VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN FINANCIAL SERVICES AG
ANNUAL REPORT

2017

Key Figures

VOLKSWAGEN FINANCIAL SERVICES AG

In € million (as of December 31)	2017	2016[1]
Total assets	68,953	130,248
Loans to and receivables from customers attributable to		
Retail financing	16,269	41,726
Dealer financing	3,584	14,638
Leasing business	18,809	34,344
Lease assets	11,571	14,696
Equity	7,624	16,951
Operating profit[2]	609	609
Profit before tax[2]	643	615

In % (as of December 31)	2017	2016
Cost/income ratio[3]	73	89
Equity ratio[4]	11.1	13.0
Return on equity[5]	8.4	8.1

Number (as of December 31)	2017	2016
Employees	8,555	11,819
Germany	5,198	6,145
International	3,357	5,674

1 Previous year restated as explained in the disclosures on the leasing business in the United Kingdom and Irish markets and in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled "Restated Prior-Year Figures" in the notes.
2 Previous year restated as explained in the disclosures relating to the discontinued operations in the section entitled "Restated Prior-Year Figures" in the notes.
3 General and administrative expenses, adjusted for expenses passed on to other entities in the Volkswagen Group / net income from lending, leasing and insurance transactions (after provision for credit risks) and net fee and commission income.
4 Equity / total assets.
5 Profit before tax / average equity. Due to the reorganization of the legal entities, return on equity for 2017 and 2016 is determined using only the equity as of December 31, 2017.

RATING (AS OF DECEMBER 31)	STANDARD & POOR'S			MOODY'S INVESTORS SERVICE		
	Commercial Paper	Senior Unsecured	Outlook	Commercial Paper	Senior Unsecured	Outlook
Volkswagen Financial Services AG	A-2	BBB+	Stable	P-2	A3	Negative

All figures shown in the report are rounded, so minor discrepancies may arise from addition of these amounts. The figures from the previous fiscal year are shown in parentheses directly after the figures for the current reporting period.

COMBINED MANAGEMENT REPORT

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. The key objectives of Volkswagen Financial Services AG include:

- to promote Group product sales for the benefit of the Volkswagen Group brands and the partners appointed to distribute these products;
- to strengthen customer loyalty to Volkswagen Financial Services AG and the Volkswagen Group brands along the automotive value chain (among other things, by targeted use of digital products and mobility solutions);
- to create synergies for the Group by pooling Group and brand requirements in relation to finance and mobility services;
- to generate and sustain a high level of return on equity for the Group.

ORGANIZATION OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

The companies of the Volkswagen Financial Services AG Group provide financial services to private, corporate customers and fleet customers. The close integration of marketing, sales and customer service focused on customers' needs goes a long way towards keeping the processes lean and implementing the sales strategy efficient.

In 2016, Volkswagen Financial Services AG initiated a reorganization of its legal entities. A key milestone in the project was reached on September 1, 2017 when Volkswagen Financial Services AG's subsidiary Volkswagen Bank GmbH was transferred by way of spin-off to Volkswagen AG and became a direct subsidiary thereof. The aim of the restructuring was to segregate the European lending and deposits business from the other financial services activities and to pool this business under Volkswagen Bank GmbH, structured as a direct subsidiary of Volkswagen AG. The intention of the restructuring is to increase transparency and clarity for supervisory authorities, optimize the use of equity and reduce complexity. A new company, Volkswagen Financial Services Digital Solutions GmbH, develops and provides system-based services for its parent companies Volkswagen Bank GmbH and Volkswagen Financial Services AG. The other activities remain in Volkswagen Financial Services AG, which is still a direct subsidiary of Volkswagen AG.

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

INTERNAL MANAGEMENT

The Company's key performance indicators are determined on the basis of IFRSs and are presented as part of the internal reporting system. The most important non-financial performance indicators are penetration, current contracts and new contracts. The financial key performance indicators are the volume of business, operating profit, return on equity and the cost/income ratio. As a result of the above-mentioned reorganization of the legal entities, the volume of deposits is no longer defined as a key performance indicator at Volkswagen Financial Services AG.

KEY PERFORMANCE INDICATORS

	Definition
Nonfinancial performance indicators	
Penetration	Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles, based on Volkswagen Financial Services AG's consolidated entities.
Current contracts	Contracts recognized as of the reporting date
New contracts	Contracts recognized for the first time in the reporting period
Financial performance indicators	
Volume of business	Loans to and receivables from customers arising from retail financing, dealer financing, leasing business and lease assets.
Operating profit	Net income from lending, leasing and insurance transactions after provision for credit risks, plus net fee and commission income, less general and administrative expenses, plus other operating income and less other operating expenses. As in the segment reporting, some amounts under net interest income, net other operating income/expenses and general and administrative expenses are eliminated.
Return on equity[1]	Return on equity before tax, which is calculated by dividing profit before tax by average equity.
Cost/income ratio	General and administrative expenses, adjusted for expenses passed on to other entities in the Volkswagen Group / net income from lending, leasing and insurance transactions (after provision for credit risks) and net fee and commission income.

1 Due to the reorganization of the legal entities, return on equity for 2017 and 2016 is determined using only the equity as of December 31, 2017.

CHANGES IN EQUITY INVESTMENTS

The transfers referred to below formed part of the implementation of the reorganization of the legal entities described in more detail in the section entitled "Organization of the Volkswagen Financial Services AG Group".

Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, spun-off all the shares in DFM N.V., Amersfoort, Netherlands to Volkswagen Pon Financial Services 2 B.V. Amersfoort, Netherlands, effective June 1, 2017. Volkswagen Pon Financial Services 2 B.V. was established on June 1, 2017 as part of the spin-off, with 60% of the company held by Volkswagen Financial Services AG and 40% by Pon Holdings B.V., Almere, Netherlands. On July 1, 2017, Volkswagen Financial Services AG transferred 60% of the shares in Volkswagen Pon Financial Services 2 B.V. to Volkswagen Bank GmbH. Volkswagen Pon Financial Services 2 B.V. was merged into DFM N.V., effective August 1, 2017. Of the total shares in DFM N.V., 60% are held by Volkswagen Bank GmbH, Braunschweig, Germany, and 40% by Pon Holdings B.V.

On July 1, 2017, Volkswagen Financial Services AG transferred 58% of the shares in Volkswagen Finančné služby Slovensko, s.r.o., Bratislava, Slovakia, to Volkswagen Bank GmbH.

Effective September 1, 2017, Volkswagen Financial Services AG transferred by way of spin-off all the shares in Volkswagen Bank GmbH to Volkswagen AG.

Also effective September 1, 2017, Volkswagen Financial Services AG spun off its digital solutions activities, which are defined in the demerger and acquisition agreement, transferring this business to Volkswagen Financial Services Digital Solutions GmbH, Braunschweig, Germany.

On the same day, Volkswagen Financial Services AG transferred 51% of the shares in Volkswagen Financial Services Digital Solutions GmbH to Volkswagen Bank GmbH.

Volkswagen Financial Services AG transferred the following companies, including their subsidiaries, to Volkswagen Bank GmbH on September 1, 2017 by way of a side-step spin-off under German law (*Seitwärtsabspaltung*):

- Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom,
- ŠkoFIN s.r.o., Prague, Czech Republic, and
- Volkswagen Finans Sverige AB, Södertälje, Sweden.

In addition, the following further material changes in equity investments have occured:

Effective January 1, 2017, Volkswagen Financial Services AG acquired approximately 51% of the shares in LogPay Transport Services GmbH, Eschborn, Germany, a subsidiary of the DVB Bank Group. The deal was completed on June 21, 2017 following approval by the relevant antitrust authorities. This majority shareholding will enable Volkswagen Financial Services AG to integrate the Europe-wide processing of truck and passenger car tolls into its service offering for commercial customers and to further develop its fuel card portfolio. The aim is to become one of the largest fuel suppliers in Europe by 2020.

On April 12, 2017, Volkswagen Financial Services AG established Mobility Trader GmbH, Berlin, Germany, by acquiring a shelf company. Mobility Trader GmbH is a business start-up focusing on the development and operating of an online platform known as HeyCar. The platform is intended to serve as an intermediary for transactions in high-value used vehicles for all automotive brands and furthermore to leverage potential income from add-on business, such as financial services products.

Effective April 27, 2017, Volkswagen Financial Services AG increased its majority holding in the mobility service provider sunhill technologies GmbH, Bubenreuth, Germany, to approximately 95%.

With effect from July 1, 2017, Volkswagen Financial Services AG reduced its equity investment in Shuttel B.V., Leusden, Netherlands, from 60% to 49% as part of a reorganization of the ownership structure. Shuttel B.V. offers card-based mobility management and invoicing services for a wide variety of mobility offerings in the Netherlands.

Fleetzil Locações e Serviços Ltda., Curitiba, Brazil, started its operating activities on July 3, 2017. Fleetzil Locações e Serviços Ltda. offers the local “Locação” product to further expand the activities in the fleet business in Brazil.

Effective August 30, 2017, Volkswagen Finance Luxemburg II S.A., Strassen, Luxembourg, a wholly owned subsidiary of Volkswagen Financial Services AG, acquired all the shares in ContoWorks GmbH, Munich, Germany. The purpose of the acquisition is to support the expansion of innovative payment solutions for digital business models in the Volkswagen Group.

On November 9, 2017, Volkswagen-Versicherungsdienst GmbH, Braunschweig, Germany, signed an agreement to sell 85% of the shares in Volkswagen-Versicherungsdienst GmbH, Vienna, Austria, to Porsche Bank AG, Salzburg, Austria. The transaction is scheduled to be closed on March 1, 2018.

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

- OOO Volkswagen Group Finanz, Moscow, Russia, by around €28 million;
- Volkswagen New Mobility Services Investment Co., Ltd., Beijing, China, by around €19 million;
- Volkswagen Finance Luxemburg II S.A., Strassen, Luxembourg, by around €18 million;
- Mobility Trader GmbH, Berlin, Germany, by around €16 million;
- MAN Location & Services S.A.S., Evry, France, by around €8 million;
- Volkswagen Møller Bilfinans A/S, Oslo, Norway, by around €8 million;
- Volkswagen Financial Services South Africa (Pty) Ltd., Sandton, South Africa, by around €6 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. Detailed disclosures can be found in the list of all shareholdings in accordance with section 313(2) of the HGB and in accordance with IFRS 12.10 and IFRS 12.21, which can be accessed at www.vwfsag.com/listofholdings2017.

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

The Volkswagen Financial Services AG has made use of the option under section 289b(2) HGB and section 315b(2) HGB exempting it from submission of a nonfinancial statement and nonfinancial group statement and refers to the combined separate nonfinancial report of Volkswagen AG for fiscal year 2017, which will be available on the website www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2017/Nichtfinanzieller_Bericht_2017_d.pdf in German and at www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2017/Nonfinancial_Report_2017_e.pdf in English by no later than April 30, 2018.

Report on Economic Position

In fiscal year 2017, the global economy saw stronger growth than in the previous year. In contrast, the expansion in worldwide demand for vehicles was not as great as in 2016. Profit before tax at Volkswagen Financial Services AG was up slightly compared to the previous year.

OVERALL ASSESSMENT OF THE COURSE OF BUSINESS AND THE GROUP'S POSITION

As a result of the reorganization of the legal entities on September 1, 2017, the profit or loss components for the derecognized companies for the period January 1 to August 31, 2017, together with the corresponding prior-year figures, had to be reclassified to profit/loss from discontinued operations in the IFRS income statement. The presentation of the income statement has thus been adjusted accordingly. In terms of the balance sheet, the reorganization is directly visible as of the reporting date. A restatement of prior-year figures was not required under IFRS in this case. Effects can be seen mainly in balance sheet items related to the core business and funding, and these effects are described briefly under net assets and financial position.

The Board of Management of Volkswagen Financial Services AG still considers the course of business in 2017 to have been positive. Profit before tax was up slightly on the previous year. New business worldwide recorded positive growth over the reporting period. Funding costs were on a par with the previous year amid higher business volume in the remaining companies. The provision for credit risks was lower in the reporting period than in the previous year; the margins remained stable.

The share of financed and leased vehicles among worldwide Group deliveries to customers (penetration) stood at 19.6 (19.1)% at the end of 2017.

Risks remained at a constant level during the reporting year. In fiscal year 2017, further growth was achieved in the volume of loans and receivables on the back of the established sales promotion program with the brands and continuous expansion of the fleet business. This development was aided by continuing stabilization in the economic environment and the sustained recovery in European markets. In total, the credit risk in the overall portfolio of Volkswagen Financial Services AG remained stable.

In Europe, the share of the market accounted for by diesel vehicles is diminishing. Trends in residual value risk are being closely monitored on a continuous basis. There is general uncertainty in the automotive sector about trends in the residual values of diesel vehicles. There are various reasons for this, including the debate about the use of diesel vehicles being potentially prohibited in major European cities in the future and changes in customer needs, which could affect residual value risk in the relevant portfolio at Volkswagen Financial Services AG.

Currently however, we are not seeing any significant fall in the residual values of diesel vehicles.

Despite some volatility, liquidity risk at the level of the Group was stable overall. Funding risk always remained within the specified limits.

Events after the balance sheet date are reported in the notes to the consolidated financial statements of Volkswagen Financial Services AG in note 71 (page 136).

CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2017 COMPARED WITH PRIOR-YEAR FORECASTS[1]

	Actual 2016		Forecast for 2017	Actual 2017
Nonfinancial performance indicators				
Penetration (percent)	19.1	> 19.1	Slight increase	19.6
Current contracts (thousands)	8,000	> 8,000	Slight increase	8,524
New contracts (thousands)	3,426	> 3,426	Slight increase	3,487
Financial performance indicators				
Volume of business (€ million)	46,834	> 46,834	Slight increase	50,233
Operating profit (€ million)	609	= 511	At 2015 level	609
Return on equity (percent)	8.1	< 8.1	Slightly lower	8.4
Cost/income ratio (percent)	89	≤ 89	Slightly below/at prior-year level	73

1 Due to the reorganization of the legal entities, the 2016 figures have been restated to ensure that the figures are comparable. For further disclosures, please refer to the sections entitled "Results of Operations" and "Net Assets and Financial Position". The prior-year forecast was based on the following figures: penetration 30.0%, current contracts 13.244 thousand, new contracts 5.603 thousand, volume of business €105.303 million, operating profit€ 1.630 million (previous year: €1.641 million, because receivables from customers in the United Kingdom and Irish markets are now reported as receivables from leasing transactions), return on equity 10.4% and cost/income ratio 64%.

DEVELOPMENTS IN THE GLOBAL ECONOMY

Global gross domestic product (GDP) rose by 3.2 (2.5)% in 2017. Economic momentum accelerated in both advanced economies and emerging markets year-on-year. Consumer prices increased at a slower pace worldwide than in the previous year, with persistently low interest rates and rising energy and commodity prices.

Europe/Other Markets

GDP growth in Western Europe edged up slightly during the year to 2.3 (1.8)%, with the majority of the countries in this region seeing higher growth rates. The start of the Brexit negotiations between the United Kingdom and the European Union generated uncertainty, as did the question of what form this relationship would take in the future. The unemployment rate in the eurozone continued to decrease, falling to an average of 9.6 (10.6)%, though rates remained considerably higher in Greece and Spain.

The Central and Eastern Europe region recorded a relatively strong increase in GDP in the reporting period with an increase of 3.8 (1.8)%. In Central Europe the general uptrend gained traction, and in Eastern Europe the economy also grew at a considerably stronger pace than in the previous year. Higher energy prices led to a stabilization of the economic situation in the countries from this region that export raw materials. A growth rate of 1.6 (–0.4)% marked the end of the recessionary period in Russia.

South Africa's GDP rose by just 0.9 (0.3)%, only slightly higher than the low figure for the previous year. Ongoing structural deficits, social unrest and political challenges weighed on the economy.

Germany

The German economy continued to profit from optimistic consumer sentiment and a good labor market, which led to a sharper year-on-year increase in GDP to 2.5 (1.9)% in 2017.

North America

Economic growth in the USA was faster than in the previous year, at 2.2 (1.5)%. The economy was supported mainly by private consumption and the expansionary monetary policy. Private gross investments also developed positively. The average unemployment rate was 4.4 (4.9)%. The US dollar was somewhat weaker than in the previous year. At 3.0 (1.4)%, GDP growth in Canada accelerated significantly. The growth rate of Mexico's economic output fell somewhat to 2.2 (2.7)%.

South America

In the reporting period, Brazil left behind the economic downswing, with economic output increasing by 1.0 (–3.5)%. The situation in South America's largest economy nevertheless remained tense, due to political uncertainty, among other things. Argentina's GDP rose by 2.8 (–2.2)% in spite of structural deficits and persistently high inflation.

Asia-Pacific

The Chinese economy expanded at the previous year's high level with a growth rate of 6.9 (6.7)%. The Indian economy continued its positive trend but, with a gain of 6.5 (7.1)%, grew somewhat less strongly than in the previous year. Meanwhile, initiated reform measures had a dampening effect here. Japan registered solid GDP growth of 1.8 (0.9)%.

TRENDS IN THE MARKET FOR FINANCIAL SERVICES

Demand for automotive financial services was high once again in 2017, due above all to the expansion of the overall market for passenger cars and low key interest rates in the main currency areas. Particularly insurance and service products such as maintenance and servicing agreements were especially popular, as customers in more advanced automotive financial services markets are putting greater focus on optimizing overall running costs. In the fleet segment, some customers consulted automotive financial service providers in order to optimize their entire mobility management beyond mere fleet operation. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than ownership.

In Europe, sales of financial services climbed further in the reporting period, strengthened by higher vehicle sales and demand for after-sales products such as servicing, maintenance and spare parts agreements as well as automotive-related insurance. Demand developed positively in most countries; in the United Kingdom, France, Spain and Italy in particular, automotive financial services products continued to enjoy rising popularity. The UK's decision to leave the EU has not yet had a negative impact on local demand for financial services.

In Germany, the share of loan-financed or leased vehicles remained stable at a high level in 2017. Alongside traditional products, mobility services and after-sales products were particularly popular.

In South Africa, structural deficits and political uncertainty curbed economic growth, which also impacted on the automotive industry. Demand for automotive financial services products remained stable.

Sales of automotive financial services in North America remained at a high level in the fiscal year now ended. In the USA, the overall market for financial services products once again performed positively. In particular, demand for leasing through captive financial service providers was consistently high. In Mexico, demand for automotive financial services products continued at a high level.

The macroeconomic and political situation in Brazil remained tense in 2017 and had a negative impact on the consumer credit business for new vehicles as well as on sales of the country-specific financial services product Consorcio, a lottery-style savings plan. The negative trend tapered off slightly in the second half of the year, however. Argentina's automotive industry was helped in 2017 by price reductions and attractive financing models from manufacturers. The above-average demand for vehicles was the basis for a good year for automotive financial services.

The performance of markets in the Asia-Pacific region during the reporting period was mixed. In China, the proportion of loan-financed vehicle purchases rose. Despite increasing restrictions on registrations in metropolitan areas, there is still considerable potential to acquire new customers for automotive-related financial services, particularly in the interior of the country. Demand for automotive financial services in Japan and Republic of Korea was stable on the whole. In Australia, the central bank's continued policy of low interest rates stimulated demand for automotive-related financial services and service contracts.

In the commercial vehicles segment, the European market for financial services again performed positively; demand also rose in China. The tense economic situation in Brazil once again put pressure on the truck and bus business and the related financial services market, though this negative trend weakened somewhat in the second half of the year.

TRENDS IN THE PASSENGER CAR MARKETS

In fiscal year 2017, the global market volume of passenger cars rose by 2.9% to 83.5 million vehicles, achieving a record figure for the seventh time in a row. While demand rose in the Asia-Pacific, South America, Western Europe and Central and Eastern Europe regions, the market volume in North America, the Middle East and Africa fell short of the prior-year figures.

Sector-specific Environment

The sector-specific environment was influenced significantly by fiscal policy measures, which contributed substantially to the mixed trends in sales volumes in the markets last year. The instruments used were tax cuts or increases, incentive programs and sales incentives, as well as import duties.

In addition, non-tariff trade barriers to protect the respective domestic automotive industry made the movement of vehicles, parts and components more difficult.

Europe/Other Markets

In Western Europe, new passenger car registrations rose by 2.5% to 14.3 million vehicles, the highest level in the past ten years. The positive performance was underpinned in particular by the strong macroeconomic environment, consumer confidence and low interest rates. In Italy (+8.1%) and Spain (+7.7%), the level of demand benefited from demand for replacement vehicles and particularly from significant growth in sales to commercial customers. The rate of growth in the French passenger car market was lower, at 4.8%. In the United Kingdom, the volume of demand fell 5.7% short of the record level seen in the previous year – due among other things to the change in vehicle taxation as of April 1, 2017. The number of diesel vehicles (passenger cars) in Western Europe slipped to 44.4 (49.5)% in the reporting year.

The passenger car market volume in the Central and Eastern European region in fiscal year 2017 was up considerably on the prior-year figure, with an increase of 12.6% to 3.0 million vehicles. New passenger car registrations in the EU member states of Central Europe increased by 12.5% to 1.3 million units. Passenger car sales in Eastern Europe also achieved a double-digit growth rate (+12.6%), starting from a very low level. The main growth driver in the region was the Russian market, which, with an increase of 12.3% to 1.5 million vehicles, saw demand increase again for the first time after four years of decline.

At a rate of change of 2.4%, the number of new passenger cars registered in South Africa in the reporting period (370 thousand vehicles) was slightly higher than the comparatively low level seen the previous year. Despite the weak overall economic environment, incentive programs and lower interest rates were the principal causes of this increase.

Germany

In fiscal year 2017, demand for passenger cars in Germany exceeded the prior-year figure by 2.7% at 3.4 million units. The fact that this was the highest level since 2009 was attributable not only to the buoyant macroeconomic environment but also to manufacturer discounts in the form of a trade-in bonus for older diesel models as well as to an environmental bonus for electric-powered vehicles (all-electric and plug-in hybrid drives). New registrations for both retail customers (+4.4%) and business customers (+1.7%) increased as a result.

However, domestic production and exports fell short of the comparable prior-year figures in 2017. Passenger car production declined by 1.7% to 5.6 million vehicles. Passenger car exports fell by 0.9% to 4.4 million vehicles; this was mainly due to the fact that the volume of exports to North America was significantly lower because of shifts in production accompanied by a weakening of the North American market.

North America

At 20.8 million vehicles (–1.4%) in fiscal year 2017, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North America region were just under the record level seen in the previous year. In the US market, demand diminished compared with the high level in 2016 by 1.8% to 17.2 million units. A favorable labor market, high consumer confidence and generous manufacturer incentive programs were unable to stop the downward tendency. The trend in demand towards SUV and pickup models (+5.7%) continued, accompanied by a simultaneous decline in sales of traditional passenger cars (–10.9%).

The Canadian automotive market again recorded growth (+4.6% to 2.0 million vehicles), exceeding the record figure of the previous year. By contrast, sales of passenger cars and light commercial vehicles in Mexico were down on the record volumes achieved in the prior-year period (–4.6% to 1.5 million units).

South America

In South America, demand for passenger cars and light commercial vehicles rose from the previously low level by a significant 12.6% to 4.2 million units in the reporting period. After four years of declining new vehicle registrations, growth of 9.4% to 2.2 million vehicles was recorded again for the first time in the Brazilian automotive market. However, the market volume was still around a quarter lower than the average for the last ten years. Brazil's vehicle exports saw a marked increase in 2017, climbing 46.5% to 762 thousand units to exceed the all-time high recorded in 2005. Exports benefited in particular from the dynamic development of the market in Argentina, where demand increased by 26.2% year-on-year to 855 thousand passenger cars and light commercial vehicles. The second-highest number of new registrations in the region's history was primarily driven by price reductions and attractive financing models offered by the manufacturers.

Asia-Pacific

The market volume in the Asia-Pacific region rose by 4.7% in the past fiscal year to 37.0 million units. In terms of unit numbers, this was the highest absolute increase in new vehicle registrations worldwide. Once again, the main growth driver was the Chinese passenger car market, although the growth rate was low compared with previous years, with an increase of 4.5% to 23.9 million vehicles. This was mainly because customers brought forward purchases at the end of 2016 in anticipation of a rise in the tax rate on vehicles of up to 1.6 l at the beginning of 2017.

The number of passenger cars sold in India grew 9.3% year-on-year to 3.1 million units, topping the 3 million mark for the first time ever. This was due not only to high consumer confidence, a wealth of new models and attractive financing products, but especially to the goods and services tax introduced on July 1, 2017, which resulted in part in improved purchasing conditions for the consumer.

The Japanese passenger car market showed a substantial improvement over the low prior-year level with sales of 4.4 million vehicles in the reporting period (+6.1%). The main reasons for the positive trend were the market success of new models and the continued government support for fuel-efficient, low-emission vehicles.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Overall demand for light commercial vehicles in fiscal year 2017 was slightly lower than in the previous year. A total of 9.1 (9.3) million vehicles were registered worldwide.

In Western Europe, the number of new vehicle registrations rose by 4.7% during the year to 1.9 million units, driven by the region's continued positive economic performance. The markets in Italy, France and Spain recorded moderate to high growth rates, while the United Kingdom registered a decline. In Germany, the comparative figure for 2016 was exceeded by 3.6%.

Central and Eastern European markets recorded perceptible growth on the whole with 326 (306) thousand vehicle registrations. In Russia alone, 123 (116) thousand light commercial vehicles were registered. There, market performance benefited from the ruble's recovery and the drop in inflation. Most of the markets in this region succeeded in maintaining or exceeding their prior-year results.

In North and South America, the light vehicle market is reported as part of the passenger car market, which includes both passenger cars and light commercial vehicles.

Registration volumes of light commercial vehicles in the Asia-Pacific region decreased to 6.0 million units in the reporting period (−3.1%). In China, the region's dominant market, demand for light commercial vehicles of 3.4 million units was down a substantial 8.2% on the prior-year figure. This decline is mainly due to the shift in demand for micro vans towards more cost-effective MPVs and SUVs. As a consequence of the sustained economic growth in India, considerably more vehicles were registered than in 2016; here, 560 (510) thousand new units were registered. The market volume fell in Japan as a result of the persistently weak economic trend (–5.0%).

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in fiscal year 2017 than in the previous year, with 547 thousand new vehicle registrations (+7.4%).

In Western Europe, the number of new truck registrations remained level with the previous year at a total of 289 thousand vehicles. While the market in Spain remained at the previous year's level, in Italy it expanded. Demand in the United Kingdom and the Netherlands declined. New registrations in Germany, Western Europe's largest market, were on a level with the previous year.

Central and Eastern Europe saw demand rise by 17.7% to 153 thousand units on the back of the positive economic performance. This growth was attributable to the Russian market; here, registrations moved up 47.7% from a low prior-year level to 72 thousand vehicles. Reasons for this were the incipient recovery of the economy, declining inflation rates and demand for replacement vehicles.

South America saw a significant increase in market volume compared with the previous year. Here, the number of new vehicle registrations rose by 11.8% to 105 thousand units. In Brazil, the region's largest market, demand for trucks was up 2.9% on the low prior-year figure. This reflected a recovery of the market once the difficult economic climate improved. There was a very sharp increase in new vehicle registrations in Argentina (+78.7%), buoyed by the political reforms and stimulus from the agricultural sector.

Demand for buses in the markets that are relevant for the Volkswagen Group was noticeably higher than in the previous year. The markets in Central and Eastern Europe as well as South America contributed in particular to this growth.

GLOBAL DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP[1]

	DELIVERIES OF VEHICLES		
	2017	2016	Change in percent
Deliveries of passenger cars worldwide[2]	**10,038,650**	**9,635,486**	**+4.2**
Volkswagen Passenger Cars	6,230,229	5,980,309	+4.2
Audi	1,878,105	1,867,738	+0.6
ŠKODA	1,200,535	1,126,477	+6.6
SEAT	468,431	408,703	+14.6
Bentley	11,089	11,023	+0.6
Lamborghini	3,815	3,457	+10.4
Porsche	246,375	237,778	+3.6
Bugatti	71	1	X
Deliveries of commercial vehicles worldwide	**702,805**	**661,555**	**+6.2**
Volkswagen Commercial Vehicles	497,894	477,974	+4.2
Scania	90,777	81,346	+11.6
MAN	114,134	102,235	+11.6

1 The delivery figures for 2016 have been restated following statistical updates.
2 Including the Chinese joint ventures.

FINANCIAL PERFORMANCE

As a result of the restructuring of the Volkswagen Financial Services AG Group described earlier, the revenue and expense components for the derecognized companies were reclassified to profit/loss from discontinued operations in the income statement for the period under review and for the comparative period in accordance with the IFRS requirements. The overall presentation has therefore been adjusted accordingly and all prior-year comparative figures relating to financial performance have been restated.

In fiscal year 2017, the global economy saw stronger growth than in the previous year. Following the reorganization, Volkswagen Financial Services AG reported stable growth overall.

The operating profit of €609 (609) million was at the prior-year level. It benefited from the positive impact of higher volumes generated in the remaining entities and stable margins in the lending and leasing business. A negative factor offsetting this benefit was that, unlike in the previous year, the figure in the reporting period did not include any support payments from the Volkswagen Group to compensate for higher funding costs.

Profit before tax amounted to €643 (615) million, a slight improvement on the prior-year level.

Return on equity amounted to 8.4 (8.1)%.

Net income from lending, leasing and insurance transactions before provision for credit risks amounted to €1,979 million, well above the prior-year figure (€1,741 million). This reflected the positive performance in all regions. The impairment losses on lease assets of €211 (131) million included here were attributable to normal market fluctuations and expectations.

The provision for credit risks of €491 (560) million was below the prior-year level. Credit risks to which the Volkswagen Financial Services AG Group is exposed as a result of various critical situations (economic crises, block on sales) in Italy, Russia, Brazil, Mexico, India and the Republic of Korea were accounted for in the reporting period by recognizing valuation allowances. These valuation allowances were reduced by €218 million year-on-year to €658 million. The change due to restructuring (€–373 million) was offset by additions amounting to €155 million.

Net fee and commission income amounted to €127 (121) million, a slight improvement on the prior-year level.

General and administrative expenses were slightly above the prior-year level at €1,682 (1,640) million. This figure also includes costs associated with services for other entities in the Volkswagen Group. Accordingly, costs of €495 (484) million were passed on to other entities in the Volkswagen Group and reported under other net operating income/expenses. At 73 (89)%, the cost/income ratio was better than in the previous year. An amount of €136 (102) million was recognized through profit or loss in net other operating income/expenses and added to the provisions for legal risks.

The share of profits and losses of equity-accounted joint ventures rose slightly year-on-year to €76 (74) million.

Including the net gain of €11 (net loss of 48) million on the measurement of derivative financial instruments and hedged items and the other components of profit and loss as well as the profit/loss from discontinued operations net of tax, the profit after tax generated by the Volkswagen Financial Services AG Group amounted to €904 million (down by 20.8%).

Under the current control and profit-and-loss transfer agreement for Volkswagen Financial Services AG, a loss of €478 million reported by Volkswagen Financial Services AG in its single-entity financial statements prepared in accordance with HGB was absorbed by the sole shareholder Volkswagen AG.

The German companies continued to account for the highest business volumes with 55.9% of all contracts, forming a strong and solid foundation.

Once again in 2017, Volkswagen Leasing GmbH was able to increase the number of leases compared with the previous year, despite tough conditions. On this basis, the company continued to make a significant contribution to the Group's operating profit.

In the vehicle insurance segment, Volkswagen Autoversicherung AG continued to stabilize its business and expand its activities in 2017. Volkswagen Autoversicherung AG has now stabilized its existing portfolio at more than half a million policies (vehicle insurance and guaranteed asset protection insurance).

Volkswagen Versicherung AG also continued to expand its direct insurance activities and successfully drove forward the internationalization of its business in fiscal year 2017. The company now operates in 13 international markets, complementing the core business in Germany.

Volkswagen-Versicherungsdienst GmbH, which operates as the sales partner in the German market for both Volkswagen Autoversicherung AG and Volkswagen Versicherung AG, has contributed to the successful performance of these companies. Overall, the activities of Volkswagen-Versicherungsdienst GmbH help to support the earnings of Volkswagen Financial Services AG on a steady basis.

NET ASSETS AND FINANCIAL POSITION

Lending Business

The changes in the amounts recognized in the balance sheet are attributable to the reorganization presented above. Since the prior-year figures still contain the derecognized companies, the reorganization is a significant reason for each of the changes. In order to identify the actual business performance, the effect of the reorganization is disclosed separately in each case.

At €61.4 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Financial Services AG Group – accounted for approximately 89% of the Group's total assets.

The volume of retail financing lending declined by €25.5 billion or 61.0% in the past year to €16.3 billion. The reorganization-driven decrease of €25.7 billion is offset by an improvement of €0.3 billion in the other markets. The number of new contracts came to 981 thousand and thus exceeded the adjusted prior-year level. The number of current contracts stood at 2,169 thousand at the end of the year.

The lending volume in dealer financing – which comprises loans to and receivables from Group dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – amounted to €3.6 billion, down €11.1 billion on the previous year (of which €–11.4 billion attributable to the reorganization, of which €+0.3 billion attributable to the remaining companies).

At €18.8 billion, receivables from leasing transactions were lower than in the previous year (declining by €15.5 billion, of which €–17.0 billion attributable to the reorganization, of which €+1.5 billion attributable to the remaining companies).

Lease assets stood at €11.6 billion, a decrease of €3.1 billion (of which €–4.4 billion attributable to the reorganization and €+1.3 billion attributable to the remaining companies).

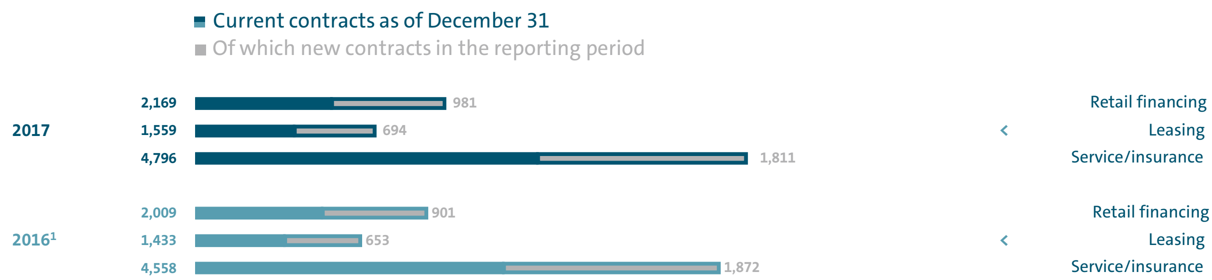
A total of 694 thousand new leases were entered into in the reporting period. The number of lease vehicles as of December 31, 2017 was 1,559 thousand. As in previous years, the largest contribution to business growth again came from Volkswagen Leasing GmbH, which had a contract portfolio for 1,386 thousand lease vehicles (+8.1%).

KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2017

Thousands	VW FS AG	Germany	Europe	Latin America[1]	Asia-Pacific	Other companies[2]
Current contracts	**8,524**	**4,762**	**800**	**1,171**	**1,786**	**6**
Retail financing	2,169	-	58	664	1,447	-
Leasing business	1,559	1,314	130	85	23	6
Service/insurance	4,796	3,448	611	421	316	-
New contracts	**3,487**	**1,838**	**314**	**502**	**831**	**1**
Retail financing	981	-	24	237	720	-
Leasing business	694	585	57	44	7	1
Service/insurance	1,811	1,254	232	221	104	-
€ million						
Loans to and receivables from customers attributable to						
Retail financing	16,269	-	137	3,577	12,555	-
Dealer financing	3,584	10	13	977	2,053	531
Leasing business	18,809	17,187	846	488	276	12
Lease assets	11,571	9,907	999	150	390	125
Investment[3]	4,804	4,092	560	31	34	86
Operating profit	609	147	65	32	303	68
Percent						
Penetration[4]	19.6	44.9	4.0	44.4	16.1	-

1 The Latin America segment consists of the companies of Volkswagen Financial Services AG in Brazil and Mexico.
2 The Other companies segment comprises Volkswagen Financial Services AG, the holding and financing companies in the Netherlands, France and Belgium, EURO Leasing companies in Germany, Denmark and Poland, Volkswagen Insurance Brokers GmbH and Volkswagen Versicherung AG.
3 Corresponds to additions to lease assets classified as noncurrent assets.
4 Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles, based on Volkswagen Financial Services AG's consolidated entities.

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



1 Prior-year figures restated, because receivables from customers in the United Kingdom and Irish markets are now reported as receivables from leasing transactions, and due to the reorganization of the legal entities.

Total assets of the Volkswagen Financial Services AG Group fell by 47.1% year-on-year to €69.0 billion, mainly because of the reorganization. The expansion of business in the remaining companies in the reporting period is reflected in the higher business volume, which grew by €3.4 billion.

