VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

ANNUAL REPORT

OF VOLKSWAGEN FINANCIAL SERVICES AG

2015

Worldwide presence

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

OUR REGIONS

GERMANY

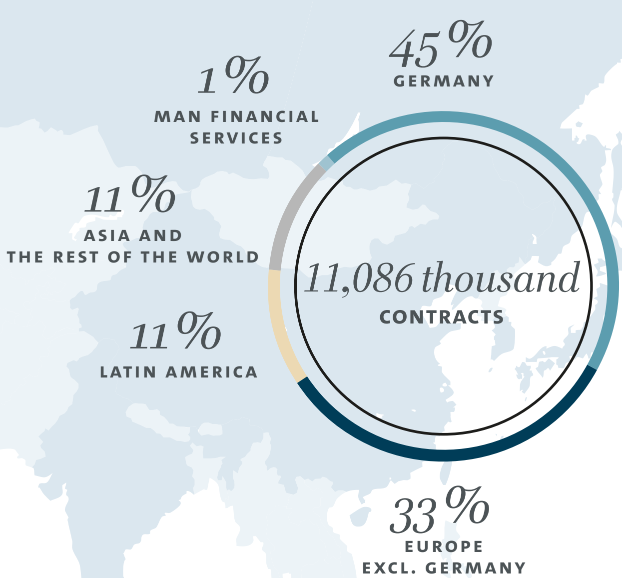
EUROPE EXCL. GERMANY
Austria
Belgium
Czech Republic
Denmark
Estonia
France
Greece
Hungary
Ireland
Italy
Latvia
Lithuania
Norway
Poland
Portugal
Romania
Russia
Slovakia
Slovenia
Spain
Sweden
Switzerland
The Netherlands
Turkey
Ukraine
United Kingdom

LATIN AMERICA
Argentina
Brazil
Chile
Mexico

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

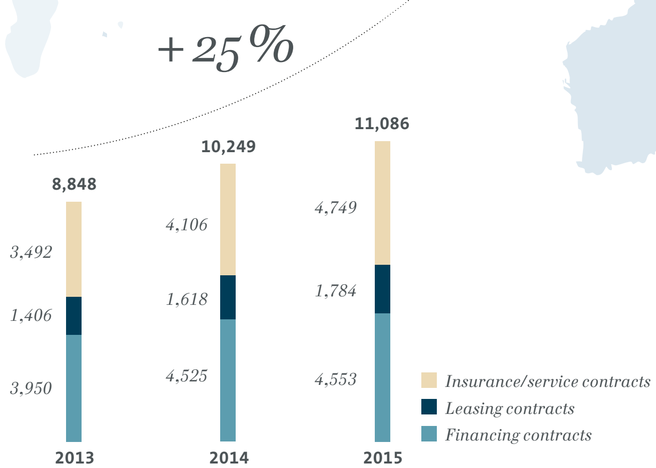
CONTRACTS AS OF DEC. 31, 2015

in %



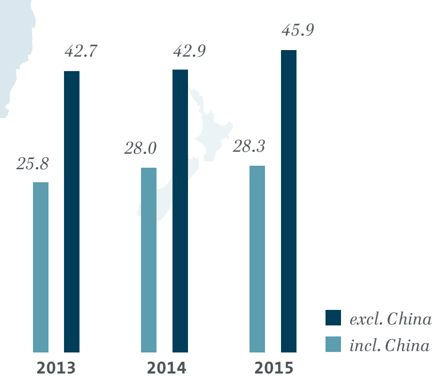
PORTFOLIO GROWTH

in thousands



PENETRATION RATE

in %



Key Figures

VOLKSWAGEN FINANCIAL SERVICES AG

in € million (as of December 31)	2015	2014	2013	2012[1]	2011
Total assets	121,251	107,231	90,992	87,378	76,946
Receivables from customers attributable to					
Retail financing	50,665	47,663	40,284	38,127	33,261
Dealer financing	13,967	12,625	11,082	10,781	10,412
Leasing business	19,704	18,320	16,298	15,312	14,252
Lease assets	12,982	10,766	8,545	7,474	6,382
Customer deposits	28,109	26,224	24,286	24,889	23,795
Equity	14,811	11,931	8,883	8,802	7,704
Operating profit	1,416	1,293	1,214	945	814
Profit before tax	1,513	1,317	1,315	992	933
Income tax expense	–304	–420	–373	–264	–275
Profit after tax	1,209	897	942	728	658

in % (as of December 31)	2015	2014	2013	2012	2011
Cost income ratio[2]	63	60	58	60	60
Equity ratio[3]	12.2	11.1	9.8	10.1	10.0
Common Equity Tier 1 capital ratio[4]	12.0	10.3	–	–	–
Tier 1 capital ratio[4]	12.0	10.3	8.6	9.2	9.8
Total capital ratio[4]	12.1	10.7	9.6	9.8	10.1
Return on equity[5]	11.3	12.7	14.9	12.0	12.7

Number (as of December 31)	2015	2014	2013	2012	2011
Employees	11,746	11,305	9,498	8,770	7,322
Germany	6,167	5,928	5,319	4,971	4,599
Abroad	5,579	5,377	4,179	3,799	2,723

	Standard & Poor's			Moody's Investors Service		
Rating (as of December 31)	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Volkswagen Financial Services AG	A-2	BBB+	negative	Prime-1	A1	negative
Volkswagen Bank GmbH	A-2	A–	negative	Prime-1	A1	negative

1 The figures for 2012 have been restated in line with the amended IAS 19.
2 General and administrative expenses divided by the sum of net income from lending, leasing and insurance transactions (after provisions for risks) and net fee and commission income.
3 Equity divided by total assets.
4 The regulatory capital ratios for the years 2011 to 2013 were calculated in accordance with the Solvabilitätsverordnung (SolvV – German Solvency Regulation). Since January 1, 2014, these ratios have been calculated in accordance with Article 92 of the Capital Requirements Regulation (CRR). In line with the terminology used in the CRR, the Common Equity Tier 1 capital ratio has been disclosed as an additional ratio and the designation "overall ratio" has been amended to "total capital ratio".
5 Profit before tax divided by average equity.

The key to mobility

We promote the worldwide sales of all Volkswagen Group brands and increase customer loyalty on a lasting basis. We enable individual mobility for our customers as a reliable partner of our dealers. We provide attractive products to our customers along the entire vehicle lifecycle, thus enabling us to grow profitably. Our dedicated employees live our corporate values, which results in high customer satisfaction.

CONTENTS

Foreword of the Board of Management

“The digitalization of our business will be one of the defining issues of the future.”

LARS HENNER SANTELMANN
CHAIRMAN OF THE BOARD OF MANAGEMENT

Ladies and Gentlemen,

Volkswagen Financial Services AG is able to look back on an eventful fiscal year 2015. The first nine months of outstanding business development were followed by a fourth quarter that was heavily impacted by the irregularities in emissions levels. These events have greatly challenged the entire Volkswagen Group, including Volkswagen Financial Services AG. It is now imperative to resolve the matter in a complete and transparent fashion and to win back our customers' trust in the Group's vehicles at the same time. Our financial services can make an important contribution in this respect.

In this context, our most important key figures are all the more gratifying. Volkswagen Financial Services AG saw continuing growth in fiscal year 2015. The volume of retail financing, leasing, and service and insurance contracts rose to nearly 11.1 million at the end of 2015, representing an increase of 837 thousand or over 8 percent compared with the previous year (10.2 million). Moreover, when we take all contracts into account, including those from joint ventures and the entire insurance business, volume increased to around 13.8 million. Total assets increased by 13 percent, from €107.2 billion to €121.3 billion. And financially, the results from Volkswagen Financial Services AG were also impressive: at €1.5 billion (2014: €1.3 billion), we achieved a new record high level of profit.

Our solid growth is essentially the result of a very broad business portfolio. Volkswagen Financial Services AG has subsidiaries and joint ventures in 49 countries, offering a range of products that includes classic passenger car financing and leasing, comprehensive insurance and service packages, and innovative mobility solutions. In addition to our main focus on passenger cars, we have entered other growth markets in recent years by providing financial services for the Italian motorcycle brand Ducati and, in particular, by integrating the financial services activities of MAN Truck & Bus. Our product range now covers motorcycles, cars, light and heavy commercial vehicles, and buses.

Thanks to our broad business portfolio, in 2015 we were more than able to compensate for negative developments such as the economic downturns in Russia and Brazil by leveraging opposing effects including recovering markets in southern Europe and high growth rates in the fleet and service businesses.

At the same time, 2015 was marked by high internal demands on processes and organization at Volkswagen Financial Services. In addition to the fulfilment of regulatory requirements, efforts focused on matters such as upgrading our IT infrastructure or establishing methods superior to those of our competition worldwide. We met these challenges with good results.

Last year's fourth quarter was dominated by the emissions issues at the Volkswagen Group. By reacting quickly and flexibly, we were able to minimize negative impacts on areas such as funding and residual value at Volkswagen Financial Services AG, for example by increasing the use of secured bonds or refinancing via the direct bank. Parallel to this, we cooperated closely with the Volkswagen Group brands to launch a confidence-building campaign as a reaction to the emissions issues. In record time, we created new packages in Germany and in many European countries with components such as extended warranties, free maintenance and inspection, and special financing. Aided by this support, dealerships were able to promote their new and used car business with persuasive arguments. At the same time, the measures taken also bolstered customer demand for our products.

At Volkswagen Financial Services, we took the special circumstances at the end of 2015 as an occasion to initiate a program including short-term measures such as the aforementioned confidence-building campaign and the implementation of cost-reducing arrangements and long-term efficiency improvements. The program also includes a critical review of our corporate culture and values and the accelerated implementation of our ROUTE2025 strategy.

All in all, at Volkswagen Financial Services we expect to be facing major challenges again in 2016. Take, for example, the economic situation in many emerging markets, or the effects of the emissions issue on our funding activities. Yet despite this, we were able to set the course for sustainable success in 2015. Particularly in times like these, we owe our success to the dedication of our employees and our close collaboration with the Group's brands and our dealers. On behalf of the entire Board of Management, I thank our employees for their commitment and our customers for their trust, which is so important to us.

We face a challenging year in 2016, but I am very optimistic that we at Volkswagen Financial Services will master the tasks at hand and bring the fiscal year to a successful close as usual.

Sincerely,

Lars Henner Santelmann
Chairman of the Board of Management

Board of Management

VOLKSWAGEN FINANCIAL SERVICES AG

LARS HENNER SANTELMANN
Chairman of the Board of Management
(since October 14, 2015)

DR. MICHAEL REINHART
Risk Management
and Credit Analysis

CHRISTIANE HESSE
Human Resources
and Organization

DR. MARIO DABERKOW
IT and Processes

FRANK WITTER
Chairman of the Board
of Management
(until October 7, 2015)

FRANK FIEDLER
Finance and
Purchase

A Conversation

WITH THE CHAIRMAN OF THE BOARD OF MANAGEMENT LARS HENNER SANTELMANN

2015 was shaped by the events in the Volkswagen Group surrounding the emissions issue. What impact did they have on Volkswagen Financial Services?

We were deeply concerned by the emissions issue in the Volkswagen Group. We experienced sudden and dramatic headwinds, with many aspects of our business model affected. The trust of our customers in our vehicles and services, the good residual values of our vehicles and the cooperation with our dealers were at risk, while at the same time our funding terms and rating deteriorated.

We therefore took immediate measures to manage these risks and shape the future. Our customers' trust is our highest priority, and we will do everything we can to win back the confidence they placed in us. Together with the brands, we developed new packages in record time, featuring warranty and maintenance products as well as special financing solutions. This stabilized unit sales and residual values.

In the capital markets, we provided information to investors, analysts and rating agencies. The core facts were communicated and published in documents on our website. We have also initiated worldwide programs to improve efficiency and optimize processes. Our common corporate culture is the binding force that unites us: with our FS Way and the courage and entrepreneurial commitment of all of our employees, we have the strength to master the impact of the emissions issue and to emerge stronger in the future.

The previous strategy for Volkswagen Financial Services was called WIR2018. The goals defined in it were to be reached by 2018. You have now launched a new strategy long before the end of the earlier strategy. What were the reasons for this?

We achieved many of the goals we set for ourselves under our previous strategy, WIR2018. We have continuously expanded our global footprint and now offer our customers a wide range of attractive products to meet their individual mobility needs. But we will not rest on our laurels. Rather, we decided as the Board of Management to set a new course that will allow us to make further progress in the global competition for customers and to continue writing our success story. The environment in the financial services business is changing rapidly, not least as a result of new competitors, for example the fintechs.

What was carried over from the old strategy? And what are the new elements?

With our new ROUTE2025, we have taken over the focus on customers, employees, profitability and volume from our successful WIR2018 strategy. To these we are now adding the strategic dimension of operational excellence, as well as selected new action areas. What does operational excellence mean for us? We understand it to mean making our processes and systems even more future-proof, while at the same time keeping a watchful eye on our cost base. It means aligning our existing processes more simply and more quickly with the needs of our customers.

“We have set ourselves the goal of also offering all of our products worldwide online.”

LARS HENNER SANTELMANN
CHAIRMAN OF THE BOARD OF MANAGEMENT

You have spoken of fundamental issues for the future and new challenges for your business. What are the specific priorities in the ROUTE2025 strategy?

For ROUTE2025, we have identified focus areas that will receive our particular attention.

One area we plan to push is the issue of digitalization. In the future, we plan to offer all of our products online – not just those of the direct bank. To do that, we will need to develop a global virtual financial services store as a second distribution channel alongside the proven cooperation with our dealers. Digitalization also means providing new services, such as parking and refuelling with automatically integrated payment processes.

In our traditional banking and leasing business, we are hitting limits to our growth in saturated markets. We are therefore determined to do everything we can to further accelerate the international expansion of the used car business.

The Chinese automotive market is the largest single market for the Volkswagen Group. Here, too, we are going to meet the specific challenges of this market by developing a tailored master plan and by further expanding the financial services we offer there.

What do you think is needed to successfully implement the strategy?

Planning and implementing a strategy is exciting and multifaceted. It addresses the very heart of a company and its correct positioning in the market. The most important success factors in implementing a strategy are central coordination and consistent requirements for implementing the strategic process, the broad-based involvement of employees and managers, and coordinating and implementing the substance of the strategy and initiatives across all business areas and markets.

Embracing a strategy means questioning familiar habits and being open to new solutions. It also includes having the courage to change your views and being passionate and committed when you’re backing ideas and issues.

Do you believe that the Volkswagen Financial Services companies are well positioned to implement your strategy by 2025?

Yes. As Volkswagen Financial Services AG, we are excellently positioned from the outset to master the challenges we will face from different areas. Of course we are not yet where we want to be, but with our new ROUTE2025 strategy, we are committed to achieving our goals.

Our Strategy

ROUTE 2025

WE ARE THE KEY TO MOBILITY

The strategic dimensions of customers, employees, profitability and volume proved successful for our WIR2018 strategy. With the addition of operational excellence, there are now five dimensions that anchor our new strategy, ROUTE2025.

MOVING FORWARD WITH THE NEW STRATEGY

As the key to mobility, we provide tailored solutions for the mobility needs of our customers – worldwide, in 49 countries. The emissions issue sets Volkswagen Financial Services the challenge of supporting the Group brands with our entire product portfolio and our expertise in financial services. Our employees are the key success factor in achieving this. We can continue to build on a stable customer base and customer satisfaction in the reporting period, we can generate ongoing growth in the markets and we can deliver solid profitability through our core business and the commission business. Nevertheless, because the environment and the needs of customers change constantly, we are preparing for the next challenges. With ROUTE2025 as our follow-up strategy, we are defining the path for the continued success of Volkswagen Financial Services AG for the next ten years.

THE VISION

Our common vision is clear: “We are the key to mobility”. Our mission is derived from this vision: To increase the unit sales of all

1

CUSTOMERS
Through the targeted expansion of digital channels, we are adopting an increasingly state-of-the-art approach to meet the changing needs of our customers.

2

VOLUME
Our goal is to grow worldwide. We support contract growth through a range of measures. In growth markets such as China, we intend to expand in cooperation with our partners.

3

PROFITABILITY
In the traditional core business, we continuously strive to improve earnings and focus our strengths increasingly on the service business.

4

OPERATIONAL EXCELLENCE
Our future success in the digital age is rooted in information technology. To achieve this, we want to align our processes better and more efficiently with the needs of our customers.

5

EMPLOYEES
Whether as part of the team or as an individual: Performance counts and is rewarded. As a leading employer, we at Volkswagen Financial Services know the importance of recruiting and continuously training the best employees.

brands of the Volkswagen Group worldwide. As a reliable partner for our dealers, we make individual mobility possible for our customers and support our customers with attractive products over the entire period a vehicle is used. Our dedicated employees “driven by fuel” ensure high levels of customer satisfaction. Our corporate values as well as our open corporate and leadership culture are the guiding principles that enable us to continue shaping our steady growth.

THE FUTURE – 2025
The new strategy, ROUTE2025, has been communicated in all of our markets and has been underpinned by the first strategic initiatives and programs. All over the world, our employees are committed to realizing the goals of Volkswagen Financial Services AG, even in an increasingly demanding environment. Our values and convictions – a living commitment to our customers, individual responsibility, trust in cooperation, and courage and enthusiasm for new ideas – are a constant guide. We can say today and in 2025: “We are the key to mobility”.

A Conversation

WITH THE CHAIRMAN OF THE BOARD OF MANAGEMENT LARS HENNER SANTELMANN AND CHIEF FINANCIAL OFFICER FRANK FIEDLER

With digital tools, we will be able to satisfy the needs of our customers even better.

As of January 1, 2014 MAN Finance International GmbH was taken over by Volkswagen Financial Services. How do you view the success of this merger?

LARS HENNER SANTELMANN We are the mobility services provider in the Group. The integration of MAN Financial Services (MFS) was therefore the right step and has meant success for the Company overall. Although there was certainly scepticism at the beginning, both among some of our colleagues at MAN Financial Services and on the part of Volkswagen Financial Services, we have done a lot of work to build confidence in the fact that the merger of the two companies can only make us stronger. To ensure a smooth integration of all business processes from MAN Financial Services into Volkswagen Financial Services, we began the MFS integration project immediately after the takeover. The former MFS Holding and the national subsidiaries in Portugal, Poland, Spain and Turkey have already been integrated. During the past months, we have shown that we can be successful on this new road together – always with an eye to high-quality service for our customers. So, yes, the takeover was and is a success for both sides.

FRANK FIEDLER Success can also be measured in numbers. In 2013, we started with a penetration rate of 28.8 percent, which has now risen to 37.8 percent at the end of 2015. And in addition to our market presence, our focus is also on the profitability of our activities. The result before tax has increased from €–36 million in 2013 to €20 million in 2015.

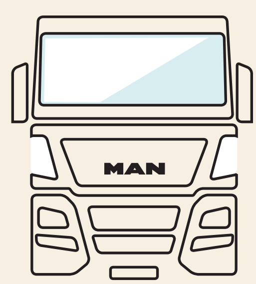
What are the similarities between financial services for passenger cars and financial services for trucks? What are the major differences?

FRANK FIEDLER Financial services in the truck business differ from those for passenger cars, especially in the sales approach, because trucks represent an investment for which total cost of ownership are an especially important decision criterion. For car buyers, emotional aspects often play a role in decisions on what to buy. In addition, trucks have a significantly larger scale of use and are almost always manufactured to the customer's specific requirements – each truck is unique. Consequently, detailed knowledge of usage patterns and specific vehicles is called for in order to offer services that are attractive for both sides.

LARS HENNER SANTELMANN But there are some commonalities, such as the range of financial services on offer. We enjoy particular benefits from our extensive experience in fleet management, where we can also offer customers special services tailored to their needs. And many processes are essentially the same, not only in terms of contact with customers but also with regard to back office operations. While the sale, collection and marketing of used trucks differs to that of cars, there are

"Use synergies and create efficiency – this is the key to success."

HIGHLIGHTS



MAN FINANCIAL SERVICES

- *Holistic mobility solutions*
- *Active worldwide in 29 countries*
- *Penetration rate 37.8%*
- *Profit before tax €20 million*

“Securing the business model, stabilizing residual values and confidence-building measures for our customers will be the primary focus of our attention in 2016.”

many similarities in finance, human resources, IT, organisation and compliance. That is precisely our key to success: safeguarding and improving our expertise in the truck-specific areas while creating synergies by standardising the non-specific processes is crucial.

What synergies result from the integration of MAN Financial Services?

FRANK FIEDLER For us, this is not a cost-saving project. At Volkswagen Financial Services, we operate on the core idea of a captive business model. This means energetically supporting the brands of the Volkswagen Group in their activities and being a strong partner. Trustful cooperation is required, and a willingness to stand together, even in difficult times and on challenging projects, to invest and to find a solution in the interest of all. And that is especially necessary in the highly volatile truck business. We have been able to firmly embed “truck DNA” in Volkswagen Financial Services, leading to growth in the business and the acquisition of new customer groups. A good example is the introduction of the MAN fuel card throughout Europe by Volkswagen Financial Services.

Where does it go from here? What goals are next? Are there any plans to offer financial services for Scania in the near future, too?

LARS HENNER SANTELMANN The top priority for MAN is to internationally expand its portfolio of financial services. It added the markets in Mexico, India, China, South Korea and Slovakia in 2015. With regard to customer products, the focus is on expanding the rental business and the insurance and service portfolios. We are already successfully involved in financial services for Scania in Turkey and China, and since July 2015 in India as well. We work closely with Scania Financial Services and are continually intensifying this cooperation. In the future we would also like to offer financial services for Scania customers in Russia, South Korea and Mexico.

FRANK FIEDLER We have developed the truck business into a core segment for Volkswagen Financial Services. Now, as part of ROUTE2025, we want to expand it internationally and ensure its long-term profitability. Our objective is to become the global benchmark in this segment as well.

We always keep high quality service for our customers in mind.

Funding – Diversification with strategic approach

Volkswagen Financial Services continued to successfully implement its diversified funding strategy in fiscal year 2015. Our use of a variety of funding instruments in different currencies proved successful even during the tense market situation we experienced at the end of the year.

SUCCESSFUL STRATEGY IN DISTEMPERED TIMES

Fiscal year 2015 was a successful year for Volkswagen Financial Services AG. The development and expansion of refinancing activities necessitated by positive business performance was again successful in fiscal year 2015, despite distempered times towards the end of the year. The diversified funding strategy, which is based both on financing in different currencies and the use of a variety of instruments, proved its worth anew. It enables us to act independently of developments related to individual regions and funding sources. In short, we are very broadly and very well positioned.

Volkswagen Financial Services AG makes use in particular of established funding sources such as unsecured bonds, secured auto ABS transactions (asset-backed securities), as well as deposits from the direct banking business. Our first priority in selecting instruments is to ensure liquidity. As a second step, we seek to optimize the pricing of the instruments used.

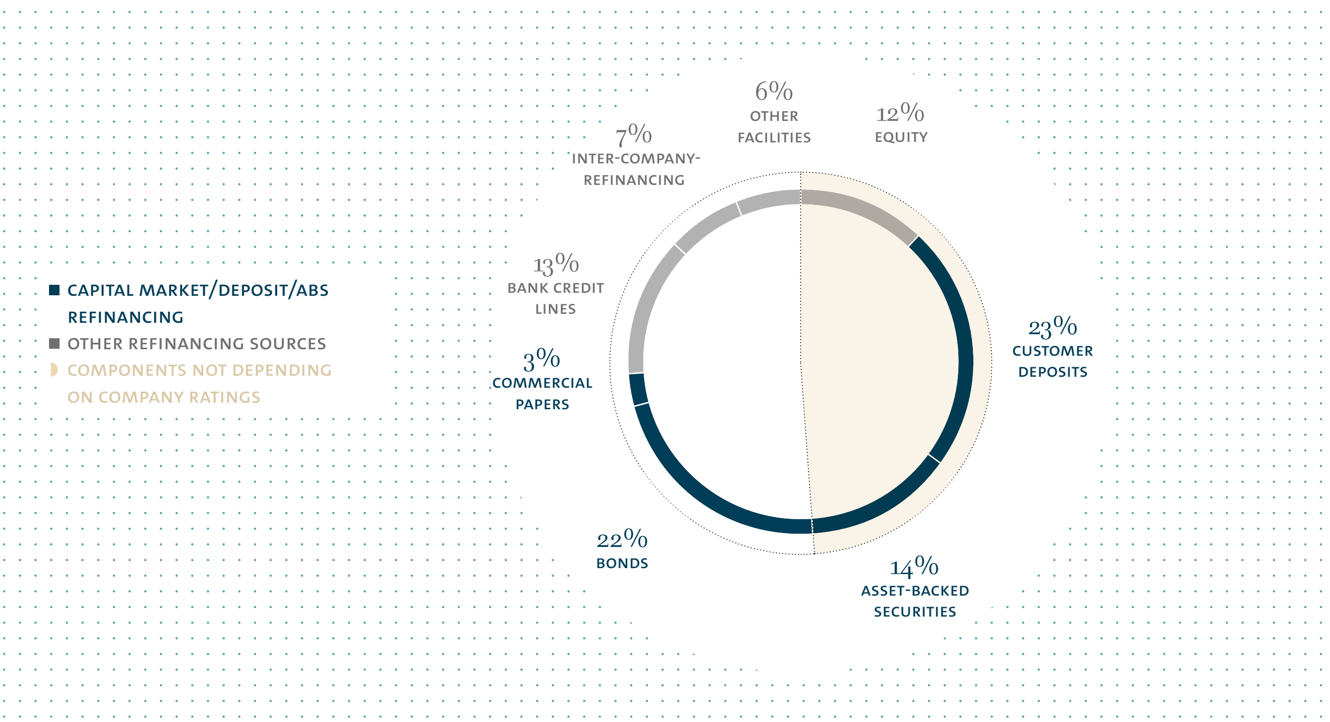
INTERNATIONAL CAPITAL MARKET ACTIVITIES

Especially in the first half of fiscal year 2015, it was possible to benefit from funding conditions that continued to be attractive due to the very low interest rates. Volkswagen Financial Services AG issued two bonds in April with terms of 2.5 and 6.5 years, and Volkswagen Leasing GmbH successfully placed two bonds in the market in August with terms of two and five years.

At an international level, unsecured bonds were successfully issued outside of Europe on the established markets in Australia, Brazil, India, Mexico and South Korea. In the fourth quarter, our activity with unsecured bonds on the international capital markets was temporarily limited because of irregularities in connection with the emissions issue.

We were able to meet the funding needs normally covered largely by unsecured bonds with alternative instruments. For example, we continued to successfully place commercial paper in the market, and also the strategic instruments auto ABS and direct banking deposits. In addition, we made use of credit facilities from banks.

REFINANCING SOURCES AS OF DECEMBER 31, 2015



We were also able to place secured bonds on attractive terms at all times over the course of the year, even in the difficult market environment, and these made a considerable contribution to our funding activities. Volkswagen Bank GmbH successfully issued the ABS transaction Driver thirteen in February. In May, Volkswagen Leasing GmbH issued its 21st ABS transaction, Volkswagen Car Lease 21 (VCL 21), with a volume of over €1 billion. ABS transactions were also successfully issued internationally in Australia, France, China, Japan and the United Kingdom.

Despite the emissions issue and the fact that vehicles in our portfolios were affected, we were also able to issue ABS transactions throughout the last quarter of 2015. In Spain, Driver España two, whose tranche A is rated AA by Standard & Poor's, was successfully completed with a volume of €816 million at only moderately higher spreads. Volkswagen Car Lease 22 (VCL 22) with a volume of €857 million was successfully placed in November. Driver Brasil three with a volume of €257 million closed the year.

Deposits in the direct bank remained stable, even after the emissions issue emerged. Within the scope of an anniversary campaign recognizing the 25th anniversary of the Volkswagen direct bank, which comprised an offer of 1.25 percent interest for a period of four months from contract conclusion, the direct bank recorded an increase in deposits from October onward. The strategic funding mix employed by Volkswagen Financial Services thus proved its worth even in difficult times.

In 2015, the investor relations team for Volkswagen Financial Services gave regular reports to national and international analysts and investors. The relevant market participants were informed of the latest developments in both one-on-one and group discussions worldwide. Our communications focused on the potential effects of the emissions issue on Volkswagen Financial Services, the business model and its key financial and risk data, as well as the funding strategy.

RATING

As a wholly owned subsidiary of Volkswagen AG, the rating of Volkswagen Financial Services AG from both Moody's Investors Service (Moody's) and Standard & Poor's (S&P) is closely tied to the rating of the Group parent.

TREASURY/ROUTE2025

"We ensure the liquidity of Volkswagen Financial Services in all markets at all times."

BERND BODE
HEAD OF GROUP TREASURY & INVESTOR RELATIONS

On December 1, 2015, the rating agency S&P lowered the long-term rating of Volkswagen Financial Services AG to BBB+ with a negative outlook. The short-term rating remained unchanged at A-2. Moody's also lowered its long-term rating of Volkswagen Financial Services AG by one notch to A1, with a negative outlook, on November 6, 2015. The short-term rating of P-1 was confirmed.

As a wholly owned subsidiary of Volkswagen Financial Services AG, Volkswagen Bank GmbH is also rated by both agencies. In contrast to the ratings action taken for Volkswagen Financial Services AG, S&P confirmed its long-term and short-term ratings for Volkswagen Bank GmbH at the level of A– and A-2. However, it also assigned a negative outlook. Moody's lowered the long-term rating of Volkswagen Bank GmbH on November 6, 2015 to A1 with a negative outlook and confirmed the short-term rating of P-1.

The changed ratings are mainly attributable to the agencies' assessment of the emissions issue at the Volkswagen Group.

OUR CENTRAL GOAL IS TO ENSURE LIQUIDITY

Funding is the procurement of money for a company. It involves generating capital from investors to facilitate activities such as offering loans for vehicle financing. In periods of high growth, the liquidity needs increases, while secure access to sufficient funding is essential during a crisis.

We have therefore developed a funding strategy whose primary feature is diversification, the principle being to avoid dependence on any one element. In other words, we spread the risk related to the currency regions and the instruments. First, this means that we invest in different currencies in as many countries as possible. Second, it means that we use as many different sources of debt financing as possible. We have thus structured our funding to have the highest possible level of risk diversification in terms of individual currency areas and available instruments.

DIVERSIFYING SOURCES OF DEBT FINANCING PAYS OFF

The most significant components of our funding mix are deposits from the direct banking business, unsecured bonds and auto ABS. We have rolled out these instruments throughout the world in the past few years, introducing them in the markets and currency areas.

We are one of the leading issuers of auto ABS for example. We recognized early on that standardized platforms for the securitization of different classes of receivables are highly valued by investors and ratings agencies, and are therefore gradually implementing this approach together with the companies belonging to Volkswagen Financial Services AG.

In addition to the auto ABS transactions, unsecured capital market instruments in a variety of currencies were also of great significance both for the creation of liquidity at attractive terms and the stabilization of direct banking deposits, which have been a key funding component for Volkswagen Financial Services for 25 years.

MAKING THE ROUTE2025 STRATEGY A REALITY

The funding strategy of diversification is valid, successful, and has proven its worth even in difficult times. We will not deviate from this basic principle. In concrete terms, the ROUTE2025 strategy stands for organizational development. We have taken what we learned in recent years and will optimize, refine and develop it further by 2025. For example, we have integrated the local treasury departments at MAN Financial Services into our national subsidiaries or the main office as a way of becoming even more efficient. Further steps to improve efficiency and contribute the expertise of Volkswagen Financial Services AG Holding to the companies will follow. They will include centralizing the management of term transformation and rolling out the funding model to additional markets. In this respect, I consider it important to strengthen cooperation with the national subsidiaries further and to work with the persons charged with this responsibility at the local site to achieve the best possible funding for the local business. It is our goal to secure sustained funding at attractive prices and thereby create competitive advantages through an ample supply of liquidity and a favourable cost of capital. I assume that, once the current distortions in the capital markets have calmed, we will again be able to use all of the established instruments in the different currencies to ensure our growth.

Global success

OUR REGIONS

We want to inspire our customers around the world with our mobility solutions.

Germany

PROFILE

“In close cooperation with the brands and dealers, we are evolving into a mobility service provider, as this way we can best satisfy the needs of our customers and successfully fulfil our role as a promoter of sales volume.”

ANTHONY BANDMANN
Spokesman of the Board of Management of Volkswagen Bank GmbH and Regional Manager, Germany

BUSINESS PERFORMANCE

The strong market position in Germany was maintained, and some business areas expanded. In total, 734 thousand new contracts for the financing and leasing of new vehicles and 300 thousand new contracts for used vehicles were signed. The penetration rate in the German market remained high at 57.4 percent. The volume of deposits in the direct banking business increased by 9.7 percent to the current figure of €27.1 billion despite the persistently low interest rate.

CUSTOMERS

In fiscal year 2015, we focused on expanding our service activities in the area of mobility. We set new standards in 2015 with our further development of leasing for private customers.

The acquisition of 93 percent of the shares of payment specialist sunhill technologies GmbH enabled us to expand our product portfolio in mobility services and create excellent prospects for growth in this segment.

KEY FACTS DECEMBER 31, 2015

MARKET PENETRATION
New vehicles

57.4%

VOLUME OF FINANCING
Corporate customer business

€4,967 million

CURRENT NUMBER OF CONTRACTS
2.58 million

+3.6%

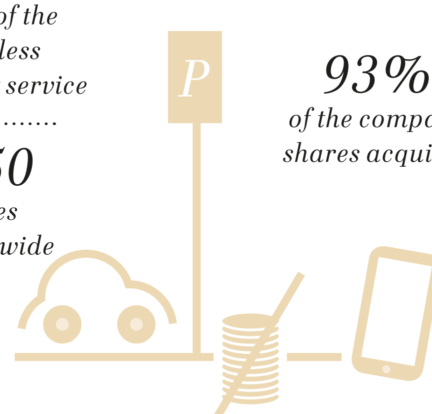
HIGHLIGHT

SUNHILL TECHNOLOGIES
Product portfolio successfully expanded

> 2 million
users of the cashless payment service

150
sites worldwide

93%
of the company shares acquired



Europe

PROFILE

Austria, Belgium, Czech Republic, Denmark, Estonia, France, Greece, Ireland, Italy, Latvia, Lithuania, the Netherlands, Norway, Poland, Portugal, Russia, Slovakia, Spain, Sweden, Switzerland, Turkey, Ukraine, United Kingdom

"From new vehicle loans and loyalty-enhancing products such as services and insurance to our focused used car program, we accompany our customers and our vehicles throughout the product life cycle."

JENS LEGENBAUER
Regional Manager

BUSINESS PERFORMANCE

We extended both the range of our service products and their availability, resulting in more and more customers signing up for wear and tear products. Our dealership partners have also benefited from the increase in the penetration of our wear and tear products to more than 59 percent, as it ensures long-term capacity utilization for their workshops. The increase in the number of contracts to over 2.5 million in 2015 is the result of intensive, growth-oriented cooperation with the brands and active participation in vehicle introductions. The extension of the GO^{40} agreements and their expansion to additional countries, as well as continuous process optimization, safeguard these business developments in the long term.

CUSTOMERS

In Europe, the systematic orientation of Volkswagen Financial Services AG towards the needs of the customer is bearing fruit. The fleet business succeeded in further extending its market position in Europe by expanding its full-service leasing offerings. The ongoing development of AutoCredit financing and the CRM activities in the private customer business are enhancing loyalty. The used vehicle business was successfully reinforced by means of a comprehensive expansion of the used car warranty.

KEY FACTS
DECEMBER 31, 2015

MARKET PENETRATION
New vehicles

37.8%

VOLUME OF FINANCING
€39.8 billion

+18.1%

CURRENT NUMBER OF CONTRACTS
6.88 million

+19.2%

HIGHLIGHTS

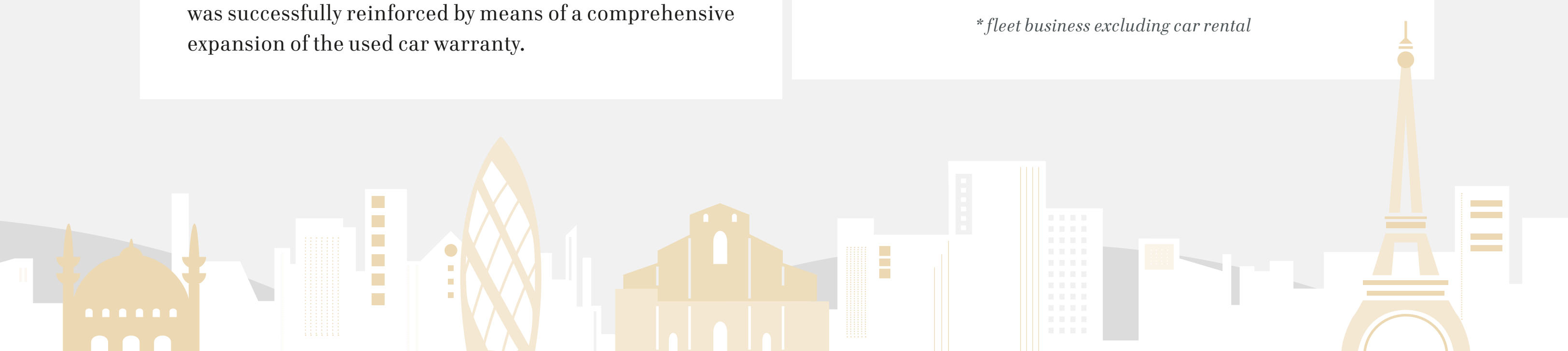
NO. 1

Volkswagen Financial Services number 1 provider for all brands in Spain, France, Italy and the UK.

TRUE FLEET PENETRATION *

27.3%

* *fleet business excluding car rental*



Latin America

PROFILE

Argentina
Brazil
Chile
Mexico

“We work closely with the brands to counteract the more difficult market conditions in the region.”

ROBERT LÖFFLER
Regional Manager

BUSINESS PERFORMANCE

The problematic economic developments in Latin America had a negative impact on business performance. Despite this, Volkswagen Financial Services continued to improve, achieving a penetration rate of 44.3 percent in Brazil (+16.6 percent year-on-year) and a record 48.4 percent in Mexico. In Argentina, a new cooperation with BBVA commenced. The joint venture with Porsche Bank in Chile completed its roll-out of the retail business across the country.

CUSTOMERS

The employee leasing program was launched in Brazil and Mexico and provided a sustainable increase in the number of contracts entered into. By introducing new maintenance and service products, Financial Services Brazil is increasing private customer loyalty both now and for the future. In Mexico, Ducati customers were able to benefit from our financing products for the first time.

KEY FACTS
DECEMBER 31, 2015

MARKET PENETRATION
New vehicles

39.9%

VOLUME OF FINANCING

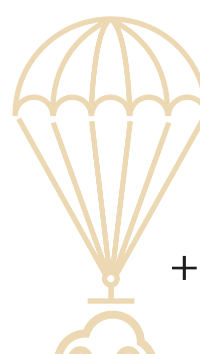
€2.86 million

CURRENT NUMBER OF CONTRACTS

+332 thousand

HIGHLIGHT

INSURANCE SEGMENT
New contracts and service contracts
312 thousand contracts



+5%

China, India, ASEAN

PROFILE

"The integrative business model of brands, dealerships and Volkswagen Financial Services, especially in a period of economic consolidation, is both the anchor and the engine of new business growth."

REINHARD FLEGER
Regional Manager

BUSINESS PERFORMANCE

Business performance in the China, India and ASEAN region is largely influenced by business performance in China. In 2015, competition among financial services providers intensified, with the result that the previous year's record level of new contracts was not reached, despite stable customer demand. However, progress was made in the leasing business, where the number of contracts doubled; they still remained at a low level, however.

CUSTOMERS

The next milestone in the continued expansion of the leasing business was reached in China when the business license for financial leasing was approved, giving us access to new customer groups.

The mobility products offered to our customers in China were extended through the roll-out of the B2B carsharing service VRent in Dalian.

KEY FACTS
DECEMBER 31, 2015

CURRENT CONTRACTS – CHINA
Private customers: 645.6 thousand

+15%

CURRENT CONTRACTS – CHINA
Leasing: 694

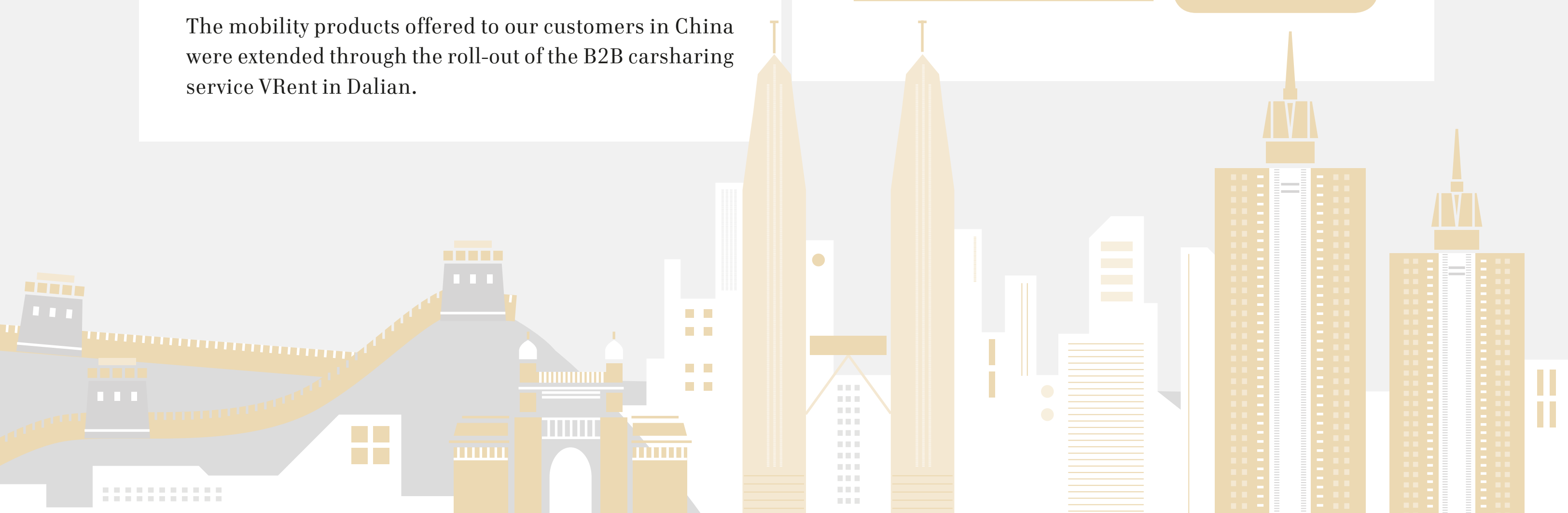
+147%

CURRENT CONTRACTS – INDIA
Private customers: 56.2 thousand

+17%

HIGHLIGHT

VRENT CARSHARING
Roll-out of the corporate carsharing concept VRent in Dalian, the second city to profit from the service after Beijing. (7 stations as of December 31, 2015)



International

PROFILE

"Within the ROUTE2025 strategy, we intend to further expand our successful business model in the markets belonging to our international region."

OLIVER SCHMITT
Regional Manager

BUSINESS PERFORMANCE

The economies in our international region – consisting of Australia, Japan, South Africa and South Korea – recorded moderate growth in 2015. Automotive sales volume in the Group brands varied in the individual markets. For the region as a whole, positive performance was recorded compared to the previous year. For the Volkswagen Financial Services AG companies, 2015 was an encouraging year. The penetration rate and the interest-bearing assets business rose compared to the previous year. In South Korea, the establishment of an insurance agency reinforced the automotive insurance business.

CUSTOMERS

Activities in the countries belonging to this region focused on an expansion of our competitive, customer-oriented products. For example, a service and maintenance product was developed for end customers in Australia. In South Africa, three-way financing is gradually being introduced. In addition to customer-oriented products, digitalization is of vital importance in the financial services area.

KEY FACTS
DECEMBER 31, 2015

MARKET PENETRATION
New vehicles

37.6%

NEW CONTRACTS
Financing and leasing

167 thousand

CURRENT NUMBER OF CONTRACTS
Insurance

232 thousand

HIGHLIGHT

VOLKSWAGEN FINANCIAL SERVICES KOREA
Rise in earning assets, 2014/2015

+37.8%

Combined Management Report

CONTENTS

Fundamental Information about the Group

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

BUSINESS MODEL

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

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

ORGANIZATION OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

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

Until October 7, 2015, Frank Witter as the Chairman of the Board of Management of Volkswagen Financial Services AG was responsible for the areas of Corporate Steering and Insurance as well as for the China/India/ASEAN region. When Frank Witter moved to the Board of Management of Volkswagen AG, Lars Henner Santelmann was appointed as Chairman of the Board of Management with effect from October 14, 2015. Until then, as a member of the Board of Management of Volkswagen Financial Services AG, Lars Henner Santelmann's remit had comprised Sales and Marketing as well as the regions Germany, Europe, International and Latin America. He then also took over the areas for which Frank Witter had previously been responsible.

