VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

ANNUAL REPORT

OF VOLKSWAGEN LEASING GMBH

2013

Volkswagen Leasing GmbH

AT A GLANCE

€ million	2013	2012	2011	2010	2009
Investments in leased assets	10.379	10.199	9.581	7.590	6.290
Leased assets	17.940	16.776	15.179	13.279	11.949
Total assets	19.354	18.229	17.043	13.965	12.490
Income from leasing business	11.451	10.582	10.010	8.756	8.152

In thousands of vehicles	2013	2012	2011	2010	2009
New contracts	439	431	415	338	286
Current contracts	1.014	956	876	802	764

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Management report

Fundamental information about the company

Steady growth confirms the business model of Volkswagen Leasing GmbH.

BUSINESS MODEL

The establishment of Volkswagen Leasing GmbH in 1966 laid the foundation for automobile leasing in Germany. As part of the Group's Financial Services division, today the company performs all operational tasks required for the leasing transactions of private and business customers as well as fleet management in Germany and Italy within the Volkswagen Group.

ORGANISATION OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH engages in the operating leasing business with private and business customers as well as in the fleet management and services business. In keeping with the WIR2018 strategy, Volkswagen Leasing GmbH's organisation is focused squarely on the needs of the private customer, corporate customer and fleet customer groups. Besides enabling innovative rental models such as long-term or micro rentals (car sharing) and other new mobility services, the company's organisational foundation ensures the consistent expansion of after sales services in the automotive context. The company's sales and customer service areas are closely integrated with the product development and marketing areas. In 2013, the structure of Sales Fleet Customers of Volkswagen Leasing GmbH was optimised with the aim of placing the sales force and back office on equal footing and defining clear responsibilities in order to increase quality for customers and dealers here as well, and therefore to boost customer satisfaction. Cross-divisional functions such as the used vehicle centre, service processing, risk management and process management are grouped in back-office operations. Since 1 January 2013, fleet management and systems & process management have been combined in a new division. As of 1 January 2014 in-house services were also made the responsibility of this division. Structure and organisation comply with the requirements of MaRisk.

BRANCHES

- Audi Leasing, Braunschweig
- SEAT Leasing, Braunschweig
- ŠKODA Leasing, Braunschweig
- AutoEuropa Leasing, Braunschweig
- Ducati Leasing, Braunschweig

BRANCHES OUTSIDE GERMANY

- Volkswagen Leasing GmbH, Milan, Italy
- Volkswagen Leasing GmbH, Verona, Italy
- Volkswagen Leasing GmbH, Bozen, Italy
- Volkswagen Leasing GmbH, Warsaw, Poland

INTERNAL MANAGEMENT

Volkswagen Leasing GmbH is included in the consolidated financial statements according to IFRSs of Volkswagen Financial Services AG. The internal management of the companies of the Group – and thus Volkswagen Leasing GmbH – is based on the IFRS figures. The operating result[1] is the key internal control variable. The differences between the operating result and the result before taxes according to HGB (German Commercial Code) occur due to shifts in period reporting resulting from different accounting for leases (operating leases and finance leases) according to HGB and IFRSs, as well as different accounting treatment for ABS transactions that lowers the HGB result. Important non-financial indicators control variables are penetration[2], current contracts[3] and new contracts[4]. Return on equity (RoE) and the cost/income ratio (CIR) are also used as financial control variables at the level of Volkswagen Financial Services AG, of which the company is a subsidiary.

CHANGES IN EQUITY INVESTMENTS

There was no change in the equity investments in the 2013 financial year. On 11 December 2013, Volkswagen Leasing GmbH established a branch in Warsaw, Poland, which will commence operations in 2014.

1 The operating result includes the net income from leasing transactions after provisions for risks, net commission income as well as general administration expenses and other operating income and expenses. Interest expense, general administration expenses and the other operating income and expenses that are not components of the operating result essentially comprise e.g. interest income and expense from external tax audits or the cost of unwinding discounts for other provisions.
2 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles based on Volkswagen Leasing GmbH.
3 Number of contracts recognised in the reporting period at the reporting date
4 Number of contracts recognised in the reporting period for the first time

Report on economic position

Current contracts rose to over 1 million despite weak passenger car demand.
Company earnings fell below previous year's result.

STILL LITTLE MOMENTUM IN THE GLOBAL ECONOMY

In 2013, the global economy grew at a slower rate than in the preceding year, slipping from 2.6% to 2.5%. The economic situation in the industrialised countries improved somewhat in the course of the year despite persistent structural impediments. Most of the emerging markets registered robust economic development. In spite of the expansionary monetary policy adopted by many central banks, inflation remained moderate on the whole.

The gross domestic product (GDP) of Western Europe stagnated in 2013 after receding 0.2% in the previous year. Most of the euro zone countries of Southern Europe again showed negative rates of expansion in the reporting year, due among other things to the impact of the sovereign debt crisis, while the majority of Northern European countries recorded positive growth rates.

In 2013, the upbeat mood amongst consumers and the stable labour market were unable to compensate for the impact of the slowdown in the global economy on German economic growth: GDP rose by 0.5%, falling short of the prior-year figure (0.9%).

FINANCIAL MARKETS

Marked by a more expansionary monetary policy worldwide

The US Federal Reserve (Fed) continued its expansionary monetary policy that was accelerated by the QE3 (quantitative easing) programme. The budget dispute in October pushed the plans to gradually reduce the bond-buying programmes back to 2014. An extremely expansionary monetary policy was also followed by the ECB and the Japanese Central Bank. This gave a particular boost to the equity markets in the industrialised countries, which were the recipients of much of the liquidity generated by the massive shift in investments from bonds to shares. As a result, the main share indices in the United States and, to some extent, in Europe reached new record highs. New issues on the bond markets worldwide fell across the board in 2013. In the United States, this was due to a dwindling issue volume of government bonds. Worldwide, the issue volume of bonds decreased considerably, especially at financial institutions.

On the whole, the financial markets were caught between massive inflows of cash and fears that the central banks were about to abandon their low interest rate policy due to the emerging economic recovery. The real economy nevertheless remained in a weak state in 2013, particularly in the first half of the year.

Sector-specific environment

In the reporting period, the leasing industry suffered from a hesitation to invest by domestic companies. The decline in equipment spending and continued weakness of the western European automotive market put downward pressure on new business. According to estimates by the German leasing industry association BDL, leasing investments stagnated in Germany at € 48.5 billion. Vehicle leasing, the most important segment accounting for a share of 69%, declined by 2%.

Europe

Even though the crisis symptoms in the euro area re-surfaced in the first six months of 2013 with the problems relating to public finance in Cyprus and the consequences of these for creditors, they had little effect on the financial markets. The interest rate spreads of European government bonds narrowed further. The support measures implemented to finance the national budgets of countries in Southern Europe and the ECB's cut of its key rate to 0.5% in May and to the historically low level of 0.25% in November 2013 played an important part in this. In addition, the euro zone emerged from recession in the second quarter of the year, though the pace of economic growth remained muted and the inflation rate diminished further. In this environment, the volume of new bond issues in the euro zone fell sharply in 2013. Although governments' gross issue volumes remained more or less steady, financial institutions in particular dramatically reduced issues of debt instruments. Banks focused mainly on debt servicing. In spite of low interest rates, euro zone companies outside the financial sector also scaled back their issue activity.

Germany

The federal government's borrowings were facilitated by Germany's low interest rates. Supported by the robust domestic economy and the high employment rate, tax income also continued to rise. The national budget again shows a slight surplus for 2013, while the level of debt fell in relation to GDP. This enabled the state's volumes of new issues to be reduced substantially. Germany's financial institutions also curtailed their new issue activity. By contrast, companies outside the financial sector made use of the low interest rates, significantly stepping up their issuance of debt securities.

AUTOMOBILE MARKET

Global registrations of new passenger cars reach new record high

In the 2013 financial year, demand for passenger cars rose worldwide by 5.0% to 70.1 million vehicles, surpassing the record level of 2012. Particularly the dynamic growth in China and the NAFTA region contributed to this increase. Global passenger car production rose by 3.9% to 71.2 million units in the reporting period.

Europe

The number of new passenger car registrations in Western Europe during the reporting period fell short of even the low prior-year figure. At 11.5 million vehicles (-1.9%), the lowest level of demand in 20 years was recorded. However, the passenger car markets, which had been hit particularly hard by the effects of the sovereign debt crisis, stabilised at a low level in the second half of the year. Compared with the preceding year, demand declined in the large-volume markets of France (-5.6%) and Italy (-7.1%). At 53.1%, the market share of diesel vehicles (passenger cars) in Western Europe in 2013 was below the prior-year figure.

Germany

At 3.0 million units (-4.2%), the demand for passenger cars in Germany in the 2013 financial year was even lower than in the preceding year and was thus the second-lowest result since German reunification. Initial stabilisation trends began to emerge in the fourth quarter, however. In spite of an upbeat mood among consumers, restraint was exercised in new vehicle purchases. By contrast, the demand for used vehicles rose. Both domestic production of passenger cars (+1.1% to 5.4 million vehicles) and passenger car exports (+1.7% to 4.2 million units) were up slightly on the prior-year level and exceeded the comparable average figures for the previous ten years.

OVERALL APPRAISAL OF THE COURSE OF BUSINESS

In the view of the Board of Management of Volkswagen Leasing GmbH, business developed positively in 2013.

Despite the weak economy, Volkswagen Leasing GmbH further expanded its market lead in the leasing and fleet business in Germany, its reference market.

Volkswagen Leasing GmbH did it again in 2013: In a ranking by Leaseurope, the European association of leasing companies, Volkswagen Leasing GmbH placed first and is thus the European market leader in automotive leasing.

In recent years, Volkswagen Leasing GmbH has launched extensive international activities in order to radically improve its competitive position in the fleet business. The number one position emphatically confirms this strategy.

With the opening of its 100th station, Volkswagen Leasing GmbH has succeeded in building a network of car-sharing stations with almost complete coverage in Hanover and more than 10,000 registered users to date. The first car-sharing project to date is an important component in the company's efforts to provide a comprehensive range of mobility solutions to meet all of its customers' needs. For this reason, the company already offers one-stop shopping for leasing, long-term rentals, short-term rentals and micro rentals. Entry into the classic short-term car rental business with a focus on workshop replacement mobility was a success thanks to Euromobil Autovermietung GmbH, a wholly owned subsidiary of Volkswagen Leasing GmbH. Special service cards such as the MAN SERVICECARD supplement our mobility product range. This fuel and toll card can be used for payment and other services across Europe. Another attractive product was successfully rolled out in 2013 in the form of the leasing package for employees of ŠKODA AUTO Deutschland GmbH.

