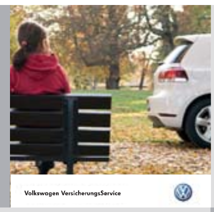
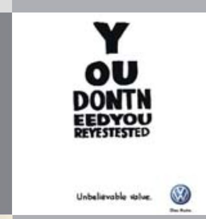
VOLKSWAGEN BANK

GMBH

Getting things done

The key to mobility.



Pioneering


Customer-focused

ANNUAL REPORT 2010 (HGB)

Volkswagen Bank GmbH at a glance (HGB)

€ million	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Total assets	32,870	32,647	30,868	23,325	21,023
Receivables arising from					
Retail financing	16,308	14,571	11,110	11,334	10,943
Leasing business	1,045	978	923	290	253
Dealer financing	6,228	6,373	7,586	7,411	5,827
Customer deposits[1]	20,078	19,489	12,829	9,620	8,827
Equity	3,930	3,579	2,979	2,979	2,679

in %	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Equity ratio	12.0	11.0	9.7	12.8	12.8
Core capital ratio[2]	15.6	14.9	12.8	14.2	13.4
Overall ratio[2]	18.6	18.0	18.8	20.8	20.1
Return on equity	10.3	6.7	6.9	11.6	13.3

€ million	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Result from ordinary business activities	342	210	204	329	354
Extraordinary result[3]	12	–	–	–	–
Taxes on income and earnings, other taxes	150	84	70	105	119
Profits transferred under a profit transfer agreement	180	126	134	224	235

Number	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Employees	631	644	669	585	3,855

RATING AS AT 31.12.2010	STANDARD & POOR'S			MOODY'S INVESTORS SERVICE		
	short-term	long-term	outlook	short-term	long-term	outlook
Volkswagen Bank GmbH	A–2	A–	stable	Prime-1	A2	stable
Volkswagen Financial Services AG	A–2	A–	negative	Prime-2	A3	stable

1 The year-end customer deposit figure for 2009 was adjusted to the customer deposit definition applicable from 2010 onwards.

2 Starting in 2007, the regulatory core capital ratio/overall ratio of Volkswagen Bank GmbH was calculated in accordance with the standardised approach to credit and operational risks based on the Solvency Regulation that took effect on 1 January 2007. The figures for 2006 were calculated in accordance with the old Principle I.

3 Change due to the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz BilMoG).

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MANAGEMENT REPORT (HGB)

Development of business
Solid growth after the crisis

Both the global economy and worldwide automobile sales have developed positively. Earnings in 2010 were substantially higher year on year, especially due to larger volumes and better margins.

RECOVERY OF GLOBAL ECONOMY CONTINUES

In 2010, the global economy recovered much more rapidly than expected from the previous year's sharp downturn. Although the governmental stimulus packages expired in many countries, both the continuation of expansive monetary policies and the rapid upturn particularly in the emerging markets gave the global economy above-average momentum. Whilst prices for commodities and energy rose substantially, in most countries inflation rates remained relatively low. Global trade returned to double-digit growth rates – a trend that benefited Germany's strong export sector a great deal. The global economy expanded by about 4.1 % overall, up from minus 1.9 % the previous year.

Europe/Other markets

At 1.8 % (previous year: –4.1 %), GDP growth in Western Europe was very low even though it ended up being higher than expected at the start of the year. The average unemployment rate in the euro zone climbed from 9.4 % in 2009 to 10.0 % in the reporting year. In Central and Eastern Europe, the GDP growth rate was 4.1 % on average (previous year: – 5.5 %), with GDP developing at a different rate in each country.

Germany

Thanks to its strong export sector, at a plus of 3.6 % (previous year: –4.7 %), Germany recorded one of the highest GDP growth rates among the major industrialised countries. Besides the substantial decrease in the unemployment rate, the increase in personal income also stimulated private consumption during the year's second half.

FINANCIAL MARKETS

At the start of 2010, the capital markets shifted their focus to the sovereign debt that had been triggered by the global economic and financial crisis. Greece's debt crisis, which began in March 2010, caused considerable uncertainty among creditors. This uncertainty intensified in the second half of the year due to intensifying disputes in the arena of international trade regarding the valuation of the Chinese Yuan relative to the freely convertible currencies, notably the US dollar. The situation deteriorated yet further in November 2010 due to the decision of the U.S. Federal Reserve Board to buy up to USD 600 billion in U.S. government bonds to stimulate the economy, as well as due to Ireland's financial crisis. In turn, this sparked price volatilities in both the foreign exchange and the interest rate markets and caused considerable nervousness in the capital markets until the year's end.

It is in this unsettled environment that banks had to prepare themselves worldwide for a tightening of banking regulations. Globally, the reforms of the regulations governing the international financial markets (so-called Basel III Accords) are giving rise to new banking requirements. Basically, these reforms aim to improve the quality of banks' equity in order to enhance the ability of the international financial system to weather crises in future. The tightened requirements will be phased in from 2013 onwards.

Europe

The securitisation markets continued to open up, given historically low interest rates, in turn boosting the issuing business over the course of the year. Yet high volatilities remained in place, fuelled by the currency crises.

Germany

In Germany, the government worked on developing an instrument suitable for separating the resolution of systemic financial crises from governmental bailouts and thus to prevent the financial market from collapsing. The restructuring law that was enacted in October 2010 is designed to obligate all banks to participate in the establishment of a restructuring fund at a level that corresponds to the systemic risk they pose. The minimum risk management requirements (MaRisk) that the Federal Financial Supervisory Authority (BaFin) amended in 2009 were revised yet again in 2010.

GLOBAL AUTOMOBILE BUSINESS DEVELOPS BETTER THAN EXPECTED

In 2010, passenger car sales rose worldwide by 11.4 % to 58.7 million vehicles. Posting the second-best sales volume ever, the industry just barely missed the record sales it posted in 2007 – the year before the crisis. In the European market however, sales of new vehicles fell, among other things due to the sharp decline in demand for passenger cars in Germany once the scrapping bonus had expired.

In 2010, the established markets were greatly affected by the governmental stimulus packages. Whilst these programmes shifted demand in favour of city cars, the trend was reversed again as soon as the scrapping bonus ended. Purchases finally made by people who had delayed their purchasing decisions helped the Volkswagen Group to boost its sales and expand its market share. Governmental subsidies substantially lowered the risk of major downturns in individual markets. The decline in the value of the euro in 2010 enhanced opportunities for exports to countries outside the euro zone.

Europe

In Western Europe, demand for passenger cars declined as expected, falling by 5.1 % to 13.0 million vehicles. The sharp declines were largely triggered by the phasing out of economic stimulus packages, particularly in the second half of the year. It was these programmes that had motivated customers in 2009 to accelerate their purchasing decisions. Of the high-volume markets, only the United Kingdom (+ 1.8 %) and Spain (+ 3.0 %) posted slight growth; in contract, the industry had to contend with declines in France (– 2.6 %), Italy (– 9.2 %) and especially Germany (– 23.4 %). Whilst the market share of diesel vehicles in Western Europe rose substantially year on year, at around 52.0 % (previous year: 46.0 %) it stayed below the all-time high of 53.3 % recorded in 2007.

Germany

New passenger car registrations fell by 23.4 % to 2.9 million vehicles in the 2010 financial year. The one-off early effects resulting from the scrapping bonus enacted in 2009 were the main factor in this sharp decline to the lowest level ever since German reunification. But the German commercial vehicle market recovered. At 282,000 newly registered vehicles, it surpassed the previous year's weak result by 16.5 %. German manufacturers boosted production of both passenger cars and commercial vehicles in domestic factories by 13.4 % to 5.9 million units thanks in particular to strong demand from abroad, in turn causing exports to soar by 25.0 % to 4.5 million vehicles.

Despite declining sales figures, the Volkswagen Group managed to further expand its market leadership in Germany by increasing its market share to 35.1 % (previous year: 34.2 %).

OVERALL APPRAISAL OF THE DEVELOPMENT OF BUSINESS

The Volkswagen Group's presence in all of the world's key regions as well as its multibrand strategy which has spawned the most modern, broad and environmentally friendly range of vehicles are what give the Volkswagen Group its competitive edge.

Volkswagen Bank GmbH will also continue to enhance the leveraging of potential along the automotive value chain. As in recent years, we will continue to push the integration of our financial services into the sales activities of the Volkswagen Group brands.

In the 2010 financial year, Volkswagen Bank GmbH succeeded in continuing its positive development and expanded its strong position as a financial services provider within the Volkswagen Group. The company managed to improve its result from ordinary business activities substantially compared to the previous year.

The downturn in vehicle sales in the international automotive markets was not as sharp as expected. The number of Volkswagen Bank GmbH's new vehicle financing contracts also developed better than expected but remained below the previous year's level. New vehicle deliveries to individual customers in Germany, Volkswagen Bank GmbH's core market, declined by 40 % to 515,000 units as a result of vehicle purchases made earlier than planned in connection with the scrapping bonus. In contrast, the decline in volume was smaller than expected thanks to the improvement in the German economy and the resulting reduction in the unemployment rate. Substantial increases were recorded in foreign markets, however. The company's attractive terms have helped to further enhance our competitive position. As a result, 188,000 new contracts were sold in the new vehicle financing business despite the difficult market environment. Supported by a Groupwide programme for young used cars that was launched in 2009 in Europe, the used vehicle market continued to develop positively in 2010. Promotional campaigns entailing service plans, low-interest financing and attractive insurance packages were offered. Transactions with affiliates are carried out at arm's length as if they were third parties.

The Volkswagen Bank direct division continues to be of great significance given its deposit volume and its use of innovative sales channels. Volkswagen Bank GmbH further expanded its deposit business from the previous year's high level.

The company's successful refinancing strategy, which remained largely unaffected by the tensions in the financial markets, is rooted in a balanced refinancing mix, a solid capitalisation, the high quality of assets and prudent liquidity targets.

Implementation of necessary cutting-edge strategic and IT projects as well as tightened regulatory requirements caused a reasonable increase in administration expenses.

The positive development of volume along with the improved risk ratio arising from the positive trend in economic data, as well as low interest rates in the capital markets, are the key aspects driving up earnings.

Steering and organisation

New structures and growth

Volkswagen Bank GmbH continued to consistently pursue its customer-focused realignment in the German market.

KEY OBJECTIVES

As part of the Volkswagen Group's Financial Services division, Volkswagen Bank GmbH performs the operational tasks required for the banking transactions of private and business customers. This involves the following areas of activity:

Financing business

Volkswagen Bank GmbH finances private and business customers, as well as Group dealers. Its principal function is automobile financing.

Leasing transactions

Whilst Volkswagen Bank GmbH only offers finance leasing in its Italian branch, it is engaged in both finance and operating leasing in its French branch.

Direct banking business

Volkswagen Bank direct offers private customers the entire portfolio of a direct bank, from account management and instalment loans to savings and investment products. Volkswagen Bank direct provides its business customers with overnight deposit accounts, as well as wide-ranging payment transaction services.

Agency business

Volkswagen Bank GmbH performs insurance agency services in connection with automobile financing. As part of its direct banking operations, it arranges loans secured by charges entered in the land register and other long-term forms of financing, as well as investments in funds and the stock market.

One of the ways in which Volkswagen Bank GmbH pursues its objectives is by carrying out joint customer relationship management activities, which has led to constant improvements in customer loyalty, quality of service and the product portfolio.

For refinancing, Volkswagen Bank GmbH actively leverages the opportunities provided on the global capital markets through private placements, bond issues and transactions based on asset-backed securities (ABS).

The business activities of Volkswagen Bank GmbH are closely integrated with those of the manufacturers and the dealer organisations of the Volkswagen Group.

ORGANISATION OF VOLKSWAGEN BANK GMBH

The customer-focused realignment of Volkswagen Bank GmbH in the German market, which had been initiated in 2009, was further implemented in 2010 with the aim of improving the quality the bank offers to customers and dealers alike, streamlining its processes, leveraging additional synergies and simultaneously ensuring employee satisfaction.

Volkswagen Bank GmbH is responsible for the individual, corporate and direct banking customer groups. There will be one manager for the customer service, marketing and sales departments of each customer group.

The Direct Banking Customer group is headed by Torsten Zibell, who has overall responsibility for all direct banking processes from product development, to marketing, sales and customer service, all the way to receivables management.

The Individual Customer group, which is headed by Rainer Blank, will align its internal customer service along regional lines analogous to its field sales: Region North, Region West, Region South, Region East. The main focus will be on comprehensive consulting services for customers and fixed dealer assignment. The acquisition of financing and leasing contracts will be combined in a first step to that end. The Retail and Loss insurance segments are an integral part of the customer group.

In the Corporate Customer group, a close regional integration of the Market and Market Support functions is being established. Headed by Dr. Michael Reinhart, Market Support combines credit analysis and loan approval processes in order to enhance process speed and customer satisfaction.

Report on the branches and branch offices

The branches of Volkswagen Bank GmbH (Audi Bank, SEAT Bank, Škoda Bank and AutoEuropa Bank) provide targeted support for vehicle financing in connection with these Group brands.

As previously, Volkswagen Bank GmbH has branch offices in Berlin, Braunschweig, Emden, Hanover, Ingolstadt, Kassel, Neckarsulm, Salzgitter, Wolfsburg and Zwickau, offering customers over-the-counter, consultation and cashpoint services.

Volkswagen Bank GmbH is represented in the European market by branches in eight EU countries, which were set up using the "European Passport". Each of the international branches of Volkswagen Bank GmbH in Belgium, France, Greek, the United Kingdom, Ireland, Italy, the Netherlands and Spain conduct their local business with its own staff. The branches employed 512 members of staff as at the end of 2010 (previous year: 519).

Analysis of the company's business development and position

Substantial improvement in earnings

Larger volumes and better margins enabled Volkswagen Bank GmbH to post substantially improved earnings.

Volkswagen Bank GmbH maintained its strong market position in the 2010 financial year, supported by an attractive product range and the loyalty of customers and dealers alike. In the retail financing segment, the bank continued its close collaboration with the brands of the Volkswagen Group. The customer financing volume increased by 11.9 % to € 16.3 billion compared to 31 December 2009, thanks also to the intensive collaboration with the Volkswagen Group's dealerships.

Volkswagen Bank GmbH's refinancing expense fell in 2010 because it used the capital market to its advantage, and its deposit business continued to expand despite lower interest rates.

RESULTS OF OPERATIONS

The 2010 financial year was a positive one for Volkswagen Bank GmbH even though risk costs were almost as high as the previous year, thus continuing to reflect the fallout of the financial market crisis.

The result from ordinary business activities was € 341.5 million compared to € 209.6 million in the previous year. Foreign branches contributed € 29.2 million (previous year: € 61.3 million) to earnings. The change in earnings was substantially affected by the positive development of interest margins even though it was contrasted by a significant reduction in net commission income.

The net interest income earned by Volkswagen Bank GmbH including the net income from leasing transactions was € 1,179.8 million compared to € 824.5 million in the previous year. This significant increase was essentially due to the higher net interest income from retail financing. Volkswagen Bank GmbH posted interest income of € 95.8 million (previous year: € 122.6 million) from securities, including € 32.0 million (previous year: € 30.2 million) in interest income from securities that were acquired from VCL 2008-1 GmbH, VCL 2009-1 GmbH, VCL 2009-2 GmbH, VCL 2009-3 GmbH, VCL 2010-1 GmbH and VCL 2010-2 GmbH. These securities serve to securitise receivables of Volkswagen Leasing GmbH.

Interest income from lending and money market transactions including finance leasing continues to stem primarily from consumer financing, as well as from vehicle and investment financing for the dealers of the Volkswagen Group.

Volkswagen Bank GmbH succeeded in lowering its interest expense by 34.1 % to € 505.3 million year on year thanks to the consistent execution of its diversified refinancing strategy, the flexible utilisation of its instruments and the positive developments in the capital market.

Operating leases contributed € 123.5 million (previous year: € 119.1 million) to net interest income and net income from leasing.

VOLKSWAGEN BANK POLSKA S.A., Warsaw, accounted for € 2.5 million in income from equity investments, as in the previous year, and Global Mobility Holding B.V., Amsterdam, the Netherlands, accounted for € 2.1 million. The latter had not distributed any dividends the previous year.

The net commission income declined year on year, from € 86.5 million to € – 13.8 million. The increased competition in the automobile industry triggered a substantial rise in commission expenses aimed at supporting dealer loyalty. The positive net commission income generated in Germany could not fully offset the negative result of the foreign branches. Commission income from the sale of receivables effected through the ABS transactions, which continues to be managed by Volkswagen Bank GmbH, also decreased year on year in 2010.

The allowances and provisions made for the lending business were measured by taking into consideration all discernible risks. Receivables from vehicle financing at the retail level that fulfil a default criterion under Basel II were subject to individual value adjustments. All other receivables related to vehicle financing at the retail level were broken down according to risk classes and written down in accordance with the respective risk class using portfolio-based value adjustments. Deferred risks were covered by generalised value adjustments in dealer financing and other retail financing. In addition indirect residual value risks were taken into account by means of provisions. The sale of receivables effected through the ABS transactions ensured that Volkswagen Bank GmbH would no longer bear the attendant default risks. The risk provision required for write-downs and bad debt allowances in the customer financing and direct banking businesses was higher than in the previous year. Dealer financing, in contrast, saw a slight decrease in additions to value adjustments. Overall, risk costs remained almost stable compared to the previous year.

Under the existing profit transfer agreement, the remaining profit after tax, amounting to € 179.5 million, is transferred to the parent company, Volkswagen Financial Services AG.

SUMMARY

The positive effects of the improvement in interest margins enabled Volkswagen Bank GmbH to counteract both the decline in net commission income and the level of risk costs, which remained high. The result from ordinary business activities in 2010 thus rose substantially year on year as the financial crisis eased.

ASSETS AND FINANCIAL POSITION

Lending business

The lending business of Volkswagen Bank GmbH focuses on the provision of loans to private and commercial customers. The receivables shown in the balance sheet increased from € 25.2 billion to € 26.7 billion. The share of foreign branches in the retail lending volume rose from € 6.4 billion to € 7.3 billion. Furthermore, the company manages receivables sold through ABS transactions in the amount of € 1.8 billion (previous year: € 3.4 billion). The aggregate receivables managed by Volkswagen Bank GmbH thus remained almost unchanged year on year at € 28.5 billion.

Retail financing

New vehicle deliveries to individual customers declined from the previous year because customers made their purchases in 2009 instead of later due to the scrapping bonus.