Frank Fiedler's remit is Finance and Procurement. Dr. Michael Reinhart is responsible for Risk Management and Credit Analysis. Christiane Hesse is in charge of Human Resources and Organization, while Information Technology and Processes are the responsibility of Dr. Mario Daberkow.

To consolidate the major changes carried out in 2014, the restructuring of Volkswagen Financial Services AG initiated in 2014 to establish a clear holding company structure was specified further and entrenched in 2015. For this, a new, comprehensive concept for international cooperation of the holding functions defined in 2014 with the national companies was rolled out on January 1, 2015. On the basis of the organizational structures already implemented, many processes at Volkswagen Financial Services AG and in the national companies were optimized further to improve and intensify the cooperation.

Another important task in 2015 was to integrate MAN Finance International GmbH, Munich, and its subsidiaries into the Volkswagen Financial Services AG Group. This included the integration of national companies of MAN Finance International GmbH into the existing national companies as well as the integration into Volkswagen Financial Services AG in accordance with the concept for international cooperation.

INTERNAL MANAGEMENT

The company's key performance indicators are determined on the basis of IFRSs and are presented as part of the internal reporting system. The most important non-financial performance indicators are penetration, current contracts and new contracts. The financial key performance indicators are the volume of business, the deposit volume, the operating result, the return on equity and the cost/income ratio.

KEY PERFORMANCE INDICATORS

	Definition
Nonfinancial performance indicators	
Penetration	Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles, based on Volkswagen Financial Services AG's consolidated entities.
Current contracts	Contracts recognized as of the reporting date
New contracts	Contracts recognized for the first time in the reporting period
Financial performance indicators	
Volume of business	Receivables from customers arising from retail financing, dealer financing, leasing business and lease assets
Volume of deposits	Customer deposits, i.e. total liabilities from deposits arising from direct banking business, dealer current account and from nondirect banking business
Operating profit	Net income from lending, leasing and insurance transactions after provisions for risks, plus net fee and commission income, less general and administrative expenses, plus other operating income and less other operating expenses. As in the segment reporting, some amounts under net interest income, net other operating expenses/income and general and administrative expenses are eliminated.
Return on equity	Return on equity before tax, which is calculated by dividing profit before tax by average equity
Cost income ratio	General and administrative expenses divided by the sum of net income from lending, leasing and insurance transactions after provisions for risks and net fee and commission income

CHANGES IN EQUITY INVESTMENTS

Volkswagen Financial Services Holding Argentina S.R.L., Buenos Aires, and Volkswagen Insurance Services Korea Co., Ltd, Seoul, were established as wholly owned subsidiaries in May 2015 and November 2015, respectively. In October 2015, all shares in MAN Finansman A.Ş., Ankara, were sold to Volkswagen Doğuş Finansman A.Ş., Istanbul, a joint venture of Volkswagen Financial Services AG, and subsequently merged with this company. Furthermore, in November all of the shares in MAN Financial Services España S.L., Coslada, were sold within the Volkswagen Group to Volkswagen Finance S.A., Madrid. This resulted in MAN Financial Services España S.L. leaving the Volkswagen Financial Services AG subgroup. Further information is provided in the report on economic position (overall assessment of the course of business), which is part of this report.

In light of the expected business growth in existing and new markets and to comply with regulatory requirements, Volkswagen AG increased the capital of Volkswagen Financial Services AG by €2.3 billion in 2015.

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

- Volkswagen Autoversicherung Holding GmbH, Braunschweig, Germany by €52 million;
- Volkswagen Autoversicherung AG, Braunschweig, Germany by €45 million;
- OOO Volkswagen Financial Services RUS, Moscow, Russia by about €37 million;
- Volkswagen Finans Sverige AB, Södertälje, Sweden by approximately €27 million;
- Volkswagen New Mobility Services Investment Co., Ltd., Beijing, China by around €19 million;
- Volkswagen Financial Services Korea Co., Ltd., Seoul, South Korea by approximately €18 million;
- Rent-X GmbH, Braunschweig, Germany by €15 million;
- Volkswagen Møller Bilfinans A/S, Oslo, Norway by roughly €14 million;
- Volkswagen Financial Services South Africa (Pty) Ltd., Sandton, South Africa by around €6 million.

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

There were no other significant changes with respect to equity investments. For detailed disclosures, please see the section on shareholdings pursuant to sections 285 and 313 of the *Handelsgesetzbuch* (German Commercial Code – HGB) at www.vwfsag.com/listofholdings2015.

Report on Economic Position

In fiscal year 2015, the global economy grew at a moderate rate, slightly below that of the previous year. Global demand for vehicles continued to rise. Earnings at Volkswagen Financial Services AG are up from the previous year.

GLOBAL ECONOMY CONTINUES TO SEE MODERATE GROWTH

The moderate growth rate of the global economy declined slightly to 2.5% (2.7%) in fiscal year 2015. The economic situation in the industrialized nations improved slightly, while economic performance in many emerging economies declined in the course of the year. Overall, inflation persisted at a low level despite the expansionary monetary policies of many central banks. Although the comparatively low energy and commodity prices weighed on the economies of individual exporting countries that depend on them, their effect on the global economy as a whole was supportive.

Europe/Other markets

In Western Europe, the economic recovery continued: gross domestic product (GDP) rose by 1.6% (1.3%) year-on-year in 2015. Most Northern European countries saw solid economic growth. In most Southern European countries, the economic situation stabilized amid increasing rates of expansion. The eurozone's unemployment rate fell to 11.5% (12.1%), although it remained significantly above the average in Greece and Spain.

In Central and Eastern Europe, GDP growth decreased to an average of 0.7% (+1.8%) in the reporting period. While Central Europe was on a positive growth path, Eastern Europe experienced a recessionary trend. In addition to the conflict between Russia and Ukraine and the resulting uncertainties, falling energy prices had a negative impact on the region overall. In Russia, economic output declined significantly, by 3.9% (+0.6%), in the reporting period.

South Africa's GDP expanded by 1.4% (1.5%), thus falling somewhat short of the relatively low figure for the previous year. The country's economic performance continued to be negatively impacted by structural deficits and social conflict.

Germany

The German economy benefited from positive consumer sentiment and the stable labor market in 2015. Despite the weak euro, exports failed to boost growth in any significant way. GDP expanded by 1.5% (1.6%), somewhat weaker than in the previous year.

North America

Following a robust first half of 2015, economic growth in the US lost some of its momentum as the year progressed. The economy was supported primarily by private consumer demand and expansionary monetary policies. The unemployment rate continued the positive trend of the previous year, falling to around 5.0% (5.6%) by the end of the year. The US dollar remained strong, putting goods exports under pressure. Overall, as in the previous year, the US economy expanded by 2.4%. Canada's GDP growth slowed significantly to a mere 1.2% (2.5%).

Latin America

After generating only negligible growth in the previous year, Brazil entered a recession in the reporting period. Both the country's weak domestic demand and the low global commodity prices had a negative impact on performance. Economic output declined by 3.7% (+0.1%). Although Argentina's GDP stabilized, growing by 1.6% (0.5%), structural deficits and persistently high inflation continued to weigh on the economy. The Mexican economy's rate of growth was almost unchanged at 2.4% (2.3%).

Asia-Pacific

The Chinese economy expanded by 6.9% (7.3%) in 2015. Although it lost momentum primarily due to structural changes, it remained at a high level compared with the rest of the world. The Indian economy continued its positive trend, growing by a healthy 7.2% (7.3%), as in the previous year. Due to weak domestic and international demand, Japan's GDP grew relatively sluggishly at 0.7% (–0.1%). At 4.3% (4.4%), growth in the ASEAN region was at the prior-year level.

FINANCIAL MARKETS

Trends in global financial markets continue to be dominated in 2015 by loose monetary policy and geopolitical tensions. The situation in the emerging markets led to an economic slowdown, mainly in the second half of the year, and the major countries such as Russia, Brazil and India had to cope with high rates of inflation and a deterioration in the value of their currencies. Although forecasts of economic growth in China have been lowered substantially, the country remains one of the key growth drivers in the global economy. Capital markets were temporarily adversely impacted by company-specific risks.

Monetary policy continued to diverge in the industrialized economies. The European Central Bank (ECB) continued to pursue its expansionary policy. At the beginning of December, the ECB cut its deposit rate again to –0.3% and left its key interest rate at the historically low level of 0.05%. The USA was slowly seeing some success from its expansionary monetary policy to the extent that it could bring an end to its quantitative easing program. Shortly before the end of the year, the US Federal Reserve (Fed) raised the target range for the federal funds rate to 0.25 – 0.5%, the first increase in almost a decade.

Europe/Other markets

Economic performance in the eurozone was positive, particularly in the peripheral countries of Portugal, Ireland, Greece and Spain where there were significant improvements in both economic output and the conditions for the provision of financing. Viewed across the eurozone as a whole, the indicators point to modest growth. The rate of inflation is still hugely impacted by the falling oil prices and is persisting at an extremely low level. The Russian economy, however, suffered from the weakness of the ruble as well as from inflation and a key interest rate in double digits. In South Africa, the currency came under pressure, interest rates were increased and inflation stubbornly remained above the target rate.

Germany

Germany maintained a sound rate of growth, but the pace tailed off towards the end of the year. Growth stimulus came from private consumption, but also from public consumption, including from increased expenditures through the acceptance of refugees. The attitude among investors remained cautious. The euro continued its slide against the dollar in 2015. The demand in bond markets for low-risk German bonds and the demand from international investors resulted in continued low to negative yields.

North America

Economic development in the USA was bolstered by stable fiscal policy in 2015; inflation slowed amid strong domestic demand, and the labor market reached full employment. The decision of December 16, 2015, to raise the federal funds rate to a range between 0.25 and 0.5% brought investors and financial markets the clarity they had expected at year's end.

Latin America

Economic development in Brazil remained subdued. The ongoing political crisis and worsening fiscal situation had a significantly negative impact across the board and led to a downgrade in the country's rating. High unemployment weighed on the private sector and dampened consumer sentiment. Developments in Mexico were very positive. The structural reforms had an impact, and the economy benefited from growth in the United States and a drop in inflation.

Asia-Pacific

Development in the countries of the ASEAN region was strongly mixed. While Malaysia and Taiwan experienced dynamic economic development, India enjoyed an upswing and China showed robust development.

The Chinese government seems to have managed a soft landing amid falling economic growth. Negative effects from turbulence on the stock market and slowing global demand were softened by positive developments in the tertiary sector. Targeted interventions to stimulate demand in the real estate sector and for small automobiles bore fruit. The renminbi was kept stable following early steps toward devaluation against the US dollar, and the Shanghai Composite Index managed to partially recover from the crash in September. South Korea reported solid growth figures with low interest rates and an inflation rate below the central bank's target corridor. The effects of more sluggish global trade were not yet reflected in the performance indicators during the reporting period.

As in recent years, Japan showed low-input economic development stemming primarily from the decline in private consumption and falling demand from China in the first half of the year and from positive developments on the labor market in the second half of the year. Inflation fell far short of the target of 2% in 2015.

GLOBAL DEMAND FOR PASSENGER CARS REACHES NEW HIGH

Worldwide, the number of new passenger car registrations increased slightly by 2.6% to 75.6 million vehicles in fiscal year 2015, exceeding the previous year's record level. While Western Europe, Central Europe, North America and the Asia-Pacific region recorded significant increases in some cases, volumes in the passenger car markets in Eastern Europe and South America were again down substantially on the previous year.

Sector-specific environment

The global passenger car markets turned in a very mixed performance in the reporting period: demand recovered in important sales countries in Western Europe, the Chinese market expanded slower than in previous years and Russia and Brazil saw considerable declines.

The sector-specific environment was to a significant extent influenced by fiscal policy measures, which contributed substantially to the mixed trends in sales volumes in the markets in the past fiscal year. The instruments used for this were: tax reductions or increases, incentive programs and buyer's premiums as well as import duties.

In addition, non-tariff trade barriers to protect the respective domestic automotive industry made the free movement of vehicles, parts and components more difficult. Protectionist tendencies were particularly evident where markets were on the decline.

Europe/Other markets

The passenger car market in Western Europe continued its catch-up process in the reporting period. At 13.2 million vehicles (+9.0%), the volume of new registrations reached its highest level in six years, although – compared to the pre-crisis years from 1998 to 2007 – it was still at a low level. This development was primarily due to positive consumer sentiment, an improved macroeconomic environment, low fuel prices as well as the reduction in pent-up demand. While demand for passenger cars in Spain (+20.9%) – which benefited from government stimulus measures – and Italy (+15.5%) saw double-digit growth rates, volumes in the passenger car markets in France (+6.8%) and the UK (+6.3%) rose comparatively moderately.

In Central and Eastern Europe, the total number of new passenger car registrations fell sharply in fiscal year 2015, by 23.3%, to 2.8 million vehicles. The drop in demand in Eastern Europe was primarily attributable to the dramatic slump in the Russian passenger car market, which contracted for the third year in succession as a consequence of the difficult economic and political situation. By contrast, the demand volume in the Central European EU countries rose substantially, by 10.7% to 1.0 million units.

In South Africa, the number of passenger cars sold in 2015 fell by 5.8% to 414 thousand vehicles. The main reasons were a difficult economic environment, a rise in interest rates and a lack of consumer confidence.

Germany

In Germany, 3.2 million new passenger vehicles were registered in 2015, 5.6% more than in the previous year. This development was primarily attributable to positive consumer sentiment, the strong labor market as well as a decline in fuel prices and low interest rates. This market volume – the highest since 2009 – was exclusively attributable to new registrations for business customers (+8.8%), while demand from private customers stagnated (–0.1%). The increase in passenger car exports of +2.4% to 4.4 million vehicles, especially to Western European markets, benefited the rise in domestic production, which rose by +1.9% to 5.7 million vehicles.

North America

At 20.7 million vehicles (+6.1%), sales of passenger vehicles and light commercial vehicles (up to 6.35 tonnes) in North America exceeded the 20 million unit mark for the first time in the reporting period. In the USA, the market volume grew by 5.7% to 17.5 million passenger vehicles and light commercial vehicles, reaching an all-time high. The main reasons were high consumer confidence, positive employment and income development as well as favorable financing conditions. Demand was particularly strong for models in the SUV and pickup segments, which benefited additionally from the low fuel prices.

In Canada, the sales figures increased slightly by 2.6% to 1.9 million vehicles, thus beating the record set in the previous year.

Latin America

In South America, demand for passenger vehicles decreased for the third year in succession in fiscal year 2015, dropping by 21.2% to 3.1 million units. The significant decline of the market as a whole was primarily attributable to the massive fall in demand in Brazil, where the number of new registrations fell by 27.4% to 1.8 million vehicles. In addition to the tax increase on industrial products implemented at the beginning of the year, the persistent economic crisis and higher interest rates were the main causes of the lowest level of new passenger vehicle registrations since 2006. The weakness of the local currency, the real, was one of the factors driving the increase in vehicle exports from Brazil, which rose by 24.8% to 417 thousand units.

In Argentina, the volume of the passenger vehicle market fell by 7.2% year-on-year to 429 thousand vehicles. High passenger car taxation, an increasing reluctance to buy because of falling real incomes and the persistent shortage of foreign currency continued to have a negative effect on demand.

Demand in the Mexican automotive market increased in fiscal year 2015. The number of passenger vehicles and light commercial vehicles sold rose significantly by 17.6% to a new record level of 1.3 million units.

Asia-Pacific

In the Asia-Pacific region, the number of new passenger car registrations continued to increase in the past fiscal year, albeit more slowly. Growth in the Chinese market also lost momentum as the economy slowed down. With a plus of 7.7% to 19.2 million units, the world's largest single market nevertheless saw the largest increase in absolute terms. Contributing factors were persistently strong demand for attractively priced entry-level models in the SUV segment and the tax relief on the purchase of vehicles with engine sizes of up to 1.6 l that was introduced on October 1, 2015.

In the Indian market, at 2.6 million passenger vehicles the demand volume was up 8.3% over the previous year. A favorable consumer climate, reduced interest rates and low fuel prices contributed to the increase.

In Japan, the number of new vehicle registrations fell by 10.2% to 4.2 million vehicles. In addition to pull-forward effects from the value added tax increase on April 1, 2014, which had had a positive impact in the previous year, the tax increase on mini vehicles (up to 660 cc) effective April 1, 2015 had a negative effect on domestic demand over the course of 2015.

In the ASEAN region, the number of passenger cars sold declined by 2.5% overall to 2.2 million units, primarily due to a significant decline in demand in Indonesia.

REGIONAL DEMAND FOR COMMERCIAL VEHICLES MIXED

In 2015, demand for light commercial vehicles was down on the previous year: in total, around 10.3 (11.3) million vehicles were sold worldwide.

In the Western European markets, demand followed a positive trend, driven by the economic recovery. Totaling 1.7 million units, the number of new vehicle registrations was 10.5% higher than in the previous year. The highest growth rates were recorded in Spain (+34.7%), Italy (+17.2%) and the United Kingdom (+15.0%). In Germany, the 2014 figure was exceeded by 4.0%.

Central and Eastern Europe, by contrast, saw a significant decline, with 278 (331) thousand vehicles registered. As a result of political tensions and their impact on the economy, demand in Russia was down sharply on the previous year. However, many smaller Central European markets continued to record growth.

In North America, the light vehicle market is reported as part of the passenger car market, which includes both passenger cars and light commercial vehicles up to 6.35 tonnes.

In the South American market, registrations of light commercial vehicles decreased to 1.1 million units (–13.9%) in the reporting period. This is due to the difficult economic conditions in the region. In Brazil, demand fell considerably short of the 2014 figure. In Argentina, the number of new registrations was 4.9% lower than in the previous year.

At 6.1 million units sold (–12.6%), demand for light commercial vehicles in the Asia-Pacific region was down on the previous year's level. In China, the region's dominant market, fewer vehicles were registered than in the year before; here, 3.6 (4.4) million units were registered. The decline is primarily due to the slowdown in industrial production and lower investments. The market volume fell in India (–7.8%). Here, the market for light commercial vehicles did not benefit from the economic reforms following the 2014 elections. In Japan, the increase in value added tax and the resulting pull-forward effects in 2014 led to a considerable decrease in the number of new registrations in the reporting period.

In the ASEAN region, demand for light commercial vehicles was mixed; overall the volume was down slightly on the prior-year figure.

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes fell significantly short of the prior-year level in fiscal year 2015. In total, there were 2.2 million new vehicle registrations, 9.5% fewer than in 2014. The volume of vehicles dropped by 11.5% in the markets that are relevant for the Volkswagen Group.

In Western Europe, the number of truck registrations rose by 14.4% to a total of 258 thousand vehicles. Due for the most part to the low prior-year level and supported by positive economic momentum, the markets in Spain (+36.5%), the Netherlands (+32.5%) and Italy (+28.1%) in particular recorded high growth rates. In Germany, Western Europe's largest market, the prior-year figure was exceeded by a moderate amount.

In Central and Eastern Europe, the number of new vehicle registrations decreased by 17.9% to 116 thousand units. While the markets in Central Europe expanded, Eastern Europe was on the decline. In Russia, the tense and uncertain political situation, the economic decline, currency weakness and difficult financing conditions caused the number of new registrations to come in 45.4% below the prior-year level, at 44 thousand.

In North America, public and private spending in the construction and industrial sectors as well as favorable financing conditions boosted the positive trend in demand; in this region, 567 (488) thousand mid-sized and heavy trucks (6.35 tonnes or more) were sold. In the US market, the number of new registrations increased by 8.9% to 455 thousand units.

South America saw a considerable decline in market volume. Here, the number of new vehicle registrations fell by 36.4% to 127 thousand units. In Brazil, the region's largest market, demand, at 68 (133) thousand vehicles, was down significantly on the prior-year level as a result of declining economic output and more restrictive financing conditions. The market in Argentina grew by 15.4% to 17 thousand vehicles but remained at a low level due to the weak economy.

At 518 (459) thousand registrations, the volume of vehicles in the Asia-Pacific region – excluding the Chinese market – was slightly higher than in the previous year. Demand in India increased overall in the reporting period: A total of 266 thousand vehicles were registered, 32.4% more than in 2014. This was attributable to demand for replacement vehicles in the heavy trucks segment, rising infrastructure spending and the improved investment climate. Demand in China, the world's largest truck market, was down significantly in the reporting period at a total of 500 thousand units, a year-on-year decline of 37.0%. This was due to the slower economic growth as well as the pull-forward effects in 2014 from the introduction of the C4 emission standard.

Demand for buses, both globally and in the markets that are relevant for the Volkswagen Group, was lower than in the previous year. Negative economic trends in Eastern Europe and South America led to a sharp decline in demand, but the markets in Western Europe expanded considerably.

GLOBAL DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP*

	DELIVERIES OF VEHICLES		
	2015	2014	Change in percent
Worldwide	**9,930,517**	**10,137,444**	**–2.0**
Volkswagen passenger cars	5,823,408	6,118,654	–4.8
Audi	1,803,246	1,741,129	+3.6
ŠKODA	1,055,501	1,037,226	+1.8
SEAT	400,037	390,505	+2.4
Bentley	10,100	11,020	–8.3
Lamborghini	3,245	2,530	+28.3
Porsche	225,121	189,849	+18.6
Volkswagen commercial vehicles	430,801	446,616	–3.5
Scania	76,561	79,782	–4.0
Bugatti	23	45	–48.9
MAN	102,474	120,088	–14.7

* The delivery figures for 2014 have been restated following statistical updates. Including the Chinese joint ventures.

THE EMISSIONS ISSUE

NO_x Issue

On September 18, 2015, the California Air Resources Board (CARB) and the US Environmental Protection Agency (EPA) publicly announced that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group diesel engines. CARB and EPA alleged that engine management software installed in four-cylinder diesel engines used in certain 2009 to 2015 model year vehicles circumvented NO_x emissions standards under test conditions in order to comply with homologation requirements. On November 2, 2015, CARB and the EPA announced that irregularities had also been discovered in the software installed in certain additional 2014 to 2016 model year vehicles. Other authorities in various jurisdictions worldwide have subsequently commenced investigations regarding these matters.

In its ad hoc release dated September 22, 2015, the Volkswagen Group announced that there were discrepancies relating to NO_x emissions figures attributable to the engine management software described above in around eleven million vehicles worldwide. The vehicles remain technically sound and able to be driven.

CO_2 Issue

The CO_2 levels, and thus also the fuel consumption figures, appeared to have been set too low in the case of some vehicle models during the CO_2 certification process. The Volkswagen Group announced on November 3, 2015 that around 800,000 vehicles might be affected, mostly those with diesel engines. The financial risks were initially estimated at €2 billion.

Suspicions that fuel consumption figures had been unlawfully changed for current production vehicles proved unfounded and the originally expected adverse impact on earnings has not occurred. On December 9, 2015, the Volkswagen Group announced that the investigation into the CO_2 issue was largely completed.

Effects on the Volkswagen Financial Services AG Group

The Board of Management of Volkswagen Financial Services AG reacted immediately and set up a task force in order to identify quickly the potential repercussions on our business and to prevent or minimize negative consequences.

The task force reports to the Board of Management on a regular basis. The task force also interfaces with the Volkswagen Group and its brands, and maintains close contact with our international subsidiaries, regulatory authorities and investors. The Volkswagen Group provides support in dealing with the effects.

Volkswagen Financial Services AG focused on the following issues:

Confidence-Building Campaign Supports Brands and Dealerships

Our mission and our objective is to increase unit sales of the Volkswagen Group and to increase customer loyalty to the brands.

Together with the brands and dealerships, we have therefore started a confidence-building campaign in Germany and many other European countries with suitable products.

Refinancing Strategy Proves its Worth

After successfully continuing the refinancing strategy at the beginning of the year, the situation became much more challenging at the end of 2015 following the announcement of the emissions issue. We suffered ratings downgrades, which were mostly caused by the agencies' assessments of the emissions issue at the Volkswagen Group. Moreover, since then, our position in international capital markets with unsecured bonds has also been limited, however, the secured refinancing and the deposit business have contributed to stability.

The ability to access refinancing instruments in the money and capital markets was limited due to the uncertainties regarding the effects of the emissions issue on the Volkswagen Group. Deposits and secured bonds (ABS) have helped secure a supply of liquidity for Volkswagen Financial Services AG and its subsidiaries. Credit lines from banks were also available as an alternative local refinancing source in many countries.

The strategic refinancing mix at Volkswagen Financial Services AG therefore proved to be valuable even in difficult times.

Credit Rating of the Dealership Network Remains Stable

Ever since the emissions issue emerged, we have paid special attention to the creditworthiness of our retail dealers. Currently, we have yet to identify any effects of the emissions issue on dealership risk. As a precautionary measure, however, we have increased monitoring to detect any changes early.

Residual Value Risk

The emissions issue at the Volkswagen Group had an impact on the residual value risk in the portfolio of Volkswagen Financial Services AG; the risk was adequately covered by increasing the risk provision.

The development of residual values is continuously and closely monitored so that we can act appropriately and take suitable measures in the event of any relevant changes to the risk structure.

IMMEDIATE MEASURES

A range of immediate measures have been taken since October 2015. These include in particular:

- Continuing the consistent implementation of our new company strategy ROUTE2025
- Intensifying our existing efficiency and cost program for the years 2016 and 2017
- Our IT and process campaign, as well as
- Critically analyzing the shared values and culture in our company.

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

The Board of Management of Volkswagen Financial Services AG considers the course of business in the year 2015 to have been positive. Operating profit was better than forecast, coming in above the 2014 level. New business worldwide recorded positive growth over the reporting period. Refinancing costs were down slightly year-on-year amid higher business volume and generally favorable interest rates. The increase in borrowing costs that arose since the emissions issue at Volkswagen Group emerged had only a limited impact in fiscal year 2015. The risk provision from the lending and leasing business is up year-on-year due to sharply increased business volumes; the margins remained stable.

Volkswagen Financial Services AG also continued its efforts to better leverage the potential along the automotive value chain. The integration of financial services into the sales activities of the Volkswagen Group's core brands, already greatly expanded in recent years, was stepped up. A consistent focus on customer wishes makes it possible to accompany the customer and the vehicle throughout its lifecycle. The GO^{40} growth program, launched and developed in partnership with the automotive brands, played a key role here.

One objective of the GO^{40} growth program is to achieve greater penetration and promote customer loyalty. Incorporating service and maintenance packages and insurance services has further increased the value of the customer for the Volkswagen Group and further strengthened the dealer network by generating additional revenue streams. Extending the current GO^{40} growth contracts for all Group brands in key European countries thus plays an essential role in leveraging further potential within the sales activities of the Volkswagen Group.

The share of leased and financed vehicles among worldwide deliveries to customers (penetration) at the end of 2015 remained very high at 28.3% (previous year: 28.0%). Penetration of the Asia-Pacific market stood at 11.6%, down slightly from the previous year (13.1%) due to the difficult economic situation in China. This was offset, however, by the very positive developments in penetration on the Latin American market at 45.6% (previous year: 39.4%) and in Europe excluding Germany at 38.8% (previous year: 33.6%).

The positive development of credit risks in the largest markets, Germany and the United Kingdom, continued in fiscal year 2015. The nascent economic recovery in countries affected by the euro-zone crisis led to a stabilization of the respective vehicle markets. This development had a positive effect on the credit risk situation in affected markets. The fiscal year 2015 did however see a drop in the volume of accounts receivable in Brazil. The credit risk portfolio of Volkswagen Financial Services AG has yet to see any effects of the emissions issue at the Volkswagen Group. Overall, the credit risk situation has stabilized in fiscal year 2015.

We saw continued contract growth in the residual value portfolio in 2015, which benefited from the recovery of vehicle markets in Europe.

Porsche Volkswagen Servicios Financieros Chile SpA, a joint venture between Porsche Bank AG, Salzburg, and Volkswagen Financial Services AG, Braunschweig, expanded its financial services brokerage activities in 2015 to include the entire dealer network for Group brands Volkswagen, Audi, Škoda, Lamborghini and Bentley and moved into truck financing for MAN and Volkswagen Camiones y Buses.

Collect Car B.V., Rotterdam, which offers car sharing in the Netherlands and Germany under the GreenWheels brand name, was fully transferred to Kever Beheer B.V., Almere, on January 5, 2015, effective January 1, 2015. The merger of Collect Car B.V., Rotterdam, and Kever Beheer B.V. was completed on September 16, 2015. Volkswagen Financial Services AG, Braunschweig, now holds a direct share of 60% in Collect Car B.V., with 40% held by Pon Holdings B.V. through Geveke N.V.

The leasing portfolio of Midland Carlease B.V., Amersfoort, the Netherlands, was transferred to Volkswagen Leasing B.V., Amersfoort, as of April 1, 2015. This acquisition enables Volkswagen Leasing B.V. to successfully drive forward its growth strategy for operating leases. Volkswagen Leasing B.V. is a subsidiary of Volkswagen Pon Financial Services B.V., Amersfoort, a joint venture between Volkswagen Financial Services AG, which holds a share of 60%, and Pon Holdings B.V., which holds the remaining 40%.

On May 20, 2015, Volkswagen Financial Services Holding Argentina S.R.L. signed a contract to purchase 49% of the shares in Volkswagen Credit Compañia Financiera S.A., which is currently wholly owned by Volkswagen Argentina S.A. BBVA Banco Francés S.A. is to purchase the remaining 51%. Following the successful conclusion of the months-long process of obtaining approval from various institutions, Volkswagen Credit Compañia Financiera S.A. will offer financing and financial leasing products to retail customers, individual business customers and dealers in Argentina.

Volkswagen Financial Services AG acquired a majority holding in mobility service provider sunhill technologies GmbH, based in Bubenreuth, effective July 22, 2015, then increased this share to approximately 93% effective December 31, 2015. The share purchase gives Volkswagen Financial Services AG access to its potential fields along the value chain for mobility services and growth perspectives in this segment.

In Turkey, Volkswagen Doğuş Finansman A.Ş., Istanbul, acquired MAN Finansman A.Ş., Ankara, from MAN Finance International GmbH, Munich, effective October 5, 2015. MAN Finansman A.Ş. offers financing and insurance solutions under the MAN brand for small and medium enterprises. This move seeks to bundle Turkish commercial vehicle activities in a distinct brand spectrum at Volkswagen Doğuş Finansman A.Ş.

Volkswagen New Mobility Services Investment Co., Ltd., Beijing, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig, completed its acquisition of 100% of the shares in Guangzhou Zhiwei Car Leasing Co. Ltd., Guangzhou, from Shenzhen Top One Car Leasing Co. Ltd., Shenzhen, effective October 14, 2015. This acquisition will support the regional expansion of the long-term leasing business in the Chinese market.

CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2015 COMPARED WITH PRIOR-YEAR FORECASTS

	Actual 2014	Forecast for 2015		Actual 2015
Nonfinancial performance indicators				
Penetration (percent)	28	> 28.0	Slight increase	28.3
Current contracts (thousands)	10,249	> 10,249	Steady increase	11,086
New contracts (thousands)	4,137	> 4,137	Steady increase	4,413
Financial performance indicators				
Volume of business (€ million)	89,374	> 89,374	Significant increase	97,318
Volume of deposits (€ million)	26,224	= 26,224	Stable volume	28,109
Operating profit (€ million)	1,293	= 1,293	At prior-year level	1,416
Return on equity (percent)	12.7	< 12.7	Slightly lower	11.3
Cost income ratio (percent)	60	≤ 60	Below/at prior-year level	63

RESULTS OF OPERATIONS

Despite only moderate growth in the global economy in fiscal 2015, Volkswagen Financial Services AG showed positive results.

Operating profit was up sharply by 9.5% to €1,416 million (€1.293 million) thanks in particular to higher volumes with stable margins from the lending and leasing business. The operating profit was not affected by the emissions issue.

Earnings before taxes were up year-on-year at €1,513 million (€1,317 million).

The return on equity fell to 11.3% (previous year: 12.7%) as equity rose sharply.

Net income from lending, leasing and insurance transactions before provisions for risks amounted to €3,836 million, up on the previous year (€3,466 million). This development is due to the positive business performance in all regions except Latin America. The figure also includes impairment losses on lease assets in an amount of €353 million (previous year: €94 million), some of which were recognized in connection with the emissions issue. They were offset by support payments from the Volkswagen Group.

Risk costs of €672 million were up from the previous year (€469 million). Credit risks to which the Volkswagen Financial Services AG Group is exposed as a result of the crisis in some eurozone countries, Russia, Brazil and India were accounted for by recognizing valuation allowances, which were up €224 million from the prior-year reporting date to €652 million.

Net fee and commission income was down year-on-year.

General and administrative expenses were up on the prior-year level to €2,062 million. The main drivers in this case are volume effects due to the increase in business, the implementation of strategic projects and compliance with stricter regulatory requirements. The cost/income ratio of 63% was worse than in the previous year (60%). A total of €197 million (previous year: €298 million) was added to the provisions for legal risks.

Share of profits and losses of equity-accounted joint ventures fell €10 million year-on-year to €24 million.

Including the net gain on the measurement of derivative financial instruments and hedged items in the amount of €53 million (previous year: €–12 million) and the other components of profit or loss, the Volkswagen Financial Services AG Group lifted its profit after tax by +34.8% to €1,209 million.

Under the current control and profit-and-loss transfer agreement of Volkswagen Financial Services AG, profits of €420 million reported by Volkswagen Financial Services AG in its single-entity financial statements prepared in accordance with HGB were transferred to the sole shareholder Volkswagen AG.

The German companies continue to account for the highest business volumes with some 45.6% of all contracts, forming a strong and solid foundation. They generated earnings before taxes of €725 million (previous year: €568 million).

Volkswagen Bank GmbH successfully maintained its strong market position in 2015, supported by an attractive product portfolio and its good customer and dealer relationships. With that, Volkswagen Bank GmbH once again made a significant contribution to the success of Volkswagen Financial Services AG.

Volkswagen Leasing GmbH managed once again to increase the number of leasing contracts in 2015 over the previous year in a highly competitive environment, thereby accounting for a significant share of the Group's operating profit.

In the vehicle insurance segment, Volkswagen Autoversicherung AG saw its activities stabilize and further expand in 2015.

Volkswagen Versicherung AG also expanded its activities in the areas of warranty insurance and repair costs insurance and helped successfully drive the internationalization of the business in fiscal 2015. The portfolio of active reinsurance is comprised primarily of the business with credit protection insurance in Germany generated through Volkswagen Bank GmbH.

Volkswagen Versicherungsdienst GmbH serves as a broker in the German market primarily for Volkswagen Autoversicherung AG and Volkswagen Versicherung AG.

NET ASSETS AND FINANCIAL POSITION

Lending Business

At €105.8 billion in total, receivables from customers – which make up the core business of the Volkswagen Financial Services AG Group – and lease assets accounted for approximately 87% of the Group's total assets.

The volume of retail financing lending rose by €3.0 billion or 6.3% in the past year to €50.7 billion. The number of new contracts was up 1,791 thousand from 2014 (+3.3%), raising the number of current contracts to 4,749 thousand at year's end (+5.0%). Volkswagen Bank GmbH again remained the largest single company with current contracts of 2,149 thousand (+1.9%).

The lending volume in dealer financing – which comprises receivables from Group dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – increased to €14.0 billion (+10.6%).

Receivables from leasing transactions were up 7.6% year-on-year to €19.7 billion. Lease assets also recorded strong growth of €2.2 billion to €13.0 billion (+20.6%).

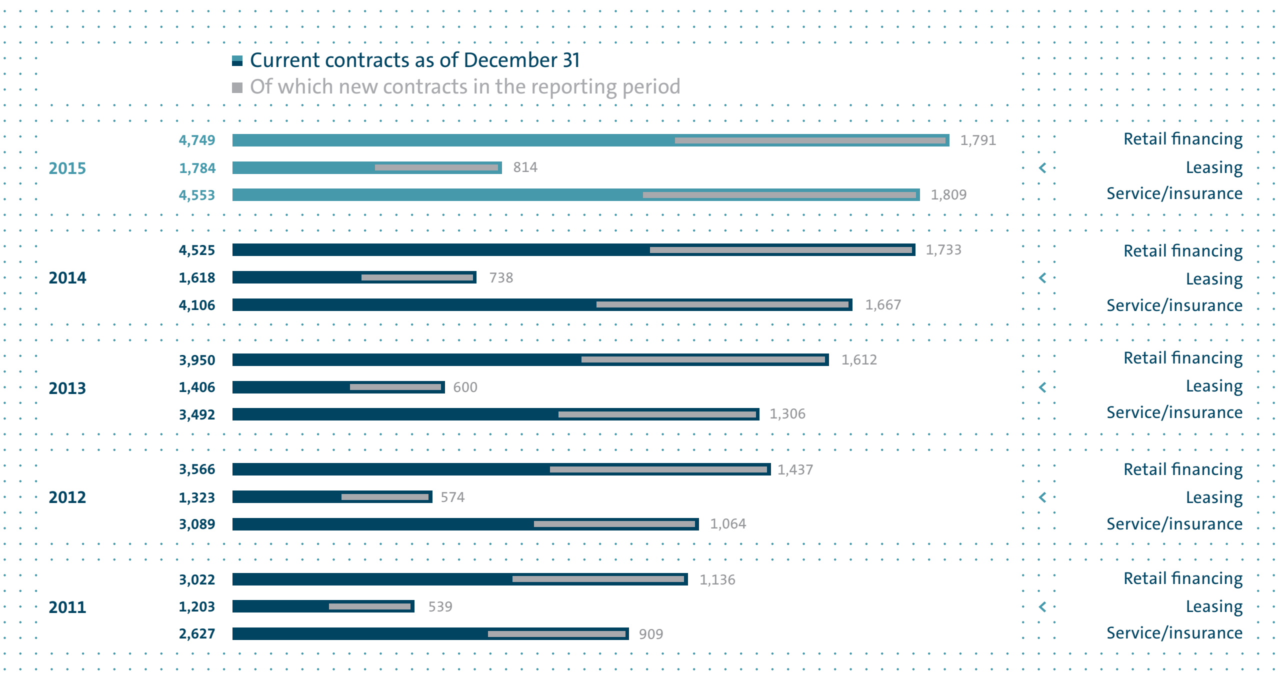
A total of 814 thousand new leasing contracts were signed in the reporting period, greatly surpassing the figure for the previous year (+10.3%). The number of leased vehicles as of December 31, 2015, was 1,784 thousand, a year-on-year increase of 10.3%. As in previous years, the largest contribution again came from Volkswagen Leasing GmbH, which had a contract portfolio for 1,181 thousand leased vehicles (+6.4%).

KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2015[1]

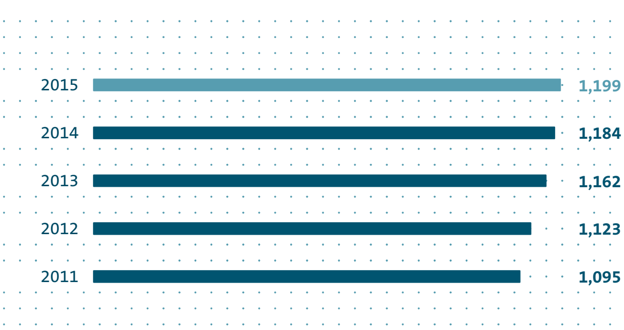
Thousands	VW FS AG	Germany	Europe	Asia-Pacific	Latin America	MAN FS
Current contracts	**11,086**	**4,970**	**3,627**	**1,200**	**1,214**	**77**
Retail financing	4,749	1,601	1,368	954	824	2
Leasing business	1,784	1,112	509	30	70	62
Service/insurance	4,553	2,257	1,750	215	320	12
New contracts	**4,413**	**1,833**	**1,557**	**520**	**474**	**30**
Retail financing	1,791	515	550	441	282	2
Leasing business	814	519	224	15	34	22
Service/insurance	1,809	798	782	63	158	7
€ million						
Receivables from customers attributable to						
Retail financing	50,665	18,788	17,443	9,435	4,742	257
Dealer financing[2]	13,967	4,563	6,410	1,610	976	38
Leasing business	19,704	13,371	4,385	252	514	1,181
Lease assets	12,982	7,914	4,007	860	69	132
Investment[3]	6,108	3,161	2,303	538	77	29
Operating profit[2]	1,416	643	365	227	185	29
Percent						
Penetration	28.3	57.4	38.8	11.6	45.6	37.8

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
2 Financing companies are allocated to the VW FS AG column.
3 Corresponds to additions to lease assets classified as noncurrent assets

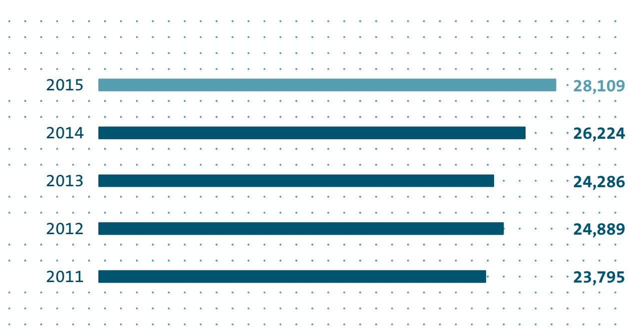
DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31
in thousands



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



CUSTOMER DEPOSITS AS OF DECEMBER 31
in € million



Total assets of the Volkswagen Financial Services AG Group rose by 13.1% year-on-year to €121.3 billion. This growth is primarily the result of the increase in receivables from customers (+8.0%) and lease assets (+20.6%) and hence reflects the business expansion in the past year. The number of service and insurance contracts at year's end was 4,553 thousand (previous year: 4,106 thousand). New business volume of 1,809 thousand (previous year: 1,667 thousand) contracts is up 8.5% year-on-year.

Deposit Business and Borrowings

In terms of capital structure, the significant liability items include liabilities to credit institutions in the amount of €15.7 billion (+19.7%), liabilities to customers amounting to €43.8 billion (+13.0%) and securitized liabilities of €39.9 billion (+7.2%). Information on the funding and hedging strategy is provided in a special section of the management report.

Deposits reported within the liabilities to customers, primarily from Volkswagen Bank GmbH, were up from the previous year at €28.1 billion (+7.2%). With its volume of deposits, it remains one of the largest direct banks in Germany. A total of 1,199 thousand direct bank customers were served as of December 31, 2015 (+1.3%).

Subordinated Capital

Subordinated capital of €2.3 billion was up slightly from the previous year (+6.4%).

Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at €441 million in the fiscal 2015. Equity in accordance with IFRSs is €14.8 billion (€11.9 billion). This results in an equity ratio of 12.2% (equity divided by total equity and liabilities) based on the total equity and liabilities of €121.3 billion.

Capital Adequacy According to Regulatory Requirements

Under the provisions of the CRR, appropriate capital adequacy is assumed if the Common Equity Tier 1 capital ratio is at least 4.5%, the Tier 1 capital ratio is at least 6% and the total capital ratio is at least 8%.

The ECB, acting on the basis of Article 16 of Council Regulation No. 1024/2013 of October 15, 2013 conferring specific tasks concerning policies relating to the prudential supervision of credit institutions, issued a resolution on November 20, 2015, establishing regulatory requirements for Volkswagen Financial Services AG. The resolution was based on a regulatory review in 2015. Volkswagen Financial Services AG has at all times maintained both the minimum requirements of the CRR and the additional requirements set forth by the regulators in the reporting period.

The total capital ratio as a ratio of equity to the total risk exposure amount was 12.1% (previous year: 10.7%) at the end of the reporting period, well above the legal minimum of 8%.

The Tier 1 capital ratio and Common Equity Tier 1 capital ratio were each 12.0% (previous year: 10.3%) at the end of the reporting period, also well above the CRR-mandated minimums of 6% and 4.5%, respectively.

The total risk exposure amount is made up primarily of credit risks, market risks, operational risks and credit valuation adjustment (CVA-charge). The Credit Risk Standardized Approach (CRSA) is used to quantify credit risk and to determine risk-weighted exposures. The Standardized Approach as specified in Article 317 of the CRR is used to calculate the own funds requirements for operational risk. The own funds requirements for CVA-charge are determined using the standardized method specified in Article 384 of the CRR.