Joint forward-looking projects with Volkswagen such as e-mobility or mobile online services were successfully pursued in 2013, with Volkswagen Leasing GmbH playing an important role in creating the business models in both cases.

Professional residual value management is increasingly significant for the business policies of Volkswagen Leasing GmbH, particularly in times of economic uncertainty. The company is responding to changed market conditions by offering both residual value insurance and own marketing models for dealers in cooperation with the brands of the Volkswagen Group. By now these models have been established for several years and enable successful management of opportunities and risks in a spirit of partnership.

The development of the leasing contract portfolio underscores the encouraging trend in the 2013 financial year. Compared with the previous year, 58,000 new leasing contracts were signed, expanding the portfolio to a record level of 1,014,000 units.

The fleet customer market on the whole narrowed slightly by -6.2% in 2013. This is reflected in a slight decrease in the number of new contracts signed with Volkswagen Leasing GmbH (-1.5%) in this segment. Penetration in the fleet customer business improved from 54.6% to 55.6% in 2013. The company thus remains the market leader in the fleet business with Group vehicles, thereby underscoring its significance to the automotive value chain of the Volkswagen Group.

Registrations of the Volkswagen Group in the private customer segment fell by 1.6% year on year in the German market. Notwithstanding this decline, the number of current leasing contracts in the private customer business was boosted by 4.0% compared with 2012.

The penetration rate in the German market rose to 55.8% (previous year: 53.4%) in 2013.

The number of new service contracts did not increase compared with 2012, and the number of new full-service leasing contracts was down approx. 2.7% year-on-year. Nevertheless, the earnings contribution in the service business rose by 23.8%.

The consistent implementation of the WIR2018 strategy continued in the reporting year.

Since interest rates remained low, margins in the new business remained flat compared with 2012. Volkswagen Leasing GmbH increased its total assets year on year.

DEVELOPMENT OF KEY CONTROL VARIABLES FOR FINANCIAL YEAR 2013 COMPARED WITH THE PRIOR-YEAR FORECAST

In financial year 2013, we had expected a result before taxes below the 2012 level in the lower three-digit million range. The result before taxes in the 2013 financial year amounted to € 51 million, falling below the prior-year figure and the forecast amount. Slight growth in the business volume (leased assets) for 2013 was expected. In the past financial year, the business volume was lower than in the previous year.

RESULTS OF OPERATIONS

The income from leasing business in the financial year ended rose by € 0.9 billion to € 11.5 billion. Of this growth, € 0.5 billion is attributable to increased proceeds from the sale of previously leased vehicles (€ 5.6 billion) and € 0.2 billion to an increase in revenues from current leasing contracts. The additional increase in revenue also stems from service contracts, among others. The larger portfolio of contracts will cause sales to rise in the next years.

The expenses from leasing business climbed by € 0.8 billion to € 6.1 billion, essentially as a result of the year-on-year increase in the residual carrying amounts of vehicle disposals. This figure especially includes the residual carrying amounts of vehicles removed from stock and the expenses from service leasing.

Driven mainly by higher IT, personnel and customer service costs, general administration expenses increased by € 14 million to € 259 million.

Depreciation on leased assets amounted to € 4.1 billion (previous year: € 3.8 billion). This contains write-downs of € 0.2 billion (previous year: € 0.3 billion).

The other operating expenses rose by€ 82 million due to provisions for risk for settlements from the leasing business, among others.

With a stable refinancing situation and historically low interest rates in Germany, the funding costs of Volkswagen Leasing GmbH increased slightly over the previous year due to the growth-driven increase in funding requirements. The financing of the leasing business gave rise to interest expense of € 344 million (previous year: € 342 million).

Depreciation, amortisation and allowances on receivables and additions to provisions in the leasing business amounted to € 357 million (previous year: € 389 million). Income from the reversal of allowances on receivables and reversals of provisions in the leasing business amounted to € 109 million (previous year: € 95 million).

The continued good results of operations are reflected in the result from ordinary business activities of € 51 million, which however fell significantly below the prior-year figure of € 223 million.

At € 292.7 million, the operating result pursuant to IFRSs exceeded the prior-year figure of € 139.9 million by +109.2%. This is attributable particularly to continually respectable margins, the large number of current and new contracts, and positive income from the sale of returned vehicles.

In Italy, the operating result pursuant to IFRSs dropped € 12.1 million and at the balance sheet date totalled € 6.6 million (previous year: € 18.7 million).

NET ASSETS AND FINANCIAL POSITION

Total assets increased by € 1.2 billion to € 19.4 billion. Leased assets, which represent the core business of Volkswagen Leasing GmbH, at € 17.9 billion account for approximately 92.7% of total assets.

The company's investments in leased assets rose by € 0.2 billion to € 10.4 billion. The gross carrying amount of the leased assets increased from € 22.8 billion to € 24.8 billion. The net carrying amount was € 17.9 billion (previous year: € 16.8 billion). This corresponds to an increase of € 1.1 billion or 6.5 %.

In the financial year just ended, Volkswagen Leasing GmbH was able to expand its business activities. As at the reporting date, its portfolio of leased vehicles had climbed from around 956,000 to around 1,014,000 units. As in the previous year, the company's Italian branches account for approximately 22,000 vehicles of this total. This portfolio increase results from the addition of around 439,000 vehicles, compared to disposal of around 381,000 vehicles.

The company's business trends become clear when viewed over several years, using the development of current contracts as a benchmark – a standard applied in the leasing sector:

DEVOLEELOPMENT OF VEHICLE CONTRACT VOLUME (IN THOUSANDS)

2013		2012		2011		2010		2009	
New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts
439	1,014	431	956	415	876	338	802	286	764

With regard to the capital structure, significant items in liabilities and equity include liabilities to customers in the amount of € 7.7 billion (+25.9%), as well as securitised liabilities in the amount of € 6.4 billion (-5.2%).

Equity

The subscribed capital of Volkswagen Leasing GmbH remained unchanged at € 76 million in the 2013 financial year.

This yields an equity ratio of 1.1% (previous year: 1.2%) relative to the total assets of € 19.4 billion.

Liquidity analysis

The refinancing of Volkswagen Leasing GmbH is essentially executed by way of capital market and asset-backed securities programmes as well as loans granted by Volkswagen Financial Services AG and Volkswagen Bank GmbH. Volkswagen Bank GmbH has liquid reserves in the form of securities deposited in the collateral deposit account with Deutsche Bundesbank. Active management of the collateral deposit account, which enables Volkswagen Bank GmbH to avail itself of the refinancing facilities, has turned out to be an efficient liquidity reserve. In addition to bonds issued by various countries in the amount of € 1.4 billion, senior ABS debentures issued by special purpose entities of Volkswagen Leasing GmbH and Volkswagen Bank GmbH in the amount of € 4.7 billion have been deposited as security in the collateral deposit account.

Treasury also prepares four different cash flow development statements to ensure adequate liquidity management, performs cash flow forecasts and uses these to determine the period for which cash will suffice from a consolidated perspective of Volkswagen Leasing GmbH, Volkswagen Bank GmbH and Volkswagen Financial Services AG. In the reporting period, liquidity measured in terms of its adequacy together with a simulated, limited refinancing arrangement and a partial discount of the overnight deposits amounted to at least 28 weeks.

The ability required under the Minimum Requirements for Risk Management (MaRisk) for Volkswagen Leasing GmbH to bridge any liquidity needs over a time horizon of seven and 30 days with a highly liquid cushion and the corresponding liquidity reserve was ensured at all times, including under various stress scenarios. This requirement is determined and continually reviewed in the course of liquidity risk management. To this end, cash flows are forecast for the next twelve months and compared against the refinancing potential in the relevant maturity band. The resulting utilisation of the refinancing potential through liquidity requirements did not exceed 38% at any time in normal cases or 62% in the stress tests required by the MaRisk.

REFINANCING

Strategic principles

In terms of its refinancing activities, Volkswagen Leasing GmbH generally follows a strategy aimed at diversification, which is conceived as the best possible weighing of cost and risk factors. This entails developing a diverse range of funding sources in different regions and countries with the aim of ensuring sustained refinancing at optimum terms.

Implementation

In spite of the volatility on the markets, the refinancing situation in the past financial year was stable and all instruments were used at the best possible terms.

In the 2013 financial year, Volkswagen Leasing GmbH refinanced itself largely by issuing debentures in the amount of € 6.28 billion (previous year: € 6.27 billion).

Business in connection with asset-backed securities was expanded further: Receivables of Volkswagen Leasing GmbH with low risk premiums triggered strong market demand in connection with the "Volkswagen Car Lease 17" (VCL 17) issue in March and the "Volkswagen Car Lease 18" (VCL 18) issue in October, each of which had a volume of € 750 million. The VCL transactions fulfil the requirements of the TSI quality seal "CERTIFIED BY TSI – DEUTSCHER VER-BRIEFUNGSSTANDARD". This seal certifies that the securitisation transactions are deemed exceptional in the global securitisation market in terms of quality, security and transparency.

These measures ensured liquidity at all times in the financial year just ended.

Report on opportunities and risks

Volkswagen Leasing GmbH AG continues to pursue its successful business model by taking a balanced approach to opportunity and risk management.

MACROECONOMIC OPPORTUNITIES

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

STRATEGIC OPPORTUNITIES

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

OPPORTUNITIES ARISING FROM CREDIT RISKS

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

OPPORTUNITIES ARISING FROM RESIDUAL VALUE RISKS

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

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

The internal control system (ICS) of Volkswagen Leasing GmbH is defined as the sum of all principles, methods and actions aimed at ensuring the effectiveness, economy and propriety of the company's accounting as well as ensuring compliance with material legal requirements. In connection with the accounting system, the risk management system (IRMS) concerns the risk of misstatements in the bookkeeping as well as in the external reporting system. The material elements of the internal control system and the risk management system as they relate to the accounting process at Volkswagen Leasing GmbH are described below:

- Given its function as the corporate body tasked with managing the company's business and in view of ensuring proper accounting, the Board of Management of Volkswagen Leasing GmbH has established Accounting, Customer Service, Treasury, Risk Management and Controlling departments and has clearly delineated their respective spheres of responsibility and authority. Key cross-divisional functions are controlled by the Boards of Management of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Leasing GmbH.
- Groupwide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process.
- For instance, the accounting policies are governed by internal accounting standards, including the accounting regulations under the German Commercial Code (HGB) in conjunction with the Ordinance on Accounting for Banks (RechKredV).
- At the company level, specific elements of control designed to ensure the propriety and reliability of accounting principles comprise analyses and possibly revisions of the bookkeeping data presented by the individual units and in sub-ledgers.
- All of this is supplemented by the clear delineation of spheres of responsibility as well as a variety of controlling and monitoring mechanisms. The aim is to ensure that all transactions are accurately posted, processed, evaluated and included in the company's financial accounting.