The number of service and insurance contracts at the year-end was 4,796 thousand. The new business volume of 1,811 thousand was down year-on-year.

Deposit Business and Borrowings

In terms of capital structure, the significant liability items included liabilities to banks in the amount of €11.0 billion (–35.5%), liabilities to customers amounting to €9.7 billion (–80.4%) and notes, commercial paper issued of €32.5 billion (–14.3%). The decrease in these items is also attributable to the reorganization. Information on the funding and hedging strategy is provided in a separate section of the management report.

Subordinated capital

The subordinated capital increased by 36.8% year-on-year to €4.4 billion.

Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at €441 million in fiscal year 2017. Equity in accordance with IFRSs was €7.6 (17.0) billion. The main reason for the decline in equity (by €11.6 billion) is the above-mentioned reorganization. The Group's earnings after tax had a positive effect. This resulted in an equity ratio of 11.1% (equity divided by total assets) based on total assets of €69.0 billion.

As a result of the restructuring under company law described earlier, the regulatory minimum capital requirements no longer apply to the Volkswagen Financial Services AG Group. Volkswagen Financial Services AG nevertheless continues to enjoy an appropriate level of capital backing.

Changes in Off-Balance-Sheet Liabilities

Off-balance-sheet liabilities decreased by a total of €2,253 million year-on-year to €1,022 million as of December 31, 2017, mainly because of the reorganization.

Liquidity Analysis

The companies of Volkswagen Financial Services AG are funded primarily through capital market and ABS (asset-backed securities) programs. Confirmed and unconfirmed credit facilities with other banks and with Volkswagen AG are also available to protect against unexpected fluctuations in cash flows. It is generally expected that credit facilities will be used. The purpose of the confirmed credit facilities with Volkswagen AG is solely to provide liquidity backup; the use of these facilities would not therefore normally be anticipated.

To ensure there is appropriate liquidity management, Treasury prepares liquidity maturity balances, carries out cash flow forecasts and takes action as required. In these calculations, the legally determined cash flows are assumed for funding instruments, whereas estimated cash flows are used for other factors that affect liquidity.

The internal control system (ICS) at Volkswagen Financial Services AG is used to measure liquidity risk individually for significant companies. This liquidity risk is managed using a maturity structure for Treasury liabilities. This approach includes a limit system covering the subsequent twelve months. The limits are reviewed each month in a process that acts as an early warning indicator. Reports are submitted centrally on a quarterly basis. A Group limit for Volkswagen Financial Services AG is also determined and managed appropriately; 44% of this limit was utilized as of December 31, 2017.

Various subsidiaries of Volkswagen Financial Services AG must satisfy a range of regulatory liquidity requirements at local level. For example, Volkswagen Leasing GmbH has to satisfy the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements for Risk Management). Compliance with these requirements is determined and continuously reviewed as part of the liquidity risk management system. Additionally, the cash flows for the coming twelve months are projected and compared against the potential funding available in each maturity band.

A further strict requirement imposed under banking regulation is that any liquidity requirements identified in institution-specific stress scenarios must be covered by providing an adequate liquid cash buffer over seven-day and thirty-day time horizons.

No immediate need to take action was identified for Volkswagen Leasing GmbH from a regulatory or economic perspective.

FUNDING

Strategic Principles

In terms of funding, Volkswagen Financial Services AG generally pursues a strategy of diversification with the aim of achieving the best possible balance of cost and risk. This means accessing the widest possible variety of funding sources in the various regions and countries with the objective of safeguarding funding on a long-term basis at optimum terms.

Implementation

During the first half of the year, Volkswagen Financial Services AG recommenced funding activities under its debt issuance program and successfully issued bonds denominated in pound sterling, Swedish krona and Norwegian krone. Unsecured bonds were also successfully issued for funding purposes in local capital markets outside Europe, such as China, India, Brazil, Australia and Mexico. In addition, Volkswagen Leasing GmbH returned to the euro capital market in July, issuing unsecured bonds. Very successful placements of asset-backed securities (ABSs) were also carried out.

Volkswagen Leasing GmbH was active in the German market with its ABS program.

Volkswagen's financial service providers were also active in international markets with various ABS transactions.

The following tables show the transaction details:

BORROWER'S NOTE LOANS

Issuer	Month	Country	Volume and currency	Maturity
Volkswagen Financial Services AG, Braunschweig	March	Germany	EUR 382 million USD 518 million	3, 5 and 7 years

CAPITAL MARKET

Issuer	Month	Country	Volume and currency	Maturity
Volkswagen Financial Services N.V., Amsterdam	April	United Kingdom	GBP 850 million	4 and 8 years
Volkswagen Financial Services N.V., Amsterdam	April	Sweden	SEK 1.5 billion	2 years
Volkswagen Financial Services N.V., Amsterdam	April	Norway	NOK 1.5 billion	3 years
Volkswagen Finance (China) Co., Ltd., Beijing	May	China	RMB 4 billion	3 years
Banco Volkswagen S.A., São Paulo	May	Brazil	BRL 500 million	2 years
Volkswagen Financial Services Australia Pty. Ltd., Chullora	June	Australia	AUD 500 million	3 years
Volkswagen Finance Pvt. Ltd., Mumbai	June	India	INR 1.5 billion	2 and 3 years
Volkswagen Leasing S.A. de C.V., Puebla	June	Mexico	MXN 2 billion	3 years
Volkswagen Leasing GmbH, Braunschweig	July	Germany	EUR 3.5 billion	2, 4 and 7.5 years
Volkswagen Finance Pvt. Ltd., Mumbai	July	India	INR 3 billion	3 years
Volkswagen Financial Services N.V., Amsterdam	July	United Kingdom	GBP 300 million	5.2 years
Volkswagen Financial Services Australia Pty. Ltd., Chullora	September	Australia	AUD 325 million	5 years
Volkswagen Finance Pvt. Ltd., Mumbai	September	India	INR 2.5 billion	3 years
Volkswagen Leasing GmbH, Braunschweig	October	Germany	EUR 2.25 billion	3 and 6.5 years
Volkswagen Leasing S.A. de C.V., Puebla	October	Mexico	MXN 2.5 billion	3 years
Volkswagen Doğuş Finansman A.S., Istanbul	November	Turkey	TRL 130 million	0.5 years
Volkswagen Finance Pvt. Ltd., Mumbai	December	India	INR 3.0 billion	2.8 and 3 years

ABSs

Issuer	Transaction name	Month	Country	Volume and currency
Volkswagen Financial Services Japan Ltd., Tokyo	Driver Japan six	February	Japan	JPY 64 billion
Volkswagen Financial Services Australia Pty. Ltd., Chullora	Driver Australia four	May	Australia	AUD 500 million
Volkswagen Finance (China) Co., Ltd., Beijing	Driver China six	May	China	RMB 4.5 billion
Volkswagen Finance (China) Co., Ltd., Beijing	Driver China seven	September	China	RMB 4 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 25	October	Germany	EUR 1.6 billion
Volkswagen Finance (China) Co., Ltd., Beijing	Driver China eight	December	China	RMB 3.5 billion

Besides these well-established sources of funding, Volkswagen Financial Services AG was able to place a number of borrower's note loans with a range of investors, notably in Asia. The issuance of commercial paper and the use of bank credit lines completed the funding mix.

The Company continued to implement its strategy of obtaining maturity-matched funding as far as possible by borrowing on terms with matching maturities and by using derivatives. A currency-matched funding approach was taken by borrowing liquidity in local currency, and currency risks were eliminated by using derivatives.

Ratings

Volkswagen Financial Services AG is a wholly owned subsidiary of Volkswagen AG and, as such, its credit ratings with both Moody's Investors Service (Moody's) and Standard & Poor's Global Ratings (S&P) are closely associated with those of the Group's parent company.
The senior unsecured rating issued by rating agency S&P, which had been placed on CreditWatch since December 15, 2016 against the background of imminent amendments to the Kreditwesengesetz (KWG – German Banking Act), was affirmed at BBB+ in February. At the same time, S&P introduced a further rating classification in the form of the senior subordinated rating and rated the bonds issued by Volkswagen Financial Services AG at BBB initially. The short-term rating remained unaffected at A-2.

In November, the outlook for Volkswagen Financial Services AG was upgraded to stable. S&P simultaneously reclassified the BBB senior subordinated rating to a BBB+ senior unsecured rating because Volkswagen Financial Services AG was no longer subject to European banking regulation as a consequence of the restructuring carried out on September 1, 2017.

In response to the reorganization of the legal entities on September 1, 2017, Moody's downgraded the senior unsecured rating for Volkswagen Financial Services AG from A2 to A3 bringing it into line with the rating for Volkswagen AG; it also downgraded the short-term rating by one notch to P-2. The outlook remained negative over the whole of the year.

Volkswagen Financial Services AG

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2017

Volkswagen Financial Services AG reported a result from ordinary activities of €–562 million for fiscal year 2017. This is attributable primarily to the reorganization of the legal entities resulting from the demerger of Volkswagen Bank GmbH.

Sales revenue amounted to €574 (700) million, with cost of sales coming to €567 (693) million. These items include the income from cost allocations to Group companies and the expenses related to personnel and administrative costs.

Other operating income totaled €192 (364) million, with other operating expenses amounting to €12 (243) million. Other operating income included income from the disposal of equity investments in the amount of €143 million. Other operating expenses included rating costs of €7 million.

Net investment income declined by €783 million to a net expense of €487 (net income of 296) million primarily because the net income of Volkswagen Bank GmbH was no longer included. The decline was also attributable to the net loss of €578 million reported by Volkswagen Leasing GmbH.

The loss after tax of €478 million will be absorbed by Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

In the context of the spin-off, the assets and liabilities of the newly defined line of business Digital Solutions were transferred to Volkswagen Financial Services Digital Solutions GmbH effective January 1, 2017. Long-term financial assets declined by 51.7% to €5,984 million. The change resulted from the following items: capital increases and contributions to capital reserves at affiliated companies and investees of €2,369 million, loan increases of €133 million, business acquisitions of €4 million, demergers of €8,849 million, disposals of affiliated companies and equity investments of €68 million, and impairment losses of €6 million.

Receivables from affiliated companies declined by €1,231 million (26.3%). These changes arose largely from the repayment of time deposits and loans. Loans to and receivables from other investees or investors increased by €613 million (31.3%), and were mainly attributable to time deposits and loans.

The decrease in provisions of €76 million (15.4%) arose primarily because of lower provisions for IT costs in an amount of €37 million, for personnel expenses of €31 million and for general risks of €14 million.

Bonds declined to €750 million. Liabilities to banks in connection with borrower's note loans rose by €827 million to €1,198 million. Liabilities to affiliated companies went up by €1,047 million (19.6%), principally because of a higher level of time deposits and loans. As a consequence of demergers, €8,849 million was withdrawn from capital reserves. At the same time, an amount of €1,000 million was appropriated to the capital reserves by Volkswagen AG.

The equity ratio was 26.2% (57.5%). Total assets at the end of the reporting period amounted to €12,012 million.

NUMBER OF EMPLOYEES

Volkswagen Financial Services AG had a total of 5,023 (5,983) employees as of December 31, 2017. Employee turnover of less than 1.0% was significantly below the industry average.

The employees of Volkswagen Financial Services AG also work for the subsidiaries because of the structure of the German legal entities in the Volkswagen Financial Services AG Group. At the close of 2017, 750 (959) employees were leased to Volkswagen Leasing GmbH. In addition, 150 (141) employees were leased to Volkswagen Insurance Brokers GmbH, 68 (26) to Volkswagen Versicherung AG, 7 (10) to Volkswagen Autoversicherung AG and 151 (144) to MAN Financial Services GmbH. For the first time, 2,643 employees were leased to the new company Volkswagen Financial Services Digital Solutions GmbH. In contrast to the previous year, the employees of Volkswagen Bank GmbH are no longer leased to the bank from Volkswagen Financial Services AG but have contracts of employment with Volkswagen Bank GmbH. Volkswagen Financial Services AG employed 131 vocational trainees as of December 31, 2017.

MANAGEMENT, AND OPPORTUNITIES AND RISKS RELATING TO THE BUSINESS PERFORMANCE OF VOLKSWAGEN FINANCIAL SERVICES AG

Volkswagen Financial Services AG operates almost exclusively as a holding company and is integrated into the internal management concept of the Volkswagen Financial Services Group. It is thus subject to the same key performance indicators and the same opportunities and risks as the Volkswagen Financial Services Group. The legal requirements governing the management of Volkswagen Financial Services AG as a legal entity are observed using key performance indicators specified under commercial law, 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 3 and 4) as well as in the report on opportunities and risks (pages 19 to 27) of this annual report.

INCOME STATEMENT OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, FOR FISCAL YEAR 2017

€ million	2017	2016
Revenue	574	700
Cost of sales	–567	–693
Gross profit	**7**	**7**
General and administrative expenses	–262	–249
Other operating income	192	364
Other operating expenses	–12	–243
Net investment income/expense	–487	296
Financial result	0	–2
Income tax expense	84	–43
Profit/loss after tax	**–478**	**130**
Profits transferred under a profit-and-loss transfer agreement	-	–130
Losses absorbed under a profit-and-loss transfer agreement	478	-
Net income for the year	**-**	**-**
Profit brought forward	2	2
Assets reduced as a result of asset transfer	–8,849	-
Amount withdrawn from capital reserves	8,849	-
Net retained profits	**2**	**2**

BALANCE SHEET OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS OF DECEMBER 31, 2017

€ million	Dec. 31, 2017	Dec. 31, 2016
Assets		
A. Fixed assets		
I. Intangible fixed assets	-	12
II. Property and equipment	-	44
III. Long-term financial assets	5,984	12,400
	5,984	**12,456**
B. Current assets		
I. Receivables and other assets	6,022	6,641
II. Cash-in-hand and bank balances	2	1
	6,024	**6,642**
C. Prepaid expenses	**4**	**27**
Total assets	**12,012**	**19,125**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441	441
II. Capital reserves	2,600	10,449
III. Retained earnings	100	100
IV. Net retained profits	2	2
	3,143	**10,992**
B. Provisions	**416**	**492**
C. Liabilities	**8,453**	**7,641**
Total equity and liabilities	**12,012**	**19,125**

Report on Opportunities and Risks

The active management of opportunities and risks is a fundamental element of the successful business model used by Volkswagen Financial Services AG.

RISKS AND OPPORTUNITIES

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

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

Macroeconomic Risks and Opportunities

The management of Volkswagen Financial Services AG expects with – in the majority of markets – further economic growth a moderate increase in deliveries to customers of the Volkswagen Group. Volkswagen Financial Services AG supports this positive trend by providing financial services products designed to promote sales.

The probability of a global recession is considered to be low overall. However, diminished rates of global economic growth or a period of below-average growth rates cannot be ruled out. The macroeconomic environment could also give rise to opportunities for Volkswagen Financial Services AG if actual trends turn out to be better than the forecast.

Strategic Opportunities

As well as continuing its international focus by tapping new markets, Volkswagen Financial Services AG believes that developing innovative products that are tailored to customers' changing mobility requirements offers additional opportunities. Growth areas such as mobility products and service offerings (long-term rental, car sharing) are being systematically developed and expanded. Further opportunities may be created by launching established products in new markets.

The digitalization of our business represents a significant opportunity for Volkswagen Financial Services AG. The aim is to ensure that all key products are also available online around the world by 2020, thereby enabling the Company to enhance efficiency. By expanding digital sales channels, we are promoting direct sales and facilitating the extension of the platform for used vehicle finance. We are therefore addressing the changing needs of our customers and strengthening our competitive position.

Opportunities from Credit Risk

Opportunities may arise in connection with credit risk if the losses actually incurred on lending transactions turn out to be lower than the prior calculations of expected loss and the associated provisions recognized on this basis. A situation in which the incurred losses are lower than the expected losses can occur particularly in individual countries in which economic uncertainty is dictating a conservative risk approach but in which the economic circumstances then stabilize, resulting in an improvement in the credit quality of the borrowers concerned.

Opportunities from Residual Value Risk

When vehicles are remarketed, Volkswagen Financial Services AG may be presented with the opportunity to achieve a price that is higher than the calculated residual value if increasing demand pushes up market values more than expected.

KEY FEATURES OF THE INTERNAL CONTROL SYSTEM AND THE INTERNAL RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

The internal control system (ICS) for the consolidated and annual financial statements, as far as it is relevant to the accounting system, is the sum of all principles, procedures and activities aimed at ensuring the effectiveness, efficiency and propriety of the financial reporting and compliance with the relevant legal requirements. The internal risk management system (IRMS) related to the accounting system is concerned with the risk of misstatement in the bookkeeping systems at the Company and Group levels as well as in external financial reporting. The sections below describe the key elements of the ICS/IRMS as they relate to the financial reporting processes of Volkswagen Financial Services AG.

- The Board of Management of Volkswagen Financial Services AG is the governing body with responsibility for the executive management of the business. In this role, the Board has set up Accounting, Treasury Controlling, ICS Steering, Compliance and Controlling units, each with clearly separated functions and clearly assigned areas of responsibility and authority, to ensure that accounting and financial reporting processes are carried out properly. The services provided by Volkswagen Bank GmbH are monitored.
- Group-wide rules and accounting requirements have been put in place to ensure there is a standardized, proper and continuous financial reporting process for all domestic and foreign entities included in the consolidated financial statements in accordance with the International Financial Reporting Standards. The basis of consolidation is laid down and there is a mandatory requirement to use a standardized, comprehensive set of forms for mapping and processing intragroup transactions.
- Analyses and any adjustments to single-entity financial statements prepared by the consolidated entities are complemented by the reports submitted at Group level by the independent auditors, taking into account specific control activities aimed at ensuring that the consolidated financial reporting provides a true and fair view. The clear definition of areas of responsibility accompanied by various monitoring and review mechanisms ensures that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.
- These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT process controls account for a significant proportion of the integrated process activities alongside manual process controls, such as double-checking by a second person. These controls are enhanced by specific functions at Group level carried out by the parent company Volkswagen AG, for example functions within the responsibility of the Group tax department.
- Subgroup Internal Audit department is a key component of the monitoring and control system. It carries out regular audits of accounting-related processes in Germany and abroad as part of its risk-oriented auditing activities and reports on these audits directly to the Board of Management of Volkswagen Financial Services AG.

In sum, the existing internal monitoring and control system of Volkswagen Financial Services AG Group is intended to ensure that the financial position of the individual entities and of the Volkswagen Financial Services AG Group as of the reporting date December 31, 2017 has been based on information that is reliable and has been properly recognized. No material changes were made to the internal monitoring and control system of Volkswagen Financial Services AG after the reporting date.

ORGANIZATIONAL STRUCTURE OF THE RISK MANAGEMENT SYSTEM

At Volkswagen Financial Services AG, risk is defined as the danger of loss or damage that could occur if an expected future development turns out to be less favorable than planned. Volkswagen Financial Services AG, including its subsidiaries and equity investments, is exposed to a large number of risks typical for the financial services sector as part of its primary operating activities. Risks are captured in a responsible manner to take concrete possible market opportunities.

As a result of the deconsolidation of Volkswagen Bank GmbH in the year under review, Volkswagen Financial Services AG no longer falls within the scope of banking supervision. An internal control system based on a Three-Lines-of-Defense model has been set up to manage risk in the Volkswagen Financial Services AG Group following the changes implemented on September 1, 2017. This structure functions as a monitoring and control system for risk. The system comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risks. The individual elements are tightly focused on the activities of the individual divisions. This structure makes it possible to identify at an early stage any trends that could represent a risk to the business as a going concern so that appropriate corrective action can then be initiated.

Appropriate procedures are in place to ensure the adequacy of the risk management. Firstly, the risk owner continuously monitors individual types of risk, which are pooled by the ICS Steering unit and reported to the Board of Management. Secondly, the individual elements in the system are regularly verified on a risk-oriented basis by Internal Audit and as part of the audit of the annual financial statements by the independent chartered auditors.

Within Volkswagen Financial Services AG, responsibility for risk management and credit analysis is assigned to the Chairman of the Board. In this role, the Chairman of the Board submits regular reports to the Supervisory Board and

Board of Management on the overall risk position of Volkswagen Financial Services AG.

An important feature of the risk management system at Volkswagen Financial Services AG is the clear, unequivocal separation of tasks and areas of responsibility, both organizationally and in terms of personnel, between the holding company (ICS Steering unit) and the markets (local risk management) to ensure that the system is fully functioning at all times and regardless of any particular personnel involved.

One of the functions of the ICS Steering unit is to provide framework constraints for the organization of the risk management system. This function includes drawing up and coordinating risk policy guidelines (to be carried out by the risk owner), developing and maintaining methodologies and processes relevant to risk management as well as issuing international framework standards for the procedures to be used around the world.

ICS Steering is a neutral, independent unit and reports directly to the Chairman of the Board of Management of Volkswagen Financial Services AG. Local risk management ensures that the requirements applicable to the international subsidiaries are implemented and complied with. Local risk management is responsible for the detailed design of local structures for the models and procedures used for risk measurement and management and carries out local implementation from process and technical perspectives.

To summarize, continuous monitoring of risks, transparent and direct communication with the Board of Management and the integration of all information obtained into the operational risk management system form a foundation for the best possible exploitation of market potential based on conscious, effective management of the overall risk faced by Volkswagen Financial Services AG.

BUSINESS STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Board of Management. As part of this overall responsibility, the Board of Management has introduced a strategy process and drawn up a business and risk strategy. The ROUTE2025 business strategy sets out the fundamental views of the Board of Management of Volkswagen Financial Services AG on key matters relating to business policy. It includes the objectives for each major business activity and the strategic areas for action to achieve the relevant objectives.

The main risk management goals and measures for each category of risk are concerned by business policy focus and risk appetite. The attainment of goals is reviewed annually and any variances are analyzed to establish the causes.

The Groupwide risk strategy, which is issued and communicated by the Board of Management, includes all material quantifiable and non-quantifiable risks. Further details and specifics for the individual risk categories are set out in operational requirements as part of the planning round in accordance with management requirements.

PRODUCT TRANSPARENCY AND NEW MARKET PROCESS

Before launching new products or commencing activities in new markets, Volkswagen Financial Services AG carries out processes – with the involvement of departments such as controlling and IT – to ensure that the Company is aware of the effects and requirements relating to the new product or market concerned and that an informed decision can then be made on this basis at an appropriate level of organizational authority.

RISK CONCENTRATIONS

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

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

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

One of the objectives of Volkswagen Financial Services AG's risk policy is to reduce such concentrations by means of broad diversification.

Counterparty concentrations from customer financing are only of minor significance because of the large proportion of business accounted for by retail lending. In terms of regional distribution, the Company aims for broadly based diversification of business across regions.

In contrast, sector concentrations in the dealer business are part of the nature of the business for a captive provider and these concentrations are therefore individually analyzed.

Likewise, a captive provider cannot avoid collateral concentrations because the vehicle is the predominant collateral asset by virtue of the business model. A broad vehicle diversification also means that there is no residual value concentration. Income concentration arises from the very nature of the business model. The Company's particular role in which it helps to promote sales in the Volkswagen Group gives rise to certain dependencies that directly affect income growth.

MATERIAL RISK CATEGORIES AND RISK REPORTING

A risk survey has identified the following risk categories that are material to Volkswagen Financial Services AG: counterparty default risk, direct residual value risk, liquidity risk, operational risk, interest rate risk and reputational risk.

Under risk reporting, the material risk categories are reported quarterly to the Board of Management in the form of an ICS report. For this report, the international subsidiaries, which make up the First-Line-of-Defense, provide input to the respective risk owners of the Second-Line-of-Defense. Following a plausibility check and validation, this data is condensed at country level and forwarded to the ICS Steering unit. The ICS report presents the changes in risks for the Group and its regions on a year-on-year and quarter-on-quarter basis. They include quantitative information (financial data) and, if required, also a qualitative evaluation in consultation with the risk owners. Ad hoc reports at the Group level are generated as needed to supplement the system of regular reporting.

OVERVIEW OF RISK CATEGORIES

Financial risks	Nonfinancial risks
Counterparty default risk	**Reputational risk**
Interest rate risk	Compliance and conduct risk
Residual value risk	Strategic risk
Liquidity risk	
Earnings risk	
Operational risk	
Underwriting risk	

FINANCIAL RISKS

Counterparty Default Risk

Counterparty default risk refers to a potential negative variance between actual and forecast counterparty risk outcomes. The forecast outcome is exceeded if the loss incurred as a consequence of defaults or changes in credit rating is higher than the expected loss. At Volkswagen Financial Services AG, counterparty default risk encompasses the following risk categories: credit risk, counterparty risk, country risk and shareholder risk.

Credit risk

Credit risk is defined as the danger of incurring losses as a result of defaults in customer business, specifically the default of the borrower or lessee. Loans to and receivables from entities in the Volkswagen Group are also included in the analysis. The default is caused by the borrower's or lessee's insolvency or unwillingness to pay. This includes a situation in which the counterparty does not make interest payments or repayments of principal on time or does not pay the full amounts.

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

The aim of systematic credit risk monitoring by the international subsidiaries is to identify potential borrower or lessee insolvencies at an early stage, initiate any corrective action in respect of a potential default in good time and anticipate possible losses by recognizing appropriate write-downs or provisions. Significant borrowers or borrower units are also monitored by ICS Steering.

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

Lending or credit decisions at Volkswagen Financial Services AG are made primarily on the basis of the borrower credit check. In the companies, these credit checks use rating or scoring systems, which provide the relevant departments with an objective basis for reaching a decision on a loan or a lease.

A set of procedural instructions outlines the requirements for developing and maintaining the local rating systems. Similarly, "golden rules" specify the parameters for developing, using and validating the scoring systems in the retail business.

Rating systems for corporate customers

Volkswagen Financial Services AG uses rating systems to assess the credit worthiness of corporate customers. This evaluation takes into account both quantitative factors (mainly data from annual financial statements) and qualitative factors (such as the prospects for future business growth, quality of management, market and industry environment, and the customer's payment record). When the credit assessment has been completed, the customer is assigned to a rating class, which is linked to a probability of default. A centrally maintained, workflow-based rating application is used for the most part to support this analysis of credit worthiness. The rating determined for the customer serves as an important basis for decisions on whether to grant or renew a loan and for decisions on provisions.

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

The models and systems in use are regularly monitored, validated, adjusted (where required) and refined at local level. These review procedures are applied to models and systems for assessing credit worthiness and estimating the probability of default (such as rating and scoring systems) and to models used for estimating loss given default and estimating credit conversion factors.

Collateral
The general rule is that credit transactions are secured by collateral to an extent that is commensurate with the risk. In addition, overarching rules specify the requirements that must be satisfied by collateral, the evaluation procedures and the evaluation bases. Local collateral guidelines with specific values take these rules into account. The values in the collateral policies are based on historical data and experience accumulated by experts over many years. As the operating activities of Volkswagen Financial Services AG are focused on retail financing, dealer financing and the leasing of vehicles, the vehicles themselves are hugely important as collateral assets. For this reason, trends in the market values of vehicles are closely monitored, analyzed and adapted.

Provisions
The calculation of provisions is based on the incurred loss model in accordance with IAS 39 and is also derived from the rating and scoring processes. With regard to impaired loans and receivables, a distinction is also made between significant and insignificant loans and receivables. Specific provisions are recognized for significant impaired loans and receivables, whereas specific provisions evaluated on a group basis are recognized for insignificant impaired loans and receivables. Portfolio (global) provisions are recognized to cover impaired loans or receivables for which no specific provisions have been recognized.

ICS Steering sets fundamental parameters in the form of golden rules for the management of credit risk. These constraints form the mandatory outer framework of the central risk management system, within which the divisions/markets can operate in terms of their business policy activities, planning, decisions, etc. in compliance with their assigned authority. Appropriate processes are used to monitor all lending in relation to financial circumstances, collateral and compliance with limits, contractual obligations and internal and external conditions. To this end, exposures are transferred to a suitable form of supervision or support depending on risk content (normal, intensified or problem loan management). Credit risk is also managed using reporting limits determined by Volkswagen Financial Services AG and specified separately for each individual company in accordance with the support strategy for the international subsidiaries. Regular reporting, business financial reviews and the yearly planning process are used to monitor credit risk at portfolio level.

CHANGES IN CREDIT RISK

Credit risk	Dec. 31, 2016[1]	Dec. 31, 2017
Amount utilized (€ million)	57,697	62,264
Default rate in %	2.57	2.23
Impairment ratio in %	2.29	2.09

1 Figures based on risk management report, taking the reorganization of the legal entities into account.

The rating and scoring processes on which the impairment ratio is based include default probabilities of future events. The actual losses incurred are covered by the provisions recognized.

Counterparty Risk

Volkswagen Financial Services AG defines counterparty risk as the risk of financial loss that could arise from monetary investments, investments in securities or notes, or from other outstanding loans or receivables. This risk arises if a counterparty fails to make payments of interest or repayments of principal as contractually required. The nature and extent of own-account investing activities are subject to internal limits.

Counterparty risk arises in connection with interbank overnight and term deposits, derivatives and existing current account balances, and is a subcategory of counterparty default risk.

To establish effective monitoring and control, volume limits are specified in advance for each counterparty (and issuer). The Treasury Backoffice unit is responsible for monitoring compliance with these limits on a day-to-day basis. The volume limit is set at an appropriate, needs-driven level and is based on the credit assessment. The Credit Analysis department is responsible for the initial classification and then regular reviews. This risk is reported quarterly as part of the ICS report.

Country Risk

Country risk refers to risks in international transactions that are not attributable to the counterparty itself but that arise because of the counterparty's domicile in a country outside Germany. For example, political or economic trends caused by a crisis or difficulties affecting the entire financial system in the country concerned may mean that cross-border services involving the movement of capital cannot be carried out because of transfer problems attributable to action implemented by the foreign government in question. Country risk would need to be taken into account, in particular, in connection with funding and equity investment activities involving foreign companies and in connection with the lending and leasing business operated by the local companies. Given the focus of business activities in the Group, there is little chance that country risk (such as foreign exchange risk or legal risk) will arise.

Volkswagen Financial Services AG does not generally have any significant cross-border loans to borrowers outside the basis of consolidation. The conventional country risk analysis is not applicable to intercompany lending because, if the difficulties described above were to occur, the funding of the Group entities through lending could be extended if necessary, thereby ensuring that the entities could continue to operate in the strategic market concerned.

Shareholder Risk

Shareholder risk refers to the risk that equity investments made by Volkswagen Financial Services AG could potentially lead to losses in connection with capital provided (as a result of lack of dividends, write-downs to going-concern value, losses on disposal or decrease in hidden reserves), profit-and-loss transfer agreements (loss absorption) or liability risks (for example, in the case of letters of comfort).

In principle, Volkswagen Financial Services AG only makes such equity investments to help it achieve its corporate objectives. The investments must therefore support its own operating activities and are intended to be held on a long-term basis.

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

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

Interest Rate Risk

Interest rate risk refers to potential losses that could arise as a result of changes in market interest rates. It occurs because of interest rate mismatches between asset and liability items in a portfolio or on the balance sheet. Volkswagen Financial Services AG is exposed to interest rate risk in its banking book. Changes in interest rates that cause interest rate risk to materialize can have a negative impact on financial performance. Interest rate risk is managed on the basis of limits using interest rate derivatives as part of the risk strategy defined by the Board of Management of Volkswagen Financial Services AG. Monitoring is performed by Treasury on the basis of a service agreement with Volkswagen Bank GmbH. A report on interest rate risk at Volkswagen Financial Services AG is submitted to the Board of Management each quarter. As of December 31, 2017, 72% of the limit was utilized.

Residual Value Risk

Residual value risk arises from the fact that the actual market value for a lease asset at the time of remarketing could be lower than the residual value calculated at the inception of the lease. On the other hand, there is an opportunity in that the remarketing could generate proceeds greater than the calculated residual value.

A distinction is made between direct and indirect residual value risk in relation to the bearer of this risk. Direct residual value risk refers to residual value risk borne directly by Volkswagen Financial Services AG or one of its companies (contractually determined). An indirect residual value risk arises if the residual value risk has been transferred to a third party (such as a dealer) on the basis of a residual value guarantee. In such cases, the initial risk is a counterparty default risk in respect of the residual value guarantor. If the residual value guarantor defaults, the residual value risk reverts to Volkswagen Financial Services AG.

If a residual value risk materializes, the Company may have to recognize an exceptional write-down or a loss on disposal of the asset concerned, resulting in a negative impact on financial performance. Direct residual value risk is quantified using expected loss, which equates to the difference between the latest forecast remarketing proceeds as of the measurement date and the contractual residual value specified at the inception of the lease for each vehicle. Other parameters such as remarketing costs are also taken into account in the calculation. The expected loss for the portfolio is determined by aggregating the individual expected losses for all vehicles.

CHANGES IN DIRECT RESIDUAL RISK

Direct residual value risk	Dec. 31, 2016[1]	Dec. 31, 2017
Number of contracts	620,857	724,673
Guaranteed residual values (€ million)	8,025	9,385
Risk exposure in %	6.39	7.20
Impairment ratio in %	4.80	4.34

1 Figures based on risk management report, taking the reorganization of the legal entities into account.

As part of the management of residual value risk, Volkswagen Financial Services AG has firstly specified rules for managing residual value. The processes for this include the calculation of the risk exposures of forward-looking residual value forecasts. Secondly, it has established uniform requirements for the Group, which reflect the accounting standards governing the recognition of provisions for risks on a pro rata basis. On the basis of this mandatory outer framework, the division/markets monitor and control their business policy activities, planning, decisions, etc. in compliance with their assigned authority. Regular reporting, business financial reviews and the yearly planning process are used to monitor residual value risk at portfolio level.

Liquidity Risk

Liquidity risk is the risk of a negative variance between actual and expected cash inflows and outflows. Liquidity risk is defined as the risk of not being able to meet payment obligations in full or when due, or – in the event of a liquidity crisis – the risk of only being able to raise funding at higher market rates or only being able to sell assets at a discount to market prices. If liquidity risk were to materialize, higher costs and lower selling prices for assets could lead to a negative impact on financial performance. The consequence of liquidity risk in the worst-case scenario is insolvency caused by illiquidity. Liquidity risk management ensures that this situation does not arise. The expected cash flows at Volkswagen Financial Services AG are brought together and evaluated in operations serviced by Treasury unit of Volkswagen Bank GmbH.

The primary objective of liquidity management is to safeguard the ability of the Company to meet its payment obligations at all times. This can be guaranteed through the use of drawdowns under credit facilities available with third-party banks and with Volkswagen AG. To measure liquidity risk, Volkswagen Financial Services AG has set up a system of limits throughout the Group. This system restricts funding-related cash outflows over a time horizon of twelve months. A broad diversification of funding maturities is therefore necessary to ensure compliance with the limits. To manage liquidity, the Operational Liquidity Committee (OLC) holds meetings every four weeks at which it monitors the current liquidity situation and the range of liquidity coverage. It decides on funding measures and prepares any necessary decisions for the decision-makers. ICS Steering communicates the main risk management information and relevant early warning indicators relating to liquidity risk. As of December 31, 2017, 44% of the limit was utilized.

Earnings Risk

Earnings risk refers to the risk that actual figures will vary from the budgeted income statement earnings in the management strategy for the Volkswagen Financial Services AG Group. It is derived from any variance in the actual income (negative variance) and actual expenses (positive variance) in comparison with the budgeted figures.

The risk is largely determined by the business strategy and internal business planning as well as by changes in general operating parameters (such as the level of sales in the Volkswagen Group, business volume, technical processes, competitive environment).

Earnings risk is quantified on the basis of the anticipated variance of the operating profit compared with budget. To this end, the trends in actual figures compared with forecasts are monitored at market level during the course of the year. This comparison is included in the standard reporting procedure carried out by Controlling.

Operational Risk

Operational risk (OpR) is defined as the risk of loss resulting from inadequate or failed internal processes (process risk), people (HR risk) or systems (technological risk), or resulting from external events (third-party risk). This definition includes legal risk.

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

The risk self-assessment being rolled out will be used to determine a monetary assessment of future potential risks. A standardized risk questionnaire is provided for this purpose. The local experts use these questionnaires to determine and record the details for various risk scenarios. The details include the possible amount of the risk and the probability of occurrence.

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

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

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

Operational risk is reported quarterly to the Board of Management. Ad hoc reports are issued in addition to the regular reports provided that the relevant specified criteria are satisfied.

The actual losses incurred as a result of operational risks amounted to €50.8 million as of December 31, 2017.

