VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

ANNUAL REPORT (IFRS)

OF VOLKSWAGEN BANK GMBH

2015

Volkswagen Bank GmbH Group

KEY FIGURES (IFRS)

€ million (as of December 31)	2015	2014	2013	2012	2011
Total assets	49.206	42.947	39.378	39.220	37.866
Receivables from					
Retail financing	23.312	21.779	20.431	19.557	17.939
Dealer financing	10.302	8.928	7.973	7.738	7.435
Leasing business	2.502	2.108	1.789	1.540	1.412
Customer deposits	27.877	25.252	23.140	23.722	22.592
Equity	5.030	4.864	4.699	5.021	4.883
Operating profit	539	446	455	448	355
Profit before tax	575	464	459	558	494
Income tax expense	–157	–153	–151	–127	–125
Profit after tax	418	310	308	431	369

Percent (as of December 31)	2015	2014	2013	2012	2011
Equity ratio	10,2	11,3	11,9	12,8	12,9
Common Equity Tier 1 capital ratio[1]	11,1	13,2	–	–	–
Tier 1 capital ratio[1]	11,1	13,2	14,0	13,5	14,4
Total capital ratio[1]	11,2	13,4	14,7	14,9	16,3

Number (as of December 31)	2015	2014	2013	2012	2011
Employees[2]	1.185	1.123	1.241	1.174	753

RATING (AS OF DECEMBER 31, 2015)	STANDARD & POOR´S			MOODY´S INVESTORS SERVICE		
	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Volkswagen Bank GmbH	A–2	A–	Negative	Prime–1	A1	Negative
Volkswagen Financial Services AG	A–2	BBB+	Negative	Prime–1	A1	Negative

1 In accordance with Article 92(1) of the CRR.
2 Since 2015 including MAN Financial Services SpA, Dossobuono di Villafranca (VR) and since 2012 including Volkswagen Bank Polska S.A., Warsaw.

Annual Report (IFRS) of Volkswagen Bank GmbH

COMBINED MANAGEMENT REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

ADDITIONAL INFORMATION

Combined Management Report

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Fundamental Group Information

Continuous international growth demonstrates the validity of the Volkswagen Bank GmbH Group's business model

The consolidated financial statements of Volkswagen Bank GmbH in accordance with International Financial Reporting Standards (IFRS) include for the first time MAN Financial Services S.p.A., Dossobuono di Villafranca (VR), Italy, following Volkswagen Bank GmbH's acquisition of 100% of the shares in the company with effect from December 1, 2015.

BUSINESS MODEL

Within the Financial Services division of the Volkswagen Group as a whole, Volkswagen Bank GmbH is responsible for the operating activities relating to the provision of banking transactions for retail and business customers. The individual activities include those described below.

Financing

The Volkswagen Bank GmbH Group provides finance for retail customers, business customers and authorized dealers. The principal activity is the financing of vehicles.

Leasing

At the branches of the Bank in Italy and Portugal, the Volkswagen Bank GmbH Group operates finance lease business. The branch in France is also involved in operating lease business in addition to finance lease activities.

Direct banking

The Volkswagen Bank GmbH Group offers retail customers the entire range of direct banking services, including account management, consumer finance, savings plans and investment products. The facilities provided for business customers by the Volkswagen Bank GmbH Group include instant-access accounts, fixed-term deposits and saving certificates as well as a comprehensive range of payment services.

Broking

The Volkswagen Bank GmbH Group acts as an insurance broker in connection with the financing of vehicles. As part of its direct banking operations, it arranges loans secured by charges entered in the land register and other long-term forms of financing; it is also an intermediary for stock market or fund investments.

One of the ways in which the Volkswagen Bank GmbH Group pursues its objectives is to carry out joint customer relationship management activities with other companies in the Financial Services division of the Volkswagen Group and this has led to continuous improvement in customer loyalty, service quality and the range of products offered.

The business operations of the Volkswagen Bank GmbH Group are tightly integrated with those of the manufacturers and the dealer organizations in the Volkswagen Group.

ORGANIZATION OF THE VOLKSWAGEN BANK GMBH GROUP

Generally speaking, the aim of all structural measures in the Volkswagen Bank GmbH Group is to improve the quality offered to both customers and dealers, make processes more efficient and leverage synergies. The motivation and satisfaction of employees are key factors that enable us to defend our position as a leading employer of choice.

The major organizational restructuring of Volkswagen Bank GmbH initiated in 2014 to establish a clear segregation of responsibilities and areas of activity between the holding company and the German market in terms of personnel and structure under company law was completed in 2015. To consolidate these organizational changes, the operational implementation of the restructuring of Volkswagen Bank GmbH initiated in 2014 was reviewed in the reporting period before further detailed work was carried out leading to completion of the project. The outcome is that the German market is now managed as a separate market in the same way as the European branches.

With a view to setting up a comprehensive, sustainable process management structure, this area of activity was analyzed in detail in 2014 and restructured with effect from January 1, 2015. It has now been brought together as a single area of responsibility under the remit of Torsten Zibell. As a result of this new structure, the focus has been switched to the issue of process management to drive improvements in cooperation between the process management units responsible for the retail, corporate, fleet and direct banking customer groups. Torsten Zibell is also responsible for direct banking sales and customer service as well as market development and internal services.

Retail Customers & Corporate Customers headed by Anthony Bandmann is another customer group and has set up its internal customer service along regional lines with north, west, south and east regions in a structure similar to field sales. The focus in this structure is on the provision of a comprehensive range of advice for customers and assignment of customers to specific dealers. From February 1, 2016, Anthony Bandmann will also take over responsibility for Human Resources from Dr. Heidrun Zirfas.

Marketing and sales controlling have been added to the sales function in this case to consolidate the approach still further. The processes for acquiring financing contracts and, as a service for Volkswagen Leasing GmbH, for acquiring leases have been amalgamated. Consistent integration between the front office and back office for each region forms the basis for activities in the corporate customer segment. Credit approval processes in Bank back-office activities and special customer care are brought together under the Back Office remit of Dr. Heidrun Zirfas to ensure that processes are completed quickly and a high degree of customer satisfaction is achieved. The areas of responsibility covered by Dr. Zirfas also include Human Resources, Legal Affairs, Internal Audit, Compliance, Finance and Risk Management in the German market. Harald Heßke was appointed as a member of the Management of Volkswagen Bank GmbH on February 1, 2016 and he has taken over responsibility for Finance/Corporate Governance, Back Office/Dealer Restructuring and Risk Management.

The structure and the organization of Volkswagen Bank GmbH satisfy the requirements of the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements for Risk Management in Banks and Financial Services Institutions).

REPORT ON THE SUBSIDIARIES AND BRANCHES

Volkswagen Bank GmbH acquired all the shares in MAN Financial Services S.p.A., Dossobuono di Villafranca (VR), Italy, with effect from December 1, 2015. It is planned to merge the company with the Italian branch of Volkswagen Bank GmbH in 2016. The Volkswagen Bank GmbH Group is represented in Poland by its subsidiary Volkswagen Bank Polska S.A., Warsaw, which in turn holds 100% of the shares in Volkswagen Serwis Ubezpieczeniowy Sp.z.o.o., Warsaw. The latter company is not consolidated because it is of minor significance.

The brand-related branches of the Volkswagen Bank GmbH Group (Audi Bank, SEAT Bank, ŠKODA Bank, AutoEuropa Bank and ADAC FinanzService) are intended to provide specific support for the financing of the corresponding vehicles. The Ducati Bank Branch supports the financing of motorcycles.

In Berlin, Braunschweig, Emden, Hanover, Ingolstadt, Kassel, Neckarsulm, Salzgitter, Wolfsburg and Zwickau, the Volkswagen Bank GmbH Group maintains branches offering customers counter services, advisory support and, in some cases, ATMs.

At the end of fiscal year 2015, the Volkswagen Bank GmbH Group had a presence in the European market outside Germany with branches in eight different countries of the European Union set up using the EEA "passport" for financial services institutions. Each of the Volkswagen Bank GmbH Group's international branches in France, Greece, the United Kingdom, Ireland, Italy, the Netherlands, Portugal and Spain has its own employees and services the business in the country concerned. The branches had 853 (833) employees as of December 31, 2015.

INTERNAL MANAGEMENT

The key performance indicators used by the Group are determined on the basis of IFRS and are presented as part of the internal reporting system. The most significant non-financial performance indicators are penetration, the volume of existing contracts and new contracts. The main financial key performance indicators are volume of business, volume of deposits and operating profit or loss. Return on equity (RoE) and the cost-income ratio (CIR) are used as further key performance indicators, but at the level of the Volkswagen Financial Services AG Group, of which the Volkswagen Bank GmbH Group forms part.

	Definition
Nonfinancial performance indicators	
Penetration	Ratio of total new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles, based on Volkswagen Bank GmbH'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 direct banking
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 and leasing 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. Some amounts under net interest income, net other operating expenses/income and general and administrative expenses are eliminated (see segment reporting).

CHANGES IN EQUITY INVESTMENTS

Volkswagen Bank GmbH acquired all the shares in MAN Financial Services S.p.A., Dossobuono di Villafranca (VR), Italy, with effect from December 1, 2015.

In a letter dated December 21, 2015, Volkswagen Bank GmbH was notified that VISA Inc. intends to acquire the shares held by Volkswagen Bank GmbH in VISA Europe Limited. The transaction is likely to be carried out in the second quarter of 2016.

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 in the Volkswagen Bank GmbH Group increased year-on-year.

GLOBAL ECONOMY CONTINUES TO SEE MODERATE GROWTH

The moderate growth rate of the global economy declined 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

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.

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.

FINANCIAL MARKETS

Trends in global financial markets continued 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

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.

Germany

Germany maintained a sound rate of growth, but the pace tailed off towards the end of the year. The main stimulus for growth came from consumer spending but there was also a boost from the public sector, caused among other things by increased expenditure related to the reception of refugees. The caution regarding capital investment persisted. The euro lost further ground on the US dollar in 2015. Demand in bond markets for low-risk German bonds coupled with a rise in the demand from international investors also led to low to negative yields.

INTEGRATION INTO THE VOLKSWAGEN GROUP

The Volkswagen Bank GmbH Group forms an integral part of the Volkswagen Financial Services AG subgroup, which brings together the financial services activities of the Volkswagen Group as a whole. The Volkswagen Bank GmbH Group operates, in particular, the financing business for retail customers, business customers and authorized dealers in close cooperation with the brands of the Volkswagen Group.

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

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.

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 vehicle exports (+2.4% to 4.4 million vehicles), especially to Western European markets, facilitated the increase in domestic production (+1.9% to 5.7 million vehicles).

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 Volkswagen Financial Services AG and the Volkswagen Bank GmbH 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 of Volkswagen Financial Services AG and the Management of Volkswagen Bank GmbH 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.

The Volkswagen Bank GmbH Group 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 Bank GmbH.

The strategic refinancing mix at Volkswagen Bank GmbH 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 the Volkswagen Bank GmbH Group, which is largely concentrated in the French branch; 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 BUSINESS PERFORMANCE

In the opinion of the Management of Volkswagen Bank GmbH, the business performed well in 2015. Operating profit was better than forecast and exceeded the level achieved in 2014. New business recorded positive growth over the reporting period. Funding costs remained slightly below the prior-year level despite the higher business volume as the Bank benefited from the 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. Provisions for risks from lending and leasing business is below the prior-year level.

New business across Europe recorded strong positive growth over the reporting period. Business volume increased year-on-year, especially in Germany, France, the United Kingdom, Ireland, Italy and Portugal. Margins were maintained at close to the same level compared with the prior year. Interest income declined slightly in fiscal year 2015. As regards interest expenses, greater reductions were achieved, particularly in interest expenses from the direct banking business.

Volkswagen Bank GmbH also continued implementing its measures aimed at improving its exploitation of the potential available right along the automotive value chain. This included accelerating the significant expansion that has already taken place in the last few years in the integration of financial services into the sales activities of the Volkswagen Group brands. By consistently focusing on customer needs, the Bank is managing to provide support for the customer and the vehicle over the entire lifecycle of the vehicle. These efforts have been given a significant boost by the GO^{40} growth program, which has been set up and refined in collaboration with the vehicle brands.

The objectives of the GO^{40} growth program are, among other things, to increase penetration and foster customer loyalty. The inclusion of servicing and maintenance packages, together with insurance services, has generated a further increase in the value added available from the customer for the Volkswagen Group and brought even greater strength to the dealer network by creating additional sources of income. The extension of the existing GO^{40} growth agreements for all Group brands in the key European countries is therefore an essential component in helping to leverage further potential within the sales activities of the Volkswagen Group.

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

The Volkswagen Bank GmbH Group achieved an increase in its deposit business compared with the prior year.

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

We had forecast an operating profit for fiscal year 2015 well above that achieved in 2014. The actual operating profit generated by the Bank in fiscal year 2015 was significant, representing year-on-year growth of 20.8%.

The Bank managed to expand the portfolio of contracts as a result of successful collaboration with the brands. In contrast to the prediction in the forecast, the trend in new contracts was also positive. Overall, the volume of business was increased in 2015 as forecast. The rate of penetration declined slightly as expected because the increase in the absolute volume of new contracts did not quite keep pace with the growth in new vehicle deliveries.

The volume of deposits was expected to remain stable in 2015 but an increase of 10.4% was actually achieved on the back of targeted management efforts.

	Actual 2014	Prognose 2015	Actual 2015
Nonfinancial performance indicators			
Penetration	18.7%	< 18.7%	17.7%
Current contracts (thousands)[1]	2,566	> 2,566	2,768
New contracts (thousands)[1]	966	< 966	1,026
Financial performance indicators			
Volume of business (€ million)	33,013	> 33,013	36,330
Volume of deposits (€ million)	25,252	= 25,252	27,877
Operating profit (€ million)	446	> 446	539

1 Volume of existing contracts/new contracts in 2014 adjusted for other services/other insurance and for demonstrator vehicles.

RESULTS OF OPERATIONS

In the fiscal year 2015, the European economy only grew at a modest rate. The Volkswagen Bank GmbH Group nevertheless performed well.

Profit before tax amounted to €575 million (+24.1%), well above the figure of €464 million achieved in the prior year. The portion of profit accounted for by foreign branches and companies was €222 million (€149 million). One of the main contributing factors was rising volume.

Net income from lending and leasing transactions before provisions for risks amounted to €1,241 million, a year-on-year gain of €36 million. This performance was attributable to positive volume growth in almost all regions and lower interest expenses.

Net income from leasing transactions before provisions for risks includes impairment losses on lease assets in an amount of €26 million (€9 million), some of which were recognized in connection with the emissions issue.

The required provisions for risks expenses of €299 million remained at the prior-year level (€305 million). Income from the reversal of valuation allowances no longer required and income from receivables previously written off amounting to a total of €227 million was significantly more than in the prior year (€187 million), with the result that the provisions for risks from the lending and leasing business at €71 million was €46 million lower year-on-year (€117 million).

Net fee and commission income amounted to €39 million (€45 million). This was largely attributable to increased selling costs as part of the strategy to lift penetration rates.

General and administrative expenses were up on the prior-year level to €794 million (€714 million). Other than higher non-staff operating expenses, the main reason was a greater expense in connection with cost allocations from entities in the Volkswagen Group.

The other provisions of €376 million (€373 million) mainly comprise provisions to cover costs associated with litigation and legal risks. The provisions for litigation and legal risks amounted to €246 million (€234 million) and reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest court rulings and from ongoing proceedings.

Including the net loss on the measurement of financial instruments in the amount of €10 million (net gain of €2 million in the previous year) and the other components of profit or loss, the Volkswagen Bank GmbH Group generated a net profit of €418 million (+34.8%).

The operating profit amounted to €539 million (+20.8%), well in excess of the prior-year operating profit of €446 million.

The German market accounts for the greatest proportion of the volume of existing contracts in the Volkswagen Bank GmbH Group at around 56.9% (59.7%). It therefore provides a strong and sound foundation for the business. It generated profit before tax (excluding income from equity-accounted investments) of €363 million (€315 million).

The profit of Volkswagen Bank GmbH determined in accordance with the HGB (after deduction of taxes) amounting to €268 million will be transferred to the parent company, Volkswagen Financial Services AG, under the existing profit transfer agreement.

NET ASSETS AND FINANCIAL POSITION

Lending Business

The lending business of the Volkswagen Bank GmbH Group mainly consists of loans granted to retail customers, business customers and dealers. The volume of these receivables increased by 10.0% to €36.3 billion. The proportion of the customer lending volume accounted for by the foreign branches, Volkswagen Bank Polska S.A. and MAN Financial Services S.p.A. Italy rose from €11.3 billion to the current level of €12.9 billion.

Retail financing

In the German market, the volume of existing retail financing contracts expanded slightly in line with the rise in the demand for passenger cars. Overall, the other European markets also reported a higher number of retail financing contracts.

The number of new financing contracts for new vehicles reached 318,836 (346,651), and for used vehicles 350,392 (309,589).

The total portfolio of financing contracts grew by 3% to 2,149,433 contracts (2,092,330). As of December 31, 2015, the volume of receivables in retail financing amounted to €23.3 billion (€21.8 billion). The foreign branches of Volkswagen Bank GmbH, the Polish company and MAN Financial Services Italy accounted for €4.5 billion (€4.3 billion) of these receivables.

Dealer financing

The volume of new and used vehicle financing in corporate customer business increased by 15.4% year-on-year.

As of the reporting date, the volume of dealer financing receivables amounted to a total of €10.3 billion compared with €8.9 billion at the end of the prior year. The proportion of the volume of receivables accounted for by the foreign branches, Volkswagen Bank Polska S.A. and MAN Financial Services S.p.A. Italy was €5.7 billion (€4.9 billion).

The valuation allowances on receivables were reduced year-on-year by €17 million to €579 million.

Leasing business

As of the end of fiscal year 2015, the volume of the portfolio of receivables from leasing business had risen from €2.1 billion to €2.5 billion. By far the greatest proportion was attributable to finance lease receivables.

Securities

The portfolio held by the Volkswagen Bank GmbH Group predominantly comprises bonds from various countries amounting to €2.2 billion (€1.4 billion) and ABSs issued by the special purpose entities of Volkswagen Leasing GmbH and Volkswagen Finance S.A., Madrid, Spain, totaling €0.3 billion (€0.9 billion).

Long-term financial assets

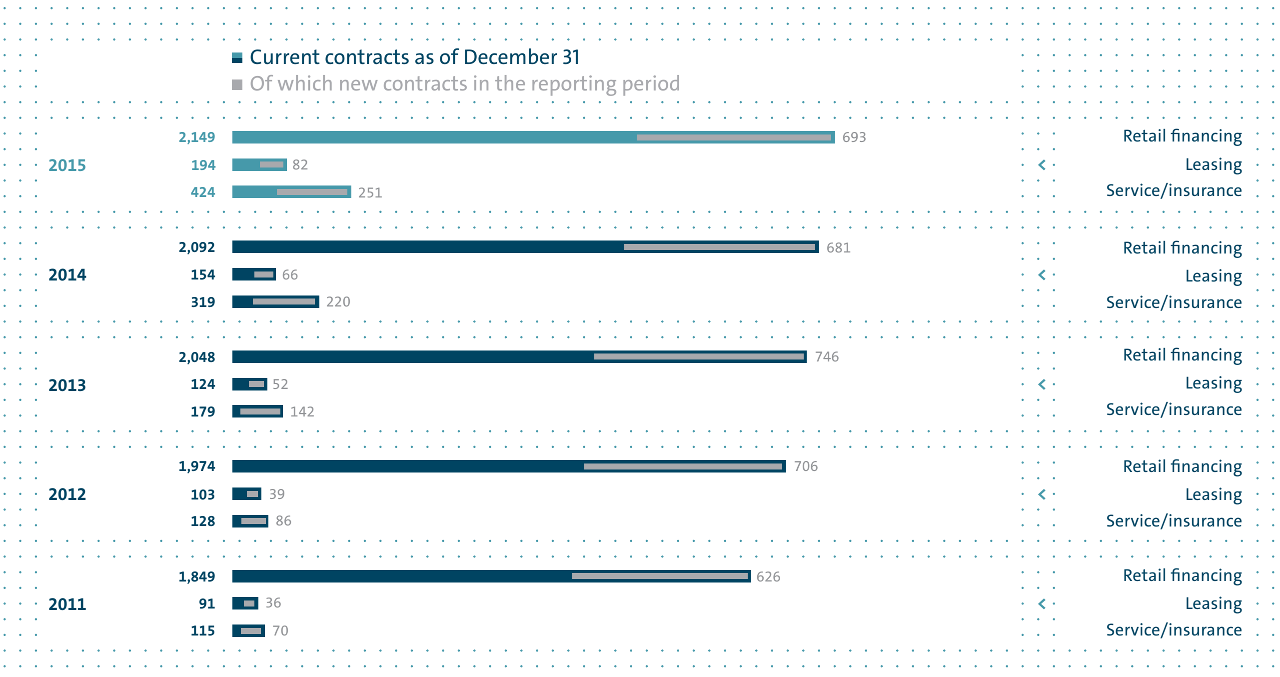
As of December 31, 2015, Volkswagen Bank GmbH held 1% of the equity in OOO Volkswagen Bank RUS, Moscow. This holding remained unchanged year-on-year. Volkswagen Bank Polska S.A., Warsaw, is the sole shareholder of Volkswagen Serwis Ubezpieczeniowy Sp.z.o.o., Warsaw.

