

# VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

ANNUAL FINANCIAL STATEMENTS (HGB)  
OF VOLKSWAGEN BANK GMBH

*2016*

# Balance Sheet

of Volkswagen Bank GmbH, Braunschweig, as of December 31, 2016

€ thousand		Dec. 31, 2016	Dec. 31, 2015
<b>Assets</b>			
1. Cash reserve			
a) Cash-in-hand	1,309		1,050
b) Central bank balances	1,370,640		1,266,537
of which:			
at Deutsche Bundesbank €1,363,000 thousand			(1,261,016)
c) Post office bank balances	77		47
		1,372,026	1,267,634
2. Loans to and receivables from banks			
a) Repayable on demand	896,774		786,367
c) Other receivables	815,804		518,707
		1,712,578	1,305,074
3. Loans to and receivables from customers		43,210,027	36,878,055
4. Bonds and other fixed-income securities			
a) Bonds			
aa) From public-sector issuers	2,071,512		2,127,629
of which:			
eligible as collateral at Deutsche Bundesbank €1,819,797 thousand			(1,833,778)
ab) From other issuers	10,767,740		9,564,776
of which:			
eligible as collateral at Deutsche Bundesbank €9,425,673 thousand			(9,564,776)
		12,839,252	11,692,405
5. Equities and other variable-yield securities		0	0
6. Long-term equity investments		200	200
7. Shares in affiliated companies		77,136	66,492
of which:			
in banks €77,136 thousand			(66,492)
8. Intangible fixed assets			
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	6,196		6,545
b) Goodwill	333		500
		6,529	7,045
9. Property and equipment		8,549	9,029
10. Lease assets		1,003,716	802,949
11. Other assets		436,139	446,245
12. Prepaid expenses		5,153	7,406
<b>Total assets</b>		<b>60,671,305</b>	<b>52,482,534</b>

€ thousand		Dec. 31, 2016	Dec. 31, 2015
<b>Equity and liabilities</b>			
1. Liabilities to banks			
a) Repayable on demand	184,032		148,411
b) With agreed maturity or notice period	4,687,976		3,821,786
		4,872,008	3,970,197
2. Liabilities to customers			
a) Other liabilities			
aa) Repayable on demand	25,932,463		23,035,576
ab) With agreed maturity or notice period	11,484,858		6,794,057
		37,417,321	29,829,633
Notes, commercial paper issued			
a) Bonds issued	1,815,048		3,666,048
		1,815,048	3,666,048
4. Other liabilities		8,901,039	9,621,218
5. Deferred income		661,654	538,891
6. Provisions			
a) Provisions for pensions and similar obligations	40,443		43,422
b) Provisions for taxes	21,357		38,836
c) Other provisions	515,973		427,784
		577,773	510,042
7. Special tax-allowable reserve		1,214	1,257
8. Subordinated liabilities		30,000	30,000
9. Fund for general banking risks		25,565	25,565
10. Equity			
a) Subscribed capital	318,279		318,279
b) Capital reserves	6,025,800		3,945,800
c) Revenue reserves			
ca) Other revenue reserves	25,604		25,604
c) Net retained profits	0		0
		6,369,683	4,289,683
<b>Total equity and liabilities</b>		<b>60,671,305</b>	<b>52,482,534</b>
1. Contingent liabilities			
a) Liabilities under guarantees and indemnity agreements		135,339	97,018
of which:			
to affiliated companies		115,422	66,632
2. Other obligations			
a) Irrevocable credit commitments		1,435,011	1,307,533
of which:			
to affiliated companies		142,998	130,773

# Income Statement

of Volkswagen Bank GmbH, Braunschweig, for the period January 1 to December 31, 2016

€ thousand			2016	2015
1. Interest income from				
a) Lending and money market transactions	1,269,812			1,220,557
b) Fixed-income securities and debt register claims	86,392			76,119
2. Interest expense		1,356,204		1,296,676
3. Interest anomalies		179,637		167,633
a) Positive interest from banking business (collateral deposits)	720			
b) Negative interest from money market transactions	9,816			76
		-9,096		1,338
			1,167,471	1,127,781
4. Current income from				
a) Equities and other variable-yield securities		7		35
			7	35
5. Leasing income		612,136		442,748
6. Leasing expenses		260,903		171,309
			351,233	271,439
7. Fee and commission income		425,054		395,507
8. Fee and commission expenses		528,448		438,903
			-103,394	-43,396
9. Other operating income			475,198	330,669
10. Income from the reversal of special tax-allowable reserve			43	43
11. General and administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	63,807			60,112
ab) Social security, post-employment and other employee benefit costs	14,399			16,234
of which:		78,206		76,346
in respect of post-employment benefits €2,008 thousand				(4,669)
b) Other administrative expenses		720,226		688,675
			798,432	765,021
12. Amortization and writedowns of intangible fixed assets, and depreciation and writedowns of property and equipment and lease assets				
a) Amortization and writedowns of intangible fixed assets, and depreciation and writedowns of property and equipment		6,055		6,195
b) Depreciation and writedowns of lease assets		324,708		264,531
			330,763	270,726
13. Other operating expenses			156,909	135,509
14. Amortization and writedowns of receivables and certain securities, and additions to provisions in the lending business			62,465	92,106
15. Income from the reversal of writedowns of long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			11,265	11
16. Result from ordinary activities			553,254	423,220
17. Extraordinary income		7,767		0
18. Extraordinary result			7,767	0
19. Taxes on income			147,253	155,568
20. Other taxes, unless reported under item 13			28	53
21. Profits transferred under a profit and loss transfer agreement			413,740	267,599
22. Net income			0	0
23. Net retained profits			0	0

# Notes to the Annual Financial Statements

of Volkswagen Bank GmbH, Braunschweig, for the Year Ended December 31, 2016  
Registration court: Braunschweig  
Commercial register number: HRB 1819

## I. General Information

The annual financial statements have been prepared in accordance with the requirements of the Handelsgesetzbuch (HGB – German Commercial Code) and the Verordnung über die Rechnungslegung der Kreditinstitute (RechKredV – German Bank Accounting Regulation).

Volkswagen Bank GmbH entered into a profit and loss transfer agreement with Volkswagen Financial Services AG, effective January 1, 2002.

Under section 285 no. 21 of the HGB, Volkswagen Bank GmbH is subject to an obligation to disclose material related party transactions that have not been conducted on an arm's-length basis. All transactions with related parties have been conducted at arm's length.

## II. Accounting Policies

Assets and liabilities are measured in accordance with the provisions in section 252ff. of the HGB and additionally in accordance with those in section 340ff. of the HGB. Unless otherwise stated, the accounting policies are the same as those applied in the prior year.

Foreign currency transactions in the non-trading portfolio are measured in accordance with section 340h, in conjunction with section 256a, of the HGB. In compliance with Volkswagen Bank GmbH's risk strategy, the portfolio of assets, liabilities and forward contracts specifically hedged in accordance with section 340h of the HGB includes all material transactions denominated in foreign currency. These items are measured using the middle spot rate at the reporting date. Income and expenses arising from the translation of foreign currency exposures specifically hedged in the same currency are recognized in the income statement.