Underwriting Risk

Underwriting risk is an inherent risk of insurance companies, which at Volkswagen Financial Services AG exists primarily as a result of the subsidiary Volkswagen Versicherung AG. It arises if the cash flows that are material to the insurance company differ from their expected value. One source of this risk is the uncertainty as to whether the total amount of actual payments for claims matches the total amount of expected payments for claims. Underwriting risk at Volkswagen Financial Services AG is broken down into the risks associated with three different classes of insurance: non-life underwriting risk, life underwriting risk and health underwriting risk.

The mission of Volkswagen Versicherung AG is to support sales of the Volkswagen Group's products. The aim is to achieve this mainly by offering guarantee insurance as a primary insurer and inward reinsurance.

The purpose of managing underwriting risk is not to avert such risk in its entirety but to manage the risk systematically in furtherance of the objectives. In principle, risks are not accepted unless they can be calculated and borne by the company. If claims are excessive relative to the premium calculation, the risk situation of the portfolio must be reviewed.

The materiality of non-life, life and health underwriting risks is assessed through a qualitative evaluation of the risks based on the magnitude of the potential loss and the associated probability that the risks will materialize. The risks are quantified using the standard formula specified in Solvency II. The risks are managed by the independent risk control function at Volkswagen Versicherung AG. The results are then reported to the relevant units.

NONFINANCIAL RISKS

Reputational risk

Reputational risk refers to the risk that an event or several successive events could cause reputational damage (in the eyes of the general public), which in turn could limit current and future business opportunities or activities (potential earnings), thereby leading to an indirect adverse financial impact (customer base, sales, funding costs) and/or direct financial losses such as penalties, litigation costs, etc. The responsibilities of the Corporate Communications unit include avoiding negative reports in the press or similar announcements that could inflict damage on the reputation of the Company. If this is unsuccessful, the unit is then responsible for assessing the situation and initiating appropriate communications aimed at specific target groups to limit the reputational damage as far as possible. The strategic objective is therefore to prevent or reduce any negative variance between actual reputation and the level of reputation the Company expects. A loss of reputation or damage to the Company's image could have a direct impact on financial performance.

Compliance and Conduct Risk

At Volkswagen Financial Services AG, compliance risk refers to risks that could arise from non-compliance with statutory rules and regulations or internal requirements.

As opposed to conduct risk, which is defined as the risk arising from inadequate conduct by the Company toward the customer, unreasonable treatment of the customer or provision of advice using products that are not suitable for the customer.

To counter these risks, Compliance is committed to ensuring compliance with laws, other legal requirements, internal rules and self-proclaimed values, and fostering an appropriate compliance culture.

The role of the Chief Compliance Officer within Compliance is to work towards implementing effective procedures to ensure compliance with legal rules and requirements, and toward establishing appropriate controls. This is carried out mainly by stipulating binding requirements at Group level. In turn, these then provide a framework for specifying detailed requirements for which local compliance officers are responsible. Local companies are independently responsible for implementing the centrally defined requirements. Responsibility for complying with any further rules and regulations lies with the company concerned.

Overall, the emergence of a compliance culture is being nurtured by constantly promoting the Volkswagen Group's Code of Conduct and by raising employee awareness of risk. The main instruments used to foster this culture are a tone-from-the-top approach, classroom training, and e-learning programs. The compliance culture is also being consolidated by communication measures, including the distribution of guidelines and other information media as well as employee participation in compliance programs.

The Chief Compliance Officer supports and advises the Board of Management in matters relating to the avoidance of compliance risks and reports to the board at regular intervals.

Strategic Risk

Strategic risk is the risk of a direct or indirect loss arising from strategic decisions that are flawed or based on false assumptions. Strategic risk also includes all risks that result from the integration/reorganization of technical systems, personnel or corporate culture (integration/reorganization risk). These risks may be caused by fundamental decisions about the structure of the business made by the management in relation to the positioning of the Company in the market. The objective of Volkswagen Financial Services AG is to manage its acceptance of strategic risk enabling it to systematically leverage earnings potential in its core business. In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern.

SUMMARY

Risks remained at a constant level during the reporting year.

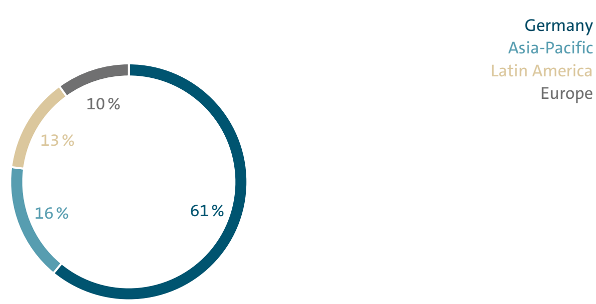
Human Resources Report

Promoting a Culture of Open Feedback and Discussion

EMPLOYEES

The Volkswagen Financial Services AG Group had a total workforce of 8,555 (11,819) employees on December 31, 2017. Of these, 5,198 (6,145), or 61%, were employed in Germany and 3,357 (5,674), or 39%, at our international sites. The significantly lower employee numbers compared with 2016 resulted from the restructuring of the legal entities within the Volkswagen Financial Services AG Group, as described earlier. Based on economic considerations, 371 (357) employees of Volkswagen Servicios S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

EMPLOYEES BY REGION
as of December 31, 2017



HUMAN RESOURCES STRATEGY

The ROUTE2025 program has created new areas of focus in terms of HR strategy. Six strategic areas of activity are listed under the heading "Top Employer/Top Employees". These areas of activity are helping Volkswagen Financial Services AG to position itself as "The Key to Mobility". With the support of the best employees, our objective is to continue to drive forward development around the other strategic cornerstones of customers, volume, profitability and operational excellence. Based on specific activities to develop and retain personnel, coupled with profit-sharing arrangements commensurate with the work performed, we aim to encourage top performance and ensure we provide outstanding customer service with top employees, but also, as a top employer, take our excellent globally recognized reputation to yet another level.

Responsibility for implementing the employee strategy at an international level lies locally with the international subsidiaries, supported by the international HR unit at the head office. The Human Resources Strategy Card remains the most important management tool for implementing the HR strategy. The objectives and definitions set out in the tool provide our local companies with a uniform basis to be applied around the globe. The local entities hold regular meetings with the head office – at least twice a year – to report on their progress and share detailed information in this regard. Depending on the situation, support measures are agreed and/or highly positive examples are systematically made available to other branches using the HR toolbox so that synergies can also be leveraged between the different local companies.

In the year under review, the strategic focus both in Germany and at the international sites remained on promoting a culture of open feedback and discussion and on fostering customer- and service-oriented collaboration, internally and in partnership with customers.

A wide variety of discussion and feedback opportunities was provided for employees in many of the international subsidiaries and also in Germany. These opportunities included, for example, live chat with members of the Board of Management (Germany), team workshops with feedback sessions (China), employee events with a dialog format (in Japan, Australia and Norway for example) and voluntary interdisciplinary teams to analyze the results from the "Great Place to Work" employer competition and determine any corrective action (Poland).

We assess the extent to which we have achieved our objective of being a top employer by regularly taking part in external employer competitions. Our aim is to continue to enhance the working conditions and implement corresponding action with a view to becoming one of the top 20 employers in the "Great Place to Work" employer ranking by 2025, not just in Europe but worldwide. Participation in "Great Place to Work" in Europe was suspended in the year under review because of the Europe-wide reorganization; we plan to rejoin the competition in 2019. However, we have received numerous other awards as an employer. In Germany for example, yet again we received accolades from FOCUS magazine and the employer evaluation platform kununu as a top company and in the "Best Employers in Germany" awards. Our Dutch company received a "Best Employer" distinction from the Effectory & Intermediair employer benchmarking organization in the Netherlands. Our Mexican company secured a place among the top 100 in the "Great Place to Work" competition in the category of companies with 500 to 5,000 employees, and was also awarded the special prize for "Companies with Social Responsibility".

The satisfaction of our customers with the work of our employees is given top priority at Volkswagen Financial Services AG. The results of external and internal customer satisfaction surveys are used as indicators of target achievement. A system of internal customer feedback, which reflects satisfaction with internal collaboration, has now been introduced in 11 countries (Argentina, Australia, Austria, Brazil, China, Germany, India, Italy, Mexico, Portugal and Turkey).

Volkswagen Financial Services AG already offers competitive, performance-related remuneration. Performance appraisals are conducted as part of the annual staff dialogs in almost all international subsidiaries.

During the reporting year, Volkswagen Financial Services AG, as the parent of the financial holding group, was subject to direct supervision by the European Central Bank (ECB) and implemented the Institutsvergütungsverordnung (IVV – German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems) in the version of December 16, 2013 on a Group-wide basis. Thereby, in addition to the general requirements of the IVV, the special regulatory requirements relating to remuneration systems applied. Furthermore, special governance functions, i.e. the Remuneration Committee and the Remuneration Officer, ensured that the adequacy of the remuneration systems was continuously monitored.

IMPLEMENTATION OF THE CORPORATE STRATEGY

ROUTE2025 is complemented by "The FS Way" and the associated leadership and management principles. The FS Way describes our corporate and leadership culture, i.e. the way in which the objectives of the five strategic areas for action – customers, employees, operational excellence, profitability and volume – can be met to enable us to live up to our strategic vision, "The Key to Mobility", as an automotive financial services provider. The FS Way is anchored in the five FS values, living commitment to our customers, responsibility, trust, courage and enthusiasm, combined with an attitude of continuously looking for improvement and proactively making the changes this requires. The FS values are repeatedly explored and discussed at events for managers, especially from the perspective of digital transformation.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

In 2017, 44 new vocational trainees/dual vocational training students started their professional careers at Volkswagen Financial Services AG in Braunschweig focusing on specialist professional IT qualifications in application development, professional banking qualifications and professional insurance and finance qualifications. The dual approach combines vocational training with study for a university degree. The Bachelor of Arts in Business Administration is offered in collaboration with WelfenAkademie e.V; the Bachelor of Science in Business Informatics is offered in collaboration with Leibniz University of Applied Sciences. In 2017, vocational trainees were recruited predominantly to train for specialist professional IT qualifications in application development, and dual vocational training students mainly to become business informatics specialists, with a view to designing vocational training on a forward-looking basis and incorporating the topic of digitalization. At EURO-Leasing GmbH, Sittensen, 2017 saw two vocational trainees begin their training for professional qualifications in fleet and international business and one young person start training for entry-level qualifications as a systems analyst.

As of December 31, 2017, a total of 137 vocational trainees and dual vocational training students were employed in Germany across all levels and professions. In Germany, a total of 42 vocational trainees were offered permanent positions in the reporting period.

Our companies in Brazil and Austria also still offer young people the opportunity to receive vocational training.

In 2017, four vocational trainees were honored by the Braunschweig Chamber of Industry and Commerce as the best graduates in their vocational training program. One dual vocational training student also graduated as top of his year on the Bachelor of Science course; on the Bachelor of Arts course, a further student received the accolade as top of her year on graduation.

In order to continue to attract qualified, committed employees for our Company, Volkswagen Financial Services AG has a rigorous concept for recruiting and retaining young university graduates. A well-established framework is provided by existing partnerships with Harz University of Applied Sciences, Ostfalia University of Applied Sciences, Braunschweig University of Technology, the Institute of Insurance Science at Leipzig University, the University of Applied Sciences and Arts in Hanover, Martin Luther University in Halle-Wittenberg and Alpen-Adria Universität Klagenfurt. Volkswagen Financial Services AG has been providing support to students at an individual level for six years now with "Deutschlandstipendium" scholarships. These activities aim to enable students to participate in an internship or work-study program that encourages them to join the Company directly or start the trainee program at Volkswagen Financial Services AG. The twelve-month trainee program for digital talents, which takes place both in Germany and abroad, is another element in the Company's strategy to ensure its future viability. The development program for young graduates is complemented by a three-year doctoral program. Each year since 2014, Volkswagen Financial Services AG has also recruited graduates from the renowned Wharton Business School at the University of Pennsylvania in the USA with a view to deploying them in international positions at senior management level. To complement these activities, many international subsidiaries maintain partnerships with local universities to provide a channel for recruiting experts in certain fields.

Another critical element determining the successful implementation of ROUTE2025 is to identify talent in the existing workforce and to nurture this talent with professional development in the Company. In Germany, over 250 talented individuals have already taken part in the programs for young talent, experts and management talent groups. The objectives are to provide individual personal and professional development and to enhance the participant's profile in the Company.

The international subsidiaries of Volkswagen Financial Services AG also offer a wide variety of programs for expert and management talent.

Under the banner "success needs competence", Volkswagen Financial Services AG established the FS Academy for the financial services job family in 2013. The FS Academy aims to provide systematic, professional training for employees based on structured profiles of skills and qualifications, which are discussed annually in a skills development appraisal. The skills development needs of the various departments are determined annually at the strategic skills development conferences. This is then used as the basis for a forward-looking expansion of skills development activities.

The close relationship with the job family academies in the Volkswagen Group broadens the selection of available skills development opportunities and leverages synergies across the different job families.

The FS Academy skills development portfolio relating to electric mobility and digitalization is being constantly expanded in response to the ever-increasing significance of environmentally friendly and digital mobility concepts in the Volkswagen Group. The FS Academy is thereby making a significant contribution to the digital transformation within the Group. Using a variety of approaches, managers and employees are being trained in digital and agile concepts, technologies and methodologies, and are being prepared going forward for the shifting requirements presented by day-to-day work in the digital age. Efforts are focused on delivering practical knowledge with a high degree of participant involvement and by means of digital learning formats, which can be used at any time in any location.

The use of skills development profiles means that action can be incorporated at an early stage to address the need for the new skills and corresponding training activities that are gaining importance as the process of digitalization advances. Digital transformation in the business is therefore being supported in a structured manner.

The FS Academy has also been focusing on expanding the development program geared toward building skills in classic and agile project management methods, with a view to establishing these as a strong point within the Company. The program also gives employees the opportunity to achieve product owner and scrum master certification, enabling them to assume overall leadership responsibility in agile projects.

Since 2014, FS Academy International has been available so that a uniform approach to skills development and qualifications can also be provided at an international level. Skills development profiles applicable internationally are in place in fleet, risk, IT and project management activities. In 2017, some of these profiles were already being used for the second year in a row in skills development appraisals. It is planned to add further countries and areas of activity in 2018.

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

In addition to the mandatory and modular "Erfolgreich durchstarten" (hit the ground running) program for new and newly appointed managers, there are advanced modules for enhancing the management know-how of experienced managers as well as the option of an individual review to assess the current level of a manager's skills. The program is complemented by the "Boxenstopp Führung" (management pit stop), which gives all managers the opportunity to get information on current issues. Here they can obtain support for specific management situations; internal and external facilitators help them analyze their own leadership and in this way enhance their skills.

Volkswagen Financial Services AG thus ensures consistent quality standards of management know-how as well as a shared understanding of the leadership culture and principles as set out by the FS Way for more than 350 employees with line management responsibilities.

The international subsidiaries also attach great importance to continuously enhancing management skills. The international "leadership license" standard, comprising training modules and a concluding assessment center, was introduced in all international subsidiaries in 2017. All future managers are now challenged and provided with professional development in the same way, whether as a group or on an individual basis.

Furthermore, professional development has become internationally established as an integral part of management. A few of the international subsidiaries carry out the management assessment center (MAC) themselves or offer it in collaboration with the Group brands in the country concerned. In an alternative option, managers can participate in cross-regional MACs offered once or twice a year.

INCREASE IN THE PROPORTION OF WOMEN

As of December 31, 2017, women accounted for 49,3% of the workforce of Volkswagen Financial Services AG in Germany, but this is not yet reflected in the percentage of women in management positions. We have set ourselves the target of permanently increasing the proportion of women in management positions to 30%. We are working to meet the targets we set ourselves for the first time in 2010 – and revised in 2016 under the Gesetz zur gleichberechtigten Teilhabe von Frauen und Männern an Führungspositionen (FührposGleichberG – German Act on the Equal Representation of Women and Men in Management Positions) – for the proportion of women in management, on the Board of Management and on the Supervisory Board by giving special consideration to female candidates in recruitment and succession planning, in combination with measures to improve work-life balance as well as the development of HR tools.

The targets for the first and second management levels for 2017 still related to Volkswagen Financial Services AG in the structure prior to the transfer of Volkswagen Bank GmbH, i.e. including the current Volkswagen Bank employees. Accordingly, the actual values for the proportion of women overall and at the first and second management levels as of December 31, 2017 were also determined on the same basis.

PROPORTION OF WOMEN – TARGET AND ACTUAL VALUES FOR GERMANY

	Target 2021	Target 2017	Actual 2017
Second management level	22.8	22.1	22.9
First management level	12.0	11.0	10.0
Board of Management	16.7	-	20.0
Supervisory Board	25.0	-	27.3

Therefore, the target for the first management level in Germany was not attained. The background to this is the targeted development of women to assume Managing Director positions in our companies outside Germany.

A cross-brand mentoring program is run each year throughout the Group with the aim of increasing the proportion of women in management. Eight mentees from Volkswagen Financial Services AG successfully completed the program for 2016/2017. The aim of the twelve-month program is for suitably qualified female employees to receive advice, support and coaching from managers in the Group.

DIVERSITY

Volkswagen Financial Services AG operates at an international level and aims to maintain a working environment characterized by openness, a sense of community, respect and appreciation. Volkswagen Financial Services AG sent a clear signal with its corporate initiative around the Diversity Charter, which was signed in 2007. Results from the “Great Place to Work” employer benchmark study confirm that the Company puts into practice the notion of diversity, which has been an integral component of the corporate culture at Volkswagen Financial Services AG since 2002.

HEALTH AND FAMILY

To promote the health of our employees, we continually enhance our holistic healthcare concept with its different areas of action in line with demand. We raise awareness of healthcare and healthy living among vocational trainees and in the individual departments, tailored to specific needs and target groups.

One of our most important tools in the area of occupational health and safety is the FS checkup, which is available on request to all employees free of charge and during working hours. This program is based on state-of-the-art medical diagnostic procedures: first, the checkup determines the employee’s current state of health and, second, it focuses on promoting and maintaining good health by giving personal advice.

We provide regular information and training to our management staff on health-related topics to enable them to recognize health problems among their employees at an early stage so that action for the benefit of the employees can be taken as soon as possible. In this way, we encourage health-oriented management behavior.

Since 2015, we have offered a social coach function, an impartial first port of call for our employees and managers at sites in Germany. The aim is to provide confidential, competent and relevant support to help employees deal with challenges at work or personal problems.

The promotion of healthcare and healthy living is also of key importance at Volkswagen Financial Services AG’s international subsidiaries. Our local companies offer a wide variety of health programs, organize sports events and/or integrate healthcare and healthy living into day-to-day office activities.

Volkswagen Financial Services AG promotes a family-friendly environment and offers numerous (and continuously expanding) initiatives and programs aimed at achieving the right work-life balance.

“Frech Daxe”, the inhouse childcare facility of Volkswagen Financial Services AG, which is operated by Impuls Soziales Management GmbH & Co. KG, is located very close to the Company’s offices. It has capacity for 180 children and offers flexible hours of care (even during holiday periods), making it unrivaled in Germany.

Report on Expected Developments

The global economy is expected to grow somewhat less strongly in 2018 than in the previous year. We assume that trends in global demand for vehicles will be mixed and that demand will increase at a slightly slower rate than in the reporting period.

The main opportunities and risks arising from the operating activities having been set out in the report on opportunities and risks, the section below now outlines the expected future developments. These developments give rise to opportunities and potential benefits that are included in our planning process on an ongoing basis so that we can exploit them as soon as possible.

Our assumptions are based on current estimates by third-party institutions. These include economic research institutes, banks, multinational organizations and consulting firms.

DEVELOPMENTS OF THE GLOBAL ECONOMY

In our forecasts, we assume that global economic growth will weaken slightly in 2018. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We therefore expect somewhat weaker momentum than in 2017 in both the advanced economies and the emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2019 to 2022.

Europe/Other Markets

In Western Europe, economic growth is expected to slow down in 2018 compared with the reporting period. Resolving structural problems poses a major challenge, as do the uncertain results and impacts of the Brexit negotiations between the EU and the United Kingdom.

For Central Europe, we estimate that growth rates in 2018 will be lower than those of the past fiscal year. In Eastern Europe, the economic situation should stabilize further, providing that the smoldering conflict between Russia and Ukraine does not worsen. Following the increase in the past fiscal year, Russia's economic output is likely to grow further.

Political uncertainty and social tensions resulting primarily from high unemployment levels will probably weigh on the South African economy in 2018 and are expected to keep growth down.

Germany

In Germany, gross domestic product (GDP) is likely to increase less strongly in 2018 than in the reporting period. However, the situation in the labor market is expected to remain stable and bolster consumer spending.

North America

We expect the economic situation in the USA to further improve in 2018. The US Federal Reserve is likely to implement additional interest rate hikes throughout the course of the year. At the same time, fiscal policy measures are intended to provide support. Growth in Canada is likely to weaken, while remaining nearly unchanged in Mexico.

South America

The economy in Brazil is very likely to stabilize further in 2018 and record somewhat higher growth than in the reporting period. Despite sustained high inflation, Argentina should achieve a similar increase in GDP to that recorded in the reporting period.

Asia-Pacific

In 2018, the Chinese economy is expected to continue growing at a relatively high level, but year-on-year this growth will lose momentum. For India, we anticipate an expansion rate at around the 2017 level. The economic situation in Japan is likely to deteriorate compared with the reporting period.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We believe that automotive financial services will be very important for vehicle sales worldwide in 2018. We expect demand to continue rising in emerging markets where market penetration has so far been low, such as China. Regions with already developed automotive financial services markets will see a continuation of the trend towards enabling mobility at the lowest possible total costs. Integrated end-to-end solutions, comprising mobility-related service modules such as insurance and innovative packages of services, will become increasingly important to this. Additionally, we expect demand to increase for new forms of mobility, such as carsharing, and for integrated mobility services including parking, refueling and charging. We anticipate that this trend will also continue in the period from 2019 to 2022.

In the mid-sized and heavy commercial vehicles category, we expect rising demand for financial services products in emerging markets. There in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In the mature markets, we foresee increased demand for telematics services and services aimed at reducing total operating costs in 2018. This trend is also expected to continue in the period 2019 to 2022.

TRENDS IN THE PASSENGER CAR MARKETS

We expect trends in the passenger car markets in the individual regions to be mixed in 2018. Overall, growth in global demand for new vehicles will probably be slower than in the reporting period.

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

We expect that the growth in demand for passenger cars worldwide will continue in the years 2019 to 2022.

Europe/Other Markets

For 2018, we anticipate that unit sales volumes in Western Europe will fall slightly short of those seen in the reporting period. The level recorded before the financial and debt crisis is unlikely to be achieved again in the medium term. The uncertain outcome of the exit negotiations between the EU and United Kingdom is likely to further exacerbate the continuing uncertainty among consumers precipitated by the financial and debt crisis, putting a damper on demand. In Italy and Spain, the recovery will probably continue in 2018 but at a considerably slower pace; in the French market, we expect growth to be only slightly positive. In the United Kingdom, we expect the market volume to fall moderately short of the previous year's high level.

Passenger car demand in 2018 is expected to significantly exceed the prior-year figures in markets in Central and Eastern Europe. In Russia, the volume of demand will probably rise somewhat more strongly after the considerable recovery over the past fiscal year. We also expect to see further growth in demand in the other markets in this region.

We are projecting that the volume of demand in the South African passenger car market in 2018 will be up slightly year-on-year.

Germany

Following the positive trend of recent years, we forecast that the market volume of the German passenger car market will remain on a level with the previous year in 2018.

North America

The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America as a whole and in the USA is likely to be slightly lower in 2018 than in the prior year. Demand will probably remain highest for models in the SUV and pickup segments. In Canada, the number of new registrations is projected to be slightly below the previous year's high level as well. In Mexico, we anticipate that demand will be unchanged year-on-year.

South America

Owing to their dependence on demand for raw materials, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. In addition, protectionist tendencies are adversely affecting the performance of the region's vehicle markets, especially in Brazil and Argentina, which have imposed restrictions on vehicle imports. Nevertheless, we expect demand in the South American markets as a whole to distinctly increase in 2018 compared with the previous year. In Brazil, South America's largest market, volume is likely to rise markedly again in 2018 after the strong increase in the past fiscal year. We anticipate that demand in the Argentinian market in 2018 will be perceptibly higher year-on-year.

Asia-Pacific

We believe that the passenger car markets in the Asia-Pacific region will continue their growth in 2018, albeit at a slower pace. In China, the increase in individual mobility requirements will push up demand, though the rate of growth is likely to be slightly slower than in the previous year. Strong demand is still forecast for attractively priced entry-level models in the SUV segment in particular. In India, we expect demand for passenger cars to moderately exceed the previous year's level. We anticipate that demand in the Japanese passenger car market will fall slightly in 2018.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2018. Overall, we expect a slight fall in demand in 2018, and a return to the growth trajectory for the years 2019 to 2022.

Due to the uncertainty caused by the United Kingdom's European Union membership referendum in June 2016, we estimate that demand for light commercial vehicles in Western Europe in 2018 will be slightly below the previous year's level. The United Kingdom and Italy are expected to record a decline. We anticipate that registrations in Germany will be around the previous year's level.

In the Central and Eastern European markets, registrations of light commercial vehicles in 2018 will probably be perceptibly higher than in the previous year. In Russia, too, we expect the market volume to rise compared with 2017.

In North and South America, the light vehicle market is reported as part of the passenger car market, which includes both passenger cars and light commercial vehicles.

The market volume in the Asia-Pacific region in 2018 will probably record a slight year-on-year decline. We are also expecting demand in the Chinese market to fall short of the prior-year level. For India, we are forecasting a considerably higher volume in 2018 than in the reporting period. In the Japanese market, the downward trend is likely to continue at a slower pace.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2018 are set to be slightly up on the level seen in 2017. We anticipate a slightly positive trend for the period from 2019 to 2022.

We assume that demand in Western Europe will taper off slightly year-on-year in 2018. In Germany, we expect the market to remain on a level with the previous year.

Central and Eastern European markets should record a moderate increase in demand. In Russia, we anticipate a further recovery in demand in 2018, though the growth rate seen in 2017 will not be repeated.

We believe that demand in the Brazilian market in 2018 will grow perceptibly from the low level of the previous year. This is due to the continuing economic recovery.

In the bus markets that are relevant for the Volkswagen Group, we expect to see a slight increase in demand in 2018. We anticipate that demand in Western Europe over the same period will be on a level with that seen in 2017. For Central and Eastern Europe, we are forecasting higher demand than in the previous year. In Brazil, new registrations will probably be slightly higher than the prior-year level.

For the period 2019 to 2022, we expect slight growth overall in the demand for buses in the markets that are relevant for the Volkswagen Group.

INTEREST RATE TRENDS

In 2017 and also into the beginning of the current fiscal year, central banks continued to support the global economy and the financial system with an expansionary monetary policy, although the central banks in the US and the UK have already introduced initial interest rate hikes. The level of interest rates still remains close to the historic low. In terms of the economic outlook, the clouds are lifting however, so much so that the central banks in the US and UK are likely to announce further gradual increases in interest rates. This will be reflected in a modest rise in interest denominated in GBP and USD.

However, the ECB will certainly maintain its policy of low interest rates throughout the whole of 2018. An initial rise in interest rates is not anticipated before 2019. Interest rates will therefore probably remain stable in the eurozone for the time being.

MOBILITY CONCEPTS

Social and political factors are increasingly having an impact on many people's individual mobility behavior. New challenges in connection with the design of an intelligent mobility mix comprising public transport combined with motorized and non-motorized personal transport are appearing, primarily in large metropolitan areas. Mobility is being redefined in many respects.

In collaboration with the automotive brands in the Volkswagen Group, Volkswagen Financial Services AG is working extensively on the development of new mobility services, as has been the case in the conventional automotive business for many years.

New mobility solutions will enhance the traditional idea of owning a vehicle. Based on leasing, long-term and short-term rentals, car and truck hire as well as car sharing, Volkswagen Financial Services AG – through its subsidiaries – can now cover an even greater proportion of the mobility needs of its customers.

The Company has taken a huge step towards becoming a mobility service provider with the expansion of vehicle-related mobility services. Volkswagen Financial Services AG already offers its customers an attractive portfolio of services covering the customer desire for convenience and flexibility. Efforts are focusing on the global expansion of innovative payment solutions for digital business models in the Volkswagen Group, the further expansion of cashless and mobile settlement of parking charges in North America and Europe and the further development of the electric vehicle charging and fuel card offers in Europe. In this context, Volkswagen Financial Services AG intends to continue to serve as a one-stop shop for its customers. In addition, the Europe-wide processing of toll business will be integrated into the services for business customers and other activities will focus on driving forward the further expansion of the fleet business.

Simple, convenient, transparent, safe, reliable, flexible – these are the key requirements that our business must satisfy in the future. Volkswagen Financial Services AG continues to closely monitor developments in the mobility market and is already working on new models to support alternative concepts of marketing and establish new mobility concepts that will safeguard and expand on its existing business model.

In this way, we will continue to make good on the essence of our brand promise in the future and remain "The Key to Mobility" over the long term.

NEW MARKETS/INTERNATIONALIZATION/NEW SEGMENTS

The financing, leasing, insurance and mobility services businesses are essential to attracting customers and to developing loyal, long-term customer relationships globally. Volkswagen Financial Services AG, as financial services provider and strategic partner for the Volkswagen Group brands, specifically reviews the implementation of these business areas in new markets through developing targeted entry concepts in order to lay the foundations for profitable growth in the business volume in these markets.

SUMMARY OF EXPECTED DEVELOPMENTS

Volkswagen Financial Services AG expects its growth in the next fiscal year to be linked to the growth in unit sales of Volkswagen Group vehicles. The Company aims to boost its business volume and expand its international orientation by expanding the product range in existing markets and developing new markets.

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

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

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

Forecast for Credit and Residual Value Risk

A stable risk position is anticipated for 2018. This steady position should be supported by a further stabilization in the economic environment and the continued recovery in European markets. In the Asia/Pacific region, we anticipate that the risk position will remain unchanged overall, while in Latin America we are assuming that the risk situation will be continue to be challenging. Certain markets (such as Brazil and Russia) are already being monitored; this will be continued in 2018 so that, if required, suitable measures can be implemented to reach our defined goals for the current year.

We expect the volume of contracts to continue to grow in fiscal year 2018. The main drivers behind this are the implemented growth program, continued economic recovery in the markets and further expansion in the fleet business. The current debate about the use of diesel vehicles being potentially prohibited in major cities in the future could affect the residual value portfolio in 2018.

Forecast for Liquidity Risk

The risk development is currently categorized as stable. The established sources of funding are currently available in all markets. To ensure that this situation is maintained in the long term, funding diversification is being extended in individual markets and existing sources of funding are being updated to make them sustainable.

OUTLOOK FOR 2018

Volkswagen Financial Services AG's Board of Management expects global economic growth to be somewhat slower in 2018 than in the previous year. The financial markets continue be the source of some risk, primarily because of the challenging level of indebtedness in many countries. In addition, growth prospects will be hurt by geopolitical tensions and conflicts. The emerging economies of Asia will probably record the highest rates of growth. We expect growth in the major industrialized nations to moderate slightly.

When the above factors and the market trends are considered, the following overall picture emerges: our earnings expectations assume a slight increase in funding costs, greater levels of cooperation with the individual Group brands, increased investment in digitalization for the future and continued uncertainty about macroeconomic conditions in the real economy and the impact of this uncertainty on factors such as risk costs, as well as the potential effects of geopolitical upheaval. Assuming that margins remain stable in the coming year, the operating profit in fiscal year 2018 is expected to be at the level achieved in fiscal year 2017.

We are projecting that both new and current contracts will remain stable. In addition, we assume that we will be able to keep our penetration rate at 2017 levels in a vehicle market generally expected to expand more slowly. We expect the business volume to increase slightly. The forecast earnings growth and stable capital adequacy are expected to lead to a steady return on equity in 2018 compared with the previous year. We expect the cost/income ratio in 2018 to be at the level of the previous year.

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

	Actual 2017		Forecast for 2018
Nonfinancial performance indicators			
Penetration (percent)	19.6	= 19.6	At prior-year level
Current contracts (thousands)	8,524	= 8,524	At prior-year level
New contracts (thousands)	3,487	= 3,487	At prior-year level
Financial performance indicators			
Volume of business (€ million)	50,233	> 50,233	Slight increase
Operating profit (€ million)	609	= 609	At prior-year level
Return on equity (percent)	8.4	= 8.4	At prior-year level
Cost/income ratio (percent)	73	= 73	At prior-year level

Braunschweig, February 12, 2018
The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Dr. Christian Dahlheim

Frank Fiedler

Christiane Hesse

This report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and of the financial and automotive markets, which we have made on the basis of the information available to us and which we currently consider to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of our business. The same applies in the event of material changes in exchange rates against the euro. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2017 Annual Report develop differently to our current expectations, or additional risks and opportunities or other factors emerge that affect the development of our business.

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31. 2016 restated[1]	Change in percent
Interest income from lending transactions		1,987	1,904	4.4
Income from leasing transactions and service contracts		9,961	9,478	5.1
Expenses from leasing transactions and service contracts		−6,940	−6,677	3.9
Depreciation of and impairment losses on lease assets and investment property		−2,095	−1,986	5.5
Net income from leasing transactions before provision for credit risks		926	815	13.6
Interest expense		−1,052	−1,057	−0.5
Income from insurance transactions		287	197	45.7
Expenses from insurance transactions		−169	−119	42.0
Net income from insurance business		118	78	51.3
Net income from lending, leasing and insurance transactions before provision for credit risks	22	1,979	1,741	13.7
Provision for credit risks from lending and leasing business	9, 23, 33	−491	−560	−12.3
Net income from lending, leasing and insurance transactions after provision for credit risks		1,488	1,181	26.0
Fee and commission income		287	278	3.2
Fee and commission expenses		−161	−157	2.5
Net fee and commission income	24	127	121	5.0
Net gain/loss on the measurement of derivative financial instruments and hedged items	10, 25	11	−48	X
Share of profits and losses of equity-accounted joint ventures		76	74	2.7
Net loss on marketable securities and miscellaneous financial assets	26	−42	−2	X
General and administrative expenses	27	−1,682	−1,640	2.6
Other operating income		972	1,192	−18.5
Other operating expenses		−308	−264	16.7
Net other operating income	28	664	928	−28.4
Profit before tax		**643**	**615**	**4.6**
Income tax expense	6, 29	−122	−242	−49.6
Profit from continuing operations, net of tax		**520**	**373**	**39.4**
Profit from discontinued operations, net of tax		384	768	−50.0
Profit after tax		**904**	**1,141**	**−20.8**
Profit after tax attributable to Volkswagen AG		904	1,141	−20.8

1 Previous year restated as explained in the disclosures on the leasing business in the United Kingdom and Irish markets, in the disclosures on the separately recognized derivatives in the United Kingdom market as well as on the discontinued operations in the section entitled “Restated Prior-Year Figures”.

