswagen Financial Services AG expects its growth in the next fiscal year to be linked to the development of vehicle sales of the Volkswagen Group. The company aims to boost its business volume and expand its international orientation by increasing the penetration rate, expanding the product range in existing markets and developing new markets. For more information regarding credit and residual value risk, please see the disclosures in the report on opportunities and risks.

Sales activities related to the Volkswagen Group brands will be further intensified, particularly through joint strategic projects.

Furthermore, Volkswagen Financial Services AG intends to continue enhancing the leveraging of potential along the automotive value chain.

Our aim is to fulfil the desires and needs of our customers in cooperation with the Volkswagen Group brands as best we can. The desire for mobility and fixed predictable costs, in particular, are foremost on customers' minds. The product packages and mobility offers that were successfully introduced in recent years will be further refined according to customer needs.

In parallel with the company's market-based activities, the position of Volkswagen Financial Services AG vis-à-vis its global competition will be further strengthened through strategic investment in structural projects as well as process optimizations and productivity gains.

### PROSPECTS FOR 2015

The Board of Management of Volkswagen Financial Services AG projects that despite some uncertainties the global economy will grow at a slightly higher rate in 2015 than it did in the previous year. Risks continue to arise in the financial markets, in particular due to the strained debt situation in many countries. Moreover, geopolitical tension and conflicts negatively impact prospects for growth. The emerging markets of Asia are likely to experience the highest growth rates. We expect the economies of the large industrialized countries to revive, but the expansion rates will remain moderate.

The following overall picture emerges, taking the aforementioned factors and the development of the market into account: Our expectations in terms of earnings are based on assumptions about stable refinancing costs, continued significant uncertainties regarding the economic environment and the impact of these uncertainties on risk costs, among other things. Assuming that margins remain stable in the coming year, the operating profit in 2015 should match that of the previous year.

We anticipate the trend toward increasing new contracts and a growing portfolio of current contracts from previous years to continue. In addition, we assume that in 2015 we will again be able to boost our penetration rate slightly in an overall growing vehicle market. We expect the business volume to grow significantly in 2015. Compared to the reporting year, a relatively stable level of deposits is projected for Volkswagen Bank GmbH in 2015 despite the persistently low interest rate environment. The stepped-up capital requirements and the sharply higher capitalization that results will probably lead to a slightly lower return on equity in 2015 than in 2014. Due to profit for the period, we expect the cost/income ratio in 2015 to be at or slightly below the level of the previous year.

### FORECAST OF THE DEVELOPMENT OF KEY CONTROL VARIABLES FOR FISCAL YEAR 2015 COMPARED WITH THE PRIOR-YEAR FIGURES

| | Actual 2013 | Actual 2014 | Forecast for 2015 | |
|---|---|---|---|---|
| Non-financial key performance indicators | | | | |
| Penetration in % | 25.8 | 28.0 | > 28.0 | slight increase |
| Number of current contracts, in thousands of units | 8,848 | 10,249 | > 10,249 | constant increase |
| Number of new contracts, in thousands of units | 3,518 | 4,137 | > 4,137 | constant increase |
| Financial key performance indicators | | | | |
| Volume of business in € million | 76,209 | 89,374 | > 89,374 | significant increase |
| Deposit volume, in € million | 24,286 | 26,224 | = 26,224 | stable level |
| Operating result in € million | 1,214 | 1,293 | = 1,293 | at prior-year level |
| Return on equity, in % | 14.9 | 12.7 | < 12.7 | slightly lower |
| Cost/income ratio in % | 58 | 60 | ≤ 60 | below / at the prior-year level |

Braunschweig, February 10, 2015
The Board of Management

Frank Witter

Dr. Mario Daberkow

Frank Fiedler

Christiane Hesse

Dr. Michael Reinhart

Lars-Henner Santelmann

This report contains statements concerning the future business development of Volkswagen Financial Services AG. These statements are based on assumptions about the development of economic and legal underlying conditions in individual countries and economic regions with respect to the global economy and the financial and automotive markets. We have made these assumptions on the basis of the information available to us, which we believe to be realistic at this time. These estimates necessarily include certain risks, and actual development may differ from these expectations. Therefore, should there be an unexpected decrease or stagnation in demand in the key sales markets of the Volkswagen Group, this will impact our business development accordingly. The same applies to major exchange rate developments regarding the euro. Furthermore, there may also be deviations from the projected business development if estimates made in the 2014 Annual Report relating to key control variables and risks and opportunities develop differently than currently expected or additional risks and/or opportunities or other factors arise which impact business development.

# *Consolidated financial statements*

CONTENTS

# *Income statement*

## OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

| € million | Notes | Jan. 1 – Dec. 31, 2014 | Jan. 1 – Dec. 31, 2013 | Change in % |
|---|---|---|---|---|
| Interest income from lending transactions | | 3,700 | 3,337 | 10.9 |
| Net income from leasing transactions before risk provisions | | 1,300 | 1,333 | –2.5 |
| Interest expense | | –1,579 | –1,441 | 9.6 |
| Net income from insurance business | | 45 | 32 | 40.6 |
| Net income from lending, leasing and insurance transactions before risk provisions | 21 | 3,466 | 3,261 | 6.3 |
| Risk provisions arising from lending and leasing business | 9, 22, 33 | –469 | –615 | –23.7 |
| Net income from lending, leasing and insurance transactions after risk provisions | | 2,997 | 2,646 | 13.3 |
| Commission income | | 597 | 542 | 10.1 |
| Commission expenses | | –465 | –402 | 15.7 |
| Net commission income | 23 | 132 | 140 | –5.7 |
| Result from the measurement of derivative financial instruments and hedged items | 10, 24 | –12 | 8 | X |
| Result from joint ventures accounted for using the equity method | | 34 | 77 | –55.8 |
| Result from marketable securities and other financial assets | 25 | 7 | 8 | –12.5 |
| General and administrative expenses | 26 | –1,893 | –1,604 | 18.0 |
| Other operating result | 27 | 52 | 40 | 30.0 |
| **Profit before tax** | | **1,317** | **1,315** | **0.2** |
| Income tax expense | 6, 28 | –420 | –373 | 12.6 |
| Profit after tax | | 897 | 942 | –4.8 |
| Result after taxes attributable to Volkswagen AG | | 897 | 942 | –4.8 |

# *Statement of comprehensive income*

## OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

| € million | Notes | Jan. 1 – Dec. 31, 2014 | Jan. 1 – Dec. 31, 2013 |
|---|---|---|---|
| **Profit after tax** | | **897** | **942** |
| Revaluations from pension plans recognized in equity | 46 | −128 | 30 |
| deferred taxes thereon | 6, 28 | 38 | −9 |
| Non-reclassifiable income and expense of shares measured using the equity method, recognized in equity, after taxes | | 0 | −2 |
| **Income/loss not reclassifiable** | | **−90** | **19** |
| Available-for-sale financial assets (marketable securities): | | | |
| – Fair value changes recognized in equity | | 12 | 13 |
| – Recognized in the income statement | | 0 | 22 |
| deferred taxes thereon | 6, 28 | −3 | −10 |
| Cash flow hedges: | 10 | | |
| – Fair value changes recognized in equity | | 1 | −21 |
| – Recognized in the income statement | | −5 | 14 |
| deferred taxes thereon | 6, 28 | 1 | 2 |
| Currency translation differences | 4 | −9 | −275 |
| Reclassifiable income and expense of shares measured using the equity method, recognized directly in equity, after taxes | | −4 | −8 |
| **Reclassifiable income/loss** | | **−7** | **−263** |
| **Other comprehensive income after taxes** | | **−97** | **−244** |
| **Comprehensive income** | | **800** | **698** |
| Comprehensive income attributable to Volkswagen AG | | 800 | 698 |

# *Balance sheet*

## OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

| € million | Notes | 31.12.2014 | 31.12.2013 | Change in % |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash reserve | 7, 30 | 451 | 220 | X |
| Receivables from financial institutions | 8, 31 | 2,036 | 2,019 | 0.8 |
| Receivables from customers arising from | | | | |
| Retail financing | | 47,663 | 40,284 | 18.3 |
| Wholesale financing | | 12,625 | 11,082 | 13.9 |
| Leasing business | | 18,320 | 16,298 | 12.4 |
| Other receivables | | 7,263 | 5,527 | 31.4 |
| Receivables from customers in total | 8, 32 | 85,871 | 73,191 | 17.3 |
| Derivative financial instruments | 10, 34 | 955 | 509 | 87.6 |
| Marketable securities | 11 | 2,013 | 2,451 | −17.9 |
| Joint ventures accounted for using the equity method | 35 | 443 | 384 | 15.4 |
| Other financial assets | 12, 35 | 156 | 622 | −74.9 |
| Intangible assets | 13, 36 | 184 | 154 | 19.5 |
| Property, plant and equipment | 14, 37 | 307 | 264 | 16.3 |
| Leasing and rental assets | 16, 38 | 10,766 | 8,545 | 26.0 |
| Investment property | 16, 38 | 22 | 18 | 22.2 |
| Deferred tax assets | 6, 39 | 1,145 | 710 | 61.3 |
| Income tax assets | 6 | 159 | 161 | −1.2 |
| Other assets | 40 | 2,723 | 1,744 | 56.1 |
| **Total** | | **107,231** | **90,992** | **17.8** |

| | Notes | 31.12.2014 | 31.12.2013 | Change in % |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Liabilities to financial institutions | 17, 42, 44 | 13,135 | 11,134 | 18.0 |
| Liabilities to customers | 17, 42 | 38,721 | 33,705 | 14.9 |
| Securitized liabilities | 43, 44 | 37,243 | 31,516 | 18.2 |
| Derivative financial instruments | 10, 45 | 446 | 326 | 36.8 |
| Provisions | 18 – 20, 46 | 1,493 | 1,459 | 2.3 |
| Deferred tax liabilities | 6, 47 | 318 | 330 | −3.6 |
| Income tax obligations | 6 | 311 | 364 | −14.6 |
| Other liabilities | 48 | 1,429 | 1,141 | 25.2 |
| Subordinated capital | 44, 49 | 2,204 | 2,134 | 3.3 |
| Equity | 51 | 11,931 | 8,883 | 34.3 |
| Subscribed capital | | 441 | 441 | – |
| Capital reserves | | 6,964 | 4,709 | 47.9 |
| Retained earnings | | 4,807 | 4,004 | 20.1 |
| Other reserves | | −281 | −271 | 3.7 |
| **Total** | | **107,231** | **90,992** | **17.8** |

# *Statement of changes in equity*

## OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

| | | | | OTHER RESERVES | | | | |
|---|---|---|---|---|---|---|---|---|
| € million | Subscribed capital | Capital reserve | Retained earnings | Currency translation | Cash flow hedges | Market valuation marketable securities | Equity-accounted investments | Total equity |
| As of Jan. 1, 2013 | 441 | 4,709 | 3,659 | 9 | 6 | −18 | −4 | 8,802 |
| Profit after tax | – | – | 942 | – | – | – | – | 942 |
| Other comprehensive income after taxes | – | – | 20 | −275 | −5 | 25 | −9 | −244 |
| Comprehensive income | – | – | 962 | −275 | −5 | 25 | −9 | 698 |
| Payments into the capital reserves | – | – | – | – | – | – | – | – |
| **Distributions / profit transfer to Volkswagen AG** | **–** | **–** | **−617** | **–** | **–** | **–** | **–** | **−617** |
| As of Dec. 31, 2013 | 441 | 4,709 | 4,004 | −266 | 1 | 7 | −13 | 8,883 |
| | | | | | | | | |
| As of Jan. 1, 2014 | 441 | 4,709 | 4,004 | −266 | 1 | 7 | −13 | 8,883 |
| **Profit after tax** | **–** | **–** | **897** | **–** | **–** | **–** | **–** | **897** |
| Other comprehensive income after taxes | – | – | −90 | −9 | −3 | 9 | −4 | −97 |
| Comprehensive income | – | – | 807 | −9 | −3 | 9 | −4 | 800 |
| Payments into the capital reserves | – | 2,255 | – | – | – | – | – | 2,255 |
| Change in the basis of consolidation | – | – | 142 | 8 | −9 | – | −2 | 139 |
| Distributions / profit transfer to Volkswagen AG | – | – | −147 | – | – | – | – | −147 |
| **As of Dec. 31, 2014** | **441** | **6,964** | **4,807** | **−267** | **−11** | **16** | **−19** | **11,931** |

Additional comments on equity are shown in note (51).

# *Cash flow statement*

## OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

| € million | Jan. 1 – Dec. 31, 2014 | Jan. 1 – Dec. 31, 2013 |
|---|---|---|
| **Profit after tax** | **897** | **942** |
| Depreciation, amortization, valuation allowances and write-ups | 2,448 | 2,194 |
| Change in provisions | 12 | 11 |
| Change in other non-cash items | −287 | 644 |
| Result from the sale of financial assets and property, plant and equipment | 0 | 0 |
| Interest result and dividend income | −2,992 | −2,672 |
| Other adjustments | 7 | 1 |
| Change in receivables from financial institutions | −74 | 102 |
| Change in receivables from customers | −7,872 | −6,631 |
| Change in leasing and rental assets | −3,393 | −2,645 |
| Change in other assets from operating activities | −872 | −378 |
| Change in liabilities to financial institutions | 77 | 640 |
| Change in liabilities to customers | 2,385 | 2,865 |
| Change in securitized liabilities | 5,279 | 2,985 |
| Change in other liabilities from operating activities | 219 | 25 |
| Interest received | 4,564 | 4,096 |
| Dividends received | 7 | 17 |
| Interest paid | −1,579 | −1,441 |
| Income tax payments | −471 | −570 |
| **Cash flow from operating activities** | **−1,645** | **185** |
| Cash inflows from the sale of investment property | 0 | 3 |
| Cash outflows from the purchase of investment property | −4 | −12 |
| Cash inflows from the sale of subsidiaries and joint ventures | 33 | 1,678 |
| Cash outflows from the purchase of subsidiaries and joint ventures | −568 | −158 |
| Cash inflows from the sale of other assets | 17 | 13 |
| Cash outflows from the purchase of other assets | −106 | −101 |
| Change in investments in marketable securities | 453 | −723 |
| **Cash flow from investing activities** | **−175** | **700** |
| Cash inflows from changes in capital | 2,255 | – |
| Distribution/profit transfer to Volkswagen AG | −217 | −570 |
| Change in funds resulting from subordinated capital | 27 | −449 |
| **Cash flow from financing activities** | **2,065** | **−1,019** |
| | | |
| **Cash and cash equivalents as of the end of the previous period** | **220** | **355** |
| Cash flow from operating activities | −1,645 | 185 |
| Cash flow from investing activities | −175 | 700 |
| Cash flow from financing activities | 2,065 | −1,019 |
| Effects from exchange rate changes | −14 | −1 |
| **Cash and cash equivalents as of the end of the period** | **451** | **220** |

Comments on the cash flow statement are shown in note (64).

# *Notes*

## TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP AS OF DECEMBER 31, 2014

### GENERAL COMMENTS

Volkswagen Financial Services Aktiengesellschaft (VW FS AG) is a joint stock company. It has its head office in Germany at Gifhorner Strasse, Braunschweig, and is registered in the Braunschweig Register of Companies (under file number HRB 3790).

The object of the company is the development, sale and management of own and outside financial services, in Germany and abroad, which are appropriate for furthering the business of Volkswagen AG and its affiliated companies.

Volkswagen AG, Wolfsburg, is the sole shareholder in the parent company, VW FS AG. A control and profit transfer agreement exists between Volkswagen AG and VW FS AG.

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

### GROUP ACCOUNTING PRINCIPLES

VW FS AG prepared its consolidated financial statements as of December 31, 2014 according to International Financial Reporting Standards (IFRS), as applicable in the European Union, and the interpretations of the International Financial Reporting Standards Interpretation Committee (IFRS IC), as well as supplementary provisions that are applicable under § 315a(1) of the Handelsgesetzbuch (German Commercial Code – HGB). All of the IFRS standards that were approved by the International Accounting Standards Board (IASB) as of December 31, 2014 and whose application in the European Union was mandatory for the 2014 fiscal year, were taken into account in these consolidated financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the consolidated financial statements according to IFRSs include the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks of future development (risk report in accordance with § 315(1) HGB) is included in the management report on pages 54 to 68. please refer the the risk report as part of the management report for qualitative information on default risk (Chapter: Credit risk, pages 59 to 61).

All estimates and assessments required for accounting and measurement under IFRSs were made in accordance with the applicable standard. They are remeasured continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If estimates to a greater extent were necessary, the assumptions made are explained in detail in the note to the corresponding item.

The Board of Management prepared the consolidated financial statements on February 10, 2015. The period allowing for adjustments of amounts recognized in the financial statements ended with this date.

### ESTIMATES AND ASSUMPTIONS BY MANAGEMENT

Preparation of the consolidated financial statements requires management to make certain assumptions and estimates that affect the amount and presentation of recognized assets and liabilities and income and expenses, as well as the disclosure of contingent assets and liabilities in the reporting period. The assumptions and estimates largely relate to the following items:

Impairment testing of non-financial assets (particularly goodwill and brand names) and joint ventures measured using the equity method or at cost requires assumptions to be made about future cash flows during the planning period.

The recoverable amount of the Group's leased assets also depends on the residual value of the leased vehicles after the end of the lease term, as this represents a substantial part of the expected cash flows. For more information on impairment testing as well as on the measurement parameters used, please refer to the explanations on the accounting policies for intangible assets (note 13) and leasing (note 16).

If there are no observable market inputs, the fair value of any assets and liabilities acquired in a business combination is calculated using a recognized valuation technique, such as the relief-from-royalty method or the residual value method.

Calculating the recoverable amount of financial assets requires estimates to be made about the amount and the probability of occurrence of future events. Where possible, the estimates are derived from historical experience. In the case of receivables from customers, both specific and portfolio-based allowances for doubtful accounts are recognized. For an overview of the specific and portfolio-based allowances for doubtful accounts, please refer to the notes on the provisions for risks (note 9).

The recognition and measurement of provisions is also based on assumptions about the amount and probability of occurrence of future events as well as on the estimate of the discount factor. Past experience or reports by external experts are also drawn on wherever possible. Please refer to note 18 for the assumptions underlying the calculation of pension provisions. Actuarial gains and losses are recognized in other comprehensive income and do not affect the profit or loss presented in the income statement.

Any change in estimates of the amount of other provisions must always be recognized through profit or loss. Due to the recognition of expected values, subsequent additions are frequently made to provisions or unused provisions are reversed. Reversals of provisions are recognized as other operating income, while the expense from the recognition of provisions is recorded directly in the respective expense items. The accounting and measurement of new provisions for litigation and legal risk requires assessments of the corresponding legislation and the outcome of legal proceedings. The assessment is made on a case-by-case basis based on the development of the proceedings, past experience in the company with similar circumstances, and the assessment of experts and attorneys.

Provisions for the insurance business are presented in note 19. Notes 20 and 46 provide an overview of the other provisions.

The valuation parameters are subject to a regular review within the scope of calculating the amount of the burden from the service contracts for maintenance and wear and tear.

The accounting for uncertain income tax items is based on the best estimate of the expected tax payment. When deferred tax assets are calculated, assumptions must be made about future taxable income and the timing of the utilization of the deferred tax assets. The valuation of deferred tax assets for tax losses carried forward is usually based on future taxable income in a planning period of five fiscal years.

Estimates by management are necessary to calculate the fair value of financing instruments. This relates to both fair value as a unit of measurement in the balance sheet as well as to fair value disclosures in the notes. Fair value is subdivided into three levels depending on their respective input factors. Different management estimates are incorporated into these categories. Fair values under Level 1 are based on quoted prices in active markets. Management's estimates here relate to the determination of the principal market and the most advantageous market. Fair values under Level 2 are determined based on observable market evidence using market-related valuation techniques. This level requires fewer subjective management decisions because the valuation techniques are recognized models customary for the sector. In addition, the input factors used are observable. Fair values under Level 3 are determined using valuation techniques which incorporate factors that are not observable in an active market. This level requires management to make an assessment about the valuation technique to apply and the input factors to use. The input factors are developed based on the best information available. When using own data as the foundation for the calculation, reasonable adjustments are made to reflect market conditions as best as possible.

The underlying assumptions and estimates are based on the information available at the preparation date. In particular, the expected future business development was based on the circumstances prevailing when the consolidated financial statements were prepared, taking into account a realistic assumption about the future development of the global and sector-specific environment. Our estimates and assumptions remain subject to a high degree of uncertainty because future business developments are subject to uncertainties that in part cannot be influenced by the VW FS AG Group. This applies in particular to short and medium-term cash flow forecasts and to the discount rates used.

Actual amounts may differ from the original estimates because of changes in this environment that differ from the assumptions and lie outside the control of management. If actual developments differ from the expected developments, the underlying assumptions and, if necessary, the carrying amounts of the assets and liabilities affected are adjusted.

Estimates and assumptions by management were based in particular on assumptions relating to the development of the general economic environment, the automobile markets, the financial markets and the legal environment.

### EFFECTS OF NEW AND REVISED IFRS STANDARDS

VW FS AG has implemented all accounting standards requiring mandatory application starting in the 2014 fiscal year. Since January 1, 2014 the pronoucements of the so-called consolidation package must be applied. These include the newly enacted IFRS 10, IFRS 11 and IFRS 12 standards and adjustments to IAS 28. IFRS 10 (consolidated financial statements) determines the entities to be included in consolidation and the type of consolidation of subsidiaries in the consolidated financial statements. The conversion from IAS 27 to IFRS 10 did not necessitate any amendments for VW FS AG, because the parent company/subsidiary and control relationships are, in principle, based on majority voting rights. Accordingly, neither company had to consolidated or deconsolidated. IFRS 11 governs the definition and treatment of joint arrangements in the consolidated financial statements.

Joint agreements must distinguish between joint ventures and joint operations. Given that all companies that are under the joint management of VW FS AG or a subsidiary continue to be classified as joint ventures, the application of IFRS 11 does not have any impact. IFRS 12 includes all the details about interests in other entities and therefore bundles all the necessary disclosures in the notes on subsidiaries, joint agreements, associates as well as entities to feature consolidated and nonconsolidated structures. The scope of the information to be published was extended accordingly.

The application of the at-equity method in accordance with IAS 28 is permitted for joint ventures and associates since January 1, 2014. The right to incorporate these entities in the consolidated financial statements was abolished in accordance with the proportionate consolidation method. Given that the proportionate consolidation method was not applied in VW FS AG to date, the abolition of the option did not result in any adjustments for the VW FS AG Group.

With the amendment to IAS 32, the netting model is adhered to in principle but is substantiated through additional application guidelines. The amendments clarify that the right to offset must exist as of the balance sheet date – i.e. it may not be dependent on a future event. It also clarifies that under certain circumstances the gross settlement method effectively corresponds to the net settlement method, and in these cases meets the criteria of IAS 32.

The amendment to IAS 39 means that derivatives, despite a novation, remain designated as hedging instruments when certain conditions are met.

All other accounting standards to be applied for the first time in the 2014 fiscal year do not have a significant impact on the net assets, financial position and results of operations in the consolidated financial statements of VW FS AG.

