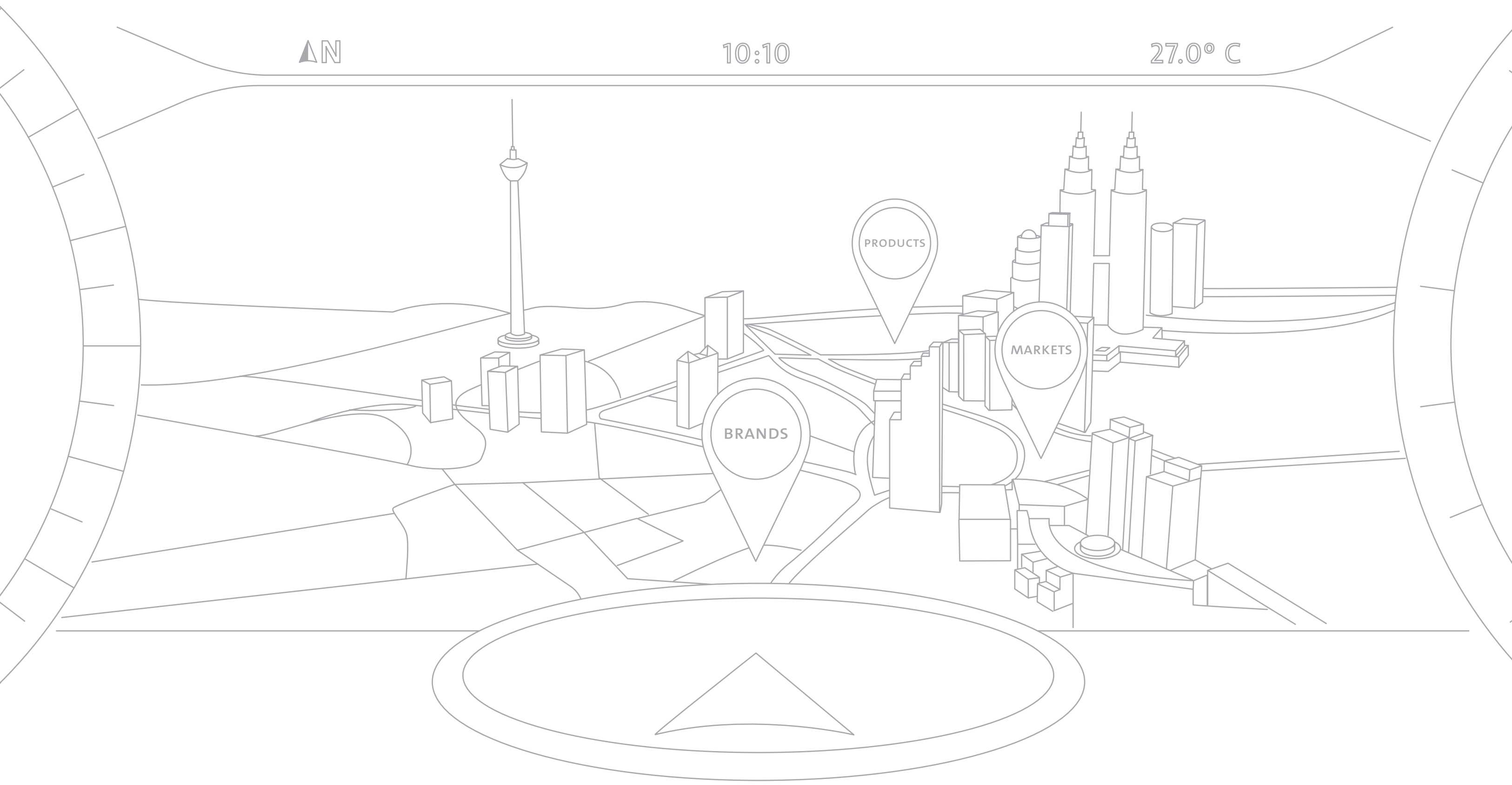
VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY



ANNUAL REPORT

OF VOLKSWAGEN LEASING GMBH

2014

Volkswagen Leasing GmbH

AT A GLANCE

in € million	2014	2013	2012	2011	2010
Investments in leased assets	11,951	10,379	10,199	9,581	7,590
Leased assets	19,206	17,940	16,776	15,179	13,279
Total assets	21,744	19,354	18,229	17,043	13,965
Leasing income	12,942	11,451	10,582	10,010	8,756

in thousands of vehicles	2014	2013	2012	2011	2010
New contracts	517	439	431	415	338
Current contracts	1,110	1,014	956	876	802

Fundamental information about the company

Steady growth confirms the business model of Volkswagen Leasing GmbH.

BUSINESS MODEL

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

ORGANISATION OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH engages in the operating leasing business with private and business customers as well as in the fleet management and services business. In keeping with the WIR2018 strategy, Volkswagen Leasing GmbH's organisation is focused squarely on the needs of the private customer, corporate customer and fleet customer groups. Besides enabling innovative rental models, such as long-term or micro rentals (car sharing) and other new mobility services, the company's organisational foundation ensures the consistent expansion of after sales services in the automotive context. The company's sales and customer service areas are closely integrated with the product development and marketing areas.

Due to a realignment of the division of responsibilities between the legal entities in the Volkswagen Financial Services AG subgroup in Germany and a change of Managing Director with effect from February 26, 2014 Volkswagen Leasing GmbH was subject to restructuring measures – including the transfer of parts of process management – in 2014. These related in particular to the Middle Office area, where the primary focus has since been on marketing responsibility for the legal entities in the German market.

Following the optimisation of the sales force and back office in 2013, the structure of Sales Fleet Customers underwent further enhancements in order to be in the best possible position for expansion in new business areas. Structure and organisation comply with the requirements of MaRisk.

BRANCHES

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

BRANCHES OUTSIDE GERMANY

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

INTERNAL MANAGEMENT

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

CHANGES IN EQUITY INVESTMENTS

VW Leasing Polska Sp. z o.o., Warsaw, was merged with VW Leasing GmbH with retroactive effect from January 1, 2014. Apart from that, there was no change in the equity investments in the 2014 fiscal year.

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

Report on economic position

Current contracts rose again despite continuing difficult market conditions. Company earnings were above the previous year's result.

MODERATE GROWTH OF THE GLOBAL ECONOMY

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

Europe

Growth in the gross domestic product (GDP) of Western Europe recovered from the previous year to rise to 1.2% (previous year: 0.0%). The Northern European countries largely returned to a path of moderate growth, and in most crisis countries of Southern Europe there were indications of an end to the recession. The unemployment rate in the eurozone fell slightly to 12.1% (previous year: 12.5%). In Central and Eastern Europe, average GDP growth rates fell to an average of 1.6% (previous year: 2.2%). While the economy continued to develop positively in Central Europe, it weakened significantly in Eastern Europe, primarily due to the uncertainties resulting from the conflict between Russia and Ukraine.

Germany

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

FINANCIAL MARKETS

Continuing expansionary monetary policy worldwide

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

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

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

Sector-specific environment

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

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

Europe

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

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

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

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

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

Germany

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

AUTOMOBILE MARKET

Global registrations of new passenger cars reached new high

In the 2014 financial year, the number of global registrations of new passenger cars rose by 4.5 % to 73.4 million vehicles, surpassing the previous year's record level. The regions of Asia Pacific, North America and Western and Central Europe in particular contributed to this growth. By contrast, the overall passenger vehicle markets in Eastern Europe and South America fell significantly short of 2013.

Europe

In Western Europe, the stabilisation of the passenger car markets that had begun in the second half of 2013 continued in the reporting year. After four years of declines, the number of new registrations rose again for the first time. However, at 12.1 million vehicles (+4.9%), the market volume was still well below the levels seen before the start of the financial and economic crises (2007: 14.9 million vehicles). While the French market nearly stagnated (+0.5%), In Italy a moderate increase (+4.9%) over the previous year's low volume was reported. In Central and Eastern Europe, demand fell by 6.7% to 3.6 million vehicles. This was mainly attributable to the sharp decline in sales in the Russian market, which accounts for around two thirds of total sales in the region, due to the political crisis there.