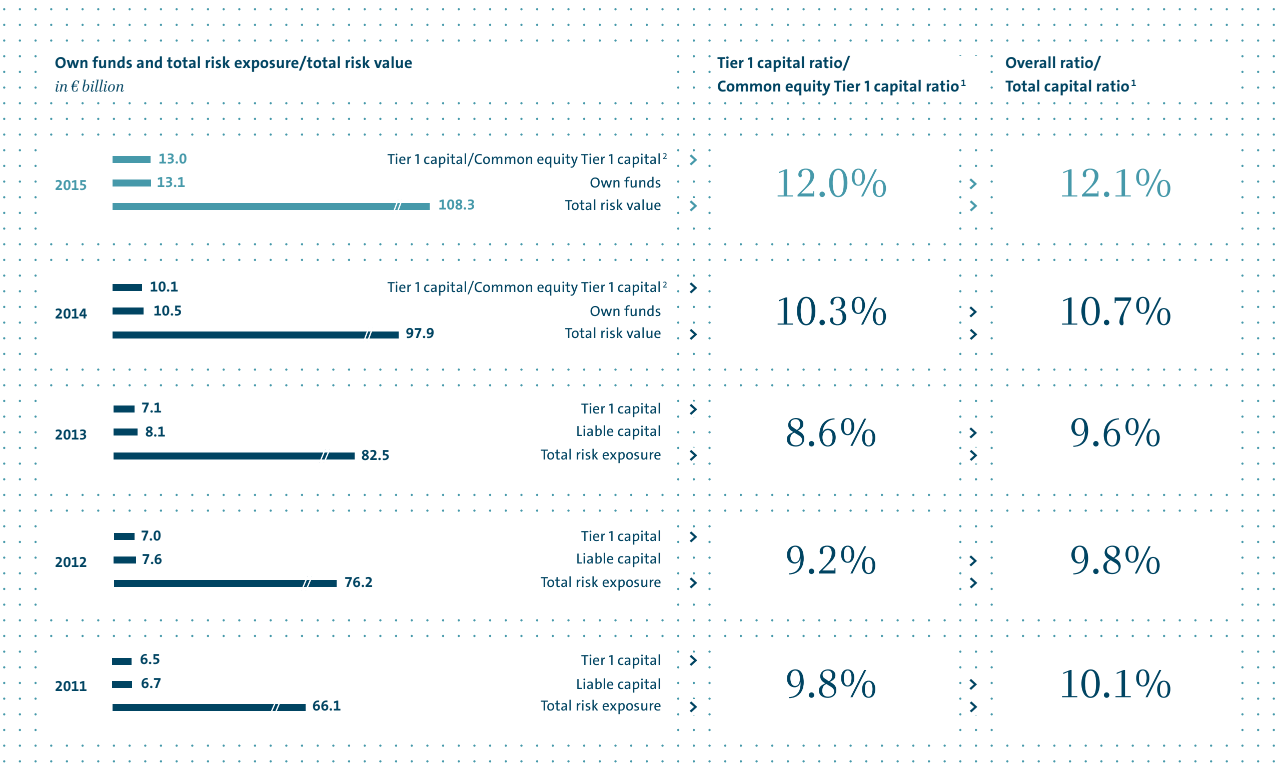
The following overview provides more information on how the total risk exposure amount and equity figures are compiled:

EQUITY AND TOTAL RISK EXPOSURE AMOUNT

	31.12.2015	31.12.2014
Total risk exposure amount[1] (€ million)	108,343	97,931
of which risk-weighted exposure amounts for credit risk	94,824	86,416
of which own funds requirements for market risk *12.5	6,158	4,725
of which own funds requirements for operational risk *12.5	6,906	6,381
of which own funds requirements for credit valuation adjustments *12.5	455	409
Eligible own funds (€ million)	13,109	10,484
Own funds (€ million)	13,109	10,484
of which Common Equity Tier 1 capital	12,966	10,122
of which Additional Tier 1 capital	0	0
of which Tier 2 capital	143	362
Common Equity Tier 1 capital ratio (percent)[2]	12.0	10.3
Tier 1 capital ratio (percent)[2]	12.0	10.3
Total capital ratio (percent)[2]	12.1	10.7

1 According to Art. 92(3) CRR
2 According to Art. 92(1) CRR

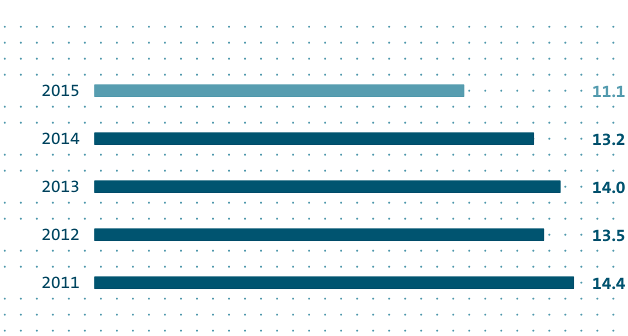
REGULATORY RATIOS OF THE FINANCIAL HOLDING GROUP AS OF DECEMBER 31



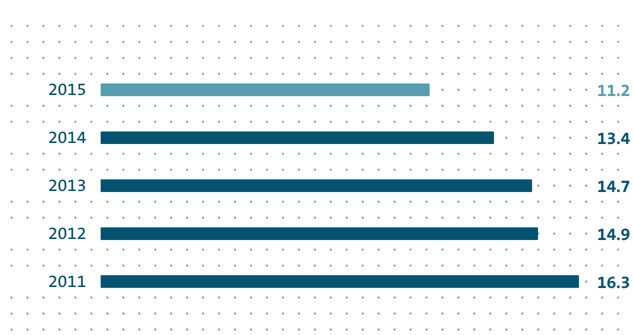
1 Calculation was based on Germany's Solvability Directive (SolvV) for the years 2011 - 2013 and on CRR since January 1, 2014.
2 The amounts of Tier 1 capital and Common Equity Tier 1 capital are the same, since the financial holding company group did not issue any instruments of Additional Tier 1 capital.

Given the importance of Volkswagen Bank GmbH, the following graphics represent the trend of the Tier 1 capital ratio and Common Equity Tier 1 capital ratio and of the overall ratio and total capital ratio of Volkswagen Bank GmbH:

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



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



* Calculation was based on Germany's Solvability Directive (SolvV) for the years 2011 - 2013 and on CRR since January 1, 2014.

The financial holding company group of Volkswagen Financial Services AG is able to ensure appropriate capital adequacy on a short-term and cost-optimized basis even in the event of a sharp increase in business volume and geographic expansion. This is achieved primarily by having Volkswagen AG make payments to the reserves. Asset-backed security (ABS) transactions are also used to optimize equity management. This gives the companies of the financial holding company group Volkswagen Financial Services AG a solid foundation for further expansion of the financial services business.

Changes in Off-Balance-Sheet Liabilities

The off-balance-sheet liabilities were up by a total of €574 million year-on-year to €5,152 million as of December 31, 2015. The uptick is attributable primarily to the increase in irrevocable lending and leasing commitments, which rose by €606 million to €4,642 million.

Liquidity Analysis

The companies of Volkswagen Financial Services AG are funded primarily through capital market and ABS programs and by direct banking deposits of Volkswagen Bank GmbH. Volkswagen Bank GmbH holds liquidity reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. Proactive management of the operational safe custody account, which allows Volkswagen Bank GmbH to participate in funding facilities, has proven to be an efficient liquidity reserve approach. The securities deposited as collateral in the operational safe custody account include, in addition to bonds from various countries amounting to €2.3 billion, senior ABS bonds issued by special purpose entities of Volkswagen Leasing GmbH and Volkswagen Bank GmbH amounting to €7.2 billion. It also has at its disposal standby lines of credit at other banks to protect against unexpected fluctuations in cash flows. There are no plans to make use of these standby lines of credit; their sole purpose is to serve as backup to safeguard liquidity.

To ensure there is appropriate liquidity management, Treasury prepares four different funding matrices, carries out cash flow forecasts, uses this information to determine the relevant range of liquidity coverage and takes action as required. In these calculations, the legally determined cash flows are assumed for funding instruments, whereas estimated cash flows are used for other factors that affect liquidity. In the reporting period, the range of liquidity coverage taking into account simulated, limited funding and a partial withdrawal of overnight deposits came to a minimum of 19 weeks.

Compliance with the liquidity ratio specified by the Liquiditätsverordnung (LiqV – German Liquidity Regulation) represents a more stringent condition for managing the liquidity of Volkswagen Bank GmbH. From January to December in the year under review, this ratio varied between 1.72 and 2.97 and was therefore well above the lower regulatory limit of 1.0 at all times. The changes in the liquidity ratio are continuously monitored by Treasury and proactively managed by issuing a lower limit for internal management purposes. Treasury also manages the liquidity coverage ratio (LCR) for Volkswagen Bank GmbH and the regulatory basis of consolidation of Volkswagen Financial Services AG. Central bank balances and government bonds are eligible as highly liquid assets for the purposes of the LCR.

The requirement under MaRisk for Volkswagen Bank GmbH and Volkswagen Leasing GmbH to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and thirty-day time horizons was also satisfied at all times, even under various stress scenarios. Compliance with this requirement is determined and continuously reviewed as part of the liquidity risk management system. In this process, the cash flows for the coming twelve months are projected and compared against the potential funding available in each maturity band. Adequate potential funding to cover the liquidity requirements was available at all times, both in the normal scenario and in the stress tests required by MaRisk.

REFINANCING

Strategic Principles

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

Implementation

Due to the emissions issue, the refinancing situation was much more challenging in 2015 than in the previous year. Volkswagen Financial Services AG has not issued any unsecured bonds since September 18. Access to capital markets remained open, allowing continued revolving funding of commercial papers and successful placing of secured bonds (ABS).

By contrast, the first half of 2015 was characterized by very favorable conditions on the capital markets. In June, renewed discussions of a bailout package for Greece, including a three-week closure of Greek banks, brought issuance activities on the capital markets to a complete standstill in some cases. When an agreement was reached on another bailout package for Greece, the capital markets timidly resumed their activities. The situation on the markets did not normalize again until the end of October, however, following uncertainty surrounding weaker-than-expected economic data from China and the debates on the future interest rate policy of the US Federal Reserve and ECB. Before this time, however, many transactions were implemented in various currencies and countries.

Volkswagen Financial Services AG issued two public bonds in April 2015 with a total volume of €1.25 billion, consisting of a €500 million tranche with a maturity of 2.5 years at a variable rate and a €750 million fixed-rate bond with a maturity of 6.5 years.

In August 2015, shortly before the start of the annual "summer break" in the market, Volkswagen Leasing GmbH placed two bonds with a total value of €1.5 billion. Because of the timing, the issue attracted a great deal of attention from investors, resulting in a very successful transaction. The bonds were subdivided into a floating-rate tranche with a maturity of two years and a fixed-income tranche with a maturity of five years.

A bond in the amount of GBP 350 million was issued in April to fund operations in the United Kingdom. This was the largest bond ever placed by Volkswagen in this currency. Volkswagen Financial Services Australia Pty Ltd. placed a fixed-rate bond in August with a volume of AUD 250 million and a maturity of four years. The capital markets there have been used regularly for years with success.

The same is true in Mexico, where the local company Volkswagen Leasing S.A. de C.V., Puebla, issued a four-year bond in the amount of MXN 1.5 billion in June 2015.

Volkswagen Financial Services N.V., Amsterdam, placed several bonds in 2015 to cover funding needs in the Scandinavian countries of Norway and Sweden. Three bonds of NOK 500 million each were issued in January, April and September, and two bonds of SEK 1.5 billion and SEK 1.0 billion were issued in March and August, respectively.

The South Korean bond market, used for funding purposes in 2014, was tapped again in April 2015 for the successful placement of a three-year, KRW 150 billion bond.

Banco Volkswagen S.A., São Paulo, issued a "Letra Financeira" on the Brazilian bond market in June 2015 with a volume of BRL 500 million and a maturity of two years.

Volkswagen Finance Pvt. Ltd. in India was also active in the local capital market, issuing INR 4 billion in May in two tranches of 3.2 and 5 years.

Finally, Volkswagen Financial Services Japan Ltd., Tokyo, issued five fixed-rate bonds in 2015 with a total volume of JPY 16 billion.

The emissions issue also affected the securitization of receivables. Placing via ABS continued successfully throughout the entire year, however, demonstrating the high trust of investors.

Volkswagen Bank GmbH kicked things off in February with Driver thirteen, a €750 million securitization. This was then followed in July by Driver Master, the Bank's first ever ABS master platform based on German vehicle financing. With that, Volkswagen Bank GmbH now joins Volkswagen Leasing GmbH and Volkswagen Financial Services (UK) Ltd. with a strategic ABS funding platform.

German lease receivables were securitized in May as part of the „Volkswagen Car Lease 21" (VCL 21) transaction. The transaction was increased from €750 million to €1.065 million in response to strong investor interest and represents the most favorable automotive ABS transaction since the financial crisis. Despite the emissions issue, the „Volkswagen Car Lease 22" (VCL 22), with a volume of €857 million, was placed with investors in November 2015.

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

Volkswagen Financial Services Japan Ltd. securitized receivables of JPY 32 billion from its portfolio in February. The placement of Driver Japan four makes Japan the market with the longest ABS history after Germany. Driver Australia two, with a volume of AUD 500 million, was issued from the portfolio of Volkswagen Financial Services Australia Pty Ltd. in March. Driver China two, with a volume of RMB 1.9 billion, was the first ABS transaction of Volkswagen Finance (China) Co., Ltd. issued under the new approval framework of the People's Bank of China and China Banking Regulatory Commission. Driver France two, with a volume of €500 million, was issued in June from the portfolio held by the French branch of Volkswagen Bank GmbH. New ABS transactions were also placed in the UK and Spain. Driver UK three in September and Driver España two in October had of volume of GBP 453 million and €816 million, respectively. Driver Brasil three was the final ABS issued in the year. The transaction from the portfolio of Banco Volkswagen S.A. was increased 40% in response to strong investor demand to BRL 1.08 billion.

All in all, receivables with an equivalent volume of €6.5 billion were placed with investors in 2015.

Customer deposits totaled €28.1 billion as of December 31, 2015 (+7.2%).

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

The Investor Relations team of Volkswagen's financial service providers reached out to domestic and international investors through regular reporting in 2015, conducting individual and group meetings around the world with the relevant market players to brief them on the latest developments. Communications focused on the business model, its financial and risk indicators, and the funding strategy.

Volkswagen Financial Services AG

(Condensed, in accordance with the German Commercial Code)

BUSINESS PERFORMANCE 2015

In fiscal year 2015, Volkswagen Financial Services AG reported profit from ordinary business activities of €263 million.

Other operating income totaled €859 million (previous year: €639 million), with other operating expenses amounting to €704 million (previous year: €624 million). These items include income from costs charged to Group companies and expenses from the cost transfer of personnel and administrative expenses. Other operating income also includes support payments from Volkswagen AG in the amount of €127 million. Net investment income fell by €190 million to €346 million (previous year: €536 million). Only four domestic companies did not transfer profits. A dividend from a foreign investee amounting to €12 million is also included in this figure. The remaining profit after tax of €420 million will be transferred to Volkswagen AG pursuant to the existing control and profit transfer agreement. The intangible assets reported under fixed assets totaling €6 million declined by 6.3%, while property, plant and equipment increased by 16.1% to €46 million. Financial assets were up 8.5% to €9,741 million. The change resulted from capital payments to affiliated companies and investees of €709 million, from impairment losses of €9 million and from the increase of €22 million in loans to affiliated companies. Receivables from affiliated companies rose by €3,290 million (126.5%), mainly as a result of time deposits and loans. Receivables from other investees or investors increased by €1,207 million (146.6%), principally on account of time deposits and loans. The increase of €35 million (8.5%) in provisions is primarily due to personnel expenses of €47 million and to the reduction in provisions for contract risks arising from operating activities amounting to €13 million. Bonds increased year-on-year by €950 million, or 316.7%, to €1,250 million. Liabilities to banks of €370 million mainly related to borrower's note loans and time deposits. Liabilities to affiliated companies rose by €939 million (23.9%), largely due to the increase in time deposits. €2,260 million was paid into the capital reserves by Volkswagen AG. The equity ratio is 55.1% (60.3%). Total assets in the reporting period amounted to €17,732 million.

NUMBER OF EMPLOYEES

Volkswagen Financial Services AG had a total of 5,833 (previous year: 5,586) employees as of December 31, 2015. Employee turnover of < 1.0% was significantly below the industry average. Due to the structure of the German legal entities of the Volkswagen Financial Services AG Group, the employees of Volkswagen Financial Services AG also work for the subsidiaries. At the close of 2015, 2,638 (previous year: 2,600) employees were leased to Volkswagen Bank GmbH, and 1,279 (previous year: 1,194) worked for Volkswagen Leasing GmbH. The employees of Volkswagen-Versicherungsdienst GmbH (previous year: 62) were transferred to Volkswagen Insurance Brokers GmbH, which has a total of 126 employees (previous year: 56). In addition, 24 (previous year: 22) employees were leased to Volkswagen Versicherung AG, 19 (previous year: 19) employees to Volkswagen Autoversicherung AG and 3 (previous year: 2) employees to Volkswagen Financial Services Beteiligungsgesellschaft mbH. Volkswagen Financial Services AG employed 129 vocational trainees as of December 31, 2015.

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

As an almost pure holding company, Volkswagen Financial Services AG is integrated into the internal management concept of the Volkswagen Financial Services Group and is thus subject to the same key performance indicators and the same opportunities and risks as the Volkswagen Financial Services Group. Here, the legal requirements governing the management of the legal entity Volkswagen Financial Services AG are taken into account using commercial law indicators such as net assets, net income and liquidity. We explain this internal management concept and these opportunities and risks in the section on the fundamental information about the Volkswagen Financial Services Group (pages 27 and 28) as well as in the report on opportunities and risks (pages 45 to 60) of this annual report.

INCOME STATEMENT OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, FOR FISCAL YEAR 2015

€ million	2015	2014
General and administrative expenses	–207	–196
Other operating income	859	639
Other operating expenses	–704	–624
Net investment income/expense	346	536
Financial result	–31	–16
Result from ordinary business activities	263	339
Taxes on income and earnings	157	–192
Profits transferred under a profit transfer agreement	–420	–147
Net income for the year	–	–
Profit brought forward	2	2
Net retained profits	**2**	**2**

BALANCE SHEET OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS OF DECEMBER 31, 2015

€ million	31.12.2015	31.12.2014
Assets		
A. Fixed assets		
I. Intangible fixed assets	6	6
II. Property, plant and equipment	46	40
III. Long-term financial assets	9,741	8,976
	9,793	9,022
B. Current assets		
I. Receivables and other assets	7,925	3,426
II. Cash-in-hand and bank balances	0	1
	7,925	3,427
C. Prepaid expenses	**14**	**9**
Total assets	**17,732**	**12,458**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441	441
II. Capital reserves	9,224	6,964
III. Retained earnings	100	100
IV. Net retained profits	2	2
	9,767	7,507
B. Provisions	**446**	**410**
C. Liabilities	**7,519**	**4,541**
Total equity and liabilities	**17,732**	**12,458**

Report on Opportunities and Risks

Volkswagen Financial Services AG believes that the active management of opportunities and risks is one of the factors that will enable it to achieve sustainable, successful business performance in a challenging market environment.

RISKS AND OPPORTUNITIES

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

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

Macroeconomic Risks and Opportunities

Against the backdrop of further economic growth in the vast majority of markets, the Board of Management of Volkswagen Financial Services AG expects to see a slight increase in the number of vehicle deliveries to Volkswagen Group customers, enabling it to build on its position in global markets on a sustainable basis. Volkswagen Financial Services AG supports this positive trend by providing financial services products designed to promote sales.

Overall, the probability of a global recession is estimated to be low, although it is impossible to rule out a fall in global economic growth or a phase of below-average growth rates. The macroeconomic environment could also give rise to opportunities for Volkswagen Financial Services AG if actual trends turn out to be better than forecast.

Strategic Opportunities

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

The digitalization of our business represents a significant opportunity for Volkswagen Financial Services AG. The aim is to have all products available online as well by 2025. By expanding digital sales channels, we are addressing the changing needs of our customers and strengthening our competitive position.

Opportunities from Credit Risk

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

Opportunities from Residual Value Risk

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

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

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

- The Board of Management of Volkswagen Financial Services AG is the governing body with responsibility for the executive management of the business. In this role, the Board has set up accounting, customer service, treasury, risk management, compliance and controlling units, each with clearly separated functions and clearly assigned areas of responsibility and authority, to ensure that accounting and financial reporting processes are carried out properly. Key overarching functions are managed by the Board of Management of Volkswagen Financial Services AG and via the Managements of Volkswagen Bank GmbH and Volkswagen Leasing GmbH.
- Group-wide rules and regulations have been put in place as the basis for a standardized, proper and continuous financial reporting process. For example, the accounting policies applied by the domestic and foreign entities included in the consolidated financial statements of Volkswagen Financial Services AG are governed by the Volkswagen Financial Services AG Group's accounting policy, including the accounting requirements specified in the International Financial Reporting Standards.
- Volkswagen Financial Services AG's accounting standards also set out the specific formal requirements for the consolidated financial statements. The standards determine the basis of consolidation and also describe in detail the components of the reporting packages to be prepared by the Group companies. The formal requirements include the mandatory use of a complete, standardized set of forms. The accounting standards also include, for example, specific details relating to the recognition and processing of intragroup transactions and the associated reconciliation of balances.
- At Group level, specific control activities aimed at ensuring the truth and fairness of consolidated financial reporting include the analysis and any necessary adjustment of single-entity financial statements submitted by the consolidated entities, taking into account the reports submitted by the independent auditors and the related discussions concerning the financial statements.
- These activities are supplemented by the clear delineation of areas of responsibility and by various monitoring and review mechanisms. The overall aim is to ensure that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.
- These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT process controls account for a significant proportion of the integrated process activities alongside manual process controls, such as double-checking by a second person. These controls are enhanced by specific functions at Group level carried out by the parent company Volkswagen AG, for example functions within the responsibility of the Group tax department.
- Subgroup internal auditing is a key component of Volkswagen Financial Services AG's monitoring and control system. The Internal Audit department carries out regular audits of accounting-related processes in Germany and abroad as part of its risk-oriented auditing activities and reports on these audits directly to the Board of Management of Volkswagen Financial Services AG.

In sum, the existing internal monitoring and control system of Volkswagen Financial Services AG is intended to ensure that the financial position of the individual entities in the Group and of Volkswagen Financial Services AG itself as of the reporting date December 31, 2015, has been based on information that is reliable and has been properly recognized. No material changes were made to the internal monitoring and control system of Volkswagen Financial Services AG after the reporting date.

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

At Volkswagen Financial Services AG, risk is defined as the danger of loss or damage that could occur if an expected future development turns out to be less favorable than planned.

Volkswagen Financial Services AG, including its subsidiaries and equity investments (hereinafter: Volkswagen Financial Services AG), is exposed to a large number of risks typical for the financial services sector as part of its primary operating activities. The company takes on these risks on a responsible basis so that it can specifically exploit associated market opportunities.

Volkswagen Financial Services AG, as the parent entity in the financial holding company group, has put in place a group-wide risk management system to identify, assess, manage, monitor and communicate risks. The risk management system comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risks. The individual elements are tightly focused on the activities of the individual divisions. This structure makes it possible to identify at an early stage any trends that could represent a risk to the business as a going concern so that appropriate corrective action can then be initiated. No material changes were made to the risk management methodology in the reporting period.

Appropriate procedures are in place to ensure the adequacy of the risk management system. Firstly, the Group Risk Management & Methods unit continuously monitors the system. Secondly, the individual elements in the system are regularly reviewed on a risk-oriented basis by Internal Audit and as part of the audit of the annual financial statements by the independent auditors.

Within Volkswagen Financial Services AG, responsibility for risk management and credit analysis is assigned to the Chief Risk Officer. In this role, the Chief Risk Officer submits regular reports to the Supervisory Board and Board of Management of Volkswagen Financial Services AG on the overall risk position of Volkswagen Financial Services AG.

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

One of the functions of the Group Risk Management & Methods unit is to provide framework constraints for the organization of the risk management system. This function includes drawing up risk policy guidelines, developing and maintaining methodologies and processes relevant to risk management as well as issuing and monitoring international framework standards for the procedures to be used around the world.

In particular, these activities involve the provision of models for carrying out credit assessments, quantifying the types of risk relevant to Volkswagen Financial Services AG, determining risk-bearing capacity and measuring collateral. Group Risk Management & Methods is therefore responsible for identifying possible risks, analyzing, quantifying and assessing risks, and for determining the resulting measures to manage the risks. Group Risk Management & Methods is a neutral, independent unit and reports directly to the Board of Management of Volkswagen Financial Services AG.

Local risk management units ensure that the requirements specified by Group Risk Management & Methods are implemented and complied with in each market.

Local risk management is responsible for the detailed design of local structures for the models and procedures used for risk measurement and management and carries out local implementation from process and technical perspectives. There is a direct line of reporting from local risk management to Group Risk Management & Methods.

As a significant company, Volkswagen Financial Services AG is still supervised by the European Central Bank (ECB) under the Single Supervisory Mechanism (SSM). As a result, Volkswagen Financial Services AG continuously exchanges information with the ECB's Joint Supervisory Team. Volkswagen Financial Services AG is also subject to requirements under the Supervisory Review and Evaluation Process (SREP).

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

RISK STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Board of Management of Volkswagen Financial Services AG, the Managements of Volkswagen Bank GmbH and Volkswagen Leasing GmbH and the Board of Management of Volkswagen Versicherung AG.

As part of this overall responsibility, the Board of Management of Volkswagen Financial Services AG has introduced a MaRisk-compliant strategy process and drawn up a business and risk strategy. In 2015, further development work was carried out on the existing WIR2018 strategy, resulting in the creation of the new corporate strategy, ROUTE2025. The ROUTE2025 business strategy sets out the fundamental views of the Board of Management of Volkswagen Financial Services AG on key matters relating to business policy. It includes the objectives for each major business activity and the strategic areas for action to achieve the relevant objectives. The business strategy also serves as the starting point for creating a consistent risk strategy.

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

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

The Board of Management of Volkswagen Financial Services AG is responsible for implementing the group-wide risk strategy at Volkswagen Financial Services AG that was defined under its overall responsibility. After the group-wide business and risk strategy is adopted, it is communicated within the subgroup of Volkswagen Financial Services AG.

RISK INVENTORY

The objective of the risk inventory, which has to be carried out at least annually, is to identify the main categories of risk. To this end, all known categories of risk are investigated to establish whether they arise at Volkswagen Financial Services AG. In the risk inventory, the relevant categories of risk are examined in greater detail, quantified or, if they cannot be quantified, assessed by experts, and then evaluated to determine whether they are material for the Group.

The risk inventory carried out using the base data as of December 31, 2014 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk, earnings risk, direct residual value risk, market risk, liquidity risk and operational risk. It also concluded that two non-quantifiable categories of risk, reputational risk and strategic risk, should additionally be classified as material. The indirect residual risk and underwriting risk of this were classified as immaterial because they accounted for a low proportion of the overall risk at the Group level. Other existing subcategories of risk are taken into account within the categories specified above.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

A system has been set up to determine the risk-bearing capacity of Volkswagen Financial Services AG. This system compares the economic risk against available financial resources referred to as the risk coverage potential. An institution has the capacity to bear its risk if, as a minimum, all material risks to which the institution is exposed are covered at all times by the institution's risk coverage potential.

The material risks to which Volkswagen Financial Services AG is exposed are identified at least once a year as part of the risk inventory check. This forms the basis for the level of detail applied in the design of the risk management process and the inclusion of risks in risk-bearing capacity. In line with standard banking practice, risks are assessed using the net method.

The main risks are quantified as part of the risk-bearing capacity analysis using a going concern approach with a standard confidence level of 90% (exception: liquidity risk [funding risk] with a confidence level of 99%) and a time horizon of one year. Risk-bearing capacity is also analyzed using the gone concern approach in addition to the going concern approach.

In addition, Volkswagen Financial Services AG uses a system of limits derived from the risk-bearing capacity analysis to specifically manage risk cover capital in accordance with the level of risk tolerance determined by the Board of Management of Volkswagen Financial Services AG and the Managements of Volkswagen Bank GmbH and Volkswagen Leasing GmbH. Volkswagen Versicherung AG has its own system of limits, which is based on MaRisk (VA).

The establishment of the risk limit system as a core component of capital allocation limits the risk at different levels, thereby safeguarding of the economic risk-bearing capacity of the subgroup. Risk coverage potential is determined from the available equity and earnings components subject to various deductions. In line with the risk tolerance of the Board of Management of Volkswagen Financial Services AG, only a portion of this risk coverage potential is specified as a risk ceiling in the form of an overall risk limit.

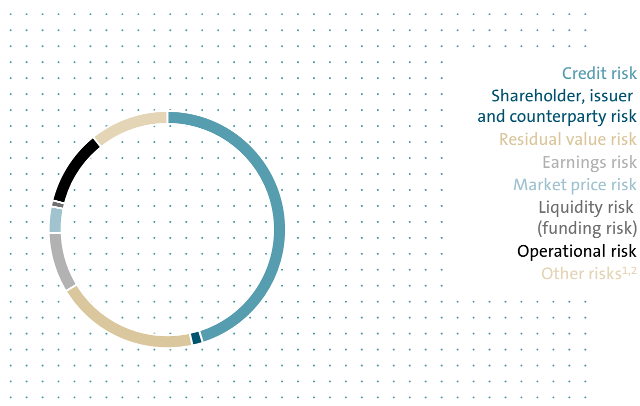
The overall risk limit is apportioned to counterparty default risk, residual value risk, market risk, liquidity risk (funding risk) and operational risk for the purposes of operational monitoring and control. In this process, the limit allocated to counterparty default risk, itself an overarching category of risk, is subdivided into individual limits for credit risk, shareholder risk, issuer risk and counterparty risk.

In a second step, the limits for the risk categories (with the exception of those for shareholder risk, issuer risk, counterparty risk and liquidity risk [funding risk]) are broken down and allocated to the individual companies.

The limit system provides the Management with a tool that enables it to meet its strategic and operational corporate management responsibilities in accordance with statutory requirements.

The overall economic risk of Volkswagen Financial Services AG as of September 30, 2015 amounted to €2.6 billion. The apportionment of this total risk by individual risk category was as follows:

DISTRIBUTION OF RISKS BY TYPE OF RISK
as of September 30, 2015



CHANGES IN RISK, BY RISK CATEGORY

	€ MILLION		PROPORTION (PERCENT)	
	30.09.2015	31.12.2014	30.09.2015	31.12.2014
Risk category				
Credit risk	1,167	1,189	45	45
Shareholder, issuer and counterparty risk	38	29	1	1
Residual value risk	509	447	20	17
Earnings risk	212	316	8	12
Market risk	93	80	4	3
Liquidity risk (funding risk)	21	19	1	1
Operational risk	266	217	10	8
Other risks[1, 2]	278	369	11	14
Total	**2,584**	**2,666**	**100**	**100**

1 Global amount for material non-quantifiable risks: reputational risk and strategic risk.
2 Including risks from MAN FS of €156 million as of September 30, 2015, and €248 million as of December 31, 2014.

The risk coverage potential of €5.5 billion as of September 30, 2015, is composed of reported equity (€13.4 billion) plus the forecast result for the next twelve months (€1.1 billion) less regulatory requirements for minimum equity (€8.2 billion) and other adjustment items (€0.8 billion). The risk coverage potential was utilized at 47% of capacity as of September 30, 2015, from the risks outlined above.

In the period January 1, 2015, to September 30, 2015, the maximum utilization of the risk coverage potential in accordance with Pillar II was 47%.

Up to December 31, 2015, there were no indications of any material changes in the utilization of the risk coverage potential.

In addition to determining the risk-bearing capacity in a normal scenario, Volkswagen Financial Services AG also conducts group-wide and cross-institutional stress tests and reports the results directly to the Board of Management and Supervisory Board. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of Volkswagen Financial Services AG. The purpose of these scenarios is to facilitate early identification of those risks that would be particularly affected by the trends simulated in the scenarios so that any necessary corrective action can be initiated in good time. The stress tests include both historical scenarios (such as a repeat of the financial crisis in the years 2008 to 2010) and hypothetical scenarios (such as a global economic downturn or a sharp drop in sales in the Volkswagen Group). In addition, inverse stress tests are used to identify what events could represent a threat to the ability of the Group to continue as a going concern. A list of action points is also drawn up as part of the analysis of the scenarios. This list of action points has been reviewed and updated against the background of current developments in 2015 (such as the situation in Greece).

The calculations of risk-bearing capacity confirmed that all material risks that could adversely impact the financial position or financial performance were adequately covered by the available risk coverage potential at all times. In the reporting period, the Company managed risk such that the utilized risk coverage potential was below the overall risk limit set internally. The stress tests did not indicate any need for action.

RISK CONCENTRATIONS

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

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

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

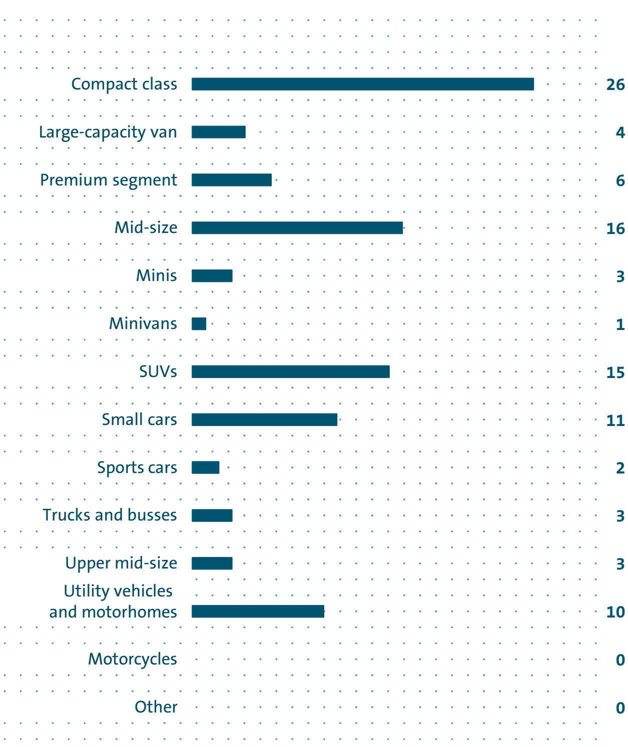
One of the objectives of Volkswagen Financial Services AG's risk policy is to reduce such concentrations by means of broad diversification.

Counterparty concentrations are only of minor significance in Volkswagen Financial Services AG because of the large proportion of business accounted for by retail lending. From a regional perspective, Volkswagen Financial Services AG has a concentration of business in the German market, but looks to achieve broad nationwide diversification within the country.

In contrast, sector concentrations in the dealer business are part of the nature of the business for a captive provider and these concentrations are therefore individually analyzed. Overall, no particular impact has been identified, even in periods of economic downturn like the crisis.

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

COLLATERAL STRUCTURE AS OF SEPTEMBER 30, 2015
figures in %



This broad vehicle diversification also means that there is no residual value concentration at Volkswagen Financial Services AG.

Income concentration arises from the very nature of the business model. The Company's particular role in which it helps to promote sales in the Volkswagen Group gives rise to certain dependencies that directly affect income growth.

RISK REPORTING

Risk reporting to the Board of Management and Supervisory Board occurs quarterly in the form of a comprehensive risk management report. The starting point for the risk management report is risk-bearing capacity because of its importance from a risk perspective for the successful continued existence of the business as a going concern. The report also presents the calculation of the available risk coverage potential, the utilization of limits and the current percentage allocation of the overall risk to the individual risk categories. In addition, Group Risk Management & Methods reports on credit risk, market risk, liquidity risk, operational risk, residual value risk, shareholder risk and underwriting risk, both at an aggregate level and – mostly for markets – in detail. These reports include quantitative information (financial data) and also qualitative elements in the form of assessments of the current situation and expected developments, including recommendations for action where appropriate. Additional reports are produced for specific risk categories. Ad hoc reports at the Group level are generated as needed to supplement the system of regular reporting.

The high quality of the information contained in the risk management reports about structures and trends in the portfolios is maintained by a process of constant refinement and ongoing adjustment in line with current circumstances.

NEW PRODUCT AND NEW MARKET PROCESS

Before launching new products or commencing activities in new markets, Volkswagen Financial Services AG first runs through its new product and new market process. All the units involved (such as Risk Management, Controlling, Accounting, Legal Affairs, Compliance, Treasury, IT) are integrated into the process. The process involves the preparation of a written concept, which includes an analysis of the risks in connection with the new product or market and a description of the possible implications for management of the risks. Responsibility for approval or rejection lies with the relevant members of the Board of Management of Volkswagen Financial Services AG and, in the case of new markets, also with the members of the Supervisory Board of Volkswagen Financial Services AG.

RISK CATEGORIES

Counterparty Default Risk

Counterparty default risk refers to a potential negative variance between actual and forecast counterparty risk outcomes. The forecast outcome is exceeded if the loss incurred as a consequence of defaults or changes in credit rating is higher than the expected loss.

The risks typically included in a risk-bearing capacity concept in this case are the credit risk from customer transactions, counterparty risk, issuer risk, country risk, shareholder risk and reinsurance risk.

Credit Risk

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

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

The aim of a systematic credit risk monitoring system is to identify potential borrower or lessee insolvencies at an early stage, initiate any corrective action in respect of a potential default in good time and anticipate possible losses by recognizing appropriate write-downs or valuation provisions.

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

Risk identification and assessment

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

A set of procedural instructions outlines the requirements for developing and maintaining the rating systems. The Company also has a rating manual that specifies how the rating systems are to be applied as part of the loan approval process. Similarly, other written procedures specify the parameters for developing, using and validating the scoring systems in the retail business.

To quantify credit risk, an expected loss (EL) and an unexpected loss (UL) are determined at portfolio level for each entity. The UL is the value at risk (VaR) less the EL. The calculation uses an asymptotic single risk factor model (ASRF model) in accordance with the capital requirements specified by the Basel Committee on Banking Supervision (Gordy formula) taking into account the credit quality assessments from the individual rating and scoring systems used.

Rating systems for corporate customers

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

Scoring systems in the retail business

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

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

Supervision and review of retail and corporate systems

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

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

Collateral

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

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

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

Valuation provisions

The calculation of valuation provisions is based on the incurred loss model in accordance with IAS 39 and is also derived from the rating and scoring processes.

With regard to defaults, a distinction is also made between significant and insignificant receivables. Specific valuation provisions are recognized for defaults related to significant receivables, whereas specific valuation provisions evaluated on a group basis are recognized for insignificant receivable defaults. Portfolio (global) valuation provisions are recognized to cover defaults on receivables for which no specific valuation provisions have been recognized.

The following average values have been determined for the aggregate active portfolio (i.e. portfolio of receivables not in default) based on a time horizon of twelve months: probability of default (PD) of 3.2%; loss given default (LGD) of 30.9%; and total volume of receivables based on the active portfolio of €95.8 billion.

Risk monitoring and control

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

Appropriate processes are used to monitor all lending in relation to financial circumstances, collateral and compliance with limits, contractual obligations and internal and external conditions. To this end, exposures are transferred to a suitable form of supervision or support depending on risk content (normal, intensified and problem loan management). Credit risk is also managed using reporting limits determined by Volkswagen Financial Services AG and specified separately for each individual company.

A credit risk portfolio rating is used to analyze the portfolios for the purposes of monitoring risk at portfolio level. This rating brings together various risk measures into one indicator, facilitating comparability between the international portfolios of Volkswagen Financial Services AG. The Group Risk Management & Methods unit also conducts risk reviews in the companies if any problems become apparent.

Development

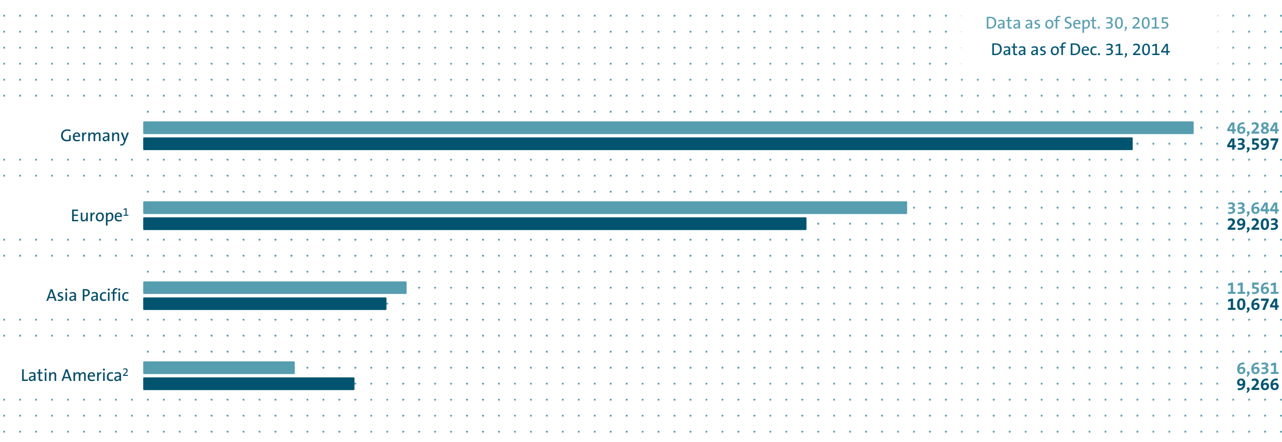
Retail portfolio

Further growth has been achieved in the volume of receivables in the retail business on the back of the established sales promotion program with the brands and sustained expansion of the fleet business. As in the previous year, the markets of Germany and the UK were instrumental in driving growth due to their stable automobile markets. The current macroeconomic situation and the declining market for vehicles in Brazil negatively impacted development of the Brazilian portfolio and led to a portfolio decline in fiscal 2015. The retail portfolio of the Volkswagen Group has yet to see any effects of the emissions issue. Overall, the credit risk in the retail portfolio of Volkswagen Financial Services AG generally remained stable in fiscal year 2015.

Corporate portfolio

The nascent economic recovery in countries affected by the eurozone crisis and a corresponding stabilization of vehicle markets had a positive effect on the corporate portfolio of Volkswagen Financial Services AG in 2015. This trend is reflected in a rising volume of receivables. The effects of the emissions issue at the Volkswagen Group have yet to be seen in the corporate portfolio of Volkswagen Financial Services AG Based on the strength of our dealership portfolio, we assume any declines in demand that may arise in the medium term under certain circumstances will not have a severe effect on the risk situation. Overall, credit risk generally remained stable in 2015.

BREAKDOWN OF CREDIT VOLUME BY REGION
in € million



1 Europe region excluding Germany.
2 The Latin America region consists of the markets of Mexico and Brazil.

Counterparty/Issuer Risk

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

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

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

Risk identification and assessment

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

Risk monitoring and control

To establish effective monitoring and control, volume limits are specified in advance for each counterparty and issuer. Treasury is responsible for monitoring compliance with these limits on a day-to-day basis. The level of the volume limit is based on the credit assessment. The Credit and Process Management department is responsible for the initial classification and then regular reviews. Group Risk Management & Methods amalgamates the counterparty and issuer risk data each month, assesses the data and communicates the figures in the monthly market risk report as well as in the quarterly risk management report.

Country Risk

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

Volkswagen Financial Services AG does not generally have any significant cross-border loans to lenders outside the basis of consolidation.

Volkswagen Financial Services AG is not generally involved in cross-border lending business, except in the case of intercompany loans. The conventional country risk analysis is not applicable to intercompany lending because, if the difficulties described above were to occur, the funding of the Group entities through lending could be extended if necessary, thereby ensuring that the entities could continue to operate in the strategic market concerned. For these reasons, there has been no need to establish limits related to the overall level of business for countries or regions, for example, to limit transfer risk.

Shareholder Risk

Shareholder risk refers to the risk that losses with a negative impact on the carrying amount of an equity investment could be incurred after the contribution of capital or loans regarded as equity (e.g., silent contributions) for Volkswagen Financial Services AG. In principle, Volkswagen Financial Services AG only makes such equity investments to help it achieve its corporate objectives. The investments must therefore support its own operating activities and are intended to be held on a long-term basis.

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

Risk identification and assessment

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

Risk monitoring and control

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

Reinsurance Risk

The reinsurance risk consists of the total or partial default of receivables from reinsurers or retrocessionaires. At Volkswagen Financial Services AG, it exists primarily at the subsidiary Volkswagen Versicherung AG. Volkswagen Versicherung AG currently assigns only parts of its portfolio, thereby limiting the reinsurance risk.

To further reduce the reinsurance risk, the Company only selects reinsurers and retrocessionaires whose external rating corresponds to an internal rating of "very good creditworthiness" to "good creditworthiness".

Appropriate safeguards must be taken whenever a reinsurer or retrocessionaire falls below the required minimum credit rating.

Risk identification and assessment

The significance of the reinsurance risk is assessed through a qualitative evaluation of the risks based on the magnitude of their loss and the corresponding likelihood of their occurrence. The quantifying is based on the current regulatory requirements using the standard model defined in the Solvency II Directive.