PORTFOLIO OF EXISTING CONTRACTS AND NEW CONTRACTS

Thousands [1]	VW Bank Group	of which Germany	of which Italy[2]	of which France	Other
Existing contracts	2,768	1,574	462	507	226
Retail financing	2,149	1,554	256	156	183
Leasing business	194	–	39	142	14
Service/insurance	424	20	167	209	29
New contracts	1,026	504	187	250	84
Retail financing	693	502	83	46	62
Leasing business	82	–	10	62	9
Service/insurance	251	2	94	142	13
€ million					
Receivables from customers attributable to					
Retail financing	23,312	18,788	2,013	1,027	1,484
Dealer financing	10,302	4,563	619	1,215	3,904
Leasing business	2,502	–	720	1,616	166
Lease assets	710	–	–	710	–
Percent					
Penetration rates[1]	17.7	15.1	38.1	41.1	9.3

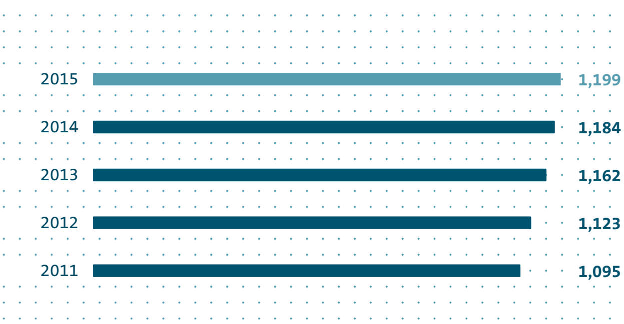
1 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles in each case in relation to the markets shown for the Volkswagen Bank GmbH Group.
2 MAN Financial Services SpA

DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31[1]
in thousands



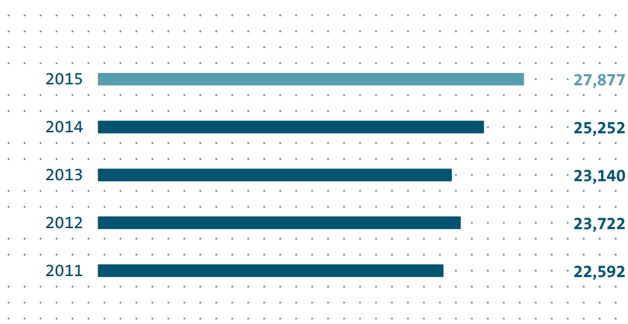
1 Volume of existing contracts/new contracts in 2014 adjusted for other services/other insurance and for demonstrator vehicles.

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



Including corporate customers since 2013

CUSTOMER DEPOSITS AS OF DECEMBER 31
in € million



Deposit Business and Borrowings

On the equity and liabilities side of the balance sheet, the main items other than equity are liabilities to customers of €30.5 billion (€26.8 billion), securitized liabilities of €7.6 billion (€7.6 billion) and liabilities to banks of €4.0 billion (€1.8 billion). The principal reason for the increase is that VW Bank has been participating since 2014 in Deutsche Bundesbank's targeted longer-term refinancing operations.

DEPOSIT BUSINESS

The Volkswagen Bank GmbH Group achieved a further increase in its deposit business compared with the prior year. As of the reporting date, the volume of customer deposits amounted to €27.9 billion, which equates to a year-on-year rise of 10.4% (€25.3 billion). Based on this deposits portfolio, the Volkswagen Bank GmbH Group continued to maintain its market-leading position in the automotive direct banking segment. The deposit business is a significant contributing factor in helping the Volkswagen Group retain its customers. The proportion of the funding mix in the Volkswagen Bank GmbH Group accounted for by deposits remained unchanged at 56.7%.

In addition to the cover provided by statutory deposit guarantees, Volkswagen Bank GmbH is also a member of the Deposit Protection Fund of the Bundesverband deutscher Banken e.V. (Association of German Banks).

EQUITY

Subscribed capital and capital reserves remained unchanged year-on-year. The profit in accordance with the HGB to be transferred to Volkswagen Financial Services AG under the existing profit transfer agreement amounts to €268 million.

As the volume of business rose sharply in fiscal year 2015, the equity ratio declined to 10.2% (11.3%).

CAPITAL ADEQUACY IN ACCORDANCE WITH REGULATORY REQUIREMENTS

Under the provisions of the Capital Requirements Regulation (CRR), a bank is deemed to have adequate capital backing if the Common Equity Tier 1 (CET1) capital ratio is at least 4.5%, the Tier 1 capital ratio is at least 6.0% and the total capital ratio is at least 8.0%.

On the basis of Article 16 of Council Regulation (EU) No. 1024/2013 of October 15, 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, the European Central Bank (ECB) passed a resolution on November 20, 2015 setting up supervisory requirements for VW Bank. The basis for this decision was a supervisory review in 2015. Volkswagen Bank GmbH satisfied both the minimum requirements of the CRR and the additional requirements specified by the supervisor at all times in the reporting period.

At the end of the reporting period, the total capital ratio (ratio of own funds to total risk exposure) was 11.2% (13.4%) and was therefore significantly higher than the statutory minimum required ratio of 8%.

The Tier 1 capital ratio and the CET1 capital ratio at the end of the reporting period were each 11.1% (13.2%) and therefore likewise well above the minimum ratios required under the CRR of 6% and 4.5% respectively.

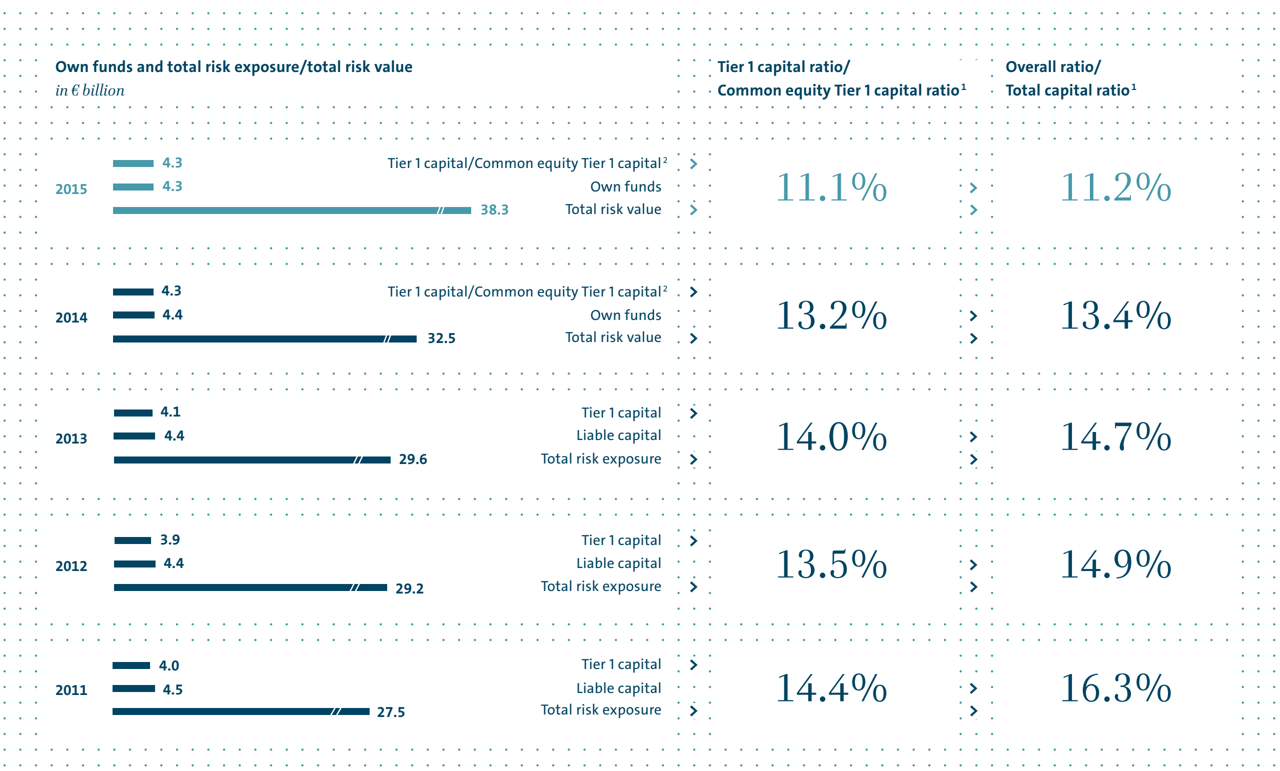
The main components of the total risk exposure are credit risk, market risk, operational risk and risks from the credit valuation adjustment (CVA). The Credit Risk Standardized Approach (CRSA) is used to quantify credit risk and to determine risk-weighted exposures. The Standardized Approach as specified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

The breakdown of the total risk exposure and own funds is shown in the following table:

	31.12.2015		31.12.2014	
Total risk exposure amount[1] (€ million)		38,288		32,545
of which risk-weighted exposure amounts for credit risk	35,700		30,069	
of which own funds requirements for market risk *12.5	244		191	
of which own funds requirements for operational risk *12.5	2,297		2,242	
of which own funds requirements for credit valuation adjustments *12.5	47		43	
Eligible own funds (€ million)		4,292		4,354
Own funds (€ million)		4,292		4,354
of which Common Equity Tier 1 capital	4,262		4,296	
of which Additional Tier 1 capital	0		0	
of which Tier 2 capital	30		58	
Common Equity Tier 1 capital ratio[1] (%)		11.1		13.2
Tier 1 capital ratio[2] (%)		11.1		13.2
Total capital ratio[2] (%)		11.2		13.4

1 In accordance with Article 92(3) of the CRR.
2 In accordance with Article 92(1) of the CRR.

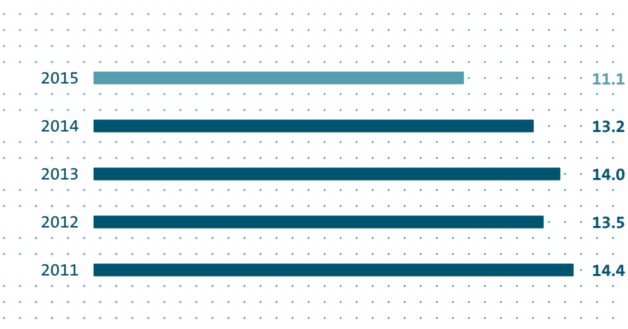
REGULATORY RATIOS OF THE VOLKSWAGEN BANK GMBH AS OF DECEMBER 31



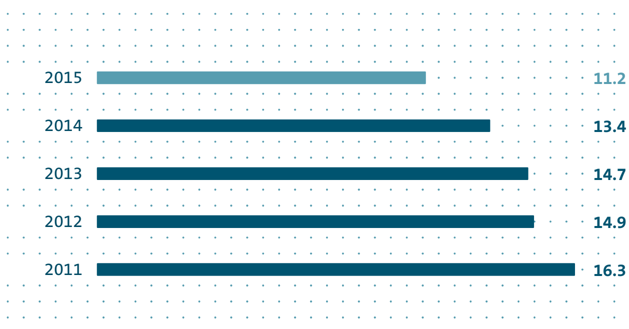
1 For the years 2011 – 2013 the calculation was in accordance with the Solvabilitätsverordnung (SolvV – German Solvency Regulation); since January 1, 2014, the figures have been determined in accordance with the CRR.
2 The amount of Tier 1 capital is the same as the amount of CET1 capital because Volkswagen Bank GmbH has not issued any instruments classified as Additional Tier 1 capital.

The year-on-year change in the regulatory capital ratios (CET1 capital ratio, Tier 1 capital ratio and total capital ratio) is largely attributable to the rise in business volume with only a small change in the components of own funds.

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



OVERALL RATIO/TOTAL CAPITAL RATIO UNDER CRR/SOLVV[1]
figures in %



1 For the years 2011 – 2013 the calculation was in accordance with the Solvabilitätsverordnung (SolvV – German Solvency Regulation); since January 1, 2014, the figures have been determined in accordance with the CRR.

As an individual bank, Volkswagen Bank GmbH has a relatively high total capital ratio, which ensures that there is an adequate level of capital, even with a sharp rise in the volume of business. In addition to using Tier 2 capital in the form of subordinated liabilities, the Bank can also make use of ABS transactions to optimize its capital management. Volkswagen Bank GmbH, as an individual bank, therefore has the benefit of a sound foundation for further expansion of the financial services business.

CHANGES IN OFF-BALANCE-SHEET LIABILITIES

The Volkswagen Bank GmbH Group's irrevocable credit commitments declined year-on-year by €90 million and as of December 31, 2015 amounted to €1,290 million.

LIQUIDITY ANALYSIS

The Volkswagen Bank GmbH Group is funded largely through capital market and asset-backed security programs, and through direct banking deposits. 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 €2.0 billion, senior ABS bonds issued by special purpose entities of Volkswagen Leasing GmbH, Volkswagen Finance S.A. and Volkswagen Bank GmbH amounting to €7.2 billion. These senior ABS bonds are not reported in the consolidated financial statements of Volkswagen Bank GmbH because these special purpose entities are themselves consolidated.

The Bank also has at its disposal a few 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 and uses this information to determine the relevant range of liquidity coverage. 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. 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 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.

FUNDING

Strategic Principles

In terms of funding, the Volkswagen Bank GmbH Group 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

Overall, the funding situation in 2015 turned out to be significantly more challenging than in the previous year. In mid-September, the headlines concerning the emissions issue at the Volkswagen Group had an impact in the markets, resulting in a substantial rise in risk premiums on our outstanding bonds.
Volkswagen Bank GmbH did not issue any bonds on capital markets in the reporting period.

As regards funding from asset-backed securities, Volkswagen Bank GmbH receivables in the amount of €750 million were securitized in February 2015 as part of the Driver Thirteen ABS transaction. 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. This was then followed in July by Driver Master, the Bank's first ever ABS master platform based on German vehicle financing. As a consequence, Volkswagen Bank then for the first time had at its disposal a strategic ABS funding platform.

In the reporting period, customer deposit business grew by €2.7 billion to €27.9 billion.

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. Currency risks were largely eliminated by using derivatives. The Volkswagen Bank GmbH Group was able to meet its payment obligations when due at all times in the reporting period. Our diversified funding structure and our proactive management of liquidity ensure that the Bank will also remain solvent at all times in the future. No liquidity commitments have been issued to special purpose entities.

Volkswagen Bank GmbH

(SUMMARY IN ACCORDANCE WITH THE HGB)

Volkswagen Bank GmbH has significant influence over the business performance of the Volkswagen Bank GmbH Group. For further information, please refer to the previous section. In the following section, we report on the developments in the annual financial statements of Volkswagen Bank GmbH in accordance with the HGB.

BUSINESS PERFORMANCE 2015

The result from ordinary activities amounted to €423.2 million compared with €469.4 million in the prior year.

The net interest income earned by Volkswagen Bank GmbH, including interest anomalies and net income from leasing transactions, came to €1,399.2 million compared with €1,398.0 million in the prior year.

As in the prior year, interest income from lending and money market transactions including finance leases arose predominantly from financing business with end customers and from vehicle and capital investment financing with dealers in the Volkswagen Group.

Interest anomalies in the form of negative interest of €1.3 million resulted from money market transactions in connection with the Bank's reserve balance at the ECB in excess of the minimum reserve requirement and from short-term deposits with domestic banks.

Volkswagen Bank GmbH earned interest income of €76.1 million (€82.8 million) from marketable securities. Of this amount, €31.4 million (€36.8 million) was attributable to securities purchased from special purpose entities of Volkswagen Bank GmbH. These instruments securitize Volkswagen Bank GmbH's own receivables that have been sold to the relevant special purpose entities as part of ABS transactions. A further €5.4 million (€11.3 million) was accounted for by interest income on securities purchased from special purpose entities of Volkswagen Leasing GmbH and Volkswagen Finance S.A., Madrid, Spain.

Net fee and commission income was almost unchanged year-on-year. Fee and commission income rose in particular in connection with insurance broking and the administration and collection of receivables sold as part of ABS transactions. The increased fee and commission expenses largely arose from dealer fees and commissions in the consumer credit business as a consequence of the strategy to lift penetration rates. The increase in other operating income of €16.5 million was mainly attributable to income in connection with the internal allocation of costs within the Volkswagen Financial Services AG subgroup. The year-on-year rise in income for this item was €19.5 million.

General and administrative expenses went up by €77.1 million. The primary causes were third-party services amounting to €64.0 million (€40.5 million) and cost allocations from Group companies of €321.9 million (€292.9 million). These cost allocations were mainly attributable to staff leasing arrangements.

Depreciation and write-downs on lease assets at the French branch rose by €61.0 million to €264.5 million. Other operating expenses amounted to €135.5 million (€197.3 million). The fall in these expenses is explained by the fact that a lower level of provisions was recognized compared with the prior year.

The provisions for risks recognized in fiscal year 2015 were €12.6 million less than in the prior year. This figure arose from the combination of an increase of €22.3 million in income from the reversal of valuation allowances and a rise of €9.1 million in additions to provisions for risks.

The profit after tax of €267.6 million will be transferred to Volkswagen Financial Services AG under the existing control and profit-and-loss transfer agreement.

The volume of customer receivables reported in the balance sheet went up by 8.4% to €36.9 billion (€34.0 billion). The share of the customer credit volume accounted for by the international branches rose from €10.8 billion to €12.0 billion.

In 2015, the Bank issued the following ten ABS transactions with a receivables volume of €10.8 billion: Driver Thirteen, Private Driver 2015-1, Driver France Two and the revolving structures Driver Master Compartment 1, Driver Master Compartment 2, Driver Master Compartment 3, Driver Master Compartment 4, Driver Master Compartment 5, Driver Master Compartment 6 and Driver Master Compartment 7. In the case of ABS transactions in which Volkswagen Bank GmbH has not acquired any securities from the special purpose entities concerned, the sold receivables are no longer reported in the HGB balance sheet. As of the reporting date, the carrying amount of these receivables was €3.8 billion (€3.0 billion).

Volkswagen Bank GmbH had been a shareholder in Liquiditäts-Konsortialbank GmbH i.L., Frankfurt am Main, with a holding of €40 thousand (0.02%). Volkswagen Bank GmbH's interest was repaid as part of the liquidation of the company on December 28.

Volkswagen Bank GmbH holds a long-term equity investment in paydirekt Beteiligungsgesellschaft privater Banken mbH, whose registered office is situated in Berlin. Until November 18, 2015, the name of the company was BV-BGPB Beteiligungsgesellschaft privater Banken für Internet- und mobile Bezahlungen mbH.

Volkswagen Bank GmbH's holding in the company has declined from 2.53% to 2.02%.

Volkswagen Bank GmbH acquired all the shares in MAN Financial Services S.p.A., Dossobuono di Villafranca (VR), Italy, with effect from December 1, 2015. It is planned to merge the company with the Italian branch of Volkswagen Bank GmbH in 2016.

