Financial report 2016

Volkswagen Financial Services N.V.

Amsterdam

Contents

Supervisory Board Report

The balance sheet total and the result for the financial year 2016 of Volkswagen Financial Services N.V. ('FSNV' or 'the Company') are in line with the expected development of the company.

The solvency and liquidity of the company remained good in spite of the recent developments in the Volkswagen Group where irregularities in relation to nitrogen oxide emissions had been discovered in emissions tests on certain vehicles with Diesel engines which surfaced in the third quarter 2015.

In 2016, Moody's lowered the ratings for Volkswagen Financial Services AG, the parent company, to Prime-1 / A2 (short term / long term) with negative outlook while Standard & Poor's maintained the rating at A-2 / BBB+ (short term / long term) with watch negative.

The Management Board informed the Supervisory Board in 2016 continuously on the developments regarding issuance activities and risk exposure. Risk limits set by the Supervisory Board were adhered to.

Due to the mandatory rotation of audit firms in the Netherlands the Annual General Meeting on May 12th, 2016 elected BDO as independent auditors for the fiscal year 2016. The independent auditors audited the annual financial statement of FSNV and issued an unqualified audit opinion.

Amsterdam, 14 March 2017

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Original was signed by
Dr. Michael Reinhart, Chairman of the Supervisory Board

Management report

Business Strategy
Volkswagen Financial Services N.V. (‘FSNV’) is one of the funding vehicles of parent company Volkswagen Financial Services AG (‘FSAG’) and its subsidiaries. FSNV raises funds by issuing Bonds and Commercial Paper in the international capital markets and lends the proceeds to Volkswagen Financial Services companies and joint ventures. FSNV provides the capital market funding as a service within Volkswagen Financial Services Group, thereby achieving an adequate return commensurate with the efforts and associated risks.

Funding
Basis for the issuing activities are the EUR 25 billion Debt Issuance Programme (‘DIP’) that adheres to the European Prospective Directive Standards and is regularly updated, as well as the EUR 10 billion Commercial Paper (‘CP’) Programme. All issues are fully guaranteed by FSAG.
Therefore the FSNV rating by Moody’s and Standard & Poor’s is derived from the FSAG rating. Moody’s assessed the risk with Prime-1 / A2 (short/long term) with a negative outlook while Standard & Poor’s assessed the rating with A-2 / BBB+ (short/long term) with watch negative.
Due to ongoing investigations in 2016 by the US authorities on the use of irregular diesel engine software, FSNV refrained from issuing Bonds in the international markets (2015: EUR equivalent 1.2 billion). Instead FSNV intensified the issuance of Commercial Paper.
Throughout 2016, FSNV raised a total of EUR 2.5 billion under the mentioned CP Programme (2015: EUR equivalent 1.6 billion). The proceeds of all issues were granted to Volkswagen Financial Services Group companies.
FSNV also redeemed in 2016 Bond issues with a EUR equivalent of EUR 1.7 billion (2015: EUR 1.6 billion) and CP issues totalling EUR 1.8 billion (2015: EUR 1.9 billion).

Financial results
FSNV generated a profit after tax of EUR 9.5 million in 2016 against EUR 13.2 million in 2015. The company generates income from the Group financing business. Interest surplus amounted to EUR 14.4 million (2015: EUR 20.0 million) due to reduced financing out of own equity. In 2016, the shareholder contributed EUR 400 million to the share premium reserve while EUR 501 million were repaid (2015: contribution EUR 731 million, repayment EUR 260 million).
Given that issuances under the DIP and CP-Programmes are guaranteed by FSAG, the overall financial position is sound.

Risks
FSNV is exposed to business and financial risks. Business risks comprise inter alia legal, operational, personnel, reputational and compliance risks. FSNV is adhering to the Governance, Risk and Compliance Guidelines of Volkswagen Financial Services AG managing the aforementioned risks within the Group policies.
The main financial risks of FSNV are liquidity risk, credit risk, currency risk and interest rate risk.
Liquidity risk is defined as the risk of not being able to meet own payment obligations in full or when due.
Credit risk is defined as the danger of incurring losses as a result of a default of a borrower or bank.
Currency risk refers to the potential loss in open currency positions arising from adverse changes in exchange rates.
Interest rate risk occurs because of fixed and floating interest rate mismatches between asset and liability items on the balance sheet.
The Supervisory Board has established narrow risk limits to restrict these risks and achieve a low risk exposure.

Risk policies
Liquidity risk is contained by extending loan amounts sourced from bond or CP-issuances to Volkswagen Financial Services Group companies at identical tenors as the funded amounts. VW Group borrowers repay their loans on the same due date when FSNV’s own payment obligations to the capital markets become due.

Credit risk is addressed by monitoring the financial stability of the Group borrowers and external banks. A fair value and impairment trigger assessment is performed for Group companies at least once a year or in case of need. Banks are monitored centrally at Volkswagen Financial Services AG based on rating and financial analyses. Financial transactions are only conducted with approved banks.

Currency risk is limited by matching funding and lending currency amounts. In case funding and lending currency do not match derivatives are used to achieve closed positions.

Interest rate risk is contained by matching the fixed and floating interest rate terms of the funding and lending amounts. Mismatches are closed using interest rate derivatives.

For remaining mismatches the Supervisory Board has defined narrow limits. FSNV uses adequate tools to assess and to monitor risks. On a monthly basis, a detailed mismatch report, containing all relevant risks, is presented to the management. In 2016 limits were not exceeded.

Expectations 2017

In September 2015, the California Air Resources Board (CARB) and the US Environmental Protection Agency (EPA) publicly announced that irregularities in relation to nitrogen oxide emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group diesel engines, resulting in violations of US environmental laws. On 22nd September 2015, the Volkswagen Group announced that around 11 million vehicles worldwide with type EA189 diesel engines were affected.
Depending on the different emissions regulations in the various countries, Volkswagen will rectify the diesel engine software, apply technical measures, compensate owners for reduced residual values or buy-back affected cars.

In December 2016 Volkswagen AG and the US Department of Justice, the EPA and CARB agreed that Volkswagen will pay fines of approximately 19 billion EUR, settling the legal cases.
Further provisions for fines and pending legal cases in other countries are evaluated and are going to be taken into consideration.

The majority of FSNV’s borrowers have either financed cars with affected diesel engines or have them in their lease car inventory. However, investors and the financial markets assess the risks FSNV is exposed to on the background of the guarantee by FSAG, since investors have full recourse to FSAG. FSNV management has also assessed the impact of the “diesel emission issue” on the borrowers of FSNV by analysing in detail the financial situation of the borrowers as well as budget forecasts and concluded that FSNV is not exposed to higher credit risk.

In line with the long-term business strategy, the Volkswagen Financial Services Group plans to develop new markets and to improve its position in existing markets. We expect that FSAG will keep FSNV’s capital reserve on an adequate level. As several Volkswagen Financial Services companies worldwide are going to use the attractive European funding opportunities, FSNV foresees additional requests for refinancing which will be taken care of with reinstated and increased capital market issuances under the DIP and CP-programmes. Based on this assumption, we expect a moderate increase in total business volume for FSNV in 2017. Taking into account the expected growth in business volume and the interest environment, the development of interest income should be at a similar level as in previous years.

