Efficient financing strategy in Asia

Volkswagen Financial Services – Bernd Bode
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Under the brand “Volkswagen Financial Services – the key to mobility“ the subsidiaries of Volkswagen Financial Services AG as well as its sister company Volkswagen Bank GmbH render various services under the joint brand "Volkswagen Financial Services". Such services are banking services (through Volkswagen Bank GmbH), leasing services (through Volkswagen Leasing GmbH), insurance services (through Volkswagen Versicherung AG, Volkswagen Autoversicherung AG) as well as mobility services (inter alia through Volkswagen Leasing GmbH). In addition, insurance products of other providers are offered.
1. Overview and Funding Volkswagen Financial Services
2. Funding China
3. Funding Korea
4. Funding Australia
Agenda

1. Overview and Funding Volkswagen Financial Services
2. Funding China
3. Funding Korea
4. Funding Australia
Volkswagen Group Structure

Volume
- VW
- Škoda
- SEAT
- VW LCV
- MOIA

Premium
- Audi
- Lamborghini
- Ducati

Sport & Luxury
- Porsche
- Bentley
- Bugatti

Truck & Bus
- MAN
- Scania
- Power Engineering

Procurement/Components
- Procurement
- Components

Finance & IT

China
- Region China

* Allocation will be verified
** Temporarily responsibility of Group CEO, will be a combined Board of Management function
Volkswagen Group –
Group structure of Volkswagen Financial Services

VOLKSWAGEN
AKTIENGESELLSCHAFT

FINANCIAL SERVICES DIVISION

AUTOMOTIVE DIVISION

VOLKSWAGEN FINANCIAL SERVICES

VOLKSWAGEN BANK GMBH

VOLKSWAGEN FINANCIAL SERVICES AG

Porsche Financial Services GmbH

Scania Financial Services

Porsche Holding Salzburg – Financial Services

FS companies in USA, Canada & Spain

MAN Financial Services GmbH

Volkswagen Financial Services

Digital Solutions GmbH

Volkswagen Leasing GmbH

Volkswagen Versicherungs- dienst GmbH

European Volkswagen Bank GmbH branches and European credit business affiliates

European non-bank related affiliates and affiliates in Asia-Pacific and Latin America

Volkswagen Financial Services at a glance (30/06/2018)

Worldwide Presence

Volkswagen Financial Services conducts business in 48 markets.

Key Figures

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>€ 196.5 bn</td>
</tr>
<tr>
<td>Equity</td>
<td>€ 25.6 bn</td>
</tr>
<tr>
<td>Customer Deposits</td>
<td>€ 33.6 bn</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>€ 1.2 bn</td>
</tr>
<tr>
<td>Employees</td>
<td>13,943</td>
</tr>
<tr>
<td>Contracts (units)</td>
<td>16.8 m</td>
</tr>
</tbody>
</table>

Business Volume*

- Leasing: € 79.7 bn
- Credit: € 61.2 bn
- Dealer Financing: € 19.9 bn

* Receivables + Leased Assets
Strategic Funding Allocation as of September 30, 2018
Total € 200.8 bn

- **ABS**
- **DCM**
- **Customer Deposits**
- **Banks**

- Liabilities to affiliated companies € 25.1 bn (12%)
- Liabilities to financial institutions € 21.1 bn (11%)
- Customer Deposits € 33.2 bn (17%)
- Others € 14.1 bn (07%)
- Equity € 26.1 bn (13%)
- Asset Backed Securitization € 37.6 bn (19%)
- Bonds issued € 36.4 bn (18%)
- Commercial Paper € 7.3 bn (04%)
Worldwide Capital Market Activities

VW Leasing Mexico*
MXN 20 bn Dual CP + MTN Program

VW Bank Mexico*
MXN 7 bn Debt Issuance Program

VDF Turkey
Domestic TRY Bond Issuances

Banco VW Brazil
Domestic Letra Financeira

VW FS Group
€ 5 bn CP Program
€ 25 bn Debt Issuance Program
VW Bank
€ 2.5 bn CP Program
€ 10 bn Debt Issuance Program

