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

#### Volkswagen

##### Automotive Division

<table>
<thead>
<tr>
<th>Passenger Cars</th>
<th>Commercial Vehicles / Power Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volkswagen</td>
<td>Commercial Vehicles</td>
</tr>
<tr>
<td>Audi</td>
<td></td>
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<tr>
<td>Škoda</td>
<td></td>
</tr>
<tr>
<td>Bentley</td>
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<tr>
<td>Bugatti</td>
<td></td>
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<tr>
<td>Porsche</td>
<td></td>
</tr>
<tr>
<td>SEAT</td>
<td></td>
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<tr>
<td>Remaining companies</td>
<td></td>
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##### Financial Services Division

<table>
<thead>
<tr>
<th>Volkswagen Financial Services</th>
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<tbody>
<tr>
<td>Europe / Asia-Pacific / North and South America</td>
</tr>
<tr>
<td>Financial Services</td>
</tr>
<tr>
<td>USA / Canada / Spain / Argentina</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Scania Financial Services</th>
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<tbody>
<tr>
<td>Porsche Holding Financial Services</td>
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<td>Porsche Financial Services</td>
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Volkswagen Financial Services

Porsche Holding Financial Services

Porsche Financial Services
Volkswagen Financial Services offers the whole range of services
Strong benefits for automotive through captive

**Equipment**
- Cash Payer: 100%
- Captive Customer: 103%

**Turnover**
- Length of ownership (years)
  - Cash Payer: 7.2
  - Captive Customer: 5.4

**Brand Loyalty**
- Switch to Competitor
  - Cash Payer: 46%
  - Captive Customer: 35%
- Stay Loyal
  - Cash Payer: 54%
  - Captive Customer: 65%
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

Investor Meeting | VW FS AG | April 2015
Volkswagen Finance (China) Co., Ltd. – Overview

Facts & Figures

- Foundation: 2004
- **Shareholder:**
  100% Volkswagen Financial Services AG
- Total Assets: RMB36.8 bn\(^1\)
- Employees: 763\(^1\)
  Best AFC 2012, 2013 & 2014
- Regulator:
  China Banking Regulatory Commission (CBRC)
- Board of Directors:
  R. Fleger, F. Witter, L.-H. Santelmann,
  C. Isensee, W. Soh
- General Management:
  J. Kurzrock, H. Müller, J. Huang

\(^1\) as of 31 December 2014
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>Fu Rong Lu</td>
<td>• <strong>Shareholder:</strong></td>
</tr>
<tr>
<td>Beijing</td>
<td>100% Volkswagen Financial Services AG</td>
</tr>
<tr>
<td></td>
<td>• Employees: 179¹)</td>
</tr>
<tr>
<td></td>
<td>• 7 leasing subsidiaries¹) + 7 leasing branches¹)</td>
</tr>
<tr>
<td></td>
<td>• 1 consulting subsidiary</td>
</tr>
<tr>
<td></td>
<td>• Board of Directors:</td>
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<tr>
<td></td>
<td>R. Fleger, F. Witter, L.-H. Santelmann,</td>
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<td>C. Isensee, W. Soh</td>
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<td>• General Management:</td>
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<td></td>
<td>P. Tempich, R. Yeo</td>
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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

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash (%)</th>
<th>Finance (%)</th>
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<tbody>
<tr>
<td>2007</td>
<td>90%</td>
<td>10%</td>
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<tr>
<td></td>
<td>2.3%</td>
<td>7.7%</td>
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<tr>
<td></td>
<td>VW FS</td>
<td>Others</td>
</tr>
<tr>
<td>2014</td>
<td>72%</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>11%</td>
<td>17%</td>
</tr>
<tr>
<td></td>
<td>VW FS</td>
<td>Others</td>
</tr>
<tr>
<td>2018e</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>VW FS</td>
<td>Others</td>
</tr>
</tbody>
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Investor Meeting | VW FS AG | April 2015
Growth dimension: Strong retail finance development in Volkswagen Finance

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

- **2011**: 78,000
- **2012**: 149,000
- **2013**: 227,000
- **2014**: 406,000
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

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

* 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**
- Deposits
- ABS
- Capital Markets

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

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

- **DFM**
  - DFM Master program

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

- **VW Bank France**
  - Driver France program

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

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

- **VW FS Australia**
  - Driver Australia program

- **VW FS Korea**
  - Feasibility study

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

- **VW Finans Sverige**
  - Feasibility study

- **VW FS Japan**
  - Driver Japan program

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

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**Legend**
- project
- established
- established + project
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

### Other
- Well established global program
- TSI certification
- Reporting adheres to requirements for Five Star Fitch Grading
- Modelled on Intex
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).

IFR Global Awards 2014: Asia-Pacific Structured Finance Issue

IFR Asia Awards 2014: Structured Finance Issue of the Year

Global Capital Asia Capital Markets Awards: Best Securitization

The Asset Triple A Regional Awards 2014: Best Domestic Securitization

China Securitization Forum Awards 2014: Top Ten Securitization Issue of the Year (Credit Assets)
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

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

Provision Ratio

Volkswagen Finance (China)

Provision Ratio

2011 2012 2013 2014

Retail Corporate

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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:

- Cargill
- Siemens
- Würth
- Otis
- Jungheinrich
- Red Bull
- Sandvik
- Voith
- Microsoft
- China Mobile
- Alstom
- Allianz
- Saint-Gobain
- Renove
- Bardenberg
- Bentley
- BMW
- Daimler
- DFV
- Frenzel+Partner
- General Electric
- General Motors
- Generali
- Generali
- IBM
- Indesit
- Johnson Controls
- Knauf
- Lufthansa
- Lufthansa
- Midea
- Milford
- Microsoft
- Neste
- Nokia
- Peugeot
- Philips
- Renault
- Siemens
- Stada
- Staff
- Stadler
- Stiefel
- Sureas
- Takeda
- Thales
- Thermo Fisher Scientific
- Thun+Hohenstein
- TierKraft
- Toyota
- United Spinal
- Unilever
- Varta
- Varta
- Volkswagen

Current Operations
- Start Operations in 2015

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Growth dimension: After Sales Services

Example market India

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!
Disclaimer

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