VOLKSWAGEN LEASING

GMBH






The key to mobility.

ANNUAL REPORT 2012





Volkswagen Leasing GmbH
at a glance

€ million	2012	2011	2010	2009	2008
Investments in leased assets	10,199	9,581	7,590	6,290	7,059
Leased assets	16,779	15,179	13,279	11,949	11,627
Total assets	18,232	17,043	13,965	12,490	12,674
Income from leasing business	10,582	10,010	8,756	8,152	7,286
In thousands of vehicles	2012	2011	2010	2009	2008
New contracts	431	415	338	286	326
Current contracts	956	876	802	764	762

The leasing business as a financial service requiring prior approval was included in § 1 Para. 1a German Banking Act (Kreditwesengesetz) by means of the 2009 Annual Tax Act. Given its activities, Volkswagen Leasing GmbH is thus subject to both the German Banking Act and the Federal Financial Supervisory Authority (BaFin). The balance sheet and the income statement have been prepared in accordance with the stipulations of the Ordinance on Accounting for Banks (RechKredV). Some of the previous year's figures have been adjusted to reflect the reclassifications that became necessary.

Table of contents

Management Report

Development of business
Leasing contract portfolio again reaches record levels

The mood in the global economy darkened perceptibly in the 2012 financial year, dragging down the automotive industry substantially in some cases. Whilst the leasing contract portfolio increased, earnings in 2012 decreased year on year.

ECONOMIC DEVELOPMENT

In 2012, the global economy grew at a slower rate than in the preceding year. Industrialised countries recorded only minimal expansion as a consequence of structural impediments, mainly due to partly overstretched national budgets and a lack of competitiveness. Global economic growth in 2012 stood at 2.6% (previous year: 3.0%).

The gross domestic product GDP of Western Europe receded by an average of 0.2% after positive growth of 1.5% in the previous year. In addition to the euro zone countries in Southern Europe, a number of Northern European countries also recorded negative growth rates.

With the global economy losing steam and no sign of the euro zone crisis ending, the rate of economic expansion in Germany also declined in 2012 compared with the previous year. The labour market recovery continued in the reporting year, with the associated growth in income stimulating domestic demand and stabilising the economy. In spite of this encouraging development, the German economy grew by just 0.9% on average over the year (previous year: 3.1%).

FINANCIAL MARKETS

The development of the global financial markets in 2012 was overshadowed by the European banking and sovereign debt crisis.

In the European Union's crisis meetings, it became apparent that there was a political intention to use the crisis to strengthen unity within the European Union and tighten budgetary controls within the currency union to be able to prevent individual countries from creating debt problems in the future. This intention helped to calm the global financial markets as the year progressed. The measures resolved by the European Central Bank (ECB) in the second half of the year to support the euro by buying up unlimited numbers of bonds from struggling countries as necessary also had a major influence on this. In the shadow of these decisions, rating downgrades of individual EU countries by international rating agencies in the meantime did not rattle the financial markets any further. The leasing industry benefited at the beginning of the current year from the expansionary monetary policy in the industrialised countries, which was accompanied by low interest rates and the strong momentum of the global economy. It was not until the second quarter of 2012 that the mood in the Germany's leasing business began to darken slightly. This took place against a backdrop of declining growth in the area of capital expenditure on equipment.

Europe

In Europe, the interdependence of the international banking crisis and the debt problems of individual euro zone countries became very apparent as the euro crisis deepened. Only the measures taken by the ECB and the structural reforms instituted in the euro zone countries helped reassure the financial markets, on which private capital flows had been severely disrupted by the loss of confidence in the credit quality of public budgets. After the stock market indices plunged due to widespread uncertainty around mid-year, the indices ended the year on a high note once more. In the EU, the net issue volume of bonds rose slightly in 2012. While the volume of new government bond issues declined, companies in the private sector substantially increased their bond issue volumes year on year.

Germany

In 2012, the financial sector largely benefited from stabilising factors, due in particular to the injections of cash from the ECB. On the whole, bond issues took a downtrend, driven by the much lower volume of new issues by financial institutions and a slight decrease in government issues. Companies outside the financial sector recorded significantly higher issue volumes in spite of much lower interest rates.

AUTOMOBILE MARKET

New passenger car registrations in Germany in the 2012 financial year were down slightly compared with the previous year. This 2.9% decline to 3.1 million vehicles was due exclusively to consumer restraint among private customers. The growing uncertainty about how the economy will continue to develop pushed down demand in the second half of the year in particular. The market volume for light commercial vehicles also fell short of the prior-year figure. New vehicle registrations decreased overall by 6.2% to 226,000 vehicles. In 2012, both domestic production and exports missed the record figures of 2011. Passenger car production fell by 3.7% to 5.4 million vehicles, while exports of passenger cars were down 2.6% to 4.1 million vehicles, mainly due to a large drop in exports to other euro zone countries caused by the ongoing recessionary trend. New car registrations in Italy plummeted by 19.9%.

The Volkswagen Group managed to further expand its market leadership in Germany by increasing its market share to 37.7% (previous year: 35.9%).

OVERALL APPRAISAL OF THE DEVELOPMENT OF BUSINESS

In the view of the Board of Management of Volkswagen Leasing GmbH, business developed positively in 2012.

Despite the beginning economic slowdown, Volkswagen Leasing GmbH further expanded its market lead in the leasing and fleet business in Germany, its reference market.

According to a ranking published by Leaseurope, the European Federation of Leasing Company Associations, Volkswagen Leasing GmbH has been the largest automotive leasing company in Europe since 2010.

This success is driven by the continuous refinement of the company's product portfolio centred on automotive mobility.

One of the new mobility packages is the "Quicar – Share a Volkswagen" car-sharing package that Volkswagen Leasing GmbH has been operating under a pilot project in Hanover. Along with "Quicar", its mainly urban mobility package, and the long-term rental product with rental periods of between one and twelve months, Volkswagen Leasing GmbH entered the traditional short-term car rental business in January 2012 focusing on workshop replacement mobility with its acquisition of Euromobil Autovermietung GmbH. Volkswagen Leasing GmbH launched the "MAN ServiceCard" in Germany at the IAA Commercial Vehicles 2012 in conjunction with the "FleetTrucks" reporting system. This fuel and toll card can be used for payment and other services across Europe. Another attractive product was successfully rolled out in 2012 in the form of the leasing package for employees of AUDI AG and the MAN Group.

Joint forward-looking projects with Volkswagen such as e-mobility or mobile online services were successfully pursued in 2012, with Volkswagen Leasing GmbH playing an important role in creating the business models in both cases.

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

The development of the leasing contract portfolio underscores the encouraging trend in the 2012 financial year. Compared with the previous year, 80,000 new leasing contracts were signed, expanding the portfolio to a record level of 956,000 units.

The fleet customer market on the whole narrowed slightly by 0.1% in 2012. This is reflected in a slight decrease in the number of new contracts signed with Volkswagen Leasing GmbH (–0.4%). With a penetration rate of 54.6%, on a par with the previous year, the company remains the market leader in the Group's fleet customer business. Volkswagen Leasing GmbH is the number one partner of the Group's brands in the German fleet market, which increases its weight in the automotive value chain of the Volkswagen Group.

Registrations in the private customer segment fell by 2.9 % year on year in the German market. Notwithstanding this decline, the leasing contract business with private customers was boosted by 2.2% compared with 2011.

The number of service contracts rose once again compared with 2011, with additions to the full-service lease contract portfolio up around 9% year on year.

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

Against a backdrop of the improved risk exposure overall, the decrease in interest rates lifted margins in the new business compared with 2011. Volkswagen Leasing GmbH increased its total assets year on year.

The result from ordinary business activities met expectations in 2012 and, at € 223 million, remained below the previous year's level of € 529 million.

Management and organisation

Focus on the expansion of after sales services and innovative rental models

As part of the WIR2018 strategy, Volkswagen Leasing GmbH's is focused squarely on the needs of its leasing customers.

KEY OBJECTIVES

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

The company's key indicators are calculated based on IFRS and presented in the "Financial Analysis" report. In addition to return on equity, cost/income ratio, penetration and margins, the key financial indicators also include the operating result and earnings before taxes.

BRANCHES

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

BRANCHES OUTSIDE GERMANY

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

ORGANISATION OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH engages in the operating leasing business with private and business customers as well as in the fleet management and services business. In keeping with the WIR2018 strategy, Volkswagen Leasing GmbH's organisation is focused squarely on the needs of the private customer, corporate customer and fleet customer groups. Besides enabling innovative rental models such as long-term or micro rentals (car sharing) and other new mobility services, the company's organisational foundation ensures the consistent expansion of after sales services in the automotive context. The company's sales and customer service areas are closely integrated with the product development and marketing areas. Cross-divisional functions such as the used vehicle centre, service processing, risk management and process management are grouped in back-office operations. From 1 January 2013, fleet management and systems & process management will be combined in a new division.