- These controlling and monitoring mechanisms are designed to be process-integrated and independent of processes. Hence automated IT process controls besides manual process controls (such as the "four-eyes" principle) comprise material components of the process-integrated activities. These controls are supplemented by specific Group functions of the ultimate parent company, Volkswagen AG, for example Group Controlling.
- Risk management is fully integrated into the accounting process by virtue of continuous risk monitoring and the risk reporting system.
- Internal Audit is a key component of the controlling and monitoring system of Volkswagen Leasing GmbH. Internal Audit regularly performs audits, both in Germany and abroad, of processes relevant to accounting as part of its risk-based audit procedures and directly reports its findings to the Board of Management of Volkswagen Leasing GmbH.

In sum, the existing internal controlling and monitoring system of Volkswagen Leasing GmbH is designed to ensure that the information on the financial position of Volkswagen Leasing GmbH as at the 31 December 2013 reporting date is proper and reliable. No material changes were made to the internal controlling and monitoring system of Volkswagen Leasing GmbH after the reporting date.

ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

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

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

Volkswagen Leasing GmbH has set up a risk management system for the Group for identifying, assessing, managing, monitoring and communicating risks. The risk management system encompasses a framework of risk principles, organisational structures and processes for risk measurement and monitoring that is tightly integrated in the activities of the individual divisions. This structure enables the company to identify at an early stage trends that could endanger its continued existence so that suitable countermeasures can be introduced. In the past financial year, no material changes were made to risk management methods.

The suitability of the risk management system is ensured with the appropriate procedures. Firstly, the system is monitored on an ongoing basis by Group Risk Management & Methods and, secondly, the individual elements of the system are regularly reviewed in a risk-oriented manner by Internal Audit and by external auditors during the audit of the annual financial statements.

Within Volkswagen Leasing GmbH, the Chief Risk Officer (CRO) is responsible for risk management and leasing analysis. In this capacity, he regularly reports Volkswagen Leasing GmbH's overall risk position to both the Board of Management and the sole shareholder, Volkswagen Financial Services AG.

Group Risk Management & Methods also exercises a crash barrier role in the risk management organisation. This includes developing and maintaining risk management-related methods and processes as well as defining and tracking international parameters for the procedures used, particularly models for performing credit checks, calculating risk types and risk-bearing capacity, and measuring collateral. Group Risk Management & Methods thus is responsible for the identification of potential risks, the analysis and quantification as well as the assessment of risks and the resulting determination of risk management measures. As a neutral and independent department, Group Risk Management & Methods reports directly to the Board of Management of Volkswagen Leasing GmbH.

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

RISK STRATEGY AND RISK MANAGEMENT

The basic decisions relating to strategy and tools for risk management are the responsibility of the Board of Management of Volkswagen Leasing GmbH.

As part of its overall responsibility, the Board of Management of Volkswagen Leasing GmbH has implemented a strategy process that conforms to the MaRisk as well as a business and risk strategy. The WIR2018 business strategy sets out the fundamental views of the Board of Management of Volkswagen Leasing GmbH on key matters of business policy. It contains the goals for every key business activity as well as the steps required to achieve these goals. The WIR2018 business strategy also serves as the starting point for the creation and systematic determination of the risk strategy.

The risk strategy is reviewed annually based on the risk inventory, the risk-bearing capacity and legal requirements, adjusted as necessary and discussed with the shareholders' meeting of Volkswagen Leasing GmbH. The risk strategy sets out the key risk management objectives for each type of risk, taking into account the company's approach to business (business strategy), its current risk exposure, expected developments and the risk tolerance. Actions are taken to achieve these goals, and their effects are described. The achievement of targets is assessed annually. The causes of any deviations that arise are analysed and subsequently discussed with shareholders' meeting of Volkswagen Leasing GmbH.

The risk strategy comprises all material quantifiable and unquantifiable risks. More extensive details and specifics concerning the individual types of risk are formulated in secondary risk strategies and operationalised in the planning round process.

The Board of Management of Volkswagen Leasing GmbH is responsible for executing the risk strategy established by itself within Volkswagen Leasing GmbH.

RISK INVENTORY

The objective of the risk inventory to be carried out once a year is to identify the main types of risk. For this, all known types of risk are analysed to determine whether they arise at Volkswagen Leasing GmbH. In the risk inventory, the relevant risk types are analysed in greater detail and quantified, or unquantifiable types of risk are assessed for the purposes of an expert opinion and their materiality for Volkswagen Leasing GmbH is subsequently determined.

The risk inventory performed on the basis of data as per 31 December 2012 showed that the quantifiable types of risk – counterparty credit risk, earnings risk, direct residual risk, market risk, operational risk – and the unquantifiable types of risk – liquidation, reputation and strategic risk – qualify as significant types of risk. The indirect residual value risk was classified as non-material because it represents only a small proportion of the overall risk. Other existing subcategories of risk are taken into consideration in the above-mentioned risk types.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

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

The material risks of Volkswagen Leasing GmbH are identified at least once a year in connection with risk inventory described above; this provides a detailed basis for designing the risk management process and including it in the risk-bearing capacity. Risk quantification is executed pursuant to the methodological recommendations of the Basel Capital Accord based on statistical models and supported by expert estimates. Risks are assessed using the net method.

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

In addition, Volkswagen Leasing GmbH uses a limit system derived from its analysis of risk-bearing capacity in order to specifically limit the risk coverage capital of Volkswagen Leasing GmbH.

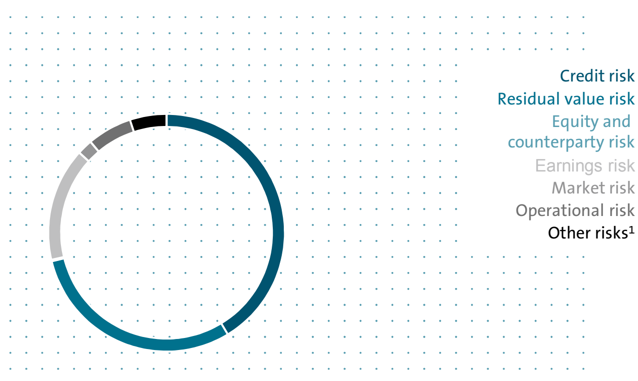
Establishing the risk limit system as the core element in capital allocation limits risks at different levels, thus ensuring the economic risk-bearing capacity of Volkswagen Leasing GmbH. The risk taking potential is determined based on the available equity and income components, taking various deductible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

From 2014, limits will also be set for operational risk and liquidity risk. In addition, an aggregate limit will be implemented for the higher-level counterparty credit risk type, under which credit risk, equity risk, issuer risk and counterparty risk will be defined individually.

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

The overall economic risk of Volkswagen Leasing GmbH as at 30 September 2013 amounted to € 653 million and is distributed as follows across the individual types of risk:

DISTRIBUTION OF RISKS BY TYPE OF RISKS
Figures as at 30.09.2013



1 Flat amount for non-quantifiable risks: liquidity risk, strategic risk and reputation risk

DEVELOPMENT OF RISK TYPES

	€ MILLION		SHARE IN %	
	30.09.2013	31.12.2012	30.09.2013	31.12.2012
Risk types				
Credit risk	271	233	41	41
Residual value risk	194	178	30	31
Equity and counterparty risk	1	0	0	0
Earnings risk	101	87	16	16
Market risk	13	2	2	0
Operational risk	40	40	6	7
Other risks[1]	33	28	5	5
Total	**653**	**568**	**100**	**100**

1 Flat amount for non-quantifiable risks: Liquidity risk, strategic risk, reputation risk

As at 30 September 2013 the risk taking potential amounted to € 1.1 billion and was 60% utilised by the aforementioned risks. The maximum rate of utilisation of the risk taking potential in accordance with Pillar II was 60% during the period from 1 January 2013 to 30 September 2013.

Up to 31 December 2013, there were no indications of significant changes in the utilisation of the risk taking potential.

In addition to determining the risk-bearing capacity in a normal scenario, Volkswagen Leasing GmbH also performs quarterly stress tests throughout the company and reports the results directly to the Board of Management and the shareholders' meeting of Volkswagen Leasing GmbH. The stress tests determine what effects extraordinary, but plausible, events could have on the risk-bearing capacity and financial strength of Volkswagen Leasing GmbH. These scenarios serve to identify risks early on that would be particularly affected by the trends simulated in the scenarios so that timely countermeasures can be introduced, if necessary. The stress tests also account for historical scenarios (e.g. repeat of the 2008-2010 financial crisis) and hypothetical scenarios (e.g. worldwide economic downturn, sharp downturn in the Volkswagen Group's sales). These are complemented by so-called inverse stress tests in order to examine what events could expose Volkswagen Leasing GmbH to a going-concern risk.

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

CONCENTRATIONS OF RISK

Volkswagen Leasing GmbH is a manufacturer-associated automotive financial services provider (captive leasing company). Risk concentrations can arise to various degrees due to the company's business model, which focuses on promoting sales of the various Volkswagen Group brands.

For instance, concentrations of risk can be caused by an unbalanced distribution of a large share of leasing transactions

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

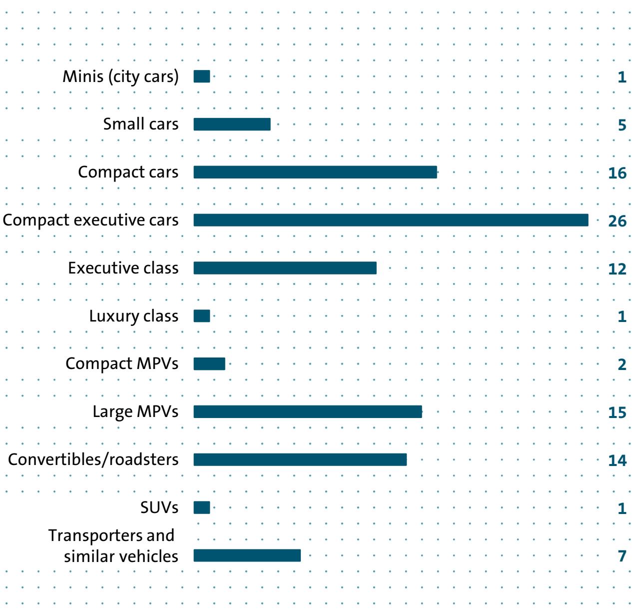
Volkswagen Leasing GmbH's risk policy aims for broad diversification in order to reduce concentrations.