Risk monitoring and control

Risk management is undertaken by the local Risk Management department of Volkswagen Versicherung AG and checked for plausibility in close consultation with the Group Risk Management & Methods unit. The results are then reported to the responsible offices. The responsibility for risk monitoring lies with the Group Risk Management & Methods unit.

Market Risk

Market risk refers to the potential loss arising from adverse changes in market prices or parameters that influence prices. Volkswagen Financial Services AG is exposed to significant market risk arising from changes in market prices that trigger a change in the value of open interest rate of currency transactions.

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

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

Interest Rate Risk

Interest rate risk refers to potential losses that could arise as a result of changes in market interest rates. It occurs because of interest rate mismatches between asset and liability items in a portfolio or on the balance sheet. Volkswagen Financial Services AG is exposed to interest rate risk in its banking book.

Changes in interest rates that cause interest rate risk to materialize can have a negative impact on results of operations.

Risk identification and assessment
Interest rate risk for Volkswagen Financial Services AG is determined as part of the monthly monitoring process using the value at risk (VaR) method with a 40-day holding period and a confidence level of 99%. The model is based on a historical simulation and calculates potential losses taking into account 1,000 historical market fluctuations (volatilities). Negative interest rates can also be processed in the historical simulation and are factored into the risk assessment.

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

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

Risk monitoring and control
Treasury is responsible for the management of this risk on the basis of decisions made by the ALM Committee. Interest rate risk is managed by using interest rate derivatives. Group Risk Management & Methods is responsible for monitoring and reporting on interest rate risk.

A separate report on the latest position regarding interest rate risk at Volkswagen Financial Services AG is submitted to the Board of Management each month.

Currency Risk

Currency risk arises from mismatches between the amounts of asset and liability items denominated in foreign currency. However, open-ended foreign currency exposures of this nature are only permitted in individual cases.

If currency risks were to materialize, this could lead to losses in all items affected by a foreign currency.

Fund Price Risk

The risk in connection with fund investments arises from possible changes in market prices. Fund price risk describes the risk that changes in market prices will cause the value of portfolios of securities to fall, thereby giving rise to a loss.

Volkswagen Financial Services AG is exposed to fund price risk arising from its employee post-employment benefit arrangements that are funded by pension plan assets consisting of fund investments. Volkswagen Financial Services AG and Volkswagen Bank GmbH have undertaken to meet these pension obligations if the employees' guaranteed entitlements can no longer be satisfied from the pension fund.

Development
Overall, market risk remained stable during the reporting period. The quantified risk remained within the specified limits at all times.

Earnings Risk (Specific Profit or Loss Risk)

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

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

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

Risk identification and assessment
Volkswagen Financial Services AG quantifies earnings risk using a parametric earnings at risk (EaR) model with the confidence level specified in the calculation of risk-bearing capacity and a one-year forecast period.

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

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

The results from the quarterly quantification of earnings risk are fed into the calculation of risk coverage potential as a deduction from risk-bearing capacity. The results are monitored by Group Risk Management & Methods.

Liquidity Risk

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

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

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

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

Risk identification and assessment

The expected cash flows at Volkswagen Financial Services AG are brought together and evaluated by the Treasury unit.

The Group Risk Management & Methods unit is responsible for identifying and recording liquidity risk. Stress tests are applied to funding matrices using a scenario approach with scenario triggers from the Company itself or the market, or a combination of the two. Two approaches are used to determine the parameters for these stress scenarios. The first approach uses observed historical events and specifies different degrees of impact from hypothetical, but conceivable events. To quantify the funding risk, this approach takes into account the relevant aspects of illiquidity risk and changes in spreads driven by credit ratings or the market. In the second approach, to ensure there is appropriate liquidity management, Treasury also prepares four different funding matrices, carries out cash flow forecasts and uses this information to determine the relevant range of liquidity coverage.

Risk monitoring and control

To manage liquidity, the Operational Liquidity Committee (OLC) holds meetings every two weeks at which it monitors the current liquidity situation and the range of liquidity coverage. Due to the emissions issue, the OLC meets every week. It decides on funding measures and prepares any necessary decisions for the decision-makers.

Group Risk Management & Methods communicates the main risk management information and relevant early warning indicators relating to illiquidity risk and funding risk. As far as illiquidity risk is concerned, these indicators involve appropriate threshold values for determined degrees of utilization over various time horizons, taking into account access to relevant sources of funding. The indicators relating to funding risk are based on potential funding costs, which are monitored using a system of limits.

Operational Risk

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

Other categories of risk, such as reputational or strategic risk, do not fall within the scope of OpR, since they are analyzed separately.

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

The OpR strategy specifies the focus for the management of operational risk; the OpR manual sets out the implementation process and allocates responsibilities.

Risk identification and assessment

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

The risk self-assessment is used to determine a monetary assessment of future potential risks. A standardized risk questionnaire is provided once a year for this purpose. The local experts use these questionnaires to determine and record the details for various risk scenarios. The details include the possible amount of the risk and the probability of occurrence, in each case with minimum, typical and maximum figures.

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

Risk monitoring and control

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

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

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

Development

The increase in operational risk in the past was based on a number of factors, including the growth in the business of Volkswagen Financial Services AG, also after taking legal risk into account. Provisions of €480 million are in place for legal risks. We have already been active in the context of the operational risks in raising greater awareness for OpR issues at Volkswagen Financial Services AG. These training seminars and efforts to raise awareness of operational risk issues led to improved recording of loss events. The insights gained from losses that have occurred lead to better estimates of potential risk and also allow new scenarios to be taken into consideration. This accumulation of experience and expertise among those responsible locally is also reflected in the assessments of future operational risks.

Risk from Outsourcing Activities

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

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

The objective of outsourcing risk management is to identify and minimize the risks from all outsourcing. As part of outsourcing management and detailed monitoring, measures may be initiated, where appropriate, to monitor a variance from an identified risk and ensure that the original risk position associated with an outsourced activity can be restored.

Ultimately, a variance from a determined risk may mean that the service provider has to be changed or, if possible and strategically desirable, the outsourcing arrangement ended. In this case, the activities may be performed by the Company itself or may be eliminated entirely.

Risk identification and assessment

Risks arising in connection with outsourced activities are identified by examining the circumstances and performing a risk analysis. In the first step, an examination of the circumstances is used to establish whether the planned activity constitutes procurement from a third-party supplier or an outsourcing arrangement. The risk analysis uses various criteria to determine the risk content in an outsourcing arrangement. The outcome is the classification of the outsourcing arrangement as material or immaterial. Material outsourcing arrangements are subject to more stringent levels of monitoring and control as well as special and stricter contractual provisions.

Risk monitoring and control

The risks from outsourcing activities are documented as part of operational risk. To ensure effective management of outsourcing risk, the Company has issued a framework policy specifying the constraints that outsourcing arrangements must observe. Before any activity is outsourced, a risk analysis must be prepared to determine the risk in each case. This analysis procedure is one of the components of the constraints and ensures that an adequate level of monitoring and control is applied. The framework policy also specifies that all outsourced activities must be agreed with the Group Outsourcing Coordination unit. This coordination unit is therefore informed about all outsourcing activities and the associated risks and communicates quarterly on the risks to the Board of Management.

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

Residual Value Risk

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

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

The objective of residual value risk management is to keep the risks within the agreed limits. If a residual value risk materializes, the Company may have to recognize an exceptional write-down or a loss on disposal of the asset concerned, resulting in a negative impact on financial performance.

Risk identification and assessment

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

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

The UL is calculated by multiplying the latest projected residual value by the markdown. This value is calculated independently of the EL and at individual lease level for each vehicle in the portfolio. As in the calculation of the EL, the portfolio UL is determined by aggregating the ULs for all the vehicles. This figure is generated quarterly. The results from the calculation of the EL and UL are fed in to the assessment of the risk situation, e.g. they are one of the factors used in assessing the adequacy of the provisions for risks and are included in the calculation of risk-bearing capacity.

In the case of indirect residual value risk, the method used to quantify the risk is generally similar to that used for direct residual value risk but also takes into account further risk parameters (dealer default and other factors specific to this category of risk).

The general requirements for developing, using and validating the risk parameters for direct and indirect residual value risk are laid down in a set of procedural instructions.

Risk monitoring and control

The Group Risk Management & Methods unit monitors residual value risk within Volkswagen Financial Services AG.

As part of risk management procedures, the adequacy of provisions for risk and the potential residual value risk are regularly reviewed in respect of direct residual value risk; residual value opportunities are disregarded in the recognition of provisions for risks.

The analysis based on individual leases does not always fully cover the assumed risks as a result of the distribution of the risks (because of the difference between the residual value curve (degressive) and the incoming payments curve (linear) during the term of the lease). For risks already identified, the risk amounts allocated to the residual maturity must still be earned in the future and added to impairment losses (in accordance with IAS 36).

Based on the resulting potential residual value risk, various measures are initiated as part of a proactive risk management approach to limit the residual value risk. Residual value recommendations for new lease originations must take into account prevailing market circumstances and future influences. Various stress tests for direct residual value risks are also planned to create a comprehensive picture of the risk sensitivity of residual values. These stress tests will be carried out by experts with the involvement of risk specialists at head office and in the local units. Indirect residual value risks faced by Volkswagen Financial Services AG or one of its companies are subject to plausibility checks and are assessed from the perspectives of risk amount and significance.

As part of risk management activities, the Group Risk Management & Methods unit regularly reviews the potential indirect residual value risk and the adequacy of the associated provisions. Based on the potential indirect residual value risk determined in these activities, various measures are initiated in close collaboration with the brands and the dealer organization to limit the risk.

Development

Compared to the previous year, volumes increased in almost all markets. The measures taken during the financial crisis (such as intensifying the remarketing processes, adjusting the residual values to the situation in the new business market etc.) had led to a stabilization in used car prices; these measures were continued in fiscal year 2015. The emissions issue at the Volkswagen Group had an impact on the residual value risk in the portfolio of Volkswagen Financial Services AG; the risk was adequately covered by increasing the risk provision.

Underwriting Risk

The underwriting risk is an inherent risk of insurance companies, which at Volkswagen Financial Services AG exists primarily as a result of the subsidiary Volkswagen Versicherung AG. It arises if the cash flows that are material to the insurance company differ from their expected value. One source of this risk is the uncertainty as to whether the total amount of actual payments for losses matches the total amount of expected payments for losses. The underwriting risk at Volkswagen Financial Services AG is broken down into the division-specific risks of underwriting risk for losses and underwriting risk for health. Each type of risk is composed of the premium and reserve risk, the cancellation risk, and the disaster risk, whereas the cancellation risk is not material at Volkswagen Versicherung AG.

The mission of Volkswagen Versicherung AG is to support sales of the Volkswagen Group's products. To achieve this, Volkswagen Versicherung AG operates its warranty insurance business as the primary insurer and actively reinsures portfolios brokered by a company of the Volkswagen Group for other primary insurers.

The purpose of risk management of underwriting risks is not to completely prevent such risks but to systematically manage the risks in furtherance of the objectives. Risks are not accepted unless they can be calculated and sustained.

If the losses are excessive relative to the premium calculation, the risk situation of the portfolio must be reviewed.

Risk identification and assessment

The significance of the underwriting risks for losses and health is assessed through a qualitative evaluation of the risks based on the magnitude of their loss and the corresponding likelihood of their occurrence. The quantifying is based on the current regulatory requirements using the standard model defined in the Solvency II Directive.

Risk monitoring and control

Risk management is undertaken by the local Risk Management department and checked for plausibility in close consultation with the Group Risk Management & Methods unit. The results are then reported to the responsible offices. The responsibility for risk monitoring lies with the Group Risk Management & Methods unit.

Strategic Risk

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

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

The objective of Volkswagen Financial Services AG is to manage its acceptance of strategic risk enabling it to systematically leverage earnings potential in its core business. In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern.

Strategic risk is recognized quantitatively by applying a deduction to aggregate risk cover in the calculation of risk-bearing capacity.

Reputational Risk

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

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

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

SUMMARISED PRESENTATION

Volkswagen Financial Services AG handles risks responsibly in its business. This is based on a comprehensive system for identifying, measuring, analysing, monitoring and controlling risks, which is part of a risk and return-oriented controlling system. The risk-bearing capacity was assured at all times in 2015. We do not see our business continuity in danger.

The continuous development of this system proceeded in 2015, such as in methods and models, systems, processes and IT. Focal points included the implementation of a collection guideline for Truck & Bus, and the continued roll-out of the uniform LGD retail model framework.

Volkswagen Financial Services AG will continue to invest in optimising its comprehensive controlling system and risk management systems, in order to meet the business and regulatory requirements for the control and management of risks.

Credit Risk Forecast

Overall, we expect the risk situation generally to remain stable in 2016. This development should be supported by a further stabilization in the economic environment and a continued recovery in the countries affected by the eurozone crisis. Certain markets (such as Brazil and Russia) are being monitored, so that suitable measures can be taken to reach our defined goals for 2016, if required. The expected growth trend at Volkswagen Financial Services AG will also have an effect on the nominal risk costs, although this will be subject to the effects of the emissions issue.

Residual Value Risk Forecast

We continue to expect growth in the residual value portfolio in 2016. The main drivers behind this are the implemented growth program, continued economic recovery in markets and an expansion in the fleet business.

The emissions issue will of course remain in focus. For this reason, the development of residual values will continue to be closely monitored so that we can act appropriately and take suitable measures in the event of any relevant changes to the risk structure. The confidence-building measures of the brands and the success of any recall campaign will have a significant impact on the development of value risks to residual values.

Market Risk Forecast

We are expecting a generally stable market price risk situation for fiscal year 2016, based on the expected stable interest rate environment and moderate volatility in exchange rates.

Operational Risk Forecast

Based on future business growth and the development of operational risks as described in the risk report, we expect a moderate increase in risk. In this context, we expect the effectiveness of fraud protection to remain stable and the level of quality in processes and staff qualification to be maintained.

Liquidity Risk Forecast

Our ability to use refinancing instruments may be restricted due to the current uncertainties about the effects of the emissions issue on the Volkswagen Group. An outflow of deposits or deterioration in the situation on the capital markets could have an adverse effect on the ability of Volkswagen Financial Services AG to refinance. This liquidity risk comprises in particular the risk that insufficient liquidity may be available for entering into new business. A downgrade of the company's rating could also adversely affect the terms associated with the external financing of Volkswagen Financial Services AG and/or cause refinancing costs to increase.

Report on Post-Balance Sheet Date Events

Effective January 1, 2016, Dr. Christian Dahlheim was appointed as a member of the Board of Management of Volkswagen Financial Services AG. Dr. Dahlheim is responsible for the Sales and Marketing board division as well as for the regions Germany, Europe and International.

In January 2016, receivables with a volume of RMB 3 billion from the portfolio of Volkswagen Finance (China) Co., Ltd. were securitized in the Driver China three ABS transaction.

There were no other significant developments after the end of fiscal year 2015.

Corporate Responsibility

Roads to the Future.

As a global financial services provider in the Volkswagen Group, we firmly believe that our business model can be successful only if we act in a sustainable, responsible manner – now and in the future. In fiscal year 2015, we continued to engage in and give shape to activities and issues centered around our understanding of corporate responsibility (CR).

Given the emission issues, we will review our CR commitment in 2016 and make any necessary adjustments. We will communicate intensively with our cooperation partners in particular on this point, in order to determine whether and under what circumstances collaboration will be possible in the future.

- For us, accepting responsibility means to adjust our decisions along the requirements of society, our clients, our employees and our shareholders.
- We offer an extensive range of automobile financial services and develop offerings for the mobility needs of the future.
- We operate internationally and are at the same time rooted locally. A sustainable and responsible management is important for us. We operate reliably and environmentally orientated. As an attractive employer we have an inherent interest in supporting a sustainable society.
- Our self-conception is to be in compliance with the law and our own values. Furthermore, it is our aim to return a part of our success back to society.

At Volkswagen Financial Services AG, we assume responsibility to a degree that goes beyond compliance with legal requirements (corporate governance). In our core business, for example, we include environmental aspects in the development of our products and create incentives for resource-friendly mobility.

A key aspect of our corporate responsibility is to ensure that our operating processes also protect the environment. It was therefore a logical step for us to introduce an environmental management system (EMS) in accordance with the ISO EN 14001:2009 standard for our Braunschweig site. We subjected this environmental management system to an external audit and had the system successfully certified by TÜV Nord in April 2015.

Outside its core business, Volkswagen Financial Services AG also accepts social responsibility by getting involved in local social projects in the vicinity of its sites. For example, employees of Volkswagen Bank in Poland provided support for the children's home in Chotomow for a second time.

In the Braunschweig region, we are involved in supporting and promoting social projects, sporting activities and cultural events. CR is now a firmly established part of the corporate culture at Volkswagen Financial Services AG, and we will continue to breathe life into the four areas of action that we have defined: people, environment, products and dialogue.

CORPORATE RESPONSIBILITY AREAS OF ACTION OF VOLKSWAGEN FINANCIAL SERVICES AG

A summary of the main activities in these areas of actions is provided below:

PEOPLE

Top Employer | Top Employees

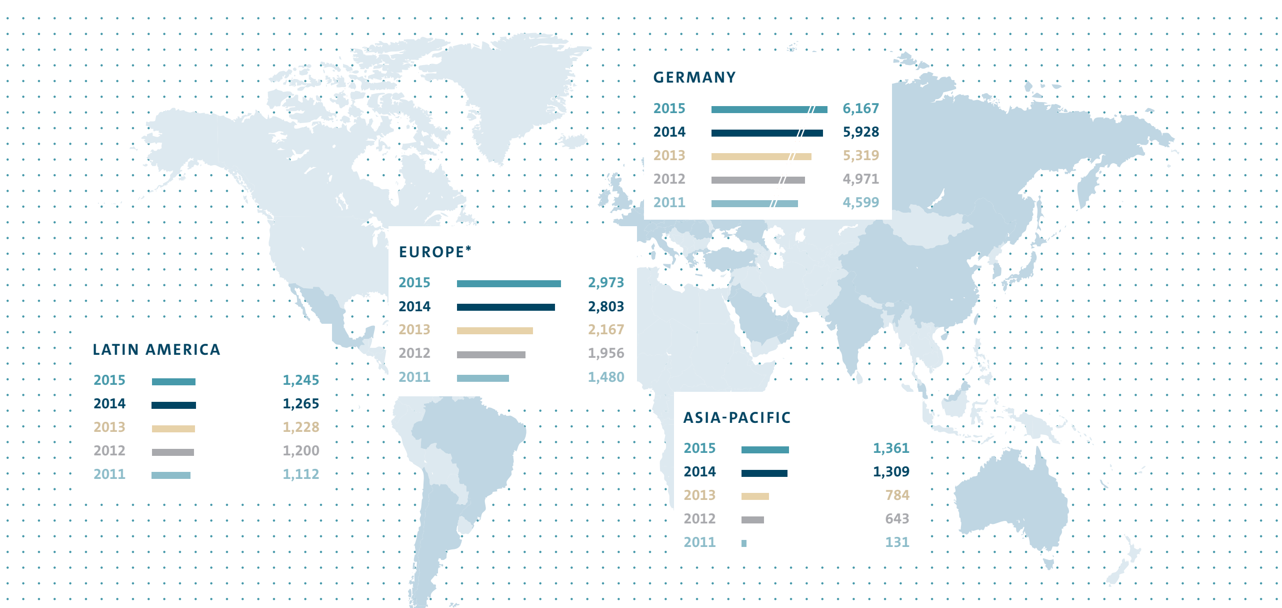
We believe it is a responsibility of Volkswagen Financial Services AG to offer our employees the environment you would expect of a first-rate employer. The elements we think are important primarily include a wide range of attractive tasks, a comprehensive range of opportunities for personal and professional development, options for international assignments and working conditions that enable employees to achieve a good work-life balance. We also offer fair remuneration commensurate with the work performed, profit-sharing and numerous social benefits.

We expect our top employees to demonstrate a high level of professional skills, deliver excellent quality of work, be prepared to embrace change and accept flexibility in their deployment, be keen to develop their skills and qualifications, be willing to achieve continuous improvement in productivity and pursue their chosen career with commitment and passion. The long-term success of our Company will only be possible with outstanding performance from our employees.

Our Employees Worldwide

The Volkswagen Financial Services AG Group had a total of 11,746 (previous year: 11,305) employees as of December 31, 2015. Of these, 6,167 (previous year: 5,928), or 53%, were employed in Germany and 5,579 (previous year: 5,377), or 47%, at our international sites. The staff turnover rate in Germany was less than 1%, significantly below the industry average. The MAN financial services companies had 531 (previous year: 538) employees as of December 31, 2015. Application of the principle of substance over form means that 329 employees of Volkswagen Servicios S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

EMPLOYEES BY REGION
as of December 31



* Excluding Germany

Our HR Strategy

The ROUTE2025 program has also created new areas of focus in terms of HR strategy. Six strategic areas of activities are listed under the heading "Top Employer/Top Employees". These areas of activities help achieve the objective of positioning Volkswagen Financial Services AG as "the key to mobility". Based on specific activities to develop and retain personnel, coupled with profit-sharing arrangements commensurate with the work performed, we aim to encourage top performance and ensure we provide outstanding customer service with top employees, but also, as a top employer, take our excellent globally recognized reputation to yet another level. One of the factors that will help us achieve this objective is to give more attention to a culture of feedback, open discussion and appreciative cooperation. Volkswagen Financial Services AG already offers competitive, performance-related remuneration. Performance appraisals are conducted as part of the annual staff dialogs in almost all international subsidiaries. As the parent of the financial holding company group, Volkswagen Financial Services AG is subject to direct supervision by the European Central Bank and is required to implement the amended *Institutsvergütungsverordnung* (InstitutsVergV – German Regulation Governing Remuneration at Institutions) of December 16, 2013 throughout the Group. Under the amended provisions in this regulation, banks must satisfy the special regulatory requirements for remuneration systems for the first time as well as comply with the re-drafted and tighter general requirements. The operational implementation of the provisions of the InstitutsVergV was a major feature of HR activities in fiscal year 2015. To implement the special requirements, a works agreement on variable remuneration was signed in cooperation with employee representatives. This agreement establishes a common understanding regarding the InstitutsVergV and creates greater transparency for employees. The risk analysis carried out throughout the Group included for the second time a process to identify those employees whose activities have a material impact on the risk profile of the individual entity or financial holding company group. The specially developed deferral and payout models of variable remuneration for this group of employees were applied for the first time in 2015. The Basic Principles of the Remuneration System were reviewed and updated, and the Group-Wide Remuneration Strategy was also published. In 2015, the Remuneration Report was published for the first time as a supplement to the Disclosure Report. Furthermore, special governance functions (Remuneration Control Committee and Remuneration Officer) ensured that the adequacy of the remuneration systems was continuously monitored.

The Human Resources Strategy Card remained the most important management tool for implementing our HR strategy. The objectives and definitions set out in the card provide uniform guidance for our local entities around the world from the two perspectives of top employer and top employees. Following discussions with the international HR managers, the contents were revised and, where necessary, adapted in line with ROUTE2025. Starting in 2016, HR activities will be managed internationally in accordance with the updated HR Strategy Card. As before, regular meetings will be held with headquarters to explain the status of development and to implement any support measures deemed necessary. We assess the extent to which we have achieved our objective of being a top employer by regularly taking part in external employer competitions. 15 international subsidiaries now take part in such competitions, including Volkswagen Financial Services AG in Germany, which in 2015 participated for the seventh time in the Great Place to Work – Germany's Best Employers competition, which is held every two years. In 2015, Volkswagen Financial Services AG was also placed first for the third time in succession in the "banks and financial services providers (large corporations)" category of Germany's Best Employers, a series of awards made by FOCUS magazine.

The last time Volkswagen Financial Services AG took part in the European competition run by the Great Place to Work Institute in 2014, it was placed 11th in the Best Multinational Workplaces in Europe category (best-placed company with head office in Germany). In 2015, our subsidiary in Turkey additionally achieved 16th place on the national best list in the Great Place to Work competition. Our subsidiary in China also performed very well in the "Top Employer" contest, achieving a result of 92%. Our successful international placings as a top employer and the findings from the studies are important strategic measures and indicators, helping us to protect and continue to build on what we have achieved already.

The satisfaction of our customers with the work of our employees is given top priority at Volkswagen Financial Services AG. For this reason, the results of external and internal customer satisfaction surveys are also used as indicators of target achievement. Business units that have no direct contact with external customers have the opportunity to use the "Internal customer feedback on customer and service orientation" to invite all internal employees of the business unit concerned to express their satisfaction as customers in an online survey on the basis of defined customer and service orientation criteria.

Responsibility for implementing the HR strategy internationally lies with the international subsidiaries. The international HR department at headquarters provides support for the journey to becoming a top employer by, among other things, providing best practice examples in an HR toolbox. In addition, international workshops were again held in 2015 to optimize the effectiveness of HR activities. Another important exchange platform is the International HR Managers' Conference. The focus of this year's event was the new corporate ROUTE2025 strategy and its implications for HR activities.

The implementation of our corporate ROUTE2025 strategy is complemented by our "FS Way", which describes our corporate and management culture, i.e. the way in which the objectives of the five strategic areas for action – customers, employees, operational excellence, profitability and volume – can be met in order to live up to our strategic vision, "the key to mobility", as an automotive financial services provider. The FS Way is anchored in the five FS values, active customer focus, responsibility, trust, courage and enthusiasm, combined with an attitude of continuously looking for improvement and proactively making the changes this requires.

Our management principles underscore the critical responsibility of managers in implementing the corporate strategy and the binding principles of the FS Way.

A key factor in improving the corporate and management culture, customer focus, working atmosphere and performance is a frank and active feedback culture. The standardized, regularly used feedback tools, "Internal customer feedback on customer and service orientation" and "Employee feedback on management behavior" are key elements for meeting the strategic corporate objectives of the employee dimension of ROUTE2025. In this context, the "Employee feedback on management behavior" tool helps managers determine where they currently stand from their employees' perspective. They can also use it as a basis to reflect on their own management behavior in relation to the FS values.

Human Resources Planning and Development

In 2015, the Training Team at Volkswagen Financial Services AG reviewed around 1,700 applications and then selected and appointed 44 new vocational trainees/dual vocational training students (dual vocational training/study program leading to a bachelor of arts degree at the WelfenAkademie, dual vocational training/study program leading to a bachelor of science degree at the Leibniz-Akademie) in the vocational training areas of banking, insurance and finance, and in the IT field of applications development. HR marketing operations are testing and exploiting new channels of recruitment, including social media and the "Karrieremotor" careers fair, which in 2015 was successfully run for the second time.

As of December 31, 2015, a total of 135 vocational trainees and dual vocational training students were employed in Germany across all levels and professions. Once again, a vocational trainee/dual vocational training student of Volkswagen Financial Services AG received the Best Apprentice Award bestowed by the Volkswagen Group Academy on the best achiever of the year. Another eight vocational trainees were honored by the Braunschweig Chamber of Commerce and Industry as the best graduates in their vocational training program. Immediately after the completion of their training in 2015, five vocational trainees and dual vocational training students were again given the opportunity to broaden their horizons during a 12-month assignment abroad. This "Year Abroad" program is aimed at vocational trainees/dual vocational training students who have completed their vocational training with above-average performance and development potential. Intense discussions of the issue of digitalization were held as part of a major vocational trainee project as well as in more advanced deliberations on the future orientation of vocational training.

Following the successful launch of the pilot in 2013, the add-on automotive competence qualification, which was included in the business training program to ensure that vocational training meets the needs of the sales function, dealers and the brands, continued at Volkswagen Leasing GmbH in 2015. A total of 41 vocational trainees were offered permanent positions in the reporting period.

In order to continue to attract qualified, committed employees for our Company, Volkswagen Financial Services AG has a rigorous concept for recruiting and retaining young university graduates. Partnerships with selected universities provide a fixed framework for these efforts. For example, in addition to existing partnerships with Harz University of Applied Sciences, Ostfalia University of Applied Sciences, Braunschweig University of Technology, the Institute of Insurance Science at Leipzig University and the University of Applied Sciences and Arts in Hanover, a further partnership agreement was signed in 2015 with Martin Luther University in Halle-Wittenberg. 2015 was the tenth anniversary of the partnership with Braunschweig University of Technology. By awarding "Deutschlandstipendium" scholarships (funded jointly by the German federal government and the private sector), Volkswagen Financial Services AG provides support to students at an individual level. A total of 14 such scholarships were awarded in 2015.

These activities are aimed at enabling students to participate in an internship or work-study program to encourage them to join the Company directly or start the trainee program at Volkswagen Financial Services AG. In addition, they give students the opportunity to gather their first practical experience as part of excursions or student projects. Students who excel will receive further support by being included in a special talent pool. The 12-month trainee program, which takes place both in Germany and abroad, is another element in the Company's strategy to ensure its future viability. Furthermore, the development program for young graduates is complemented by a three-year doctoral program aimed at ensuring Volkswagen Financial Services AG's future demand for technical and management staff can be met by identifying academic talent at an early stage, offering specific development opportunities and recruiting and retaining this talent as part of a forward-looking student talent management program. International subsidiaries also engage in partnerships with universities to improve the way vacancies for experts are filled. The subsidiary in Spain maintains partnerships with the Universities of Madrid and Barcelona for this purpose. As part of the alliance with Comillas Pontifical University in Madrid, an international recruitment initiative for the holding company of Volkswagen Financial Services AG resulted in three Spanish job entrants being offered jobs in Germany.

Moreover, Volkswagen Bank GmbH, Portugal, has partnered with Católica Lisbon and the Inete Institute of Technical Education in Lisbon. The partnerships are aimed at recruiting interns with the potential to join the subsidiary after they have completed their studies. Two young talents were offered jobs as a result of this program in 2015.

A critical element determining the successful implementation of ROUTE2025 is to identify talent in the existing workforce and to nurture this talent with professional development in the Company. In Germany, over 200 talents have already taken part in the young talent, experts and young management talent groups since the talent program was launched in 2010.

In the summer of 2015, another international talent summit was held in Munich for the members of the young management talent group. Around 50 young managers from various countries used this opportunity not only to network extensively, but also to get information about the activities of the Truck & Bus division as well as MAN Financial Services AG.

Under the banner "success needs skills", Volkswagen Financial Services AG established the FS Academy for the financial services job family in 2013. The FS Academy aims to provide structured and professional training for all automotive financial services in the Group: banking, leasing, insurance, mobile services and FS-specific risk management. In 2015 training reviews were held with around 1,100 employees to discuss individual training measures.

A subsequent survey found that over 90% of employees were satisfied with this new tool. As of the end of 2015, around 90 skills profiles had been completed for around 2,700 employees; the profiles will be used during the training reviews in the first quarter of 2016.

Skills development conferences are also held at regular yearly intervals. At these conferences, managers from the various units address the issue of skills development with a forward-looking approach in collaboration with the FS Academy; they discuss the future areas for action and the resulting strategic requirements in terms of skills and qualifications. HR development is also working on a concept that, in the future, will ensure that skills and qualifications requirements will be flagged and taken into account at an early stage when new projects for systems and products are set up.

In an effort to devise new learning formats, various internal expert forums and presentations were held in different departments. These events provide an opportunity to share knowledge with a high degree of practical relevance, allowing participants to discuss particular problems from their daily working environment with a trainer provided by the Company's inhouse training center and an expert from among the workforce. By the end of 2015, around 150 events attended by around 1,000 qualified employees were held in this format.

One of the main purposes of the FS Academy is to improve the automotive and sales skills of employees. To this end, stepped offerings were developed along the automotive competence program, which have now become established.

To tap into the wealth of expert knowledge in the Volkswagen Group, the "internal teacher" concept has been developed. This concept structures the internal knowledge management for the financial services job family and makes greater use of the know-how of internal employees. As part of this setup, the internal teachers network across their areas of expertise, thus creating mutual understanding of interfacing processes and improving collaboration.

Technical training was offered for employees requiring technical skills. Because of the growing significance of environmentally compatible mobility concepts in the Volkswagen Group, a series of lectures on e-mobility was launched in cooperation with Volkswagen Vertriebsbetreuungsgesellschaft. The e-up! and e-Golf were used as examples to explain the strategic goals and concepts of the Volkswagen brand and the special technical aspects of e-mobility.

In addition to the continuous enhancement of the training options, the further roll-out plan of the FS Academy in Germany was resolved: The aim is to integrate all areas of the financial services job family at sites in Germany into the system by 2018.

In parallel, the international roll-out began in July 2014. In selected pilot markets (Czech Republic, Spain, United Kingdom, Brazil and the Netherlands), three fleet management skills profiles were created and harmonized in stages. The system was used for the first time in training reviews in the pilot markets in spring 2015. Because of the very positive feedback from the pilot markets, the international roll-out of the fleet management profiles continued in 2015. As a result, the skills profiles will now also be used in Belgium, Sweden and Portugal.

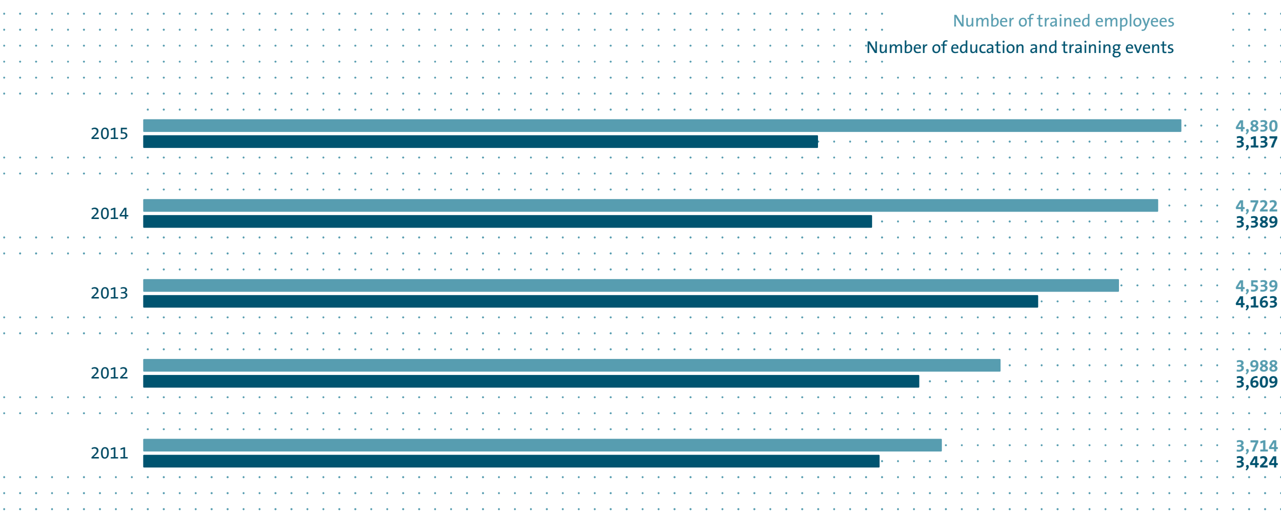
In addition, cooperation is gradually being expanded with other job family academies and the AutoUni of the Volkswagen Group Academy, especially the Institute for Sales and Marketing. Networking among the different parts of the Group not only improves the quality of the training options on offer, it can also – and is intended to – lead to synergies across the job families.

A special field that has undergone a rethink since the middle of 2015 is the megatrend of digitalization. At the FS Academy, this field is analyzed from two perspectives:

Firstly, under the aspect of training all employees in preparation for the digitalized workplace. To this end, a three-stage model is being implemented as part of the "knowledge initiative on digitalization". The first and second stages of this model deal with building knowledge about digitalization. In the third phase, the departments' training needs resulting from digitalization are ascertained and their employees are prepared and trained accordingly.

The second perspective involves digitalized training and development: there is a trend away from classroom learning toward digital learning formats on PCs, tablets and smartphones. Learning should be fun in the digital age and is set to become interactive. Collaboration platforms are gaining importance in interdisciplinary knowledge transfers across sites. The FS Academy is conducting studies in preparation for implementation also in this area.

EDUCATIONAL PROGRAMS*
as of December 31



* Due to changes in reporting in 2014, the prior-year figures have been adjusted.

The strategic approaches of the FS values and the resulting management principles have also been adopted and implemented at Volkswagen Financial Services in Germany as part of the holistic training program for new and experienced managers launched at the end of 2014; the program is aimed at developing effective management skills.

In addition to the modular "Erfolgreich durchstarten" (hit the ground running) program for new managers, there are advanced modules ("Führungskompetenz Advanced") for enhancing the management know-how of experienced managers as well as regular individual assessments of management skills. Volkswagen Financial Services thus ensures consistent quality standards of management know-how as well as a shared understanding of the management culture and principles as set out by the FS Way for more than 400 employees with line management responsibilities.

The "Erfolgreich durchstarten" training program develops the technical, business and social skills as well as the personality of newly promoted or recently recruited managers as a basis for effective management performance, because this is key to success in everyday working life.

The program is complemented by the "Boxenstopp Führung" (management pitstop), which gives all managers time and the opportunity to get information on current issues. Here they can get support for specific management situations; internal and external facilitators help them analyze their own leadership and in this way enhance their skills.

The international subsidiaries also attach great importance to continuously enhancing management skills. For example, the subsidiary in the Netherlands launched a systematic program to strengthen management skills at all levels of management. The focus was on teamwork, especially with regard to the aspects of trust, conflict handling, involvement, commitment and goal setting. This resulted in, among other outcomes, improved cooperation among teams and departments to achieve common objectives. Improved management skills are a critical component of the strategic focus at Volkswagen Financial Services: the ability to manage oneself and others as well as the business is a key management skill aimed at meeting corporate objectives.

For all managers worldwide, we have implemented the standardized process of target-setting dialogs based on the practice at our parent company, Volkswagen AG. These dialogs are not only used to set targets for the next fiscal year, but also to assess the degree to which the previous year's targets have been met as well as the manager's performance in terms of professionalism, leadership, cooperation and entrepreneurship. The performance assessment and the degree to which targets set in the target agreement have been met form the basis for determining the personal performance bonus. At the same time, the assessment of the manager's potential is incorporated into our management planning.

In line with Group-wide standards, international efforts continued in 2015 to roll out basic management training (BMT), at the end of which a "management license" is granted. The BMT or "management license" is aimed at giving young talent the best possible preparation for taking on a management position. In addition, the certification of inhouse assessment center facilitators continued to be pursued in the international subsidiaries. In addition to local management assessment centers (MACs), two transnational MACs were also held. Successful completion of the MAC is required worldwide for the individual to take on complex management responsibilities and to be admitted to the management team.

In total, 31 employees worldwide passed their management license exams and 36 employees successfully completed the MAC.

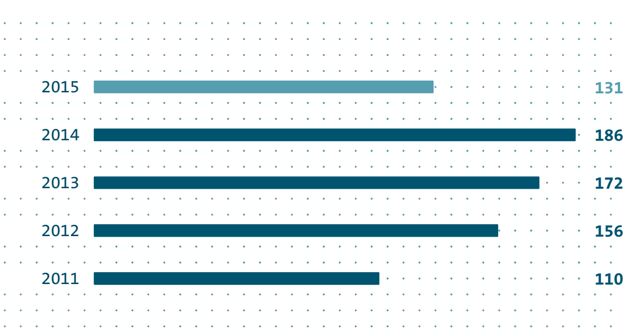
For prospective managing directors of our FS companies, we offered the General Management Program for the fifth time in 2014/2015. 14 participants completed the program successfully in spring 2015 by presenting strategies for solving specific challenging problems before the Board of Management.

Moreover, around 70 international managers again attended the Business Campus Week, where they had the opportunity to learn from members of the Board of Management and other experienced managers about important development and strategically relevant issues and to exchange views on the topics discussed.

To promote the corporate and management culture, the FS Way Leadership Training program was held in another region – the EU West region – in 2015. The training gave participants the opportunity not only to reflect on their own understanding of management and leadership behavior, but also enhanced understanding of operational excellence, which was the key topic of the event.

As of the end of 2015, Volkswagen Financial Services AG had delegated 131 employees to other international subsidiaries. A satisfaction survey on the delegation process was conducted in 2014 to gather the opinions of the delegates. The result was very positive. Ideas and improvement suggestions from this survey were addressed and implemented in 2015.

ASSIGNMENTS
as of December 31



Increase in the Proportion of Women

49.7% of the workforce of Volkswagen Financial Services AG in Germany are women, but this is not yet reflected in the percentage of women in management positions. We have set ourselves the target to permanently increase the proportion of women in management positions to 30%.

We are working to meet the targets we set ourselves in 2010 for the proportion of women in management by giving special consideration to female candidates in recruitment and succession planning, in combination with measures to improve the work-life balance as well as systematic succession planning and the development of HR tools. The agreed trajectory was revised in 2015 and reconfirmed by the Board of Management and senior management, with a resolution passed at the highest level. In addition, targets were resolved for the first time for the proportion of women on the Supervisory Board and the Board of Management of Volkswagen Financial Services AG.

When offering jobs to female university graduates, for example, our decisions are guided by the proportion of female students on the respective course. The increased proportion of highly qualified women joining the Company will enable us to continuously raise the proportion of female managers at the various management levels in the coming years. On this basis, Volkswagen Financial Services AG has set itself the target of increasing the proportion of women at the first management level to 10.7% by the end of 2016. The target for the second management level is 22.0%. The Supervisory Board has resolved a target of 16.7% to be reached by the end of 2016. In 2015, 16.7% of the members of both the Supervisory Board and the Board of Management were women.

At Volkswagen Financial Services AG in Germany, women accounted for 10.5% of first-level managers and 21.2% of second-level managers. Internationally, 9.7% of senior managers and 24.6% of managers were women. The Board of Management receives regular reports on ongoing developments, giving it the necessary transparency.

Eight women were the first participants to successfully complete the completely revised Group-wide mentoring program last year. New features introduced last year were above all the program's systematic integration into the HR development strategy and its Group-wide reach. The aim of the 12-month program is for qualified female employees to receive advice, support and coaching from managers in the Group.

The mentoring program has three core elements: firstly, mentor-mentee interaction between the participants and an experienced member of management; secondly, work on a project task, followed by a presentation; and thirdly, a program of seminars and information and dialog events.

At the FS-internal closing event of the mentoring program, the mentees had the opportunity for the first time to present their project tasks to the sponsors from the Board of Management and senior management as well as to their mentors and line managers, HR managers and representatives of the works council. The event raised the mentees' visibility within the Company significantly. This approach is to be continued for the class of 2015/2016, which again includes eight female participants whom we have sent on the Group-wide program.

The “Frauen in Karriere” (careers for women) project receives support from the German Federal Ministry of Education and Research and the European Union’s European Social Fund as part of the priority issue of “Frauen an die Spitze” (women to the top) under the funding area for “Strategien zur Durchsetzung von Chancengleichheit für Frauen in Bildung und Forschung” (strategies for enforcing equal opportunities for women in education and research). The third project phase, focusing on the issue of research and development, was launched in 2015, and Volkswagen Financial Services AG is once again one of the project partners. During this phase, we will specifically examine our IT area to identify potential scope for change to increase the development and career opportunities arising for women as a result of the digital revolution.

Diversity

In addition to the specific advancement of women, diversity has been an important part of corporate culture. Among other ways, this is reflected in the Great Place to Work employer benchmark study. Volkswagen Financial Services AG sent a clear signal with its corporate initiative around the Diversity Charter, which was signed in 2007.

Volkswagen Financial Services AG operates for very diverse customer groups in different markets. In this context, we aim to maintain a working environment characterized by openness, a sense of community, respect and appreciation, as well as a global organization where the workplace is defined by effective and focused cooperation of all the people who work together.

Health and Family

To promote the health of our employees, we continually enhance our holistic healthcare concept with its different areas of action in line with demand. All healthcare management measures are already aligned with demographic developments. We raise awareness of healthcare and healthy living among vocational trainees, specifically tailored to the specific needs and target groups, while also implementing the concept together with HR officers in the respective departments.

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

In addition, the Company’s healthy living program includes presentations, seminars and preventive healthcare offerings on topical health-related issues, such as the “active relaxation break” or the “break on the go” for field employees.

The promotion of healthcare and healthy living is also of key importance at Volkswagen Financial Services AG’s international subsidiaries. The options provided by Volkswagen Bank GmbH in Italy, for example, include a Qigong relaxation class, which employees can attend during their lunch break. This class complements a comprehensive range of checkups and other healthcare initiatives offered in this country.

The subsidiary in India has launched the “Stepathlon” initiative as part of its healthy living program to promote healthy living among its employees while at the same time strengthening teamwork at the subsidiary. In this program, groups of employees compete with each other in trying to reach a particular health target, for example a reduction in body weight.

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

At the beginning of 2015, we introduced the function of social coach, an impartial first port of call for our employees and managers at sites in Germany. The aim is to provide confidential, competent and relevant support in dealing with challenges at work or personal problems.

At Volkswagen Financial Services AG, great importance is attached to both work and the family. This is why the Company promotes a family-friendly environment and offers a diverse range of initiatives and programs aimed at achieving the right work-life balance.