Germany

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

DEMAND FOR COMMERCIAL VEHICLES VARIES BY REGION

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

Demand in Western Europe developed positively in response to the improved economic environment. Totaling 1.5 million vehicles, sales were up 8.5% over the previous year. The biggest jumps were recorded on the UK, Spanish and Italian markets. Germany improved on its previous year's figure by 4.6%.

The sales volume on the markets of Eastern and Central Europe were down on the 2013 figures. Some 296,000 vehicles (previous year: 323,000) were sold during the reporting period. As a result of the political tension and its impact on the economy, demand fell in both Russia and Ukraine. In contrast, many smaller markets in Central Europe were able to record growth.

OVERALL APPRAISAL DF THE COURSE OF BUSINESS

In the view of the Board of Management of Volkswagen Leasing GmbH, business developed positively in 2014.

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

In 2014, Volkswagen Leasing GmbH once again received the award for the best company car brands in the leasing and financing category from FIRMENAUTO magazine. A further highlight of 2014 was the nomination of the environmental programme as a selected project as part of the UN Decade on Biodiversity.

With the launch of the Charge & Fuel Card and the accompanying Charge & Fuel App, Volkswagen Leasing GmbH set a further milestone in the area of mobility services in 2014.

The Charge & Fuel Card combines a classic fuel card with the option to load electricity for the first time. It gives holders access to more than 1,200 quality-tested public stations run by charging station operators RWE, EnBW and Ladenetz at a uniform electricity rate throughout the country. In addition, holders can refuel with no cash required at around 10,800 petrol stations in the network of service card specialist UTA. Until now, individual providers have billed each recharge locally and at different conditions, making it necessary for drivers of electric vehicles to keep up to 40 cards, codes and other means of authentication on hand. Now, however, only one card and one application are required for authenticating and billing all charging and petrol station transactions with participating partners. By introducing this new product, presently the only one of its kind in Germany, Volkswagen GmbH is supporting the Volkswagen Group's forward-looking strategy in the field of e-mobility.

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

The development of the leasing contract portfolio underscores the encouraging trend in the 2014 financial year. Compared with the previous year, 96 thousand new leasing contracts were signed, expanding the portfolio to a record level of 1,110 thousand units.

The fleet customer market on the whole grew by 9.4 % in 2014. This trend was particularly apparent in the rise in the number of new contracts signed with Volkswagen Leasing GmbH (14.6%) in this segment. Penetration in the fleet customer business improved from 55.6% to 59.7% in 2014. The company thus remains the market leader in the fleet business with Group vehicles, thereby underscoring its significance to the automotive value chain of the Volkswagen Group.

Registrations of the Volkswagen Group in the private customer segment fell by 2.6% year-on-year-in the German market. Notwithstanding this decline, the number of current leasing contracts in the private customer business was boosted by 15.4% compared with 2013.

The consistent implementation of the WIR2018 strategy continued in the reporting year. Volkswagen Leasing GmbH increased its total assets year on year.

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

A considerably lower operating result was expected in Germany in fiscal year 2014. It ultimately came to €259.3 million, down from the previous year's figure of €292.7 million. With regard to the development of current contracts, a slight drop in the number of new contracts was expected to bring a small decline in current contracts in 2014.

Contrary to the forecasts, however, both current contracts and new contracts rose substantially year-on-year due to successful collaboration with the brands. As a result, penetration in terms of all new financing and leasing contracts concluded with Volkswagen Bank GmbH and Volkswagen Leasing GmbH in Germany was boosted significantly to 59.4% despite the slight decline contained in the forecast from the previous fiscal year. The 41.7% penetration rate of Volkswagen Leasing GmbH was also considerably higher than in the previous year

For our branch in Italy, we expected that 2014 would see a sharp rise in the operating result with the number of current contracts, new contracts and the penetration rate remaining stable. As forecast, the operating result in Italy increased sharply in 2014. There were positive developments in the volume of current contracts, and the penetration rate was also up slightly.

For our branch in Poland, our 2014 forecast was for an operating result in the low single-digit million range coupled with a slight increase in both the number of current contracts and the penetration rate. The operating result fell to €-1.2 million in 2014. There were positive developments in the volume of current contracts, but the penetration rate declined slightly.

RESULTS OF OPERATIONS

Leasing income in the past fiscal year rose by €1.4 billion to €12.9 billion. Of this growth, €1.1 billion is attributable to increased proceeds from the sale of previously leased vehicles (€6.8 billion) and €0.2 billion to an increase in revenues from current leasing contracts. The additional increase in revenue also stems from service contracts, among others. The larger portfolio of contracts will cause sales revenue to rise in the next years.

Leasing expenses climbed by €1.1 billion to €7.2 billion, essentially due to the year-on-year increase in the residual carrying amounts of vehicle disposals. This figure especially includes the residual carrying amounts of vehicles removed from stock and the expenses from service leasing.

Driven mainly by higher IT, personnel and third-party service costs, general administration expenses increased by €81 million to €340 million.

Depreciation and write-downs on leased assets amounted to €4.4 billion (previous year: € 4.1 billion). This contains write-downs of € 0.2 billion (previous year: € 0.2 billion).

The repurchase of the ABS transaction VCL Master SA Compartment 2 had a total positive effect of €175.6 million on earnings, which was reflected in other operating income and expenses.

With historically low interest rates in Germany, Volkswagen Leasing GmbH's funding costs were substantially lower than in the previous year, despite the growth-driven increase in funding requirements. The financing of the leasing business gave rise to interest expense of €306 million (previous year: €344 million).

Depreciation, amortisation and allowances on receivables and additions to provisions in the leasing business amounted to €698 million (previous year: € 357 million). This increase was mainly the result of a year-on-year increase in transfers to provisions for dealer and other bonuses.

Income from the write-up on receivables and reversals of provisions in the leasing business amounted to €216 million (previous year: €109 million).

The continued good results of operations are reflected in the result from ordinary business activities of €137 million, which is thus significantly higher than the prior-year figure of €51 million.

The merger of Volkswagen Leasing Polska Sp. z o.o. with the branch of Volkswagen Leasing GmbH in Warsaw, Poland, which was newly established at the end of 2013, resulted in a merger loss of €56 million, which is reported as an extraordinary expense in the income statement.

At €259.3 million, the operating result pursuant to IFRSs in the German market fell approximately 11.4% short of the prior-year figure of €292.7 million. In addition to falling margins, the main reasons for this were an increase in commission payments and the impact of low interest rates.

In Italy, the operating result pursuant to IFRSs rose by €19.7 million and at the balance sheet date totaled €26.3 million (previous year: € 6.6 million).

In Poland, a negative operating result pursuant to IFRSs of €-1.2 million was generated (previous year: €0 million).

NET ASSETS AND FINANCIAL POSITION

Total assets increased by €2.3 billion to €21.7 billion. Leased assets, which represent the core business of Volkswagen Leasing GmbH, at a total of € 19.2 billion account for approximately 88.5% of total assets.

The company's investments in leased assets rose sharply by €1.6 billion to €12.0 billion. The gross carrying amount of the leased assets increased from € 24.8 billion to € 26.6 billion. The net carrying amount was €19.2 billion (previous year: €17.9 billion), which corresponds to an increase of €1.3 billion or 7.3%.

In the fiscal year just ended, Volkswagen Leasing GmbH was able to expand its business activities in Germany.

As at the reporting date, its portfolio of leased vehicles had climbed from around 1,014,000 to around 1,110,000 units. The company's Italian branches account for approximately 24,000 vehicles (previous year: 22,000 vehicles) and the Polish branches for approximately 34,000 vehicles (previous year: 29,000 vehicles) of this total. This portfolio increase results from the addition of around 517,000 vehicles, compared to disposal of approximately 450,000 vehicles, along with the one-off inclusion at our branch in Warsaw of 29,000 vehicles as of January 1, 2014.