VW FS Korea
Domestic KRW Bond Issuances

VW FS Japan*
JPY 60 bn ECP Program

VW Finance (China)
Domestic CNY Bond Issuances

VW Bank Russia*
Domestic 100bn RUB Bond Program

VW FS Australia*
AUD 3 bn Debt Issuance Program

* Guarantee Volkswagen Financial Services AG
Worldwide ABS Activities

VW Leasing/DutchLease
- VCL Master
- DFM
- DFM Master

VW Leasing
- VCL program
- VCL Master

MAN Financial Services
- Trucknology
- VW Bank
- Driver program
- Driver Master

VW Bank France
- Driver France program

VW Bank France
- Driver UK program
- Driver UK Master

VW Finance Spain
- Driver España program

Banco VW Brazil
- Driver Brasil program

VWFS UK
- Driver UK program
- Driver UK Master

VW Finance China
- Driver China program

VWFS Japan
- Driver Japan program

VDF Turkey
- Driver Turkey Master

VWFS Australia
- Driver Australia program
- Driver Australia Master

Volkswagen Bank GmbH Programs
Volkswagen Financial Services organisational structure and guarantee scheme

Volkswagen AG
BBB+ (s) / A3 (s)

100% Owner +
Control and Profit & Loss Transfer Agreement

Volkswagen Financial Services AG
BBB+ (s) / A3 (s)

Volkswagen Bank GmbH
A- (n) / A1 (s)

Volkswagen Financial Services organisational structure and guarantee scheme

Volkswagen Financial Services Australia
Volkswagen Financial Services Japan Ltd.
Volkswagen Leasing GmbH
Volkswagen Financial Services N.V.

Volkswagen Finance (China) Co., Ltd.
Volkswagen Financial Services Korea Company Limited

Guarantee
Local stand alone rating

Credit Ratings from Standard&Poors / Moody’s as per 13 August 2018; (n) Outlook negative, (s) Outlook stable
Agenda

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Corporate Governance structure

VOLKSWAGEN

FINANCIAL SERVICES DIVISION

Volkswagen Financial Services AG

Volkswagen Finance China

AUTOMOTIVE DIVISION

SAIC FINANCE

NSC Dealer Network

SVW Dealer Network

FAW FINANCE

FAW VW Dealer Network
Volkswagen Finance China - At a Glance (30/06/2018)

**Key Facts**

<p>| | |</p>
<table>
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<tbody>
<tr>
<td>Total assets</td>
<td>RMB 64,414.5 m</td>
</tr>
<tr>
<td>Equity</td>
<td>RMB 8,730.3 m</td>
</tr>
<tr>
<td>Operating profit</td>
<td>RMB 806.1 m</td>
</tr>
<tr>
<td>Employees</td>
<td>944</td>
</tr>
<tr>
<td>Contracts (units)</td>
<td>1.2 m</td>
</tr>
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</table>

**Business Volume** RMB 60.7 bn

- Dealer Financing: RMB 3.6 bn
- Credit: RMB 55.4 bn
- Leasing: RMB 1.7 bn

**Products**

- Retail Financing
- Wholesale Financing
- Leasing

**Brands**

- Volkswagen
- Audi
- Skoda
- Seat
- Bentley
- Bugatti
- MAN
- Scania

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China’s onshore bond market is large.....and growing

• China’s domestic bond market is the world’s third-largest, with total outstanding bonds of RMB 79tn (US$11.4tn)

• The market has grown rapidly (~500%) in the last decade and is poised for further growth, given:
  • China’s “shadow banking” sector is rapidly shrinking amid the government’s ongoing deleveraging efforts; and
  • China’s corporate loan market is still ~4x the size of its bond market

Source: WIND, BIS
Securitization in China

Overall market is getting rather deep….

July 2014 first VW FS AG ABS transaction - Driver China One (RMB 800 m)

…and so is auto ABS issuance.

Source: Mizuho Analysis, China Securitisation Analytics
Current Funding Mix in China

- **International Banks**: RMB 19,570 m (37%)
- **Local Banks**: RMB 8,720 m (17%)
- **ICO AUTO**: RMB 12,257 m (23%)
- **Dealer Deposits**: RMB 379 m (1%)
- **ABS**: RMB 5,337 m (10%)
- **DCM**: RMB 5,991 m (12%)

Total RMB 52,254 m

Data as of 30th September 2018
Lessons learned China

- Long and complicated preparation procedures including negotiations with CBRC and PBOC. Hard legal frames to be followed.
- Yearly credit quota decided by the PBOC.
- ABS in general needs long internal set-up time for tapping new markets (ca. 18 months)
- Bonds preparation time shorter but approval from regulators required.
- First time international issuer ➔ VWFS as market opener for ABS.
- Rating: stand alone rating for each issuance by a local rating agency is a local legal requirement. Cooperation with rating agency CCXI.