Statement of Comprehensive Income

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2016
Profit after tax		**904**	**1,141**
Pension plan remeasurements recognized in other comprehensive income	46		
Pension plan remeasurements recognized in other comprehensive income, before tax		38	–112
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	6, 29	–11	31
Pension plan remeasurements recognized in other comprehensive income, net of tax		28	–81
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax		–1	1
Items that will not be reclassified to profit or loss		**27**	**–80**
Exchange differences on translating foreign operations	4		
Losses on currency translation recognized in other comprehensive income		–365	–54
Reclassified to profit or loss		246	–
Exchange differences on translating foreign operations, before tax		–119	–54
Deferred taxes relating to exchange differences on translating foreign operations		–	–
Exchange differences on translating foreign operations, net of tax		–119	–54
Cash flow hedges	10		
Fair value changes recognized in other comprehensive income		–4	18
Reclassified to profit or loss		0	7
Cash flow hedges, before tax		–4	25
Deferred taxes relating to cash flow hedges	6, 29	1	–7
Cash flow hedges, net of tax		–3	18
Available-for-sale financial assets			
Fair value changes recognized in other comprehensive income		–13	37
Reclassified to profit or loss		–34	–13
Available-for-sale financial assets, before tax		–47	23
Deferred taxes relating to available-for-sale financial assets	6, 29	13	–9
Available-for-sale financial assets, net of tax		–34	14
Share of other comprehensive income of equity-accounted investments that may be reclassified subsequently to profit or loss, net of tax		–24	6
Items that may be reclassified subsequently to profit or loss		**–181**	**–16**
Other comprehensive income, before tax		–157	–111
Deferred taxes relating to other comprehensive income		3	15
Other comprehensive income, net of tax		**–154**	**–96**
Total comprehensive income		**751**	**1,045**
Total comprehensive income attributable to Volkswagen AG		751	1,045

€ million	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2016
Classification of Total Comprehensive Income Attributable to Volkswagen AG		
Continuing operations	248	495
Discontinued operations	503	551

Balance Sheet

of the Volkswagen Financial Services AG Group

€ million	Note	Dec. 31, 2017	Dec. 31, 2016 restated[1]	Change in percent	Jan. 1, 2016 restated[2]
Assets					
Cash reserve	7, 31	40	1,478	−97.3	1,416
Loans to and receivables from banks	8	1,444	2,236	−35.4	2,940
Loans to and receivables from customers attributable to					
Retail financing		16,269	41,726	−61.0	38,786
Dealer financing		3,584	14,638	−75.5	13,967
Leasing business		18,809	34,344	−45.2	31,715
Other loans and receivables		11,143	9,957	11.9	8,435
Total loans to and receivables from customers	8, 32	49,804	100,664	−50.5	92,902
Derivative financial instruments	10, 34	555	1,297	−57.2	1,178
Marketable securities	11	257	2,993	−91.4	2,936
Equity-accounted joint ventures	35	631	633	−0.3	538
Miscellaneous financial assets	12, 35	373	288	29.5	206
Intangible assets	13, 36	59	150	−60.7	149
Property and equipment	14, 37	265	314	−15.6	317
Lease assets	16, 38	11,571	14,696	−21.3	12,982
Investment property	16, 38	10	14	−28.6	15
Deferred tax assets	6, 39	1,035	1,834	−43.6	1,703
Current tax assets	6	137	156	−12.2	320
Other assets	40	2,772	3,495	−20.7	3,780
Total		**68,953**	**130,248**	**−47.1**	**121,383**

€ million	Note	Dec. 31, 2017	Dec. 31, 2016 restated[1]	Change in percent	Jan. 1, 2016 restated[2]
Equity and liabilities					
Liabilities to banks	17, 42	10,982	17,034	−35.5	15,721
Liabilities to customers	17, 42	9,673	49,454	−80.4	43,764
Notes, commercial paper issued	43, 44	32,453	37,849	−14.3	39,913
Derivative financial instruments	10, 45	211	513	−58.9	381
Provisions for pensions and other post-employment benefits	18, 46	360	478	−24.7	357
Underwriting provisions and other provisions	19, 20, 47	888	1,212	−26.7	1,092
Deferred tax liabilities	6, 48	447	1,151	−61.2	1,072
Current tax liabilities	6	348	494	−29.6	329
Other liabilities	49	1,613	1,929	−16.4	1,599
Subordinated capital	44, 50	4,354	3,183	36.8	2,344
Equity	52	7,624	16,951	−55.0	14,811
Subscribed capital		441	441	X	441
Capital reserves		2,600	10,449	−75.1	9,224
Retained earnings		5,264	6,564	−19.8	5,634
Other reserves		−683	−503	35.8	−488
Equity attributable to noncontrolling interests		2	–	X	–
Total		**68,953**	**130,248**	**−47.1**	**121,383**

1 Previous year restated as explained in the disclosures on the leasing business in the United Kingdom and Irish markets and in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled “Restated Prior-Year Figures”.

2 January 1, 2016 corresponds to December 31, 2015 after adjustments, as explained in the disclosures on the leasing business in the United Kingdom and Irish markets and in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled “Restated Prior-Year Figures”.

Statement of Changes in Equity

of the Volkswagen Financial Services AG Group

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES Currency translation	Cash flow hedges	Available-for sale financial assets	Equity-accounted investments	Noncontrolling interests	Total equity
Balance as of Jan. 1, 2016	**441**	**9,224**	**5,634**	**−460**	**−7**	**21**	**−42**	**–**	**14,811**
Profit after tax	–	–	1,141	–	–	–	–	–	1,141
Other comprehensive income, net of tax	–	–	−81	−54	18	14	7	–	−96
Total comprehensive income	**–**	**–**	**1,060**	**−54**	**18**	**14**	**7**	**–**	**1,045**
Capital increases	–	1,225	–	–	–	–	–	–	1,225
Profit transfer to Volkswagen AG	–	–	−130	–	–	–	–	–	−130
Other changes	–	–	–	–	–	–	–	–	–
Balance as of Dec. 31, 2016	**441**	**10,449**	**6,564**	**−514**	**10**	**36**	**−35**	**–**	**16,951**
Balance as of Jan. 1, 2017	**441**	**10,449**	**6,564**	**−514**	**10**	**36**	**−35**	**–**	**16,951**
Profit after tax	–	–	904	–	–	–	–	0	904
Other comprehensive income, net of tax	–	–	28	−119	−3	−34	−25	0	−154
Total comprehensive income	**–**	**–**	**932**	**−119**	**−3**	**−34**	**−25**	**0**	**751**
Capital increases	–	1,000	–	–	–	–	–	–	1,000
Loss assumed by Volkswagen AG	–	–	478	–	–	–	–	–	478
Non-cash assets distributed due to the derecognition of companies classified as discontinued operations	–	−8,849	−2,710	–	–	–	–	–	−11,559
Other changes	–	–	0	1	–	–	–	2	3
Balance as of Dec. 31, 2017	**441**	**2,600**	**5,264**	**−633**	**7**	**2**	**−59**	**2**	**7,624**

See note (52) for further disclosures on equity.

Cash Flow Statement

of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2016
Profit after tax	**904**	**1,141**
Depreciation, amortization, impairment losses and reversals of impairment losses	3,176	3,152
Change in provisions	100	222
Change in other noncash items	1,577	1,607
Gain/loss on disposal of financial assets and items of property and equipment	–511	1
Net interest expense and dividend expense[1]	–1,640	–3,339
Other adjustments	–4	–3
Change in loans to and receivables from banks	1,332	740
Change in loans to and receivables from customers	–7,771	–9,817
Change in lease assets	–4,527	–4,700
Change in other assets related to operating activities	–254	257
Change in liabilities to banks	2,261	879
Change in liabilities to customers	–2,310	6,116
Change in notes, commercial paper issued	6,216	–1,255
Change in other liabilities related to operating activities	321	379
Interest received	2,687	4,692
Dividends received[1]	5	11
Interest paid	–1,052	–1,363
Income taxes paid	–246	–196
Cash flows from operating activities	**264**	**–1,478**
Proceeds from disposal of investment property	–	0
Acquisition of investment property	–	0
Proceeds from disposal of subsidiaries and joint ventures[2]	–4,323	0
Acquisition of subsidiaries and joint ventures	–109	–92
Proceeds from disposal of other assets	4	6
Acquisition of other assets	–81	–75
Change in investments in securities	166	–75
Cash flows from investing activities	**–4,343**	**–236**
Proceeds from changes in capital	1,000	1,225
Distribution/profit transfer to Volkswagen AG	–130	–420
Change in cash funds attributable to subordinated capital	1,774	969
Cash flows from financing activities	**2,644**	**1,774**
Cash and cash equivalents at end of prior period	**1,478**	**1,416**
Cash flows from operating activities	264	–1,478
Cash flows from investing activities	–4,343	–236
Cash flows from financing activities	2,644	1,774
Effect of exchange rate changes	–3	1
Cash and cash equivalents at end of period	**40**	**1,478**

1 Prior-year figures adjusted for profit and loss transfers.
2 The impact from the derecognition of the cash and cash equivalents and the net assets of the companies classified as discontinued operations can be determined from the balance sheet for the discontinued operations on the date of derecognition (September 1, 2017) shown in note (2).

See note (64) for disclosures on the cash flow statement.

Notes to the Consolidated Financial Statements

of the Volkswagen Financial Services AG Group for the Year Ended December 31, 2017

General Information

Volkswagen Financial Services Aktiengesellschaft (VW FS AG) has the legal structure of a stock corporation. It has its registered office at Gifhorner Strasse, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 3790).

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

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

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

Basis of Presentation

VW FS AG has prepared its consolidated financial statements for the year ended December 31, 2017 in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315e(1) of the Handelsgesetzbuch (HGB – German Commercial Code). All IFRSs issued by the International Accounting Standards Board (IASB) up to December 31, 2017 for which mandatory application was required in fiscal year 2017 in the EU have been taken into account in these consolidated financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the IFRS consolidated financial statements also include the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks associated with future development (risk report in accordance with section 315(1) of the HGB) can be found in the management report on pages 19 – 27. This includes the qualitative disclosures on the nature and scope of risk from financial instruments required under IFRS 7.

All the estimates and assumptions necessary as part of recognition and measurement in accordance with IFRS comply with the relevant standard, are continuously updated and are based on past experience and other factors, including expectations regarding future events that appear to be reasonable in the given circumstances. Where significant estimates have been necessary, the assumptions made by the Company are explained in detail in the disclosures on management's estimates and assumptions.

The Board of Management completed the preparation of these consolidated financial statements on February 12, 2018. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Significant Events

In 2016, Volkswagen Financial Services AG initiated a reorganization of its structures under company law. A key milestone in the project was reached on September 1, 2017 when Volkswagen Financial Services AG's subsidiary Volkswagen Bank GmbH was transferred to become a direct subsidiary of Volkswagen AG. The aim of the restructuring was to segregate the European lending and deposits business from the other financial services activities and to pool this business under Volkswagen Bank GmbH, structured as a direct subsidiary of Volkswagen AG. The intention of the restructuring is to increase transparency and clarity for supervisory authorities, optimize the use of equity and reduce complexity. A new company, Volkswagen Financial Services Digital Solutions GmbH, will develop and provide system-based services for its parent companies Volkswagen Bank GmbH and Volkswagen Financial Services AG. The other activities will remain in Volkswagen Financial Services AG, which will still be a direct subsidiary of Volkswagen AG.

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

Restated Prior-Year Figures

LEASING BUSINESS IN THE UNITED KINGDOM AND IRISH MARKETS

To standardize the presentation in the consolidated financial statements, some of the receivables reported as retail financing in the United Kingdom and Irish markets are now reported as receivables from leasing transactions and prior-year figures have therefore been restated accordingly.

In this regard, in the UK market, the portfolio-based valuation allowances relating to the risk of early termination previously included in the net carrying amount of loans/receivables from retail financing have been separately recognized as derivative financial instruments on the liabilities side.

The prior-year income statement has been restated as follows as a result of the changes arising from the leasing business in the United Kingdom and Irish markets.

€ million	Jan. 1 – Dec. 31, 2016 before restated figures	Restated leasing business	Jan. 1 – Dec. 31, 2016 after restated leasing business
Interest income from lending transactions	3,848	–685	3,162
income from leasing transactions	14,507	685	15,192
Net income from leasing transactions before provision for credit risks	1,260	685	1,946
Net income from lending, leasing and insurance transactions before provision for credit risks	3,824	–	3,824
Provision for credit risks from lending and leasing business	–672	–11	–682
Net income from lending, leasing and insurance transactions after provision for credit risks	3,152	–11	3,142
Net gain/loss on the measurement of derivative financial instruments and hedged items	–85	11	–75
Profit before tax	**1,650**	**–**	**1,650**
Income tax expense	–509	–	–509
Profit from continuing operations, net of tax	**1,141**	**–**	**1,141**
Profit from discontinued operations, net of tax	–	–	–
Profit after tax	**1,141**	**–**	**1,141**
Profit after tax attributable to Volkswagen AG	1,141	–	1,141

The balance sheet as of January 1, 2016 has been restated as follows as a result of the changes arising from the leasing business in the United Kingdom and Irish markets.

€ million	Jan. 1, 2016 before restated figures	Restated Leasing Business	Jan. 1, 2016 restated
Assets			
Loans to and receivables from customers attributable to			
retail financing	50,665	−11,880	38,786
leasing business	19,704	12,011	31,715
Total loans to and receivables from customers	92,771	132	92,902
Total	**121,251**	**132**	**121,383**

€ million	Jan. 1, 2016 before restated figures	Restated Leasing Business	Jan. 1, 2016 restated
Liabilities			
Derivative financial instruments	249	132	381
Total	**121,251**	**132**	**121,383**

The balance sheet as of December 31, 2016 has been restated as follows as a result of the changes arising from the leasing business in the United Kingdom and Irish markets.

€ million	Dec. 31, 2016 before restate figures	Restated Leasing Business	Dec. 31, 2016 restated
Assets			
Loans to and receivables from customers attributable to			
retail financing	53,973	−12,247	41,726
leasing business	21,997	12,347	34,344
Total loans to and receivables from customers	100,564	100	100,664
Total	**130,148**	**100**	**130,248**

€ million	Dec. 31, 2016 before restate figures	Restated Leasing Business	Dec. 31, 2016 restated
Equity and liabilities			
Derivative financial instruments	413	100	513
Total	**130,148**	**100**	**130,248**

DISCONTINUED OPERATIONS: EUROPEAN LENDING AND DEPOSITS BUSINESS

As a result of the reorganization of the legal entities on September 1, 2017, the profit or loss for the derecognized companies in connection with the discontinued European lending and deposits business for the period January 1 to August 31, 2017, together with the corresponding prior-year figures, had to be reclassified to profit/loss from discontinued operations in the IFRS income statement. The reclassification has resulted in differences between the income statement disclosures, which relate only to the discontinued operations, and the balance sheet disclosures, which include both discontinued and continuing operations. Please refer to the details in note (2) for further disclosures relating to the derecognized companies.

The figures in the prior-year income statement have been restated as follows with regard to the discontinued operations.

€ million	Jan. 1 – Dec. 31, 2016 after restated leasing business	Discontinued operations	Jan. 1 – Dec. 31. 2016 restated
Interest income from lending transactions	3,162	−1,258	1,904
Income from leasing transactions	15,192	−5,714	9,478
Expenses from leasing transactions	−13,246	4,584	−8,663
Net income from leasing transactions before provision for credit risks	1,946	−1,130	815
Interest expense	−1,363	306	−1,057
Income from insurance transactions	197	–	197
Expenses from insurance transactions	−118	−1	−119
Net income from insurance business	79	−1	78
Net income from lending, leasing and insurance transactions before provision for credit risks	3,824	−2,083	1,741
Provision for credit risks from lending and leasing business	−682	123	−560
Net income from lending, leasing and insurance transactions after provision for credit risks	3,142	−1,960	1,181
Fee and commission income	594	−316	278
Fee and commission expenses	−581	424	−157
Net fee and commission income	13	108	121
Net gain/loss on the measurement of derivative financial instruments and hedged items	−75	26	−48
Share of profits and losses of equity-accounted joint ventures	77	−3	74
Net gain/loss on marketable securities and miscellaneous financial assets	20	−22	−2
General and administrative expenses	−2,040	400	−1,640
Other operating income	1,026	166	1,192
Other operating expenses	−514	250	−264
Net other operating income/expenses	512	416	928
Profit/loss before tax	**1,650**	**−1,035**	**615**
Income tax expense	−509	266	−242
Profit/loss from continuing operations, net of tax	**1,141**	**−768**	**373**
Profit/loss from discontinued operations, net of tax	–	768	768
Profit after tax	**1,141**	**–**	**1,141**
Profit after tax attributable to Volkswagen AG	1,141	–	1,141

Effects of New and Revised IFRSs

VW FS AG has applied all financial reporting standards adopted by the EU and subject to mandatory application from fiscal year 2017.

Under IAS 7 (Statement of Cash Flows), additional disclosures have been required since January 1, 2017 in relation to cash and non-cash changes in financial liabilities arising from the financing activities reported in the cash flow statement.

Amendments to IAS 12 (Income Taxes) applicable since January 1, 2017 have clarified the recognition of deferred tax assets for unrealized losses related to assets measured at fair value.

As part of the annual improvements project for IFRSs (2014–2016 cycle), the International Accounting Standards Board (IASB) published amendments to IFRS 12 (Disclosure of Interests in Other Entities) to be applied from January 1, 2017 onward. These amendments clarified that the disclosures under IFRS 12 would generally also be required for subsidiaries, joint arrangements, associates and unconsolidated structured entities even if they were classified as held for sale, as held for distribution, or as discontinued operations.

The provisions described above and the other amended provisions do not materially affect the VW FS AG Group's financial position and financial performance.

New and Revised IFRSs Not Applied

VW FS AG has not applied in its 2017 consolidated financial statements the following financial reporting standards that have already been issued by the IASB but were not yet subject to mandatory application in fiscal year 2017.

Standard/interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IFRS 2	Classification and Measurement of Share-based Payment Transactions	June 20, 2016	January 1, 2018	No	None
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 12, 2016	January 1, 2018	Yes	None
IFRS 9	Financial Instruments	July 24, 2014	January 1, 2018	Yes	Detailed description following the table overview
IFRS 9	Amendments to IFRS 9 – Prepayment Features with Negative Compensation	October 12, 2017	January 1, 2019	No	None
IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 11, 2014	Postponed[2]	–	None
IFRS 15	Revenue from Contracts with Customers	May 28, 2014	January 1, 2018[3]	Yes	No material impact
IFRS 15	Clarifications to IFRS 15 – Revenue from Contracts with Customers	April 12, 2016	January 1, 2018	Yes	No material impact
IFRS 16	Leases	January 13, 2016	January 1, 2019	Yes	Detailed description following the table overview
IFRS 17	Insurance Contracts	May 18, 2017	January 1, 2021	No	Changes to presentation and measurement methods that, as a whole, do not have a material impact; extended disclosures in the notes
IAS 28	Investments in Associates: Long-term Interests in Associates and Joint Ventures	October 12, 2017	January 1, 2019	No	None
IAS 40	Transfers of Investment Property	December 8, 2016	January 1, 2018	No	No material impact
	Improvements to International Financial Reporting Standards 2016[4]	December 8, 2016	January 1, 2018[5]	Yes	No material impact
	Improvements to International Financial Reporting Standards 2017[6]	December 12, 2017	January 1, 2019	No	No material impact
IFRIC 22	Foreign Currency Transactions and Advance Consideration	December 8, 2016	January 1, 2018	No	Translation of foreign currency advances into the functional currency using the spot rate on the date of payment
IFRIC 23	Uncertainty over Income Tax Treatments	June 7, 2017	January 1, 2019	No	No material impact

1 Requirement for initial application from the VW FS AG perspective
2 On December 15, 2015, the IASB decided to postpone the date of initial application indefinitely.
3 Postponed until January 1, 2018 (IASB decision on September 11, 2015)
4 Minor changes to a number of IFRSs (IFRS 1 and IAS 28)
5 This concerns the initial application of the amendments to IFRS 1 and IAS 28
6 Minor changes to a number of IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23)

IFRS 9 FINANCIAL INSTRUMENTS

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

Financial assets are classified and measured on the basis of the business model operated by an entity and the structure of its cash flows. On initial recognition, a financial asset is classified as “at amortized cost”, “at fair value through other comprehensive income” or “at fair value through profit or loss”. As a result of the changes to the procedure for classifying and measuring financial assets, there is likely to be a negative conversion effect amounting to approximately €1 million, net of deferred taxes. This initial application effect must be recognized directly in retained earnings. The procedure for classifying and measuring financial liabilities under IFRS 9 is largely unchanged compared with the current accounting requirements under IAS 39.

The model for determining impairment and recognizing the provision for credit risks is changing from an incurred loss model to an expected loss model. The expected loss model breaks down the provision for credit risks into three stages. Financial assets that are newly acquired or issued and that are not deemed to be underperforming or non-performing on the date of initial recognition are allocated to stage 1. Stage 1 includes expected defaults that could arise from potential default events within the subsequent twelve months. In the case of financial assets in which the credit risk has increased significantly since acquisition or issue but in which the financial asset is not underperforming (stage 2) and non-performing financial assets (stage 3), the provision for credit risks is recognized on the basis of the remaining maturity of the financial asset (lifetime expected loss). In addition, interest income on financial assets classified as stage 3 is recognized on the basis of the net carrying amount, i.e. amortized cost less recognized impairment losses, in contrast to the rules applicable to stages 1 and 2. The change in the measurement methodology to an expected loss model described above will lead to an increase in the provision for credit risks on first-time application. This is expected to result in a negative conversion effect ranging between €100 million and €130 million, which will be recognized directly in equity under retained earnings. This increase in the provisions for credit risks results firstly from the requirement to recognize a provision for credit risks for performing financial assets that have not been affected by a significant increase in credit risk since initial recognition. Secondly, the increase arises from the requirement to recognize a provision for credit risks on the basis of the total expected time to maturity for financial assets that have been affected by a significant increase in credit risk since initial recognition.

As regards hedge accounting, IFRS 9 introduces wider designation options and the need to implement more complex recognition and measurement logic. IFRS 9 also removes the quantitative limits for the effectiveness test. The IFRS 9 hedge accounting requirements will be applied by the VW FS AG Group prospectively from the changeover date, such that no initial application effect will arise from the new rules.

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

IFRS 16 LEASES

IFRS 16 amends the requirements for the accounting treatment of leases. The core objective of IFRS 16 is to ensure that all leases are recognized in the balance sheet.

Accordingly, the previous requirement for lessees to classify a lease as either a finance lease or operating lease has been eliminated. Instead, for all leases, lessees will have to recognize both a right-of-use asset and a lease liability in their balance sheet in the future. There are only exemptions for short-term leases or those of low value. During the term of the lease, the right-of-use asset must be depreciated and the lease liability measured using the effective interest method, taking into account the lease payments. The new accounting treatment for lessees will therefore tend to increase assets and financial liabilities. It is also expected to reduce general and administrative expenses and increase interest expenses in the income statement. Moreover, there will be significantly more extensive disclosures in the notes.

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

Accounting Policies

1. Basic Principles

All entities included in the basis of consolidation have prepared their annual financial statements to the reporting date of December 31, 2017.

Financial reporting in the VW FS AG Group complies with IFRS 10 and is on the basis of standard Group-wide accounting policies.

Unless otherwise stated, amounts are shown in millions of euros (€ million). All amounts shown are rounded, so minor discrepancies may arise from addition of these amounts.

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

2. Basis of Consolidation

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

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

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

The composition of the VW FS AG Group is shown in the following table:

	2017	2016
VW FS AG and consolidated subsidiaries		
Germany	8	24
International	42	49
Subsidiaries recognized at cost		
Germany	7	7
International	35	36
Associates, equity-accounted joint ventures		
Germany	3	2
International	19	22
Associates, joint ventures and equity investments recognized at cost		
Germany	4	2
International	11	9
Total	**129**	**151**

The list of all shareholdings in accordance with section 313(2) of the HGB and in accordance with IFRS 12.10 and IFRS 12.21 can be accessed at www.vwfsag.com/listofholdings2017.

The following consolidated German subsidiaries with the legal form of a corporation have satisfied the criteria in section 264(3) of the HGB and have elected not to publish annual financial statements:

- Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig
- Volkswagen Versicherungsdienst GmbH, Braunschweig
- Volkswagen Insurance Brokers GmbH, Braunschweig
- MAN Financial Services GmbH, Munich
- EURO-Leasing GmbH, Sittensen

DISCONTINUED OPERATIONS: EUROPEAN LENDING AND DEPOSITS BUSINESS

As part of the restructuring under company law, the 31 companies making up the discontinued operations, i.e. the European lending and deposits business, were transferred from VW FS AG to Volkswagen AG. The effective date of VW FS AG's loss of control over these companies was September 1, 2017 when the transfer was entered in the commercial register. The asset transfer was effected without any payment of a purchase price by Volkswagen AG. Instead, the transfer of the companies was reported as a distribution of non-cash assets to owners within the meaning of IFRIC 17 from the equity of VW FS AG. The transfer was carried out on the basis of the net carrying amounts recognized in the VW FS AG Group, since the entities transferred continue to be controlled by the ultimate parent company, Volkswagen AG.

The following companies, as components of the discontinued operations, left the VW FS AG Group on the derecognition date of September 1, 2017.

Fully consolidated subsidiaries:

- Volkswagen Bank GmbH, Braunschweig
- Volkswagen Bank Polska S.A., Warsaw
- Volkswagen Financial Services (UK) Ltd., Milton Keynes
- Volkswagen Finans Sverige AB, Södertälje
- ŠkoFIN s.r.o., Prague

Consolidated structured entities:

- Driver Ten GmbH, in liquidation, Frankfurt am Main
- Driver Eleven GmbH, in liquidation, Frankfurt am Main
- Driver Twelve GmbH, Frankfurt am Main
- Driver thirteen UG (haftungsbeschränkt), Frankfurt am Main
- Private Driver 2011-3 GmbH, in liquidation, Frankfurt am Main
- Private Driver 2012-3 GmbH, in liquidation, Frankfurt am Main
- Private Driver 2013-1 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main
- Private Driver 2013-2 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main
- Private Driver 2014-1 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main
- Private Driver 2014-2 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main
- Private Driver 2014-3 UG (haftungsbeschränkt), in liquidation, Frankfurt am Main
- Private Driver 2014-4 UG (haftungsbeschränkt), Frankfurt am Main
- Private Driver 2015-1 UG (haftungsbeschränkt), Frankfurt am Main
- Driver France FCT, Pantin
- Driver Master S.A., Luxemburg
- Driver UK Master S.A., Luxemburg
- Driver UK Multi-Compartment S.A., Luxemburg
- Autofinance S.A., Luxemburg

Joint ventures and structured entities accounted for using the equity method:

- DFM N.V., Amersfoort
- DFM Master S.A., Luxembourg
- Volkswagen Finančné služby Slovensko s.r.o., Bratislava

Unconsolidated subsidiaries and joint ventures:

- Volkswagen Finančné služby Maklérska s.r.o., Bratislava
- Volkswagen Service Sverige AB, Södertälje
- Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw
- MAN Financial Services plc., Swindon
- Volkswagen Financial Services Ireland Ltd., Dublin

The following table shows the breakdown of the profit or loss in connection with the derecognition of the discontinued operations.

€ million	Jan. 1 – Aug. 31, 2017
Reclassification amounts for exchange differences on translating foreign operations	–242
Reclassification amounts for cash flow hedges	0
Reclassification amounts for available-for-sale financial assets	36
Costs to sell	–8
Net loss on disposal, before tax	**–214**
Income tax included in net loss on disposal	–6
Net loss on disposal, net of tax	**–220**

In the income statement for the VW FS AG Group, the profit or loss generated by the discontinued operations up to the date of the asset transfer is recognized separately from the income and expenses relating to the continuing operations and reported in a separate line as profit/loss from discontinued operations. Consolidation effects between companies allocated to the continuing operations and companies allocated to the discontinued operations are reported in the income statement of the discontinued operations. The income statement for the previous year has been restated accordingly.

The income statement for the discontinued operations is presented in the following table.

€ million	Jan. 1 – Aug. 31, 2017	Jan. 1 – Dec. 31, 2016
Interest income from lending transactions	946	1,258
Income from leasing transactions	4,073	5,714
Expenses from leasing transactions	−3,336	−4,584
Net income from leasing transactions before provision for credit risks	737	1,130
Interest expense	−167	−306
Income from insurance transactions	–	–
Expenses from insurance transactions	0	1
Net income from insurance business	0	1
Net income from lending, leasing and insurance transactions before provision for credit risks	1,516	2,083
Provision for credit risks from lending and leasing business	83	−123
Net income from lending, leasing and insurance transactions after provision for credit risks	1,599	1,960
Fee and commission income	173	316
Fee and commission expenses	−248	−424
Net fee and commission income	−75	−108
Net loss on the measurement of derivative financial instruments and hedged items	−27	−26
Share of profits and losses of equity-accounted joint ventures	6	3
Net gain on marketable securities and miscellaneous financial assets	10	22
General and administrative expenses	−313	−400
Other operating income	−44	−166
Other operating expenses	−377	−250
Net other operating expenses	−421	−416
Profit from discontinued operations, before tax	**779**	**1,035**
Income tax expense	−175	−266
Profit from discontinued operations, net of tax	**604**	**768**
Net loss on disposal of the discontinued operations before tax	−214	–
Income tax included in net loss on disposal	−6	–
Net loss on disposal of the discontinued operations	**−220**	**–**
Profit from discontinued operations	**384**	**768**
Profit from discontinued operations attributable to Volkswagen AG	384	768

The following table shows the changes in the consolidated balance sheet arising from the derecognized assets and liabilities of the discontinued operations as of the derecognition date (September 1, 2017):

€ million	01.09.2017
Assets	
Cash reserve	−4,406
Loans to and receivables from banks	619
Loans to and receivables from customers attributable to	
retail financing	−26,950
dealer financing	−11,715
leasing business	−17,593
other loans and receivables	120
Total loans to and receivables from customers	−56,137
Derivative financial instruments	−346
Marketable securities	−2,544
Equity-accounted joint ventures	−152
Miscellaneous financial assets	0
Intangible assets	−44
Property and equipment	−24
Lease assets	−4,884
Investment property	−1
Deferred tax assets	−805
Current tax assets	−38
Other assets	−890
Total	**−69,651**
Liabilities	
Liabilities to banks	−6,466
Liabilities to customers	−37,083
Notes, commercial paper issued	−10,736
Derivative financial instruments	−198
Provisions for pensions and other post-employment benefits	−53
Underwriting provisions and other provisions	−457
Deferred tax liabilities	−725
Current tax liabilities	−102
Other liabilities	−604
Subordinated capital	−1,667
Equity	−11,559
Total	**−69,651**

The cash flow figures presented in the consolidated cash flow statement for the Volkswagen Financial Services AG Group include the cash flows for the discontinued operations. The cash flows for the discontinued operations are shown separately in the following condensed cash flow statement:

€ million	Jan. 1 – Aug. 31, 2017	Jan. 1 – Dec. 31, 2016
Cash flows from operating activities	–1,023	113
Cash flows from investing activities	164	–18
Cash flows from financing activities	100	441

SUBSIDIARIES

In addition to the restructuring described under the heading “Discontinued operations: European lending and deposits business”, the following changes occurred at subsidiaries in the reporting period.

In July 2017, MAN Versicherungsvermittlung GmbH, Munich, was merged into Volkswagen Insurance Brokers GmbH, Braunschweig.

The company, which was acquired in April 2017 and subsequently renamed Mobility Trader GmbH, is a wholly owned subsidiary and has its registered office in Berlin. It develops and operates the HeyCar online platform, which is used to sell various brands of used cars. The subsidiary is not fully consolidated for reasons of materiality.

The insurance undertaking Volkswagen Reinsurance Company DAC, Dublin, was established in Ireland in March 2017. Volkswagen Finance Luxemburg II S.A. was established in May 2017, likewise as a wholly owned subsidiary. In August, this company acquired 100% of the shares in ContoWorks GmbH, which provides digital payment services. All three companies are included in the consolidation at cost for reasons of materiality.

The changes described above did not have a material impact on the financial position and financial performance of the VW FS AG Group.

JOINT VENTURES

From a Group perspective, the following three entities among the equity-accounted joint ventures require separate presentation because they were deemed material at the reporting date on the basis of the size of the entity concerned. These three joint ventures are strategically important to the VW FS AG Group. They operate the financial services business in the respective countries and thus help to promote vehicle sales in the Volkswagen Group.

Volkswagen Pon Financial Services B.V.

The Volkswagen Pon Financial Services B.V. Group, whose registered office is situated in Amersfoort in the Netherlands, is a financial services provider offering leasing products for Volkswagen Group vehicles to business and private customers in the Netherlands. Volkswagen Financial Services AG and its partner in this joint venture, Pon Holdings B.V., have entered into an agreement for a long-term strategic partnership.

Volkswagen D’Ieteren Finance S.A.

Volkswagen D’Ieteren Finance S.A. and its subsidiary D’Ieteren Lease S.A., whose registered offices are situated in Brussels, Belgium, are financial services providers offering financing and leasing products for Volkswagen Group vehicles to business and private customers in Belgium. The Group and joint venture partner D’Ieteren S.A. have a long-term strategic partnership agreement.

Volkswagen Møller Bilfinans A.S.

Volkswagen Møller Bilfinans A.S., whose registered office is situated in Oslo, Norway, is a financial services provider offering financing and leasing products for Volkswagen Group vehicles to business and private customers, predominantly in Norway. The Group and joint venture partner, Møllergruppen A.S., have entered into a long-term strategic partnership agreement.

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

€ million	VOLKSWAGEN PON FINANCIAL SERVICES B.V. (NETHERLANDS) 2017	2016[1]	VOLKSWAGEN D'IETEREN FINANCE S.A. (BELGIUM) 2017	2016	VOLKSWAGEN MØLLER BILFINANS A.S. (NORWAY) 2017	2016
Shareholding (percent)	60 %	60 %	50 %	50 %	51 %	51 %
Loans to and receivables from banks	3	2	0	0	1	1
Loans to and receivables from customers	198	1,747	1,348	1,150	1,809	1,581
Lease assets	1,204	1,108	498	438	–	–
Other assets	173	236	44	49	23	17
Total	**1,578**	**3,093**	**1,890**	**1,638**	**1,833**	**1,599**
of which: noncurrent assets	1,185	1,469	1,172	982	1,585	1,319
of which: current assets	393	1,624	718	656	248	279
of which: cash	3	2	0	0	1	1
Liabilities to banks	0	737	1,651	1,412	1,488	1,299
Liabilities to customers	735	1,156	88	89	51	34
Notes, commercial paper issued	454	556	–	–	–	–
Other liabilities	239	351	15	11	52	47
Equity	150	292	135	126	241	218
Total	**1,578**	**3,093**	**1,890**	**1,638**	**1,833**	**1,599**
of which: noncurrent liabilities	941	1,292	634	649	906	519
of which: current liabilities	487	1,509	1,120	863	685	861
of which: noncurrent financial liabilities	941	1,287	625	643	831	457
of which: current financial liabilities	450	1,362	1,026	769	657	842
Revenue	677	635	369	344	86	80
of which: interest income	48	23	26	24	84	70
Expenses	670	624	352	327	55	43
of which: interest expense	13	3	8	8	22	19
of which: depreciation and amortization	270	251	91	88	0	1
Profit from continuing operations, before tax	**8**	**12**	**17**	**17**	**30**	**37**
Income tax expense or income	2	3	6	5	5	9
Profit from continuing operations, net of tax	**6**	**9**	**11**	**11**	**26**	**28**
Profit from discontinued operations, net of tax	16	32	–	–	–	–
Other comprehensive income, net of tax	0	2	–2	–	–	–
Total comprehensive income	**23**	**43**	**9**	**11**	**26**	**28**
Dividends received	7	–	–	–	–	–

1 Previous year restated as explained in the disclosures relating to the discontinued operations in the section entitled "Restated Prior-Year Figures".

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

€ million	VOLKSWAGEN PON FINANCIAL SERVICES B.V. (NETHERLANDS)	VOLKSWAGEN D'IETEREN FINANCE S.A. (BELGIUM)	VOLKSWAGEN MØLLER BILFINANS A.S. (NORWAY)
2016			
Equity of the joint venture as of Jan. 1, 2016	249	115	180
Profit/loss	41	11	28
Other comprehensive income	2	–	–
Change in share capital	–	–	–
Exchange differences on translating foreign operations	–	–	11
Dividends	–	–	–
Equity of the joint venture as of Dec. 31, 2016	**292**	**126**	**218**
Share of equity	175	63	111
Goodwill	61	–	–
Carrying amount of the share of equity as of Dec. 31, 2016	**236**	**63**	**111**
2017			
Equity of the joint venture as of Jan. 1, 2017	292	126	218
Profit/loss	22	11	26
Other comprehensive income	0	–2	–
Change in share capital	–	–	16
Change due to demerger of companies	–153	–	–
Exchange differences on translating foreign operations	–	–	–19
Dividends	12	–	–
Equity of the joint venture as of Dec. 31, 2017	**150**	**135**	**241**
Share of equity	90	68	123
Goodwill	41	–	–
Carrying amount of the share of equity as of Dec. 31, 2017	**131**	**68**	**123**

Summarized financial information for the individually immaterial joint ventures on the basis of the Volkswagen Group’s proportionate interest:

€ million	2017	2016[1]
Carrying amount of the share of equity as of Dec. 31	**310**	**222**
Profit from continuing operations, net of tax	44	31
Profit from discontinued operations, net of tax	6	3
Other comprehensive income, net of tax	0	1
Total comprehensive income	**50**	**35**

1 Previous year restated as explained in the disclosures relating to the discontinued operations in the section entitled “Restated Prior-Year Figures”.

As part of the reorganization of the legal entities, Volkswagen Financial Services AG sold 51% of the shares in its subsidiary Volkswagen Financial Services Digital Solutions GmbH to Volkswagen Bank GmbH. As a result of this transaction, Volkswagen Financial Services AG lost control of the company as of September 1, 2017, and for this reason the remaining 49% of the shares are accounted for using the equity method as from this date. The sale of the shares led to income of €64 million. The fair value measurement of the remaining shares resulted in income of €62 million. Both items are reported under other operating income. Volkswagen Financial Services Digital Solutions GmbH provides IT, customer and processing services as well as document management. The 2017 financial information for Volkswagen Financial Services Digital Solutions GmbH is included in the data for the individually immaterial joint ventures.

51% of the shares in LogPay Transport Services GmbH and its two subsidiaries in Italy and Spain were acquired in June 2017. The companies have activities in the toll and refueling segment, thus complementing VW FS AG Group's existing mobility business offering. The companies are accounted for as joint ventures at cost for reasons of materiality.