Structure and organisation comply with the requirements of MaRisk.

CHANGES IN EQUITY INVESTMENTS

Volkswagen Leasing GmbH acquired Euromobil Autovermietung GmbH, Isernhagen, effective 1 January 2012. This company is of secondary significance to the assets and financial position of Volkswagen Leasing GmbH.

Analysis of the business development and position of Volkswagen Leasing GmbH
Earnings decline and continued growth

Volkswagen Leasing GmbH continued its course of growth while recording a decline in earnings.

RESULTS OF OPERATIONS

The income from leasing business in the financial year ended rose by € 0.6 billion to € 10.6 billion. This growth is accounted for in particular by a € 0.3 billion increase in revenues from current leasing contracts and by € 0.2 billion of increased proceeds from the sale of previously leased vehicles (€ 5.1 billion). The additional increase in revenue also stems from service contracts, among others. The larger portfolio of contracts will cause sales to rise in the next years.

The expenses from leasing business climbed by € 0.5 billion to € 5.3 billion, essentially as a result of the year-on-year increase in the residual book values of vehicle disposals. This figure especially includes the residual book values of vehicles removed from stock and the expenses from service leasing.

Driven mainly by higher IT and personnel costs, general administration expenses increased by € 38 million to € 245 million.

Depreciation on leased assets amounted to € 3.8 billion (previous year: € 3.4 billion). This contains write-downs of € 0.3 billion (previous year: € 0.2 billion).

Against the backdrop of a continued recovery of the financial markets in Germany and the increase in the number of current contracts, the refinancing costs of Volkswagen Leasing GmbH decreased further. The financing of the leasing business gave rise to interest expense of € 342 million (previous year: € 358 million).

Depreciation, amortisation and allowances on receivables and additions to provisions in the leasing business amounted to € 389 million (previous year: € 396 million). This includes € 73 million from the first-time recognition of a provision for risks arising from the contract terms. The method used to calculate provisions for indirect residual value risks underwent further refinement and the parameters used were adapted to reflect the changes in the market conditions in 2012. This gave an overall boost to earnings of € 42 million in the 2012 financial year.

Income from the reversal of allowances on receivables and reversals of provisions in the leasing business amounted to € 95 million (previous year: € 106 million).

In previous years, the strong result was due to the expiry of the leasing contracts closed in 2006 and 2007 to which the accelerated amortisation option had been applied under German tax law. In 2012 Volkswagen Leasing GmbH benefited only marginally from this effect. The fact that earnings remain good is reflected in the result from ordinary business activities of € 223 million even though it is substantially lower than the previous year (€ 529 million).

ASSETS AND FINANCIAL POSITION

Total assets increased by € 1.2 billion to € 18.2 billion.

The investments of Volkswagen Leasing GmbH rose by € 0.6 billion to € 10.2 billion (previous year: € 9.6 billion). The gross book value of the leased assets increased from € 21.0 billion to € 22.8 billion. The net book value was € 16.8 billion (previous year: € 15.2 billion). This corresponds to an increase of € 1.6 billion or 10.5 %.

In the financial year just ended, Volkswagen Leasing GmbH was able to expand its business activities. As at the reporting date, its portfolio of leased vehicles had climbed from 876,000 to 956,000 units. The company's Italian branches account for approximately 22,000 vehicles of this total (previous year: approximately 21,000 vehicles). This inventory increase results from the addition of 431,000 vehicles, compared to disposal of 351,000 vehicles.

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

DEVELOPMENT OF VEHICLE CONTRACT VOLUME (IN THOUSANDS)

2012		2011		2010		2009		2008	
New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts
431	956	415	876	338	802	286	764	326	762

The equity ratio is 1.2% (previous year: 1.3%). Provisions for residual value risks amounted to € 121,838,000 (previous year: € 152,414,000).

REFINANCING

Strategic principles

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

Implementation

In spite of the volatility on the markets, the refinancing situation in the past financial year was stable and all instruments were used at the best possible terms. Volkswagen Leasing GmbH placed benchmark bonds in the market on multiple occasions in 2012. In June, a three-year €1.0 billion fixed-income bond from the €18 billion capital market programme of Volkswagen Financial Services AG was placed at historically favourable terms. In September, new groups of investors were addressed with the € 1.0 billion bond with a strategically motivated term of ten years.

Business in connection with asset-backed securities was expanded further: Receivables of Volkswagen Leasing GmbH with low risk premiums triggered strong market demand in connection with the "Volkswagen Car Lease 15" (VCL 15) issue in March and the "Volkswagen Car Lease 16" (VCL 16) issue in September. All VCL transactions fulfil the requirements of the TSI quality label "Certified by TSI - Deutscher Verbriefungsstandard". This seal certifies that our securitisation transactions are deemed exceptional in the global securitisation market in terms of quality, security and transparency.

In the 2012 financial year, Volkswagen Leasing GmbH refinanced itself largely by issuing debentures in the amount of € 6.27 billion (previous year: € 5.35 billion). The company also refinanced itself through loans and funds that Volkswagen Financial Services AG obtained and raised in the capital markets and subsequently passed on to Volkswagen Leasing GmbH. The resulting loan volume of Volkswagen Leasing GmbH was € 2.5 billion (previous year: € 3.5 billion).

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

Opportunity and risk report
Opportunity and risk management – a success factor

A multitude of risks are taken in the financial services business. In doing so, Volkswagen Leasing GmbH acts responsibly in order to take advantage of the resulting market opportunities for long-term commercial success.

MACROECONOMIC OPPORTUNITIES

The Board of Management of Volkswagen Leasing GmbH expects the number of vehicle deliveries to Volkswagen AG customers to continue growing and the world market share to continue expanding against the backdrop of further economic growth. Volkswagen Financial Services AG supports this positive trend through financial services products designed to boost sales.

STRATEGIC OPPORTUNITIES

In addition to intensifying its international alignment by entering new markets, Volkswagen Leasing GmbH sees further opportunities in the development of innovative products that are aligned with customers' changed mobility requirements. Growth areas such as the New Mobility (long-term rental, car sharing) are being developed and expanded thoroughly.

MATERIAL COMPONENTS OF THE INTERNAL CONTROL SYSTEM AND THE INTERNAL RISK MANAGEMENT SYSTEM IN REGARDS TO THE ACCOUNTING PROCESS

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

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

In sum, the existing internal controlling and monitoring system of Volkswagen Leasing GmbH is designed to ensure that the information on the financial position of

Volkswagen Leasing GmbH as at the 31 December 2012 reporting date is proper and reliable. No material changes were made to the internal controlling and monitoring system of Volkswagen Leasing GmbH after the reporting date.

ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

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

Volkswagen Leasing GmbH has set up a system for identifying, measuring, monitoring and controlling risk positions, in accordance with the requirements of § 25a Para. 1 German Banking Act and by applying § 91 Para. 2 German Stock Corporation Act.

This risk management system allows timely detection of developments that might jeopardise the company's activities.

The system encompasses both a framework of risk principles as well as organisational structures and processes for risk measurement and monitoring that are tightly integrated in the activities of the individual divisions.

The suitability of individual system elements is reviewed regularly in a risk-oriented manner by Internal Audit and by external auditors as part of the audit of the annual financial statements.

Staff and control functions for Volkswagen Leasing GmbH are outsourced to the following units of Volkswagen Bank GmbH: Controlling, Legal Services, Internal Audit, Accounting, Group Risk Management & Methods as well as Treasury.

The Chief Risk Officer (CRO) regularly reports Volkswagen Leasing GmbH's overall risk position to both the Board of Management and the sole shareholder, Volkswagen Financial Services AG. The Supervisory Board of Volkswagen Leasing GmbH was dissolved effective 15 May 2012; its tasks have been assumed by the company's shareholder.

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

RISK STRATEGY AND RISK MANAGEMENT

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

As part of its overall responsibility, the Board of Management of Volkswagen Leasing GmbH and the Board of Management of Volkswagen Financial Services AG jointly established and documented a strategy process that conforms to minimum risk management requirements as well as a business and risk strategy.

The WIR2018 business strategy sets out the fundamental views of the Board of Management of Volkswagen Leasing GmbH on key matters of business policy.

It contains the goals for every key business activity and the steps required to achieve these goals.