### NEW AND REVISED IFRS STANDARDS NOT APPLIED

In its consolidated financial statements for 2014 VW FS AG did not apply the following accounting pronouncements, which were adopted by the IASB but whose application was not mandatory in the fiscal year.

| Standard/ Interpretation | | Published by the IASB | Mandatory application[1] | Adopted by the EU | Expected effects |
|---|---|---|---|---|---|
| IFRS 9 | Financial instruments | 24.07.2014 | 01.01.2018 | No | Revised accounting requirements for changes in the fair value of financial instruments previously designated as available-for-sale, modified procedure for determining risk provisions, expansion of designation possibilities, simplified effectiveness checks, expansion of the notes |
| IFRS 10 and IAS 28 | Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sale or Contribution of Assets by an Investor to its Associated Company or Joint Venture | 11.09.2014 | 01.01.2016 | No | None |
| IFRS 10, IFRS 12 and IAS 28 | Consolidated Financial Statements and Investments in Associates and Joint Ventures: Exception to Consolidation Requirement for Investment Entities | 18.12.2014 | 01.01.2016 | No | None |
| IFRS 11 | Joint Arrangements: Acquisition of Shares in a Joint Operation | 06.05.2014 | 01.01.2016 | No | None |
| IFRS 14 | Regulatory Deferral Accounts | 30.01.2014 | 01.01.2016 | No | None |
| IFRS 15 | Revenue from Contracts with Customers | 28.05.2014 | 01.01.2017 | No | Probably no material effects on revenue recognition, expansion of the notes |
| IAS 1 | Presentation of Financial Statements | 18.12.2014 | 01.01.2016 | No | No material effects |
| IAS 16 and IAS 38 | Clarification of Acceptable Depreciation Methods | 12.05.2014 | 01.01.2016 | No | No material effects |
| IAS 16 and IAS 41 | Agriculture: Biological Assets | 30.06.2014 | 01.01.2016 | No | None |
| IAS 19 | Employee Benefits: Defined Benefit Plans – Employee Contributions | 21.11.2013 | 01.01.2016 | Yes | No material effects |
| IAS 27 | Separate Financial Statements: Equity Method | 12.08.2014 | 01.01.2016 | No | None |
| | Improvements to International Financial Reporting Standards 2012[2] | 12.12.2013 | 01.01.2016 | Yes | Essentially extended segment reporting disclosures in the notes |
| | Improvements to International Financial Reporting Standards 2013[3] | 12.12.2013 | 01.01.2015 | Yes | No material changes |
| | Improvements to International Financial Reporting Standards 2014[4] | 25.09.2014 | 01.01.2016 | No | Probably expanded disclosures in accordance with IFRS 7 |
| IFRIC 21 | Levies | 20.05.2013 | 01.01.2015 | Yes | None |

1 First-time application mandatory for VW FS AG.
2 Minor amendments to numerous IFRS standards (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38, IAS 24).
3 Minor amendments to numerous IFRS standards (IFRS 1, IFRS 3, IFRS 13, IAS 40).
4 Minor amendments to numerous IFRS standards (IFRS 5, IFRS 7, IFRS 19, IAS 34).

# ACCOUNTING POLICIES

## 1. Principles

All companies included in the basis of consolidation have prepared their annual financial statements as of the balance sheet date of December 31, 2014.

The accounting in the VW FS AG GROUP is carried out in accordance with IFRS 10 using uniform accounting policies throughout the Group.

Amounts are stated in millions of euros (€ million), unless indicated otherwise. Rounding differences of up to one unit (€, % etc.) in each direction may occur in tables for technical reasons.

Assets and liabilities are shown in descending order of liquidity in accordance with IAS 1.60.

## 2. Basis of consolidation

Besides VW FS AG, the basis of consolidation includes all material domestic and foreign subsidiaries that VW FS AG controls, either directly or indirectly, including all structured entities. This is the case when the VW FS AG Group possesses the power of disposition over the potential subsidiary due to voting rights or other rights, participates in both the positive and the negative variable cash flows from the potential subsidiary, and is able to influence these cash flows by exercising its power of disposition. The structured entities are used to conduct asset-backed-securities transactions to refinance the financial services business. Although it does not hold an equity interest in the structured entities consolidated in the VW FS AG Group, VW FS AG determines the relevant core activities remaining after the structure is drawn up and thus influences its own variable returns.

Subsidiaries are included in the consolidation from the point in time when control exists; it ends when control ceases to exist. Dormant subsidiaries or those with limited business activity, which are both individually and collectively insignificant for providing a true and fair view of the net assets, financial position, results of operations and cash flows of the VW FS AG Group, are not consolidated. As there is not an active market for these companies, due to reasons of materiality they are recognized in the consolidated financial statements under financial assets at the lower of their cost or fair value. Significant companies, where VW FS AG is able to directly or indirectly significantly influence financial and operating policy decisions (associates) or directly or indirectly shares control (joint ventures) are accounted for using the equity method. Joint ventures also include companies in which the VW FS AG Group holds the majority voting rights, but whose partnership agreements stipulate that material decisions may only be resolved unanimously. Insignificant associates and joint ventures are generally carried in the financial assets at their respective lower of cost or fair value.

The following table provides the composition of the VW FS AG Group:

| | 2014 | 2013 |
|---|---|---|
| **VW FS AG and fully consolidated subsidiaries** | | |
| In Germany | 11 | 8 |
| Abroad | 42 | 26 |
| **Subsidiaries recognized at cost** | | |
| In Germany | 6 | 5 |
| Abroad | 25 | 25 |
| **Associates, joint ventures and equity investments** | | |
| In Germany | 4 | 2 |
| Abroad | 26 | 23 |
| **Structured entities** | | |
| In Germany | 19 | 21 |
| Abroad | 15 | 11 |
| **Total** | **148** | **121** |

The list of all shareholdings in accordance with §§ 285 and 313 HGB is available under ww.vwfsag.de/anteilsbesitz2014.

The following corporations are fully consolidated German affiliates that have fulfilled the requirements of § 264(3) HGB and will utilize the exemption rule:

> Volim GmbH, Braunschweig
> Volkswagen-Versicherungsdienst GmbH, Braunschweig
> Volkswagen Financial Services Beteiligungsgesellschaft mbH, Braunschweig
> Volkswagen Versicherungsvermittlung GmbH, Braunschweig
> MAN Finance International GmbH, Munich
> MAN Financial Services GmbH, Munich
> EURO-Leasing GmbH, Sittensen

### SUBSIDIARIES

An intragroup restructuring took place whereby Volkswagen Financial Services AG acquired 100% of the shares in MAN Finance International GmbH, Munich from MAN SE effective as of January 1, 2014. This initiative expanded the financial services business of the VW FS AG Group by adding the leasing and rental activities of the MAN brand.

The purchase price of €486 million was paid in cash. As this was a transaction under common control, the acquired assets and liabilities were measured using the carrying amounts in the VW Group's consolidated financial statements at the time of the transaction ("predecessor accounting"). The difference between the acquired assets and debt and the purchase price of €139 million was recognized directly in equity.

The acquired assets and liabilities are presented in the following table:

| € million | IFRS carrying amount at date of acquisition |
|---|---|
| Cash reserve | 2 |
| Receivables from financial institutions | 69 |
| Receivables from customers | 2,413 |
| Leasing and rental assets | 281 |
| Other assets | 1,210 |
| **Total assets** | **3,975** |
| Liabilities to financial institutions | 936 |
| Liabilities to customers | 2,336 |
| Other liabilities | 78 |
| **Total liabilities** | **3,350** |

Volkswagen Bank RUS, Moscow, Volkswagen Group Finanz, Moscow, Volkswagen Finance Prvt. Ltd., Mumbai and Volkswagen Financial Services Korea Co., Ltd., Seoul, which were previously deemed immaterial, were consolidated for the first time during the reporting period. Overall, the initial consolidation of these subsidiaries did not have a material effect on the overall presentation of the net assets, financial position and results of operations of the VW FS AG Group.

In February 2014 Volkswagen Financial Services AG founded Volkswagen Capital Advisory Sdn. Bhd., Kuala Lumpur, as a wholly owned subsidiary. This company has not been consolidated for reasons of materiality.

### JOINT VENTURES

From a Group perspective, the following three joint ventures are material as at the balance sheet date and are accounted for using the equity method. These three joint ventures are strategically important to VW FS AG Group and operate the financial services business in the respective countries and therefore contribute to the promotion of vehicle sales in the VW Group.

Volkswagen Pon Financial Services B.V.

The Volkswagen Pon Financial Services B.V. Group, which has its registered office in Amersfoort, Netherlands, is a financial service provider that markets financing and leasing products for Volkswagen Group vehicles to private and commercial customers in the Netherlands. There is an agreement on a long-term strategic partnership between Volkswagen Financial Services AG and the joint venture partner Pon Holdings B.V.

Volkswagen D'Ieteren Finance S.A.

Volkswagen D'Ieteren Finance S.A. and its subsidiary D'Ieteren Lease S.A., which has its registered office in Brussels, Belgium, are financial service providers that market financing and leasing products for Volkswagen Group vehicles to commercial and private customers in Belgium. There is an agreement on a long-term strategic partnership between the VW FS AG Group and the joint venture partner D'Ieteren S.A.

Volkswagen Møller BilFinans AS

Volkswagen Møller Bilfinans A.S., which has its registered office in Oslo, Norway, is a financial service provider that markets financing and leasing products for Volkswagen Group vehicles to private and commercial customers primarily in Norway. There is an agreement on a long-term strategic partnership between the VW FS AG Group and the joint venture partner Møller BilFinans AS.

Summarized financial information on the substantial joint ventures on a wholly-owned basis

| | VOLKSWAGEN PON FINANCIAL SERVICES B.V. (NETHERLANDS) | | VOLKSWAGEN D'IETEREN FINANCE S.A. (BELGIUM) | | VOLKSWAGEN MØLLER BILFINANS AS (NORWAY) | |
|---|---|---|---|---|---|---|
| € million | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Interest in % | 60% | 60% | 50% | 50% | 51% | 51% |
| Receivables from financial institutions | 38 | 40 | 19 | 9 | 0 | 0 |
| Receivables from customers | 1,392 | 1,453 | 652 | 449 | 463 | 420 |
| Leasing and rental assets | 830 | 709 | 370 | 362 | 712 | 703 |
| Other assets | 124 | 131 | 46 | 178 | 9 | 7 |
| **Total** | **2,384** | **2,333** | **1,087** | **998** | **1,184** | **1,130** |
| of which: noncurrent assets | 1,176 | 1,111 | 721 | 644 | 962 | 964 |
| of which: current assets | 1,208 | 1,222 | 366 | 354 | 222 | 166 |
| of which: cash and cash equivalents | 38 | 40 | 19 | 5 | 0 | 0 |
| Liabilities to financial institutions | 1,607 | 1,592 | 900 | 823 | 997 | 979 |
| Liabilities to customers | 4 | 4 | 65 | 55 | 18 | 14 |
| Securitized liabilities | 378 | 373 | – | – | – | – |
| Other liabilities | 158 | 143 | 10 | 10 | 26 | 16 |
| Equity | 237 | 221 | 112 | 110 | 143 | 121 |
| **Total** | **2,384** | **2,333** | **1,087** | **998** | **1,184** | **1,130** |
| of which: noncurrent liabilities | 794 | 914 | 388 | 330 | 474 | 411 |
| of which: current liabilities | 1,353 | 1,198 | 587 | 558 | 567 | 598 |
| of which: noncurrent financial liabilities | 784 | 905 | 381 | 320 | 442 | 388 |
| of which: current financial liabilities | 1,259 | 1,106 | 524 | 508 | 336 | 591 |
| Income | 557 | 506 | 292 | 287 | 169 | 174 |
| of which: interest income | 75 | 89 | 21 | 19 | 31 | 27 |
| Expenses | 521 | 476 | 290 | 288 | 145 | 152 |
| of which: interest expense | 25 | 27 | 9 | 10 | 21 | 21 |
| of which: depreciation | 194 | 170 | 91 | 94 | 99 | 105 |
| **Result from continuing operations before tax** | **36** | **30** | **2** | **–1** | **24** | **22** |
| Income tax expense or income | 9 | 5 | 0 | 1 | 6 | 6 |
| **Result from continuing operations after tax** | **27** | **25** | **2** | **0** | **18** | **16** |
| Result from discontinued operations after tax | – | – | – | – | – | – |
| Other comprehensive income after taxes | – | –3 | – | – | – | – |
| **Comprehensive income** | **27** | **22** | **2** | **0** | **18** | **16** |
| Dividends received | 7 | 12 | – | – | – | – |

Reconciliation of the financial information to the carrying amount of the equity shares:

| € million | Volkswagen Pon Financial Services B.V. (Netherlands) | Volkswagen D'Ieteren Finance S.A. (Belgium) | Volkswagen Moller BilFinans AS (Norway) |
|---|---|---|---|
| **2013** | | | |
| Equity of the joint venture as of Jan. 1, 2013 | 219 | 110 | 86 |
| Profit / Loss | 25 | 0 | 16 |
| Other comprehensive income | –3 | – | – |
| Change in share capital | – | – | 27 |
| Currency translation differences | – | – | –8 |
| Dividend | 20 | – | – |
| **Equity of the joint venture as of Dec. 31, 2013** | **221** | **110** | **121** |
| Pro rata share of equity | 133 | 55 | 62 |
| Goodwill | 61 | – | – |
| **Carrying amount of the equity interest as of Dec. 31, 2013** | **194** | **55** | **62** |
| | | | |
| **2014** | | | |
| Equity of the joint venture as of Jan. 1, 2014 | 221 | 110 | 121 |
| Profit / Loss | 27 | 2 | 18 |
| Other comprehensive income | 0 | – | – |
| Change in share capital | – | – | 16 |
| Currency translation differences | – | – | –12 |
| Dividend | 11 | – | – |
| **Equity of the joint venture as of Dec. 31, 2014** | **237** | **112** | **143** |
| Pro rata share of equity | 143 | 56 | 73 |
| Goodwill | 61 | – | – |
| **Carrying amount of the equity interest as of Dec. 31, 2014** | **204** | **56** | **73** |

Summarized pro-rata financial information on joint ventures that are individually immaterial:

| € million | 2014 | 2013 |
|---|---|---|
| **Carrying amount of the equity interest as of Dec. 31** | **111** | **73** |
| Result from continuing operations after tax | 7 | 17 |
| Result from discontinued operations after tax | – | – |
| Other comprehensive income after taxes | 1 | 0 |
| **Comprehensive income** | **8** | **17** |

There are no unrecognized losses in connection with interests in joint ventures.

Within the scope of ABS transactions, cash and cash equivalents of €24 million (previous year €31 million) from joint ventures were pledged as collateral and are therefore not available to the VW FS AG Group.

Contingent liabilities in the amount of €20 million (previous year: €9 million) rare contracted with joint ventures.

The joint venture Porsche Volkswagen Servicios Financieros Chile Spa., Santiago, which was founded in June 2014, is measured at cost due to reasons of materiality.

## 3. Consolidation methods

Acquisition accounting is carried out by offsetting the carrying amounts of investments against the proportionate newly measured equity of the subsidiaries at the date of acquisition or first-time inclusion in the consolidated financial statements, and in subsequent periods.

When initially consolidating a subsidiary, the assets and liabilities as well as contingent consideration are measured at fair value as of the acquisition date. Subsequent changes in the value of contingent consideration generally do not trigger adjustments of the acquisition-date measurement. Acquisition-related costs (ancillary costs) that do not serve to raise equity are not added to the acquisition price but are expensed instead. This results in goodwill to the extent that the acquisition price of the equity investment exceeds identifiable assets and liabilities. Goodwill is subjected to an annual impairment test (impairment-only-approach) in order to assess its recoverability. If the goodwill is impaired, an impairment loss is recognized; otherwise the recognition of the goodwill remains unchanged relative to the previous year. If the acquisition price of the equity investment is below the value of the identifiable assets and liabilities, the difference must be recognized through profit or loss in the year the equity investment is acquired. The subsidiaries carry goodwill in their functional currencies.

The assets and liabilities recognized at fair value within the scope of the acquisition process are subject to regular depreciation over their respective useful lives. If the useful life is indefinite, the need to recognize any possible impairments is determined in a manner analogous to that for goodwill. Fair value adjustments of assets and liabilities are subject to depreciation over their remaining useful lives.

Receivables, liabilities, expenses and income based on business relationships with consolidated companies are eliminated in the debt, expense and income consolidation using the accounting policies applicable to the VW FS AG Group.

Deferred taxes are recognized on consolidation adjustments recorded in the income statement. Shares in subsidiaries which are not consolidated because they are of secondary importance and other participations are shown under other financial assets.

Intragroup transactions are performed at arm's length terms. Intercompany profits arising therefrom are eliminated.

## 4. Currency translation

Transactions in foreign currency in the single-entity financial statements of VW FS AG and the consolidated subsidiaries are translated at the rates prevailing at the transaction date. The foreign companies belonging to the VW FS AG Group are independent entities, whose financial statements are translated according to the “functional currency” concept. According to this concept, all assets and liabilities, with the exception of equity, are translated using the exchange rate on the balance sheet date. Equity is carried at historical rates, with the exception of the income and expenses recognized directly in equity. The resulting currency translation differences are recognized directly in equity and are shown as a separate item under equity until the subsidiary is disposed of.

The change data in the statement of fixed assets are translated at the weighted annual average exchange rate. A separate line, “Exchange rate changes”, is used for the mathematical alignment of the balances brought forward from the previous year, translated at the middle spot rates applicable at the previous year's balance sheet date, and the change data translated using the annual average rates during the fiscal year, compared to the final balances translated at the middle spot rate applicable at the balance sheet date of the current fiscal year.

Weighted average annual exchange rates are applied in the income statement. The net retained profits/accumulated deficits are translated at the middle spot rate on the balance sheet date. The difference between the arithmetic annual result and the net retained profits/accumulated deficits at the rate on the balance sheet date is shown in a separate item in equity.

| | | BALANCE SHEET MIDDLE RATE AS OF DEC. 31 | | INCOME STATEMENT AVERAGE EXCHANGE RATE | |
|---|---|---|---|---|---|
| € | | 2014 | 2013 | 2014 | 2013 |
| Australia | AUD | −1.48290 | 1.54230 | −1.47240 | 1.37702 |
| Brazil | BRL | −3.22070 | 3.25760 | −3.12277 | 2.86694 |
| China | CNY | −7.53580 | 8.34910 | −8.18825 | 8.16549 |
| Czech Republic | CZK | −27.73500 | 27.42700 | −27.53583 | 25.98715 |
| United Kingdom | GBP | −0.77890 | 0.83370 | −0.80643 | 0.84925 |
| India | INR | −76.71900 | −85.36600 | −81.06888 | −77.87525 |
| Japan | JPY | −145.23000 | 144.72000 | −140.37722 | 129.65950 |
| South Korea | KRW | −1,324.80000 | −1,450.93000 | −1,399.02954 | −1,453.85601 |
| Mexico | MXN | −17.86790 | 18.07310 | −17.66209 | 16.96444 |
| Poland | PLN | −4.27320 | 4.15430 | −4.18447 | 4.19708 |
| Russia | RUB | −72.33700 | −45.32460 | −51.01125 | −42.32482 |
| Sweden | SEK | −9.39300 | 8.85910 | −9.09689 | 8.65050 |

## 5. Realization of income and expense

Income and expenses are deferred pro rata temporis and are recognized through profit or loss in the period to which they are economically attributable.

The realization of interest income in the income statement is carried out according to the effective interest rate method. Income from financing and leasing transactions, and expenses for their refinancing, are contained in net income from lending, leasing and insurance transactions. Leasing income from operating leases is recognized on a straight-line basis over the term of the lease, and comprises an interest and repayment portion.

Contingent rents under finance and operating leases are recognized upon the occurrence of the condition.

The net commission income contains income and expenses from insurance agency services and commissions from the financing and financial services business.

Dividends are recorded at the time of the legal claim, i.e. always when the corresponding resolution to distribute profits has been adopted.

The general administration expenses are composed of staff and non-staff costs, depreciation and amortization of property, plant and equipment and intangible assets, and other taxes.

The main components of other operating profit include income from costs charged to affiliated companies of the VW Group as well as income from the reversal of provisions.

## 6. Income tax

Current income tax assets and liabilities are measured using the tax rates at which the refund from or payment to the respective tax authority is expected. Current income tax is generally shown on an unnetted basis. Provisions are recorded for potential tax risks.

Deferred tax assets and liabilities are calculated based the difference between the carrying amount of the recognized asset or liability and their respective book value for tax purposes. Loss carryforwards are subject to deferred taxes, too. The resulting deferred tax items cause an expected future charge or credit to income taxes (temporary differences). They are measured based on the country-specific legislation of the country of incorporation using the tax rate that is expected to be valid in the period when the deferred tax item is anticipated to be realized.

Deferred tax assets are recognized if it is likely that the same taxable entity will generate taxable profits in the future. Deferred tax assets that are unlikely to be realized within a clearly predictable period are reduced by valuation allowances. Deferred income tax assets and liabilities with the same maturity vis-à-vis the same tax authority are netted. The tax expense attributable to the pre-tax result is shown in the income statement of the VW FS AG Group under the item “Taxes on income and earnings”; in the notes it is divided into current and deferred income tax of the reporting period. Other non-income taxes are reported in the item “General administration expenses”.

## 7. Cash reserve

The cash reserve is shown at nominal value.

## 8. Receivables

Originated receivables from financial institutions and from customers are always stated in the balance sheet at amortized cost according to the effective interest rate method. Profits or losses resulting from the change in amortized cost are recognized through the income statement including the effects from foreign exchange differences. For short-duration receivables (residual term up to one year) neither compounding nor discounting is performed for reasons of materiality. A portion of the receivables from customers is included in a portfolio hedge. The customer receivables allocated to portfolio hedging are measured at hedged fair value.

Receivables in foreign currency are translated at the middle rate on the balance sheet date.

Receivables are derecognized upon settlement.

The ABS transactions executed do not give any indications of a disposal of receivables.

## 9. Provisions for risks

We take full account of the default risks in the banking business by recognizing specific and portfolio-based allowances for doubtful accounts, which are established in accordance with IAS 39. They are recognized in allowance accounts. In addition, indirect residual value risks were taken into account by means of provisions.

Specific allowances corresponding to the loss already incurred are established for existing credit risks related to significant individual receivables in connection with customer or bank receivables (e.g. receivables from wholesale financing and from fleet customers) in accordance with uniform standards applicable throughout the VW FS AG Group.

A potential impairment need is assumed if certain circumstances exist such as, for example, payment in arrears over a certain period of time, initiation of enforcement measures, imminent insolvency or overindebtedness, application for insolvency or initiation of insolvency proceedings, or failure of restructuring measures.

Insignificant receivables and significant individual receivables for which there is no indication of impairment are combined into homogeneous portfolios based on comparable credit risk characteristics and divided into risk classes. Average historical loss probabilities related to the respective portfolio are employed to determine the extent of the impairment loss if there is uncertainty about the specific receivable that is impaired. Back-testing is regularly used to verify the appropriateness of the allowances.

The receivables are shown in the balance sheet at their net carrying amount. Further comments on the risk provision are shown separately in note (33).

Uncollectable receivables from exposures which are being unwound and in regards to which all collateral was disposed of and all other options for realizing these receivables have been exhausted are written off directly. When doing so, allowances that were previously recognized on an specific basis are first utilized. Any cash inflows from written-off receivables are recognized through profit or loss.