➔ IMPORTANT: Issuances rely on regulatory approval. Backup via local bank lines needed. Funding sources beside local credit lines required.
➔ Broad diversification of funding sources important.
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VOLKSWAGEN

FINANCIAL SERVICES DIVISION

Volkswagen Financial Services AG

Volkswagen Financial Services Korea Company Limited

AUTOMOTIVE DIVISION

Audi Volkswagen Korea Company Ltd
Volkswagen Financial Services Korea Ltd - At a Glance (30/06/2018)

### Key Facts

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<table>
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<tbody>
<tr>
<td>Total assets</td>
<td>KRW 1,070 bn</td>
</tr>
<tr>
<td>Equity</td>
<td>KRW 304 bn</td>
</tr>
<tr>
<td>Operating profit</td>
<td>KRW 5.4 bn</td>
</tr>
<tr>
<td>Employees</td>
<td>84</td>
</tr>
<tr>
<td>Contracts (units)</td>
<td>37,531</td>
</tr>
</tbody>
</table>

### Products

- Retail Financing
- Wholesale Financing
- Leasing
- Mobility
- Insurance

### Business Volume*

- Receivables + Leased Assets KRW 1,035 bn
  - Dealer financing KRW 143 bn
  - Credit KRW 439 bn
  - Leasing KRW 454 bn

*Receivables + Leased Assets
Korea – DCM Overview (incl. ABS)

Bond Issuances by Amount (USDm)

July 2014 Volkswagen Financial Services Korea Limited first DCM transaction KRW 100 billion

Source: Mizuho Analysis, KOFIA (Korean Financial Investment Association), excluding Municipal, Other FI and others.
Current funding Mix Volkswagen Financial Services Korea Company

<table>
<thead>
<tr>
<th>Year</th>
<th>DCM KRW 513 bn 28%</th>
<th>Internat. Bank Loans KRW 711 bn 39%</th>
<th>International Banks Loans KRW 642 bn 62%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>ICO VWFSAG KRW 609 bn 33%</td>
<td>ICO VWFSAG KRW 401 bn 38%</td>
<td></td>
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</tbody>
</table>

Lessons learned Korea

- Step by step establishment of diverse refinancing sources:
  1. Local bond programme since July 2014.
  2. ABS feasibility study.

- Rating: local legal requirement to have local rating agency. VWFS Korea rated by two agencies (Korea Investor’s Service (KIS) and NICE Investors Service).

➤ DCM: Programme established, currently no usage.

➤ Further diversification via ABS only when sustainable portfolio growth.
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<td>4</td>
<td>Funding Australia</td>
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</tbody>
</table>
Corporate Governance structure

VOLKSWAGEN

FINANCIAL SERVICES DIVISION

Volkswagen Financial Services AG

Volkswagen Financial Services Australia

AUTOMOTIVE DIVISION

Volkswagen Group Australia Pty. Ltd

Audi Australia Pty. Ltd
At a Glance (30/06/2018)

<table>
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<td>Total assets</td>
<td>AUD 6,483 m</td>
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<tr>
<td>Equity</td>
<td>AUD 265 m</td>
</tr>
<tr>
<td>Operating profit</td>
<td>AUD 16.2 m</td>
</tr>
<tr>
<td>Employees</td>
<td>138</td>
</tr>
<tr>
<td>Contracts (units)</td>
<td>142,886</td>
</tr>
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Business Volume AUD 6.12 bn

- Retail Financing
- Wholesale Financing
- Leasing
- Services
- Insurance
- Fleet Management

Brands


- 2018 YTD ➔ A$4.9bn
- 2017 YTD ➔ A$12.5bn
- 2016 YTD ➔ A$6.4bn
- 2015 YTD ➔ A$8.3bn
- 2014 YTD ➔ A$6.4bn

June 2017
VW FS AUSTRALIA
DCM transaction
AUD 500 million

Source: Mizuho Analysis, Bloomberg as at 22 August 2018
Australian Securitization and Share of ABS

Australian Securitisation Market (USD m)

Securitisation market is developed, but so far mainly focused on RMBS.

Source: Mizuho Analysis, Bloomberg (@ average annual FX rates)
Current funding Mix Volkswagen Financial Services Australia

Data as of 30th August 2018
Lessons learned Australia

- Strong business growth but limited AUD capital market.
- Multi brand business due to multi franchise and multi brand dealership.
- Growth path → AUD funding sources not sufficient.
- Rating: no local rating required, issuances based on Volkswagen Financial Services AG rating. Bonds guaranteed by Volkswagen Financial Services AG.

⇒ Euro bonds out of European DCM programme.
⇒ Feasibility study for customer deposits.
Thank You.

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