The risk strategy, which is consistent with the business strategy, is reviewed annually based on the risk inventory, the risk-bearing capacity and legal requirements, adjusted as necessary and discussed with the Supervisory Board (until 15 May 2012) or the shareholders' meeting (from 16 May 2012).

The risk strategy sets out the key risk management objectives for each type of risk, taking into account the company's approach to business (business strategy), its current risk exposure, expected developments and the risk potential. Actions are taken to achieve these goals, and their effects are described.

The risk strategy covers all key quantifiable and unquantifiable risks. It is further detailed and specified by means of secondary risk strategies for the individual risk types and operationalised in the planning round process. Materiality is identified and determined in the risk inventory process, which must be carried out annually.

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

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

A system is in place at Volkswagen Leasing GmbH to determine the company's risk-bearing capacity by comparing its economic risk to its hedging potential.

A credit institution's risk-bearing capacity is given if, at a minimum, all of its material risks are continuously hedged through its risk hedging potential.

The material risks of Volkswagen Leasing GmbH are identified at least once a year in connection with a risk inventory; this provides a detailed basis for designing the risk management process and including it in the risk-bearing capacity.

Risk quantification is executed by means of different approaches pursuant to the methodological recommendations of the Basel Capital Accord based on statistical models and supported by expert estimates.
The material risks are quantified as part of the analysis of the risk-bearing capacity based on a general confidence level of 90% and an observation period of one year.

Volkswagen Leasing GmbH's risk-bearing capacity was certain throughout 2012.

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

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

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

Stress tests are conducted across all institutions at Volkswagen Leasing GmbH, taking historical and hypothetical scenarios into account. The Groupwide inverse stress test also includes examining for Volkswagen Leasing GmbH in particular which plausible events could expose it to a going-concern risk.

Based on calculations of risk-bearing capacity, all material risks that could adversely affect the assets, results of operations or liquidity situation were sufficiently hedged at all times through the available risk taking potential.

During the financial year, risk capital was kept below the overall internal risk limit.

The stress tests performed do not indicate any need for action. A list of measures was developed based on the results of the inverse stress test.

RISK REPORTING

The risk-bearing capacity is the starting point in the risk management report. After describing the Bank's overall risk, Group Risk Management & Methods addresses the counterparty default, market price, liquidity, shareholder, operational and residual value risks in detail in its quarterly risk management report. This report is addressed directly to the Board of Management of Volkswagen Leasing GmbH as well as the Supervisory Board (until 15 May 2012) or the shareholders' meeting (from 16 May 2012).

Regular reporting is supplemented by ad hoc reporting.

Continuous improvements of the risk management report have helped to further improve the data regarding structures and developments in the company's credit portfolios.

FOURTH AMENDED VERSION OF MARISK

The Federal Financial Supervisory Authority (BaFin) published the new version of MaRisk in December 2012. Among other changes, it stipulates the following:

> a stronger risk control function,
> critical analyses of risk quantification procedures for all relevant risk types to be performed at least annually,
> new and more specific requirements for risk-bearing capacity,
> setting up a MaRisk-compliant, multi-year capital planning process in accordance with Pillar I (regulatory minimum capital requirements) and Pillar II (internal capital adequacy requirements to ensure risk-bearing capacity beyond the risk evaluation period of one year),
> setting up early warning indicators for all material risk types as well as across risk types,
> setting up processes preceding material changes in organisational structure and workflows and in IT systems for analysing the effects of planned changes on control procedures and control intensity,
> setting up a Groupwide compliance function and
> setting up a suitable liquidity netting procedure.

The required changes and the need for action were analysed. The new requirements are scheduled to be implemented in 2013.

Volkswagen Leasing GmbH is further pursuing the development of both its system for measuring and monitoring risk positions and the relevant control systems on the basis of the legal requirements.

RISK TYPES

RISK OF COUNTERPARTY DEFAULT

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

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

Credit risk

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

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

Risk assessment

The New Product/New Market Process of Volkswagen Leasing GmbH must be applied before new products are brought to market or activities are launched in new markets.

Timely identification of changes in risk is assured by means of regular portfolio analyses, planning rounds and business financial reviews.

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

Parameters for developing and maintaining rating systems are described in a working guideline. There is also a rating manual, which governs the application rating systems as part of the loan approval process.

Scoring procedures in the retail business

Analysing the creditworthiness of private customers involves scoring systems that are integrated in the purchasing and portfolio processes and provide an objective decision-making basis for granting loans.

These scoring systems utilise internally and externally available data on the lessee and generally estimate the probability of default of the customer transaction requested based on several years of historical data using static methods. In a departure from the above, both generic and robust score cards and expert systems are used largely for smaller portfolios with lower risk exposures to measure the risk inherent in loan requests. Depending on the portfolios' size and risk content, behavioural score cards as well as estimates at the risk pool level serve to classify the risk of the loan portfolio.

Rating procedures in the corporate business

Volkswagen Leasing GmbH uses credit rating procedures to rate its national and international corporate customers.

The assessment includes both the key performance indicators from annual financial statements as well as qualitative factors – such as the outlook for future business development, the climate in both the market and industry, as well as the customer's payment behaviour. To the extent possible, all these factors are taken into account statistically.

The credit rating procedure results in the assignment to a rating class which is connected to a probability of default.

A centrally maintained workflow-based rating application (CARAT) is in place to support the assessments of creditworthiness.

The result of the rating provides a material basis for decisions on the approval and prolongation of credit commitments and value adjustments.

The definition of competencies and the monitoring of the corporate portfolio are also based on the results of ratings.

The rating models used are validated regularly and refined as necessary.

Validation refers in particular to checking whether the models are separable and calibrated in ways adequate to the risks.

Collateral

Volkswagen Leasing GmbH always owns the leased goods in all leasing transactions. In certain cases, additional collateral besides the leased property is required for hedging our interest in ways adequate to the relevant risk. The measurement of the leased property/collateral is fixed in appropriate guidelines.

These valuations are based on both historical data and many years of expert knowledge.

Volkswagen Leasing GmbH therefore monitors the development of vehicles' market values.

Risk management and monitoring

Appropriate processes are used to monitor all leasing transactions in regards to the underlying economic conditions and collateral, compliance with limits, contractual obligations as well as both external and internal requirements.

Furthermore, credit risks are also managed by applying approval limits. These approval limits are fixed individually. The local decision makers can exercise discretion within these limits.

Analyses of the portfolios are performed at the portfolio level for risk monitoring purposes.

Stress tests for credit risks entail sensitivity and scenario analyses. Whilst sensitivity analyses are implemented based on models, scenario analyses are based on expert opinions subject to the participation of both centralised and decentralised risk specialists. This provides a comprehensive view of the risk sensitivity of the credit business, particularly against the backdrop of a changing economic climate.

Concentrations of risk

Concentrations of credit risk

Concentrations of credit risk arise if a major portion of the loans are extended to a just few lessees/contracts. Volkswagen Leasing GmbH is a company focused on specialised financial services (captive).

Concentrations of collateral

Concentrations of collateral arise when a substantial portion of receivables or leasing transactions are collateralised by a single type of security.

Vehicles are the dominant type of collateral for Volkswagen Leasing GmbH. Risks arising from such concentrations of collateral basically arise when negative price developments in the used vehicle markets reduce both the value of the collateral and the proceeds from the disposal of the collateral if lessees default.

In terms of the vehicles that serve as collateral, Volkswagen Leasing GmbH is diversified across all automotive segments and geographically in Germany and Italy. The range of vehicles that are leased is equally diversified.

Both of these effects reduce the risk of concentrations of collateral.

Developments/Outlook

The economic horizon darkened in 2012. While the German portfolio managed to resist this negative trend by demonstrating stable growth, business in Italy was hit by the weak economy and a shrinking vehicle market.

The portfolio in Germany has grown due to high demand from both private and commercial customers given the positive economic environment.

Defaults in the private customer segment have declined as a result of this growth.

In Italy the rate of defaults continued to increase on account of the crisis, especially among small and medium-sized commercial customers.

The economic environment is expected to become increasingly uncertain and volatile in Germany in 2013 whilst the resolution of the sovereign debt crisis in Italy will remain critical to the market in that country.

Counterparty risk

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

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

Risk management and monitoring

Treasury is responsible for risk management in relation to counterparty risks. Group Risk Management & Methods determines and monitors the counterparty default risk on a monthly basis.

In addition, the investment volume per counterparty is controlled using counterparty volume limits. Compliance with these counterparty volume limits is monitored by the Treasury back office.