Currently, there are no female directors on the Management or Supervisory Board. The company will deal with this in the future.

The Management Board declares to the best of their knowledge:

1. the financial statements for 2016 give a true and fair view of the assets, the liabilities, the financial position and the results of the company; and

2. the management report gives a true and fair view of the company's situation as at the balance sheet date, the events that occurred during 2016 and the risks to which the company is exposed.

Amsterdam, 14 March 2017

Original has been signed by
Thomas Fries, Managing Director

Original has been signed by
Bernd Bode, Managing Director

Financial statements

Balance sheet as at 31 December 2016

(after proposed appropriation of profit)

		31 December 2016		**31 December 2015**	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Fixed assets					
Financial fixed assets:					
Shares in participations	4	1		1	
Loans to Volkswagen Group companies	4	3,252,324		5,135,842	
Loans to joint ventures of the Volkswagen Group	4	165,071		372,402	
Total fixed assets			3,417,396		5,508,245
Current assets					
Receivables due from Volkswagen Group companies	5	2,816,117		2,618,109	
Receivables due from joint ventures of the Volkswagen Group	5	1,125,280		1,009,109	
Loans to external parties	6	500		500	
Other assets	7	32,339		36,711	
Prepaid and deferred charges	8	4,629		7,807	
Total current assets			3,978,865		3,672,236
Cash at banks and in hand	9		2,093		1,495
Total assets			7,398,354		9,181,976

The accompanying notes are integral parts of these financial statements.

Liabilities		**31 December 2016**		**31 December 2015**	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Shareholder's equity and liabilities					
Shareholder's equity	10				
Issued and paid-up share capital		454		454	
Share premium reserve		995,000		1,096,000	
Retained earnings		121,626		112,081	
Total shareholder's equity			1,117,080		1,208,535
Long-term liabilities					
Bonds	11	1,766,202		2,929,868	
Liabilities to Volkswagen Group companies	11	1,151,193		2,362,012	
Total long-term liabilities			2,917,395		5,291,880
Current liabilities					
Bonds	12	854,687		1,781,646	
Liabilities to Volkswagen Group companies	12	1,215,889		317,329	
Commercial papers	12	1,230,687		509,296	
Other liabilities	13	34,408		61,808	
Deferred income	14	28,208		11,482	
Total current liabilities			3,363,879		2,681,561
Total shareholder's equity and liabilities			7,398,354		9,181,976

The accompanying notes are integral parts of these financial statements.

Income statement for the year ended 31 December 2016

			2016		2015
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Net Financial income					
Interest and similar income	16	144,784		161,705	
Interest and similar expenses	16	(130,379)		(141,745)	
Other operating income	17	1,775		76	
Total net financial income			16,180		20,036
Expenses					
Other operating expenses	18	(33)		(244)	
General and administrative expenses	19	(1,823)		(2,169)	
Total expenses			(1,856)		(2,413)
Result before taxation			14,324		17,623
Taxation	24		(4,779)		(4,424)
Result after taxation			9,545		13,199

The accompanying notes are integral parts of these financial statements.

Cash flow statement for the year ended 31 December 2016

	2016		2015	
	EUR'000	EUR'000	EUR'000	EUR'000
Operating profit		9,545		13,199
Adjustments for:				
Income tax expenses	(4,779)		(4,424)	
Interest income	(144,784)		(161,705)	
Interest expense	130,379		141,745	
		(19,184)		(24,384)
Movement in working capital				
Accrued receivables/ other assets	82,130		160	
Other liabilities	31,889		4,712	
Deferred income	(10,476)		(6,249)	
		103,543		(1,377)
Cash (used)/ generated from operations		93,904		(12,562)
Corporate income tax paid	(2,328)		5,361	
Net cash from operating activities		91,576		(7,201)
Cash flow from investment activities				
Loans issued to affiliated companies and JV	(9,444,019)		(4,819,281)	
Repayment of loans to affiliated companies	10,700,825		5,058,513	
Interest received	263,630		158,556	
Net cash (used)/ from investment activities		1,520,435		397,788
Cash flow from financing activities				
Proceeds from borrowings	91,186		1,237,035	
Repayment of borrowings	(2,112,317)		(1,585,968)	
Proceeds from commercial papers	2,510,580		1,602,890	
Repayment of commercial papers	(1,791,256)		(1,972,245)	
Interest paid	(208,606)		(143,539)	
Proceeds from capital increase	(101,000)		471,000	
Net cash (used)/ from financing activities		(1,611,413)		(390,827)
Net cash flows		598		(240)
Balance as at 1 January		1,495		1,735
Movement		598		(240)
Balance as at 31 December		2,093		1,495

The accompanying notes are integral parts of these financial statements.

Notes to the financial statements

1 General

1.1 Activities

Volkswagen Financial Services N.V. (‘FSNV’ or ‘the company’) is a 100% subsidiary of Volkswagen Financial Services AG (‘FSAG’), who in turn is a 100% subsidiary of Volkswagen AG (“VWAG”).

FSNV’s registered office is located at Paleisstraat 1, 1012 RB Amsterdam, The Netherlands. The company is registered with the Dutch Register of Commerce under No. 33172400.

The main purpose of the company is the financing of and participation in Group companies. FSNV has access to several funding sources such as bond loans, note loans and Euro Medium Term Loans as well as inter-company loans.

All external issues are guaranteed by FSAG. FSNV has lent more than 95% of the proceeds of these borrowings to Group companies or joint ventures.

1.2 Provisions

Provisions are recognised for legally enforceable or constructive obligations that exist at the balance sheet date, and for which it is probable that an outflow of resources will be required and a reliable estimate can be made.

Provisions are measured at the best estimate of the amount that is necessary to settle the obligation as per the balance sheet date. Provisions for pension are valued on the basis of actuarial principles. The other provisions are carried at the nominal value of the expenditure that is expected to be necessary in order to settle the obligation, unless stated otherwise.

If obligations are expected to be reimbursed by a third party, such reimbursement is included as an asset in the balance sheet if it is probable that such reimbursement will be received when the obligation is settled.

1.3 Related parties

All legal entities that can be controlled, jointly controlled or significantly influenced by FSNV are considered to be related parties. Also entities which can control or significantly influence the Company are considered to be related parties. In addition, statutory directors, other key management of the company or the ultimate parent company and close relatives are regarded as related parties.

1.4 Consolidation and shares in participations

FSNV holds one share in VW Finance Belgium SA, Brussels, Belgium with a cost price of EUR 500. The issued share is less than 20% of the total shares of VW Finance Belgium SA.
The parent company of FSNV is FSAG, Brunswick, Germany. The consolidation, including all subsidiaries of FSNV, is performed at FSAG level. These consolidated financial statements can be obtained from the company.