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

Cash attributable to joint ventures amounting to €229 million (previous year: €173 million) was pledged as collateral in connection with ABS transactions and was therefore not available to the VW FS AG Group.

Financial guarantees to joint ventures amounted to €82 million in the reporting period. There were no financial guarantees to joint ventures in the previous year.

3. Consolidation Methods

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

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

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

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

The acquisition method described above is not applied when subsidiaries are newly established; no goodwill or negative goodwill can arise when newly established subsidiaries are included in the consolidation.

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

Any resulting intercompany profits or losses are eliminated. Consolidation transactions recognized in profit or loss are subject to the recognition of deferred taxes.

Investments in subsidiaries that are not consolidated because they are of minor significance are reported, together with other equity investments, under miscellaneous financial assets.

4. Currency Translation

Transactions in foreign currencies are translated in the single-entity financial statements of VW FS AG and its consolidated subsidiaries at the rates prevailing at the transaction date. Foreign currency monetary items are reported in the balance sheet using the middle rate at the closing date and the resulting gains or losses are recognized in profit or loss. The foreign companies which form part of the VW FS AG Group are independent subunits whose financial statements are translated using the functional currency principle. Under this principle, assets and liabilities, but not equity, are translated at the closing rate. With the exception of income and expense items recognized in other comprehensive income, equity is translated at historical rates. Until the disposal of the subsidiary concerned, the resulting exchange differences on translating foreign operations are recognized in other comprehensive income and are presented as a separate item in equity.

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

We translate the income statement items into euros using weighted average rates.

The following table shows the rates applied in currency translation:

		BALANCE SHEET, MIDDLE SPOT RATE ON DEC. 31		INCOME STATEMENT, AVERAGE RATE	
	€1 =	2017	2016	2017	2016
Australia	AUD	1.53285	1.46150	1.47300	1.48880
Brazil	BRL	3.97065	3.43720	3.60471	3.86217
Denmark	DKK	7.44510	7.43500	7.43871	7.44537
United Kingdom	GBP	0.88730	0.85850	0.87626	0.81897
India	INR	76.56700	71.65500	73.50146	74.37058
Japan	JPY	134.87000	123.50000	126.66763	120.31663
Mexico	MXN	23.61420	21.84800	21.33175	20.66535
Poland	PLN	4.17490	4.41530	4.25727	4.36416
Republic of Korea	KRW	1,278.22000	1,269.11000	1,275.94974	1,284.79543
Russia	RUB	69.33520	64.67550	65.88875	74.23443
Sweden	SEK	9.83140	9.56720	9.63700	9.46712
Czech Republic	CZK	25.57900	27.02400	26.32920	27.03433
People's Republic of China	CNY	7.80085	7.33320	7.62688	7.35067

5. Recognition of Revenue and Expenses

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

Interest income is recognized in the income statement using the effective interest method. Income from financing and leasing transactions, together with expenses for the funding of this business, is included in net income from lending, leasing and insurance transactions. Leasing revenue from operating leases is recognized on a straight-line basis over the lease term and includes both the interest portion and the repayment of the principal.

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

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

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

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

The main components of net other operating income/expenses are income from cost allocations to other entities in the Volkswagen Group and income from the reversal of provisions.

6. Income Taxes

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

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

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

Deferred tax assets and liabilities with the same maturities and relating to the same tax authorities are netted.

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

7. Cash Reserve

The cash reserve is carried at the nominal amount.

8. Loans and receivables

Loans to and receivables from banks, and loans to and receivables from customers, originated by the VW FS AG Group are generally recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates. For reasons of materiality, current loans and receivables (due within one year) are not discounted and no unwinding of discount is therefore recognized. Some of the loans to and receivables from customers are included in portfolio hedges. Loans to and receivables from customers assigned to portfolio hedges are measured at hedged fair value.

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

9. Provision for Credit Risks

The VW FS AG Group takes full account of the default risk arising in connection with loans and receivables by recognizing specific and portfolio-based valuation allowances in accordance with IAS 39. These allowances are posted to valuation allowance accounts.

In the case of credit risk present in significant individual loans to or receivables from customers or banks (e.g. dealer financing loans/receivables and fleet customer business loans/receivables), specific valuation allowances are recognized in accordance with Group-wide standards in the amount of losses already incurred.

Potential impairment is assumed in a number of situations, such as delayed payment over a certain period, the initiation of enforcement measures, the threat of insolvency or overindebtedness, application for or the initiation of insolvency proceedings, or the failure of restructuring measures.

Insignificant loans/receivables and significant individual loans/receivables with no indication of impairment are grouped together into homogeneous portfolios using comparable credit risk features and broken down by risk category. As long as no definite information is available as to which loans or receivables are in default, average historical default probabilities for the portfolio concerned are used to calculate the amount of the valuation allowances. Regular backtesting is carried out to ensure that the valuation allowances are appropriate.

Loans and receivables are reported in the balance sheet at the net carrying amount. Disclosures relating to the provision for credit risks are presented separately in note (33).

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

10. Derivative Financial Instruments

Derivative financial instruments comprise derivatives in effective hedges and derivatives not designated as hedging instruments. All derivatives are measured at fair value and are presented separately in notes (34) and (45).

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

Derivatives are used as hedging instruments in fair value hedges or cash flow hedges. Hedge accounting in accordance with IAS 39 is only applied in the case of highly effective hedges.

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

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

In the case of derivatives that are designated as hedges of future cash flows and that satisfy the relevant criteria, the effective portion of changes in the fair value of the derivative is recognized in the cash flow hedge reserve via other comprehensive income. Any effect on profit or loss arises solely from the ineffective portion of the change in fair value. The measurement of the hedged item remains unchanged.

Changes in the fair value of derivatives that do not satisfy the hedge accounting criteria in IAS 39 are recognized in profit or loss under net gain/loss on the measurement of derivative financial instruments and hedged items.

The VW FS AG Group documents all relationships between hedging instruments and hedged items. Hedge effectiveness is kept under constant review. In the VW FS AG Group, hedging transactions are used solely as part of asset/liability management activities.

With the exception of derivatives not designated as hedging instruments, no financial instruments are classified as financial assets or financial liabilities at fair value through profit or loss.

11. Marketable Securities

The "Marketable securities" balance sheet item largely comprises investments of resources in the form of fixed-income securities from public- and private-sector issuers as well as equities within the framework specified by the investment policy issued by VW Versicherung AG. In the previous year, this balance sheet item also included fixed-income bonds from public-sector issuers held for the purposes of managing liquidity risk and purchased bonds issued by a special purpose entity of another entity in the Volkswagen Group (see note 68). Marketable securities are categorized as available-for-sale financial assets. Changes from remeasurement are recognized in other comprehensive income. Permanent impairment losses are recognized in profit or loss.

Available-for-sale financial assets are subject to the recognition of impairment losses if there is objective evidence of permanent impairment. In the case of equity instruments, indicators of impairment include a significant (more than 20%) or long-term (more than 10% of the average market price over one year) fall in fair value below cost. If such an asset is found to be impaired, the cumulative loss is posted to other reserves and recognized in profit or loss. Reversals of impairment losses on equity instruments are reported in other comprehensive income.

In the case of debt instruments, impairment losses are recognized in the event of a forecast decline in future cash flows from the financial asset. On the other hand, a rise in the risk-free interest rate or an increase in credit risk premiums does not, by itself, generally represent objective evidence of impairment. Reversals of impairment losses on debt instruments are recognized in profit or loss.

In the previous year, fixed-income bonds and bonds acquired from other entities in the Volkswagen Group amounting to a total of €2,053 million had been pledged as collateral for the VW FS AG Group's own liabilities. Most of these securities had been deposited in the previous year at Deutsche Bundesbank and had been furnished as collateral in connection with open market operations.

12. Miscellaneous Financial Assets

Investments in subsidiaries that are not consolidated and other equity investments are reported as miscellaneous financial assets. The equity investments are measured at cost because there is no active market for these entities and fair values could not be reliably determined without disproportionate time, effort and expense. Investments in unconsolidated subsidiaries are recognized at cost taking into account any necessary impairment losses. Impairment losses are recognized in profit or loss if there are country-specific indications of significant or permanent impairment (e.g. imminent payment difficulties or economic crises). Subsidiaries not consolidated for reasons of materiality do not fall within the scope of IAS 39 and are therefore not included in the disclosures required by IFRS 7.

13. Intangible Assets

Purchased intangible assets with finite useful lives (largely software) are recognized at cost and amortized on a straight-line basis over a useful life of three to five years. Subject to the conditions specified in IAS 38, internally developed software and all the direct and indirect costs that are directly attributable to the development process are capitalized. When assessing whether the development costs associated with internally generated software are to be capitalized or not, we take into account not only the probability of a future inflow of economic benefits but also the extent to which the costs can be reliably determined. Research costs are not capitalized. Amortization is on a straight-line basis over the useful life of three to five years and is reported under general and administrative expenses.

At every reporting date, intangible assets with finite useful lives are tested to establish whether there are any indications of impairment. An appropriate impairment loss is recognized if a comparison shows that the recoverable amount for the asset is lower than its carrying amount.

Intangible assets with indefinite useful lives are not amortized. An annual review is carried out to establish whether an asset has an indefinite useful life. In accordance with IAS 36, these assets are tested for impairment by comparing the carrying amount and recoverable amount at least once a year and additionally if relevant events or changes in circumstances should occur. If required, an impairment loss is recognized to reduce the carrying amount to a lower recoverable amount (see note 15).

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

The recoverable amount of goodwill is derived from the value in use for the relevant cash-generating unit, which is determined using the discounted cash flow method. The basis is the latest planning data prepared by management for a planning period of five years, with growth in subsequent years estimated using a flat rate percentage. This planning is based on expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and on assumptions derived from these trends about financial services, taking into account market penetration, risk costs and margins. Planning assumptions are adjusted in line with the latest available information. The interest rate used is based on the long-term market interest rate relevant to each cash-generating unit (regions or markets). The calculations use a standard Group cost of equity of 7.5% (previous year: 7.5%). If necessary, the cost of equity rate is also adjusted using discount factors specific to the country and business concerned. The calculation of cash flows is based on the forecast growth rates for the relevant markets. Cash flows after the end of the planning period are generally estimated using a growth rate of 1% p.a. (previous year: 1% p.a.).

14. Property and Equipment

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

Depreciation is based mainly on the following useful lives:

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

An impairment loss is recognized in accordance with IAS 36 if the recoverable amount of the asset concerned has fallen below its carrying amount (see note 15).

The depreciation expense and impairment losses are reported within general and administrative expenses. Income from the reversal of impairment losses is recognized in net other operating income/expenses.

15. Impairment of Non-Financial Assets

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

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

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

16. Leasing Business

GROUP AS LESSOR

The VW FS AG Group operates both finance lease business and operating lease business. The leases are mainly vehicle leases, but to a lesser extent also involve land, buildings and dealer equipment.

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

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

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

GROUP AS LESSEE

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

In the case of finance leases, the leased assets are recognized at the lower of cost or present value of minimum lease payments and depreciated on a straight-line basis over the shorter of the asset’s useful life or lease term. The payment obligations in respect of the future lease installments are discounted and recognized as a liability.

BUYBACK TRANSACTIONS

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

17. Liabilities

Liabilities to banks and customers, notes and commercial paper issued, and subordinated capital liabilities are recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates. For reasons of materiality, current liabilities (due within one year) are not discounted and no unwinding of discount is therefore recognized.

18. Provisions for Pensions and Other Post-Employment Benefits

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

The VW FS AG Group provides occupational pensions in the form of 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 statutory or contractual requirements, or on a voluntary basis. Once the contributions have been paid, the VW FS AG Group has no further obligations. In 2017, the total contributions made by the VW FS AG Group came to €43 million (previous year: €45 million). Contributions to the compulsory state pension system in Germany amounted to €36 million (previous year: €37 million).

Pension schemes in the VW FS AG Group are predominantly defined benefit plans in which there is a distinction between pensions funded by provisions (without plan assets) and externally funded plans (with plan assets). The pension provisions for defined benefit commitments are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19, under which the future obligations are measured on the basis of the proportionate benefit entitlements earned as of the reporting date. The measurement of pension provisions takes into account actuarial assumptions as to discount rates, salary and pension trends, and employee turnover rates, which are determined for each Group company depending on the economic environment. Actuarial gains or losses arise from differences between actual trends and prior-year assumptions as well as from changes in assumptions. These gains and losses are recognized in the period in which they arise in other comprehensive income (taking into account deferred taxes) and have no impact on profit or loss. Detailed disclosures on provisions for pensions and other post-employment benefits are set out in note (46).

19. Insurance Business Provisions

Inward reinsurance and direct insurance operations are accounted for in the period in which the reinsurance or insurance arises without any time delay.

Insurance contracts are accounted for in accordance with IFRS 4 and, to the extent permitted by local accounting regulations, also in accordance with sections 341ff. of the HGB and the Verordnung über die Rechnungslegung von Versicherungsunternehmen (RechVersV – German Accounting Regulation for Insurance Companies).

Unearned premiums for direct insurance business are generally determined on the basis of each individual contract using the 1/act method.

Provisions for claims outstanding in direct insurance operations are normally determined and measured on the basis of each claim in accordance with the estimated requirement. The chain ladder method or modified chain ladder method is generally used to determine the provision for incurred but not reported (IBNR) losses. The partial loss provision for claims settlement expenses is calculated in accordance with the requirements set out in the coordinated regulations issued by the German federal states on February 2, 1973.

The provision for profit-related and not profit-related premium refunds includes solely obligations in connection with no claims premium refunds and is estimated on the basis of contract-specific claims experience.

The other underwriting provisions include the cancellation provision for direct insurance business, which is based on historical cancellation rates.

No equalization provision is recognized because this is prohibited under IFRS 4.

The reinsurers' share of provisions is calculated in accordance with the contractual agreements with the retrocessionaires and reported under other assets.

Provisions for claims outstanding in inward reinsurance business are generally recognized on the basis of the information provided by the cedants.

Actuarial methods and systems that guarantee ongoing monitoring and control of all key insurance risks are used to ensure that the level of underwriting provisions is adequate. One of the main features of the insurance business is underwriting risk, which comprises in particular premium/loss risk, reserve risk, cancellation risk and catastrophe risk. We counter these risks by constantly monitoring the bases of computations, making appropriate additions to provisions and applying a restrictive underwriting policy.

20. Other provisions

Under IAS 37, provisions are recognized if a present legal or constructive obligation to third parties has arisen as a result of a past event, it is probable that settlement in the future will result in an outflow of resources and the amount of the obligation can be estimated reliably. If an outflow of resources is neither probable nor improbable, the amount concerned is deemed to be a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note (65).

Provisions for litigation and legal risks are recognized and measured using assumptions about the probability of an unfavorable outcome and the amount of possible utilization.

The reversal of other provisions is recognized as other operating income whereas the expense from the recognition of new provisions is allocated to the relevant expense items.

Provisions that are not related to an outflow of resources likely to take place in the subsequent year are recognized at their settlement amount discounted to the reporting date using market discount rates. An average discount rate of 0.08% (previous year: 0.04%) has been used for the eurozone. The settlement amount also includes expected cost increases.

Any rights of recourse are not offset against provisions.

21. Estimates and Assumptions by Management

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

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

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

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

RECOVERABLE AMOUNT OF LEASE ASSETS

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

FINANCIAL INSTRUMENTS

The procedure for determining the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. As far as possible, these estimates take into account the latest market data as well as rating classes and scoring information based on past experience. Further details on specific and portfolio-based valuation allowances can be found in the disclosures on the provision for credit risks (note 9).

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

COSTS UNDER SERVICE CONTRACTS

Estimated costs arising from contracts for servicing and wear-and-tear repairs, which are included in other liabilities, are measured using past experience of the actual use of such service contracts. The measurement parameters for costs arising under service contracts are regularly reviewed.

PROVISIONS

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

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

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

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

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

DEFERRED TAX ASSETS AND UNCERTAIN INCOME TAX ITEMS

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

Income Statement Disclosures

22. Net Income from Lending, Leasing and Insurance Transactions before Provision for Credit Risks

The breakdown of net income from lending, leasing and insurance transactions before provision for credit risks is as follows:

€ million	2017	2016 restated[1]
Interest income from lending and money market transactions	1,987	1,904
Income from leasing transactions and service contracts	9,961	9,478
Expenses from leasing transactions and service contracts	−6,940	−6,677
Depreciation of and impairment losses on lease assets and investment property	−2,095	−1,986
Interest expense	−1,052	−1,057
Total	**1,861**	**1,663**

1 Previous year restated as explained in the disclosures on the leasing business in the United Kingdom and Irish markets as well as on the discontinued operations in the section entitled “Restated Prior-Year Figures”.

Interest income from lending and money market transactions and the income from leasing transactions and service contracts include interest income on impaired loans and receivables amounting to a total of €24 million (restated previous year: €19 million).

Income from leasing transactions and service contracts includes rental income on investment property amounting to € million (restated previous year: € million). In both the reporting year and the restated previous year, income from leasing transactions and service contracts only included negligible income from contingent payments under finance leases and did not include any income at all from contingent payments under operating leases.

In connection with assets leased in as part of buyback transactions, payments of €397 million (restated previous year: €368 million) were recognized as an expense in the reporting period.

The impairment losses recognized as a result of the impairment test on lease assets amounted to €211 million (restated previous year: €131 million) and are included in the depreciation of and impairment losses on lease assets. Impairment losses are based on continuously updated internal and external information, which is then fed into the forecasts of residual values for vehicles.

The impairment losses recognized as a result of the impairment test on investment property amounted to €2 million and are included in the depreciation of and impairment losses on investment property.

Income from reversals of impairment losses on lease assets applied in prior years amounted to €20 million (restated previous year: € million) and is included in income from leasing business.

The interest income included here that relates to financial instruments not allocated to the category of financial assets or financial liabilities measured at fair value through profit or loss amounted to €1,986 million (restated previous year: €1,922 million).

The following table shows the net income from insurance business:

€ million	2017	2016 restated[1]
Insurance premiums earned	287	197
Insurance claims expenses	–108	–115
Reinsurance commissions and with-profits expenses	–59	–3
Other underwriting expenses	–2	–1
Total	**118**	**78**

1 Previous year restated as explained in the disclosures relating to the discontinued operations in the section entitled “Restated Prior-Year Figures”.

The interest expenses include funding expenses for lending and leasing business, and an amount of €1,053 million (restated previous year: €1,044 million) relates to financial instruments not measured at fair value through profit or loss. The net expense arising from interest income and expenses in the reporting period on derivatives not designated as hedging instruments amounts to €14 million (restated previous year: €51 million).

23. Provision for Credit Risks from Lending and Leasing Business

The provision for credit risks relates to the balance sheet items “Loans to and receivables from customers” and “Provisions for lending business”. The breakdown of the amount recognized in the consolidated income statement is as follows:

€ million	2017	2016 restated[1]
Additions to provision for credit risks	–684	–656
Reversals of provision for credit risks	211	163
Direct write-offs	–64	–95
Income from loans and receivables previously written off	47	28
Total	**–491**	**–560**

1 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market and on the discontinued operations in the section entitled “Restated Prior-Year Figures”.

Additional credit risks to which the Volkswagen Financial Services AG Group is exposed as a result of the crises (economic crises, block on sales) in Italy, Russia, Brazil, India, Mexico, Italy and the Republic of Korea were accounted for in the reporting period by recognizing valuation allowances of €155 million (restated previous year: €224 million).

24. Net Fee and Commission Income

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

€ million	2017	2016 restated[1]
Fee and commission income	287	278
of which commissions from insurance broking	200	204
Fee and commission expenses	−161	−157
of which sales commission in the financing business	−129	−122
Total	**127**	**121**

1 Previous year restated as explained in the disclosures relating to the discontinued operations in the section entitled "Restated Prior-Year Figures".

In the previous year, sales commission expenses in the financing business included commissions paid as part of the confidence-building campaign with the brands and dealers.

25. Net Gain/Loss on the Measurement of Derivative Financial Instruments and Hedged Items

This item includes the net gains or losses on hedges, on derivatives not designated as hedging instruments and on the measurement of foreign currency loans/receivables and liabilities.

The net gain or loss on hedges comprises gains and losses arising from the fair value measurement of hedging instruments and hedged items. Gains and losses arising from changes in the fair value of derivatives that do not satisfy the IAS 39 requirements for hedge accounting are recognized under gains and losses on other derivatives not designated as hedging instruments.

The detailed breakdown of the gains and losses is as follows:

€ million	2017	2016 restated[1]
Gains/losses on hedging instruments in fair value hedges and cash flow hedges	−153	270
Gains/losses on hedged items in fair value hedges	163	−246
Ineffective portion of hedging instruments in cash flow hedges	0	0
Gains on the measurement of foreign currency loans/receivables and liabilities	9	6
Losses on derivatives not designated as hedging instruments	−8	−78
Total	**11**	**−48**

1 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market and on the discontinued operations in the section entitled "Restated Prior-Year Figures".

There were no other gains or losses from changes in the fair value of financial instruments.

26. Net Gain/Loss on Marketable Securities and Miscellaneous Financial Assets

The net gain/loss on marketable securities and miscellaneous financial assets includes income and expenses arising from marketable securities, dividend income, income and expenses arising from profit or loss transfers, and net gains or losses arising from the recognition of impairment losses on shares in unconsolidated subsidiaries.

27. General and Administrative Expenses

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

€ million	2017	2016 restated[1]
Personnel expenses	−779	−782
Non-staff operating expenses	−803	−746
Advertising, public relations and sales promotion expenses	−26	−24
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	−62	−60
Other taxes	−12	−27
Total	**−1,682**	**−1,640**

1 Previous year restated as explained in the disclosures relating to the discontinued operations in the section entitled "Restated Prior-Year Figures".

The non-staff operating expenses include expenses of €33 million (restated previous year: €32 million) for leased-in assets under operating leases related in particular to land and buildings as well as office and operating equipment.

In accordance with the requirements specified in section 314(1) no. 9 of the HGB, the general and administrative expenses include the total fees charged in the reporting year by the independent auditors of the consolidated financial statements as shown in the following table.

€ million	2017	2016 restated[1]
Financial statements audit services	2	3
Other attestation services	0	1
Tax consulting services	–	0
Other services	2	1
Total	**5**	**4**

1 Previous year restated as explained in the disclosures relating to the discontinued operations in the section entitled "Restated Prior-Year Figures".

The fee for financial audit services paid to the auditors in 2017 was mostly attributable to the audit of the consolidated financial statements of VW FS AG and of annual financial statements of German Group companies as well as to reviews of interim financial statements of German Group companies. Other attestation services comprised primarily comfort letters and other attestation services in connection with ABS transactions, equity investments and the reorganization of the legal entities. The other services performed by the independent auditors in the reporting period mainly consisted of issues relating to banking supervisory law, process optimization and information technology.

28. Net Other Operating Income/Expenses

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

€ million	2017	2016 restated[1]
Income from cost allocations to other entities in the Volkswagen Group	495	484
Income from the reversal of provisions and deferred income	231	153
Income from claims for damages	23	16
Income from the disposal of vehicles under financing agreements	3	3
Miscellaneous operating income	220	536
Litigation and legal risk expenses	–136	–102
Expenses from the disposal of vehicles under financing agreements	–4	–4
Other operating expenses	–167	–157
Total	**664**	**928**

1 Previous year restated as explained in the disclosures relating to the discontinued operations in the section entitled “Restated Prior-Year Figures”.

Other operating income in the previous year included support payments from the Volkswagen Group.

29. Income Tax Expense

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

€ million	2017	2016 restated[1]
Current tax income Germany	81	57
Current tax expense, foreign	–288	–344
Current income tax expense	**–206**	**–287**
of which income (+)/expense (–) related to prior periods	(49)	(–32)
Deferred tax income (+)/expense (–), Germany	–96	–220
Deferred tax income (+)/expense (–), foreign	180	265
Deferred tax income (+)/expense (–)	**84**	**44**
Income tax expense	**–122**	**–242**

1 Previous year restated as explained in the disclosures relating to the discontinued operations in the section entitled “Restated Prior-Year Figures”.

The reported tax expense in 2017 of €122 million (restated previous year: €242 million) is €70 million lower (restated previous year: €58 million higher) than the expected tax expense of €192 million (restated previous year: €184 million) calculated by applying the tax rate of 29.9% (previous year: 29.9%) to the consolidated profit before tax.

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

€ million	2017	2016 restated[1]
Profit before tax	**643**	**615**
multiplied by the domestic income tax rate of 29.9% (previous year: 29.9%)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**–192**	**–184**
+ Effects from tax credits	0	1
+ Effects from domestic/foreign tax rates	9	12
+ Effects from changes in tax rates	–1	6
+ Effects from permanent differences	–13	–38
+ Effects from tax-exempt income	48	108
+ Effects from loss carryforwards	2	0
+ Effects from non-deductible operating expenses	–14	–114
+ Taxes attributable to prior periods	50	–34
+ Other variances	–11	1
= Current income tax expense	**–122**	**–242**

1 Previous year restated as explained in the disclosures relating to the discontinued operations in the section entitled “Restated Prior-Year Figures”.

The statutory corporation tax rate in Germany for the 2017 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.87%.

In the German tax group, a tax rate of 29.9% (previous year: 29.9%) was used to measure deferred taxes.

The effects from different income tax rates outside Germany arise because of the different income tax rates in the individual countries in which the Group companies are domiciled compared with the rates in Germany. These rates outside Germany vary between 19.0% and 45.0% (restated previous year: 19% and 45.0%).

As of December 31, 2017, there were unused tax loss carryforwards of €99 million (previous year: €133 million) for which deferred tax assets of €10 million (previous year: €17 million) had been recognized. Of these unused tax loss carryforwards, an amount of €80 million (previous year: €80 million) is deemed usable indefinitely. Tax loss carryforwards amounting to €12 million (previous year: €9 million) must be used within the next five years, and €6 million (previous year: €12 million) must be used within five to ten years. In the previous year only, there were tax loss carryforwards amounting to €31 million that could be used for a period of more than ten years, subject to limitations.

No deferred tax assets have been recognized in respect of certain tax loss carryforwards deemed to be unusable and amounting to €62 million (previous year: €71 million). Of these tax loss carryforwards that the Group is unable to use, €6 million (previous year: €12 million) could have been used subject to limitations within a period of up to ten years and €56 million (previous year: €58 million) without any time restriction.

The tax credits granted by various countries led to the recognition of a tax benefit in an amount of €0.2 million (previous year: €0.2 million).

The benefit arising from previously unrecognized temporary differences of prior periods that are used to reduce current tax expense in the current fiscal year amounts to €2 million. In addition, the benefit arising from previously unrecognized tax losses used to reduce current tax expense amounts to €0.3 million. The deferred tax expense decreased in the previous year by €0.3 million as a result of previously unrecognized tax losses in an earlier period. In the reporting period, deferred tax income from the reversal of an impairment loss on a deferred tax asset amounted to €1 million (previous year: €1 million). Changes in tax rates have given rise to deferred tax expenses throughout the Group of €0.6 million (previous year: deferred tax income of €0.3 million).

There were no notable deductible temporary differences for 2016 for which no deferred tax asset was recognized in the balance sheet.

The Group has recognized deferred tax assets of €157 million (previous year: €108 million) against which there are no deferred tax liabilities in an equivalent amount. The companies involved are expecting to generate profits in the future following losses in the reporting and in the prior period.

In accordance with IAS 12.39, deferred tax liabilities of €28 million (previous year: €45 million) have not been recognized for temporary differences and undistributed profits of subsidiaries because Volkswagen Financial Services AG has the relevant control.

Of the deferred taxes recognized in the balance sheet, an amount of €66 million (previous year: €74 million) relates to transactions reported in other comprehensive income. Within this figure, an amount of €70 million (previous year: €92 million) relates to actuarial gains or losses (IAS 19), €–3 million (previous year: €–4 million) to derivative financial instruments and €–0.7 million (previous year: €–14 million) to the fair value measurement of marketable securities.

30. Further Income Statement Disclosures

Fee and commission income and expenses related to fiduciary activities and to financial assets or financial liabilities not measured at fair value and not measured using the effective interest method:

€ million	2017	2016
Income from fees and commissions	57	66
Expenses from fees and commissions	0	0
Total	**57**	**66**

Balance Sheet Disclosures

31. Cash Reserve

The cash reserve includes credit balances of €40 million (previous year: €114 million) held with foreign central banks.

As of the previous year's reporting date, the cash reserve included credit balances of €1,363 million with Deutsche Bundesbank held by Volkswagen Bank GmbH.

32. Loans to and Receivables from Customers

The loans to and receivables from customers item includes deductions arising from the recognized provision for credit risks from lending and leasing business. The provision for credit risks from lending and leasing business is presented in note (33).

Loans to and receivables from customers arising from retail financing generally comprise loans to private and commercial customers for the financing of vehicles. The vehicle itself is normally pledged to us as collateral for the financing of vehicles. Dealer financing encompasses floor plan financing as well as loans to the dealer organization for operating equipment and investment. Again, assets are pledged as collateral, but guarantees and charges on real estate are also used as security. Receivables from leasing transactions include receivables from finance leases and receivables due in connection with lease assets. The other loans and receivables largely consist of loan and receivables from entities in the Volkswagen Group, receivables from leasing transactions with a buyback agreement, together with credit lines and overdraft facilities drawn down by customers. In the previous year, other loans and receivables included subordinated assets of €217 million.

Some of the fixed-income exposures under loans and receivables from retail financing and finance lease receivables have been hedged against fluctuations in the risk-free base interest rate using a portfolio hedge. Receivables from operating leases 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 to the balance sheet values is as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016 restated[1]
Loans to and receivables from customers	**49,804**	**100,664**
Fair value adjustment from portfolio hedging	–9	–8
Loans to and receivables from customers, net of fair value adjustment from portfolio hedging	49,813	100,672

1 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled "Restated Prior-Year Figures".

Receivables from leasing transactions include due receivables amounting to €257 million (previous year: €312 million).

As of the reporting date, receivables from operating leases amounted to €89 million (previous year: €111 million).

The breakdown of receivables from finance leases as of December 31, 2016 and December 31, 2017 was as follows:

€ million	2017[1]	2018 – 2021[1]	From 2022[1]	Total[1]
Future payments from finance lease receivables	12,143	24,608	52	36,803
Unearned finance income from finance leases (discounting)	–808	–1,762	–3	–2,572
Present value of minimum lease payments outstanding at the reporting date	11,336	22,846	50	34,231

1 Previous year restated as explained in the disclosures on the leasing business in the United Kingdom and Irish markets in the section entitled "Restated Prior-Year Figures".

€ million	2018	2019 – 2022	from 2023	Total
Future payments from finance lease receivables	7,587	11,963	31	19,580
Unearned finance income from finance leases (discounting)	–334	–526	–2	–862
Present value of minimum lease payments outstanding at the reporting date	7,252	11,437	29	18,719

In the VW FS AG Group, the present value of the minimum lease payments outstanding as of the reporting date equates to the net receivables from finance leases disclosed above.

A provision for credit risks in connection with outstanding minimum lease payments has been recognized in the amount of €31 million (previous year: €44 million).

33. Provision for Credit Risks from Lending and Leasing Business

The provision for credit risks from lending and leasing business is recognized in accordance with standard rules applicable throughout the Group and covers all identifiable credit risks.

€ million	Specific valuation allowances	Portfolio-based valuation allowances	2017	Specific valuation allowances	Portfolio-based valuation allowances[1]	2016 restated[1]
Balance as of Jan. 1	**1,280**	**1,687**	**2,966**	**1,108**	**1,452**	**2,560**
Exchange rate and other changes	−65	−28	−93	74	2	76
Changes in basis of consolidation	−597	−596	−1,193	–	–	–
Additions	531	383	914	492	532	1,024
Utilization	248	–	248	184	–	184
Reversals	202	318	519	179	301	480
Interest income on impaired loans and receivables	24	–	24	30	–	30
Reclassification	−1	1	0	−2	2	0
Balance as of Dec. 31	**674**	**1,128**	**1,802**	**1,280**	**1,687**	**2,966**

1 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled "Restated Prior-Year Figures".

The provision for credit risks has been recognized in respect of loans to and receivables from customers. At the end of the reporting period, valuation allowances of €658 million (previous year: €876 million) had been recognized in relation to loans to and receivables from Italy, Russia, Brazil, India, Mexico and the Republic of Korea, which are affected by various crises (economic crises, block on sales). The year-on-year decline was attributable to a number of factors, notably the transfer of the companies in the discontinued operations.

34. Derivative Financial Instruments

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

€ million	Dec. 31, 2017	Dec. 31, 2016
Transactions to hedge against		
currency risk on assets using fair value hedges	54	235
currency risk on liabilities using fair value hedges	49	398
interest-rate risk using fair value hedges	361	492
of which hedges against interest-rate risk using portfolio fair value hedges	1	1
interest-rate risk using cash flow hedges	11	15
currency and pricing risk on future cash flows using cash flow hedges	18	15
Hedging transactions	**493**	**1,156**
Assets arising from derivatives not designated as hedges	62	142
Total	**555**	**1,297**

35. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2016	**564**	**207**	**772**
Foreign exchange differences	–	0	0
Changes in basis of consolidation	–	–	–
Additions	10	82	92
Reclassifications	–	–	–
Disposals	–	0	0
Changes recognized in profit or loss	77	–	77
Dividends	–	–	–
Other changes recognized in other comprehensive income	7	–	7
Balance as of Dec. 31, 2016	**659**	**289**	**948**
Impairment losses Balance as of Jan. 1, 2016	**26**	**1**	**28**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	–	–
Reclassifications	–	–	–
Disposals	–	0	0
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2016	**26**	**1**	**28**
Net carrying amount as of Dec. 31, 2016	**633**	**288**	**920**
Net carrying amount as of Jan. 1, 2016	**538**	**206**	**744**

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2017	**659**	**289**	**948**
Foreign exchange differences	–	–1	–1
Changes in basis of consolidation	–80	–6	–86
Additions	15	93	109
Reclassifications	–	–	–
Disposals	–	0	0
Changes recognized in profit or loss	82	–	82
Dividends	–7	–	–7
Other changes recognized in other comprehensive income	–20	–	–20
Balance as of Dec. 31, 2017	**648**	**376**	**1,024**
Impairment losses Balance as of Jan. 1, 2017	**26**	**1**	**28**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–9	–	–9
Additions	–	2	2
Reclassifications	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2017	**17**	**3**	**20**
Net carrying amount as of Dec. 31, 2017	**631**	**373**	**1,004**
Net carrying amount as of Jan. 1, 2017	**633**	**288**	**920**

36. Intangible Assets

€ million	Internally generated software	Brand names, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2016	**117**	**53**	**40**	**213**	**422**
Foreign exchange differences	2	2	0	3	7
Changes in basis of consolidation	–	–	–	–	–
Additions	3	–	–	28	32
Reclassifications	–	–	–	0	0
Disposals	4	–	–	1	5
Balance as of Dec. 31, 2016	**118**	**54**	**40**	**243**	**456**
Amortization and impairment losses					
Balance as of Jan. 1, 2016	**101**	**10**	**–**	**162**	**273**
Foreign exchange differences	0	0	–	2	2
Changes in basis of consolidation	–	–	–	–	–
Additions to cumulative amortization	3	2	–	29	33
Additions to cumulative impairment losses	–	–	–	0	0
Reclassifications	–	–	–	–	–
Disposals	2	–	–	1	3
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2016	**102**	**12**	**–**	**192**	**306**
Net carrying amount as of Dec. 31, 2016	**17**	**43**	**40**	**51**	**150**
Net carrying amount as of Jan. 1, 2016	**16**	**43**	**40**	**51**	**149**

€ million	Internally generated software	Brand names, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2017	**118**	**54**	**40**	**243**	**456**
Foreign exchange differences	−1	−1	1	−3	−5
Changes in basis of consolidation	−83	−21	−18	−155	−277
Additions	1	–	–	24	25
Reclassifications	–	–	–	–	–
Disposals	0	12	11	5	28
Balance as of Dec. 31, 2017	**35**	**20**	**12**	**104**	**171**
Amortization and impairment losses					
Balance as of Jan. 1, 2017	**102**	**12**	**–**	**192**	**306**
Foreign exchange differences	−1	0	–	−3	−3
Changes in basis of consolidation	−74	−10	–	−127	−211
Additions to cumulative amortization	3	1	–	20	24
Additions to cumulative impairment losses	–	12	11	–	22
Reclassifications	–	–	–	–	–
Disposals	–	12	11	4	26
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2017	**30**	**3**	**–**	**79**	**113**
Net carrying amount as of Dec. 31, 2017	**4**	**18**	**12**	**24**	**59**
Net carrying amount as of Jan. 1, 2017	**17**	**43**	**40**	**51**	**150**

The goodwill of €12 million (previous year: €40 million) and brand names of €16 million (previous year: €35 million) in Poland and Germany on the balance sheet as of the reporting date have an indefinite useful life. The indefinite useful life arises because goodwill and brand names are linked to the relevant cash-generating unit and will therefore remain in existence for as long as this unit also remains in existence. The customer base in Poland is being amortized over a period of ten years.