MARKET PRICE RISK

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

Shareholder risk

Shareholder risk denotes the risk that losses with negative effects on the carrying amount of the equity investment might occur after contributions of equity capital or receivables akin to equity capital (e.g. undisclosed contributions) are made to an entity.

Generally, Volkswagen Leasing GmbH makes equity investments in other companies that serve to achieve its own corporate goals. The intention to hold an investment in the long term is the decisive criterion in this regard.

Volkswagen Leasing GmbH is currently not exposed to a noteworthy shareholder risk.

Interest rate risk

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

Risk assessment

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

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

While the VaR so determined for monitoring purposes serves to assess potential losses under historical market conditions, forward-looking analyses are also performed using extreme scenarios.

Interest rate positions are subjected to stress tests comprising extraordinary changes in interest rates and worst case scenarios and are subsequently analysed in terms of the at-risk potentials using the simulated results.

In this connection, changes in the present value are also quantified and monitored monthly using the +200 and - 200 basis points interest rate shock scenarios defined by the Federal Financial Supervisory Authority (BaFin).

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

Risk management and monitoring

The Treasury unit of Volkswagen Bank GmbH is responsible for risk management based on the resolutions of the Asset Liability Committee (ALC).

Interest rate risks are managed through interest rate derivatives at both the micro level and the portfolio level.

Group Risk Management & Methods is tasked with monitoring interest rate risks and reporting on them.

Risk communication

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

EARNINGS RISK (SPECIFIC PROFIT/LOSS RISK)

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

This includes the risks of

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

Risk measurement

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

The relevant income statement items provide the basis for these calculations. The earnings risks are then estimated based on the observed relative deviations from targets for one and by determining the volatilities and interdependency of the individual items for another. Both components are included in the EaR quantification. In addition stress tests specific to risk types are conducted quarterly using historical and hypothetical scenarios.

Risk management and monitoring

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

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

Concentrations of risk

Concentrations of income arise from an asymmetric distribution of a credit institution's sources of income.

The activities of Volkswagen Leasing GmbH focus on leasing vehicles, including the related financial services, and thus in the final analysis on promoting the sales of the Volkswagen Group's different brands. This particular constellation gives rise to substantial interdependences and concentrations, which have a direct impact on the development of income.

Volkswagen Leasing GmbH thus is exposed to concentrations of income from its business model by definition.

LIQUIDITY RISK

The liquidity risk entails the risk of a negative deviation between actual and expected cash inflows and outflows. Liquidity risk means the risk of not being able to fulfil payment obligations that are due in full or in timely fashion or – in the event of a liquidity crisis – of only being able to raise refinancing funds at higher market rates or only being able to sell assets at discounted market rates.

The liquidity risk thus concerns the risk of not being able to raise needed funds at all or only at a higher cost.

This leads to the distinction between insolvency risks (day-to-day operational liquidity risk including call and maturity risk), refinancing risks (structural liquidity risk) and market liquidity risks.

Parameters

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

The refinancing of Volkswagen Leasing GmbH is essentially executed by way of capital market and asset-backed securities programmes in accordance with the principles as well as loans granted by Volkswagen Financial Services AG.

Risk assessment

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

Liquidity risks are identified and recorded by Group Risk Management & Methods based on cash flow development statements as defined in MaRisk. These cash flow development statements are subjected to scenario-based stress tests using triggers specific to the credit institution itself, market wide triggers as well as combinations of them. The given parameterisation of these stress scenarios is based on two methods. Historically analysed events are used, and the different degrees of hypothetically conceivable events are defined. To quantify the refinancing risk, this approach takes into account the material manifestations of the insolvency risk as well as changes in spreads that are driven by credit ratings or the market.

Treasury also prepares four different cash flow development statements to ensure adequate liquidity management, performs cash flow forecasts and determines the period for which cash will suffice.

Liquidity management and monitoring

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

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

The ability required under the regulatory regimen to bridge any liquidity needs over a time horizon of seven and 30 days with a highly liquid cushion and the corresponding liquidity reserve constitutes a strict constraint. Both an emergency plan for liquidity bottlenecks and a suitable action plan for obtaining liquidity are available in the event of an internal or external liquidity bottleneck.

An emergency can be triggered by both Liquidity Risk Management (Group Risk Management & Methods) and by Liquidity Management and Planning (OLC).

Risk communication

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

OPERATIONAL RISK

Operational risk (OpR) is defined as the risk of losses that arise from the inappropriateness or failure of internal processes (process risks), employees (personnel risks) and systems (infrastructure and IT risks) or from external factors (external risks, e.g. terrorist attacks). The definitions of these four risk categories include the respective legal risks.

Operational risk management aims to make operational risks transparent and initiate countermeasures as necessary with the aim of avoiding similar losses in future.

The OpR manual and the OpR strategy are two key pillars for managing operational risks.

Risk identification and assessment

Risk assessment is designed to arrive at a joint monetary estimate of the loss exposure based on the assessments derived from the different quantitative and qualitative identification methods.

Self-assessment and the loss database are further pillars for managing operational risks:

At least once a year, risk scenarios are recorded, assessed in quantitative terms and analysed centrally by local experts in a variety of risk categories according to estimates of loss amounts and frequencies using standardised and IT-based self assessments.

Risk management and monitoring

Operational risks are managed based on the guidelines that have been put in place as well as the requirements applicable to staff and controlling personnel responsible for each specific risk type.

Group Risk Management & Methods is tasked with reviewing the plausibility of local self assessments regarding the extent and frequency of losses. Ongoing internal recording of monetary operational losses and storing the relevant data in the loss database enables local experts to systematically analyse occurrences of loss and monitor the measures that were initiated.

Each individual OpR business unit must prepare and monitor independent risk control and management measures subject to cost/benefit aspects.

Outsourcing

The risks arising from outsourcing activities are documented and managed within operational risks.

The crash barriers are stipulated by the general guidelines for the outsourcing process. These guidelines require that a risk analysis be prepared before any outsourcing is undertaken to determine the risk in each case. This analytical process serves as a component of the crash barriers and ensures that sufficient management and control intensity is applied.

All outsourcing activities are combined in Group Outsourcing Coordination. This coordination office has information about all outsourcing activities and the associated risks – the Board of Management is regularly informed about these risks.

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

Corporate Security

The goal of the Corporate Security unit is to ensure security for individuals, information and property at Volkswagen Leasing GmbH and to avoid or reduce damage to its image and losses from operational disruptions. To this end, we use Security Management at Volkswagen AG’s Group sites worldwide and our network of security services, associations and security officers of other companies in Germany and abroad when necessary.

Business continuity management

A business continuity management system, which is based on the British BS 25999 Standard, was introduced in order to ensure Volkswagen Leasing GmbH’s ability to withstand crises (“global business resilience”).

In that connection, the Corporate Security unit establishes the appropriate crash barriers (methods and procedures) for managing external risks (catastrophes) capable of triggering the loss of infrastructure/IT, time-sensitive service providers, buildings or personnel; the respective departments use these crash barriers to analyse their risks from time-sensitive activities and take precautions based on appropriate business continuity strategies and plans.

Strategic crisis management at Volkswagen Leasing GmbH serves to establish a groupwide crisis management organisation whose mission is to ensure a coordinated and structured approach to crises. Active monitoring of the global security situation as an integral part of Strategic Crisis Management is a forward-looking, preventive measure that bolsters Volkswagen Leasing GmbH’s capacity for action, even in extreme situations that endanger the company as a whole.

RESIDUAL VALUE RISK

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

Direct and indirect residual value risks are differentiated relative to the bearer of the residual value risks.

A direct residual value risk is present when the residual value risk is borne directly by Volkswagen Leasing GmbH or one of its branches (because of contractual provisions).

A residual value risk management circle has been implemented at Volkswagen Leasing GmbH and its branches. This circle requires regular residual value forecasts and continuous risk assessments, mainly in regards to direct residual value risks. Proactive marketing activities are derived from the measurement results in order to optimise earnings from the assumption of residual value risks. The marketing results so obtained are considered in the review of the residual value guidelines.

An indirect residual value risk is present if the residual value risk has been transferred to a third party based on the guaranteed residual value (e.g. dealerships).

The initial risk is that the counterparty guaranteeing the residual value might default.

If the guarantor of the residual value defaults, the residual value risk is transferred to Volkswagen Leasing GmbH.

Risk identification and assessment

The New Product Process is carried out before business activities in new markets or in connection with new products are launched. This process includes analysing potential direct residual value risks. In addition, local risk managers obtain data on the indirect residual value risks from market participants at regular intervals.