Volkswagen Bank GmbH holds an interest in VISA Europe Limited, London, equating to €10 out of the total nominal capital of €1,054. Volkswagen Bank GmbH received a letter dated December 21, 2015 containing an offer to buy the interest in VISA Europe Limited.

Most of Volkswagen Bank GmbH's portfolio comprises securities from ABS transactions. In 2015, Volkswagen Bank GmbH acquired all of the securities arising from its own ABS securitization transactions as follows: Private-Driver 2012-3, Private Driver 2013-1, Private Driver 2013-2, Private Driver 2014-1, Private Driver 2014-2, Private Driver 2014-3, Private Driver 2015-1, Driver Master Compartment 2, Driver Master Compartment 3, Driver Master Compartment 4, Driver Master Compartment 5, Driver Master Compartment 6 and Driver Master Compartment 7. The value of the portfolio of securities resulting from all transactions amounted to €9.2 billion (€4.5 billion). For investment purposes, the portfolio also included ABSs with a total value of €0.3 billion (€0.9 billion) issued by special purpose entities of Volkswagen Leasing GmbH and Volkswagen Finance S.A., Madrid, Spain.

Securities of €8.0 billion are used as collateral for participating in the open market operations of Deutsche Bundesbank. As of the reporting date, the existing participation in these open market operations stood at €3.5 billion.

The main items on the equity and liabilities side of the balance sheet are, in addition to equity, the liabilities to customers (including direct banking business) of €29.8 billion (€26.3 billion) and the securitized liabilities of €3.7 billion (€4.5 billion).

Volkswagen Bank GmbH successfully achieved further expansion in its deposits business. The total volume of customer deposits amounted to €27.5 billion as of the reporting date. This equated to a substantial rise of 10.3% compared with the volume as of December 31, 2014 (€24.9 billion). The proportion of the funding mix at Volkswagen Bank GmbH accounted for by deposits was 52.4% (57.9%).

The other provisions mainly comprise provisions to cover costs associated with litigation and legal risks. The provisions for litigation and legal risks of €246 million (€233 million) 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 proceedings. As a result of business growth and the repurchase of securities from ABS transactions, the total assets as of the reporting date amounted to €52.5 billion (€43.1 billion).

INCOME STATEMENT OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	2015	2014
Net interest income	1,128	1,164
Net leasing income	271	234
Net fee and commission expense	−43	−42
Administrative expenses	765	688
Other comprehensive income	−76	−94
Income from the disposal of equity investments	0	0
Provisions for risks	92	105
Result from ordinary activities	**423**	**469**
Tax expense	155	167
Profits transferred under a profit transfer agreement	268	303
Net income for the year	**0**	**0**
Retained profits brought forward	0	0
Net retained profits	**0**	**0**

BALANCE SHEET STRUCTURE OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG

€ million	31.12.2015	Dec. 31, 2014
Assets		
Cash reserve	1,268	376
Receivables from credit institutions	1,305	949
Receivables from customers	36,878	34,034
Securities	11,692	6,735
Equity investments and shares in affiliated companies	66	53
Lease assets	803	666
Other assets	470	259
Total assets	**52,483**	**43,072**
Equity and liabilities		
Liabilities to credit institutions	3,970	1,756
Liabilities to customers	29,831	26,344
Securitized liabilities	3,666	4,497
Provisions	510	484
Subordinated liabilities	30	310
Fund for general banking risks	26	26
Equity	4,290	4,290
Other liabilities	10,160	5,365
Total equity and liabilities	**52,483**	**43,072**
Balance sheet disclosures		
Contingent liabilities	97	68
Other obligations	1,308	1,293

NUMBER OF EMPLOYEES

As of December 31, 2015, 2,638 employees (2,600) of Volkswagen Financial Services AG were assigned to Volkswagen Bank GmbH's business units under staff leasing arrangements.

A total of 855 staff members (839) also held direct employment contracts with Volkswagen Bank GmbH as of December 31, 2015. Of this number, 2 (6) employees were based in Germany and 853 (833) at the international branches of Volkswagen Bank GmbH.

OPPORTUNITIES AND RISKS FACING VOLKSWAGEN BANK GMBH

The business performance of Volkswagen Bank GmbH is largely subject to the same opportunities and risks as those faced by the Volkswagen Bank GmbH Group. These opportunities and risks are described in the report on opportunities and risks in the following sections of this management report.

Report on Opportunities and Risks

The Volkswagen Bank GmbH Group 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 OPPORTUNITIES

Against the backdrop of further economic growth in the vast majority of markets, the Management of Volkswagen Bank GmbH 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. The Volkswagen Bank GmbH Group 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 the Volkswagen Bank GmbH Group if actual trends turn out to be better than forecast.

STRATEGIC OPPORTUNITIES

As well as continuing its international focus by tapping new markets, the Volkswagen Bank GmbH Group believes that further opportunities are available from the development of innovative products that are tailored to customers' changing mobility requirements. The Group is therefore systematically developing and expanding growth areas such as mobility and service products. Further opportunities may be created by launching established products in new markets.

The digitalization of our business presents a significant opportunity for the Volkswagen Bank GmbH Group. The objective is to reach a position by 2025 where all our products are also offered online. 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 for risks or 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, the Volkswagen Bank GmbH Group 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 Bank GmbH, as far as it is relevant to the accounting system, is defined as 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 Bank 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 process of the Volkswagen Bank GmbH Group.

- The Management of Volkswagen Bank GmbH is the governing body with responsibility for the executive management of the business. In this role, the Management has set up accounting, customer service, treasury, risk management, controlling and compliance units, each with clearly separated functions and clearly assigned areas of responsibility and authority, to ensure that the Bank carries out accounting and financial reporting processes properly.
- Groupwide 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 Bank GmbH are governed by the Volkswagen Financial Services AG Group's accounting standards, including the accounting requirements specified in the International Financial Reporting Standards (IFRS).
- The Volkswagen Bank GmbH Group'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 propriety and reliability 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 doublechecking 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.
- Internal auditing is a key component of the Volkswagen Bank GmbH Group'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 Management of Volkswagen Bank GmbH.

In sum, the existing internal monitoring and control system of the Volkswagen Bank GmbH Group is intended to ensure that the financial position of the individual entities in the Group and the Volkswagen Bank GmbH Group 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 the Volkswagen Bank GmbH Group after the reporting date.

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

In the Volkswagen Bank GmbH Group, risk is defined as the danger of loss or damage that could occur if an expected future development turns out to be less favorable than planned.

The Volkswagen Bank GmbH Group is exposed to a large number of risks typical for the financial services sector as part of its primary operating activities. The Group takes on these risks on a responsible basis so that it can specifically exploit associated market opportunities.

The Volkswagen Bank GmbH Group has put in place a risk management system to identify, assess, manage, monitor and communicate risks. The risk management system comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risk. The individual elements are tightly focused on the activities of the individual divisions. This structure enables the Bank 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 Bank GmbH, responsibility for risk management and credit analysis is assigned to a particular member of the Management. In this role, the Management member concerned submits regular reports to the other members and to the sole shareholder, Volkswagen Financial Services AG, on the overall risk position of the Volkswagen Bank GmbH Group.

An important feature of the risk management system at Volkswagen Bank GmbH 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, calculating values for the different categories of risk, 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 Management of Volkswagen Bank GmbH.

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 monitors the models and procedures used for risk measurement and management, takes responsibility for the detailed design of local structures for these models and procedures 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.

To summarize, continuous monitoring of risks, transparent and direct communication with the 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 the Volkswagen Bank GmbH Group.

RISK STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Management of Volkswagen Bank GmbH.

As part of this overall responsibility, the Management of Volkswagen Bank GmbH 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 Management of Volkswagen Bank GmbH 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 ad hoc on the basis of a risk inventory, risk-bearing capacity and legal requirements. It is adjusted where appropriate and discussed with the Annual General Meeting of Volkswagen Bank GmbH. The risk strategy describes the main risk management goals and action plans for each category of risk taking into account the business policy focus (business strategy), risk tolerance and risk appetite. A review is carried out annually to establish whether the goals have been attained. The causes of any variances are analyzed and then discussed at the Annual General Meeting of Volkswagen Bank GmbH.

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

The Management of Volkswagen Bank GmbH is responsible for specifying and subsequently implementing the overall risk strategy in the Volkswagen Bank GmbH Group.

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 in the Volkswagen Bank GmbH Group. In the risk inventory, the relevant categories of risk are examined in greater detail, quantified or, if they cannot be quantified, assessed by experts, and then evaluated to determine whether they are material for the Volkswagen Bank GmbH Group.

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. Indirect residual value risk was classified as immaterial because it accounted for a low proportion of the overall risk. 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 the Volkswagen Bank GmbH Group. 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 the Volkswagen Bank GmbH Group 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 (which is relevant to the management of risks) 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, the Volkswagen Bank GmbH Group 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 Management.

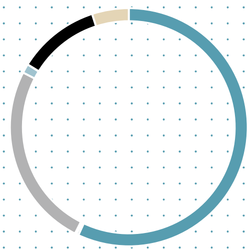
The establishment of the risk limit system as a core component of capital allocation limits the risk at different levels, thereby safeguarding of the economic risk-bearing capacity of the Volkswagen Bank GmbH Group. Risk coverage potential is determined from the available equity and earnings components subject to various deductions. In line with the risk appetite of the Management of Volkswagen Bank GmbH, 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 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, equity risk, issuer risk and counterparty risk.

In a second step, the limits for the risk categories (with the exception of those for equity risk, issuer risk, counterparty risk and liquidity risk [funding risk]) are broken down and allocated at the level of the branches and Volkswagen Bank Polska S.A.

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

The overall economic risk of the Volkswagen Bank GmbH Group as of September 30, 2015 amounted to €867 million. 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



	€ MILLION		PROPORTION (PERCENT)	
	30.09.2015	31.12.2014	30.09.2015	31.12.2014
Risk category				
Credit risk	494	516	57	61
Equity, issuer and counterparty risk	2	2	0	0
Residual value risk	2	0	0	0
Earnings risk	218	202	25	24
Market risk	11	6	2	1
Funding risk	0	0	0	0
Operational risk	97	77	11	9
Other risks[1]	43	42	5	5
Total	867	845	100	100

1 Global amount for material non-quantifiable risks: reputational risk and strategic risk

As of September 30, 2015, the risk coverage potential amounted to €2.7 billion and comprised liable equity of €5.2 billion, forecast profit for the next twelve months of €0.6 billion, the deduction of the regulatory minimum own funds requirement of €2.9 billion and other adjustment items of €0.2 billion. As of September 30, 2015, 32% of the risk coverage potential was utilized by the risks described 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 31%. Up to December 31, 2015, there were no indications of any material changes in the utilization of the risk coverage potential.

The Volkswagen Bank GmbH Group not only determines its risk-bearing capacity in a normal scenario, but also carries out stress tests throughout the bank, the results of which are reported directly to the Management and Annual General Meeting of Volkswagen Bank GmbH. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of Volkswagen Bank GmbH. 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 Volkswagen Bank GmbH 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 of the Volkswagen Bank GmbH Group were adequately covered by the available risk coverage potential at all times. In the reporting period, the Volkswagen Bank GmbH Group 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

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

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

- just a few borrowers/contracts account for a large proportion of the loans (counterparty concentrations)
- a small number of sectors account for a large proportion of the loans (sector concentrations)
- many of the loans are with 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 Bank GmbH's income is generated from just a few sources (income concentrations).

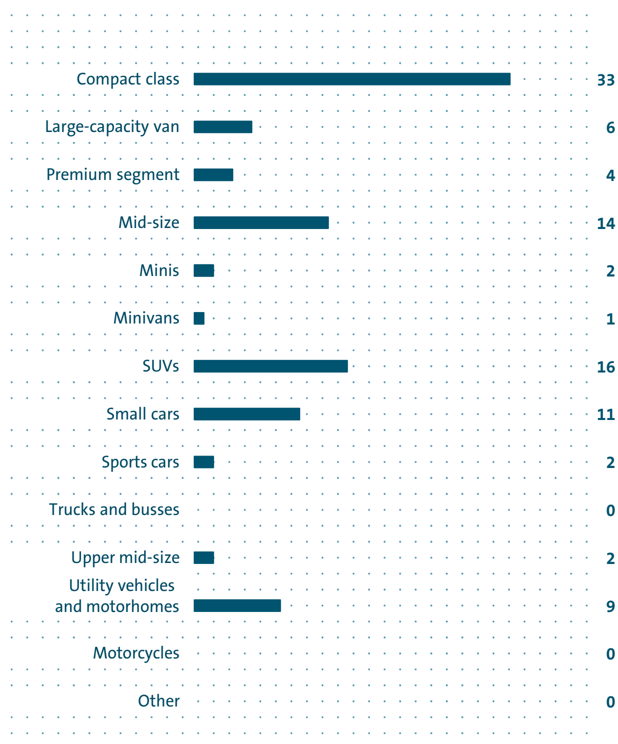
One of the objectives of the Volkswagen Bank GmbH Group's risk policy is to reduce such concentrations by means of broad diversification.

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

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

Likewise, a captive provider cannot avoid collateral concentrations because the vehicle is the predominant collateral asset by virtue of the business model. Risks can arise from concentrations of collateral if downward pricing trends in used vehicle markets or segments lead to lower proceeds from the recovery of assets and, as a consequence, there is a fall in the value of the collateral. Nevertheless, in terms of the vehicles used as collateral, the Volkswagen Bank GmbH Group enjoys 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 in the Volkswagen Bank GmbH Group.

Income concentration arises from the very nature of the business model. The Volkswagen Bank GmbH Group'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

A detailed risk management report is submitted to the Management of Volkswagen Bank GmbH on a quarterly basis and to the Annual General Meeting. 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 and equity risk, both at an aggregate level and in detail, mainly by market. These reports include quantitative information (financial data) and also qualitative elements in the form of an assessment of the current situation and expected developments, including recommendations for action where appropriate. Additional reports are produced for specific risk categories. Ad hoc reports 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, the Volkswagen Bank GmbH Group first runs through its new product and new market process. All the units involved (including 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 Management of Volkswagen Bank GmbH, 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 and equity 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. 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 impairment losses or valuation allowances.

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 impairment loss is required. This in turn has an adverse effect on operating profit.

Risk Identification and Assessment

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

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

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

Rating Systems in the Corporate Business

The Volkswagen Bank GmbH Group 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 allowances.

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 measurement procedures and the measurement 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 the Volkswagen Bank GmbH Group are focused on retail financing, dealer financing and the leasing of vehicles, the vehicles themselves are hugely important as collateral assets. For this reason, trends in the market values of vehicles are closely monitored and analyzed. Procedures provide for adjustments to measurement 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 Allowances

The calculation of valuation allowances 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 allowances are recognized for defaults related to significant receivables whereas specific valuation allowances evaluated on a group basis are recognized for insignificant receivable defaults. Portfolio (global) valuation allowances are recognized to cover defaults on receivables for which no specific valuation allowances 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 3.4%, loss given default (LGD) of 23.4% and total volume of receivables based on the active portfolio of €36.0 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 division/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, workout or non-performing loans). Approval limits determined by the Volkswagen Bank GmbH Group are also used to manage credit risk. These limits are specified separately for each individual branch and Volkswagen Bank Polska S.A.

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 Bank GmbH. The Group Risk Management & Methods unit also conducts risk reviews in the branches if any problems become apparent.

Trends

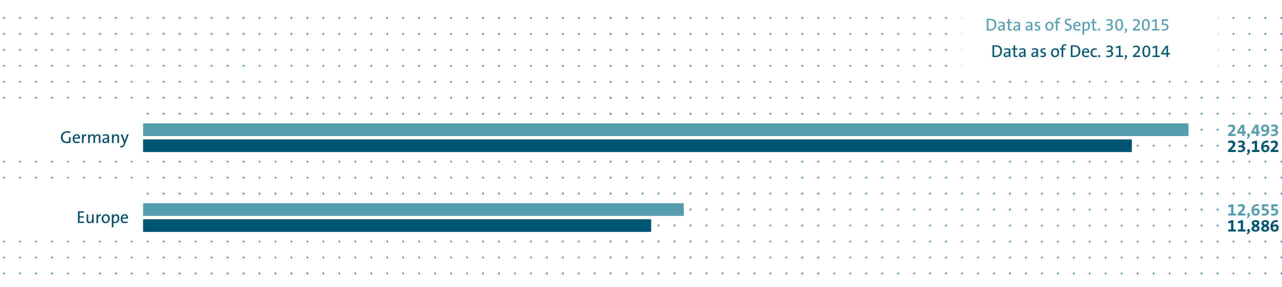
Retail Portfolio

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 prior year, the German market continued to be the strongest growth driver. The retail portfolio of the Volkswagen Group has yet to see any effects of the emissions. Overall, the credit risk in the retail portfolio of Volkswagen Bank GmbH generally remained stable in fiscal year 2015.

Corporate Portfolio

The nascent economic recovery in countries affected by the euro-zone crisis and a corresponding stabilization of vehicle markets had a positive effect on the corporate portfolio of Volkswagen Bank GmbH in 2015. This trend is reflected in a rising volume of receivables. The main drivers are the portfolios in the UK and Germany. The effects of the emissions issue at the Volkswagen Group have yet to be seen in the corporate portfolio Volkswagen Bank GmbH. 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.

DISTRIBUTION OF CREDIT VOLUME BY REGION
in € million



1 Europe excluding Germany

Counterparty/Issuer Risk

The Volkswagen Bank GmbH Group 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 – where possible – be initiated at an early stage. Another important objective is to ensure that the Bank 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, analyzes the data and communicates the figures in the monthly market risk report as well is 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. Country risk would need to be taken into account in the Volkswagen Bank GmbH Group, in particular, in connection with funding and equity investment activities involving foreign companies and in connection with the lending business operated by the Bank's foreign branches. Given the focus of business activities in the Volkswagen Bank GmbH Group, there is little chance that country risk (such as foreign exchange risk or legal risk) will arise.

The Volkswagen Bank GmbH Group 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 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.

Equity Risk

Equity 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). Generally, the Volkswagen Bank GmbH Group only makes such equity investments to help it achieve its corporate objectives. The investments must therefore support its own operating activities and are intended to be held on a long-term basis.

If equity 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 in the Volkswagen Bank GmbH Group would be adversely affected by impairment losses recognized in profit or loss.

Risk Identification and Assessment

Equity 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 the Volkswagen Bank GmbH Group. The Group exercises influence over the business and risk policies of the equity investments through its representation on the relevant ownership or supervisory bodies. However, responsibility for the operational use of the risk management tools lies with the entities themselves.

Market risk

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

The objective of market risk management is to keep the financial losses arising from this category of risk is 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 the Volkswagen Bank GmbH Group 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. The Volkswagen Bank GmbH Group is exposed to interest rate risk in its banking book.

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

Risk Identification and Assessment

Interest rate risk for the Volkswagen Bank GmbH Group 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 can also be processed in the historical simulation and is included in 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 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 at both micro and portfolio levels. The derivatives are recognized in the banking book. 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 in the Volkswagen Bank GmbH Group is submitted to the 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.

The Volkswagen Bank GmbH Group 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. The Volkswagen Bank GmbH Group has undertaken to meet these pension obligations if the employees' guaranteed entitlements can no longer be satisfied from the pension fund.

Trends

Overall, market risk remained stable during the reporting period. In quantitative terms, the 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

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

The relevant income statement items provide the basis for these calculations. The estimates for earnings risk are then based on two perspectives: 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 in the Volkswagen Bank GmbH Group is to safeguard the ability of the Group to meet its payment obligations at all times. To this end, the Volkswagen Bank GmbH Group holds liquidity reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. It also has at its disposal standby lines of credit at other banks to protect against unexpected fluctuations in cash flows. There are no plans to make use of these standby lines of credit; their sole purpose is to serve as backup to safeguard liquidity.

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 in the Volkswagen Bank GmbH Group ensures that this situation does not arise.

Risk Identification and Assessment

The expected cash flows in the Volkswagen Bank GmbH Group 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 Bank itself or the market, or a combination of the two. Two approaches are used to determine the parameters for these stress scenarios. The first approach uses observed historical events and specifies different degrees of impact from hypothetical, but conceivable events. 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.