“Frech Daxe”, the inhouse childcare facility of Volkswagen Financial Services AG, which is operated by Impuls Soziales Management GmbH & Co. KG, is located very close to the Company’s offices. It has capacity for 180 children and offers flexible hours of care, making it unrivalled in Germany. The childcare facility is very popular and occupancy levels are high. It can accommodate children aged from a few months up to school-going age in ten groups altogether between 7.00 a.m. and 8.30 p.m. In 2015, holiday care was again provided for schoolchildren for the entire duration of the Easter, summer and fall vacations.

The childcare facility has received several awards for its work in promoting musical talent, science and technology and exercise.

A part-time working option was introduced in China in 2015. As part of a pilot, employees can choose from three different working time models. In addition, flexible working hours were introduced, giving employees the option to vary their start and finish times. Both facilities have seen good uptake among the workforce.

Our Brazilian subsidiary runs two initiatives that stand out in the Brazilian labor market: in excess of the statutory maternity leave period, the local subsidiary grants leave of six rather than four months. And after that, the company pays for some of the childcare costs.

Education and Mobility

Volkswagen Financial Services AG, alongside other partners, has given support to My Finance Coach Stiftung GmbH since May 2013. The initiative aims to kindle a basic interest in economic matters in children and adolescents and to impart basic practical skills for dealing with money. Since the cooperation began, around 280 employees of Volkswagen Financial Services AG have undergone voluntary finance coach training. In teams of two, they then visit school classes at lower secondary level on an unpaid basis and partner with the teacher to explain complex matters and teach how to deal with money and financial matters responsibly using illustrative materials.

In addition, Volkswagen Financial Services AG has since last year been involved in the "Bundeswettbewerb Finanzen", a national finance competition for schoolchildren, which represents a key component of the My Finance Coach learning offering. Young people from a range of different schools participate in the competition throughout an entire school year.

Another initiative is the "Bus Project", which has been running for over ten years: Volkswagen Financial Services AG provides free transport to children, adolescents and senior citizens for a period of 16 weeks to give them the opportunity to experience modern works of art in the Art Gallery. Since the project was launched in 2002, over 58,000 school students and around 7,000 senior citizens have visited the exhibitions.

Social and Regional Responsibility

Volkswagen Financial Services AG has sponsored selected charitable projects in the region for many years. For the eighth time, our employees took part in the "Brücken bauen" (building bridges) campaign event in Braunschweig, contributing to three social projects that benefited refugee aid and homeless men and families. The Company also made a financial contribution to this event.

Established by Volkswagen Financial Services AG in December 2008, the non-profit "Unsere Kinder in Braunschweig" (our children in Braunschweig) foundation focuses on socially disadvantaged children. The foundation significantly extended its activities in the troubled neighborhoods of Braunschweig, where the Company has its headquarters, thus demonstrating its close ties with the region. We supported the foundation by giving it another large donation in the reporting period. Moreover, under the banner "Gemeinsam machen wir Braunschweigs Kinder löwenstark. Löwenstark für eine hoffnungsvolle Zukunft!" (together we make Braunschweig's children strong for a promising future), the employees of Volkswagen Financial Services AG are encouraged to contribute money, time and their own ideas. For example, regular donations are collected in voluntary fundraising efforts at sporting events, service anniversary celebrations and Christmas parties, as well as through the monthly "1er für Alle" (1 for all) salary donation campaign.

Seven institutions – four daycare centers, two primary schools and one lower secondary school – currently receive permanent needs-based sponsorship in education, healthy eating, physical education and early music training, while other institutions, such as sports and youth clubs, get support from ad-hoc initiatives. The focus is on long-term projects established a number of years ago, including the varied, healthy daily breakfast, the acquisition of the "nutrition license", or lunch for secondary school students. These projects raise awareness of the importance of healthy eating. The swimming classes offered during the school holidays, which are aimed at getting children to swim in and under water without fear, are very popular and successful. In addition, the foundation contributes substantially to financing existing early childhood music education projects, for example by purchasing the necessary musical instruments and remunerating the required teachers. The "Gewaltfrei Lernen" (non-violent learning), "Klasse 2000" (class of 2000) and "Vorbereiten auf das Berufsleben" (preparing for working life) projects, in which students learn how to handle aggression, practice social behavior and build self-esteem, continued in 2015. In addition, offerings such as a circus workshop for childcare and primary school children and a language practice facility were added to the program in 2015.

Volkswagen Financial Services AG also runs donation campaigns at regular intervals. The "Belegschaftsspende Mai" (May workforce donation) benefited a social institution in the region. The monthly "Restcentspende" (cent-to-spare donation) goes to the "One Hour for the Future" initiative of Terre des Hommes. The workforce's third initiative to collect donations in kind for Fairkauf, a thrift store run as a social enterprise, was again a great success.

As in 2014, 250 employees of Volkswagen Bank Polska again helped with the refurbishment of the Pope Pius XI Orphanage in Chotomow, a village about 20 kilometers north of Warsaw. All play rooms and children's living areas, the communal facilities and washrooms as well as other utility rooms were renovated completely.

Volkswagen Financial Services South Africa began trading in March 2014. Its employees also take on regional responsibility: they support the St Mary's Children's Home, a facility for orphans and children from broken families, by giving donations and through voluntary hands-on initiatives.

As part of the "Spende statt Geschenke" (donations not gifts) initiative, which was launched in 2010, the Company opted again not to buy gifts for its business partners and instead made a donation to the "Unsere Kinder in Braunschweig" (our children in Braunschweig) foundation. The Christmas tree wishlist campaign, organized by the Works Council in cooperation with various social institutions, has also become a fixed item on the schedule of voluntary initiatives. As part of this campaign, each employee fulfilled the Christmas wish of a socially disadvantaged child.

Volkswagen Financial Services AG focuses its sponsorship activities on long-term involvement in sporting, cultural and social activities in the Braunschweig region. In the area of sports, for example, the Company is a premium sponsor and payment partner of the VfL Wolfsburg football club, an exclusive partner of the Eintracht Braunschweig football club as well as a main and jersey sponsor of Löwen Braunschweig, a basketball team in Germany's national league. The cultural involvement also benefits the region.

In Braunschweig, agreements are in place for, among other things, the well-known "Classics in the Park", a daytime event at which the State Orchestra of Braunschweig's State Theater gives a free open-air concert, and the Braunschweig International Film Festival. In Wolfsburg, an alliance with the Wolfsburg Art Gallery is part of the cultural responsibilities assumed by Volkswagen Financial Services AG. In addition to the above-mentioned foundation, social support is also provided for projects such as Braunschweiger Zeitung's "Gemeinsam-Preis" (Together Prize), which aims to get citizens involved in social activities.

In the face of the influx of refugees, we also want to make an aid contribution to help deal with the current challenges. Together with the Works Council, we have therefore set up a website (www.fsag-hilft.de) specifically for this purpose and have called on our employees to make donations and get actively involved on a voluntary basis. The Company doubled the donations collected from the workforce to €68,490. The funds were made available to the Refugium Flüchtlingshilfe e.V., a refugee aid association in Braunschweig. The association works in regional and national networks and publicly campaigns for the interests of refugees. Irrespective of their nationality or residence status, the refugees are given support in all matters of concern to them, such as the asylum procedure, residence permits, social benefits and language courses.

ENVIRONMENT

Our Contribution to Preservation

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

Introduction of an Environmental Management System

In fiscal year 2015, we subjected the environmental management system introduced in the previous year to an external audit in accordance with the ISO 14001:2009 standard. TÜV Nord conducted the phase 1 audit in January 2015 and the phase 2 audit in April 2015. During the certification process, the available options to monitor energy consumption were rated very positively. The Braunschweig site is currently undergoing an energy audit under the Energiedienstleistungsgesetz (EDL-G – German Energy Services Act).

A key component of our environmental management system is sustainable facility management. Sustainability is therefore a prime concern in both new construction and renovation projects. This is supported to a significant extent by an integrated planning process, which helps reduce building costs even further compared to the benchmark. The process also takes follow-up costs into account, and in particular operating costs. This approach enables us to comply with the standards set by the DGNB (German Sustainable Building Council) – a requirement to obtain the necessary certificates. In the refurbishment of buildings, further progress was made with upgrading the heating, ventilation and air-conditioning systems, focusing on energy efficiency and noise protection in particular. TÜV Nord's audit report specifically highlighted the excellent implementation of current construction projects in terms of corporate responsibility and current environmental and legal requirements.

Another measure to conserve environmental resources is a pilot being conducted at the Braunschweig site, where plastic cups used at the meeting points will be replaced with glasses. The implementation of this pilot has started.

In line with this continuous improvement process, further changes were made to the vehicle fleet used for logistical supplies to the production facilities in Braunschweig, and more electric vehicles were added. This also includes installing charging stations and wall boxes on site, which are freely accessible to both employees and our customers. The charging stations use the latest rapid-charging (direct current) technology.

Resource-Conserving Paper Consumption

Our Company has launched several projects to implement measures to reduce paper consumption. Choosing the right kind of paper is an important step toward protecting the environment. In the reporting period, the Braunschweig site switched to FSC (Forest Stewardship Council) paper for all its paper needs.

By implementing the "Digitales Autohaus" (digital car dealership) project, we will significantly reduce the amount of mail sent between car dealerships and Volkswagen Financial Services AG. In addition, documents relevant to dealers will be stored electronically, thus eliminating the need for printouts for dealer files. Digitalization will generate considerable optimization potential throughout the entire process between the car dealership and Volkswagen Financial Services AG. The system roll-out began at selected dealerships in the reporting period and will continue in the current year. The ecological potential of this project is measured on an ongoing basis.

PRODUCTS

Offering Intelligent Mobility Solutions

Our customers expect us to deliver intelligent and environmentally compatible mobility solutions. To this end, we develop attractive financing offerings and services.

Environmental Programs

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

This aspect is particularly evident in the partnership between Volkswagen Financial Services and the German Nature And Biodiversity Conservation Union (NABU). The aim of the collaboration is to support our fleet customers in making the switch to especially environmentally friendly fleets and to help NABU realize moor conservation projects.

The two partners in this initiative have in the past received several awards for their commitment. For example, in addition to being recognized as a project of the UN Decade of Education for Sustainable Development in 2014, they received the EcoGlobe in 2010 and the "Ausgewählter Ort im Land der Ideen" (Selected Landmark in the Land of Ideas) award in 2012. This documents once again that ecology and economy are inextricably linked in the environmental program. With a ground-breaking ceremony in 2015, the moor conservation activities were extended to Bavaria for the first time. In an area of moor known as the Königsdorfer Weidfilz, these activities preserve valuable habitats for rare animal and plant species and make an important contribution to climate protection.

Volkswagen Financial Services and NABU also extended their joint commitment to moor protection to international projects. In the Slowinski National Park in Poland, extensive ecological restoration measures were launched in summer 2015. To finance these international nature and climate protection activities, NABU and Volkswagen Financial Services established the International Moor Conservation Fund, to which we will contribute a total of €1 million by 2019. This fund complements the German Moor Conservation Fund founded in 2012 and to which we are contributing a total of €2 million by 2016.

Electromobility

Volkswagen Financial Services AG supports the increasing electrification of the product portfolio of the Volkswagen Group's brands by selectively expanding its e-mobility services. The Charge&Fuel card and app developed in conjunction with the Volkswagen Passenger Cars and Audi brands in 2014 for recharging and refueling anywhere in Germany has established itself among e-vehicle customers. In 2015, enhancements were made to the app in particular, and the network of connected charging stations was extended significantly. The service provided to customers still includes standardized electricity tariffs and monthly billing. In combination with the green electricity tariffs also offered by Volkswagen Financial Services AG ("Volkswagen BluePower" and "Audi Energie"), e-mobility has thus become an even more positive customer experience.

Mobility Concepts

Global trends and changing social and political conditions are permanently changing the mobility needs of a large number of people. The megatrends toward urbanization, digitalization and sustainability are giving rise to a need for mobility on demand.

In response to these developments, Volkswagen Financial Services AG has made the issue of new mobility a fixed component of its corporate strategy. With this in mind, we are pushing the development of new mobility services in close consultation with the brands of the Volkswagen Group to ensure that our business model remains viable and to remain able to meet the needs of our customers to the highest degree in the future.

Responsible Lending

Volkswagen Bank GmbH is aware of its responsibility as a lender. For this reason, it signed up to the "Responsible Lending to Consumers" code of conduct in 2010.

This Code, which sets standards for lending, applies to all installments and revolving credits. It is in Volkswagen Bank GmbH's fundamental interest to grant loans responsibly, since ultimately it wants its customers to be able to pay back what they have borrowed. For this reason, high standards apply to issuing loans to consumers.

The Code provides an overview of these standards and contains a number of consumer-friendly regulations that go beyond the requirements of the law. It covers a total of ten points based on the lending process, from advertising to handling payment difficulties. In addition, by signing the Code, the member institutions commit their companies to assuming social responsibility and to promoting general financial education.

During the reporting period, Volkswagen Bank GmbH contributed to a new publication by the signatories of the Code of Conduct. This document uses specific practical examples to document how the participating institutions guarantee quality in retail financing. In it, Volkswagen Bank GmbH explains its newly launched "adviser for financial products" certification, which involves an exam and offers dealership sales staff comprehensive training in financial products and the underlying processes. This ensures that high-quality advice is provided when financial services are arranged at the car dealership.

DIALOG

Embracing Transparency

We embrace dialog and create transparency through our actions. Social acceptance and ongoing communication with our stakeholders are the basis of our success.

Particular highlights in 2015 included communicating the successful roll-out of the environmental management system and its certification to employees through different channels.

To improve the exchange of views and information, there is ongoing participation in and networking with a number of committees of the Volkswagen Group, which involves, for example, attending meetings of the Group Environmental & Energy and CSR & Sustainability Steering Committees, as well as working groups at association level.

GREEN FLEET AWARD

"THE GREEN FLEET" environmental award, presented for the sixth time in 2015, has become a firmly established dialog format. The award, created in conjunction with NABU, was presented in 2015 to honor ecologically responsible fleets, i.e. those with the largest proportion of environmentally friendly vehicles from the Volkswagen Group. Three categories of fleet size were defined: fleets of up to 100, up to 200 and over 200 vehicles. A second award category recognizes the fleets with the largest proportion of electric vehicles from the Volkswagen Group. The award specifically recognizes participating companies for environmentally friendly fleet management and provides an incentive to continue expanding these activities. In 2015 "THE GREEN FLEET" celebrated another record number of entrants. 146 fleets entered for the award – more than ever before. The guest speakers at the award ceremony were Cem Özdemir, Federal Chairman of German Green Party (Bündnis 90/Die Grünen), and Mathias Samson, Secretary of State in Hesse's Ministry for Trade and Industry, Transport and Regional Development.

COMPLIANCE

Volkswagen Financial Services AG is bound not only by legal and internal requirements. Commitments that the Company has made voluntarily as well as ethical standards are likewise an integral part of our corporate culture and serve at the same time as the guiding principle for our decision making.

Compliance is a basic requirement for sustainable business.

The Board of Management of Volkswagen Financial Services AG therefore ensures that both legal requirements and internal guidelines within the Volkswagen Financial Services AG subgroup are complied with. This is monitored by Supervisory Board.

Our compliance activities are based on a Group-wide compliance strategy, which follows a preventive approach. This means that we make our employees and business partners aware of the relevant topics, train them and, where necessary, make them give contractual undertakings.

The Volkswagen Group's Code of Conduct, which also applies throughout the Volkswagen Financial Services subgroup, is a key document in this context. Employees receive the relevant training by attending events or completing online training programs; printed and digital copies of the Code of Conduct are distributed to them. Suppliers are obligated to meet the Volkswagen Group's sustainability requirements in their relationships with business partners (Code of Conduct for Business Partners).

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

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

To minimize compliance risks, clear rules are provided in the form of written instructions – for example on the issue of antitrust law. The departments concerned have an obligation to raise awareness among their employees, specifically about the provisions of antitrust law. In case of doubt or queries, employees have the opportunity to obtain advice on compliance by contacting Compliance employees by phone or by e-mail.

Within the subgroup, regular exchanges with the local compliance officers in the foreign branches and subsidiaries are becoming an increasingly important aspect of compliance work. Risk-based on-site checks support the local colleagues in the implementation of Group-wide standards (especially on the prevention of money laundering and other criminal activities as well as the compliance function).

Report on Expected Developments

The global economy is expected to grow in 2016 at a slightly faster pace than in the reporting period. The main driver of the global economy will continue to be the emerging Asian economies. Global demand for automobiles should also rise further in 2016.

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

Our assumptions are based on the latest assessments from external institutions; these include economic research institutions, banks, multinational organizations and consulting firms.

GLOBAL ECONOMIC DEVELOPMENT

In our plans, we assume that the global economy will grow at a rather stronger pace in 2016 than it did in the previous year. Risks will arise from turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects continue to be hurt by geopolitical tensions and conflicts. We expect the economic upturn to continue in most industrialized nations, with moderate rates of expansion overall. As in the previous year, growth will in all probability be muted in many emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

We anticipate that the global economy will also continue to grow in the period 2017 to 2020.

Europe/Other Markets

In Western Europe, the economic recovery is expected to continue in 2016. Resolving structural problems will continue to represent a major challenge in this regard.

For Central Europe, we expect growth rates to be similar to those of the past fiscal year. In Eastern Europe, the economic situation should stabilize, providing the conflict between Russia and Ukraine does not deteriorate. Russia's economy will probably contract further, but at a slower pace than in the reporting period.

Political uncertainty and social tensions resulting primarily from high unemployment levels will probably continue to weigh on the South African economy in 2016 and keep growth down.

Germany

The German economy is expected to expand further in 2016 at slightly higher growth rates than in the reporting period. The situation in the labor market is also expected to remain stable.

North America

For North America, we anticipate that the robust economic performance will continue in 2016. The growth rates in the USA and Canada should rise year-on-year.

Latin America

Mainly because of sluggish domestic demand, Brazil will probably record negative growth again in 2016. Weighed down by persistently high inflation and the muted business climate, economic growth in Argentina is expected to be slow. The Mexican economy is likely to expand at a somewhat slower pace.

Asia-Pacific

Economic growth in China is expected to remain at a high level in 2016, but to lose further momentum compared to previous years. For India, we anticipate stable growth at comparatively high rates of expansion. In Japan, the economic situation will probably only improve slightly. In the ASEAN region, we estimate that the economy will continue to expand at approximately the same rate as in the reporting period.

FINANCIAL MARKETS

Trends in capital markets will continue to maintain downward pressure on returns because of the ultra-expansionary monetary policy that is being sustained in the eurozone and in Japan. The increase in interest rates by the US Federal Reserve reflects the upturn in the US economy. However, this could have negative implications for a weakening global economy.

Europe/Other Markets
An economic recovery is anticipated in Europe, boosted by international demand, the fall in the value of the euro and the drop in energy prices. Developments in Russia in 2016 will continue to depend on a large variety of factors. Whereas it is assumed that the economy has turned the corner, albeit on a fragile basis, there will still be some volatility caused by the unresolved Ukraine conflict and activities in Syria. As regards the United Kingdom, further discussions surrounding the referendum on the membership of the European Union are likely to be a feature of 2016. Despite the relative boom prevailing in the country at the moment, the discussions will bring considerable uncertainty for the markets, businesses and consumers and could put the British currency under pressure. A further increase in key interest rates and a rising rate of inflation are projected to be dominant features of the economy in South Africa in 2016.

Germany
Economic output in Germany is projected to continue growing. Even though there is robust domestic demand, there are no great expectations of any additional growth stimulus from outside the eurozone. German equities markets will feel the effects of latent uncertainty over the medium term. In addition to the delayed effects from negative news in the second half of 2015, concerns will continue to persist about the resilience of the emerging markets, especially China.

North America
US economic data is improving, and the pace of economic growth is expected to pick up in 2016 once the rate rise has been initiated and a monetary policy tightening cycle has begun.

Latin America
An exceedingly difficult trend is still expected in Brazil, where political uncertainty coupled with reform fatigue, high unemployment and a weak fiscal situation are putting a damper on sentiment.

In Mexico, successful reforms and the renewed competitiveness of exporting companies have generated growing interest from investors – a situation that will continue.

Asia-Pacific
The continuing slight slowdown in China's economic momentum recorded in fiscal year 2015 will endure in 2016. Over-indebtedness and the stock market collapse are impacting on the country's economic development. Nevertheless, the smaller-scale fiscal policy measures implemented to stabilize growth such as the rate cut or reducing the reserve requirement ratio for banks could provide stimulus for 2016. Other fiscal policy instruments may also be used.

Further economic growth is expected for India. Inflation, which decreased slightly in 2015, will probably rise a little again in 2016, however.

In Japan and South Korea, the central banks are aiming to reach the inflation target of 2% in 2016. For this reason, further monetary policy measures such as quantitative easing are expected. The interest rate hike in the USA, which is one of the main trading partners, could have a positive effect for Japan, though this will be offset by the anticipated weak demand from China.

TRENDS IN THE PASSENGER CAR MARKETS
We expect trends in the passenger car markets in the individual regions to be mixed in 2016. Overall, growth in global demand for new vehicles will probably be slower than in the reporting period.

The Volkswagen Group is very well positioned to deal with the mixed developments in the global automotive markets. Our broad, selectively expanded product range featuring the latest generation of consumption-optimized engines as well as a variety of alternative drives put us in a good position globally compared with our competitors. Our goal is to offer all customers the mobility and innovations they need, sustainably strengthening our competitive position in the process.

We estimate that demand for passenger cars worldwide will continue to increase in the period 2017 to 2020.

Europe/Other Markets
For 2016, we anticipate that the demand volume in Western Europe will be slightly below that of the reporting period. Pre-crisis levels are not expected to be reached, even in the medium term. The ongoing debt crisis will probably further unsettle consumers in many countries in the region and restrict their financial opportunities to buy new cars. In Spain and Italy, the recovery will probably continue at a modest pace, while in the United Kingdom we anticipate that the market volume will be below the high level seen in the previous year. For France, we expect growth to be only slightly positive.

In the Central and Eastern European markets, demand for passenger cars in 2016 is estimated to weaken slightly further from the poor prior-year figure. Following significant declines in previous years, the volume of demand in Russia will probably decrease again in 2016. We expect to see further growth in demand or volumes remaining at the previous year's level in many Central European markets.

We are projecting that the volume of the South African automotive market will be slightly below the previous year's figure in 2016.

Germany
Following the positive trend of recent years, we forecast that the volume of the German passenger car market in 2016 will be down marginally on the previous year.

North America
In 2016, we expect that the market for passenger cars and light commercial vehicles (up to 6.35 tonnes) in the USA will continue to benefit from favorable conditions and that the positive trend seen in the past year will endure at a weaker pace. Growth is expected to be driven mainly by the SUV and pickup segments. In the Canadian market, demand is likely to be slightly below the previous year's high level.

Latin America

Owing to their dependence on demand for raw materials, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. Furthermore, protectionist tendencies are adversely affecting the performance of the region's vehicle markets, especially in Brazil and Argentina, which have imposed restrictions on vehicle imports. The volumes of the South American markets will probably fall considerably short of the prior-year figures in 2016. In Brazil, the largest market in South America, we are forecasting that the volume of demand will be substantially lower than the already poor figure recorded in the previous year. In Argentina, we anticipate that, in view of persistently high inflation and the challenging macroeconomic situation, demand will be down moderately year-on-year, following significant declines in the previous two years. In Mexico, however, we anticipate that the market volume will be significantly higher than in 2015.

Asia-Pacific

The passenger car markets in the Asia-Pacific region look set to continue their growth trajectory in 2016 at a slightly reduced pace. In China, the steady increase in individual mobility requirements will continue to push up demand, although the rate of growth should slow further. Tax breaks for vehicles with engine sizes of up to 1.6 l are also expected to contribute to growth. Strong demand is still forecast for attractively priced entry-level models in the SUV segment. In India, we expect demand for passenger cars to slightly exceed the previous year. We anticipate that demand in the Japanese passenger car market will decline slightly in 2016. We are forecasting positive growth rates for the markets in the ASEAN region in 2016.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2016. Overall, we envisage slight growth in demand, a trend that is likely to continue in the period 2017 to 2020.

Given that the economy is expected to stabilize further in 2016, we estimate that demand for light commercial vehicles in Western Europe will be in line with the prior-year figure. We anticipate that new registrations in Germany will be around the previous year's level.

In the Central and Eastern European markets, registrations of light commercial vehicles in 2016 will probably be flat on the previous year. We also expect the market volume in Russia to remain stable compared with 2015.

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

The market volume in the Asia-Pacific region in 2016 will probably record a modest increase year-on-year. We expect demand in the Chinese market to be up on the previous year. For India we are forecasting a substantially higher volume in 2016 than in the reporting period. In the Japanese market, the downward trend is likely to continue in 2016 at a moderate pace. In the ASEAN region, we assume that the market will grow in 2016.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2016 are set to drop slightly below the prior-year level. However, we anticipate a positive trend in the period 2017 to 2020.

We expect to see demand in Western Europe and Germany edge up year-on-year in 2016.

Demand in the Central and Eastern European markets should rise slightly. Following the significant slump in the Russian market in 2015, we are forecasting a moderate recovery in demand. Yet despite this catch-up effect, the Russian market will remain at a low level overall.

As catch-up demand in the US truck market has become saturated, new registrations in North America in 2016 will probably be down considerably on the prior-year figure.

Demand in the Brazilian market in 2016 will be substantially lower than the already poor figure recorded in the previous year. This is attributable to the economic conditions, which continue to be weighed down by the muted business climate and negative growth rates.

For China, the world's largest truck market, the considerable market decline in 2015 will result in catch-up demand, so registrations in 2016 will probably be appreciably higher than in the previous year. Nevertheless, this market will not reach the high level recorded in preceding years. In India, we expect sizable growth in the market on the strength of the positive economic climate and the implementation of numerous infrastructure measures.

In the bus markets that are relevant for the Volkswagen Group, we expect that demand will decrease perceptibly in 2016. Following the sharp increase in Western Europe in 2015, we are likely to see demand dip slightly in 2016. For Central and Eastern Europe, we are forecasting that the volume of demand will be down significantly on the previous year. In South America, new registrations will probably also be substantially lower than the prior-year level.

For the period 2017 to 2020, we expect moderate growth overall in the bus markets that are relevant for the Volkswagen Group.

INTEREST RATE TRENDS

In 2015 and also into the beginning of the current fiscal year, central banks continued to support the global economy and the financial system with an expansionary monetary policy. This is reflected in the sustained period of historically low interest rates. Uncertainty about the growth in the global economy is gradually dissipating and this could mean that the central banks decide to scale back their monetary policy stimulus. However, the European Central Bank will certainly maintain, and even bolster, its policy of low interest rates throughout the whole of 2016. In the United Kingdom, it is still unclear when the Bank of England proposes to bring the period of low interest rates to an end, but in the USA the first rate rise was announced in December 2015, as expected.

MOBILITY CONCEPTS

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

In collaboration with the automotive brands in the Volkswagen Group, Volkswagen Financial Services AG is devoting a great deal of time and effort to pioneering work on the development of new mobility concepts, as has been the case in the conventional automotive business for many years.

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

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

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

NEW MARKETS/INTERNATIONALIZATION/NEW SEGMENTS

The financing, leasing, insurance and mobility services businesses are very important globally for attracting customers and ensuring customer loyalty for the long term. Volkswagen Financial Services AG, as the financial services provider and strategic partner for the Volkswagen Group brands, specifically reviews implementation of these areas of business in further markets by way of market entry concepts so as to lay the foundations for profitable growth in the business volume in these markets.

SUMMARY OF EXPECTED DEVELOPMENTS

Volkswagen Financial Services AG expects its growth in the next fiscal year to be linked to the development of vehicle sales of the Volkswagen Group. The company aims to boost its business volume and expand its international orientation by increasing the penetration rate, expanding the product range in existing markets and developing new markets. Please refer to the statements in the opportunities and risks report for information on the development of credit, liquidity and residual value risks, which takes the emissions issue into account.

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

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

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

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

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

OUTLOOK FOR 2016

Volkswagen Financial Services AG's Board of Management expects the global economy to record slightly stronger growth in 2016 than in the previous year, despite some uncertainties. The financial markets still entail risks resulting above all from the strained debt situation of many countries. In addition, growth prospects will be hurt by geopolitical tensions and conflicts. The emerging economies of Asia will probably record the highest rates of growth. While we expect to see an economic upturn in the major industrialized nations, the rates of expansion will remain moderate.

When the above factors and the development of the market are considered, the following overall picture emerges: our earnings expectations include the emissions issue and assume a slight rise in refinancing costs, intensified cooperation with the respective Group brands, increased cost optimization under our efficiency program and a continued high degree of uncertainty about macroeconomic conditions in the real economy and the impact of these uncertainties on factors such as risk costs. Volkswagen Financial Services AG expects support from the Volkswagen Group to help it deal with the impact of the emissions issue.

Assuming that margins remain stable in the coming year, the operating profit in fiscal year 2016 should be on a level with the previous year.

We anticipate the trend towards a slight increase in new contracts and modest growth in the portfolio of current contracts from previous years to continue. In addition, we assume that in 2016 we will again be able to boost our penetration rate slightly in an overall growing vehicle market. We expect the business volume to increase slightly in 2016. Compared to the reporting period, a slight rise in the level of deposits is projected for Volkswagen Bank GmbH in 2016, despite the persistently low interest rate environment. The stepped-up capital requirements and the resulting higher capital requirements will probably lead to a slight decline in return on equity in 2016 compared with the previous year. Due to the profit for the period, we expect the cost/income ratio in 2016 to be at or slightly below the level of the previous year.

FORECAST OF THE DEVELOPMENT OF KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2016 COMPARED WITH THE PRIOR-YEAR FIGURES

	Actual 2014	Actual 2015	Forecast for 2016	
Nonfinancial performance indicators				
Penetration (percent)	28.0	28.3	> 28.3	Slight increase
Current contracts (thousands)	10,249	11,086	> 11,086	Slight increase
New contracts (thousands)	4,137	4,413	> 4,413	Slight increase
Financial performance indicators				
Volume of business (€ million)	89,374	97,318	> 97,318	Slight increase
Volume of deposits (€ million)	26,224	28,109	> 28,109	Slightly rising balance
Operating profit (€ million)	1,293	1,416	= 1,416	At prior-year level
Return on equity (percent)	12.7	11.3	< 11.3	Slightly lower
Cost income ratio (percent)	60	63	≤ 63	Slightly below/at prior-year level

Braunschweig, February 12, 2016
The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Dr. Christian Dahlheim

Frank Fiedler

Christiane Hesse

Dr. Michael Reinhart

This report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and of the financial and automotive markets, which we have made on the basis of the information available to us and which we consider to be realistic at the time of going to press. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Consequently, any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of our business. The same applies in the event of material changes in the exchange rates against the euro. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2015 Annual Report develop in a way other than we are currently expecting, or additional risks and opportunities or other factors emerge that affect the development of our business.

Consolidated Financial Statements

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Income Statement

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Notes	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2014	Change in percent
Interest income from lending transactions		3,909	3,700	5.6
Net income from leasing transactions before provisions for risks		1,333	1,300	2.5
Interest expense		−1,461	−1,579	−7.5
Net income from insurance business		56	45	24.4
Net income from lending, leasing and insurance transactions before provisions for risks	21	3,836	3,466	10.7
Provisions for risks from lending and leasing business	9, 22, 33	−672	−469	43.3
Net income from lending, leasing and insurance transactions after provisions for risks		3,165	2,997	5.6
Net fee and commission income	23	96	132	−27.3
Net gain/loss on the measurement of derivative financial instruments and hedged items	10, 24	53	−12	X
Share of profits and losses of equity-accounted joint ventures		24	34	−29.4
Net gain/loss on marketable securities and miscellaneous financial assets	25	25	7	X
General and administrative expenses	26	−2,062	−1,893	8.9
Net other operating income/expenses	27	212	52	X
Profit before tax		**1,513**	**1,317**	**14.9**
Income tax expense	6, 28	−304	−420	−27.6
Profit after tax		1,209	897	34.8
Profit after tax attributable to Volkswagen AG		1,209	897	34.8

Statement of Comprehensive Income

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Notes	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2014
Profit after tax		**1,209**	**897**
Pension plan remeasurements recognized in other comprehensive income	46	–	–
Pension plan remeasurements recognized in other comprehensive income, before tax		41	−128
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	6,28	−10	38
Pension plan remeasurements recognized in other comprehensive income, net of tax		31	−90
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax		−4	0
Items that will not be reclassified to profit or loss		**27**	**−90**
Exchange differences on translating foreign operations	4	–	–
Gains/losses on currency translation recognized in other comprehensive income		−193	−9
Reclassified to profit or loss		–	–
Exchange differences on translating foreign operations, before tax		−193	−9
Deferred taxes relating to exchange differences on translating foreign operations		–	–
Exchange differences on translating foreign operations, net of tax		−193	−9
Cash flow hedges	10	–	–
Fair value changes recognized in other comprehensive income		7	1
Reclassified to profit or loss		0	−5
Cash flow hedges, before tax		7	−4
Deferred taxes relating to cash flow hedges	6,28	−2	1
Cash flow hedges, net of tax		4	−3
Available-for-sale financial assets		–	–
Fair value changes recognized in other comprehensive income		5	12
Reclassified to profit or loss		0	0
Available-for-sale financial assets, before tax		5	12
Deferred taxes relating to available-for-sale financial assets	6,28	1	−3
Available-for-sale financial assets, net of tax		6	9
Share of other comprehensive income of equity-accounted investments that may be reclassified subsequently to profit or loss, net of tax		−19	−4
Items that may be reclassified subsequently to profit or loss		**−202**	**−6**
Other comprehensive income, before tax		−164	−133
Deferred taxes relating to other comprehensive income		−11	36
Other comprehensive income, net of tax		**−175**	**−97**
Total comprehensive income		**1,034**	**801**
Total comprehensive income attributable to Volkswagen AG		1,034	801

Balance Sheet

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Notes	31.12.2015	31.12.2014	Change in percent
Assets				
Cash reserve	7, 30	1,416	451	X
Receivables from credit institutions	8, 31	2,940	2,036	44.4
Receivables from customers attributable to				
Retail financing		50,665	47,663	6.3
Dealer financing		13,967	12,625	10.6
Leasing business		19,704	18,320	7.6
Other receivables		8,435	7,263	16.1
Total receivables from customers	8, 32	92,771	85,871	8.0
Derivative financial instruments	10, 34	1,178	955	23.4
Marketable securities[1]	11	2,936	2,013	45.9
Equity-accounted joint ventures	35	538	443	21.4
Miscellaneous financial assets	12, 35	206	156	32.1
Intangible assets	13, 36	149	184	−19.0
Property, plant and equipment	14, 37	317	307	3.3
Lease assets	16, 38	12,982	10,766	20.6
Investment property	16, 38	15	22	−31.8
Deferred tax assets	6, 39	1,703	1,145	48.7
Current tax assets	6	320	159	X
Other assets	40	3,780	2,723	38.8
Total		**121,251**	**107,231**	**13.1**

	Notes	31.12.2015	31.12.2014	Change in percent
Equity and Liabilities				
Liabilities to credit institutions	17, 42, 44	15,721	13,135	19.7
Liabilities to customers	17, 42	43,764	38,721	13.0
Securitized liabilities	43, 44	39,913	37,243	7.2
Derivative financial instruments	10, 45	249	446	−44.2
Provisions	18 – 20, 46, 47	1,449	1,493	−2.9
Deferred tax liabilities	6, 48	1,072	318	X
Current tax liabilities	6	329	311	5.8
Other liabilities	49	1,599	1,429	11.9
Subordinated capital	44, 50	2,344	2,204	6.4
Equity	52	14,811	11,931	24.1
Subscribed capital		441	441	–
Capital reserves		9,224	6,964	32.5
Retained earnings		5,634	4,807	17.2
Other reserves		−488	−281	73.7
Total		**121,251**	**107,231**	**13.1**

1 This item includes noncurrent assets of €12 million classified as held for sale.

Statement of Changes in Equity

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

				OTHER RESERVES				
€ million	Subscribed capital	Capital reserves	Retained earnings	Currency translation	Cash flow hedges	Available-for-sale financial assets	Equity-accounted investments	Total equity
Balance as of Jan. 1, 2014	**441**	**4,709**	**4,004**	**−266**	**1**	**7**	**−13**	**8,883**
Profit after tax	–	–	897	–	–	–	–	897
Other comprehensive income, net of tax	–	–	−90	−9	−3	9	−4	−97
Total comprehensive income	**–**	**–**	**807**	**−9**	**−3**	**9**	**−4**	**801**
Capital increase	–	2,255	–	–	–	–	–	2,255
Distribution/profit transfer to Volkswagen AG	–	–	−146	–	–	–	–	−146
Other changes	–	–	142	8	−9	–	−2	138
Balance as of Dec. 31, 2014	**441**	**6,964**	**4,807**	**−266**	**−12**	**16**	**−19**	**11,931**
Balance as of Jan. 1, 2015	**441**	**6,964**	**4,807**	**−266**	**−12**	**16**	**−19**	**11,931**
Profit after tax	–	–	1,209	–	–	–	–	1,209
Other comprehensive income, net of tax	–	–	31	−193	4	6	−23	−175
Total comprehensive income	**–**	**–**	**1,240**	**−193**	**4**	**6**	**−23**	**1,034**
Capital increase	–	2,260	–	–	–	–	–	2,260
Distribution/profit transfer to Volkswagen AG	–	–	−420	–	–	–	–	−420
Other changes	–	–	6	0	–	–	–	6
Balance as of Dec. 31, 2015	**441**	**9,224**	**5,634**	**−460**	**−7**	**21**	**−42**	**14,811**

See note (52) for further disclosures on equity.

Cash Flow Statement

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2014
Profit after tax	**1,209**	**897**
Depreciation, amortization, impairment losses and reversals of impairment losses	3,291	2,448
Change in provisions	−1	12
Change in other noncash items	−390	−287
Gain/loss on disposal of financial assets and items of property, plant and equipment	−6	0
Net interest income and dividend income	−3,297	−2,992
Other adjustments	7	7
Change in receivables from credit institutions	−1,071	−74
Change in receivables from customers	−7,874	−7,872
Change in lease assets	−4,728	−3,393
Change in other assets related to operating activities	−1,231	−872
Change in liabilities to credit institutions	3,444	77
Change in liabilities to customers	4,846	2,385
Change in securitized liabilities	2,408	5,279
Change in other liabilities related to operating activities	177	219
Interest received	4,736	4,564
Dividends received	23	7
Interest paid	−1,461	−1,579
Income taxes paid	−295	−471
Cash flows from operating activities	**−213**	**−1,645**
Proceeds from disposal of investment property	2	0
Acquisition of investment property	–	−4
Proceeds from disposal of subsidiaries and joint ventures	8	33
Acquisition of subsidiaries and joint ventures	−158	−568
Proceeds from disposal of other assets	22	17
Acquisition of other assets	−103	−106
Change in investments in securities	−912	453
Cash flows from investing activities	**−1,141**	**−175**
Proceeds from changes in capital	2,260	2,255
Distribution/profit transfer to Volkswagen AG	−147	−217
Change in cash funds attributable to subordinated capital	210	27
Cash flows from financing activities	**2,323**	**2,065**
Cash and cash equivalents at end of previous period	**451**	**220**
Cash flows from operating activities	−213	−1,645
Cash flows from investing activities	−1,141	−175
Cash flows from financing activities	2,323	2,065
Effect of exchange rate changes	−4	−14
Cash and cash equivalents at end of period	**1,416**	**451**

See note (65) for disclosures on the cash flow statement.

Notes to the Consolidated Financial Statements

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP FOR THE YEAR ENDED DECEMBER 31, 2015

GENERAL INFORMATION

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

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

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

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

GROUP ACCOUNTING PRINCIPLES

VW FS AG has prepared its consolidated financial statements for the year ended December 31, 2015 in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code). All IFRSs issued by the International Accounting Standards Board (IASB) up to December 31, 2015 for which mandatory application was required in fiscal year 2015 in the European Union have been taken into account in these consolidated financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the IFRS consolidated financial statements also include the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks associated with future development (risk report in accordance with section 315(1) of the HGB) can be found in the management report on pages 45 – 60.

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

The Board of Management completed the preparation of these consolidated financial statements on February 12, 2016. This date marked the end of the period in which adjusting events after the reporting period were recognized.

SIGNIFICANT EVENTS

On September 18, 2015, the California Air Resources Board (CARB) and the US Environmental Protection Agency (EPA) publicly announced that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group diesel engines. CARB and EPA alleged that engine management software installed in four-cylinder diesel engines used in certain 2009 to 2015 model year vehicles circumvented NO_x emissions standards under test conditions in order to comply with homologation requirements. On November 2, 2015, CARB and the EPA announced that irregularities had also been discovered in the software installed in certain additional 2014 to 2016 model year vehicles. Other authorities in various jurisdictions worldwide have subsequently commenced investigations regarding these matters.

In its ad hoc release dated September 22, 2015, the Volkswagen Group announced that there were discrepancies relating to NOx emissions figures attributable to engine management software in around eleven million vehicles worldwide. The vehicles remain technically sound and able to be driven.

In addition, the CO_2 levels, and thus also the fuel consumption figures, appeared to have been set too low in the case of some vehicle models during the CO_2 certification process. The Volkswagen Group announced on November 3, 2015 that around 800,000 vehicles might be affected, mostly those with diesel engines. The financial risks were initially estimated at €2 billion. Suspicions that fuel consumption figures had been unlawfully changed for current production vehicles proved unfounded and the originally expected adverse impact on earnings has not occurred. On December 9, 2015, the Volkswagen Group announced that the investigation into the CO_2 issue was largely completed.

The emissions issue has affected the residual value risk in the portfolio of Volkswagen Financial Services AG, and has been addressed by means of impairments on leasing and rental assets. The Volkswagen Group provides support in dealing with the effects.

ESTIMATES AND ASSUMPTIONS BY MANAGEMENT

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

The impairment tests applied to non-financial assets (particularly goodwill and brand names), equity-accounted joint ventures and equity investments measured at cost require assumptions related to the future cash flows in the planning period.

The recoverable amount of the lease assets in the Group mainly depends on the residual value of the lease vehicles when the leases expire because this value represents a considerable proportion of the expected cash inflows. Continuously updated internal and external information on trends in residual values – based on particular local circumstances and empirical values from the marketing of used vehicles – is factored into the forecasts of residual values. These forecasts require the Group to make assumptions, primarily in relation to future supply and demand for vehicles and in relation to trends in vehicle prices. These assumptions are based on either professional estimates or information published by third-party experts. The professional estimates are based on external data (where available), taking into account any additional information available internally, such as values from past experience and current sales data. Forecasts and assumptions are regularly verified by a process of backtesting. More detailed information on impairment tests and the measurement parameters used can be found in the information on the accounting policies applicable to the leasing business (note 16).

Unless observable market data is available, the fair value of assets and liabilities acquired as part of a business combination are determined by using recognized valuation techniques such as the relief-from-royalty method or the residual method.

The procedure for determining the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. These estimates are derived as far as possible from past experience. In the case of receivables from customers, both specific valuation allowances and portfolio-based valuation allowances are recognized. An overview of specific and portfolio-based valuation allowances can be found in the disclosures on provisions for risks (note 9).

The recognition and measurement of provisions is also based on assumptions about the probability that future events will occur and the amounts involved, together with an estimation of the discount rate. Again, past experience or reports from external experts are used as far as possible. The assumptions underlying the calculation of pension provisions are explained in note (18). Actuarial gains and losses are recognized in other comprehensive income and have no impact on profit or loss.

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

Provisions recognized in connection with insurance business are described in note (19). An overview of other provisions can be found in notes (20) and (47).

Measurement parameters are regularly reviewed as part of the process for determining the estimated amount of costs for servicing and wear-and-tear repairs under service agreements. The measurement of the anticipated charges is based on past experience of costs actually incurred under service agreements.

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

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

Assumptions and estimates are based on the latest available information. In particular, the circumstances prevailing at the time the consolidated financial statements are prepared and future trends in the global and sector environment considered to be realistic are taken into account in the projected future performance of the business. As future business performance is subject to unknown factors that, in part, lie outside the control of the Group, our assumptions and estimates continue to be subject to considerable uncertainty. This applies especially to the cash flows predicted over the short and medium terms. The discount rates used are also affected by uncertainty caused by factors beyond the control of the Group.

If changes in parameters are different from the assumptions and beyond any influence that can be exercised by management, the amounts actually arising could differ from the estimated values originally forecast. If actual performance is at variance with the forecasts, the assumptions and, where necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

The estimates and assumptions used by management have been made, in particular, on the basis of assumptions relating to macroeconomic trends as well as trends in automotive markets, financial markets and the legal framework. These and other assumptions are explained in detail in the report on expected developments, which forms an integral part of the group management report.