Our attractive terms have helped to further enhance our competitive position. As a result, 334,355 new contracts were sold in the new vehicle financing business and 288,914 in the used vehicle financing business despite the difficult market environment.

At 1,813,308 contracts, the automotive financing portfolio remained stable on the whole. At the close of 2010, retail financing receivables were € 16.3 billion (previous year: € 14.6 billion). Foreign branches accounted for € 2.8 billion of this amount (previous year: € 2.3 billion).

Using field sales staff possessing the requisite expertise, AutoEuropa Bank, a branch of Volkswagen Bank GmbH, offers its trading partners among non-captive car dealerships as well as the caravan industry a comprehensive range of services from pure sales financing to leasing, car insurance, corporate liability insurance all the way to dealer sales financing.

The segment's positive trajectory in recent years continued in 2010 as well.

Dealer financing

Volkswagen Bank GmbH offers its corporate customers in Germany a broad range of financing, deposit and service products.

The volume of new and used vehicle financing contracts in the corporate customer group was lower than the previous year owing to the year-on-year decline in the number of vehicles delivered. Volume development in Volkswagen Bank GmbH's core market – Germany – is the main cause for this decline. A positive upward trend is taking place in the other branches.

Total dealer financing receivables as at the balance sheet date were € 6.2 billion compared to € 6.4 billion at the end of the previous year. The foreign branches accounted for € 3.1 billion of these aggregate receivables (previous year: € 2.4 billion).

Leasing business

Volkswagen Bank GmbH offers finance leasing and operating leasing through its foreign branches. The French branch of Volkswagen Bank GmbH engages in both finance and operating leasing; the Italian branch, on the other hand, continues to offer only finance leasing. Receivables as at the end of the 2010 financial year again amounted to € 1.0 billion. They largely comprise receivables from finance leasing.

Bonds and debentures

In 2008, the Bank had executed three ABS transactions with an aggregate volume of € 3.4 billion in securitised receivables and purchased all related senior ABS debentures to ensure its liquidity supply. As at 30 June 2010, a total of € 1.2 billion were part of the portfolio and pledged as collateral in connection with the bank's participation in the open market operations of Deutsche Bundesbank.

In 2010, the Bank executed one ABS transaction with an aggregate volume of € 1.1 billion in securitised receivables and purchased the related senior ABS debentures. This transaction resulted in a securities portfolio amounting to € 0.9 billion.

Furthermore, the company had senior ABS debentures of VCL 2008-1 GmbH, VCL 2009-1 GmbH, VCL 2009-2 GmbH, VCL 2009-3 GmbH, VCL 2010-1 GmbH and VCL 2010-2 GmbH with a total volume of € 1.0 billion in its portfolio for investment purposes. These debentures, which securitise receivables of Volkswagen Leasing GmbH, also serve as collateral for participating in Deutsche Bundesbank's open market operations. There were no open market transactions with Deutsche Bundesbank as at the balance sheet date.

Equity investments

Volkswagen Bank GmbH holds a 50 % stake in Global Mobility Holding B.V., Amsterdam. Global Mobility Holding B.V. in turn holds all shares of LeasePlan Corporation N.V., Amsterdam.

Volkswagen Bank GmbH is represented in Poland through its affiliated company VOLKSWAGEN BANK POLSKA S.A., Warsaw. VOLKSWAGEN BANK POLSKA S.A. operates in the same business areas.

The bank acquired Volkswagen Insurance Brokers GmbH, Braunschweig, from Volkswagen Versicherungsdienst GmbH during the financial year. It also acquired an equity interest of 1 % in Limited Liability Company Volkswagen Bank RUS, Moscow, which was newly established in 2010.

CURRENT AND NEW CONTRACTS

in thousands (as at 31.12.)	2010	2009	2008
New contracts*			
Retail financing	623	690	563
Leasing business	29	27	36
Service/insurance	59	58	45
Current contracts**			
Retail financing	1,813	1,940	1,638
of which sold through ABS transactions	437	597	726
Leasing business	83	78	77
Service/insurance	104	105	117
Direct banking customers	1,014	939	812

* The new contracts in 2008 were adjusted to the volume definition applicable from 2009 onwards. There is no five-year comparison because the new contract figures from 2006 and 2007 are not comparable.

** The year-end figure for 2008 was adjusted to the volume definition applicable from 2009 onwards. There is no five-year comparison because the current contract figures from 2006 and 2007 are not comparable.

Deposit business and borrowings

Besides equity, the main items under equity and liabilities are € 21.4 billion in liabilities to customers including the direct banking business (previous year: € 20.9 billion) and € 3.0 billion in securitised liabilities (previous year: € 3.7 billion).

Volkswagen Bank GmbH stimulated the European ABS market through its Driver Seven securitisation transaction. The tranche of € 519.1 million was successfully sold at the lower end of the price range. In addition, Volkswagen Bank GmbH issued a benchmark bond for € 1 billion at attractive terms at the end of the second quarter of 2010.

SUMMARY

Volkswagen Bank GmbH succeeded in expanding especially its retail financing business as the financial crisis eased – even though the volume remained almost the same. In terms of liabilities and equity, the deposit business of Volkswagen Bank direct continued to grow, which led to the corresponding reduction in securitised liabilities.

Deposit business

Volkswagen Bank GmbH further expanded its deposit business from the previous year's high level. As at the balance sheet date, the customer deposit volume was € 20.1 billion, up 3.0 % compared to 31 December 2009 (€ 19.5 billion). Volkswagen Bank GmbH succeeded in further expanding its market leadership among automotive direct banks thanks to this level of deposits. The deposit business is thus contributing substantially to customer loyalty to the Volkswagen Group.Its share in the refinancing mix of the Volkswagen Bank GmbH Group is 65.1 % (previous year: 64.2 %).

Aside from offering statutory deposit insurance, Volkswagen Bank GmbH is also a member of the Deposit Insurance Fund of the Association of German Banks (Bundesverband deutscher Banken e.V.).

Equity

The core capital of Volkswagen Bank GmbH rose to € 3,904.4 million in 2010 although a silent partner contribution of € 40.0 million from an affiliate is no longer reported under regulatory requirements because € 350.0 million were paid into the capital reserve.

In its capacity as the primary credit institution as defined by the German Banking Act, Volkswagen Bank GmbH is responsible for ensuring the capital adequacy of the financial holding group, Volkswagen Financial Services AG.

Capital adequacy according to regulatory requirements

Under the provisions of the Solvency Regulations, banking regulatory authorities assume that a company’s capital is adequate if the core capital ratio is at least 4.0 % and the regulatory overall ratio is at least 8.0 %.

The so-called standardised approach to determine capital adequacy in connection with credit risks and operational risks is applied in accordance with the Solvency Regulation.

Accordingly, this gives rise to the following regulatory figures and financial ratios for Volkswagen Bank GmbH:

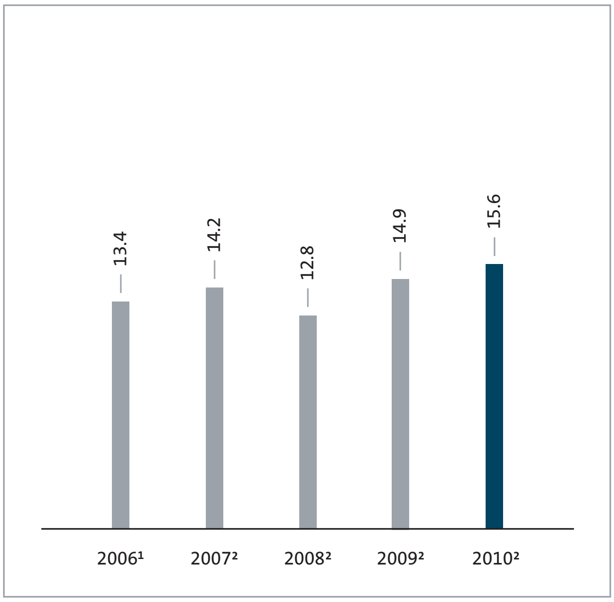
		31.12.2010		31.12.2009
Aggregate risk position (€ million)		24,975		24,121
of which weighted position according to the standardised approach to credit risks	23,523		22,508	
of which market risk positions * 12.5	0		61	
of which operational risks * 12.5	1,452		1,552	
Liable capital (€ million)[1]		4,648		4,353
of which core capital[2]	3,904		3,590	
of which supplementary capital[2]	744		763	
Own funds (€ million)		4,648		4,353
Core capital ratio[3] (%)		15.6		14.9
Overall ratio[4] (%)		18.6		18.0

1 Net of the deductible for securitisation positions
2 The deductible items are already deducted from core and supplementary capital
3 Core capital ratio = Core capital/ ((Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100
4 Overall ratio = Own funds/ ((Capital requirement for credit risks + operational risks + market risks) *12.5) * 100

Overall, the core capital ratio changed from 14.9 % to 15.6 % as a result of a growth in business (increase in risk assets), the change in the core capital and the subordinated funds, and the own funds ratio changed from 18.0 % to 18.6 %.

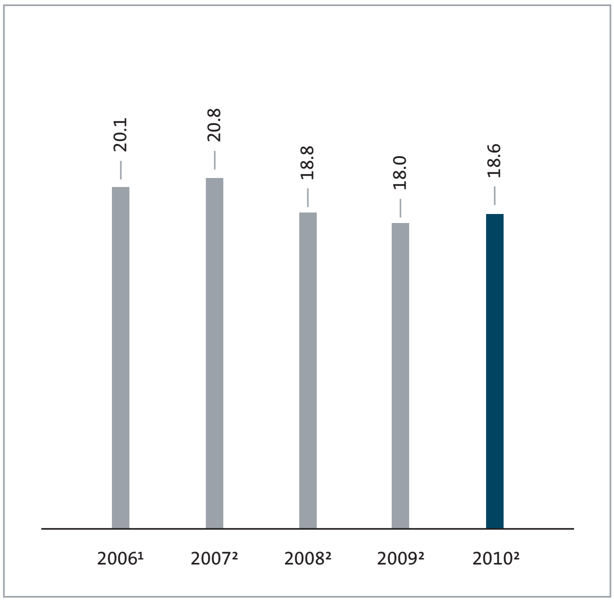
The core capital and own funds ratios developed as follows in recent years:

CORE CAPITAL RATIO UNDER THE SOLVENCY REGULATIONS OF VOLKSWAGEN BANK GMBH AS AT 31.12.
Figures in %



1 Core capital ratio under Principle I of the bank as at 31.12.
2 Core capital ratio = Core capital/ ((Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100

OVERALL RATIO UNDER THE SOLVENCY REGULATIONS OF VOLKSWAGEN BANK GMBH AS AT 31.12.
Figures in %



[1] Overall ratio under Principle I of the bank as at 31.12.
[2] Overall ratio = Own funds/ ((Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100

The own funds ratio of Volkswagen Bank GmbH is relatively high, ensuring adequate capitalisation even in the event of large increases in its business volume. In principle, the bank can use ABS transactions and raise supplementary capital as needed in the form of subordinated liabilities in order to optimise its equity management. As a result, Volkswagen Bank GmbH has a sound basis for the ongoing expansion of its financial services business.

In the 2010 financial year, own funds rose by € 65.0 million through subordinated loans from Volkswagen Financial Services AG and by € 170.0 million through subordinated loans from Volkswagen International Finance N.V. Profit-participation rights with a nominal value of € 90.0 million have not been considered since January 2010 because their residual term was less than the two years required under the regulatory regime.

Basel II

Volkswagen Bank GmbH has implemented the IRB approach in its significant portfolios. The Federal Financial Supervisory Authority (BaFin) has no plans at present to recognise the IRB approach.

The financial key performance indicators of Volkswagen Bank GmbH are as follows:

	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Equity ratio[1]	12.0 %	11.0 %	9.7 %	12.8 %	12.8 %
Core capital ratio[2]	15.6 %	14.9 %	12.8 %	14.2 %	13.4 %
Overall ratio[2] (regulatory)	18.6 %	18.0 %	18.8 %	20.8 %	20.1 %
Leverage[3]	7.3	8.1	9.3	6.8	6.8
Return on equity[4]	10.3 %	6.7 %	6.9 %	11.6 %	13.3 %

1 Equity ratio
Ratio between equity and total capital
2 Core capital ratio/Overall ratio (regulatory)
Core capital ratio = Core capital / (Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100
Overall ratio = Own funds / (Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100
The figures as at 31.12.2006 were calculated in accordance with the old Principle I.
3 Leverage
Gearing
4 Return on equity
Result from ordinary business activities divided by average equity

NOTES TO THE EQUITY RATIO AND LEVERAGE

The equity of Volkswagen Bank GmbH rose by 9.8 % as a result of Volkswagen Financial Services AG's € 350.0 million payment into the bank's capital reserve on 26 November 2010 and the recognition in equity of the discounting of non-current provisions by € 0.6 million. Since the business volume remained almost unchanged in the 2010 financial year, the equity ratio rose whilst leverage decreased. Volkswagen Bank GmbH managed to raise funds at all times thanks to its good standing in the capital market and the expansion of its deposit business.

For non-financial key performance indicators, please see the personnel report.

REFINANCING AND HEDGING STRATEGY

Strategic principles

In terms of its refinancing activities, Volkswagen Bank GmbH generally follows a strategy aimed at diversification, which is conceived as the best possible weighing of cost and risk factors. This entails developing a diverse range of refinancing sources in different regions and countries with the aim of ensuring the sustained availability of refinancing funds at attractive terms.

Investors' substantial interest in our bonds and the securitisation transactions initiated by us, along with lower risk premiums documents their unwavering confidence in the performance of both Volkswagen Bank GmbH and the Volkswagen Group.

Implementation

The successful diversification strategy in refinancing was continued. In April, Volkswagen Bank GmbH further stimulated the euro ABS market through its Driver 7 benchmark securitisation transaction comprising receivables from over € 41,000 automobile loans; it issued a € 1.0 billion fixed-income bond in June as well as a € 500 million bond carrying a variable interest rate in September under the € 10 billion Debt Issuance Programme.

At growth in deposits of € 0.6 billion to € 20.1 billion in the financial year just ended, the deposit business expanded continuously with terms remaining stable.

The company borrowed at corresponding maturities and used derivatives in line with its strategy of refinancing largely at matching maturities. Its approach of refinancing at matching currencies was pursued either by raising funds in local currencies or by hedging currency risks through the use of derivatives.

Opportunity and risk report
Risk management is the key to success

Volkswagen Bank GmbH deals responsibly with the risks that arise in connection with its business activities. State-of-the-art risk management tools for identifying, analysing and monitoring risks are used to control credit risks.

MACROECONOMIC OPPORTUNITIES

The Board of Management of Volkswagen Bank GmbH expects a slight increase in automobile sales owing to the global economic recovery and a corresponding increase in the market share of the Volkswagen Group. This positive trend is being supported by the Group brands' marketing campaigns. Volkswagen Bank GmbH will participate in this trend through its core business of automotive financial services.

STRATEGIC OPPORTUNITIES

There are opportunities for further geographic expansion into markets where Volkswagen Bank GmbH can use its financial services to promote the sales of Group vehicles. Additional opportunities are offered by the development of innovative products that are aligned with customers' changed mobility requirements. The focus is on the ongoing development of service packages related to ensuring mobility. The Group's targeted rates of return as well as the sales promotion potential are relevant to any decision to enter a particular market and develop new products.

MATERIAL COMPONENTS OF THE INTERNAL CONTROL SYSTEM AND THE INTERNAL RISK MANAGEMENT SYSTEM IN REGARDS TO THE ACCOUNTING PROCESS

The internal control system (ICS) for the annual financial statements of Volkswagen Bank GmbH is defined as the sum of all principles, methods and actions aimed at ensuring the effectiveness, economy and propriety of the company's accounting as well as ensuring compliance with material legal requirements. In terms of the accounting system, the risk management system (IRMS) concerns the risk of misstatements in the bookkeeping as well as in the external reporting system. The material elements of the internal control system and the risk management system as they relate to the accounting process at Volkswagen Bank GmbH are described below.

- Given its function as the corporate body tasked with managing the company's business and in view of ensuring proper accounting, the Board of Management of Volkswagen Bank GmbH has established Accounting, Customer Service, Treasury, Risk Management and Controlling departments and has clearly delineated their respective spheres of responsibility and authority. Key cross-divisional functions are controlled by the Board of Management of Volkswagen Financial Services AG as well as by the executive management of Volkswagen Bank GmbH, Volkswagen Leasing GmbH as well as Volkswagen Business Services GmbH.
- Groupwide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process.
- Control activities at several levels of Volkswagen Bank GmbH, such as reviewing and analysing the financial statements, ensure the propriety and reliability of its accounting.
- All of this is supplemented by the clear delineation of spheres of responsibility as well as a variety of controlling and monitoring mechanisms. The aim is to ensure that all transactions are accurately posted, processed, evaluated and included in the company's financial accounting.
- These controlling and monitoring mechanisms are designed to be process-integrated and independent of processes. Hence automated IT process controls besides manual process controls (such as the “four-eyes” principle) comprise material components of the process-integrated activities. These controls are supplemented by specific Group functions of the ultimate parent company, Volkswagen AG, for example Group Controlling.
- Risk management is fully integrated into the accounting process by virtue of continuous risk monitoring and the risk reporting system.

- Internal Audit is also a key corporate body that is integral to the controlling and monitoring system of the Volkswagen Bank GmbH Group. Internal Audit regularly performs audits, both in Germany and abroad, of processes relevant to accounting as part of its risk-based audit procedures and directly reports its findings to the Board of Management of Volkswagen Bank GmbH.

In sum, the existing internal controlling and monitoring system of Volkswagen Bank GmbH is designed to ensure that the information on the financial position of Volkswagen Bank GmbH as at the 31 December 2010 reporting date is proper and reliable. No material changes were made to the internal controlling and monitoring system of Volkswagen Bank GmbH after the reporting date.

STRATEGY AND STANDARDS

Volkswagen Bank GmbH including its branches and affiliates (hereafter: "Volkswagen Bank GmbH") is faced with a multitude of risks typical for financial services in the pursuit of its primary business activities; the company responsibly assumes these risks in order to take advantage of the resulting market opportunities.

Ongoing risk monitoring, transparent and direct communication with the Board of Management and integrating newly acquired findings into operational risk management form the foundation for the best possible utilisation of market potentials based on the deliberate and effective control of the total risk of Volkswagen Bank GmbH.

Volkswagen Bank GmbH has set up a system for identifying, measuring, monitoring and controlling risk positions, in accordance with the requirements of § 25a Para. 1 German Banking Act and by applying § 91 Para. 2 German Stock Corporation Act analogously.