A further strict requirement imposed under banking regulation is the need to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and thirty-day time horizons. For this reason, a contingency plan with an appropriate list of action points for obtaining liquidity has already been drawn up so that it can be implemented in the event of any liquidity squeeze.

Risk Communication

As part of risk communications, the members of the Management of Volkswagen Bank GmbH are informed on a daily basis of the outstanding funding, open confirmed bank credit lines and the value of the securities in the operational safe custody account held with Deutsche Bundesbank.

The Management of Volkswagen Bank GmbH is informed of the prevailing liquidity position on a monthly basis.

Operational Risk

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

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

The objective of operational risk management is to present operational risks transparently and initiate precautionary or corrective measures with a view to avoiding or, if this is not possible, mitigating the risks or losses. If an operational risk were to materialize, this would represent an operational loss resulting in the loss of a business asset, which would have a negative impact on financial position and financial performance, depending on the amount of the loss.

The operational risk strategy specifies the focus for the management of operational risk; the operational risk 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 operational risk 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 (operational risk units) on the basis of the guidelines in force and the requirements laid down by the special operational risk units responsible for specific risk categories. To this end, local management has to decide 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 operational risk system to ensure it is fully functioning and instigates appropriate modifications as required. This includes, in particular, the integration of all 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 operational risk 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.

Trends

The increase in operational risk in the past was based on a number of factors, including the growth in the business of Volkswagen Bank GmbH, even after taking legal risk into account. The Bank has recognized provisions for legal risk of €246 million.

Against the background of operational risk, we have already been proactive in generating greater awareness of OPR issues at Volkswagen Bank GmbH. For example, training and efforts to raise awareness of operational risk issues has 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 by local managers is also reflected in the assessments of future operational risk.

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 Bank 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 Volkswagen Bank GmbH Group 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 submits a quarterly report on the risks to the Management.

In addition, all risks arising from outsourcing activities are subject to risk monitoring and control through the operational risk 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 the Volkswagen Bank GmbH Group (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 the Volkswagen Bank GmbH Group.

The objective of residual value risk management is to keep the risks within the agreed limits. If a residual value risk materializes, the Bank may have to recognize an impairment loss 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 the Volkswagen Bank GmbH Group.

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 values 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 the Volkswagen Bank GmbH Group are subject to plausibility checks and are assessed from the perspectives of risk amount and significance.

As part of risk management activities, 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.

Trends

Residual value risks are accepted within the Volkswagen Bank GmbH Group at the branches in France, Italy, Ireland and Portugal, and at Volkswagen Bank Polska S.A.

As a result of the first-time acceptance of direct residual value risk at the branches in Ireland and Portugal, and at Volkswagen Bank Polska S.A., there has been a corresponding year-on-year rise in volumes. However, there are only material residual value risks at the branch in France because the volume in the other branches is still very low or the residual values have been set at such a conservative level that it can be assumed the customers will take over the vehicle at the end of the lease term. The emissions issue at the Volkswagen Group has impacted the residual value risk in the portfolio of Volkswagen Bank GmbH; the risk has been adequately covered by increasing the risk provision.

Strategic Risk

Strategic risk is the risk of a direct or indirect loss arising from strategic decisions that are flawed or based on false assumptions. Strategic risk also includes all risks that result from the integration/reorganization of technical systems, personnel or corporate culture (integration/reorganization risk). These risks may be caused by fundamental decisions about the structure of the business made by the management in relation to the positioning of the company in the market.

The objective of the Volkswagen Bank GmbH Group is to manage its acceptance of strategic risk enabling it to systematically leverage earnings potential in its core business. In the worst case scenario, a materialization of strategic risk could jeopardize the continued existence of the Bank 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 Bank. 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 Bank expects. A loss of reputation or damage to the Bank's image could have a direct impact on the financial performance of the Bank.

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.

SUMMARY

The Volkswagen Bank GmbH Group accepts risks on a responsible basis as part of its operating activities. The assumption of risk in the Bank is based on a comprehensive system for identifying, measuring, analyzing, monitoring and controlling risk as an integral part of a holistic management system focused on the combination of risk and reward. The Volkswagen Bank GmbH Group maintained its risk-bearing capacity at all times in 2015 and does not believe there are any risks that could jeopardize business continuity.

The process of continuous refinement in the system was maintained in 2015, for example by adjusting methodologies 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.

The Volkswagen Bank GmbH Group will also continue to invest in optimizing the comprehensive control system and risk management systems in order to satisfy the statutory and business management requirements for risk management and control.

FORECAST OF MATERIAL RISKS

Credit Risk Forecast

Overall, we expect the risk situation generally to remain stable in 2016. This development should be supported by a further stabilisation in the economic environment and a continued recovery in the countries affected by the euro zone crisis. Demand has yet to see any effects from the emissions issue at the Volkswagen Group.

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 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 Bank GmbH 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 Bank GmbH and/or cause refinancing costs to increase.

Report on Post-Balance Sheet Date Events

Other than the events already described, there were no significant events after the end of fiscal year 2015.

Human Resources Report

The ROUTE2025 program has also created new areas of focus in terms of HR strategy.

HEADCOUNT

As of December 31, 2015, 2,638 employees (2,600) of Volkswagen Financial Services AG were assigned to Volkswagen Bank GmbH's business units under staff leasing arrangements.

Other personnel continue to be employed directly by Volkswagen Bank GmbH under legacy employment contracts. These employees numbered 2 (6) in Germany as of December 31, 2015. The branches of Volkswagen Bank GmbH employed 853 staff (833); Volkswagen Bank Polska S.A. had 307 employees (284) and MAN Financial Services SpA 23 employees.

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 competitive 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 first-class 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 HR Strategy

The Human Resources unit of Volkswagen Financial Services AG has overarching responsibility for human resources in all the German companies in the Volkswagen Financial Services Group.

The ROUTE2025 program has also created new areas of focus in terms of HR strategy. Six strategic areas for action are listed under the heading "Top Employer | Top Employees". These action points are intended to 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 carried out, we aim to foster high performance with the objective of ensuring we provide outstanding customer service with first rate employees, but also, as a top employer, ensuring we 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 and the Volkswagen Bank GmbH Group are already offering competitive, performance-related remuneration. As the parent entity in the financial holding company group, Volkswagen Financial Services AG is subject to direct supervision by the European Central Bank and is responsible for implementing 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. Implementation was planned in 2014 by a project group specially set up for this purpose. In fiscal year 2015, the project was finalized with the operational implementation of the InstitutsVergV. To implement the special requirements, a "Variable remuneration" company agreement 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. Special governance functions (Remuneration Control Committee and Remuneration Officer) continued to ensure that the adequacy of the remuneration systems was continuously monitored.

The Human Resources Strategy Card remains 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. The content was revised following discussions with the international HR managers and, where necessary, adjusted in line with ROUTE2025. Starting in 2016, international human resources activities will then be managed according to the updated HR Strategy Card and, as in the past, the status of development will be explained in regular meetings with HQ and supporting measures will be discussed where appropriate. We evaluate the extent to which we are achieving our objective of becoming a top employer by regularly participating in external employer competitions. A total of 15 international subsidiaries now take part in third-party competitions to determine employer appeal. These companies include Volkswagen Financial Services AG in Germany, which participates every two years in Best Workplaces in Germany, an employer competition run by Great Place to Work Institute that Volkswagen Financial Services AG has now entered seven times, most recently in 2015. In 2015, Volkswagen Financial Services AG was also placed first for the third time in succession in the major banks and financial services providers category of Germany's Best Employer, a series of awards based on a review carried out by FOCUS magazine.

Volkswagen Financial Services AG attaches the highest priority to ensuring customers are satisfied with work carried out by the Company's employees. For this reason, we also use the findings from surveys of external and internal customer satisfaction as a yardstick to measure how well we are doing. Business units that do not have any contact with external customers have the option of inviting all employees who are internal customers of the unit concerned to complete an online survey ("Internal customer feedback on customer and service focus") to express their level of satisfaction on the basis of defined criteria covering customer and service focus.

HR Development

In 2015, the Training Team at Volkswagen Financial Services AG, having reviewed approximately 1,700 applications, 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, Volkswagen Financial Services AG had 129 vocational trainees and trainees on dual study programs who were assigned to business units at Volkswagen Bank GmbH under staff leasing arrangements.

Report on Expected Developments

In 2016, global economic growth is expected to be somewhat stronger than in the reporting period. The rise in global demand for vehicles is also likely to be sustained in 2016. The Volkswagen Group intends to benefit from this growth based on its brand diversity, global presence and pioneering technologies. The Volkswagen Bank GmbH Group will continue to provide close support.

The main opportunities and risks arising from operating activities have 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, which are then 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 planning, we have assumed that 2016 will see slightly stronger global economic growth than 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 probably 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

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.

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.

FINANCIAL MARKETS

Trends in capital markets will continue to maintain downward pressure on returns because of the ultra-expansionary monetary policy 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

An economic recovery is anticipated in Europe, boosted by export 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. Although the economy seems to have 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 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.

Germany

Further growth in German economic output is forecast. 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.

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

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.

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.

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 choices. 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, the Volkswagen Bank GmbH Group 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. Simple, transparent, safe, reliable, affordable and flexible – these are the key requirements that our business must satisfy in the future. The Volkswagen Bank GmbH Group 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.

SUMMARY OF EXPECTED DEVELOPMENTS

Over the coming fiscal year, the Volkswagen Bank GmbH Group expects to achieve growth derived from the growth in vehicle sales in the Volkswagen Group. It aims to increase volume by achieving a higher penetration rate and by expanding the range of products in existing markets. Please refer to the statements in the opportunities and risks report for information on the development of credit, liquidity and residual value risk, which takes the emissions issue into account.

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

The Volkswagen Bank GmbH Group also intends to continue implementing its measures aimed at improving its leverage of the potential available 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.

Alongside the market-based activities, the Volkswagen Bank GmbH Group will also be focusing on strategic investment in structural projects, the streamlining of processes and generating productivity gains to further strengthen its global competitive position.

OUTLOOK FOR 2016

When the above factors and the development of the market are considered, the following overall picture emerges, as applicable to Volkswagen Bank GmbH, from both single entity and group perspective: 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 macro-economic conditions in the real economy and the impact of these uncertainties on factors such as risk costs. The Volkswagen Bank GmbH Group expects support from the

Volkswagen Group to help it deal with the impact of the emissions issue.

We expect to maintain the trend over the last few years toward a slight increase in new contracts and a slight rise in the volume of existing contracts. In addition, we assume that in 2016 we will again be able to boost our penetration rate slightly in a vehicle market that is generally growing. We predict that there will be a further small rise in business volume in 2016. Despite the persistently low interest rates, the volume of deposits in 2016 is likely to grow marginally year-on-year. Based on these trends, we forecast that the operating profit in 2016 will be slightly above the prior-year level in spite of greater pressure on margins. The tighter capital requirements and the resulting higher level of capital adequacy will probably lead to a slight decline in return on equity in 2016 compared with the previous year. Based on the forecast 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 CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2016 COMPARED WITH PRIOR-YEAR VALUES

	Actual 2014	Actual 2015	Forecast for 2016
Nonfinancial performance indicators			
Penetration	18.7%	17.7%	Slight increase
Current contracts (thousands)[1]	2,566	2,768	Slight increase
New contracts (thousands)[1]	966	1,026	Slight increase
Financial performance indicators			
Volume of business (€ million)	33,013	36,330	Slight increase
Volume of deposits (€ million)	25,252	27,877	Slight increase
Operating profit (€ million)	446	539	Slighty above prior-year level

1 Volume of existing contracts/new contracts in 2014 adjusted for other services/other insurance and for demonstrator vehicles.

Braunschweig, February 12, 2016
The Board of Management

Anthony Bandmann

Harald Heßke

Torsten Zibell

Dr. Heidrun Zirfas

Consolidated Financial Statements (IFRS)

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Income Statement

OF THE VOLKSWAGEN BANK GMBH GROUP

€ million	Note	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2014	Change in percent
Interest income from lending transactions before provisions for risks	(20)	1.307	1.327	−1,5
Net income from leasing transactions before provisions for risks	(15)	128	121	5,8
Interest expense		−194	−244	−20,5
Net income from lending and leasing transactions before provisions for risks	(5, 20)	1.241	1.204	3,1
Provisions for risks from lending and leasing business	(9, 21, 30)	−71	−117	−39,3
Net income from lending and leasing transactions after provisions for risks		1.169	1.087	7,5
Net fee and commission income	(5, 22)	39	45	−13,3
Net gain/loss on the measurement of derivative financial instruments and hedged items	(10, 23)	10	−2	X
Share of profits and losses of equity-accounted joint ventures		–	–	–
Net gain on securities and other financial assets	(5, 32)	14	4	X
General and administrative expenses	(5, 6, 13, 14, 15, 24, 61)	−794	−714	11,2
Net other operating income/expenses	(5, 25)	138	43	X
Profit before tax		**575**	**464**	**23,9**
Income tax expense	(6, 26)	−157	−153	2,6
Profit after tax		**418**	**310**	**34,8**
Share of net income for the year attributable to Volkswagen Financial Services AG		418	310	34,8

Statement of Comprehensive Income

OF THE VOLKSWAGEN BANK GMBH GROUP

€ million	Note	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2014
Profit after tax		**418**	**310**
Pension plan remeasurements recognized in other comprehensive income	(17, 44)		
Pension plan remeasurements recognized in other comprehensive income, before tax		3	−8
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	(6, 26)	−1	2
Pension plan remeasurements recognized in other comprehensive income, net of tax		2	−6
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax		–	–
Items that will not be reclassified to profit or loss		**2**	**−6**
Exchange differences on translating foreign operations	(4)		
Gains/losses on currency translation recognized in other comprehensive income		10	8
Reclassified to profit or loss		–	–
Exchange differences on translating foreign operations, before tax		10	8
Deferred taxes relating to exchange differences on translating foreign operations		–	–
Exchange differences on translating foreign operations, net of tax		10	8
Cash flow hedges	(10, 23, 31)		
Fair value changes recognized in other comprehensive income		0	4
Reclassified to profit or loss		−3	−6
Cash flow hedges, before tax	(6, 26)	−3	−2
Deferred taxes relating to cash flow hedges		1	1
Cash flow hedges, net of tax		−2	−2
Available-for-sale financial assets	(11, 32, 50)		
Fair value changes recognized in other comprehensive income		7	9
Reclassified to profit or loss		−5	–
Available-for-sale financial assets, before tax	(6, 26)	2	9
Deferred taxes relating to available-for-sale financial assets		2	−2
Available-for-sale financial assets, net of tax		4	7
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax		–	–
Items that may be reclassified subsequently to profit or loss		**11**	**13**
Other comprehensive income, before tax		12	7
Deferred taxes relating to other comprehensive income		2	1
Other comprehensive income, net of tax		**14**	**7**
Total comprehensive income		**432**	**318**
Share of total comprehensive income attributable to Volkswagen Financial Services AG		432	318

Balance Sheet

OF THE VOLKSWAGEN BANK GMBH GROUP

Assets (€ million)	Note	31.12.2015	31.12.2014	Change in percent
Cash reserve	(7, 28)	1.352	386	X
Receivables from credit institutions	(8)	1.501	940	59,7
Receivables from customers attributable to				
Retail financing		23.312	21.779	7,0
Dealer financing		10.302	8.928	15,4
Leasing business	(15)	2.502	2.108	18,7
Other receivables		4.690	4.437	5,7
Receivables from customers in total	(8, 9, 29, 30)	40.806	37.251	9,5
Derivative financial instruments	(10, 31)	153	130	17,7
Securities[1]	(11, 32)	2.557	2.308	10,8
Other financial assets	(12, 33)	3	3	0,0
Intangible assets	(13, 34)	43	46	−6,5
Property, plant and equipment	(14, 35)	10	12	−16,7
Lease assets	(15, 36)	710	487	45,8
Investment property	(15, 36)	1	1	0,0
Deferred tax assets	(6, 37)	1.431	999	43,2
Current tax assets	(6)	50	43	16,3
Other assets	(38)	589	339	73,7
Total		**49.206**	**42.947**	**14,6**

1 Securities include noncurrent assets of €12 million classified as available for sale.

Equity and liabilities (€ million)	Note	31.12.2015	31.12.2014	Change in percent
Liabilities to credit institutions	(16, 40)	4.020	1.760	X
Liabilities to customers	(16, 40)	30.478	26.844	13,5
Securitized liabilities	(41, 42)	7.604	7.550	0,7
Derivative financial instruments	(10, 43)	46	116	−60,3
Provisions	(17, 18, 44)	376	373	0,8
Deferred tax liabilities	(6, 45)	1.237	816	51,6
Current tax liabilities	(6)	39	36	8,3
Other liabilities	(46)	150	124	21,0
Subordinated capital	(47)	226	465	−51,4
Equity	(49)	5.030	4.864	3,4
Subscribed capital		318	318	–
Capital reserves		3.946	3.946	–
Retained earnings		757	602	25,7
Other reserves		9	−2	X
Total		**49.206**	**42.947**	**14,6**

Statement of Changes in Equity

OF THE VOLKSWAGEN BANK GMBH GROUP

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES Currency translation	Cash flow hedges	Available-for-sale financial assets	Equity-accounted investments	Total equity
Balance as of Jan. 1, 2014	**318**	**3.796**	**600**	**−29**	**4**	**10**	**–**	**4.699**
Profit after tax	–	–	310	–	–	–	–	310
Other comprehensive income, net of tax	–	–	−6	8	−2	7	–	7
Total comprehensive income	**–**	**–**	**305**	**8**	**−2**	**7**	**–**	**318**
Capital increase	–	150	–	–	–	–	–	150
Distribution/profit transfer to Volkswagen Financial Services AG[1]	–	–	−303	–	–	–	–	−303
Other changes	–	–	–	–	–	–	–	–
Balance as of Dec. 31, 2014	**318**	**3.946**	**602**	**−22**	**2**	**17**	**–**	**4.864**
Balance as of Jan. 1, 2015	**318**	**3.946**	**602**	**−22**	**2**	**17**	**–**	**4.864**
Profit after tax	–	–	418	–	–	–	–	418
Other comprehensive income, net of tax	–	–	2	10	−2	4	–	14
Total comprehensive income	**–**	**–**	**421**	**10**	**−2**	**4**	**–**	**432**
Capital increase	–	–	–	–	–	–	–	–
Distribution/profit transfer to Volkswagen Financial Services AG[1]	–	–	−268	–	–	–	–	−268
Other changes	–	–	1	–	–	–	–	1
Balance as of Dec. 31, 2015	**318**	**3.946**	**757**	**−12**	**0**	**21**	**–**	**5.030**

1 The figures show the share of HGB profit attributable to Volkswagen Financial Services AG.

Cash Flow Statement

OF THE VOLKSWAGEN BANK GMBH GROUP

€ million	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2014
Profit after tax	**418**	**310**
Depreciation, amortization, impairment losses and reversals of impairment losses	227	225
Change in provisions	3	74
Change in other noncash items	−38	8
Gain/loss on disposal of financial assets and items of property, plant and equipment	0	1
Net interest income and dividend income	−955	−880
Other adjustments	0	1
Change in receivables from credit institutions	−566	−417
Change in Receivables from customers	−3.384	−3.302
Change in lease assets	−387	−219
Change in other assets related to operating activities	−206	−19
Change in liabilities to credit institutions	2.257	−423
Change in liabilities to customers	3.525	2.320
Change in securitized liabilities	55	2.032
Change in other liabilities related to operating activities	21	21
Interest received	1.408	1.423
Dividends received	−259	−299
Interest paid	−194	−244
Income taxes paid	−159	−185
Cash flows from operating activities	**1.767**	**427**
Proceeds from disposal of investment property	–	–
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	0	–
Acquisition of subsidiaries and joint ventures	−13	0
Proceeds from disposal of other assets	2	2
Acquisition of other assets	−6	−8
Change in investments in securities	−243	616
Cash flows from investing activities	**−261**	**609**
Proceeds from changes in capital	–	150
Profit transferred to Volkswagen Financial Services AG	−303	−850
Change in cash funds attributable to subordinated capital	−239	−166
Cash flows from financing activities	**−542**	**−865**
Cash and cash equivalents at end of previous period	**386**	**216**
Cash flows from operating activities	1.767	427
Cash flows from investing activities	−261	609
Cash flows from financing activities	−542	−865
Effect of exchange rate changes	0	0
Cash and cash equivalents at end of period	**1.352**	**386**

See note 62 for disclosures on the cash flow statement

Notes to the Consolidated Financial Statements

OF THE VOLKSWAGEN BANK GMBH GROUP FOR THE PERIOD ENDED DECEMBER 31, 2015

General Information on the Consolidated Financial Statements

Volkswagen Bank GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung*, GmbH) under German law. It has its registered office at Gifhorner Straße, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 1819).