## 10. Derivative financial instruments

The derivative financial instruments comprise hedge-effective hedging transactions and derivatives that are not hedges. All derivatives are stated at fair value and are shown separately under notes (34) and (45).

The fair value is determined based on an IT-based measurement method using discounted cash flows, taking into account credit value adjustments and debit value adjustments. The measurement method was refined during the fiscal year. This did not have any significant effect on earnings.

Derivatives are used as a hedging instrument to secure fair value or to secure future cash flows. Hedge accounting in accordance with IAS 39 is applied only in the case of highly effective hedging transactions.

In fair value hedges, the changes in the fair value of the derivative financial instrument designated to hedge the fair value of the underlying asset or liability (hedged item) are recognized in profit or loss from the measurement of derivative financial instruments and hedged underlyings. The change in the hedged fair value of the hedged item that is attributable to the hedged risk is also recognized through profit or loss and shown in the same item. The effects on profit from both the hedging instrument and the hedged item offset each other to the extent of the hedge's effectiveness.

IAS 39 also permits the application of a fair value hedge not only for individual hedged items but also for a class of similar hedged items. In the reporting period the VW FS AG Group utilized fair value portfolio hedges. In a portfolio hedge, the recognition of the changes in fair value corresponds to the changes in a fair value hedge.

The effective portion of changes to the fair value of a derivative that has been designated to secure future cash flows and fulfils the corresponding conditions is recognized directly in equity in the reserve for cash flow hedges. Merely the ineffective portion of the change in fair value is recorded in profit and loss. The measurement of the hedged underlying transactions remains unchanged.

Changes to the fair values of derivatives which do not fulfil the conditions of IAS 39 for hedge accounting are recognized through profit or loss under the item “Result from the measurement of derivative financial instruments and hedged items”.

The VW FS AG Group documents all the relationships between hedging instruments and hedged items. The effectiveness of these relationships is assessed continuously. The VW FS AG Group undertakes transactions solely for hedging purposes as part of its asset/liability management.

With the exception of derivatives that are not hedges, no financial instruments are classified as being held for trading.

## 11. Marketable securities

Securities principally include fixed-income public sector commercial paper and notes, investments made in accordance with the investment guidelines laid down by VW Versicherung AG (primarily fixed-income securities and shares) and commercial paper and notes acquired in the amount of €382 million (previous year: €663 million) that were issued by a special purpose vehicle of another company of the VW Group. This special purpose vehicle is a structured company not included in consolidation, whose receivables from retail financing are securitized with matched maturities. The outstanding nominal volume of the securitized assets amount to €451 million (previous year: €756 million). Participation in these companies is limited to the acquisition of commercial paper and notes. The resulting risks are the issuer's counterparty credit risks and the interest rate risks from the securities acquired. The maximum risk exposure of the VW FS AG Group is limited to the acquired commercial paper and notes recognized at fair value in the balance sheet. The securities are classified as available-for-sale financial assets. They are always recognized directly in equity. Any permanent impairments are recognized through profit or loss.

An impairment loss is recognized on financial assets available for sale if there is objective evidence of permanent impairment. In the case of equity instruments, evidence of impairment is taken to exist, among other situations, if the fair value decreases below cost significantly (by more than 20%) or if the decline is prolonged (by more than 10% of the average market prices over one year). If impairment is identified, the cumulative loss is recognized through profit or loss, with the offsetting entry recorded in other reserves. In the case of equity instruments, reversals of impairment losses are taken directly to equity.

Impairment losses are recognized on debt instruments if a decrease in the future cash flows of the financial asset is expected. In contrast, an increase in the risk-free interest rate or an increase in credit risk premiums in general is not in itself objective evidence of impairment. The reversal of an impairment loss on debt instruments is recorded through profit or loss.

Fixed income commercial paper and notes as well as other commercial paper and notes acquired by other companies in the VW Group of €1,670 million (previous year: €1,994 million) are pledged as collateral for own liabilities. The marketable securities are deposited with Deutsche Bundesbank and have been pledged to it in connection with the company's participation in open market operations.

## 12. Other financial assets

Under other financial assets we show equity investments and investments in non-consolidated subsidiaries. Due to reasons of materiality these assets are recognized at cost because there is not an active market for these companies. Provided there are no indications of country-specific significant or long-term impairment losses (e.g. looming financial difficulties or economic crisis), depreciation and amortization expense is recognized in profit or loss.

## 13. Intangible assets

Purchased intangible assets with a finite useful life, mainly software, are capitalized at cost and amortized over their economic life of three years using the straight-line method. Provided the requirements under IAS 38 are fulfilled, software developed in-house is capitalized with directly attributable direct costs and overhead. The corresponding assets are likewise subject to depreciation over a three year period, and the resulting depreciation and amortization expense is recognized under general administrative expenses.

At each balance sheet date we assess whether there is any indication that an intangible asset with a finite useful life has been impaired. If necessary, the carrying amount is then compared to the recoverable amount and the respective asset is written down to the lower recoverable amount.

Intangible assets with an indefinite useful life are not subject to regular depreciation. We perform an annual review to confirm that their useful life is still indefinite. The impairment of these assets is reviewed at least once a year based on a comparison between the carrying amount and recoverable amount pursuant to IAS 36, or more frequently in the event of corresponding events or changes in circumstances. If necessary, the asset is written down to the lower recoverable amount (refer to note 15).

Goodwill is tested for impairment on an annual basis and also when special events occur or if a change in circumstances warrant an unscheduled review. If the goodwill is impaired, an impairment loss is recognized. The impairment is not reversed at a later stage.

The value in use of the cash-generating unit as determined using the discounted cash flow method is used to determine the impairment of goodwill. These cash flows are based on management's current five-year planning and a subsequent perpetual annuity. This planning is based on expectations about future global economic trends, the development of the overall passenger vehicle and commercial vehicle markets as well as on the resulting assumptions about financial services, taking into account the respective company's market penetration, risk costs, margins and regulatory requirements. In each case, the planning premises are adjusted to the current level of knowledge. The discount rate applied is based on the applicable long-term market interest rate corresponding to the relevant cash generating unit (regions or markets). A 9.0% cost of equity (previous year: 9.5%) was used throughout the Group. This entails taking into account both appropriate assumptions regarding macroeconomic trends and historical developments. As required, the cost of equity is adjusted by applying country and business-specific discount factors. The growth rates expected for the respective markets are used to determine the cash flows. The estimate of the cash flows after the close of the planning period is based on a growth rate of 1% p.a. (previous year: 1% p.a.).

## 14. Property, plant and equipment

Property, plant and equipment – land and buildings as well as operating and office equipment – is measured at cost less depreciation according to its expected economic life. It is depreciated using the straight-line method pro rata temporis over the expected useful life.

Depreciation is mainly based on the following useful lives:

| Property, plant and equipment | Useful life |
|---|---|
| Buildings and property facilities | 10 to 50 years |
| Operating and office equipment | 3 to 10 years |

Write-downs are recognized if the requirements of IAS 36 are satisfied (refer to note 15).

Both the residual carrying amounts and the economic lives are reviewed at each balance sheet date and adjusted as necessary.

Depreciation expense is contained in general administration expenses. Income from write-ups is contained in other operating profit.

## 15. Impairment of non-financial assets

Assets with an indefinite useful life are not subject to depreciation or amortization; they are tested for impairment on an annual basis and when relevant events occur or circumstances change. Assets subject to regular depreciation are tested for impairment if relevant events or changes in circumstances indicate that the carrying amount may no longer be recoverable.

An impairment loss is recognized for the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less disposal costs and value in use. The fair value is the amount that could be achieved on a transaction executed under market conditions between knowledgeable, willing parties. The value in use arises from the present value of future cash flows which are expected to be derived from the asset.

If the reasons for the write-downs recorded in previous years no longer apply, appropriate write-ups are recognized. This does not apply to impairment of goodwill.

## 16. Leasing business

### THE VW FS AG GROUP AS LESSOR

The VW FS AG Group is engaged in both finance leases and operating leases. This business concerns primarily vehicles and, to a lesser extent, land and buildings, as well as equipment and furnishings for dealers.

In the case of finance leases, the material risks and rewards of ownership pass to the lessee. In the consolidated balance sheet, receivables from finance leases are therefore shown under receivables from customers, whereby the net investment value always corresponds to the cost of the leased asset. Interest income from these transactions is shown under leasing income in the income statement. The interest paid by the customer is calculated in such a way that a constant periodic rate of interest on the outstanding leasing receivables results.

In the case of operating leases, the material risks and rewards of ownership of the lease object remain with the lessor. In this case the leased assets are shown in the consolidated balance sheet in the separate item "Leasing and rental assets", and are measured at cost less straight-line depreciation and amortization expense over the term of the lease to the imputed residual value. Impairments, which are identified when conducting an impairment test in compliance with IAS 36 by taking into account the value in use as the recoverable amount, are recognized through write-downs and adjustments of the depreciation rates. If the reasons for the write-downs recorded in previous years no longer apply, appropriate write-ups are recognized. Write-downs and write-ups are contained in the net income from leasing transactions before provisions for risks. Leasing income is recognized on a straight-line basis over the term of the lease, and comprises an interest and repayment portion.

Land and buildings which serve to generate rental income are recognized under the balance sheet item "Investment property" and are recognized in the balance sheet at amortized cost. As a rule, these are properties leased to dealers. The fair values additionally contained in the notes are determined by the respective company by discounting the estimated future cash flows with the corresponding long-term market interest rate. Depreciation and amortization expense is carried out using the straight-line method over the economic life of ten to 50 years. Impairments identified on the basis of the impairment test in compliance with IAS 36 are recognized through write-downs.

### THE GROUP AS LESSEE

The leasing instalments paid under operating leases are shown under general administration expenses.

For finance leases, the respective leased assets are recognized at the lower of cost or present value of the minimum lease payments, and depreciated using the straight-line method according to the economic life or over the term of the lease, whichever is shorter. The payment obligations resulting from the future leasing instalments are discounted and carried as a liability.

**BUY-BACK TRANSACTIONS**

Leasing contracts in which the lessor has a firm agreement with the VW FS AG Group regarding the return of the leased asset are capitalized in the reporting year in receivables from customers under the item "Other receivables" at the redemption value agreed at the initiation of the contract. They can also be capitalized in the balance sheet item "Other assets" with the value for the transfer of usage rights. The agreed redemption value for assets under long-term agreements (term of more than one year) that are initially recorded in the reporting year are discounted as of the start of the contract. The corresponding interest over the term of the contract is shown in interest income. The capitalized value of the transfer of usage rights is depreciated on a straight line basis over the term of the contract. This depreciation is contained in expenses from leasing transactions. The leasing instalments received from sub-lease arrangements are shown as "Income from leasing transactions".

## 17. Liabilities

Liabilities to financial institutions and to customers as well as securitized liabilities are recognized at amortized cost according to the effective interest rate method. Profits or losses resulting from the change in amortized cost are recognized through profit or loss including the effects from foreign exchange differences. For current liabilities (residual term up to one year) neither compounding nor discounting is performed for reasons of materiality. A portion of the liabilities to customers is included in a portfolio hedge. The liabilities to customers allocated to portfolio hedging are measured at fair value (hedged fair value).

Liabilities in foreign currency are translated at the middle rate on the balance sheet date.

## 18. Provisions for pensions and similar obligations

Provisions for pension obligations are recognized for commitments arising from pension plans, i.e. retirement pensions, disability pensions and benefits for surviving dependants. The benefits provided by the VW FS AG Group vary according to the legal, tax and economic circumstances of the country concerned, and usually depend on the length of service and remuneration of the employees.

VW FS AG GROUP companies provide occupational pensions under both defined contribution and defined benefit plans. In the case of defined contribution plans, the company makes contributions to state or private pension schemes based on legal or contractual requirements, or on a voluntary basis. Once the contributions have been paid, there are no further obligations for the VW FS AG Group. Current contributions are recognized as pension expenses of the period concerned. In 2014, the VW FS AG Group incurred expenses totaling €4 million (previous year: €3 million). Contributions to the statutory pension scheme in Germany amounted to €32 million (previous year: €29 million).

Most pension plans are defined benefit plans, with a distinction made between pensions financed by provisions and externally funded plans. The pension provisions for defined benefits are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19, under which the future obligations are measured on the basis of the ratable benefit entitlements earned as of the balance sheet date. Measurement reflects actuarial assumptions for the discount rates, salary and pension trends, staff turnover rates and cost increases for health care, calculated for each company in the VW FS AG Group based on its corresponding economic circumstances. Actuarial gains and losses arise from differences between actual trends and the prior-year assumptions as well as from changes in assumptions. Actuarial gains and losses are recognized in equity in the period in which they are incurred, net of deferred taxes.

## 19. Provisions for the insurance business

The insurance business that was taken over for reinsurance purposes and the direct insurance business are recognized for specific years without any delay.

Insurance contracts are accounted for pursuant to IFRS 4 and, to the extent permissible, pursuant to the local accounting regulations in § 341 ff. HGB and the Verordnung über die Rechnungslegung von Versicherungsunternehmen (German Accounting Regulations for Insurance Companies – RechVersV).

The unearned premiums for the company's direct business are determined for each contract using the 1/act method.

As a rule, the provisions for unsettled insurance claims in the direct insurance business were calculated and measured based on the probable utilization per loss event. For unknown loss events, estimation methods were used to calculate the provision for IBNR claims.

The provision for profit-related and not-profit-related premium refunds contains only obligations for not-profit-related premium refunds and was estimated on the basis of individual contractual claims experience.

The other underwriting provisions include the provisions for cancellations for the direct business and are based on an estimate.

Equalization provisions were not set up because IFRS 4 prohibits the recognition of such provisions as a liability.

The share of the provisions attributable to reinsurers is calculated in accordance with the contractual agreements with the retrocessionaires and is shown in the item “Other assets”.

The provisions for unsettled insurance claims in the insurance business that was taken over for reinsurance purposes are accounted for in accordance with the cedant’s tasks. Own estimates are also made for unknown loss events.

The provisions in the business taken over for reinsurance purposes are established in accordance with the cedant’s tasks. The share of the provisions attributable to reinsurers is calculated in accordance with the contractual agreements with the retrocessionaires and is shown in “Other assets”.

Actuarial methods and systems that ensure continuous management and monitoring of all material risks are used to review the adequacy of the provisions. As all factors are integrated into the Group Risk Management function of Volkswagen Financial Services AG, they are subject to Volkswagen Financial Services AG's comprehensive requirements. The insurance business is dominated in particular by underwriting risks, specifically the premium and loss risk as well as the reserve risk. We counter these risks by continuously monitoring the calculation basis, making appropriate allocations to provisions, adopting a restrictive underwriting policy and through careful selection of our reinsurers.

Strategic risks are taken into account in the calculation of the company's risk-bearing capacity as part of a general risk buffer.

## 20. Other provisions

In accordance with IAS 37, provisions are recognized to the extent that there is a current legal or constructive obligation vis-à-vis a third party arising from a past event, the obligation will probably lead to a future outflow of resources, and the amount of this outflow can be reliably estimated. If an outflow of resources is deemed as not likely but not improbable, information about then existing contingent liabilities not to be recognised pursuant to IAS 37 can be found under note 65.

Provisions not resulting in an outflow of resources in the subsequent fiscal year are recognized at their settlement value discounted to the balance sheet date. Discounting is based on market interest rates. The settlement value also comprises the expected cost increases.

Provisions are not offset against claims for reimbursement.

## INCOME STATEMENT DISCLOSURES

### 21. Net income from lending, leasing and insurance transactions before provisions for risks

The net income from lending and leasing transactions before provisions for risks developed as follows:

| € million | 2014 | 2013 |
|---|---|---|
| Interest income from lending and money market transactions | 3,700 | 3,337 |
| Income from leasing transactions and service contracts | 11,728 | 9,593 |
| Expenses from leasing business and service contracts | −8,470 | −6,712 |
| Depreciation and impairment losses on leasing and rental assets as well as investment property | −1,958 | −1,548 |
| Interest expense | −1,579 | −1,441 |
| **Total** | **3,421** | **3,229** |

The interest income from lending and money market transactions as well as the income from leasing transactions and service contracts contain interest income on impaired receivables in the amount of €30 million (previous year: €27 million).

Income from leasing transactions and service contracts includes rental income from investment property amounting to €2 million (previous year: €2 million). Furthermore, contingent rents under finance leases of €34 million (previous year: €37 million) and under operating leases of €11 million (previous year: €12 million) were recognized under income from leasing transactions and service contracts. The review of the measurement parameters identified a negative effect of €64 million on earnings.

Payments of €366 million were recognized in the income statement in the current year for the assets leased within the scope of buyback transactions.

Impairment losses recognized as a result of the impairment test on leasing and rental assets amounted to €94 million (previous year: €82 million) and are contained in the depreciation and impairment expense on leasing and rental assets. Income from the reversal of impairment losses recognized in previous years on leasing and rental assets amounted to €2 million (previous year: €13 million) and is contained in the income from leasing transactions.

Interest income included herein from financial instruments that are not attributable to the category of assets or financial liabilities measured at fair value through profit or loss amounts to €3,716 million (previous year: €3,369 million).

The net income from insurance transactions is comprised as follows:

| € million | 2014 | 2013 |
|---|---|---|
| Premiums earned from insurance business | 135 | 95 |
| Expenses for insurance claims | −82 | −57 |
| Expenses for reinsurance commissions and profit sharing | −8 | −6 |
| Other underwriting expenses | 0 | 0 |
| **Total** | **45** | **32** |

The interest expense contains refinancing expenses from lending and leasing transactions. A total of €1,553 million (previous year: €1,447 million) of that expense concerns financial instruments not measured at fair value through profit or loss. The net interest expense in the current fiscal year from derivatives that are not hedges amounts to €61 million (previous year: net income of €47 million).

## 22. Provisions for risks arising from lending and leasing business

The provisions for risks relate to the balance sheet items "Receivables from customers" and "Provisions for lending transactions". Their effect on the income statement of the VW FS AG Group is as follows:

| € million | 2014 | 2013 |
|---|---|---|
| Additions to risk provisions | −726 | −834 |
| Reversal of risk provisions | 290 | 255 |
| Direct utilization | −108 | −121 |
| Income from receivables written off | 75 | 85 |
| **Total** | **−469** | **−615** |

Additional default risks totaling €80 million arising for the Volkswagen Financial Services AG Group as a result of the eurozone crisis were recognized in the current fiscal year (previous year: €150 million).

## 23. Net commission income

The net commission income of €132 million (previous year: €140 million) contains €453 million (previous year: €412 million) in income from insurance agency services.

## 24. Result from the measurement of derivative financial instruments and hedged items

This item contains the result from hedging transactions, the result from derivatives that are not hedges and the result from the measurement of foreign currency receivables and liabilities.

The result from hedging transactions contains income and expenses from the fair value measurement of hedging transactions and hedged items. Gains and losses from other derivatives that are not hedges contain income and expenses from market value changes of derivatives which do not fulfil the requirements of IAS 39 for hedge accounting.

The detailed figures are as follows:

| € million | 2014 | 2013 |
|---|---|---|
| Gains/losses on fair value hedging instruments | 408 | −218 |
| Gains/losses on underlying transactions of fair value hedges | −399 | 207 |
| Ineffective portion of cash flow hedging instruments | −1 | −4 |
| Gains/losses from currency hedging instruments | −37 | 11 |
| Gains/losses from the measurement of foreign currency receivables/liabilities | −94 | −21 |
| Gains/losses from other derivatives that are not hedges | 111 | 33 |
| **Total** | **−12** | **8** |

No further fair value changes had to be recognized in connection with financial instruments.

## 25. Result from marketable securities and other financial assets

The result from marketable securities and other financial assets comprises income and expenses from marketable securities, dividend income as well as income and expenses from profit transfers.

## 26. General administration expenses

The general administration expenses are made up as follows:

| € million | 2014 | 2013 |
|---|---|---|
| Staff costs | −869 | −732 |
| Non-staff costs | −879 | −741 |
| Costs of advertising, PR work and sales promotion | −67 | −48 |
| Depreciation of property, plant and equipment and amortization of and impairment losses on intangible assets | −67 | −62 |
| Other taxes | −11 | −21 |
| **Total** | **−1,893** | **−1,604** |

The non-staff costs contain expenses for leased assets under operating leases that are attributable in particular to rental payments for land and buildings as well as operating and office equipment. These expenses total €38 million (previous year: €26 million).

As required by § 314(1) no. 9 HGB, the general administration expenses for the 2014 fiscal year include fees billed for the audit of the annual financial statements amounting to €2 million (previous year: €1 million), for other assurance, valuation and tax advisory services amounting to €2 million (previous year: €2 million), and for other services amounting to €4 million (previous year: €1 million).

Amortization and impairment losses on intangible assets contain an impairment loss of €1 million (previous year: €9 million) recognized on internally generated software.

## 27. Other operating result

Other operating result is made up as follows:

| € million | 2014 | 2013 |
|---|---|---|
| Income from costs charged to companies of the Volkswagen Group | 55 | 48 |
| Income from the reversal of provisions and accrued liabilities | 335 | 157 |
| Income from claims for damages | 19 | 12 |
| Other operating income | 236 | 204 |
| Other operating expenses | −593 | −381 |
| **Other operating result** | **52** | **40** |

## 28. Taxes on income and earnings

Taxes on income and earnings include taxes charged by Volkswagen AG because of overall fiscal tax group, taxes which are owed by VW FS AG and its consolidated subsidiaries, and deferred taxes. The income taxes are made up as follows:

| € million | 2014 | 2013 |
|---|---|---|
| Effective tax expense in Germany | –193 | –284 |
| Effective tax expense abroad | –228 | –367 |
| **Effective tax expense** | **–421** | **–651** |
| Income from the reversal of tax provisions and tax refunds | 7 | 27 |
| **Effective taxes on income and earnings** | **–414** | **–624** |
| of which not attributable to the reporting period | –2 | 13 |
| Deferred tax income/expense in Germany | 34 | 110 |
| Deferred tax income/expense abroad | –40 | 141 |
| **Deferred tax income/expense** | **–6** | **251** |
| of which not attributable to the reporting period | –12 | 15 |
| **Total** | **–420** | **–373** |

The actual tax expense in 2014 amounting to €420million (previous year: €373million) is €28million higher (previous year: €15million lower) than the expected tax expense of €392million (previous year: €388million), which results from applying a tax rate of 29.8% (previous year: 29.5%) on the pre-tax result of the Group. The following reconciliation shows the connection between taxes on income and earnings and the pre-tax result in the fiscal year:

| € million | 2014 | 2013 |
|---|---|---|
| **Profit before tax** | **1,317** | **1,315** |
| multiplied by the German income tax rate of 29.8 % (previous year: 29.5 %) | | |
| **= arithmetical income tax expense in the fiscal year at the German income tax rate** | **–392** | **–388** |
| + Effects from tax credits | 2 | 1 |
| + Effects from German/foreign tax rate | 6 | 7 |
| + Effects from tax rate changes | –1 | –7 |
| + Effects from permanent accounting differences | –24 | 6 |
| + Effects on account of tax-free income | 49 | 31 |
| + Effects from loss carryforwards | –4 | 1 |
| + Effects from non-deductible operating expenses | –31 | –45 |
| + Taxes not attributable to the reporting period | –14 | 28 |
| + Other differences | –11 | –7 |
| **= actual taxes on income and earnings** | **–420** | **–373** |

The statutory corporation tax rate in Germany for the 2014 assessment period was 15%. An aggregate tax rate of 29.8% results when this rate is combined with the trade tax and the solidarity surcharge.