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

DEVELOPMENT OF VEHICLE CONTRACT VOLUME (IN THOUSANDS)

2014		2013		2012		2011		2010	
New contracts	Portfolio	New contracts	Portfolio	New contracts	Portfolio	New contracts	Portfolio	New contracts	Portfolio
517	1,110	439	1,014	431	956	415	876	338	802

With regard to the capital structure, significant items in liabilities and equity include liabilities to customers in the amount of €7.6 billion (previous year: €7.7 billion) as well as securitised liabilities in the amount of €8.2 billion (previous year: €6.4 billion).

Equity

The subscribed capital of Volkswagen Leasing GmbH of €76 million increased in fiscal year 2014 due to a cash contribution from the shareholder in the amount of €50. Capital reserves were boosted by €11.9 million and totalled €154 million at the balance sheet date.

This yields an equity ratio of 1.1% (previous year: 1.1%) relative to total assets of €21.7 billion.

Liquidity analysis

The refinancing of Volkswagen Leasing GmbH is essentially executed by way of capital market and asset-backed securities programmes, as well as loans granted by Volkswagen Financial Services AG and Volkswagen Bank GmbH. Volkswagen Bank GmbH has liquid reserves in the form of securities deposited in the collateral deposit account with Deutsche Bundesbank. Active management of the collateral deposit account, which enables Volkswagen Bank GmbH to avail itself of the refinancing facilities, has turned out to be an efficient liquidity reserve. In addition to bonds issued by various countries in the amount of €1.3 billion, senior ABS debentures issued by special purpose entities of Volkswagen Leasing GmbH and Volkswagen Bank GmbH in the amount of €2.7 billion have been deposited as security in the collateral deposit account.

Treasury also prepares four different cash flow development statements to ensure adequate liquidity management, performs cash flow forecasts and uses these to determine the period for which cash will suffice from a consolidated perspective of Volkswagen Leasing GmbH, Volkswagen Bank GmbH and Volkswagen Financial Services AG. In the reporting period, liquidity measured in terms of its adequacy together with a simulated, limited refinancing arrangement and a partial discount of the overnight deposits amounted to at least 26 weeks.

The ability required under the Minimum Requirements for Risk Management (MaRisk) for Volkswagen Leasing GmbH to bridge any liquidity needs over a time horizon of seven and 30 days with a highly liquid cushion and the corresponding liquidity reserve was ensured at all times, including under various stress scenarios. This requirement is determined and continually reviewed in the course of liquidity risk management. To this end, cash flows are forecast for the next twelve months and compared against the refinancing potential in the relevant maturity band. The resulting utilisation of the refinancing potential through liquidity requirements did not exceed 41% at any time in normal cases or 56% in the stress tests required by the MaRisk.

REFINANCING

Strategic principles

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

Implementation

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

In fiscal year 2014, Volkswagen Leasing GmbH refinanced itself largely by issuing bonds in the amount of €2.75 billion.

Shortly after the start of the year, Volkswagen Leasing GmbH already issued a public bond sized at €1.25 billion. The ten-year term attracted considerable investor interest, as issues with this term by companies of Volkswagen Financial Services Aktiengesellschaft are relatively rare. A further public transaction followed in April 2014 in the form of a dual-tranche bond comprising two fixed-interest tranches with terms of 3.5 and eight years respectively. The volume of each tranche was € 750 million.

Business in connection with asset-backed securities was expanded further: Receivables of Volkswagen Leasing GmbH with low risk premiums triggered strong market demand in connection with the Volkswagen Car Lease 19 (VCL 19) issue in January and the Volkswagen Car Lease 20 (VCL 20) issue in September, with volumes of €750 million and €1,070 million, respectively.

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

Report on opportunities and risks

Responsible risk-taking and targeted utilization of market opportunities ensure sustainable financial success at Volkswagen Leasing GmbH.

RISKS AND OPPORTUNITIES

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

We use competition and environment analyses,as well as market monitoring, to identify both the risks we face and the opportunities that have a positive impact on the design and market success of our products, the efficiency of our production processes and our cost structure. Opportunities and risks which we expect to materialize are already taken into account in our medium-term planning and our forecast. In the following section we report on fundamental risks which could lead to a positive deviation in our forecast, while the risk reporting section contains information on more detailed risks.

MACROECONOMIC OPPORTUNITIES

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

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

STRATEGIC OPPORTUNITIES

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

If the interest rate spread between the long and the short end of the yield curve expands in important currency regions, this is likely to have a positive effect on earnings.

OPPORTUNITIES ARISING FROM CREDIT RISKS

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

OPPORTUNITIES ARISING FROM RESIDUAL VALUE RISKS

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

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

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

- Given its function as the corporate body tasked with managing the company's business and in view of ensuring proper accounting, the Board of Management of Volkswagen Leasing GmbH has established Accounting, Customer Service, Treasury, Risk Management and Controlling departments and has clearly delineated their respective spheres of responsibility and authority. Key interdepartmental functions are controlled by the Board of Management of Volkswagen Financial Services AG and by the Boards of Management of Volkswagen Bank GmbH and Volkswagen Leasing GmbH.
- Group-wide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process.
- For instance, the accounting policies are governed by internal accounting standards, including the accounting regulations under the German Commercial Code (HGB) in conjunction with the Ordinance on Accounting for Banks (RechKredV).
- At the company level, specific elements of control designed to ensure the propriety and reliability of accounting principles comprise analyses and possibly revisions of the bookkeeping data presented by the individual units and in sub-ledgers.
- All of this is supplemented by the clear delineation of spheres of responsibility as well as a variety of controlling and monitoring mechanisms. The aim is to ensure that all transactions are accurately recognized, processed, evaluated and included in the company's financial accounting.
- These controlling and monitoring mechanisms are designed to be process-integrated and independent of processes. Hence automated IT process controls besides manual process controls (such as the "four-eyes" principle) comprise material components of the process-integrated activities. These controls are supplemented by specific Group functions of the parent company, Volkswagen AG, for example Group Controlling.
- Risk management is fully integrated into the accounting process by virtue of continuous risk monitoring and the risk reporting system.
- Internal Audit is a key component of the controlling and monitoring system of Volkswagen Leasing GmbH. Internal Audit regularly performs audits, both in Germany and abroad, of processes relevant to accounting as part of its risk-based audit procedures and directly reports its findings to the Board of Management of Volkswagen Leasing GmbH.

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

ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

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

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

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

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

Within Volkswagen Leasing GmbH, the appointed member of the Board of Management is responsible for risk management and leasing analysis. In this capacity, he regularly reports on Volkswagen Leasing GmbH 's overall risk position to both the rest of the Board of Management and the sole shareholder, Volkswagen Financial Services AG.

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

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

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

This includes monitoring the models and processes for risk measurement and control, assuming responsibility for their detailed local design and carrying out the procedural and technical implementation locally. There is a direct reporting line from local risk management to Group Risk Management & Methods.

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

RISK STRATEGY AND RISK MANAGEMENT

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

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

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

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

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

RISK INVENTORY

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

The risk inventory performed on the basis of data as of December 31, 2013 showed that the quantifiable types of risk – counterparty credit risk, earnings risk, direct residual value risk, market risk, liquidity risk and operational risk – and the unquantifiable types of risk – reputation and strategic risk – qualify as material types of risk. The indirect residual value risk was classified as non-material because it represents only a small proportion of the overall risk. Other existing subcategories of risk are taken into consideration in the above-mentioned risk types.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

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

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

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

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

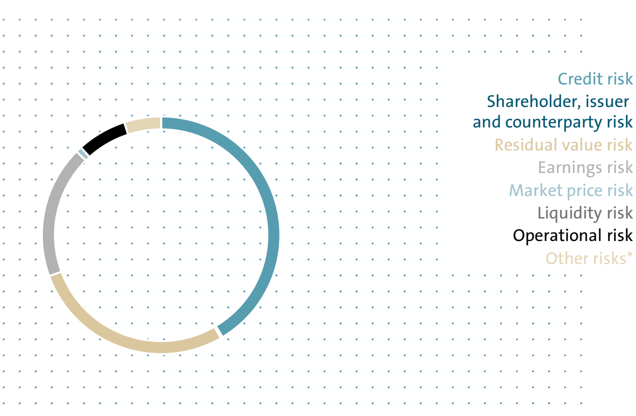
Establishing the risk limit system as the core element in capital allocation limits risks at different levels, thus ensuring the economic risk-bearing capacity of Volkswagen Leasing GmbH. The risk-taking potential is determined based on the available equity and income components, taking various deductible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

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

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

The overall economic risk of Volkswagen Leasing GmbH as of September 30, 2014 amounted to €698 million and is distributed as follows across the individual types of risk:

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



* Flat amount for non-quantifiable risks: strategic risk and reputation risk.