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 Financial Services AG, Braunschweig, is the sole shareholder of Volkswagen Bank GmbH. Volkswagen Financial Services AG and Volkswagen Bank GmbH have entered into a profit and loss transfer agreement.

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

Basis of Preparation

VW Bank GmbH has prepared its consolidated financial statements for the year ended December 31, 2015 in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the interpretations issued by the IFRS Interpretations Committee 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 IFRS 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 EU were taken into account in these consolidated financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the 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 (report on opportunities and risks in accordance with section 315(1) of the HGB) can be found in the combined management report on pages 19 – 33. This report contains the qualitative information about the nature and extent of risks arising from financial instruments required in accordance with IFRS 7.

All estimates and assumptions required for recognition and measurement under IFRS are made in accordance with the relevant standard. They 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 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 (NOx) 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 NOx 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 CO2 levels, and thus also the fuel consumption figures, appeared to have been set too low in the case of some vehicle models during the CO2 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 CO2 issue was largely completed.

The emissions issue has affected the residual value risk in the portfolio of Volkswagen Bank GmbH, 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), equity-accounted equity investments and equity investments measured at cost require assumptions about the future cash flows in the planning period and in some cases also about the discount rate to be used.

The recoverable amount of the lease assets in the Group mainly depends on the residual value of the lease vehicles at the end of the contractually agreed lease period 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 15).

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 (notes 9 and 30).

The recognition and measurement of provisions is also based on assumptions about the probability that future events will occur and the amounts involved, together with an estimation of the discount rate. Again, past experience or reports from external experts are used as far as possible. The measurement of pension provisions additionally depends on the estimated growth in plan assets. The assumptions underlying the calculation of pension provisions are explained in note 17. Remeasurements 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. Provisions are regularly adjusted in line with new information. 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 directly 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. An overview of other provisions can be found in notes 18 and 44.

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 requires only 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, 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.

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 Amended IFRS

Volkswagen Bank GmbH 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 Volkswagen Bank GmbH 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. This Interpretation also does not materially affect the Volkswagen Bank GmbH Group's net assets, financial position and results of operations.

New and Amended IFRS Not Applied

Volkswagen Bank GmbH 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

Standard/ interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	12.05.2014	01.01.2016	Yes	No material 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 Volkswagen Bank GmbH's 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 IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38, IAS 24).
5 Minor changes to a number of IFRS (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 Volkswagen Bank GmbH Group.

ACCOUNTING POLICIES

1. Basic Principles

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

Financial reporting in the Volkswagen Bank GmbH Group complies with IFRS 10 and is on the basis of standard accounting policies. The consolidated financial statements have been prepared in euros. 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.

2. Basis of Consolidation

In addition to Volkswagen Bank GmbH, the consolidated financial statements comprise all significant German and foreign subsidiaries, including structured entities, that are directly or indirectly controlled by Volkswagen Bank GmbH. This is the case if Volkswagen Bank GmbH obtains control 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 is able to influence those returns.

As a result of intra-Group restructuring, Volkswagen Bank GmbH acquired MAN Financial Services SpA, Dossobuono di Villafranca (VR), Italy, from MAN Finance International GmbH, Munich, effective December 1, 2015. The purchase price of €13.4 million was settled in cash. Since this was a transaction under common control, the assets and liabilities acquired were measured at the Group carrying amounts at the transaction date (predecessor accounting). The difference between the assets and liabilities acquired and the purchase price paid amounted to €1.0 million and was recognized in other comprehensive income.

As a result, two foreign subsidiaries were fully consolidated as of the reporting date. To fund the financial services business, the Volkswagen Bank GmbH Group uses asset-backed securities transactions entered into via structured entities. As of the balance sheet date, 29 structured entities (20) were fully consolidated in the consolidated financial statements. They may be either separate legal entities or separate pools of assets of a separate legal entity (fictional structured entity). There is no equity investment in either case. But due to the design of the contracts, Volkswagen Bank GmbH nevertheless determines the main relevant activities of the structured entity and is able to influence the variable returns accruing to it. These structured entities are therefore controlled by Volkswagen Bank GmbH and fully consolidated in the consolidated financial statements.

In the past fiscal year, the special purpose entities Private Driver 2015-1 UG (haftungsbeschränkt), Driver Master S.A. with its Compartments C1 – C7 and Driver France FCT with its Compartment C2 were included in the basis of consolidation for the first time.

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 of minor significance to the Volkswagen Bank GmbH Group are not consolidated.

Volkswagen Bank GmbH maintains nine branches abroad. The list of all shareholdings can be found in note 68.

3. Consolidation Methods

The assets and liabilities of the German and foreign entities included in the consolidated financial statements are reported in accordance with the uniform accounting policies applicable throughout the Volkswagen Bank GmbH Group.
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 (for newly established subsidiaries) on the date of inclusion. 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 residual 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 companies that do not meet the consolidation requirements are reported as other equity investments under other financial assets.

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

The special purpose entities account for less than €0.5 million of equity and profit (minority interests) and are therefore not reported as separate items of equity and in the income statement.

4. Currency Translation

Transactions in foreign currencies are translated in the single-entity financial statements of Volkswagen Bank GmbH 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 branches and subsidiaries forming part of the Volkswagen Bank GmbH Group are independent subunits whose financial statements are translated using the functional currency principle. Under this principle, all 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 item 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 exchange rates used for currency translation are listed in the table below.

€		BALANCE SHEET, MIDDLE SPOT RATE ON DEC. 31		INCOME STATEMENT, AVERAGE RATE	
		2015	2014	2015	2014
United Kingdom	GBP	0,73395	0,77890	0,72585	0,80612
Poland	PLN	4,26390	4,27320	4,18412	4,18426

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 and leasing transactions. This item also includes operating lease income, which is recognized on a straight-line basis over the lease term.

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.

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, amortization and impairment losses, and other taxes.

The main component of net other operating expenses/income is income from cost allocations to other entities in the Volkswagen Group.

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 settled.

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. The measurement of deferred tax assets for tax loss carryforwards is generally based on planning data for taxable income within over the next five years. 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 the classification 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 credit institutions originated by the Group and receivables from customers 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 were included in portfolio hedges in the reporting period. Receivables from customers assigned to portfolio hedges are measured at fair value.

Volkswagen Bank GmbH transfers loans and advances to special purpose entities. At the level of the Volkswagen Bank Group, these transfers represent neither the derecognition of assets nor continuing involvement, because the respective special purpose entities are fully consolidated (note 2).

9. Provisions for Risks

We take 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 credit institutions (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, filing for or the initiation of insolvency proceedings, or the failure of recovery 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 30.

Uncollectible loans and advances from exposures that are already subject to a resolution process and for which all collateral has been recovered and all further options for recovering the loans and advances have been exhausted are written off directly. Any specific valuation allowances previously recognized are utilized. Income subsequently collected in connection with loans and advances 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 31 and 43.

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 valuation adjustments (CVAs) and debt valuation adjustments (DVAs).

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 profit/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 this item. The effects in profit or loss from the changes in the fair value of the hedging instrument and the hedged item offset each other, 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, Volkswagen Bank GmbH 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 is recognized in the cash flow hedge reserve through other comprehensive income. Any effect on profit or loss arises solely from the ineffective portion of the change in fair value. The amounts recognized in other comprehensive income are reclassified to the income statement in those periods in which the floating rate balance sheet item or the hedged currency items have an effect on profit or loss.

The Volkswagen Bank GmbH Group documents all relationships between hedging instruments and hedged items. Hedge effectiveness is kept under constant review. All transactions entered into in the Volkswagen Bank GmbH Group are for hedging purposes.

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.

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. Securities

Securities are categorized as available-for-sale financial assets. They are always measured at fair value through other comprehensive income, but impairment losses are recognized in profit or loss in the event of permanent impairment. If no price can be determined directly for securities not traded on an active market, the present value of the expected future cash flows is used for measurement, discounted to the reporting date using the risk-adjusted yield curve.

Available-for-sale financial assets are subject to the recognition of impairment losses if there is objective evidence of permanent impairment. A rise in the risk-free interest rate or an increase in credit risk premiums included in the interest rate does not, by itself, generally represent objective evidence of impairment. If the requirements for impairment are no longer met, the impairment loss is reversed.

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. 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 through profit or loss.

12. Other Financial Assets

Equity investments are reported as other financial assets. They are reported at fair value or at cost, if fair value cannot be reliably determined. If there is significant or permanent impairment, impairment losses are recognized through profit or loss.

13. Intangible Assets

Purchased intangible assets with finite useful lives (largely software and customer relationships) are recognized at cost and amortized on a straight-line basis over a useful life of three years (software) or ten years (customer relationships). 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.

At every reporting date, intangible assets with finite useful lives are tested to establish whether there are any indications of impairment. If there are indications of impairment, the carrying amount is compared to the recoverable amount. If the recoverable amount is lower than the carrying amount, an impairment loss is recognized.

The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value less costs to sell 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. The recoverable amount was determined on the basis of value in use.

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

Brand names arising from business combinations usually have indefinite useful lives. 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 once a year. If required, an impairment loss is recognized to reduce the carrying amount to a lower recoverable amount.

Goodwill is tested for impairment once a year or when events or circumstances occur that indicate impairment. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized.

The enterprise value calculated using the discounted cash flow method was used to determine whether the carrying amount of goodwill is recoverable. The basis is the latest planning data prepared by the Management for a detailed planning horizon of five years, with growth in subsequent years estimated using a perpetuity. This cash flow planning is based on expectations regarding future global economic trends and on assumptions derived from these trends about markets for passenger cars and commercial vehicles, market shares and the profitability of the Volkswagen Group's products. On the basis of these expectations, the plans of the financial services unit are prepared taking the respective market penetration and regulatory requirements into account. Appropriate assumptions regarding macroeconomic trends (e.g. currency and interest rate trends) and historical time series are taken into account. Planning assumptions are adjusted in line with the latest available information. The interest rate used is based on the long-term market interest rate in relation to the cash-generating unit. The calculations use a standard Group cost of equity of 8.5% (9.0%). Appropriate assumptions regarding macroeconomic and historical trends are taken into account. The calculation of cash flows is always 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. (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 in accordance with estimated useful lives. 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 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 13 years

Impairment losses are recognized if the requirements of IAS 36 are met, i.e. if the achievable net selling price or value in use of the asset concerned has fallen below the carrying amount. 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. 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 expenses/income.

15. Leasing Business

GROUP AS LESSOR

The Volkswagen Bank GmbH Group operates the finance lease business and the operating lease business. Most of the lease assets are vehicles, but to a lesser extent they also involve land, buildings and dealer equipment.

A finance lease is a lease that transfers beneficial ownership to the lessee. In the consolidated balance sheet, receivables from finance leases are therefore reported under receivables from customers and the net investment in the lease generally equates to the cost of the lease asset. Interest income from finance leases is recognized using the effective interest method and reported under leasing income in the income statement.

In the case of operating leases, beneficial ownership of the lease asset remains with the lessor. In the consolidated balance sheet, the assets involved are reported separately under lease assets. They are 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 or net selling price 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. 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.

16. 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.

17. 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 Volkswagen Bank GmbH 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 Volkswagen Bank GmbH Group has no further obligations. Current contributions are recognized as pension expenses in the period concerned. In 2015, the total contributions made by the Volkswagen Bank GmbH Group came to €3 million (€1 million). This amount included contributions to the compulsory state pension system in Germany in an amount of €0 million (€0 million).

Most pension plans in the Volkswagen Bank GmbH Group are defined benefit plans; a distinction is made between plans without and 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 estimates 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 provided in note 44.

18. 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 economic resources and the amount of the obligation can be estimated reliably. If an outflow of resources is deemed neither probable nor improbable, the amount concerned is treated as a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note 63.

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. The settlement amount also includes expected cost increases.

Any rights of recourse are not offset against provisions.

19. Trust Transactions

No transactions are entered into on the basis of the administration or placement of assets for third-party accounts (trust transactions).

INCOME STATEMENT DISCLOSURES

20. Net Income from Lending and Leasing 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	1.307	1.327
Income from leasing transactions	454	344
Expenses from leasing business	–162	–120
Depreciation of and impairment losses on lease assets and investment property	–164	–103
Interest expense	–194	–244
Total	**1.241**	**1.204**

Interest income from lending and money market transactions and the income from leasing transactions include interest income on impaired receivables amounting to a total of €11 million (€12 million). Interest income of €1,310 million (€1,336 million) is included here. It relates to financial instruments not allocated to the category of financial assets or financial liabilities measured at fair value through profit or loss.

Income from leasing transactions includes rental income from investment property amounting to €1 million (€1 million). As in the previous year, this income does not include any amounts from reversals of impairment losses on lease assets and investment property applied in prior years.

The impairment losses recognized as a result of the impairment test on lease assets amounted to €26 million (€9 million) and are included in the depreciation of and impairment losses on lease assets. Impairment losses are based on continuously updated internal and external information, which is then fed into the forecasts of residual values for vehicles.

The interest expenses include funding expenses for the lending and leasing business, and an amount of €190 million (€255 million) relates to financial instruments not measured at fair value through profit or loss. Out of this amount, €–4 million (€11 million) was offset against the net expense arising from interest income and expenses on derivatives in ineffective hedges in the reporting period.

21. Provisions for Risks from Lending and Leasing Business

The provisions for risks primarily relate to the receivables from customers item on the balance sheet. The breakdown of the provisions for risks recognized in the consolidated income statement is as follows:

€ million	2015	2014
Additions to provisions for risks	–262	–270
Reversals of provisions for risks	208	167
Amounts written off immediately	–37	–35
Income from loans and advances previously written off	19	21
Total	**–71**	**–117**

The allowance for additional credit risks to which the Volkswagen Bank GmbH Group is exposed as a result of the crisis in some European countries was reduced by €9 million (increased by €45 million) in the reporting period.

22. Net Fee and Commission Income

The breakdown of net fee and commission income is as follows:

€ million	2015	2014
Fee and commission income	297	272
of which fees and commissions from insurance broking	223	202
Fee and commission expenses	−258	−227
of which sales commission	−34	−181
Total	**39**	**45**

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

This item includes the net profit or loss 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 or losses on the ineffective portion of hedges and arising from changes in the fair value of derivatives that do not satisfy the IAS 39 requirements for hedge accounting are recognized under gains/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	−76	44
Gains/losses on hedged items in fair value hedges	67	−41
Ineffective portion of hedging instruments in cash flow hedges	0	0
Gains/losses on the measurement of foreign currency receivables/liabilities	1	0
Gains/losses on derivatives not designated as hedging instruments	18	−5
Total	**10**	**−2**

24. General and Administrative Expenses

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

€ million	2015	2014
Personnel expenses	–93	–93
Non-staff operating expenses	–435	–355
Staff leasing expenses	–230	–211
Expense from cost allocations from other entities in the Volkswagen Group	–12	–7
Advertising, public relations and sales promotion expenses	–15	–35
Depreciation, amortization and impairment losses	–10	–11
Other taxes	0	–1
Total	**–794**	**–714**

Non-staff operating expenses include expenses of €20 million (€8 million) for assets (vehicles and real estate) leased under operating leases.

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. No expenses for tax advisory services were incurred in 2015.

€ million	2015	2014
Financial statements audit services	1	1
Assurance and valuation services	1	0
Other services	0	0

25. Net Other Operating Expenses/Income

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

€ million	2015	2014
Income from cost allocations to other entities in the Volkswagen Group	189	152
Income from the reversal of provisions	33	36
Other operating income	46	45
Expenses for risks from changes in case law	–87	–142
Losses on the disposal of assets	0	–1
Other operating expenses	–44	–47
Net other operating expenses/income	**–138**	**43**

26. Income Tax Expense

Income tax expense includes the taxes charged in respect of the Volkswagen Financial Services AG tax group, taxes for which the foreign subsidiaries and branches are the taxpayers, and deferred taxes. The components of the income tax expense are as follows:

€ million	2015	2014
Current tax expense, Germany	–104	–128
Current tax expense, foreign	–53	–40
Current income tax expense	**–157**	**–168**
of which income (+)/expense (–) related to prior periods	1	–1
Deferred tax income (+)/expense (–), Germany	**–2**	**13**
Deferred tax income (+)/expense (–), foreign	**2**	**2**
Deferred tax income (+)/expense (–)	0	15
Income tax expense	**–157**	**–153**

The reported tax expense in 2015 of €157 million (€153 million) is €18 million (€15 million) lower than the expected tax expense of €175 million (€138 million) calculated by applying a tax rate of 29.8% (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	**575**	**464**
multiplied by the domestic income tax rate of 29,8 % (29,8 %)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**–171**	**–138**
+ Effects from tax credits	–	–
+ Effects from domestic/foreign tax rates	16	2
+ Effects from changes in tax rates	–	0
+ Effects from permanent accounting variances	5	–13
+ Effects from tax-exempt income	2	6
+ Effects from loss carryforwards	1	1
+ Effects from non-deductible operating expenses	–4	–6
+ Taxes attributable to prior periods	3	–13
+ Other variances	–7	8
= Current income tax expense	**–157**	**–153**

The statutory corporate income 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%.

The effects of different income tax rates outside Germany arise because of the different income tax rates in the individual countries in which the subsidiaries and branches have their registered offices compared with the rates in Germany. The rates outside Germany vary between 12.5% and 37.9% (12.5% and 37.7%).

As of December 31, 2015, there were unused tax loss carryforwards of €27 million (€29 million) for which deferred tax assets of €7 million (€4 million) had been recognized. Of these unused tax loss carryforwards, €27 million (€14 million) can be used without any time restriction.

No deferred tax assets have been recognized in respect of tax loss carryforwards of €5 million (€16 million) deemed to be unusable. The unusable loss carryforwards will expire between 2016 and 2035. Changes in tax rates have given rise to deferred tax expenses throughout the Group of €0 million (€0 million). No deferred tax assets have been recognized in the balance sheet for deductible temporary differences of €10 million (€4 million).

The Group has recognized deferred tax assets of €17 million (€6 million) against which there are no deferred tax liabilities in an equivalent amount. The branches 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 €1 million (€1 million) have not been recognized for temporary differences and undistributed profits of subsidiaries because Volkswagen Bank GmbH has the relevant control.

Of the deferred taxes recognized in the balance sheet, an amount of €6 million (€4 million) relates to transactions reported in other comprehensive income. Within this figure, an amount of €10 million (€11 million) relates to actuarial gains or losses (IAS 19), €0 million (€–1 million) to derivative financial instruments and another €–4 million (€–4 million) to the fair value measurement of securities.

27. Other Income Statement Disclosures

The figures reported for fiscal years 2014 and 2015 do not include any commission income not accounted for using the effective interest method.

BALANCE SHEET DISCLOSURES

28. Cash Reserve

The cash reserve primarily includes credit balances of €1,261 million (€368 million) held with Deutsche Bundesbank.

29. Receivables from Customers

Receivables from customers include non-securitized loans to other entities in the Volkswagen AG Group amounting to €2,859 million (€2,343 million). An amount of €108 million (€1 million) is due from the sole shareholder, Volkswagen Financial Services 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 this vehicle finance. 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. Other loans and advances primarily relate to lines of credit and overdrafts drawn down by customers as well as loans and advances to Volkswagen Group entities. They include subordinated loans receivable in an amount of €1,274 million (€652 million).

Some of the fixed-income exposures under receivables from retail financing have been hedged against fluctuations in the risk-free base interest rate using a portfolio fair value hedge.