The effects resulting from different rates of income tax in other countries arise due to the income tax rates of the individual countries where the VW FS AG Group companies have their registered office. These rates, which differ from the German income tax rate, are between 12.5% and 40.0% (previous year: 12.5% and 40.7%).

As of December 31, 2014, the company's unutilized loss carryforwards totaled €271 million (previous year: €103 million), for which deferred tax assets of €31 million (previous year: €15 million) were recognized. Of these unused loss carryforwards, €197 million (previous year: €10 million) do not expire. There were also loss carryforwards of €33 million (previous year: €92 million), which must be utilized in the next five years and €23 million (previous year: €0.5 million), which must be utilized within a period of five to ten years, and €18 million (previous year: €0 million),, which can be utilized within a period of more than ten years.

Deferred tax assets were not recognized for €159 million in unusable loss carryforwards (previous year: €46 million). If these unusable loss carryforwards, €49 million (previous year: €46 million) can be utilized to a limited extent of up to more than 20 years and €110 million (previous year: €0 million), can be used indefinitely.

The tax assets granted by the various states led to a tax advantage of €6 million (previous year: €0.2 million).

Deferred tax expense decreased by €2 million in the fiscal year (previous year: €3 million) due to loss carryforwards not taken into account in earlier periods. The deferred tax expense from the depreciation of deferred tax assets amount to €4 million in the current fiscal year Deferred tax expenses resulting from changes in tax rates amounted to €1 million at the VW FS AG Group level (previous year: €7 million).

Deferred tax asset was not recognized in the balance sheet for temporary differences of €5 million (previous year: €8 million).

Deferred taxes of €91 million (previous year: €43 million) were capitalized without being offset by deferred tax liabilities in the same amount. The companies concerned expect positive taxable income in the future following losses in the current fiscal year or in the previous year.

Deferred tax liabilities of €28 million (previous year: €20 million) for temporary differences and undistributed profits of subsidiaries of Volkswagen Financial Services AG due to existing controls were not recognized pursuant to IAS 12.39.

Of the deferred taxes recognized in the balance sheet, a total of €71 million (previous year: €31 million) relate to business transactions that were recognized directly in equity. A partial amount of €71 million (previous year: €33 million) concerns actuarial gains/losses (IAS 19), a partial amount of €5 million (previous year: €–0.3 million) relates to derivative financial instruments and a partial amount of €–5 million (previous year: €–2 million) concerns the market valuation of marketable securities.

## 29. Further income statement disclosures

Expenses and income from fees and commissions which are not attributable to the category of assets or financial liabilities measured at fair value and which are not accounted for using the effective interest rate method:

| € million | 2014 | 2013 |
|---|---|---|
| Commission income | 65 | 51 |
| Commission expenses | 0 | 0 |
| **Total** | **65** | **51** |

These relate to fiduciary activities.

## BALANCE SHEET DISCLOSURES

### 30. Cash reserve

The cash reserve contains deposits with the Deutsche Bundesbank amounting to €369 million (previous year: €193 million).

### 31. Receivables from financial institutions

The receivables from financial institutions include receivables from affiliated companies amounting to €15 million (previous year: €201 million).

### 32. Receivables from customers

Receivables from customers include unsecuritized receivables from other companies in the Volkswagen Group amounting to €6,805 million (previous year: €5,723 million). There are receivables from the sole shareholder, Volkswagen AG, amounting to €43 million (previous year: €41 million).

Receivables from retail financing contain, in principle, vehicle financing loan agreements with private and commercial customers. Financed vehicles are usually assigned to us as collateral. Wholesale financing contains financing of vehicles in stock as well as equipment and investment loans to the dealer organization. Here, too, collateral comprises assets transferred as security, as well as surety agreements and charges on property. Receivables from leasing business contain receivables from finance leases and receivables due from leasing and rental assets. Other receivables mainly consist of receivables from companies in the Volkswagen Group, receivables from leasing business with a redemption agreement as well as credit lines and overdraft facilities utilized by customers. Other receivables contain subordinated assets amounting to €39 million (previous year: €20 million).

Portions of the retail financing and finance leasing receivables subject to fixed interest rates were hedged in a portfolio hedge against fluctuations of the risk-free base rate. Receivables from operating leasing transactions are excluded from this hedging strategy because they do not satisfy the definition of a financial instrument within the meaning of IAS 39 in conjunction with IAS 32.

The reconciliation from the balance sheet figures is as follows:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Receivables from customers** | **85,871** | **73,191** |
| Market value adjustment from portfolio hedging | 40 | –31 |
| Receivables from customers less market value adjustments from portfolio hedging | 85,831 | 73,222 |

Receivables from leasing transactions include due receivables amounting to €322 million (previous year: €221 million).

Receivables from operating leasing transactions amount to €122 million (previous year: €86 million) on the balance sheet date

The receivables from finance leases are made up as follows:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Gross receivables from finance leases** | **19,309** | **16,652** |
| by residual term | | |
| up to one year | 7,620 | 6,362 |
| more than one year and up to five years | 11,656 | 10,272 |
| more than five years | 33 | 18 |
| **Interest not yet earned from finance leases** | **1,111** | **905** |
| **Net receivables from finance leases** | **18,198** | **15,747** |
| by residual term | | |
| up to one year | 7,190 | 6,022 |
| more than one year and up to five years | 10,979 | 9,708 |
| more than five years | 29 | 17 |

At the VW FS AG Group, the present value of the minimum lease payments outstanding on the balance sheet date corresponds to the net receivables from finance leases reported above.

A provision for risks arising from outstanding minimum lease payments exists in the amount of €50 million (previous year: €65 million) on the balance sheet date.

## 33. Provisions for risks arising from lending and leasing business

The provisions for risks in the lending and leasing business are established in accordance with uniform rules throughout the VW FS AG Group and cover all recognizable credit risks.

A reconciliation based on classes in accordance with IFRS 7 is as follows:

Class: Assets measured at amortized cost:

| | SPECIFIC VALUATION ALLOWANCES | | PORTFOLIO-BASED VALUATION ALLOWANCES | | TOTAL | |
|---|---|---|---|---|---|---|
| € million | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| **As of Jan. 1** | **864** | **823** | **841** | **696** | **1,705** | **1,519** |
| Changes in the basis of consolidation | 119 | 0 | 34 | – | 153 | 0 |
| Additions | 371 | 430 | 268 | 268 | 639 | 698 |
| Transfers | 24 | −2 | 76 | −5 | 100 | −7 |
| Disposals | 342 | 324 | 123 | 87 | 465 | 411 |
| of which uses | 204 | 180 | – | – | 204 | 180 |
| of which reversals | 138 | 144 | 123 | 87 | 261 | 231 |
| Interest income from impaired receivables | 26 | 22 | – | – | 26 | 22 |
| Currency translation | 2 | −41 | 3 | −31 | 5 | −72 |
| **Risk provisions arising from lending and leasing business as of Dec. 31** | **1,012** | **864** | **1,099** | **841** | **2,111** | **1,705** |

Class: Hedge accounting:

| | SPECIFIC VALUATION ALLOWANCES | | PORTFOLIO-BASED VALUATION ALLOWANCES | | TOTAL | |
|---|---|---|---|---|---|---|
| € million | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| **As of Jan. 1** | **129** | **121** | **304** | **235** | **433** | **356** |
| Changes in the basis of consolidation | – | – | – | – | – | – |
| Additions | 53 | 69 | 24 | 63 | 77 | 132 |
| Transfers | –24 | –4 | –76 | 11 | –100 | 7 |
| Disposals | 55 | 52 | 14 | 5 | 69 | 57 |
| of which uses | 42 | 41 | – | – | 42 | 41 |
| of which reversals | 13 | 11 | 14 | 5 | 27 | 16 |
| Interest income from impaired receivables | 3 | 5 | – | – | 3 | 5 |
| Currency translation | 0 | 0 | 3 | 0 | 3 | 0 |
| **Risk provisions arising from lending and leasing business as of Dec. 31** | **100** | **129** | **241** | **304** | **341** | **433** |

Provisions for risks were recognized in relation to receivables from customers. As of the end of the fiscal year, there were allowances for doubtful accounts totaling €428 million (previous year: €348 million) on receivables in individual eurozone countries as well as Russia, which are impacted by the crisis situation.

## 34. Derivative financial instruments

This item contains the positive market values from hedging transactions and from derivatives that are not hedges; it is made up as follows:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Assets from hedging transactions | 913 | 420 |
| Fair value hedges on assets (currency risk) | 264 | 84 |
| Fair value hedges on liabilities (currency risk) | 101 | 16 |
| Fair value hedges (interest rate risk) | 517 | 279 |
| Portfolio fair value hedges (interest rate risk) | 1 | 20 |
| Cash flow hedges on interest payments (currency risk) | 28 | 22 |
| Cash flow hedges (interest rate risk) | 2 | −1 |
| Assets from derivatives that are not hedges | 42 | 89 |
| **Total** | **955** | **509** |

## 35. Joint ventures accounted for using the equity method and other financial assets

| € million | Companies accounted for using the equity method | Other financial assets | Total |
|---|---|---|---|
| **Cost as of Jan. 1, 2013** | **1,958** | **541** | **2,499** |
| Foreign exchange differences | – | 0 | 0 |
| Changes in the basis of consolidation | – | −1 | −1 |
| Additions | 37 | 120 | 157 |
| Transfers | 37 | −37 | – |
| Disposals | 1,642 | – | 1,642 |
| Recognition through profit or loss | 45 | – | 45 |
| Dividends | 12 | – | 12 |
| Effects recognized in equity | −13 | – | −13 |
| **As of Dec. 31, 2013** | **410** | **623** | **1,033** |
| | | | |
| **Depreciation as of Jan. 1, 2013** | **26** | **1** | **27** |
| Foreign exchange differences | – | – | – |
| Changes in the basis of consolidation | – | – | – |
| Additions | – | – | – |
| Transfers | – | – | – |
| Disposals | – | – | – |
| Write-ups | – | – | – |
| Impairment losses | – | – | – |
| **As of Dec. 31, 2013** | **26** | **1** | **27** |
| **Carrying amount Dec. 31, 2013** | **384** | **622** | **1,006** |
| **Carrying amount Jan. 1, 2013** | **1,932** | **540** | **2,472** |

| € million | Companies accounted for using the equity method | Other financial assets | Total |
|---|---|---|---|
| **Cost as of Jan. 1, 2014** | **410** | **623** | **1,033** |
| Foreign exchange differences | – | 0 | 0 |
| Changes in the basis of consolidation | 2 | –508 | –506 |
| Additions | 35 | 48 | 83 |
| Transfers | – | – | – |
| Disposals | 1 | 6 | 7 |
| Recognition through profit or loss | 33 | – | 33 |
| Dividends | 7 | – | 7 |
| Effects recognized in equity | –3 | – | –3 |
| **As of Dec. 31, 2014** | **469** | **157** | **626** |
| | | | |
| **Depreciation as of Jan. 1, 2014** | **26** | **1** | **27** |
| Foreign exchange differences | – | – | – |
| Changes in the basis of consolidation | –1 | – | –1 |
| Additions | – | – | – |
| Transfers | – | – | – |
| Disposals | 1 | – | 1 |
| Write-ups | – | – | – |
| Impairment losses | – | – | – |
| **As of Dec. 31, 2014** | **26** | **1** | **27** |
| **Carrying amount Dec. 31, 2014** | **443** | **156** | **599** |
| **Carrying amount Jan. 1, 2014** | **384** | **622** | **1,006** |

The changes of € 508million in other financial assets in the consolidated Group in the current fiscal year concern the shares in Volkswagen Bank RUS, Moscow, Volkswagen Group Finanz, Moscow, Volkswagen Finance Prvt. Ltd., Mumbai and Volkswagen Financial Services Korea Co., Ltd , Seoul , which were consolidated for the first time as of January 1, 2014.

# 36. Intangible assets

| € million | Internally generated software | Brand name, customer base | Goodwill | Other intangible assets | Total |
|---|---|---|---|---|---|
| **Cost as of Jan. 1, 2013** | **99** | **61** | **43** | **137** | **340** |
| Foreign exchange differences | 0 | −4 | −1 | −7 | −12 |
| Changes in the basis of consolidation | – | – | – | 0 | 0 |
| Additions | 12 | – | – | 27 | 39 |
| Transfers | – | – | – | 0 | 0 |
| Disposals | 7 | 12 | – | 7 | 26 |
| **As of Dec. 31, 2013** | **104** | **45** | **42** | **150** | **341** |
| | | | | | |
| **Depreciation as of Jan. 1, 2013** | **69** | **15** | **–** | **101** | **185** |
| Foreign exchange differences | 0 | 0 | – | −5 | −5 |
| Changes in the basis of consolidation | – | – | – | 0 | 0 |
| Additions | 4 | 2 | – | 15 | 21 |
| Transfers | – | – | – | 0 | 0 |
| Disposals | 7 | 12 | – | 4 | 23 |
| Write-ups | – | – | – | – | – |
| Impairment losses | 9 | – | – | – | 9 |
| **As of Dec. 31, 2013** | **75** | **5** | **–** | **107** | **187** |
| **Carrying amount Dec. 31, 2013** | **29** | **40** | **42** | **43** | **154** |
| **Carrying amount Jan. 1, 2013** | **30** | **46** | **43** | **36** | **155** |

| € million | Internally generated software | Brand name, customer base | Goodwill | Other intangible assets | Total |
|---|---|---|---|---|---|
| **Cost as of Jan. 1, 2014** | **104** | **45** | **42** | **150** | **341** |
| Foreign exchange differences | 0 | −1 | −1 | −2 | −4 |
| Changes in the basis of consolidation | – | 12 | – | 32 | 44 |
| Additions | 7 | – | – | 26 | 33 |
| Transfers | 2 | – | – | −2 | 0 |
| Disposals | – | – | – | 7 | 7 |
| **As of Dec. 31, 2014** | **113** | **56** | **41** | **197** | **407** |
| | | | | | |
| **Amortization as of Jan 1, 2014** | **75** | **5** | **–** | **107** | **187** |
| Foreign exchange differences | 0 | 0 | – | −1 | −1 |
| Changes in the basis of consolidation | – | 0 | – | 6 | 6 |
| Additions | 2 | 2 | – | 28 | 32 |
| Transfers | 0 | – | – | 0 | 0 |
| Disposals | – | – | – | 2 | 2 |
| Write-ups | – | – | – | – | – |
| Impairment losses | 1 | – | – | – | 1 |
| **As of Dec. 31, 2014** | **78** | **7** | **–** | **138** | **223** |
| **Carrying amount Dec. 31, 2014** | **35** | **49** | **41** | **59** | **184** |
| **Carrying amount Jan. 1, 2014** | **29** | **40** | **42** | **43** | **154** |

The goodwill amounting to €41 million (previous year: €42 million) and the brand names totaling €36 million (previous year: €26 million) existing at the balance sheet date in Brazil and Poland have an indefinite useful life. The indefinite useful lives arise from the fact that both the goodwill and the brand name are derived from the relevant cash generating unit and thus exist as long as that unit exists. The customer base in Poland is amortized over a period of ten years.

The impairment test for the disclosed goodwill is based on the value in use and is not affected by a variation of +/–0.5% in the growth forecast or in the discount rate.

## 37. Property, plant and equipment

| € million | Land and buildings | Operating and office equipment | Total |
|---|---|---|---|
| **Cost as of Jan. 1, 2013** | **268** | **199** | **467** |
| Foreign exchange differences | −5 | −6 | −11 |
| Changes in the basis of consolidation | – | 0 | 0 |
| Additions | 22 | 40 | 62 |
| Transfers | 0 | 0 | 0 |
| Disposals | 3 | 26 | 29 |
| **As of Dec. 31, 2013** | **282** | **207** | **489** |
| | | | |
| **Depreciation as of Jan. 1, 2013** | **80** | **137** | **217** |
| Foreign exchange differences | −1 | −3 | −4 |
| Changes in the basis of consolidation | – | 0 | 0 |
| Additions | 8 | 23 | 31 |
| Transfers | 0 | 0 | 0 |
| Disposals | 1 | 18 | 19 |
| Write-ups | – | – | – |
| Impairment losses | – | – | – |
| **As of Dec. 31, 2013** | **86** | **139** | **225** |
| **Carrying amount Dec. 31, 2013** | **196** | **68** | **264** |
| **Carrying amount Jan. 1, 2013** | **188** | **62** | **250** |

| € million | Land and buildings | Operating and office equipment | Total |
|---|---|---|---|
| **Cost as of Jan. 1, 2014** | **282** | **207** | **489** |
| Foreign exchange differences | 1 | 0 | 1 |
| Changes in the basis of consolidation | 12 | 8 | 20 |
| Additions | 24 | 48 | 72 |
| Transfers | –2 | 2 | 0 |
| Disposals | 3 | 28 | 31 |
| **As of Dec. 31, 2014** | **314** | **237** | **551** |
| | | | |
| **Depreciation as of Jan. 1, 2014** | **86** | **139** | **225** |
| Foreign exchange differences | 0 | 0 | 0 |
| Changes in the basis of consolidation | 1 | 3 | 4 |
| Additions | 9 | 24 | 33 |
| Transfers | 0 | 0 | 0 |
| Disposals | 2 | 16 | 18 |
| Write-ups | – | – | – |
| Impairment losses | 0 | – | 0 |
| **As of Dec. 31, 2014** | **94** | **150** | **244** |
| **Carrying amount Dec. 31, 2014** | **220** | **87** | **307** |
| **Carrying amount Jan. 1, 2014** | **196** | **68** | **264** |

Land charges in the amount of €13 million (previous year: €8 million) serve as collateral for financial liabilities in connection with land and buildings.

Land and buildings include plant under construction with a carrying amount of €23 million (previous year: €12 million).

## 38. Leasing and rental assets and investment property

| € million | Movable leasing and rental assets | Investment property | Total |
|---|---|---|---|
| **Cost as of Jan. 1, 2013** | **9,709** | **21** | **9,730** |
| Foreign exchange differences | −48 | −2 | −50 |
| Changes in the basis of consolidation | – | – | – |
| Additions | 7,837 | 12 | 7,849 |
| Transfers | 0 | 0 | 0 |
| Disposals | 6,456 | 5 | 6,461 |
| **As of Dec. 31, 2013** | **11,042** | **26** | **11,068** |
| | | | |
| **Depreciation as of Jan. 1, 2013** | **2,235** | **11** | **2,246** |
| Foreign exchange differences | −9 | 0 | −9 |
| Changes in the basis of consolidation | – | – | – |
| Additions | 1,465 | 0 | 1,465 |
| Transfers | 0 | 0 | 0 |
| Disposals | 1,263 | 3 | 1,266 |
| Write-ups | 13 | – | 13 |
| Impairment losses | 82 | – | 82 |
| **As of Dec. 31, 2013** | **2,497** | **8** | **2,505** |
| **Carrying amount Dec. 31, 2013** | **8,545** | **18** | **8,563** |
| **Carrying amount Jan. 1, 2013** | **7,474** | **10** | **7,484** |

| € million | Movable leasing and rental assets | Investment property | Total |
|---|---|---|---|
| **Cost as of Jan. 1, 2014** | **11,042** | **26** | **11,068** |
| Foreign exchange differences | 123 | 0 | 123 |
| Changes in the basis of consolidation | 889 | – | 889 |
| Additions | 9,685 | 5 | 9,690 |
| Transfers | 0 | – | 0 |
| Disposals | 7,793 | 1 | 7,794 |
| **As of Dec. 31, 2014** | **13,946** | **30** | **13,976** |
| | | | |
| **Depreciation as of Jan. 1, 2014** | **2,497** | **8** | **2,505** |
| Foreign exchange differences | 35 | 0 | 35 |
| Changes in the basis of consolidation | 194 | – | 194 |
| Additions | 1,874 | 1 | 1,875 |
| Transfers | 0 | – | 0 |
| Disposals | 1,502 | 1 | 1,503 |
| Write-ups | 2 | – | 2 |
| Impairment losses | 84 | – | 84 |
| **As of Dec. 31, 2014** | **3,180** | **8** | **3,188** |
| **Carrying amount Dec. 31, 2014** | **10,766** | **22** | **10,788** |
| **Carrying amount Jan. 1, 2014** | **8,545** | **18** | **8,563** |

The fair value of investment property amounts to €23 million. As a rule, the fair value is determined using an income capitalization approach based on internal calculations (Level 3 of the fair value hierarchy). Operating costs of €1 million were incurred in the fiscal year for maintaining investment property (previous year: €1 million).

We expect payments of €122 million in 2015 and €142 million between 2016 and 2019 from non-cancellable leasing and rental contracts.

## 39. Deferred tax assets

The deferred tax assets consist exclusively of deferred income tax assets, which are subdivided as follows:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Deferred taxation | 6,837 | 6,154 |
| of which non-current | 3,621 | 3,146 |
| Capitalized benefits from unused loss carryforwards after allowance | 31 | 15 |
| of which non-current | 31 | 15 |
| Netting (with deferred tax liabilities) | −5,723 | −5,459 |
| **Total** | **1,145** | **710** |

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

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Receivables and other assets | 244 | 297 |
| Marketable securities and cash and cash equivalents | 1,335 | 1,218 |
| Intangible assets/property, plant and equipment | 13 | 16 |
| Leasing and rental assets | 4,370 | 4,171 |
| Liabilities and provisions | 875 | 452 |
| **Total** | **6,837** | **6,154** |

## 40. Other assets

Other assets concern the following items:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Vehicles taken back for resale | 588 | 497 |
| Restricted cash | 473 | 459 |
| Accrued assets | 299 | 205 |
| Claims from other taxes | 87 | 78 |
| Underwriting provisions attributable to reinsurance companies | 87 | 98 |
| Other | 1,189 | 407 |
| **Total** | **2,723** | **1,744** |

Minimum leasing payments of €840 million are expected from non-cancellable subleases in the course of buyback transactions

The underwriting provisions attributable to reinsurance companies break down as follows:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Provisions for unsettled claims attributable to reinsurance companies | 67 | 81 |
| Provisions for unearned premiums attributable to reinsurance companies | 19 | 17 |
| Other underwriting provisions attributable to reinsurance companies | 1 | 0 |
| **Total** | **87** | **98** |

## 41. Noncurrent assets

| € million | Dec. 31, 2014 | of which non-current | Dec. 31, 2013 | of which non-current |
|---|---|---|---|---|
| Cash reserve | 451 | – | 220 | – |
| Receivables from financial institutions | 2,036 | 38 | 2,019 | 139 |
| Receivables from customers | 85,871 | 47,197 | 73,191 | 39,851 |
| Derivative financial instruments | 955 | 726 | 509 | 268 |
| Marketable securities | 2,013 | – | 2,451 | – |
| Joint ventures accounted for using the equity method | 443 | 443 | 384 | 384 |
| Other financial assets | 156 | 156 | 622 | 622 |
| Intangible assets | 184 | 184 | 154 | 154 |
| Property, plant and equipment | 307 | 307 | 264 | 264 |
| Leasing and rental assets | 10,766 | 8,645 | 8,545 | 6,584 |
| Investment property | 22 | 22 | 18 | 18 |
| Income tax assets | 159 | 10 | 161 | 15 |
| Other assets | 2,723 | 903 | 1,744 | 266 |
| **Total** | **106,086** | **58,631** | **90,282** | **48,565** |

## 42. Liabilities to financial institutions and customers

To meet part of the capital requirements of their leasing and financing activities, VW FS AG companies take advantage of the funds made available by Volkswagen Group companies.

