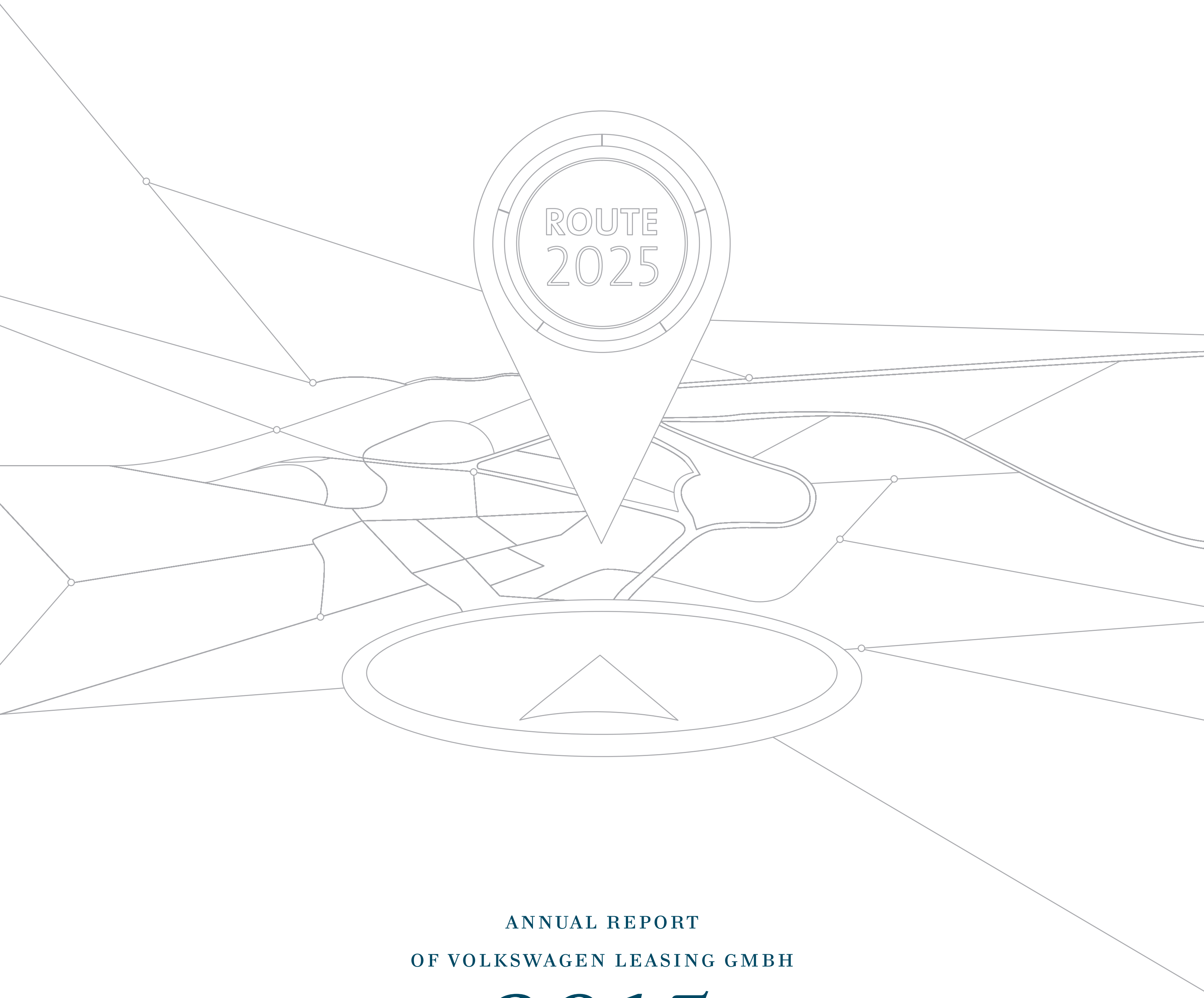
VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY



ANNUAL REPORT

OF VOLKSWAGEN LEASING GMBH

2015

Volkswagen Leasing GmbH

AT A GLANCE

€ million	2015	2014	2013	2012	2011
Lease asset acquisitions	13,728	11,951	10,379	10,199	9,581
Lease assets	21,141	19,206	17,940	16,776	15,179
Total assets	24,549	21,744	19,354	18,229	17,043
Leasing income	14,001	12,942	11,451	10,582	10,010

Thousands of vehicles	2015	2014	2013	2012	2011
New leases	555	517	439	431	415
Lease portfolio	1,181	1,110	1,014	956	876

Fundamental Company Information

Continuous growth demonstrates the validity of Volkswagen Leasing GmbHs business model.

BUSINESS MODEL

The establishment of Volkswagen Leasing GmbH in 1966 not only created a new Group company but also laid the foundations for leasing in the automotive sector in Germany. Nowadays, the Company is part of the Financial Services division and is responsible for the operating activities related to the leasing business with retail and business customers as well as the fleet management business within the Volkswagen Group in Germany, Italy and Poland.

ORGANIZATION OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH focuses on the operating activities for the leasing business with retail and business customers as well as on the fleet management/services business. The organization of Volkswagen Leasing GmbH is consistently based on the needs of its different customer groups, namely retail, business and fleet customers. In addition to facilitating innovative rental and leasing models, such as long-term leasing and micro rentals (car sharing), and offering other new mobility services, the Company's fundamental organizational arrangements ensure that there is a continual expansion in aftersales services in the automotive context. The sales and customer service units are closely integrated with the product development and marketing units.

A clear segregation of responsibilities and areas of activity between the holding company and the German market in terms of organization, personnel and structure under company law was implemented in 2014 for all legal units in Germany within the Volkswagen Financial Services AG Group. The purpose of this restructuring was to put in place clear responsibilities, prevent duplication of functions and exploit further streamlining potential. To consolidate these major changes carried out in 2014, further detailed work was carried out in the reporting period, firmly establishing the restructuring of Volkswagen Leasing GmbH initiated in 2014. The outcome is that the German market (and therefore also Volkswagen Leasing GmbH) is now managed as a separate market in the same way as the European branches.

The Fleet Customer Sales unit brings together the internal sales and field sales departments of Volkswagen Leasing GmbH with design units so that the Company is in the best possible position to expand new areas of business, such as fuel cards, and establish the associated products in the market. The Middle Office unit concentrates on the key areas of marketing, claims and services management. Processes in claims and services management were analyzed during the course of 2015 and resulting streamlining measures were implemented.

The Back Office unit is responsible for the used vehicle center, the risk management system and the other back-office activities of Volkswagen Leasing GmbH. The structure and organization of Volkswagen Leasing GmbH satisfy the requirements of the *Mindestanforderungen an das Risikomanagement* (MaRisk – German Minimum Requirements for Risk Management in Banks and Financial Services Institutions).

BRANCHES

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

INTERNATIONAL BRANCHES

- 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 Volkswagen Financial Services AG's consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs). The companies in the Group – and therefore also Volkswagen Leasing GmbH – are thus managed internally on the basis of the IFRS figures. Operating profit or loss[1] is the main internal key performance indicator. The differences between the operating profit and the profit before tax in accordance with the *Handelsgesetzbuch* (HGB – German Commercial Code) are caused by shifts in the period of recognition, which largely arise from the differences in the accounting treatment of leases (operating leases and finance leases) under the HGB and IFRS, and by differences in the accounting treatment of ABS transactions, which have an adverse impact on the HGB profit before tax. The most significant non-financial performance indicators are penetration[2], the volume of existing contracts[3] and new contracts[4]. Return on equity (RoE) and the cost/income ratio (CIR) are used as further key performance indicators, but at the level of the Volkswagen Financial Services AG Group, of which the Company forms part.

CHANGES IN LONG-TERM EQUITY INVESTMENTS

There were no changes in long-term equity investments in fiscal year 2015.

1 Operating profit or loss includes net income from leasing transactions after provisions for risks, net fee and commission income, general and administrative expenses, and other operating income and expenses. The interest expenses, general and administrative expenses and net other operating expenses/income that are not components of operating profit or loss comprise, for example, interest income and expenses from tax audits or interest costs from unwinding the discount on other provisions.

2 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles in the German market.

3 Contracts recognized as of the reporting date.

4 Contracts recognized for the first time in the reporting period.

Report on Economic Position

In fiscal year 2015, the global economy grew at a moderate rate, slightly below that of the previous year. A further increase in the volume of existing contracts was achieved. The Company's operating profit was below the previous year's level.

GLOBAL ECONOMY

Global economic growth

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

Europe

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

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

Germany

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

FINANCIAL MARKETS

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

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

Europe

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

Germany

Germany maintained a sound rate of growth, but the pace tailed off towards the end of the year. Impetus for growth came not just from private consumption, but also from public consumption, with the latter boosted in part by increased spending associated with the acceptance of refugees. The caution regarding capital investment persisted. The euro lost further ground on the US dollar in 2015. Demand in bond markets for low-risk German bonds coupled with a rise in the demand from international investors also led to low to negative yields.