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

The change in the projected residual value one year ahead of contract expiry is measured at the sale price actually achieved (adjusted for losses and deviations from rated mileage) for purposes of quantifying the UL. Using the price for used cars enables integrating an observable benchmark into the model, with the result that the modelling may be deemed to be statistically valid. In a first step, the change in value is analysed per individual contract and period. Given the size of the portfolios and the multitude of vehicles however, the systematic risk is so significant that, in a second step, the median change in value of the projected residual values is determined across several periods. In the final analysis, this is relevant to the determination of the residual value risk. The resulting deduction is determined using the quantile function of the normal distribution based on a prescribed confidence level.

The unexpected loss is determined by multiplying the current residual value forecast with the discount.

It may be determined for each and every vehicle contained in the portfolio irrespective of the expected loss. Analogous to the EL, the portfolio’s UL follows from the ULs of all vehicles and must be determined on a quarterly basis.

The results of the quantification are used in the assessment of the exposure to risk, i.e. among other things assessments of the adequacy of the risk provisions as well as the risk-bearing capacity. Indirect residual value risks are quantified for the purpose of determining the residual value risk analogous to the method used for the direct residual value risks; dealer defaults are also taken into account.

In addition, the existing procedure for quantifying the indirect residual value risk was refined further. In particular, the parameterisation of the loss ratio was adjusted based on the historical information now available. The parameters used include the probability that the dealerships will recover as well as a ratio that takes in to account premature and normal contract terminations as part of “normal” operations. The business trend and the above-mentioned refinement of the quantification methods will further reduce the indirect residual value risks (in comparison with previous years).

As a consequence, the indirect residual value risks will continue to be classified as a “non-material risk type” for our company.

Risk management and monitoring

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

The adequacy of the risk provisions as well as the residual value risk potential are regularly monitored as part of risk management.

Opportunities from residual values are not considered when recognising risk provisions.

Given risk distribution, as at the assessment date the risks incurred may not always be hedged in full at the level of the individual contract while it is in effect.

As far as previously identified risks are concerned, in future the amounts of risk allocated to the residual term must still be earned and recognised as impairment losses.

The resulting residual value risk potential is used to take a variety of measures as part of proactive risk management in order to limit the residual value risk. Residual value recommendations regarding new business must take both prevailing market conditions and future drivers into account.

In order to reduce the risks upon expiry of a contract, the sales channels must be reviewed continuously such that the best possible result may be achieved at the time the vehicles are sold.

The stress test for direct residual value risks entails scenario analyses that are performed by experts in collaboration with central and local risk specialists. This provides a comprehensive view of the risk sensitivity of the residual value business, particularly against the backdrop of a changing economic climate. The indirect residual value risks of Volkswagen Leasing GmbH are monitored monthly in connection with portfolio assessment.

The indirect residual value risks of Volkswagen Leasing GmbH’s branches are subject to plausibility checks and measured based on the amount of the risk and its significance.

As part of risk management, Group Risk Management & Methods regularly monitors the adequacy of the risk provisions for indirect residual value risks and the residual value risk potential.

The resulting residual value risk potential is used to take a variety of measures in close cooperation with the brands and dealerships in order to limit the indirect residual value risk.

Concentrations of risk

Concentrations of residual value risks arise if a major portion of the at-risk residual values are concentrated on a few automotive segments and models. Accordingly, such concentrations are considered in the risk measurement methodology applied, the risk reporting and the analysis at the level of both brands and models in connection with the residual value risk management circle.

In regards to residual automotive values, Volkswagen Leasing GmbH is also diversified across all segments given the Volkswagen Group's broad range of brands and models.

Developments/Outlook

In the first half of 2012, residual value risks were mostly stable. In the second half-year, however, pressure on used car markets again built increasingly, which led to a slight increase in residual value risks.

The growth in the fleet business will continue in 2013, especially in Germany, with the higher volume increasing the residual value risk.

A car market expected to continue to be weak will also result in an overall increase in risks next year due to a fundamental downturn in residual values.

STRATEGIC RISK

The strategic risk means the risk of a direct or indirect loss through strategic decisions that are defective or based on false assumptions. Likewise the strategic risk also encompasses all risks arising from the integration/reorganisation of technical systems, personnel and corporate culture. This may be rooted in fundamental decisions on the company's structure, which management makes in respect of its positioning in the market.

REPUTATION RISK

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

It is one of the responsibilities of the corporate communications department to avoid negative reports in the press or elsewhere that harm the company's reputation. Adequate communication strategies tailored to specific target groups are required if this does not succeed.

SUMMARY

Volkswagen Leasing GmbH has been classified as a financial services institution pursuant to § 1 Para. 1a German Banking Act and has implemented a system for identifying, measuring, analysing, monitoring and managing risks that is being expanded continually.

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

Volkswagen Leasing GmbH succeeded in mastering challenges in 2012 despite the still-darkened economic horizon.

EVENTS AFTER THE BALANCE SHEET DATE

No important events beyond those described in this report occurred after the close of the 2012 financial year.

Personnel report

Volkswagen Financial Services AG ranks 1st in the employer competition

Successful implementation of the human resources strategy

Employees of Volkswagen Financial Services AG are responsible for running the operating business of Volkswagen Leasing GmbH in Germany. This staff is made available to Volkswagen Leasing GmbH under staff leasing agreements. As at 31 December 2012, 698 (previous year: 580) employees worked for Volkswagen Leasing GmbH in Germany.

A total of 73 members of staff employed in the branches in Milan and Verona (Italy) on 31 December 2012 (previous year: 67) had employment contracts with Volkswagen Leasing GmbH.

At Volkswagen Financial Services AG, the Personnel department covers all domestic companies of the Volkswagen Financial Services Group. The "We Are a Top Team" employee strategy supports goal achievement in the four action areas, "customers", "profitability", "volume" and "employees". Targeted personnel development serves to foster and challenge employees.

The aim, "We are a top team", is measured by Volkswagen Financial Services AG based on participation in employer competitions as well as the "mood barometer", the company's internal staff survey.

Volkswagen Financial Services AG's participation in the 2012 "Best Workplace in Germany (Great Place to Work)" employer benchmark survey produced the best possible result: First place in the category for companies with 2,001 to 5,000 employees. The very positive responses by the employees surveyed in the competition indicate that the right path was chosen for shaping the company and leadership culture. The successful ranking as a TOP employer in Germany and the insights from the study are important strategic parameters and indicators that help Volkswagen Financial Services AG to safeguard and further build on what it has achieved.

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

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

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

Anticipated developments
Weaker growth expected in the automobile markets

Despite economic uncertainties, the global economy and many automotive markets are expected to grow further in 2013 and 2014. Volkswagen Leasing GmbH hopes to take advantage of the opportunities presented by this development with new mobility packages that will enhance the traditional leasing business and its strong market position.

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

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

ECONOMIC DEVELOPMENT

Due to the continuing sovereign debt crises, we expect the Western European economies to stagnate in 2013, with recessionary trends evident in Southern Europe. A robust recovery will only be possible in 2014 if significant progress is made in solving the crisis in the euro zone.

After last year's downturn in the economy, we expect no more than modest growth from the German economy in 2013. However, the labour market situation will remain stable for the time being. The German economy will resume moderate growth in 2014. The size of the growth rate will greatly depend on future developments in the euro zone.

FINANCIAL MARKETS

Going forward, the development of the financial markets will remain dependent on the progress made in managing the European banking and sovereign debt crisis. In view of the close links with the global economy, this is a global challenge. The shortfall of capital flows to other regions of the world, especially the USA and Japan, owing to the euro zone crisis still poses a risk to the stability of the global financial markets given the uncertain economic growth in these markets too. In view of this situation, financial investments will also gain in importance in the growth markets of Brazil, Russia, India and China.

In Europe, the European banking system will have to adapt to the European banking supervision proposed by the European Commission in September 2012. In line with the European Commission's plans, the ECB will act as a watchdog and progressively supervise all banks in the 17 euro zone countries in 2013. The changes in the overall conditions are forcing a number of European banks to realign their business models, increase their equity ratios and implement further measures to reduce costs. The leasing industry too will not remain unaffected by this development.

DEVELOPMENT OF THE AUTOMOBILE MARKETS

We expect demand for automobiles to decline in Western Europe in 2013. The continuing sovereign debt crisis in many European countries is damaging consumer confidence and limiting the ability of consumers to finance new car purchases. In major markets such as Spain and Italy in particular, the government's austerity measures have dampened demand. We expect the economic situation in Western Europe to ease somewhat in 2014. As a result, we are likely to see a moderate recovery in demand for new vehicles in many markets.