Concentrations of counterparties are insignificant for Volkswagen Leasing GmbH because a large portion of the leasing business deals with small (retail) loans. Regarding regions, Volkswagen Volkswagen Leasing GmbH's business is concentrated in the German market, but strives for broad, international diversification.

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

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

COLLATERAL STRUCTURE AS AT 30. SEPTEMBER 2013
Figures in %



Because of this broad selection of vehicles, there are no concentrations of residual value at Volkswagen Leasing GmbH.

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

RISK REPORTING
Risk reporting is conducted quarterly in the form of an extensive risk management report which, like the stress tests, is sent directly to the Board of Management of Volkswagen Leasing GmbH and the shareholders' meeting. The starting point for the risk management report is risk-bearing capacity due to its importance for the successful continued existence of the company from a risk perspective. Also presented are the calculation of available risk taking potential, limit utilisation and the current percentage breakdown of overall risk by individual risk types. Moreover, Group Risk Management & Methods also reports in detail about credit, market, liquidity, operational, residual value and equity risks at aggregate and, to a large degree, at market level. In addition to a quantitative presentation of financial indicators, this includes a qualitative component comprising the analysis of the current and expected situation in which recommendations for action are outlined, if necessary. Other risk type-specific reports are also produced. Regular reporting is supplemented as needed with ad hoc reports at.

The information about structures and trends in the portfolios in the risk management report is continually refined and updated on an ongoing basis in view of current circumstances to maintain its high level of quality.

NEW PRODUCT AND NEW MARKET PROCESS
The New Product and New Market Process of Volkswagen Financial Services AG must be applied before new products are brought to market or activities are launched in new markets. All departments that participate in the process are included (e.g. Risk Management, Controlling, Accounting, Legal Services, Compliance, Treasury, IT). A written concept is prepared in which factors including the risk level of the new product are analysed and possible consequences for managing the risks are outlined. The product is approved or rejected by the responsible members of the Board of Management of Volkswagen Leasing GmbH and by the Board of Management of Volkswagen Financial Services AG.

RISK TYPES
Counterparty credit risk
The counterparty credit risk is defined as the potential negative deviation of the actual counterparty risk outcome from the planned one. The deviation in outcome occurs when the actual loss exceeds the expected loss due to changes in credit ratings or credit losses.

In this connection, an approach that addresses risk-bearing capacity typically considers the credit risk from customer transactions as well as counterparty, country and issuer risks.

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

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

One goal of systematic credit risk monitoring is identifying the possible insolvency of a lessee early on and, if necessary, taking timely measures to prevent a default as well as taking this into account through allowances on receivables.

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

Risk identification and assessment

Volkswagen Leasing GmbH bases its leasing decisions on credit assessments of the given lessees using rating and scoring methods, which provide an objective basis for the technical departments' decisions on granting leases.

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

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

Rating procedures in the corporate business

Volkswagen Leasing GmbH assesses the creditworthiness of corporate customers based on rating procedures. The assessment includes both the key quantitative performance indicators from annual financial statements as well as qualitative factors – such as the outlook for future business development, the quality of management, the climate in both the market and industry, as well as the customer's payment behaviour. The credit rating procedure results in the customer’s assignment to a rating class which is connected to a probability of default. Primarily a centrally maintained workflow-based rating application is used to support the assessments of creditworthiness. The result of the rating provides an important basis for decisions on the approval and prolongation of leasing commitments and valuation allowances.

Scoring procedures in the retail business

Analysing the creditworthiness of private customers involves scoring systems that are integrated in the approval and portfolio processes and provide an objective decision-making basis for approving leases. These scoring systems utilise internally and externally available data on the lessee and generally estimate the probability of default of the customer transaction requested based on several years of historical data using static methods. In a departure from the above, both generic and robust score cards and expert systems are used largely for smaller portfolios with lower risk exposures to measure the risk inherent in leasing requests.

Depending on the portfolios’ size and risk content, behavioural score cards as well as simple estimates at the risk pool level serve to classify the risk of the leasing portfolio.

Control and review of retail and corporate procedures

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

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

Collateral

As a rule, leasing transactions are secured in ways adequate to the risks concerned. In addition, a groupwide guideline establishes the requirements that collateral as well as assessment procedures and principles must satisfy. Additional local guidelines (collateral guidelines) prescribe concrete valuations as well as regional specificities.

The valuations in collateral guidelines are based on historical data and many years of expert experience. Automobiles, in their capacity as collateral, are material to this approach because the activities of Volkswagen Leasing GmbH focus on vehicle leasing. For this reason, the development of vehicles’ market values is monitored and analysed. Adjustments of the valuation methods and disposal processes are made in the event of major changes in these market values.

Valuation allowances

They are calculated based on the rating and scoring processes performed. Furthermore, where receivables are in default, a distinction is drawn between significant and insignificant receivables. Specific valuation allowances are recognised for significant receivables in default (loss identification pursuant to Basel II). In contrast, collective specific allowances are recognised for insignificant receivables in default (loss identification pursuant to Basel II). Portfolio-based valuation allowances are recognised for receivables for which specific allowances have not been set up.

Over a period of twelve months, the following average values were determined for the entire active portfolio (i.e. portfolio not in default): for the probability of default (PD): 4.1%; the loss given default (LGD): 34.5%; and for the total receivable volume in relation to the active portfolio: € 17.0 billion.

Risk management and monitoring
Appropriate processes are used to monitor all leasing transactions in regards to the underlying economic conditions and collateral, compliance with limits, contractual obligations as well as both external and internal requirements. Furthermore, credit risks are also managed by applying Volkswagen Leasing GmbH's approval limits, which are determined on a case-by-case basis.

The portfolio is analysed with the help of the credit risk portfolio rating to monitor risks at portfolio level. This rating compiles various risk parameters into a single indicator to make the international portfolios of Volkswagen Leasing GmbH comparable.

Development
The receivables volume was expanded slightly in 2013. Growth was achieved due to the robust economic environment in Germany. In contrast, business in Italy continues to be difficult because of the darkening economic horizon. The default rate increased year-on-year. Nevertheless, the overall risk situation is regarded as stable.

Counterparty risk

Volkswagen Leasing GmbH takes the counterparty risk to mean the risk that may arise from the loss of assets in connection with investments in money, securities or bonds because counterparties cease to repay the principal and/or the interest as contractually required.

The counterparty risk arises from interbank overnight and term deposits, the conclusion of derivatives as well as the acquisition of pension fund shares for employee pensions.

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

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

Risk identification and assessment
Counterparty risk is recorded as part of counterparty credit risk. It is calculated using a Monte Carlo simulation to determine the unexpected loss (value-at-risk and expected shortfall) and the expected loss from a normal scenario as well as stress scenarios.

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

Country risk

Country risk comprises risks that arise in international business, which exist not on account of the contractual partner as such, but due to its head office being located abroad. As a result, political or economic crises or problems in the financial system as a whole of a country can, for example, lead to a stoppage of cross-border capital transfer services due to transfer difficulties resulting from governmental actions taken by a foreign state. Attention would have be paid to country risk Volkswagen Leasing GmbH, particularly in the case of funding and equity investments in foreign companies as well as in the leasing business of the Volkswagen Leasing GmbH branches. However, due to the positioning of Volkswagen Leasing GmbH's business, there is virtually no chance that country risks (e.g. legal risks) will arise.

Equity risk

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

The consequences of the occurrence of equity risk in the form of a loss of market value or even loss of an equity investment would have a direct effect on the corresponding financial indicators. The net assets and results of operations of Volkswagen Leasing GmbH would be adversely affected by impairment losses recognised in profit or loss.

Risk identification and assessment

Equity risk is quantified by means of the carrying amounts of equity investments, a probability of default assigned to each equity investment, and a loss given default of 90% using the ASRF model. Moreover, stress scenarios with rating migrations (upgrade and downgrade) or complete losses of equity investments are simulated.

Risk management and monitoring

Equity investments are integrated in the annual strategy and planning processes of Volkswagen Leasing GmbH. The company influences the business and risk policies of its equity investments through its agents on ownership or supervisory bodies. However, responsibility for implementing risk management tools at the operating level rests with the companies.

Market risk

Market risk refers to the potential loss resulting from disadvantageous changes in market prices or parameters that influence prices. At Volkswagen Leasing GmbH, this risk is limited to interest rate risk.

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

Managing risks includes transparently assessing market risks in the monthly risk report using value-at-risk (VaR), offsetting these risks against the ceiling for losses of Volkswagen Leasing GmbH and recommending results-oriented risk management measures.

Interest rate risk

The interest rate risk includes potential losses from changes in market rates. It arises from non-matching fixed-interest periods of a portfolio's assets and liabilities.

The consequences of unforeseen interest rate changes mainly comprise interest rate losses due to the potential carrying of primarily long-term fixed interest rates.

Risk identification and assessment

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

Whereas the VaR calculated for monitoring purposes serves to estimate potential losses under historical market conditions, future-oriented stress test scenarios are also run in which the interest rate positions are subjected to extraordinary changes in interest rates and worst case scenarios, and are subsequently analysed in terms of the at-risk potential using the simulated results. In this connection, changes in the present value are also quantified and monitored monthly using the +200 and - 200 basis points interest rate shock scenarios defined by the Federal Financial Supervisory Authority (BaFin).

The calculation of interest rate risks uses theoretical scenarios to account for early repayments under termination rights.

Risk management and monitoring

Treasury is responsible for risk management based on the resolutions of the ALM Committee. Interest rate risks are managed through interest rate derivatives at both the micro level and the portfolio level. The hedge accounting performed under IFRSs is not taken over in the annual financial statements prepared in accordance with the German Commercial Code. Group Risk Management & Methods is tasked with monitoring interest rate risks and reporting on them.

Risk communication

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

Development

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

Earnings Risk (Specific Profit/Loss Risk)

Earnings risks denote the danger of deviations from the targets for specific items in the income statement that are not covered by risk types described elsewhere. This includes the risks of

- unexpectedly low commission (commission risk),
- unexpectedly high costs (cost risk),
- excessively large targets for earnings from new business volume (sales risk), and
- unexpectedly low income from equity investments.

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

Risk identification and assessment

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

The relevant income statement items provide the basis for these calculations. The earnings risks are estimated based on the observed relative deviations from targets for one and by determining the volatilities and interdependency of the individual items for another. Both components are included in the EaR quantification.