The drawing of funds, which is shown as unsecuritized liabilities to customers, amounts to €12,190 million in liabilities to other companies in the Volkswagen Group (previous year: €9,795 million) – of which €2,592 million is accounted for sole shareholder Volkswagen AG (previous year: €1,792 million) on the balance sheet date

The liabilities to customers contain €26,224 million in customer deposits (previous year: €24,286 million). They mainly comprise overnight and fixed-term deposits as well as various savings certificates and savings plans of Volkswagen Bank GmbH. Relative to the term, the “Direkt” savings plan and the “Plus Sparbrief” currently have the longest investment horizon. The maximum term is ten years.

Portions of the fixed-rate liabilities to customers are hedged in a portfolio hedge against fluctuations of the risk-free base rate.

The reconciliation from the balance sheet figures is as follows:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Liabilities to customers** | **38,721** | **33,705** |
| Market value adjustment from portfolio hedging | 0 | –6 |
| Liabilities from customers less market value adjustment from portfolio hedging | 38,721 | 33,711 |

## 43. Securitized liabilities

Commercial paper and notes are shown as securitized liabilities.

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Debentures issued | 33,764 | 28,230 |
| Commercial paper issued | 3,479 | 3,286 |
| **Total** | **37,243** | **31,516** |

## 44. ABS transactions

In addition to the options mentioned above, the VW FS AG Group utilizes ABS transactions for refinancing purposes. The corresponding liabilities are contained in the following balance sheet items:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Liabilities to financial institutions | 520 | 93 |
| Debentures issued | 12,959 | 9,694 |
| Subordinated liabilities | 1,120 | 917 |
| **Total** | **14,599** | **10,704** |

ABS transactions with financial assets account for €13,398 million (previous year: €9,747 million) of total securitized liabilities. The corresponding carrying amount of the liabilities from retail financing and leasing business amounts to €13,357 million (previous year €9,783 million). The fair value of the liabilities as of December 31, 2014 amounted to €13,676 million (previous year: €9,983 million). The fair value of the assigned receivables that still remain on the balance sheet amounted to €13,534 million as of December 31, 2014 (previous year: €10,060 million).

This involves assigning the anticipated payment to special purpose entities and transferring the financed vehicles as collateral. The assigned receivables may not be reassigned again or used elsewhere as collateral. The noteholders' claims are limited to the assigned receivables and the payments received from these receivables are intended for the repayment of the corresponding liabilities.

These asset backed securities transactions do not lead to the disposal of the receivables from the financial services business, as del credere and time of payment risks were retained in the Group. The difference between the assigned receivables and the corresponding liabilities result from the different contractual conditions as well as from the portion of the securitized commercial paper and notes retained by the VW FS AG Group.

Collateral totaling €14,978 million (previous year: €11,121 million) was pledged within the scope of ABS transactions.

The VW FS AG Group is contractually obliged to transfer funds to the structured companies that are included in its consolidated financial statements, under certain conditions. Given that the transfer of receivables to the special purpose entity is by way of an undisclosed assignment, it is possible that the receivable was already legally diminished when held by the originator, e.g. if the receivables' obligor effectively offsets against the VW FS AG Group. Collateral must then be paid to the special purpose entity for the resulting compensation claims, e.g. if the rating of the relative Group company falls below the contractually agreed reference value. Such financial assistance was not granted to special purpose entities of the VW FS AG Group in the 2014 financial year or in preceding periods.

The bulk of the public and private ABS transactions of Volkswagen Financial Services AG Group can be repaid ahead of schedule (co-called clean-up call), if less than 9% or 10% of the original transaction volume is outstanding.

## 45. Derivative financial instruments

This item contains the negative market values from hedging transactions and from derivatives that are not hedges; it is made up as follows:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Obligations from hedging transactions | 286 | 229 |
| Fair value hedges on assets (currency risk) | 5 | 29 |
| Fair value hedges on liabilities (currency risk) | 124 | 95 |
| Fair value hedges (interest rate risk) | 50 | 50 |
| Portfolio fair value hedges (interest rate risk) | 45 | 37 |
| Cash flow hedges on interest payments (currency risk) | 37 | 15 |
| Cash flow hedges (interest rate risk) | 25 | 3 |
| Obligations from derivatives that are not hedges | 160 | 97 |
| **Total** | **446** | **326** |

## 46. Provisions

The provisions break down as follows:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Provisions for pensions and similar obligations | 386 | 246 |
| Underwriting provisions | 308 | 281 |
| Other provisions | 799 | 932 |
| **Total** | **1,493** | **1,459** |

The following amounts were recognized for defined benefit plans in the balance sheet:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Present value of funded obligations | 227 | 139 |
| Fair value of plan assets | 180 | 142 |
| **Funded status (net)** | **47** | **−3** |
| Present value of unfunded obligations | 336 | 246 |
| Amount not recognized as an asset due to the ceiling of IAS 19 | 0 | 0 |
| **Amount recognized in the balance sheet** | **383** | **243** |
| of which provisions for pensions | 386 | 246 |
| of which other assets | 3 | 3 |

The principal pension regulations in the VW FS AG Group are:
VW FS AG provides post-employment benefits for its employees under contemporary, attractive company pension plans for the period following employees' active service. The majority of the pension commitments in the VW FS AG Group are pension plans for employees in Germany that are categorized as defined benefit plans in accordance with IAS 19. These commitments are mainly financed through provisions recognized in the balance sheet. In the meantime these plans are now closed for new members. To reduce the risks associated with defined benefit plans, especially longevity, salary increases and inflation, the VW FS AG Group introduced new defined benefit plans in recent years whose benefits are financed through corresponding external plan assets. The aforementioned risks were thus substantially reduced in these pension plans. In the future, pension obligations financed through plan assets will account for an ever-larger share of the total obligation. The main pension commitments are described below.

Domestic pension plans financed exclusively through provisions recognized in the balance sheet
The pension plans financed exclusively through provisions recognized in the balance sheet are either contribution-based plans with guarantees or final-salary-based defined benefit plans. In contribution-based plans, annual income- and status-linked pension expenses are converted into a lifelong pension using annuity conversion factors (guarantee components). The annuity conversion factors include a guaranteed interest rate. The annually acquired pension components are added when benefits become due. In final-salary-based benefit plans, when benefits become due the salary used to calculate the pension is multiplied by a percentage that depends on the employee's length of service until the time the benefits fall due. The present value of the guaranteed obligation rises when interest rates fall and is therefore subject to interest rate risk. The post-employment benefits system provides for lifelong pension payments. In this respect, the companies bear the longevity risk. This is taken into account by the fact that to calculate the annuity conversion factors and the present value of the guaranteed obligation, the most recent generation mortality tables, Heubeck's 2005 G mortality tables, are used, which already factor in a future increase in life expectancy. To reduce the inflation risk by adjusting current pension payments in the amount of the inflation rate, a non-inflation-related pension adjustment was introduced for the pension obligations for which this is legally permissible.

Domestic pension plans financed with external plan assets
The pension plans financed with external plan assets are based on contribution-based plans with guarantees. Here, either annual income- and status-linked pension expenses are converted into a lifelong pension using annuity conversion factors (guarantee components) or the pension is paid out as a lump sum or in instalments. In some cases, employees may be able to top up their pensions by way of deferred compensation. The annuity conversion factors include a guaranteed interest rate. The annually acquired pension components are added when benefits become due. The pension expenses are regularly transferred to an investment fund that is managed in trust independently of the company and invested in the capital markets. If the plan assets are higher than the present value of the obligations calculated using the guaranteed interest rate, surpluses are allocated (surplus components). However, since the investment fund administered by the trustee meets the requirements of IAS 19 as plan assets, any surplus is set off against the obligations.

As the amount of the pension plan assets is subject to general market risk, the investment focus and how the funds are invested is continuously monitored by the trust's committees, which also include representatives of the companies. For example, the principles for capital investments are specified in investment guidelines with the aim of limiting market risk and its impact on the plan assets. In addition, asset/liability management studies are periodically conducted to ensure that the capital investment is in conformity with the obligations being hedged. Currently, the pension plan assets are primarily invested in investment funds comprising fixed-income marketable securities or shares, which means the main risks are interest rate risk and share price risk. To cushion the market risk, the pension system also stipulates that funds be transferred to an equalization reserve prior to the allocation of a surplus.

The present value of the obligation is recognized as the higher of the present value of the guaranteed obligation and the plan assets. If the value of the plan assets falls below the present value of the guaranteed obligation, a provision must be recognized in this amount. The present value of the guaranteed obligation rises when interest rates fall and is therefore subject to interest rate risk.

In the case of lifelong pension payments, VW FS AG Group bears the longevity risk. This is taken into account by the fact that to calculate the annuity conversion factors and the present value of the guaranteed obligation, the most recent generation mortality tables, Heubeck's 2005 G mortality tables, are used, which already factor in a future increase in life expectancy. In addition, annual risk monitoring is performed by independent actuaries in connection with the review of the investments in the trusts.

To reduce the inflation risk by adjusting current pension payments in the amount of the inflation rate, a non-inflation-related pension adjustment was introduced for the pension obligations for which this is legally permissible.

The following actuarial assumptions were used to calculate the present value of the defined benefit pension obligations:

| | GERMANY | | ABROAD | |
|---|---|---|---|---|
| % | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Discount rate | 2.30 | 3.70 | 6.36 | 6.02 |
| Salary trend | 3.30 | 3.32 | 5.56 | 2.05 |
| Pension trend | 1.80 | 1.80 | 3.74 | 3.42 |
| Fluctuation rate | 0.82 | 0.75 | 2.71 | 3.46 |
| Annual increase in healthcare costs | – | – | 2.00 | 2.00 |

These figures are averages that were weighted based on the present values of the defined benefit obligation.

In all countries, the most recent mortality tables are used for life expectancy; in Germany, for example, Professor Klaus Heubeck's 2005 G mortality tables are used. The discount rates are generally determined on the basis of returns from investment-grade corporate bonds whose maturity and currency are in line with the obligations in question. The iBoxx AA 10+ Corporates index was used to calculate the obligations of VW FS AG Group's domestic companies. Comparable indices were used for the foreign pension obligations.

The salary trends comprise expected increases in wages and salaries, also taking into account career-related increases. The pension trends correspond either to the contractually stipulated guaranteed pension adjustments or are based on the regulations governing pension adjustments in the countries in question. The fluctuation rates are based on past experience as well as future expectations.

The development of the recognized amounts from defined benefit pension commitments is shown below:

| € million | 2014 | 2013 |
|---|---|---|
| **Balance as of Jan. 1** | **243** | **264** |
| Changes in the basis of consolidation | 4 | – |
| Current service cost | 19 | 18 |
| Net interest expense | 9 | 8 |
| Actuarial gains (–)/losses (+) due to changes in demographic assumptions | 0 | 0 |
| Actuarial gains (–)/losses (+) due to changes in financial assumptions | 135 | –34 |
| Actuarial gains (–)/losses (+) due to experience adjustments | 0 | 3 |
| Income/expenses from plan assets not recognized in interest income | 7 | –1 |
| Change in the amount not recognized as an asset due to the ceiling of IAS 19 | 0 | 0 |
| Employer contributions to the fund | 15 | 14 |
| Pension payments from company assets | 5 | 5 |
| Other changes | 0 | 3 |
| Currency differences from foreign plans | 0 | –1 |
| **Balance as of Dec. 31** | **383** | **243** |

The development of the present value of the defined benefit pension obligations is comprised as follows:

| € million | 2014 | 2013 |
|---|---|---|
| **Present value of obligations as of Jan. 1** | **385** | **392** |
| Changes in the basis of consolidation | 10 | – |
| Current service cost | 19 | 18 |
| Interest cost | 17 | 14 |
| Actuarial gains (–)/losses (+) due to changes in demographic assumptions | 0 | 0 |
| Actuarial gains (–)/losses (+) due to changes in financial assumptions | 135 | –34 |
| Actuarial gains (–)/losses (+) due to experience adjustments | 0 | 3 |
| Employee contributions to the fund | 2 | 1 |
| Pension payments from company assets | 5 | 5 |
| Pension payments out of the fund | 2 | 1 |
| Other changes | 0 | 2 |
| Currency differences from foreign plans | 2 | –5 |
| **Present value of obligations as of Dec. 31** | **563** | **385** |

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

| Present value of the defined benefit obligations if | | 31.12.2014 | | 31.12.2013 | |
|---|---|---|---|---|---|
| | | € million | In % | € million | In % |
| Discount rate | is 0.5 percentage points higher | 507 | −9.93 | 361 | −6.17 |
| | is 0.5 percentage points lower | 628 | 11.59 | 424 | 10.12 |
| Pension trend | is 0.5 percentage points higher | 588 | 4.52 | 401 | 4.16 |
| | is 0.5 percentage points lower | 540 | −4.10 | 372 | −3.35 |
| Salary trend | is 0.5 percentage points higher | 569 | 1.10 | 391 | 1.65 |
| | is 0.5 percentage points lower | 557 | −1.06 | 379 | −1.53 |
| Life expectancy | is one year longer | 577 | 2.50 | 393 | 2.07 |

The sensitivity analyses depicted each take account of the change in an accounting assumption, with the other assumptions remaining unchanged compared with the original calculation, i.e. possible correlation effects between the individual assumptions are not reflected in the calculations.

To examine the sensitivity of the present value of the defined benefit pension obligation to a change in the assumed life expectancy, the mortality rates applied in a comparative calculation were lowered so that the reduction leads approximately to an increase in life expectancy of one year.

The weighted average term to maturity based on the present value of the obligation (Macaulay duration) of the defined benefit pension obligation is 23 years (previous year: 21 years).

The present value of the defined benefit pension obligation is distributed as follows among the plan members:

| € million | 2014 | 2013 |
|---|---|---|
| Active members entitled to pensions | 414 | 272 |
| Members with vested benefits who are no longer with the company | 47 | 35 |
| Pensioners | 102 | 78 |

The maturity profile of the payments for the defined benefit pension obligation, in which the present value of the obligation is broken down according to the maturity of the underlying payments, is shown in the table below:

| € million | 2014 | 2013 |
| --- | --- | --- |
| Payments due within the next fiscal year | 7 | 6 |
| Payments due within two to five years | 31 | 26 |
| Payments due in more than five years | 525 | 353 |

The development of the plan assets is shown in the following table:

| € million | 2014 | 2013 |
| --- | --- | --- |
| **Fair value of plan assets as of Jan. 1** | **142** | **128** |
| Changes in the basis of consolidation | 6 | – |
| Interest income on plan assets determined using the discount rate | 8 | 6 |
| Income/expenses from plan assets not recognized in interest income | 7 | –1 |
| Employer contributions to the fund | 15 | 14 |
| Employee contributions to the fund | 2 | 1 |
| Pension payments out of the fund | 2 | 2 |
| Other changes | 0 | 0 |
| Currency differences from foreign plans | 2 | –4 |
| **Fair value of plan assets as of Dec. 31** | **180** | **142** |

Investment of the plan assets to cover future pension obligations resulted in income in the amount of €14 million (previous year: €5 million) on the balance sheet date

Employer contributions to plan assets in the next fiscal year are expected to amount to €19 million (previous year: €15 million).

The plan assets have been invested in the following investment categories:

| | 31.12.2014 | | | 31.12.2013 | | |
|---|---|---|---|---|---|---|
| € million | Market price quotation in an active market | No market price quotation in an active market | Total | Market price quotation in an active market | No market price quotation in an active market | Total |
| Cash and cash equivalents | 7 | – | 7 | 8 | – | 8 |
| Equity instruments | 7 | – | 7 | 5 | – | 5 |
| Debt instruments | 46 | – | 46 | 36 | – | 36 |
| Investments in real property | – | – | – | – | 0 | 0 |
| Derivatives | 2 | – | 2 | 2 | – | 2 |
| Equity funds | 37 | – | 37 | 31 | – | 31 |
| Bond funds | 72 | – | 72 | 53 | – | 53 |
| Property investment funds | 2 | – | 2 | 2 | – | 2 |
| Other funds | 6 | – | 6 | 5 | – | 5 |
| Other | 0 | 1 | 1 | 0 | – | 0 |

43% of the plan assets (previous year: 42%) in domestic assets, 25% (previous year: 23%) in other European assets and 32% (previous year: 35%) in assets from other regions. Investments in debt instruments of the Volkswagen Group included in the plan assets are insignificant.

The following amounts were recognized in the income statement:

| € million | 2014 | 2013 |
|---|---|---|
| Current service cost | 19 | 18 |
| Net interest expense (+)/income (–) | 9 | 8 |
| **Total amount shown under staff costs** | **28** | **26** |

Other underwriting provisions developed as follows:

| | UNDERWRITING PROVISIONS | | |
|---|---|---|---|
| € million | Provision for unsettled insurance claims | Provision for unearned premiums | Other underwriting provisions |
| **As of Jan. 1, 2013** | **142** | **134** | **2** |
| Changes in the basis of consolidation | – | – | – |
| Use | 78 | 50 | 2 |
| Additions | 40 | 93 | 0 |
| **As of Dec. 31, 2013** | **104** | **177** | **0** |

| € million | Underwriting provisions: Provision for unsettled insurance claims | Provision for unearned premiums | Other underwriting provisions |
|---|---|---|---|
| **As of Jan. 1, 2014** | **104** | **177** | **0** |
| Changes in the basis of consolidation | – | – | – |
| Use | 35 | 77 | 0 |
| Additions | 24 | 114 | 1 |
| **As of Dec. 31, 2014** | **93** | **214** | **1** |

Terms of the underwriting provisions:

| € million | 31.12.2014 Residual term more than one year | Total | 31.12.2013 Residual term more than one year | Total |
|---|---|---|---|---|
| Provision for unsettled insurance claims | 64 | 93 | 61 | 104 |
| Provision for unearned premiums | 119 | 214 | 99 | 177 |
| Other underwriting provisions | – | 1 | – | 0 |
| **Total** | **183** | **308** | **160** | **281** |

Underwriting provisions for the direct business:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| € million | Residual term more than one year | Total | Residual term more than one year | Total |
| **As of Jan. 1** | **53** | **120** | **44** | **71** |
| Use | – | 67 | – | 26 |
| Additions | 16 | 94 | 9 | 75 |
| **As of Dec. 31** | **69** | **147** | **53** | **120** |

The underwriting provisions for the direct business were established for warranty and repair-cost insurance.

Development of the underwriting provisions for the reinsurance business by type:

| | 2013 | | | |
|---|---|---|---|---|
| € million | Vehicle insurance | Credit protection insurance | Other | Total |
| **As of Jan. 1** | **137** | **69** | **1** | **207** |
| Use | 77 | 26 | 0 | 103 |
| Additions | 23 | 33 | 0 | 56 |
| **As of Dec. 31** | **83** | **76** | **1** | **160** |

| | 2014 | | | |
|---|---|---|---|---|
| € million | Vehicle insurance | Credit protection insurance | Other | Total |
| **As of Jan. 1** | **83** | **76** | **1** | **160** |
| Use | 19 | 30 | 1 | 50 |
| Additions | 2 | 36 | 13 | 51 |
| **As of Dec. 31** | **66** | **82** | **13** | **161** |

Other provisions in the reporting period are divided into provisions for human resources, for litigation and legal risks, and other. The presentation of the prior year was adjusted.

Other provisions developed as follows:

| € million | OTHER PROVISIONS | | |
|---|---|---|---|
| | Human resources | Litigation and legal risks | Other |
| **As of Jan. 1, 2013** | **169** | **664** | **132** |
| Foreign exchange differences | –2 | –54 | –1 |
| Changes in the basis of consolidation | – | 2 | – |
| Use | 113 | 13 | 13 |
| Reversal | 21 | 81 | 27 |
| Additions | 140 | 80 | 58 |
| Transfers | 0 | – | 0 |
| Amortization of discounts | – | 11 | 1 |
| **As of Dec. 31, 2013** | **173** | **609** | **150** |

| € million | OTHER PROVISIONS | | |
|---|---|---|---|
| | Human resources | Litigation and legal risks | Other |
| **As of Jan. 1, 2014** | **173** | **609** | **150** |
| Foreign exchange differences | 0 | 8 | –1 |
| Changes in the basis of consolidation | 3 | 1 | 7 |
| Use | 122 | 171 | 26 |
| Reversal | 17 | 248 | 11 |
| Additions | 65 | 298 | 69 |
| Transfers | – | – | – |
| Amortization of discounts | – | 12 | 0 |
| **As of Dec. 31, 2014** | **102** | **509** | **188** |

The provisions in human resources include, in particular, one-off annual payments, payments on account of staff anniversaries of company service and other costs of the workforce. Other provisions also contain provisions for indirect credit risk in the amount of €27 million (previous year: €24 million).

Terms of the other provisions:

| | 31.12.2014 | | 31.12.2013 | |
|---|---|---|---|---|
| € million | Residual term more than one year | Total | Residual term more than one year | Total |
| Human resources | 44 | 102 | 33 | 173 |
| Litigation and legal risks | 456 | 509 | 468 | 609 |
| Other | 21 | 188 | 17 | 150 |
| **Total** | **521** | **799** | **518** | **932** |

The provisions for litigation and legal risks take into account any risks identified as of the reporting date regarding claims and legal costs resulting from current legislation and ongoing legal proceedings. Please note that upon invoking the safeguard clause in accordance with IAS 37.92, detailed information about provisions are not made if these could seriously compromise the interests of the company.

The expected outflow of payments for the other provisions will be 35% in 2015, 61% in the years 2016 to 2019 and 4% thereafter.

## 47. Deferred tax liabilities

The deferred tax liabilities break down as follows:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Deferred income tax liabilities | 6,041 | 5,789 |
| of which non-current | 3,413 | 3,057 |
| Netting (with deferred tax assets) | −5,723 | −5,459 |
| **Total** | **318** | **330** |

The deferred tax liabilities contain taxes from temporary differences between measurements in accordance with IFRS and amounts arising from the determination of the taxable income of VW FS AG Group companies.