PASSENGER CAR MARKET

Global demand for passenger cars reaches record level

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

Europe

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

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

Germany

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

TRENDS IN COMMERCIAL VEHICLE DEMAND SHOW REGIONAL VARIATION

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

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

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

THE EMISSIONS ISSUE

NO_x Issue

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

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

CO_2 Issue

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

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

Effects on the Volkswagen Financial Services AG Group

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

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

Volkswagen Financial Services AG focused on the following issues:

Confidence-building campaign supports brands and dealerships

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

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

Refinancing strategy proves its worth

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

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

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

Credit rating of the dealership network remains stable

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

Residual value risk

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

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

IMMEDIATE MEASURES

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

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

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

In the opinion of the Management of Volkswagen Leasing GmbH, the business performed well in 2015.

Volkswagen Leasing GmbH consolidated its position as the market leader in leasing and fleet business in the German market. In 2015, Volkswagen Leasing GmbH yet again received the best brand award from FIRMENAUTO magazine in the leasing and financing category.

With the launch of the Charge&Fuel Card and the accompanying Charge&Fuel App on December 8, 2014, Volkswagen Leasing GmbH passed another milestone on the road to a range of mobility services and provided an answer to one of the core challenges arising from electro-mobility (e-mobility). In the past, owners of electric vehicles were forced to hold up to 40 cards, apps or other forms of authentication. The charging of vehicles was billed locally and with varying terms and conditions. The Charge&Fuel Card for the first time combines the benefits of a conventional fuel card with the option of using it to pay for charging electric vehicles. Vehicle charging is billed at standard nationwide rates. The Charge&Fuel App offers an easy-to-use search function, provides drivers with a fast overview of the locations of all usable charging points throughout Germany and tells drivers whether the points are currently occupied or not. Over the course of the year, this network with high-quality location data was extended to cover more than 3,000 charging points.

In light of the positive customer feedback and to support the Volkswagen Group's forward-looking e-mobility strategy, the existing marketing campaign offering free charging has been extended until June 30, 2016. In addition to undertaking further development of the Charge&Fuel Card service, Volkswagen Leasing GmbH carried out some streamlining of internal processes in what is currently a multifaceted fuel card environment to make gradual improvements to these processes, enabling the Company to continue offering customers the high level of quality and service to which they are accustomed.

In 2015, Volkswagen Leasing GmbH continued to develop its retail leasing services, setting new standards in flexible, worryfree mobility for retail customers. Europe's largest automotive leasing company is therefore adjusting to the changing needs of many of its customers who do not want to be tied to one vehicle over a number of years, but who are looking for the greatest possible flexibility in their mobility arrangements. This approach is based loosely on the principle that it is better to share than to own. One component of the newly established retail leasing business is a return process certified by experts from Dekra. In addition to providing a damage checklist at the inception of the lease, an independent expert ensures that there will be a fair, transparent and regulated settlement at the end of the lease. A further advantage is the RückgabeschutzPlus service, which is unique in Germany and included in the full service rate. This provides the customer with protection against possible loss or damage that extends beyond that permitted under the contractually agreed usage. The model provides protection for between €1,200 and €3,000 of possible return damage, depending on the vehicle model and lease term involved.

Volkswagen Leasing GmbH believes that its strategy of enhancing its product portfolio with fleet management products and processes from CarMobility GmbH, a subsidiary of Volkswagen Leasing GmbH, worked well in 2015.

In the reporting period, Volkswagen Leasing GmbH continued to pool its car hire activities with Euromobil GmbH, another subsidiary of Volkswagen Leasing GmbH.

Having developed and established a broad range of residual value protection and marketing models for the dealer organization over the last few years in collaboration with the Volkswagen Group brands, the Company focused particularly in the fourth quarter of 2015 on cooperating with the Group brands to establish new or enhanced products (inspection and maintenance) aimed at ensuring that the best possible residual values are maintained. Further development work was carried out on the WIR2018 strategy, transforming it into the new ROUTE2025 strategy. The process of target cascading will be initiated in 2016.

The growth in the volume of existing leases demonstrates the positive trend in fiscal year 2015. This volume went up by 71 thousand year-on-year, reaching a record level of 1,181 units. Volkswagen Leasing GmbH again increased its total assets year-on-year.

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

A substantial fall in operating profit in accordance with IFRS had been predicted for the German market in fiscal year 2015. However, the operating profit in accordance with IFRS generated by Volkswagen Leasing GmbH in the German market was better than forecast and amounted to €288.8 million, well above the prior-year level of €259.3 million.

With regard to the volume of existing contracts, a modest increase in this volume with a slight fall in new contracts was forecast for 2015. Both new contracts and the volume of existing contracts actually went up marginally year-on-year as a result of the significant expansion in the integration of financial services into the sales activities of the Volkswagen Group brands.

The penetration rate based on all new Volkswagen Bank GmbH and Volkswagen Leasing GmbH financing and leasing contracts in the German market declined slightly to 57.4% in line with forecasts. The penetration rate solely in respect of Volkswagen Leasing GmbH in the German market increased a little compared with the prior year to 42.1%.

In Italy, we expected a significant year-on-year decline in 2015 in new contracts, existing contracts and operating profit in accordance with IFRS, together with a slight fall in the penetration rate. As forecast, operating profit in accordance with IFRS in Italy fell sharply to €15.5 million in 2015 compared with €26.3 million in the previous year. Despite a small decline in new contracts, the volume of existing contracts was higher than in the prior year. The penetration rate declined slightly as forecast.

The forecast for our branch in Poland for 2015 predicted a substantial year-on-year increase in operating profit in accordance with IFRS in combination with marginal growth in both existing contracts and new contracts and a significantly increased penetration rate. In fiscal year 2015, operating profit in accordance with IFRS rose substantially to €0.9 million. Progress in respect of both existing contracts and new contracts proved significantly better than expected and the penetration rate achieved was, as forecast, well above the prior-year level.

RESULTS OF OPERATIONS

In the reporting period, leasing income rose by €1.1 billion to €14.0 billion. Of this rise in income, €0.8 billion was attributable to increased proceeds from the disposal of former lease vehicles (which accounted for €7.6 billion of the total leasing income) and €0.1 billion to higher income from services. The other sources of increased income included ongoing lease installments and subsidies received. The larger portfolio of contracts will lift sales in the coming years.

Leasing expenses went up by €0.7 billion to €7.9 billion, largely caused by the year-on-year rise in the net carrying amounts of vehicles sold. This item mainly comprises the net carrying amounts of vehicles disposed of and service lease expenses.

General and administrative expenses rose by €48 million to €388 million, mainly as a consequence of higher IT costs, personnel expenses and allocated administrative expenses.

Depreciation and write-downs of lease assets amounted to €4.7 billion (€4.4 billion). This figure includes write-downs of €0.3 billion (€0.2 billion). Write-downs of lease assets are recognized taking account of existing collateral and support payments.

Given the historically low interest rates persisting in Germany, the funding costs of Volkswagen Leasing GmbH diminished year-on-year despite the greater growth-related funding requirement. The interest expense for funding the leasing business amounted to €282 million (€306 million).

Write-downs of and valuation allowances on receivables and additions to provisions in the leasing business came to €631 million (€698 million). This decrease was mainly attributable to the lower additions to the provisions for other bonuses compared with the prior year.

Income from the reversal of write-downs and of valuation allowances on receivables and from the reversal of provisions in the leasing business fell significantly to €180 million (€216 million). The decrease was the result of one-time, positive effects from the reversal of provisions in the leasing business that had had a positive impact in the prior year.

In the prior year, there had been an overall one-time positive effect on operating profit of €175.6 million from the repurchase of the VCL Master SA Compartment 2 ABS transaction, the impact from which was reflected in both other operating income and other operating expenses. The other operating income of €250.9 million and the other operating expenses of €36.2 million therefore declined significantly year-on-year.

The result from ordinary activities amounted to a loss of €36.7 million and was therefore significantly below the prior year's positive figure of €137.1 million.

The operating profit in accordance with IFRS for the German market amounted to €288.8 million, an increase of approximately 11.4% on the corresponding prior-year figure of €259.3 million. This is mainly attributable to higher volumes and lower risk costs. The emissions issue had no net effect on the operating profit in accordance with IFRS for the German market.

In Italy, operating profit in accordance with IFRS fell by €10.8 million, amounting to €15.5 million for the reporting period (€26.3 million). In Poland, the Company generated an improved operating profit in accordance with IFRS of €0.9 million (operating loss of €1.2 million)

NET ASSETS AND FINANCIAL POSITION

Total assets rose by €2.8 billion to €24.5 billion. Lease assets, which represent the core business of Volkswagen Leasing GmbH, amounted to a total of €21.1 billion and therefore accounted for approximately 86.2% of total assets.

Acquisitions of lease assets rose by €1.7 billion to €13.7 billion. The gross carrying amount of lease assets increased from €26.6 billion to €28.8 billion. The net carrying amount as of the reporting date was €21.1 billion (€19.2 billion), equating to a rise of €1.9 billion or 9.9%.

Volkswagen Leasing GmbH continued to expand its business activities in Germany in the reporting period.