Foreign currency assets and liabilities that are not specifically hedged in the same currency are translated at the middle spot rate at the reporting date in accordance with section 256a sentence 1 of the HGB and in compliance with the historical cost convention and the principle of imparity (whereby unrealized losses are recognized but unrealized gains are not). If the items have a residual maturity of one year or less, the net gains or losses from translation are recognized in full in the income statement in accordance with section 256a sentence 2 of the HGB.

Currency forwards in the non-trading portfolio that are intended to hedge interest-bearing balance sheet items and that have not yet been settled as of the reporting date are measured and recognized by applying a split forward rate method. In this method, the forward rate in the contract is broken down into its two components: the spot rate and the swap rate, the latter being the forward premium or forward discount. The forward premium or discount is allocated and recognized over the term of the forward contract in the same way as interest. The spot rate component is measured by comparing the spot basis in the forward contract with the middle spot rate at the reporting date. Positive and negative spot rate differences within the same currency are offset against each other. The net amount is reported as an adjustment item from foreign exchange transactions under the "Other assets" or "Other liabilities" item.

Interest rate and currency derivative transactions entered into by Volkswagen Bank GmbH are used as part of general economic hedges. The Company does not make use of the option to apply specific hedge accounting arrangements.

Volkswagen Bank GmbH has acquired all of the following asset-backed securities (ABS), which are its own securitization transactions: Private Driver 2015-1, Driver Master Compartment 2, Driver Master Compartment 3, Driver Master Compartment 4, Driver Master Compartment 5, Driver Master Compartment 6 and Driver Master Compartment 7. Under the principles specified in IDW ACP HFA 8, significant credit risks thus remain with Volkswagen Bank GmbH. There has been no transfer of the beneficial ownership in the receivables underlying these ABS transactions, and these receivables therefore continue to be reported under loans to and receivables from customers. A miscellaneous liability is recognized in the amount of the purchase price received. With the forwarding of the payments from the sold receivables, this liability is reduced on a pro rata basis in the amount of the change in the present value of the underlying receivables. The difference compared with the payments received is recognized as an interest expense. No subsequent measurement is carried out for purchased securities derived from the Company's own securitization transactions because these transactions securitize the Company's own receivables and any counterparty default risk is already recognized as part of the measurement of the receivables concerned.

Items of property and equipment with finite useful lives are depreciated, and intangible assets with finite useful lives amortized on a straight-line basis on the basis of their useful lives. They are initially recognized at cost. The useful lives applicable to goodwill, which are based on economic useful lives, are eight years (VW Retail) or two years (Volkswagen Finance s.a., France).

Straight-line depreciation is applied to vehicles reported under the "Lease assets" item in accordance with expected useful lives. They are initially recognized at cost. If property and equipment, intangible assets, or lease assets are identified as impaired and this impairment is likely to be permanent, the carrying amounts of the assets concerned are written down to fair value. When vehicles recognized as lease assets are sold, the proceeds are recognized under leasing income and the derecognized residual carrying amounts are reported under leasing expenses.

Long-term equity investments are reported at cost, while receivables are recognized at their principal amounts, net of provisions for credit risks. In dealer financing, specific valuation allowances are recognized on a contract-by-contract basis. Global valuation allowances are also recognized to cover risks arising in connection with dealer receivables for which no specific valuation allowances have been recognized. In retail financing, the provisions for risks take the form of specific valuation allowances evaluated on a collective basis. The model used to determine valuation allowances has been derived from the regulatory risk quantification method. Liabilities are recognized at the settlement amount. Differences between the amount received and the nominal amount are recognized in prepaid expenses or deferred income and then amortized over the maturity of the liability concerned. Equities and shares in affiliated companies are measured at the lower of cost and fair value. The cash reserve is carried at the nominal amount.

Provisions are measured using the best estimate of the amount required to settle the obligations concerned.

Some of the pension commitments are direct pension commitments, while others are funded through Volkswagen Pension Trust e.V. The commitments funded through Volkswagen Pension Trust e. V. are unit-linked pension commitments. Their amount is determined on the basis of the fair values of the associated securities in accordance with section 253(1) sentence 3 of the HGB. The fair value of the securities is offset against the funded provisions in accordance with section 246(2) of the HGB.

Other pension obligations (time asset bonds) also linked to securities funds. Time asset bonds provide the opportunity to save for early retirement by acquiring time asset bond units. The securities measured at fair value are offset as plan assets against the corresponding provisions.

The pension provision that is not externally funded is recognized at present value.

The 2005 G mortality tables published by Prof. Klaus Heubeck are used to measure pension obligations. The provisions for pension obligations are discounted using an average discount rate in accordance with section 253(2) sentence 1 of the HGB. The pension obligation is no longer discounted using a discount rate determined on the basis of the average market interest rates of the past seven years published by Deutsche Bundesbank, but using Deutsche Bundesbank's discount rate of the past ten years, adjusted in accordance with section 253(2) of the HGB. The calculations include the assumption of a general residual maturity of 15 years for the obligations. The recognized provisions for pensions equate to the pension obligations net of the associated

plan assets, which are measured at fair value. If the value of the plan assets is higher than that of the pension provisions, the difference is reported as an excess of plan assets over pension liability.

Other provisions with a residual maturity of more than one year are discounted on the basis of the maturity concerned in accordance with section 253(2) of the HGB. The discount rates used are those published by Deutsche Bundesbank for the maturities concerned; the unwinding of the discount includes the inflation rates expected to apply over the relevant maturity.

The banking book of Volkswagen Bank GmbH was reviewed in accordance with IDW ACP BFA 3 to assess whether there was any need to recognize a provision for expected losses. The discounted cash flow method was used for the evaluation. The discount rate used to discount the cash flows included a component to cover risk costs still expected to be incurred together with a risk costs premium and administrative expenses. The present value determined in this way was then compared against the carrying amounts recognized in the HGB financial statements for the assets in the banking book. There were no indications that the recognition of a provision for expected losses was required.

Securities in the liquidity reserve that are measured using parameters derived from the market are recognized at the lower of cost and market under the strict HGB definition.

All identifiable risks have been adequately provided for in the annual financial statements by the recognition of specific valuation allowances and provisions. Latent risk in the lending business is covered by global valuation allowances.

In the reporting period, the negative interest from financial assets and the positive interest from financial obligations are reported separately in the income statement as interest anomalies as there were further increases in these amounts year-on-year. This method of presentation makes the composition of net interest income more transparent.

### III. Balance Sheet Disclosures

#### LOANS TO AND RECEIVABLES FROM BANKS

Loans to and receivables from banks include loans to and receivables from affiliated companies amounting to €815,804 thousand (previous year: €524,443 thousand). In addition, the item includes loans to and receivables from investees or investors amounting to €175 thousand (previous year: €29,624 thousand).

The maturity analysis of loans to and receivables from banks is as follows:

- > Repayable on demand €896,774 thousand (previous year: €786,367 thousand)
- > Up to three months €372,571 thousand (previous year: €367,592 thousand)
- > More than three months and up to one year €121,186 thousand (previous year: €151,115 thousand).
- > More than one year and up to five years €322,047 thousand (previous year: €0 thousand)
- > More than five years €0 thousand (previous year: €0 thousand).