1.5 Note to the cash-flow statement

Consolidated cash flows for the whole Volkswagen Financial Services Group are included in the Volkswagen AG consolidated financial statements; therefore a separate cash flow statement for the company is not required by Dutch law. To be in line with Capital Market practice, FSNV nonetheless prepares a cash flow statement, using the indirect method.

The cash items disclosed in the cash flow statement are comprised of cash and cash equivalents. Cash flows denominated in foreign currencies have been translated at average exchange rates. Exchange differences affecting cash items are included in the respective amounts.

Cash from loans granted and interest received are included in cash from/ used in investment activities. Cash from borrowings, including interest paid and capital increases/ dividends paid/ received are included in cash from/ used in financing activities.

All other movements are included in cash used/ generated from operations.

1.6 Estimates

The preparation of financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. If necessary for the purposes of providing the view required under Section 362(1), Book 2, of the Dutch Civil Code, the nature of these estimates and judgements, including the related assumptions, is disclosed in the notes to the financial statement items in question. Estimates used for accounting of financial fixed assets and impairment of loans granted are disclosed under note 2.6 and 2.7

2 Principles of valuation of assets and liabilities

2.1 General

The financial statements are prepared in accordance with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board. The financial statements are presented in EUR.

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred, or fair value. If not specifically stated otherwise, they are recognised at the amounts at which they were acquired or incurred. The balance sheet, income statement and cash flow statement include references to the notes.

Unless otherwise stated, amounts are shown in thousands of euros (EUR’000). All amounts shown are rounded, so minor discrepancies may arise from addition of these amounts. Negligible discrepancies could also arise in the comparison with the prior year owing to adjustments in the rounding methodology.

2.2 Comparison with prior year

The principles of valuation and determination of result remain unchanged compared to the prior year.

2.3 Foreign currencies

Functional currency

Items in the financial statements of group companies are stated with due observance of the currency of the primary economic environment in which the respective group company operates (the functional currency). The financial statements are presented in EUR, i.e. the functional and reporting currency of FSNV.

Transactions, receivables and liabilities

Monetary assets and liabilities denominated in foreign currencies are translated at the period end-rate prevailing on the balance sheet date. Investments in participations are stated at the historical exchange rate at the date of the transaction.

Transactions denominated in foreign currencies in the reporting year are recognised in the financial statements at the exchange rate ruling at the transaction date.

In respect of any positions in the balance sheet that are covered by cross currency interest rate swaps or by foreign exchange forward contracts, the differences in values calculated at closing rates at the end of the year and contract rates are allocated to the respective principals of the loans. If the loan taken is denominated in a currency other than EUR, the respective correction is allocated to this loan. Otherwise, the respective loan granted is corrected.

Hedge accounting

FSNV applies hedge accounting. Relationships between hedging instruments and hedged items are documented at the inception of the transaction. FSNV also assesses, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. This is done by comparing the critical qualitative characteristics of the hedge instrument with those of the hedged position. If there is an indication of ineffectiveness, the company measures this potentially ineffective part by conducting a quantitative ineffectiveness analysis.

2.4 Intangible fixed assets

Intangible fixed assets are carried at historical cost less amortisation. Any impairment as at the balance sheet date is taken into account; impairment exists if the carrying amount of the asset (or the cash-generating unit to which it belongs) exceeds its recoverable amount. For determining whether an impairment charge in respect of an intangible fixed asset applies, reference is made to note 2.7.

Computer software

Software licences acquired are capitalised at acquisition cost and amortised over the estimated economic life of three years. Expenditures incurred for the production of identifiable software products that are tailor-made for the group are capitalised. Expenditure in connection with maintenance of computer software and expenses related to research activities are recognised in the income statement.

The useful economic life and amortisation method is evaluated as per each balance sheet date.

2.5 Tangible fixed assets

Fixed assets are valued at acquisition or production cost including directly attributable expenses, less straight-line depreciation over the estimated useful economic life, or market value if lower.

Directly attributable production costs include the costs of the raw materials and consumables, and also include installation costs.

For computer hardware a depreciation period of 3 years is used.

The useful economic life and amortisation method is evaluated as per each balance sheet date.

2.6 Financial fixed assets

Shares in participations

The investment in the group company is valued at the lower of cost and net realisable value.

The share in the group company is specified in note 1.4.

Loans to Volkswagen Group companies and joint ventures of the Volkswagen Group and to third parties

These loans to Volkswagen Group companies, other participating interests and third parties are loans with a remaining term of more than one year. Receivables disclosed under financial fixed assets are recognised initially at fair value of the amount owed. These receivables are subsequently measured at amortised cost. The main rule is that amortised cost equals the carrying amount of the asset net of any repayments on the principal and plus, or net of, the accumulated amortisation, calculated using the effective interest method, of the difference between the amount upon initial recognition (including transaction costs) and the repayments. Straight-line amortisation in determining amortised cost is allowed as an alternative if straight-line amortisation does not lead to significant discrepancies with the effective interest method. If loans are issued at a discount or premium, the discount or premium is recognised through profit or loss over the maturities of the loans using the effective interest method. Also transaction costs are included in the initial valuation and recognised in profit or loss as part of the effective interest method. Impairment losses are deducted from amortised cost and expensed in the income statement.

Receivables from joint ventures of the Volkswagen Group

Interest receivables from joint ventures of the Volkswagen Group are receivables with a remaining term of more than one year and are valued at their nominal value.

2.7 Impairment of financial fixed assets

On each balance sheet date, the company tests whether there are any indications of assets being subject to impairment. If any such indications are present, the recoverable amount of the asset is determined. If this proves to be impossible, the recoverable amount of the cash-generating unit to which the asset belongs is identified. An asset is subject to impairment if its carrying amount is higher than its realisable value; the realisable value is the higher of the fair value less costs to sell and the value in use.

The fair value is determined based on the active market. Impairment is directly recognised as an expense in the income statement.

If it is established that a previously recognised impairment no longer applies or has declined, the increased carrying amount of the assets in question is not set higher than the carrying amount that would have been determined had no asset impairment been recognised.

The value of an asset in use is determined by estimation of the future net cash flows, based on continued use of the asset.

2.8 Current assets

All current assets have a maturity within one year.

Receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group

Receivables are recognised initially at fair value and subsequently measured at amortised cost.

Other assets

The swap interest receivables and income tax receivables are shown under other assets and are initially valued at cost and subsequently at their amortised cost value.

Prepaid and deferred charges

Prepaid and deferred charges are initially valued at cost and are amortised over the remaining life of the services or of the bonds.

Cash at banks and in hand

Cash at banks and in hand represents cash in hand and bank balances. Cash at banks and in hand is carried at nominal value.
Cash and banks denominated in foreign currencies are translated at the period end-rate prevailing on the balance sheet date.

2.9 Long-term liabilities

Bonds

The bonds are initially valued at fair value with subsequent measurement at their amortised cost value. All long-term bonds have a remaining maturity of over one year. No assets were pledged as collateral by the company.