As of the reporting date, the portfolio of vehicles had increased to approximately 1,181,000 units compared with approximately 1,110,000 as of the prior year reporting date. Of this figure, the Italian branches accounted for approximately 26,000 vehicles (24,000) and the Polish branch 43,000 vehicles (34,000). The increase in the portfolio was due to the net effect from the addition of approximately 555,000 new units and the disposal of around 484,000 vehicles.

The performance of the business is illustrated by the growth in the volume of leases – a key performance indicator for the leasing sector – over a number of years.

GROWTH IN THE VOLUME OF VEHICLE LEASES (THOUSANDS)

2015		2014		2013		2012		2011	
Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance
555	1,181	517	1,110	439	1,014	431	956	415	876

In terms of capital structure, the main liability items are the liabilities to customers of €10.7 billion (€7.6 billion) and the securitized liabilities amounting to €7.3 billion (€8.2 billion).

Equity

Volkswagen Leasing GmbH's subscribed capital remained unchanged at €76 million in fiscal year 2015. Based on the total assets of €24.5 billion, the equity ratio was 0.9% (1.1%).

Liquidity Analysis

Volkswagen Leasing GmbH's funding is largely obtained through capital market and asset-backed security programs and through loans from Volkswagen Financial Services AG and Volkswagen Bank GmbH. Volkswagen Bank GmbH holds liquidity reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. Proactive management of the operational safe custody account, which allows Volkswagen Bank GmbH to participate in funding facilities, has proven to be an efficient liquidity reserve approach. The securities deposited as collateral in the operational safe custody account include, in addition to bonds from various countries amounting to €2.0 billion, senior ABS bonds issued by special purpose entities of Volkswagen Leasing GmbH and Volkswagen Bank GmbH amounting to €7.2 billion.

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

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

FUNDING

Strategic Principles

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

Implementation

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

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

Volkswagen Leasing GmbH continued to be active in the market in 2015 with its asset-backed securities (ABS) program. German lease receivables were securitized in May 2015 as part of the "Volkswagen Car Lease 21" (VCL 21) transaction. The transaction volume was raised from €750 million to €1,065 million in response to the high level of investor interest in the deal. Despite the emissions issue, the "Volkswagen Car Lease 22" (VCL 22), with a volume of €857 million, was placed with investors in November 2015.

This package of measures ensured that Volkswagen Leasing GmbH had adequate liquidity at all times during 2015.

Report on Opportunities and Risks

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

RISKS AND OPPORTUNITIES

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

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

MACROECONOMIC OPPORTUNITIES

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

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

STRATEGIC OPPORTUNITIES

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

The digitalization of our business represents a significant opportunity for Volkswagen Leasing GmbH. We aim to be able to offer all of our products worldwide online as well by 2025. By expanding digital sales channels, we are addressing the changing needs of our customers and strengthening our competitive position.

OPPORTUNITIES FROM CREDIT RISK

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

OPPORTUNITIES FROM RESIDUAL VALUE RISK

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

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

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

- The Management of Volkswagen Leasing GmbH is the governing body with responsibility for the executive management of the business. In this role, the Management has set up accounting, customer service, treasury, risk management, controlling and compliance units, each with clearly separated functions and clearly assigned areas of responsibility and authority, to ensure that the Company carries out accounting and financial reporting processes properly. Key overarching functions are managed by the Board of Management of Volkswagen Financial Services AG and via the Managements of Volkswagen Bank GmbH and Volkswagen Leasing GmbH.
- Groupwide rules and regulations have been put in place as the basis for a standardized, proper and continuous financial reporting process.
- For example, the accounting policies are governed by internal accounting regulations, including the accounting provisions in accordance with the HGB in conjunction with the Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV – German Bank Accounting Regulation).
- At Company level, specific control activities aimed at ensuring the propriety and reliability of financial reporting include the analysis and any necessary adjustment of the accounting data submitted by the individual units and subledgers.
- These activities are supplemented by the clear delineation of areas of responsibility and by various monitoring and review mechanisms. The overall aim is to ensure that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.
- These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT process controls account for a significant proportion of the integrated process activities alongside manual process controls, such as doublechecking by a second person. These controls are enhanced by specific functions at Group level carried out by the parent company Volkswagen AG, for example functions within the responsibility of the Group tax department.
- Risk management is comprehensively integrated into the financial reporting process through ongoing risk monitoring and the risk reporting system.
- Internal auditing is a key component of Volkswagen Leasing GmbH's monitoring and control system. The Internal Audit department carries out regular audits of accounting-related processes in Germany and abroad as part of its risk-oriented auditing activities and reports on these audits directly to the Management of Volkswagen Leasing GmbH.

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

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

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

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

Volkswagen Leasing GmbH has put in place a risk management system to identify, assess, manage, monitor and communicate risks. The risk management system comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risk. The individual elements are tightly focused on the activities of the individual divisions. This structure enables the Company to identify at an early stage any trends that could represent a risk to the business as a going concern so that appropriate corrective action can then be initiated. No material changes were made to the risk management methodology in the reporting period.

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

Within Volkswagen Leasing GmbH, responsibility for risk management and credit analysis is assigned to a particular member of the Management. In this role, the Management member concerned submits regular reports to the other members and to the sole shareholder, Volkswagen Financial Services AG, on the overall risk position of Volkswagen Leasing GmbH.

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

One of the functions of the Group Risk Management & Methods unit is to provide framework constraints for the organization of the risk management system. This function includes drawing up risk policy guidelines, developing and maintaining methodologies and processes relevant to risk management as well as issuing and monitoring international framework standards for the procedures to be used. In particular, these activities involve the provision of models for carrying out credit assessments, calculating values for the different categories of risk, determining risk-bearing capacity and measuring collateral. Group Risk Management & Methods is therefore responsible for identifying possible risks, analyzing, quantifying and assessing risks, and for determining the resulting measures to manage the risks. Group Risk Management & Methods is a neutral, independent unit and reports directly to the Management of Volkswagen Leasing GmbH.

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

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

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

RISK STRATEGY AND RISK MANAGEMENT

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

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

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

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

The Management of Volkswagen Leasing GmbH is responsible for specifying and subsequently implementing the overall risk strategy at Volkswagen Leasing GmbH.

RISK INVENTORY

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

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

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

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

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

The main risks are quantified as part of the risk-bearing capacity analysis (which is relevant to the management of risks) using a going concern approach with a standard confidence level of 90% (exception: liquidity risk (funding risk) with a confidence level of 99%) and a time horizon of one year.

In addition, Volkswagen Leasing GmbH uses a system of limits derived from the risk-bearing capacity analysis to specifically manage risk cover capital in accordance with the level of risk tolerance determined by the Management.

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

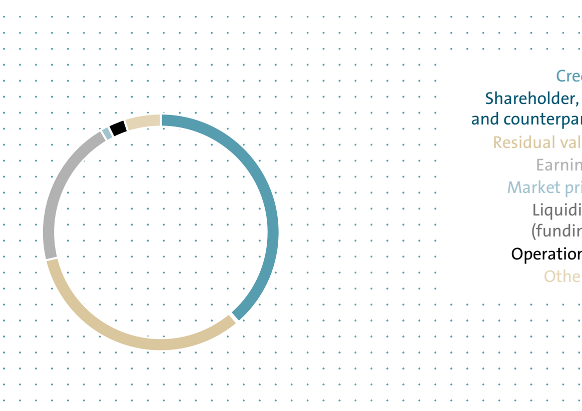
Leasing GmbH, only a portion of this risk coverage potential is specified as a risk ceiling in the form of an overall risk limit. The overall risk limit is apportioned to counterparty default risk, residual value risk, market risk, liquidity risk (funding risk) and operational risk for the purposes of operational monitoring and control. In this process, the limit allocated to counterparty default risk, itself an overarching category of risk, is subdivided into individual limits for credit risk, equity risk, issuer risk and counterparty risk.

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

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

The overall economic risk of Volkswagen Leasing GmbH as of September 30, 2015 amounted to €797 million. The apportionment of this total risk by individual risk category was as follows:

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



* Global amount for non-quantifiable risks, strategic risk and reputational risk.

CHANGES IN RISK, BY RISK CATEGORY

	30.09.2015		31.12.2014	
Risk category	€ million	Percent	€ million	Percent
Credit risk	307.8	38.6	289.0	41.4
Equity, issuer and counterparty risk	2.1	0.3	1.7	0.2
Residual value risk	257.9	32.3	192.3	27.5
Earnings risk	162.0	20.3	130.0	18.6
Market risk	9.0	1.1	3.0	0.4
Liquidity risk (funding risk)	0.0	0.0	0.1	0.0
Operational risk	18.6	2.3	47.2	6.8
Other risks *	39.9	5.0	34.9	5.0
Total	**797.3**	**100.0**	**698.1**	**100.0**

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

The risk coverage potential as of September 30, 2015 amounted to €1.9 billion and comprised the equity reported on the balance sheet (€1.9 billion), the projected profit for the next twelve months (€0.1 billion) and the deduction of accruals (€0.1 billion). The utilization of the risk coverage potential attributable to the risks described above was 41% as of September 30, 2015. In the period January 1, 2015 to September 30, 2015 the maximum utilization of the risk coverage potential in accordance with Pillar II was 41%.