Risk management and monitoring

During the year, the actual values of the items subject to earnings risks are compared to the targeted values at the market level. This comparison takes place in connection with Controlling's regular reporting mechanism.

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

Liquidity risk

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

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

The prime objective of liquidity management at Volkswagen Leasing GmbH is to ensure the ability to pay at all times.

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

Risk identification and assessment

The Treasury unit of Volkswagen Bank GmbH evaluates the expected cash flows of Volkswagen Leasing GmbH.

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

Risk management and monitoring

The Operational Liquidity Committee (OLC) monitors both the current liquidity situation and the sufficiency of cash in bi-weekly meetings. It decides on refinancing measures or prepares the requisite decisions for the decision makers.

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

The ability required under the regulatory regimen to bridge any liquidity needs over a time horizon of seven and 30 days with a highly liquid cushion and the corresponding liquidity reserve constitutes a strict constraint. An emergency concept with an appropriate action plan for obtaining liquidity is therefore available in the event of a liquidity bottleneck.

Risk communication

The Board of Management of Volkswagen Leasing GmbH is informed monthly of the current liquidity situation.

Operational risk

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

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

The aim of OpR management is to transparently identify operational risks and to keep operational losses to a minimum. The consequence of the occurrence of an operational loss would be a loss of assets with the amount of financial damage varying widely depending on the case.

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

Risk identification and assessment

Operational risks and losses are identified and assessed by local experts using the self-assessment and loss database OpR tools.

The self-assessment, which must be carried out at least yearly, comprises a standardised, technology-supported questionnaire that records and evaluates various risk scenarios by likelihood of occurrence and amount of loss. Losses incurred are recorded and assessed on an ongoing basis in the central loss database. The information documented includes the monetary loss, the course of the loss event and other background information.

Risk management and monitoring

Operational risks are managed based on the guidelines that have been put in place as well as the requirements applicable to the special units responsible for the special risk categories. That includes preventive management measures with regard to the risk potential identified in the self-assessment and countermeasures in the case of losses that have occurred.

Group Risk Management & Methods conducts plausibility checks of the assessments from the self-assessments and the reported losses, and monitors the full inclusion of all OpR divisions. In addition, the risk measurement methods and procedures used are regularly reviewed and updated as needed by this unit.

Furthermore, Group Risk Management & Methods issues regular reports and ad hoc announcements.

Development

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

Risk arising from outsourcing activities

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

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

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

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

Risk identification and assessment

Risk identification here is by means of a review of the circumstances and a risk analysis. The first step is to use the review of the circumstances to determine whether the planned activity constitutes external procurement or outsourcing. The risk analysis determines the level of risk inherent in an outsourcing activity using various criteria, and as a result the activity is deemed "non-material" or "material" outsourcing. Stricter control and management intensity is applicable to "material" outsourcing activities along with special and stricter contract clauses.

Risk management and monitoring

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

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

Residual value risk

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

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

The aim of residual risk management is to maintain risks within the agreed limits.

If the residual value risk becomes significant, impairment losses are recognised, if necessary, which can adversely affect the results of operations.

Risk identification and assessment

Direct residual value risks are regularly quantified throughout the year in respect of both the expected loss (EL) and the unexpected loss (UL).

The change in the projected residual value one year ahead of contract expiry is measured at the sale price actually achieved (adjusted for losses and deviations from rated mileage) for purposes of quantifying the UL. In a first step, the change in value is analysed per individual contract and period. Given the size of the portfolios and the multitude of vehicles however, the systematic risk is so significant that, in a second step, the median change in value of the projected residual values is determined across several periods. The resulting deduction is determined using the quantile function of the normal distribution based on a prescribed confidence level.

The unexpected loss is determined by multiplying the current residual value forecast with the discount. It may be determined for each and every vehicle contained in the portfolio irrespective of the EL. Analogous to the EL, the portfolio's UL follows from the ULs of all vehicles and must be determined on a quarterly basis. The results of the quantification are used in the assessment of the exposure to risk, i.e. among other things assessments of the adequacy of the risk provisions as well as the risk-bearing capacity.

Indirect residual value risks are quantified for the purpose of determining the residual value risk analogous to the method used for the direct residual value risks; dealer defaults are also taken into account.

Risk management and monitoring

Group Risk Management & Methods monitors residual value risks within Volkswagen Leasing GmbH.

For direct residual risks, the adequacy of the risk provisions as well as the residual value risk potential are regularly monitored as part of risk management. Opportunities from residual values are not considered when recognising risk provisions due to the conservative approach taken. Given risk distribution, the risks incurred may not always be hedged in full at the level of the individual contract due to the difference between the residual value curve (degressive) and the incoming payments curve (linear) during the term of the contract. As far as previously identified risks are concerned, in future the amounts of risk allocated to the residual term must therefore still be earned and recognised as impairment losses (in accordance with IAS 36).

The resulting residual value risk potential is used to take a variety of measures as part of proactive risk management in order to limit the residual value risk. Residual value recommendations regarding new business must take both prevailing market conditions and future drivers into account. For a comprehensive picture of the risk sensitivity of the residual value business, various additional stress tests for direct residual value risks are planned that will be conducted by experts along with central and local risk specialists. The indirect residual value risks of Volkswagen Leasing GmbH are subject to plausibility checks and measured based on the amount of the risk and its significance.

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

Development

The residual value risks increased in 2013, due both to volumes and the reduction in the residual value of high-volume models. Nevertheless, the overall risk situation is regarded as stable. The growth in the vehicle portfolio is mainly the result of expanding the fleet business in Germany.

Strategic risk

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

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

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

Strategic risk is taken into account quantitatively in risk-bearing capacity with a reduction in risk cover.

Reputation risk

The reputation risk denotes the danger that an event or several successive events might cause reputational damage (public opinion), which might limit the company's current and future business opportunities and activities (potential success) and thus lead to indirect financial losses (customer base, sales, refinancing costs etc.) or direct financial losses (penalties, litigation costs etc.).

The responsibilities of the corporate communications department include avoiding negative reports in the press or similar reputation-damaging reports or, if this effort is unsuccessful, assessing and initiating adequate, target group-specific communication activities to limit the damage to the company's reputation as much as possible. The strategic goal is therefore to avoid or reduce negative deviations of reputation from the expected level. Damage to the company's reputation or image can result in a direct effect on the financial success of the company.

Reputation risk is addressed quantitatively with a reduction in risk-bearing capacity.

SUMMARY

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

Risk-bearing capacity was assured throughout 2013.

This system was continuously refined in 2013 as well, for example, by adjusting methods and models, systems, processes and IT.

Volkswagen Leasing GmbH will continue to invest in the optimisation of the comprehensive control system and the risk management systems in order to fulfil the business and statutory requirements for risk management and control.

MATERIAL RISK FORECAST

Credit risk forecast

We expect the economic environment in 2014 to be difficult with smaller growth rates in the receivables volume in Germany and Italy. Solving the debt crisis will be of critical importance for the development of the Italian market. On the whole, the risk situation is expected to remain stable.

Residual value risk forecast

The vehicle portfolio is expected to grow further in 2014. Residual value risks will increase slightly due to a passenger car market that is expected to be weaker and the associated reduction in residual values.

Market risk forecast

Against the backdrop of an interest rate environment anticipated to stay stable and moderate volatility in exchange rates, the market risk situation is projected to remain the same in the 2014 financial year.

Operational risk forecast

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

Report on post-balance sheet date events

Volkswagen Leasing GmbH placed a € 1.25 billion benchmark bond on 15 January 2014 and an asset-backed securities transaction (VCL 19) of € 0.75 billion on 30 January.

No important events beyond those described in this report occurred after the close of the 2013 financial year.

Personnel report

Successful implementation of the human resources strategy.

Employees of Volkswagen Financial Services AG are responsible for running the operating business of Volkswagen Leasing GmbH in Germany. This staff is made available to Volkswagen Leasing GmbH under staff leasing agreements. As at 31 December 2013, 789 (previous year: 698) employees worked for Volkswagen Leasing GmbH in Germany.

A total of 75 members of staff employed in the branches in Milan and Verona (Italy) on 31 December 2013 (previous year: 73) had employment contracts with Volkswagen Leasing GmbH.

At Volkswagen Financial Services AG, the Personnel department covers all domestic companies of the Volkswagen Financial Services Group. Our employee strategy and its guiding principle, "We are a top team", support goal achievement in the four action areas of our WIR2018 strategy: "customers", "employees", "profitability" and "volume". Through specific skills development and the encouragement of commitment and satisfaction, our employees can deliver first-class performance and impress our customers.

We measure the degree of maturity of our goal, "We are a top team", externally based on our participation in employer competitions as well as internally with the "mood barometer", our internal employee survey.

Volkswagen Financial Services AG participated in the "Best Workplace in Germany" (Great Place to Work) employer competition for the sixth time in 2013 (for 2014). Our participation in 2012 produced the best possible result: first place in the category for companies with 2,001 to 5,000 employees. The results already available from the employee survey conducted as part of the benchmark study show a further improvement on the excellent ratings from 2011 (for 2012) and indicate that we have embarked on the right path for shaping our corporate and leadership culture. The successful ranking as a TOP employer and the insights from the study are important strategic parameters and indicators that help us to safeguard and further build on what we have achieved.

Each employee's need for qualifications is determined in the annual employee performance review, and suitable measures aimed at developing their competence are agreed upon with them. Many employees in Germany obtained their qualifications at the internal training centre, which offers a broad range of seminars and workshops. These training programmes are closely aligned with the company's products, processes and systems.

In addition, the need for specialists is identified in coordination with the appropriate departments and suitable development concepts are drawn up. One example is the successful two-year leasing specialist training programme in collaboration with both Welfen-Akademie and the Braunschweig Chamber of Commerce and Industry.

Continued development of employees' competence also focuses on refining their marketing skills and their consciousness of the customer- and service-based nature of our business.

Report on expected developments

The economic recovery in Western Europe will likely continue in 2014. In Germany, slight growth of the automotive market is expected.

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

We prepare our forecasts based on the current assessments of external institutions, among them economic research institutes, banks, multinational organisations and consulting firms.

ECONOMIC DEVELOPMENT

In Western Europe, the economic recovery that began in the reporting year should take hold in 2014. Nonetheless, performance remains dependent on the resolution of structural problems, particularly in Southern Europe.

In Germany, we expect the upward trend to continue and growth rates to rise in 2014. The labour market situation should also remain positive.