The reconciliation to the balance sheet values is as follows:

€ million	31.12.2015	31.12.2014
Receivables from customers	**40.806**	**37.251**
Fair value adjustment from portfolio hedging	5	10
Receivables from customers, net of fair value adjustment from portfolio hedging	40.802	37.242

Receivables from leasing transactions include due receivables amounting to €19 million (€18 million). Of this amount, €18 million (€16 million) is attributable to finance leases and €1 million (€2 million) to operating leases. The due lease receivables are payable within three months.

The breakdown of receivables from finance leases is as follows:

€ million	31.12.2015	31.12.2014
Gross receivables from finance leases	**2.655**	**2.234**
by residual term		
up to one year	892	761
more than one year up to five years	1.740	1.456
more than five years	23	18
Interest not yet earned from finance leases	**155**	**128**
Net receivables from finance leases	**2.500**	**2.106**
by residual term		
up to one year	824	705
more than one year up to five years	1.654	1.384
more than five years	22	17

In the Volkswagen Bank GmbH Group, the present value of the minimum lease payments outstanding as of the reporting date equates to the net finance lease receivables disclosed above. The allowance for uncollectible outstanding minimum lease payments amounted to €1 million (€5 million).

30. Provisions for Risks from Lending and Leasing Business

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

€ million	Specific valuation allowances	Portfolio-based valuation allowances	2015	Specific valuation allowances	Portfolio-based valuation allowances	2014
Balance as of Jan. 1	**486**	**709**	**1.195**	**525**	**645**	**1.170**
Exchange rate and other changes	0	0	1	0	0	0
Changes in basis of consolidation	9	3	12	–	–	–
Additions	158	87	246	120	141	261
Utilized	50	–	50	59	–	59
Reversals	99	101	200	89	76	165
Interest income on impaired receivables	11	–	11	12	–	12
Reclassification	–4	4	–	1	–1	–
Balance as of Dec. 31	**490**	**703**	**1.193**	**486**	**709**	**1.195**

The allowance has been recognized in respect of receivables from customers. At the end of the reporting period, valuation allowances of €384 million (€393 million) had been recognized in relation to exposures in countries at the center of the euro crisis.

31. 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	31.12.2014
Transactions to hedge against		
currency risk on assets using fair value hedges	93	72
currency risk on liabilities using fair value hedges	–	–
interest-rate risk using fair value hedges	43	43
of which hedges against interest-rate risk using portfolio fair value hedges	–	–
interest rate risk using cash flow hedges	–	–
currency and pricing risk on future cash flows using cash flow hedges	0	2
Hedging transactions	**137**	**117**
Assets arising from derivatives not designated as hedges	16	13
Total	**153**	**130**

32. Securities

Securities relate primarily to purchased government bonds of €2,222 million (€1,443 million) and asset-backed securities issued by special purpose entities of Volkswagen Finance S.A., Madrid amounting to €223 million (€382 million) and of Volkswagen Leasing GmbH, Braunschweig amounting to €101 million (€479 million). These special purpose entities are structured entities not consolidated by Volkswagen Bank GmbH. The relevant disclosures can be found in note 69.

Securities of €2,106 million (€1,947 million) have been pledged as collateral for the Volkswagen Bank GmbH Group's own liabilities. These securities are deposited at Deutsche Bundesbank and are furnished as collateral in connection with open market operations.

The Securities item includes an equity investment in Visa Europe Ltd. This interest was acquired free of charge and was measured at cost as an equity instrument in accordance with IAS 39.46c in prior periods. 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 interest 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 interest 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 Level 3 inputs of the fair value hierarchy specified in IFRS 13. Overall, the fair value measurement of the interest 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 interest 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 interest in Visa Europe Ltd.

33. Other Financial Assets

€ million	Other financial assets
Gross carrying amount	
Balance as of Jan. 1, 2014	**2**
Foreign exchange differences	0
Changes in basis of consolidation	–
Additions	1
Reclassifications	–
Disposals	–
Changes recognized in profit or loss	–
Dividends	–
Other changes recognized in other comprehensive income	–
Balance as of Dec. 31, 2014	**3**
Impairment losses	
Balance as of Jan. 1, 2014	**–**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions	–
Reclassifications	–
Disposals	–
Reversal of impairment losses	–
Balance as of Dec. 31, 2014	**–**
Net carrying amount as of Dec. 31, 2014	**3**
Net carrying amount as of Jan. 1, 2014	**2**

€ million	Other financial assets
Gross carrying amount	
Balance as of Jan. 1, 2015	**3**
Foreign exchange differences	0
Changes in basis of consolidation	–
Additions	–
Reclassifications	–
Disposals	0
Changes recognized in profit or loss	–
Dividends	–
Other changes recognized in other comprehensive income	–
Balance as of Dec. 31, 2015	**3**
Impairment losses	
Balance as of Jan. 1, 2015	**–**
Foreign exchange differences	–
Changes in basis of consolidation	–
Additions	–
Reclassifications	–
Disposals	–
Reversal of impairment losses	–
Balance as of Dec. 31, 2015	**–**
Net carrying amount as of Dec. 31, 2015	**3**
Net carrying amount as of Jan. 1, 2015	**3**

34. Intangible Assets

€ million	Internally generated software	Brand names, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2014	**0**	**22**	**18**	**45**	**85**
Foreign exchange differences	0	−1	−1	0	−1
Changes in basis of consolidation	–	–	–	–	–
Additions	0	–	–	5	5
Reclassifications	–	–	–	–	–
Disposals	–	–	–	1	1
Balance as of Dec. 31, 2014	**0**	**21**	**18**	**49**	**88**
Amortization and impairment losses					
Balance as of Jan. 1, 2014	**–**	**5**	**–**	**31**	**35**
Foreign exchange differences	–	0	–	0	0
Changes in basis of consolidation	–	–	–	–	–
Additions to cumulative depreciation	–	2	–	6	7
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	0	–	–	1	1
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2014	**–**	**6**	**–**	**36**	**42**
Net carrying amount as of Dec. 31, 2014	**0**	**15**	**18**	**13**	**46**
Net carrying amount as of Jan. 1, 2014	**–**	**17**	**18**	**15**	**50**

€ million	Internally generated software	Brand names, customer base	Goodwill	Other intangible assets	Total
Cost					
Balance as of Jan. 1, 2015	**0**	**21**	**18**	**49**	**88**
Foreign exchange differences	0	0	0	0	0
Changes in basis of consolidation	0	–	–	0	0
Additions	0	–	–	4	4
Reclassifications	–	–	–	–	–
Disposals	–	–	–	0	0
Balance as of Dec. 31, 2015	**0**	**21**	**18**	**53**	**92**
Amortization and impairment losses					
Balance as of Jan. 1, 2015	**–**	**6**	**–**	**36**	**42**
Foreign exchange differences	–	0	–	0	0
Changes in basis of consolidation	–	–	–	0	0
Additions to cumulative depreciation	–	2	–	5	7
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	0	–	–	0	0
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2015	**–**	**8**	**–**	**41**	**49**
Net carrying amount as of Dec. 31, 2015	**0**	**13**	**18**	**12**	**43**
Net carrying amount as of Jan. 1, 2015	**–**	**15**	**18**	**13**	**46**

Goodwill of €18 million (€18 million) and the brand name of €6 million (€6 million) result from the acquisition of Volkswagen Bank Polska S.A. and have indefinite useful lives. The indefinite useful lives arise 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 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. The acquired customer base of Volkswagen Bank Polska S.A. is amortized over ten years. As of the reporting date, there were intangible assets with indefinite useful lives amounting to €25 million (€25 million).

35. Property, Plant and Equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2014	**23**	**24**	**46**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions	1	2	3
Reclassifications	–	–	–
Disposals	3	4	7
Balance as of Dec. 31, 2014	**21**	**21**	**42**
Amortization and impairment losses			
Balance as of Jan. 1, 2014	**18**	**14**	**31**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	–	–
Additions to cumulative depreciation	1	3	3
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Disposals	2	3	5
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2014	**16**	**14**	**30**
Net carrying amount as of Dec. 31, 2014	**5**	**8**	**12**
Net carrying amount as of Jan. 1, 2014	**5**	**10**	**15**

€ million	Land and buildings	Operating and office equipment	Total
Cost			
Balance as of Jan. 1, 2015	**21**	**21**	**42**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	0	0
Additions	0	2	2
Reclassifications	–	–	–
Disposals	–	3	3
Balance as of Dec. 31, 2015	**21**	**21**	**42**
Amortization and impairment losses			
Balance as of Jan. 1, 2015	**16**	**14**	**30**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	–	0	0
Additions to cumulative depreciation	1	2	3
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Disposals	–	1	1
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2015	**17**	**15**	**32**
Net carrying amount as of Dec. 31, 2015	**4**	**6**	**10**
Net carrying amount as of Jan. 1, 2015	**5**	**8**	**12**

Assets under construction with a carrying amount of €0 million (€0 million) are included in land and buildings.

36. Lease Assets and Investment Property

€ million	Movable lease assets	Investment property	Total
Cost			
Balance as of Jan. 1, 2014	**483**	**3**	**487**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	282	–	282
Reclassifications	–	–	–
Disposals	129	–	129
Balance as of Dec. 31, 2014	**636**	**3**	**640**
Depreciation and impairment losses			
Balance as of Jan. 1, 2014	**113**	**2**	**115**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions to cumulative depreciation	93	0	94
Additions to cumulative impairment losses	9	–	9
Reclassifications	–	–	–
Disposals	66	–	66
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2014	**149**	**2**	**152**
Net carrying amount as of Dec. 31, 2014	**487**	**1**	**488**
Net carrying amount as of Jan. 1, 2014	**371**	**1**	**372**

€ million	Movable lease assets	Investment property	Total
Cost			
Balance as of Jan. 1, 2015	**636**	**3**	**640**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	497	–	497
Reclassifications	–	–	–
Disposals	128	–	128
Balance as of Dec. 31, 2015	**1.005**	**3**	**1.008**
Depreciation and impairment losses			
Balance as of Jan. 1, 2015	**149**	**2**	**152**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions to cumulative depreciation	139	0	139
Additions to cumulative impairment losses	26	–	26
Reclassifications	–	–	–
Disposals	18	–	18
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2015	**296**	**2**	**298**
Net carrying amount as of Dec. 31, 2015	**710**	**1**	**711**
Net carrying amount as of Jan. 1, 2015	**487**	**1**	**488**

Since the fair value of investment property could not be determined without disproportionate effort, it is carried at amortized cost in an amount of €1 million (€1 million). Operating expenses in an immaterial amount were incurred for the maintenance of investment property in both the reporting period and in the previous year.

We expect payments from noncancelable leases of €133 million in 2016 and of €128 million in the period 2017 to 2020.

37. 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	2.954	1.397
of which noncurrent	189	42
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	5	4
of which noncurrent	5	4
Offset (with deferred tax liabilities)	−1.528	−401
Total	**1.431**	**999**

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

€ million	31.12.2015	31.12.2014
Receivables and other assets	30	36
Securities and cash	2.753	1.333
Intangible assets/property, plant and equipment	8	9
Lease assets	0	8
Tax assets	6	–
Liabilities and provisions	156	12
Total	**2.954**	**1.397**

38. Other Assets

The details of other assets are as follows:

€ million	31.12.2015	31.12.2014
Restricted cash	322	156
Deferred income and accrued expenses	29	28
Other tax assets	50	15
Vehicles returned for disposal	25	18
Other	164	122
Total	**589**	**339**

39. Noncurrent Assets

€ million	31.12.2015	of which noncurrent	31.12.2014	of which noncurrent
Cash reserve	1.352	–	386	–
Receivables from credit institutions	1.501	–	940	–
Receivables from customers	40.806	20.854	37.251	19.098
Derivative financial instruments	153	61	130	79
Securities	2.557	–	2.308	–
Other financial assets	3	3	3	3
Intangible assets	43	43	46	46
Property, plant and equipment	10	10	12	12
Lease assets	710	710	487	487
Investment property	1	1	1	1
Current tax assets	50	0	43	–
Other assets	589	29	339	10
Total	**47.775**	**21.710**	**41.948**	**19.737**

40. Liabilities to Customers

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

As of the reporting date, the use of such funds provided by affiliated companies, recognized as non-securitized liabilities to customers, amounted to €3,646 million (€2,444 million). Of this amount, €470 million (€458 million) was attributable to the sole shareholder, Volkswagen Financial Services AG, including the profit and loss transfer.

The liabilities to customers item primarily contains customer deposits, such as overnight money and time deposits, as well as various savings bonds and savings plans. 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	**30.478**	**26.844**
Fair value adjustment from portfolio hedging	–	0
Liabilities to customers, net of fair value adjustment from portfolio hedging	30.478	26.844

41. Securitized Liabilities

Securitized liabilities comprise bonds and commercial paper.

€ million	31.12.2015	31.12.2014
Bonds issued	7.530	7.339
Commercial paper issued	74	211
Total	**7.604**	**7.550**

42. ABS Transactions

The Volkswagen Bank GmbH Group uses ABS transactions for funding purposes. The related liabilities are recognized in the following balance sheet items:

€ million	31.12.2015	31.12.2014
Securitized liabilities	3.840	3.026
Subordinated capital	188	147
Total	**4.028**	**3.173**

The asset-backed securities of Volkswagen Bank GmbH are backed exclusively by financial assets. The corresponding carrying amount of the securitized loans and advances from retail financing is €3,859 million (€2,987 million). As of December 31, 2015, the fair value of the liabilities amounted to €4,052 million (€2,968 million). The fair value of the assigned receivables, which continued to be recognized, amounted to €3,954 million (€3,101 million) as of the reporting date. Security is provided in the form of loans and advances from retail financing as well as cash collateral of €3,984 million (€2,987 million). In these arrangements, the expected payments are assigned to special purpose entities and 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 the derecognition of the loans and advances from the financing 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 Volkswagen Bank GmbH itself.

The Volkswagen Bank GmbH 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 Volkswagen Bank GmbH 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 ABS transactions in the Volkswagen Bank GmbH Group can be repaid early (with a clean-up call) when less than 9% or 10% of the original transaction volume remains outstanding.

43. 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	31.12.2014
Transactions to hedge against		
currency risk on assets using fair value hedges	3	0
currency risk on liabilities using fair value hedges	9	58
interest-rate risk using fair value hedges	21	41
of which hedges against interest-rate risk using portfolio fair value hedges	11	21
interest-rate risk using cash flow hedges	–	–
currency and pricing risk on future cash flows using cash flow hedges	0	–
Hedging transactions	**34**	**99**
Assets arising from derivatives not designated as hedges	13	17
Total	**46**	**116**

44. Provisions

The provisions break down as follows:

€ million	31.12.2015	31.12.2014
Provisions for pensions and other post-employment benefits	49	54
Other provisions	327	319
of which provisions for litigation and legal risks	246	234
of which for staff	19	18
of which other	62	68
Total	**376**	**373**

PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

€ million	31.12.2015	31.12.2014
Present value of funded obligations	12	11
Fair value of plan assets	11	10
Funded status (net)	1	1
Present value of unfunded obligations	49	53
Amount not recognized as an asset because of the ceiling in IAS 19	–	0
Net liability recognized in the balance sheet	**49**	**54**
of which provisions for pensions	49	54
of which other assets	–	–

Key Pension Arrangements in the Volkswagen Bank GmbH Group

For the period after the active working life of employees, Volkswagen Bank GmbH offers its employees benefits under modern and attractive occupational pension arrangements. Most of the arrangements in the Volkswagen Bank GmbH 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 Volkswagen Bank GmbH 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 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 deducted from the obligations.

The amount of the pension 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 Volkswagen Bank GmbH 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, 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		ABROAD	
Percent	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Discount rate	2,70	2,30	3,08	3,37
Pay trend	3,40	3,30	2,50	2,00
Pension trend	1,70	1,80	2,55	2,75
Staff turnover rate	0,75	0,75	2,00	2,00
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" generational mortality tables developed by Prof. 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	**54**	**69**
Current service cost	0	2
Net interest expense	1	3
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	–
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–3	8
Actuarial gains (–)/losses (+) arising from experience adjustments	0	–1
Income/expenses from plan assets not included in interest income	0	0
Change in amount not recognized as an asset because of the ceiling in IAS 19	0	0
Employer contributions to plan assets	0	1
Employee contributions to plan assets	–	–
Pension payments from company assets	3	3
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–	–
Other changes	0	–24
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**49**	**54**

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	**64**	**86**
Current service cost	0	2
Interest cost (unwinding of discount on obligations)	2	3
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	–
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–3	8
Actuarial gains (–)/losses (+) arising from experience adjustments	0	–1
Employee contributions to plan assets	0	0
Pension payments from company assets	3	3
Pension payments from plan assets	0	0
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–	–
Other changes	0	–33
Foreign exchange differences from foreign plans	0	0
Present value of obligations as of December 31	**60**	**64**

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

Present value of defined benefit obligation if		31.12.2015 € million	31.12.2015 Change in percent	31.12.2014 € million	31.12.2014 Change in percent
Discount rate	is 0,5 percentage points higher	56	−6,17	60	−6,01
	is 0,5 percentage points lower	64	7,05	68	6,67
Pension trend	is 0,5 percentage points higher	63	4,80	67	4,86
	is 0,5 percentage points lower	57	−4,41	61	−4,48
Pay trend	is 0,5 percentage points higher	60	0,01	64	0,03
	is 0,5 percentage points lower	60	−0,01	64	−0,03
Longevity	increases by one year	62	3,16	66	3,24

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 13 years (13 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	3	6
Members with vested entitlements who have left the Company	12	12
Retirees	45	47
Total	**60**	**64**

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	0	3
Payments due between two and five years	4	11
Payments due in more than five years	56	50
Total	**60**	**64**

Changes in plan assets are shown in the following table:

€ million	2015	2014
Fair value of plan assets as of January 1	**10**	**17**
Interest income on plan assets determined using the discount rate	0	1
Income/expenses from plan assets not included in interest income	0	0
Employer contributions to plan assets	0	1
Employee contributions to plan assets	0	0
Pension payments from plan assets	0	0
Gains (+) or losses (-) arising from plan settlements	–	–
Changes in basis of consolidation	–	–
Other changes	0	−9
Foreign exchange differences from foreign plans	0	0
Fair value of plan assets as of December 31	**11**	**10**

The investment of the plan assets to cover future pension obligations resulted in income in the amount of €1 million (€1 million). Employer contributions to plan assets are expected to amount to €1 million (€1 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

	31.12.2015			31.12.2014		
€ 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	0	–	0	0	–	0
Equity instruments	2	–	2	2	–	2
Debt instruments	7	–	7	6	–	6
Direct investments in real estate	–	–	–	–	–	–
Derivatives	1	–	1	1	–	1
Equity funds	0	–	0	0	–	0
Bond funds	1	–	1	1	–	1
Real estate funds	0	–	0	0	–	0
Other funds	1	–	1	1	–	1
Asset-backed securities	–	–	–	–	–	–
Structured debt securities	–	–	–	–	–	–
Other	0	–	0	0	–	0

Of the total plan assets, 6% (8%) is invested in German assets, 93% (89%) in other European assets and 1% (3%) 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	0	2
Net interest on the net defined benefit liability	1	3
Past service cost (including plan curtailments)	0	–
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	**1**	**5**

OTHER PROVISIONS

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

€ million	Employee expenses	Litigation and legal risks	Other provisions	Total
Balance as of Jan. 1, 2014	**35**	**140**	**55**	**230**
Foreign exchange differences	0	–	0	0
Changes in basis of consolidation	–	–	–	–
Utilized	27	35	9	72
Additions/new provisions	14	159	26	199
Unwinding of discount/effect of change in discount rate	–	–	–	–
Reversals	4	30	4	38
Balance as of Dec. 31, 2014	**18**	**234**	**68**	**319**
of which current	18	47	5	69
of which noncurrent	0	187	63	250
Balance as of Jan. 1, 2015	**18**	**234**	**68**	**319**
Foreign exchange differences	0	–	0	0
Changes in basis of consolidation	–	–	0	0
Utilized	11	59	14	85
Additions/new provisions	15	85	34	134
Unwinding of discount/effect of change in discount rate	–	–	–	–
Reversals	3	14	25	42
Balance as of Dec. 31, 2015	**19**	**246**	**62**	**327**
of which current	18	131	47	196
of which noncurrent	1	115	15	131

Provisions for employee expenses have been recognized for annually recurring 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.