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

Volkswagen Leasing GmbH not only determines its risk-bearing capacity in a normal scenario, but also carries out stress tests throughout the Company, the results of which are reported directly to the Management and Annual General Meeting of Volkswagen Leasing GmbH. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of Volkswagen Leasing GmbH. The purpose of these scenarios is to facilitate early identification of those risks that would be particularly affected by the trends simulated in the scenarios so that any necessary corrective action can be initiated in good time. The stress tests include both historical scenarios (such as a repeat of the financial crisis in the years 2008 to 2010) and hypothetical scenarios (such as a global economic downturn or a sharp drop in sales in the Volkswagen Group). In addition, inverse stress tests are used to identify what events could represent a threat to the ability of Volkswagen Leasing GmbH to continue as a going concern.

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

RISK CONCENTRATIONS

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

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

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

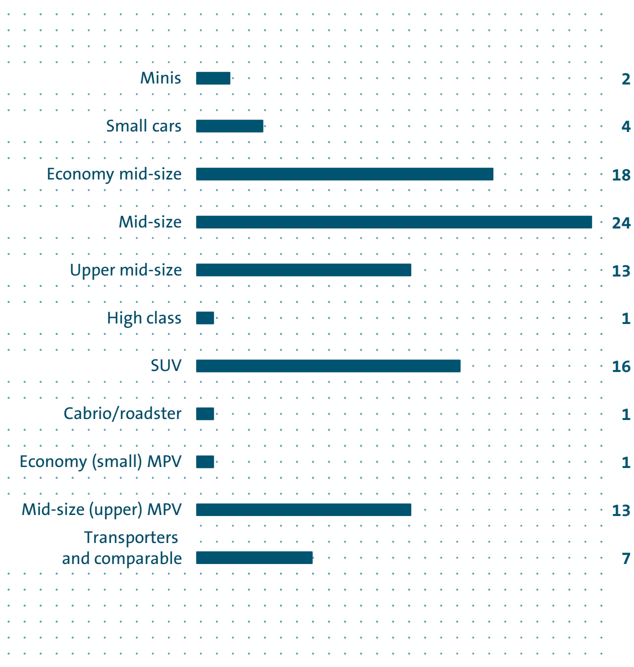
One of the objectives of Volkswagen Leasing GmbH's risk policy is to reduce such concentrations by means of broad diversification.

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

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

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

COLLATERAL STRUCTURE AS OF SEPTEMBER 30, 2014
Figures in %



This broad vehicle diversification also means that there is no residual value concentration at Volkswagen Leasing GmbH.

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

RISK REPORTING

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

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

NEW PRODUCT AND NEW MARKET PROCESS

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

RISK CATEGORIES

Counterparty Default Risk

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

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

Credit Risk

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

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

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

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

Risk Identification and Assessment

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

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

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

Rating Systems in the Corporate Business

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

Scoring Systems in the Retail Business

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

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

Supervision and Review of Retail and Corporate Systems

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

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

Collateral

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

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

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

Valuation Allowances

Valuation allowances are derived from the rating and scoring processes. A distinction is made between receivables subject to severe risk of default and receivables subject to latent risk of default.

In the case of receivables subject to severe risk of default, specific valuation allowances are recognized for individual transactions and specific valuation allowances evaluated on a group basis are recognized for retail business. Classification as a receivable subject to severe risk of default depends on the credit assessment (scoring or rating). Global valuation allowances are recognized for receivables subject to latent risk of default.

The following average values have been determined for the aggregate active portfolio (i.e. portfolio of receivables not in default) based on a time horizon of twelve months: probability of default (PD) of 4.6%; loss given default (LGD) of 34.9%; and total volume of receivables based on the active portfolio of €20.8 billion.

Risk Monitoring and Control

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

Appropriate processes are used to monitor all leasing transactions in relation to financial circumstances, collateral and compliance with limits, contractual obligations and internal and external conditions. Approval limits determined by Volkswagen Leasing GmbH are also used to manage credit risk and these limits are specified individually.

A credit risk portfolio rating is used to analyze the portfolios for the purposes of monitoring risk at portfolio level. This rating brings together various risk measures into one indicator, facilitating comparability between the international portfolios of Volkswagen Leasing GmbH.

Trends

Further growth in the volume of receivables was achieved in fiscal year 2015. This growth was generated on the back of the robust economic environment in Germany. The increase in the German corporate portfolio compensated for the reduction in the retail portfolio. The effects of the emissions issue at the Volkswagen Group have yet to be seen in the portfolio. Overall, the credit risk in the Volkswagen Leasing GmbH portfolio remained stable in fiscal year 2015.

Counterparty Risk

Volkswagen Leasing GmbH defines counterparty risk as the risk of financial loss that could arise from monetary investments or investments in securities or notes if the counterparty fails to make payments of interest or repayments of principal as contractually required.

Counterparty risk arises in connection with interbank overnight and term deposits, derivatives and the purchase of pension fund units as part of the provision of pensions benefits for employees.

The primary objective in the management of counterparty risk is to identify potential defaults in a timely manner so that corrective action can – where possible – be initiated at an early stage. Another important objective is to ensure that the Company only takes on risks within the approved limits.

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

Risk Identification and Assessment
Counterparty risk is recorded as part of the overall counterparty default risk category. The risk is determined by using a Monte Carlo simulation to calculate the unexpected loss (value at risk and expected shortfall) and the expected loss from a normal scenario and stress scenarios.

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

Country Risk

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

Equity Risk

Equity risk refers to the risk that losses with a negative impact on the carrying amount of an equity investment could be incurred after the contribution of capital or loans regarded as equity (e.g. silent contributions). Generally, Volkswagen Leasing GmbH only makes equity investments, in the pursuit of its corporate objectives, that support its own operating activities and are intended to be held on a long-term basis.

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

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

Risk Monitoring and Control
Equity investments are integrated into the annual strategy and planning process of Volkswagen Leasing GmbH. The Company exercises influence over the business and risk policies of the equity investments through its representation on the relevant ownership or supervisory bodies. However, responsibility for the operational use of the risk management tools lies with the entities themselves.

Market risk

Market risk refers to the potential loss arising from adverse changes in market prices or parameters that influence prices. At Volkswagen Leasing GmbH, it comprises solely interest rate risk.

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

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

Interest Rate Risk

Interest rate risk refers to potential losses that could arise as a result of changes in market interest rates. It occurs because of interest rate mismatches between asset and liability items in a portfolio or on the balance sheet.

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

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

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

The calculation of interest rate risk uses notional maturities to take into account early repayments under termination rights.

Risk Monitoring and Control

Treasury is responsible for the management of this risk on the basis of decisions made by the ALM Committee. Interest rate risk is managed by using interest rate derivatives at both micro and portfolio levels. The hedge accounting arrangements are not included in the HGB financial statements. Group Risk Management & Methods is responsible for monitoring and reporting on interest rate risk.

A separate report on the latest position regarding interest rate risk at Volkswagen Leasing GmbH is submitted to the Management each month.

Currency Risk

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

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

Market Risk Trend

Overall, market risk remained stable during the reporting period. In quantitative terms, the risk remained within the specified limits at all times.

Earnings Risk (Specific Profit or Loss Risk)

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

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

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

Risk Identification and Assessment

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

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

Risk Monitoring and Control

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

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

Liquidity Risk

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

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

The primary objective of liquidity management at Volkswagen Leasing GmbH is to safeguard the ability of the Company to meet its payment obligations at all times.

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

Risk Identification and Assessment

The expected cash flows at Volkswagen Leasing GmbH are brought together and evaluated by the Treasury unit at Volkswagen Bank GmbH.

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

Risk Monitoring and Control

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

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

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

The Management of Volkswagen Leasing GmbH is given an up-to-date report on the liquidity position on a monthly basis.

Operational Risk

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

Other categories of risk, such as reputational or strategic risk, are considered separately and consequently do not fall within the defined scope of operational risk.

The objective of operational risk management is to present operational risks transparently and initiate precautionary or corrective measures with a view to avoiding or, where avoidance is impossible, mitigating the risks or losses. If an operational risk materializes, this represents an operational loss that results in the loss of a business asset, which has a negative impact on financial position and financial performance, depending on the amount of the loss.

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

Risk Identification and Assessment

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

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

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

Risk Monitoring and Control

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

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

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

Trends

The increase in operational risk in the past was based on a number of factors, notably the growth in the business of Volkswagen Leasing GmbH and a consideration of the legal risk.

Provisions for legal risk in the amount of €121 million have been established. We have already been actively involved, in the context of operational risk, in measures to raise awareness of operational risk issues in Volkswagen Leasing GmbH. For example, training and efforts to raise awareness of operational risk issues has led to improved recording of loss events. The insights gained from losses that have occurred lead to better estimates of potential risk and also allow new scenarios to be taken into consideration. This accumulation of experience and expertise by local managers is also reflected in the assessments of future operational risk.

Risk from Outsourcing Activities

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

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

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

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

Risk Identification and Assessment

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

Risk Monitoring and Control

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

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

Residual value risk

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

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

The objective of residual value risk management is to keep the risks within the agreed limits. If a residual value risk materializes, exceptional write-downs or losses on disposal of the asset concerned may be incurred, resulting in a negative impact on financial performance.