Liabilities to banks

The liabilities to banks are initially valued at fair value with subsequent measurement at their amortised cost value. All liabilities have a maturity of over one year.

Liabilities to Volkswagen Group companies

The liabilities to Volkswagen Group companies are initially valued at fair value with subsequent measurement at their amortised cost value. All liabilities have a maturity of over one year.

Other liabilities

The swap interest payables with a run-off period of more than one year are shown under other liabilities and are valued at their amortised cost value.

2.10 Current liabilities

All current liabilities have a maturity within one year.

Bonds

The bonds are initially valued at fair value with subsequent measurement valued at their amortised cost value. All short-term bonds are payable within one year.

Liabilities to banks

The liabilities to banks are initially valued at fair value with subsequent measurement valued at their amortised cost value. All liabilities are payable within one year.

Liabilities to Volkswagen Group companies

The liabilities to affiliated companies are initially valued at fair value with subsequent measurement valued at their amortised cost value. All liabilities are payable within one year.

Other liabilities

The swap interest payables with a run-off period within one year are shown under other liabilities and are valued at their nominal value.

Deferred income

The deferred income concerns premiums and cost compensations and is amortised over the remaining life of the loans taken.

Deferred income tax

Deferred tax liabilities are recognised to provide for timing differences between the value of the assets and liabilities for financial reporting purposes on the one hand and for tax purposes on the other. Deferred tax liabilities are calculated based on the tax rate prevailing on the balance sheet date or the rates that will apply in the future, insofar as these have been set down by law.

Current income tax

The current Dutch nominal tax rate of 25% has been applied.

Trade payables

The trade payables are initially valued at fair value and subsequently at their amortised cost value and are payable within one year.

Other accrued liabilities

The accruals are based on sound business judgement and valued at the expected costs.

2.11 Financial instruments

Loans included in financial and current assets, as well as liabilities and derivative financial instruments, are stated at amortised cost. The company applies hedge accounting to hedging instruments when hedging interest and currency risk on borrowings and lendings. The company documents the relationship between hedging instruments and hedged items at the inception of the transaction. Both the derivative and the hedged item are stated at amortised cost. The gain or loss relating to any ineffective portion is recognised in the income statement within finance cost. For more information about the value of the assets, assigned as hedged item, see note 4 and 5, of the liabilities see notes 11 and 12 and of the financial instruments see note 23. The company has no derivative financial instruments other than the ones used for hedging.

Cost price hedge accounting

The company applies cost price hedge accounting to hedging interest risk and FX-risk on borrowings.

In applying cost price hedge accounting, the initial recognition of, and the accounting policies for, the hedging instrument are dependent on the hedged item, which has the following implications:

- if the hedged item is recognised at cost in the balance sheet, the derivative instrument is also stated at cost;
- as long as the hedged item is not yet recognised in the balance sheet, the hedging instrument is not re-measured (this applies, for instance, to hedging currency risks on future transactions);

- if the hedged item qualifies as a monetary item denominated in a foreign currency, the derivative instrument, where it has currency elements, is also stated at the period end-rate prevailing at the balance sheet date.

The ineffective portion of the hedge is recognised directly in the income statement.

Hedge effectiveness is assessed by comparing the critical characteristics of the hedge instrument with those of the hedged position. If there is an indication of ineffectiveness, the company measures this potentially ineffective part by conducting a quantitative ineffectiveness analysis.

2.12 General

Result is determined as the difference between the realisable value of services rendered and the costs and other charges for the year. Results on transactions are recognised in the year in which they are realised; losses are taken as soon as they are foreseeable.

2.13 Revenue recognition

Revenue from interest income is allocated to the reporting year in which it occurs. Exchange rate differences arising upon the settlement of monetary items are recognised in the income statement in the period that they arise.

2.14 Exchange rate differences

Exchange rate differences arising upon the settlement of monetary items are recognised in the income statement in the year that they arise unless hedged (notes17 and 18).

2.15 Interest income and similar income and interest expenses and similar expenses

Interest income and expenses are recognised on a pro-rate basis, taking into account the effective interest rate of the assets and liabilities concerned. When recognising the interest charges, the transaction cost on the loans received is taken into account.

2.16 Other operating income and expenses

Other operating income and expenses include income and expenses that are not directly attributable to the interest income and expenses.

2.17 General and administrative expenses

These expenses include expenses such as personnel expenses, office expenses, consulting and audit fees and depreciation and amortisation.

Depreciation
Intangible fixed assets are amortised and tangible fixed assets are depreciated over their expected useful lives as from the inception of their use. Future depreciation is adjusted if there is a change in estimated useful life.
Gains and losses upon the sale of tangible fixed assets are included in other operating income or other operating expenses respectively.

Labour and other costs
Services performed by Volkswagen International Finance N.V. (‘VIF’) for FSNV are charged at a fixed amount. The fixed amount is evaluated in regular intervals. These costs include for example salaries, rental costs and general costs.

2.18 *Taxation*

Profit tax is calculated on the profit before taxation in the income statement, taking into account any losses carried forward from previous financial years (insofar as these are not included in deferred tax assets), tax-exempt items and non-deductible expenses. Account is also taken of changes in deferred tax assets and deferred tax liabilities owing to changes in the applicable tax rates.

3 Financial instruments and risks

3.1 *Market risk*

General market risk due to recent events at Volkswagen AG

Government authorities in a number of jurisdictions are conducting investigations of Volkswagen regarding findings of irregularities in relation to nitrogen oxide emissions that had been discovered in emissions tests on certain vehicles with Diesel engines. The results of these and any future investigations may have a material adverse effect on Volkswagen's business, financial position and results, the price of its securities and reputation.

Volkswagen Financial Services N.V.'s commercial success largely depends on the financial health and the reputation of the ultimate shareholder Volkswagen AG and due to the recent events, Volkswagen Financial Services N.V. may not succeed in obtaining funds for financing requests in due time and to the extent necessary.

Also, as a result of the recent investigations, Volkswagen Financial Services N.V. as an issuer may face risks arising from legal disputes with investors claiming damages for alleged breaches of capital market laws.

Currency risk

To avoid currency risk, the loans to FSAG subsidiaries and to joint ventures of the FSAG Group and the related funding are generally matched in currency terms. If not, currency swaps are executed to achieve the matched basis.

In cases where the matching cannot be achieved completely the Supervisory Board has set small currency limits for individual currencies; matching policies are closely monitored and enforced. Consequently, currency risk is comparatively remote. In 2016, the limits were not exceeded.

Interest rate risk

Based on funding requests by FSAG subsidiaries FSNV issues notes to investors matching the fixed or variable interest requirement of the FS subsidiary. In cases where the investor looks for a different interest structure, FSNV is using interest rate swaps or cross currency interest rate swaps to convert the interest into the structure required by the FS subsidiary. The Supervisory Board authorised FSNV to run a certain interest rate risk. A limit system and tools to monitor and manage the risk have been set up. Interest mismatches are permitted within a twelve-month period only. Therefore, the risk is comparatively low. In 2016, no limits were exceeded.