The general downturn in consumer spending in Western Europe also reached the German market during the course of the year despite the stability of the country's economy. For 2013, we are therefore forecasting a fall in demand. From 2014, automotive demand in Germany should return to moderate growth, depending on future developments in the euro zone.

MOBILITY PACKAGES

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

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

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

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

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

DEVELOPMENT OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH expects its growth in the next two financial years to follow that of the Volkswagen Group. With penetration remaining stable at a high level, the expansion of the product range in existing markets and opening up new markets are aimed at boosting the company's business volume and intensifying its international alignment.

Professional residual value management is of great importance against the backdrop of uncertain economic conditions. Volkswagen Leasing GmbH continues to respond to changed market conditions by offering both residual value insurance and own marketing models for dealers in cooperation with the brands.

PROSPECTS FOR 2013 AND 2014

The Board of Management expects business growth in 2013 and 2014 to grow slightly compared to 2012, given the moderate economic growth in Germany and the resulting restraint in regards to investments, especially in the commercial segment.

Assuming stable refinancing costs and a very unsettled economic environment and its impact on risk costs, among others, and based on currently available information and analyses, earnings in 2013 are expected to be below the 2012 level in the triple-digit million range.

We believe that there is a chance for moderate growth in 2014, which, however, will be determined by the development in the euro zone. This could have a positive impact on the development of risk costs. But we also expect higher interest rate levels. Earnings for 2014 are therefore expected to be positive and higher than in 2013, with contract volumes increasing slightly.

Annual Financial Statements

Balance sheet

of Volkswagen Leasing GmbH, Braunschweig, as at 31.12.2012

€ 000			31.12.2012	31.12.2011
Assets				
1.	Cash reserve			
	Cash in hand		6	0
2.	Receivables from financial institutions			
	Payable on demand		39,635	1,021,011
3.	Receivables from customers			
	Payable on demand		104,046	95,358
4.	Investments in affiliated companies		8,651	105
5.	Intangible assets		154	234
6.	Tangible fixed assets			
	a) Leased assets	16,775,799		15,179,158
	b) Land and buildings	12,889		10,354
			16,788,688	15,189,512
7.	Other assets		1,020,087	635,110
8.	Prepaid expenses		267,364	101,562
Total assets			**18,228,631**	**17,042,892**

€ 000			31.12.2012	31.12.2011
Equity and liabilities				
1.	Liabilities to financial institutions			
	a) Payable on demand	0		467
	b) With agreed repayment period or period of notice	271,696		288,402
			271,696	288,869
2.	Liabilities to customers			
	Other liabilities			
	a) Payable on demand	1,690,655		1,213,996
	b) With agreed repayment period or period of notice	4,423,354		5,164,789
			6,114,009	6,378,785
3.	Securitised liabilities			
	Debentures issued	6,331,564		5,395,260
	from commercial paper	373,749		543,196
			6,705,313	5,938,456
4.	Other liabilities		44,006	57,851
5.	Deferred income		4,339,507	3,662,106
6.	Provisions			
	a) Tax provisions	8,875		7,193
	b) Other provisions	524,443		488,745
			533,318	495,938
7.	Special tax-allowable reserve		1,658	1,763
8.	Equity			
	a) Subscribed capital	76,004		76,004
	b) Capital reserves	142,471		142,471
	c) Net retained profits	649		649
			219,124	219,124
Total equity and liabilities			**18,228,631**	**17,042,892**
	Other obligations			
	Irrevocable credit commitments		902,910	1,561,085

Income statement

of Volkswagen Leasing GmbH, Braunschweig from 1.1. to 31.12.2012

€ 000				1.1. - 31.12.2012	1.1. - 31.12.2011
1.	Income from leases		10,581,694		10,010,366
2.	Expenses from leases		5,305,237		4,825,372
				5,276,457	5,184,994
3.	Interest income from lending and money market transactions		2,846		5,597
4.	Interest expense		342,375		357,888
	of which: Unwinding of discounts on provisions		7,072		4,254
				−339,529	−352,291
5.	Income from profit transfer agreements			1,574	252
6.	Commission income		574		444
7.	Commission expenses		418,733		406,292
				−418,159	−405,848
8.	Other operating income			80,696	71,241
9.	Income from the reversal of the special tax-allowable reserve			105	105
10.	General administration expenses				
	a) Personnel expenses				
	aa) Wages and salaries	3,349			2,860
	ab) Social security costs and expenses for pensions and support	1,194			1,345
			4,543		4,205
	b) Other administration expenses		240,819		202,807
				245,362	207,012
11.	Depreciation, amortisation and value adjustments				
	a) on intangible and tangible fixed assets		596		484
	b) on leased assets		3,814,173		3,447,245
				3,814,769	3,447,729
12.	Other operating expenses			19,466	23,943
13.	Depreciation, amortisation and allowances on receivables and additions to provisions in the leasing business			389,420	396,250
14.	Income from the write-up on receivables and from reversals of provisions in the leasing business			94,938	106,415
15.	Expenses from loss transfers			3,568	949
16.	**Result from ordinary business activities**			**223,497**	**528,985**
17.	Taxes on income and earnings			213,705	195,613
	of which: Income from change in deferred tax liabilities, Italy			0	775
18.	Profits transferred under a profit transfer agreement			−9,792	−333,372
19.	**Net income**			**0**	**0**
20.	Retained earnings brought forward from previous year			649	649
21.	**Net retained profits**			**649**	**649**

Cash flow statement

of Volkswagen Leasing GmbH, Braunschweig from 1.1. to 31.12.2012

€ 000	1.1. - 31.12.2012	1.1. - 31.12.2011
Net income (before profit transfer)	9,792	333,372
Amortisation/depreciation of fixed assets	3,814,769	3,447,729
Change in provisions	37,380	183,452
Profit from the disposal of leased assets	−299,132	−667,164
Interest result	339,529	352,291
Other adjustments	235,441	133,072
Change in receivables from customers	−8,688	3,278
Change in other assets from operating activities	−550,780	−160,939
Change in liabilities to financial institutions	−172	−48,684
Change in liabilities to customers	783,286	−128,004
Change in securitised liabilities	9,553	15,209
Change in other liabilities from operating activities	663,451	694,386
Interest received	2,846	5,597
Interest paid	−342,375	−357,888
Income tax paid	−235,441	−133,072
I. Cash flow from operating activities	**4,459,459**	**3,672,635**
Cash inflows from the disposal of leased assets	5,087,212	4,900,548
Cash outflows for investments in leased assets	−10,198,894	−9,580,994
Cash outflows for investments in tangible and intangible fixed assets used by the company	−3,050	−989
Cash outflows from the acquisition of subsidiaries	−8,546	0
II. Cash flow from investment activities	**−5,123,278**	**−4,681,435**
Cash inflows from company owners / cash outflows to company owners	−333,372	−790,387
Cash inflows from issuing bonds and taking up loans	9,585,396	10,462,506
Cash outflows from the redemption of bonds and loans	−9,569,575	−7,643,731
III. Cash flow from financing activities	**−317,551**	**2,028,388**
Net change in funds (I., II. and III.)	−981,370	1,019,588
Funds available at the beginning of the period	1,021,011	1,423
Funds available at the end of the period	39,641	1,021,011

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

Statement of changes in equity

of Volkswagen Leasing GmbH, Braunschweig, as at 31.12.2012

€ 000	Subscribed capital	Capital reserves	Net retained profits	Equity
Balance as at 31 December 2011	76,004	142,471	649	219,124
Change	–	–	–	–
Balance as at 31 December 2012	76,004	142,471	649	219,124

Notes

to the financial statements of Volkswagen Leasing GmbH, Braunschweig, as at 31.12.2012

1 | General comments regarding the annual financial statements

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

2 | Accounting policies

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

The financial assets are recognised at cost.

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

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

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

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

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

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

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

At the beginning of 2012, the method used to calculate provisions for indirect residual value risks underwent further refinement and the parameters used were adapted to reflect the changes in the market conditions.

Under a profit and loss transfer agreement, Volkswagen AG as the parent company generally accounts for deferred taxes. Deferred taxes are recognised to account for all temporary differences from the divergent treatment of balance sheet items under commercial law and the respective taxable carrying amount, taking the rate of 29.60% specific to the company into account. Deferred tax liabilities were not shown separately for the 2012 financial year because the company availed itself of the option to offset deferred tax assets and liabilities. The deferred tax liabilities relating to leased assets at the Italian branch, which is separately responsible for its taxes, are offset against deferred tax assets relating to provisions. In addition, no deferred tax assets are recognised in exercising the option in § 274 German Commercial Code (HGB).