No loans to or receivables from banks are evidenced by certificates.

#### LOANS TO AND RECEIVABLES FROM CUSTOMERS

This item includes loans to and receivables from affiliated companies amounting to €5,602,036 thousand (previous year: €2,962,609 thousand).

The maturity analysis of the total amount of loans to and receivables from customers, none of which are evidenced by certificates, is as follows:

- > Up to three months €9,462,645 thousand (previous year: €7,888,707 thousand)
- > More than three months and up to one year €8,122,341 thousand (previous year: €6,795,143 thousand).
- > More than one year and up to five years €21,476,823 thousand (previous year: €18,358,608 thousand)
- > More than five years €642,868 thousand (previous year: €566,623 thousand).

Loans to and receivables from customers include receivables with an indefinite maturity (in accordance with the disclosure requirements in section 9(3) no. 1 of the RechKredV) amounting to €3,505,350 thousand (previous year: €3,268,974 thousand).

Loans to and receivables from customers include subordinated loans and receivables of €1,577,707 thousand (previous year: €1,737,259 thousand), of which €430,170 thousand (previous year: €463,238 thousand) is attributable to subordinated receivables arising from ABS transactions entered into by Volkswagen Bank GmbH.

The receivables from leasing business included in loans to and receivables from customers amount to €2,920,278 thousand (previous year: €2,291,992 thousand), of which €1,851,159 thousand (previous year: €1,507,218 thousand) is attributable to the Bank's branch in France and €861,470 thousand (previous year: €608,130 thousand) to the Bank's branch in Italy.

Receivables from retail financing amounting to €816,184 thousand (previous year: €619,464 thousand) are attributable to the branch of the Bank in France.

#### LOANS TO AND RECEIVABLES FROM SHAREHOLDERS

As of the reporting date, loans to and receivables from the sole shareholder, Volkswagen Financial Services AG, Braunschweig, amounted to €585,332 thousand (previous year: €90,468 thousand).

#### BONDS AND OTHER FIXED-INCOME SECURITIES

To help safeguard the supply of liquidity, Volkswagen Leasing GmbH and Volkswagen Finance S.A., Madrid, have set up ABS structures. However, not all the securities issued by the special purpose entities purchasing the assets concerned have been sold to investors. Instead, some of the securities have been purchased by Volkswagen Bank GmbH and pledged as collateral for its participation in the open market operations of Deutsche Bundesbank. The total portfolio of these securities amounts to €909,617 thousand (previous year: €321,411 thousand). All the securities involved are allocated to the liquidity reserve. They are measured at the lower of cost or market value under the strict HGB approach. Although these securities are marketable and listed, the Company uses its own valuation model to determine their value because the market for the securities is insufficiently liquid. In this model, the cash flows determined for the securities are discounted using a standard swap yield curve for the Volkswagen Group plus a credit spread. The credit spread is validated using an indirect method based on indicative prices from various banks.

The "Bonds and other fixed-income securities" item also includes purchased securities from Volkswagen Bank GmbH's own ABS transactions. The securities were bought in the years 2012 to 2016. These securities amount to €8,515,649 thousand (previous year: €9,242,228 thousand) and are backed by the Bank's own receivables; no subsequent measurement is applied because the counterparty default risk is already factored into the measurement of the receivables themselves. During the term of the deals, the bonds are recognized at cost, net of any redemptions.

To accumulate collateral for participation in open market operations and to ensure that requirements in accordance with the liquidity coverage ratio are satisfied in the future, the Bank made repeated purchases of European government bonds with strong credit ratings. As of the reporting date, these bonds amounted to a total of €2,071,512 thousand (previous year: €2,127,629 thousand). The securities are classified as current assets and measured at the lower of cost or market value under the strict HGB approach.

The securities and bonds reported under this balance sheet item – all of which are marketable, listed securities – total €12,839,252 thousand (previous year: €11,692,405 thousand).

As of the reporting date, securities within the portfolio amounting to €9,518,656 thousand (previous year: €7,959,579 thousand) had been deposited in the operational safe custody account maintained with Deutsche Bundesbank. These securities serve as collateral for funding transactions. There were open market loans of €4,500,000 thousand (previous year: €3,529,860 thousand) as of the reporting date.

Of the bonds and other fixed-income securities, a nominal amount of €1,020,320 thousand (previous year: €2,967,850 thousand) was due to mature in the fiscal year following the reporting date.

Bonds and other fixed-income securities include securities issued by affiliated companies amounting to €9,425,266 thousand (previous year: €9,541,578 thousand).

#### LONG-TERM EQUITY INVESTMENTS AND SHARES IN AFFILIATED COMPANIES

An overview of long-term equity investments and information on shares in affiliated companies can be found in the list of shareholdings reported under other disclosures.

The long-term equity investments and the shares in affiliated companies held by Volkswagen Bank GmbH are neither marketable nor listed.

**INTANGIBLE FIXED ASSETS**

Intangible fixed assets had decreased by €516 thousand to €6,529 thousand (previous year: €7,045 thousand) as of the reporting date.

**PROPERTY AND EQUIPMENT**

The total value of buildings and land used by the Bank as part of its operating activities amounts to €3,823 thousand (previous year: €4,112 thousand). The amount within property and equipment attributable to other equipment, operating and office equipment is €3,332 thousand (previous year: €3,865 thousand).

**LEASE ASSETS**

This item comprises vehicles leased out as part of the leasing business operated by the branches in France and Italy and amounts to €1,003,716 thousand (€802,949 thousand).

**OTHER ASSETS**

This item includes receivables from interest rate hedging transactions amounting to €17,474 thousand (previous year: €17,137 thousand), fees and commissions due in connection with insurance broking amounting to €2,318 thousand (previous year: €4,015 thousand), tax receivables of €99,915 thousand (previous year: €84,428 thousand), of which €65,272 thousand relates to tax receivables at the Bank's branch in Italy and €24,203 to tax receivables at the Bank's branch in France. A significant component of the remaining other assets comprises receivables of €81,197 thousand (previous year: €124,406 thousand) from the ABS special purpose entities relating to the return of pledged collateral (not yet due), service fees, interest and monthly cost allocation payment obligations.

Derivatives to hedge currency risk gave rise to a currency adjustment item of €168,697 thousand (previous year: €89,665 thousand), which has been recognized under other assets.

**PREPAID EXPENSES**

This item contains deferred discounts of €2,780 thousand (previous year: €4,443 thousand), advance insurance premiums of €1 thousand (previous year: €34 thousand) and advance fees and commissions amounting to €621 thousand (previous year: €947 thousand) paid in connection with a rise in the level of new business at the Bank's branch in Italy.

**LIABILITIES TO BANKS**

The maturity analysis of the liabilities to banks, all of which comprise deposits or other liabilities not evidenced by certificates, is as follows:

- > Repayable on demand €184,033 thousand (previous year: €148,410 thousand)
- > Up to three months €3,913 thousand (previous year: €135,624 thousand)
- > More than three months and up to one year €22,519 thousand (previous year: €50,660 thousand)
- > More than one year and up to five years €4,566,714 thousand (previous year: €3,575,944 thousand)
- > More than five years €94,829 thousand (previous year: €59,559 thousand).

