Volkswagen Financial Services
Strategy and business development in China
Harald Müller
General Manager, Volkswagen Finance (China) Co., Ltd.
Beijing, 14 April 2015
### Volkswagen Group – Leveraging the power of three strong pillars

<table>
<thead>
<tr>
<th>Automotive Division</th>
<th>Financial Services Division</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger Cars</td>
<td>Volkswagen Financial Services</td>
</tr>
<tr>
<td>Commercial Vehicles / Power Engineering</td>
<td>Financial Services Division</td>
</tr>
<tr>
<td>ŠKODA, Audi, SEAT, Commercial Vehicles</td>
<td>Europe / Asia-Pacific / North and South America</td>
</tr>
<tr>
<td>Volkswagen, BENTLEY, BUGATTI, PORSCHE, SCIA, MAN</td>
<td>USA / Canada / Spain / Argentina</td>
</tr>
<tr>
<td>Remaining companies</td>
<td>Scania Financial Services, Porsche Holding Financial Services, Porsche Financial Services</td>
</tr>
</tbody>
</table>
Volkswagen Financial Services offers the whole range of services

**BANK**
- Retail Finance
- Dealer Finance
- Factoring
- Deposits
- Instalment Loans
- Investment Products

**LEASING**
- Finance Lease
- Operating Lease

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

**MOBILITY**
- Fleet Management
- Tyre
- Wear & Tear
- Long-term Rental
- Short-term Rental
- Car Sharing
Strong benefits for automotive through captive

**Equipment**
- Cash Payer: 100%
- Captive Customer: 103%
- Increase: +3%

**Turnover**
- Cash Payer: 7.2 years
- Captive Customer: 5.4 years
- Increase: +25%

**Brand Loyalty**
- Switch to Competitor: 46%, 35%
- Stay Loyal: 54%, 65%
- Increase: +11%

EU-5 markets

Investor Meeting | VW FS AG | April 2015
Volkswagen Financial Services in China

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

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

**Volkswagen Finance (China) Co., Ltd.**

- **China**
  - Fu Rong Lu

- **Beijing**

**Facts & Figures**

- Foundation: 2004
- **Shareholder:**
  - 100% Volkswagen Financial Services AG
- Total Assets: RMB36.8 bn\(^1\)
- Employees: 763\(^1\)
- Regulator:
  - China Banking Regulatory Commission (CBRC)
- Board of Directors:
- General Management:
  - J. Kurzrock, H. Müller, J. Huang

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\(^1\) as of 31 December 2014
Volkswagen New Mobility Services Investment Co., Ltd. – Overview

**Volkswagen New Mobility Services**

- **Foundation:** December 2011
- **Shareholder:** 100% Volkswagen Financial Services AG
- **Employees:** 1791
- **7 leasing subsidiaries1) + 7 leasing branches1)**
- **1 consulting subsidiary**
- **Board of Directors:** R. Fleger, F. Witter, L.-H. Santelmann, C. Isensee, W. Soh
- **General Management:** P. Tempich, R. Yeo

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1) as of 31 December 2014 including branches and subsidiaries
Volkswagen 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%

2014
- Cash: 74%
- Finance: 26%
- VW FS: 17%
- Others: 11%

2018e
- Cash: 67%
- Finance: 33%
- VW FS: 18%
- Others: 15%

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Growth dimension: Strong retail finance development in Volkswagen Finance

New retail finance contracts Volkswagen Finance (China) (number of units)

<table>
<thead>
<tr>
<th>Year</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>78,000</td>
</tr>
<tr>
<td>2012</td>
<td>149,000</td>
</tr>
<tr>
<td>2013</td>
<td>227,000</td>
</tr>
<tr>
<td>2014</td>
<td>406,000</td>
</tr>
</tbody>
</table>
Managing growth is the key challenge for Volkswagen Finance (China)

- More and more complex regulatory environment, locally and internationally
- High demand from the financing industry for experts in the labor market
- Limited funding diversification in the still restricted Chinese financing market
Funding structure Volkswagen Financial Services