Other provisions also include provisions for indirect credit risks amounting to €38 million (€27 million).

The timing of the cash outflows in connection with other provisions is expected to be as follows: 60% in the next year and 40% in the years 2017 to 2020.

45. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	31.12.2015	31.12.2014
Deferred tax liabilities	2.764	1.218
of which noncurrent	1.278	709
Offset (with deferred tax assets)	−1.528	−401
Total	**1.237**	**816**

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 companies.

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	979	753
Securities and cash	78	0
Intangible assets/property, plant and equipment	4	4
Lease assets	27	6
Investment property	0	0
Liabilities and provisions	1.676	454
Total	**2.764**	**1.218**

46. Other Liabilities

The details of other liabilities are as follows:

€ million	31.12.2015	31.12.2014
Deferred income and accrued expenses	83	62
Other tax liabilities	27	27
Social security and payroll liabilities	20	16
Other	20	18
Total	**150**	**124**

47. Subordinated Capital

The breakdown of subordinated capital is as follows:

€ million	31.12.2015	31.12.2014
Subordinated liabilities	226	465
of which: to other entities in the Volkswagen Group	189	427
Total	**226**	**465**

The Bank has not entered into any agreement to convert these liabilities into equity or another form of debt, nor is it planning any such conversion.

48. Noncurrent Liabilities

€ million	31.12.2015	31.12.2014
Liabilities to credit institutions	3.636	1.602
Liabilities to customers	2.096	1.078
Securitized liabilities	4.176	5.548
Derivative financial instruments	23	47
Current tax liabilities	–	0
Other liabilities	7	2
Subordinated capital	158	123
Total	**10.095**	**8.401**

49. Equity

Volkswagen Bank GmbH's subscribed capital amounted to €318 million. There are no preferential rights or restrictions in connection with the subscribed capital.

The capital contributions made by the sole shareholder, Volkswagen Financial Services AG, are reported under the capital reserves of Volkswagen Bank GmbH. Capital reserves amounted to €3,946 million (€3,946 million) in fiscal year 2015.

Retained earnings comprise undistributed profits from prior years and contain primarily other revenue reserves.

The HGB profit of €268 million (€303 million) was transferred in accordance with the existing profit and loss transfer agreement with the sole shareholder, Volkswagen Financial Services AG.

Accumulated deferred taxes recognized in other comprehensive income amount to €6 million (€4 million).

50. Capital Management

In this context, "capital" is defined as the equity in accordance with IFRS. The aim of capital management in the Volkswagen Bank GmbH 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 regulatory capital requirements.

Regulatory capital is different from equity in accordance with IFRS (for the components, see the statement of changes in equity). 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 any requirements defined by law.

Corporate actions implemented by the parent company of Volkswagen Bank GmbH has an impact on both IFRS equity and regulatory capital.

Under the regulatory provisions – 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 ensured that the minimum regulatory capital requirements continued to be satisfied at all times in the reporting period.

The following HGB-based amounts and ratios were determined for Volkswagen Bank GmbH under the regulatory requirements:

	31.12.2015	31.12.2014
Total risk exposure amount (€ million)[1]	38.288	32.545
of which risk-weighted exposure amounts for credit risk	35.700	30.069
of which own funds requirements for market risk *12,5	244	191
of which own funds requirements for operational risk *12,5	2.297	2.242
of which own funds requirements for credit valuation adjustments *12,5	47	43
Eligible own funds (€ million)[1]	4.292	4.354
Own funds (€ million)	4.292	4.354
of which Common Equity Tier 1 capital	4.262	4.296
of which Additional Tier 1 capital	0	0
of which Tier 2 capital	30	58
Common Equity Tier 1 capital ratio (percent)[2]	11,1	13,2
Tier 1 capital ratio (percent)[2]	11,1	13,2
Total capital ratio (percent)[2]	11,2	13,4

1 In accordance with Article 92 (3) of the CRR.
2 In accordance with Article 92 (1) of the CRR.

FINANCIAL INSTRUMENT DISCLOSURES

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

The measurement categories defined in IAS 39 are as follows for the Volkswagen Bank GmbH Group:

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 Volkswagen Bank GmbH 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 Volkswagen Bank GmbH Group, Securities and other 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	1.352	386	–	–	–	–	–	–
Receivables from credit institutions	1.501	940	–	–	–	–	–	–
Receivables from customers	38.304	35.144	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	16	13
Securities	–	–	2.557	2.308	–	–	–	–
Other financial assets	–	–	0	0	–	–	–	–
Other assets	452	278	–	–	–	–	–	–
Total	**41.610**	**36.748**	**2.557**	**2.309**	**–**	**–**	**16**	**13**
Liabilities								
Liabilities to credit institutions	–	–	–	–	4.020	1.760	–	–
Liabilities to customers	–	–	–	–	30.478	26.844	–	–
Securitized liabilities	–	–	–	–	7.604	7.550	–	–
Derivative financial instruments	–	–	–	–	–	–	13	17
Other liabilities	–	–	–	–	20	18	–	–
Subordinated capital	–	–	–	–	226	465	–	–
Total	**–**	**–**	**–**	**–**	**42.348**	**36.637**	**13**	**17**

Receivables from leasing transactions are not allocated to any of these categories.

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

€ million	2015	2014
Loans and receivables	1.294	1.281
Available-for-sale financial assets	26	24
Financial liabilities measured at amortized cost	−175	−267
Financial assets and financial liabilities measured at fair value through profit or loss	11	−3

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	Changes in 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	Changes in fair value in accordance with IAS 39 in conjunction with IFRS 13, including interest and effects from currency translation and impairment

52. Classes of Financial Instruments

Financial instruments are divided into the following classes in the Volkswagen Bank GmbH Group:

- Measured at fair value
- Assets and liabilities measured at amortized cost
- Derivative financial instruments designated as hedges
- Credit commitments and financial guarantee contracts
- Not within 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 and liabilities 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 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 “Other financial assets” class has been removed. The previous credit commitments class has been broadened to include financial guarantee contracts. 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:

€ million	Balance sheet item		Measured at fair value[1]		Measured at amortized cost[1,2]		Derivative financial instruments designated as hedging instruments[1]		Not within the scope of IFRS 7[1]	
	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	1.352	386	–	–	1.352	386	–	–	–	–
Receivables from credit institutions	1.501	940	–	–	1.501	940	–	–	–	–
Receivables from customers	40.806	37.251	–	–	40.806	37.251	–	–	–	–
Derivative financial instruments	153	130	16	13	–	–	137	117	–	–
Securities	2.557	2.308	2.557	2.308	–	–	–	–	–	–
Other financial assets	3	3	0	0	–	–	–	–	3	3
Other assets	589	339	–	–	452	278	–	–	137	61
Total	**46.961**	**41.358**	**2.573**	**2.321**	**44.112**	**38.856**	**137**	**117**	**140**	**64**
Liabilities										
Liabilities to credit institutions	4.020	1.760	–	–	4.020	1.760	–	–	–	–
Liabilities to customers	30.478	26.844	–	–	30.478	26.844	–	–	–	–
Securitized liabilities	7.604	7.550	–	–	7.604	7.550	–	–	–	–
Derivative financial instruments	46	116	13	17	–	–	34	99	–	–
Other liabilities	150	124	–	–	20	18	–	–	130	106
Subordinated capital	226	465	–	–	226	465	–	–	–	–
Total	**42.524**	**36.859**	**13**	**17**	**42.348**	**36.637**	**34**	**99**	**130**	**106**

1 The prior-year figures have been restated as a result of the classification changes.
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 guarantee contracts" class contains obligations under irrevocable credit commitments and financial guarantees amounting to €1,386 million (€1,269 million).

53. Measurement Hierarchy for Financial Instruments

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 securities, 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. These include derivatives and liabilities to customers.

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not 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 54). There was no need for reclassifications during the reporting period.

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	–	–	16	13	–	–
Securities	2.222	1.448	323	861	12	–
Other financial assets[1]	–	–	–	–	0	0
Measured at amortized cost						
Cash reserve	1.352	386	–	–	–	–
Receivables from credit institutions	1.041	718	460	222	–	–
Receivables from customers[1]	–	–	350	4.288	41.029	33.779
Other assets	–	–	452	278	–	–
Derivative financial instruments designated as hedges	–	–	137	117	–	–
Total	**4.615**	**2.552**	**1.738**	**5.779**	**41.041**	**33.779**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	13	17	–	–
Measured at amortized cost						
Liabilities to credit institutions	–	–	3.869	1.731	–	–
Liabilities to customers[1]	–	–	30.519	26.957	–	–
Securitized liabilities	–	–	7.618	7.565	–	–
Other liabilities	–	–	20	18	–	–
Subordinated capital	–	–	238	480	–	–
Derivative financial instruments designated as hedges	–	–	34	99	–	–
Total	**–**	**–**	**42.311**	**36.867**	**–**	**–**

1 The prior-year figures have been restated as a result of the classification changes.

54. Fair value of financial instruments in the classes “assets and liabilities measured at amortized cost”, “assets and liabilities measured at fair value” and “derivative financial instruments designated as hedges”

The table below shows the fair values of the financial instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where market prices were available, we 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.

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. Fair value also corresponds to the nominal value of the obligation in the case of financial guarantee contracts.

	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	16	13	16	13	–	–
Securities	2.557	2.308	2.557	2.308	–	–
Other financial assets[1]	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	1.352	386	1.352	386	–	–
Receivables from credit institutions	1.555	989	1.501	940	54	50
Receivables from customers[1]	41.327	38.017	40.806	37.251	520	766
Other assets	452	278	452	278	–	–
Derivative financial instruments designated as hedges	137	117	137	117	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	13	17	13	17	–	–
Measured at amortized cost						
Liabilities to credit institutions	3.869	1.731	4.020	1.760	–152	–29
Liabilities to customers[1]	30.519	26.957	30.478	26.844	41	113
Securitized liabilities	7.618	7.565	7.604	7.550	14	15
Other liabilities	20	18	20	18	–	–
Subordinated capital	238	480	226	465	12	15
Derivative financial instruments designated as hedges	34	99	34	99	–	–

1 The prior-year figures have been restated as a result of the classification changes.

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

Percent	EUR	GBP	PLN
Interest rate for six months	–0,078	0,615	1,615
Interest rate for one year	–0,077	0,721	1,559
Interest rate for five years	0,328	1,591	1,985
Interest rate for ten years	1,000	1,993	2,430

55. 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 applied if, at the present time, the offsetting of the amounts is legally enforceable by the Volkswagen Bank GmbH 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 derivative financial instruments entered into with the same counterparty.

The "Collateral received/pledged" column shows the amounts of cash and other collateral in the form of financial instruments received 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, securities pledged as collateral and collateral received in the form of cash deposits.

€ million	Gross amount of recognized financial assets/liabilities		Gross amount of recognized financial assets/liabilities offset in the balance sheet		Net amount of financial assets/liabilities reported in the balance sheet		AMOUNTS NOT OFFSET IN THE BALANCE SHEET: Financial instruments		AMOUNTS NOT OFFSET IN THE BALANCE SHEET: Collateral received/pledged		Net amount	
	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	1.352	386	–	–	1.352	386	–	–	–	–	1.352	386
Receivables from credit institutions	1.501	940	–	–	1.501	940	–	–	–	–	1.501	940
Receivables from customers	40.926	37.354	−120	−103	40.806	37.251	–	–	–	−602	40.806	36.649
Derivative financial instruments	153	130	–	–	153	130	−30	−49	−123	−80	1	–
Securities	2.557	2.308	–	–	2.557	2.308	–	–	–	–	2.557	2.308
Other financial assets	0	0	–	–	0	0	–	–	–	–	0	0
Other assets	464	285	−11	−6	452	278	–	–	–	–	452	278
Total	**46.953**	**41.404**	**−132**	**−109**	**46.822**	**41.295**	**−30**	**−49**	**−123**	**−683**	**46.670**	**40.563**
Liabilities												
Liabilities to credit institutions	4.020	1.760	–	–	4.020	1.760	–	–	–	–	4.020	1.760
Liabilities to customers	30.598	26.947	−120	−103	30.478	26.844	–	–	–	–	30.478	26.844
Securitized liabilities	7.604	7.550	–	–	7.604	7.550	–	–	−2.155	−1.492	5.449	6.058
Derivative financial instruments	46	116	–	–	46	116	−30	−49	−12	−51	5	15
Other liabilities	32	25	−11	−6	20	18	–	–	–	–	20	18
Subordinated capital	226	465	–	–	226	465	–	–	–	–	226	465
Total	**42.526**	**36.862**	**−132**	**−109**	**42.394**	**36.753**	**−30**	**−49**	**−2.167**	**−1.543**	**40.198**	**35.160**

56. Counterparty Default Risk

For qualitative information, please refer to the risk report (Credit Risk section on pages 24 to 25), 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 €22,922 million (€19,285 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	2.573	2.321	2.573	2.321	–	–	–	–
Measured at amortized cost								
Cash reserve	1.352	386	1.352	386	–	–	–	–
Receivables from credit institutions	1.501	940	1.501	940	–	–	–	–
Receivables from customers[1]	41.999	38.447	40.540	37.035	280	283	1.180	1.130
Other assets	452	278	452	278	–	–	–	–
Derivative financial instruments designated as hedges	137	117	137	117	–	–	–	–
Total[1]	**48.015**	**42.490**	**46.556**	**41.077**	**280**	**283**	**1.180**	**1.130**

1 The prior-year figures have been restated as a result of the classification changes.

The maximum default risk from irrevocable credit commitments and financial guarantee contracts is €1,386 million (€1,269 million).

The breakdown of neither past due nor impaired financial assets by risk class is as follows:

€ million	NEITHER PAST DUE NOR IMPAIRED		RISK CLASS 1		RISK CLASS 2	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Measured at fair value	2.573	2.321	2.573	2.321	–	–
Measured at amortized cost						
Cash reserve	1.352	386	1.352	386	–	–
Receivables from credit institutions	1.501	940	1.501	940	–	–
Receivables from customers[1]	40.540	37.035	37.611	32.287	2.929	4.748
Other assets	452	278	452	278	–	–
Derivative financial instruments designated as hedges	137	117	137	117	–	–
Total[1]	**46.556**	**41.077**	**43.627**	**36.329**	**2.929**	**4.748**

1 The prior-year figures have been restated as a result of the classification changes.

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:

	PAST DUE BUT NOT IMPAIRED		IN THE FOLLOWING AGED PAST DUE CATEGORIES					
			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]	280	283	172	177	106	106	1	–
Other assets	–	–	–	–	–	–	–	–
Derivative financial instruments designated as hedges	–	–	–	–	–	–	–	–
Total	**280**	**283**	**172**	**177**	**106**	**106**	**1**	**–**

1 The prior-year figures have been restated as a result of the classification changes.

VW Bank GmbH intends to recover the following collateral accepted in the reporting period for financial assets:

€ million	31.12.2015	31.12.2014
Vehicles	29	29
Real estate	–	–
Other movable assets	–	–
Financial assets	–	–
Total	**29**	**29**

The vehicles are remarketed to Volkswagen Group dealers through direct sales and auctions.

57. 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	1.352	386	1.352	386	–	–	–	–	–	–
Receivables from credit institutions	1.501	940	926	574	450	366	125	–	–	–
Securities	2.557	2.308	–	–	2.557	2.308	–	–	–	–
Total	**5.410**	**3.634**	**2.278**	**960**	**3.008**	**2.674**	**125**	**–**	**–**	**–**

The following table shows the maturity profile of undiscounted cash outflows from financial liabilities:

€ million	CASH OUTFLOWS		RESIDUAL CONTRACTUAL MATURITIES							
			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	4.038	1.779	323	147	64	14	3.589	1.584	62	35
Liabilities to customers	30.741	27.090	26.270	24.290	2.166	1.511	1.800	704	506	585
Securitized liabilities	7.665	7.658	363	553	3.077	1.469	4.225	5.636	–	–
Derivative financial instruments	3.256	2.704	1.920	396	1.255	2.110	81	198	–	0
Other liabilities	20	81	18	73	0	6	1	1	1	1
Subordinated capital	244	486	14	108	58	240	128	94	44	45
Irrevocable credit commitments	1.290	1.200	146	145	1.144	1.055	0	–	0	–
Total	**47.256**	**40.999**	**29.055**	**25.711**	**7.763**	**6.405**	**9.824**	**8.217**	**614**	**665**

A maximum possible drawdown of €96 million (€68 million) can be expected at any time under financial guarantee contracts.

58. Market Risk

For qualitative information, please refer to the risk report within the management report.

For quantitative risk measurement, interest rate and currency translation risks are measured using a value-at-risk (VaR) model on the basis of an historical simulation. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 40 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from non-derivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in determining the VaR covers a period of 1,000 trading days.

This approach has produced the following values:

€ million	2015	2014
Interest-rate risk	24	12
Currency translation risk	1	0
Total market risk[1]	**23**	**12**

1 Due to correlation effects, the total market risk is not equivalent to the sum of individual risks.

59. Foreign Currency Exposures

The following table shows a breakdown of the foreign currency amounts included in the assets and liabilities of the Volkswagen Bank GmbH Group as of December 31, 2015:

€ million	CZK	GBP	NOK	PLN	RUB	TRY	USD	Other
Cash reserve	–	–	–	87	–	–	–	–
Receivables from credit institutions	0	21	0	0	0	0	0	1
Receivables from customers	333	2.726	141	453	39	526	42	–
Securities	–	295	–	91	–	–	–	–
Other financial assets	–	–	–	0	–	–	–	–
Intangible assets	–	–	–	36	–	–	–	–
Property, plant and equipment	–	–	–	3	–	–	–	–
Current tax assets	–	3	–	8	–	–	–	–
Other assets	–	2.830	–	22	–	–	–	–
Assets	**333**	**5.875**	**141**	**699**	**40**	**526**	**42**	**1**
Liabilities to credit institutions	–	–	–	50	–	–	–	–
Liabilities to customers	–	151	–	398	–	–	–	–
Securitized liabilities	–	–	–	74	–	–	–	–
Provisions	–	1	–	4	–	–	–	–
Current tax liabilities	–	5	–	4	–	–	–	–
Other liabilities	–	3	–	3	–	–	–	–
Liabilities	**–**	**160**	**–**	**533**	**–**	**–**	**–**	**–**

60. Hedging Policy Disclosures

HEDGING POLICY AND FINANCIAL DERIVATIVES

Given its international financial activities, the Volkswagen Bank GmbH Group is exposed to fluctuations in interest 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 *Mindestanforderungen an das Risikomanagement* (MaRisk – German Minimum Requirements for Risk Management) 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 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 interest rate hedges entered into comprise interest rate swaps and cross-currency swaps.

CURRENCY RISK

Foreign currency risk is avoided by entering into currency hedging contracts, which may be currency forwards, interest rate swaps, or cross-currency swaps. The Group generally hedges all cash flows denominated in foreign currency.

LIQUIDITY RISK, FUNDING RISK

The Volkswagen Bank GmbH Group takes precautions to minimize the risk from any potential liquidity squeeze by holding a confirmed credit line at Volkswagen AG 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 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 minimized in accordance with regulatory requirements by requiring the counterparty to provide collateral, among other things.

Risk concentrations arise in the Volkswagen Bank GmbH 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:

	RESIDUAL 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	–	–	–	–	–	–
Cross-currency interest rate swaps	–	–	–	–	–	–
Currency forward contracts	3	2	–	–	–	–
Currency swaps	–	13	–	–	–	–
Other						
Interest rate swaps	3.293	3.437	7.027	7.462	0	0
Cross-currency interest rate swaps	9	–	–	–	–	–
Currency forward contracts	266	338	–	–	–	–
Currency swaps	2.875	2.032	62	166	–	–
Total	**6.446**	**5.823**	**7.089**	**7.628**	**0**	**0**

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

61. Breakdown by Geographical Market

The reportable segments in accordance with IFRS 8 and on the basis of the internal reporting structure of the Volkswagen Bank GmbH Group are the reporting segments Germany, Italy, France and Other. The branches in the UK, the Netherlands, Spain, Ireland, Greece, Portugal and Volkswagen Bank Polska S.A. have been allocated to the "Other" segment. MAN Financial Services SpA, Dossobuono di Villafranca (VR), was included in the Italy segment for the first time in fiscal year 2015.

