Volkswagen Financial Services
Strategy and business development in China

Harald Müller
General Manager, Volkswagen Finance (China) Co., Ltd.
Volkswagen Group China Investor Update, Foshan, 11 July 2014
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Consequently, any unexpected fall in demand or economic stagnation in our key sales markets, such as in Western Europe (and especially Germany) or in the USA, Brazil or China, will have a corresponding impact on the development of our business. The same applies in the event of a significant shift in current exchange rates relative to the US dollar, sterling, yen, Brazilian real, Chinese rinminbi and Czech koruna.

If any of these or other risks occur, or if the assumptions underlying any of these statements prove incorrect, the actual results may significantly differ from those expressed or implied by such statements.

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This information does not constitute an offer to exchange or sell or an offer to exchange or buy any securities.
# Volkswagen Group – Leveraging the power of three strong pillars

## Volkswagen

### Automotive Division
- **Passenger Cars**
  - Volkswagen
  - Audi
  - SEAT
  - ŠKODA
  - Bentley
  - Bugatti
  - Lamborghini
  - Porsche
- **Commercial Vehicles / Power Engineering**
  - MAN
- **Remaining companies**

### Financial Services Division
- **Volkswagen Financial Services**
  - Europe / Asia-Pacific / North and South America
- **Financial Services**
  - USA / Canada / Spain / Argentina
  - Scania Financial Services
  - Porsche Holding Financial Services
  - Porsche Financial Services

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The key to mobility.
Volkswagen Financial Services offers the whole range of services

**BANK**
- Bank
- Direct Bank

**LEASING**
- Finance Lease
- Operating Lease

**INSURANCE**
- Automotive
- Payment Protection
- Industry

**MOBILITY**
- Services
- Rental
- Fleet Management
- Tyre
- Wear & Tear
- Long-term Rental
- Short-term Rental
- Car Sharing

- Retail Finance
- Dealer Finance
- Factoring
- Deposits
- Instalment Loans
- Investment Products
- Finance Lease
- Operating Lease
Strong benefits for automotive through captive

**Equipment**
- Cash Payer: 100%
- Captive Customer: 148%

**Turnover**
- Holding Period (years)
  - Cash Payer: 7.2
  - Captive Customer: 4.8

**Brand Loyalty**
- Cash Payer: 36%
- Captive Customer: 76%

- Switch to Competitor: 24%
- Stay Loyal: 64%

EU-5 markets
Volkswagen Financial Services in China – A true VOLKSWAGEN company

VOLKSWAGEN FINANCE
CHINA COMPANY LIMITED
Retail Finance. Wholesale Finance.

VOLKSWAGEN NEW MOBILITY SERVICES
INVESTMENT COMPANY LIMITED
Leasing. Insurance. After Sales. New Mobility.

CBRC regulated

MofCom regulated
Volkswagen Finance (China) Co., Ltd. – Overview

Volkswagen Finance (China) Co., Ltd.

- **Foundation:** 2004
- **Shareholder:**
  100% Volkswagen Financial Services AG
- **Total Assets:** RMB30.7 bn\(^1\)
- **Employees:** 684\(^1\)
- **Awards:** Top Employers China 2013 & 2014, Best AFC 2012 & 2013
- **Regulator:** China Banking Regulatory Commission (CBRC)
- **Board of Directors:**
  R. Fleger, F. Witter, L.-H. Santelmann,
  Dr. J. Mull, W. Soh
- **General Management:**
  J. Kurzrock, H. Müller, J. Huang

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1) as of 30 June 2014 including branches and subsidiaries
# Volkswagen New Mobility Services Investment Co., Ltd. – Overview

<table>
<thead>
<tr>
<th>Volkswagen New Mobility Services</th>
<th>Facts &amp; Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>• Foundation: December 2011</td>
</tr>
<tr>
<td>Beijing</td>
<td>• Shareholder: 100% Volkswagen Financial Services AG</td>
</tr>
<tr>
<td>IFC Tower 29th Floor</td>
<td>• Employees: 147(^1)</td>
</tr>
<tr>
<td></td>
<td>• 7 leasing subsidiaries(^1) + 7 leasing branches(^1)</td>
</tr>
<tr>
<td></td>
<td>• 1 consulting subsidiary</td>
</tr>
<tr>
<td></td>
<td>• Board of Directors: R. Fleger, F. Witter, L.-H. Santelmann, Dr. J. Mull, W. Soh</td>
</tr>
<tr>
<td></td>
<td>• General Management: P. Tempich, R. Yeo</td>
</tr>
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</table>

\(^1\) as of 30 June 2014 including branches and subsidiaries
Financial Services China: Three strategic growth dimensions
Traditionally, “Cash was King” when buying a car

In the past...

...cash was the first choice to buy cars!

Today...

...every 5th new car in China is financed!
In the future, consumers are expected to increasingly turn to financing…

In the past…
...cash was the first choice to buy cars!