3.2 *Credit risk*

The risk of default arising from loans granted, account balances and derivative financial instruments involves the risk of default by counterparties.

FSNV is extending loans to FSAG-Group companies which are operated according to the guidelines and instructions from FSAG, the guarantor of commercial paper and capital market issuances by FSNV. The default risk of FSNV-borrowers has been analysed based on financial

reports, planning forecasts and discussions with FSAG headquarters. Based on the analysis, the credit risk of FSNV-borrowers is considered to be remote.
For FSNV's external bank counterparties risk is limited by a limit system centrally managed by FSAG Group Risk Management taking into account also the credit assessments by the international rating agencies. Credit risk with external counterparties materialises from account balances, deposits and derivative transactions with a positive fair value. Given the business purpose of FSNV, account balances and deposits are zero or kept to a minimum. Regarding the derivative transactions, exposure is kept within the risk limits defined by FSAG Group Risk Management.

3.3 Liquidity risk

Based on funding requests by FSAG subsidiaries, FSNV issues commercial paper and capital market notes to investors. Funds taken from investors are extended with the same maturity to FSAG-Group borrowers.
In cases where this matching cannot be achieved the Supervisory Board has set narrow liquidity risk limits. The company monitors the limits on a permanent basis. Against the background of the relatively narrow limits and the strong financial solidity of the Volkswagen Group the liquidity risk is remote. In 2016, no limits were exceeded. Notes issued by FSNV have the benefit of a Guarantee and Negative Pledge (The Guarantee) given by Volkswagen Financial Services AG (The Guarantor).

The Debt Issuance Program under which FSNV is issuing is updated to incorporate the recent developments regarding the diesel emissions irregularities. FSNV continues to issue Commercial Paper based on the existing EUR 10 bn Commercial Paper Program to finance Financial Services Group companies.

Based on the diversified funding strategy, Volkswagen Financial Service AG acted flexibly to refinance its activities with the increased issuance of secured bonds (ABS), direct bank deposits and bank credit facilities. Additionally Volkswagen AG has arranged a EUR 20 bn facility with a consortium of banks for general corporate purposes.

4 Financial fixed assets

Shares in participations
The company's interests in other companies comprise the following:

Company	Local (original) currency (LC)	Share in issued capital as %	31 December 2016		31 December 2015	
				EUR'000		EUR'000
VW Finance Belgium SA, Brussels.	EUR	< 5		1		1

Loans to Volkswagen Group companies and joint ventures of the Volkswagen Group included in fixed assets

A breakdown of the loans to Volkswagen Group companies and joint ventures of the Volkswagen Group is as follows:

	Original currency	Weighted average interest rate (%)	31 December 2016	
			Book value	Market value
			EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	GBP	1,1716	1,570,788	1,563,585
	EUR	0,1651	1,123,972	1,122,953
	KRW	2,7824	280,000	292,325
	AUD	3,4333	220,000	217,860
	CZK	0,5616	57,564	57,915
			3,252,324	3,254,638
Fixed asset loans to joint ventures of the Volkswagen Group	NOK	1,5960	165,071	166,056
			165,071	166,056
Total loans to Volkswagen Group companies and joint ventures of the Volkswagen Group			3,417,395	3,420,694

The market values are determined based on discounted cash flows. Specific credit spreads per counterparty were not included in the model used to determine the market value. Since all loans are to Volkswagen Group companies and joint ventures, the credit spread applicable to these loans is equal to the credit spread for the Volkswagen Group.

As at December 31, the following credit spreads were applicable to the Volkswagen Group:

	31 Dec 2016 BPS	31 Dec 2015 BPS
For amounts payable within one year:	21,83	53,25
For amounts payable between one year and five years:	57,75	210,00
For amounts payable after five years	105,20	240,00

For comparison the loan overview of 2015:

	Original currency	Weighted average interest rate (%)	31 December 2015 Book value	Market value
			EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	EUR	0,4537	2,411,891	2,431,452
	GBP	1,3522	2,177,971	2,237,486
	SEK	0,2316	273,414	274,634
	KRW	2,3506	215,000	219,104
	CZK	0,5616	57,566	58,119
			5,135,842	5,220,795
Fixed asset loans to joint ventures of the Volkswagen Group	TRY	8,9850	60,000	53,285
	NOK	1,6040	312,402	315,213
			372,402	368,498
Total loans to Volkswagen Group companies and joint ventures of the Volkswagen Group			5,508,244	5,589,293

5 Receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group

	Original currency	Weighted average interest rate (%)	31 December 2016	
			Book value	Market value
			EUR'000	EUR'000
Current receivables due from	EUR	0,3435	1,392,619	1,394,674
	GBP	1,4137	525,062	507,421
Volkswagen Group companies	AUD	2,9249	310,000	307,106
excluding interest	SEK	0,3704	290,840	291,331
	CZK	0,0807	164,810	164,274
	KRW	2,7644	70,000	75,756
	PLN	0,8075	50,000	48,926
Accrued interest and other receivables			12,786	12,786
			2,816,117	2,802,274
Current receivables due from joint ventures of the Volkswagen Group excluding interest	TRY	10,4545	643,618	568,772
	NOK	1,6193	274,992	276,535
	EUR	0,5281	182,391	182,707
Accrued interest and other receivables			24,279	24,279
			1,125,280	1,052,293
Total receivables due from Volkswagen Group companies and joint ventures			3,941,397	3,854,567

For the determination of the market values, see note 4.

As mentioned in note 2.11, the terms of all outstanding loans to Volkswagen Group companies and joint ventures are hedged, using derivatives to match the terms of the bonds and loans from Volkswagen Group companies, used to fund the financing requirements of Volkswagen Group companies and joint ventures. As a result, the company has principally no exposure to interest rate risk and currency risk.

For comparison the overview of 2015:

	Original currency	Weighted average interest rate (%)	31 December 2015	
			Book value	Market value
			EUR'000	EUR'000
Current receivables due from Volkswagen Group companies excluding interest	GBP	1,3294	816,983	821,220
	AUD	3,2453	475,083	480,833
	SEK	0,1786	435,214	435,860
	EUR	1,0972	293,801	295,634
	CZK	0,0204	222,216	222,253
	JPY	0,0724	152,312	152,592
	KRW	2,7923	135,000	151,457
	PLN	2,2150	43,920	44,650
	RUB	10,7894	27,368	17,332
Accrued and other receivables			16,212	16,212
			2,618,109	2,638,043
Current receivables due from joint ventures of the Volkswagen Group excluding interest	TRY	10,9391	479,544	482,434
	NOK	1,6898	334,731	332,043
	EUR	0,5815	171,378	171,717
Accrued and other receivables			23,456	23,456
			1,009,109	1,009,650
Total receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group			3,627,218	3,647,693

6 Loans to external parties

This balance sheet position contains loans to:

Company	Original currency	Interest rate	Amount In EUR	Maturity
Pon Auto Import Nederland B.V., Leusden	EUR	1,000	100,000	25-05-2017
Pon Automotive B.V., Leusden	EUR	1,000	200,000	25-05-2017
Pon Holdings B.V., Almere	EUR	1,000	200,000	25-05-2017

These Dutch companies do not belong to the Volkswagen Group. The loans are not guaranteed by FSAG. The fair values of these loans approximate the carrying value.