This system has also been implemented as the Group-wide risk management system of the financial holding group in accordance with § 25a Para. 1a German Banking Act.

This risk management system allows timely detection of developments that might jeopardise the company's activities. The system encompasses both a framework of risk principles as well as organisational structures and processes for risk measurement and monitoring that are tightly integrated in the activities of the individual divisions.

The basic decision relating to strategy and tools for risk management are the responsibility of the Board of Management of Volkswagen Bank GmbH.

To ensure appropriate and consistent treatment of risks within Volkswagen Bank GmbH, the company has established risk management guidelines for its credit business, which take the strategy for the credit business and the development of own funds into account.

The Board of Management of Volkswagen Bank GmbH has been pursuing a risk strategy in connection with its mid-term planning for years that conforms to minimum risk management requirements and is consistent with the company's business strategy. This strategy is reviewed at least once a year, adjusted as necessary and discussed with the Supervisory Board.

Strategic parameters are determined for all material risks based on risk management guidelines and the risk-bearing capacity of Volkswagen Bank GmbH.

In addition to risks of counterparty default – credit risks, in particular – market price risks, liquidity risks, operational risks, strategic risks as well as reputation risks are also reviewed in detail.

At-risk transactions are assessed and controlled based on these risk management guidelines. Additionally, the following principles determine the company's risk environment and strategy:

- The Board of Management determines the risk preference. The Supervisory Board regularly monitors the risk profile of Volkswagen Bank GmbH.
- The risk preference of Volkswagen Bank GmbH is generally moderate. Only predictable and workable risks are incurred. In the case of operational risks, a prevention/reduction strategy is pursued.
- Risks from new or modified products, new sales channels and/or new markets are subject to a fixed evaluation and approval process.
- Volkswagen Bank GmbH's processes are continuously subject to quality assurance.
- Risk is spread across customers, products and countries.
- Security is obtained for all vehicle and investment financing loans.
- Risk provision is based on a risk-oriented value adjustment policy.
- Lending processes and responsibilities are subject to guidelines applicable to the different divisions and are decided in accordance with an approval process subject to credit limits.
- Credit risks are factored into the pricing.
- Loans are granted solely after appropriate identity and credit checks.
- Volkswagen Bank GmbH makes loans largely taking into account total customer value.
- Decisions regarding the assumption or avoidance of risks are supported by the use of suitable control instruments, such as credit rating procedures or early warning systems.

Risk management essentially involves the identification, analysis and quantification of possible risks, as well as risk assessment and the resulting determination of steering measures.

A risk manual is central to the company's risk management system. All risks are reviewed as to their materiality at least once a year and, if necessary, the relevant assessments are revised and expanded by new risk factors.

The risk manual describes the risk management system in detail.

The identified risks are assessed quarterly based on the established risk management reporting process pursuant to an expert system by applying certain criteria using a stoplight system.

Group Risk Management assesses, monitors, aggregates and reports the results to the Board of Management of Volkswagen Bank GmbH and the Supervisory Board on a quarterly basis as well as annually to Volkswagen AG in connection with Volkswagen Financial Services AG's process under the German Transparency in the Corporate Field Act (KonTraG).

Besides quantifying risk positions as required under the regulatory regime (pursuant to the Solvency Regulations) and representing the existent equity components, Volkswagen Bank GmbH has also established an economic system for determining its risk-bearing capacity that matches the economic risk to the hedging potential.

An assessment concerning the potential extent of the unexpected loss as the total of all risk types in the overall portfolio of Volkswagen Bank GmbH is made in regards to economic risks. Risk values for the relevant risk types are determined by means of different approaches pursuant to the methodological recommendations of the Basel Capital Accord based on statistical models and supported by expert estimates.

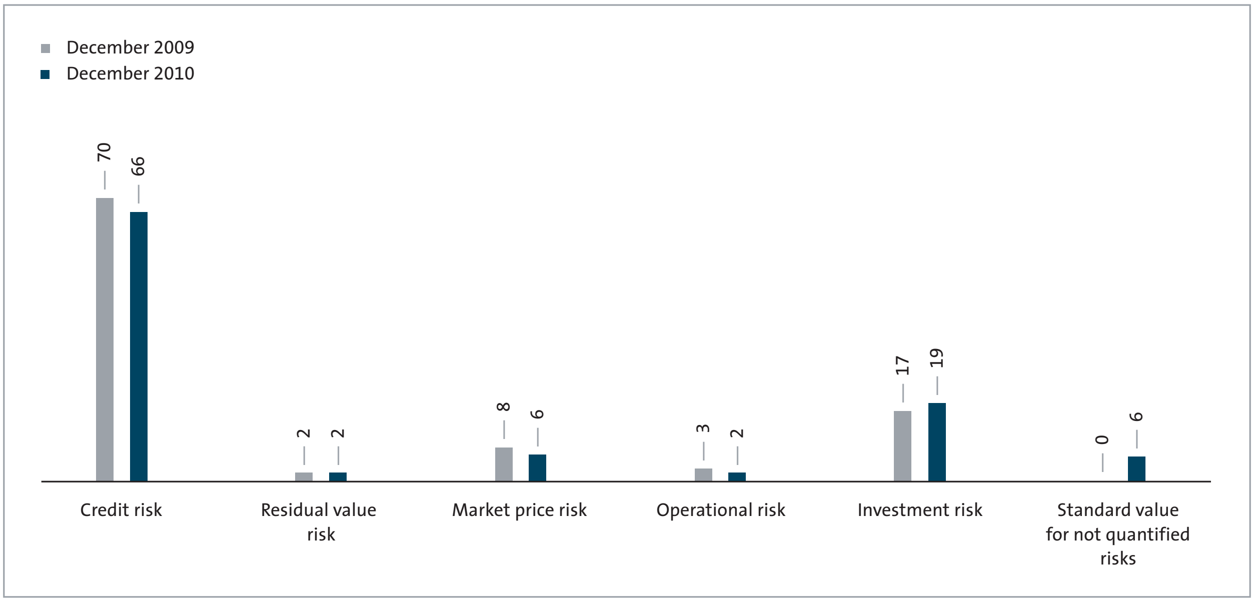
Volkswagen Bank GmbH has selected a sufficiently conservative approach by assuming a 1:1 correlation between risk types.

The economic risk is quantified for two scenarios.

The "normal scenario" assumes a confidence level of 99 % and a one-year holding period while the "worst-case scenario" assumes a confidence level of 99.93 % and a one-year holding period.

SHARE OF NORMAL SCENARIO RISKS IN THE OVERALL RISK

Figures in %



In 2010 Volkswagen Bank GmbH worked intensively on methods to quantify its risks. Comparability with the previous year is therefore limited.

This analysis of its risk-bearing capacity serves to examine, on a quarterly basis, whether Volkswagen Bank GmbH is capable at all times to bear the risks potentially resulting from its operating business.

Volkswagen Bank GmbH's risk-bearing capacity was certain throughout the year.

During the previous year, less than 30 % of our risk cover was utilised at all times.

Volkswagen Bank GmbH also uses a limit system derived from the analysis of its risk-bearing capacity that makes it possible to limit the net amount of individual risk types.

The establishment of a limit system as the core element in capital allocation is designed to ensure that, for one, the individual risk types can be limited and controlled in regards to their risk content and, for another, that the risk capital can be specifically limited in accordance with the risk preference of the Board of Management of Volkswagen Bank GmbH.

The limit system comprises two stages. Stage 1 entails the determination of the bank's aggregate risk limit for risk under the normal scenario. This entails defining the extent to which the Volkswagen Bank GmbH can use the theoretically available risk hedging potential to plan operational risk provisioning. Consequently, this reflects the Board of Management's risk preference. In stage 2, the risk type limits are defined as the monetary share of the bank's aggregate risk limit; they reflect the company's business alignment. Risk-adjusted distribution applies. The determination is made at least once a year pursuant to a resolution of the Board of Management.

Group Risk Management reports the risk of counterparty default, market price and operational risks by submitting a risk management report to the Board of Management and the Supervisory Board at least once a quarter. For markets with a significant business volume, reporting is done on a monthly basis.

Continuous improvements of the risk management report have helped to further improve the data regarding structures and developments in the company's credit portfolios.

Volkswagen Bank GmbH is further pursuing the development of both its system for measuring and monitoring risk positions and the relevant control systems on the basis of the legal requirements.

The suitability of individual system elements is reviewed regularly in a risk-oriented manner by Internal Audit and by external auditors as part of the audit of the annual financial statements.

STRUCTURE AND ORGANISATION

Volkswagen Bank GmbH is the primary institution of the financial holding group. The staff and control functions for Volkswagen Bank GmbH are organised in the following units: Controlling/ Legal Services/Internal Audit/ Accounting/Group Risk Management/Risk Assessment Procedures and Basel II as well as Treasury.

The Chief Risk Officer (CRO) is responsible for executing the overall risk strategy established by the Board of Management of Volkswagen Bank GmbH. The CRO regularly reports Volkswagen Bank GmbH's overall risk position to both the Board of Management and the Supervisory Board.

In addition to being responsible for Central Risk Management, Risk Assessment Procedures, Basel II, Audits as well as Controlling, the CRO is also responsible for Market Support/Dealer Restructuring.

The Group Risk Management department formulates risk policy guidelines for risk management, develops methods and processes, conducts ongoing analyses of the current risk situation and ensures transparent reporting.

The basic decision relating to strategy and tools for risk management are the responsibility of the Board of Management of Volkswagen Bank GmbH. As a neutral and independent department, Group Risk Management reports directly to the Board of Management of Volkswagen Bank GmbH.

The department Risk Assessment Procedures and Basel II determines the parameters of the procedures used to measure both creditworthiness and collateral and ensures that the models and procedures applied are adequate worldwide. The models and procedures under the direct control of the department responsible for Risk Assessment Procedures and Basel II are regularly validated, adjusted as necessary and refined.

This concerns the models and procedures for assessing creditworthiness (such as rating and scoring procedures) and for assessing probabilities of default (PD), loss given default (LGD) and credit conversion factors (CCF). The valuations for the collateral are also reviewed on a regular basis and adjusted as necessary.

The department responsible for Risk Assessment Procedures and Basel II reviews the validity of the models and procedures used by the local risk management units abroad to assess creditworthiness, initiates appropriate measures in cooperation with the local risk management if it identifies any need for action and monitors the implementation of these measures.

It also carries out regular quality assurance regarding local guidelines for collateral; this includes reviewing and, if necessary, adjusting the valuations for collateral.

As a neutral and independent department, Risk Assessment Procedures and Basel II reports directly to the Board of Management of Volkswagen Bank GmbH.

As a rule, operational risk management in the sense of modern portfolio management is integrated into the individual divisions. The consistent organisational separation of the Market and Market Support functions ensures the independence of risk evaluation and monitoring of areas responsible for risk and earnings.

The individual decision-making authorities in each division are governed by competences specified by the Board of Management of Volkswagen Bank GmbH.

On behalf of the Board of Management, Volkswagen Bank GmbH's Internal Audit department performs independent and risk-oriented audits of all operational and business procedures of Volkswagen Bank GmbH, its domestic and foreign branches as well as third-party companies for which contractual auditing rights are in place, taking due account of bank regulatory requirements.

As far as the accounting process is concerned, the essential features of both the internal control system and the internal risk management system are also an integral part of the company's operating and business procedures.

This activity is based on an annual audit plan, which is drawn up on the basis of the legal provisions in a risk-oriented manner. Internal Audit informs the Board of Management of Volkswagen Bank GmbH about the result of the audits carried out by submitting audit reports and an annual summary report.

Implementation of the measures and recommendations agreed in the audit reports is monitored by Internal Audit of Volkswagen Bank GmbH.

RISK TYPES

Volkswagen Bank GmbH defines risk as any uncertainty about future developments that might have a negative impact on the Group's economic situation. This risk can itself be divided into different types of risk.

At the same time, Volkswagen Bank GmbH constantly analyses and assesses the opportunities that arise from consciously entering into risks.

The business decisions of Volkswagen Bank GmbH are therefore based on the risk vs. opportunity weighting described here.

The typical risks for Volkswagen Bank GmbH are:

- Risk of counterparty default:
  - Credit risk
  - Counterparty risk
  - Country risk
  - Shareholder risk
- Market price risk:
  - Interest rate risk
  - Foreign currency risk
  - Price risk
- Liquidity risk
- Operational risk
- Residual value risk
- Strategic risk
- Reputation risk

RISK OF COUNTERPARTY DEFAULT

Risk of counterparty default is taken to mean possible losses in value due to non-payment by a customer or deterioration of a customer's creditworthiness. A distinction is made between credit risks, counterparty risks, country risks and shareholder risks.

Credit risk

Definition

Credit risks, which also include risks of counterparty default relating to leasing contracts, represent by far the largest component of the risk positions among the risks of counterparty default.

For the whole year 2010, trends of an economic recovery were identified.

Prices for used cars recovered slightly as well.

The number of defaults in the private customer segment did not rise overall in 2010.

Business with commercial borrowers, also in the corporate portfolio, generally stabilised in 2010. The ramifications of the economic crisis are expected to weaken further in 2011.

Parameters/risk strategy

A core competence of Volkswagen Bank GmbH lies in utilising opportunities from assuming credit risks resulting from wholesale and retail financing and also from leasing transactions in the automobile business.

The goal is to optimise the opportunity/risk ratio.

Group Risk Management establishes crash barriers for the central management of credit risks. These guidelines constitute the central risk management system's binding external framework within which the divisions/markets can pursue their activities, plans and decisions in accordance with their competencies.

The local risk strategies of the branches are combined in the overall risk strategy.

Risk assessment

Credit assessment and standardisation of lending decisions at Volkswagen Bank GmbH are essentially carried out on the basis of credit rating procedures using rating and scoring methods. A rating manual provides the framework, describing how rating systems must be developed and maintained.

Stress tests for credit risks entail sensitivity and scenario analyses. Whilst sensitivity analyses are implemented based on models, scenario analyses are based on expert opinions subject to the participation of both centralised and decentralised risk specialists. This provides a comprehensive view of the risk sensitivity of the credit business, particularly against the backdrop of a changing economic climate.

Scoring procedures in the retail business

Analysing the creditworthiness of private customers involves scoring systems that are integrated in the purchasing and portfolio processes and provide an objective decision-making basis for granting loans.

Scoring procedures are applied to both the purchase and measurement of the significant portfolios. Default probabilities are allocated to these score classes in loan purchasing based on customers or contracts deemed to have defaulted within one year.

Procedures that also assign a default probability to individual contracts once a month based on the relevant customer's payment history are in place for purposes of performing portfolio valuations.

The credit risks of these portfolios can be assessed in ways adequate to the risks concerned when determining default rates, which, among others, is the basis for determining value adjustments in accordance with the German Commercial Code (HGB) and IFRS.

Simplified procedures are also in place for smaller portfolios.

Rating procedures in the corporate business

Volkswagen Bank GmbH uses credit rating procedures to rate its national and international corporate customers (e.g. automobile dealers). The assessment includes both the key performance indicators from annual financial statements as well as qualitative factors – such as the outlook for future business development, the quality of management, the climate in both the market and industry, as well as the customer's payment behaviour. To the extent possible, all these factors are taken into account statistically.

The credit rating procedure results in the assignment to a rating class which is connected to a probability of default.

The existing workflow-based rating application CARAT is to be rolled out gradually abroad to enhance the assessments of creditworthiness.

The result of the rating provides a material basis for decisions on the approval and prolongation of credit commitments and value adjustments.

The definition of competencies and the monitoring of the corporate portfolio are also based on the results of ratings.

Application of product approval processes, regular portfolio analyses, planning rounds and business financial reviews ensure timely identification of new risks and/or changes in risk.

All risks are quantified in a quarterly assessment process at the company level in accordance with categories of receivables. In addition, an unexpected loss is calculated for the sum total of all loans and included in the value-at risk (VaR) calculation of the company's risk-bearing capacity.

Collateral

As a rule, credit transactions are secured in ways adequate to the risks concerned. A groupwide guideline establishes the requirements that collateral as well as assessment procedures and principles must satisfy. Additional local guidelines prescribe concrete valuations as well as regional specificities. The valuations in local collateral guidelines are based on historical data and many years of expert experience.

We ensure that collateral adequate to the relevant risk is available for covering credit risks. Automobiles, in their capacity as collateral, are material to this approach because the activities of Volkswagen Bank GmbH focus on financing customer purchases and dealer sales.

Volkswagen Bank GmbH therefore monitors the development of vehicles' market values. Adjustments of the valuation methods and disposal processes are made in the event of major changes in these market values. The valuations for collateral are also regularly reviewed and adjusted as necessary.

The model we used for determining these adjustments was derived from the Basel II risk quantification method.

Risk management and monitoring

Appropriate processes are used to monitor all loans in regards to the underlying economic conditions and collateral, compliance with limits, contractual obligations as well as both external and internal requirements.

Commitments are subject to suitable controls (normal/intensive or problem loan monitoring) in accordance with their risk content.

Furthermore, credit risks are also managed by applying Volkswagen Bank GmbH's approval limits. These approval limits are fixed for each branch individually. The local decision makers can exercise discretion within these limits.

Analyses of the portfolios are performed at the portfolio level for risk monitoring purposes. The Credit Risk Portfolio Rating combines different risk parameters in a key ratio, ensuring comparability of the international portfolios of Volkswagen Bank GmbH. Risk reviews are performed at the branch level in the event of problems.

All rating and scoring models used in Germany and abroad are validated regularly and enhanced as necessary. Validation refers in particular to checking whether the models are separable and calibrated in ways adequate to the risks. If it is determined that action is required, such action can include shortening the interval until the next validation, recalibrating the model or even developing a new model. In order to ensure a high standard of quality, the models developed abroad are subject to centralised quality assurance by the Risk Assessment Procedures and Basel II department, which centrally monitors all models in Germany and enhances them as necessary. A risk committee which meets in different committees is in place to approve rating and scoring procedures.

Risk communication

The company's exposure to risk is reported as part of the quarterly risk management report.

The risk management report contains a variety of disclosures regarding the significant structural risk characteristics of Volkswagen Bank GmbH at the portfolio level. Recommendations as to possible actions are included in the report's disclosures as necessary. Noteworthy individual exposures are also discussed.

The Board of Management is notified immediately by means of ad hoc reports of any substantial need for risk provisions.

Counterparty risk

Definition

At Volkswagen Bank GmbH, counterparty risk is the risk resulting from overnight deposit and term money transactions and from the conclusion of transactions with credit institutions involving interest rate and currency derivatives.