EFFECTS OF NEW AND REVISED IFRS STANDARDS

VW FS AG has applied all financial reporting standards subject to mandatory application from fiscal year 2015.

A number of amendments to International Financial Reporting Standards resulting from the Annual Improvements Project 2013 became effective on January 1, 2015. These relate to changes to IFRS 1, IFRS 3, IFRS 13 and IAS 40, and do not materially affect the VW FS AG Group's net assets, financial position and results of operations.

There has also been a requirement since January 1, 2015 to apply IFRIC 21. IFRIC 21 governs the accounting for levies that do not fall within the scope of IAS 12 "Income Taxes". In particular, it provides guidance on when a liability has to be recognized for payment of a levy. Likewise, this Interpretation does not materially affect the VW FS AG Group's net assets, financial position and results of operations.

NEW AND REVISED IFRS STANDARDS NOT APPLIED

VW FS AG has not applied in its 2015 consolidated financial statements the following financial reporting standards that have already been issued by the IASB but were not yet subject to mandatory application in fiscal year 2015.

Standard/ interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IFRS 9	Financial Instruments	24.07.2014	01.01.2018	No	Classification and measurement of financial instruments on the asset side of the balance sheet on the basis of the operated business model and structure of cash flows, recognition of provisions for risks using the expected loss model, i.e. extension of the analysis period compared with that in the incurred loss model currently used, increase in designation options related to hedge accounting, simplified hedge effectiveness tests, further disclosures in the notes; a project is currently being carried out to analyze the anticipated impact
IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11.09.2014	Postponed[2]	–	None
IFRS 10, IFRS 12 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception	18.12.2014	01.01.2016	No	None
IFRS 11	Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations	06.05.2014	01.01.2016	Yes	None
IFRS 14	Regulatory Deferral Accounts	30.01.2014	None[6]	No[6]	None
IFRS 15	Revenue from Contracts with Customers	28.05.2014	01.01.2018[3]	No	No material impact on revenue recognition, additional disclosure requirements in the notes
IFRS 16	Leases	13.01.2016	01.01.2019	No	For lessees, no classification of leases as finance or operating leases, but general recognition of all leases as a right of use and lease liability in the balance sheet. For lessors, no significant changes in the accounting treatment of leases compared with IAS 17. Further disclosures in the notes required.
IAS 1	Presentation of Financial Statements	18.12.2014	01.01.2016	Yes	No material impact
IAS 7	Statement of Cash Flows: Disclosures	29.01.2016	01.01.2017	No	Preparation of a reconciliation for liabilities from financing activities, disclosure of information on liquidity restrictions
IAS 12	Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses	19.01.2016	01.01.2017	No	No material impact
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	12.05.2014	01.01.2016	Yes	No material impact

Standard/ interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IAS 16 and IAS 41	Agriculture: Bearer Plants	30.06.2014	01.01.2016	Yes	None
IAS 19	Employee Benefits: Defined Benefit Plans – Employee Contributions	21.11.2013	01.01.2016	Yes	No material impact
IAS 27	Separate Financial Statements: Equity Method	12.08.2014	01.01.2016	Yes	None
	Improvements to International Financial Reporting Standards 2012[4]	12.12.2013	01.01.2016	Yes	Largely further disclosure requirements in the notes relating to segment reporting
	Improvements to International Financial Reporting Standards 2014[5]	25.09.2014	01.01.2016	Yes	Additional disclosures in accordance with IFRS 7

1 Requirement for initial application from the VW FS AG perspective
2 On December 15, 2015, the IASB decided to postpone the date of initial application indefinitely.
3 Postponed until January 1, 2018 (IASB decision on September 11, 2015)
4 Minor changes to a number of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38, IAS 24)
5 Minor changes to a number of IFRSs (IFRS 5, IFRS 7, IAS 19, IAS 34)
6 On October 30, 2015, the European Commission decided not to adopt IFRS 14. As a consequence, there is no application requirement for the VW FS AG Group.

ACCOUNTING POLICIES

1. Basic Principles

All entities included in the basis of consolidation have prepared their annual financial statements to the reporting date of December 31, 2015.

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

Unless otherwise stated, amounts are shown in millions of euros (€ million). All amounts shown are rounded, so minor discrepancies may arise from addition of these amounts. Negligible discrepancies could also arise in the comparison with the prior year owing to adjustments in the rounding methodology.

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

2. Basis of Consolidation

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

Subsidiaries are included in the consolidation from the date on which control comes into existence; they cease to be consolidated when control no longer exists. Subsidiaries in which activities are dormant or of low volume and that, individually and jointly, are of minor significance in the presentation of a true and fair view of the financial position, financial performance and cash flows of the VW FS AG Group are not consolidated. They are recognized in the consolidated financial statements under financial assets at cost, taking into account any necessary impairment losses. The equity method is used to account for material entities in which VW FS AG has the opportunity, directly or indirectly, to exercise significant influence over financial and operating policy decisions (associates) or in which VW FS AG directly or indirectly shares control (joint ventures). Joint ventures also include entities in which the VW FS AG Group controls a majority of the voting rights but whose partnership agreements or articles of association specify that key decisions may only be resolved unanimously. Associates and joint ventures of minor significance are generally reported under financial assets at cost, taking into account any necessary impairment losses.

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

	2015	2014
VW FS AG and consolidated subsidiaries		
Germany[1]	31	30
International[1]	52	55
Subsidiaries recognized at cost		
Germany	7	6
International	28	25
Associates, joint ventures and equity investments		
Germany	5	4
International[1]	29	28
Total	**152**	**148**

1 The prior year has been restated.

The list of all shareholdings in accordance with sections 285 and 313 of the HGB can be accessed at www.vwfsag.com/listofholdings2015.

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

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

SUBSIDIARIES

As part of the integration of the MAN financial services business acquired in the prior year, all the shares in MAN Finansman A.S., Ankara, were sold in October 2015 to Volkswagen Doğuş Finansman A.Ş., Istanbul. The companies were then merged. Volkswagen Financial Services AG holds a 51% interest in Volkswagen Doğuş Finansman A.Ş., Istanbul, which means that the MAN financial services business based in Turkey is now included in the consolidated financial statements via the equity-accounted investment in Volkswagen Doğuş Finansman A.Ş. In November, all the shares in MAN Financial Services España S.L., Coslada, were also sold within the Volkswagen Group to Volkswagen Finance S.A., Madrid. This therefore completed the full consolidation of the two companies. The disposal of the companies had no material impact on the consolidated financial statements.

In May 2015, the company Volkswagen Financial Services Holding Argentina S.R.L., Buenos Aires, was established as a wholly owned subsidiary. The company is included in the consolidated financial statements at cost for reasons of materiality.

The wholly owned subsidiary Volkswagen Insurance Services Korea Co. Ltd, Seoul, which was established in November 2015, is also included at cost for reasons of materiality.

During the course of 2015, Volkswagen Financial Services AG acquired 93% of the shares in sunhill technologies GmbH, Bubenreuth, a mobility service provider focusing on the development of cashless payment systems. The company is not fully consolidated for reasons of materiality.

JOINT VENTURES

From a Group perspective, the following three joint ventures were deemed material at the reporting date on the basis of the size of the entity and are accounted for in the consolidation using the equity method. These three joint ventures are of strategic importance for the VW FS AG Group, operate the financial services business in the countries concerned and thereby help to drive vehicle sales in the Volkswagen Group.

Volkswagen Pon Financial Services B.V.

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

Volkswagen D'Ieteren Finance S.A.

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

Volkswagen Møller Bilfinans A.S.

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

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

€ million	VOLKSWAGEN PON FINANCIAL SERVICES B.V. (NETHERLANDS) 2015	2014	VOLKSWAGEN D'IETEREN FINANCE S.A. (BELGIUM) 2015	2014	VOLKSWAGEN MØLLER BILFINANS AS (NORWAY)[1] 2015	2014
Shareholding (percent)	60%	60%	50%	50%	51%	51%
Receivables from credit institutions	1	38	20	19	0	0
Receivables from customers	1,666	1,392	776	652	1,203	1,175
Lease assets	986	830	404	370	–	–
Other assets	218	124	41	46	9	9
Total	**2,871**	**2,384**	**1,241**	**1,087**	**1,213**	**1,184**
of which: noncurrent assets	1,274	1,176	815	721	1,019	962
of which: current assets	1,597	1,208	426	366	193	222
of which: cash	1	38	20	19	0	0
Liabilities to credit institutions	2,006	1,607	1,051	900	981	997
Liabilities to customers	3	4	66	65	20	18
Securitized liabilities	438	378	–	–	–	–
Other liabilities	175	158	9	10	32	26
Equity	249	237	115	112	180	143
Total	**2,871**	**2,384**	**1,241**	**1,087**	**1,213**	**1,184**
of which: noncurrent liabilities	982	794	447	388	350	474
of which: current liabilities	1,640	1,353	680	587	682	567
of which: noncurrent financial liabilities	976	784	441	381	312	442
of which: current financial liabilities	1,491	1,259	610	524	528	336
Revenue	632	557	322	292	68	71
of which: interest income	65	75	22	21	67	69
Expenses	581	521	318	290	43	46
of which: interest expense	21	25	7	9	18	21
of which: depreciation and amortization	222	194	96	91	1	0
Profit/loss from continuing operations, before tax	**50**	**36**	**4**	**2**	**26**	**24**
Income tax expense or income	12	9	1	0	5	6
Profit/loss from continuing operations, net of tax	**38**	**27**	**3**	**2**	**20**	**18**
Profit/loss from discontinued operations, net of tax	–	–	–	–	–	–
Other comprehensive income, net of tax	–7	–	–	–	–	–
Total comprehensive income	**32**	**27**	**3**	**2**	**20**	**18**
Dividends received	12	7	–	–	–	–

1 The prior year has been restated.

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

€ million	VOLKSWAGEN PON FINANCIAL SERVICES B.V. (NETHERLANDS)	VOLKSWAGEN D'IETEREN FINANCE S.A. (BELGIUM)	VOLKSWAGEN MØLLER BILFINANS A.S. (NORWAY)
2014			
Equity of the joint venture as of Jan. 1, 2014	221	110	121
Profit/loss	27	2	18
Other comprehensive income	0	–	–
Change in share capital	–	–	16
Exchange differences on translating foreign operations	–	–	–12
Dividends	–11	–	–
Equity of the joint venture as of Dec. 31, 2014	**237**	**112**	**143**
Share of equity	143	56	73
Goodwill	61	–	–
Carrying amount of the share of equity as of Dec. 31, 2014	**204**	**56**	**73**
2015			
Equity of the joint venture as of Jan. 1, 2015	237	112	143
Profit/loss	38	3	20
Other comprehensive income	–7	–	–
Change in share capital	–	–	28
Exchange differences on translating foreign operations	–	–	–12
Dividends	–20	–	–
Equity of the joint venture as of Dec. 31, 2015	**249**	**115**	**180**
Share of equity	149	57	92
Goodwill	61	–	–
Carrying amount of the share of equity as of Dec. 31, 2015	**210**	**57**	**92**

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

€ million	2015	2014
Carrying amount of the share of equity as of Dec. 31	**178**	**111**
Profit/loss from continuing operations, net of tax	–8	7
Profit/loss from discontinued operations, net of tax	–	–
Other comprehensive income, net of tax	0	1
Total comprehensive income	**–8**	**8**

Starting from 2015, the joint venture Volkswagen Financial Services South Africa (Pty) Ltd., Sandton, which had previously been consolidated at cost, was included in the consolidated financial statements using the equity method.

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

Cash attributable to joint ventures amounting to €72 million (previous year: €24 million) was pledged as collateral in connection with ABS transactions and was therefore not available to the VW FS AG Group.

Contingent liabilities relating to joint ventures amounted to €14 million (previous year: €20 million).

3. Consolidation Methods

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

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

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

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

Receivables, liabilities, income and expenses relating to business relationships between consolidated entities are eliminated in the consolidation.

Consolidation transactions recognized in profit or loss are subject to the recognition of deferred taxes. Investments in subsidiaries that are not consolidated because they are of minor significance are reported, together with other equity investments, under miscellaneous financial assets.

Intragroup transactions are conducted on an arm's-length basis. Any resulting intercompany profits or losses are eliminated.

4. Currency Translation

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

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

Income statement items are translated at weighted average rates for the year.

The following table shows the rates applied in currency translation:

		BALANCE SHEET, MIDDLE SPOT RATE ON DEC. 31		INCOME STATEMENT, AVERAGE RATE	
	€1 =	2015	2014	2015	2014
Australia	AUD	1.48970	1.48290	1.47648	1.47240
Brazil	BRL	4.31170	3.22070	3.69160	3.12277
Denmark	DKK	7.46260	7.44530	7.45864	7.45492
United Kingdom	GBP	0.73395	0.77890	0.72600	0.80643
India	INR	72.02150	76.71900	71.17522	81.06888
Japan	JPY	131.07000	145.23000	134.28651	140.37722
Mexico	MXN	18.91450	17.86790	17.59984	17.66209
Poland	PLN	4.26390	4.27320	4.18278	4.18447
Republic of Korea	KRW	1,280.78000	1,324.80000	1,255.74059	1,399.02954
Russia	RUB	80.67360	72.33700	68.00684	51.01125
Sweden	SEK	9.18950	9.39300	9.35448	9.09689
Czech Republic	CZK	27.02300	27.73500	27.28500	27.53583
People's Republic of China	CNY	7.06080	7.53580	6.97300	8.18825

5. Recognition of Revenue and Expenses

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

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

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

Net fee and commission income includes income and expenses from insurance broking as well as fees and commissions from the financing and financial services businesses. Fee and commission income derived from insurance broking is recognized when the fee or commission payment is actually received.

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

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

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

6. Income Taxes

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

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

Deferred tax assets are recognized if it is probable that in the future sufficient taxable profits will be generated in the same tax unit against which the deferred tax assets can be utilized. If it is no longer likely that it will be possible to recover deferred tax assets within a reasonable period, valuation allowances are applied. Deferred tax assets and liabilities with the same maturities and relating to the same tax authorities are netted. The tax expense attributable to the profit before tax is reported in the Group's income statement under the "Income tax expense" item and a breakdown into current and deferred taxes for the fiscal year is disclosed in the notes. Other non-income-related taxes are reported as a component of general and administrative expenses.

7. Cash Reserve

The cash reserve is carried at the nominal amount.

8. Receivables

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

Receivables are derecognized when they are settled.

There are no indications of derecognition for receivables from ABS transactions carried out by the Group.

9. Provisions for Risks

The VW FS AG Group takes full account of the default risk arising in connection with the banking business by recognizing specific and portfolio-based valuation allowances in accordance with IAS 39. These allowances are posted to valuation allowance accounts. Provisions are also recognized to take into account indirect residual value risks.

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

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

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

Receivables are reported in the balance sheet at the net carrying amount. Disclosures relating to provisions for risks are presented separately in note (33).

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

10. Derivative Financial Instruments

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

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

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

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

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

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

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

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

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

11. Marketable Securities

Marketable securities largely comprise fixed-income bonds issued by the public sector, investments of resources within the framework specified by the investment policy issued by VW Versicherung AG (mainly fixed-income securities and equities) and acquired bonds issued by a special purpose entity of another entity in the Volkswagen Group (see note 69). Marketable securities are categorized as available-for-sale financial assets. Changes resulting from remeasurement are generally recognized in other comprehensive income but impairment losses are recognized in profit or loss in the event of permanent impairment.

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

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

The marketable securities item includes an equity investment in Visa Europe Ltd. This holding was acquired free of charge and was recognized in prior periods as an equity instrument at cost in accordance with IAS 39.46c. In 2015, it was announced that Visa Inc. intended to acquire Visa Europe Ltd. The deal is expected to take place in the second quarter of 2016. In connection with this deal, Volkswagen Bank GmbH has received an offer to buy its stake in Visa Europe Limited. The proposed consideration includes a cash component and shares in the acquiring entity. As the amount of the consideration has still been subject to change at any point during the period in which these financial statements have been prepared, the fair value measurement of the holding in Visa Europa Ltd. includes appropriate markdowns to cover liquidity restrictions and the risk of possible changes in the total purchase price already proposed. The fair value is based on input factors under Level 3 of the fair value hierarchy specified in IFRS 13. Overall, the fair value measurement of the holding in Visa Europa Ltd. has given rise to a gain of €12 million, which has been recognized in other comprehensive income, taking into account deferred taxes. The holding in Visa Europe Ltd. represents a noncurrent asset within the meaning of IFRS 5; the asset is classified as held for sale and is assigned to the Germany segment. For reasons of materiality, this asset has not been reported separately on the face of the balance sheet, nor are the related income and expenses reported separately in other comprehensive income. There are no liabilities in connection with the holding in Visa Europe Ltd.

Fixed-income bonds and bonds acquired from other entities in the Volkswagen Group amounting to a total of €2,013 million (previous year: €1,670 million) have been pledged as collateral for the VW FS AG Group's own liabilities. Most of these securities are deposited at Deutsche Bundesbank and are furnished as collateral in connection with open market operations.

12. Miscellaneous Financial Assets

Investments in subsidiaries that are not consolidated and other equity investments are reported as miscellaneous financial assets. The equity investments are measured at cost because there is no active market for these entities and fair values could not be reliably determined without disproportionate time, effort and expense. Investments in unconsolidated subsidiaries are recognized at cost taking into account any necessary impairment losses. Impairment losses are recognized in profit or loss if there are country-specific indications of significant or permanent impairment (e.g. imminent payment difficulties or economic crisis). Subsidiaries that are not consolidated for reasons of materiality do not fall within the scope of IAS 39. From 2015, the associated figures have therefore been removed from the disclosures in accordance with IFRS 7 (see note 55).

13. Intangible Assets

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

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

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

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

The recoverable amount of goodwill is derived from the value in use for the relevant cash-generating unit, which is determined using the discounted cash flow method. The basis is the latest planning data prepared by management for a planning period of five years, with growth in subsequent years estimated using a flat rate percentage. This planning is based on expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and on assumptions derived from these trends about financial services, taking into account market penetration, risk costs, margins and regulatory requirements. Planning assumptions are adjusted in line with the latest available information. The interest rate used is based on the long-term market interest rate relevant to each cash-generating unit (regions or markets). The calculations use a standard Group cost of equity of 8.5% (previous year: 9.0%). Appropriate assumptions regarding macroeconomic and historical trends are taken into account. If necessary, the cost of equity rate is also adjusted for discount factors specific to the country and business concerned. The calculation of cash flows is based on the forecast growth rates for the relevant markets. Cash flows after the end of the planning period are estimated using a growth rate of 1% p.a. (previous year: 1% p.a.).

14. Property, Plant and Equipment

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

Depreciation is based mainly on the following useful lives:

Property, plant and equipment	Useful lives
Buildings and leasehold improvements	10 to 50 years
Operating and office equipment	3 to 10 years

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

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

15. Impairment of Non-Financial Assets

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

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

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

16. Leasing Business

GROUP AS LESSOR

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

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

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

Land and buildings held to earn rentals are reported under the "Investment property" item in the balance sheet and measured at amortized cost. The land and buildings involved are generally leased out to dealer businesses. The other fair values disclosed in the notes are determined by the relevant entity by discounting the estimated future cash flows using the relevant long-term market discount rate. Depreciation is applied on a straight-line basis over useful lives of ten to 50 years. Any impairment identified as a result of an impairment test in accordance with IAS 36 is taken into account by recognizing an impairment loss.

GROUP AS LESSEE

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

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

BUYBACK TRANSACTIONS

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

17. Liabilities

Liabilities to credit institutions and customers, together with securitized liabilities, are recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates. For reasons of materiality, current liabilities (due within one year) are not discounted and no unwinding of discount is therefore recognized. Some of the liabilities to customers are included in portfolio hedges. Liabilities to customers assigned to portfolio hedges are measured at fair value.

18. Provisions for Pensions and Other Post-Employment Benefits

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

The VW FS AG Group provides occupational pensions in the form of both defined contribution and defined benefit plans. In the case of defined contribution plans, the Company makes contributions to state or private pension schemes based on statutory or contractual requirements, or on a voluntary basis. Once the contributions have been paid, the VW FS AG Group has no further obligations. Current contributions are recognized as pension expenses in the period concerned. In 2015, the total contributions made by the VW FS AG Group came to €8 million (previous year: €4 million). Contributions to the compulsory state pension system in Germany amounted to €34 million (previous year: €32 million).

Pension schemes in the VW FS AG Group are predominantly defined benefit plans in which there is a distinction between pensions funded by provisions (without plan assets) and externally funded plans (with plan assets). The pension provisions for defined benefit commitments are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19, under which the future obligations are measured on the basis of the proportionate benefit entitlements earned as of the reporting date. Measurement reflects actuarial assumptions as to discount rates, salary and pension trends, employee turnover rates and increases in healthcare costs, which are determined for each Group company depending on the economic environment. Actuarial gains or losses arise from differences between actual trends and prior-year assumptions as well as from changes in assumptions. These actuarial gains or losses are recognized in other comprehensive income, together with the associated deferred taxes, in the period in which they arise. Detailed disclosures on provisions for pensions and other post-employment benefits are set out in note (46).

19. Insurance Business Provisions

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

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

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

Provisions for claims outstanding in direct insurance operations are normally determined and measured on the basis of each claim in accordance with the estimated requirement. The chain ladder method is used to determine the provision for incurred but not reported (IBNR) losses, i.e. the provision for claims from loss events that have already occurred but have not yet been notified to the insurer.

The provision for with-profits and no claims bonuses includes solely obligations in connection with no claims bonuses and is estimated on the basis of contract-specific claims experience.

The other underwriting provisions include the cancellation provision for direct insurance business, which is also based on an estimate.

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

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

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

Actuarial methods and systems that ensure ongoing monitoring and control of all key risks are used to verify that the level of provisions is adequate. All factors are integrated into the central risk management system operated by Volkswagen Financial Services AG, thereby ensuring that they satisfy the extensive requirements specified by the Company. One of the main features of the insurance business is underwriting risk, in particular premium/loss risk and reserve risk. We counter these risks by constantly monitoring the bases of computations, making appropriate additions to provisions, applying a restrictive underwriting policy and carefully selecting our reinsurers.

Strategic risk is taken into account as part of a general risk buffer in the calculation of the Group's risk-bearing capacity.

20. Other Provisions

Under IAS 37, provisions are recognized if a present legal or constructive obligation to third parties has arisen as a result of a past event, it is probable that settlement in the future will result in an outflow of resources and the amount of the obligation can be estimated reliably. If an outflow of resources is neither probable nor improbable, the amount concerned is deemed to be a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note (66).

Provisions that are not related to an outflow of resources likely to take place in the subsequent year are recognized at their settlement amount discounted to the reporting date using market discount rates. An average discount rate of 0.45% (previous year: 0.36%) has been used for the eurozone. The settlement amount also includes expected cost increases.

Any rights of recourse are not offset against provisions.

INCOME STATEMENT DISCLOSURES

21. Net Income from Lending, Leasing and Insurance Transactions before Provisions for Risks

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

€ million	2015	2014
Interest income from lending and money market transactions	3,909	3,700
Income from leasing transactions and service contracts	13,568	11,728
Expenses from leasing transactions and service contracts	−9,603	−8,470
Depreciation of and impairment losses on lease assets and investment property	−2,631	−1,958
Interest expense	−1,461	−1,579
Total	**3,780**	**3,421**

Interest income from lending and money market transactions and the income from leasing transactions and service contracts include interest income on impaired receivables amounting to a total of €37 million (previous year: €30 million).

Income from leasing transactions and service contracts includes rental income on investment property amounting to €2 million (previous year: €2 million). The following amounts have also been recognized under income from leasing transactions and service contracts: contingent payments under finance leases of €27 million (previous year: €34 million) and under operating leases of €11 million (previous year: €11 million). In the prior year, a review of measurement parameters had given rise to a charge under service contracts resulting in an adverse impact on operating profit of €64 million.

In connection with assets leased in as part of buyback transactions, payments of €458 million (previous year: €366 million) were recognized as an expense in the reporting period.

The impairment losses recognized as a result of the impairment test on lease assets amounted to €353 million (previous year: €94 million) and are included in the depreciation of and impairment losses on lease assets. These impairment losses were attributable to a number of factors, including the emissions issue. Impairment losses are based on continuously updated internal and external information, which is then fed into the forecasts of residual values for vehicles. Some of these impairment losses were offset by support payments from the Volkswagen Group.

Income from reversals of impairment losses on lease assets applied in prior years amounted to €2 million (previous year: €2 million) and is included in income from leasing business.

The interest income included here that relates to financial instruments not allocated to the category of financial assets or financial liabilities measured at fair value through profit or loss amounted to €3,936 million (previous year: €3,716 million).

The following table shows the net income from insurance business:

€ million	2015	2014
Insurance premiums earned	165	135
Insurance claims expenses	−108	−82
Reinsurance commissions and with-profits expenses	0	−8
Other underwriting expenses	−1	0
Total	**56**	**45**

The interest expenses include funding expenses for lending and leasing business, and an amount of €1,418 million (previous year: €1,553 million) relates to financial instruments not measured at fair value through profit or loss. The net expense arising from interest income and expenses in the reporting period on derivatives not designated as hedging instruments amounts to €91 million (previous year: €61 million).

22. Provisions for Risks from Lending and Leasing Business

Provisions for risks relates to the balance sheet items "Receivables from customers" and "Provisions for lending business". The breakdown of the amount recognized in the consolidated income statement is as follows:

€ million	2015	2014
Additions to provisions for risks	−1,075	−726
Reversals of provisions for risks	468	290
Amounts written off immediately	−126	−108
Income from receivables previously written off	62	75
Total	**−672**	**−469**

Additional credit risks to which the Volkswagen Financial Services AG Group is exposed as a result of the crisis in some eurozone countries and in Russia, Brazil and India were accounted for in the reporting period by recognizing valuation allowances of €224 million (previous year: €80 million).

23. Net Fee and Commission Income

The breakdown of net fee and commission income is as follows:

€ million	2015	2014
Fee and commission income	593	597
of which commissions from insurance broking	451	453
Fee and commission expenses	−497	−466
of which sales commission	−398	−353
Total	**96**	**132**

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

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

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

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

€ million	2015	2014
Gains/losses on hedging instruments in fair value hedges	376	408
Gains/losses on hedged items in fair value hedges	−387	−399
Ineffective portion of hedging instruments in cash flow hedges	0	−1
Gains/losses on the measurement of foreign currency receivables/liabilities	−121	−94
Gains/losses on derivatives not designated as hedging instruments	186	74
Total	**53**	**−12**

There were no other changes in the fair value of financial instruments that needed to be recognized.

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

The net gain/loss on marketable securities and miscellaneous financial assets includes income and expenses arising from marketable securities, dividend income, and income and expenses arising from profit or loss transfers.

26. General and Administrative Expenses

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

€ million	2015	2014
Personnel expenses	−935	−869
Non-staff operating expenses	−948	−879
Advertising, public relations and sales promotion expenses	−73	−67
Depreciation of and impairment losses on property, plant and equipment, amortization of and impairment losses on intangible assets	−95	−67
Other taxes	−11	−11
Total	**−2,062**	**−1,893**

The non-staff operating expenses include expenses of €43 million (previous year: €38 million) for leased-in assets under operating leases related in particular to land and buildings as well as office and operating equipment.

The amortization of and impairment losses on intangible assets include an impairment loss on internally generated software amounting to €18 million (previous year: €1 million).

In accordance with the requirements specified in section 314(1) no. 9 of the HGB, the general and administrative expenses for fiscal year 2015 include the fees charged by the independent auditors as shown in the following table.

€ million	2015	2014
Financial statements audit services	3	2
Assurance and valuation services, tax advisory services	2	2
Other services	3	4
Total	**8**	**9**

27. Net Other Operating Income/Expenses

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

€ million	2015	2014
Income from cost allocations to other entities in the Volkswagen Group	59	55
Income from the reversal of provisions, deferred income and accrued expenses	294	335
Income from claims for damages	11	19
Miscellaneous operating income	335	236
Other operating expenses	–487	–593
Net other operating income/expenses	**212**	**52**

28. Income Tax Expense

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

€ million	2015	2014
Current tax expense, Germany	155	–193
Current tax expense, foreign	–321	–220
Current income tax expense	**–166**	**–414**
of which income (+)/expense (–) related to prior periods	(–13)	(–2)
Deferred tax income (+)/expense (–), Germany	–288	34
Deferred tax income (+)/expense (–), foreign	150	–40
Deferred tax income (+)/expense (–)	**–137**	**–6**
Income tax expense	**–304**	**–419**

The reported tax expense in 2015 of €304 million (previous year: €419 million) is €147million lower (previous year: €28 million higher) than the expected tax expense of €451 million (previous year: €392 million) calculated by applying the tax rate of 29.8% (previous year: 29.8%) to the consolidated profit before tax. The following reconciliation shows the relationship between the income tax expense and the profit before tax for the reporting period:

€ million	2015	2014
Profit before tax	**1,513**	**1,317**
multiplied by the domestic income tax rate of 29.8% (previous year: 29.8%)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**−451**	**−392**
+ Effects from tax credits	2	2
+ Effects from domestic/foreign tax rates	36	6
+ Effects from changes in tax rates	−3	−1
+ Effects from permanent accounting variances	102	−24
+ Effects from tax-exempt income	112	49
+ Effects from loss carryforwards	2	−4
+ Effects from non-deductible operating expenses	−126	−31
+ Taxes attributable to prior periods	12	−14
+ Other variances	10	−11
= Current income tax expense	**−304**	**−419**

The statutory corporation tax rate in Germany for the 2015 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.8%.

In the German tax group, a tax rate of 29.8% (previous year: 29.8%) was used to measure deferred taxes.

The effects from different income tax rates outside Germany arise because of the different income tax rates in the individual countries in which the Group companies are domiciled compared with the rates in Germany. These rates outside Germany vary between 12.5% and 45.0% (previous year: 12.5% and 40.0%).

As of December 31, 2015, there were unused tax loss carryforwards of €166 million (previous year: €271 million) for which deferred tax assets of €25 million (previous year: €31 million) had been recognized. Of these unused tax loss carryforwards, €90 million (previous year: €197 million) can be used without any time restriction, while €22 million (previous year: €33 million) must be used within the next five years, €20 million (previous year: €23 million) within five to ten years and €34 million (previous year: €18 million) within a period longer than ten years but subject to limitations.

No deferred tax assets have been recognized in respect of certain tax loss carryforwards deemed to be unusable and amounting to €75 million (previous year: €159 million). Of these tax loss carryforwards that the Group is unable to use, €14 million (previous year: €49 million) could have been used subject to limitations within a period of up to more than 20 years and €61 million (previous year: €110 million) without any time restriction.

The tax credits granted by various countries led to the recognition of a tax benefit in an amount of €6 million (previous year: €6 million).

The deferred tax expense decreased in the reporting period by €3 million (previous year: €2 million) as a result of previously unrecognized tax losses in an earlier period. In contrast to the prior year, no deferred tax expense was recognized in connection with the recognition of an impairment loss on deferred tax assets (previous year: €4 million). Changes in tax rates have given rise to deferred tax expenses throughout the Group of €3 million (previous year: €1 million).

No deferred tax assets have been recognized in the balance sheet for deductible temporary differences of €10 million (previous year: €5 million).

The Group has recognized deferred tax assets of €96 million (previous year: €91 million) against which there are no deferred tax liabilities in an equivalent amount. The companies involved are expecting to generate profits in the future following losses in the reporting and prior periods.

In accordance with IAS 12.39, deferred tax liabilities of €37 million (previous year: €28 million) have not been recognized for temporary differences and undistributed profits of subsidiaries because Volkswagen Financial Services AG has the relevant control.

Of the deferred taxes recognized in the balance sheet, an amount of €59 million (previous year: €71 million) relates to transactions reported in other comprehensive income. Within this figure, an amount of €61 million (previous year: €71 million) relates to actuarial gains or losses (IAS 19), €3 million (previous year: €5 million) to derivative financial instruments and €–4 million (previous year: €–5 million) to the fair value measurement of marketable securities.

29. Further Income Statement Disclosures

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

€ million	2015	2014
Income from fees and commissions	51	65
Expenses from fees and commissions	0	0
Total	**51**	**65**

BALANCE SHEET DISCLOSURES

30. Cash Reserve

The cash reserve includes credit balances of €1,264 million (previous year: €369 million) held with Deutsche Bundesbank.

31. Receivables from Credit Institutions

The receivables from credit institutions include receivables from affiliated companies amounting to €15 million (previous year: €15 million).

32. Receivables from Customers

The receivables from customers include unsecuritized receivables from other entities in the Volkswagen Group amounting to €8,273 million (previous year: €6,805 million). Receivables of €110 million (previous year: €43 million) are due from the sole shareholder, Volkswagen AG.

Receivables from customers arising from retail financing generally comprise loans to private and commercial customers for the financing of vehicles. The vehicle itself is normally pledged to us as collateral for the financing of vehicles. Dealer financing encompasses floor plan financing as well as loans to the dealer organization for operating equipment and capital investment. Again, assets are pledged as collateral, but guarantees and charges on real estate are also used as security. Receivables from leasing transactions include receivables from finance leases and receivables due in connection with lease assets. The other receivables largely consist of receivables from entities in the Volkswagen Group, receivables from leasing transactions with a buyback agreement, together with credit lines and overdraft facilities drawn down by customers. Other receivables include subordinated assets in the amount of €195 million (previous year: €39 million).

Some of the fixed-income exposures under receivables from retail financing and finance lease receivables have been hedged against fluctuations in the risk-free base interest rate using a portfolio hedge. Receivables from operating leases are excluded from this hedging strategy because they do not satisfy the definition of a financial instrument within the meaning of IAS 39 in conjunction with IAS 32.

The reconciliation to the balance sheet values is as follows:

€ million	31.12.2015	31.12.2014
Receivables from customers	**92,771**	**85,871**
Fair value adjustment from portfolio hedging	–18	40
Receivables from customers, net of fair value adjustment from portfolio hedging	92,789	85,831

Receivables from leasing transactions include due receivables amounting to €247 million (previous year: €322 million).

As of the reporting date, receivables from operating leases amounted to €78 million (previous year: €122 million).

The breakdown of receivables from finance leases is as follows:

€ million	31.12.2015	31.12.2014
Gross receivables from finance leases	**20,696**	**19,309**
by residual term		
up to one year	7,671	7,620
more than one year up to five years	12,964	11,656
more than five years	61	33
Interest not yet earned from finance leases	**1,072**	**1,111**
Net receivables from finance leases	**19,624**	**18,198**
by residual term		
up to one year	7,272	7,190
more than one year up to five years	12,294	10,979
more than five years	57	29

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

Provisions for risks in connection with outstanding minimum lease payments have been recognized in the amount of €36 million (previous year: €50 million).

33. Provisions for Risks from Lending and Leasing Business

Provisions for risks from lending and leasing business are recognized in accordance with standard rules applicable throughout the Group and cover all identifiable credit risks.

€ million	Specific valuation allowances	Portfolio-based valuation allowances	2015	Specific valuation allowances	Portfolio-based valuation allowances	2014
Balance as of Jan. 1	**1,112**	**1,339**	**2,452**	**994**	**1,144**	**2,138**
Exchange rate and other changes	−77	−18	−95	2	6	8
Changes in basis of consolidation	−21	−5	−26	119	34	152
Additions	558	501	1,059	425	292	717
Utilization	201	–	201	246	–	246
Reversals	218	241	460	151	137	288
Interest income on impaired receivables	37	–	37	30	–	30
Reclassification	−7	7	0	0	0	0
Balance as of Dec. 31	**1,108**	**1,583**	**2,692**	**1,112**	**1,339**	**2,452**

Provisions for risks have been recognized in respect of receivables from customers. At the end of the reporting period, valuation allowances of €652 million (previous year: €428 million) had been recognized in relation to receivables from individual countries in the eurozone, Russia, Brazil and India, which are affected by the current crisis situation.

34. Derivative Financial Instruments

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

€ million	31.12.2015	Dec. 31, 2014
Transactions to hedge against		
currency risk on assets using fair value hedges	120	264
currency risk on liabilities using fair value hedges	454	101
interest-rate risk using fair value hedges	455	518
of which hedges against interest-rate risk using portfolio fair value hedges	1	1
interest-rate risk using cash flow hedges	0	2
currency and pricing risk on future cash flows using cash flow hedges	18	28
Hedging transactions	**1,047**	**913**
Assets arising from derivatives not designated as hedges	131	42
Total	**1,178**	**955**

35. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2014	**411**	**623**	**1,034**
Foreign exchange differences	–	0	0
Changes in basis of consolidation	2	−508	−506
Additions	35	48	83
Reclassifications	–	–	–
Disposals	1	6	7
Changes recognized in profit or loss	33	–	33
Dividends	−7	–	−7
Other changes recognized in other comprehensive income	−4	–	−4
Balance as of Dec. 31, 2014	**470**	**157**	**627**
Impairment losses Balance as of Jan. 1, 2014	**27**	**1**	**28**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	1	–	1
Additions	–	–	–
Reclassifications	–	–	–
Disposals	1	–	1
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2014	**26**	**1**	**28**
Net carrying amount as of Dec. 31, 2014	**443**	**156**	**599**
Net carrying amount as of Jan. 1, 2014	**384**	**622**	**1,006**

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2015	**470**	**157**	**627**
Foreign exchange differences	–	0	0
Changes in basis of consolidation	–	–	–
Additions	72	95	167
Reclassifications	44	−44	–
Disposals	10	0	10
Changes recognized in profit or loss	24	–	24
Dividends	−12	–	−12
Other changes recognized in other comprehensive income	−23	–	−23
Balance as of Dec. 31, 2015	**564**	**207**	**772**
Impairment losses Balance as of Jan. 1, 2015	**26**	**1**	**28**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	–	–
Reclassifications	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2015	**26**	**1**	**28**
Net carrying amount as of Dec. 31, 2015	**538**	**206**	**744**
Net carrying amount as of Jan. 1, 2015	**443**	**156**	**599**

The reclassifications in the reporting period of €44 million include the investment in Volkswagen Financial Services South Africa (Pty) Ltd., which was accounted for using the equity method for the first time in 2015.

36. Intangible Assets

€ million	Internally generated software	Brand names, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2014	**104**	**45**	**42**	**150**	**341**
Foreign exchange differences	0	−1	−1	−2	−4
Changes in basis of consolidation	–	11	–	32	44
Additions	7	–	–	26	33
Reclassifications	2	–	–	−2	0
Disposals	–	–	–	6	6
Balance as of Dec. 31, 2014	**114**	**56**	**41**	**197**	**408**
Amortization and impairment losses					
Balance as of Jan. 1, 2014	**75**	**5**	**–**	**106**	**187**
Foreign exchange differences	0	0	–	−1	−1
Changes in basis of consolidation	–	0	–	6	7
Additions to cumulative amortization	2	2	–	28	32
Additions to cumulative impairment losses	1	–	–	–	1
Reclassifications	0	–	–	0	–
Disposals	–	–	–	2	2
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2014	**79**	**8**	**–**	**137**	**224**
Net carrying amount as of Dec. 31, 2014	**35**	**48**	**41**	**60**	**184**
Net carrying amount as of Jan. 1, 2014	**29**	**40**	**42**	**43**	**154**

€ million	Internally generated software	Brand names, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2015	**114**	**56**	**41**	**197**	**408**
Foreign exchange differences	−3	−4	−1	−1	−9
Changes in basis of consolidation	–	–	–	0	0
Additions	6	–	–	23	29
Reclassifications	–	–	–	–	–
Disposals	0	–	–	6	6
Balance as of Dec. 31, 2015	**117**	**53**	**40**	**213**	**422**
Amortization and impairment losses Balance as of Jan. 1, 2015	**79**	**8**	**–**	**137**	**224**
Foreign exchange differences	−1	0	–	0	−1
Changes in basis of consolidation	–	–	–	0	0
Additions to cumulative amortization	6	2	–	29	37
Additions to cumulative impairment losses	18	–	–	–	18
Reclassifications	–	–	–	–	–
Disposals	–	–	–	5	5
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2015	**101**	**10**	**–**	**162**	**273**
Net carrying amount as of Dec. 31, 2015	**16**	**43**	**40**	**51**	**149**
Net carrying amount as of Jan. 1, 2015	**35**	**48**	**41**	**60**	**184**

The goodwill of €40 million (previous year: €41 million) and brand names of €32 million (previous year: €36 million) in Brazil, Poland and Germany on the balance sheet as of the reporting date have an indefinite useful life. The indefinite useful life arises because goodwill and brand names are linked to the relevant cash-generating unit and will therefore remain in existence for as long as this unit also remains in existence. The customer base in Poland is being amortized over a period of ten years.

Of the total recognized goodwill, €30 million is accounted for by Poland and €10 million by Brazil. The discount rates used for the impairment tests are as follows: 12.8% for Poland and 12.2% for Brazil.

The impairment tests for the reported goodwill are based on the value in use. No possible change in a material assumption would lead to the recognition of an impairment loss for goodwill.

37. Property, Plant and Equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2014	**282**	**207**	**489**
Foreign exchange differences	1	0	1
Changes in basis of consolidation	13	8	20
Additions	24	48	72
Reclassifications	–2	2	0
Disposals	3	28	31
Balance as of Dec. 31, 2014	**315**	**238**	**553**
Depreciation and impairment losses			
Balance as of Jan. 1, 2014	**86**	**139**	**226**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	1	3	4
Additions to cumulative depreciation	9	24	34
Additions to cumulative impairment losses	0	–	0
Reclassifications	0	0	0
Disposals	2	16	18
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2014	**95**	**151**	**246**
Net carrying amount as of Dec. 31, 2014	**220**	**87**	**307**
Net carrying amount as of Jan. 1, 2014	**196**	**68**	**264**

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2015	**315**	**238**	**553**
Foreign exchange differences	2	−2	1
Changes in basis of consolidation	−5	0	−5
Additions	12	62	73
Reclassifications	−8	12	5
Disposals	13	27	40
Balance as of Dec. 31, 2015	**303**	**283**	**586**
Depreciation and impairment losses			
Balance as of Jan. 1, 2015	**95**	**151**	**246**
Foreign exchange differences	1	0	0
Changes in basis of consolidation	0	0	0
Additions to cumulative depreciation	10	30	40
Additions to cumulative impairment losses	–	0	0
Reclassifications	0	0	0
Disposals	9	7	17
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2015	**96**	**173**	**269**
Net carrying amount as of Dec. 31, 2015	**207**	**110**	**317**
Net carrying amount as of Jan. 1, 2015	**220**	**87**	**307**

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

Assets under construction with a carrying amount of €2 million (previous year: €23 million) are included in land and buildings.

38. Lease Assets and Investment Property

€ million	Movable lease assets	Investment property	Total
Cost			
Balance as of Jan. 1, 2014	**11,042**	**26**	**11,068**
Foreign exchange differences	123	0	123
Changes in basis of consolidation	889	–	889
Additions	9,685	5	9,690
Reclassifications	0	–	0
Disposals	7,793	1	7,794
Balance as of Dec. 31, 2014	**13,946**	**30**	**13,976**
Depreciation and impairment losses			
Balance as of Jan. 1, 2014	**2,497**	**8**	**2,505**
Foreign exchange differences	35	0	35
Changes in basis of consolidation	194	–	194
Additions to cumulative depreciation[1]	1,865	1	1,866
Additions to cumulative impairment losses[1]	93	–	93
Reclassifications	0	–	0
Disposals	1,502	1	1,503
Reversal of impairment losses	2	–	2
Balance as of Dec. 31, 2014	**3,180**	**8**	**3,188**
Net carrying amount as of Dec. 31, 2014	**10,766**	**22**	**10,788**
Net carrying amount as of Jan. 1, 2014	**8,545**	**18**	**8,563**

1 The prior year has been restated.

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

€ million	2015	2016 – 2019	Total
Lease payments	122	142	263

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

€ million	2015	2016 – 2019	From 2020	Total
Lease payments	2	7	4	13
Interest component	0	2	0	2
Carrying amount of liabilities[1]	**2**	**6**	**4**	**11**

1 The prior year has been restated.

€ million	Movable lease assets	Investment property	Total
Cost			
Balance as of Jan. 1, 2015	**13,946**	**30**	**13,976**
Foreign exchange differences	151	0	151
Changes in basis of consolidation	0	–	0
Additions	11,941	–	11,941
Reclassifications	0	–4	–4
Disposals	9,076	3	9,079
Balance as of Dec. 31, 2015	**16,961**	**22**	**16,983**
Depreciation and impairment losses			
Balance as of Jan. 1, 2015	**3,180**	**8**	**3,188**
Foreign exchange differences	–33	0	–33
Changes in basis of consolidation	0	–	0
Additions to cumulative depreciation	2,278	1	2,278
Additions to cumulative impairment losses	353	–	353
Reclassifications	0	0	0
Disposals	1,863	1	1,864
Reversal of impairment losses	2	–	2
Balance as of Dec. 31, 2015	**3,978**	**7**	**3,986**
Net carrying amount as of Dec. 31, 2015	**12,982**	**15**	**12,997**
Net carrying amount as of Jan. 1, 2015	**10,766**	**22**	**10,788**

The fair value of investment property amounts to €16 million (previous year: €23 million). The fair value is determined using an income approach based on internal calculations (Level 3 of the fair value hierarchy). Operating expenses of €2 million (previous year: €1 million) were incurred in the reporting period for the maintenance of investment property.