Of the total recognized goodwill, €12 million (previous year: €29 million) was attributable to Poland and €11 million to Brazil in the previous year. Of the total recognized brand names, €6 million (previous year: €6 million) was attributable to Poland and €10 million (previous year: €10 million) to Germany. In the reporting year, an impairment loss was recognized for the full amount of the goodwill relating to the Brazilian market because the tight economic situation in the Brazilian market resulted in a value in use below the corresponding carrying amount. The discount rates used in the impairment tests were as follows: 11.1% (previous year: 11.8%) for Poland and 11.8% (previous year: 12.7%) for Brazil.

The impairment tests for the reported goodwill and brand names are based on the value in use. The value in use determined for the reported goodwill and brand names in the impairment test for Poland exceeded the corresponding carrying amount, so no impairment loss requirement was identified for the reported goodwill or brand names. The VW FS AG Group also carried out sensitivity analyses as part of the impairment tests. In Poland, no conceivable change in a material assumption would lead to the recognition of an impairment loss for goodwill and brand names.

37. Property and Equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2016	**303**	**283**	**586**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions	12	31	43
Reclassifications	–1	1	0
Disposals	0	64	65
Balance as of Dec. 31, 2016	**313**	**251**	**564**
Amortization and impairment losses			
Balance as of Jan. 1, 2016	**96**	**173**	**269**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions to cumulative depreciation	10	31	41
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	0	0
Disposals	0	60	61
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2016	**105**	**144**	**250**
Net carrying amount as of Dec. 31, 2016	**208**	**106**	**314**
Net carrying amount as of Jan. 1, 2016	**207**	**110**	**317**

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2017	**313**	**251**	**564**
Foreign exchange differences	−2	−4	−6
Changes in basis of consolidation	−23	−166	−189
Additions	34	23	56
Reclassifications	−3	3	0
Disposals	1	11	12
Balance as of Dec. 31, 2017	**319**	**95**	**413**
Amortization and impairment losses			
Balance as of Jan. 1, 2017	**105**	**144**	**250**
Foreign exchange differences	−1	−2	−2
Changes in basis of consolidation	−18	−107	−125
Additions to cumulative depreciation	9	26	35
Additions to cumulative impairment losses	–	–	–
Reclassifications	−1	1	0
Disposals	0	8	9
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2017	**95**	**54**	**149**
Net carrying amount as of Dec. 31, 2017	**224**	**41**	**265**
Net carrying amount as of Jan. 1, 2017	**208**	**106**	**314**

In connection with land and buildings, land charges of €13 million (previous year: €13 million) serve as collateral for financial liabilities.

Assets under construction with a carrying amount of €35 million (previous year: € million) are included in land and buildings.

38. Lease Assets and Investment Property

€ million	Movable lease assets	Investment property	Total
Cost			
Balance as of Jan. 1, 2016	**16,961**	**22**	**16,983**
Foreign exchange differences	−442	0	−442
Changes in basis of consolidation	–	–	–
Additions	12,486	0	12,486
Reclassifications	–	–	–
Disposals	10,036	2	10,039
Balance as of Dec. 31, 2016	**18,968**	**21**	**18,988**
Depreciation and impairment losses			
Balance as of Jan. 1, 2016	**3,978**	**7**	**3,986**
Foreign exchange differences	−98	0	−98
Changes in basis of consolidation	–	–	–
Additions to cumulative depreciation	2,522	1	2,523
Additions to cumulative impairment losses	188	–	188
Reclassifications	0	–	0
Disposals	2,251	2	2,253
Reversal of impairment losses	67	–	67
Balance as of Dec. 31, 2016	**4,272**	**7**	**4,279**
Net carrying amount as of Dec. 31, 2016	**14,696**	**14**	**14,710**
Net carrying amount as of Jan. 1, 2016	**12,982**	**15**	**12,997**

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

€ million	2017	2018 – 2021	Total
Lease payments	223	245	468

The following table shows the present values in the prior year of future lease payments arising from buildings leased under finance leases:

€ million	2017	2018 – 2021	from 2022	Total
Lease payments	2	6	3	11
Interest component	0	1	0	2
Carrying amount of liabilities	**1**	**5**	**3**	**9**

€ million	Movable lease assets	Investment property	Total
Cost			
Balance as of Jan. 1, 2017	**18,968**	**21**	**18,988**
Foreign exchange differences	–195	0	–195
Changes in basis of consolidation	–6,045	–3	–6,048
Additions	11,368	–	11,368
Reclassifications	0	–	0
Disposals	9,038	–	9,038
Balance as of Dec. 31, 2017	**15,059**	**18**	**15,076**
Depreciation and impairment losses			
Balance as of Jan. 1, 2017	**4,272**	**7**	**4,279**
Foreign exchange differences	–40	0	–40
Changes in basis of consolidation	–1,162	–2	–1,164
Additions to cumulative depreciation	2,381	1	2,382
Additions to cumulative impairment losses	253	2	255
Reclassifications	0	–	0
Disposals	2,196	–	2,196
Reversal of impairment losses	20	–	20
Balance as of Dec. 31, 2017	**3,487**	**7**	**3,495**
Net carrying amount as of Dec. 31, 2017	**11,571**	**10**	**11,582**
Net carrying amount as of Jan. 1, 2017	**14,696**	**14**	**14,710**

The fair value of investment property amounts to €15 million (previous year: €16 million). The fair value is determined using an income approach based on internal calculations (Level 3 of the fair value hierarchy). Operating expenses of € million (previous year: € million) were incurred in the reporting period for the maintenance of investment property.

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

€ million	2018	2019 – 2022	Total
Lease payments	104	232	337

The following table shows the present values in the reporting period of future lease payments arising from buildings leased under finance leases:

€ million	2018	2019 – 2022	from 2023	Total
Lease payments	2	5	2	9
Interest component	0	1	0	1
Carrying amount of liabilities	**1**	**4**	**2**	**8**

39. Deferred Tax Assets

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

€ million	Dec. 31, 2017	Dec. 31, 2016
Deferred tax assets	6,995	9,183
of which noncurrent	4,458	4,252
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	10	17
of which noncurrent	10	17
Offset (with deferred tax liabilities)	–5,969	–7,366
Total	**1,035**	**1,834**

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

€ million	Dec. 31, 2017	Dec. 31, 2016
Loans, receivables and other assets	671	668
Marketable securities and cash	3	2,545
Intangible assets/property and equipment	18	19
Lease assets	5,616	5,255
Liabilities and provisions	687	696
Valuation allowances for deferred tax assets on temporary differences	–	–
Total	**6,995**	**9,183**

40. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Vehicles returned for disposal	586	767
Restricted cash	850	1,018
Prepaid expenses	227	327
Other tax assets	117	161
Reinsurers' share of underwriting provisions	66	71
Miscellaneous	926	1,149
Total	**2,772**	**3,495**

Minimum lease payments of €576 million (previous year: €798 million) are expected from noncancelable subleases in connection with buyback transactions.

The breakdown of the reinsurers' share of underwriting provisions is as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Reinsurers' share of provision for claims outstanding	49	52
Reinsurers' share of provision for unearned premiums	16	19
Reinsurers' share of other underwriting provisions	2	1
Total	**66**	**71**

41. Noncurrent Assets

€ million	Dec. 31, 2017	of which noncurrent	Dec. 31, 2016 restated[1]	of which noncurrent[1]
Cash reserve	40	–	1,478	–
Loans to and receivables from banks	1,444	166	2,236	46
Loans to and receivables from customers	49,804	27,890	100,664	55,695
Derivative financial instruments	555	443	1,297	822
Marketable securities	257	–	2,993	–
Equity-accounted joint ventures	631	631	633	633
Miscellaneous financial assets	373	373	288	288
Intangible assets	59	59	150	150
Property and equipment	265	265	314	314
Lease assets	11,571	9,555	14,696	12,502
Investment property	10	10	14	14
Current tax assets	137	5	156	16
Other assets	2,772	726	3,495	873
Total	**67,918**	**40,123**	**128,414**	**71,352**

1 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled "Restated Prior-Year Figures".

42. Liabilities to Banks and Customers

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

In the previous year, the liabilities to banks included significant liabilities to Deutsche Bundesbank arising from targeted longer-term refinancing operations.

The liabilities to customers include customer deposits of €69 million (previous year: €36,149 million). In the previous year, these deposits predominantly comprised overnight money and time deposits, as well as various savings bonds and savings plans, held with Volkswagen Bank GmbH.

Receivables from finance leases of €685 million were pledged as collateral for liabilities to banks in the reporting period.

43. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Dec. 31, 2017	Dec. 31, 2016
Bonds issued	30,055	33,482
Commercial paper issued	2,398	4,367
Total	**32,453**	**37,849**

Customer and dealer financing loans and receivables amounting to €287 million (previous year: €251 million) have been furnished as collateral for issued bonds not related to ABS transactions.

44. ABS Transactions

The VW FS AG Group uses ABS transactions for funding purposes. The related liabilities are recognized in the following balance sheet items:

€ million	Dec. 31, 2017	Dec. 31, 2016
Bonds issued	12,345	18,773
Subordinated liabilities	1,348	1,830
Total	**13,694**	**20,603**

Of the total amount of liabilities arising in connection with ABS transactions, an amount of €10,885 million (previous year: €18,536 million) is accounted for by ABS transactions with financial assets. The corresponding carrying amount of loans/receivables from retail financing and leasing business is €11,502 million (previous year: €19,115 million). As of December 31, 2017, the fair value of the liabilities amounted to €10,817 million (previous year: €18,890 million). The fair value of the assigned loans/receivables, which continued to be recognized, amounted to €11,665 million (previous year: €19,888 million) as of December 31, 2017.

In these arrangements, the expected payments are assigned to special purpose entities and the ownership of the collateral in the financed vehicles is transferred. The assigned loans/receivables cannot be assigned again to anyone else or used in any other way as collateral. The rights of the bond holders are limited to the assigned loans/receivables and the payment receipts arising from these loans/receivables are used to repay the corresponding liability.

These asset-backed securities transactions did not lead to a derecognition of the loans or receivables from the financial services business because the credit risk and timing risk were retained in the Group. The difference between the amount of the assigned loans/receivables and the associated liabilities results from the different terms and conditions and from the proportion of the ABSs held by the VW FS AG Group itself.

Collateral totaling €15,079 million (previous year: €22,061 million) has been furnished in connection with ABS transactions.

The VW FS AG Group is under a contractual obligation to transfer funds in certain circumstances to the structured entities included in its consolidated financial statements. As the transfer of the loans/receivables to the special purpose entity is carried out as an undisclosed assignment, it is possible that the originator's loan/receivable could already have been legally reduced, for example if the debtor has an effective right of set-off against amounts it is owed by the VW FS AG Group. Collateral must be furnished for the resulting compensation claim in respect of the special purpose entity if, for example, the rating of the relevant Group company falls to a contractually specified reference value.

The bulk of the public and private ABS transactions in the Volkswagen Financial Services AG Group can be repaid early (with a clean-up call) when less than 10% of the original transaction volume remains outstanding.

45. Derivative Financial Instruments

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

€ million	Dec. 31, 2017	Dec. 31, 2016 restated[1]
Transactions to hedge against		
currency risk on assets using fair value hedges	9	27
currency risk on liabilities using fair value hedges	82	109
interest-rate risk using fair value hedges	36	143
of which hedges against interest-rate risk using portfolio fair value hedges	9	85
interest-rate risk using cash flow hedges	2	2
currency and pricing risk on future cash flows using cash flow hedges	6	12
Hedging transactions	**134**	**293**
Liabilities arising from derivatives not designated as hedges	77	220
Total	**211**	**513**

1 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled "Restated Prior-Year Figures".

46. Provisions for Pensions and Other Post-Employment Benefits

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

€ million	Dec. 31, 2017	Dec. 31, 2016
Present value of funded obligations	245	323
Fair value of plan assets	168	227
Funded status (net)	**77**	**96**
Present value of unfunded obligations	281	379
Amount not recognized as an asset because of the ceiling in IAS 19	1	1
Net liability recognized in the balance sheet	**359**	**477**
of which provisions for pensions	360	478
of which other assets	1	1

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

German pension plans funded solely by recognized provisions
The pension plans funded solely by recognized provisions comprise both defined contribution plans with guarantees and final salary plans. For defined contribution plans, an annual pension expense dependent on income and status is converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlements). The annuity factors include a guaranteed rate of interest. The modular pension entitlements earned annually are added together at retirement. For final salary plans, the underlying salary is multiplied at retirement by a percentage that depends on the years of service up to the retirement date. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk. The pension system provides for lifelong pension payments. The companies therefore bear the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the "Heubeck 2005 G" mortality tables – which already reflect future increases in life expectancy. To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

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

the guaranteed rate of interest, surpluses are allocated (modular pension bonuses). As the assets administered in trust meet the IAS 19 criteria for classification as plan assets, they are offset against the obligations.

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

The present value of the obligation is reported as the maximum of the present value of the guaranteed obligation and of the plan assets. If the value of the plan assets falls below the present value of the guaranteed obligation, a provision must be recognized for the difference. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk.

In the case of lifelong pension payments, the VW FS AG Group bears the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the "Heubeck 2005 G" mortality tables – which already reflect future increases in life expectancy. In addition, the independent actuaries carry out annual risk monitoring as part of the review of the assets administered by the trusts.

To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

The calculation of the present value of the defined benefit obligations was based on the following actuarial assumptions:

	GERMANY		INTERNATIONAL	
Percent	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Discount rate	1.90	1.80	7.41	4.91
Pay trend	3.60	3.60	5.78	5.44
Pension trend	1.50	1.50	4.05	3.61
Staff turnover rate	0.98	0.98	3.07	2.68

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

With regard to life expectancy, the latest mortality tables in every country are taken into account. For example, in Germany calculations are based on the "2005 G" mortality tables developed by Professor Dr. Klaus Heubeck. The discount rates are generally determined to reflect the yields on prime-rated corporate bonds with matching maturities and currencies. The iBoxx AA 10+ Corporates index was taken as the basis for the obligations of German Group companies. Similar indices were used for foreign pension obligations.

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

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

€ million	2017	2016
Net liability recognized in the balance sheet as of January 1	**477**	**355**
Current service cost	31	26
Net interest expense	8	9
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	2
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–13	120
Actuarial gains (–)/losses (+) arising from experience adjustments	–26	–2
Income/expenses from plan assets not included in interest income	–1	6
Change in amount not recognized as an asset because of the ceiling in IAS 19	0	0
Employer contributions to plan assets	17	17
Employee contributions to plan assets	–	–
Pension payments from company assets	5	6
Past service cost (including plan curtailments)	–	0
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–50	–
Other changes	–46	–4
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**359**	**477**

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

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

€ million	2017	2016
Present value of obligations as of January 1	**702**	**551**
Current service cost	31	26
Interest cost (unwinding of discount on obligations)	14	17
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	2
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–13	120
Actuarial gains (–)/losses (+) arising from experience adjustments	–26	–2
Employee contributions to plan assets	1	2
Pension payments from company assets	5	6
Pension payments from plan assets	2	3
Past service cost (including plan curtailments)	–	0
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–98	–
Other changes	–74	–2
Foreign exchange differences from foreign plans	–4	–1
Present value of obligations as of December 31	**526**	**702**

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

		DEC. 31, 2017		DEC. 31, 2016	
Present value of defined benefit obligation if		€ million	Change in percent	€ million	Change in percent
Discount rate	is 0.5 percentage points higher	472	–10.29	629	–10.42
	is 0.5 percentage points lower	589	12.05	788	12.21
Pension trend	is 0.5 percentage points higher	547	4.02	734	4.47
	is 0.5 percentage points lower	507	–3.63	674	–4.08
Pay trend	is 0.5 percentage points higher	533	1.37	710	1.10
	is 0.5 percentage points lower	519	–1.26	698	–0.58
Longevity	increases by one year	539	2.52	721	2.64

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

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

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

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

€ million	2017	2016
Active members with pension entitlements	431	512
Members with vested entitlements who have left the Company	22	61
Retirees	72	129
Total	**526**	**702**

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

€ million	2017	2016
Payments due within the next fiscal year	5	7
Payments due between two and five years	25	39
Payments due in more than five years	496	655
Total	**526**	**702**

Changes in plan assets are shown in the following table:

€ million	2017	2016
Fair value of plan assets as of January 1	**227**	**196**
Interest income on plan assets determined using the discount rate	6	8
Income/expenses from plan assets not included in interest income	−1	6
Employer contributions to plan assets	17	17
Employee contributions to plan assets	1	2
Pension payments from plan assets	2	3
Gains (+) or losses (–) arising from plan settlements	–	–
Changes in basis of consolidation	−48	–
Other changes	−28	2
Foreign exchange differences from foreign plans	−4	−1
Fair value of plan assets as of December 31	**168**	**227**

The investment of the plan assets to cover future pension obligations resulted in income in the amount of € million (previous year: €14 million).

Employer contributions to plan assets are expected to amount to €15 million (previous year: €22 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

€ million	DEC. 31, 2017 Quoted prices in active markets	DEC. 31, 2017 No quoted prices in active markets	DEC. 31, 2017 Total	DEC. 31, 2016 Quoted prices in active markets	DEC. 31, 2016 No quoted prices in active markets	DEC. 31, 2016 Total
Cash and cash equivalents	11	–	11	5	–	5
Equity instruments	–	–	–	7	–	7
Debt instruments	25	–	25	52	–	52
Direct investments in real estate	–	–	–	–	–	–
Derivatives	1	–1	–1	3	–	3
Equity funds	24	–	24	26	–	26
Bond funds	105	–	105	127	–	127
Real estate funds	1	–	1	1	–	1
Other funds	–	–	–	4	–	4
Asset-backed securities	–	–	–	–	–	–
Structured debt securities	–	–	–	–	–	–
Other	0	2	2	0	1	1

Of the total plan assets, 70% (previous year: 57%) are invested in German assets, % (previous year: 21%) in other European assets and 28% (previous year: 22%) in assets in other regions. Investments of plan assets in debt instruments issued by the Volkswagen Group are of minor significance.

The following amounts have been recognized in the income statement:

€ million	2017	2016
Current service cost	31	26
Net interest on the net defined benefit liability	8	9
Past service cost (including plan curtailments)	–	0
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	**39**	**35**

47. Underwriting Provisions and Other Provisions

€ million	Dec. 31, 2017	Dec. 31, 2016
Underwriting provisions	399	365
Other provisions	489	847
Total	**888**	**1,212**

The following table shows the changes in underwriting provisions:

	UNDERWRITING PROVISIONS			
€ million	Provision for claims outstanding	Provision for unearned premiums	Other underwriting provisions	Total
Balance as of Jan. 1, 2016	**85**	**250**	**2**	**337**
Changes to basis of consolidation	–	–	–	–
Utilization	38	29	2	69
Additions	41	55	3	98
Balance as of Dec. 31, 2016	**87**	**275**	**3**	**365**

	UNDERWRITING PROVISIONS			
€ million	Provision for claims outstanding	Provision for unearned premiums	Other underwriting provisions	Total
Balance as of Jan. 1, 2017	**87**	**275**	**3**	**365**
Changes to basis of consolidation	–	–	–	–
Utilization	32	73	1	106
Additions	33	104	4	140
Balance as of Dec. 31, 2017	**88**	**305**	**6**	**399**

Maturity profile of underwriting provisions:

€ million	DEC. 31, 2017 Remaining maturity of more than one year	DEC. 31, 2017 Total	DEC. 31, 2016 Remaining maturity of more than one year	DEC. 31, 2016 Total
Provision for claims outstanding	38	88	44	87
Provision for unearned premiums	173	305	144	275
Other underwriting provisions	–	6	–	3
Total	**211**	**399**	**188**	**365**

Underwriting provisions for direct insurance business:

€ million	2017 Remaining maturity of more than one year	2017 Total	2016 Remaining maturity of more than one year	2016 Total
Balance as of Jan. 1	**69**	**144**	**78**	**166**
Utilization	8	38	10	26
Additions	15	42	1	4
Balance as of Dec. 31	**76**	**148**	**69**	**144**

The underwriting provisions for direct insurance business were recognized in respect of warranty insurance and repair costs insurance.

Changes in the underwriting provisions for reinsurance business, by class of insurance:

€ million	2016 Vehicle insurance	2016 Credit protection insurance	2016 Other	2016 Total
Balance as of Jan. 1	**57**	**91**	**22**	**170**
Utilization	6	17	20	43
Additions	0	16	78	94
Balance as of Dec. 31	**51**	**90**	**80**	**221**

€ million	2017			
	Vehicle insurance	Credit protection insurance	Other	Total
Balance as of Jan. 1	**51**	**90**	**80**	**221**
Utilization	4	29	35	68
Additions	3	93	2	98
Balance as of Dec. 31	**50**	**154**	**47**	**251**

In the reporting period, other provisions were broken down into provisions for employee expenses, provisions for litigation and legal risks, and miscellaneous provisions.

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

€ million	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of Jan. 1, 2016	**108**	**480**	**167**	**755**
Foreign exchange differences	–1	19	0	18
Changes in basis of consolidation	–	–	–	–
Utilization	46	27	31	104
Additions/new provisions	69	178	90	337
Unwinding of discount/effect of change in discount rate	–	6	–	6
Reversals	11	111	43	165
Balance as of Dec. 31, 2016	**119**	**545**	**183**	**847**
of which current	61	227	159	446
of which noncurrent	58	318	24	401
Balance as of Jan. 1, 2017	**119**	**545**	**183**	**847**
Foreign exchange differences	–1	–16	–2	–20
Changes in basis of consolidation	–34	–341	–93	–468
Utilization	51	20	38	110
Additions/new provisions	63	244	103	410
Unwinding of discount/effect of change in discount rate	–	7	–	7
Reversals	7	136	34	177
Balance as of Dec. 31, 2017	**88**	**282**	**119**	**489**
of which current	36	53	94	183
of which noncurrent	53	229	25	306

Provisions for employee expenses are recognized primarily for annually recurring bonuses such as holiday or Christmas bonuses, long service awards and other employee expenses. The provisions for litigation and legal risks reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers. Based on analysis of the individual matters covered by the provisions, we believe that the disclosure of further detailed information on individual proceedings, legal disputes or legal risks could seriously prejudice the course or initiation of proceedings.

The timing of the cash outflows in connection with other provisions is expected to be as follows: 37 % in the next year, 55 % in the years 2019 to 2022 and % thereafter.

48. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Deferred tax liabilities	6,417	8,517
of which noncurrent	3,765	4,536
Offset (with deferred tax assets)	−5,969	−7,366
Total	**447**	**1,151**

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

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

€ million	Dec. 31, 2017	Dec. 31, 2016
Loans, receivables and other assets	5,367	5,550
Marketable securities and cash	19	89
Intangible assets/property and equipment	5	17
Lease assets	519	528
Liabilities and provisions	506	2,333
Total	**6,417**	**8,517**

49. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016 restated[1]
Deferred income	1,112	1,211
Other tax liabilities	176	200
Social security and payroll liabilities	133	174
Miscellaneous	192	344
Total	**1,613**	**1,929**

1 The prior year has been adjusted for deferred income from contracts for servicing and wear-and-tear repairs.

50. Subordinated capital

The subordinated capital of €4,354 million was issued or raised by Volkswagen Leasing GmbH, Banco Volkswagen S.A., Volkswagen Financial Services Australia Limited and VW FS AG in the reporting period.

In the previous year, subordinated capital of €3,183 million was issued or raised by Volkswagen Bank GmbH, Volkswagen Leasing GmbH, Volkswagen Financial Services (UK) Ltd., Banco Volkswagen S.A., Volkswagen Financial Services Australia Limited, Volkswagen Finans Sverige AB and VW FS AG.

51. Noncurrent Liabilities

€ million	Dec. 31, 2017	of which noncurrent	Dec. 31, 2016 restated[1]	of which noncurrent[1]
Liabilities to banks	10,982	4,119	17,034	7,367
Liabilities to customers	9,673	4,428	49,454	7,579
Notes, commercial paper issued	32,453	24,067	37,849	22,634
Derivative financial instruments	211	115	513	216
Current tax liabilities	348	122	494	215
Other liabilities	1,613	604	1,929	766
Subordinated capital	4,354	4,073	3,183	2,689
Total	**59,633**	**37,527**	**110,456**	**41,468**

1 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled "Restated Prior-Year Figures".

52. Equity

The subscribed capital of VW FS AG is divided into 441,280,000 fully paid up no-par-value bearer shares, each with a notional value of €1, which are all held by Volkswagen AG, Wolfsburg. There are no preferential rights or restrictions in connection with the subscribed capital.

The capital contributions made by the sole shareholder, Volkswagen AG, are reported under the capital reserves of VW FS AG.

The retained earnings comprise the profits from previous fiscal years that have not been distributed. The retained earnings include a legal reserve of €44 million (previous year: €44 million).

On the basis of the control and profit-and-loss transfer agreement with the sole shareholder, Volkswagen AG, the loss of €–478 million (previous year: profit transfer of €130 million) in accordance with the HGB incurred by VW FS AG was absorbed.

53. Capital Management

In this context, "capital" is generally defined as the equity in accordance with IFRS. The aims of capital management in the VW FS AG Group are to support the Company's credit rating by ensuring that the Group has adequate capital backing and obtain capital for the planned growth over the next few years. Corporate action implemented by the parent company of VW FS AG has an impact on IFRS equity of VW FS AG.

Following the restructuring of the legal entities, in which the companies making up the discontinued operations, i.e. the European lending and deposits business, were transferred from VW FS AG to Volkswagen AG, regulatory requirements no longer needed to be taken into account in capital management at VW FS AG.

As of December 31, 2017, the equity ratio was 11.1 %.

In the previous year, VW FS AG had made a distinction between regulatory capital and IFRS capital (see note 52 for details of the components).

Regulatory capital consisted of capital components referred to as Common Equity Tier (CET) 1 capital, Additional Tier 1 capital and Tier 2 capital net of certain deductions and adjustments and had to meet specific requirements defined by law.

The following amounts and key figures were determined for the financial holding group in the previous year:

	31.12.2016
Gesamtrisikobetrag[1] (Mio. €)	119.709
davon Risikogewichtete Positionsbeträge für Kreditrisiken	104.414
davon Eigenmittelanforderungen für Marktrisiken *12,5	6.982
davon Eigenmittelanforderungen für operationelle Risiken * 12,5	7.894
davon Eigenmittelanforderungen für Kreditbewertungsanpassungen * 12,5	419
Anrechenbare Eigenmittel (Mio. €)	15.121
Eigenmittel (Mio. €)	15.121
davon hartes Kernkapital	13.989
davon zusätzliches Kernkapital	0
davon Ergänzungskapital	1.132
Harte Kernkapitalquote (%)[2]	11,7
Kernkapitalquote (%)[2]	11,7
Gesamtkapitalquote (%)[2]	12,6

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

Financial Instrument Disclosures

54. Carrying Amounts of Financial Instruments by IAS 39 Measurement Category

The IAS 39 measurement categories are defined in the VW FS AG Group, as follows:

Loans and receivables are non-derivative financial instruments that are not traded in an active market and that are subject to fixed-payment agreements. The cash reserve also forms part of this category.

Financial assets and financial liabilities measured at fair value through profit or loss include derivative financial instruments. The VW FS AG Group has no plans to specially allocate other financial instruments to this category.

Available-for-sale financial assets are either assets specifically allocated to this category as such or financial assets that cannot be allocated to any other category. In the VW FS AG Group, marketable securities and miscellaneous financial assets are allocated to this category.

All non-derivative financial instruments are accounted for on the basis of the settlement date. Derivative financial instruments are accounted for on the basis of the trade date.

The carrying amounts of financial instruments (excluding hedge derivatives) by measurement category are as follows:

	LOANS AND RECEIVABLES		AVAILABLE-FOR-SALE FINANCIAL ASSETS		FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST		FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
€ million	Dec. 31, 2017	Dec. 31, 2016[1]	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016[1]
Assets								
Cash reserve	40	1,478	–	–	–	–	–	–
Loans to and receivables from banks	1,444	2,236	–	–	–	–	–	–
Loans to and receivables from customers	30,979	66,305	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	62	142
Marketable securities	–	–	257	2,993	–	–	–	–
Miscellaneous financial assets	–	–	0	0	–	–	–	–
Other assets	1,034	1,242	–	–	–	–	–	–
Total	**33,497**	**71,261**	**257**	**2,993**	**–**	**–**	**62**	**142**
Equity and liabilities								
Liabilities to banks	–	–	–	–	10,982	17,034	–	–
Liabilities to customers	–	–	–	–	9,665	49,445	–	–
Notes, commercial paper issued	–	–	–	–	32,453	37,849	–	–
Derivative financial instruments	–	–	–	–	–	–	77	220
Other liabilities	–	–	–	–	672	690	–	–
Subordinated capital	–	–	–	–	4,354	3,183	–	–
Total	**–**	**–**	**–**	**–**	**58,124**	**108,200**	**77**	**220**

1 Previous year restated as explained in the disclosures on the leasing business in the United Kingdom and Irish markets and in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled "Restated Prior-Year Figures".

Receivables from leasing business of €18,809 million (restated previous year: €34,344 million) do not have to be allocated to any of these categories.

The net income/expense for each of the categories is as follows:

€ million	2017	2016 restated[1]
Loans and receivables	2,612	2,764
Available-for-sale financial assets	10	29
Financial liabilities measured at amortized cost	−1,278	−1,445
Financial assets and financial liabilities measured at fair value through profit or loss	−71	−75

1 Previous year restated as explained in the disclosures on the leasing business in the United Kingdom and Irish markets and in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled "Restated Prior-Year Figures".

The net income/expense is determined as follows:

Measurement category	Measurement method
Loans and receivables	Interest income using the effective interest method in accordance with IAS 39 and expenses/income from the recognition of 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 impairment
Financial liabilities measured at amortized cost	Interest expense using the effective interest method in accordance with IAS 39, including effects from currency translation
Financial assets and financial 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 impairment

55. Classes of Financial Instruments

Financial instruments are divided into the following classes in the VW FS AG Group:

- Measured at fair value
- Financial assets measured at amortized cost
- Derivative financial instruments designated as hedges
- Financial liabilities measured at amortized cost
- Credit commitments and financial guarantees
- Not within the scope of IFRS 7

Loans/receivables and liabilities designated as hedges with derivative financial instruments are included in the "Financial assets measured at amortized cost" and "Financial liabilities measured at amortized cost" classes.

Within miscellaneous financial assets, subsidiaries and joint ventures that are not consolidated for reasons of materiality are not deemed financial instruments in accordance with IAS 39 and therefore do not fall within the scope of IFRS 7. Equity investments forming part of miscellaneous financial assets are reported as financial instruments in accordance with IAS 39 in the class "Measured at fair value".

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

€ million	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST[1]		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT WITHIN THE SCOPE OF IFRS 7	
	Dec. 31, 2017	Dec. 31, 2016[2]	Dec. 31, 2017	Dec. 31, 2016[2]	Dec. 31, 2017	Dec. 31, 2016[2]	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Assets										
Cash reserve	40	1,478	–	–	40	1,478	–	–	–	–
Loans to and receivables from banks	1,444	2,236	–	–	1,444	2,236	–	–	–	–
Loans to and receivables from customers	49,804	100,664	–	–	49,804	100,664	–	–	–	–
Derivative financial instruments	555	1,297	62	142	–	–	493	1,156	–	–
Marketable securities	257	2,993	257	2,993	–	–	–	–	–	–
Equity-accounted joint ventures	631	633	–	–	–	–	–	–	631	633
Miscellaneous financial assets	373	288	0	0	–	–	–	–	373	287
Other assets	2,772	3,495	–	–	1,034	1,242	–	–	1,737	2,253
Total	**55,876**	**113,084**	**319**	**3,135**	**52,323**	**105,620**	**493**	**1,156**	**2,741**	**3,173**
Equity and liabilities										
Liabilities to banks	10,982	17,034	–	–	10,982	17,034	–	–	–	–
Liabilities to customers	9,673	49,454	–	–	9,673	49,454	–	–	–	–
Notes, commercial paper issued	32,453	37,849	–	–	32,453	37,849	–	–	–	–
Derivative financial instruments	211	513	77	220	–	–	134	293	–	–
Other liabilities	1,613	1,929	–	–	672	690	–	–	941	1,239
Subordinated capital	4,354	3,183	–	–	4,354	3,183	–	–	–	–
Total	**59,285**	**109,961**	**77**	**220**	**58,133**	**108,210**	**134**	**293**	**941**	**1,239**

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

2 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled “Restated Prior-Year Figures”.

The “Credit commitments and financial guarantees” class contains obligations under irrevocable credit commitments and financial guarantees amounting to €1,267 million (previous year: €2,721 million).

56. Measurement Hierarchy for Financial Instruments Measured at Fair Value and at Amortized Cost

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

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

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

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not directly observable in an active market. Most of the loans to and receivables from customers are allocated to Level 3 because their fair value is measured using inputs that are not observable in active markets (see note 57). Derivative financial instruments in connection with risks of early termination are also allocated to Level 3. Inputs for determining the fair value of derivatives in connection with the risk of early termination are forecasts and estimates of used vehicle residual values for the models concerned as well as yield curves.

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

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	Dec. 31, 2017	Dec. 31, 2016[2]	Dec. 31, 2017	Dec. 31, 2016[2]	Dec. 31, 2017	Dec. 31, 2016[1]
Assets						
Measured at fair value						
Derivative financial instruments	–	–	62	142	–	–
Marketable securities	257	2,708	–	285	–	–
Miscellaneous financial assets	–	–	–	–	0	0
Measured at amortized cost						
Cash reserve	40	1,478	–	–	–	–
Loans to and receivables from banks	716	1,921	728	315	–	–
Loans to and receivables from customers	–	–	496	915	49,397	101,328
Other assets	–	–	1,034	1,242	–	–
Derivative financial instruments designated as hedges	–	–	493	1,156	–	–
Total	**1,014**	**6,108**	**2,812**	**4,054**	**49,397**	**101,328**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	77	120	–	100
Measured at amortized cost						
Liabilities to banks	–	–	11,013	16,949	–	–
Liabilities to customers	–	–	9,703	49,525	–	–
Notes, commercial paper issued	20,004	20,963	12,449	16,910	–	–
Other liabilities	–	–	675	693	–	–
Subordinated capital	–	–	3,685	2,930	–	–
Derivative financial instruments designated as hedges	–	–	134	293	–	–
Total	**20,004**	**20,963**	**37,737**	**87,420**	**–**	**100**

1 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled “Restated Prior-Year Figures”.
2 Previous year restated due to reclassification of loans to and receivables from banks from Level 1 to Level 2.

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

€ million	2017	2016[1]
Balance as of Jan. 1	**100**	**132**
Foreign exchange differences	−8	−19
Changes in basis of consolidation	−111	–
Measured at fair value through profit or loss	19	−13
Balance as of Dec. 31	**–**	**100**

1 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled "Restated Prior-Year Figures".

The measurements through profit or loss, amounting to a net loss of €19 million (previous year: net gain of €13 million), are reported in net gain/loss on the measurement of derivative financial instruments.

In the previous year, the net gain was attributable entirely to derivative financial instruments held as of the reporting date. As a result of the derecognition of the derivative financial instruments in connection with the risk of early termination in the discontinued operation (European lending and deposits business), the measurements through profit or loss in the reporting period related to the cumulative net gain/loss on the measurement of derivative financial instruments as of the measurement date of August 31, 2017.

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

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

If used vehicle prices for the vehicles taken into account in the derivatives in connection with the risk of early termination had been 10% higher as of December 31, 2016, profit after tax would have been higher by €24 million. If used vehicle prices for the vehicles taken into account in the derivatives in connection with the risk of early termination had been 10% lower as of December 31, 2016, profit after tax would have been lower by €21 million.

57. Fair Value of Financial Instruments in the Classes "Assets and Liabilities Measured at Amortized Cost", "Measured at Fair Value", "Derivative Financial Instruments Designated As Hedges"

The table below shows the fair values of the financial instruments. The fair value is the amount at which financial instruments could be sold on fair terms as of the reporting date. Where market prices (e.g. for marketable securities) were available, we have used these prices without modification for measuring fair value. If no market prices were available, the fair values for loans/receivables and liabilities were calculated by discounting using a maturity-matched discount rate appropriate to the risk. The discount rate was determined by adjusting risk-free yield curves, where appropriate, by relevant risk factors and to take into account capital and administrative costs. For reasons of materiality, the fair values of loans/receivables and liabilities due within one year were deemed to be the same as the carrying amount.