Risk Identification and Assessment

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

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

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

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

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

Risk Monitoring and Control

The Group Risk Management & Methods unit monitors residual value risk within Volkswagen Leasing GmbH.

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

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

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

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

Trends

Volumes increased compared to the prior year, primarily as a result of the portfolio in Germany. The emissions issue at the Volkswagen Group had an impact on the residual value risk in the portfolio of Volkswagen Leasing GmbH; the risk was adequately covered by increasing the risk provision.

Strategic Risk

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

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

The objective of Volkswagen Leasing GmbH is to manage its acceptance of strategic risk enabling it to systematically leverage earnings potential in its core business. In the worst case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern. Strategic risk is recognized quantitatively by applying a deduction to aggregate risk cover in the calculation of risk-bearing capacity.

Reputational Risk

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

The responsibilities of the Corporate Communications unit include avoiding negative reports in the press or similar announcements that could inflict damage on the reputation of the Company. If this is unsuccessful, the unit is then responsible for assessing the situation and initiating appropriate communications aimed at specific target groups to limit the reputational damage as far as possible. The strategic objective is therefore to prevent or reduce any negative variance between actual reputation and the level of reputation the Company expects. A loss of reputation or damage to the Company's image could have a direct impact on the financial performance of the Company. Reputational risk is recognized quantitatively by applying a markdown in the calculation of risk-bearing capacity. This global approach is reassessed each year from a qualitative perspective.

SUMMARY

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

The process of continuous refinement in the system was maintained in 2015, for example by adjusting methodologies and models, systems, processes and IT. Focal points included the implementation of a collection guideline for Truck & Bus and the continued roll-out of the uniform LGD retail model approach.

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

FORECAST OF MATERIAL RISKS

Credit Risk Forecast

Overall, we expect the risk situation generally to remain stable in 2016 with a continuation of the trend toward recovery in Italy. Demand has yet to see any effects from the emissions issue at the Volkswagen Group.

Residual Value Risk Forecast

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

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

Market Price Risk Forecast

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

Operational Risk Forecast

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

Liquidity Risk Forecast

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

Report on Post-Balance Sheet Date Events

There were no significant events affecting Volkswagen Leasing GmbH after the end of fiscal year 2015.

Human Resources Report

The ROUTE2025 program is also creating new areas of focus in terms of HR strategy.

The operating activities of Volkswagen Leasing GmbH in Germany are carried out by employees of Volkswagen Financial Services AG. These employees are assigned to Volkswagen Leasing GmbH under staff leasing arrangements. As of December 31, 2015, Volkswagen Leasing GmbH had 1,279 staff members (1,194) in Germany.

The branches in Milan and Verona (Italy) had 78 employees (77) as of December 31, 2015 and these individuals held employment contracts with Volkswagen Leasing GmbH. The branch in Warsaw had three employees as of December 31, 2015.

The Human Resources unit of Volkswagen Financial Services AG has overarching responsibility for human resources in all the German companies in the Volkswagen Financial Services Group. The ROUTE2025 strategy has also created new areas of focus in terms of HR strategy. Six strategic areas for action are listed under the heading "Top Employer/Top Employees". These action points are intended to help achieve the objective of positioning Volkswagen Financial Services AG as "the key to mobility". We intend to continue forging ahead in the customers, volume, profitability and operational excellence strategic dimensions with the best employees. Based on specific activities to develop and retain personnel, coupled with profit-sharing arrangements commensurate with the work carried out, we aim to foster high performance with the objective of ensuring we provide outstanding customer service with first rate employees, but also, as a top employer, ensuring we take our excellent globally recognized reputation to yet another level. One of the factors that will help us achieve this objective is to give more attention to a culture of feedback, open discussion and appreciative cooperation.

The Human Resources Strategy Card remains the most important management tool for implementing our HR strategy. The objectives and definitions set out in the card provide uniform guidance for our local entities around the world from the two perspectives of top employer and top employees. The content was revised following discussions with the international HR managers and, where necessary, adjusted in line with ROUTE2025. Starting in 2016, international human resources activities will then be managed according to the updated HR Strategy Card and, as in the past, the status of development will be explained in regular meetings with HQ and supporting measures will be discussed where appropriate.

We evaluate the extent to which we are achieving our objective of becoming a top employer by regularly participating in external employer competitions. A total of 15 international subsidiaries now take part in third-party competitions to determine employer appeal. These companies include Volkswagen Financial Services AG in Germany, which participates every two years in Best Workplaces in Germany, an employer competition run by Great Place to Work Institute that Volkswagen Financial Services AG has now entered seven times, most recently in 2015. In 2015, Volkswagen Financial Services AG was also placed first for the third time in succession in the major banks and financial services providers category of Germany's Best Employer, a series of awards based on a review carried out by FOCUS magazine.

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

In the annual employee appraisal, managers and employees determine any need for further skills and qualifications and agree suitable professional development measures. In addition to employee appraisals, further skills development meetings are held in which managers and employees are able to discuss individual development activities on the basis of a pre-prepared skills profile.

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

Report on Expected Developments

The economic recovery in Western Europe is expected to be maintained in 2016. Volkswagen Leasing GmbH intends to benefit from this trend based on its wide range of products and presence in the markets.

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

Our assumptions are based on the latest assessments of external institutions including economic research institutes, banks, multinational organizations and consulting firms.

ECONOMIC TRENDS

Macroeconomic trends

In our plans, we assume that the global economy will grow at a rather stronger pace in 2016 than it did in the previous year.

In Western Europe, the economic recovery is expected to continue in 2016. Resolving structural problems will continue to represent a major challenge in this regard. In the case of Central Europe, we anticipate that growth rates will rise. In Eastern Europe, the economic situation should stabilize, providing the conflict between Russia and Ukraine does not deteriorate.

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

FINANCIAL MARKETS

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

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

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

TRENDS IN PASSENGER CAR MARKETS

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

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

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

For 2016, we anticipate that the demand volume in Western Europe will be slightly below that of the reporting period. Pre-crisis levels are not expected to be reached, even in the medium term. The ongoing debt crisis will probably further unsettle consumers in many countries in the region and restrict their financial opportunities to buy new cars. The recovery in Italy is likely to be sustained at a modest rate. In the Central and Eastern European markets, demand for passenger cars in 2016 is estimated to weaken slightly further from the poor prior-year figure. We expect to see further growth in demand or volumes remaining at the previous year's level in many Central European markets.

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

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

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

In the Central and Eastern European markets, registrations of light commercial vehicles in 2016 will probably be flat on the previous year.

MOBILITY CONCEPTS

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

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

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

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

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

BUSINESS DEVELOPMENT OF VOLKSWAGEN LEASING GMBH

Over the coming fiscal year, Volkswagen Leasing GmbH expects to achieve growth derived from the growth in sales in the Volkswagen Group, although penetration is projected to fall slightly. The Company will continue in its aim to generate growth by expanding the range of products in existing markets. Please refer to the details in the report on opportunities and risks for more information on the trends in credit risk, liquidity risk and residual value risk, including the emissions issue.

OUTLOOK FOR 2016

The Management of Volkswagen Leasing GmbH predicts that global economic growth in 2016 will be somewhat stronger than in the previous year, despite some uncertainties. The financial markets still entail risks, mainly caused by the challenging problems of indebtedness in many countries. In addition, growth prospects are being hurt by geopolitical tensions and conflicts. While we expect to see an economic upturn in the major industrialized nations, the rates of expansion will remain moderate.

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

In the German market, we anticipate a substantially lower operating profit in accordance with IFRS year-on-year for fiscal year 2016. The volumes of existing contracts and new contracts are likely to be slightly below the prior-year level. Based on a steady level of vehicle deliveries, we forecast a marginal decline in 2016 in the penetration rate in the German market and for the Volkswagen Leasing GmbH legal entity. We expect support from the Volkswagen Group to help us deal with the impact of the emissions issue.

In Italy, we forecast that there will be a slight year-on-year rise in new contracts, existing contracts and the penetration rate and in operating profit in accordance with IFRS.

We predict slight growth in new contracts and existing contracts in Poland, where operating profit in accordance with IFRS is likely to be well in excess of that achieved in the previous year. A sharp increase in the penetration rate is also anticipated in Poland.