The liabilities to banks include liabilities to an affiliated company amounting to €237 thousand (previous year: €438 thousand).

Liabilities to Deutsche Bundesbank amounting to €4,500,000 thousand (previous year: €3,529,860 thousand) have been secured by collateral in the same amount in the form of securities.

**LIABILITIES TO CUSTOMERS**

This item includes liabilities to affiliated companies not evidenced by certificates amounting to €4,051,765 thousand (previous year: €3,332,413 thousand).

Customer deposits (including direct banking deposits) amount to €35,260,186 thousand (previous year: €27,505,625 thousand).

The item also includes accrued liabilities to dealers, customers and other creditors, i.e. incurred liabilities still to be billed.

The maturity breakdown of subitem "ab) With agreed maturity or notice period" is as follows:

- > Up to three months €5,036,103 thousand (previous year: €3,984,545 thousand)
- > More than three months and up to one year €3,437,636 thousand (previous year: €1,176,846 thousand)
- > More than one year and up to five years €2,483,571 thousand (previous year: €1,523,827 thousand)
- > More than five years €527,548 thousand (previous year: €108,839 thousand).

#### LIABILITIES TO SHAREHOLDERS

As of the reporting date, liabilities to the sole shareholder, Volkswagen Financial Services AG, Braunschweig, amounted to €489,272 thousand (previous year: €391,578 thousand).

#### NOTES, COMMERCIAL PAPER ISSUED

Notes, commercial paper issued comprise commercial paper and bonds.

The following are reported under "a) Bonds issued": bonds amounting to €1,815,048 thousand (previous year: €3,666,048 thousand).

Residual maturities:

- > Up to three months €15,048 thousand (previous year: €16,048 thousand)
- > More than three months and up to one year €550,000 thousand (previous year: €1,850,000 thousand)
- > More than one year and up to five years €1,250,000 thousand (previous year: €1,800,000 thousand)

The item does not include any liabilities to an affiliated company or to an investor or investee of Volkswagen Bank GmbH.

Of the total bonds issued, an amount of €550,000 thousand matures in the subsequent year.

#### OTHER LIABILITIES

Of the total liabilities, liabilities in an amount of €8,481,748 thousand (previous year: €9,199,056 thousand) are backed by collateral. These liabilities have arisen from ABS transactions in which Volkswagen Bank GmbH has retained beneficial ownership of the sold receivables after the sale.

The following are also reported under this item: outstanding debt servicing amounts in connection with ABS transactions amounting to €341,717 thousand (previous year: €363,134 thousand), liabilities from interest rate hedging transactions amounting to €20,557 thousand (previous year: €12,557 thousand), liabilities to tax authorities of €28,177 thousand (previous year: €18,219 thousand) and accrued interest liabilities related to subordinated bonds and profit-sharing rights amounting to €597 thousand (previous year: €597 thousand).

#### DEFERRED INCOME

This item largely comprises deferred income in connection with manufacturer and partner participation in sales promotion campaigns amounting to €565,420 thousand (previous year: €454,720 thousand), which will be recognized in the income statement over the term of the relevant agreements.

#### PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The pension obligations are determined annually by an independent actuary using the projected unit credit method.

The main measurement assumptions and parameters applied in the actuarial calculations by Volkswagen Bank GmbH for 2016 were as follows:

	Germany	Other countries
Discount rate	4.01%	4.01 – 4.06%
Expected rate of salary increases	3.60%	0.00 – 0.08%
Expected rate of pension increases	1.50%	2.63 – 3.30%
Employee turnover rate	0.95%	0.00 – 1.50%

For Germany, the discount rate applied was the discount rate of 4.03% published by Deutsche Bundesbank for November 2016 in accordance with section 253(2) of the HGB (average market interest rate for the past ten

years) less a markdown of 2 basis points reflecting expectations of a further fall in interest rates at the end of the year. The discount rate used was therefore 4.01%.

For reasons of materiality, the actuarial assumptions used for other countries are reported as a range of values.

Securities funds with a value equivalent to a settlement amount of €2,899 thousand were offset against the liabilities for pensions and similar obligations. These securities amounted to €3,004 thousand at cost but their fair values totaled €2,899 thousand as of the reporting date. The securities were measured at closing prices as of the reporting date.

Expenses of €53 thousand from the measurement of the funds at fair value were offset against interest income from provisions of €53 thousand as part of the netting of the obligation (measured at the fair value of the securities) and the corresponding securities funds.

In the year under review, the difference for Germany determined in accordance with section 253(6) of the HGB amounted to €3,208 thousand for the pension provisions not funded externally and €202 thousand for the commitments funded through Volkswagen Pension Trust e.V. The difference determined in accordance with section 253(6) of the HGB amounted to €108 thousand for the Bank's branch in Italy, €366 thousand for its branch in the Netherlands and €779 thousand for its branch in the UK. Because of an existing profit and loss transfer agreement, the amount is transferred to Volkswagen Financial Services AG in accordance with the letter published by the German Ministry of Finance (BMF) on December 23, 2016, "Änderung des § 253 HGB durch das Gesetz zur Umsetzung der Wohnimmobilienkreditrichtlinie und zur Änderung handelsrechtlicher Vorschriften; Auswirkung auf die Anerkennung steuerlicher Organschaften" (Amendments to section 253 of the HGB on the basis of the Act Implementing the Mortgage Credit Directive and Amending Provisions of the HGB; impact on the recognition of tax groups).

#### OTHER PROVISIONS

Other provisions mainly comprise provisions to cover costs associated with litigation and legal risks. The provisions for litigation and legal risks of €278,887 thousand (previous year: €245,581 thousand) reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing proceedings. Provisions of €34,836 thousand (previous year: €32,635 thousand) were also recognized for indirect residual value risks and for risks in connection with the lending business.

#### SPECIAL TAX-ALLOWABLE RESERVE

The special tax-allowable reserve was recognized in accordance with section 3 of the Zonenrandförderungsgesetz (ZRFG – German Border Regions Development Act). Net income was increased by a reversal in the reporting period of €43 thousand (previous year: €43 thousand).

#### SUBORDINATED LIABILITIES

The total portfolio of subordinated liabilities amounts to €30,000 thousand (previous year: €30,000 thousand).

Subordinated liabilities amounting to €29,358 thousand (previous year: €29,585 thousand) are deemed to be a component of equity under the provisions of article 62(a) of the CAPITAL REQUIREMENTS REGULATION (CRR).

The overall portfolio includes subordinated bonds in the amount of €30,000 thousand (previous year: €30,000 thousand), which have been placed on public capital markets.

There are no early repayment obligations for the subordinated liabilities.

The Bank has not entered into any agreement to convert these liabilities into equity or another form of debt, nor is it planning any such conversion. Volkswagen Bank GmbH has entered into derivative contracts to mitigate interest rate risk. The expenses incurred in connection with raising subordinated loans and issuing subordinated bonds amounted to €1,630 thousand (previous year: €4,639 thousand).