Parameters/risk strategy

The risk strategy lays out the strategic principles governing counterparty risks. Counterparty risks may only be incurred subject to approved limits as well as regular assessment and monitoring.

Risk assessment

As part of the risks of counterparty default, counterparty risks are recorded separately from market price risks. This also applies to risks of counterparty default from derivative transactions.

Counterparty risks are determined based on an expected loss estimate, i.e. the present value is weighted by a credit-rating factor. Average (cumulative) one-year credit loss rates are used to quantify the credit-rating factor of the default risk.

Risk management and monitoring

Treasury is responsible for risk management in relation to counterparty risks. Risk Management determines and monitors the risk of counterparty default on a daily basis.

A limit system is used to limit the counterparty volume per counterparty. Compliance with these counterparty volume limits is monitored by the Treasury back office.

Risk communication

Utilisation of the counterparty risk limit is reported to Volkswagen Bank GmbH's Board of Management in connection with monthly reporting.

Country risk

To the extent necessary in the context of business activities, the evaluation and management of country risks is based on the assessment of a country's long-term foreign currency liabilities (sovereign ratings) carried out by the rating firms, Moody's Investors Service and Standard & Poor's. Volkswagen Bank GmbH does not enter into any appreciable country risks.

Shareholder risk

Definition

Shareholder risk means the risk that after contributions of capital are made to a company, losses with negative effects on the carrying amount of the equity investment might occur.

Parameters/risk strategy

Generally, Volkswagen Bank GmbH makes equity investments in other companies that serve to achieve its own corporate goals. The intention to hold an investment in the long term is the decisive criterion in this regard.

Within Volkswagen Bank GmbH, Mergers & Acquisitions is responsible for managing the company's equity investments as well as the related acquisition and disposal processes.

Volkswagen Bank GmbH is represented on the ownership or supervisory bodies of VOLKSWAGEN BANK POLSKA S.A., Warsaw, and Global Mobility Holding B.V., Amsterdam.

Volkswagen Bank GmbH has been holding a significant – i. e. 50 % – stake in LeasePlan Corporation N.V., Amsterdam, which is held indirectly via Global Mobility Holding B.V. (GMH), Amsterdam, since the end of 2004.

Risk assessment

Equity investments are monitored by means of monthly reporting, analyses of the companies' economic development and regular Supervisory Board meetings. Mergers & Acquisitions (LeasePlan) and International Controlling (all other equity investments) support the management of both Volkswagen Financial Services AG and Volkswagen Bank GmbH in the pursuit of their interests.

Mid-term planning regarding the operational and financial development of the company's business is carried out once a year.

Lease Plan's fleet management contract portfolio declined by 1 % year on year. Thanks to the recovery of the markets in the course of 2010, LeasePlan generated higher margins and realised residual value profits from the sale of vehicles upon contract expiry.

The positive development of earnings is also reflected in the substantial year-on-year improvement in income.

The rating firms Fitch and S&P have raised their rating forecast for Volkswagen Bank GmbH from "negative" to "stable" due to the improvement in income, the strong capitalisation and the easing of pressure in the refinancing market but the long-term ratings of A– and BBB+ remained stable.

Moody's rating of "A3 – negative outlook" remains in place and will not be revised for the time being because the firm is currently in the process of revising its methodology.

The shareholder risk was assigned a median probability of occurring, based on current economic developments. LeasePlan is expected to continue to generate profits, given its leading position in worldwide multi-brand fleet management, despite the difficult economic environment.

Risk management and monitoring

Equity investments are integrated in the annual strategy and planning processes of Volkswagen Bank GmbH. The company influences the business and risk policies through its agents on ownership or supervisory bodies.

Additional departments are included in the management of equity investments as necessary.

The appropriate units are responsible for implementing risk management tools at the operating level.

Risk communication

The Board of Management of Volkswagen Bank GmbH, the Supervisory Board as well as the relevant departments are notified of early warning signals or significant (structural or economic) negative developments, and joint approaches are coordinated as necessary.

Critical equity investments are reported to the Board of Management; recommendations as well as the extent to which relevant measures have already been implemented must also be reported.

MARKET PRICE RISK

Market price risk refers to the potential loss resulting from disadvantageous changes in market prices or parameters that influence prices. At Volkswagen Bank GmbH, market risks are categorised into interest rate risks, foreign currency risks and price risks.

Risk Management is responsible for the measurement, analysis and monitoring of items affected by market price risks including the overall interest rate positions.

Market price risks are limited to 8 % of the risk-taking potential.

All risk types are assessed in the monthly Risk Management report using the value-at-risk (VaR) method and are offset against the ceiling for losses of Volkswagen Bank GmbH.

The report makes the risk exposure arising from each individual type of risk transparent and includes recommendations aimed at countering these risks.

Interest rate risk

Definition

Interest rate risks include potential losses from changes in market rates. These risks arise from refinancing at non-matching maturities and from the different interest rate elasticities of individual assets and liabilities.

Interest rate risks are incurred in the banking book of Volkswagen Bank GmbH.

Parameters/risk strategy

Interest rate risks may only be incurred subject to approved limits as well as regular assessment and monitoring.

Risk assessment

Volkswagen Bank GmbH determines its interest rate risks as part of monthly monitoring using the value-at-risk (VaR) method based on a 40-day holding period and a confidence level of 99 %.

This model is based on a historical simulation and calculates potential losses taking 1,000 historical market fluctuations (volatilities) into account.

While the VaR so determined for monitoring purposes serves to assess potential losses under normal market conditions, forward-looking analyses are also performed using extreme scenarios.

Interest rate positions are subjected to stress tests comprising extraordinary changes in interest rates and worst case scenarios and are subsequently analysed in terms of the at-risk potentials using the simulated results.

In this connection, changes in the present value are also quantified and monitored monthly using the + 130 and – 190 basis points interest rate shock scenarios defined by the Federal Financial Supervisory Authority (BaFin).

The calculation of interest rate risks uses option models to account for early repayments under termination rights.

The conduct of investors in connection with unlimited bank deposits is modelled using internal models and procedures for managing and monitoring interest rate risks.

Risk management and monitoring

The Treasury unit of Volkswagen Bank GmbH is responsible for risk management based on the resolutions of the Asset Liability Committee (ALC).

Interest rate risks are managed by means of appropriate hedging transactions subject to customary rules and regulations. No changes in the parameters for controlling market price risks were made during the financial crisis. Risk Management is tasked with monitoring interest rate risks and reporting on them.

Risk communication

A separate report concerning Volkswagen Bank GmbH's current exposure to interest rate risks is submitted to management on a monthly basis.

Foreign currency risk

From the perspective of the bank as a whole, the operating business of the branch in the United Kingdom gives rise to currency risks because the bank refinances loans granted in British pounds in euros. Currency risks from refinancing are minimised by means of Treasury hedging transactions (forward exchange transactions and currency swaps).

They are quantified monthly based on the VaR approach, analogous to the market price risks, and are included in risk assessment. Compared to the entire portfolio, these play only a subordinate role.

In addition, endowment capital in the amount of GBP 107 million was made available to the branch in the United Kingdom. Given its unlimited maturity, the endowment capital which is refinanced in euros is not secured through hedging transactions.

Price risk

Volkswagen Bank GmbH incurs price risks in connection with the fund-based pension plan for its employees.

Volkswagen Bank GmbH has undertaken to meet these pension obligations in the event the fund can no longer satisfy our employees' guaranteed claims.

This is why Volkswagen Bank GmbH also determines the risk exposure arising therefrom based on the value-at-risk (VaR) method and includes this result in the risk assessment described above.

LIQUIDITY RISK

Definition

The liquidity risk describes a company's risk of not being able to discharge its payment obligations in due time or in full. This requires distinguishing the deposit withdrawal risk in connection with unexpected drawdowns from credit commitments and/or unexpected withdrawals of bank deposits, and the refinancing risk that takes into account that required follow-up financing cannot be provided.

The costs of the instruments used to refinance Volkswagen Bank GmbH via the international money and capital markets fell substantially because the financial market crisis has eased. This was also reflected in the decline of risk premiums.

Moreover, active management of the collateral deposit account with the European Central Bank has turned out to be an efficient liquidity reserve, enabling Volkswagen Bank GmbH to avail itself of the refinancing facilities.

Any withdrawal of bank deposits from Volkswagen Bank GmbH in the wake of future crises or the renewed deterioration of conditions in the money and capital markets would greatly undermine the Group's ability to refinance itself for systemic reasons.

Parameters/risk strategy

The prime objective of liquidity management at Volkswagen Bank GmbH is to ensure the ability to pay at all times.

The refinancing of Volkswagen Bank GmbH is essentially executed in accordance with the applicable principles of Volkswagen Financial Services AG using capital market and asset-backed securities programmes as well as the direct bank deposits.

The liquidity risk strategies of Volkswagen Bank GmbH are determined in accordance with both the Treasury strategy for Volkswagen Financial Services AG (sub-group) and prevailing market conditions. The Operational Liquidity Committee (OLC) provides the strategic underpinnings for assessing the liquidity risk of Volkswagen Bank GmbH in compliance with risk policy guidelines.

Risk assessment

Both Treasury of Volkswagen Bank GmbH and the Group companies are responsible for identifying risks to day-to-day operational liquidity and for liquidity planning.

The Treasury unit of Volkswagen Bank GmbH bundles and evaluates the expected cash flows of Volkswagen Financial Services AG, Volkswagen Leasing GmbH and Volkswagen Bank GmbH. Daily liquidity needs are determined by the cash management office of Volkswagen Bank GmbH's Treasury back office for all companies domiciled in Germany.

Liquidity risks are identified and recorded based on daily liquidity requirements; daily, monthly and annual liquidity planning; as well as all available liquid reserves.

The determinants of liquidity planning take into account known payment obligations and the cash flow forecasts that are regularly verified, e.g. based on historical values.

Volkswagen Bank GmbH has access to different liquidity reserves to protect it from unexpected fluctuations in cash flow. Besides the standby lines of credit from other banks, these mainly comprise securities deposited in Volkswagen Bank GmbH's operational safe custody account with Deutsche Bundesbank.

New loans granted as well as deductions of both short-term deposits and refinancing due in six months, among others, are taken into account in the determination of the liquidity reserves.

Various scenarios are analysed in connection with the monthly determination of these credit lines.

As a rule, standby credit lines are not utilised; they serve solely to secure liquidity. The securities deposited in the operational safe custody account with Deutsche Bundesbank also serve to gain greater access to the refinancing facilities of the European Central Bank.

To ensure professional liquidity management, Treasury prepares cash flow development statements, performs cash flow forecasts and determines the period for which cash will suffice, taking into account various basic assumptions and premises; this also includes a variety of stress tests (e.g. no availability of external funds and increased withdrawal of deposits).

Managing Volkswagen Bank GmbH's liquidity risks requires strict compliance with the liquidity ratio prescribed by the Liquidity Regulation. Treasury manages this key ratio proactively by imposing a floor for internal management purposes; in the reporting year, the key ratio substantially surpassed the regulatory minimum threshold at all times.

Risk management and monitoring

The OLC is responsible for long-term management and monitoring of liquidity risks. It monitors the current liquidity situation in its bi-weekly meetings and either decides on refinancing measures or prepares the requisite decisions for the decision makers.

Risk Management monitors liquidity in terms of its adequacy.

Both an emergency plan for liquidity bottlenecks and a suitable action plan for obtaining liquidity are available in the event of an internal or external liquidity bottleneck.

These measures prescribe immediate notification of a fixed set of recipients including the Board of Management in the event of a severe liquidity bottleneck. A crisis committee is appointed; it is tasked with making all decisions relevant to liquidity and/or laying the groundwork for decisions by the Board of Management.

The external rating of Volkswagen Bank GmbH has an impact on the refinancing costs of capital market programmes. At this time, the rating agencies have given Volkswagen Bank GmbH a long-term rating of A- with a stable outlook (S&P) and A2 with a stable outlook (Moody's).

Risk communication

As part of risk communication, the managing directors of Volkswagen Bank GmbH are informed daily of outstanding refinancing, open confirmed bank credit lines and the value of the standby credit line with Deutsche Bundesbank

The Board of Management is informed monthly of the current liquidity situation including its adequacy. Material information is also transmitted on short notice through ad hoc reports.

OPERATIONAL RISK

Definition

Operational risks (OpR) at Volkswagen Bank GmbH are defined as the threat of losses that occur as a result of inadequate or failing:

- internal processes (process risks),
- personnel (personnel risks),
- technology (infrastructure and IT risks), or as a result of:
- external events (external risks).

The definitions of these four risk categories include the respective legal risks. Strategic risks and reputation risks are not considered under operational risks.

Parameters/risk strategy

Group Risk Management is responsible for developing guidelines, procedures, methods, models and systems for identifying, assessing, managing, monitoring and communicating operational risks.

The aim is to make management aware of risks that have been determined and measured, initiate countermeasures and establish safeguards to ensure that such losses or similar losses do not occur again, to the extent possible.

The OpR manual and the OpR strategy are two key pillars for managing operational risks.

Risk identification and assessment

Self-assessment and the loss database are further pillars for managing operational risks.

At least once a year, local experts record and assess in both quantitative and qualitative terms risk scenarios in a variety of risk categories according to estimates of loss amounts and frequencies using standardised and IT-based self assessments.

Both internal losses and monetary operational losses are recorded in the central loss database by local experts, who create the relevant data histories and analyse the data.

Risk management and monitoring

Operational risks are managed by the companies and divisions based on the guidelines that have been put in place as well as the requirements applicable to staff and controlling personnel responsible for each specific risk type.

Group Risk Management is tasked with reviewing the plausibility of local self assessments regarding the extent and frequency of losses. The loss database makes it possible to systematically analyse occurrences of loss and to monitor the measures that local experts have initiated.

Each individual OpR business unit must prepare and monitor independent risk control and management measures subject to cost/benefit aspects.

Risk communication

The findings of the self assessment as well as the data from the loss database are published as part of the risk management report. Ad hoc reports are issued in the event of major losses.

Business continuity management

The goal of the Corporate Security unit is to ensure security for individuals and property at Volkswagen Bank GmbH and to avoid damage to its image and losses from operational disruptions.

Under Corporate Security's direction, Volkswagen Bank GmbH is establishing a global security quality management system together with its affiliated companies and branches, which, among other things, takes into account the varying government and civil security requirements.

External risks capable of triggering the loss of infrastructure, buildings or personnel are assessed by Corporate Security in collaboration with the appropriate departments, and suitable measures for preventing or reacting to such events are put in place.

Company-wide crisis and emergency management deals with business continuity management, among other things.

It focuses on avoiding and/or mitigating losses from operational disruptions by designing and establishing emergency and restart plans that are tested at regular intervals.

RESIDUAL VALUE RISK

Definition

A residual value risk exists when the estimated market value of a leased asset at the time of disposal upon expiration of a contract is less than the residual value calculated at the time the contract was closed. However, it is also possible to realise more than the calculated residual value at the time the leased asset is disposed of.

Direct and indirect residual value risks are differentiated relative to the bearer of the residual value risks.

A direct residual value risk is present when the residual value risk is borne by Volkswagen Bank GmbH or one of its branches.

An indirect residual value risk is present if the residual value risk has been transferred to a third party based on the guaranteed residual value (e.g. customers, dealerships).

The initial risk is that the counterparty guaranteeing the residual value might default. If the dealer as the guarantor of the residual value defaults, the leased asset and hence the residual value risk are transferred to the lessor; if the customer defaults, a risk of counterparty default arises.

The recovering economy set the tone in 2010. This boosted demand for used cars and sparked an increase in prices. In turn, this helped to reduce the company's exposure to risk compared to the previous year.

As expected, a much lower amount was required in 2010 than the previous year to cover the residual value risks by writing them down to the lower net realisable value.

The effects of the financial crisis have not been all that dramatic for the Volkswagen Group overall because it is not as present in the highly affected segments of high-mpg vehicles such as SUVs and because it is well positioned relative to its competitors by virtue of its high-value and environmentally-friendly models whose value offers greater stability.

Additional risks were avoided through the following steps: continuous updating and ongoing development of the residual value forecast models applied; early adjustment of the residual value recommendations to realistic market conditions; further diversification and expansion of the sales channels for lease returns as well as the continuation of previously enacted measures aimed at supporting and stabilising residual values in cooperation with the brands.

It is expected that the used vehicle market will follow a stabilising if not positive trend in 2011, with the corresponding effect on risk exposures.

Parameters/risk strategy

The residual value risk management circle requires regular residual value forecasts and continuous risk assessments, mainly in regards to direct residual value risks.

Proactive marketing activities are derived from the measurement results in order to optimise earnings from the assumption of residual value risks.

The marketing results so obtained are considered in the review of the residual value guidelines.

Local strategies applicable to the branches' residual value risk are combined in the overall risk strategy.

Risk identification and assessment

Direct residual value risks are identified for the first time based on the product approval process.

Risks are quantified regularly throughout the year by means of evaluations and analyses on a contract-by-contract basis. The contracted residual values are compared to attainable market values that are generated from both the data of external service providers and our own marketing data.

A variety of procedures are used to forecast residual values in this connection.

Internal and external data regarding the development of residual values subject to differential weighting are considered in the residual value forecasts depending on local specificities and historical data derived from the marketing of used cars.

The difference between the forecast value of the used car and the calculated residual value yields the residual value risk/opportunity.

Stress tests for residual value risks entail sensitivity and scenario analyses. Whilst sensitivity analyses are implemented based on models, scenario analyses are based on expert opinions subject to the participation of both centralised and decentralised risk specialists.

Risk management and monitoring

Group Risk Management regularly reviews the adequacy of the risk provisions as well as the residual value risk potential as part of risk management.

Opportunities from residual values are not considered when recognising risk provisions.

Given risk distribution, as at the assessment date the risks incurred may not always be hedged in full at the level of the individual contract while it is in effect.

The resulting residual value risk potential is used to take a variety of measures as part of proactive risk management in order to limit the residual value risk.

Residual value recommendations regarding new business must take both prevailing market conditions and future drivers into account.

In order to reduce the risks upon expiry of a contract, the sales channels must be reviewed continuously such that the best possible result may be achieved at the time the vehicles are sold.

Group Risk Management monitors residual value risks within Volkswagen Bank GmbH.

The numbers reported in connection with residual value risks (portfolio assessment, marketing results, maturity tables, market data etc.) are subject to plausibility checks.