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 and leasing transactions after provisions for risks, net fee and commission income, net gains/losses on the measurement of derivative financial instruments, general and administrative expenses and other operating income and expenses. The interest expenses, net profit/loss on the measurement of derivative financial instruments and hedged items, net gain/loss on securities and other financial assets, general and administrative expenses and net other operating expenses/income that are not components of operating profit or loss largely comprise net hedge accounting gains or losses, income from investments in affiliated companies, interest 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.

The additional allowances on loans and advances of the branches in the countries at the center of the euro crisis are allocated to the Germany segment in accordance with the internal reporting structure.

€ million	Germany	Italy	France	Other	Consolidation	Total
	FISCAL YEAR 2015					
Revenue from lending transactions with third parties	918	107	54	217	–	1.296
Intersegment revenue from lending transactions	67	0	0	0	−67	–
Total segment revenue from lending transactions	985	107	54	217	−67	1.296
Revenue from leasing transactions	–	44	405	5	–	454
Fee and commission income	164	62	53	17	–	297
Revenue	**1.150**	**213**	**512**	**240**	**−67**	**2.047**
Cost of sales attributable to lending and leasing transactions	–	−31	−128	−2	–	−162
Reversals of impairment losses on lease assets and investment property	–	–	–	–	–	–
Depreciation of and impairment losses on lease assets and investment property	–	–	−164	–	–	−164
of which impairment losses in accordance with IAS 36	–	–	−26	–	–	−26
Interest expense (component of operating profit or loss)	−181	−16	−24	−40	67	−193
Provisions for risks from lending and leasing business	0	−24	−46	−1	–	−71
Fee and commission expenses	−158	−31	−58	−12	–	−258
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	−4	–	–	–	–	−4
General and administrative expenses (component of operating profit or loss)	−574	−52	−78	−90	1	−793
Net other operating expenses/income (component of operating profit or loss)	105	0	24	10	−1	138
Segment profit or loss (operating profit or loss)	**337**	**59**	**38**	**105**	**–**	**539**
Interest income not classified as revenue	11	–	–	–	–	11
Interest expense (not a component of operating profit or loss)	−1	–	–	–	–	−1
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	13	0	1	–	–	14
Net gain on securities and other financial assets	5	–	–	9	–	14
General and administrative expenses (not a component of operating profit or loss)	−1	0	–	0	–	−1
Net other operating expenses/income (not a component of operating profit or loss)	0	–	–	–	–	0
Profit before tax	**363**	**59**	**39**	**144**	**–**	**575**
Income tax expense	−106	−19	−9	−22	–	−157
Profit after tax	**257**	**40**	**29**	**92**	**–**	**418**
Share of net income for the year attributable to Volkswagen Financial Services AG	257	40	29	92	–	418
Segment assets	**23.430**	**3.341**	**4.568**	**5.701**	**–**	**37.040**
of which: noncurrent assets	14.272	1.678	2.465	1.109	–	19.523
Segment liabilities	**39.961**	**3.206**	**3.952**	**5.678**	**−11.591**	**41.205**

The segment reporting for the previous year is shown in the following table:

€ million	FISCAL YEAR 2014 Germany	Italy	France	Other	Consolidation	Total
Revenue from lending transactions with third parties	947	109	67	191	–	1.313
Intersegment revenue from lending transactions	71	0	0	0	–71	–
Total segment revenue from lending transactions	1.017	109	67	191	–71	1.313
Revenue from leasing transactions	–	41	299	3	–	344
Fee and commission income	154	49	56	13	–	272
Revenue	**1.171**	**200**	**423**	**207**	**–71**	**1.929**
Cost of sales attributable to lending and leasing transactions	–	–27	–92	–1	–	–120
Reversals of impairment losses on lease assets and investment property	–	–	–	–	–	–
Depreciation of and impairment losses on lease assets and investment property	–	–	–103	–	–	–103
of which impairment losses in accordance with IAS 36	–	–	–9	–	–	–9
Interest expense (component of operating profit or loss)	–227	–20	–30	–38	71	–244
Provisions for risks from lending and leasing business	–26	–32	–29	–30	–	–117
Fee and commission expenses	–140	–30	–50	–8	–	–227
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	–4	–	–	–	–	–4
General and administrative expenses (component of operating profit or loss)	–503	–49	–78	–82	1	–711
Net other operating expenses/income (component of operating profit or loss)	30	3	4	8	–1	43
Segment profit or loss (operating profit or loss)	**301**	**45**	**45**	**56**	**–**	**446**
Interest income not classified as revenue	14	–	–	–	–	14
Interest expense (not a component of operating profit or loss)	0	–	–	–	–	0
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	2	–	0	–	–	2
Net gain on securities and other financial assets	0	–	–	4	–	4
General and administrative expenses (not a component of operating profit or loss)	–2	0	–	0	–	–3
Net other operating expenses/income (not a component of operating profit or loss)	0	0	–	–	–	0
Profit before tax	**315**	**45**	**45**	**59**	**–**	**464**
Income tax expense	–115	–17	–16	–5	–	–153
Profit after tax	**199**	**28**	**29**	**54**	**–**	**310**
Share of net income for the year attributable to Volkswagen Financial Services AG	199	28	29	54	–	310
Segment assets	**21.643**	**3.104**	**4.216**	**4.537**	**–**	**33.500**
of which: noncurrent assets	13.156	1.536	2.158	911	–	17.762
Segment liabilities	**34.269**	**2.979**	**3.621**	**4.222**	**–9.606**	**35.485**

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	1.307	1.327
minus interest income not classified as revenue	11	14
Net income from leasing transactions before provisions for risks	128	121
minus expenses from leasing business	–162	–120
minus depreciation of and impairment losses on lease assets and investment property	–164	–103
minus reversals of impairment losses on lease assets and investment property	–	–
Fee and commission income	297	272
Consolidated revenue	**2.047**	**1.929**
Net income from leasing transactions before provisions for risks	128	121
minus income from leasing transactions	454	344
minus depreciation of and impairment losses on lease assets and investment property	–164	–103
Consolidated cost of sales attributable to lending and leasing transactions	**–162**	**–120**
Receivables from customers attributable to		
Retail financing	23.312	21.779
Dealer financing	10.302	8.928
Leasing business	2.502	2.108
Other receivables	4.690	4.437
of which not included in segment assets	–4.476	–4.239
Lease assets	710	487
Consolidated assets in accordance with segment reporting	**37.040**	**33.500**
Liabilities to credit institutions	4.020	1.760
of which not included in segment liabilities	0	0
Liabilities to customers	30.478	26.844
of which not included in segment liabilities	–1.105	–1.115
Securitized liabilities	7.604	7.550
of which not included in segment liabilities	–17	–18
Subordinated capital	226	465
Consolidated liabilities in accordance with segment reporting	**41.205**	**35.485**

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 the reporting segments of the Volkswagen Bank GmbH Group.

Information on the main products can be taken directly from the income statement.

Additions to property, plant and equipment, intangible assets, lease assets and investment property amounted to €3 million (€3 million) in the Italy segment, €498 million (€285 million) in the France segment and €3 million (€2 million) in the other reporting segments. As in the previous year, no additions were made to these assets in the Germany segment. Depreciation, amortization and impairment losses on these assets amounted to €1 million (€1 million) in the Germany segment, €3 million (€4 million) in the Italy segment, €166 million (€105 million) in the France segment and €4 million (€4 million) in the other reporting segments.

OTHER DISCLOSURES

62. Cash Flow Statement

Volkswagen Bank GmbH'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 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 the cash reserve, which consists of cash-in-hand and central bank balances.

63. Off-Balance-Sheet Liabilities

€ million	31.12.2015	31.12.2014
Contingent liabilities under bank and other financial guarantees	96	68
Other contingent liabilities	0	–
Total	**0**	**68**

€ million	DUE 2015	DUE 2016 – 2019	DUE from 2020	TOTAL 31.12.2014
Purchase commitments in respect of				
property, plant and equipment	–	–	–	–
intangible assets	–	–	–	–
investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
irrevocable credit commitments to customers	1.200	–	–	1.200
long-term leasing and rental contracts	3	6	–	9
Other financial obligations	20	–	–	20

	DUE	DUE	DUE	TOTAL
€ million	2016	2017 – 2020	from 2021	31.12.2015
Purchase commitments in respect of				
property, plant and equipment	–	–	–	–
intangible assets	–	–	–	–
investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	78	–	–	78
irrevocable credit commitments to customers	1.290	0	0	1.290
long-term leasing and rental contracts	3	6	6	15
Other financial obligations	14	–	–	14

Drawdowns on irrevocable credit commitments are possible at any time.

64. Trust Transactions

As in the previous year, there were no trust transactions to be reported as of the reporting date.

65. Average Number of Employees during the Reporting Period

	2015	2014
Salaried employees	1.167	1.138
of which senior managers	24	35
of which part time	63	54
Vocational trainees	14	13

66. Related Party Disclosures

Related parties within the meaning of IAS 24 are deemed to be individuals or entities that can be influenced by Volkswagen Bank GmbH, that can exercise an influence over Volkswagen Bank GmbH, or that are under the influence of another related party of Volkswagen Bank GmbH.

Volkswagen Financial Services AG, Braunschweig, is the sole shareholder of Volkswagen Bank GmbH.

The following disclosures pertain to the relationship with Porsche:
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).

The sole shareholder, Volkswagen Financial Services AG, and Volkswagen Bank GmbH have entered into a profit and loss 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 Volkswagen Bank GmbH Group with funding on an 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 Volkswagen Bank GmbH Group with financial subsidies to support sales promotion campaigns.

All business transactions with nonconsolidated subsidiaries and other related parties in Volkswagen AG's group of consolidated entities are conducted 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 2015								
€ million	Supervisory Board/ Audit Committee	Management/ Board of Management	Volkswagen AG	Porsche SE	Volkswagen Financial Services AG	Other related parties in the consolidated entities	Nonconsolidated subsidiaries	Joint ventures	Associates
Receivables	0	0	2	–	110	5.101	30	–	–
Valuation allowances on receivables	–	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–	–
Liabilities	3	7	1.750	100	412	1.715	8	–	–
Interest income	0	0	0	–	0	94	3	–	–
Interest expense	0	0	−1	0	−1	−9	0	–	–
Goods and services provided	–	–	0	–	11	284	3	–	–
Goods and services received	–	–	−66	–	−766	−184	−1	–	–

	FISCAL YEAR 2014								
€ million	Supervisory Board/ Audit Committee	Management/ Board of Management	Volkswagen AG	Porsche SE	Volkswagen Financial Services AG	Other related parties in the consolidated entities	Non-consolidated subsidiaries	Joint ventures	Associates
Receivables	0	0	0	–	5	4.764	53	–	–
Valuation allowances on receivables	–	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–	–
Liabilities	4	6	1.084	–	573	1.282	8	–	–
Interest income	0	0	0	–	0	112	5	–	–
Interest expense	0	0	–3	–1	–4	–16	0	–	–
Goods and services provided	–	–	0	–	9	156	5	–	–
Goods and services received	–	–	–59	–	–1.347	–139	0	–	–

The "Other related parties in the consolidated entities" column includes, in addition to sister entities, joint ventures of Volkswagen AG that are related parties in Volkswagen AG's consolidated group. The relationships with Management, the Board of Management and the Supervisory Board/Audit Committee comprise relationships with the relevant groups of individuals at Volkswagen Bank GmbH, Volkswagen Financial Services AG and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans were of minor significance.

Members of Management and the Audit Committee of Volkswagen Bank GmbH are members of 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 entities are conducted on an arm's-length basis.

All the remuneration for the Management is paid by Volkswagen Financial Services AG.

Provisions of €4 million (€4 million) have been recognized for pensions and similar obligations in favor of former members of the Management or their surviving dependants. The total payments made to former members of the Management and their surviving dependants amounted to less than €0.5 million.

67. Governing Bodies of the Volkswagen Bank GmbH Group

The members of the Management are as follows:

ANTHONY BANDMANN
Spokesman of the Management
Sales and Marketing
Customer Service, Retail Customers
International
Human Resources (from February 1, 2016)

HARALD HESSKE (FROM FEBRUARY 1, 2016)
Finance/Corporate Management (from February 1, 2016)
Back Office/Dealer Recovery/Risk Management (from February 1, 2016)

TORSTEN ZIBELL
Direct Bank
Corporate Development

DR. HEIDRUN ZIRFAS (UNTIL MARCH 31, 2016)
Finance/Corporate Management (until January 31, 2016)
Back Office/Dealer Recovery/Risk Management (until January 31, 2016)
Human Resources (until January 31, 2016)

The members of the Audit Committee are as follows:

DR. JÖRG BOCHE
Chairman
Executive Vice President of Volkswagen AG
Head of Group Treasury

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

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

GABOR POLONYI
Head of Fleet Customer Management, Volkswagen Leasing GmbH

68. Shareholdings

Name and registered office of company	Share of capital and voting rights in percent
I. Subsidiaries	
Volkswagen Bank Polska S.A., Warsaw, Poland	100,0
Volkswagen Serwis Ubezpieczeniowy Sp. z.o.o., Warsaw, Poland	100,0
MAN Financial Services S.p.A., Dossobuono di Villafranca (VR), Italy	100,0
II. Other long-term equity investments	
Society for Worldwide Interbank Financial Telecommunication SCRL, La Hulpe, Belgium	0,01
Visa Europe Limited, London, UK	0,03
paydirekt Beteiligungsgesellschaft privater Banken mbH, Berlin	2,5
III. Shares in affiliated companies	
OOO Volkswagen Bank RUS, Moscow, Russian Federation	1,0

The equity of Volkswagen Bank Polska S.A. amounted to €76 million (PLN324 million) as of December 31, 2014; Volkswagen Bank Polska S.A. generated a profit of €7 million (PLN31 million) in 2014. The equity of MAN Financial Services S.p.A., Italy, amounted to €15 million as of December 31, 2014; MAN Financial Services S.p.A. generated a profit of €433 thousand in 2014. All information relates to the entity's IFRS financial statements.

Each of the special purpose entities included in the consolidated financial statements in accordance with IFRS 10 (Driver Eight GmbH i.L., Driver Nine GmbH i.L., Private Driver 2010-1 fixed GmbH i.L., Private Driver 2011-1 GmbH i.L., Private Driver 2011-2 GmbH i.L., Private Driver 2011-3 GmbH i.L., Private Driver 2012-1 GmbH, Private Driver 2012-2 GmbH, Private Driver 2012-3 GmbH, Driver Ten GmbH, Driver Eleven GmbH and Driver Twelve GmbH) has its registered office in Frankfurt am Main and has subscribed capital of €25,050. Each of the entities Private Driver 2013-1 UG (haftungsbeschränkt), Private Driver 2013-2 UG (haftungsbeschränkt), Private Driver 2014-1 UG (haftungsbeschränkt), Private Driver 2014-2 UG (haftungsbeschränkt), Private Driver 2014-3 UG (haftungsbeschränkt), Private Driver 2014-4 UG (haftungsbeschränkt), Private Driver 2015-1 UG (haftungsbeschränkt) and Driver Thirteen UG (haftungsbeschränkt) has its registered office in Frankfurt am Main and has subscribed capital of €5,100. The special purpose entity Driver Master S.A., Luxembourg, which was established in fiscal year 2015, has equity of €31,000. Driver France FCT, which has its registered office in Pantin, France, has liable capital of €300. Each of the above-mentioned special purpose entities generated a profit of less than €0.1 million in 2014.

Information on Volkswagen Serwis Ubezpieczowy Sp.z.o.o., the equity investments and OOO Volkswagen Bank RUS, Moscow, Russian Federation, is not disclosed because they are of minor significance. For the same reason, no information is provided in accordance with IFRS 7.30.

69. Disclosures Relating to Nonconsolidated Structured Entities

A structured entity is 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.

Volkswagen Bank GmbH maintains business relationships with structured entities, which are ABS special purpose entities that securitize assets from lending agreements and leases in vehicle financing as asset-backed securities. Volkswagen Bank GmbH acquired these securities in full or in part or granted subordinated loans to structured entities. Under the principles specified in IFRS 10, these entities are not controlled by Volkswagen Bank GmbH and are therefore not included in the consolidated financial statements.

The purchase of the securities and the granting of subordinated loans give rise to counterparty default risk on the part of the issuers and interest rate risk. The maximum risk exposure of Volkswagen Bank GmbH arising from its involvement with nonconsolidated 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 Volkswagen Bank GmbH's assets reported in the balance sheet that are related to nonconsolidated structured entities and the maximum risk exposure of the Volkswagen Bank 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		
Securities	323	861
Receivables from customers	1.271	649
Maximum loss risk	1.594	1.510
Nominal volume of securitized assets	6.063	3.851

Volkswagen Bank did not provide nonconsolidated structured entities with any noncontractual support during the reporting period.

70. Events after the Balance Sheet Date

There were no significant events between the end of the reporting period and February 12, 2016.

71. 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 Group management report 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 Management

Anthony Bandmann

Harald Heßke

Torsten Zibell

Dr. Heidrun Zirfas

Auditor's Report

We have audited the consolidated financial statements prepared by Volkswagen Bank Gesellschaft mit beschränkter Haftung, Braunschweig, comprising the balance sheet, the income statement, the statement of comprehensive income, 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 Bank Gesellschaft mit beschränkter Haftung, 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 IFRS, 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 Managing Directors. 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 Managing Directors, 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 IFRS, 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

Burkhard Eckes	ppa. Christian Bertram
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Audit Committee

OF VOLKSWAGEN BANK GMBH

Volkswagen Bank GmbH is a publicly traded corporation within the meaning of section 264d of the HGB. In accordance with the provisions in section 324 of the HGB, the Bank has established an Audit Committee, which concerns itself in particular with the tasks described in section 107(3) sentence 2 of the *Aktiengesetz* (AktG – German Stock Corporation Act). The Audit Committee has four members. There were no changes in the composition of the Audit Committee compared with the prior year.

The Audit Committee held two regular meetings in the reporting period. There were no extraordinary meetings. During the reporting period, there were no urgent transactions that would have required a decision by circulation of written resolution for approval. All members of the Audit Committee were present at all the meetings.

At the meeting held on February 17, 2015, the Audit Committee reviewed the annual financial statements and the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH for the year ended December 31, 2014 together with the proposal for the appropriation of profit. As part of this review, the Audit Committee discussed with the external auditors the reports on the audit of the annual financial statements, the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH as well as material transactions and issues related to financial reporting. The Audit Committee reported on its review to the sole shareholder.

The Committee also gathered details to establish the extent to which there were relationships of a professional, financial or other nature between the external auditors and the Company and/or its governing bodies with a view to assessing the independence of the external auditors. In this regard, the Audit Committee obtained information on the services that the external auditors had provided for the Company in addition to the auditing activities and on whether there were any grounds for disqualification or partiality. Following a detailed evaluation of the independence of the external auditors, the Audit Committee submitted a recommendation to the sole shareholder regarding the election of the external auditors and drew up the resolution covering the issue of the audit engagement in preparation for the Annual General Meeting.

At its meeting on November 17, 2015, the Audit Committee focused in particular on the risk management system and remuneration system. It also received a detailed report from the Compliance Officer. In addition, it held discussions with the external auditors covering audit planning, key points to be covered in audits and the obligations of the external auditors to provide information.

Braunschweig, February 19, 2016

Dr. Jörg Boche
Chairman

Waldemar Drosdziok
Deputy Chairman

Dr. Arno Antlitz
Member

Gabor Polonyi
Member

NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements on the business development of Volkswagen Bank GmbH. These statements are based on assumptions relating to the development of the global economy and of the financial and automotive markets, which Volkswagen Bank GmbH 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 Bank GmbH, this will have a corresponding effect on the business development of the Company.

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This annual report is also available in German at www.vwfs.de/gb15.

VOLKSWAGEN BANK GMBH

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