Likewise, no fair value was determined for miscellaneous financial assets because there is no active market for the unlisted equity investments in the miscellaneous financial assets and fair values could not be reliably determined without disproportionate time, effort and expense. Due to the short maturity and the variable interest rate linked to the market interest rate, the fair value of irrevocable credit commitments is not material. The fair value of financial guarantees is not material either.

	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
€ million	Dec. 31, 2017	Dec. 31, 2016[1]	Dec. 31, 2017	Dec. 31, 2016[1]	Dec. 31, 2017	Dec. 31, 2016
Assets						
Measured at fair value						
Derivative financial instruments	62	142	62	142	–	–
Marketable securities	257	2,993	257	2,993	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	40	1,478	40	1,478	–	–
Loans to and receivables from banks	1,444	2,236	1,444	2,236	0	0
Loans to and receivables from customers	49,893	102,243	49,804	100,664	88	1,579
Other assets	1,034	1,242	1,034	1,242	–	–
Derivative financial instruments designated as hedges	493	1,156	493	1,156	–	–
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	77	220	77	220	–	–
Measured at amortized cost						
Liabilities to banks	11,013	16,949	10,982	17,034	32	−85
Liabilities to customers	9,703	49,525	9,673	49,454	30	71
Notes, commercial paper issued	32,453	37,873	32,453	37,849	0	24
Other liabilities	675	693	672	690	4	4
Subordinated capital	3,685	2,930	4,354	3,183	−669	−253
Derivative financial instruments designated as hedges	134	293	134	293	–	–

1 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled "Restated Prior-Year Figures".

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

Percent	EUR	USD	GBP	JPY	BRL	MXN	SEK	CZK	AUD	CNY	PLN	INR	RUB	KRW	DKK
Interest rate for six months	−0.321	1.750	0.545	0.028	6.661	8.339	−0.382	0.482	1.793	4.928	1.728	6.523	7.995	1.711	−0.406
Interest rate for one year	−0.283	1.901	0.623	0.030	6.887	8.553	−0.330	0.454	1.858	4.780	1.790	6.594	7.800	1.838	−0.256
Interest rate for five years	0.317	2.240	1.033	0.101	9.965	7.675	0.498	1.620	2.518	4.740	2.480	6.605	7.570	2.128	0.453
Interest rate for ten years	0.884	2.392	1.274	0.261	–	7.710	1.200	1.845	2.830	4.630	2.910	6.630	7.520	2.200	1.048

58. Offsetting of Financial Assets and Liabilities

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

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

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

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

€ million	Gross amount of recognized financial assets/liabilities		Gross amount of recognized financial assets/liabilities offset in the balance sheet		Net amount of financial assets/liabilities reported in the balance sheet		AMOUNTS NOT OFFSET IN THE BALANCE SHEET: Financial instruments		AMOUNTS NOT OFFSET IN THE BALANCE SHEET: Collateral received/pledged		Net amount	
	Dec. 31, 2017	Dec. 31, 2016[1]	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016[1]	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016[1]
Assets												
Cash reserve	40	1,478	–	–	40	1,478	–	–	–	–	40	1,478
Loans to and receivables from banks	1,444	2,236	–	–	1,444	2,236	–	–	–	–	1,444	2,236
Loans to and receivables from customers	49,804	100,746	–	−82	49,804	100,664	–	–	−67	−65	49,737	100,599
Derivative financial instruments	555	1,297	–	–	555	1,297	−92	−123	–	−175	463	999
Marketable securities	257	2,993	–	–	257	2,993	–	–	–	–	257	2,993
Miscellaneous financial assets	0	0	–	–	0	0	–	–	–	–	0	0
Other assets	1,034	1,255	–	−14	1,034	1,242	–	–	–	–	1,035	1,242
Total	**53,135**	**110,005**	**–**	**−96**	**53,135**	**109,910**	**−92**	**−123**	**−67**	**−240**	**52,976**	**109,547**
Equity and liabilities												
Liabilities to banks	10,982	17,034	–	–	10,982	17,034	–	–	–	−2,051	10,982	14,983
Liabilities to customers	9,673	49,536	–	−82	9,673	49,454	–	–	–	–	9,672	49,454
Notes, commercial paper issued	32,453	37,849	–	–	32,453	37,849	–	–	−521	−904	31,931	36,945
Derivative financial instruments	211	513	–	–	211	513	−92	−123	–	−24	119	366
Other liabilities	672	704	–	−14	672	690	–	–	–	–	672	690
Subordinated capital	4,354	3,183	–	–	4,354	3,183	–	–	–	–	4,354	3,183
Total	**58,344**	**108,819**	**–**	**−96**	**58,344**	**108,723**	**−92**	**−123**	**−521**	**−2,978**	**57,730**	**105,621**

1 Previous year restated as explained in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled “Restated Prior-Year Figures”.

59. Counterparty Default Risk

For qualitative information, please refer to the risk report (Credit Risk section, pages 22 to 23), which forms part of the management report.

The credit and default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the amount of the claims against the counterparty concerned arising from recognized carrying amounts and irrevocable credit commitments. The maximum credit and default risk is reduced by collateral and other credit enhancements amounting to €21,076 million (previous year: €56,593 million). The collateral held is in respect of loans to and receivables from banks and customers in the class “Assets measured at amortized cost”. The types of collateral held include vehicles, other assets pledged as collateral, financial guarantees, marketable securities, cash collateral and charges on real estate. In the previous year, cash deposits were also used as collateral in connection with derivatives.

The following table shows the credit quality of financial assets:

	GROSS CARRYING AMOUNT		NEITHER PAST DUE NOR IMPAIRED		PAST DUE BUT NOT IMPAIRED		IMPAIRED	
€ million	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Measured at fair value	319	3,135	319	3,135	–	–	–	–
Measured at amortized cost								
Cash reserve	40	1,478	40	1,478	–	–	–	–
Loans to and receivables from banks	1,444	2,236	1,444	2,236	–	–	–	–
Loans to and receivables from customers	51,606	103,630	49,162	99,020	1,425	2,089	1,020	2,521
Other assets	1,034	1,242	1,034	1,242	–	–	0	–
Derivative financial instruments designated as hedges	493	1,156	493	1,156	–	–	–	–
Total	**54,937**	**112,877**	**52,492**	**108,267**	**1,425**	**2,089**	**1,020**	**2,521**

The maximum default risk from irrevocable credit commitments and financial guarantees is €1,267 million (previous year: €2,721 million).

These assets are measured in accordance with IAS 39, as already described in notes (8) and (9).

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

	NEITHER PAST DUE NOR IMPAIRED		RISK CLASS 1		RISK CLASS 2	
€ million	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Measured at fair value	319	3,135	319	3,135	–	–
Measured at amortized cost						
Cash reserve	40	1,478	40	1,478	–	–
Loans to and receivables from banks	1,444	2,236	1,444	2,236	–	–
Loans to and receivables from customers	49,162	99,020	40,520	84,924	8,642	14,096
Other assets	1,034	1,242	1,008	1,145	26	96
Derivative financial instruments designated as hedges	493	1,156	493	1,156	–	–
Total	**52,492**	**108,267**	**43,824**	**94,075**	**8,668**	**14,192**

In the financial services business, the group evaluates the credit quality of the borrower before entering into any lending contract or lease. In the retail business, this evaluation is carried out by using scoring systems, whereas rating systems are used for fleet customers and dealer financing transactions. Lending evaluated as “good” is included in risk class 1. Loans to and receivables from customers whose credit quality has not been classified as “good” but who have not yet defaulted are included under risk class 2.

Age analysis of financial assets past due but not impaired, by class:

€ million	Past due but not impaired		IN THE FOLLOWING AGED PAST DUE CATEGORIES: Up to 1 month		1 to 3 months		More than 3 months	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Measured at fair value	–	–	–	–	–	–	–	–
Measured at amortized cost								
Cash reserve	–	–	–	–	–	–	–	–
Loans to and receivables from banks	–	–	–	–	–	–	–	–
Loans to and receivables from customers	1,425	2,089	1,058	1,451	365	637	2	1
Other assets	–	–	–	–	–	–	–	–
Derivative financial instruments designated as hedges	–	–	–	–	–	–	–	–
Total	**1,425**	**2,089**	**1,058**	**1,451**	**365**	**637**	**2**	**1**

The VW FS AG Group intends to recover the following collateral accepted in the reporting period for financial assets:

€ million	Dec. 31, 2017	Dec. 31, 2016
Vehicles	43	87
Real estate	–	–
Other movable assets	–	–
Total	**43**	**87**

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

60. Liquidity Risk

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

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

€ million	ASSETS		REPAYABLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Cash reserve	40	1,478	40	1,478	–	–	–	–	–	–	–	–
Loans to and receivables from banks	1,444	2,236	810	1,652	440	509	28	29	135	46	31	–
Marketable securities	–	2,444	–	–	–	2,444	–	–	–	–	–	–
Total	**1,484**	**6,158**	**850**	**3,130**	**440**	**2,953**	**28**	**29**	**135**	**46**	**31**	**–**

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

€ million	Cash outflows		REMAINING CONTRACTUAL MATURITIES: Up to 3 months		3 months to 1 year		1 to 5 years		More than 5 years	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Liabilities to banks	11,561	17,543	2,557	5,067	4,599	4,868	4,303	7,498	103	110
Liabilities to customers	9,787	50,000	3,169	35,307	2,117	6,735	3,705	7,121	797	836
Notes, commercial paper issued	33,560	38,704	2,462	3,766	6,220	11,802	21,065	19,988	3,813	3,148
Derivative financial instruments	4,495	13,393	1,318	4,817	1,759	4,917	1,415	3,544	2	116
Other liabilities	672	690	147	190	329	254	194	243	1	2
Subordinated capital	4,779	3,754	200	55	126	491	1,242	1,507	3,212	1,701
Irrevocable credit commitments	545	2,648	545	1,201	–	1,447	–	0	–	–
Total	**65,400**	**126,732**	**10,398**	**50,404**	**15,151**	**30,514**	**31,923**	**39,901**	**7,927**	**5,914**

Financial guarantees with a maximum possible drawdown of €721 million (previous year: €73 million) are assumed to be payable on demand at all times.

61. Market Risk

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

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

This approach has produced the following values:

€ million	Dec. 31, 2017	Dec. 31, 2016
Interest-rate risk	188	110
Currency translation risk	60	141
Total market risk	**181**	**155**

62. Hedging Policy Disclosures

HEDGING POLICY AND FINANCIAL DERIVATIVES

Given its international financial activities, the VW FS AG Group is exposed to fluctuations in interest rates and foreign exchange rates on international money and capital markets. The general rules governing the Group-wide currency and interest rate hedging policy are specified in internal Group guidelines. The partners used by the Group when entering into appropriate financial transactions are national and international banks with strong credit ratings whose credit quality is continuously monitored by leading rating agencies. The Group enters into suitable hedging transactions to limit currency and interest rate risks. Regular derivative financial instruments are used for this purpose.

MARKET RISK

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

Interest Rate Risk

Changes in the level of interest rates in the money and capital markets represent an interest rate risk in the case of any funding that is not maturity-matched. Interest rate risk is managed on the basis of recommendations made by the Asset-Liability Management Committee (ALM Committee). Interest rate risk is quantified using interest rate gap analyses to which various scenarios involving changes in interest rates are applied. The calculations take into account uniform risk ceilings applicable throughout the Group.

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

Currency Risk
The VW FS AG Group avoids currency risk by entering into currency hedging contracts, which may be currency forwards or cross-currency swaps. Generally speaking, all cash flows in foreign currency are hedged.

LIQUIDITY RISK, FUNDING RISK

The VW FS AG Group takes precautions to minimize the risk from any potential liquidity squeeze by holding confirmed credit lines and by using debt issuance programs with multicurrency capability.
Local cash funds in certain countries (e.g. China, Brazil, India) are only available to the Group for cross-border transactions subject to exchange controls. There are otherwise no significant restrictions.

DEFAULT RISK

The default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the balance due from the counterparty concerned.

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

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

The breakdown of the notional volume of the derivative financial instruments is as follows:

	REMAINING CONTRACTUAL MATURITIES					
	Up to 1 year		1 to 5 years		More than 5 years	
€ million	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Cash flow hedges						
Interest rate swaps	1,031	1,297	1,385	1,778	–	–
Cross-currency interest rate swaps	387	376	101	500	–	–
Currency forward contracts	–	7	–	–	–	–
Currency swaps	–	–	–	–	–	–
Other						
Interest rate swaps	11,023	16,679	28,506	29,884	4,274	17,270
Cross-currency interest rate swaps	1,057	1,949	744	1,959	–	–
Currency forward contracts	1,490	3,527	2	–	–	–
Currency swaps	56	4,051	483	1,003	–	–
Total	**15,044**	**27,886**	**31,221**	**35,124**	**4,274**	**17,270**

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

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

Segment Reporting

63. Breakdown by Geographical Market

The reportable segments in accordance with IFRS 8 and on the basis of the internal reporting structure of the VW FS AG Group are the geographical markets Germany, Europe, Latin America and Asia-Pacific.

Foreign branches of German subsidiaries are allocated to the Europe segment. The Europe segment comprises 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 consists of the subsidiaries in Mexico and Brazil. The Asia-Pacific segment consists of the subsidiaries in Australia, Japan, China, India and the Republic of Korea.

The Other Companies segment comprises the holding company VW FS AG, the holding and financing companies in the Netherlands, France and Belgium, EURO Leasing companies in Germany, Denmark and Poland, VW Insurance Brokers GmbH and Volkswagen Versicherung AG. In the internal reporting structure, this presentation ensures that there is a separation between market activities on one side and typical holding company or financing functions, industry business, primary insurance business and reinsurance business on the other side.

The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting.

The profit or loss for each individual segment is measured on the basis of the operating profit or loss and profit or loss before tax.

Operating profit or loss includes net income from lending, leasing and insurance transactions after provision for credit risks, net fee and commission income, general and administrative expenses, and other operating income and expenses. The interest expenses, general and administrative expenses and net other operating income/expenses that are not components of operating profit or loss largely comprise interest income and expenses from tax audits, interest costs from unwinding the discount on other provisions, interest expenses for pension provisions and the expected return on plan assets for externally funded pension obligations. Interest income not classified as revenue is interest income that is not attributable to the financial services business. This interest income is not a component of operating profit or loss.

BREAKDOWN BY GEOGRAPHICAL MARKET 2016:

	JAN. 1 – DEC. 31, 2016							
€ million	Germany	Europe[1]	Latin America	Asia-Pacific	Segments total[1]	Other companies	Consolidation	Group[1]
Revenue from lending transactions with third parties	896	616	874	873	3,258	32	–	3,290
Intersegment revenue from lending transactions	100	0	–	0	100	96	−197	–
Total segment revenue from lending transactions	996	616	874	873	3,358	128	−197	3,290
Revenue from leasing and service transactions	8,001	6,227	167	442	14,836	229	−19	15,047
Insurance premiums earned	–	–	–	–	–	197	–	197
Fee and commission income	290	167	119	8	584	42	−32	594
Revenue	**9,287**	**7,010**	**1,159**	**1,323**	**18,778**	**596**	**−248**	**19,127**
Cost of sales attributable to lending, leasing and service transactions	−5,725	−4,350	−78	−150	−10,304	−409	9	−10,705
minus reversals of impairment losses on lease assets and investment property	3	62	–	1	67	–	–	67
Depreciation of and impairment losses on lease assets and investment property	−1,553	−861	−14	−256	−2,684	−27	–	−2,710
of which impairment losses in accordance with IAS 36	−110	−73	−3	−2	−188	–	–	−188
Expenses from insurance business	–	–	–	–	–	−143	26	−118
Interest expense (component of operating profit or loss)	−310	−355	−464	−343	−1,472	−79	197	−1,354
Provision for credit risks from lending and leasing business	−29	−249	−311	−91	−681	−1	–	−682
Fee and commission expenses	−226	−226	−63	−70	−585	−2	7	−581
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	−11	–	–	–	−11	–	–	−11
General and administrative expenses (component of operating profit or loss)	−873	−490	−178	−209	−1,750	−986	705	−2,031
Net other operating income/expenses (component of operating profit or loss)	121	23	−1	22	164	1,159	−695	628
Segment profit or loss (operating profit or loss)	**684**	**564**	**48**	**227**	**1,523**	**108**	**–**	**1,630**
Interest income not classified as revenue	7	0	1	–	7	0	0	7
Interest expense (not a component of operating profit or loss)	−1	–	0	0	−1	−8	–	−9
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	−18	−19	0	−1	−38	−25	0	−63
Share of profits and losses of equity-accounted joint ventures	–	–	–	–	–	–	77	77
Net gain/loss on marketable securities and miscellaneous financial assets	−7	11	–	–	4	117	−101	20
General and administrative expenses (not a component of operating profit or loss)	−1	0	0	0	−2	−8	–	−9
Net other operating income/expenses (not a component of operating profit or loss)	−4	−1	1	0	−3	–	–	−3
Profit before tax	**659**	**554**	**51**	**226**	**1,490**	**184**	**−24**	**1,650**
Income tax expense	−254	−130	−12	−73	−469	−38	−2	−509
Profit after tax	**405**	**424**	**39**	**153**	**1,021**	**146**	**−26**	**1,141**
Segment assets	**49,545**	**35,275**	**6,299**	**13,838**	**104,957**	**703**	**–**	**105,659**
of which noncurrent	**32,034**	**21,166**	**2,990**	**9,117**	**65,308**	**137**	**–**	**65,445**
Segment liabilities	**67,479**	**33,246**	**5,191**	**12,613**	**118,529**	**13,187**	**−27,881**	**103,835**

1 Previous year restated as explained in the disclosures on the leasing business in the United Kingdom and Irish markets and in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled “Restated Prior-Year Figures”.

BREAKDOWN BY GEOGRAPHICAL MARKET 2017:

€ million	Germany	Europe	Latin America	Asia-Pacific	Segments total	Other companies	Consolidation	Group
	JAN. 1 – DEC. 31, 2017							
Revenue from lending transactions with third parties	698	506	857	983	3,043	19	–	3,062
Intersegment revenue from lending transactions	63	1	–	–	64	102	−146	20
Total segment revenue from lending transactions	760	507	857	983	3,108	121	−146	3,082
Revenue from leasing and service transactions	8,453	4,723	227	359	13,762	270	−19	14,013
Insurance premiums earned	–	–	–	–	–	287	–	287
Fee and commission income	186	123	128	8	445	44	−28	461
Revenue	**9,399**	**5,353**	**1,212**	**1,350**	**17,315**	**722**	**−193**	**17,844**
Cost of sales attributable to lending, leasing and service transactions	−6,100	−3,352	−122	−146	−9,720	−227	8	−9,939
minus reversals of impairment losses on lease assets and investment property	4	12	0	4	20	–	–	20
Depreciation of and impairment losses on lease assets and investment property	−1,676	−727	−17	−187	−2,608	−29	–	−2,637
of which impairment losses in accordance with IAS 36	−169	−69	−7	−2	−247	−6	–	−253
Expenses from insurance business	–	–	–	–	–	−190	21	−169
Interest expense (component of operating profit or loss)	−227	−246	−400	−418	−1,290	−70	146	−1,214
Provision for credit risks from lending and leasing business	−3	10	−346	−65	−404	−3	–	−407
Fee and commission expenses	−145	−128	−62	−78	−413	−3	7	−409
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	−8	–	–	–	−8	–	–	−8
General and administrative expenses (component of operating profit or loss)	−808	−386	−201	−178	−1,573	−972	551	−1,994
Net other operating income/expenses (component of operating profit or loss)	8	15	−33	20	11	832	−547	296
Segment profit or loss (operating profit or loss)	**444**	**551**	**32**	**303**	**1,329**	**60**	**−6**	**1,383**
Interest income not classified as revenue	3	0	1	–	4	5	–	9
Interest expense (not a component of operating profit or loss)	−1	–	0	–	−1	−4	–	−5
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	10	−21	0	0	−11	1	1	−8
Share of profits and losses of equity-accounted joint ventures	–	–	–	–	–	44	38	82
Net gain/loss on marketable securities and miscellaneous financial assets	8	10	2	–	20	−424	372	−32
General and administrative expenses (not a component of operating profit or loss)	−1	0	0	0	−1	−7	–	−8
Net other operating income/expenses (not a component of operating profit or loss)	−1	0	−5	0	−6	0	–	−6
Profit before tax	**461**	**539**	**30**	**303**	**1,334**	**−325**	**405**	**1,413**
Income tax expense	−124	−108	8	−88	−311	68	−51	−295
Profit after tax	**337**	**431**	**38**	**216**	**1,022**	**−258**	**354**	**1,118**
Segment assets	**27,104**	**1,994**	**5,193**	**15,274**	**49,565**	**667**	**–**	**50,233**
of which noncurrent	**18,532**	**1,549**	**2,324**	**9,828**	**32,233**	**125**	**–**	**32,358**
Segment liabilities	**28,139**	**2,522**	**4,235**	**14,010**	**48,906**	**12,228**	**−6,100**	**55,033**

All business transactions between the segments are conducted on an arm's-length basis.

The consolidation in revenue from lending transactions and interest expenses resulted from the provision of intragroup funding between geographical markets.

Information on the main products (lending and leasing business) can be taken directly from the income statement (see note 22).

The additions to noncurrent lease assets amounted to €4,092 million (previous year: €3,442 million) in Germany, €2,277 million (previous year: €2,963 million) in the Europe segment, €31 million (previous year: €145 million) in the Latin America segment and €34 million (previous year: €203 million) in the Asia-Pacific segment. Investment recognized under other assets was of minor significance.

Below, the presentation of segment profit or loss and of consolidated profit before tax is classified into continuing operations and discontinued operations.

€ million	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2016
Classification of segment profit or loss (operating profit or loss) of the Group	**1,383**	**1,630**
Continuing operations	609	609
Discontinued operations	774	1,022
Classification of consolidated profit before tax	**1,413**	**1,650**
Continuing operations	643	615
Discontinued operations	779	1,035
Costs to sell	−8	–

The discontinued operations are included in the Germany and Europe segments.

Individual line items in the financial statements are aggregated for the purposes of internal reporting. The following table shows the reconciliation of these line items in the financial statements to the segment reporting disclosures.

€ million	Dec. 31, 2017	Dec. 31, 2016[1]
Interest income from lending transactions	2,933	3,162
minus interest income not classified as revenue	9	7
Net income from leasing transactions before provision for credit risks	1,662	1,946
minus expenses from leasing transactions and service contracts	−9,735	−10,536
minus depreciation of and impairment losses on lease assets and investment property	−2,637	−2,710
minus reversals of impairment losses on lease assets and investment property	20	67
minus leasing income not classified as revenue	–	79
Net income from insurance business	118	79
minus expenses from insurance business	−169	−118
Fee and commission income	461	594
Revenue included in net other operating income/expenses	158	135
Consolidated revenue	**17,844**	**19,127**
Net income from leasing transactions before provision for credit risks	1,662	1,946
minus income from leasing transactions and service contracts	14,034	15,192
minus depreciation of and impairment losses on lease assets and investment property	−2,637	−2,710
Cost of sales included in net other operating income/expenses	−204	−169
Consolidated cost of sales attributable to lending, leasing and service transactions	**−9,939**	**−10,705**
Loans to and receivables from customers attributable to		
Retail financing	16,269	41,726
Dealer financing	3,584	14,638
Leasing business	18,809	34,344
Other loans and receivables	11,143	9,957
of which not included in segment assets	−11,143	−9,701
Lease assets	11,570	14,696
Consolidated assets in accordance with segment reporting	**50,232**	**105,659**
Liabilities to banks	10,982	17,034
of which not included in segment liabilities	−27	−74
Liabilities to customers	9,672	49,454
of which not included in segment liabilities	−2,235	−3,468
Notes, commercial paper issued	32,453	37,849
of which not included in segment liabilities	−165	−142
Subordinated capital	4,354	3,183
Consolidated liabilities in accordance with segment reporting	**55,033**	**103,835**

1 Previous year restated as explained in the disclosures on the leasing business in the United Kingdom and Irish markets and in the disclosures on the separately recognized derivatives in the United Kingdom market in the section entitled “Restated Prior-Year Figures”.

Other Disclosures

64. Cash Flow Statement

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

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

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

The following table shows the breakdown of the changes in subordinated capital (as part of financing activities) into cash and non-cash transactions.

			NON-CASH TRANSACTIONS			
€ million	Balance as of Jan. 1, 2017	Cash changes	Exchange rate changes	Changes in basis of consolidation	Measurement changes	As of Dec. 31, 2017
Subordinated capital	3,183	1,774	–150	–453	–	4,354

65. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

The contingent liabilities of €363 million (previous year: €364 million) largely relate to legal disputes concerning tax matters in which the criteria for the recognition of a provision in accordance with IAS 37 are not satisfied. Based on analysis of the individual matters covered by the contingent liabilities, we believe that the disclosure of further detailed information on individual proceedings, legal disputes or legal risks could seriously prejudice the course or initiation of proceedings.

The trust assets and liabilities of the savings and trust entity belonging to the Latin American subsidiaries are not included in the consolidated balance sheet and amounted to €768 million (previous year: €944 million).

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2017	DUE 2018 – 2021	DUE From 2022	TOTAL Dec. 31, 2016
Purchase commitments in respect of				
property and equipment	56	–	–	56
intangible assets	1	–	–	1
investment property	–	–	–	–
Obligations from				
irrevocable credit and leasing commitments to customers	2,648	0	–	2,648
long-term leasing and rental contracts	27	48	48	123
Miscellaneous financial obligations	80	3	–	83

€ million	DUE 2018	DUE 2019 – 2022	DUE From 2023	TOTAL Dec. 31, 2017
Purchase commitments in respect of				
property and equipment	20	–	–	20
intangible assets	0	–	–	0
investment property	–	–	–	–
Obligations from				
irrevocable credit and leasing commitments to customers	545	–	–	545
long-term leasing and rental contracts	22	34	5	62
Miscellaneous financial obligations	31	1	–	32

In the case of irrevocable credit commitments, we expect the customers to draw down the facilities concerned.

66. Average Number of Employees during the Reporting Period

	2017	2016
Salaried employees	10,073	11,554
Vocational trainees	136	149
Total	**10,209**	**11,703**

67. Related Party Disclosures

Related parties within the meaning of IAS 24 are deemed to be individuals or entities who can be influenced by VW FS AG, who can exercise an influence over VW FS AG, or who are under the influence of another related party of VW FS AG.

Volkswagen AG, Wolfsburg, is the sole shareholder in VW FS AG. In addition, Porsche Automobil Holding SE, Stuttgart, controlled 52.2% of the voting rights in Volkswagen AG as of the reporting date and therefore held a majority. The Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved the creation of rights of appointment for the State of Lower Saxony. As a result of these rights, Porsche SE can no longer appoint a majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore deemed to be a related party within the meaning of IAS 24. According to a notification submitted on January 5, 2016, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights in Volkswagen AG as of December 31, 2016 and therefore indirectly had significant influence over the VW FS AG Group. In addition, as referred to above, the Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved a resolution under which the State of Lower Saxony could appoint two members of the Supervisory Board (right of appointment).

Volkswagen AG as the sole shareholder and VW FS AG have entered into a control and profit-and-loss transfer agreement.

Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities provide the entities in the VW FS AG Group with funding on an arm's-length basis. As part of funding transactions, Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities sold vehicles to entities in the VW FS AG Group on an arm's-length basis. These transactions are presented in the "Goods and services received" line item. Volkswagen AG and its subsidiaries have also furnished collateral in our favor as part of the operating business.

The "Goods and services provided" line item primarily contains income from leasing transactions.

The business transactions with unconsolidated subsidiaries and joint ventures of VW FS AG mainly relate to the provision of funding and of services. These transactions are always conducted on an arm's-length basis, e.g. when using the cost plus method for the provision of services.

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

FISCAL YEAR 2016

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Non-consolidated subsidiaries	Joint ventures
Loans and receivables	0	0	329	0	4,138	64	5,984
Valuation allowances on loans and receivables	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–
Obligations	3	10	6,226	–	11,532	208	2
Interest income	0	0	4	–	120	6	129
Interest expense	0	0	–12	0	–225	–3	0
Goods and services provided	0	–	1,056	0	3,530	79	51
Goods and services received	–	–	7,984	–	7,193	34	12

The goods and services shown in the “Volkswagen AG” column included support payments from the Volkswagen Group in the previous year.

FISCAL YEAR 2017

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Non-consolidated subsidiaries	Joint ventures
Loans and receivables	–	–	1,564	0	7,006	101	3,592
Valuation allowances on loans and receivables	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–
Obligations	–	–	4,029	–	9,890	241	112
Interest income	–	–	8	–	153	7	106
Interest expense	0	0	–10	–	–203	–2	–
Goods and services provided	0	–	587	0	3,150	90	152
Goods and services received	0	0	8,222	–	4,753	47	153

The “Other related parties in the group of consolidated entities” column includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG’s group of consolidated entities. The relationships with the Supervisory Board and the Board of Management comprise relationships with the relevant groups of people at VW FS AG and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of lesser significance.

Members of the Board of Management and Supervisory Board of VW FS AG are members of management and supervisory boards of other entities in the Volkswagen Group with which we sometimes conduct transactions in the normal course of business. All transactions with these related parties are on an arm’s-length basis.

During the course of the reporting period, standard short-term bank loans amounting to an average total of €338 million (previous year: €563 million) were granted to related parties as part of dealer financing.

BOARD OF MANAGEMENT REMUNERATION

€ million	2017	2016
Short-term benefits	6	5
Long-term benefits	1	3
Termination benefits	–	–
Post-employment benefits	2	9

In accordance with a resolution passed by the Annual General Meeting, the members of the Supervisory Board are entitled to annual remuneration. This remuneration is independent of the performance of the Company and the Supervisory Board role undertaken by the person concerned. Various members of the Supervisory Board are also members of the supervisory boards of other Volkswagen AG subsidiaries. The remuneration received for these functions is deducted from the entitlement to remuneration from VW FS AG. As a result, a total amount of less than €0.04 million was paid out to the members of the Supervisory Board in the reporting period.

The employee representatives on the Supervisory Board of VW FS AG also receive their regular salaries under the terms of their employment contracts. This salary is based on the provisions in the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act) and is an appropriate remuneration for the relevant function or activity in the Company. The same also applies to the representative of the senior executives on the Supervisory Board.

The total payments made to former members of the Board of Management and their surviving dependants amounted to €0.5 million (previous year: €0.5 million); the provisions recognized for this group of people to cover current pensions and pension entitlements amounted to €14 million (previous year: €15 million).

68. Disclosures Relating to Unconsolidated Structured Entities

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

Typical features of a structured entity are as follows:
- limited scope of activities;
- narrowly defined business purpose;
- inadequate equity to finance the business activities;
- financing through a number of instruments that contractually bind investors and that give rise to a concentration of credit risk and other risks.

VW FS AG maintained business relationships with structured entities, both in the reporting year until the derecognition of the companies in the discontinued operations (European lending and deposits business) and in the previous year. These are ABS special purpose entities within Volkswagen AG's group of consolidated entities. The entities carry out a process of securitization by taking assets from lending agreements and leases for vehicles and transforming them into securities (asset-backed securities) on a maturity-matched basis. In the VW FS AG Group, these fully or partially purchased securities issues were classified as available-for-sale financial assets. Under the principles specified in IFRS 10, the ABS special purpose entities are not controlled by VW FS AG and are therefore not included in the consolidated financial statements. The acquisition of the securities issued by ABS special purpose entities in the Volkswagen AG group of consolidated entities means that the financial services business of the associated entities is funded within the Volkswagen AG group of consolidated entities. Some of the securities purchased in the VW FS AG Group were deposited at Deutsche Bundesbank and were furnished as collateral in connection with open market operations.
The purchase of the securities gave rise to counterparty default risk on the part of the issuer and interest rate risk. The maximum risk exposure of VW FS AG arising from its interests in unconsolidated structured entities

was limited to the fair value of the acquired bonds reported in the balance sheet and the carrying amount of any subordinated loans granted to the entities concerned.

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

€ million	ABS SPECIAL PURPOSE ENTITIES 2016
Reported in the balance sheet as of December 31	
Marketable securities	285
Loans to and receivables from customers[1]	116
Maximum loss risk	401
Nominal volume of securitized assets	1,187

1 Subordinated loans granted

VW FS AG did not provide unconsolidated structured entities with any noncontractual support during the reporting period.

69. Executive Bodies of Volkswagen Financial Services AG

The members of the Board of Management are as follows:

LARS HENNER SANTELMANN
Chairman of the Board of Management
Corporate Management
Insurance (until August 31, 2017)
China/India/ASEAN, Latin America regions (until August 31, 2017)
China region (from September 1, 2017)
Mobility unit (from September 1, 2017)

DR. MARIO DABERKOW
Information Technology and Processes

DR. CHRISTIAN DAHLHEIM
Sales and Marketing
Germany, Europe, International regions
Latin America, South Africa regions (from September 1, 2017)
Truck & Bus Division (until August 31, 2017)

FRANK FIEDLER
Finance and Purchasing

CHRISTIANE HESSE
Human Resources and Organization

DR. MICHAEL REINHART (UNTIL AUGUST 31, 2017)
Risk Management and Credit Analysis (until August 31, 2017)

The members of the Supervisory Board are as follows:

FRANK WITTER
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

DR. KARLHEINZ BLESSING (FROM AUGUST 18, 2017)
Deputy Chairman (from September 20, 2017)
Member of the Board of Management of Volkswagen AG
Human Resources and Organization

DR. JÖRG BOCHE (UNTIL AUGUST 17, 2017)
Deputy Chairman
Executive Vice President of Volkswagen AG
Head of Group Treasury

STEPHAN WOLF
Deputy Chairman
Deputy Chairman of the General and Group Works Councils of Volkswagen AG

DR. ARNO ANTLITZ
Member of the Board of Management Volkswagen Brand
Controlling and Accounting

JOACHIM DREES (FROM AUGUST 18, 2017)
Chief Executive Officer of MAN SE and MAN Truck & Bus AG

WALDEMAR DROSDZIOK (UNTIL AUGUST 17, 2017)
Chairman of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

PROF. DR. SUSANNE HOMÖLLE (UNTIL AUGUST 14, 2017)
Chair of Banking and Finance
University of Rostock

FRED KAPPLER
Head of Group Sales
Volkswagen AG

ANDREAS KRAUß (FROM AUGUST 18, 2017)
Member of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

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

DR.-ING. PETER MERTENS (FROM JANUARY 1, 2018)
Member of the Board of Management of AUDI AG
Technical Development

GABOR POLONYI
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

EVA STASSEK
Principal Representative of IG Metall Braunschweig

AXEL STROTBEK (UNTIL AUGUST 31, 2017)
Member of the Board of Management of AUDI AG
Finance, IT and Integrity

COMMITTEES OF THE SUPERVISORY BOARD
As of December 31, 2017

All committees were dissolved on September 1, 2017.

MEMBERS OF THE REMUNERATION COMMITTEE
Frank Witter (Chairman)
Waldemar Drosdziok (Deputy Chairman) (until August 17, 2017)
Axel Strotbek (until August 31, 2017)

MEMBERS OF THE NOMINATION COMMITTEE
Frank Witter (Chairman)
Waldemar Drosdziok (Deputy Chairman) (until August 17, 2017)
Dr. Arno Antlitz
Fred Kappler

MEMBERS OF THE JOINT RISK AND AUDIT COMMITTEE
Dr. Jörg Boche (Chairman) (until August 17, 2017)
Waldemar Drosdziok (Deputy Chairman) (until August 17, 2017)
Dr. Arno Antlitz
Prof. Dr. Susanne Homölle (until August 14, 2017)
Gabor Polonyi

70. Letter of Comfort for Our Affiliated Companies

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 Pvt. Ltd., Mumbai, India; Volkswagen Doğuş Finansman A.Ş., Kağıthane-Istanbul, Turkey; Volkswagen Doğuş Faktoring A.Ş.[1], Kağıthane-Istanbul, Turkey.

1 Added through a resolution by the Board of Management on February 8, 2018.

71. Events After the Balance Sheet Date

On January 4, 2018, Volkswagen Financial Services AG added €21 million to the capital reserves of Volkswagen Møller Bilfinans A/S, Oslo, Norway.

On January 19, 2018, Volkswagen Financial Services AG made a contribution of €20 million to the capital reserves of Mobility Trader GmbH, Berlin, Germany.

In a transaction dated January 29, 2018, Volkswagen Financial Services AG added €14 million to the capital reserves of Volkswagen Finance Lux II S.A., Strassen, Luxembourg.