FINANCIAL MARKETS

In 2014, the global financial markets will be shaped substantially by the effects of global economic growth, which will stem from the industrialised countries. The International Monetary Fund (IMF) expects 2014 to bring an increase in global GDP by 3.7% and further growth in the following year. However, with inflation rates extraordinarily low in the industrialised countries, deflation risks from the extremely low interest rate policy pursued by the central banks to date are rising. This increases the necessity to return to a more conventional monetary policy in order to support economic recovery and kick start a sustained growth trend. In contrast, emerging markets must increasingly use the freedom created by the low interest rate climate to implement structural reforms in the financial realm and for growth initiatives.

The banking system in Europe will take an important step forward toward a banking union. The ECB is assuming regulatory duties over the major European commercial banks. Before that, it will work with national regulators to subject 128 banks – including the Volkswagen Financial Services AG Group – to a three-phase asset quality review, including stress tests. The IMF expects that further efforts by the banks to increase their equity base and reduce risks will be necessary. European financial institutions can therefore be expected to be hesitant bond issuers again in 2014. Moreover, a trend toward declining new issues of government bonds is emerging in the euro zone. The main reason for this is the probably decreasing financing volume in Germany. For Italy and Spain, leading investment banks anticipate volumes to stabilise.

On the whole, therefore, the development of global financial markets will vary – a trend that will certainly affect the leasing industry too. German companies' renewed and increasing willingness to invest is an indicator of future growth in the leasing industry. In their joint economic forecast issued in autumn 2013, the leading research institutes assume a noticeable increase in equipment spending for 2014. The environment for automakers is also improving. The German leasing industry association BDL expects the leasing industry to grow at the same pace as equipment spending in 2014, i.e. probably by 7%.

DEVELOPMENT OF THE AUTOMOBILE MARKETS

After four years of decline, we expect automobile demand to rise again in Western Europe in 2014. However, because the prolonged sovereign debt crisis continues to cause uncertainty among consumers in many countries in the region and to limit their financial options for buying new cars, we project only minimal growth. In major markets such as Spain and Italy in particular, the government's austerity measures have dampened demand.

After initial losses, the German automobile market stabilised more and more in the course of 2013. This trend will likely continue in 2014 and result in slight market growth.

MOBILITY PACKAGES

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

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

New mobility packages will supplement the traditional concept of car ownership. From leasing to long-term rental and the car rental business to car-sharing, Volkswagen Leasing GmbH together with its subsidiaries now meets an even larger share of its customers' mobility needs.

Simple, transparent, safe, reliable, affordable, flexible – those are the key requirements that our business must satisfy in future. Volkswagen Leasing GmbH is carefully tracking the development of the mobility market and is already developing new models for supporting alternative marketing approaches and establishing new mobility concepts with the aim of hedging and expanding its business model.

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

DEVELOPMENT OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH expects its growth in the next financial year to be linked to the development of sales of the Volkswagen Group.

With penetration declining slightly, the expansion of the product range in existing markets and the opening up of new markets are aimed at boosting the company's business volume and intensifying its international alignment.

Volkswagen Leasing GmbH will expand its business operations in 2014 by commencing business at its newly established branch in Poland.

OUTLOOK FOR 2014

The following overall picture emerges, taking the aforementioned factors and the development of the market into account: Expectations in terms of earnings are influenced by the assumption of stable refinancing costs, continued significant uncertainties regarding the economic environment and their impact on risk costs, among others.

For financial year 2014, we expect a considerably lower operating result in Germany. We also expect a slight decline in new contracts compared to additions in previous years. The contract portfolio is expected to decrease slightly. Based on a slightly declining number of new contracts and a stagnating number of vehicle deliveries, we have planned for a slight year-on-year decrease in the penetration rate in the German market in 2014.

We expect the operating result in our Italian branch to increase substantially in financial year 2014. Based on a stable number of new contracts and current contracts, we assume that the penetration rate will remain at the prior-year level. For the Polish branch, we expect an operating result in the low single-digit millions and slightly higher figures for new contracts, current contracts and the penetration rate.

Braunschweig, 7 February 2014

The Board of Management

Gerhard Künne

Andreas Kiefer

Dr. Heidrun Zirfas

Annual financial statements

Balance sheet

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG, AS AT 31.12.2013

€ 000		31.12.2013	31.12.2012
Assets			
1. Cash reserve			
Cash in hand		0	6
2. Receivables from financial institutions			
Payable on demand		3,843	39,635
3. Receivables from customers			
Payable on demand		248,386	104,046
4. Investments in affiliated companies		8,651	8,651
5. Intangible assets		523	154
6. Tangible fixed assets			
a) Leased assets	17,940,004		16,775,799
b) Land and buildings	28,919		12,889
		17,968,923	16,788,688
7. Other assets		851,292	1,020,087
8. Prepaid expenses		272,281	267,364
Total assets		**19,353,899**	**18,228,631**

€ 000		31.12.2013	31.12.2012
Equity and liabilities			
1. Liabilities to financial institutions			
a) Payable on demand	1,526		0
b) With agreed repayment period or period of notice	226,100		271,696
		227,626	271,696
2. Liabilities to customers			
Other liabilities			
a) Payable on demand	2,177,471		1,690,655
b) With agreed repayment period or period of notice	5,517,527		4,423,354
		7,694,998	6,114,009
3. Securitised liabilities			
Debentures issued	6,336,574		6,331,564
from commercial paper	19,997		373,749
		6,356,571	6,705,313
4. Other liabilities		38,264	44,006
5. Deferred income		4,255,795	4,339,507
6. Provisions			
a) Tax provisions	8,976		8,875
b) Other provisions	550,993		524,443
		559,969	533,318
7. Special tax-allowable reserve		1,552	1,658
8. Equity			
a) Subscribed capital	76,004		76,004
b) Capital reserves	142,471		142,471
c) Net retained profits	649		649
		219,124	219,124
Total equity and liabilities		**19,353,899**	**18,228,631**
Other obligations			
Irrevocable credit commitments		1,087,214	902,910

Income statement

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG FROM 1.1. TO 31.12.2013

€ 000			1.1. - 31.12.2013	1.1. - 31.12.2012
1. Income from leases		11,451,469		10,581,694
2. Expenses from leases		6,102,588		5,305,237
			5,348,881	5,276,457
3. Interest income from lending and money market transactions		1,853		2,846
4. Interest expense		343,724		342,375
of which: Unwinding of discounts on provisions		7,434		7,072
			−341,871	−339,529
5. Income from profit transfer agreements			4,827	1,574
6. Commission income		452		574
7. Commission expenses		384,160		418,733
			−383,708	−418,159
8. Other operating income			97,873	80,696
9. Income from the reversal of the special tax-allowable reserve			105	105
10 . General administration expenses				
a) Personnel expenses				
aa) Wages and salaries	3,671			3,349
ab) social security, post-employment and other employee benefit costs	1,348			1,194
		5,019		4,543
b) Other administration expenses		254,096		240,819
			259,115	245,362
11. Depreciation, amortisation and valuation allowances				
a) on intangible and tangible fixed assets		724		596
b) on leased assets		4,063,124		3,814,173
			4,063,848	3,814,769
12. Other operating expenses			101,776	19,466
13. Depreciation, amortisation and allowances on receivables and additions to provisions in the leasing business			356,545	389,420
14. Income from the write-up on receivables and from reversals of provisions in the leasing business			108,784	94,938
15. Expenses from loss transfers			2,407	3,568
16. Result from ordinary business activities			**51,200**	**223,497**
17. Taxes on income and earnings			176,431	213,705
18. Income from loss absorption			125,231	0
19. Profits transferred under a profit transfer agreement			0	−9,792
20. Net income			**0**	**0**
21. Retained earnings brought forward from previous year			649	649
22. Net retained profits			**649**	**649**

Cash flow statement

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG FROM 1.1. TO 31.12.2013

€ 000	1.1. - 31.12.2013	1.1. - 31.12.2012
Net loss/income (before profit transfer)	−125,231	9,792
Amortisation/depreciation of fixed assets	4,063,848	3,814,769
Change in provisions	26,650	37,380
Profit from the disposal of leased assets	−489,154	−299,132
Interest result	341,871	339,529
Other adjustments	173,482	235,441
Change in receivables from customers	106,543	−8,688
Change in other assets from operating activities	25,883	−550,780
Change in liabilities to financial institutions	1,430	−172
Change in liabilities to customers	497,847	783,286
Change in securitised liabilities	−113	9,553
Change in other liabilities from operating activities	−89,560	663,451
Interest received	1,853	2,846
Interest paid	−343,724	−342,375
Income tax paid	−173,482	−235,441
I. Cash flow from operating activities	**4,018,143**	**4,459,459**
Cash inflows from the disposal of leased assets	5,640,916	5,087,212
Cash outflows for investments in leased assets	−10,379,090	−10,198,894
Cash outflows for investments in tangible and intangible fixed assets used by the company	−4,781	−3,050
Cash outflows from the acquisition of subsidiaries	0	−8,546
II. Cash flow from investment activities	**−4,742,955**	**−5,123,278**
Cash inflows from company owners / cash outflows to company owners	−9,792	−333,372
Cash inflows from issuing bonds and taking up loans	3,277,505	9,585,396
Cash outflows from the redemption of bonds and loans	−2,578,699	−9,569,575
III. Cash flow from financing activities	**689,014**	**−317,551**
Net change in funds (I., II. and III.)	−35,798	−981,370
Funds available at the beginning of the period	39,641	1,021,011
Funds available at the end of the period	3,843	39,641

The balance sheet and the income statement have been prepared in accordance with the stipulations of the Ordinance on Accounting for Banks (RechKredV). Funds corresponds to cash in hand plus receivables from financial institutions.

Statement of changes in equity

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG

€ 000	Subscribed capital	Capital reserves	Net retained profits	Equity
Balance as at 31 December 2012	76,004	142,471	649	219,124
Change	–	–	–	–
Balance as at 31 December 2013	76,004	142,471	649	219,124

Notes

TO THE ANNUAL FINANCIAL STATEMENTS OF VOLKSWAGEN LEASING GMBH, Braunschweig, as at 31.12.2013

1. General comments regarding the annual financial statements

The annual financial statements of Volkswagen Leasing GmbH have been prepared in accordance with the stipulations of the German Commercial Code (HGB) and the Ordinance on Accounting for Banks (RechKredV).

2. Accounting policies

The accounting policies applied the previous year have been adopted unchanged.

The financial assets are recognised at cost.

The grandfathering and continuation option under § 67 Para. 4 Introductory Law to the German Commercial Code (EGHGB) was applied to the fixed assets existing on 31 December 2009.