Braunschweig, February 9, 2016

The Management

Gerhard Künne

Harald Heßke

Thomas Rennebaum

Dr. Heidrun Zirfas

Balance Sheet

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG, AS OF DECEMBER 31, 2015

€ thousand		31.12.2015	31.12.2014
Assets			
1. Receivables from credit institutions			
a) Repayable on demand	22,258		5,572
b) Other receivables	78,567		41,655
		100,825	47,227
2. Receivables from customers			
a) Repayable on demand	286,810		286,139
b) Other receivables	1,086,084		1,038,008
		1,372,894	1,324,147
3. Shares in affiliated companies		8,651	8,651
4. Lease assets		21,141,405	19,206,087
5. Intangible fixed assets			
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	3,616		2,208
b) Prepayments	35		14
		3,651	2,222
6. Property, plant and equipment			
a) Land and buildings	39,598		34,661
b) Operating and office equipment	1,433		998
		41,031	35,659
7. Other assets		1,240,088	787,261
8. Prepaid expenses		641,263	332,683
Total assets		**24,549,808**	**21,743,937**

€ thousand		31.12.2015	31.12.2014
Equity and liabilities			
1. Liabilities to credit institutions			
a) Repayable on demand	423,005		320,791
b) With agreed maturity or notice period	586,828		420,369
		1,009,833	741,160
2. Liabilities to customers			
a) Repayable on demand	4,722,688		2,976,652
b) With agreed maturity or notice period	5,973,165		4,637,608
		10,695,853	7,614,260
3. Securitized liabilities			
a) Bonds issued	7,010,661		8,179,214
b) Commercial paper	275,945		0
		7,286,606	8,179,214
4. Other liabilities		18,185	22,374
5. Deferred income		4,505,360	4,162,786
6. Provisions			
a) Provisions for taxes	14,090		16,940
b) Other provisions	787,531		774,747
		801,621	791,687
7. Special tax-allowable reserve		1,341	1,447
8. Equity			
a) Subscribed capital	76,004		76,004
b) Capital reserves	154,356		154,356
c) Net retained profits	649		649
		231,009	231,009
Total equity and liabilities		**24,549,808**	**21,743,937**
1. Contingent liabilities			
Liability arising from the provision of collateral for third-party liabilities		211,685	0
2. Other obligations			
Irrevocable credit commitments		1,872,295	1,689,914

Income Statement

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG, FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2015

€ thousand			Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2014
1. Leasing income		14,001,494		12,941,571
2. Leasing expenses		7,946,158		7,201,872
			6,055,336	5,739,699
3. Interest income from lending and money market transactions		24,965		26,862
4. Interest expense		281,690		306,237
of which: Unwinding of discount on provisions		2,718		2,396
			−256,725	−279,375
5. Income from profit transfer agreements			8,719	2,721
6. Commission income		452		754
7. Commission expenses		476,227		416,816
			−475,775	−416,062
8. Other operating income			250,890	537,888
9. Income from the reversal of special tax-allowable reserve			105	105
10. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	4,193			4,100
ab) Social security, post-employment and other employee benefit costs	1,404			1,240
		5,597		5,340
b) Other administrative expenses		382,823		334,355
			388,420	339,695
11. Depreciation, amortization and writedowns				
a) Depreciation and writedowns of lease assets		4,737,879		4,401,943
b) Amortization and writedowns of intangible fixed assets, and depreciation and writedowns of property, plant and equipment		2,929		2,177
			4,740,808	4,404,120
12. Other operating expenses			36,226	217,660
13. Writedowns of and valuation allowances on receivables and additions to provisions in the leasing business			630,783	697,616
14. Income from the reversal of writedowns of and valuation allowances on receivables and from the reversal of provisions in the leasing business			180,193	215,689
15. Expenses from transfer and absorption of losses			3,180	4,443
16. Result from ordinary activities			**−36,674**	**137,131**
17. Extraordinary expense			0	56,483
18. Taxes on income			38,315	168,721
19. Income from transfer and absorption of losses			74,989	88,073
20. Profits transferred under a profit transfer agreement			0	0
21. Net income			**0**	**0**
22. Retained profits brought forward			649	649
23. Net retained profits			**649**	**649**

Cash Flow Statement

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG, FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2015

€ thousand	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2014[1]
Net loss (before loss transfer)	−74,989	−88,074
Depreciation and writedowns of fixed assets	4,740,809	4,404,120
Change in provisions	9,934	228,927
Gain on disposal of lease assets	−569,052	−466,038
Net interest income/expense	256,726	279,375
Other adjustments	54,589	168,286
Change in receivables from credit institutions	−53,598	−12,174
Change in receivables from customers	16,897	−764,333
Change in other assets related to operating activities	−842,857	−77,062
Change in liabilities to credit institutions	268,674	251,230
Change in liabilities to customers	3,081,592	−193,720
Change in securitized liabilities	−892,609	1,822,643
Change in other liabilities related to operating activities	338,279	−62,594
Interest and dividends received	27,686	31,688
Interest paid	−281,690	−306,237
Income taxes paid	−54,589	−168,286
I. Cash flows from operating activities	**6,025,802**	**5,047,751**
Proceeds from disposal of lease assets	7,624,597	6,784,047
Payments to acquire lease assets	−13,728,102	−11,949,952
Payments to acquire property, plant and equipment/intangible fixed assets used by the Company itself	−10,371	−7,077
II. Cash flows from investing activities	**−6,113,876**	**−5,172,982**
Proceeds from transfer and absorption of losses by Volkswagen Financial Services AG	88,074	125,231
III. Cash flows from financing activities	**88,074**	**125,231**
Net change in cash funds (total of I., II. and III.)	0	0
Cash funds at beginning of period	0	0
Cash funds at end of period	0	0

1 The prior-year values have been adjusted in accordance with the GAS 21 structure.

The balance sheet and income statement have been prepared in accordance with the *Verordnung über die Rechnungslegung der Kreditinstitute* (RechKredV – German Bank Accounting Regulation). The cash funds equate to cash-in-hand in accordance with GAS 21.

Statement of Changes in Equity

OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG

€ thousand	Subscribed capital	Capital reserves	Net retained profits	Equity
Balance as of December 31, 2014	76,004	154,356	649	231,009
Change	–	–	–	–
Balance as of December 31, 2015	76,004	154,356	649	231,009

Notes

TO THE ANNUAL FINANCIAL STATEMENTS OF VOLKSWAGEN LEASING GMBH, Braunschweig, for the Period ended December 31, 2015

1. General Information

The annual financial statements of Volkswagen Leasing GmbH have been prepared in accordance with the requirements of the *Handelsgesetzbuch* (HGB – German Commercial Code) and the *Verordnung über die Rechnungslegung der Kreditinstitute* (RechKredV – German Bank Accounting Regulation).

Volkswagen Leasing GmbH provides IT and other internal services for companies in the Volkswagen Financial Services AG Group. A system of internal cost allocation is used to charge these services on to the German Group companies on the basis of usage.

The income derived from the allocation of these costs is reported under other operating income.

2. Accounting Policies

Volkswagen Leasing GmbH has retained the accounting policies applied in the prior year without change.

Long-term financial assets are recognized at cost.

Property, plant and equipment and lease assets are carried at cost less depreciation and less impairment losses, if the impairment is expected to be permanent, taking existing collateral into account.

The office buildings (useful life of 50 years for old buildings and 25 years for new buildings) are depreciated on a straight-line basis.

Differences between the carrying amounts required by the HGB and those permitted in the tax base continue to be reported under the special tax-allowable reserve in exercise of the grandfather rights provided for in article 67(3) sentence 1 of the EGHGB; these differences are recognized at their nominal amounts.

Receivables and other assets are recognized at their principal amounts. Appropriate valuation allowances are recognized to take into account any default risk.

Prepaid expenses are expenses incurred before the reporting date but attributable to a period or periods after this date; the item is reversed and taken to the income statement on a straight-line basis over the relevant period of time.

Discernible risks and uncertain liabilities are accounted for by recognizing adequate provisions in the amount required to settle the liability determined in accordance with prudent business judgment. Provisions with a maturity of more than one year are discounted using the average market discount rate for the previous seven fiscal years. This discount rate is published monthly by Deutsche Bundesbank. Liabilities are recognized at the settlement amount.

On the basis of an existing profit and loss transfer agreement, deferred taxes are generally recognized by Volkswagen AG, Wolfsburg, the controlling entity in the tax group. Deferred taxes are recognized for all temporary differences between the carrying amounts in accordance with the HGB and those in the tax base using the specific company tax rate of 29.8%. No deferred tax liabilities were separately recognized in fiscal year 2015 after utilization of the option to offset deferred tax assets and deferred tax liabilities. The deferred tax liabilities on lease assets arising in the Italy branch, which is taxable separately, are netted with the deferred tax assets relating to provisions. The deferred tax liabilities on receivables arising in the Poland branch, which is also separately taxable, are netted with the deferred tax assets relating to lease assets. In addition, no deferred tax assets are recognized in exercise of the option available under section 274 of the HGB.

Deferred income comprises income before the reporting date that represents income or other operating income from the leasing business that is attributable to future periods.

Equity is recognized at the nominal amount.

Irrevocable credit commitments are recognized at present value.

Interest rate derivatives entered into by Volkswagen Leasing GmbH are used as part of general economic hedges. The Company does not make use of the option to apply specific hedge accounting arrangements.

In accordance with section 256a sentence 1 of the HGB, foreign currency assets and liabilities are translated at the middle spot rate at the reporting date and in compliance with the historical cost convention and the principle of imparity (whereby unrealized losses are recognized but unrealized gains are not recognized). In the case of maturities of one year or less, currency translation gains and losses are recognized in their entirety in the income statement in accordance with section 256a sentence 2 of the HGB.

3. Balance Sheet Disclosures

The breakdown of the fixed assets aggregated in the balance sheet and the changes in these assets in the reporting period are shown in the statement of changes in fixed assets.