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

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Receivables and other assets | 4,940 | 4,420 |
| Marketable securities and cash and cash equivalents | 11 | 60 |
| Intangible assets/property, plant and equipment | 24 | 22 |
| Leasing and rental assets | 556 | 520 |
| Liabilities and provisions | 509 | 767 |
| **Total** | **6,040** | **5,789** |

## 48. Other liabilities

Other liabilities concern the following items:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Accrued liabilities | 533 | 428 |
| Liabilities from other taxes | 255 | 230 |
| Liabilities within the framework of social security and the wage and salary settlement | 155 | 48 |
| Other | 486 | 435 |
| **Total** | **1,429** | **1,141** |

## 49. Subordinated capital

The subordinated capital is issued and raised by Volkswagen Bank GmbH, Volkswagen Leasing GmbH, Volkswagen Financial Services (UK) Ltd., Banco Volkswagen S.A., Volkswagen Financial Services Australia Limited as well as VW FS AG. It is divided as follows:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Subordinated liabilities | 2,204 | 2,134 |
| of which: due within two years | 1,428 | 891 |
| **Total** | **2,204** | **2,134** |

The subordinated liabilities to affiliated companies amount to €2,093 million (previous year: €1,868 million)

## 50. Non-current liabilities

| € million | Dec. 31, 2014 | of which non-current | Dec. 31, 2013 | of which non-current |
|---|---|---|---|---|
| Liabilities to financial institutions | 13,134 | 5,404 | 11,134 | 3,378 |
| Liabilities to customers | 38,721 | 7,524 | 33,705 | 5,844 |
| Securitized liabilities | 37,243 | 23,940 | 31,516 | 18,123 |
| Derivative financial instruments | 446 | 232 | 326 | 187 |
| Income tax obligations | 311 | 122 | 364 | 0 |
| Other liabilities | 1,430 | 436 | 1,141 | 347 |
| Subordinated capital | 2,204 | 1,870 | 2,134 | 1,846 |
| **Total** | **93,489** | **39,528** | **80,320** | **29,725** |

## 51. Equity

The subscribed capital of VW FS AG is divided into 441,280,000 fully paid-up no-par value bearer shares with a nominal value of €1 each, all of which are held by Volkswagen AG, Wolfsburg. Neither preferential rights nor limitations arise from the subscribed capital.

The capital reserves of VW FS AG include the capital contributions of Volkswagen AG, the company's sole shareholder.

The retained earnings include undistributed earnings of previous fiscal years. The retained earnings include a legal reserve totaling €44 million (previous year: €44 million).

VW FS AG'S profit of €147 million based on its HGB single-entity financial statements (previous year: €617 million) was deducted from equity due to the existing control and profit transfer agreement with Volkswagen AG, the company's sole shareholder.

## 52. Capital management

Capital in this connection refers to equity as defined in IFRS. VW FS AG's capital management serves to support the company's rating through adequate capitalization, to raise equity for funding its growth targets in the following fiscal year and to fulfil regulatory requirements regarding capital adequacy.

Capital under regulatory requirements is distinguished from equity under IFRS (refer to note 51 for its components).

Own funds under regulatory requirements comprises the so-called Common Equity Tier 1 capital, the Additional Tier 1 capital and the Tier 2 capital (subordinated liabilities) net of certain deductions. Own funds must satisfy specific legal requirements.

Capital measures by the parent company of VW FS AG affect both equity under IFRS and own funds.

Under banking regulations (CRR German Banking Act, Solvency Regulation), the banks regulatory authorities generally assume that the capitalization is adequate, if the companies subject to banking supervision show a consolidated Common Equity Tier 1 capital ratio of at least 4.5%, a consolidated Tier 1 capital ratio of at least 6.0% and a consolidated total capital ratio of at least 8.0 % (without taking transitional provisions into account). In determining these ratios, the regulatory capital is considered in relation to the eligible amounts determined in accordance with statutory requirements for counterparty risks, operational risks, market risk positions and the credit valuation adjustment (CVA). A planning procedure that is integrated into the internal reporting system was established in order to ensure compliance at all times with these capital adequacy requirements; it serves to determine ongoing regulatory capital requirements based on the actual and expected development of business. As a result, compliance with the minimum capital requirements was ensured at all times during the reporting year at both the VW FS AG Group level and at the level of individual companies that are subject to special capital adequacy requirements.

The resulting figures and financial ratios for the financial holding group are as follows:

| | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Total risk exposure amount (€ million) | 97,931 | 82,549 |
| of which risk-weighted position according to the standardized approach to credit risks | 86,416 | 73,987 |
| of which market risk positions * 12.5 | 4,725 | 3,599 |
| of which operational risks * 12.5 | 6,381 | 4,963 |
| of which risk positions for the credit valuation adjustment (CVA) * 12.5 | 409 | 0 |
| Eligible capital (€ million)[1] | 10,484 | 8,083 |
| Own funds (€ million) | 10,484 | 7,961 |
| of which Common Equity Tier 1 capital | 10,122 | 7,135 |
| of which Additional Tier 1 capital | 0 | 0 |
| of which Tier 2 capital | 362 | 826 |
| Common Equity Tier 1 capital ratio (%)[2] | 10.3 | – |
| Tier 1 capital ratio (%)[2] | 10.3 | 8.6 |
| Total capital ratio (%)[2] | 10.7 | 9.6 |

1 In 2013 liable capital is reported in this item.
2 The calculation of the regulatory capital ratios has been made for 2010 to 2013 in accordance with the Solvency Regulation. These capital ratios are calculated pursuant to Article 92 Capital Requirements Regulation (CRR) from January 1, 2014. According to the designation in the CRR, the Common Equity Tier 1 capital ratio was also included and the designation of the overall ratio was changed in total capital ratio.

## DISCLOSURES ON FINANCIAL INSTRUMENTS

### 53. Carrying amounts of financial instruments under the measurement categories specified in IAS 39

The VW FS AG Group has defined the measurement categories under IAS 39 as follows:

Loans and receivables are non-derivative financial instruments that are not traded on active markets and are subject to fixed payment agreements. The cash reserve is also included in this category.

Financial assets or liabilities measured at fair value through profit or loss include derivative financial instruments. The VW FS AG Group does not plan on allocating other financial instruments to this category.

Available-for-sale financial assets are either allocated specifically to this category or are financial assets that cannot be assigned to any other category. Marketable securities and other financial assets are included in this category at the VW FS AG Group level.

All non-derivative financial instruments are recognized as of the settlement date. The derivative financial instruments are recognized as of the trading date.

The carrying amounts of the financial instruments (excluding hedge derivatives) pursuant to the measurement categories are as follows:

| | LOANS AND RECEIVABLES | | AVAILABLE-FOR-SALE FINANCIAL ASSETS | | FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST | | FINANCIAL ASSETS OR LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS | |
|---|---|---|---|---|---|---|---|---|
| € million | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| **Assets** | | | | | | | | |
| Cash reserve | 451 | 220 | – | – | – | – | – | – |
| Receivables from financial institutions | 2,036 | 2,019 | – | – | – | – | – | – |
| Receivables from customers | 67,540 | 56,884 | – | – | – | – | – | – |
| Derivative financial instruments | – | – | – | – | – | – | 42 | 89 |
| Securities | – | – | 2,013 | 2,451 | – | – | – | – |
| Other financial assets | – | – | 156 | 622 | – | – | – | – |
| Other assets | 749 | 663 | – | – | – | – | – | – |
| **Total** | **70,776** | **59,786** | **2,169** | **3,073** | **–** | **–** | **42** | **89** |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Liabilities to financial institutions | – | – | – | – | 13,135 | 11,134 | – | – |
| Liabilities to customers | – | – | – | – | 38,710 | 33,694 | – | – |
| Securitized liabilities | – | – | – | – | 37,243 | 31,516 | – | – |
| Derivative financial instruments | – | – | – | – | – | – | 160 | 97 |
| Other liabilities | – | – | – | – | 483 | 434 | – | – |
| Subordinated capital | – | – | – | – | 2,204 | 2,134 | – | – |
| **Total** | **–** | **–** | **–** | **–** | **91,775** | **78,912** | **160** | **97** |

Receivables from leasing business of €18,320 million (previous year: €16,298 million) are not allocated to any category The net results of these categories were as follows:

| € million | 2014 | 2013 |
|---|---|---|
| Loans and receivables | 3,341 | 2,880 |
| Available-for-sale financial assets | 23 | 3 |
| Financial liabilities measured at amortized cost | –1,675 | –1,673 |
| Financial assets or liabilities measured at fair value through profit or loss | 31 | 14 |

The results are determined as follows:

| Measurement category | Measurement method |
|---|---|
| Loans and receivables | Interest income pursuant to the effective interest rate method in accordance with IAS 39 and expenses/income resulting from valuation allowances in accordance with IAS 39 including effects from currency translation |
| Available-for-sale financial assets | Fair value in accordance with IAS 39 in conjunction with IFRS 13 including interest and effects from currency translation and impairments |
| Financial liabilities measured at amortized cost | Interest expense pursuant to the effective interest rate method in accordance with IAS 39 including effects from currency translation |
| Financial assets or liabilities measured at fair value through profit or loss | Fair value in accordance with IAS 39 in conjunction with IFRS 13 including interest and effects from currency translation and impairments |

## 54. Classes of financial instruments

Financial instruments in the VW FS AG Group are classed as follows:
- Measured at fair value
- Assets measured at amortized cost
- Hedge accounting
- Other financial assets
- Liabilities measured at amortized cost
- Credit acceptances
- Not subject to IFRS 7

A reconciliation of the relevant balance sheet items with the aforementioned classes is found in the following schedule:

| | BALANCE SHEET ITEM | | MEASURED AT FAIR VALUE | | MEASURED AT AMORTIZED COST | | HEDGE ACCOUNTING | | OTHER FINANCIAL ASSETS | | NOT SUBJECT TO IFRS 7 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| € million | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 | Dec. 31, 2013 |
| **Assets** | | | | | | | | | | | | |
| Cash reserve | 451 | 220 | – | – | 451 | 220 | – | – | – | – | – | – |
| Receivables from financial institutions | 2,036 | 2,019 | – | – | 2,036 | 2,019 | – | – | – | – | – | – |
| Receivables from customers | 85,871 | 73,191 | – | – | 69,363 | 54,603 | 16,508 | 18,588 | – | – | – | – |
| Derivative financial instruments | 955 | 509 | 42 | 89 | – | – | 913 | 420 | – | – | – | – |
| Marketable securities | 2,013 | 2,451 | 2,013 | 2,451 | – | – | – | – | – | – | – | – |
| Joint ventures accounted for using the equity method | 443 | 384 | – | – | – | – | – | – | – | – | 443 | 384 |
| Other financial assets | 156 | 622 | – | – | – | – | – | – | 156 | 622 | – | – |
| Other assets | 2,723 | 1,744 | – | – | 749 | 663 | – | – | – | – | 1,974 | 1,081 |
| **Total** | **94,648** | **81,140** | **2,055** | **2,540** | **72,599** | **57,505** | **17,421** | **19,008** | **156** | **622** | **2,417** | **1,465** |
| | | | | | | | | | | | | |
| **Liabilities** | | | | | | | | | | | | |
| Liabilities to financial institutions | 13,135 | 11,134 | – | – | 13,135 | 11,134 | – | – | – | – | – | – |
| Liabilities to customers | 38,721 | 33,705 | – | – | 38,466 | 32,797 | 255 | 908 | – | – | – | – |
| Securitized liabilities | 37,243 | 31,516 | – | – | 37,243 | 31,516 | – | – | – | – | – | – |
| Derivative financial instruments | 446 | 326 | 160 | 97 | – | – | 286 | 229 | – | – | – | – |
| Other liabilities | 1,429 | 1,141 | – | – | 483 | 434 | – | – | – | – | 946 | 707 |
| Subordinated capital | 2,204 | 2,134 | – | – | 2,204 | 2,134 | – | – | – | – | – | – |
| **Total** | **93,178** | **79,956** | **160** | **97** | **91,531** | **78,015** | **541** | **1,137** | **–** | **–** | **946** | **707** |

The credit acceptance class includes liabilities arising from irrevocable credit acceptances amounting to €4,036 million (previous year: €3,367 million) on the balance sheet date.

## 55. Measurement levels of the financial instruments measured at fair value and at amortized cost

To measure the fair value and the associated information we have classified the fair values within a three-level fair value hierarchy. As such, classification within the individual levels is contingent on the availability of observable market prices.

The fair values of financial instruments, e.g. marketable securities or securitized liabilities for which a market price is directly observable on an active market, are classified in Level 1.

Level 2 fair values are determined based on market inputs such as foreign exchange rates or interest rate yield curves using market-based valuation techniques. This includes, among others, derivatives or liabilities to customers.
Level 3 fair values are calculated using valuation techniques that do not take into account directly observable factors in an active market. Most receivables from customers are assigned to Level 3 because parameters that are not observable in the market are used to determine the fair value.

The following table shows how the financial instruments measured at fair value are categorized in this three-level class hierarchy.

| | LEVEL 1 | | LEVEL 2 | | LEVEL 3 | |
|---|---|---|---|---|---|---|
| € million | 31.12.2014 | 31.12.2013 | 31.12.2014 | Dec. 31, 2013[1] | 31.12.2014 | Dec. 31, 2013[1] |
| **Assets** | | | | | | |
| Measured at fair value | | | | | | |
| Derivative financial instruments | – | – | 42 | 89 | – | – |
| Marketable securities | 1,631 | 1,705 | 382 | 746 | – | – |
| Measured at amortized cost | | | | | | |
| Cash reserve | 451 | 220 | – | – | – | – |
| Receivables from financial institutions | 1,990 | 1,773 | 47 | 246 | – | – |
| Receivables from customers | – | 7 | 788 | 783 | 69,711 | 54,689 |
| Other assets | – | – | 749 | 663 | – | – |
| Hedge accounting | | | | | | |
| Derivative financial instruments | – | – | 913 | 420 | – | – |
| Receivables from customers | – | – | – | – | 16,508 | 18,588 |
| **Total** | **4,072** | **3,705** | **2,921** | **2,947** | **86,219** | **73,277** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Measured at fair value | | | | | | |
| Derivative financial instruments | – | – | 160 | 97 | – | – |
| Measured at amortized cost | | | | | | |
| Liabilities to financial institutions | – | – | 13,105 | 11,125 | – | – |
| Liabilities to customers | – | – | 38,698 | 32,960 | – | – |
| Securitized liabilities | 19,366 | 17,116 | 18,114 | 14,613 | – | – |
| Other liabilities | – | – | 487 | 437 | – | – |
| Subordinated capital | – | 490 | 2,249 | 1,748 | – | – |
| Hedge accounting | | | | | | |
| Derivative financial instruments | – | – | 286 | 229 | – | – |
| Liabilities to customers | – | – | 255 | 908 | – | – |
| **Total** | **19,366** | **17,606** | **73,354** | **62,117** | **–** | **–** |

1 The previous year was adjusted.

## 56. Fair value of financial instruments classified as follows: assets or liabilities measures at cost, measured at fair value, Hedge accounting and Other financial assets

The fair values of the financial instruments are shown in the following table. The fair value is the amount for which financial instruments can be sold or bought on fair terms on the balance sheet date. Unadjusted market prices were applied wherever available (e.g. in connection with marketable securities) for measurement purposes. Absent market prices, the fair values of receivables and liabilities are determined based on discounting, taking into account customary market interest rates appropriate for the relevant risk and corresponding to the relevant maturity, i.e. risk-free interest rate curves were adjusted as necessary for the relevant risk factors as well as for equity and administrative costs. The fair value of receivables and liabilities with a residual term of less than one year was deemed to be the carrying amount on the grounds of materiality.

Due to reasons of materiality fair value for miscellaneous financial assets is likewise not determined because there is no active market for the companies contained therein. There were no plans at the balance sheet date to dispose of these financial assets.

The fair value of irrevocable credit acceptances is zero due to their short-term nature and the variable interest rate that is tied to the market interest rate.

| | FAIR VALUE | | CARRYING AMOUNT | | DIFFERENCE | |
|---|---|---|---|---|---|---|
| € million | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| **Assets** | | | | | | |
| Measured at fair value | | | | | | |
| Derivative financial instruments | 42 | 89 | 42 | 89 | – | – |
| Marketable securities | 2,013 | 2,451 | 2,013 | 2,451 | – | – |
| Measured at amortized cost | | | | | | |
| Cash reserve | 451 | 220 | 451 | 220 | – | – |
| Receivables from financial institutions | 2,037 | 2,019 | 2,036 | 2,019 | 1 | 0 |
| Receivables from customers | 70,499 | 55,479 | 69,363 | 54,603 | 1,136 | 876 |
| Other assets | 749 | 663 | 749 | 663 | – | 0 |
| Hedge accounting | | | | | | |
| Receivables from customers | 16,508 | 18,588 | 16,508 | 18,588 | – | – |
| Derivative financial instruments | 913 | 420 | 913 | 420 | – | – |
| Other financial assets | 156 | 622 | 156 | 622 | – | – |
| **Liabilities** | | | | | | |
| Measured at fair value | | | | | | |
| Derivative financial instruments | 160 | 97 | 160 | 97 | – | – |
| Measured at amortized cost | | | | | | |
| Liabilities to financial institutions | 13,105 | 11,125 | 13,135 | 11,134 | –30 | –9 |
| Liabilities to customers | 38,698 | 32,960 | 38,466 | 32,797 | 232 | 163 |
| Securitized liabilities | 37,480 | 31,729 | 37,243 | 31,516 | 237 | 213 |
| Other liabilities | 487 | 437 | 483 | 434 | 4 | 3 |
| Subordinated capital | 2,249 | 2,238 | 2,204 | 2,134 | 45 | 104 |
| Hedge accounting | | | | | | |
| Liabilities to customers | 255 | 908 | 255 | 908 | – | – |
| Derivative financial instruments | 286 | 229 | 286 | 229 | – | – |

The determination of the financial instruments' fair value is based on the following risk-free interest rate curves:

| % | EUR | USD | GBP | JPY | BRL | MXN | SEK | CZK | AUD | CNY | PLN | INR | RUB | KRW |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest for six months | 0.129 | 0.272 | 0.583 | 0.170 | 12.606 | 3.541 | 0.289 | 0.350 | 2.638 | 4.846 | 1.899 | 7.901 | 25.781 | 2.115 |
| Interest for one year | 0.117 | 0.431 | 0.641 | 0.157 | 12.963 | 3.845 | 0.257 | 0.522 | 2.522 | 4.468 | 1.758 | 7.620 | 20.075 | 2.055 |
| Interest for five years | 0.359 | 1.755 | 1.442 | 0.220 | 12.515 | 5.234 | 0.645 | 0.530 | 2.670 | 4.175 | 1.935 | 6.475 | 12.990 | 2.205 |
| Interest for ten years | 0.813 | 2.256 | 1.847 | 0.516 | – | 5.865 | 1.263 | 0.870 | 3.145 | 3.840 | 2.205 | 6.510 | 11.970 | 2.440 |

## 57. Offsetting financial assets and financial liabilities

The following table contains disclosures on the effects of offsetting on the consolidated balance sheet as well as the financial effects of offsetting financial instruments that are subject to an enforceable master netting arrangement or similar arrangement.

As a rule, financial assets and financial liabilities are recognized in gross amounts. Financial assets and financial liabilities are offset only if there is currently a legally enforceable right to set off the recognized amounts and the VW FS AG Group intends to settle on a net basis.

The amounts that are subject to a master netting arrangement but were not set off because they did not meet some or all of the offsetting criteria are disclosed in the "Financial instruments" column. These are mostly positive and negative market values from derivatives transactions entered into with the same contracting party.

The "Collateral received" and "Collateral furnished" columns show the amounts of cash collateral received and collateral pledged based on the total amount of assets and liabilities and reported in the form of financial instruments, including the collateral relating to assets and liabilities that have not been offset. This principally relates to collateral furnished in the form of cash collateral from ABS transactions and pledged marketable securities as well as collateral received in the form of cash deposits.

| | | | | | | | AMOUNTS NOT NETTED IN THE BALANCE SHEET | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross amount recognized for financial assets/ liabilities | | Gross amount recognized for financial assets/ liabilities netted in the balance sheet | | Net amount of financial assets /liabilities shown in the balance sheet | | Financial instruments | | Collateral received/furnished | | Net amount | |
| € million | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| **Assets** | | | | | | | | | | | | |
| Cash reserve | 451 | 220 | – | – | 451 | 220 | – | – | – | – | 451 | 220 |
| Receivables from financial institutions | 2,036 | 2,019 | – | – | 2,036 | 2,019 | – | – | – | – | 2,036 | 2,019 |
| Receivables from customers | 86,020 | 73,315 | −149 | −124 | 85,871 | 73,191 | – | – | −657 | −683 | 85,214 | 72,508 |
| Derivative financial instruments | 955 | 509 | – | – | 955 | 509 | −169 | −123 | −80 | – | 706 | 386 |
| Securities | 2,013 | 2,451 | – | – | 2,013 | 2,451 | – | – | – | – | 2,013 | 2,451 |
| Other financial assets | 156 | 622 | – | – | 156 | 622 | – | – | – | – | 156 | 622 |
| Other assets | 755 | 670 | −6 | −7 | 749 | 663 | – | – | – | – | 749 | 663 |
| **Total** | **92,386** | **79,806** | **−155** | **−131** | **92,231** | **79,675** | **−169** | **−123** | **−737** | **−683** | **91,325** | **78,869** |
| | | | | | | | | | | | | |
| **Liabilities** | | | | | | | | | | | | |
| Liabilities to financial institutions | 13,135 | 11,134 | – | – | 13,135 | 11,134 | – | – | −1,336 | −1,396 | 11,799 | 9,738 |
| Liabilities to customers | 38,870 | 33,829 | −149 | −124 | 38,721 | 33,705 | – | – | – | – | 38,721 | 33,705 |
| Securitized liabilities | 37,243 | 31,516 | – | – | 37,243 | 31,516 | – | – | −406 | −353 | 36,837 | 31,163 |
| Derivative financial instruments | 446 | 326 | – | – | 446 | 326 | −169 | −123 | −51 | – | 226 | 203 |
| Other liabilities | 489 | 441 | −6 | −7 | 483 | 434 | – | – | – | – | 483 | 434 |
| Subordinated capital | 2,204 | 2,134 | – | – | 2,204 | 2,134 | – | – | – | – | 2,204 | 2,134 |
| **Total** | **92,387** | **79,380** | **−155** | **−131** | **92,232** | **79,249** | **−169** | **−123** | **−1,793** | **−1,749** | **90,270** | **77,377** |

## 58. Counterparty credit risk

Please see the Risk Report (Chapter; Credit risk, pages 59 to 61) as part of the Management Report for the qualitative representations.

The credit and default risk arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the carrying amount of the claims from the respective counterparty as well as any irrevocable credit acceptances. The maximum credit and default risk is reduced through the collateral held and other credit enhancements in the amount of €46,322 million (previous year: €48,330 million). This concerns collateral held for receivables from customers classified as assets measured at amortized cost and hedge accounting. Collateral comprises vehicles and assets transferred as security as well as surety agreements and charges on property. Cash collateral is also used in connection with hedge accounting.

The following table shows the credit quality of the financial assets:

| | GROSS CARRYING AMOUNT | | NEITHER PAST DUE NOR IMPAIRED | | PAST DUE BUT NOT IMPAIRED | | IMPAIRED | |
|---|---|---|---|---|---|---|---|---|
| € million | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Measured at fair value | 2,055 | 2,540 | 2,055 | 2,540 | – | – | – | – |
| Measured at amortized cost | | | | | | | | |
| Cash reserve | 451 | 220 | 451 | 220 | – | – | – | – |
| Receivables from financial institutions | 2,036 | 2,019 | 2,036 | 2,019 | – | – | – | – |
| Receivables from customers | 71,473 | 55,945 | 67,756 | 52,596 | 1,458 | 1,388 | 2,260 | 1,961 |
| Other assets | 750 | 663 | 746 | 660 | 3 | 3 | 1 | – |
| Hedge accounting | | | | | | | | |
| Receivables from customers | 16,849 | 19,383 | 16,366 | 18,473 | 273 | 611 | 210 | 299 |
| Derivative financial instruments | 913 | 420 | 913 | 420 | – | – | – | – |
| Other financial assets | 156 | 622 | 156 | 622 | – | – | – | – |
| **Total** | **94,683** | **81,812** | **90,479** | **77,550** | **1,734** | **2,002** | **2,471** | **2,260** |

The maximum exposure to credit risk from irrevocable credit acceptances is €4,036 million (previous year: €3,367 million) on the balance sheet date

These assets are measured in accordance with IAS 39, as already described in notes (8) and (9).