Risk communication

As part of the risk management report, Group Risk Management reports on the exposures to residual value risks to the Board of Management of Volkswagen Bank GmbH and its supervisory bodies.

Events having significant effects on risk exposures are communicated to the Board of Management using an ad hoc reporting system.

STRATEGIC RISK

The strategic risk resides in the risk of negative business performance due to fundamental business decisions, e.g. the decision to enter new markets or the failure to build up new potentials.

REPUTATION RISK

We define the reputation risk as the risk of losses, declining income or reduced enterprise value in the wake of transactions that undermine the trust of the public or the media, employees or customers, rating firms, investors or business partners in Volkswagen Bank GmbH.

It is one of the responsibilities of the corporate communications department to avoid negative reports in the press or elsewhere that harm the company's reputation. Adequate communication strategies tailored to specific target groups are required if this does not succeed.

CONCENTRATIONS OF RISK

Explanation of our business model

Volkswagen Bank GmbH is an institute focused on specialised financial services (captive). By its nature, this business model makes it impossible to avoid concentrations of risk in the risk types, "credit risk" and "residual value risk". Hence these risks are analysed and reported in detail in accordance with the business model. Existing concentrations of risk in credit risks or residual value risks are thus adequately considered and monitored.

There are no concentrations of risk in the other risk types. Existing and potentially new concentrations of risk are continuously discussed and monitored as part of both the customary risk management loop and regular risk reporting.

Concentrations of credit risk

Concentrations of credit risk arise if a major portion of the loans are extended to a just few borrowers/contracts. But concentrations of credit risk are of secondary significance to Volkswagen Bank GmbH given its international positioning and the fact that its activities mainly concern small (retail) loans.

The credit and leasing sub-portfolios of the retail business have a highly granular structure in the markets relevant to considerations of risk, even at the country level. In the corporate business, credit risks related to the dealer and the non-dealer business are transnationally diversified.

In addition, detailed reports to the Board of Management of Volkswagen Bank GmbH on noteworthy commitments and analyses of size at the country level in the corporate business ensure that concentrations of credit risk are detected early as they arise.

Concentrations of risk classes

Concentrations of risk classes can arise from the non-homogeneous distribution of credit ratings, especially in connection with individual risk rating procedures. Concentrations of borrowers in particular risk classes do not trigger particular risks in the retail business in connection with certain risk rating procedures because the subsidiaries of Volkswagen Financial Services AG employ highly diversified risk rating procedures. We have not determined an unusual concentration of exposures within individual rating classes of the corporate business. However, the application of basically two rating procedures at the Group level gives rise to a methodologically inherent risk. This risk is mitigated by means of country-specific adjustments of the procedures and an individual rating process in the corporate business.

CONCENTRATIONS OF INDUSTRIES

In sectoral terms, Volkswagen Bank GmbH is broadly positioned by country and industry in both the retail and the corporate-non-dealer business. The development of the existing portfolio's credit score is materially affected by the global economy. Sectoral risks in the dealer business are inherent to a captive and are analysed in ways appropriate to the given industry. It was determined that on the whole specific industries did not have a particular impact in downturns such as the most recent economic crisis.

Concentrations of collateral

Concentrations of collateral are inherent to a captive and integral to the given business model. They arise when a substantial portion of receivables or leasing transactions are collateralised by a single type of security.

Vehicles are the dominant type of collateral for Volkswagen Bank GmbH. Risks arising from such concentrations of collateral basically arise when negative price developments in the used vehicle markets reduce both the value of the collateral and the proceeds from the disposal of the collateral if borrowers and lessees default.

In terms of the vehicles that serve as collateral, Volkswagen Bank GmbH is diversified not just across all automotive segments but also across many countries in Europe. The range of vehicles that are financed and leased is equally diversified.

Both of these effects reduce the risk of concentrations of collateral. In its capacity as an automotive financial services provider, Volkswagen Bank GmbH possesses broad expertise and many years of experience in managing and controlling the resulting risk.

Concentrations of products

Risks from concentrations of products arise from large exposures in certain credit risk products even if the product range is broadly diversified. Such concentrations are inherent to a captive in the automotive financing industry.

Credit risks are reported and controlled regularly and taking into account individual products. Risks are consolidated on an additive basis at the portfolio level such that the mitigating effect of any product diversification on risk is not taken into account.

Moreover, innovation within the product range is ongoing and country specific such that the product range is diversified within the automotive financing division.

Regional and country concentrations

Risks from concentrations of countries or regions arise from large loan portfolios in specific countries and regions even if the portfolio is broadly diversified. The portfolio of Volkswagen Bank GmbH in Western Europe is transnationally diversified.

These countries are given priority in risk reporting and, as a rule, are evaluated by means of special risk rating procedures, i.e. the internal ratings based (IRB) method. Moreover, conventional country risks such as transfer risks or political risks are less significant in Western Europe.

At the portfolio level, risks in the individual countries are additively aggregated such that the methodology used to measure risk does not consider the diversification of credit risks resulting from the company's international positioning.

Counterparty risk

Concentrations of risk do not arise from monetary investments in different counterparties because limits are imposed.

Currency risk

There is no concentration of risk in this area because the company's international positioning does not create any concentrations in the form of larger commitments in one or a few foreign currencies.

Price risk

Price risks arise for Volkswagen Bank GmbH solely in connection with the investment of pension provisions. An adequate investment plan helps to avoid concentrations of risk.

Interest rate risk

Volkswagen Bank GmbH is not faced with concentrations of interest rate risks because its activities are executed in currencies subject to different interest rates and are also properly diversified in terms of the timeframe.

Operational risk

Concentrations of operational risks can arise if defaults or risks in different departments or countries are mutually dependent or at least facilitate each other and are thus more likely to occur during the same period for that reason.

Such concentrations in individual OpR categories or even in sub-categories (e.g. external fraud) are almost impossible to avoid because the contributing factors are manifold and generally cannot be “diversified”.

Any steps taken after a loss has occurred serve to avoid the individual cause in future but they do not prevent concentrations of risk in the respective category or sub-category.

Particular concentrations of risk are mapped and explained as necessary when operational risks are determined as part of the annual self-assessment and the compilation of loss data.

Residual value risk

Concentrations of residual value risks arise if a major portion of the at-risk residual values are concentrated on a few automotive segments and models. Accordingly, such concentrations are considered in the risk measurement methodology applied, the risk reporting and the analysis at the level of both brands and models in connection with the residual value risk management circle.

In regards to residual automotive values, Volkswagen Bank GmbH is also diversified across all segments given the Group's broad range of brands and models.

Income concentrations

Risks from concentrations can also arise in regards to the income of the financial institutions.

Given the corporate aims of a mobility services provider, interest income from the lending business constitutes the main source of income. Other sources of income can be ignored in regards to income concentrations.

Interest income from vehicle financing is considered the dominant source of income. Its main components are the interest rate and the vehicle financing volume, both of which are determined based on sales figures.

Volkswagen Bank GmbH is aware of the fact that the integration with the vehicle sales of the Volkswagen Group is close, particularly owing to the business model for promoting sales of the vehicles of various Volkswagen Group brands and related financial services. This sales risk will be considered as a separate scenario in connection with overall stress tests.

SUMMARY

In connection with its business activities, Volkswagen Bank GmbH responsibly assumes risks typical of banks. This is based on a comprehensive system for identifying, measuring, analysing, monitoring and controlling risks as an integral component of an integrated risk/return-oriented control system.

This system is refined on a continuous basis pursuant to bank regulators' audit in 2010 of the minimum requirements for risk management (MaRisk) and resulting measures.

Among the default risk categories, credit risk in the dealer and retail customer business represents the material risk type for Volkswagen Bank GmbH.

By using modern tools for risk identification, analysis and monitoring, credit risk in connection with our business activities is actively controlled and secured using our own resources in accordance with the requirements of the German Banking Act.

For the whole year 2010, trends of an economic recovery were identified.

In 2010 Volkswagen Bank GmbH successfully met its challenges despite the difficult conditions; in the final analysis, adequate handling of the risks arising from the worldwide crisis of the financial markets was critical to the company's success.

The ramifications of the economic crisis are expected to weaken further in 2011. It is expected that the used vehicle market – and therefore exposure to residual value risk – will follow a stabilising if not positive trend in 2011.

Volkswagen Bank GmbH will continue to invest in the optimisation of the comprehensive control system and the risk management systems in order to fulfil the business and statutory requirements for risk management and control.

EVENTS AFTER THE BALANCE SHEET DATE

No important events beyond those described in this report occurred after the close of the 2010 financial year.

Personnel report
Implementation of the personnel strategy

Volkswagen Bank GmbH and Volkswagen Financial Services AG were jointly very successful in the employer competition.

PERSONNEL REPORT

As at the end of 2010, a total of 842 (previous year: 838) employees of Volkswagen Financial Services AG were working in Volkswagen Bank GmbH's business units under staff leasing agreements.

Volkswagen Bank GmbH continues to employ certain staff directly due to regulatory requirements. At 31 December 2010, this staff numbered 631 (previous year: 644), 119 (previous year: 125) of which were employed in Germany.

KEY ISSUES IN PERSONNEL MANAGEMENT

At Volkswagen Financial Services AG, the Personnel department covers all domestic companies of the Volkswagen Financial Services Group.

Refining and implementing the "We Are a Top Team" personnel strategy was a part of the WIR2018 strategy. Targeted personnel development serves to foster and challenge employees. The flexible, customer-focused organisation is designed to rapidly meet the expectations of markets and customers alike. Volkswagen Financial Services AG already offers competitive and performance-based compensation. This approach is to remain in place but will be refined.

Volkswagen Financial Services AG's aim, "We are a top team", is reflected by the employer benchmark study ("Great Place to Work") as well as the "mood barometer", its internal staff survey. Volkswagen Financial Services AG proved by participating in the benchmark study in 2010 that it is one of the top employers in both Germany and Europe. The company placed sixth and thus is the second-best financial services provider in its category (2,001 to 5,000 employees in Germany). In addition, Volkswagen Financial Services AG ranked 45th in the "Large Workplaces" in Europe category and was awarded the special prize in the "Promoting Employee Health" category.

Each year, Volkswagen Financial Services AG hires 40 trainees/students of WelfenAkademie e.V., a university of co-operative education that offers a Bachelor of Arts. The trainee programme also allows Volkswagen Financial Services AG to offer highly qualified college graduates an attractive option for joining the company.

Each employee's need for qualifications is determined in the annual employee performance review, and suitable measures aimed at developing their competence are agreed upon with them. Many qualifications are obtained at the company's own training centre. These training programmes are closely aligned with the company's products, processes and systems. In addition, the need for specialists is identified in coordination with the appropriate departments and suitable development concepts are drawn up. A study programme leading to a certificate in credit analysis was developed and carried out for the first time in November 2010. Competency profiles, site- and need-based training courses as well as supportive measures aimed at expanding employees' sales competency served to enhance the ongoing development of financial centre staff.

A standardised process governing both performance targets and performance appraisals was introduced in cooperation with the parent company, Volkswagen AG, as part of international human resources management. Other standards such as the international introduction of a manager selection process were further refined.

Anticipated developments
On a growth trajectory

Volkswagen Bank GmbH expects earnings in 2011 to be higher year on year against a backdrop of a positive economic environment.

After the material risks of the company's business have been set out in the risk and opportunity report, below we wish to sketch its likely future development. It gives rise to both opportunities and potentials that are integrated into our planning process on an ongoing basis such that we can tap into them in a timely manner.

GLOBAL ECONOMIC DEVELOPMENT

Our plans are based on the assumption that the global economy will continue to grow. We expect the emerging markets in both Asia and Latin America to generate the greatest economic momentum whereas the major industrialised countries will grow only moderately in the medium term.

We prepare our forecasts based on the current assessments of external institutions, among them economic research institutes, banks, multinational organisations and consulting firms.

Europe

Most Western European countries are likely to grow at a moderate pace in 2011 and 2012. The growth process in Central and Eastern Europe during this period will be noticeably more dynamic.

Germany

Germany’s economic output will increase but moderately in 2011 and 2012, following very strong growth in the reporting year. The labour market will develop along a positive trajectory for the time being.

FINANCIAL MARKETS

The financial markets remain unsettled worldwide; as a result, prices for raw materials are rising and the price of gold is being driven to new highs.

Starting in 2013, the banks will be faced with substantially tightened requirements worldwide arising from the reforms of the international financial market legislation. The most important of these concern the quality of the so-called core tier 1 capital – an incremental increase of the required core capital ratio to 7 % – as well as a new leverage ratio for banks. Besides these important regulatory measures that will have both organisational and economic consequences, the European automobile financing segment is expected to continue to recover overall in 2011 and 2012.

DEVELOPMENT OF THE AUTOMOBILE MARKETS

We expect the automobile markets to develop at different rates in 2011 depending on the region. Global demand for new vehicles in 2011 will likely be higher year on year overall. We expect business to follow a positive trajectory in 2012 as well.

In 2011, sovereign debt and the expiration of stimulus packages will have an adverse impact on the demand for new vehicles in some European countries. At the same time, countries in Western Europe that have a strong export sector will profit from robust growth in Asia where the markets recovered faster than expected in 2010.

The negative effects of the termination of the governmental stimulus packages will begin to recede in 2012. We thus expect demand for passenger cars to continue to rise especially in those regions where the Volkswagen Group maintains a presence.

The Volkswagen Group is well positioned for this heterogeneous development of the automobile markets. Its broad product range, which includes the most recent generation of fuel-optimised engines, gives it a competitive advantage worldwide. We are consistent in the pursuit of our goal to offer every customer the mobility and innovations they need and thereby strengthen our competitive position in the long term.

Europe

We expect uneven developments in Western Europe. Some Western European countries are recovering at a faster pace than initially expected. In contrast, the expiration of the incentive programmes will impact a few European core markets – for example, the United Kingdom and France – in 2011 as well because many people made their vehicle purchases in 2009 or in the first half of 2010 instead of later on. This means that some of the negative ramifications of the financial and economic crisis for the automotive market will be shifted into 2011. In a few other key markets – Spain and Italy for instance – the recovery will be hampered by high levels of sovereign debt and the governments' massive austerity programmes. We expect demand for passenger cars in Western Europe to decline overall in 2011. In 2012, the negative effects of the expiry of the governmental stimulus packages will begin to recede, in turn allowing demand to grow.

Germany

In 2009, the German passenger car market benefited a great deal from the statutory scrapping bonus. Once the programme expired in 2010, demand declined sharply as expected though not as much as had been feared. Above all, this is due to the resurgence in consumer confidence and the accelerating pace of economic growth. We expect the sustained improvement in the economic climate in 2011 to spark demand for passenger cars in Germany. This trend should continue in 2012 as well.

INTEREST RATE TRENDS

Many countries' expansive monetary policies and comparably low inflation rates led to very low interest rates in the 2010 financial year, which did not change much at the start of the current financial year. But we do expect short-term interest rates to rise slightly in the course of 2011, especially in Europe. Long-term interest rates will also rise slightly worldwide. The trend of rising short- and long-term interest rates is expected to continue in 2012, given increasing inflationary tendencies.

MOBILITY PACKAGES

Social and political parameters increasingly impact many people's approach to mobility. A trend towards changed ways of using automobiles is already being observed in a variety of market segments and diverse regions. New patterns of use will emerge in the long term especially once electrical vehicles become more widespread. Volkswagen Bank GmbH is carefully tracking these developments and is already developing new models for supporting alternative marketing approaches with the aim of hedging and expanding its business model.

DEVELOPMENT OF VOLKSWAGEN BANK GMBH

Volkswagen Bank GmbH expects its growth in the next two financial years to follow that of the Volkswagen Group. Increasing the penetration rate and expanding the product range in existing markets are aimed at achieving a moderate rise in the company's business volume.

Sales activities related to the Volkswagen Group brands will be intensified. The desire for mobility and fixed predictable payments, in particular, are foremost on customers' minds. The product packages that were successfully introduced in recent years will be further refined according to customer needs.

Close integration with both the Volkswagen Group's brands and the subsidiaries of Volkswagen Financial Services AG as well as the cooperation with the dealer organisation of the Volkswagen Group play a decisive role in this context.

In addition to market-based activities, the harmonisation and standardisation of business processes, strategic investments in structural projects as well as productivity gains continue to be the keys to the development of Volkswagen Bank GmbH. They provide the basis for enhancing its flexibility regarding new products and its ability to target customers according to their needs. Both the optimisation of the refinancing strategy and consistent risk management will be central tasks as well.

The Volkswagen Bank direct division remains highly significant to the development of Volkswagen Bank GmbH due to its deposit volume and innovative sales channels. Taking current interest rate trends into account, we expect the deposit business to continue its positive development. We aim to steadily increase the number of customers through attractive and innovative products.

The close integration of the Volkswagen Group brands with Volkswagen Bank GmbH will also enable us to generate strong added value in both financial services and the Group.

PROSPECTS FOR 2011 AND 2012

The recovery of the German economy will continue in both 2011 and 2012 following its unexpectedly rapid upturn in 2010 even though the growth momentum is likely to slow down.

The German economy will continue to drive growth in the euro zone. It is profiting from the sharp increase in global trade and strong demand in emerging countries. Volkswagen Bank GmbH's Board of Management expects volume to develop at a moderate pace in both 2011 and 2012 supported by an expanded product portfolio in its markets and depending on the development of the Volkswagen Group. The risk cost ratio is not expected to rise in 2011 and 2012 given this backdrop of positive conditions in the real economy – especially in Germany, Volkswagen Bank GmbH's core market.

In contrast, there are indications that interest rates will trend upward and thus have a negative impact on margins in the coming years.

Volkswagen Bank GmbH's net commission income will be comparable to the previous years.

The deposit volume in the Volkswagen Bank direct division is to be further expanded in both 2011 and 2012 through products and services geared to customers' needs.

Against this backdrop, the Board of Management of Volkswagen Bank GmbH expects earnings in both 2011 and 2012 to exceed those of 2010.