Tangible fixed assets and leased assets are measured at cost less depreciation and, if they are expected to be impaired permanently, less write-downs.

Depreciation for the administrative building is recognised using the straight-line method (period of use: 50 years for old building and 25 years for new building).

As a rule, leased assets are depreciated using the straight-line method pro rata temporis. For assets added in 2006 and 2007, a depreciation rate of 30% was applied, as permitted by tax law for using the declining-balance method. A change was made to the straight-line method as soon as this was equal to or greater than the depreciation according to the declining-balance method. The useful life of passenger cars is six years, and that of heavy vehicles is nine years.

Using the grandfathering option available under § 67 Para. 3 sentence 1 EGHGB, differences between measurements required by commercial law and those permissible by tax law are shown in the special tax-allowable reserve.

Receivables and other assets are shown at nominal value. The default risk has been taken into account by making reasonable value adjustments.

Prepaid expenses relate to expenditures before the closing date if they represent expenses for a specific period after that date. This item is reversed over time using the straight-line method.

Discernible risks and undetermined liabilities are taken into account by creating adequate provisions corresponding to the settlement amount required to settle the respective obligation. Provisions with a maturity of more than one year are discounted at the average market interest rate for the past seven years that is published monthly by Deutsche Bundesbank. Liabilities are shown at the settlement amount.

Under a profit and loss transfer agreement, Volkswagen AG as the parent company generally accounts for deferred taxes. Deferred taxes are recognised to account for all temporary differences from the divergent treatment of balance sheet items under commercial law and the respective taxable carrying amount, taking the rate of 29.80 % specific to the company into account. Deferred tax liabilities were not shown separately for the 2013 financial year because the company availed itself of the option to offset deferred tax assets and liabilities. The deferred tax liabilities relating to leased assets at the Italian branch, which is separately responsible for its taxes, are offset against deferred tax assets relating to provisions. In addition, no deferred tax assets are recognised in exercising the option in § 274 German Commercial Code (HGB).

Deferred income covers income/other operating income from leasing business which is attributable to future accounting periods.

The interest rate derivatives concluded by Volkswagen Leasing GmbH are part of general economic hedging relationships. Use is not made of the explicit option to perform hedge accounting.

3. Notes to the balance sheet

The breakdown of the fixed assets combined on the balance sheet and their development during the period under review can be seen from the table of assets.

The receivables from financial institutions break down as follows:

€ 000	31.12.2013	31.12.2012
1. Receivables from financial institutions	3,843	39,635
(of which payable to affiliated companies € 1,436,000; previous year: € 38,552,000)		
(of which trade receivables € 0; previous year: € 6,416,000)		
Total	**3,843**	**39,635**

The receivables from customers break down as follows:

€ 000	31.12.2013	31.12.2012
1. Trade receivables	105,665	92,965
2. Receivables from affiliated companies	133,977	2,072
(of which from the shareholder € 125.231,000; previous year: € 288,000)		
(of which trade receivables € 6,576,000; previous year: € 523,000)		
3. Other receivables	8,744	9,009
Total	**248,386**	**104,046**

The residual terms of the receivables are made up as follows:

€ 000	31.12.2013	31.12.2012
1. Receivables from financial institutions	3,843	39,635
of which due 0–3 months	3,843	39,635
2. Trade receivables	105,665	92,965
of which due 0–3 months	105,665	92,965
3. Receivables from affiliated companies	133,977	2,072
of which due 0–3 months	133,977	2,072
4. Other receivables	8,744	9,009
of which due 0–3 months	8,744	9,009
Total	**252,229**	**143,681**

Other assets essentially comprise € 437,633,000 (previous year: € 522,550,000) in lease returns held as available for sale, € 154,301,000 (previous year: € 154,085,000) in receivables from accrued interest rate swaps, as well as € 159,905,000 (previous year: € 228,510,000) in receivables from the settlement of ABS transactions.

The prepaid expenses comprise discounts for debentures taken up and ABS transactions amounting to € 249,021,000 (previous year: € 238,294,000), which are eliminated pro rata temporis. In addition, the prepaid vehicle taxes amounting to € 7,357,000 (previous year: € 8,403,000) and insurance policies from service leasing amounting to € 15,875,000 (previous year: € 18,562,000) as well as other prepaid items are recognised.

The liabilities are made up as follows:

€ 000	31.12.2013	31.12.2012
1. Liabilities to financial institutions	227,626	271,696
(of which to affiliated companies € 227,626,000; previous year: € 271,696,000)		
2. Liabilities to customers	7,694,998	6,114,009
(of which to affiliated companies € 6,004,057,000; previous year: € 4,885,964,000)		
(of which to the shareholder € 2,691,581,000; previous year: € 2,661,858,000)		
(of which trade receivables € 518,164,000; previous year: € 429,469,000)		
3. Securitised liabilities	6,356,571	6,705,313
4. Other liabilities	38,264	44,006
Total	**14,317,459**	**13,135,024**

The residual terms of the liabilities are made up as follows:

€ 000	31.12.2013	31.12.2012
1. Liabilities to financial institutions	227,626	271,696
of which due 0–3 months	103,626	177,696
of which due > 3–12 months	80,000	61,000
of which due > 12–60 months	44,000	33,000
2. Liabilities to customers	7,694,998	6,114,009
of which due 0–3 months	3,748,598	1,770,456
of which due > 3–12 months	1,983,886	343,131
of which due > 12–60 months	1,462,514	4,000,422
of which due > 60 months	500,000	0
3. Securitised liabilities	6,356,571	6,705,313
of which due 0–3 months	81,571	301,629
of which due > 3–12 months	950,000	703,684
of which due > 12–60 months	4,325,000	3,950,000
of which due > 60 months	1,000,000	1,750,000
4. Other liabilities	38,264	44,006
of which due 0–3 months	31,303	36,642
of which due > 3–12 months	318	300
of which due > 12–60 months	2,529	2,382
of which due > 60 months	4,114	4,682
Total	**14,317,459**	**13,135,024**

Volkswagen Leasing GmbH did not provide any collateral for liabilities.

Other liabilities include liabilities from swap interest amounting to € 26,167,000 (previous year: € 29,321,000).

The provisions comprise tax provisions (€ 8,976,000; previous year: € 8,875,000) and other provisions (€ 550,993,000; previous year: € 524,443,000).

Other provisions serve to hedge risks resulting from existing leasing contracts, among others. Provisions for residual value risks amounted to € 121,548,000 (previous year: € 121,838,000). Especially expenses under service leases and expenses for outstanding invoices amounting to € 76,070,000 were recognised (previous year: € 56,002,000). Furthermore, a total of € 94,316,000 (previous year: € 65,389,000) in provisions were recognised for dealer and other bonuses.

The provision recognised for repair bills outstanding under maintenance and parts contracts was € 133.9 million (previous year: € 158.4 million).

The provision for risks arising from contract terms set up in 2012 amounts to € 55.0 million before discounting and € 73.0 million in the previous year (discount: € 1.8 million, previous year: € 2.6 million).

The special tax-allowable reserve comprises the value adjustments resulting from fiscal depreciation in accordance with § 3 of the Law for the Promotion of the Economy of the Border Regions (ZonenRFG) for the administrative building. The reversal of the special tax-allowable reserve and the resulting change in tax expenditure do not significantly increase the annual result shown. Nor is the change in future annual results due to this fiscal valuation of any major significance.

Statement of changes in fixed assets:

€ 000	GROSS CARRYING AMOUNTS					VALUATION ALLOWANCES				NET CARRYING AMOUNTS	
	Brought forward 1.1.2013	Additions	Disposals	Transfers	Balance 31.12.2013	Brought forward 1.1.2013	Additions	Disposals	Balance 31.12.2013	Balance 31.12.2013	Balance 31.12.2012
I. Intangible assets	**241**	**483**	**0**	**0**	**724**	**87**	**114**	**0**	**201**	**523**	**154**
II. Tangible fixed assets											
Land and buildings	22,294	15,900	0	2,671	40,865	12,337	610	0	12,947	27,918	9,957
Assets under construction	2,932	740	0	–2,671	1,001	0	0	0	0	1,001	2,932
	25,226	**16,640**	**0**	**0**	**41,866**	**12,337**	**610**	**0**	**12,947**	**28,919**	**12,889**
III. Leased assets											
Vehicles, plant and equipment	22,827,127	10,337,098	8,469,818	21,428	24,715,835	6,073,363	4,063,124	3,318,664	6,817,823	17,898,012	16,753,764
Payments on account	22,035	41,992	607	–21,428	41,992	0	0	0	0	41,992	22,035
	22,849,162	**10,379,090**	**8,470,425**	**0**	**24,757,827**	**6,073,363**	**4,063,124**	**3,318,664**	**6,817,823**	**17,940,004**	**16,775,799**
IV. Financial assets											
Investments in affiliated companies	8,651	0	0	0	8,651	0	0	0	0	8,651	8,651
Total fixed assets	**22,883,280**	**10,396,213**	**8,470,425**	**0**	**24,809,068**	**6,085,787**	**4,063,848**	**3,318,664**	**6,830,971**	**17,978,097**	**16,797,493**

4. Notes to the income statement

Leasing income is € 11,451,469,000. Leasing expenses totalled € 6,102,588,000 and contain the expenditures required for generating sales. These essentially concern the residual carrying amounts of leased assets withdrawn and expenses from service leasing. The net income from leasing is € 5,348,881,000.

The interest result is divided up as follows:

€ 000	1.1. - 31.12.2013	1.1. - 31.12.2012
1. Interest income from lending and money market transactions (of which from affiliated companies € 358,000; previous year: € 951,000)	1,853	2,846
2. Interest expense (of which payable to affiliated companies € 146,723,000; previous year: € 159,178,000)	343,724	342,375
Total	**−341,871**	**−339,529**

Other operating expenses were € 97,873,000, of which € 85,021,000 were related to the leasing business and € 12,852,000 to allocated overhead. The income from the reversal of the special tax-allowable reserve amounts to € 105,000.

Personnel expenses for our members of staff at the Milan and Verona branches amounted to € 5,019,000, of which € 3,671,000 is attributable to wages and salaries and € 1,348,000 to social security contributions.

Other administration expenses in the amount of € 254,096,000 were incurred especially for workplace costs passed on by Group companies, personnel leases and IT costs.

The depreciation on and write-downs of leased assets in the amount of € 4,063,124,000 are presented separately. This contains write-downs of € 225,226,000 (previous year: € 275,971,000). The leased assets were written down by an additional € 10,000,000 (previous year: € 10,400,000) to account for risks from the early disposal of vehicles in connection with lessees' default (latent credit risks).