Tomorrow…
...every 3rd new car will be financed!
Gaining share in an expanding retail financing market

Volkswagen Finance (China) retail finance penetration in the Volkswagen Group China network (% of deliveries to customers)

2007
- Cash: 90%
- Finance: 10%

- VW FS: 7.7%
- Others: 2.3%

03/2014
- Cash: 74%
- Finance: 26%

- VW FS: 16%
- Others: 10%

2018e
- Cash: 67%
- Finance: 33%

- VW FS: 18%
- Others: 15%
Growth dimension: Strong retail finance development in Volkswagen Finance

New retail finance contracts (number of units)

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>78,000</td>
<td>149,000</td>
<td>227,000</td>
<td>300,000</td>
</tr>
</tbody>
</table>
Managing growth is the key challenge for Volkswagen Finance (China)

- More and more complex regulatory environment, locally and internationally
- Unpredictable macro-economic driven growth-steering imposed by People's Bank of China
- High demand from the financing industry for experts in the labor market
- Limited funding diversification in the restricted Chinese financing market
Funding structure of Volkswagen Financial Services AG
Total €90.9 bn as of 31 December 2013\(^1\)

Strategic debt plan

- Bank lines / deposits: 1/3
- Capital markets: 1/3
- ABS: 1/3

Equity €8.9 bn (9.8%)
- Liabilities to affiliated companies: €4.5 bn (4.9%)
- Others: €4.8 bn (5.3%)
- Asset Backed Securitization €9.1 bn (10%)
- Bonds issued €25.1 bn (27.6%)
- Commercial Paper €3.3 bn (3.6%)
- Liabilities to financial institutions €11 bn (12.1%)
- Customer deposits €24.3 bn (26.7%)

\(^1\) strategic funding allocation
Funding structure of Volkswagen Finance (China)
Total RMB30.7 bn as of 30 June 2014

Strategic debt plan
- Bank lines / deposits (1/3)
- Capital markets (1/3)
- ABS (1/3)

Equity (17%)
Liabilities to affiliated companies (9%)
Dealer deposits (1%)
Liabilities to financial institutions (70%)
Others (3%)
Volkswagen Financial Services’ ABS activities – now also in China

- **VCI/ VCCI**
  - VALET program, VALT program

- **DFM**
  - DFM Master program

- **VW Bank / VW Leasing**
  - Driver- & VCL-program, VCL Master

- **VW FS UK**
  - Driver UK Master, Driver UK program

- **VW Finance France**
  - Driver France program

- **VW Finance Spain**
  - Driver España program

- **Banco VW Brazil**
  - Driver Brasil program

- **VW Finance Mexico**
  - Project Phase

- **VW Finance China**
  - Driver China program

- **VW FS Japan Ltd.**
  - Driver Japan program

- **VW FS Australia**
  - Driver Australia program
ABS program – Driver China one

- **Program history:**
  Established in 2014

- **Issuer type:**
  Trust

- **Asset volume:**
  RMB800 m

- **Underlying asset class:**
  Car loans

- **Residual value risk:**
  no

- **Balloon loans:**
  yes

### Format
- Listed and Rated Securities
- National Interbank Market

### Denomination
- RMB 100

### Pricing
- Class A  fixed rate
- Class B  fixed rate

### Rating agencies
- CCXI, Lianhe, China Rating, Fitch, Moody’s

### Rating (sf)
- Class A: AAA / AAA / AA+ / Aa / Aa3
- Class B: A+ / A+ / A / A- / Baa2

### Table: Assets vs. Liabilities

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>100%</td>
<td>87.4%</td>
</tr>
<tr>
<td></td>
<td>1.2%</td>
<td>0.5%</td>
</tr>
<tr>
<td></td>
<td>5.5%</td>
<td>6.6%</td>
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- **Well established global program**
- **TSI certification**
- **Reporting adheres to requirements for Five Star Fitch Grading**
- **Modelled on Intex**

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1) Pricing is expected to be fixed at the end of July 2014
Risk Management

Portfolio Structure

- Retail 91%
- Corporate 9%

Risk Components:

- Credit Risk
- Operational Risk
- Other Risks
- Market Price Risk

1) Based on Operational Risk Self-assessment result of 2013, which is the estimation of typical operation loss amount
2) Simulation Result based on HQ's market price risk assessment, no influence for Volkswagen Finance (China) balance sheet
3) Including Residual Value Risk, Liquidity Risk, Strategic Risk, Reputational Risk, Shareholder Risk + Issuer Risk, which are handled in HQ Risk Bearing Capacity
Credit Risk – Volkswagen Finance (China) vs. Volkswagen FS AG

**Provision Ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>VWFSAG</th>
<th>2.50%</th>
<th>2.20%</th>
<th>2.00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>0.73%</td>
<td>1.43%</td>
<td>1.13%</td>
<td></td>
</tr>
</tbody>
</table>

**Provision Ratio**

Volkswagen Finance (China)

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail Financing</th>
<th>Corporate Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>0.72%</td>
<td>0.80%</td>
</tr>
<tr>
<td>2012</td>
<td>1.21%</td>
<td>3.93%</td>
</tr>
<tr>
<td>2013</td>
<td>1.04%</td>
<td>2.07%</td>
</tr>
</tbody>
</table>
Volkswagen Leasing operates in 14 major cities via subsidiaries and branches – Potential expansion to more than 30 cities in total

Key customers:
Growth dimension: After Sales Services

Flexible package approach to meet the diversified needs of Chinese dealers / consumers
As Top Employer, our employees are our key to success
Together with the fascinating brands of the Volkswagen Group,
the global experience of Volkswagen Financial Services,
our highly dedicated employees
and our exciting new products…

... Volkswagen Finance (China) and Volkswagen New Mobility Services will serve all mobility needs of the Chinese customer also in the changing environment!
Volkswagen Financial Services
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