ANNUAL FINANCIAL STATEMENTS OF THE VOLKSWAGEN BANK GMBH (HGB)

Balance sheet

as at 31 December 2010 of Volkswagen Bank GmbH, Braunschweig

€ 000		31.12.2010	31.12.2009
Assets			
1. Cash reserve			
a) Cash in hand	628		765
b) Deposits with central banks	469,755		613,357
of which:			
at the Deutsche Bundesbank € 460,327,000			(604,575)
c) Deposits with post giro offices	30		72
		470,413	614,194
2. Receivables from financial institutions			
a) Payable on demand	199,941		1,001,944
b) Other receivables	512,675		384,110
		712,616	1,386,054
3. Receivables from customers		26,671,361	25,185,505
4. Debentures and other fixed-income securities			
a) Bonds and debentures			
ab) By other issuers	3,350,272		3,814,051
of which:			
eligible as collateral at the Deutsche Bundesbank € 3,350,272,000			(3,814,051)
		3,350,272	3,814,051
5. Shares and other non-fixed-income securities		503	8,482
6. Equity investments		1,080,080	1,080,080
of which:			
in financial institutions € 16,106,000			(16,106)
7. Investments in affiliated companies		1,263	0
of which:			
in financial institutions € 447,000			(0)
8. Intangible assets			
b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets		7,179	10,196
9. Tangible fixed assets		10,053	12,055
10. Leased assets		347,964	355,531
11. Other assets		195,961	167,113
12. Prepaid expenses		22,688	14,075
Total assets		**32,870,353**	**32,647,336**

€ 000		31.12.2010	31.12.2009
Equity and liabilities			
1. Liabilities to financial institutions			
a) Payable on demand	112,706		115,785
b) With agreed repayment period or period of notice	184,542		392,245
		297,248	508,030
2. Liabilities to customers			
a) Other liabilities			
aa) Payable on demand	14,620,904		13,491,853
ab) With agreed repayment period or period of notice	6,794,045		7,451,913
		21,414,949	20,943,766
3. Securitised liabilities			
a) Debentures issued	2,894,661		3,574,501
b) Other securitised liabilities	123,861		104,835
of which:			
money market papers € 123,861,000			
		3,018,522	3,679,336
4. Other liabilities		2,510,135	2,411,887
5. Deferred income		508,629	584,595
6. Deferred tax liabilities		533	0
7. Provisions			
a) Provisions for pensions and similar obligations	53,536		43,137
b) Tax provisions	18,452		15,382
c) Other provisions	211,547		89,353
		283,535	147,872
8. Special tax-allowable reserve		1,554	2,160
9. Subordinated liabilities		790,000	675,000
10 . Participation right liabilities		90,000	90,000
of which:			
due within two years € 90,000,000			
11. Fund for general banking risks		25,565	25,565
12. Equity			
a) Subscribed capital	358,279		358,279
b) Capital reserves	3,545,800		3,195,800
c) Revenue reserves			
ca) Other revenue reserves	25,604		25,046
		3,929,683	3,579,125
Total equity and liabilities		**32,870,353**	**32,647,336**
1. Contingent liabilities			
a) Liabilities from surety and warranty agreements		99,881	104,360
of which:			
Liabilities to affiliated companies		63,133	62,302
2. Other obligations			
a) Irrevocable credit commitments		1,356,090	857,515

Profit and loss account

of Volkswagen Bank GmbH, Braunschweig, for the period from 1 January to 31 December 2010

€ 000			2010	2009
1. Interest income from				
a) Lending and money market transactions	1,465,846			1,349,456
b) Fixed-income securities and book-entry securities	95,772			122,610
		1,561,618		1,472,066
2. Interest expenses		505,317		766,643
			1,056,301	705,423
3. Current income from				
a) Shares and other non-fixed income securities		8		262
b) Equity investments		4,638		2,538
			4,646	2,800
4. Income from leasing transactions		260,938		278,436
5. Expenses from leasing transactions		137,404		159,320
			123,534	119,116
6. Commission income		233,899		253,631
7. Commission expenses		247,726		167,109
			–13,827	86,522
8. Other operating income			99,513	102,984
9. Income from the reversal of the special tax-allowable reserve			606	73
10. General administration expenses				
a) Personnel expenses				
aa) Wages and salaries	54,464			47,866
ab) Social security costs and expenses for pensions and support	13,684			14,811
of which:		68,148		62,677
for pension schemes: € 5,112,000				(6,309)
b) Other administration expenses		416,920		357,959
			485,068	420,636
11. Depreciation, amortisation and value adjustments to intangible and tangible fixed assets and leased assets				
a) Depreciation, amortisation and value adjustments to intangible and tangible fixed assets		7,173		7,317
b) Depreciation on leased assets		110,422		93,627
			117,595	100,944
12. Other operating expenses			55,878	12,684
13. Amortisation and value adjustments to receivables and certain securities, as well as transfers to provisions for lending business			270,697	273,280
14. Income from write-ups to equity investments, shares in affiliated companies and securities treated as fixed assets			0	241
15. Result from ordinary business activities			341,535	209,615
16. Extraordinary income		0		0
17. Extraordinary expenses		11,962		0
18. Extraordinary result			–11,962	0
19. Taxes on income and earnings			147,684	82,023
of which:				
expenditure from the change in deferred taxes € 453,000				
20. Other taxes, unless shown under Item 12			2,367	2,024
21. Profits transferred on the basis of a profit and loss transfer agreement			179,522	125,568
22. Net income			0	0
23. Retained earnings brought forward from previous year			0	0
24. Net retained profits			**0**	**0**

Statement of changes in equity

of Volkswagen Bank GmbH, Braunschweig, as at 31 December 2010

Statement of changes in equity

€ 000	Subscribed capital	Capital reserve	Retained earnings	Equity
Balance as at 01.01.2009	358,279	2,595,800	25,046	2,979,125
Additional capital contribution pursuant to § 272 Para. 2 No. 4 HGB	–	600,000	–	600,000
Balance as at 31.12.2009/01.01.2010	358,279	3,195,800	25,046	3,579,125
Additional capital contribution pursuant to § 272 Para. 2 No. 4 HGB	–	350,000	–	350,000
Appropriation to retained earnings pursuant to Art 67 EGHGB	–	–	558	558
Balance as at 31.12.2010	358,279	3,545,800	25,604	3,929,683

Cash flow statement

of Volkswagen Bank GmbH, Braunschweig, for the period from 1 January to 31 December 2010

€ million	1.1. – 31.12.2010	1.1. – 31.12.2009
Net income	**179,522**	**125,568**
Non-cash items and reconciliation to cash flow from operating activities included in net income		
Depreciation/amortisation, value adjustments and write-ups on receivables, tangible fixed assets and financial assets	327,720	373,983
Increase/decrease in provisions	144,201	−2,448
Change in other non-cash items	533	0
Result from the sale of financial assets and tangible fixed assets	2,711	40
Interest result and dividend income	−1,060,946	−708,223
Other adjustments	0	0
Subtotal	−406,259	−211,080
Change in assets and liabilities from operating activities		
Change in receivables from financial institutions	673,438	−74,171
Change in receivables from customers	−1,695,981	−1,778,508
Change in debentures and other fixed-income securities	−394,083	−1,170,882
Change in shares and other non-fixed-income securities	−1	−43
Change in other assets from operating activities	−37,461	85,744
Change in liabilities to financial institutions	−210,782	−2,193,814
Change in liabilities to customers	561,051	6,219,011
Change in securitised liabilities	−660,814	−1,581,007
Change in other liabilities from operating activities	21,676	−533,542
Interest received	1,561,618	1,472,066
Dividends received	4,646	2,800
Interest paid	−505,318	−766,643
Income tax payments	−143,822	−75,040
Cash flow from operating activities	**−1,232,092**	**−605,109**
Cash inflows from the sale of leased assets	112,754	145,481
Cash outflows from the acquisition of leased assets	−215,609	−189,569
Cash inflows from the sale of subsidiaries and joint ventures	–	–
Cash outflows from the purchase of subsidiaries and joint ventures	−1,263	−89
Cash inflows from the sale of other assets	759	860
Cash outflows from the purchase of other assets	−5,586	−9,183
Change in investments in securities	857,862	757,161
Cash flow from investing activities	**748,917**	**704,661**
Cash inflows from changes in capital	350,000	600,000
Profit transfer to Volkswagen Financial Services AG	−125,568	−133,942
Change in funds resulting from subordinated capital	115,000	−645,000
Cash flow from financing activities	**339,432**	**−178,942**
Cash and cash equivalents at the end of the previous period	**614,194**	**693,581**
Cash flow from operating activities	−1,232,092	−605,109
Cash flow from investing activities	748,917	704,661
Cash flow from financing activities	339,432	−178942
Effects from exchange rate changes	−38	3
Cash and cash equivalents at the end of the period	**470,413**	**614,194**

Notes

to the financial statements of Volkswagen Bank GmbH, Braunschweig, as at 31 December 2010

I. General comments regarding the annual financial statements

The annual financial statements were drawn up according to the stipulations of the German Commercial Code (HGB) and the Ordinance on Accounting for Banks (RechKredV).

A profit transfer agreement concluded with Volkswagen Financial Services AG came into effect on 1 January 2002.

Under § 285 No. 21 German Commercial Code (HGB), Volkswagen Bank GmbH must disclose material transactions with related parties that are not conducted at prevailing market terms. All transactions with related parties were conducted at prevailing market terms.

Volkswagen Bank GmbH executed two new ABS transactions in 2010, generating a cash inflow of € 1,561,000 (previous year: € 384,000) for Volkswagen Bank GmbH. Nine additional transactions from previous years are being amortised.

Besides generating one-time liquidity inflows, these transactions do not have any additional material effects on the current and future liquidity and financial position of Volkswagen Bank GmbH.

II. Accounting policies

The provisions of the HGB that have changed as a result of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) have been applied in the preparation of these annual financial statements. The changes triggered by the BilMoG are explained in these notes. Pursuant to § 67 Para. 8 Introductory Law to the German Commercial Code (EGHGB), Volkswagen Bank GmbH dispensed with adjusting the previous year's comparative figures. Hence comparability with the previous year's figures is limited only where recognition of the respective item changed under the BilMoG.

Assets and liabilities are measured in accordance with the provisions of §§ 252 ff. HGB, supplemented by the provisions of §§ 340 ff. HGB.

Assets, liabilities and forward transactions that are hedged through assets, liabilities and forward transactions in the same currency are measured at the reporting date spot rate in accordance with § 340h in conjunction with § 256a HGB. Income and expenses from the translation of foreign currency items hedged through foreign currency items in the same currency are accounted for in the profit and loss account.

Pursuant to § 256a sentence 1 HGB, foreign currency assets and liabilities not subject to special hedge accounting in the same currency are translated at the reporting date spot rate, taking the acquisition cost and imparity principle into account. If the residual term is one year or less, the gains and losses from currency translation are fully recognised through profit and loss in accordance with § 256a sentence 2 HGB.

Unsettled forward exchange deals within the non-trading portfolio that serve to hedge interest-bearing balance sheet items are measured by applying the split forward rate method. This involves splitting up the forward exchange transactions into its components, spot rate and swap rate (premium/discount). Premium and discount are accrued pro rata temporis like interest over the term of the forward exchange transaction. The transaction is accounted for by contrasting its spot basis with the reporting date spot rate. Positive and negative spot rate differences within the same currency are offset. The net amount is shown as an adjustment item under "Other assets" or "Other liabilities".

The results from currency translation recognised in the profit and loss account are shown in the items Other operating income and Other operating expenses.

Tangible fixed assets with a limited period of use are depreciated using the straight-line method based on the useful lives defined in the tax depreciation tables.

The vehicles shown under Leased assets are depreciated using the straight-line method. Write-downs to the lower fair value are recognised in cases of a likely permanent impairment for both balance sheet items.

Equity investments are recognised at cost, receivables at their nominal value less provisions for risks, and liabilities at their settlement amount. Differences between net loan proceeds and nominal value are transferred to prepaid expenses/deferred income and written off according to schedule. Non-interest bearing and low-interest loans to staff are shown at their present value.

The measurement of provisions is based on the best estimate of the necessary settlement value.

Dr Klaus Heubeck's current mortality tables from 2005 were used in the measurement of the pension obligations. The provisions for pension obligations are discounted using the average market interest rate for the last seven years. The residual term of the obligations is generally assumed to be 15 years. The pension provisions comprise the sum of the pension liabilities and the attendant plan assets recognised at fair value.

Pursuant to § 253 Para. 2 HGB, other provisions with a residual term of more than one year were discounted for the first time based on their residual term. The discount rates published by Deutsche Bundesbank for the residual terms were applied, and the mark-up contains the expected inflation rate for the corresponding terms.

Loans involving securities are measured based on the securities' fair value at the transaction date. For securities in the liquidity reserves, which are measured based on market-related parameters, the strict lower-of-cost-or-market principle is applied, while securities shown under assets are measured according to the modified lower-of-cost-or-market principle.

For all discernible risks, adequate precautions have been taken in the annual financial statements by means of specific valuation allowances and by creating provisions. The deferred risk in the lending business is covered by global valuation allowances.

III. Notes to the balance sheet

RECEIVABLES FROM FINANCIAL INSTITUTIONS

Receivables from financial institutions include receivables from affiliated companies amounting to € 530,516,000 (previous year: € 402,220,000), receivables from joint ventures amounting to € 3,715,000 (previous year: € 768,000) and receivables from investors and investees amounting to € 2,787,000 (previous year: € 16,000).

Of the receivables from financial institutions, maturity breaks down as follows:

- Payable on demand € 199,941,000 (previous year: € 1,001,944,000)
- Up to three months € 463,256,000 (previous year: € 384,110,000)
- More than three months and up to one year € 0 (previous year: € 0)
- More than one year and up to five years € 49,419,000 (previous year: € 0)
- More than 5 years € 0 (previous year: € 0).

All receivables from financial institutions are securitised.

RECEIVABLES FROM CUSTOMERS

This item includes unsecuritised receivables from affiliated companies amounting to € 1,867,163,000 (previous year: € 2,338,386,000) and receivables from joint ventures amounting to € 1,208,706,000 (previous year: € 938,830,000).

The maturity of the total receivables from customers, all of which are unsecuritised, breaks down as follows:

> Up to three months € 5,642,111,000 (previous year: € 4,751,932,000)
> More than three months and up to one year € 4,662,652,000 (previous year: € 4,308,680,000)
> More than one year and up to five years € 12,430,632,000 (previous year: € 11,379,883,000)
> More than five years € 398,538,000 (previous year: € 431,580,000).

The item "Receivables from customers" contains receivables with an indefinite maturity (under § 9 Para. 3 No.1 Ordinance on Accounting for Banks) amounting to € 3,537,428,000 (previous year: € 4,313,430,000).

The balance sheet item "Receivables from customers" includes subordinated receivables of € 4,000,000 (previous year: € 4,000,000).

Receivables from the leasing business total € 1,045,030,000 (previous year: € 977,524,000), of which € 566,672,000 (previous year: € 523,485,000) are attributable to the French bank branch and € 478,358,000 (previous year: € 454,039,000) are attributable to the Italian bank branch.

The French bank branch accounts for receivables from retail financing totalling € 673,498,000 (previous year: € 422,315,000).

RECEIVABLES FROM SHAREHOLDERS

Receivables from our sole shareholder, Volkswagen Financial Services AG, Braunschweig, as at the balance sheet date amounted to € 420,097,000 (previous year: € 544,033,000).

DEBENTURES AND OTHER FIXED-INCOME SECURITIES

To ensure the supply of liquidity, Volkswagen Leasing GmbH executed ABS transactions. The securities issued by the acquiring special purpose entities were not sold to investors. Instead, they were 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 € 1,067,077,000 (previous year: € 1,403,963,000). Of this amount, € 92,706,000 (previous year: € 191,899,000) are allocated to assets and € 974,371,000 (previous year: € 1,212,064,000) are allocated to the liquidity reserves. The securities allocated to assets are measured according to the modified lower-of-cost-or-market principle; the securities allocated to the liquidity reserves are measured according to the strict lower-of-cost-or-market principle. Given the lack of a market, we used our own measurement model to determine the value of these securities, which are marketable but not listed. The cash flows were discounted in that connection using a uniform interest rate swap curve of the Volkswagen Group plus a credit spread. The credit spread was validated by indirect means based on various banks' indicative prices.

This item also contains the securities that Volkswagen Bank GmbH acquired in 2008 and 2010 as part of ABS transactions. These securities worth € 2,100,991,000 (previous year: € 2,044,389,000) securitise the company's own receivables and are not measured because the risk of counterparty default is already taken into account in the receivables' measurement. The debentures are recognised at cost less repayments received during the term of the transactions.

The item also contains € 172,433,000 in debentures borrowed (previous year: € 355,933,000) and other debentures amounting to € 9,771,000 (previous year: € 9,767,000).

The securities and debentures shown in this balance sheet item concern € 3,177,839,000 (previous year: € 3,458,118,000) in marketable but not listed securities as well as € 172,433,000 (previous year: € 355,933,000) in marketable and listed securities.

All securities in the portfolio were deposited in the safe custody account with Deutsche Bundesbank. The serve as collateral for refinancing transactions. The company did not take out any loans on the open market.

A nominal amount of € 1,557,782,000 (previous year: € 1,734,276,000) of these debentures and other fixed-income securities will be due in the 2011 financial year.

The debentures and other fixed-income securities do not include any securities concerning affiliated companies.

SHARES AND OTHER NON-FIXED-INCOME SECURITIES

Pursuant to the new regulations of the BilMoG, the securities-based investment funds that serve as plan assets to cover pension obligations and were treated as fixed assets in the past must now be offset against provisions.

Additionally, € 502,000 in marketable and listed shares in VISA Inc., USA (previous year: € 502,000) were recognised by applying the strict lower-of-cost-or-market principle.

Since a lock-up period until March 2011 applies for the sale of the shares, they are measured at cost less a discount.

EQUITY INVESTMENTS AND SHARES IN AFFILIATED COMPANIES

A list of equity investments and information on shares in affiliated companies can be found in the "Shareholdings" section under "Other notes".

The share in VOLKSWAGEN BANK POLSKA S.A. is marketable but not listed. All other equity investments and shares in affiliated companies concern shares in companies that are neither marketable nor listed.

INTANGIBLE ASSETS

Intangible assets decreased by € 3,017,000 to € 7,179,000 (previous year: € 10,196,000).

The reduction stems basically from the disposal of unused software in the UK branch.

TANGIBLE FIXED ASSETS

The total value of the buildings and land used for our own activities is € 4,439,000 (previous year: € 6,349,000). The share of operating and office equipment in the tangible fixed assets is € 3,668,000 (previous year: € 3,543,000).

LEASED ASSETS

This item comprises € 347,964,000 (previous year: € 355,531,000) in leased vehicles related to the operating leasing business of Volkswagen Bank GmbH's French branch.

OTHER ASSETS

The item contains receivables from interest rate hedging transactions amounting to € 59,440,000 (previous year: € 42,285,000), commissions due from insurance agency services amounting to € 3,113,000 (previous year: € 12,705,000) and tax receivables amounting to € 90,920,000 (previous year: € 82,522,000).