Other operating expenses in the reporting year were € 101,776,000. Among others, this includes expenses for risk provisions from the settlement of leasing transactions amounting to € 76,700,000 and issue and rating costs of € 2,205,000.

A total of € 356,545,000 in depreciation, amortisation and write-downs, allowances on receivables as well as transfers to provisions for the leasing business are in contrast to € 108,784,000 in income.

The developments listed above resulted in a pre-tax profit of € 51.2 million (previous year: € 223.5 million) in the financial year just ended.

Under the existing profit transfer agreement, the loss after taxes amounting to € 125.2 million is absorbed by Volkswagen Financial Services AG.

Distribution of income by region:

€ 000		1.1. - 31.12.2013			1.1. - 31.12.2012
		Germany	Italy	Total	Total
1.	Income from leases				
	Leases	4,369,849	189,551	4,559,400	4,321,026
	Maintenance and service contracts	809,621	9,518	819,139	739,639
	Used vehicle sales	5,551,786	89,130	5,640,916	5,087,212
	Other	413,383	18,631	432,014	433,817
		11,144,639	306,830	11,451,469	10,581,694
3.	Interest income from lending and money market transactions	1,832	21	1,853	2,846
6.	Commission income	452	0	452	574
8.	Other operating income	96,797	1,076	97,873	80,696
9.	Income from the reversal of the special tax-allowable reserve	105	0	105	105
14.	Income from the write-up on receivables and from reversals of provisions in the leasing business	91,410	17,374	108,784	94,938
Total		**11,335,235**	**325,301**	**11,660,536**	**10,760,853**

5. Other notes

The interest rate risk is hedged by interest rate swaps with a total nominal volume of € 19.3 billion. As at the balance sheet date, the positive market values amount to € 229.0 million while negative market values amount to € 58.4 million. Market values are determined on the basis of market information available at the balance sheet date and appropriate IT-based evaluation methods. Of these derivative financial instruments, accrued interest of € 154.3 million is shown under assets and accrued interest of € 26.2 million is shown under other liabilities.

Our company's annual financial statements are included in the consolidated financial statements of Volkswagen AG, Wolfsburg (largest basis of consolidation), which are drawn up according to the International Financial Reporting Standards and are submitted with the publisher of the Federal Gazette.

Furthermore, the financial statements of our company are included in the consolidated financial statements of Volkswagen Financial Services AG, Braunschweig, which are submitted with the publisher of the Federal Gazette.

Volkswagen Leasing GmbH placed asset-backed securities transactions (ABS transactions) on the market to refinance its leased assets. Two transactions were carried out in the 2013 financial year. In 2013 Volkswagen Leasing GmbH received a total of € 2,704,959,000 in proceeds from the sale of future leasing receivables. An additional three transactions from previous years are also in effect. Besides generating one-time inflows, these transactions do not have any additional material effects on the current and future liquidity and financial position of Volkswagen Leasing GmbH.

Volkswagen Leasing GmbH holds all shares in Vehicle Trading International (VTI) GmbH, Braunschweig. The company closed the 2013 financial year at a pre-tax profit of € 2.7 million, which is transferred to Volkswagen Leasing GmbH under the control and profit transfer agreement. The equity of VTI as at the closing date remained unchanged at € 2.8 million.

Furthermore, Volkswagen Leasing GmbH holds all shares in carmobility GmbH (Carmobility), Munich. The company closed the 2013 financial year at a pre-tax loss of € 2.4 million, which is absorbed by Volkswagen Leasing GmbH under the control and profit transfer agreement. The equity of Carmobility as at the closing date remained unchanged at € 0.3 million.

Furthermore, Volkswagen Leasing GmbH holds all shares in Euromobil Autovermietung GmbH (Euromobil), Isernhagen. The company closed the 2013 financial year at a pre-tax profit of € 2.2 million, which is transferred to Volkswagen Leasing GmbH under the control and profit transfer agreement. The equity of Euromobil as at the closing date remained unchanged at € 0.8 million.

The land and buildings belonging to Volkswagen Leasing GmbH are essentially used by other companies belonging to the Volkswagen Financial Services AG Group that are domiciled in Braunschweig.

The irrevocable loan commitments concern confirmed leasing contracts where the vehicle had not yet been delivered at the balance sheet date and the promised credit limits had not yet been used as a result. The irrevocable credit commitments are expected to be utilised. Other financial obligations concern a purchase commitment in an amount that is insignificant to the assessment of the company's financial position.

Contingent liabilities and other financial obligations not shown in the balance sheet exist in connection with the ABS transactions as at the reporting date to the extent that the vehicles covered by the sold future leasing receivables have been assigned as collateral to the special purpose entities issuing the debentures.

Volkswagen Leasing GmbH does not engage in any transactions with related parties that are not carried out at arm's length.

The fees for the auditors of the annual financial statements are disclosed in the consolidated financial statements of Volkswagen AG, Wolfsburg.

To pursue its business activities in Germany, Volkswagen Leasing GmbH does not have any personnel of its own. The staff were made available by Volkswagen Financial Services AG in return for a fee. In addition, the Milan and Verona branches employed 74 members of staff on an annual average (previous year: 74).

The managing directors do not receive any emoluments from the company.

The Board of Management of Volkswagen Leasing GmbH proposes to carry the remaining net retained profits of € 648,680.82 forward to new account.

6. Corporate bodies of Volkswagen Leasing GmbH

Board of Management as at 31.12.2013

GERHARD KÜNNE
Spokesman of the Board of Management (from 01.01.2013)
Sales Fleet Customers

ANDREAS KIEFER (FROM 01.01.2013)
Middle Office Leasing (from 01.01.2013)

DR. HEIDRUN ZIRFAS
Back Office Leasing

Audit Committee of Volkswagen Leasing GmbH

On 15 May 2012, the shareholders' meeting resolved to establish an Audit Committee in accordance with § 324 HGB for Volkswagen Leasing GmbH in its capacity as a corporation as defined by § 264d HGB.

The Audit Committee has the following members:

DR. ARNO ANTLITZ
Chairman
Member of the Board of Management Volkswagen Brand
Controlling and Accounting

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

DR. JÖRG BOCHE
Executive Vice President of Volkswagen AG
Group Treasurer

JÖRG THIELEMANN
Head of Customer Service Retail North/East of Volkswagen Bank GmbH

7.

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Volkswagen Leasing GmbH, and the management report includes a fair review of the development and performance of the business and the position of Volkswagen Leasing GmbH, together with a description of the material opportunities and risks associated with the expected development of Volkswagen Leasing GmbH.

Braunschweig, 7 February 2014

The Board of Management

Gerhard Künne

Andreas Kiefer

Dr. Heidrun Zirfas

Independent Auditors' Report

We have audited the annual financial statements - comprising the balance sheet, the profit and loss account, the notes, the cash flow statement and the statement of changes in equity - including the accounting, and the management report of Volkswagen Leasing Gesellschaft mit beschränkter Haftung, Braunschweig, for the financial year from 1 January to 31 December 2013. The accounting and preparation of the annual financial statements and management report according to German commercial regulations are the responsibility of the company's Managing Directors. Our responsibility is to express an opinion on the annual financial statements, including the accounting, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Managing Directors, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with the principles of proper accounting. The management report is consistent with the annual financial statements, provides a suitable understanding of the company's situation and suitably presents the risks of future development.

Hanover, 7 February 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Ralf Schmitz
Auditor	Auditor

Report of the Audit Committee

OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH is a publicly traded company within the meaning of § 264d of the HGB. The company established an Audit Committee pursuant to the provisions of § 324 HGB whose principal tasks are described in § 107 Para. 3 Sentence 2 German Stock Corporation Act (AktG).

The Audit Committee comprises four members; its composition has not changed compared to the previous year.

The Audit Committee convened for three regular meetings in the reporting year; there were no extraordinary meetings. In the reporting period there were no urgent matters to be resolved in writing by means of a circular memorandum. All members of the Audit Committee attended the meetings.

At its meeting on 27 February 2013, the Audit Committee examined the annual financial statements and the management report of Volkswagen Leasing GmbH for the 2012 financial year as well as the proposal on the appropriation of profit. At the same time, the reports on the audit of the annual financial statements and the management report of Volkswagen Leasing GmbH as well as important matters and issues concerning the accounting were discussed with the auditors. The Audit Committee reported on the audit to the sole shareholder.

Furthermore, the Committee requested explanations of the extent to which relationships of a professional, financial or other nature exist between the auditor of the financial statements and the company or its corporate bodies in order to assess the independence of the auditor. In this context, the Audit Committee obtained information about the services performed for the company by the auditor in addition to auditing activities and about grounds for exclusion or indications of bias. After extensive review of the auditor's independence, the Audit Committee of the sole shareholder issued a recommendation on appointment of the auditor and prepared the resolution of the shareholders' meeting on issuing the audit engagement.

At its second meeting on 12 June 2013, the Audit Committee concerned itself with the material business transactions in the first six months of 2013 and work in connection with the half-yearly financial reporting. The Audit Committee also dealt with assessing the effectiveness of the internal control system (ICS), the risk management system and compliance issues. The Audit Committee asked the head of Group Risk Management & Methods, the head of Internal Audit and the Chief Compliance Officer to explain, among other things, material changes in the regulatory and statutory environment and the status of the work performed on these topics during the financial year.

At its final meeting in the reporting year on 14 November 2013, the Audit Committee asked the head of Internal Audit to report on the processing status of the audit programme and the findings of the audits performed. Furthermore, the material business transactions of the 2013 financial year and the planning for the audit of the annual and consolidated financial statements for 2013 were discussed with the auditor of the financial statements.

Braunschweig, 26 February 2014

Dr. Arno Antlitz
Chairman

Waldemar Drosdziok
Deputy Chairman

Dr. Jörg Boche
Member

Jörg Thielemann
Member

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements concerning the future business development of Volkswagen Leasing GmbH. These statements include, among others, assumptions about the development of the global economy, as well as the financial and automobile markets. Volkswagen Leasing GmbH has made these assumptions on the basis of available information and believes that they can be currently said to offer a realistic picture. These estimates necessarily include certain risks, and actual development may differ from these expectations.
Should actual development therefore deviate from these expectations and assumptions, or should unforeseen events occur that impact the business of Volkswagen Leasing GmbH, then the business development will be accordingly affected.

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We apologise to our readers for using the masculine grammatical form solely for purposes of linguistic convenience.

VOLKSWAGEN LEASING GMBH

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