DEVELOPMENT OF RISK TYPES

	SEPTEMBER 30, 2014		DECEMBER 31, 2013	
Risk types	in € million	in %	in € million	in %
Credit risk	288.9	41.4	274.6	43.4
Shareholder, issuer and counterparty risk	1.9	0.3	0.8	0.1
Residual value risk	193.6	27.7	167.6	26.5
Earnings risk	126.0	18.1	100.0	15.8
Market risk	5.5	0.8	17.5	2.8
Liquidity risk	0.1	0.0	-	-
Operational risk	47.0	6.7	39.9	6.3
Other risks *	34.9	5.0	31.6	5.0
Total	**697.8**	**100.0**	**632.0**	**100.0**

* Flat amount for non-quantifiable risks: strategic risk and reputation risk. (as of December 31, 2013 also including liquidity risk).

As of September 30, 2014 the risk-taking potential amounted to €1.6 billion and was 43% utilized by the aforementioned risks. The maximum rate of utilization of the risk-taking potential in accordance with Pillar II was 44% during the period from January 1, 2014 to September 30, 2014.

Up to December 31, 2014, there were no indications of significant changes in the utilisation of the risk-taking potential.

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

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

CONCENTRATIONS OF RISK

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

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

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

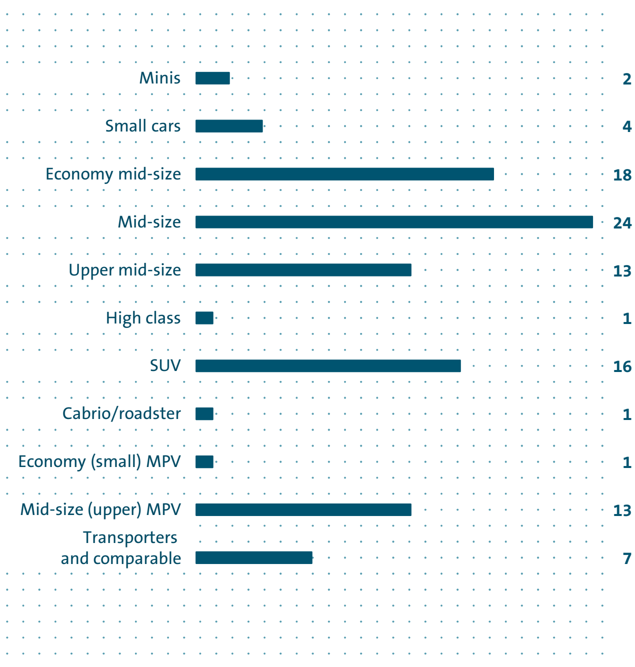
Volkswagen Leasing GmbH's risk policy aims for broad diversification in order to reduce concentrations.
Concentrations of counterparties are insignificant for Volkswagen Leasing GmbH because a large portion of the leasing business deals with small (retail) loans. Regarding regions, Volkswagen Leasing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

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

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

COLLATERAL STRUCTURE AS OF SEPTEMBER 30, 2014

Figures in %



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

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

RISK REPORTING

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

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

NEW PRODUCT AND NEW MARKET PROCESS

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

RISK TYPES

Risk of counterparty default

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

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

Credit risk

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

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

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

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

Risk identification and assessment

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

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

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

Rating procedures in the corporate business

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

Scoring procedures in the retail business

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

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

Control and review of retail and corporate procedures

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

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

Collateral

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

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

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

Valuation allowances

Valuation allowances are calculated based on the rating and scoring processes performed. Receivables are broken down into those which are acutely at risk of default and those which are potentially at risk of default.

In the case of receivables at acute risk of default, specific valuation allowances must be recognized in the individual business and collective specific valuation allowances in the mass business (retail). The classification as acutely at risk of default depends on the credit assessment (scoring/rating): Collective valuation allowances are recognised for receivables at potential risk of default.

Over a period of twelve months, the following average values were determined for the entire active portfolio (i.e. portfolio not in default): for the probability of default (PD): 3.9%; the loss given default (LGD): 34.5%; and for the total receivable volume in relation to the active portfolio: €18.9 billion.

Risk management and monitoring

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

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

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

Development

The receivables volume was expanded further in 2014. Growth was achieved due to the robust economic environment in Germany. The default rate decreased slightly year-on-year. The overall risk situation is regarded as stable.

Counterparty risk

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

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

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

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

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

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

Country risk

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

Shareholder risk

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

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

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

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

Market price risk

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

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

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

Interest rate risk

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

If interest rate changes materialise, this would adversely affect the results of operations.

Risk identification and assessment
Interest rate risks are determined for Volkswagen Leasing GmbH as part of monthly monitoring using the value-at-risk (VaR) method based on a 40-day holding period and a confidence level of 99%.

This model is based on a historical simulation and calculates potential losses taking 1,000 historical market fluctuations (volatilities) into account.

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

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

Risk management and monitoring

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

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

Development

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

Earnings risk (specific profit/loss risk)

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

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

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

Risk identification and assessment

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

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

Risk management and monitoring

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

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

Liquidity risk

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

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

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

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

Risk identification and assessment

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

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

Risk management and monitoring

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

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

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

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

Operational risk

Operational risk (OpR) is defined as the risk of losses that arise from the inappropriateness or failure of internal processes (process risks), people (personnel risks), systems (technology risks) or from external events (external risks). This definition includes legal risks. Other risk types, such as reputation risks or strategic risks, are not included in the OpR definition.

The aim of OpR management is to transparently identify operational risks as well as to take preventive measures or countermeasures with the aim of averting or minimising losses.

The consequence of the occurrence of an operational loss would be a loss with the amount of financial damage varying widely depending on the case.

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

Risk identification and assessment

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

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

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

Risk management and monitoring

Operational risks are managed based on the guidelines that have been put in place as well as the requirements applicable to the special units responsible for the special risk categories. For this purpose, a decision must be made regarding how to handle risks and losses in future, i.e. whether to prevent (avoid), minimise, consciously enter into (accept) or transfer these to a third party.

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

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

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

Risk arising from outsourcing activities

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

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

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

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

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

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

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

Residual value risk

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

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

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

Risk identification and assessment
Direct residual value risks are regularly quantified throughout the year in respect of both the EL and the UL.

The EL is the difference between the current expected proceeds on disposal as of the measurement date and the contractually agreed residual value of the vehicle set when the contract was established. In addition, other parameters are also taken into account in the calculation, such as the costs of disposal. The portfolio EL is calculated by taking the sum of the individual ELs for all vehicles.

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

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

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

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

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

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

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

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

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

Development
The residual value risks increased in 2014, due both to volumes and to residual value adjustments. Nevertheless, the overall risk situation is regarded as stable. The growth in the vehicle portfolio is mainly the result of expanding the fleet business in Germany.

Strategic risk

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

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

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

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

Reputation risk

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

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

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

SUMMARY

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

Risk-bearing capacity was assured throughout 2014. This system was continuously refined in 2014 as well, for example, by adjusting methods and models, systems, processes and IT.

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

MATERIAL RISK FORECAST

Credit risk forecast

In 2015, we anticipate the economic environment to remain difficult. The ongoing sovereign debt crisis in Italy is showing initial signs of recovery. On the whole, the risk situation remains unchanged and stable.