On January 22, 2018 a borrower's note loan of €600 million was raised from external creditors.

There were no other significant developments after the end of fiscal year 2017.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Braunschweig, February 12, 2018

Volkswagen Financial Services AG
The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Dr. Christian Dahlheim

Frank Fiedler

Christiane Hesse

Independent Auditor’s Report

To VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig

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

Audit Opinions

We have audited the consolidated financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, which is combined with the Company’s management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the proportion of women) in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the above mentioned statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:
❶ Recoverability of lease assets
❷ Deconsolidation of the VW Bank Group and treatment as dividend in kind

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

Hereinafter we present the key audit matters:
❶ Recoverability of lease assets
① Vehicles from current leases are reported under the balance sheet item "Lease assets" in the amount of EUR 11,571 million (16.8% of consolidated total assets) in the consolidated financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT as of December 31, 2017. The measurement of the lease assets is based on amortized cost and the recoverable amount. The Volkswagen Financial Services Group performs a quarterly impairment test of the lease assets. The carrying amount of the relevant asset is compared with the corresponding recoverable amount in the context of the impairment test. The results of internal and external marketing and the executive directors' estimate of the development of market prices for vehicles are taken into account for this purpose. Write-downs amounting to EUR 253 million were recognized in respect of lease assets in the fiscal year on the basis of this valuation.

The measurement of the lease assets is, firstly, of great significance for the assets, liabilities, and financial performance of the Group in terms of amount and, secondly, involves considerable scope for judgment on the part of the executive directors, since the use of models and assumptions creates material uncertainties due to the estimates required for the measurement exercise. In addition, the current public discussion about the development of the residual values of vehicles with diesel engines (bans on diesel vehicles in inner cities, shift in demand towards vehicles with petrol engines) contributes further to the uncertainty involved in measuring the vehicles recognized. Against this background, this matter was of particular significance in the context of our audit.

② Our audit included in particular assessing the valuations carried out by the Company with respect to whether these were up to date, as well as the methodology applied and the transparency of the valuation. At the same time, we obtained an understanding of the source data underlying the valuation, the value inputs and the assumptions made, evaluated those factors critically and assessed whether they are within a reasonable range. In addition to this, our assessment of the assumptions made by the executive directors with respect to marketing was based, among other things, on a comparison with general and sector-specific market expectations as well as documentation and explanations from the executive directors relating to the expected marketing results. Furthermore, we verified the classification of the vehicles as property and equipment and evaluated the accounting policies applicable as a result.

Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures relating to the lease assets are contained in notes 16, 38 and 40 to the consolidated financial statements.

❷ Deconsolidation of the VW Bank Group and treatment as dividend in kind

① In fiscal year 2017, VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT implemented the strategic reorientation of the Volkswagen Financial Services subgroup resolved at the close of 2016 from both an organizational and legal point of view and completed its split and segregation into two independent subgroups. On November 18, 2016, the supervisory board of Volkswagen AG approved the spin-off of the 100% interest in Volkswagen Bank GmbH. Other shareholdings, primarily the 100% interests in Volkswagen Financial Services (UK) Ltd., Milton Keynes (United Kingdom), Volkswagen Finans Sverige AB, Södertälje (Sweden) and ŠkoFIN s.r.o., Prague (Czech Republic), were transferred to Volkswagen Bank GmbH in connection with the spin-off. Following the Company's deconsolidation of the companies belonging to the Volkswagen Bank Group (referred to in the following as "Volkswagen Bank Group") as of September 1, 2017, the Volkswagen Bank Group was reported as a discontinued operation in the consolidated financial statements as of December 31, 2017.

The spin-off of the investment in Volkswagen Bank GmbH to Volkswagen AG, treated as a distribution in accordance with IFRSs, was effected as of September 1, 2017 in the form of a dividend in kind at the book value of the net assets transferred. This resulted in a corresponding reduction in consolidated equity of EUR 11,559 million.

As a result of the spin-off of the Volkswagen Bank Group as of September 1, 2017, VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELSCHAFT relinquished control of the Volkswagen Bank Group. The Volkswagen Bank Group was deconsolidated accordingly. At Group level, in addition to the reduction in net assets reflected directly in equity, the deconsolidation generated an overall loss after tax of EUR 220 million, mainly due to the realization through profit or loss of currency translation losses previously recognized directly in consolidated equity as accumulated other comprehensive income. In our view, in light of the complexity of the contractual arrangements and the numerous material effects on the consolidated financial statements, this matter was of particular significance for our audit.

② For the purposes of assessing the proper accounting treatment of the spin-off of the VW Bank Group, among other things we examined the legal bases of the spin-off process in accordance with company law, stock corporation law and companies reorganization law, and evaluated the related contractual arrangements and the spin-off documentation, in particular the spin-off report and the spin-off agreement.

We also assessed whether the classification as a discontinued operation in accordance with IFRS 5 as of December 31, 2017 was appropriate, and whether the presentation in the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of profit or loss, the consolidated statement of changes in equity, and the consolidated statement of cash flows, as well as in the notes to the consolidated financial statements, was consistent with IFRS accounting standards and generally accepted professional interpretations. We evaluated the underlying assumptions for the treatment of the spin-off as a dividend in kind and its measurement at book values. With respect to the measurement of the disposal group at book value as of September 1, 2017, we verified that the amounts were correctly derived from the accounting records of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT.

We examined the spin-off agreements and the entry in the commercial register which led to the loss of control and therefore to deconsolidation, in order to ensure that the date of deconsolidation was correctly determined. In addition, we assessed whether the deconsolidation process was correct from a technical standpoint and whether the gain or loss on deconsolidation was correctly determined and recorded.

By means of these and other audit procedures, we were able to satisfy ourselves that the accounting treatment of the restructuring was sufficiently documented and comprehensible on the basis of the available information.

③ The Company's disclosures relating to the presentation as a discontinued operation and the deconsolidation are contained in the "Accounting Policies" section under "Discontinued operation European lending and deposits business" in the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the proportion of women) which we obtained prior to the date of our auditor's report.

The annual report is expected to be made available to us after the date of the auditor's report.

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

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on April 3, 2017. We were engaged by the supervisory board on September 29, 2017. We have been the group auditor of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, without interruption since financial year 1991.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Frank Hübner.

Hanover, February 14, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Frank Hübner	Burkhard Eckes
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

of Volkswagen Financial Services AG

In fiscal year 2017, the Supervisory Board gave regular and thorough consideration to the position and development of Volkswagen Financial Services AG and the Volkswagen Financial Services AG Group.

During the reporting period, the Board of Management informed the Supervisory Board promptly and comprehensively at all times, in writing or verbally, regarding material aspects of the Company's planning and position, including the risk situation and the risk management system, and also regarding business development and any deviations from planning and targets. Based on these reports of the Board of Management, the Supervisory Board constantly monitored the management of the Company's and the Group's business and was thus able to carry out without limitation the functions assigned to it by law and under the articles of association. All decisions of fundamental importance for the Company and other transactions requiring the approval of the Supervisory Board under the rules of procedure were reviewed and discussed with the Board of Management before the relevant resolution was adopted.

The Supervisory Board generally comprises twelve members. Changes in the reporting period are disclosed in the information on governing bodies.

The Supervisory Board held three regular meetings in the reporting period; there were no extraordinary meetings. The average attendance rate was 91%. One member of the Supervisory Board attended less than half of the meetings; all other members of the Supervisory Board were present at more than half of the meetings. Decisions were made on four urgent matters by means of a written resolution circulated to each of the members for approval; the Chairman of the Supervisory Board also made four urgent decisions using the written procedure.

COMMITTEE ACTIVITIES

The Supervisory Board has set up various committees to enable it to fulfill its responsibilities, namely the Joint Risk and Audit Committee, the Nomination Committee, the Remuneration Committee and the Credit Committee. The committees were dissolved on September 1, 2017 as part of the separation of the lending business supervised by the European Central Bank from the other areas of business undertaken by Volkswagen Financial Services AG.

The Joint Risk and Audit Committee focused on the business and risk strategy, the refinancing and liquidity position, and on internal and external audit activities, together with the related findings. The committee also addressed the changes in the business strategy at Volkswagen Financial Services AG. In addition, the Joint Risk and Audit Committee discussed the allocation of profit or loss by region, product group and source of earnings. The committee received detailed reports from the Board of Management on the terms and conditions in the customer business and from the Head of Internal Audit. The committee consisted of five members. It held one meeting in the reporting period.

The Nomination Committee dealt with the annual evaluation of the Board of Management and of the Supervisory Board in accordance with section 25d of the Kreditwesengesetz (KWG – German Banking Act), based on the structure, size, composition and performance of the respective board, as well as on the knowledge, skills and experience of the individual board members and of the respective board as a whole. The committee also devoted a great deal of time to the appointments to the senior management bodies, supervisory boards and advisory boards after the implementation of the reorganization of the legal entities. In particular, it discussed reducing the size of the Board of Management of Volkswagen Financial Services AG by one person to a total of five board members and made a corresponding recommendation to the Supervisory Board. The committee consisted of four members. It held one meeting in the reporting period.

The Remuneration Committee's main focus was to review the remuneration of the Board of Management of Volkswagen Financial Services AG, taking into account the requirements of the Institutsvergütungsverordnung (InstitutsVergV – German Remuneration Regulation for Institutions), which include a malus review, a sustainability component and ascertaining whether ancillary conditions have been met. Other matters addressed by the committee included the length of the contracts for the new members of the managements of Volkswagen Bank GmbH and Volkswagen Leasing GmbH. The committee consisted of three members. It held two meetings in the reporting period. It approved the issue of powers of attorney ("Prokura") by written resolution.

The Credit Committee was responsible for approving issues the Supervisory Board must deal with under statutory provisions and the rules of procedure regarding loan commitments, the assumption of sureties, guarantees and similar liabilities, company borrowings, the purchasing of receivables (factoring) and for general agreements related to the assumption of receivables. The Credit Committee comprised three members of the Supervisory Board and made its decisions by means of written resolutions.

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

Following the dissolution of the committees, the full Supervisory Board has taken over responsibility for the tasks previously carried out by the committees.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on March 6, 2017, the Supervisory Board examined in detail and then approved both the consolidated financial statements of the Volkswagen Financial Services AG Group and the annual financial statements of Volkswagen Financial Services AG for 2016 prepared by the Board of Management. The Supervisory Board also discussed the status and further development of the strategies covering mobility and digitalization. In addition, it received reports on the progress of the reorganization of the legal entities. Other items included a report on the forthcoming changes to the Institutsvergütungsverordnung (InstitutsVergV – German Remuneration Regulation for Institutions), referred to as IVV 3.0. Finally, the Supervisory Board approved a majority equity investment in an e-payments company and agreed a proposal for establishing a used vehicles platform. The aim of these projects is to press ahead with the process of opening up further areas of business for Volkswagen Financial Services AG.

In this meeting and also in the meetings held on June 16, 2017 and September 20, 2017, the Board of Management provided the Supervisory Board with comprehensive reports on the economic and financial position of the Company and the Group.

At the meeting of the Supervisory Board on June 16, 2017, the Board of Management presented detailed reports on the current status of various projects and products related to the topic of mobility. In this regard, the meeting also discussed the role of the portfolio of services offered by the Volkswagen Financial Services subgroup in the context of the overall group. In addition, the Board of Management provided the Supervisory Board with an IT status report. The report focused on compliance and security as well as on the status of projects such as the implementation of the provisions under the EU's General Data Protection Regulation. Under further agenda items, the Supervisory Board give its consent to the establishment of a bank in the United Kingdom, the restructuring of the equity investment in Volkswagen Versicherungsdienst GmbH (Austria) and to an increase in the equity of Volkswagen Bank GmbH.

The meeting of the Supervisory Board held on September 20, 2017 mainly addressed the structural changes carried out on September 1, 2017 as part of reorganization of the legal entities and the status of the subsequent stages in the project. The Board of Management also reported on key aspects of the strategy at Volkswagen Financial Services AG, including customer focus measures. In a further report, the Board of Management gave the Supervisory Board an overview of the status of the development of IT project performance. Finally, the Supervisory Board approved a number of items, including the establishment of an interim holding company (for the purposes of holding various equity investments) and the restructuring of the PayByPhone companies.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, was appointed to audit both the consolidated financial statements of the Volkswagen Financial Services AG Group in accordance with IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with HGB for the year ended December 31, 2017, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Financial Services AG Group in accordance with IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with HGB for the year ended December 31, 2017, together with the management reports, were submitted to the Supervisory Board. The auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, audited these financial statements, including the bookkeeping system and the management reports, and issued an unqualified auditor's opinion in each case.

The Supervisory Board agrees with the findings of these audits. The Supervisory Board had no reservations after its review of the consolidated financial statements and the annual financial statements, including the management reports. The independent auditors were present when this agenda item was addressed at the Supervisory Board meeting and they reported on the main findings of their audit.

At its meeting on March 7, 2018, the Supervisory Board approved both the consolidated financial statements and annual financial statements of Volkswagen Financial Services AG prepared by the Board of Management. The consolidated financial statements and annual financial statements have thus been adopted.

Under the current control and profit-and-loss transfer agreement for Volkswagen Financial Services AG, the loss reported by Volkswagen Financial Services AG in its single-entity financial statements prepared in accordance with HGB was absorbed by the sole shareholder Volkswagen AG.

The Supervisory Board would like to take this opportunity to express its gratitude and appreciation for the work of the members of the Board of Management, the Works Council, the managerial staff and all employees of Volkswagen Financial Services AG and its affiliated companies. The high level of commitment from all of you has helped to sustain the ongoing growth of Volkswagen Financial Services AG.

Braunschweig, March 7, 2018

Frank Witter
Chairman of the Supervisory Board

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Diferencias contables entre criterios de la CNBV e IFRS (Emisora – Garante)

Volkswagen Financial Servicios AG (Garante) y Volkswagen Leasing S. A. de C. V. (Emisora), reportan sus resultados bajo las Normas Internacionales de Información Financiera (IFRS por sus siglas en inglés-International Financial Reporting Standards). Por lo que, a continuación se muestran de forma enunciativa las principales diferencias entre los Criterios de Contabilidad para Sociedades Controladoras de Grupos Financieros (CCSCGF), emitidos por la Comisión Nacional Bancaria y de Valores (CNBV) en México e IFRS.

Este resumen no se debe tomar como exhaustivo de todas las diferencias entre los CCSCGF e IFRS. No se ha hecho ninguna tentativa de identificar todas las diferencias del registro, de la presentación o de la clasificación que afectarían las transacciones o los acontecimientos que se presentan en estados financieros, incluyendo las notas a los estados financieros. Se describe abajo una descripción de las diferencias significativas entre los CCSCGF e IFRS.

<u>Conceptos relevantes del resumen de diferencias entre CCSCGF e IFRS</u>

De conformidad con los Criterios contables, a falta de un criterio contable específico de la CNBV, deberán aplicarse las bases de supletoriedad, conforme a lo establecido en la NIF A-8 “Supletoriedad”, en el siguiente orden, las IFRS aprobadas y emitidas por el Comité de Normas Internacionales de Contabilidad (International Accounting Standards Board, IASB), así como los Principios de Contabilidad Generalmente Aceptados aplicables en los Estados Unidos tanto las fuentes oficiales como no oficiales conforme a lo establecido en el Tópico 105 de la Codificación del Consejo de Normas de Contabilidad Financiera (Financial Accounting Standards Board, FASB), emitidos por el Financial Accounting Standards Board o, en su caso, cualquier norma de contabilidad que forme parte de un conjunto de normas formal y reconocido.

Pensiones (Beneficios a los empleados)

CCSCGF – NIF D 3 “Beneficios a los empleados”

- Las obligaciones se reconocen en los resultados de cada ejercicio, con base en cálculos actuariales del valor presente de estas obligaciones basadas en el método de crédito unitario proyectado, utilizando tasas de interés reales.

- Bajo las NIF mexicanas todos los beneficios por terminación, incluyendo aquellos que se pagan en caso de terminación involuntaria, son considerados dentro del cálculo actuarial para estimar el pasivo correspondiente por obligaciones laborales.

- Al igual que la norma internacional, las NIF mexicanas miden los activos de los planes de pensiones a valor razonable; sin embargo, no especifican la utilización de un precio de oferta como referencia.

- Bajo las NIF mexicanas no hay límite en el valor de los activos del plan que se puede reconocer.

- Las NIF mexicanas utilizan como fecha de medición de los planes de beneficios definidos, la misma fecha que el balance general o un máximo de 3 meses antes del balance general.

Participación de los Trabajadores en las Utilidades (PTU) Diferida

Bajo las NIF mexicanas la PTU diferida se reconoce con base en el método de activos y pasivos.

IFRS – IAS 19 "Employee Benefits"

El cargo al estado de resultados se determina usando el método de Unidad de Crédito Proyectado con base en cálculos actuariales para cada esquema. Las diferencias actuariales se reconocen en el capital en el momento que suceden. Los costos de servicios tanto actuales como anteriores, junto con el desglose de descuentos menos el retorno esperado de activos planeados, se reconocen en gastos de operación.

- Bajo las IFRS, una entidad reconoce los beneficios por terminación como pasivo siempre y cuando la entidad esté obligada a:

(a) terminar el contrato de empleo de un empleado antes de la fecha de retiro; o
(b) establecer beneficios por terminación como resultado de ofertas hechas para incentivar renuncias voluntarias.

- Sin embargo, la misma norma internacional señala que algunos beneficios a empleados se pagan independientemente de la razón por la cual el empleado salga de la compañía. Sin embargo, los pagos por dichos beneficios se describen como indemnizaciones por terminación y son considerados más bien como beneficios posteriores en vez de beneficios por terminación.

- Bajo las IFRS los activos de los planes de pensiones deben medirse a su valor razonable. En el caso de inversiones cotizadas en un mercado activo, el precio de oferta debe ser utilizado como referencia para dicha valuación.

- Las IFRS establecen una prueba de "techo" sobre los activos del plan, bajo la cual se tienen que analizar la recuperación de dichos activos y se establece un límite para su reconocimiento.

- Bajo las IFRS la fecha de medición de los planes de beneficios definidos (fecha en la cual se valúan los activos y pasivos del plan) es la misma fecha que el balance general.

Participación de los Trabajadores en las Utilidades (PTU) Diferida

Bajo las IFRS la PTU se considera como un beneficio a los empleados dado que se paga basándose en el servicio prestado por el empleado. Se trata como beneficio a corto o largo plazo. No se reconoce el diferido con base en el método de activos y pasivos dado a que ese método sólo se aplica a impuestos a las utilidades.

Costos de generación de contratos de crédito

CCSCGF - Anexo 33 (Circular Única de Bancos) B-6 "Cartera de crédito"

Los costos y gastos asociados con el otorgamiento del crédito, se reconocerán como un cargo diferido, el cual se amortizará contra los resultados del ejercicio como un gasto por intereses, durante el mismo periodo contable en el que se reconozcan los ingresos por comisiones cobradas por el otorgamiento del crédito a que se refiere la presente sección.

Se entenderá como costos o gastos asociados con el otorgamiento del crédito, únicamente a aquéllos que sean incrementales y relacionados directamente con actividades realizadas por las entidades para otorgar el crédito, por ejemplo la evaluación crediticia del deudor, evaluación y reconocimiento de las garantías, negociaciones para los términos del crédito, preparación y proceso de la documentación del crédito, y cierre o cancelación de la transacción, incluyendo la proporción de la compensación a empleados directamente relacionada con el tiempo invertido en el desarrollo de esas actividades.

IFRS – IAS 39 "Financial instruments: Recognition and Measurement"

Los costos incrementales relacionados con la generación de contratos de administración de inversiones de largo plazo se difieren y amortizan a lo largo de la vida del contrato.

Comisiones pagadas y recibidas por la colocación de créditos

CCSCGF - Anexo 33 (Circular Única de Bancos) B-6 "Cartera de crédito"

Las comisiones cobradas por el otorgamiento del crédito se registrarán como un crédito diferido, el cual se amortizará contra los resultados del ejercicio como un ingreso por intereses, bajo el método de línea recta durante la vida del crédito, excepto las que se originen por créditos revolventes que deberán ser amortizadas por un periodo de 12 meses.

IFRS IAS 39 "Financial instruments: Recognition and Measurement"

Las comisiones y gastos recibidos o pagados por la colocación de créditos que son directamente atribuibles a la colocación de dicho crédito, se contabilizan utilizando el método de Tasa de Interés Efectiva a lo largo de la vida esperada del crédito. Esta política surtió efecto desde el primero de enero de 2005, por lo tanto, la principal diferencia se deriva de la amortización de comisiones diferidas bajo IFRS en 2005 y 2006.

Estimación preventiva para riesgos crediticios

CCSGF - Anexo 33 (Circular Única de Bancos) B-6 "Cartera de crédito"

De acuerdo a las disposiciones relativas, la estimación preventiva para riesgos crediticios se determinará con base en las "Reglas para la Calificación de la Cartera Crediticia de las Instituciones de Banca Múltiple" y las "Reglas para la Calificación de la Cartera Crediticia de las Sociedades Nacionales de Crédito, Instituciones de Banca de Desarrollo" respectivamente, emitidas por la Secretaría de Hacienda y Crédito Público o las que las sustituyan.

El monto de dicha estimación deberá determinarse con base en las diferentes metodologías establecidas o autorizadas por la CNBV para cada tipo de crédito, así como por las estimaciones adicionales requeridas en diversas reglamentaciones y las ordenadas y reconocidas por la CNBV, debiéndose registrar en los resultados del ejercicio del periodo correspondiente.

La entidad deberá evaluar periódicamente si un crédito vencido debe permanecer en el balance general, o bien, ser castigado. Dicho castigo se realizará cancelando el saldo insoluto del crédito contra la estimación preventiva para riesgos crediticios. Cuando el crédito a castigar exceda el saldo de su estimación asociada, antes de efectuar el castigo, dicha estimación se deberá incrementar hasta por el monto de la diferencia.

Las quitas, condonaciones, bonificaciones y descuentos, es decir, el monto perdonado del pago del crédito en forma parcial o total, se registrará con cargo a la estimación preventiva para riesgos crediticios. En caso de que el importe de éstas exceda el saldo de la estimación asociada al crédito, previamente se deberán constituir estimaciones hasta por el monto de la diferencia.

IFRS – IAS 18 "Revenue"

Los ingresos de actividades ordinarias derivados del uso, por parte de terceros, de activos de la entidad que producen intereses, regalías y dividendos deben ser reconocidos de acuerdo con las bases establecidas en el párrafo 30, siempre que:

(a) sea probable que la entidad reciba los beneficios económicos asociados con la transacción; y
(b) el importe de los ingresos de actividades ordinarias pueda ser medido de forma fiable.

Los ingresos de actividades ordinarias deben reconocerse de acuerdo con las siguientes bases:

(a) los intereses deberán reconocerse utilizando el método del tipo de interés efectivo, como se establece en la IAS 39, párrafos 9 y GA5 a GA8;
(b) las regalías deben ser reconocidas utilizando la base de acumulación (o devengo), de acuerdo con la sustancia del acuerdo en que se basan; y
(c) los dividendos deben reconocerse cuando se establezca el derecho a recibirlos por parte del accionista.

Cuando se cobran los intereses de una determinada inversión, y parte de los mismos se han acumulado (o devengado) con anterioridad a su adquisición, se procederá a distribuir el interés total entre los periodos pre y post adquisición, procediendo a reconocer como ingresos de actividades ordinarias sólo los que corresponden al periodo posterior a la adquisición.

Costo amortizado de un activo financiero o de un pasivo financiero es la medida inicial de dicho activo o pasivo menos los reembolsos del principal, más o menos la amortización acumulada—calculada con el método de la tasa de interés efectiva—de cualquier diferencia entre el importe inicial y el valor de reembolso en el vencimiento, y menos cualquier disminución por deterioro del valor o incobrabilidad (reconocida directamente o mediante el uso de una cuenta correctora).

El método de la tasa de interés efectiva es un método de cálculo del costo amortizado de un activo o un pasivo financieros (o de un grupo de activos o pasivos financieros) y de imputación del ingreso o gasto financiero a lo largo del periodo relevante. La tasa de interés efectiva es la tasa de descuento que iguala exactamente los flujos de efectivo por cobrar o por pagar estimados a lo largo de la vida esperada del instrumento financiero (o, cuando sea adecuado, en un periodo más corto) con el importe neto en libros del activo financiero o pasivo financiero. Para calcular la tasa de interés efectiva, una entidad estimará los flujos de efectivo teniendo en cuenta todas las condiciones contractuales del instrumento financiero (por ejemplo, pagos anticipados, rescates y opciones de compra o similares), pero no tendrá en cuenta las pérdidas crediticias futuras. El cálculo incluirá todas las comisiones y puntos de interés pagados o recibidos por las partes del contrato, que integren la tasa de interés efectiva (ver la NIC 18 *Ingresos de Actividades Ordinarias*), así como los costos de transacción y cualquier otra prima o descuento. Se presume que los flujos de efectivo y la vida esperada de un grupo de instrumentos financieros similares pueden ser estimados con fiabilidad. Sin embargo, en aquellos raros casos en que esos flujos de efectivo o la vida esperada de un instrumento financiero (o de un grupo de instrumentos financieros) no puedan ser estimados con fiabilidad, la entidad utilizará los flujos de efectivo contractuales a lo largo del periodo contractual completo del instrumento financiero (o grupo de instrumentos financieros).

Reconocimiento del valor presente de contratos de seguros a largo plazo

CCSGF - Anexo 33 (Circular Única de Bancos) B-6 "Cartera de crédito"

No se reconoce el valor presente de las ganancias futuras que se esperan obtener de los contratos de seguro a largo plazo. Las primas se reconocen cuando se cobran y las reservas son calculadas con base en lineamientos establecidos por la entidad reguladora de las empresas de seguro.

IFRS 4 – "Insurance contracts"

Se reconoce el valor de los contratos de seguros clasificados como de largo plazo, vigentes a la fecha de los estados financieros. El valor presente de los contratos de seguro a largo plazo se determina descontando las ganancias futuras que se esperan obtener de los contratos vigentes usando supuestos que toman en cuenta las condiciones económicas y experiencia previa.

Activos y pasivos financieros – valor razonable

CCSCGF – Boletín C- 2 "Instrumentos financieros"
Boletín C- 3 "Cuentas por cobrar"
NIF C-9 "Pasivos, provisiones, activos y pasivos contingentes y compromisos"

<u>Activos financieros</u>

Bajo las NIF mexicanas la clasificación de los activos financieros es diferente, ya que excluye a los préstamos y cuentas por cobrar cuya guía para el registro, presentación y revelación es el Boletín C-3. El Boletín C-2 de Instrumentos Financieros establece las siguientes 3 categorías de clasificación:

- Mantenidos hasta su vencimiento
- Disponibles para la venta
- Activos para negociación

Los costos de transacción directamente relacionados se registran como activos individuales y se amortizan utilizando el método de interés efectivo.

Las NIF mexicanas no ofrecen una guía en particular en relación con la medición del valor razonable (oferta/demanda).

Pasivos financieros

Bajo las NIF mexicanas no existen diferentes clasificaciones de pasivos. En el caso de préstamos obtenidos en efectivo, el pasivo debe reconocerse por el importe recibido o utilizado.

Los pasivos financieros que devengan intereses por financiamiento, deberán reconocerse por el total y en una cuenta complementaria de pasivo, los intereses por pagar conforme se vayan devengando.

Las NIF no son explícitas respecto a incluir el riesgo crediticio en las mediciones de valor razonable.

IFRS – IAS 39 "Financial instruments: recognition and measurement"

Activos financieros

Las IFRS establecen las siguientes 4 categorías para la clasificación de los activos financieros:

- Activos financieros a valor razonable con cambios en el estado de resultados
- Inversiones mantenidas hasta su vencimiento
- Préstamos otorgados y cuentas por cobrar
- Activos disponibles para la venta

Bajo las IFRS, los costos de transacción directamente relacionados son capitalizados para todos los activos financieros a menos que sean clasificados en la categoría de activos a valor razonable con cambios en el estado de resultados, en cuyo caso, se llevan a resultados en el momento que se originan.
Bajo las IFRS, para la valuación de activos financieros, el precio de mercado apropiado para un activo mantenido es el precio de oferta, y para un activo que va a ser adquirido, es el precio de demanda.

Pasivos financieros

Las IFRS reconocen dos clases de pasivos financieros:

1) Pasivos financieros medidos inicialmente a valor razonable y subsecuentemente a costo amortizado usando el método del interés efectivo.

2) Pasivos financieros medidos a valor razonable por medio de pérdidas y ganancias, sub-clasificados en dos categorías:

- Designados. Un pasivo financiero que es designado por la entidad como pasivo a valor razonable por medio de pérdidas y ganancias desde el reconocimiento inicial.

- Mantenido para negociación. Un pasivo financiero clasificado como mantenido para negociación, como es el caso de las obligaciones por valores prestados en una venta a corto plazo, que tienen que ser devueltos en el futuro.

Una de las principales diferencias respecto de las NIIF versus las NIF es la utilización de ciertas partidas opcionales u obligatorias del valor razonable, el cual se define como el importe por el cual un activo podría ser intercambiado, o un pasivo cancelado, entre partes interesadas y debidamente informadas en condiciones de independencia mutua.

Las NIIF han introducido este concepto en la medición de ciertas partidas de los estados de situación financiera, lo cual también implica que la información debe revisarse cada vez que se presentan estados financieros, puesto que los incrementos en el valor razonable de un activo son ingresos, mientras que los decrementos son gastos.

En 2011, el IASB emitió IFRS 13, Fair Value Measurement que aún no entran en vigor. Dicha norma establece una sola definición de "valor razonable" y proporciona orientación al respecto.

Contingencias

CCSCGF – NIF C-9 "Pasivos, provisiones, activos y pasivos contingentes y compromisos"

En el caso de medición de múltiples partidas, la mejor estimación corresponderá generalmente al "valor esperado". También puede utilizarse el valor medio del intervalo, donde exista igualdad de oportunidad para la ocurrencia de cualquier punto en el rango de desenlaces.

La mejor estimación para una sola obligación aislada puede ser el desenlace más probable, no obstante, deben considerar otros desenlaces posibles.

IFRS – IAS 37 "Provisions, contingents liabilities and contingents assets"

Se provisiona la mejor estimación de la obligación. En el caso de mediación de múltiples partidas, la mejor estimación corresponderá generalmente al "valor esperado". También puede utilizarse el valor medio del intervalo, donde exista igualdad de oportunidad para la ocurrencia de cualquier punto en el rango de desenlaces.

La mejor estimación para una sola obligación aislada puede ser el desenlace más probable, no obstante, deben considerarse otros desenlaces posibles.

Ingresos

CCSCGF – NIF

No existe reglamentación específica que trate el reconocimiento de ingresos bajo las normas locales (CCFCGF /NIF), incluyendo ingresos por intereses. Por lo que de acuerdo a lo establecido en la NIF A-8 "Supletoriedad", se considerará la aplicación supletoria de la norma IAS 18.

IFRS – IAS 18 "Revenue"
IAS 39 ""Financial instruments: recognition and measurement"

La IAS 18 “Revenue” estipula que los ingresos deben reconocerse cuando:

(a) Es probable que los beneficios económicos fluirán hacia la empresa.
(b) Los ingresos pueden cuantificarse confiablemente.

De conformidad con las NIIF, el ingreso por intereses debe reconocerse utilizando el método de interés efectivo, el cual es definido como un método para calcular el costo amortizado del pasivo o activo financiero (o grupo de pasivos o activos) y de cargar ingreso o gasto financiero durante el período relevante.

Consolidación

CCSCGF – NIF B 8 “Estados financieros consolidados o combinados”
NIF C-7 “Inversiones en asociadas y otras inversiones permanentes”
Criterio C-5 “Consolidación de entidades de propósito específico”

De conformidad con las NIF, y con los criterios contables de la CNBV, se deben consolidar todos los activos y pasivos de las entidades sobre las que la tenedora tiene control e influencia significativa; sin embargo, los criterios contables de la CNBV establecen una excepción en el caso de las sociedades de inversión y otras compañías no pertenecientes al sector financiero, aun cuando la tenedora tenga influencia sobre ellas, no deben consolidarse.

En el caso de las NIF mexicanas no permiten la remedición al valor razonable de la inversión retenida en la fecha en que ocurre la pérdida del control de una entidad.

La NIF B-8 “Estados financieros consolidados y combinados” (“NIF B-8”) estipula que las entidades que opten por presentar estados financieros no consolidados deben reconocer la inversión en las subsidiarias con el método de participación. La NIF C-7 “Inversiones en asociadas y otras inversiones permanentes” (“NIF C-7”) también estipula, como regla general, que la inversión en empresas asociadas deberá reconocerse mediante el método de participación.

Bajo las NIF mexicanas, no es requerido evaluar la existencia de indicadores de deterioro de las inversiones en asociadas al término de cada periodo sobre el que se informa.

La NIF C-7 establece que cuando el valor razonable de la contraprestación pagada es menor que el valor de la inversión en la asociada, este último debe ajustarse al valor razonable de la contraprestación pagada.

IFRS – IAS 27 “Consolidated and separeted financial statements”
IAS 28 “Investments in associates”

La IAS 27 “Consolidated and Separate Financial Statements” (“IAS 27”) estipula que las inversiones en subsidiarias, asociadas y joint ventures en los estados financieros de una controladora se valúan a costo o a valor razonable, de conformidad con la IAS 39 “Financial Instruments: Recognition and Measurement”.

Bajo las IFRS, se le requiere al inversionista evaluar al término de cada periodo sobre el que se informa si existe cualquier evidencia objetiva de que su interés en una asociada está deteriorado. Si el inversionista identifica esta evidencia, el importe total en libros de la inversión debe ser analizado para posible deterioro.

Las IFRS se enfocan en el modelo basado en control, considerando los riesgos y beneficios en donde no existe un control aparentemente, para consolidar a las entidades.

En raras circunstancias bajo IFRS puede existir control sobre una entidad en casos donde se posee menos del 50% de las acciones con derecho a voto y no se tienen derechos legales o contractuales para controlar la mayoría de los poderes de voto o al consejo de administración, es decir, el control de facto es cuando un accionista mayoritario mantiene una inversión en el capital importante con respecto a otros debido a que los accionistas están dispersos entre el público en general.

Bajo las IFRS, si una empresa controladora pierde el control de una entidad pero retiene una parte de la inversión, se requiere que la inversión retenida sea medida a valor razonable.

Los estados financieros consolidados de la entidad controladora y la subsidiaria, usualmente se realizan a la misma fecha. Las IFRS permiten fechas distintas de reporte proporcionando una diferencia entre las fechas de reporte de tres meses. Bajo las IFRS se hacen ajustes en las operaciones más importantes en que se incurran en ese periodo.

Las IFRS utilizan la presunción refutable de la influencia significativa con una participación del 20% o más. Sin embargo se requiere efectuar un análisis sobre la existencia de influencia significativa.

La IAS 28 "Investments in Associates" ("IAS 28") permite el reconocimiento de un ingreso en la adquisición de una inversión en una empresa asociada cuando el neto de valor razonable de los activos y pasivos adquiridos es superior a la contraprestación entregada.

En 2011, el IASB emitió la siguientes normas que aún no entran en vigor: IAS 27 (Revised 2011), Separate Financial Statements, IAS 28, Investments in Associates, IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities. Entre otros cambios, se prohíbe la consolidación proporcional para contabilizar acuerdos conjuntos.

CCSCGF – Anexo 33 (CUB) B 6 "Cartera de crédito"

El saldo a registrar en la cartera de crédito, será el efectivamente otorgado al acreditado y en su caso el seguro que se hubiere financiado. A este monto se le adicionarán cualquier tipo de intereses que conforme al esquema de pagos del crédito, se vayan devengando.

El saldo insoluto de los créditos denominados en VSM se valorizará con base en el salario mínimo correspondiente, registrando el ajuste por el incremento contra un crédito diferido, el cual se reconocerá en los resultados del ejercicio en la parte proporcional que corresponda a un periodo de 12 meses como un ingreso por intereses. En caso de que antes de concluir el periodo de 12 meses hubiera una modificación a dicho salario mínimo, el saldo pendiente de amortizar se llevará a los resultados del ejercicio en el rubro de ingresos por intereses en esa fecha.

En los casos en que el cobro de los intereses se realice por anticipado, éstos se reconocerán como un cobro anticipado en el rubro de créditos diferidos y cobros anticipados, el cual se amortizará durante la vida del crédito bajo el método de línea recta contra los resultados del ejercicio, en el rubro de ingresos por intereses.

IFRS

No existe una norma específica para el tratamiento de la cartera de crédito, por lo que se debe de considerar en lo establecido en las normas IAS 18 “Revenue” y IAS 39 “Financial instruments: recognition and measurement”.