DEFERRED INCOME

The item includes accrued discounts amounting to € 3,497,000 (previous year: € 2,883,000) and insurance premiums paid in advance amounting to € 1,197,000 (previous year: € 2,671,000).

LIABILITIES TO FINANCIAL INSTITUTIONS

The maturity of the total liabilities to financial institutions, all of which are unsecuritised, breaks down as follows:

- Payable on demand € 112,706,000 (previous year: € 115,785,000)
- Up to three months € 28,094,000 (previous year: € 88,620,000)
- More than three months and up to one year € 59,769,000 (previous year: € 124,708,000)
- More than one year and up to five years € 50,666,000 (previous year: € 123,729,000)
- More than five years € 46,013,000 (previous year: € 55,188,000).

As in the previous year, the liabilities to financial institutions do not contain any liabilities to affiliated companies or investors and investees.

LIABILITIES TO CUSTOMERS

The item includes unsecuritised liabilities to affiliated companies amounting to € 2,174,033,000 (previous year: € 2,314,832,000).

Customer deposits (including direct bank deposits) markedly increased as a result of competitive terms and our intensifying collaboration with sales partners. Currently, they are € 20,078,104,000 (previous year: € 19,489,021,000).

In addition to this, there are liabilities still to be settled vis-à-vis dealers, customers and other creditors.

The maturity of sub-item "ab) with agreed repayment period or period of notice", is as follows:

- Up to three months € 2,129,391,000 (previous year: € 2,304,869,000)
- More than three months and up to one year € 1,002,907,000 (previous year: € 1,953,771,000)
- More than one year and up to five years € 3,601,089,000 (previous year: € 3,107,276,000)
- More than five years € 60,658,000 (previous year: € 85,997,000).

As in the previous year, the liabilities to customers do not contain any liabilities to investors and investees.

LIABILITIES TO SHAREHOLDERS

Liabilities to our sole shareholder, Volkswagen Financial Services AG, Braunschweig, as at the balance sheet date amounted to € 211,525,000 (previous year: € 144,531,000).

SECURITISED LIABILITIES

The securitised liabilities comprise commercial paper and debentures.

The item, "a) Debentures issued", comprises the following:

Debentures: € 2,894,661,000 (previous year: € 3,574,501,000).

Remaining maturity:

- Up to three months € 14,661,000 (previous year: € 1,024,501,000)
- More than three months and up to one year € 1,330,000,000 (previous year: € 1,300,000,000)
- More than one year and up to five years € 1,550,000,000 (previous year: € 1,250,000,000)
- More than five years € 0 (previous year: € 0).

The item, "b) Securitised liabilities", comprises the following:

Commercial paper: € 123,861,000 (previous year: € 104,835,000).

Remaining maturity:
- Up to three months € 123,861,000 (previous year: € 104,835,000)
- More than three months and up to one year € 0 (previous year: € 0).

The securitised liabilities do not contain any liabilities to affiliated companies or investors and investees.

Of the debentures issued, € 1,305,000,000 becomes due in the following year.

OTHER LIABILITIES

Of the liabilities, € 2,186,033,000 (previous year: € 2,137,829,000) is collateralised. These liabilities stem from ABS transactions where Volkswagen Bank GmbH retains economic ownership of the receivables sold.

This item also includes interest and principal payable under ABS transactions amounting to € 213,976,000 (previous year: € 174,891,000), liabilities from interest rate hedging transactions amounting to € 20,251,000 (previous year: € 27,657,000), liabilities to the German Tax Office amounting to € 44,040,000 (previous year: € 34,926,000) and liabilities from accrued interest for subordinated bonds and for participation right liabilities amounting to € 11,360,000 (previous year: € 11,362,000).

Forward exchange transactions executed to hedge currency translation risks resulted in an equalisation item under other liabilities amounting to € 19,192,000 (previous year: € 14,188,000).

DEFERRED INCOME

This item essentially comprises accrued amounts from manufacturer and partner participation in sales promotion campaigns in the amount of € 491,359,000 (previous year: € 568,829,000) as well as interest payments received for construction loans in the amount of € 4,266,000 (previous year: € 3,800,000), which are recognised over the term of the respective contracts.

DEFERRED TAX LIABILITIES

Solely € 18,781,000 (previous year: € 0) in the branches' deferred tax assets and € 19,314,000 (previous year: € 0) in their deferred tax liabilities were offset under the deferred taxes.

The determination was made individually at the tax rates applicable in the given countries. The deferred tax liabilities arise only in the French branch in the amount of € 19,314,000 (previous year: € 0) and result almost exclusively from the differences in the leased assets' useful lives.

For the most part, deferred tax assets arise in our Italian and Spanish branches, resulting in a balance of € 14,860,000 after offsetting (previous year: € 0), basically due to variations in the recognition of intangible assets as well as to the value adjustments.

PENSION PROVISIONS AND SIMILAR OBLIGATIONS

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

The material actuarial principles and measurement assumptions applied by Volkswagen Bank GmbH are:

	Germany	Abroad
Discount rate	5.15 %	4.50 – 5.30 %
Expected rate of salary increases	2.70 %	3.50 – 5.00 %
Expected rate of pension increases	1.50 %	2.00 – 3.40 %
Fluctuation rate	0.75 %	2.00 – 3.50 %

For reasons of materiality, actuarial assumptions made for countries outside Germany are shown in ranges.

Securities-based investment funds totaling a settlement amount of € 8,179,000 were offset against pension obligations and comparable obligations. These securities were purchased at a cost of € 8,350,000, and their fair value as at the balance sheet date was € 8,179,000. The securities were measured at their balance sheet date closing price.

A total of € 171,000 in expenses from the fair value obligation of the securities-based investment fund were offset against € 171,000 in interest income related to provisions in connection with the netting of the fair value obligation and the respective securities-based investment funds.

Given the changes in the requirements of German commercial law resulting from the German BilMoG, securities are offset against provisions covered under the fund.

OTHER PROVISIONS

In the reporting year, provisions of € 63,982,000 were recognised for indirect residual value risks in the item “Other provisions”.

SPECIAL TAX-ALLOWABLE RESERVE

The special tax-allowable reserve was recognised on the basis of § 3 of the Law for the Promotion of the Economy of the Border Regions (Zonen-RFG). The reversal of this reserve in the reporting period increased net income for the year by € 606,000 (previous year: € 73,000).

SUBORDINATED LIABILITIES

The total portfolio of subordinated liabilities amounts to € 790,000,000 (previous year: € 675,000,000).

Subordinated liabilities amounting to € 743,718,000 (previous year: € 673,374,000) are a component of liable capital under the stipulations of the German Banking Act (§ 10 Para.5a).

The total amount includes subordinated bonds placed on the public capital market amounting to € 316,000,000 (previous year: € 436,000,000) and subordinated borrower's note loans amounting to € 474,000,000 (previous year: € 239,000,000).

There are no early repayment obligations for the subordinated liabilities.

A conversion into capital or other form of debt has not been agreed, nor is it planned. Derivative transactions were undertaken in order to hedge interest rate risks. The expenses in connection with the raising of subordinated loans and bonds amounted to € 12,225,000 (previous year: € 42,050,000).

The expenses in connection with the raising of subordinated borrower's note loans amounted to € 6,943,000 (previous year: € 6,922,000).

As in the previous year, this item does not contain any subordinated liabilities to companies of which Volkswagen Bank GmbH is an investor or investee.

The subordinated liabilities to affiliated companies amount to € 340,000,000 (previous year: € 105,000,000). This item includes € 170,000,000 in liabilities to our sole shareholder and € 170,000,000 in liabilities to other affiliated companies (previous year: € 0).

SUBORDINATED BONDS

AS AT:	31.12.2010		LISTED		
Beginning of term	€ million	Interest rate	valid until	New interest rate agreement based on	Due date
11.09.2003	16.0	5.25000%	11.09.2013	Fixed interest rate	11.09.2013
19.09.2003	50.0	5.12500%	19.09.2013	Fixed interest rate	19.09.2013
26.09.2003	20.0	5.40000%	26.09.2023	Fixed interest rate	26.09.2023
23.09.2003	10.0	1.93900%	23.03.2011	6-month Euribor plus 80 basis points	23.09.2013
19.12.2003	10.0	5.14200%	19.12.2013	Fixed interest rate	19.12.2013
07.06.2004	10.0	5.50000%	07.06.2024	Fixed interest rate	07.06.2024
18.08.2004	20.0	5.12500%	18.08.2014	Fixed interest rate	18.08.2014
03.03.2006	130.0	1.89800%	14.03.2011	3-month Euribor plus 40 basis points	14.03.2016
21.11.2006	50.0	1.45800%	28.02.2011	3-month Euribor plus 43 basis points	30.11.2016

The subordinated bond in the amount of € 130,000,000 exceeds 10% of the total amount of subordinated liabilities. In the event of the issuer's dissolution, liquidation or insolvency, obligations under these bonds will be subordinated to the claims of all unsubordinated creditors of the issuer so that in any such event no amounts shall be payable under such obligations until the claims of all unsubordinated creditors of the issuer shall have been satisfied in full. No subsequent agreement may limit the subordination or shorten the term of the bond. Early redemption of the bonds shall be possible no earlier than five years after their issue and shall require the redemption of the respective bond by the issuer. A redemption is conditional upon a replacement of the early redemption amount by paying in other liable capital of at least equivalent status within the meaning of the German Banking Act or prior approval of the Federal Financial Supervisory Authority to such redemption. Furthermore, the issuer may redeem the bonds due to changes in the tax laws or regulations of the Federal Republic of Germany or any change in the official interpretation of such laws and regulations.

SUBORDINATED BORROWER'S NOTE LOANS

AS AT:	31.12.2010				
Beginning of term	€ million	Interest rate	valid until	New interest rate agreement based on	Due date
20.07.2004	5.0	5.27000%	21.07.2014	Fixed interest rate	21.07.2014
20.07.2004	5.0	5.27000%	21.07.2014	Fixed interest rate	21.07.2014
22.07.2004	20.0	5.22000%	22.07.2014	Fixed interest rate	22.07.2014
06.08.2004	10.0	5.19700%	06.08.2014	Fixed interest rate	06.08.2014
11.08.2004	10.0	5.16000%	11.08.2014	Fixed interest rate	11.08.2014
16.08.2004	10.0	5.07000%	15.08.2014	Fixed interest rate	15.08.2014
25.08.2004	10.0	5.07000%	25.08.2014	Fixed interest rate	25.08.2014
17.08.2004	10.0	5.07000%	18.08.2014	Fixed interest rate	18.08.2014
04.08.2004	2.5	5.21000%	04.08.2014	Fixed interest rate	04.08.2014
04.08.2004	10.0	5.21000%	04.08.2014	Fixed interest rate	04.08.2014
04.08.2004	5.0	5.21000%	04.08.2014	Fixed interest rate	04.08.2014
04.08.2004	2.5	5.21000%	04.08.2014	Fixed interest rate	04.08.2014
19.08.2004	2.0	5.10000%	19.08.2014	Fixed interest rate	19.08.2014
19.08.2004	12.0	5.10000%	19.08.2014	Fixed interest rate	19.08.2014
28.07.2004	10.0	5.08000%	28.07.2014	Fixed interest rate	28.07.2014
13.08.2004	10.0	5.20000%	13.08.2014	Fixed interest rate	13.08.2014

SUBORDINATED LOANS

AS AT:	31.12.2010				
Beginning of term	€ million	Interest rate	valid until	New interest rate agreement based on	Due date
10.11.2009	15.0	2.80000%	13.02.2011	3-month Euribor plus 175 basis points	14.11.2014
22.12.2009	90.0	2.77200%	21.03.2011	3-month Euribor plus 175 basis points	22.01.2015
28.06.2010	45.0	3.39200%	02.01.2011	3-month Euribor plus 250 basis points	02.07.2015
01.07.2010	20.0	3.45300%	05.01.2011	3-month Euribor plus 250 basis points	06.07.2015
28.09.2010	170.0	2.00000%	04.01.2011	3-month Euribor plus 200 basis points	05.10.2015

The subordinated loans in the amount of € 90,000,000 and € 170,000,000 exceed 10% of the total amount of subordinated liabilities. In the event of the issuer's dissolution, liquidation or insolvency, obligations will be subordinated to the claims of all unsubordinated creditors of the issuer so that in any such event no amounts shall be payable under such obligations until the claims of all unsubordinated creditors of the issuer shall have been satisfied in full. No subsequent agreement may limit the subordination or shorten the term of these loans. Early repayment of the loans shall be possible and shall require the termination of the respective loan by the debtor. A redemption is conditional upon a replacement of the early redemption amount by paying in other liable capital of at least equivalent status within the meaning of the German Banking Act or prior approval of the Federal Financial Supervisory Authority to such redemption. Furthermore, the debtor may terminate and repay the loans due to changes in the tax laws or regulations of the Federal Republic of Germany or any change in the official interpretation of such laws and regulations.

Notwithstanding § 11 Ordinance on Accounting for Banks, the deferred interest for subordinated liabilities is shown in the balance sheet item “Other liabilities”, since interest is not offset in regulatory liable capital.

PARTICIPATION RIGHT LIABILITIES

Participation right liabilities are no longer included in the liable capital because this past year the residual term fell below the two-year threshold.

Of the obligations totalling € 90,000,000, € 825,000 are attributable to affiliated companies, as in the previous year. Derivative transactions were undertaken in order to hedge interest rate risks. The expenses in connection with the raising of funds amounted to € 6,491,000 (previous year: € 6,461,000).

AS AT:	31.12.2010				
Beginning of term	€ million	Interest rate	valid until	New interest rate agreement based on	Due date
27.03.2002	90.0	7.15000%	02.05.2012	Fixed interest rate for the entire term	02.05.2012

Notwithstanding § 11 Ordinance on Accounting for Banks, the deferred interest for participation right liabilities is shown in the balance sheet items “Liabilities to customers” and “Other liabilities”.

EQUITY

The Bank’s equity contains a silent partner contribution of Volkswagen Versicherungsdienst GmbH amounting to € 40,000,000.

The depositor receives a remuneration on the book value of the contribution based on the 12-month Euribor plus 150 basis points.

The silent partner contribution was terminated effective 31 December 2010, and it will be repaid once the annual financial statements for 2010 of Volkswagen Bank GmbH have been approved.

In the 2010 financial year, Volkswagen Financial Services AG paid € 350,000,000 into the capital reserves of Volkswagen Bank GmbH. This lifted the capital reserves of Volkswagen Bank GmbH to € 3.5 billion as at 31 December 2010 (previous year: € 3.2 billion €).

DEVELOPMENT OF THE FIXED ASSETS OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG, FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2010

€ 000	GROSS BOOK VALUES Brought forward 01.01.2010	Additions	Disposals	Trans#-#fer	Adjustment to BilMoG	Foreign currency translation	Balance 31.12.2010
Debentures and other fixed-income securities	2,052,192	0	857,862	0	0	0	1,194,330
Shares and other non-fixed-income securities*	8,315	0	0	0	–8,315	0	0
Equity investments	1,080,080	0	0	0	0	0	1,080,080
Investments in affiliated companies	0	1,263	0	0	0	0	1,263
Intangible assets	166,967	3,085	2,923	0	0	– 37	167,092
Land, similar rights and buildings on land owned by others	23,314	6	0	0	0	0	23,320
Other plant, operational and office equipment	13,054	2,495	2,042	0	0	0	13,507
Leased assets	495,832	215,609	199,775	0	0	0	511,666
Total fixed assets	**3,839,754**	**222,458**	**1,062,602**	**0**	**–8,315**	**– 37**	**2,991,258**

€ 000	VALUE ADJUSTMENTS Brought forward 01.01.2010	Additions	Disposals	Write-ups	Foreign currency translation	Balance 31.12.2010	NET BOOK VALUES Balance 31.12.2010	Balance 31.12.2009
Debentures and other fixed-income securities	0	0	0	0	0	0	1,194,330	2,052,192
Shares and other non-fixed-income securities*	335	0	0	335	0	0	0	7,980
Equity investments	0	0	0	0	0	0	1,080,080	1,080,080
Investments in affiliated companies	0	0	0	0	0	0	1,263	0
Intangible assets	156,771	3,595	378	0	– 75	159,913	7,179	10,196
Land , similar rights and buildings on land owned by others	14,802	2,133	0	0	0	16,935	6,385	8,512
Other plant, operational and office equipment	9,511	1,445	1,117	0	0	9,839	3,668	3,543
Leased assets	140,301	110,422	87,021	0	0	163,702	347,964	355,531
Total fixed assets	**321,720**	**117,595**	**88,516**	**335**	**– 75**	**350,389**	**2,640,869**	**3,518,034**

*Pursuant to the new regulations of the BilMoG, the securities-based investment funds that serve as plan assets to cover pension obligations and were treated as fixed assets in the past must now be offset against provisions.

IV. Notes to the profit and loss account

INTEREST INCOME FROM LENDING AND MONEY MARKET TRANSACTIONS

The proportion of interest income generated at the foreign branches is 24.5% (previous year: 25.9 %). The branches in Italy and France account for the largest share of this amount.

The interest income from lending and money market transactions contains € 83,233,000 in income from finance leasing (previous year: € 77,967,000).

INCOME FROM LEASING TRANSACTIONS

The income from leasing transactions comprises earnings from operating leasing that are generated by the bank's branch in France. The total amount was € 260,938,000 (previous year: € 278,436,000).

EXPENSES FROM LEASING TRANSACTIONS

The expenses from leasing transactions amounting to € 137,404,000 (previous year: € 159,320,000) basically concern the derecognition of residual book values upon expiration of the leasing agreements.

NET COMMISSION INCOME

Commission income essentially results from selling insurance, especially residual debt insurance, from the administration and collection of receivables sold through the ABS transactions, and from other fees earned in the private customer business.

Commission income includes an income of € 1,435,000 (previous year:€ 1,107,000) which is not related to the accounting period and which essentially results from special compensation for residual debt and unemployment insurance as well as from brokering securities transactions.

Commission expenses essentially comprise dealer commissions in the consumer lending business and commissions from the leasing business.

OTHER OPERATING INCOME

The item contains € 22,667,000 (previous year: € 25,061,000) in income not related to the accounting period, of which € 2,849,000 (previous year: € 3,410,000) is in connection with the internal cost apportionment of the Volkswagen Financial Services AG Group and € 17,594,000 (previous year: € 15,929,000) is income from the reversal of provisions. The other operating income contains € 1,872,000 in income from currency translation (previous year: € 9,368,000).