Residual value risk forecast

The vehicle portfolio is expected to grow further in 2015. Residual value risks will increase slightly due to a passenger car market that is expected to be weaker and the associated reduction in residual values.

Market price risk forecast

Against the backdrop of an interest rate environment anticipated to remain stable and moderate volatility in exchange rates, the market risk situation is projected to remain the same in the 2015 financial year.

Operational risk forecast

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

Report on post-balance sheet date events

No events of special importance to Volkswagen Leasing GmbH occurred after the close of fiscal year 2014.

Personnel report

Success requires expertise

Employees of Volkswagen Financial Services AG are responsible for running the operating business of Volkswagen Leasing GmbH in Germany. This staff is made available to Volkswagen Leasing GmbH under staff leasing agreements. As of December 31, 2014 1,194 (previous year: 789) employees worked for Volkswagen Leasing GmbH in Germany.

A total of 77 members of staff employed in the branches in Milan and Verona (Italy) on December 31, 2014 (previous year: 75) had employment contracts with Volkswagen Leasing GmbH. As at December 31, 2014, two members of staff were employed at our branch in Warsaw.

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

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

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

The successful ranking as a TOP employer and the insights from the study are important strategic parameters and indicators that help us to safeguard and further build on what we have achieved.

Each employee's need for qualifications is determined in the annual employee performance review, and suitable measures aimed at developing their competence are agreed upon with them. In addition to the employee performance review, employee training reviews were conducted in pilot areas for the first time in 2014, in which the managers and the employees used a skills profile drawn up in advance to discuss individual qualification measures.

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

This was then used as a basis to devise, plan and implement customized training measures, enabling the definition and prioritization of requirements via the two methods of training reviews and training conferences.

Report on expected developments

The economic recovery in Western Europe will likely continue in 2015. Volkswagen Leasing GmbH aims to benefit from this trend, thanks to its broad variety of products and its presence in the markets.

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

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

ECONOMIC DEVELOPMENT

Our planning assumes that the global economy will grow somewhat more robustly in 2015 than in the reporting year. In Western Europe, the economic recovery should continue in 2015. Nonetheless, the upturn remains dependent on the resolution of structural problems.

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

FINANCIAL MARKETS

The global economy will recover slightly in 2015 and moderate, global economic growth is anticipated. Geopolitical uncertainty, characterised by the unresolved Russian-Ukrainian crisis, the centres of conflict in the Middle East as well as the Ebola epidemic, remains high and will continue to depress global markets in 2015. While a continuation of the slight upturn is expected on the whole, in part due to the considerably lower price of oil as well as improved financing conditions, this will be overshadowed by the eurozone's unresolved debt problems.

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

Low oil prices and a weaker euro will sustain the German economy at a solid level despite cost increases expected to result from the minimum wage introduced in 2015.

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

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

The euro is faced with the threat of investors being squeezed out to countries abroad due to the ECB's decision to purchase government bonds.

DEVELOPMENT OF THE AUTOMOBILE MARKETS

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

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

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

After the downward trend in Western Europe ended during the reporting year and growth was reported for the first time following four years of declines, we expect demand for automobiles to increase slightly again in 2015. However, the pre-crisis levels are unlikely to be revisited in the medium term. The prolonged sovereign debt crisis will continue to cause uncertainty among consumers in many countries in the region and limit their financial options for new car purchases. Recovery is anticipated to continue in moderation in Spain and Italy. In the Central and Eastern European markets, passenger car demand in 2015 is likely to be down considerably year-on-year.

The German automobile market succeeded in halting its downward trend during the reporting year and reported growth. We expect slight growth in 2015, provided there is no deterioration in the economic conditions.

MOBILITY PACKAGES

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

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

New mobility solutions will expand the traditional definition of what it means to own an automobile. From leasing to long-term rental and the car rental business to car-sharing, Volkswagen Leasing GmbH together with its subsidiaries now meets an even larger share of its customers' mobility needs.

Simple, transparent, safe, reliable, affordable and flexible – these are the key requirements that our business must satisfy in future. Volkswagen Leasing GmbH is carefully tracking the development of the mobility market and is already developing new models for supporting alternative marketing approaches and establishing new mobility concepts with the aim of hedging and expanding its business model. In doing so we will realise the core of our brand promise in future too and remain the key to mobility in the long term.

DEVELOPMENT OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH expects its growth in the next financial year to be linked to the development of unit sales of the Volkswagen Group, albeit with a penetration level slightly below that of the previous year. It continues to pursue the goal of achieving growth by expanding the product range in existing markets.

OUTLOOK FOR 2015

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

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

For fiscal year 2015, we expect a slight year-on-year decline in new contracts and a substantial decrease in the operating result on the German market. With vehicle deliveries remaining constant in 2015, we have planned for a slight decline in the penetration rate on the German market and for the Volkswagen Leasing GmbH legal entity. The volume of current contracts is expected to rise moderately from the previous year's level.

In Italy, we forecast that the volume of both new and current contracts and the operating result will fall significantly year-on-year. We anticipate a slight decline in the penetration rate. In Poland, by contrast, we expect to see a slightly positive trend in the volumes of new and current contracts. The operating result is anticipated to be significantly higher than in 2014 and we also expect a substantial increase in the penetration rate.

Braunschweig, February 10, 2015

The Board of Management

Gerhard Künne

Thomas Rennebaum

Dr. Heidrun Zirfas

Balance sheet

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG, AS OF DECEMBER 31, 2014

€ thousand		December 31, 2014	December 31, 2013[1]
Assets			
1. Receivables from financial institutions			
a) Payable on demand	5,572		3,843
b) Other receivables	41,655		0
		47,227	3,843
2. Receivables from customers			
a) Payable on demand	286,139		248,386
b) Other receivables	1,038,008		0
		1,324,147	248,386
3. Investments in affiliated companies		8,651	8,651
4. Intangible assets		2,222	523
5. Tangible fixed assets			
a) Leased assets	19,206,087		17,940,004
b) Land and buildings	34,661		28,919
c) Operating and office equipment	998		0
		19,241,746	17,968,923
6. Other assets		787,261	851,292
7. Prepaid expenses		332,683	272,281
Total assets		**21,743,937**	**19,353,899**

1 The values of the Poland branch are not included in the corresponding prior-year figures. The key indicators for the Poland branch as of December 31, 2013 are as follows: Receivables from financial institutions €30,278 thousand, Receivables from customers €260,154 thousand, Tangible fixed assets €38,101 thousand

€ thousand		December 31, 2014	December 31, 2013[1]
Equity and liabilities			
1. Liabilities to financial institutions			
a) Payable on demand	320,791		1,526
b) With agreed repayment period or period of notice	420,369		226,100
		741,160	227,626
2. Liabilities to customers			
a) Payable on demand	2,976,652		2,177,471
b) With agreed repayment period or period of notice	4,637,608		5,517,527
		7,614,260	7,694,998
3. Securitized liabilities			
Debentures issued	8,179,214		6,336,574
from commercial paper	0		19,997
		8,179,214	6,356,571
4. Other liabilities		22,374	38,264
5. Deferred income		4,162,786	4,255,795
6. Provisions			
a) Tax provisions	16,940		8,976
b) Other provisions	774,747		550,993
		791,687	559,969
7. Special tax-allowable reserve		1,447	1,552
8. Equity			
a) Subscribed capital	76,004		76,004
b) Capital reserve	154,356		142,471
c) Net retained profits	649		649
		231,009	219,124
Total equity and liabilities		**21,743,937**	**19,353,899**
Other obligations			
Irrevocable credit commitments		1,689,914	1,087,214

1 The values of the Poland branch are not included in the corresponding prior-year figures. The key indicators for the Poland branch as of December 31, 2013 are as follows: Liabilities to financial institutions €262,329 thousand, Equity €–44,597 thousand

Income statement

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG, FROM JANUARY 1 TO DECEMBER 31, 2014