Financial assets that are neither past due nor impaired are allocated to risk classes as follows:

| € million | NEITHER PAST DUE NOR IMPAIRED | | RISK CLASS 1 | | RISK CLASS 2 | |
|---|---|---|---|---|---|---|
| | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Measured at fair value | 2,055 | 2,540 | 2,055 | 2,540 | – | – |
| Measured at amortized cost | | | | | | |
| Cash reserve | 451 | 220 | 451 | 220 | – | – |
| Receivables from financial institutions | 2,036 | 2,019 | 2,036 | 2,019 | – | – |
| Receivables from customers | 67,756 | 52,596 | 57,479 | 44,199 | 10,277 | 8,397 |
| Other assets | 746 | 660 | 742 | 658 | 4 | 2 |
| Hedge accounting | | | | | | |
| Receivables from customers | 16,366 | 18,473 | 14,702 | 14,551 | 1,664 | 3,922 |
| Derivative financial instruments | 913 | 420 | 913 | 420 | – | – |
| Other financial assets | 156 | 622 | 156 | 622 | – | – |
| **Total** | **90,479** | **77,550** | **78,534** | **65,229** | **11,945** | **12,321** |

In the financial services business a borrower's credit rating is assessed in connection with all loans and leases. Scoring systems are utilized to this end in the volume business, while rating systems are used in connection with fleet customers and receivables from dealer financing. All receivables rated “good” in that process are assigned to risk class 1. Receivables from customers whose credit rating is not considered good but who have not yet defaulted are contained in risk class 2.

Age analysis according to classes of financial assets that are past due but not impaired:

| | | | PAST DUE WITHIN THE FOLLOWING PERIODS | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Past due but not impaired | | up to 1 month | | 1 to 3 months | | more than 3 months | |
| € million | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Measured at fair value | – | – | – | – | – | – | – | – |
| Measured at amortized cost | | | | | | | | |
| Cash reserve | – | – | – | – | – | – | – | – |
| Receivables from financial institutions | – | – | – | – | – | – | – | – |
| Receivables from customers | 1,458 | 1,388 | 1,078 | 1,066 | 372 | 322 | 8 | – |
| Other assets | 3 | 3 | 3 | 3 | – | – | – | – |
| Hedge accounting | | | | | | | | |
| Receivables from customers | 273 | 611 | 176 | 352 | 96 | 259 | 1 | – |
| Derivative financial instruments | – | – | – | – | – | – | – | – |
| Other financial assets | – | – | – | – | – | – | – | – |
| **Total** | **1,734** | **2,002** | **1,257** | **1,421** | **468** | **581** | **9** | **–** |

Collateral obtained in the fiscal year for financial assets which are scheduled for disposal:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Vehicles | 75 | 75 |
| Property | – | – |
| Other movables | – | – |
| **Total** | **75** | **75** |

Vehicles are disposed of via direct sales and auctions to Volkswagen Group dealerships.

## 59. Liquidity risk

In regards to our refinancing and hedging strategy, please see the management report.

The ageing of financial assets held to manage liquidity risk is as follows:

| | ASSETS | | PAYABLE ON DEMAND | | UP TO 3 MONTHS | | 3 MONTHS TO 1 YEAR | | 1 TO 5 YEARS | |
|---|---|---|---|---|---|---|---|---|---|---|
| € million | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Cash reserve | 451 | 220 | 451 | 220 | – | – | – | – | – | – |
| Receivables from financial institutions | 2,036 | 2,019 | 1,143 | 785 | 837 | 1,018 | 18 | 77 | 38 | 139 |
| Marketable securities | 1,443 | 1,533 | – | – | 1,443 | 1,533 | – | – | – | – |
| **Total** | **3,930** | **3,772** | **1,594** | **1,005** | **2,280** | **2,551** | **18** | **77** | **38** | **139** |

The ageing of undiscounted cash outflows from financial liabilities is as follows:

| | | | REMAINING CONTRACTUAL MATURITY | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | cash payments | | up to 3 months | | 3 months to 1 year | | 1 to 5 years | | more than 5 years | |
| € million | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Liabilities to financial institutions | 13,617 | 11,539 | 3,499 | 4,197 | 4,435 | 3,760 | 5,622 | 3,539 | 61 | 43 |
| Liabilities to customers | 39,194 | 34,207 | 28,003 | 23,143 | 3,321 | 4,832 | 5,660 | 4,611 | 2,211 | 1,621 |
| Securitized liabilities | 38,482 | 32,475 | 4,603 | 4,858 | 9,119 | 8,862 | 21,147 | 17,660 | 3,613 | 1,095 |
| Derivative financial instruments | 6,739 | 8,881 | 1,088 | 840 | 3,266 | 4,118 | 2,186 | 3,860 | 199 | 63 |
| Other liabilities | 483 | 434 | 144 | 190 | 170 | 107 | 166 | 135 | 4 | 2 |
| Subordinated capital | 2,909 | 2,850 | 34 | 49 | 343 | 272 | 1,623 | 1,612 | 909 | 917 |
| Irrevocable credit acceptances | 4,036 | 3,367 | 1,867 | 1,205 | 1,684 | 1,734 | 129 | 131 | 356 | 297 |
| **Total** | **105,460** | **93,753** | **39,238** | **34,482** | **22,338** | **23,685** | **36,533** | **31,548** | **7,353** | **4,038** |

## 60. Market risk

Please see the risk report contained in the management report for the relevant qualitative disclosures.

The value-at-risk (VaR) method based on historical simulation is used for quantitative measurements of interest and currency risks. The VaR indicates the amount of a possible loss in the overall portfolio that will not be exceeded with a 99% probability within a 40-day period. It requires an interest rate development analysis that shows all cash flows resulting from nonderivative and derivative financial instruments. The historical market data used to determine the VaR comprise the 1,000 most recent trade dates.

This yields the following figures:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Interest rate risk | 56 | 123 |
| Currency translation risk | 74 | 86 |
| **Total market risk** | **121** | **186** |

## 61. Foreign currency items

The following assets and liabilities are contained in the VW FS AG Group in the currencies shown as of December 31, 2014:

| € million | BRL | GBP | CNY | SEK | AUD | JPY | MXN | NOK | CZK | PLN | Others | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Receivables from financial institutions | 490 | 219 | 104 | 196 | 64 | 49 | 12 | 0 | 0 | 46 | 42 | 1,222 |
| Receivables from customers | 7,035 | 11,674 | 4,786 | 1,964 | 2,096 | 1,933 | 1,713 | 998 | 798 | 792 | 2,571 | 36,360 |
| **Assets** | **7,525** | **11,893** | **4,890** | **2,160** | **2,160** | **1,982** | **1,725** | **998** | **798** | **838** | **2,613** | **37,582** |
| Liabilities to financial institutions | 3,872 | 0 | 3,238 | 0 | 500 | 813 | 389 | – | 373 | 394 | 1,204 | 10,783 |
| Liabilities to customers | 1,250 | 1,490 | 930 | 388 | 36 | 129 | 124 | 6 | 46 | 503 | 410 | 5,312 |
| Securitized liabilities | 207 | 4,846 | 56 | 1,104 | 1,489 | 986 | 928 | 12 | 140 | 6 | 754 | 10,528 |
| Subordinated capital | 456 | 782 | – | – | 23 | – | – | – | – | – | – | 1,261 |
| **Liabilities** | **5,785** | **7,118** | **4,224** | **1,492** | **2,048** | **1,928** | **1,441** | **18** | **559** | **903** | **2,368** | **27,884** |

## 62. Disclosures on the hedging policy

### HEDGING POLICY AND FINANCIAL DERIVATIVES

On account of its activities in international financial markets, the VW FS AG Group is affected by interest rate and currency fluctuations on the international money and capital markets. The general rules for the foreign currency and interest rate hedging policy throughout the VW FS AG Group are laid down in intragroup guidelines and fulfil the "Minimum requirements for risk management" issued by the Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority – BaFin). National and international banks with excellent credit standing, whose creditworthiness is continuously scrutinized by rating firms, act as trading partners for the conclusion of appropriate financial transactions. To limit the currency and interest rate risks, appropriate hedging transactions are concluded. Conventional derivative financial instruments are used for this purpose.

### MARKET RISK

A market risk occurs when price changes on the financial markets (interest rates and exchange rates) have a positive or negative impact on the value of traded products. The market values shown in the tables were determined on the basis of the market information available on the balance sheet date. They represent the present values of the financial derivatives. These present values were determined on the basis of standardized procedures or quoted prices.

#### Interest rate risk

Changes in the level of interest rates on the money and capital markets constitute an interest rate risk in the case of refinancing with unmatched maturities. Interest rate risks are managed based on recommendations made by the Asset/Liability Management Committee (ALM Committee). They are based on interest rate development analyses which are subjected to various interest rate scenarios and thus quantify the interest rate risk, taking into account limits that are applied uniformly throughout the VW FS AG Group.

The interest rate hedging contracts concluded primarily contain interest rate swaps and combined interest rate/currency swaps. The company's interest hedging transactions comprise micro hedges and portfolio hedges. The portions of the assets or liabilities subject to fixed interest rates that were included in this hedging strategy are recognized at fair value, in contrast to the original subsequent measurement (at amortized cost). The resulting effects in the income statement are fundamentally offset by the countervailing effects on profit and loss caused by the interest rate hedges (swaps).

#### Currency risk

To avoid currency risks, currency hedging contracts are used, consisting of forward exchange transactions and interest rate/currency swaps. As a rule, all cash flows in foreign currency are hedged.

### LIQUIDITY RISK/FUNDING RISK

The VW FS AG Group takes precautions to protect against potential liquidity shortages by maintaining confirmed lines of credit at various commercial banks and by using multi-currency-capable debt issuance programs. In addition, marketable securities are deposited in Volkswagen Bank GmbH's operational safe custody account with Deutsche Bundesbank to secure the company's liquidity.

### DEFAULT RISK

The default risk arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the total net amount of the claims against the respective counterparty.

The actual default risk is considered to be small because transactions are concluded only with counterparties that have an excellent credit standing, and the company's risk management procedures include the setting of trading limits for each counterparty. Furthermore, the default risk from transactions is also minimized by furnishing collateral, as stipulated by regulatory provisions.

Concentrations of risk arise in the VW FS AG Group to varying degrees. A detailed description of these risks is provided in the report on opportunities and risks in the combined management report.

The nominal volumes of the derivative financial instruments are made up as follows:

| | REMAINING CONTRACTUAL MATURITY | | | | | |
|---|---|---|---|---|---|---|
| | up to 1 year | | 1 to 5 years | | more than 5 years | |
| € million | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 | 31.12.2014 | 31.12.2013 |
| Cash flow hedges | | | | | | |
| Interest rate swaps | 432 | 365 | 1,847 | 387 | 63 | – |
| Cross-currency interest rate swaps | 198 | 5 | 532 | 337 | – | – |
| Currency futures contracts | 2 | 3 | – | 1 | – | – |
| Currency swaps | 13 | 245 | – | 17 | – | – |
| Other | | | | | | |
| Interest rate swaps | 13,986 | 18,699 | 30,033 | 24,460 | 12,988 | 6,734 |
| Cross-currency interest rate swaps | 1,549 | 2,122 | 1,934 | 1,268 | – | – |
| Currency futures contracts | 890 | 360 | 1 | 8 | – | – |
| Currency swaps | 2,791 | 576 | 242 | 217 | – | – |
| **Total** | **19,861** | **22,375** | **34,589** | **26,695** | **13,051** | **6,734** |

The periods related to future payments on the items hedged with the cash flow hedges correspond to the maturity of the hedges.

As of the balance sheet date no cash flow hedges have been recognized for underlying transactions that are not expected to occur in the future.

## SEGMENT REPORTING

### 63. Division by geographical markets

The presentation of the reportable segments pursuant to IFRS 8 based on the internal reporting structure of the VW FS AG Group has been changed compared with the presentation of the 2013 consolidated financial statements. These changes are as follows.

As part of the restructuring of the Germany market as of January 1, 2014, the companies VW Versicherungsvermittlungs-GmbH and Volkswagen Versicherung AG were reclassified from the Germany market to the Holding. Accordingly, they were also reclassified in the segment reporting from the Germany Market column to the Reconciliation column. In this connection the France branch of Volkswagen Versicherung AG was reclassified from the Europe segment to the Reconciliation column. As in the past, this column also contains the holding and the financing companies. In order to ensure comparability the prior-year figures were adjusted accordingly.

The MAN FS segment was added to the internal reporting structure of the VW FS AG Group when the MAN Financial Services Group was acquired as of January 1, 2014. This expansion is reflected accordingly in the segment reporting.

The reportable segments pursuant to IFRS 8 based on the internal reporting structure of the VW FS AG Group are its geographical markets of Germany, Europe, Latin America, Asia Pacific and MAN FS. Foreign branches of German subsidiaries are included in the Europe segment. The Europe segment contains the subsidiaries and branches in the United Kingdom, Italy, France, the Czech Republic, Austria, the Netherlands, Spain, Sweden, Ireland, Greece, Portugal, Poland and Russia. The Latin America segment contains the subsidiaries in Mexico and Brazil. The Asia Pacific segment contains the subsidiaries in Australia, Japan, China, India and South Korea.

The VW FS AG holding company, the holding and financing companies in the Netherlands, France and in Belgium, VW Versicherungsvermittlungs-GmbH and Volkswagen Versicherung AG are contained in the “Reconciliation” column. This presentation ensures that in the internal reporting system there is a distinction between market performance and typical holding and financing functions as well as industry, primary insurance and reinsurance business.

The information made available to management for controlling purposes is based on the same accounting policies that are used in external accounting.

The performance of each individual segment is measured on the basis of the operating profit and profit before tax.

The operating profit includes the net income from lending, leasing and insurance transactions after provisions for risks, net commission income as well as general administration expenses and other operating income and expenses. The interest expense, general administration expenses and other operating income and expenses that are not a component of the operating profit mainly comprise interest income and expense from external tax audits, interest accruals for other provisions as well as interest expense for pension provisions and expected income from plan assets of externally financed pension obligations. Interest income not classified as revenue is interest income that is not attributable to the financial services business. It is not a component of the operating profit

## DIVISION BY GEOGRAPHICAL MARKETS 2013:

| | JAN. 1 – DEC. 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| € million | Germany | Europe | Latin America | Asia Pacific | Total segments | Reconciliation | Group |
| Sales revenue from lending transactions with third parties | 958 | 771 | 1,064 | 461 | 3,254 | 65 | 3,319 |
| Sales revenue from lending transactions between the segments | 85 | 0 | – | 0 | 85 | −85 | – |
| Segment sales revenue from lending transactions | 1,043 | 771 | 1,064 | 461 | 3,339 | −20 | 3,319 |
| Sales revenue from leasing and service contracts | 5,976 | 3,514 | 90 | 9 | 9,589 | −9 | 9,580 |
| Premiums earned from insurance business | – | – | – | – | – | 96 | 96 |
| Commission income | 274 | 134 | 114 | 3 | 525 | 17 | 542 |
| **Sales revenue** | **7,293** | **4,419** | **1,268** | **473** | **13,453** | **84** | **13,537** |
| Cost of sales from lending, leasing and service transactions | −3,998 | −2,709 | −3 | −2 | −6,712 | – | −6,712 |
| Write–ups on leasing and rental assets as well as investment property | 0 | 13 | – | – | 13 | – | 13 |
| Depreciation and impairment losses on leasing and rental assets as well as investment property | −1,082 | −465 | −1 | 0 | −1,548 | – | −1,548 |
| of which impairment losses in accordance with IAS 36 | −68 | −14 | – | – | −82 | – | −82 |
| Expenses from the insurance business | – | – | – | – | – | −64 | −64 |
| Interest expense (part of the operating result) | −486 | −255 | −517 | −210 | −1,468 | 30 | −1,438 |
| Risk provisions arising from lending and leasing business | −256 | −139 | −184 | −36 | −615 | 0 | −615 |
| Commission expenses | −155 | −164 | −58 | −29 | −406 | 4 | −402 |
| Result from the measurement of derivative financial instruments and hedged items (part of the operating result) | −12 | – | – | – | −12 | −2 | −14 |
| General and administrative expenses (part of the operating result) | −803 | −361 | −194 | −123 | −1,481 | −115 | −1,596 |
| Other operating result (part of the operating result) | 119 | −6 | −29 | 10 | 94 | −41 | 53 |
| **Segment result (operating result)** | **620** | **333** | **282** | **83** | **1,318** | **−104** | **1,214** |
| Interest income not classified as revenue | 18 | 0 | 0 | 0 | 18 | 0 | 18 |
| Interest expense (not part of the operating result) | −1 | 0 | 0 | – | −1 | −2 | −3 |
| Result from the measurement of derivative financial instruments and hedged items (not part of the operating result) | 5 | 4 | 1 | −1 | 9 | 13 | 22 |
| Result from joint ventures accounted for using the equity method | – | – | – | – | – | 77 | 77 |
| Result from marketable securities and other financial assets | 5 | 3 | – | – | 8 | – | 8 |
| General and administrative expenses (not part of the operating result) | −2 | 0 | 0 | 0 | −2 | −6 | −8 |
| Other operating result (not part of the operating result) | −1 | 0 | −12 | – | −13 | – | −13 |
| **Profit before tax** | **644** | **340** | **271** | **82** | **1,337** | **−22** | **1,315** |
| Income tax income/expense | −197 | −108 | −61 | −24 | −390 | 17 | −373 |
| **Profit after tax** | **447** | **232** | **210** | **58** | **947** | **−5** | **942** |
| | | | | | | | |
| **Segment assets** | **38,128** | **22,466** | **8,447** | **6,540** | **75,581** | **812** | **76,393** |
| **of which non-current** | **23,707** | **12,497** | **4,122** | **3,796** | **44,122** | **–** | **44,122** |
| **Segment liabilities** | **45,833** | **20,124** | **7,864** | **6,051** | **79,872** | **−4,027** | **75,845** |

## DIVISION BY GEOGRAPHICAL MARKETS 2014:

| | JAN. 1 – DEC. 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| € million | Germany | Europe | Latin America | Asia Pacific | MAN FS | Total segments | Recon-ciliation | Group |
| Sales revenue from lending transactions with third parties | 922 | 964 | 1,035 | 682 | 25 | 3,628 | 57 | 3,685 |
| Sales revenue from lending transactions between the segments | 87 | 0 | – | 0 | 0 | 87 | −87 | – |
| Segment sales revenue from lending transactions | 1,009 | 964 | 1,035 | 682 | 25 | 3,715 | −30 | 3,685 |
| Sales revenue from leasing and service contracts | 6,813 | 3,897 | 82 | 243 | 701 | 11,736 | −11 | 11,725 |
| Premiums earned from insurance business | – | – | – | – | – | – | 134 | 134 |
| Commission income | 296 | 146 | 127 | 5 | 2 | 576 | 21 | 597 |
| **Sales revenue** | **8,118** | **5,007** | **1,244** | **930** | **728** | **16,027** | **114** | **16,141** |
| Cost of sales from lending, leasing and service transactions | −4,935 | −2,951 | −5 | −67 | −511 | −8,469 | – | −8,469 |
| Write-ups on leasing and rental assets as well as investment property | 1 | 0 | – | – | 0 | 1 | – | 1 |
| Depreciation and impairment losses on leasing and rental assets as well as investment property | −1,214 | −561 | −1 | −155 | −27 | −1,958 | – | −1,958 |
| of which impairment losses in accordance with IAS 36 | −63 | −30 | – | −1 | 0 | −94 | – | −94 |
| Expenses from the insurance business | – | – | – | – | – | – | −89 | −89 |
| Interest expense (part of the operating result) | −410 | −297 | −538 | −318 | −56 | −1,619 | 44 | −1,575 |
| Risk provisions arising from lending and leasing business | −78 | −153 | −124 | −47 | −32 | −434 | −35 | −469 |
| Commission expenses | −189 | −168 | −68 | −47 | 0 | −472 | 6 | −466 |
| Result from the measurement of derivative financial instruments and hedged items (part of the operating result) | −4 | – | – | – | – | −4 | 0 | −4 |
| General and administrative expenses (part of the operating result) | −758 | −438 | −189 | −166 | −105 | −1,656 | −227 | −1,883 |
| Other operating result (part of the operating result) | 31 | −2 | 29 | 23 | 11 | 92 | −28 | 64 |
| **Segment result (operating result)** | **562** | **437** | **348** | **153** | **8** | **1,508** | **−215** | **1,293** |
| Interest income not classified as revenue | 14 | 0 | 0 | 0 | – | 14 | 1 | 15 |
| Interest expense (not part of the operating result) | −1 | 0 | 0 | – | – | −1 | −3 | −4 |
| Result from the measurement of derivative financial instruments and hedged items (not part of the operating result) | −3 | −11 | −1 | 1 | 0 | −14 | 7 | −7 |
| Result from joint ventures accounted for using the equity method | – | – | – | – | 1 | 1 | 33 | 34 |
| Result from marketable securities and other financial assets | 0 | 3 | – | – | 2 | 5 | 2 | 7 |
| General and administrative expenses (not part of the operating result) | −3 | 0 | 0 | 0 | 0 | −3 | −6 | −9 |
| Other operating result (not part of the operating result) | −1 | 0 | −11 | – | 0 | −12 | – | −12 |
| **Profit before tax** | **568** | **429** | **336** | **154** | **11** | **1,498** | **−181** | **1,317** |
| Income tax income/expense | −199 | −111 | −97 | −48 | −6 | −461 | 41 | −420 |
| **Profit after tax** | **369** | **318** | **239** | **106** | **5** | **1,037** | **−140** | **897** |
| **Segment assets** | **41,089** | **26,932** | **8,747** | **10,596** | **1,842** | **89,206** | **366** | **89,572** |
| **of which non-current** | **25,743** | **15,499** | **4,197** | **6,823** | **988** | **53,250** | **–** | **53,250** |
| **Segment liabilities** | **51,714** | **24,175** | **7,853** | **9,307** | **3,355** | **96,404** | **−8,594** | **87,810** |

**RECONCILIATION:**

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Total segment sales revenue** | **16,027** | **13,453** |
| Not allocated | 283 | 258 |
| Consolidation | –169 | –174 |
| **Consolidated sales revenue** | **16,141** | **13,537** |
| | | |
| **Total segment result (operating result)** | **1,508** | **1,318** |
| Not allocated | –125 | –125 |
| Consolidation | –90 | 21 |
| **Consolidated operating result** | **1,293** | **1,214** |
| | | |
| **Total segment result before taxes** | **1,498** | **1,337** |
| Not allocated | 366 | 932 |
| Consolidation | –547 | –954 |
| **Consolidated profit/loss before tax** | **1,317** | **1,315** |
| | | |
| **Total segment assets** | **89,206** | **75,581** |
| Not allocated | 366 | 347 |
| Consolidation | – | 465 |
| **Consolidated assets acc. to segment reporting** | **89,572** | **76,393** |
| | | |
| **Total segment liabilities** | **96,404** | **79,872** |
| Not allocated | 11,804 | 11,261 |
| Consolidation | –20,398 | –15,288 |
| **Consolidated liabilities acc. to segment reporting** | **87,810** | **75,845** |

All transactions between the segments are conducted at arm's length terms.