There are no subordinated liabilities to affiliated companies (previous year: €0 thousand).

**SUBORDINATED BONDS**

AS OF:	DEC. 31, 2016		LISTED ON A STOCK EXCHANGE		Maturity date
	€ million	Coupon	Valid until	New coupon agreement based on	
Dated date					
Sept. 6, 2003	20.0	5.40000%	Sept. 26, 2023	Fixed interest rate	Sept. 26, 2023
June 7, 2004	10.0	5.50000%	June 7, 2024	Fixed interest rate	June 7, 2024

Both of the subordinated bonds exceed 10% of the total amount of the subordinated liabilities. If the issuer is wound up, liquidated, or files for insolvency, the liabilities under these bonds will rank behind the claims of all the non-subordinated third-party creditors of the issuer such that no amount will be repayable in connection with these bonds until the claims of all these non-subordinated third-party creditors of the issuer have been satisfied in full. No agreement may be made retrospectively to limit the subordination or shorten the maturity of these bonds. The bonds may be redeemed early, but no earlier than five years after the issue date, and the issuer must first call the bond in question before any such redemption can take place. The issuer is only permitted to call the bond concerned if one of the following two requirements is satisfied: an equivalent amount of liable capital within the meaning of the Kreditwesengesetz (KWG – German Banking Act) and the CRR has been paid in to replace the redemption amount; or, the German Federal Financial Supervisory Authority (BaFin) and the European Banking Authority have consented to the early redemption. The bonds may also be called and redeemed early as a result of changes in the tax laws or regulations in the Federal Republic of Germany or as a result of a change in the official interpretation of these laws and regulations.

**EQUITY**

In fiscal year 2016, Volkswagen Financial Services AG transferred an amount of €2,080,000 thousand to the capital reserves of Volkswagen Bank GmbH. As a result, the capital reserves of Volkswagen Bank GmbH increased to €6.0 billion as of December 31, 2016 (previous year: €3.9 billion).

**CHANGES IN FIXED ASSETS OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG,  
FOR THE PERIOD JANUARY 1 TO DECEMBER 31, 2016**

€ thousand	Long-term equity investments	Shares in affiliated companies	Purchased concessions and similar rights	Goodwill	Land, land rights and buildings on third-party land	Other equipment, operating and office equipment	Prepayments and assets under construction	Lease assets
<b>Cost as of Dec. 31, 2015</b>	<b>200</b>	<b>66,492</b>	<b>45,984</b>	<b>144,482</b>	<b>23,347</b>	<b>16,086</b>	<b>70</b>	<b>1,224,453</b>
Additions in 2016	0	53,657	3,425	0	58	1,097	524	702,310
Disposals in 2016	0	43,013	0	0	586	1,151	0	411,418
Reclassifications in 2016	0	0	0	0	70	0	-70	0
Currency translation	0	0	-735	0	0	0	0	0
<b>Cost as of Dec. 31, 2016</b>	<b>200</b>	<b>77,136</b>	<b>48,674</b>	<b>144,482</b>	<b>22,889</b>	<b>16,032</b>	<b>524</b>	<b>1,515,345</b>
<b>Accumulated depreciation, amortization and writedowns as of Dec. 31, 2015</b>	<b>0</b>	<b>0</b>	<b>39,439</b>	<b>143,982</b>	<b>18,253</b>	<b>12,221</b>	<b>0</b>	<b>421,504</b>
Additions in 2016	0	0	3,774	167	528	1,296	0	324,592
Reversals of writedowns in 2016	0	0	0	0	0	0	0	5,860
Disposals in 2016	0	0	0	0	585	817	0	240,327
Reclassifications in 2016	0	0	0	0	0	0	0	0
Currency translation	0	0	-735	0	0	0	0	0
<b>Accumulated depreciation, amortization and writedowns as of Dec. 31, 2016</b>	<b>0</b>	<b>0</b>	<b>42,478</b>	<b>144,149</b>	<b>18,196</b>	<b>12,700</b>	<b>0</b>	<b>511,629</b>
<b>Carrying amount as of Dec. 31, 2016</b>	<b>200</b>	<b>77,136</b>	<b>6,196</b>	<b>333</b>	<b>4,693</b>	<b>3,332</b>	<b>524</b>	<b>1,003,716</b>
<b>Carrying amount as of Dec. 31, 2015</b>	<b>200</b>	<b>66,492</b>	<b>6,545</b>	<b>500</b>	<b>5,094</b>	<b>3,865</b>	<b>70</b>	<b>802,949</b>

## IV. Income Statement Disclosures

### INTEREST INCOME FROM LENDING AND MONEY MARKET TRANSACTIONS

The proportion of interest income generated in the foreign branches is 46.3% (previous year: 43.7%). The branches in Italy and France account for the largest share of this foreign income.

Interest income from lending and money market transactions includes income from finance leases amounting to €170,725 thousand (previous year: €136,108 thousand).

### INTEREST ANOMALIES

The negative interest from money market transactions results from the Bank's reserve balance at the ECB in excess of the minimum reserve requirement and from short-term deposits with domestic banks. The positive interest from banking transactions arises from collateral pledged by banks on a short-term basis for derivatives.

### LEASING INCOME

Income from leasing transactions comprises net income from operating leases and is generated by the Bank's branch in France. The total amount of this income is €612,136 thousand (previous year: €442,748 thousand).

### LEASING EXPENSES

The expenses from leasing transactions amount to €260,903 thousand (previous year: €171,309 thousand).

### NET FEE AND COMMISSION INCOME

The proportion of net fee and commission income generated in the foreign branches is 32.2% (previous year: 33.0%). The branches in Italy and France account for the largest share of this foreign income.

Fee and commission income is derived largely from insurance broking, especially in connection with credit protection insurance, from the administration and collection of receivables sold as part of ABS transactions and from miscellaneous fees relating to the retail business.

It includes prior-period income of €1,340 thousand (previous year: €1,008 thousand) largely generated from special fees for credit protection insurance, from the card payment system and from the credit card business.

Most of the fee and commission expenses are fees and commissions paid to dealers in connection with consumer credit business.

### OTHER OPERATING INCOME

Other operating income amounted to €475,198 thousand (previous year: €330,669 thousand) and comprises mainly cost reimbursements from Group companies of €201,654 thousand (previous year: €180,877 thousand). The increase in miscellaneous items was driven primarily by a rise in income from maintenance services provided to end customers of Volkswagen Bank GmbH (branch in France), while expenses from leasing transactions of Volkswagen Bank GmbH (branch in France) also increased.

The proportion of other operating income generated in the foreign branches is 16.5% (previous year: 51.4%). The branches in France and Italy account for the largest share of this foreign income.

This item includes prior-period income of €64,307 thousand (previous year: €62,393 thousand), of which €2,175 thousand (previous year: €4,176 thousand) is in connection with internal cost allocations within the Volkswagen Financial Services AG subgroup and €55,245 thousand (previous year: €52,288 thousand) is income from the reversal of provisions. Other operating income includes income from currency translation amounting to €3,776 thousand (previous year: €27,593 thousand). The effects from the discounting of provisions amounting to €764 thousand (previous year: €555 thousand) are reported under other interest and similar income.