The breakdown of receivables from credit institutions is as follows:

€ thousand	31.12.2015	31.12.2014
1. Receivables from credit institutions	100,825	47,227
(of which from affiliated companies €97,258 thousand; prior year €41,936 thousand)		
Total	**100,825**	**47,227**

The breakdown of receivables from customers is as follows:

€ thousand	31.12.2015	31.12.2014
1. Trade receivables	439,142	425,556
2. Receivables from affiliated companies	924,058	887,981
(of which from the shareholder €841,938 thousand; prior year €839,585 thousand)		
(of which trade receivables €75,594 thousand; prior year €45,680 thousand)		
3. Other receivables	9,694	10,610
Total	**1,372,894**	**1,324,147**

The following table shows the maturity analysis for the receivables:

€ thousand	31.12.2015	31.12.2014
1. Receivables from credit institutions	100,825	47,227
of which due in 0 – 3 months	100,825	47,227
2. Trade receivables	439,142	425,556
of which due in 0 – 3 months	101,243	172,660
of which due in > 3 – 12 months	144,222	95,871
of which due in > 12 – 60 months	193,677	156,755
of which due in > 60 months	0	270
3. Receivables from affiliated companies	924,058	887,981
of which due in 0 – 3 months	174,058	137,981
of which due in > 12 – 60 months	350,000	350,000
of which due in > 60 months	400,000	400,000
4. Other receivables	9,694	10,610
of which due in 0 – 3 months	9,694	10,610
Total	**1,473,719**	**1,371,374**

The main components of other assets are available-for-sale lease returns amounting to €681,596 thousand (€522,025 thousand), receivables from the processing of ABS transactions amounting to €366,894 thousand (€40,350 thousand) and accrued swap interest of €86,416 thousand (€97,519 thousand).

Prepaid expenses include discounts on purchased bonds and ABS transactions amounting to €594,396 thousand (€294,225 thousand); these discounts are amortized over the relevant maturity. Prepaid vehicle taxes of €11,673 thousand (€8,491 thousand), insurance payments in connection with service leases in the amount of €35,070 thousand (€29,828 thousand) and other prepaid expenses are also recognized under this item.

Assets amounting to €610,802 thousand were held in foreign currency through the branch in Poland.

The breakdown of liabilities is as follows:

€ thousand	31.12.2015	31.12.2014
1. Liabilities to credit institutions	1,009,833	741,160
(of which to affiliated companies €558,021 thousand; prior year €448,607 thousand)		
2. Liabilities to customers	10,695,853	7,614,260
(of which to affiliated companies €6,516,254 thousand; prior year €5,096,683 thousand)		
(of which to the shareholder €532,178 thousand; prior year €385,068 thousand)		
(of which trade payables €583,410 thousand; prior year €474,547 thousand)		
3. Securitized liabilities	7,286,606	8,179,214
4. Other liabilities	18,185	22,374
Total	**19,010,477**	**16,557,008**

The following table shows the maturity analysis for the liabilities:

€ thousand	31.12.2015	31.12.2014
1. Liabilities to credit institutions	1,009,833	741,160
of which due in 0 – 3 months	610,371	498,698
of which due in > 3 – 12 months	364,462	207,462
of which due in > 12 – 60 months	35,000	35,000
2. Liabilities to customers	10,695,853	7,614,260
of which due in 0 – 3 months	1,502,586	1,007,894
of which due in > 3 – 12 months	1,423,822	881,098
of which due in > 12 – 60 months	7,769,445	4,825,268
of which due in > 60 months	0	900,000
3. Securitized liabilities	7,286,606	8,179,214
of which due in 0 – 3 months	331,668	404,214
of which due in > 3 – 12 months	954,938	2,350,000
of which due in > 12 – 60 months	3,000,000	2,425,000
of which due in > 60 months	3,000,000	3,000,000
4. Other liabilities	18,185	22,374
of which due in 0 – 3 months	12,105	15,840
of which due in > 3 – 12 months	359	338
of which due in > 12 – 60 months	2,210	2,685
of which due in > 60 months	3,511	3,511
Total	**19,010,477**	**16,557,008**

Volkswagen Leasing GmbH has not furnished any collateral in connection with the liabilities.

The other liabilities include swap interest liabilities amounting to €10,799 thousand (€13,722 thousand).

The provisions comprise tax provisions of €14,090 thousand (€16,940 thousand) and other provisions of €787,531 thousand (€774,747 thousand).

The other provisions include provisions for the risks arising in connection with existing leases. The provisions for residual value risks amount to €9,845 thousand (€3,345 thousand). Further notable recognized items include expenses from service leases and expenses for outstanding invoices in an amount of €92,477 thousand (€96,861 thousand). Provisions totaling €174,815 thousand (€227,006 thousand) have also been recognized for dealer bonuses and other bonus payments.

The provision recognized for outstanding repair invoices under servicing and wear-and-tear agreements amounts to €265,453 thousand (€208,373 thousand).

The provision recognized for risks arising from the terms and conditions of leases amounts to €120,200 thousand before discounting (€100,800 thousand). The discount amount is €2,122 thousand (€2,268 thousand).

The tax writedowns for the office building in accordance with section 3 of the *Zonenrandförderungsgesetz* (ZRFG – German Border Zone Development Act) are recognized in the special tax-allowable reserve. The reported net income is not materially increased by the reversal of the special tax-allowable reserve and the resulting change in the tax expense. This measurement for tax purposes will not have a significant impact on future net income either.

Equity remained unchanged as of the reporting date at €231,009 thousand.

Liabilities amounting to €610,802 thousand were held in foreign currency through the branch in Poland.

Statement of changes in fixed assets:

€ THOUSAND	GROSS CARRYING AMOUNTS					
	Brought forward January 1, 2015	Additions	Disposals	Reclassifications	Currency translation differences	Balance December 31, 2015
I. Intangible fixed assets						
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	3,548	2,493	0	0	−64	5,977
Prepayments	14	26	0	0	−5	35
	3,562	2,519	0	0	−69	6,012
II. Property, plant and equipment						
Land and buildings	42,457	6,768	5,507	6,835	−39	50,514
Operating and office equipment	1,907	1,044	537	448	−156	2,706
Assets under construction	6,867	41	0	−6,835		73
	51,231	7,853	6,044	448	−195	53,293
III. Lease assets						
Vehicles, technical equipment and machinery	26,527,449	13,661,114	11,478,179	58,527	95	28,769,006
Prepayments	59,384	66,994	409	−58,975	0	66,994
	26,586,833	13,728,108	11,478,588	−448	95	28,836,000
IV. Shares in affiliated companies	**8,651**	**0**	**0**	**0**	**0**	8,651
Total fixed assets	**26,650,277**	**13,738,480**	**11,484,632**	**0**	**−169**	**28,903,956**

	DEPRECIATION, AMORTIZATION AND WRITEDOWNS					NET CARRYING AMOUNTS	
	Brought forward January 1, 2015	Additions	Disposals	Currency translation differences	Balance December 31, 2015	Balance December 31, 2015	Balance December 31, 2014
	1,340	1,027	0	−6	2,361	3,616	2,208
	0	0	0	0	0	35	14
	1,340	1,027	0	−6	2,361	3,651	2,222
	14,663	1,508	5,181	−1	10,989	39,525	27,794
	909	394	29	−1	1,273	1,433	998
	0	0	0	0	0	73	6,867
	15,572	1,902	5,210	−2	12,262	41,031	35,659
	7,380,746	4,737,879	4,423,875	−155	7,694,595	21,074,411	19,146,703
	0	0	0	0	0	66,994	59,384
	7,380,746	4,737,879	4,423,875	−155	7,694,595	21,141,405	19,206,087
	0	**0**	**0**	**0**	**0**	**8,651**	**8,651**
	7,397,658	**4,740,808**	**4,429,085**	**−163**	**7,709,218**	**21,194,738**	**19,252,619**

4. Income Statement Disclosures

Leasing income amounts to €14,001,494 thousand. The leasing expense amounts to €7,946,158 thousand and includes the expenses necessary to generate the income. These expenses largely comprise the net carrying amounts of lease assets for which the leases have expired and service lease expenses. Net leasing income is €6,055,336 thousand.

The breakdown of net interest income/expense is as follows:

€ thousand	Jan. 1 – Dec. 31, 2015	Jan. 1 – Dec. 31, 2014
1. Interest income from lending and money market transactions (of which from affiliated companies €7,254 thousand; prior year €7,382 thousand)	24,965	26,862
2. Interest expense (of which to affiliated companies €40,196 thousand; prior year €54,620 thousand)	281,690	306,237
Total	**–256,725**	**–279,375**

Other operating income is €250,890 thousand, of which €183,052 thousand is attributable to the leasing business and €67,838 thousand to the allocation of overheads to other entities. Other operating income includes income from administration and broking services provided for third parties amounting to €63,145 thousand (€53,961 thousand) and income from currency translation amounting to €10,963 thousand. Income from the reversal of special tax-allowable reserve amounts to €105 thousand.

The personnel expenses for employees at the branches in Milan, Verona and Poland come to €5,597 thousand, of which €4,193 thousand relates to wages and salaries and €1,404 thousand to social security costs.

Other administrative expenses amount to €382,823 thousand. These relate, in particular, to internal charges from other Group companies in connection with workplace costs, staff leasing and IT services, and to charges for services provided by third parties.