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

€ million	2016	2017 – 2020	Total
Lease payments	156	162	318

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

€ million	2016	2017 – 2020	From 2021	Total
Lease payments	2	6	4	12
Interest component	0	1	0	2
Carrying amount of liabilities	**2**	**5**	**4**	**10**

39. Deferred Tax Assets

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

€ million	31.12.2015	31.12.2014
Deferred tax assets	8,589	6,837
of which noncurrent	3,812	3,621
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	25	31
of which noncurrent	25	31
Offset (with deferred tax liabilities)	−6,911	−5,723
Total	**1,703**	**1,145**

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

€ million	31.12.2015	31.12.2014
Receivables and other assets	325	244
Marketable securities and cash	2,755	1,335
Intangible assets/property, plant and equipment	14	13
Lease assets	4,738	4,370
Liabilities and provisions	755	875
Total	**8,589**	**6,837**

40. Other Assets

The details of other assets are as follows:

€ million	31.12.2015	31.12.2014
Vehicles returned for disposal	746	588
Restricted cash	1,380	473
Prepaid expenses and accrued income	304	299
Other tax assets	167	87
Reinsurers' share of underwriting provisions	76	87
Miscellaneous	1,106	1,189
Total	**3,780**	**2,723**

Minimum lease payments of €797 million (previous year: €840 million) are expected from noncancelable subleases in connection with buyback transactions.

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

€ million	31.12.2015	31.12.2014
Reinsurers' share of provision for claims outstanding	56	67
Reinsurers' share of provision for unearned premiums	19	19
Reinsurers' share of other underwriting provisions	1	1
Total	**76**	**87**

41. Noncurrent Assets

€ million	Dec. 31, 2015	of which noncurrent	Dec. 31, 2014	of which noncurrent
Cash reserve	1,416	–	451	–
Receivables from credit institutions	2,940	42	2,036	38
Receivables from customers	92,771	51,463	85,871	47,197
Derivative financial instruments	1,178	836	955	726
Marketable securities	2,936	–	2,013	–
Equity-accounted joint ventures	538	538	443	443
Miscellaneous financial assets	206	206	156	156
Intangible assets	149	149	184	184
Property, plant and equipment	317	317	307	307
Lease assets	12,982	10,714	10,766	8,645
Investment property	15	15	22	22
Current tax assets	320	5	159	10
Other assets	3,780	782	2,723	903
Total	**119,548**	**65,067**	**106,086**	**58,631**

42. Liabilities to Credit Institutions and Customers

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

As of the reporting date, the use of such funds from other entities in the Volkswagen Group, recognized as unsecuritized liabilities to customers, amounted to €15,395 million (previous year: €12,190 million) – of which €4,733 million (previous year: €2,592 million) was accounted for by the sole shareholder, Volkswagen AG.

The liabilities to customers also include customer deposits of €28,109 million (previous year: €26,224 million). These deposits predominantly comprise overnight money and time deposits, as well as various savings bonds and savings plans, held with Volkswagen Bank GmbH. In terms of maturity, the "Direkt-Sparplan" and "Plus Sparbrief" savings products currently offer the longest investment horizon. The maximum maturity is ten years.

In the prior year, some of the fixed-income liabilities to customers had been hedged against fluctuations in the risk-free base interest rate using a portfolio hedge.

The reconciliation to the balance sheet values is as follows:

€ million	31.12.2015	31.12.2014
Liabilities to customers	**43,764**	**38,721**
Fair value adjustment from portfolio hedging	–	0
Liabilities to customers, net of fair value adjustment from portfolio hedging	43,764	38,721

43. Securitized Liabilities

Securitized liabilities comprise bonds and commercial paper.

€ million	31.12.2015	31.12.2014
Bonds issued	36,695	33,764
Commercial paper issued	3,218	3,479
Total	**39,913**	**37,243**

44. ABS Transactions

The VW FS AG Group uses ABS transactions to obtain funding in addition to the sources referred to above. The related liabilities are recognized in the following balance sheet items:

€ million	31.12.2015	31.12.2014
Liabilities to credit institutions	–	520
Bonds issued	17,057	12,959
Subordinated liabilities	1,587	1,120
Total	**18,644**	**14,599**

Of the total amount of liabilities arising in connection with ABS transactions, an amount of €16,930 million (previous year: €13,398 million) is accounted for by ABS transactions with financial assets. The corresponding carrying amount of receivables from retail financing and leasing business is €17,218 million (previous year: €13,357 million). As of December 31, 2015, the fair value of the liabilities amounted to €16,988 million (previous year: €13,676 million). The fair value of the assigned receivables, which continued to be recognized, amounted to €17,565 million (previous year: €13,534 million) as of the reporting date.

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

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

Collateral totaling €20,138 million (previous year: €14,978 million) has been furnished in connection with ABS transactions.

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

The bulk of the public and private ABS transactions in the Volkswagen Financial Services AG Group can be repaid early (with a clean-up call) when less than 9% or 10% of the original transaction volume remains outstanding.

45. Derivative Financial Instruments

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

€ million	31.12.2015	Dec. 31, 2014
Transactions to hedge against		
currency risk on assets using fair value hedges	0	5
currency risk on liabilities using fair value hedges	54	124
interest-rate risk using fair value hedges	63	95
of which hedges against interest-rate risk using portfolio fair value hedges	42	45
interest-rate risk using cash flow hedges	4	25
currency and pricing risk on future cash flows using cash flow hedges	22	37
Hedging transactions	**143**	**286**
Assets arising from derivatives not designated as hedges	105	160
Total	**249**	**446**

46. Provisions for Pensions and Other Post-Employment Benefits

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

€ million	Dec. 31, 2015	Dec. 31, 2014
Present value of funded obligations	233	226
Fair value of plan assets	196	180
Funded status (net)	**36**	**47**
Present value of unfunded obligations	318	336
Amount not recognized as an asset because of the ceiling in IAS 19	1	0
Net liability recognized in the balance sheet	**355**	**383**
of which provisions for pensions	357	386
of which other assets	3	3

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

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

German pension plans funded by external plan assets
The pension plans funded by external plan assets are defined contribution plans with guarantees. In this case, an annual pension expense dependent on income and status is either converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlement) or paid out in a single lump sum or in installments. In some cases, employees also have the opportunity to provide for their own retirement through deferred compensation. The annuity factors include a guaranteed rate of interest. The modular pension entitlements earned annually are added together at retirement. The pension expense is contributed on an ongoing basis to a separate pool of assets that is administered independently of the Company in trust and invested in the capital markets. If the plan assets exceed the present value of the obligations calculated using the guaranteed rate of interest, surpluses are allocated (modular pension bonuses). As the assets administered in trust meet the IAS 19 criteria for classification as plan assets, they are offset against the obligations.
The amount of the plan assets is exposed to general market risk. The investment strategy and its implementation are therefore continuously monitored by the trusts’ governing bodies, on which the companies are also represented. For example, investment policies are stipulated in investment guidelines with the aim of limiting market risk and its impact on plan

assets. In addition, asset-liability management analyses are conducted at regular intervals so as to ensure that investments are in line with the obligations that need to be covered. The pension assets are currently invested primarily in fixed-income or equity funds. The main risks are therefore interest rate and equity price risk. To mitigate market risk, the pension system also provides for cash funds to be set aside in an equalization reserve before any surplus is allocated.

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

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

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

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

	GERMANY		REST OF WORLD	
Percent	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Discount rate	2.70	2.30	5.73	6.36
Pay trend	3.40	3.30	5.30	5.56
Pension trend	1.70	1.80	3.45	3.74
Staff turnover rate	0.82	0.82	2.50	2.71
Annual increase in healthcare costs	–	–	2.00	2.00

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

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

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

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

€ million	2015	2014
Net liability recognized in the balance sheet as of January 1	**383**	**243**
Current service cost	29	19
Net interest expense	9	9
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–49	135
Actuarial gains (–)/losses (+) arising from experience adjustments	5	0
Income/expenses from plan assets not included in interest income	–3	7
Change in amount not recognized as an asset because of the ceiling in IAS 19	0	0
Employer contributions to plan assets	17	15
Employee contributions to plan assets	0	0
Pension payments from company assets	5	5
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–	4
Other changes	–3	0
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**355**	**383**

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

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

€ million	2015	2014
Present value of obligations as of January 1	**563**	**385**
Current service cost	29	19
Interest cost (unwinding of discount on obligations)	16	17
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–49	135
Actuarial gains (–)/losses (+) arising from experience adjustments	5	0
Employee contributions to plan assets	2	2
Pension payments from company assets	5	5
Pension payments from plan assets	2	2
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–	10
Other changes	–3	1
Foreign exchange differences from foreign plans	–3	2
Present value of obligations as of December 31	**551**	**563**

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

Present value of defined benefit obligation if		DEC. 31, 2015		DEC. 31, 2014	
		€ million	Change in percent	€ million	Change in percent
Discount rate	is 0.5 percentage points higher	495	−10.03	507	−9.93
	is 0.5 percentage points lower	612	11.09	628	11.59
Pension trend	is 0.5 percentage points higher	574	4.30	588	4.52
	is 0.5 percentage points lower	526	−4.43	540	−4.10
Pay trend	is 0.5 percentage points higher	556	0.97	569	1.10
	is 0.5 percentage points lower	545	−0.93	557	−1.06
Longevity	increases by one year	562	2.09	577	2.50

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

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

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 22 years (previous year: 23 years).

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

€ million	2015	2014
Active members with pension entitlements	401	414
Members with vested entitlements who have left the Company	46	46
Retirees	104	102
Total	**551**	**563**

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

€ million	2015	2014
Payments due within the next fiscal year	5	7
Payments due between two and five years	25	31
Payments due in more than five years	520	525
Total	**551**	**563**

Changes in plan assets are shown in the following table:

€ million	2015	2014
Fair value of plan assets as of January 1	**180**	**142**
Interest income on plan assets determined using the discount rate	7	8
Income/expenses from plan assets not included in interest income	–3	7
Employer contributions to plan assets	17	15
Employee contributions to plan assets	1	2
Pension payments from plan assets	2	2
Gains (+) or losses (–) arising from plan settlements	–	–
Changes in basis of consolidation	–	6
Other changes	0	1
Foreign exchange differences from foreign plans	–4	2
Fair value of plan assets as of December 31	**196**	**180**

The investment of the plan assets to cover future pension obligations resulted in income in the amount of €4 million (previous year: €14 million).

Employer contributions to plan assets are expected to amount to €22 million (previous year: €19 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

	31.12.2015			DEC. 31, 2014		
€ million	Quoted prices in active markets	No quoted prices in active markets	Total	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	6	–	6	7	–	7
Equity instruments	7	–	7	7	–	7
Debt instruments	44	–	44	46	–	46
Direct investments in real estate	–	–	–	–	–	–
Derivatives	3	–	3	2	–	2
Equity funds	20	1	21	37	–	37
Bond funds	106	–	106	72	–	72
Real estate funds	2	–	2	2	–	2
Other funds	6	–	6	6	–	6
Asset-backed securities	–	–	–	–	–	–
Structured debt securities	–	–	–	–	–	–
Other	0	1	1	0	1	1

Of the total plan assets, 56% (previous year: 43%) are invested in German assets, 24% (previous year: 25%) in other European assets and 20% (previous year: 32%) in assets in other regions. Investments of plan assets in debt instruments issued by the Volkswagen Group are of minor significance.

The following amounts have been recognized in the income statement:

€ million	2015	2014
Current service cost	29	19
Net interest on the net defined benefit liability	9	9
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	**38**	**28**

47. Underwriting Provisions and Other Provisions

€ million	31.12.2015	31.12.2014
Underwriting provisions	337	308
Other provisions	755	799
Total	**1,092**	**1,107**

The following table shows the changes in underwriting provisions:

€ million	UNDERWRITING PROVISIONS Provision for claims outstanding	Provision for unearned premiums	Other underwriting provisions
Balance as of Jan. 1, 2014	**104**	**177**	**0**
Changes to basis of consolidation	–	–	–
Utilization	35	77	0
Additions	24	114	1
Balance as of Dec. 31, 2014	**93**	**214**	**1**

€ million	UNDERWRITING PROVISIONS Provision for claims outstanding	Provision for unearned premiums	Other underwriting provisions
Balance as of Jan. 1, 2015	**93**	**214**	**1**
Changes to basis of consolidation	–	–	–
Utilization	36	95	0
Additions	27	131	1
Balance as of Dec. 31, 2015	**85**	**250**	**2**

Maturity profile of underwriting provisions:

	31.12.2015		31.12.2014	
€ million	Remaining maturity of more than one year	Total	Remaining maturity of more than one year	Total
Provision for claims outstanding	56	85	64	93
Provision for unearned premiums	136	250	119	214
Other underwriting provisions	0	2	–	1
Total	**192**	**337**	**183**	**308**

Underwriting provisions for direct insurance business:

	2015		2014	
€ million	Remaining maturity of more than one year	Total	Remaining maturity of more than one year	Total
Balance as of Jan. 1	**69**	**147**	**53**	**120**
Utilization	33	70	–	67
Additions	42	89	16	94
Balance as of Dec. 31	**78**	**166**	**69**	**147**

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

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

	2014			
€ million	Vehicle insurance	Credit protection insurance	Other	Total
Balance as of Jan. 1	**83**	**76**	**1**	**160**
Utilization	19	30	1	50
Additions	2	36	13	51
Balance as of Dec. 31	**66**	**82**	**13**	**161**

	2015			
€ million	Vehicle insurance	Credit protection insurance	Other	Total
Balance as of Jan. 1	**66**	**82**	**13**	**161**
Utilization	9	16	35	60
Additions	0	25	44	69
Balance as of Dec. 31	**57**	**91**	**22**	**170**

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

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

€ million	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of Jan. 1, 2014	**173**	**609**	**150**	**932**
Foreign exchange differences	0	8	–1	7
Changes in basis of consolidation	3	1	7	11
Utilization	122	171	26	318
Additions/new provisions	65	298	69	432
Unwinding of discount/effect of change in discount rate	–	12	0	12
Reversals	17	248	11	277
Balance as of Dec. 31, 2014	**102**	**509**	**188**	**799**
of which current	58	53	167	277
of which noncurrent	44	456	21	521
Balance as of Jan. 1, 2015	**102**	**509**	**188**	**799**
Foreign exchange differences	1	–42	–2	–43
Changes in basis of consolidation	0	–	–	0
Utilization	44	82	39	165
Additions/new provisions	60	197	72	328
Unwinding of discount/effect of change in discount rate	–	5	–	5
Reversals	10	108	51	169
Balance as of Dec. 31, 2015	**108**	**480**	**167**	**755**
of which current	58	225	149	432
of which noncurrent	50	255	18	324

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

The miscellaneous provisions also include provisions for indirect credit risks amounting to €38 million (previous year: €27 million). The timing of the cash outflows in connection with other provisions is expected to be as follows: 57% in the next year, 38% in the years 2017 to 2020 and 5% thereafter.

48. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	31.12.2015	31.12.2014
Deferred tax liabilities	7,983	6,041
of which noncurrent	4,331	3,413
Offset (with deferred tax assets)	−6,911	−5,723
Total	**1,072**	**318**

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

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

€ million	31.12.2015	31.12.2014
Receivables and other assets	5,336	4,940
Marketable securities and cash	147	11
Intangible assets/property, plant and equipment	17	24
Lease assets	571	556
Liabilities and provisions	1,912	509
Total	**7,983**	**6,040**

49. Other Liabilities

The details of other liabilities are as follows:

€ million	31.12.2015	31.12.2014
Deferred income and accrued expenses	656	533
Other tax liabilities	192	255
Social security and payroll liabilities	170	155
Miscellaneous	581	486
Total	**1,599**	**1,429**

50. Subordinated Capital

The subordinated capital is issued by respectively raised fromVolkswagen Bank GmbH, Volkswagen Leasing GmbH, Volkswagen Financial Services (UK) Ltd., Banco Volkswagen S.A., Volkswagen Financial Services Australia Limited and VW FS AG, and is broken down as follows:

€ million	31.12.2015	31.12.2014
Subordinated liabilities	2,344	2,204
of which: to other entities in the Volkswagen Group	2,288	2,093
Total	**2,344**	**2,204**

51. Noncurrent Liabilities

€ million	Dec. 31, 2015	of which noncurrent	Dec. 31, 2014	of which noncurrent
Liabilities to credit institutions	15,721	6,309	13,134	5,404
Liabilities to customers	43,764	8,678	38,721	7,524
Securitized liabilities	39,913	25,282	37,243	23,940
Derivative financial instruments	249	132	446	232
Current tax liabilities	329	165	311	122
Other liabilities	1,599	625	1,430	436
Subordinated capital	2,344	1,461	2,204	1,870
Total	**103,919**	**42,652**	**93,489**	**39,528**

52. Equity

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

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

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

On the basis of the control and profit transfer agreement with the sole shareholder, Volkswagen AG, the profits of €420 million (previous year: €147 million) in accordance with the HGB generated by VW FS AG have been reported as a reduction of equity.

53. Capital Management

In this context, "capital" is generally defined as the equity in accordance with IFRS. The aim of capital management in the VW FS AG Group is to support the Company's credit rating by ensuring that the Group has adequate capital backing, obtain capital for the planned growth over the next few years and satisfy the capital requirements imposed by the banking supervisory authorities.

Regulatory capital is different from equity in accordance with IFRS (for the components, see note 52).

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

Corporate action implemented by the parent company of VW FS AG has an impact on both IFRS equity and regulatory capital.

Under the legislative provisions governing banking supervision – Capital Requirements Regulation (CRR), Kreditwesengesetz (KWG – German Banking Act), Solvabilitätsverordnung (SolvV– German Solvency Regulation) – the banking supervisor generally assumes that capital adequacy requirements are satisfied if the entity subject to supervision has a CET 1 capital ratio of at least 4.5%, a Tier 1 capital ratio of at least 6.0% and a total capital ratio of at least 8.0%. In calculating these ratios, capital is measured against the own funds requirements determined in accordance with statutory provisions for counterparty risk, operational risk, market risk and credit value adjustments (CVAs). To ensure compliance with these requirements at all times, the Group has established a planning procedure integrated into the internal reporting system. In this procedure, the capital requirement is continuously determined based on actual and forecast business trends. This approach once again ensured in the reporting period that both the Group and the individual companies subject to particular capital requirements complied with the minimum regulatory capital requirements at all times.

The following amounts and key figures were determined for the financial holding group as of the reporting date:

	31.12.2015	31.12.2014
Total risk exposure amount[1] (€ million)	108,343	97,931
of which risk-weighted exposure amounts for credit risk	94,824	86,416
of which own funds requirements for market risk *12.5	6,158	4,725
of which own funds requirements for operational risk *12.5	6,906	6,381
of which own funds requirements for credit valuation adjustments *12.5	455	409
Eligible own funds (€ million)	13,109	10,484
Own funds (€ million)	13,109	10,484
of which Common Equity Tier 1 capital	12,966	10,122
of which Additional Tier 1 capital	0	0
of which Tier 2 capital	143	362
Common Equity Tier 1 capital ratio (percent)[2]	12.0	10.3
Tier 1 capital ratio (percent)[2]	12.0	10.3
Total capital ratio (percent)[2]	12.1	10.7

1 In accordance with Article 92 (3) of the CRR
2 In accordance with Article 92 (1) of the CRR

FINANCIAL INSTRUMENT DISCLOSURES

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

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

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

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

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

Sales or purchases of all non-derivative financial instruments are accounted for at the settlement date whereas sales or purchases of derivative financial instruments are accounted for at the trade date.

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

	LOANS AND RECEIVABLES		AVAILABLE-FOR-SALE FINANCIAL ASSETS		FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST		FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
€ million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Assets								
Cash reserve	1,416	451	–	–	–	–	–	–
Receivables from credit institutions	2,940	2,036	–	–	–	–	–	–
Receivables from customers	73,054	67,540	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	131	42
Marketable securities	–	–	2,936	2,013	–	–	–	–
Miscellaneous financial assets[1]	–	–	0	0	–	–	–	–
Other assets	1,618	749	–	–	–	–	–	–
Total	**79,028**	**70,776**	**2,936**	**2,013**	**–**	**–**	**131**	**42**
Liabilities								
Liabilities to credit institutions	–	–	–	–	15,721	13,135	–	–
Liabilities to customers	–	–	–	–	43,753	38,710	–	–
Securitized liabilities	–	–	–	–	39,913	37,243	–	–
Derivative financial instruments	–	–	–	–	–	–	105	160
Other liabilities	–	–	–	–	579	483	–	–
Subordinated capital	–	–	–	–	2,344	2,204	–	–
Total	**–**	**–**	**–**	**–**	**102,310**	**91,775**	**105**	**160**

1 The presentation of prior-year figures have been changed because subsidiaries that are not consolidated for reasons of materiality do not fall within the scope of IAS 39 (see note 12).

Receivables from leasing business of €19,704 million (previous year: €18,320 million) do not have to be allocated to any of these categories.
The net income/expense for each of the categories is as follows:

€ million	2015	2014
Loans and receivables	3,441	3,341
Available-for-sale financial assets[1]	17	23
Financial liabilities measured at amortized cost	−1,566	−1,675
Financial assets and financial liabilities measured at fair value through profit or loss	115	31

1 The presentation of prior-year figures have been changed because subsidiaries that are not consolidated for reasons of materiality do not fall within the scope of IAS 39 (see note 12).

The net income/expense is determined as follows:

Measurement category	Measurement method
Loans and receivables	Interest income using the effective interest method in accordance with IAS 39 and expenses/income from the recognition of valuation allowances in accordance with IAS 39, including effects from currency translation
Available-for-sale financial assets	Fair value in accordance with IAS 39 in conjunction with IFRS 13, including interest and effects from currency translation and impairment
Financial liabilities measured at amortized cost	Interest expense using the effective interest method in accordance with IAS 39, including effects from currency translation
Financial assets and financial liabilities measured at fair value through profit or loss	Fair value in accordance with IAS 39 in conjunction with IFRS 13, including interest and effects from currency translation and impairment

55. Classes of Financial Instruments

Financial instruments are divided into the following classes in the VW FS AG Group:
- Measured at fair value
- Financial assets measured at amortized cost
- Derivative financial instruments designated as hedges
- Financial liabilities measured at amortized cost
- Credit commitments and financial guarantees
- Not within the scope of IFRS 7

To bring the presentation into line with the regular presentation of classes of financial instruments, thereby improving the comparability of the financial statements, receivables and liabilities in a hedge accounting relationship with derivative financial instruments have been reclassified to “Financial assets measured at amortized cost”. The previous class referred to as “Hedge accounting” has been renamed “Derivative financial instruments designated as hedging instruments” to match the new content structure.

Subsidiaries and joint ventures that are not consolidated for reasons of materiality are not deemed financial instruments in accordance with IAS 39 and have therefore been eliminated from the scope of IFRS 7. Equity investments are reported in the “measured at fair value” class. As a consequence of this adjustment, the previous “Miscellaneous financial assets” class has been removed.

The previous credit commitments class has been broadened to include financial guarantees, but the commitments under leasing transactions are not included.

The relevant tables and prior-year values have been restated to reflect all the changes in the classes.

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

	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE[1]		MEASURED AT AMORTIZED COST[1,2]		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES[1]		NOT WITHIN THE SCOPE OF IFRS 7[1]	
€ million	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Assets										
Cash reserve	1,416	451	–	–	1,416	451	–	–	–	–
Receivables from credit institutions	2,940	2,036	–	–	2,940	2,036	–	–	–	–
Receivables from customers	92,771	85,871	–	–	92,771	85,871	–	–	–	–
Derivative financial instruments	1,178	955	131	42	–	–	1,047	913	–	–
Marketable securities	2,936	2,013	2,936	2,013	–	–	–	–	–	–
Equity-accounted joint ventures	538	443	–	–	–	–	–	–	538	443
Miscellaneous financial assets	206	156	0	0	–	–	–	–	206	156
Other assets	3,780	2,723	–	–	1,618	749	–	–	2,162	1,974
Total	**105,765**	**94,648**	**3,067**	**2,055**	**98,745**	**89,107**	**1,047**	**913**	**2,906**	**2,573**
Liabilities										
Liabilities to credit institutions	15,721	13,135	–	–	15,721	13,135	–	–	–	–
Liabilities to customers	43,764	38,721	–	–	43,764	38,721	–	–	–	–
Securitized liabilities	39,913	37,243	–	–	39,913	37,243	–	–	–	–
Derivative financial instruments	249	446	105	160	–	–	143	286	–	–
Other liabilities	1,599	1,429	–	–	579	483	–	–	1,021	946
Subordinated capital	2,344	2,204	–	–	2,344	2,204	–	–	–	–
Total	**103,590**	**93,178**	**105**	**160**	**102,321**	**91,786**	**143**	**286**	**1,021**	**946**

1 The presentation of prior year figures has been amended due to a changed allocation into classes of financial instruments.
2 Some of the receivables from customers and liabilities to customers have been designated as hedged items in fair value hedges and are therefore subject to fair value adjustments. The receivables from customers and liabilities to customers in the class "Measured at amortized cost" are therefore measured neither entirely at fair value nor entirely at amortized cost.

The "Credit commitments and financial guarantees" class contains obligations under irrevocable credit commitments and financial guarantees amounting to €2,862 million (previous year: €2,386 million).

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

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

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

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

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not directly observable in an active market. Most of the receivables from customers are allocated to Level 3 because their fair value is measured using inputs that are not observable in active markets (see note 57).

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

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Assets						
Measured at fair value						
Derivative financial instruments	–	–	131	42	–	–
Marketable securities	2,701	1,631	223	382	12	–
Miscellaneous financial assets[1]	–	–	–	–	0	0
Measured at amortized cost						
Cash reserve	1,416	451	–	–	–	–
Receivables from credit institutions	2,884	1,990	56	47	–	–
Receivables from customers[1]	–	–	853	788	92,973	86,219
Other assets	–	–	1,618	749	–	–
Derivative financial instruments designated as hedges	–	–	1,047	913	–	–
Total	**7,001**	**4,072**	**3,929**	**2,921**	**92,985**	**86,219**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	105	160	–	–
Measured at amortized cost						
Liabilities to credit institutions	–	–	15,572	13,105	–	–
Liabilities to customers[1]	–	–	43,742	38,953	–	–
Securitized liabilities	21,529	19,366	18,543	18,114	–	–
Other liabilities	–	–	581	487	–	–
Subordinated capital	–	–	2,357	2,249	–	–
Derivative financial instruments designated as hedges	–	–	143	286	–	–
Total	**21,529**	**19,366**	**81,044**	**73,354**	**–**	**–**

1 The presentation of prior year figures has been amended due to a changed allocation into classes of financial instruments

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

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

Likewise, no fair value was determined for miscellaneous financial assets because there is no active market for the equity investments in the miscellaneous financial assets and fair values could not be reliably determined without disproportionate time, effort and expense. The fair value of irrevocable credit commitments equates to the nominal value of the obligations because of the short maturity and the variable interest rate linked to the market interest rate. There are no differences between the fair value and the nominal value of the obligation in the case of financial guarantees either.

	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
€ million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Assets						
Measured at fair value						
Derivative financial instruments	131	42	131	42	–	–
Marketable securities	2,936	2,013	2,936	2,013	–	–
Miscellaneous financial assets[1]	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	1,416	451	1,416	451	–	–
Receivables from credit institutions	2,940	2,037	2,940	2,036	1	1
Receivables from customers[1]	93,826	87,007	92,771	85,871	1,055	1,136
Other assets	1,618	749	1,618	749	–	–
Derivative financial instruments designated as hedges	1,047	913	1,047	913	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	105	160	105	160	–	–
Measured at amortized cost						
Liabilities to credit institutions	15,572	13,105	15,721	13,135	−149	−30
Liabilities to customers[1]	43,742	38,953	43,764	38,721	−22	232
Securitized liabilities	40,072	37,480	39,913	37,243	159	237
Other liabilities	581	487	579	483	2	4
Subordinated capital	2,357	2,249	2,344	2,204	13	45
Derivative financial instruments designated as hedges	143	286	143	286	–	–

1 The presentation of prior year figures has been amended due to a changed allocation into classes of financial instruments

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

Percent	EUR	USD	GBP	JPY	BRL	MXN	SEK	CZK	AUD	CNY	PLN	INR	RUB	KRW	DKK
Interest rate for six months	−0.078	0.679	0.615	0.159	15.210	3.844	−0.285	0.360	2.267	2.943	1.615	7.351	12.157	1.663	0.093
Interest rate for one year	−0.077	0.860	0.721	0.135	15.870	4.108	−0.283	0.453	2.214	3.110	1.559	7.577	11.680	1.617	0.082
Interest rate for five years	0.328	1.726	1.591	0.169	16.624	5.725	0.719	0.620	2.600	3.240	1.985	6.845	10.790	1.735	0.643
Interest rate for ten years	1.000	2.187	1.993	0.424	–	6.290	1.620	1.015	3.085	3.420	2.430	6.850	10.640	1.933	1.326

58. Offsetting of Financial Assets and Liabilities

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

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

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

The “Collateral received/pledged” column shows the cash collateral amounts and collateral in the form of financial instruments received or pledged in connection with the total sum of assets and liabilities. It includes such collateral relating to assets and liabilities that have not been offset against each other. The collateral amounts primarily consist of pledged cash collateral in connection with ABS transactions, marketable securities pledged as collateral and collateral received in the form of cash deposits.

							AMOUNTS NOT OFFSET IN THE BALANCE SHEET					
	Gross amount of recognized financial assets/liabilities		Gross amount of recognized financial liabilities/assets offset in the balance sheet		Net amount of financial assets/liabilities reported in the balance sheet		Financial instruments		Collateral received/pledged		Net amount	
€ million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Assets												
Cash reserve	1,416	451	–	–	1,416	451	–	–	–	–	1,416	451
Receivables from credit institutions	2,940	2,036	–	–	2,940	2,036	–	–	–	–	2,940	2,036
Receivables from customers[1]	92,934	86,020	−163	−149	92,771	85,871	–	–	−84	−85	92,687	85,786
Derivative financial instruments	1,178	955	–	–	1,178	955	−124	−169	−123	−80	931	706
Marketable securities	2,936	2,013	–	–	2,936	2,013	–	–	–	–	2,936	2,013
Miscellaneous financial assets[1]	0	0	–	–	0	0	–	–	–	–	0	0
Other assets	1,629	755	−11	−6	1,618	749	–	–	–	–	1,618	749
Total	**103,033**	**92,230**	**−174**	**−155**	**102,859**	**92,075**	**−124**	**−169**	**−207**	**−165**	**102,528**	**91,741**
Liabilities												
Liabilities to credit institutions	15,721	13,135	–	–	15,721	13,135	–	–	−1,836	−1,336	13,885	11,799
Liabilities to customers	43,927	38,870	−163	−149	43,764	38,721	–	–	–	–	43,764	38,721
Securitized liabilities	39,913	37,243	–	–	39,913	37,243	–	–	−1,415	−406	38,498	36,837
Derivative financial instruments	249	446	–	–	249	446	−124	−169	−12	−51	113	226
Other liabilities	590	489	−11	−6	579	483	–	–	–	–	579	483
Subordinated capital	2,344	2,204	–	–	2,344	2,204	–	–	–	–	2,344	2,204
Total	**102,744**	**92,387**	**−174**	**−155**	**102,570**	**92,232**	**−124**	**−169**	**−3,263**	**−1,793**	**99,183**	**90,270**

1 The presentation of prior year figures has been amended due to a changed allocation into classes of financial instruments

59. Counterparty Default Risk

For qualitative information, please refer to the risk report (Credit Risk section, pages 50 to 53), which forms part of the management report.

The credit and default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the amount of the claims against the counterparty concerned arising from recognized carrying amounts and irrevocable credit commitments. The maximum credit and default risk is reduced by collateral and other credit enhancements amounting to €54,658 million (previous year: €46,322 million). The collateral held is in respect of receivables from customers in the class "Assets measured at amortized cost". The types of collateral held include vehicles, other assets pledged as collateral, guarantees and charges on real estate. Cash deposits are also used as collateral in connection with derivatives.

The following table shows the credit quality of financial assets:

€ million	GROSS CARRYING AMOUNT		NEITHER PAST DUE NOR IMPAIRED		PAST DUE BUT NOT IMPAIRED		IMPAIRED	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Measured at fair value[1]	3,067	2,055	3,067	2,055	–	–	–	–
Measured at amortized cost								
Cash reserve	1,416	451	1,416	451	–	–	–	–
Receivables from credit institutions	2,940	2,036	2,940	2,036	–	–	–	–
Receivables from customers[1]	95,462	88,322	91,571	84,122	1,621	1,731	2,270	2,470
Other assets	1,619	750	1,618	746	–	3	1	1
Derivative financial instruments designated as hedges	1,047	913	1,047	913	–	–	–	–
Total[1]	**105,551**	**94,527**	**101,659**	**90,323**	**1,621**	**1,734**	**2,271**	**2,471**

1 The presentation of prior year figures has been amended due to a changed allocation into classes of financial instruments

The maximum default risk from irrevocable credit commitments and financial guarantees is €2,862 million (previous year: €2,386 million).

These assets are measured in accordance with IAS 39, as already described in notes (8) and (9).

The breakdown of neither past due nor impaired financial assets by risk class is as follows:

	NEITHER PAST DUE NOR IMPAIRED		RISK CLASS 1		RISK CLASS 2	
€ million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Measured at fair value	3,067	2,055	3,067	2,055	–	–
Measured at amortized cost						
Cash reserve	1,416	451	1,416	451	–	–
Receivables from credit institutions	2,940	2,036	2,940	2,036	–	–
Receivables from customers[1]	91,571	84,122	77,191	72,181	14,380	11,941
Other assets	1,618	746	1,524	742	94	4
Derivative financial instruments designated as hedges	1,047	913	1,047	913	–	–
Total[1]	**101,659**	**90,323**	**87,185**	**78,378**	**14,474**	**11,945**

1 The presentation of prior year figures has been amended due to a changed allocation into classes of financial instruments

In the financial services business, the group evaluates the credit quality of the borrower before entering into any lending contract or lease. In the retail business, this evaluation is carried out by using scoring systems, whereas rating systems are used for fleet customers and dealer financing transactions. Lending evaluated as “good” is included in risk class 1. Receivables from customers whose credit quality has not been classified as “good” but who have not yet defaulted are included under risk class 2.

Age analysis of financial assets past due but not impaired, by class:

			IN THE FOLLOWING AGED PAST DUE CATEGORIES					
	Past due but not impaired		Up to 1 month		1 to 3 months		More than 3 months	
€ million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Measured at fair value	–	–	–	–	–	–	–	–
Measured at amortized cost								
Cash reserve	–	–	–	–	–	–	–	–
Receivables from credit institutions	–	–	–	–	–	–	–	–
Receivables from customers[1]	1,621	1,731	1,093	1,254	515	468	13	9
Other assets	–	3	–	3	–	–	–	–
Derivative financial instruments designated as hedges	–	–	–	–	–	–	–	–
Total	**1,621**	**1,734**	**1,093**	**1,257**	**515**	**468**	**13**	**9**

1 The presentation of prior year figures has been amended due to a changed allocation into classes of financial instruments

The VW FS AG Group intends to recover the following collateral accepted in the reporting period for financial assets:

€ million	31.12.2015	31.12.2014
Vehicles	68	75
Real estate	–	–
Other movable assets	–	–
Total	**68**	**75**

The vehicles are remarketed to Volkswagen Group dealers through direct sales and auctions.

60. Liquidity Risk

Please refer to the management report for information on the funding and hedging strategy.

The maturity profile of assets held to manage liquidity risk is as follows:

€ million	ASSETS		REPAYABLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Cash reserve	1,416	451	1,416	451	–	–	–	–	–	–
Receivables from credit institutions	2,940	2,036	2,018	1,143	850	837	30	18	42	38
Marketable securities	2,507	1,443	–	–	2,507	1,443	–	–	–	–
Total	**6,863**	**3,930**	**3,435**	**1,594**	**3,357**	**2,280**	**30**	**18**	**42**	**38**

The following table shows the maturity profile of undiscounted cash outflows from financial liabilities:

			REMAINING CONTRACTUAL MATURITIES							
€ million	Cash outflows		Up to 3 months		3 months to 1 year		1 to 5 years		More than 5 years	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Liabilities to credit institutions	16,260	13,617	5,284	3,499	4,416	4,435	6,481	5,622	78	61
Liabilities to customers	44,246	39,194	30,400	28,003	4,814	3,321	8,212	5,660	819	2,211
Securitized liabilities	40,990	38,482	4,142	4,603	10,844	9,119	22,038	21,147	3,966	3,613
Derivative financial instruments	9,463	6,739	3,602	1,088	2,565	3,266	3,296	2,186	–	199
Other liabilities	579	483	139	144	200	170	236	166	3	4
Subordinated capital	2,844	2,909	455	34	484	343	1,261	1,623	644	909
Irrevocable credit commitments	4,642	4,036	2,953	1,867	1,689	1,684	0	129	0	356
Total	**119,024**	**105,460**	**46,975**	**39,238**	**25,013**	**22,338**	**41,525**	**36,533**	**5,511**	**7,353**

Financial guarantees with a maximum possible drawdown of €95 million (previous year: €40 million) are assumed to be payable on demand at all times.

61. Market Risk

For qualitative information, please refer to the risk report within the management report.

For quantitative risk measurement, interest rate and foreign currency risk are measured using a value-at-risk (VaR) model on the basis of a historical simulation. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 40 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from nonderivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in determining the value-at-risk covers a period of 1,000 trading days.

This approach has produced the following values:

€ million	31.12.2015	31.12.2014
Interest-rate risk	90	56
Currency translation risk	119	74
Total market risk	**153**	**121**

62. Foreign Currency Exposures

The following table shows a breakdown of the foreign currency amounts included in the assets and liabilities of the VW FS AG Group as of December 31, 2015:

€ million	AUD	BRL	CNY	CZK	GBP	JPY	KRW	MXN	PLN	SEK	Other	Total
Receivables from credit institutions	256	457	92	0	180	200	0	7	5	211	199	1,609
Receivables from customers	2,356	4,366	5,235	1,018	14,936	2,294	760	1,962	958	2,170	3,118	39,172
Assets	**2,612**	**4,823**	**5,327**	**1,018**	**15,116**	**2,493**	**760**	**1,970**	**964**	**2,381**	**3,317**	**40,781**
Liabilities to credit institutions	661	2,451	3,180	444	610	1,092	474	772	502	44	1,026	11,254
Liabilities to customers	36	542	1,232	416	1,104	79	305	143	368	554	2,756	7,534
Securitized liabilities	1,302	293	172	120	6,141	1,090	313	769	74	755	624	11,654
Subordinated capital	30	302	–	–	1,213	–	–	–	–	–	–	1,544
Liabilities	**2,029**	**3,588**	**4,584**	**980**	**9,068**	**2,260**	**1,092**	**1,684**	**944**	**1,353**	**4,406**	**31,987**

63. Hedging Policy Disclosures

HEDGING POLICY AND FINANCIAL DERIVATIVES

Given its international financial activities, the VW FS AG Group is exposed to fluctuations in interest rates and foreign exchange rates on international money and capital markets. The general rules governing the Group-wide currency and interest rate hedging policy are specified in internal Group guidelines and satisfy the Minimum Requirements for Risk Management (MaRisk – Mindestanforderungen an das Risikomanagement) issued by the German Federal Financial Supervisory Authority (BaFin). The partners used by the Group when entering into appropriate financial transactions are national and international banks with strong credit ratings whose credit quality is continuously monitored by leading rating agencies. The Group enters into suitable hedging transactions to limit currency and interest rate risks. Regular derivative financial instruments are used for this purpose.

MARKET RISK

Market risk arises when changes in prices on financial markets (interest rates and exchange rates) have a positive or negative effect on the value of traded products. The fair values listed in the tables in the notes were determined using the market information available on the reporting date and represent the present values of the financial derivatives. They were determined on the basis of standardized techniques or quoted prices.

Interest Rate Risk

Changes in the level of interest rates in the money and capital markets represent an interest rate risk in the case of any funding that is not maturity-matched. Interest rate risk is managed on the basis of recommendations made by the Asset-Liability Management Committee (ALM Committee). Interest rate risk is quantified using interest rate gap analyses to which various scenarios involving changes in interest rates are applied. The computations take into account uniform risk ceilings applicable throughout the Group.

The hedging contracts entered into by the Group mainly comprise interest rate swaps and cross-currency swaps. Microhedges and portfolio hedges are used for interest rate hedging. Fixed-income assets and liabilities included in this hedging strategy are recognized at fair value rather than at amortized cost, the method used in their original subsequent measurement. The resulting effects in the income statement are generally offset by the opposite effects from the corresponding gains and losses on the interest rate hedging instruments (swaps).

Foreign Currency Risk

The VW FS AG Group avoids foreign currency risk by entering into currency hedging contracts, which may be currency forwards or cross-currency swaps. The Group generally hedges all cash flows denominated in foreign currency.

LIQUIDITY RISK, FUNDING RISK

The VW FS AG Group takes precautions to minimize the risk from any potential liquidity squeeze by holding confirmed credit lines and by using debt issuance programs with multicurrency capability. It also uses the operational safe custody account maintained by Volkswagen Bank GmbH with Deutsche Bundesbank to hold marketable securities that can be used in measures to safeguard liquidity.

DEFAULT RISK

The default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the balance due from the counterparty concerned.

Given that only counterparties with strong credit ratings are used for transactions and limits are set for each counterparty as part of the risk management system, the actual default risk is deemed to be low. Furthermore, the default risk in the Group's transactions is also minimized in accordance with regulatory requirements by the use of collateral to be furnished by the counterparty.

Risk concentrations arise in the VW FS AG Group in a variety of forms. A detailed description can be found in the report on opportunities and risks within the combined management report.

The breakdown of the notional volume of the derivative financial instruments is as follows:

	REMAINING CONTRACTUAL MATURITIES					
	Up to 1 year		1 to 5 years		More than 5 years	
€ million	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Cash flow hedges						
Interest rate swaps	670	432	1,155	1,847	–	63
Cross-currency interest rate swaps	167	198	521	532	–	–
Currency forward contracts	3	2	–	–	–	–
Currency swaps	–	13	–	–	–	–
Other						
Interest rate swaps	14,410	13,986	34,529	30,033	16,229	12,988
Cross-currency interest rate swaps	1,130	1,549	2,500	1,934	–	–
Currency forward contracts	2,962	890	2	1	–	–
Currency swaps	3,879	2,791	198	242	–	–
Total	**23,222**	**19,861**	**38,904**	**34,589**	**16,229**	**13,051**

The timings of the future payments for the hedged items in the cash flow hedges match the maturities of the hedging instruments.

As of the reporting date, none of the recognized cash flow hedges involved a hedged item in which the transaction was no longer expected to occur in the future.

SEGMENT REPORTING

64. Breakdown by Geographical Market

The reportable segments in accordance with IFRS 8 and on the basis of the internal reporting structure of the VW FS AG Group are the geographical markets Germany, Europe, Latin America and Asia-Pacific, together with MAN FS. Foreign branches of German subsidiaries are allocated to the Europe segment. The Europe segment comprises the subsidiaries and branches in the United Kingdom, Italy, France, the Czech Republic, Austria, the Netherlands, Spain, Sweden, Ireland, Greece, Portugal, Poland and Russia. The Latin America segment consists of the subsidiaries in Mexico and Brazil. The Asia-Pacific segment consists of the subsidiaries in Australia, Japan, China, India and South Korea.

The VW FS AG HOLDING COMPANY, the holding and financing companies in the Netherlands, France and Belgium, VW Insurance Brokers GmbH and Volkswagen Versicherung AG are included in the "Reconciliation" column. In the internal reporting structure, this presentation ensures that there is a separation between market activities on one side and typical holding company or financing functions, industry business, primary insurance business and reinsurance business on the other side.

The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting.

The profit or loss for each individual segment is measured on the basis of the operating profit or loss and profit or loss before tax.