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

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

3 | Notes to the balance sheet

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

The receivables from financial institutions break down as follows:

€ 000	31.12.2012	31.12.2011
1. Receivables from financial institutions	39,635	1,021,011
(of which payable to affiliated companies € 38,552,000; Previous year: € 450,759,000)		
(of which trade receivables € 6,416,000; Previous year: € 2,489,000)		
Total	**39,635**	**1,021,011**

The receivables from customers break down as follows:

€ 000	31.12.2012	31.12.2011
1. Trade receivables	92,965	87,249
2. Receivables from affiliated companies	2,072	582
(of which from the shareholder € 288,000; previous year: € 0)		
(of which trade receivables € 523,000; Previous year: € 582,000)		
3. Other receivables	9,009	7,527
Total	**104,046**	**95,358**

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

€ 000	31.12.2012	31.12.2011
1. Receivables from financial institutions	39,635	1,021,011
of which due 0–3 months	39,635	1,021,011
2. Trade receivables	92,965	87,249
of which due 0–3 months	92,965	87,249
3. Receivables from affiliated companies	2,072	582
of which due 0–3 months	2,072	582
4. Other receivables	9,009	7,527
of which due 0–3 months	9,009	7,527
Total	**143,681**	**1,116,369**

Other assets essentially comprise € 522,550,000 (previous year: € 261,955,000) in lease returns held as available for sale, € 154,085,000 (previous year: € 151,370,000) in receivables from accrued interest rate swaps, as well as € 228,510,000 (previous year: € 111,465,000) in receivables from the settlement of ABS transactions.

The prepaid expenses comprise discounts for debentures taken up and ABS transactions amounting to € 238,294,000 (previous year: € 73,674,000), which are eliminated pro rata temporis. In addition, the prepaid vehicle taxes amounting to € 8,403,000 (previous year: € 8,160,000) and insurance policies from service leasing amounting to € 18,562,000 (previous year: € 16,369,000) as well as other prepaid items are recognised.

The liabilities are made up as follows:

€ 000	31.12.2012	31.12.2011
1. Liabilities to financial institutions	271,696	288,869
(of which to affiliated companies € 271,696,000; Previous year: € 288,401,000)		
2. Liabilities to customers	6,114,009	6,378,785
(of which to affiliated companies € 4,885,964,000; Previous year: € 5,691,751,000)		
(of which to the shareholder € 2,661,858,000; Previous year: € 4,051,333,000)		
(of which trade receivables € 429,469,000; Previous year: € 164,915,000)		
3. Securitised liabilities	6,705,313	5,938,456
4. Other liabilities	44,006	57,851
Total	**13,135,024**	**12,663,961**

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

€ 000	31.12.2012	31.12.2011
1. Liabilities to financial institutions	271,696	288,869
of which due 0–3 months	177,696	288,869
of which due > 3–12 months	61,000	0
of which due > 12–60 months	33,000	0
2. Liabilities to customers	6,114,009	6,378,785
of which due 0–3 months	1,770,456	2,320,807
of which due > 3–12 months	343,131	713,722
of which due > 12–60 months	4,000,422	3,344,256
3. Securitised liabilities	6,705,313	5,938,456
of which due 0–3 months	301,629	584,537
of which due > 3–12 months	703,684	1,283,919
of which due > 12–60 months	3,950,000	4,070,000
of which due > 60 months	1,750,000	0
4. Other liabilities	44,006	57,851
of which due 0–3 months	36,642	50,109
of which due > 3–12 months	300	282
of which due > 12–60 months	2,382	2,243
of which due > 60 months	4,682	5,217
Total	**13,135,024**	**12,663,961**

Volkswagen Leasing GmbH did not provide any collateral for liabilities.

The provisions comprise tax provisions (€ 8,875,000; previous year: € 7,193,000) and other provisions (€ 524,443,000; previous year: € 488,745,000).

Other provisions serve to hedge risks resulting from existing leasing contracts, among others. Provisions for residual value risks amounted to € 121,838,000 (previous year: € 152,414,000). Especially expenses under service leases amounting to € 31,731,000 were taken into account (previous year: € 18,598,000). And a total of € 86,770,000 (previous year: € 91,167,000) in provisions were recognised for outstanding invoices and dealer bonuses.

The method used to calculate provisions for indirect residual value risks underwent further refinement and the parameters used were adapted to reflect the changes in the market conditions in 2012. This gave an overall boost to earnings of € 41.5 million in the 2012 financial year.

The provision recognised for repair bills outstanding under maintenance and parts contracts was € 158.4 million (previous year: € 123.9 million).

In 2012, the company recognised a provision of € 73.0 million before discounting (discount: € 2.6 million) for risks arising from contract terms for the first time.

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

Statement of changes in fixed assets:

	GROSS BOOK VALUES					VALUE ADJUSTMENTS				NET BOOK VALUES	
€ 000	Brought forward 1.1.2012	Additions	Disposals	Transfers	Balance 31.12.2012	Brought forward 1.1.2012	Additions	Disposals	Balance 31.12.2012	Balance 31.12.2012	Balance 31.12.2011
I. Intangible assets	**241**	**0**	**0**	**0**	**241**	**7**	**80**	**0**	**87**	**154**	**234**
II. Tangible fixed assets											
B) Land and buildings	22,207	118	31	0	22,294	11,853	516	32	12,337	9,957	10,354
Assets under construction	0	2,932	0	0	2,932	0	0	0	0	2,932	0
	22,207	**3,050**	**31**	**0**	**25,226**	**11,853**	**516**	**32**	**12,337**	**12,889**	**10,354**
III. Leased assets											
Vehicles, plant and equipment	20,953,743	10,177,658	8,319,772	15,498	22,827,127	5,791,533	3,814,173	3,532,343	6,073,363	16,753,764	15,162,210
Payments on account	16,948	21,236	651	− 15,498	22,035	0	0	0	0	22,035	16,948
	20,970,691	**10,198,894**	**8,320,423**	**0**	**22,849,162**	**5,791,533**	**3,814,173**	**3,532,343**	**6,073,363**	**16,775,799**	**15,179,158**
IV. Financial assets											
Investments in affiliated companies	105	8,546	0	0	8,651	0	0	0	0	8,651	105
Total fixed assets	**20,993,244**	**10,210,490**	**8,320,454**	**0**	**22,883,280**	**5,803,393**	**3,814,769**	**3,532,375**	**6,085,787**	**16,797,493**	**15,189,851**

4 | Notes to the income statement

Leasing income is € 10,581,694,000. Leasing expenses totalled € 5,305,317,000 and contain the expenditures required for generating sales. These essentially concern the residual carrying amounts of leased assets withdrawn and expenses from service leasing. The net income from leasing is € 5,276,377,000.

The interest result is divided up as follows:

€ 000	1.1. - 31.12.2012	1.1. - 31.12.2011
1. Interest income from lending and money market transactions (of which from affiliated companies € 951,000; Previous year: € 3,143,000)	2,846	5,597
2. Interest expense (of which payable to affiliated companies € 159,178,000; Previous year: € 200,769,000)	342,375	357,888
Total	**− 339,529**	**− 352,291**

Other operating expenses were € 80,696,000, of which € 74,229,000 were related to the leasing business and € 6,467,000 to allocated overhead. The income from the reversal of the special tax-allowable reserve amounts to € 105,000.
Personnel expenses for our members of staff at the Milan and Verona branches amounted to € 4,543,000, of which € 3,349,000 is attributable to wages and salaries and € 1,194,000 to social security contributions.
Other administration expenses in the amount of € 240,819,000 were incurred especially for workplace costs passed on by Group companies, personnel leases and IT costs.

The depreciation on and write-downs of leased assets in the amount of € 3,814,173,000 are presented separately. This contains write-downs of € 275,971,000 (previous year: € 192,527,000). The leased assets were written down by an additional € 10,400,000 (previous year: € 37,300,000) to account for risks from the early disposal of vehicles in connection with lessees' default (latent credit risks).

Other operating expenses in the reporting year were € 19,466,000. This contains € 6,449,000 in issuing and rating costs.

A total of € 389,420,000 in depreciation, amortisation and write-downs, allowances on receivables as well as transfers to provisions for the leasing business are in contrast to € 94,938,000 in income. The cost of setting up the provision for the utilisation of receivables pursuant to the German Consumer Credit Act in the financial year was € 73.0 million before discounting (discount: € 2.6 million).

The developments listed above resulted in a pre-tax profit of € 223.5 million (previous year: € 529.0 million) in the financial year just ended.

Under the existing profit transfer agreement, the profit amounting to € 9.8 million is transferred to Volkswagen Financial Services AG.