Depreciation and writedowns on lease assets are reported separately, the recognized amount for this item being €4,737,879 thousand. This figure includes writedowns to fair value amounting to €274,243 thousand (€233,259 thousand). Lease assets have been written down by an additional amount of €4,050 thousand (€400 thousand) to account for risks arising from the early remarketing of vehicles following the default of a lessee (latent credit risk).

Other operating expenses amounted to €36,226 thousand in the reporting period. This figure includes issuance and rating expenses of €5,149 thousand and expenses from currency translation of €13,478 thousand.

Some of the expenses for writedowns of, and valuation allowances on, receivables and additions to provisions in the leasing business amounting to €630,783 thousand are offset by corresponding income of €180,193 thousand.

The extraordinary expense for the prior year consists entirely of the effects arising from the takeover of the branch in Poland and the associated changeover of this branch to financial reporting in accordance with the HGB.

The above figures resulted in a loss before tax for the reporting period of €36.7 million (profit of €80.6 million).

Under the existing profit transfer agreement, the loss after tax of €74,989 thousand is transferred to and absorbed by Volkswagen Financial Services AG.

Breakdown of income by region:

€ thousand		JAN. 1 – DEC. 31, 2015				JAN. 1 – DEC. 31, 2014
		Germany	Italy	Poland	Total	Total
1.	Leasing income					
	Lease payments	4,687,580	126,217	17,182	4,830,979	4,778,761
	Maintenance and service income	934,474	95,071	13,794	1,043,339	919,951
	Used vehicle sales	7,515,892	102,810	5,894	7,624,596	6,784,048
	Other	474,476	14,806	13,298	502,580	458,811
		13,612,422	338,904	50,168	14,001,494	12,941,571
3.	Interest income from lending and money market transactions	7,725	36	17,204	24,965	26,862
6.	Fee and commission income	445	0	7	452	754
8.	Other operating income	233,095	3,128	14,667	250,890	537,888
9.	Income from the reversal of special tax-allowable reserve	105	0	0	105	105
14.	Income from the reversal of writedowns of and valuation allowances on receivables and from the reversal of provisions in the leasing business	152,786	24,031	3,376	180,193	215,689
Total		**14,006,578**	**366,099**	**85,422**	**14,458,099**	**13,722,869**

5. Other Disclosures

Interest rate risk has been hedged by interest rate swaps with a total notional value of €21.4 billion. As of the reporting date, the positive values were €369.8 million and the negative fair values €43.5 million. The fair values are determined using market information as of the reporting date and with the help of suitable IT-based valuation techniques. In connection with these derivatives, accrued interest of €86.4 million is included in other assets and of €10.8 million in other liabilities.

The annual financial statements of Volkswagen Leasing GmbH are included in the consolidated financial statements of Volkswagen AG, Wolfsburg, (largest basis of consolidation) which are prepared in accordance with the International Financial Reporting Standards and published in the German Federal Gazette.

The annual financial statements of Volkswagen Leasing GmbH are also included in the consolidated financial statements of Volkswagen Financial Services AG, Braunschweig, which are prepared in accordance with the International Financial Reporting Standards and published in the German Federal Gazette.

To fund the lease assets, Volkswagen Leasing GmbH has placed asset-backed securities transactions (ABS transactions) in the market. Three such transactions were carried out in fiscal year 2015. In 2015, Volkswagen Leasing GmbH generated cash inflows totaling €4,542,553 thousand from the sale of future lease receivables and residual values under these leases. Four further transactions are in place, dating back to prior years. Other than the one-time inflows from each of these transactions, there is no other material impact on the present or future liquidity and financial position of Volkswagen Leasing GmbH.

Volkswagen Leasing GmbH holds 100% of the shares in Vehicle Trading International (VTI) GmbH, Braunschweig. The company reported profit before tax for fiscal year 2015 of €0.7 million, which is transferred to Volkswagen Leasing GmbH under a control and profit transfer agreement. As of the reporting date, the equity of VTI remained unchanged at €2.8 million.

Volkswagen Leasing GmbH also has a 100% shareholding in carmobility GmbH (Carmobility), Braunschweig. The company reported a loss before tax for fiscal year 2015 of €3.2 million, which is transferred to Volkswagen Leasing GmbH under a control and profit-and-loss transfer agreement. As of the reporting date, the equity of Carmobility remained unchanged at €0.3 million.

In addition, Volkswagen Leasing GmbH holds all the shares in Euromobil Autovermietung GmbH (Euromobil), Isernhagen. For fiscal year 2015, the company reported profit before tax of €8.1 million, which is transferred to Volkswagen Leasing GmbH under a control and profit-and-loss transfer agreement. As of the reporting date, the equity of Euromobil remained unchanged at €0.8 million.

The land and buildings belonging to Volkswagen Leasing GmbH are largely used by the other companies in the FS subgroup based in Braunschweig.

The irrevocable credit commitments relate to confirmed leases for which the vehicle had not yet been delivered as of the reporting date and the committed credit limit had thus not yet been utilized. It is expected that the credit will be drawn down, as the commitments relate to concluded leasing agreements. The Company has other financial obligations in the form of purchase order commitments, although the amount involved is immaterial as far as the assessment of the financial position of the Company is concerned.

As of the reporting date, there were some contingent liabilities in connection with the ABS transactions that are not reported in the balance sheet. These contingent liabilities and obligations arise from the fact that the vehicles underlying the future lease receivables that have been sold have in some cases been assigned as collateral to the special purpose entities issuing the bonds (up to and including ABS transaction VCL 21). It is expected that this collateral will not be called upon, as it is assumed that the risk will not materialize. A market risk reserve serving as collateral for certain risks was paid to investors in connection with ABS transactions VCL 22 and VCL Master RV C2. It is expected that this collateral will not be called upon, as it is assumed that the risk will not materialize.

Depending on the impact of the emissions issue on Volkswagen Leasing GmbH and its subsidiary VTI GmbH, support will be provided by the Volkswagen Group. In light of this, there was no impact on cash as of the reporting date, nor are cash inflows expected to decline as a result in the coming years.

Volkswagen Leasing GmbH does not enter into transactions with related parties that are not on an arm's length basis.

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

Volkswagen Leasing GmbH does not use any of its own personnel to carry out its operating activities in Germany. The employees are provided by Volkswagen Financial Services AG in return for a consideration. In addition, on average during the year, the Company had 78 (75) salaried employees at its branches in Milan and Verona, and 3 (2) salaried employees at its branch in Poland.

The members of the Management do not receive any remuneration from the Company.

The Management of Volkswagen Leasing GmbH proposes that the net retained profits of €648,680.82 be carried forward to the new fiscal year.

6. Governing Bodies of Volkswagen Leasing GmbH

Management as of December 31, 2015

GERHARD KÜNNE
Spokesman of the Management
Sales Fleet Customers

HARALD HEßKE (FROM FEBRUARY 1, 2016)
Back Office Leasing

THOMAS RENNEBAUM
Middle Office Leasing

DR. HEIDRUN ZIRFAS
Back Office Leasing

Audit Committee of Volkswagen Leasing GmbH

On the basis of a resolution passed by the Annual General Meeting on May 15, 2012 and in accordance with section 324 of the HGB, an Audit Committee has been established for Volkswagen Leasing GmbH, a corporation within the meaning of section 264d of the HGB.

The members of the Audit Committee are as follows:

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

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

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

GABOR POLONYI
Head of Fleet Customer Management, Volkswagen Leasing GmbH

7. Responsibility Statement

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

Braunschweig, February 9, 2016

The Management

Gerhard Künne

Harald Heßke

Thomas Rennebaum

Dr. Heidrun Zirfas

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, income statement, notes, cash flow statement and statement of changes in equity, including the bookkeeping system, together with the management report prepared by Volkswagen Leasing Gesellschaft mit beschränkter Haftung, Braunschweig, for the fiscal year from January 1 to December 31, 2015. The bookkeeping system and the preparation of the annual financial statements and management report in accordance with the requirements of German commercial law are the responsibility of the Company's Management. Our responsibility is to express an opinion on the annual financial statements, including the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer* (IDW – Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with the generally accepted accounting principles 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 bookkeeping system, 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 Company's Management, 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 generally accepted accounting principles. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hanover, February 12, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Audit Committee

OF VOLKSWAGEN LEASING GMBH

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

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

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

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

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

Braunschweig, February 17, 2016

Dr. Jörg Boche Chairman	Waldemar Drosdziok Deputy Chairman
Dr. Arno Antlitz Member	Gabor Polonyi Member

NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to the development of the global economy and of the financial and automotive markets, which Volkswagen Financial Services AG has made on the basis of the information available to it and which it considers to be realistic at the time of going to press. The estimates given entail a degree of risk, and the actual developments may differ from those forecast.

Should actual developments turn out to be different, contrary to expectations and assumptions, or unforeseen events occur that have an impact on the business of Volkswagen Financial Services AG, this will have a corresponding effect on the business development of the Company.

PUBLISHED BY

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CONCEPT AND DESIGN

Kirchhoff Consult AG, Hamburg

TYPESETTING

Produced in-house with FIRE.sys

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

VOLKSWAGEN LEASING GMBH

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