Total € 137.4 bn

Strategic Funding Sources

- Asset Backed Securitization: € 21.1 bn (15.3%)
- Bonds issued: € 33.6 bn (24.5%)
- Commercial Paper: € 4.2 bn (3%)
- Liabilities to affiliated companies: € 15 bn (11%)
- Liabilities to financial institutions: € 12.9 bn (9.4%)
- Customer Deposits: € 26.2 bn (19.1%)
- Equity: € 15.2 bn (11%)
- Others: € 9.2 bn (6.7%)
- Deposits
- ABS
- Capital Markets

* strategic funding allocation

as of 31 December 2014
Funding structure of Volkswagen Finance (China)
Total RMB36.8 bn as of 31 December 2014

Strategic Funding Sources
- ABS
- Deposits
- Capital Markets

Actual Funding Allocation
- Liabilities to financial institutions: RMB 24.1 bn (64%)
- Liabilities to affiliated companies: RMB 6.4 bn (17%)
- Dealer Deposits: RMB 0.3 bn (1%)
- Equity: RMB 5.0 bn (15%)
- Others: RMB 0.8 bn (2%)
- ABS: RMB 0.4 bn (1%)
Volkswagen Financial Services’ ABS activities – now also in China
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  4.80% fixed rate
  Class B  8.08% 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

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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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**Assets**

- 100%

**Liabilities**

- 87.4%
- 5.5%
- 6.6%
- 0.5%
- 1.2%
- 0.5%
Driver China one: Awards

- the first ABS onshore to get international ratings;
- the first auto securitization in China to offer a fixed rate of interest;
- the first China ABS to have a target overcollateralization scheme;
- the first China ABS to adopt servicer advance mechanism;
- the first China ABS to set up prefunded cash collateral account;
- the first China ABS to adopt sequential plus targeted-OC-level repayment mechanism;
- the first China ABS to use discounted principal balance;
- the first ABS onshore to be certified by TSI (True Sale International).
Volkswagen Financial Services: Risk management is a core competence

**Identification and Strategy**
- Risk inventory
- Business & Risk Strategy
- Risk-bearing capacity / limit system

**Methods, Processes, Systems**
- Development and Implementation of appropriate methods, processes and systems for all substantial risk categories

**Efficient Risk Control**

**Monitoring and active control**
- Central requirements (crash barriers)
- Business Financial Reviews

**Quantification and Reporting**
- Assessment of Risk parameter
- Ongoing Portfolio analysis
- Risk Reporting
- Group-wide Risk transparency
Risk Management Volkswagen Finance (China)

1) Based on Operational Risk Self-assessment result of 2014, which is the estimation of typical operation loss amount.
2) Simulation Result based on HQ’s market price risk assessment, no influence for VWFC 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.

Portfolio Structure

- Corporate: 8%
- Retail: 92%

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Credit Risk – Volkswagen Finance (China) vs. Volkswagen Financial Services

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>0.7%</td>
<td>0.8%</td>
</tr>
<tr>
<td>2012</td>
<td>1.2%</td>
<td>3.9%</td>
</tr>
<tr>
<td>2013</td>
<td>1.0%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2014</td>
<td>1.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>
Growth dimension: Volkswagen Operating Leasing (Fleet Management)

Volkswagen Leasing operates in 14 major cities via subsidiaries and branches – Potential expansion to more than 30 cities in total

Key customers:

Current Operations
Start Operations in 2015
Growth dimension: After Sales Services

Flexible package approach to meet the diversified needs of Chinese dealers / consumers
Growth dimension: Mobility / Car Sharing (Pilot Concept)

- Pilot project by VW New Mobility Services
- 1st premium corporate car sharing in Beijing

VRent is a keybox and station based system providing:

- Companies in Towers
- on demand access
- to VW-Group Vehicles
Volkswagen Finance (China) is Top Employer, because 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!
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