Distribution of income by region:

€ 000		1.1. - 31.12.2012			1.1. - 31.12.2011
		Germany	Italy	Total	Total
1.	Income from leases				
	Leases	4,130,747	190,279	4,321,026	4,037,571
	Maintenance and service contracts	733,556	6,083	739,639	583,348
	Used vehicle sales	5,010,648	76,564	5,087,212	4,900,549
	Other	418,973	14,844	433,817	488,898
		10,293,924	287,770	10,581,694	10,010,366
3.	Interest income from lending and money market transactions	2,537	309	2,846	5,597
6.	Commission income	574	0	574	444
8.	Other operating income	77,088	3,608	80,696	71,241
9.	Income from the reversal of the special tax-allowable reserve	105	0	105	105
14.	Income from the write-up on receivables and from reversals of provisions in the leasing business	66,974	27,964	94,938	106,415
Total		**10,441,202**	**319,651**	**10,760,853**	**10,194,168**

5 | Other notes

The interest rate risk is hedged by interest rate swaps with a total nominal volume of € 20.8 billion. As at the balance sheet date, the positive market values amount to € 360.9 million while negative market values amount to € 103.1 million. Market values are determined on the basis of market information available at the balance sheet date and appropriate IT-based evaluation methods. Of these derivative financial instruments, accrued interest of € 154.1 million is shown under assets and accrued interest of € 29.3 million is shown under other liabilities.

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

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

Volkswagen Leasing GmbH placed asset-backed securities transactions (ABS transactions) on the market to refinance its leasing business. Two transactions were carried out in the 2012 financial year. In 2012 Volkswagen Leasing GmbH received a total of € 3,480,749,000 in proceeds from the sale of future leasing receivables. An additional nine transaction from previous years are also in effect. Besides generating one-time inflows, these transactions do not have any additional material effects on the current and future liquidity and financial position of Volkswagen Leasing GmbH.

Volkswagen Leasing GmbH holds all shares in Vehicle Trading International (VTI) GmbH, Braunschweig. The company closed the 2012 financial year at a pre-tax loss of € 3.5 million, which is absorbed by Volkswagen Leasing GmbH under the control and profit transfer agreement. The equity of VTI as at the closing date remained unchanged at € 2.8 million.

Furthermore, Volkswagen Leasing GmbH holds all shares in carmobility GmbH (Carmobility), Munich. The company closed the 2012 financial year at a pre-tax loss of € 0.1 million, which is absorbed by Volkswagen Leasing GmbH under the control and profit transfer agreement. The equity of Carmobility as at the closing date remained unchanged at € 0.3 million.

Volkswagen Leasing GmbH acquired all shares in Euromobil Autovermietung GmbH (Euromobil), Isernhagen, effective 1 January 2012. The company closed the 2012 financial year at a pre-tax profit of € 1.6 million, which is transferred to Volkswagen Leasing GmbH under the control and profit transfer agreement. The equity of Euromobil as at the closing date was € 0.8 million.

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

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

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

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

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

To pursue its business activities in Germany, Volkswagen Leasing GmbH does not have any personnel of its own. The staff were made available by Volkswagen Financial Services AG in return for a fee. In addition, the Milan and Verona branches employed 74 members of staff on an annual average (previous year: 67).

The managing directors do not receive any emoluments from the company. No payments have been made to the members of the Supervisory Board by Volkswagen Leasing GmbH.

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

6 | Corporate bodies of Volkswagen Leasing GmbH

Board of Management as at 31.12.2012

LARS-HENNER SANTELMANN (UNTIL 31.12.2012)
Spokesman of the Board of Management (until 31.12.2012)
Marketing/Sales Individual Customers (until 31.12.2012)

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

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

DR. HEIDRUN ZIRFAS
Back Office Leasing

Supervisory Board of Volkswagen Leasing GmbH

The Supervisory Board of Volkswagen Leasing GmbH was dissolved on 15 May 2012; up until then it had comprised the following members:

HANS DIETER PÖTSCH
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

PROF. DR. HORST NEUMANN
Deputy Chairman
Member of the Board of Management of Volkswagen AG
Human Resources and Organisation

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

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

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

CHRISTIAN KLINGLER
Member of the Board of Management of Volkswagen AG
Sales and Marketing

DETLEF KUNKEL
General Secretary/Principal Representative of IG Metall Braunschweig

SIMONE MAHLER
Deputy Chairman of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

GABOR POLONYI
Head of Sales Germany Private and Corporate Customers of Volkswagen Bank GmbH

PETRA REINHEIMER
General Secretary of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

MICHAEL RIFFEL
General Secretary of the General Works Council of Volkswagen AG

AXEL STROTBEK
Member of the Board of Management AUDI AG
Finance and Organisation

Audit Committee of Volkswagen Leasing GmbH

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

The Audit Committee has the following members:

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

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

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

JÖRG THIELEMANN (FROM 01.08.2012)
Head of Customer Service Retail North/East of Volkswagen Leasing GmbH

GABOR POLONYI (UNTIL 31.07.2012)
Head of Sales Germany Private and Corporate Customers of Volkswagen Bank GmbH

7 | Responsibility statement of the Board of Management

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Volkswagen Leasing GmbH, and the 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, 8 February 2013

The Board of Management

Gerhard Künne

Andreas Kiefer

Dr. Heidrun Zirfas

Independent Auditors' Report

We have audited the annual financial statements - comprising the balance sheet, the income statement, the cash flow statement, the statement of changes in equity and the notes - including the accounting, and the management report of Volkswagen Leasing Gesellschaft mit beschränkter Haftung, Braunschweig, for the financial year from 1 January to 31 December 2012. The accounting and preparation of the annual financial statements and management report according to German commercial regulations are the responsibility of the company's Managing Directors. Our responsibility is to express an opinion on the annual financial statements, including the accounting, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Hanover, 8 February 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Burkhard Eckes
Auditor	Auditor

Report of the Audit Committee

of Volkswagen Leasing GmbH

Since 15 May 2012, Volkswagen Leasing GmbH has no longer had an optional Supervisory Board. Implementing § 324 HGB, the company established an Audit Committee whose principal tasks are described in § 107 Para. 3 Sentence 2 German Stock Corporation Act (AktG).

The Audit Committee comprises four members. The personnel changes described in the notes to the financial statements of Volkswagen Leasing GmbH took effect on 15 May 2012.

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

The Audit Committee convened its first meeting on 6 July 2012, at which it was briefed on important transactions. It also dealt with assessing the effectiveness of the internal control system (ICS), the risk management system and compliance issues. The Audit Committee asked the head of Group Risk Management & Methods, the head of Internal Audit and the Chief Compliance Officer to explain, among other things, core elements of and methods used in the ICS, the risk management system and compliance and to report on key components of the work performed on these topics during the financial year.

At its second meeting on 2 November 2012, the Audit Committee focused on assessing the effectiveness of Internal Audit as a component of the internal control system. In addition, the Audit Committee asked the head of Internal Audit to report on the audit planning, the processing status of the audit programme plus the key findings and the results of the work performed by Internal Audit. The Audit Committee also concerned itself with the audit of the financial statements. In this context, the Audit Committee requested the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover (PwC), to explain the audit planning and the areas of emphasis in the audit of the annual financial statements as at 31 December 2012. The auditors also reported on significant transactions in the reporting period as well as on important financial reporting and regulatory issues.

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

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

Braunschweig, 27 February 2013

Dr. Arno Antlitz
Chairman

Waldemar Drosdziok
Deputy Chairman

Dr. Jörg Boche
Member

Jörg Thielemann
Member

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Should actual development therefore deviate from these expectations and assumptions, or should unforeseen events occur that impact the business of Volkswagen Leasing GmbH, then the business development will be accordingly affected.

PUBLISHED BY:
Volkswagen Leasing GmbH
Gifhorner Strasse 57
38112 Braunschweig, Germany
Phone +49-531-212 0
info@vwfs.com
www.vwfs.com

Investor Relations
Phone +49-531-212 30 71

CONCEPT AND DESIGN:
CAT Consultants, Hamburg
www.cat-consultants.de

TYPESETTING:
Produced in-house with FIRE.sys

You will also find the Annual Report 2012 at www.vwfs.com/ar12

The Annual Report is also published in German.

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

VOLKSWAGEN LEASING GMBH
Gifhorner Strasse 57 · 38112 Braunschweig · Germany · Phone +49-531-212 0
info@vwfs.com · www.vwfs.com · www.facebook.com/vwfsde
Investor Relations: Phone +49-531-212 30 71 · ir@vwfs.com