The consolidation in sales revenue from lending transactions and interest expense results from the granting of intragroup refinancing funds between the geographic regions.

Information regarding the main products (lending and leasing business) can be obtained directly from the income statement (note 21).

The additions to noncurrent leasing and rental assets amounts to €2,705 million (previous year: €2,251 million) in Germany, €1,436 million (previous year: €1,122 million) in the Europe segment, €5 million (previous year: €2 million) in the Latin America segment, €398 million (previous year: €1 million) in the Asia-Pacific segment and €14 million in the MAN FS segment. The investments in the other assets are of secondary importance.

Elements of the financial statements are combined in the internal reporting. The following table shows the allocation of these items to the disclosures in the segment reporting:

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Interest income from lending transactions | 3,700 | 3,337 |
| ./. Interest income not classified as revenue | 15 | 18 |
| Net income from leasing transactions before risk provisions | 1,300 | 1,333 |
| ./. Expenses from leasing business and service contracts | −8,469 | −6,712 |
| ./. Depreciation and impairment losses on leasing and rental assets as well as investment property | −1,958 | −1,548 |
| ./. Write-ups on leasing and rental assets as well as investment property | 2 | 13 |
| Net income from insurance business | 45 | 32 |
| ./. Expenses from the insurance business | −89 | −64 |
| Commission income | 597 | 542 |
| Sales revenue included in other operating result | – | – |
| **Consolidated sales revenue** | **16,141** | **13,537** |
| | | |
| Net income from leasing transactions before risk provisions | 1,300 | 1,333 |
| ./. Income from leasing transactions and service contracts | 11,728 | 9,593 |
| ./. Depreciation and impairment losses on leasing and rental assets as well as investment property | −1,958 | −1,548 |
| Cost of sales included in the other operating result | – | – |
| **Consolidated cost of sales from lending, leasing and service transactions** | **−8,469** | **−6,712** |
| | | |
| Receivables from customers arising from | | |
| Retail financing | 47,663 | 40,284 |
| Wholesale financing | 12,625 | 11,082 |
| Leasing business | 18,320 | 16,298 |
| Other receivables | 7,264 | 5,527 |
| of which not included in segment assets | −7,065 | −5,343 |
| Leasing and rental assets | 10,766 | 8,545 |
| **Consolidated assets acc. to segment reporting** | **89,572** | **76,393** |
| | | |
| Liabilities to financial institutions | 13,135 | 11,134 |
| of which not included in segment liabilities | −7 | −2 |
| Liabilities to customers | 38,721 | 33,705 |
| of which not included in segment liabilities | −3,301 | −2,400 |
| Securitized liabilities | 37,243 | 31,516 |
| of which not included in segment liabilities | −185 | −242 |
| Subordinated capital | 2,204 | 2,134 |
| **Consolidated liabilities acc. to segment reporting** | **87,810** | **75,845** |

## OTHER DISCLOSURES

### 64. Cash flow statement

The cash flow statement of the VW FS AG Group documents the change in funds available due to cash flows resulting from operating activities, investing activities and financing activities. The cash flows resulting from investing activities comprise payments resulting from the purchase and proceeds resulting from the sale of investment property, subsidiaries and joint ventures and other assets. The financing activities comprise all the cash flows resulting from transactions with equity, subordinated capital and other financing activities. All other cash flows are assigned to operating activities in accordance with international practice for financial services companies.

Cash and cash equivalents, narrowly defined, comprises only the cash reserve, which is made up of the cash on hand and deposits at central banks.

The changes to the balance sheet items that were used to prepare the cash flow statement cannot be derived directly from the balance sheet, as the effects from changes in the basis of consolidation are non-cash effects and are eliminated from the calculation.

### 65. Off-balance-sheet commitments

| € million | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Contingent liabilities** | | |
| Liabilities from surety and guarantee agreements | 40 | 111 |
| Other contingent liabilities | 311 | 103 |
| **Other financial obligations** | | |
| Purchase obligations | 96 | 70 |
| Other | 7 | 9 |
| **Other obligations** | | |
| Irrevocable credit acceptances | 4,036 | 3,367 |

The fiduciary assets and liabilities of the savings and trust company belonging to the Latin American subsidiaries that were not included in these consolidated financial statements amounted to €802 million (previous year: €601 million) on the balance sheet date

The contingent liabilities comprise primarily legal disputes where there is no probability of provisions being created in accordance with IAS 37.

The obligations under non-cancelable rental and leasing contracts in the VW FS AG Group will trigger expenses of €3 million (previous year: €22 million) in the 2015 fiscal year, €62 million (previous year: €30 million) in the fiscal years 2016 to 2019, and €56 million (previous year: €14 million) in the financial years thereafter.

We expect the irrevocable credit acceptances to be utilized.

## 66. Average number of employees during the fiscal year:

| | 2014 | 2013 |
|---|---|---|
| Salaried employees | 10,629 | 9,123 |
| Trainees | 139 | 123 |
| **Total** | **10,768** | **9,246** |

## 67. Related parties

Related parties as defined by IAS 24 are persons or entities which can be influenced by VW FS AG or which can influence VW FS AG or are influenced by another related party of VW FS AG.

Volkswagen AG, Wolfsburg is the sole shareholder of VW FS AG. With an equity stake of 50.73%, Porsche Automobil Holding SE, Stuttgart owned the majority of the voting shares in Volkswagen AG as of the balance sheet date. The extraordinary Annual General Meeting of Volkswagen AG resolved on December 3, 2009 to give the German state of Lower Saxony the right to appoint board members. As a result, Porsche SE can no longer appoint the majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the opportunity to participate in the Volkswagen Group's corporate decision making. According to their notification dated January 5, 2015, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover held 20.00% of the voting rights of Volkswagen AG on December 31, 2014. In addition – as described above – the General Meeting of Volkswagen AG resolved on December 3, 2009 that the State of Lower Saxony is entitled to appoint two members of the Supervisory Board.

A control and profit transfer agreement exists between Volkswagen AG, the sole shareholder, and VW FS AG. All transactions between the two companies are conducted at arm's length terms.

Volkswagen AG and its subsidiaries make refinancing funds available to the companies of the VW FS AG Group at normal market terms. Furthermore, Volkswagen AG and its subsidiaries furnished collateral in our favor within the framework of the operating business.

To support sales promotion campaigns, the companies of the VW FS AG Group receive financial contributions from the production and importing companies of the Volkswagen Group.

All business relationships with non-consolidated subsidiaries and joint ventures of VW FS AG as well as with other related parties affiliated with Volkswagen AG are conducted at normal market terms.

The transactions with related parties are shown in the following two tables:

**2014 FISCAL YEAR**

| € million | Supervisory Board | Board of Management | Volkswagen AG | Porsche SE | Other related parties within the Group | Non-consolidated subsidiaries | Joint ventures |
|---|---|---|---|---|---|---|---|
| Receivables | 0 | 0 | 50 | – | 3,267 | 19 | 4,664 |
| Allowances for doubtful accounts | – | – | – | – | – | – | – |
| of which: additions, current year | – | – | – | – | – | – | – |
| Obligations | 4 | 4 | 2,837 | – | 11,748 | 115 | 35 |
| Interest income | 0 | 0 | 4 | – | 120 | 0 | 101 |
| Interest expense | 0 | 0 | –8 | –1 | –199 | 0 | 0 |
| Services and products provided | – | – | 396 | 0 | 2,799 | 23 | 57 |
| Services and products received | – | – | 7,050 | – | 5,562 | 23 | 14 |

**2013 FISCAL YEAR**

| € million | Supervisory Board | Board of Management | Volkswagen AG | Porsche SE | Other related parties within the Group | Non-consolidated subsidiaries | Joint ventures |
|---|---|---|---|---|---|---|---|
| Receivables | 0 | 0 | 47 | – | 1,818 | 490 | 4,323 |
| Allowances for doubtful accounts | – | – | – | – | – | – | – |
| of which: additions, current year | – | – | – | – | – | – | – |
| Obligations | 4 | 5 | 1,996 | 400 | 10,057 | 88 | 1 |
| Interest income | 0 | 0 | 8 | – | 125 | 15 | 96 |
| Interest expense | 0 | 0 | –7 | –1 | –157 | 0 | 0 |
| Services and products provided | – | – | 401 | 0 | 1,761 | 22 | 31 |
| Services and products received | – | – | 5,980 | – | 3,514 | 27 | 12 |

The obligations as of the balance sheet date of the previous year result from Porsche SE term deposits with Volkswagen Bank GmbH. The column "Other related parties within the Group" includes, in addition to fellow subsidiaries, joint ventures and associates that are related parties of the Volkswagen AG Group. The service relationships with the Supervisory Board and the Board of Management include the corresponding groups of people at VW FS AG and its parent, Volkswagen AG. The relationships to benefit plans and to the state of Lower Saxony were of minor importance, as in the previous year.

Members of the Board of Management and Supervisory Board of VW FS AG are members of boards of management and supervisory boards of other companies in the Volkswagen Group. In some cases we conduct business with these companies as part of our normal business activities. All transactions with these related parties are conducted on an arm's length basis.

During the fiscal year, standard short-term loans averaging €474 million were granted to related parties as part of the VW FS AG Group's wholesale financing activities (previous year: €523 million).

## REMUNERATION OF THE BOARD OF MANAGEMENT

**REMUNERATION OF THE BOARD OF MANAGEMENT**

| € million | 2014 | 2013 |
|---|---|---|
| Short-term benefits | 7 | 7 |
| Termination benefits | – | – |
| Post-employment benefits | 8 | 1 |

In accordance with a resolution of the Annual General Meeting, the members of the Supervisory Board are generally entitled to receive an annual remuneration that is independent of the company's performance or the function exercised by the Supervisory Board member. In addition, several members of the Supervisory Board are also members of other supervisory boards of Volkswagen AG subsidiaries. When calculating the remuneration paid for the services of its Supervisory Board members, VW FS AG deducts the remuneration they receive for membership of other supervisory boards in Volkswagen AG subsidiaries. As a result, a total of less than €0.05 million was paid to the members of the Supervisory Board in the 2014 fiscal year.

The employee representatives in the Supervisory Board who are employed at VW FS AG continue to receive a regular salary under the terms of their employment contract. This is based on the regulations set out in the Betriebsverfassungsgesetz (German Works Constitution Act) and constitutes appropriate remuneration for their corresponding function or activity in the company. The same applies to the management representative in the Supervisory Board.

The total emoluments of former members of the Board of Management and their surviving dependents amounted to €0.4 million (previous year: €0.4 million). The provisions recognized for this group of people in connection with current pensions and entitlements amount to €13 million (previous year: €11 million) on the balance sheet date

## 68. Corporate bodies of Volkswagen Financial Services AG

The Board of Management is comprised as follows:

**FRANK WITTER**
Chairman of the Board of Management
Corporate Steering
Insurance
China/India/ASEAN region

**DR. MARIO DABERKOW**
Information Technology and Processes

**FRANK FIEDLER**
Finance

**CHRISTIANE HESSE**
Human Resources and Organization

**DR. MICHAEL REINHART**
Risk Management
Credit Analysis

**LARS-HENNER SANTELMANN**
Sales and Marketing
Regions Germany, Europe, International, Latin America

The Supervisory Board is comprised as follows:

#### HANS DIETER PÖTSCH
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

#### PROF. H.C. DR. HORST NEUMANN
Deputy Chairman
Member of the Board of Management of Volkswagen AG
Human Resources and Organization

#### MICHAEL RIFFEL
Deputy Chairman
General Secretary of the General Works Council of Volkswagen AG

#### DR. ARNO ANTLITZ
Member of the Board of Management Volkswagen Brand
Controlling and Accounting

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

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

#### CHRISTIAN KLINGLER
Member of the Board of Management of Volkswagen AG
Sales and Marketing

#### DETLEF KUNKEL
General Secretary/Principle Representative of IG Metall Braunschweig

#### SIMONE MAHLER
Deputy Chairman of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

#### GABOR POLONYI (FROM MARCH 17, 2014)
Head of Fleet Customer Management for Volkswagen Leasing GmbH

#### PETRA REINHEIMER
General Secretary of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

#### AXEL STROTBEK
Member of the Board of Management
AUDI AG
Finance and Organization

#### JÖRG THIELEMANN (UNTIL MARCH 17, 2014)
Head of Customer Service Retail North/East of Volkswagen Bank GmbH

### COMMITTEES OF THE SUPERVISORY BOARD
As of Dec. 31, 2014

Members of the Remuneration Committee
Hans Dieter Pötsch (Chairman)
Waldemar Drosdziok (Deputy Chairman)
Prof. h.c. Dr. Horst Neumann

Members of the Nomination Committee
Hans Dieter Pötsch (Chairman)
Waldemar Drosdziok (Deputy Chairman)
Prof. h.c. Dr. Horst Neumann

Members of the Joint Risk and Audit Committee
Dr. Jörg Boche (Chairman)
Waldemar Drosdziok (Deputy Chairman)
Dr. Arno Antlitz
Gabor Polonyi

## 69. Letter of comfort for our investees

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

This comfort also applies to holders of unguaranteed bonds issued by the following affiliated companies: Banco Volkswagen S.A., São Paulo, Brazil; Volkswagen Finance (China) Co., Ltd., Beijing, China; Volkswagen Finance Prvt. Ltd., Mumbai, India; Volkswagen Doğuş Finansman A.Ş., Kağıthane-Istanbul, Turkey.

## 70. Post-balance sheet date events

In January 2015, Volkswagen AG increased the equity of VW FS AG by €1,060 million on the basis of the anticipated business growth.

On January 2, 2015, Volkswagen Financial Services AG paid in €4.5 million to the capital reserves of Kever Beheer B.V., Almere and €210 million to the capital reserves of Volkswagen Financial Services N.V., Amsterdam on January 23, 2015.

ON January 5, 2015, Kever Beheer B.V., Almere acquired the 50% stake that was still outstanding in Collect Car B.V., Rotterdam. Kever Beher B.V. therefore holds 100% of the shares in Collect Car B.V., Rotterdam.

There were no other significant events as of February 10, 2015.

## 71. Responsibility statement of the Board of Management

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

Braunschweig, February 10, 2015
The Board of Management

Frank Witter

Dr. Mario Daberkow

Frank Fiedler

Christiane Hesse

Dr. Michael Reinhart

Lars-Henner Santelmann

# *Independent auditors' report*

We have audited the consolidated financial statements prepared by VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, consisting of an income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes as well as the Group management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, which is combined with the management report for the company, for the fiscal year from January 1 to December 31, 2014. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS as applicable in the EU and the supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB) is the responsibility of the company's Board of Management. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and the combined management report.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations with a material impact on the presentation of net assets, financial position and results of operations conveyed by the consolidated financial statements with due regard to the applicable accounting principles, and by the combined management report, are identified. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible errors are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in consolidation, the definition of the scope of consolidation, the accounting and consolidation principles applied and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on the findings of the audit, the consolidated financial statements are in compliance with IFRS as applicable in the EU and with the supplementary provisions applicable under § 315a Para. 1 HGB, and in accordance with these provisions give a true and fair view of the net assets, financial position and results of the operations of the Group. The combined management report is consistent with the consolidated financial statements, provides a suitable understanding of the Group's situation and suitably presents the opportunities and risks of future development.

Hanover, February 10, 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Frank Hübner | Ralf Schmitz |
| Auditor | Auditor |

# Report of the Supervisory Board

## OF VOLKSWAGEN FINANCIAL SERVICES AG

In the fiscal year just ended, the Supervisory Board regularly and exhaustively dealt with the situation and development of Volkswagen Financial Services AG and the Volkswagen Financial Services AG Group.

The Board of Management submitted timely and comprehensive reports to the Supervisory Board during the reporting period, both in writing and orally, regarding material aspects of the company's planning and situation (including its exposure to risk and its risk management) as well as on the development of its business and deviations from plans and targets. Based on these reports of the Board of Management, the Supervisory Board continuously monitored the management of the company's and the Group's business, thus fulfilling its responsibilities under the law and the company's statutes without limitation. All decisions material to the company, as well as all other transactions subject to the Supervisory Board's approval under its rules of procedure, were reviewed and discussed with the Board of Management before the relevant resolution was adopted.

The Supervisory Board is made up of twelve members. Compared to the previous year, the changes made to personnel are described in the information on corporate bodies.

The Supervisory Board convened for three regular meetings in the reporting year; there were no extraordinary meetings. The Supervisory Board members' average attendance rate was 89%. All Supervisory Board members attended more than one half of the meetings. We resolved five urgent matters in writing by means of a circular memorandum. In addition, the Chairman of the Supervisory Board made one urgent decision using a written procedure as well.

### COMMITTEE ACTIVITIES

To fulfil its responsibilities the Supervisory Board established several committees, namely the Joint Risk and Audit Committee, the Nomination Committee, the Remuneration Committee and the Credit Committee.

The work of the Joint Risk and Audit Committee (since March 19, 2014) focused on risk management in the Volkswagen Financial Services AG sub-Group and the Comprehensive Assessment of the European Central Bank. The head of Internal Audit also reported to the Audit Committee on the audit system of Volkswagen Financial Services AG and the monitoring of the rectification of deficiencies that have been identified. In addition, the Committee held discussions with the auditor regarding audit planning, the focal points of the audit and the auditor's information requirements. The Committee consists of four members. During the reporting year the Committee convened for one regular meeting; there were no extraordinary meetings.

The Nomination Committee (since March 19, 2014) dealt with the annual evaluation of the Board of Management and Supervisory Board's performance in accordance with § 25d KWG, using the structure, size, composition and performance of the respective board, as well as the knowledge, skills and experience of the individual board members and the respective board in its entirety. The Committee consists of three members. During the reporting year the Committee convened for one regular meeting; there were no extraordinary meetings.

The Remuneration Committee (since March 19, 2014) focused in particular on the requirements associated with the new Institutsvergütungsverordnung (German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems – InstitutsVergV) and its implementation in the Volkswagen Financial Services AG sub-Group. Approvals of powers of representation ("Prokura") constituted another significant aspect of its work. The Committee consists of three members. During the reporting year the Committee convened for one regular meeting; there were no extraordinary meetings. The powers of representation were approved via circular memorandum.

The Credit Committee is responsible for approving issues the Supervisory Board must deal with under the law and under its rules of procedure regarding proposed credit commitments, company borrowings, factoring transactions and general agreements pertaining to the assumption of receivables, as well as assuming guarantees, warranties and the like. The Credit Committee comprises three members of the Supervisory Board and makes its decisions in writing by means of circular memorandum.

The members of the Committees also deliberated among themselves on multiple occasions and had constant contact with the Board of Management outside the Committee meetings. The work of the Committees was discussed at the Supervisory Board's plenary meetings.

### DELIBERATIONS OF THE SUPERVISORY BOARD

Following a detailed review at its meeting on February 26, 2014, the Supervisory Board approved both the consolidated financial statements of Volkswagen Financial Services AG Group and the annual financial statements of Volkswagen Financial Services AG for 2013, which had been prepared by the Board of Management, and accepted the annual report by Internal Audit regarding the results of its audits. We also dealt with the status of IT, the business and risk strategy for 2014, the implementation of the refinancing strategy – namely the capital market programs in Europe, Brazil, India, Korea and Mexico – and the entry into the market of Chile and the acquisition of the Scania financing company in Turkey.

Both at this meeting and at the meetings on July 25, 2014 and November 26, 2014, the Board of Management provided extensive reports on the economic and financial position of both VW FS AG and VW FS AG Group. In this connection we also dealt in particular with the risk management requirements that the VW FS AG Group must fulfil.

At our meeting on July 25, 2014 the Board of Management reported to us at length on the current workforce figures and the details of the remuneration systems. In addition, the Board of Management reported on the status and development of IT, the status of the Comprehensive Assessment of the European Central Bank and on the integration plans for MAN Financial Services companies.

At our meeting on November 26, 2014 we dealt in detail with the results of the Comprehensive Assessment of the European Central Bank, the implementation of the InstitutsVergV and the revisions to the securities framework for companies of the Volkswagen Financial Services AG Group. At this meeting we approved the resolution to acquire a Chinese leasing company in Guangzhou, China. Finally, we deliberated extensively and approved the medium-term financial and investment planning for both VW FS AG and the VW FS AG Group.

### AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was appointed to audit both the IFRS consolidated financial statements of Volkswagen Financial Services AG Group and the HGB annual financial statements of Volkswagen Financial Services AG for the year as of December 31, 2014, including the accounting and the management reports.

The Supervisory Board had at its disposal the consolidated financial statements of Volkswagen Financial Services AG Group in accordance with IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with the German Commercial Code (HGB) for the year ended December 31, 2014, as well as the respective management reports. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the bookkeeping and the management reports, and have issued an unqualified auditors' report in each case. The Supervisory Board approves the results of these audits.

The Supervisory Board's review of the consolidated financial statements, the annual financial statements and the management reports did not give rise to any reservations. The auditors were present at the Supervisory Board meeting when this agenda item was dealt with and they reported on the main findings of their audit.

At its meeting on March 2, 2015, the Supervisory Board approved both the consolidated financial statements of the Volkswagen Financial Services AG Group and the annual financial statements of Volkswagen Financial Services AG as prepared by the Board of Management. The consolidated financial statements and the annual financial statements are hereby adopted.

The profit of Volkswagen Financial Services AG for the 2014 fiscal year as determined under the German Commercial Code was transferred to Volkswagen AG in accordance with the existing control and profit transfer agreement.

The Supervisory Board wishes to acknowledge and express its appreciation to the members of the Board of Management, the members of the works council, the managerial staff and all the employees of Volkswagen Financial Services AG and its affiliated companies for their work. Through their great dedication they have all contributed to the ongoing development of Volkswagen Financial Services AG.

Braunschweig, March 2, 2015

Hans Dieter Pötsch
Chairman of the Supervisory Board

# *Supervisory Board*

## OF VOLKSWAGEN FINANCIAL SERVICES AG

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Member of the Board of Management of Volkswagen AG
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**GABOR POLONYI (FROM MARCH 17, 2014)**
Head of Fleet Customer Management for Volkswagen Leasing GmbH

**PETRA REINHEIMER**
General Secretary of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

**AXEL STROTBEK**
Member of the Board of Management
AUDI AG
Finance and Organization

**JÖRG THIELEMANN (UNTIL MARCH 17, 2014)**
Head of Customer Service Retail North/East of Volkswagen Bank GmbH

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements concerning the future business development of Volkswagen Financial Services AG. These statements include, among others, assumptions about the development of the global economy, as well as the financial and automobile markets. Volkswagen Financial Services AG has made these assumptions on the basis of available information and believes that they are a realistic view of the current situation. These estimates necessarily include certain risks, and actual development may differ from these expectations.

Should actual developments therefore deviate from these expectations and assumptions, or should unforeseen events occur that impact the business of Volkswagen Financial Services AG, then the business development will be accordingly affected.

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You will also find the Annual Report 2014 at www.vwfs.com/ar14

This Annual Report is also published in German.

We apologize to our readers for using the masculine grammatical form solely for purposes of linguistic conveniance.

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