Operating profit or loss includes net income from lending, leasing and insurance transactions after provisions for risks, net fee and commission income, general and administrative expenses, and other operating income and expenses. The interest expenses, general and administrative expenses and net other operating income/expenses that are not components of operating profit or loss largely comprise interest income and expenses from tax audits, interest costs from unwinding the discount on other provisions, interest expenses for pension provisions and the expected return on plan assets for externally funded pension obligations. Interest income not classified as revenue is interest income that is not attributable to the financial services business. This interest income is not a component of operating profit or loss.

To bring the presentation into line with the definition of operating profit or loss in internal reporting, the revenue and cost of sales items included in net other operating income/expenses have been assigned to segment revenue from lending transactions and cost of sales attributable to lending, leasing and service transactions respectively. This adjustment means the prior-year values have been restated.

BREAKDOWN BY GEOGRAPHICAL MARKET 2014:

€ million	JAN. 1 – DEC. 31, 2014							
	Germany	Europe	Latin America	Asia-Pacific	MAN FS	Segments total	Reconcilia-tion	Group
Revenue from lending transactions with third parties[1]	922	1,030	1,045	682	25	3,704	57	3,761
Intersegment revenue from lending transactions	87	0	–	0	0	87	–87	–
Total segment revenue from lending transactions[1]	1,009	1,030	1,045	682	25	3,791	–30	3,761
Revenue from leasing and service transactions	6,813	3,897	82	243	701	11,736	–11	11,725
Insurance premiums earned	–	–	–	–	–	–	134	134
Fee and commission income	296	146	127	5	2	576	21	597
Revenue	**8,118**	**5,073**	**1,254**	**930**	**728**	**16,103**	**114**	**16,217**
Cost of sales attributable to lending, leasing and service transactions[1]	–4,935	–3,025	–15	–67	–511	–8,553	–	–8,553
Reversals of impairment losses on lease assets and investment property	1	0	–	–	0	1	–	1
Depreciation of and impairment losses on lease assets and investment property	–1,214	–561	–1	–155	–27	–1,958	–	–1,958
of which impairment losses in accordance with IAS 36	–63	–30	–	–1	0	–94	–	–94
Expenses from insurance business	–	–	–	–	–	–	–89	–89
Interest expense (component of operating profit or loss)	–410	–297	–538	–318	–56	–1,619	44	–1,575
Provisions for risks from lending and leasing business	–78	–153	–124	–47	–32	–434	–35	–469
Fee and commission expenses	–189	–168	–68	–47	0	–472	6	–466
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	–4	–	–	–	–	–4	0	–4
General and administrative expenses (component of operating profit or loss)	–758	–438	–189	–166	–105	–1,656	–227	–1,883
Net other operating income/expenses (component of operating profit or loss)[1]	31	6	29	23	11	100	–28	72
Segment profit or loss (operating profit or loss)	**562**	**437**	**348**	**153**	**8**	**1,508**	**–215**	**1,293**
Interest income not classified as revenue	14	0	0	0	–	14	1	15
Interest expense (not a component of operating profit or loss)	–1	0	0	–	–	–1	–3	–4
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	–3	–11	–1	1	0	–14	7	–7
Share of profits and losses of equity-accounted joint ventures	–	–	–	–	1	1	33	34
Net gain/loss on marketable securities and miscellaneous financial assets	0	3	–	–	2	5	2	7
General and administrative expenses (not a component of operating profit or loss)	–3	0	0	0	0	–3	–6	–9
Net other operating income/expenses (not a component of operating profit or loss)	–1	0	–11	–	0	–12	–	–12
Profit before tax	**568**	**429**	**336**	**154**	**11**	**1,498**	**–181**	**1,317**
Income tax expense	–199	–111	–97	–48	–6	–461	41	–420
Profit after tax	**369**	**318**	**239**	**106**	**5**	**1,037**	**–140**	**897**
Segment assets	**41,089**	**26,932**	**8,747**	**10,596**	**1,842**	**89,206**	**366**	**89,572**
of which noncurrent	**25,743**	**15,499**	**4,197**	**6,823**	**988**	**53,250**	**–**	**53,250**
Segment liabilities	**51,714**	**24,175**	**7,853**	**9,307**	**3,355**	**96,404**	**–8,594**	**87,810**

1 The presentation of prior year figures has been changed.

BREAKDOWN BY GEOGRAPHICAL MARKET 2015:

	JAN. 1 – DEC. 31, 2015							
€ million	Germany	Europe	Latin America	Asia-Pacific	MAN FS	Segments total	Reconciliation	Group
Revenue from lending transactions with third parties	898	1,185	957	871	26	3,937	34	3,971
Intersegment revenue from lending transactions	79	1	–	0	0	80	–80	–
Total segment revenue from lending transactions	977	1,186	957	871	26	4,017	–46	3,971
Revenue from leasing and service transactions	7,397	4,635	105	398	757	13,292	–12	13,280
Insurance premiums earned	–	–	–	–	–	–	165	165
Fee and commission income	296	157	124	7	2	586	7	593
Revenue	**8,670**	**5,978**	**1,186**	**1,276**	**785**	**17,895**	**114**	**18,009**
Cost of sales attributable to lending, leasing and service transactions	–5,389	–3,568	–23	–115	–599	–9,694	–	–9,694
Reversals of impairment losses on lease assets and investment property	2	0	–	–	–	2	–	2
Depreciation of and impairment losses on lease assets and investment property	–1,527	–826	–8	–253	–17	–2,631	–	–2,631
of which impairment losses in accordance with IAS 36	–196	–152	–3	–2	0	–353	–	–353
Expenses from insurance business	–	–	–	–	–	–	–109	–109
Interest expense (component of operating profit or loss)	–320	–293	–493	–368	–39	–1,513	62	–1,451
Provisions for risks from lending and leasing business	–39	–300	–246	–52	–34	–671	–1	–672
Fee and commission expenses	–195	–188	–63	–55	0	–501	4	–497
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	–4	–	–	–	–	–4	–	–4
General and administrative expenses (component of operating profit or loss)	–854	–461	–201	–225	–83	–1,824	–229	–2,053
Net other operating income/expenses (component of operating profit or loss)	299	23	33	19	17	391	124	515
Segment profit or loss (operating profit or loss)	**643**	**365**	**185**	**227**	**29**	**1,450**	**–34**	**1,416**
Interest income not classified as revenue	11	0	0	–	–	11	1	12
Interest expense (not a component of operating profit or loss)	–3	0	–5	0	0	–8	–2	–10
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	60	–5	2	0	–3	54	3	57
Share of profits and losses of equity-accounted joint ventures	–	–	–	–	–1	–1	25	24
Net gain/loss on marketable securities and miscellaneous financial assets	15	9	–	–	–5	19	6	25
General and administrative expenses (not a component of operating profit or loss)	–1	–1	0	0	0	–2	–7	–9
Net other operating income/expenses (not a component of operating profit or loss)	0	0	–1	–	0	–1	–	–1
Profit before tax	**725**	**368**	**181**	**227**	**20**	**1,522**	**–9**	**1,513**
Income tax expense	–172	–142	–13	–66	–7	–400	96	–304
Profit after tax	**553**	**226**	**168**	**161**	**13**	**1,122**	**87**	**1,209**
Segment assets	**44,716**	**32,380**	**6,301**	**12,157**	**1,608**	**97,162**	**370**	**97,532**
of which noncurrent	**28,489**	**19,083**	**3,086**	**7,801**	**1,043**	**59,502**	**–**	**59,502**
Segment liabilities	**59,344**	**30,509**	**5,704**	**11,121**	**3,162**	**109,840**	**–11,772**	**98,068**

RECONCILIATION:

€ million	31.12.2015	31.12.2014
Total segment revenue[1]	**17,895**	**16,103**
Unallocated activities	350	283
Consolidation	−236	−169
Consolidated revenue[1]	**18,009**	**16,217**
Total segment profit or loss (operating profit or loss)	**1,450**	**1,508**
Unallocated activities	−19	−125
Consolidation	−15	−90
Consolidated operating profit or loss	**1,416**	**1,293**
Total segment profit or loss before tax	**1,522**	**1,498**
Unallocated activities	407	366
Consolidation	−416	−547
Consolidated profit before tax	**1,513**	**1,317**
Total segment assets	**97,162**	**89,206**
Unallocated activities	370	366
Consolidation	–	–
Consolidated assets in accordance with segment reporting	**97,532**	**89,572**
Total segment liabilities	**109,840**	**96,404**
Unallocated activities	14,798	11,804
Consolidation	−26,570	−20,398
Consolidated liabilities in accordance with segment reporting	**98,068**	**87,810**

1 The presentation of prior year figures has been changed.

All business transactions between the segments are conducted on an arm's-length basis.

The consolidation in revenue from lending transactions and interest expenses resulted from the provision of intragroup funding between geographical markets.

Information on the main products (lending and leasing business) can be taken directly from the income statement (see note 21).

The additions to noncurrent lease assets amounted to €3,161 million (previous year: €2,705 million) in Germany, €2,303 million (previous year: €1,436 million) in the Europe segment, €77 million (previous year: €5 million) in the Latin America segment, €538 million (previous year: €398 million) in the Asia-Pacific segment and €29 million (previous year: €14 million) in the MAN FS segment. Capital investment recognized under other assets was of minor significance.

Individual line items in the financial statements are aggregated for the purposes of internal reporting. The following table shows the reconciliation of these line items in the financial statements to the segment reporting disclosures.

€ million	31.12.2015	31.12.2014
Interest income from lending transactions	3,909	3,700
minus interest income not classified as revenue	12	15
Net income from leasing transactions before provisions for risks	1,333	1,300
minus expenses from leasing transactions and service contracts	−9,603	−8,470
minus depreciation of and impairment losses on lease assets and investment property	−2,631	−1,958
minus reversals of impairment losses on lease assets and investment property	2	1
minus leasing income not classified as revenue	−286	–
Net income from insurance business	56	45
minus expenses from insurance business	−109	−89
Fee and commission income	593	597
Revenue included in net other operating income/expenses[1]	74	76
Consolidated revenue	**18,009**	**16,217**
Net income from leasing transactions before provisions for risks	1,333	1,300
minus income from leasing transactions and service contracts	13,568	11,728
minus depreciation of and impairment losses on lease assets and investment property	−2,631	−1,958
Cost of sales included in net other operating income/expenses[1]	90	84
Consolidated cost of sales attributable to lending, leasing and service transactions	**−9,694**	**−8,553**
Receivables from customers attributable to		
Retail financing	50,665	47,663
Dealer financing	13,967	12,625
Leasing business	19,704	18,320
Other receivables	8,435	7,263
of which not included in segment assets	−8,221	−7,065
Lease assets	12,982	10,766
Consolidated assets in accordance with segment reporting	**97,532**	**89,572**
Liabilities to credit institutions	15,721	13,135
of which not included in segment liabilities	−92	−7
Liabilities to customers	43,764	38,721
of which not included in segment liabilities	−3,416	−3,301
Securitized liabilities	39,913	37,243
of which not included in segment liabilities	−165	−185
Subordinated capital	2,344	2,204
Consolidated liabilities in accordance with segment reporting	**98,068**	**87,810**

1 The presentation of prior year figures has been changed.

OTHER DISCLOSURES

65. Cash Flow Statement

VW FS AG'S cash flow statement documents changes in cash and cash equivalents attributable to cash flows from operating, investing and financing activities. Cash flows from investing activities comprise purchase payments and disposal proceeds relating to investment property, subsidiaries, joint ventures and other assets. Cash flows from financing activities reflect all cash flows arising from transactions involving equity, subordinated capital and other financing activities. All other cash flows are classified as cash flows from operating activities in accordance with standard international practice for financial services companies.

The narrow definition of cash and cash equivalents comprises only the cash reserve, which consists of cash-in-hand and central bank balances.

The changes in the balance sheet items used to determine the changes in the cash flow statement cannot be derived directly from the balance sheet because effects from the changes in the basis of consolidation have no impact on cash and are eliminated.

66. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

The contingent liabilities of €272 million (previous year: €311 million) largely relate to legal disputes concerning tax matters in which the criteria for the recognition of a provision in accordance with IAS 37 are not satisfied. Based on analysis of the individual matters covered by the contingent liabilities, we believe that the disclosure of further detailed information on individual proceedings, legal disputes or legal risks could seriously prejudice the course or initiation of proceedings.

Financial guarantees within the meaning of IFRS 7 are now reported in the disclosures on financial instruments and are no longer included within the liabilities from bank guarantees. The prior-year figure of €40 million was accounted for entirely by financial guarantees.

The trust assets and liabilities of the savings and trust entity belonging to the Latin American subsidiaries are not included in the consolidated balance sheet and amounted to €702 million (previous year: €802 million).

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2015	DUE 2016 – 2019	DUE from 2020	TOTAL 31.12.2014
Purchase commitments in respect of[1]				
property, plant and equipment	10	–	–	10
intangible assets	1	–	–	1
investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
irrevocable credit and leasing commitments to customers	3,551	129	356	4,036
long-term leasing and rental contracts	31	49	49	128
Miscellaneous financial obligations[1]	91	1	–	92

1 The prior year has been restated.

€ million	DUE 2016	DUE 2017 – 2020	DUE from 2021	TOTAL 31.12.2015
Purchase commitments in respect of				
property, plant and equipment	10	–	–	10
intangible assets	1	–	–	1
investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	9	–	–	9
irrevocable credit and leasing commitments to customers	4,642	0	0	4,642
long-term leasing and rental contracts	29	56	77	161
Miscellaneous financial obligations	57	0	–	57

In the case of irrevocable credit commitments, we expect the customers to draw down the facilities concerned.

67. Average Number of Employees during the Reporting Period

	2015	2014
Salaried employees	11,506	10,629
Vocational trainees	142	139
Total	**11,648**	**10,768**

68. Related Party Disclosures

Related parties within the meaning of IAS 24 are deemed to be individuals or entities who can be influenced by VW FS AG, who can exercise an influence over VW FS AG, or who are under the influence of another related party of VW FS AG.

Volkswagen AG, Wolfsburg, is the sole shareholder in VW FS AG. In addition, Porsche Automobil Holding SE, Stuttgart, controlled 52.2% of the voting rights in Volkswagen AG as of the reporting date and therefore held a majority. The Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved the creation of rights of appointment for the State of Lower Saxony. As a result of these rights, Porsche SE can no longer appoint a majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore deemed to be a related party within the meaning of IAS 24. According to a notification submitted on January 5, 2016, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights in Volkswagen AG as of December 31, 2015. In addition, as referred to above, the Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved a resolution under which the State of Lower Saxony could appoint two members of the Supervisory Board (right of appointment).

Volkswagen AG as the sole shareholder and VW FS AG have entered into a control and profit transfer agreement. All business transactions between the two companies are conducted on an arm's-length basis.

Volkswagen AG and its subsidiaries provide the entities in the VW FS AG Group with funding on arm's-length basis. Volkswagen AG and its subsidiaries have also furnished collateral in our favor as part of the operating business.

The production and importer companies in the Volkswagen Group provide the entities in the VW FS AG Group with financial subsidies to support sales promotion campaigns.

All business transactions with nonconsolidated subsidiaries and joint ventures of VW FS AG as well as with other related parties in Volkswagen AG's group of consolidated entities are processed at arm's length.

The two tables below show the transactions with related parties. In these tables, the exchange rates used in connection with the figures are the closing rate for asset and liability items, and the average rates for the year for income statement items.

FISCAL YEAR 2014

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Nonconsolidated subsidiaries	Joint ventures
Receivables	0	0	50	–	3,267	19	4,664
Valuation allowances on receivables	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–
Obligations	4	4	2,837	–	11,748	115	35
Interest income	0	0	4	–	120	0	101
Interest expense	0	0	–8	–1	–199	0	0
Goods and services provided	–	–	396	0	2,799	23	57
Goods and services received	–	–	7,050	–	5,562	23	14

FISCAL YEAR 2015

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Nonconsolidated subsidiaries	Joint ventures
Receivables	0	0	289	–	3,501	80	5,360
Valuation allowances on receivables	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–
Obligations	3	5	4,885	100	13,051	261	25
Interest income	0	0	4	–	107	3	103
Interest expense	0	0	–10	0	–215	–2	0
Goods and services provided	–	–	736	0	3,300	45	63
Goods and services received	–	–	7,924	–	6,923	28	12

The obligations resulted from time deposits made by Porsche SE with Volkswagen Bank GmbH. The 'Other related parties in the consolidated entities' column includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG's consolidated group. The relationships with the Supervisory Board and the Board of Management comprise relationships with the relevant groups of people at VW FS AG and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of minor significance.

Members of the Board of Management and Supervisory Board of VW FS AG are members of management and supervisory boards of other entities in the Volkswagen Group with which we sometimes conduct transactions in the normal course of business. All transactions with these related parties are on an arm's-length basis.

During the course of the reporting period, standard short-term bank loans amounting to an average total of €488 million (previous year: €474 million) were granted to related parties as part of dealer financing.

BOARD OF MANAGEMENT REMUNERATION

BOARD OF MANAGEMENT REMUNERATION

€ million	2015	2014
Short-term benefits	8	7
Termination benefits		–
Post-employment benefits	1	8

In accordance with a resolution passed by the Annual General Meeting, the members of the Supervisory Board are entitled to annual remuneration. This remuneration is independent of the performance of the Company and the Supervisory Board role undertaken by the person concerned. Various members of the Supervisory Board are also members of the supervisory boards of other Volkswagen AG subsidiaries. The remuneration received for these functions is deducted from the entitlement to remuneration from VW FS AG. As a result, a total amount of less than €0.05 million was paid out to the members of the Supervisory Board in the reporting period.

The employee representatives on the Supervisory Board of VW FS AG also receive their regular salaries under the terms of their employment contracts. This salary is based on the provisions in the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act) and is an appropriate remuneration for the relevant function or activity in the Company. The same also applies to the representative of the senior executives on the Supervisory Board.

The total payments made to former members of the Board of Management and their surviving dependants amounted to €0.4 million (previous year: €0.4 million); the provisions recognized for this group of people to cover current pensions and pension entitlements amounted to €13 million (previous year: €13 million).

69. Disclosures Relating to Unconsolidated Structured Entities

A structured entity is normally designed so that voting rights or similar rights are not the deciding factor in determining control over the entity.

Typical features of a structured entity are as follows:

- limited scope of activities;
- narrowly defined business purpose;
- inadequate equity to finance the business activities;
- financing through a number of instruments that contractually bind investors and that give rise to a concentration of credit risk and other risks.

VW FS AG maintains business relationships with structured entities. These entities are ABS special purpose entities within Volkswagen AG's group of companies. The entities carry out a process of securitization by taking assets from lending agreements and leases for vehicles and transforming them into securities (asset-backed securities) on a maturity-matched basis. VW FS AG has purchased some or all of these securities and classified them as available-for-sale financial assets. Under the principles specified in IFRS 10, these entities are not controlled by VW FS AG and are therefore not included in the consolidated financial statements.

The purchase of the securities gives rise to counterparty default risk on the part of the issuer and interest rate risk. The maximum risk exposure of VW FS AG arising from its interests in unconsolidated structured entities is limited to the fair value of the acquired bonds reported in the balance sheet and the carrying amount of any subordinated loans granted to the entities concerned. The following table contains disclosures on VW FS AG's assets reported in the balance sheet that are related to unconsolidated structured entities and the maximum risk of the VW FS AG Group (disregarding collateral). The nominal volume of the securitized assets is also disclosed.

	ABS SPECIAL PURPOSE ENTITIES	
€ million	2015	2014
Reported in the balance sheet as of December 31		
Marketable securities	223	382
Receivables from customers[1]	64	–
Maximum loss risk	286	382
Nominal volume of securitized assets	916	451

1 Subordinated loans granted

VW FS AG did not provide unconsolidated structured entities with any noncontractual support during the reporting period.

70. Executive Bodies of Volkswagen Financial Services AG

The members of the Board of Management are as follows:

FRANK WITTER (UNTIL OCTOBER 7, 2015)
Chairman of the Board of Management (until October 7, 2015)
Corporate Management (until October 7, 2015)
Insurance (until October 7, 2015)
China/India/ASEAN (until October 7, 2015)

LARS HENNER SANTELMANN
Chairman of the Board of Management (from October 14, 2015)
Corporate Management (from November 5, 2015)
Insurance (from November 5, 2015)
China/India/ASEAN (from November 5, 2015)
Sales and Marketing (until December 31, 2015)
Regions Germany, Europe, International (until December 31, 2015)
Region Latin America, Truck & Bus Division

DR. MARIO DABERKOW
Information Technology and Processes

FRANK FIEDLER
Finance and Purchasing

CHRISTIANE HESSE
Human Resources and Organization

DR. MICHAEL REINHART
Risk Management and Credit Analysis

DR. CHRISTIAN DAHLHEIM (FROM JANUARY 1, 2016)
Sales and Marketing (from January 1, 2016)
Regions Germany, Europe, International (from January 1, 2016)

The members of the Supervisory Board are as follows:

HANS DIETER PÖTSCH (UNTIL OCTOBER 6, 2015)
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

FRANK WITTER (AS OF OCTOBER 13, 2015)
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

PROF. H.C. DR. HORST NEUMANN (UNTIL NOVEMBER 30, 2015)
Deputy Chairman
Member of the Board of Management of Volkswagen AG
Human Resources and Organization

MICHAEL RIFFEL (UNTIL JULY 3, 2015)
Deputy Chairman
General Secretary of the Joint Works Council of Volkswagen AG

STEPHAN WOLF (AS OF JULY 4, 2015)
Deputy Chairman
Deputy Chairman of the Joint and Group Works Council of Volkswagen AG

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

DR. JÖRG BOCHE
Executive Vice President of Volkswagen AG
Head of Group Treasury

WALDEMAR DROSDZIOK
Chairman of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

CHRISTIAN KLINGLER (UNTIL APRIL 30, 2015)
Member of the Board of Management of Volkswagen AG
Sales and Marketing

DETLEF KUNKEL
General Secretary/Principle Representative of IG Metall Braunschweig

SIMONE MAHLER
Deputy Chairman of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

JAMES MORYS MUIR (AS OF JULY 1, 2015)
Head of Volkswagen Group National Sales Companies (NSC) Steering

GABOR POLONYI
Head of Fleet Customer Management for Volkswagen Leasing GmbH

PETRA REINHEIMER
General Secretary of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

AXEL STROTBEK
Member of the Board of Management
AUDI AG
Finance and Organization

COMMITTEES OF THE SUPERVISORY BOARD
As of December 31, 2015

Members of the Remuneration Control Committee
Hans Dieter Pötsch (Chairman) (until October 6, 2015)
Frank Witter (Chairman) (as of October 20, 2015)
Waldemar Drosdziok (Deputy Chairman)
Prof. h.c. Dr. Horst Neumann (until November 30, 2015)
Dr. Arno Antlitz (as of December 30, 2015)

Members of the Nomination Committee
Hans Dieter Pötsch (Chairman) (until October 6, 2015)
Frank Witter (Chairman) (as of October 20, 2015)
Waldemar Drosdziok (Deputy Chairman)
Prof. h.c. Dr. Horst Neumann (until November 30, 2015)
Dr. Arno Antlitz (as of December 30, 2015)

Members of the Joint Risk and Audit Committee
Dr. Jörg Boche (Chairman)
Waldemar Drosdziok (Deputy Chairman)
Dr. Arno Antlitz
Gabor Polonyi

71. Letter of comfort for our affiliated companies

With the exception of political risks, Volkswagen Financial Services AG hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to lenders in the agreed manner. Moreover, Volkswagen Financial Services AG confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders.

This comfort also applies to holders of unguaranteed bonds issued by the following affiliated companies: Banco Volkswagen S.A., São Paulo, Brazil; Volkswagen Finance (China) Co., Ltd., Beijing, China; Volkswagen Finance Pvt. Ltd., Mumbai, India; Volkswagen Doğuş Finansman A.Ş., Kağıthane-Istanbul, Turkey.

72. Events After the Balance Sheet Date

Dr. Christian Dahlheim was appointed as a member of the Board of Management of Volkswagen Financial Services AG with effect from January 1, 2016. He is responsible for Sales and Marketing and the Germany, Europe and International regions.

In January 2016, receivables with a volume of RMB 3 billion from the portfolio of Volkswagen Finance (China) Co., Ltd. were securitized in the Driver China three transaction.

There were no other significant events after the end of fiscal year 2015.

73. Responsibility Statement

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

Braunschweig, February 12, 2016
The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Dr. Christian Dahlheim

Frank Fiedler

Christiane Hesse

Dr. Michael Reinhart

Country-by-Country Reporting of Volkswagen Financial Services AG

The country-by-country reporting requirements specified in Article 89 of Directive 2013/36/EU (Capital Requirements Directive, CRD IV) have been transposed into German law in section 26a(1) sentence 2 of the Kreditwesengesetz (KWG – German Banking Act).

In this country-by-country reporting section, the Volkswagen Financial Services AG Group provides the following disclosures as of December 31, 2015 in accordance with section 26a(1) nos. 1-6 of the KWG:

- name of entity, nature of activities and geographical location of the branch
- revenue
- number of employees on a full-time equivalent basis
- profit or loss before tax
- tax on profit or loss
- public subsidies received

The report includes the necessary disclosures for all entities fully consolidated in the consolidated financial statements in accordance with IFRS. Branch is defined as the individual subsidiaries, together with any branch offices maintained by subsidiaries in the individual countries. The figures contained in this report have generally been determined on an unconsolidated basis. Revenue figures have been adjusted for intragroup transactions within a country.

Revenue is defined as the total of the following components in the income statement in accordance with IFRS:

- interest income from lending transactions less interest expense
- income from leasing transactions and service contracts
- net fee and commission income
- net gain/loss on the measurement of derivative financial instruments and hedged items
- net gain/loss on marketable securities and miscellaneous financial assets
- other operating income

The number of employees is disclosed as an average figure on a full-time equivalent basis.

The effective income tax is reported for the tax on profit or loss. For further information on the procedure, please refer to the consolidated financial statements of Volkswagen Financial Services AG for the year ended December 31, 2015, notes to the consolidated financial statements, income tax expense.

Public subsidies received are defined as direct EU subsidies.

Country	Revenue (€ million)	Employees	Profit or loss before tax (€ million)	Tax on profit or loss (€ million)	Public subsidies received (€ million)
EU countries					
Germany	9,320	5,190	637	–155	–
Belgium	29	–	5	–	–
Denmark	17	13	0	0	–
France	499	346	43	11	–
Greece	12	43	–1	–	–
United Kingdom	1,639	798	290	92	–
Ireland	39	51	25	3	–
Italy	510	354	85	35	–
Luxembourg	–	–	–	–	–
The Netherlands	62	3	136	14	–
Austria	46	99	5	2	–
Poland	121	314	19	12	–
Portugal	27	59	1	0	–
Sweden	2,695	130	19	0	–
Spain	44	20	15	5	–
Czech Republic	193	202	23	0	–
Non-EU countries					
Australia	50	135	10	–2	–
Brazil	458	944	247	50	–
China	317	767	154	48	–
India	35	299	17	5	–
Japan	59	89	24	9	–
Mexico	269	322	121	26	–
Russia	76	308	7	5	–
South Korea	413	55	28	5	–
Turkey	11	17	–5	1	–

Name of company	Nature of activity	Location of registered office	Country
EU countries			
Volkswagen Bank GmbH	Bank	Braunschweig	Germany
MAN Finance International GmbH	Financial institution	Munich	Germany
MAN Financial Services GmbH	Financial institution	Munich	Germany
VOLKSWAGEN FINANCIAL SERVICES AG	Financial institution	Braunschweig	Germany
Volkswagen Financial Services Beteiligungsgesellschaft mbH	Financial institution	Braunschweig	Germany
Volkswagen Leasing GmbH	Financial institution	Braunschweig	Germany
Volkswagen Versicherung AG	Insurer	Braunschweig	Germany
Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH	Provider of ancillary services	Braunschweig	Germany
EURO-Leasing GmbH	Other	Sittensen	Germany
Volkswagen Insurance Brokers GmbH	Other	Braunschweig	Germany
Volkswagen-Versicherungsdienst GmbH	Other	Braunschweig	Germany
Driver Eight GmbH i.L.	Special purpose entity	Frankfurt am Main	Germany
Driver Nine GmbH i.L.	Special purpose entity	Frankfurt am Main	Germany
Driver Ten GmbH	Special purpose entity	Frankfurt am Main	Germany
Driver Eleven GmbH	Special purpose entity	Frankfurt am Main	Germany
Driver Twelve GmbH	Special purpose entity	Frankfurt am Main	Germany
Driver thirteen UG (haftungsbeschränkt)	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2010–1 fixed GmbH i.L.	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2011–1 GmbH i.L.	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2011–2 GmbH i.L.	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2011–3 GmbH i.L.	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2012–1 GmbH	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2012–2 GmbH	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2012–3 GmbH	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2013–1 UG (haftungsbeschränkt)	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2013–2 UG (haftungsbeschränkt)	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2014–1 UG (haftungsbeschränkt)	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2014–2 UG (haftungsbeschränkt)	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2014–3 UG (haftungsbeschränkt)	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2014–4 UG (haftungsbeschränkt)	Special purpose entity	Frankfurt am Main	Germany
Private Driver 2015–1 UG (haftungsbeschränkt)	Special purpose entity	Frankfurt am Main	Germany
Volkswagen Finance Belgium S.A.	Financial institution	Brussels	Belgium
Euro-Leasing A/S	Other	Padborg	Denmark
MAN Financial Services S.A.S.	Financial institution	Evry	France
Volkswagen Bank GmbH, France Branch	Bank	Roissy en France	France
Volkswagen Holding Financière s.a.	Financial institution	Villers-Cotterêts	France
Volkswagen Versicherung AG, France Branch	Insurer	Roissy en France	France
MAN Location & Services S.A.S.	Other	Evry	France
Driver France FCT	Special purpose entity	Pantin	France
Volkswagen Bank GmbH, Greece Branch	Bank	Glyfada, Athens	Greece
MAN Financial Services plc.	Financial institution	Swindon	United Kingdom
Volkswagen Bank GmbH, United Kingdom Branch	Bank	Milton Keynes	United Kingdom
Volkswagen Financial Services (UK) Ltd.	Financial institution	Milton Keynes	United Kingdom
Volkswagen Financial Services (UK) (June) Ltd.	Other	Milton Keynes	United Kingdom
Volkswagen Financial Services (UK) (March) Ltd.	Other	Milton Keynes	United Kingdom
Volkswagen Financial Services (UK) (September) Ltd.	Other	Milton Keynes	United Kingdom
Volkswagen Bank GmbH, Ireland Branch	Bank	Dublin	Ireland
MAN Financial Services S.p.A.	Financial institution	Dossobuono di Villafranca	Italy
Volkswagen Bank GmbH, Italy Branch	Bank	Milan	Italy
Volkswagen Bank GmbH, Italy Branch	Bank	Verona	Italy
Volkswagen Bank GmbH, Italy Branch	Bank	Bolzano	Italy
Volkswagen Leasing GmbH, Italy Branch	Financial institution	Milan	Italy

Name of company	Nature of activity	Location of registered office	Country
Volkswagen Leasing GmbH, Italy Branch	Financial institution	Verona	Italy
Volkswagen Leasing GmbH, Italy Branch	Financial institution	Bolzano	Italy
Driver Master S.A.	Special purpose entity	Luxembourg	Luxembourg
Driver UK Master S.A.	Special purpose entity	Luxembourg	Luxembourg
Driver UK Multi-Compartment S.A.	Special purpose entity	Luxembourg	Luxembourg
VCL Master S.A.	Special purpose entity	Luxembourg	Luxembourg
VCL Master Residual Value S.A.	Special purpose entity	Luxembourg	Luxembourg
VCL Multi-Compartment S.A.	Special purpose entity	Luxembourg	Luxembourg
Volkswagen Bank GmbH, Netherlands Branch	Bank	Amersfoort	The Netherlands
Global Automotive Finance C.V.	Financial institution	Amsterdam	The Netherlands
Volkswagen Finance Overseas B.V.	Financial institution	Amsterdam	The Netherlands
Volkswagen Financial Services N.V.	Financial institution	Amsterdam	The Netherlands
Volkswagen Global Finance Holding B.V.	Financial institution	Amsterdam	The Netherlands
Volkswagen Finance Cooperation B.V.	Other	Amsterdam	The Netherlands
MAN Financial Services GesmbH	Financial institution	Eugendorf	Austria
Volkswagen-Versicherungsdienst GmbH	Other	Vienna	Austria
Volkswagen Bank Polska S.A.	Bank	Warsaw	Poland
MAN Financial Services Poland Sp. z o.o.	Financial institution	Nadarzyn	Poland
Volkswagen Leasing GmbH, Poland Branch	Financial institution	Warsaw	Poland
Euro-Leasing Sp. z o.o.	Other	Kolbaskowo	Poland
Volkswagen Bank GmbH, Portugal Branch	Bank	Amadora	Portugal
Volkswagen Renting, Unipessoal, Lda.	Financial institution	Amadora	Portugal
Volkswagen Finans Sverige AB	Bank	Södertälje	Sweden
Volkswagen Bank GmbH, Spain Branch	Bank	Alcobendas, Madrid	Spain
ŠkoFIN s.r.o.	Financial institution	Prague	Czech Republic
Volkswagen Bank GmbH, Spain Branch	Bank	Alcobendas, Madrid	Spain
ŠkoFIN s.r.o.	Financial institution	Prague	Czech Republic
Non-EU countries			
Volkswagen Financial Services Australia Pty. Ltd.	Financial institution	Chullora	Australia
Driver Australia One Pty. Ltd.	Special purpose entity	Ashfield	Australia
Driver Australia Two Pty. Ltd.	Special purpose entity	Ashfield	Australia
Banco Volkswagen S.A.	Bank	São Paulo	Brazil
Volkswagen Participações Ltda.	Financial institution	São Paulo	Brazil
Consórcio Nacional Volkswagen - Administradora de Consórcio Ltda.	Provider of ancillary services	São Paulo	Brazil
Volkswagen Serviços Ltda.	Provider of ancillary services	São Paulo	Brazil
Volkswagen Corretora de Seguros Ltda.	Other	São Paulo	Brazil
Driver Brasil One Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos	Special purpose entity	Osasco	Brazil
Driver Brasil Two Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos	Special purpose entity	Osasco	Brazil
Driver Brasil Three Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos	Special purpose entity	Osasco	Brazil
Volkswagen Finance (China) Co., Ltd.	Financial institution	Beijing	China
Driver China Two Auto Loan Securitization Trust	Special purpose entity	Beijing	China
Volkswagen Finance Pvt. Ltd.	Financial institution	Mumbai	India
Volkswagen Financial Services Japan Ltd.	Financial institution	Tokyo	Japan
Volkswagen Bank S.A., Institución de Banca Múltiple	Bank	Puebla	Mexico
Volkswagen Leasing S.A. de C.V.	Financial institution	Puebla	Mexico
OOO Volkswagen Bank RUS	Financial institution	Moscow	Russia
OOO MAN Financial Services	Financial institution	Moscow	Russia
OOO Volkswagen Group Finanz	Financial institution	Moscow	Russia
Volkswagen Financial Services Korea Co., Ltd.	Financial institution	Seoul	South Korea

Auditor's Report

We have audited the consolidated financial statements prepared by VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, comprising the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, for the fiscal year from January 1 to December 31, 2015. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law required to be applied under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code) are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidated financial statements, the determination of the entities to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law required to be applied under section 315a(1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hanover, February 12, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Frank Hübner	Burkhard Eckes
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

OF VOLKSWAGEN FINANCIAL SERVICES AG

In the fiscal year 2015, the Supervisory Board regularly and in detail dealt with the situation and development of Volkswagen Financial Services AG and of the Volkswagen Financial Services AG Group.

During the reporting period, the Board of Management kept the Supervisory Board promptly and comprehensively informed at all times, in writing and orally, about material aspects of the company's planning and situation, including the risk situation and the risk management system, as well as on the business development and any deviations from planning and targets. Based on these reports of the Board of Management, the Supervisory Board constantly monitored the management of the company's and the group's business and was thus able to fulfil the functions assigned to it under law and pursuant to the articles of association without limitation. All decisions of fundamental importance for the company and other transactions requiring the approval of the Supervisory Board in accordance with the rules of procedure were reviewed and discussed with the Board of Management before the relevant resolution was adopted. The Supervisory Board normally comprises twelve members. Changes in the reporting period are disclosed in the information on corporate bodies. Currently, the Supervisory Board temporarily only has eleven members as a result of a resignation; the succession has already been initiated. The Supervisory Board held three regular meetings in the reporting period; there were no extraordinary meetings. The average attendance rate of the members of the Supervisory Board was 92%. All members of the Supervisory Board attended more than half of the meetings. We resolved seven urgent matters by written resolutions; in addition, the chairman of the Supervisory Board made two urgent decisions using a written procedure.

COMMITTEE ACTIVITIES

The Supervisory Board has set up various committees to fulfil its responsibilities, namely the Joint Risk and Audit Committee, the Nomination Committee, the Remuneration Committee and the Credit Committee. The Joint Risk and Audit Committee focused on the business and risk strategy as well as capital adequacy and capital planning in accordance with the KWG, CRR and MaRisk. The Committee also addressed the risk management system in the Volkswagen Financial Services AG Group and the remuneration system in relation to the implementation of the Institutsvergütungsverordnung (InstitutsVergV – German Remuneration Ordinance for Institutions). The Committee received detailed reports from the Compliance Officer. In addition, it held discussions with the external auditor regarding audit planning, key points of the audit and the auditor's information requirements. The Committee consists of four members. The Committee held two regular meetings in the reporting period; there were no extraordinary meetings. The Nomination Committee dealt with the annual evaluation of the Board of Management and of the Supervisory Board in accordance with section 25d of the KWG, using the structure, size, composition and performance of the respective board, as well as on the knowledge, skills and experience of the individual board members and of the respective board as a whole. The Committee also addressed the succession planning strategy and the requirements profile for members of the Board of Management and Supervisory Board. In addition, the Committee dealt with the diversity strategy, including the quota for women in relation to the Board of Management and Supervisory Board, and the basic principles for senior management appointments. Following discussions, it proposed by written resolution Dr. Christian Dahlheim to the Supervisory Board for appointment as a further member of the Board of Management. The Committee consists of three members. The Committee held one regular meeting in the reporting period; there were no extraordinary meetings. The Remuneration Committee dealt, in particular, with the requirements of the new InstitutsVergV and its implementation in the Volkswagen Financial Services AG Group. Other important issues were the appointment of a deputy remuneration officer and the approvals of powers of attorney ("Prokura") within the last three years, including the associated processes. The Committee consists of three members. The Committee held one regular meeting in the reporting period; there were no extraordinary meetings. The powers of attorney ("Prokura") were approved by written resolutions. The Credit Committee is responsible for approving issues the Supervisory Board must deal with under statutory provisions and the rules of procedure regarding proposed loan commitments, the assumption of sureties, guarantees and similar liabilities, company borrowings, the purchasing of receivables (factoring) and for general agreements related to the assumption of receivables. The Credit Committee consists of three members of the Supervisory Board and makes its decisions by circular resolutions. The members of the committees also consulted each other on numerous occasions and were in constant contact with the Board of Management outside committee meetings. The activities of the committees were discussed at the Supervisory Board plenary meetings.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting held on March 2, 2015, the Supervisory Board examined in detail and then approved both the consolidated financial statements of Volkswagen Financial Services AG Group and the annual financial statements of Volkswagen Financial Services AG for 2014, prepared by the Board of Management. In addition, the Supervisory Board dealt with the IT status, the implementation of the funding strategy – specifically, the capital market programs in South Korea and China – and the expansion of the leasing business in China. At this meeting, and also at the meetings held on July 17, 2015 and November 25, 2015, the Board of Management submitted comprehensive reports on the economic and financial position of the Company and the Group. At the meeting of the Supervisory Board on July 17, 2015, the Board of Management reported in detail on the regulatory requirements roadmap, the leasing strategy in the Chinese market and on the VWFS efficiency program for 2015 and thereafter. The Supervisory Board also addressed corporate matters, including the integration of the MAN Financial Services companies, the establishment of insurance broker entities in Mexico and South Korea and the acquisition of sunhill technologies GmbH. At the meeting of the Supervisory Board on November 25, 2015, after receiving a detailed briefing, we approved the medium-term financial and capital investment planning for Volkswagen Financial Services AG and Volkswagen Financial Services AG Group. The Supervisory Board also held in-depth discussions at this meeting on the impact on the entities of the Volkswagen Financial Services AG Group from the emissions issue in the Volkswagen Group. In addition, the Board of Management reported on the HR situation and infrastructure planning. Finally, the Supervisory Board approved amendments to the securities framework, the integration of further MAN Financial Services companies and the establishment of a company in Turkey. The Supervisory Board appointed Dr. Christian Dahlheim as a further member of the Board of Management of the company.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was appointed to audit both the consolidated financial statements of Volkswagen Financial Services AG Group in accordance with IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with HGB for the year ended December 31, 2015, including the accounting and management reports. The consolidated financial statements of Volkswagen Financial Services AG Group in accordance with IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with HGB for the year ended December 31, 2015, together with the management reports, were submitted to the Supervisory Board. The auditor, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, has audited these financial statements, including the accounting system and the management reports, and has issued an unqualified auditor’s opinion in each case. The Supervisory Board’s review of the consolidated financial statements and the annual financial statements, including the management report, has not given rise to any reservations. The independent auditors were present when this agenda item was addressed at the Supervisory Board meeting and they reported on the main findings of their audit. The Supervisory Board approved both the consolidated financial statements and annual financial statements of Volkswagen Financial Services AG prepared by the Board of Management at its meeting held on February 24, 2016. The consolidated financial statements and annual financial statements are hereby adopted. In accordance with the existing control and profit and loss transfer agreement, the profits reported in the financial statements of Volkswagen Financial Services AG for the year ended December 31, 2015 have been transferred to Volkswagen AG.

The Supervisory Board would like to take this opportunity to express its gratitude and appreciation for the work of the members of the Board of Management, the members of the works council, the managerial staff and all the employees of Volkswagen Financial Services AG and its affiliated companies. The high level of commitment from all of them has helped to sustain the ongoing growth of Volkswagen Financial Services AG.

Braunschweig, February 24, 2016

Frank Witter
Chairman of the Supervisory Board

Supervisory Board

OF VOLKSWAGEN FINANCIAL SERVICES AG

HANS DIETER PÖTSCH (UNTIL OCTOBER 6, 2015)
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

FRANK WITTER (AS OF OCTOBER 13, 2015)
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

PROF. H.C. DR. HORST NEUMANN (UNTIL NOVEMBER 30, 2015)
Deputy Chairman
Member of the Board of Management of Volkswagen AG
Human Resources and Organization

MICHAEL RIFFEL (UNTIL JULY 3, 2015)
Deputy Chairman
General Secretary of the Joint Works Council of Volkswagen AG

STEPHAN WOLF (AS OF JULY 4, 2015)
Deputy Chairman
Deputy Chairman of the Joint and Group Works Council of Volkswagen AG

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

DR. JÖRG BOCHE
Executive Vice President of Volkswagen AG
Head of Group Treasury

WALDEMAR DROSDZIOK
Chairman of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

CHRISTIAN KLINGLER (UNTIL APRIL 30, 2015)
Member of the Board of Management of Volkswagen AG
Sales and Marketing

DETLEF KUNKEL
General Secretary/Principle Representative of
IG Metall Braunschweig

SIMONE MAHLER
Deputy Chairman of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

JAMES MORYS MUIR (AS OF JULY 1, 2015)
Head of Volkswagen Group National Sales Companies (NSC) Management

GABOR POLONYI
Head of Fleet Customer Management
for Volkswagen Leasing GmbH

PETRA REINHEIMER
General Secretary of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

AXEL STROTBEK
Member of the Board of Management
AUDI AG
Finance and Organization

NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to the development of the global economy and of the financial and automotive markets, which Volkswagen Financial Services AG has made on the basis of the information available to it and which it considers to be realistic at the time of going to press. The estimates given entail a degree of risk, and the actual developments may differ from those forecast.

Should actual developments turn out to be different, contrary to expectations and assumptions, or unforeseen events occur that have an impact on the business of Volkswagen Financial Services AG, this will have a corresponding effect on the business development of the Company.

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Volkswagen Financial Services AG
Gifhorner Strasse 57
38112 Braunschweig Germany
Telephone +49 (0) 531 212-0
info@vwfs.com
www.vwfs.de

INVESTOR RELATIONS

Telephone +49 (0) 531 212-30 71
ir@vwfs.com

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VOLKSWAGEN FINANCIAL SERVICES AG

Gifhorner Strasse 57 · 38112 Braunschweig · Germany · Phone +49 (0) 531 212-0
info@vwfs.com · www.vwfs.com · www.facebook.com/vwfsde
Investor Relations: Phone +49 (0) 531 212-30 71 · ir@vwfs.com