The interest rates charged on the above loans are calculated on 1-year Euribor plus a margin based on market price margin for investment graded companies.

For comparison the overview of 2015:

Company	Original currency	Interest rate	Amount In EUR	Maturity
Pon Auto Import Nederland B.V., Leusden	EUR	1,162	100,000	25-05-2016
Pon Automotive B.V., Leusden	EUR	1,162	200,000	25-05-2016
Pon Holdings B.V., Almere	EUR	1,162	200,000	25-05-2016

7 Other assets

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Swap interest receivables from banks	26,128	33,878
Income tax receivable	1,371	2,040
Unrealized FX gains and losses	4,839	793
Other debtors	1	-
	32,339	36,711

The income tax receivable relates to recoverable income- and withholding taxes.

8 Prepaid and deferred charges

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Prepaid and deferred charges	4,629	7,807
	4,629	7,807

The prepaid and deferred charges mainly consist of deferred emission costs.

9 Cash at banks and in hand

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Cash at internal bank accounts	1,412	933
Cash at external bank accounts	681	562
	2,093	1,495

All cash balances are at the free disposal of the company and do not bear any interest. The credit risk for cash at external bank accounts is based a risk assessment and within the limits defined by FSAG Group Risk Management.

10 Shareholder's equity

	Issued and paid-up share capital	*Share premium reserve*	*Retained earnings*	*Total equity*
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Balance as at 1 January 2015	454	625,000	98,882	724,336
Contribution from FSAG	-	731,000	-	731,000
Repayment of contribution to FSAG	-	(260,000)	-	(260,000)
Result for the year 2015	-	-	13,199	13,199
Balance as at 31 December 2015	454	1,096,000	112,081	1,208,535
Contribution from FSAG	-	400,000	-	400,000
Repayment of contribution to FSAG	-	(501,000)	-	(501,000)
Result for the year 2016	-	-	9,545	9,545
Balance as at 31 December 2016	454	995,000	121,626	1,117,080

The Shareholder's equity breaks down as follows:

Share capital

On 31 December 2016, the subscribed capital of the company amounted to EUR 2,270,000, of which an amount of EUR 454,000 was paid-up, representing 454 registered and issued shares of EUR 1,000 each. The company has no mandatory statutory reserve.

Share premium reserve

To increase flexibility in group financing, an amount of EUR 400 million was newly contributed by FSAG, while an amount of 501 million has been repaid in 2016. The balance of the share premium reserve at the end of 2016 amounted to EUR 995 million.

Retained earnings

At the end of 2016, the total retained earnings amounted to EUR 122 million and the total equity amounted to EUR 1.1 billion.

11 Long-term liabilities

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Bonds listed	1,134,504	2,112,820
Bonds unlisted	631,698	817,048
	1,766,202	2,929,868

A breakdown of the long-term bonds is as follows:

	Original currency	Average interest rate as percentage	31 December 2016 Book value	31 December 2016 Market value
			EUR'000	EUR'000
Maturity less than 5 years				
Bonds listed	GBP	2,5735	990,099	1,024,602
Bonds listed	NZD	4,8750	59,038	67,329
Bonds listed	NOK	1,3750	55,024	55,105
Bonds listed	CZK	0,6300	30,343	30,328
Bonds unlisted	GBP	1,7500	407,687	412,927
Bonds unlisted	NZD	4,2500	113,963	132,753
Bonds unlisted	NOK	1,2500	110,048	109,833
Total long-term bonds			1,766,202	1,832,877

For comparison purposes, the overview of 2015 is as follows:

	Original currency	Average interest rate as percentage	31 December 2015 Book value	31 December 2015 Market value
			EUR'000	EUR'000
Maturity less than 5 years				
Bonds listed	EUR	0,159	60,000	58,741
Bonds listed	CZK	0,630	30,345	30,345
Bonds listed	CAD	2,125	77,101	65,399
Bonds listed	GBP	2,386	1,498,740	1,487,827
Bonds listed	NOK	1,969	208,268	207,935
Bonds listed	NZD	4,875	75,136	62,357
Bonds listed	SEK	0,000	163,230	159,875
Bonds unlisted	GBP	1,750	476,872	454,869
Bonds unlisted	NZD	4,250	127,223	121,497
Bonds unlisted	SEK	0,583	108,820	106,800
Bonds unlisted	NOK	1,250	104,133	102,639
Total long-term bonds			2,929,868	2,858,284

The bonds are placed under the existing EUR 25bn DIP Programme and rank pari passu with the existing issuance.

Liabilities to Volkswagen Group companies excluding interest

A breakdown of the long-term liabilities to Volkswagen Group companies is as follows:

	31 December 2016			
	Original currency	**Average interest rate as percentage**	**Book value**	**Market value**
			EUR'000	EUR'000
Maturity less than 5 years				
VWGoAF	USD	2,0025	1,151,193	1,287,843
			1,151,193	1,287,843

For comparison purposes, the overview of 2015 is as follows:

	31 December 2015			
	Original currency	**Average interest rate as percentage**	**Book value**	**Market value**
			EUR'000	EUR'000
Maturity less than 5 years				
VWGoAF	USD	1,744	2,061,585	2,287,217
Skoda	CZK	0,364	300,427	305,870
			2,362,012	2,593,087

The credit ratings of the rating agencies are derived from FSAG's rating:

	2016		
Agency	Short-term	Long term	Outlook
Moody's	Prime-1	A-2	Negative
Standard & Poor	A-2	BBB+	Watch negative

	2015		
Agency	Short-term	Long term	Outlook
Moody's	Prime-1	A-1	Negative
Standard & Poor	A-2	BBB+	Negative

12 Current liabilities

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Bonds listed	750,163	1,781,646
Bonds unlisted	104,524	-
	854,687	1,781,646

A breakdown of the current bonds is as follows:

	Original currency	Average interest rate as percentage	31 December 2016	
			Book value	Market value
			EUR'000	EUR'000
Maturity less than 1 year				
Bonds listed	EUR	0,0000	60,000	60,000
Bonds listed	SEK	0,0000	156,786	156,745
Bonds listed	GBP	1,7500	291,206	291,238
Bonds listed	NOK	2,1667	165,071	165,581
Bonds listed	CAD	2,1250	77,101	70,422
Bonds unlisted	SEK	0,4070	104,524	104,707
Total current bonds			854,687	848,693

For comparison purposes, the overview of 2015 is as follows:

	Original currency	Average interest rate as percentage	31 December 2015	
			Book value	Market value
			EUR'000	EUR'000
Maturity less than 1 year				
Bonds listed	EUR	0,142	150,000	149,542
Bonds listed	SEK	0,119	484,708	486,578
Bonds listed	GBP	1,250	681,245	677,614
Bonds listed	TRY	9,063	75,555	74,404
Bonds listed	NOK	2,696	390,138	363,967
Total current bonds			1,781,646	1,752,105

Liabilities to Volkswagen Group companies

A breakdown of the current liabilities, including accrued interest to Volkswagen Group companies is as follows:

	Original currency	Average interest rate as percentage	31 Dec 2016	31 Dec 2015
			EUR'000	EUR'000
Volkswagen Group Services	EUR		-	22,000
Volkswagen FSAG	EUR		-	32,000
VIF	EUR		-	49,990
VWGoAF	USD	1,4660	910,390	208,044
Skoda	CZK	0,3643	300,427	-
Accrued interest	EUR		5,072	5,295
			1,215,889	317,329

Commercial papers

A breakdown of the current liabilities from issued commercial paper as per 31 December.2016 is as follows:

	Original currency	Average interest rate as percentage	31 December 2016	
			Book value	Market value
			EUR'000	EUR'000
Average term 8 months				
Commercial Papers	EUR	0,2054	1,179,471	1,178,669
Commercial Papers	SEK	0,0957	51,216	51,249
Total commercial papers			1,230,687	1,229,918

For comparison the overview of 2015:

	Original currency	Average interest rate as percentage	31 December 2015	
			Book value	Market value
			EUR'000	EUR'000
Average term 5 months				
Commercial Papers	EUR	0,1480	429,000	428,867
Commercial Papers	SEK	0,0200	80,296	81,581
Total commercial papers			509,296	510,448

13 Other liabilities

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Loan interest payable	24,187	38.558
Swap interest payable	8,048	19,950
Current income tax	1,443	2,523
Withholding tax payable	650	723
Accrued liabilities	59	41
Accounts Payable	21	12
	34,408	61,807

14 Deferred income

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Capitalised issue income	28,208	11,482
	28,208	11,482

This item relates to received up-front payments from cross-currency interest rate swaps, compensating the emission costs incurred on bonds.

15 Commitments not included in the balance sheet

The following revolving credit facilities are currently outstanding:

Borrower	Currency	Amount in EUR'000	Effective date	Termination date
LLC VW Bank Rus	RUB	8,000,000	20.02.2012	Open
VW Group Finanz OOO	RUB	2,300,000	10.12.2007	Open
SkoFIN	CZK	4,000,000	03.09.2012	Open
MAN Financial Services OOO	RUB	3,000,000	02.07.2015	Open
VW Financial Services Russia LLC	RUB	8,000,000	02.07.2015	Open

For comparison the overview of 2015:

Borrower	Currency	Amount in EUR'000	Effective date	Termination date
LLC VW Bank Rus	RUB	8,000,000	20.02.2012	Open
VW Group Finanz OOO	RUB	2,300,000	10.12.2007	Open
VW Global Finance Holding BV	EUR	60	19.02.2009	Company was disolved in 2016
SkoFIN	CZK	4,000,000	03.09.2012	Open
MAN Financial Services OOO	RUB	3,000,000	02.07.2015	Open
VW Financial Services Russia LLC	RUB	8,000,000	02.07.2015	Open

16 Financial income and expenses

	2016	2015
	EUR'000	EUR'000
Interest and similar income	144,784	161,705
Interest and similar expenses	130,379	141,745
	14,405	19,960

17 Other operating income

	2016	2015
	EUR'000	EUR'000
Miscellaneous income previous years	4	76
Exchange result	1,771	-
	1,775	76

The miscellaneous income previous years relates to the reversal of accruals.

18 Other operating expenses

	2016	2015
	EUR'000	EUR'000
Miscellaneous expenses previous years	33	224
Bank charges	-	20
	33	244

The miscellaneous expenses previous year relate to withholding taxes.

19 General and administrative expenses

	2016	2015
	EUR'000	EUR'000
Personnel and other costs third party	1,450	1,589
Consulting and auditing fees	95	76
EDP expenses	198	128
SAP FI Project	-	268
General office expenses	59	85
D&O insurance	21	23
	1,823	2,169

The personnel and other costs third party is a charge from VIF for services rendered to FSNV. Due to a re-negotiation of the Service Level Agreement in January 2015, the amount charged for these services will fluctuate on a year-to-year basis.

20 Independent auditor's fees

The following fees based on invoices and estimated work orders for assurance services incurred in the reporting year:

	2016	2015
	EUR'000	EUR'000
Audit of the financial statements	35	31
Other audit procedures	31	-
Tax services	-	-
Other non-audit services	-	-
	66	31

No other services were rendered by either PricewaterhouseCoopers Accountants N.V. or BDO Audit & Assurance B.V.

In 2015, the audit was performed by PricewaterhouseCoopers Accountants N.V. Due to mandatory rotation of audit firm, the audit in 2016 was performed by BDO Audit & Assurance B.V.
The other audit procedures relate to the audit of the group reporting packages and was performed by PricewaterhouseCoopers Accountants N.V.

21 Related parties

All loans are granted to other group companies, except for the loans mentioned in note 6. The interest income is mainly derived from group companies.

For receivables due from Volkswagen Group companies, see note 4 and 5.

For liabilities to Volkswagen Group companies, see note 11 and 12.

22 Average number of employees

The employees are supplied by VIF. The costs regarding the work performed for FSNV are included in the service charges of EUR 1,300,000 which are included in the general and administrative expenses.

23 Financial instruments

The company's policy is to fully hedge its interest rate and exchange rate exposures.The current hedges are all 100% effective.

The financial instruments of the company had the following notional amounts:

	Interest swaps	**Interest/ currency swaps**	**FX Contracts**	**Total**
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2016	2,019,134	3,279,022	1,374,660	6,672,816
31 December 2015	3,279,594	3,602,296	1,122,792	8,004,682

The financial instruments of the company had the following positive or negative market values:

	Interest swaps	**Interest/ currency swaps**	**FX contracts**	**Total**
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2016				
Positive market value	56,407	417,378	64,652	538,438
Negative fair value	-	(17,596)	(3,451)	(21,047)
Total market value	56,407	399,782	61,202	517,391
31 December 2015				
Positive market value	41,497	381,567	5,237	428,301
Negative fair value	(858)	(60,146)	(13,029)	(74,033)
Total market value	40,639	321,421	(7,792)	354,268

24 Taxation

The taxation on the result on ordinary activities can be specified as follows:

	2016	**2015**
	EUR'000	EUR'000
Result before taxation	14,324	17,623
Taxation on result	4,779	4,424
Effective tax rate	33,4%	25,1%
Applicable tax rate	25,0%	25,0%

25 Profit distribution

Management proposes to retain the 2016 profit of EUR 9,545,526.77

26 Post balance sheet events

No post balance sheet events that require disclosure have occurred.