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amount to €798,432 thousand (previous year: €765,021 thousand). Significant elements are personnel expenses of €78,206 thousand (previous year: €76,346 thousand) and cost allocations from Group companies amounting to €313,837 thousand (previous year: €321,858 thousand). These cost allocations were mainly attributable to staff leasing arrangements. For disclosures of the total fee charged by the external auditors for the fiscal year, please refer to the notes to the consolidated financial statements of Volkswagen Bank GmbH.

#### AMORTIZATION AND WRITEDOWNS OF INTANGIBLE FIXED ASSETS, AND DEPRECIATION AND WRITEDOWNS OF PROPERTY AND EQUIPMENT AND LEASE ASSETS

Depreciation and writedowns of lease assets amounting to €324,708 thousand (previous year: €264,531 thousand) are reported within this line item as a separate subitem.

The “Depreciation and writedowns of lease assets” subitem is used to recognize the depreciation and impairment of lease vehicles at the branch in France. Depreciation is calculated on a straight-line basis.

#### OTHER OPERATING EXPENSES

This item is essentially the aggregation of a large number of individual items. These include prior-period expenses of €5,343 thousand (previous year: €9,067 thousand), of which €2,370 thousand (previous year: €4,013 thousand) relate to the branch in Italy and €2,865 thousand (previous year: €1,826 thousand) to the branch in France. Other operating expenses include expenses from currency translation amounting to €39,101 thousand (previous year: €14,414 thousand). The effects from the discounting of provisions amounting to €1,921 thousand (previous year: €6,784 thousand) are reported under other interest and similar expenses.

#### EXTRAORDINARY RESULT

Extraordinary income of €7,767 thousand arose because of the merger of shares in affiliated companies. MAN Financial Services S.A.S., Germany branch, Munich, was incorporated into Volkswagen Bank GmbH, Germany, MAN Financial Services SpA, Dossobuono di Villafranca, was incorporated into the branch in Italy, and MAN Financial Services S.A.S., Evry Cedex, into the branch in France.

#### TAXES ON INCOME

This item comprises domestic and foreign taxes on income. The domestic income taxes for the reporting period amounting to €100,262 thousand (previous year: €104,019 thousand) were recharged to Volkswagen Bank GmbH within the existing tax group by Volkswagen Financial Services AG, the controlling entity in the tax group.

This item includes prior-period expenses of €1,209 thousand (previous year: €0 thousand) and tax refunds for prior years amounting to €762 thousand (previous year: €1,553 thousand).

Under foreign deferred taxes, the only items offset were deferred tax assets of €163,691 thousand (previous year: €158,143 thousand) and deferred tax liabilities of €0 thousand (previous year: €1,310 thousand).

Taxes are calculated on an individual basis at the tax rates applicable in each of the countries.

The foreign deferred tax assets arise for the most part at the branches in France, Greece, Italy, Portugal and Spain. They are mainly attributable to differences in the recognition of intangible fixed assets as well as to valuation allowances and writedowns. Deferred tax assets of €165,347 thousand (previous year: €161,363 thousand) were recognized in Germany. Excess deferred tax assets of €329,038 thousand (previous year: €318,197 thousand) remain in the legal entity as a whole, but this amount has not been recognized in application of the option available under section 274 of the HGB.

## V. Other Disclosures

#### REPORT ON POST-BALANCE SHEET DATE EVENTS

The capital reserves increased by €400 million in January 2017 as a result of a contribution by Volkswagen Financial Services AG. On February 9, 2017, the senior unsecured rating of the unsecured bonds of Volkswagen Financial Services AG and Volkswagen Bank GmbH at Standard & Poor's (S&P) was downgraded by one notch to BBB (Volkswagen Financial Services AG) and BBB+ (Volkswagen Bank GmbH) because of a regulatory amendment. Apart from that, no significant events had occurred by February 14 that would have required a substantially different presentation of the net assets, financial position and results of operations.

#### CONSOLIDATED FINANCIAL REPORTING

The annual financial statements of Volkswagen Bank GmbH, Braunschweig, are included in the consolidated financial statements of Volkswagen Bank GmbH, Braunschweig, which are prepared in accordance with the International Financial Reporting Standards. The consolidated financial statements of Volkswagen Bank GmbH are included in the consolidated financial statements of Volkswagen Financial Services AG, which are in turn

included in the consolidated financial statements of Volkswagen AG, Wolfsburg (smallest and largest consolidated group within the meaning of section 285 no. 14a of the HGB). The annual financial statements of Volkswagen Bank GmbH, the consolidated financial statements of Volkswagen Bank GmbH and those of Volkswagen AG are all published in the German Federal Gazette.

#### SHAREHOLDINGS

As of December 31, 2016, Volkswagen Bank GmbH held 100% of the shares in Volkswagen Bank Polska S.A., Warsaw. The net income generated by Volkswagen Bank Polska S.A. for fiscal year 2015 amounted to PLN 53,930 thousand, compared with PLN 30,637 thousand for 2014. The equity of the company as of December 31, 2015 amounted to PLN 377,653 thousand. These details have been taken from the IFRS financial statements. On February 24, 2016, Volkswagen Bank GmbH implemented a cash capital increase totaling PLN 105,000 thousand. The company holds a Polish banking license.

As of the reporting date, Volkswagen Bank GmbH held 0.01% of the shares in Society for Worldwide Interbank Financial Telecommunication SCRL (S.W.I.F.T. SCRL), La Hulpe, Belgium. According to the IFRS consolidated financial statements for the SWIFT Group, the nominal capital of the company as of December 31, 2015 was €13,783 thousand; the equity of the company as of December 31, 2015 amounted to €387,876 thousand.

Volkswagen Bank GmbH sold its interest in VISA Europe Limited, London, on June 21, 2016.

Volkswagen Bank GmbH has a 1% interest in the affiliated company OOO Volkswagen Bank RUS. The registered office of the company is situated in Moscow, Russian Federation. The equity of the company as of December 31, 2015 amounted to RUB 11,456,896 thousand. The profit generated in fiscal year 2015 was RUB 787,385 thousand (previous year: RUB 433,186 thousand). These details have been taken from the IFRS financial statements. The company holds a Russian banking license.

Volkswagen Bank GmbH holds a 2.02% interest in paydirekt Beteiligungsgesellschaft privater Banken mbH, whose registered office is situated in Berlin. In fiscal year 2015, the company generated net income of €5 thousand. In the short fiscal year ended December 31, 2014, the company had generated net income of €25 thousand. The equity of the company as of December 31, 2015 amounted to €8,384 thousand (previous year: €8,358 thousand).

On April 11, 2016, the former subsidiary MAN Financial Services S.p.A., Dossobuono di Villafranca (VR), Italy, was incorporated into Volkswagen Bank GmbH with retrospective effect as of January 1, 2016.

On April 1, 2016, Volkswagen Bank GmbH acquired MAN Financial Services S.A.S., Evry Cedex, France, from MAN Finance International GmbH, Munich. The acquired company was incorporated into Volkswagen Bank GmbH on July 28, 2016 with retrospective effect as of January 1, 2016.

#### CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

The irrevocable credit commitments are credit commitments that have arisen as part of the general banking business except for one individual commitment to a subsidiary amounting to €100,000 thousand. The agreed credit amounts can be drawn down at any time. Once drawn down, the loans concerned are subject to the general rules and regulations for credit monitoring.

The contingent liabilities amounting to €135,339 thousand (previous year: €97,018 thousand) consist exclusively of guarantees. Of these guarantees, an amount of €124,973 thousand (previous year: €79,234 thousand) is secured by collateral in the form of deposits. Volkswagen Bank GmbH is therefore not exposed to any loss risk up to this amount if the guarantees were to be called upon. The other guarantees largely relate to the minimization of risk in connection with domestic dealer financing liabilities. At present, the probability of unsecured guarantees being called in is considered to be low.

#### OFF-BALANCE-SHEET TRANSACTIONS AND OTHER FINANCIAL OBLIGATIONS

##### Derivative financial instruments

Volkswagen Bank GmbH has entered into derivative contracts to mitigate interest rate and currency risks. The derivatives used are interest rate swaps, currency swaps, cross-currency swaps and currency forwards, all of which are used solely for hedging purposes. The fair values of interest rate swaps, currency swaps and currency forwards are determined with the help of suitable IT-based valuation techniques (discounted cash flow method) based on market swap rates; the levels vary in line with changes in interest or exchange rates. The fair values are not reported in the balance sheet. In the case of interest rate swaps, the interest is allocated and recognized over the maturity of the instrument.

The breakdown of derivative financial instruments in accordance with section 285 no. 19 of the HGB is as follows:

€ million	NOTIONAL VALUE		POSITIVE FAIR VALUES <sup>1</sup>		NEGATIVE FAIR VALUES <sup>1</sup>	
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016
<b>Interest rate risks</b>						
Interest rate swaps	6,889.9	4,293.4	59.0	45.7	33.5	17.4
<b>Currency risks</b>						
Currency forwards	269.2	1,344.2	3.8	23.9	3.2	0.7
Currency swaps	2,937.2	3,154.1	89.6	105.2	9.4	20.8
<b>Cross-currency interest rate risks</b>						
Cross-currency interest rate swaps	9.4	845.5	0.0	46.2	0.0	3.8
<b>Total derivatives</b>	<b>10,105.7</b>	<b>9,637.2</b>	<b>152.4</b>	<b>221.0</b>	<b>46.1</b>	<b>42.7</b>

1 Fair value including accrued interest is shown for all contracts.

The maturity analysis for the derivatives is as follows:

€ million	INTEREST RATE RISKS		CURRENCY RISKS		CROSS-CURRENCY INTEREST RATE RISKS	
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016
<b>Residual maturities</b>						
<= 3 months	588.2	314.6	1,919.6	2,027.0	0.0	0.0
<= 1 year	2,034.2	1,281.7	1,224.4	1,550.6	0.0	260.9
<= 5 years	4,267.5	2,697.1	62.4	920.7	0.0	584.6
> 5 years	0.0	0.0	0.0	0.0	0.0	0.0

#### OTHER FINANCIAL OBLIGATIONS

Other financial obligations amounted to €20,791 thousand (previous year: €13,920 thousand), of which €175 thousand is attributable to affiliated companies.

#### FOREIGN CURRENCIES

As of the reporting date, the total amount of assets denominated in foreign currency (translated into euros) amounted to €2,082,847 thousand (previous year: €3,578,371 thousand); liabilities in foreign currency (translated into euros) came to €127,822 thousand (previous year: €163,924 thousand).

The volume of currency forwards not yet settled as of the reporting date was €1,344,206 thousand (previous year: €269,238 thousand). The notional value of currency swaps was €3,154,112 thousand (previous year: €2,937,228 thousand); that of cross-currency swaps amounted to €845,505 thousand (previous year: €9,412 thousand).

**GOVERNING BODIES DISCLOSURES**

No members of the Management received their remuneration from Volkswagen Bank GmbH. All the remuneration for the Management is paid by Volkswagen Financial Services AG.

The members of the Management are as follows:

**ANTHONY BANDMANN**

Management chairman  
Sales and Marketing  
Customer Service Individual Customers  
Human Resources (as of February 1, 2016)

**HARALD HEBKE (AS OF FEBRUARY 1, 2016)**

Finance/Company Steering (as of February 1, 2016)  
Back Office/Dealer Restructuring/Risk Management (as of February 1, 2016)

**JENS LEGENBAUER (AS OF SEPTEMBER 1, 2016)**

Europe (excluding Germany)

**TORSTEN ZIBELL**

Direct Bank  
Corporate Development

**DR. HEIDRUN ZIRFAS (UNTIL MARCH 31, 2016)**

Finance/Company Steering (until January 31, 2016)  
Back Office/Dealer Restructuring/Risk Management (until January 31, 2016)  
Human Resources (until January 31, 2016)

The members of the Audit Committee are as follows:

**DR. JÖRG BOCHE**

Chairman  
Executive Vice President of Volkswagen AG  
Head of Group Treasury

**WALDEMAR DROSDZIOK**

Deputy Chairman  
Chairman of the Joint Works Council of Volkswagen Financial Services AG,  
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

**DR. ARNO ANTLITZ**

Member of the Volkswagen Brand Board of Management  
Controlling and Financial Accounting

**GABOR POLONYI**

Head of Fleet Customer Management, Volkswagen Leasing GmbH

Provisions of €4,953 thousand (previous year: €3,731 thousand) were recognized for pensions and similar obligations in favor of former members of the Management or their surviving dependents. In the reporting period, payments to these individuals amounted to €307 thousand (previous year: €316 thousand).

Assets include receivables of €39 thousand (previous year: €37 thousand) relating to loans falling within the scope of section 15(1) nos. 1 and 3 of the KWG. Of this amount, receivables in an amount of €36 thousand

(previous year: €35 thousand) are due from members of the Audit Committee and in an amount of €3 thousand (previous year: €2 thousand) from the members of the Management.