€ thousand			Jan. 1 – Dec. 31, 2014	Jan. 1 – Dec. 31, 2013[1]
1. Income from leases		12,941,571		11,451,469
2. Expenses from leases		7,201,872		6,102,588
			5,739,699	5,348,881
3. Interest income from lending and money market transactions		26,862		1,853
4. Interest expense		306,237		343,724
of which: Unwinding of discounts on provisions		2,396		7,434
			−279,375	−341,871
5. Income from profit transfer agreements			2,721	4,827
6. Commission income		754		452
7. Commission expenses		416,816		384,160
			−416,062	−383,708
8. Other operating income			537,888	97,873
9. Income from reversal of the special tax-allowable reserve			105	105
10. General administration expenses				
a) Personnel expenses				
aa) Wages and salaries	4,100			3,671
ab) Social security, post-employment and other employee benefit costs	1,240			1,348
		5,340		5,019
b) Other administration expenses		334,355		254,096
			339,695	259,115
11. Depreciation, amortization and valuation allowances				
a) on intangible and tangible fixed assets		2,177		724
b) on leased assets		4,401,943		4,063,124
			4,404,120	4,063,848
12. Other operating expenses			217,660	101,776
13. Depreciation, amortization and allowances on receivables and additions to provisions in the leasing business			697,616	356,545
14. Income from the write-up on receivables and from reversals of provisions in the leasing business			215,689	108,784
15. Expenses from loss transfers			4,443	2,407
16. Result from ordinary business activities			**137,131**	**51,200**
17. Extraordinary expenses			56,483	0
18. Taxes on income and earnings			168,721	176,431
19. Income from loss absorption			88,073	125,231
20. Profits transferred under a profit transfer agreement			0	0
21. Net income			**0**	**0**
22. Retained earnings brought forward from previous year			649	649
23. Net retained profits			**649**	**649**

1 The values of the Poland branch are not included in the corresponding prior-year figures. The key indicators for the Poland branch as of December 31, 2013 are as follows: net income from leasing €23,279 thousand, interest result €4,240 thousand, depreciation and amortization €12,379 thousand, Other operating expenses €11,128 thousand, Result from ordinary business activities €1,754 thousand, Net loss €4,066 thousand

Cash flow statement

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG, FROM JANUARY 1 TO DECEMBER 31, 2014

€ thousand	Jan. 1 – Dec. 31, 2014	Jan. 1 – Dec. 31, 2013
Net loss (before profit transfer)	−88,074	−125,231
Amortization/depreciation of fixed assets	4,404,120	4,009,849
Change in provisions	228,927	26,650
Profit from the disposal of leased assets	−466,038	−435,155
Interest result	279,375	341,871
Other adjustments	168,286	173,482
Change in receivables from financial institutions	−12,174	35,792
Changes in receivables from customers	−764,333	106,543
Change in other assets from operating activities	52,995	38,226
Change in liabilities to financial institutions	251,230	−44,070
Change in liabilities to customers	−193,720	1,590,782
Change in securitized liabilities	1,822,643	−348,742
Change in other liabilities from operating activities	−62,594	−89,560
Interest received	26,862	1,853
Interest paid	−306,237	−343,724
Income tax paid	−168,286	−173,482
I. Cash flow from operating activities	**5,172,982**	**4,765,084**
Cash inflows from the disposal of leased assets	6,784,047	5,640,916
Cash outflows for investments in leased assets	−11,949,952	−10,379,090
Cash outflows for investments in tangible and intangible fixed assets used by the company	−7,077	−17,124
II. Cash flow from investment activities	**−5,172,982**	**−4,755,298**
Cash inflows from company owners/cash outflows to company owners	0	−9,792
III. Cash flow from financing activities	**0**	**−9,792**
Net change in funds (I., II. and III.)	0	−6
Funds available at the beginning of the period	0	6
Funds available at the end of the period	0	0

The balance sheet and the income statement have been prepared in accordance with the stipulations of the Ordinance on Accounting for Banks (RechKredV). Funds correspond to cash in hand in accordance with DRS 21.

Statement of changes in equity

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG

€ thousand	Subscribed capital	Capital reserves	Net retained profits	Equity
Balance as at 31 December 2013	76,004	142,471	649	219,124
Change	0	11,885	–	11,885
Balance as at 31 December 2014	76,004	154,356	649	231,009

Notes

TO THE ANNUAL FINANCIAL STATEMENTS OF VOLKSWAGEN LEASING GMBH, Braunschweig, as of December 31, 2014

1. General comments regarding the annual financial statements

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

Volkswagen Leasing GmbH provides IT and internal services to the companies of the Volkswagen Financial Services AG Group. These are charged to the German Group companies through internal cost allocation according to source.

Income from the passed-on charges is recognized in other operating income.

2. Accounting policies

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

The financial assets are recognized at cost.

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

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

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

Using the grandfathering option available under section 67(3) sentence 1 of the EGHGB, differences between measurements required by commercial law and those permissible by tax law are shown in the special tax-allowable reserves and shown at nominal value.

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

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

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

Under a profit and loss transfer agreement, Volkswagen AG as the parent company generally accounts for deferred taxes. Deferred taxes are recognized to account for all temporary differences from the divergent treatment of balance sheet items under commercial law and the respective taxable carrying amount, taking the rate of 29.80% specific to the company into account. Deferred tax liabilities were not shown separately for the 2014 financial year because the company availed itself of the option to offset deferred tax assets and liabilities. The deferred tax liabilities relating to leased assets at the Italian branch, which is separately responsible for its taxes, are offset against deferred tax assets relating to provisions. The deferred tax liabilities relating to receivables at the Poland branch, which is separately responsible for its taxes, are offset against deferred tax assets relating to leased assets. In addition, no deferred tax assets are recognized in exercising the option in § 274 German Commercial Code (HGB).

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

Equity is shown at nominal value.

Irrevocable credit commitments are shown at present value.

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

For assets and liabilities in foreign currencies, the currency is converted in accordance with § 256a sentence 1 HGB at the spot exchange rate prevailing on the balance sheet date and observing the cost of acquisition and imparity principle. With a residual term of one year or less, the translation result is recognized in full through profit or loss in accordance with § 256a sentence 2 HGB.

The comparative figures as of December 31, 2013 and the "of which" items do not include the figures for the Poland branch. Where material, these are stated under the list concerned.

3. Notes to the balance sheet

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

The receivables from financial institutions break down as follows:

€ thousand	Dec. 31, 2014	Dec. 31, 2013[1]
1. Receivables from financial institutions	47,227	3,843
(of which associated companies €41,936 thousand; previous year: €1,436 thousand)		
Total	**47,227**	**3,843**

1 As of December 31, 2013, the receivables of the Poland branch amounted to €30,278 thousand, of which €30,255 thousand payable to affiliated companies.

The receivables from customers break down as follows:

€ thousand	Dec. 31, 2014	Dec. 31, 2013[1]
1. Trade receivables	425,556	105,665
2. Receivables from affiliated companies	887,981	133,977
(of which from the shareholder €839,585 thousand; previous year: €125,231 thousand)		
(of which from trade receivables €45,680 thousand; previous year: €6,576 thousand)		
3. Other receivables	10,610	8,744
Total	**1,324,147**	**248,386**

1 As of December 31, 2013, trade receivables from the Poland branch amounted to €260,154 thousand, of which €257,628 thousand receivables not yet due.

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

€ thousand	Dec. 31, 2014	Dec. 31, 2013
1. Receivables from financial institutions	47,227	3,843
of which due 0–3 months	47,227	3,843
2. Trade receivables	425,556	105,665
of which due 0 –3 months	172,660	105,665
of which due > 3 –12 months	95,871	0
of which due > 12 –60 months	156,755	0
of which due > 60 months	270	0
3. Receivables from affiliated companies	887,981	133,977
of which due 0 –3 months	137,981	133,977
of which due > 12 –60 months	350,000	0
of which due > 60 months	400,000	0
4. Other receivables	10,610	8,744
of which due 0 –3 months	10,610	8,744
Total	**1,371,374**	**252,229**

Other assets essentially comprise €522,025 thousand (previous year: €437,633 thousand) in lease returns held as available for sale, €97,519 thousand (previous year: €154,301 thousand) in receivables from accrued interest rate swaps, as well as €40,350 thousand (previous year: €159,905 thousand) in receivables from the settlement of ABS transactions.