27 Directors and supervisory directors

Management Board:
- Thomas Fries, Amsterdam
- Bernd Bode, Hannover

Supervisory Board:
- Dr. Michael Reinhart, Braunschweig

The Management and Supervisory Board have not received any remuneration for 2016 or 2015.

Amsterdam, 14 March 2017

Management Board,

Original has been signed by
T. Fries

Original has been signed by
B. Bode

Supervisory Board,

Original has been signed by
Dr. M. Reinhart

Other information

Profit appropriation according to the Articles of Association

The company’s Articles of Association provide that appropriation of accrued profit is subject to the decision of the shareholders at the general meeting of shareholders. The company can only make distributions to the shareholders and other persons entitled up to an amount which does not exceed the amount of the distributable reserves. The general meeting may resolve to pay dividends from legally distributable reserves.

Independent auditor's report

To: the shareholders and Supervisory Board of Volkswagen Financial Services **N.V.**

A. Report on the audit of the financial statements 2016

Our opinion
We have audited the financial statements 2016 of Volkswagen Financial Services N.V., based in Amsterdam ('FSNV' or the 'Company')

WE HAVE AUDITED	OUR OPINION
The financial statements which comprise: 1. the balance sheet as at 31 December 2016; 2. the income statement for 2016; and 3. the notes comprising a summary of the applicable accounting policies and other explanatory information.	In our opinion the enclosed financial statements give a true and fair view of the financial position of Volkswagen Financial Services N.V. as at 31 December 2016 and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Basis for our opinion
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Volkswagen Financial Services N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality
Based on our professional judgment we determined the materiality for the financial statements as a whole at € 75.1 million. The materiality has been calculated as 1% of the total assets which is the primary consideration of the users of the financial statements of the company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of € 3.8 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	OUR AUDIT APPROACH
Existence and valuation of loans	
As discussed in Note 1.1 to the financial statements, the main purpose of FSNV is the financing of companies and joint ventures belonging to the Volkswagen Financial Services AG group ('Volkswagen Group') through offering bonds and issuing commercial papers. The repayment of these financial liabilities is being guaranteed by Volkswagen Financial Services AG. We considered the existence and valuation of the financial instruments granted to related parties as a key audit matter due to the size of the portfolio which consists of loans to (€ 3.4 billion) and receivables due from (€ 3.9 billion) Volkswagen Group companies and joint ventures as of year-end and due to the material impact an impairment may have on the income statement. These are initially recognized at fair value and subsequently measured at amortized cost. In 2015, there were irregularities identified by US authorities relating to nitrogen oxide emissions on certain Volkswagen diesel engines. This prompted Standard & Poor's and Moody's Investor Services to downgrade the credit rating of Volkswagen Financial Services AG. This has an impact to the creditworthiness of the entities within Volkswagen Group with existing loan balances due to FSNV and therefore could affect the valuation of the related accounts. Based on the impairment assessment performed by FSNV, management has concluded that no impairment is necessary as of year-end.	In order to ascertain the existence of loans issued to Volkswagen Group companies, we have performed confirmation procedures with counterparties and tested the controls over the input of contracts in FSNV's accounting system. The following procedures were performed to identify potential impairment triggers that affects the valuation of loans: 1. Discussed the impairment analysis with management and Supervisory Board and challenged the assumptions used by comparing them with external observable data (e.g., data from credit rating agencies and financial data of the debtors). 2. Analyzed if there have been any impairment triggers at an individual loan level by challenging the fair values determined by management. 3. Tested the acceptability of impairment analysis method used by management by validating the mathematical accuracy and consistency of the method per counterparty. Further, we have also reviewed the latest financial information of Volkswagen Financial Services AG to assess its ability to cover the repayment of financial securities issued by FSNV in case of default. We assessed the adequacy of the disclosures in the financial statements relating to these financial instruments.

KEY AUDIT MATTER	OUR AUDIT APPROACH
Appropriateness of hedge accounting As discussed in Note 2.11, FSNV applies cost price hedge accounting to manage its interest rate and foreign exchange risks. Management assessed that the hedge is 100% effective by comparing the critical qualitative characteristics of the hedged item and the hedging instrument. We have identified this as a key audit matter since inappropriate application of the hedging will have an impact to the income statement.	The following procedures were performed to ascertain that the use of hedge accounting is appropriate: 1. Discussed with management the rationale for their expectation at the inception of the hedge that the hedging relationship will be highly effective and their process for reviewing its ongoing effectiveness. 2. Reviewed the documentation and hedge effectiveness testing performed by the management to ensure that the hedged transactions comply with the hedge accounting requirements, including designation and documentation requirements.

KEY AUDIT MATTER	OUR AUDIT APPROACH
Completeness of derivatives FSNV entered into derivative contracts to manage its interest rate risks and currency risks relating to the loans issued to Volkswagen Group companies. FSNV's portfolio consists of forward contracts, long-term interest rate swaps and cross currency swaps where the market is not always fully liquid. There is an increased level of subjectivity in determining the fair values of the instruments due to the number of input factors. We consider the completeness and valuation of derivatives as a key audit matter as these are related to the hedging transactions of the company. As of year-end, the notional amounts of the derivative instruments totaled € 6.7 billion.	The completeness of the derivatives was tested by verifying that the outstanding derivatives as of year-end are in line with the outstanding loan and deposit balances in nature and extent and by reviewing the results of the confirmation replies regarding the existing derivative contracts with the banks. We have requested the auditors of Volkswagen Group to perform the testing procedures of the valuation of derivative instruments as follows: 1. Review the process of FSNV in determining the fair values of the derivative instruments. 2. Evaluation of the model and underlying data used to develop the fair value measurement. We have reviewed and discussed the results of the testing procedures performed by the auditors of Volkswagen Group to ensure that the specified audit procedures were undertaken properly and the risks identified were fully addressed. We assessed the adequacy of the disclosures in the financial statements relating to these derivative financial instruments.

B. Report on other information included in the annual report

Next to the financial statements and our opinion thereon, the annual report consists of other information, including:
- the Supervisory Board report;
- the management report; and
- the other information on page 35.

Based on the procedures as mentioned below, we are of the opinion that the other information:
- is consistent with the financial statements and contains no material deficiencies;
- includes all information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information and based on our knowledge and understanding obtained from the audit of the financial statements or otherwise, we have considered if the other information contains material deficiencies.

With these procedures, we have complied with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Auditing Standard 720. These procedures do not have the same scope as our audit procedures on the financial statements.

Management is responsible for the preparation of the other information including the preparation of the Supervisory Board report, management report and the other information on page 35 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

C. Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of Volkswagen Financial Services N.V. on 29 September 2016 as of the audit for year 2016 and have operated as statutory auditor ever since that date.

D. Description of responsibilities for the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from errors or fraud and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not mentioning it is in the public interest.

Amstelveen, 15 March 2017

For and on behalf of BDO Audit & Assurance B.V.,

sgd.
drs. M.F. Meijer RA