Average number of employees during the reporting period:

	2016	2015
Salaried employees	896	847
of which senior managers	24	25
of which part time	58	55
Vocational trainees	15	14

#### BRANCHES

##### Branches, Braunschweig

Audi Bank, Braunschweig

SEAT Bank, Braunschweig

ŠKODA Bank, Braunschweig

AutoEuropa Bank, Braunschweig

ADAC FinanzService, Braunschweig

Ducati Bank, Braunschweig

##### Branches, Germany

Volkswagen Bank, Berlin

Volkswagen Bank, Braunschweig

Volkswagen Bank, Emden

Volkswagen Bank, Hanover

Volkswagen Bank, Kassel

Volkswagen Bank, Salzgitter

Volkswagen Bank, Wolfsburg

Volkswagen Bank, Zwickau

Audi Bank, Ingolstadt

Audi Bank, Neckarsulm

##### International branches

Volkswagen Bank GmbH, St. Denis, Paris, France

Volkswagen Bank GmbH, Glyfada, Athens, Greece

Volkswagen Bank GmbH, Milton Keynes, United Kingdom

Volkswagen Bank GmbH, Dublin, Ireland

Volkswagen Bank GmbH, Milan, Italy

Volkswagen Bank GmbH, Verona, Italy

Volkswagen Bank GmbH, Amersfoort, The Netherlands

Volkswagen Bank GmbH, Lisbon, Portugal

Volkswagen Bank GmbH, Alcobendas, Madrid, Spain

## Appointments to Supervisory Bodies – Disclosures in Accordance with Section 340a(4) of the HGB

### JENS LEGENBAUER

- > Volkswagen Holding Financière s.a., Villers-Cotterêts, France
- > Chairman of the Conseil de Surveillance
- > Volkswagen Møller Bilfinans A/S, Oslo, Norway
- > Chairman of the Styre
- > Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom
- > Volkswagen Insurance Service Ltd., Milton Keynes, United Kingdom
- > Chairman of the Board of Directors of both companies
- > Volkswagen Financial Services AG Switzerland, Wallisellen, Switzerland
- > Chairman of the Administrative Board
- > Volkswagen Finance, S.A. Establecimiento Financiero de Crédito, Madrid, Spain
- > Chairman of the Consejo de Administración
- > Volkswagen Renting S.A., Madrid, Spain
- > Member of the Consejo de Administración

### TORSTEN ZIBELL

- > Volkswagen Bank S.A. Institución de Banca Múltiple, Puebla/Pue., Mexico
- > Deputy member of the Consejo de Administración

### PEDRO CATENA POU

- > Volkswagen Renting S.A., Madrid, Spain
- > Chairman of the Consejo de Administración
- > Volkswagen Finance, S.A. – Establecimiento Financiero de Crédito, Madrid, Spain
- > Member of the Consejo de Administración

### FERNANDO ORTIZ-CAÑAVATE

- > Volkswagen Renting S.A., Madrid, Spain
- > Volkswagen Finance, S.A. – Establecimiento Financiero de Crédito, Madrid, Spain
- > Member of the Consejo de Administración of both companies

### DAVID MALONEY

- > VVS Verzekerings-Service N.V., Amersfoort, The Netherlands
- > Volkswagen Pon Financial Services B.V., Amersfoort, The Netherlands
- > Member of the Supervisory Board of both companies
- > Volkswagen Møller Bilfinans A/S, Oslo, Norway
- > Member of the Styre

## Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Volkswagen Bank GmbH, and the management report includes a fair review of the development and performance of the business and the position of Volkswagen Bank GmbH, together with a description of the material opportunities and risks associated with the expected development of Volkswagen Bank GmbH.

Braunschweig, February 14, 2017  
The Board of Management



Anthony Bandmann



Harald Heßke



Jens Legenbauer



Torsten Zibell

# Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, income statement and notes to the annual financial statements, including the bookkeeping system, together with the management report prepared by Volkswagen Bank GmbH, Braunschweig, which has been combined with the group management report, for the fiscal year from January 1 to December 31, 2016. The bookkeeping system and the preparation of the annual financial statements and the combined management report in accordance with the requirements of German commercial law and the supplementary provisions of the Articles of Association are the responsibility of the Company's Management. Our responsibility is to express an opinion on the annual financial statements, including the bookkeeping system, and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with the generally accepted accounting principles and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the bookkeeping system, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Management, as well as evaluating the overall presentation of the annual financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and the supplementary provisions of the Articles of Association and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with generally accepted accounting principles. The combined management report is consistent with the annual financial statements, complies with the legal requirements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hanover, February 14, 2017

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes  
Wirtschaftsprüfer  
(German Public Auditor)

Lothar Schreiber  
Wirtschaftsprüfer  
(German Public Auditor)

# Report of the Audit Committee

## of Volkswagen Bank GmbH

Volkswagen Bank GmbH is a capital market orientated limited liability company within the meaning of section 264d of the HGB. In accordance with the provisions in section 324 of the HGB, the Bank has established an Audit Committee, which concerns itself in particular with the tasks described in section 107(3) sentence 2 of the *Aktiengesetz* (AktG – German Stock Corporation Act). The Audit Committee has four members. There were no changes in personnel compared with the previous year.

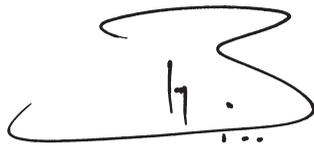
The Audit Committee held two regular meetings in the reporting period. There were no extraordinary meetings. During the reporting period, there were no urgent transactions that would have required a decision by circulation of written resolution for approval. All members of the Audit Committee were present at all the meetings.

At the meeting held on the February 19, 2016, the Audit Committee reviewed the annual financial statements and the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH for the year ended December 31, 2015 together with the proposal for the appropriation of profit. As part of this review, the Audit Committee discussed with the external auditors the reports on the audit of the annual financial statements, the management report, the consolidated financial statements and the group management report of Volkswagen Bank GmbH as well as material transactions and issues related to financial reporting. The Audit Committee reported on its review to the sole shareholder. In addition, the Committee received reports on the diesel issue, the business and risk strategy, the refinancing and liquidity position as well as the internal and external audit procedures and any findings resulting from them. The Committee also gathered details to establish the extent to which there were relationships of a professional, financial or other nature between the external auditors and the Company and/or its governing bodies with a view to assessing the independence of the external auditors. In this regard, the Audit Committee obtained information on the services that the external auditors had provided for the Company in addition to the auditing activities and on whether there were any grounds for disqualification or partiality. Following a detailed evaluation of the independence of the external auditors, the Audit Committee submitted a recommendation to the sole shareholder regarding the election of the external auditors and drew up the resolution covering the issue of the audit engagement in preparation for the Annual General Meeting.

At its meeting on October 27, 2016, the Audit Committee focused in particular on the risk management system at Volkswagen Bank GmbH. In addition, the Audit Committee received reports on significant current IT issues as well as detailed reports from the Compliance Officer. It also held discussions with the external auditors covering audit planning, key points to be covered in audits and the obligations of the external auditors to provide information.

Braunschweig, March 1, 2017

The Audit Committee

A handwritten signature in black ink, consisting of a large, stylized 'B' shape with a vertical line through it and some smaller marks below.

Dr. Jörg Boche  
Chairman

A handwritten signature in black ink, appearing as a series of connected, fluid strokes.

Waldemar Drosdziok  
Deputy Chairman

A handwritten signature in black ink, consisting of several parallel, slanted lines.

Dr. Arno Antlitz  
Member

A handwritten signature in black ink, featuring a large, cursive 'P' followed by other letters.

Gabor Polonyi  
Member

#### NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements on the future business development of Volkswagen Bank GmbH. These statements are based on assumptions relating to the development of the global economy and of the financial and automotive markets, which Volkswagen Bank GmbH has made on the basis of the information available to it and which it considers to be realistic at the time of going to press. The estimates given entail a degree of risk, and the actual developments may differ from those forecast.

Should actual developments turn out to be different, contrary to expectations and assumptions, or unforeseen events occur that have an impact on the business of Volkswagen Bank GmbH, this will have a corresponding effect on the business development of the Company.

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