The prepaid expenses comprise discounts for debentures taken up and ABS transactions amounting to €294,225 thousand (previous year: €249,021 thousand), which are eliminated pro rata temporis. In addition, the prepaid vehicle taxes amounting to €8,491 thousand (previous year: €7,357 thousand) and insurance policies from service leasing amounting to €29,828 thousand (previous year: €15,875 thousand), as well as other prepaid items are recognized.

Assets worth €404,077 thousand were on hand in a foreign currency through the Poland branch.

The liabilities are made up as follows:

€ thousand	Dec. 31, 2014	Dec. 31, 2013[1]
1. Liabilities to financial institutions	741,160	227,626
(of which to affiliated companies €448,607 thousand; previous year: €227,626 thousand)		
2. Liabilities to customers	7,614,260	7,694,998
(of which to affiliated companies €5,096,683 thousand; previous year: €6,004,057 thousand)		
(of which to the shareholder €385,068 thousand; previous year: €2,691,581 thousand)		
(of which trade receivables €474,547 thousand; previous year: €518,164 thousand)		
3. Securitized liabilities	8,179,214	6,356,571
4. Other liabilities	22,374	38,264
Total	**16,557,008**	**14,317,459**

1 As of December 31, 2013 liabilities to financial institutions at the Poland branches amounted to €262,329 thousand, of which €1,453 thousand were due to affiliated companies, and liabilities to customers amounted to €112,983 thousand, of which €110,017 thousand were payable to affiliated companies.

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

€ thousand	Dec. 31, 2014	Dec. 31, 2013
1. Liabilities to financial institutions	741,160	227,626
of which due 0 – 3 months	498,698	103,626
of which due > 3 – 12 months	207,462	80,000
of which due > 12 – 60 months	35,000	44,000
2. Liabilities to customers	7,614,260	7,694,998
of which due 0 – 3 months	1,007,894	3,748,598
of which due > 3 – 12 months	881,098	1,983,886
of which due > 12 – 60 months	4,825,268	1,462,514
of which due > 60 months	900,000	500,000
3. Securitized liabilities	8,179,214	6,356,571
of which due 0 – 3 months	404,214	81,571
of which due > 3 – 12 months	2,350,000	950,000
of which due > 12 – 60 months	2,425,000	4,325,000
of which due > 60 months	3,000,000	1,000,000
4. Other liabilities	22,374	38,264
of which due 0 – 3 months	15,840	31,303
of which due > 3 – 12 months	338	318
of which due > 12 – 60 months	2,685	2,529
of which due > 60 months	3,511	4,114
Total	**16,557,008**	**14,317,459**

Volkswagen Leasing GmbH did not provide any collateral for liabilities.

Other liabilities include liabilities from swap interest amounting to €13,722 thousand (previous year: €26,167 thousand).

The provisions comprise tax provisions (€16,940 thousand; previous year: €8,976 thousand) and other provisions (€774,747 thousand; previous year: €550,993 thousand).

Other provisions serve to hedge risks resulting from existing leasing contracts, among others. Provisions for residual value risks amounted to €3,345 thousand (previous year: €121,548 thousand). Moreover, expenses incurred especially under service leases and expenses for outstanding invoices amounting to €96,861 thousand (previous year: €76,070 thousand) were recognized. Furthermore, a total of €227,006 thousand (previous year: €94,316 thousand) in provisions were created for dealer and other bonuses.

The provision created for repair bills outstanding under maintenance and parts contracts amounts to €208.373 thousand (previous year: €133,897 thousand).

The provision for risks arising from contract terms set up in 2012 amounts to €100.800 thousand before discounting and €55,000 thousand in the previous year (discount: €2,268 thousand, previous year: €1,788 thousand).

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

The subscribed capital was increased in the financial year by €50 by a cash contribution from the shareholder. The contribution of shares in Volkswagen Leasing Polen Sp. z o.o. increased the capital reserves by €11,885 thousand.

There were liabilities worth €404,077 thousand in a foreign currency through the Poland branch.

Statement of changes in fixed assets

€ THOUSAND	GROSS CARRYING AMOUNTS					
	Brought forward Jan. 1, 2014 (incl. Poland branch)	Additions	Disposal	Transfer	Foreign currency differences	Balance Dec. 31, 2014
I. Intangible assets						
Software	2,761	792	0	0	−5	3,548
Payments on account	843	23	852	0	0	14
	3,604	815	852	0	−5	3,562
II. Tangible fixed assets						
Land and buildings	42,385	72	0	0		42,457
Operating and office equipment	2,793	324	1,200	0	−10	1,907
Assets under construction	1,001	5,866	0	0		6,867
	46,179	6,262	1,200	0	−10	51,231
III. Leased assets						
Vehicles, plant and equipment	24,761,332	11,891,361	10,165,613	41,361	−992	26,527,449
Payments on account	41,992	59,384	631	−41,361	0	59,384
	24,803,324	11,950,745	10,166,244	0	−992	26,586,833
IV. Financial assets						
Investments in affiliated companies	8,651	11,886	11,886	0	0	8,651
Total fixed assets	**24,861,758**	**11,969,708**	**10,180,182**	**0**	**−1,007**	**26,650,277**

	VALUATION ALLOWANCES					NET CARRYING AMOUNTS	
	Brought forward Jan. 1, 2014 (incl. Poland branch)	Additions	Disposal	Foreign currency differences	Balance Dec. 31, 2014	Balance Dec. 31, 2014	Balance Dec. 31, 2013
	1560	584	779	–25	1340	2208	1,201
	0					14	843
	1,560	584	779	–25	1,340	2,222	2,044
	13,393	1,285	0	–15	14,663	27,794	28,992
	1,615	308	982	–32	909	998	1,178
	0	0	0	0	0	6,867	1,001
	15,008	1,593	982	–47	15,572	35,659	31,171
	6,827,472	4,401,943	3,848,235	–434	7,380,746	19,146,703	17,933,860
	0	0	0	0	0	59,384	41,992
	6,827,472	4,401,943	3,848,235	–434	7,380,746	19,206,087	17,975,852
	0	0	0	0	0	8,651	8,651
	6,844,040	**4,404,120**	**3,849,996**	**–506**	**7,397,658**	**19,252,619**	**18,017,718**

4. Notes to the income statement

Leasing income is €12,941,571 thousand. Leasing expenses totalled €7,201,872 thousand and contain the expenditures required for generating sales. These essentially concern the residual carrying amounts of leased assets withdrawn and expenses from service leasing. The net income from leasing is €5,739,699 thousand.

The interest result is divided up as follows:

€ thousand	Jan. 1 – Dec. 31, 2014	Jan. 1 – Dec. 31, 2013[1]
1. Interest income from lending and money market transactions (of which from affiliated companies €7,382 thousand; previous year: €358 thousand)	26,862	1,853
2. Interest expense (of which payable to affiliated companies €54,620 thousand; previous year: €146,723 thousand)	306,237	343,724
Total	**–279,375**	**–341,871**

1 As of December 31, 2013 the interest result of the Poland branch amounted to €4,240 thousand.

Other operating expenses were €537,888 thousand, of which €131,502 thousand were related to the leasing business and €63,721 thousand to allocated overheads. Furthermore, income of €342,664 thousand from the repurchase of the ABS transaction VCL Master SA Compartment 2 is included. The income from the reversal of the special tax-allowable reserve amounts to €105 thousand. The other operating income also contains €12,253 thousand in income from currency translation.

Personnel expenses for our members of staff at the Milan, Verona and Poland branches amounted to €5,340 thousand, of which €4,100 thousand is attributable to wages and salaries and €1,240 thousand to social security contributions.

Other administration expenses in the amount of €334,355 thousand were incurred especially for workplace costs passed on by Group companies, personnel leases, IT costs and third-party services.

The depreciation on and write-downs of leased assets in the amount of €4,401,943 thousand are presented separately. This contains write-downs of €233,259 thousand (previous year: €225,226 thousand). The leased assets were written down by an additional € 400 thousand (previous year: €10,000 thousand) to account for risks from the early disposal of vehicles in connection with lessees' default (latent credit risks).

Other operating expenses in the reporting year were €217,660 thousand. Among others, this includes expenses for ending the C2 ABS transaction amounting to €167,057 thousand and issue and rating costs of €9,754 thousand. The other operating expenses also contain €7,426 thousand in expenses from currency translation.

A total of €697,616 thousand in depreciation, amortization and write-downs, allowances on receivables as well as transfers to provisions for the leasing business are in contrast to €215,689 thousand in income.

The extraordinary expenses only contain the effects from the acquisition of the Poland branch and the associated conversion of this branch to accounting principles according to HGB.

The developments listed above resulted in a pre-tax profit of €80.6 million (previous year: €51.2 million) in the financial year just ended.

Under the existing profit transfer agreement, the loss after taxes amounting to €88.073 thousand is absorbed by Volkswagen Financial Services AG.

Distribution of income by region:

€ thousand		JAN. 1 – DEC. 31, 2014				JAN. 1 – DEC. 31, 2013[1]
		Germany	Italy	Poland	Total	Total
1.	Leasing income					
	Leases	4,570,670	197,901	10,190	4,778,761	4,559,400
	Maintenance and service contracts	888,646	20,619	10,686	919,951	819,139
	Used vehicle sales	6,689,538	91,369	3,141	6,784,048	5,640,916
	Other	434,240	17,512	7,059	458,811	432,014
		12,583,094	327,401	31,076	12,941,571	11,451,469
3.	Interest income from lending and money market transactions	7,608	26	19,228	26,862	1,853
6.	Commission income	446	0	308	754	452
8.	Other operating income	520,024	1,218	16,646	537,888	97,873
9.	Income from reversal of the special tax-allowable reserve	105	0	0	105	105
14.	Income from the write-up on receivables and from reversals of provisions in the leasing business	192,480	22,756	453	215,689	108,784
Total		**13,303,757**	**351,401**	**67,711**	**13,722,869**	**11,660,536**

1 As of December 31, 2013 leasing income for the Poland branch amounted to €29,994 thousand, while total income stood at €50,852 thousand.

5. Other notes

The interest rate risk is hedged by interest rate swaps with a total nominal volume of €19.9 billion. As at the balance sheet date, the positive market values amount to €430.8 million while negative market values amount to €49.0 million. Market values are determined on the basis of market information available at the balance sheet date and appropriate IT-aided evaluation methods. Of these derivative financial instruments, accrued interest of €97.5 million is shown under assets and accrued interest of €13.7 million is shown under other liabilities.

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

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

Volkswagen Leasing GmbH placed asset-backed securities transactions (ABStransactions) on the market to refinance its leased assets. Two transactions were carried out in the 2014 financial year. In 2014 Volkswagen Leasing GmbH received a total of €4,205,823 thousand in proceeds from the sale of future leasing receivables. An additional three transactions from previous years are also in effect. Besides generating one-time inflows, these transactions do not have any additional material effects on the current and future liquidity and financial position of Volkswagen Leasing GmbH.

Volkswagen Leasing GmbH holds all shares in Vehicle Trading International (VTI) GmbH, Braunschweig. The company closed the 2014 financial year at a pre-tax loss of €2.4 million, which is assumed by Volkswagen Leasing GmbH under the control and profit transfer agreement. The equity of VTI as at the closing date remained unchanged at €2.8 million.

Furthermore, Volkswagen Leasing GmbH holds all shares in carmobility GmbH (Carmobility), Munich. The company closed the 2014 financial year at a pre-tax loss of €2.0 million, which is assumed by Volkswagen Leasing GmbH under the control and profit transfer agreement. The equity of Carmobility as at the closing date remained unchanged at €0.3 million.

Volkswagen Leasing GmbH also holds all shares in Euromobil Autovermietung GmbH (Euromobil), Isernhagen. The company closed the 2014 financial year at a pre-tax profit of €2.7 million, which is transferred to Volkswagen Leasing GmbH under the control and profit transfer agreement. The equity of Euromobil as at the closing date remained unchanged at €0.8 million

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

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

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

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

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

To pursue its business activities in Germany, Volkswagen Leasing GmbH does not have any personnel of its own. The staff were made available by Volkswagen Financial Services AG in return for a fee. In addition, the Milan and Verona branches employed 75 members of staff on an annual average (previous year: 74), while the Poland branch employed two members of staff on an annual average.

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

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

6. Corporate bodies of Volkswagen Leasing GmbH

Board of Management as of December 31, 2014

GERHARD KÜNNE
Spokesman of the Board of Management
Sales Fleet Customers

ANDREAS KIEFER (UNTIL 25.02.2014)
Middle Office Leasing

THOMAS RENNEBAUM (FROM 26.02.2014)
Middle Office Leasing (from 01.07.2014)

DR. HEIDRUN ZIRFAS
Back Office Leasing

Audit Committee of Volkswagen Leasing GmbH

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

The Audit Committee comprises the following members:

DR. JÖRG BOCHE
Chairman (from 24.04.2014)
Executive Vice President of Volkswagen AG
Group Treasurer

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
Chairman (until 23.04.2014)
Member of the Board of Management Volkswagen Brand
Controlling and Accounting

GABOR POLONYI (FROM 01.05.2014)
Head of Major Client Management for Volkswagen Leasing GmbH

JÖRG THIELEMANN (UNTIL 30.04.2014)
Head of Major Client Management for Volkswagen Leasing GmbH

7. Responsibility statement of the Board of Management

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

Braunschweig, February 10, 2015

The Board of Management

Gerhard Künne

Thomas Rennebaum

Dr. Heidrun Zirfas

Independent Auditors' report

We have audited the annual financial statements – comprising the balance sheet, the profit and loss account, the notes, the cash flow statement and the statement of changes in equity – including the accounting and the management report of Volkswagen Leasing Gesellschaft mit beschränkter Haftung, Braunschweig, for the financial year from 1 January to 31 December 2014. The accounting and preparation of the annual financial statements and management report according to German commercial regulations are the responsibility of the company's Managing Directors. Our responsibility is to express an opinion on the annual financial statements, including the accounting, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Hanover, February 10, 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Frank Hübner	ppa. Jan Seiffert
Auditor	Auditor

Report of the Audit Committee

OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH is a publicly traded company within the meaning of § 264d of the HGB. The company established an Audit Committee pursuant to the provisions of § 324 HGB whose principal tasks are described in § 107 Para. 3 Sentence 2 German Stock Corporation Act (AktG). The Audit Committee comprises four members. There were changes in personnel compared with the previous year, which are shown in the section on corporate bodies in the notes.

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

At its meeting on February 26, 2014, the Audit Committee examined the annual financial statements and the management report of Volkswagen Leasing GmbH for the 2013 financial year, as well as the proposal on the appropriation of profit. At the same time, the reports on the audit of the annual financial statements and the management report of Volkswagen Leasing GmbH, as well as important matters and issues concerning the accounting, were discussed with the auditors. The Audit Committee reported on the audit to the sole shareholder.

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

At its meeting on November 25, 2014, the Audit Committee addressed the issue of risk management and the comprehensive assessment by the ECB. The head of Internal Audit also reported to the Audit Committee on the audit system and the monitoring of the rectification of shortcomings that have been identified, In addition, the planning for the audit, the focal points of the audit and the information requirements of the auditor were discussed.

Braunschweig, February 17, 2015

Dr. Jörg Boche
Chairman

Waldemar Drosdziok
Deputy Chairman

Dr. Arno Antlitz
Member

Gabor Polonyi
Member

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

VOLKSWAGEN LEASING GMBH

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