GENERAL ADMINISTRATION EXPENSES

The general administration expenses totalled € 485,058,000 (previous year: € 420,636,000). Aside from the personnel expenses of € 68,138,000 (previous year: € 62,677,000), allocated Group company costs of € 196,208,000 (previous year: € 179,360,000) accounted for a substantial portion of these expenses). Personnel leases and IT services accounted for a large part thereof.

DEPRECIATION, AMORTISATION AND VALUE ADJUSTMENTS TO INTANGIBLE AND TANGIBLE FIXED ASSETS AND LEASED ASSETS

Depreciation on leased assets amounting to € 110,422,000 (previous year:€ 93,627,000) is shown as a separate sub-item of this item.

The depreciation of the leased assets recognises the decline in the value of the leased vehicles belonging to the French branch. The straight-line method is used in that connection.

Depreciation and impairment losses on tangible fixed assets contain a write-down of € 1,273,000 on a building.

OTHER OPERATING EXPENSES

This item essentially results from a large number of individual items. It includes an amount of € 2,600,000 (previous year: € 2,747,000) in expenses not related to the accounting period, of which € 1,750,000 (previous year: € 1,510,000) concern the Italian branch. This item largely contains expenses for services received for which no provisions had been recognised. The other operating expenses contain € 11,057,000 in expenses from currency translation (previous year: € 4,876,000).

ONE-OFF EXPENSES

The one-off expenses essentially stem from the adjustment of the pension provisions and similar obligations in accordance with the changed measurement under the BilMoG. The additions to the provisions were recognised in full in the 2010 financial year. The option to recognise the provisions on a pro rata basis was not used.

TAXES ON INCOME AND EARNINGS

This item comprises domestic and foreign taxes on income. Volkswagen Financial Services AG, as the parent company, debited the domestic income tax of € 115,486,000 (previous year: € 62,966,000) for the current year to Volkswagen Bank GmbH within the framework of the consolidated tax group.

This item contains expenses of € 11,039,000 (previous year: € 362,000) not related to the accounting period and tax refunds received for previous years amounting to € 2,197,000 (previous year: € 1,433,000).

V. Other notes

CONSOLIDATION ACCOUNTING

The annual financial statements of Volkswagen Bank GmbH are included in the consolidated financial statements of Volkswagen Bank GmbH, Braunschweig, which are drawn up according to the International Financial Reporting Standards. The consolidated financial statements of Volkswagen Bank GmbH, in turn, are included in the consolidated financial statements of Volkswagen AG, Wolfsburg. Both the single-entity financial statements of Volkswagen Bank GmbH and the consolidated financial statements of Volkswagen AG are published in the Electronic Federal Gazette.

SHAREHOLDINGS

Volkswagen Bank GmbH holds a 50% stake in the Dutch company, Global Mobility Holding B. V., Amsterdam; it has a book value of € 1,063,874,000. The total nominal capital of the company amounts to € 900,000,000. No obligations arise from this equity investment. The loss of Global Mobility Holding B.V., Amsterdam, for the period from 1 January 2009 to 31 December 2009 was € -104,000. The company's equity as at 31 December 2009 was € 2,090,000.

The bank holds a 0.035% stake in Society for Worldwide Interbank Financial Telecommunication SCRL (S.W.I.F.T. SCRL), La Hulpe, Belgium. The company's nominal capital as at 31 December 2009 was € 13.927 million. No obligations arise from this equity investment. The company's equity as at 31 December 2009 was € 285,312,000.

The Bank holds a share of € 40,000 (0.02%) in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main. From this equity investment there arises an obligation to make further contributions as well as a joint liability to make up for deficits. The company's equity as at 31 December 2009 was € 235,009,000.

Volkswagen Bank GmbH has an equity investment of € 10 in the € 1,047 nominal capital of VISA Europe Limited, London. This equity investment was bestowed upon Volkswagen Bank GmbH on 1.7.2004 at no charge. No obligations arise from this equity investment. The equity of VISA Europe Limited as at 30 September 2009 was € 311.6 million. According to its consolidated financial statements, VISA Europe Limited posted profits of € 199.6 million in the 2008/2009 financial year.

The bank holds a 60% share in VOLKSWAGEN BANK POLSKA S. A., Warsaw. The profit of VOLKSWAGEN BANK POLSKA S. A. for the 2009 financial year amounts to PLN 17,122,000 (previous year: PLN 37,169,000). The company's equity as at 31 December 2009 was PLN 216,603,000. (Translated at the exchange rate applicable on the 31 December 2009 reporting date, the net income was € 4,171,500 and the equity was € 52,772,000).

Volkswagen Bank owns a 100% stake in the affiliated company, Volkswagen Insurance Brokers GmbH, Braunschweig. The company was acquired on 01.12.2010. Its equity as at 31.12.2009 was € 815,700 and its earnings in the 2009 financial year amounted to € -260,500.

Furthermore, the bank holds a 1% stake in its affiliate, Limited Liability Company Volkswagen Bank RUS. The entity was founded in 2010 and is domiciled in Moscow, Russian Federation. The company was entered in the Moscow commercial register on 02.07.2010. Its equity is RUB 1,760 million. The company holds a Russian banking licence.

CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

Aside from one individual credit commitment in the amount of € 150 million to a joint venture, all irrevocable credit commitments are related to the regular banking business. They can be utilised at any time. These loans are subject to general credit monitoring rules and regulations if they are used.

The contingent liabilities of € 99.881 million solely comprise guarantees.

Of the guarantees, GBP 50 million concern Volkswagen Financial Services (UK) Ltd., € 23.9 million concern international customers and € 12.9 million concern the hedging of risks arising from dealerships' liabilities.

The risk of liability under the guarantees is considered relatively low because a substantial portion of the total guarantee amount serves to hedge liabilities of Volkswagen AG Group companies.

OFF-BALANCE SHEET TRANSACTIONS AND OTHER FINANCIAL OBLIGATIONS

Derivative financial instruments

Derivative transactions were undertaken in order to hedge interest rate and currency risks. This involved interest rate swaps, currency swaps and forward exchange transactions purely for hedging purposes. Based on the market swap rates, the market values of the interest rate swaps, forward exchange transactions and currency swaps were determined using suitable IT-based valuation methods (discounted cash flow method). They are not shown in the balance sheet. Interest on interest rate swaps is accrued according to their maturity.

Pursuant to § 285 No. 19 HGB, the derivative financial instruments break down as follows:

in € million	Nominal value 31.12.2009	Nominal value 31.12.2010	Market values* positive 31.12.2009	Market values* positive 31.12.2010	Market values* negative 31.12.2009	Market values* negative 31.12.2010
Interest rate risk						
Interest rate swaps	12,966.5	12,279.1	196.9	155.0	151.5	60.0
Currency risks						
Forward exchange transactions	1,293.3	1,454.1	9.9	9.4	24.7	29.0
Currency swaps	0.0	43.1	0.0	0.0	0.0	3.6
Derivative transactions total	**14,259.8**	**13,776.3**	**206.8**	**164.4**	**176.2**	**92.6**

* The market value including accrued interest is shown for all contracts.

The maturity of the derivatives breaks down as follows:

Nominal values in € million	Interest rate risks 31.12.2009	Interest rate risks 31.12.2010	Currency risks 31.12.2009	Currency risks 31.12.2010
Residual terms				
<= 3 months	998.1	715.0	766.5	1,040.2
<= 1 year	4,548.5	2,521.0	296.9	244.2
<= 5 years	7,342.7	8,159.2	229.9	212.8
> 5 years	77.2	883.9	0.0	0.0

Other financial obligations

There are no other financial obligations.

FOREIGN CURRENCIES

The total of assets in foreign currency on the balance sheet date amounted to € 1,715,945,000 (previous year: € 1,480,246,000). Foreign currency liabilities amounted to € 105,714,000 (previous year: € 103,638,000).

The volume of open forward exchange deals in foreign currencies as at the reporting date was € 1,454,126,000 (previous year: € 1,293,268,000). The nominal value of the currency swaps was € 43,082,000 (previous year: € 0).

INFORMATION ON CORPORATE BODIES

Two members of the Board of Management were paid by Volkswagen Bank GmbH. Their total compensation was € 930,000; the remainder of the total compensation paid to the members of the Board of Management was borne by Volkswagen Financial Services AG. The pro rata provisions recognised for this group of people in connection with current pensions and entitlements amount to € 2,719,000.

The Board of Management is comprised as follows:

RAINER BLANK

Spokesman of the Board of Management
Business Line Individual Customers & Corporate Customers
Sales Individual Customers & Corporate Customers
International

DR. MICHAEL REINHART

Finance, Risk Management
Market Support, Dealer Restructuring
Human Resources, Organisation

TORSTEN ZIBELL

Direct bank
Treasury

As in the previous year, no remuneration has been granted to the Supervisory Board.

The Supervisory Board is comprised as follows:

HANS DIETER PÖTSCH

Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

PROF. DR. HORST NEUMANN

Deputy Chairman
Member of the Board of Management of Volkswagen AG
Human Resources and Organisation

WALDEMAR DROSDZIOK

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

DR. ARNO ANTLITZ

Member of the Board of Management Volkswagen Brand
Controlling and Accounting

DR. JÖRG BOCHE
Executive Vice President of Volkswagen AG
Group Treasurer

CHRISTIAN KLINGLER (FROM 20.05.2010)
Member of the Board of Management of Volkswagen AG
Sales and Marketing

DETLEF KUNKEL
General Secretary/Principal Representative of IG Metall Braunschweig

SIMONE MAHLER
General Secretary of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Business Services GmbH

GABOR POLONYI
Head of Sales Germany Private and Corporate Customers of Volkswagen Bank GmbH

MICHAEL RIFFEL
General Secretary of the General Works Council and Group Works Council of Volkswagen AG

ALFRED RODEWALD
Deputy Chairman of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Business Services GmbH

AXEL STROTBEK
Member of the Board of Management
AUDI AG
Finance and Organisation

DETLEF WITTIG (UNTIL 19.05.2010)
Executive Vice President of Volkswagen AG
Cooperation Japan

A total of € 1,645,000 (previous year: € 2,081,000) was recognised as provisions for pensions and similar obligations to former members of the Board of Management or their surviving dependants. In financial year 2010, payments to these individuals amounted to € 258,000 (previous year: € 249,000).

The assets include receivables amounting to € 325,000 (previous year: € 321,000) from loans falling under § 15 Para.1 No.1 and 3 of the German Banking Act. This includes € 8,000 in receivables from members of the Supervisory Board and € 317,000 in receivables from members of the Board of Management.

Average number of employees during the financial year:

	2010	2009
Salaried employees	616	636
of which senior management	30	28
of which trainees	7	10
of which part time staff	48	51

BRANCHES AND BRANCH OFFICES

Branches
Audi Bank, Braunschweig
SEAT Bank, Braunschweig
Škoda Bank, Braunschweig
AutoEuropa Bank, Braunschweig
ADAC FinanzService, Braunschweig
Branch offices
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
Branches outside Germany
Volkswagen Bank GmbH, Diegem, Belgium
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, Alcobendas-Madrid, Spain

Seats on supervisory bodies – information disclosed in accordance with § 340a (4) HGB

RAINER BLANK

- VOLKSWAGEN BANK POLSKA S.A., Warsaw, Poland
- Volkswagen Leasing Polska Sp. z o.o., Warsaw, Poland
- LLC Volkswagen Bank RUS, Moscow, Russia
  Chairman of the Supervisory Board of each
- Volkswagen Finance Belgium S.A., Brussels, Belgium
  Member of the Conseil d'Administration
- Kunden Club GmbH des Volkswagen Konzerns, Wolfsburg, Germany
  Member of the Advisory Board
- cominvestment Asset Management GmbH, Frankfurt am Main, Germany
  Member of the Investment Committee
- VISA Deutschland e.V., Frankfurt am Main, Germany
  Member of the Administrative Advisory Body

DR. MICHAEL REINHART

- VOLKSWAGEN Finančné služby Slovensko s.r.o., Bratislava, Slovakia
- Volkswagen Versicherung AG, Braunschweig, Germany
  Chairman of the Supervisory Board of each
- VOLKSWAGEN HOLDING FINANCIERE S.A., Villers-Cotterêts, France
  Member of the Conseil de Surveillance
- Volkswagen Leasing, S.A. de C.V., Puebla/Pue., Mexico
- Volkswagen Bank S.A. Institución de Banca Múltiple, Puebla/Pue., Mexico
- VOLKSWAGEN SERVICIOS S.A. DE C.V., Puebla/Pue., Mexico
  Member of the Consejo de Administración of each

TORSTEN ZIBELL

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

DR. CHRISTIAN DAHLHEIM

- VOLKSWAGEN HOLDING FINANCIERE S.A., Villers-Cotterêts, France
  Chairman of the Conseil de Surveillance
- Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom
- VOLKSWAGEN INSURANCE SERVICE Ltd., Milton Keynes, United Kingdom
  Chairman of the Board of Directors of each
- VOLKSWAGEN FINANCE, S.A. – ESTABLECIMIENTO FINANCIERO DE CRÉDITO, Madrid, Spain
- ServiLease S.A., Madrid, Spain
  Member of the Consejo de Administración of each
- Volkswagen Møller BilFinans AS, Oslo, Norway
  Member of the Styre

NORBERT DORN

- VOLKSWAGEN BANK POLSKA S.A., Warsaw, Poland
- Volkswagen Leasing Polska Sp. z o.o., Warsaw, Poland
- VOLKSWAGEN Finančné služby Slovensko s.r.o., Bratislava, Slovakia
  Member of the Supervisory Board of each
- VOLKSWAGEN DOĞUŞ TÜKETİCİ FİNANSMANI A.Ş., Istanbul, Turkey
- VDF Servis Holding A.Ş., Istanbul, Turkey
  Member of the Board of Directors of each
- LLC Volkswagen Bank RUS, Moscow, Russia
  Member of the Supervisory Board

ERICH KROHN

- VOLKSWAGEN FINANCE, S.A. – ESTABLECIMIENTO FINANCIERO DE CRÉDITO, Madrid, Spain
- ServiLease S.A., Madrid, Spain
  Member of the Consejo de Administración of each

VOLKER REICHHARDT

- VOLKSWAGEN DOĞUŞ TÜKETİCİ FİNANSMANI A.Ş., Istanbul, Turkey
- VDF Servis Holding A.Ş., Istanbul, Turkey
- Volkswagen Finans Sverige AB, Södertälje, Sweden
  Member of the Board of Directors of each
- VOLKSWAGEN BANK POLSKA S.A., Warsaw, Poland
- Volkswagen Leasing Polska Sp. z o.o., Warsaw, Poland
- VOLKSWAGEN Finančné služby Slovensko s.r.o., Bratislava, Slovakia
  Member of the Supervisory Board of each
- Volkswagen Møller BilFinans AS, Oslo, Norway
  Member of the Styre
- VW Credit Inc., Auburn Hills, Michigan/USA
  Member of the Board of Directors
- LLC Volkswagen Bank RUS, Moscow, Russia
  Member of the Supervisory Board

DIRK PANS

- Volkswagen Finans Sverige AB, Södertälje, Sweden
  Chairman of the Board of Directors
- Volkswagen Møller BilFinans AS, Oslo, Norway
  Chairman of the Styre
- Volkswagen Pon Financial Services B.V., Amersfoort, the Netherlands
- VVS VERZEKERINGS-SERVICE N.V., Diemen, the Netherlands
  Member of the Raad van Commissarissen of each

GABOR POLONYI

- Volkswagen Financial Services AG, Braunschweig, Germany
- Volkswagen Leasing GmbH, Braunschweig, Germany
- Volkswagen Versicherungsdienst GmbH, Braunschweig, Germany
  Member of the Supervisory Board of each

GABRIELE DE NEIDELS

- Volkswagen Møller BilFinans AS, Oslo, Norway
  Member of the Representantskapet

Responsibility statement of the Board of Management

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, 28 January 2011
The Board of Management

Rainer Blank

Dr. Michael Reinhart

Torsten Zibell

Independent Auditors' Report

We have audited the annual financial statements – comprising the balance sheet, the profit and loss account, the notes, the cash flow statement and the statement of changes in equity – including the accounting, and the management report of Volkswagen Bank Gesellschaft mit beschränkter Haftung, Braunschweig, for the financial year from 1 January to 31 December 2010. The accounting and preparation of the annual financial statements and management report according to German commercial law and the supplementary provisions of the Articles of Association are the responsibility of the Company’s Managing Directors. Our responsibility is to express an opinion on the annual financial statements, including the accounting, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). 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 principles of proper accounting and in the 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 accounting, the annual financial statements and the 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 Managing Directors, as well as evaluating the overall presentation of the annual financial statements and the 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, which is based on the findings of the audit, the annual financial statements are in compliance with legal provisions and the supplementary provisions of the Articles of Association and give a true and fair view of the net assets, financial situation and results of the operations of the company in accordance with the principles of proper accounting. The management report is consistent with the annual financial statements, provides a suitable understanding of the company's situation and suitably presents the risks of future development.

Hanover, 11 February 2011

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes	ppa. Rolf Barrakling
Auditor	Auditor

Report of the Supervisory Board

of Volkswagen Bank GmbH

In the financial year just ended, the Supervisory Board regularly and exhaustively dealt with the situation and development of Volkswagen Bank GmbH and the Volkswagen Bank GmbH Group.

The Board of Management submitted timely and comprehensive reports to the Supervisory Board during the reporting period, both in writing and orally, regarding material aspects of the company's planning and situation (including its exposure to risk and its risk management) as well as the development of its business and deviations from plans and targets. Based on these reports, the Supervisory Board continuously monitored the management of the company's and the Group's business, thus fulfilling its responsibilities under the law and the company's statutes without limitation. All decisions material to the company, as well as all other transactions subject to the Supervisory Board's approval under its rules of procedure, were reviewed and discussed with the Board of Management before the relevant resolution was adopted.

The Supervisory Board is made up of twelve members. There were changes in personnel in comparison with the previous year, which are shown in the section on corporate bodies in the notes.

The Supervisory Board convened for three regular meetings in the reporting year; there were no extraordinary meetings. The Supervisory Board members' average attendance rate was 81%. With the exception of one member, who was absent at two meetings, all members attended more than half of the meetings. We resolved an urgent matter in writing by means of a circular memorandum.

COMMITTEE WORK

The Supervisory Board established two committees, a credit committee and a personnel committee, for the purpose of facilitating its work.

The personnel committee is responsible for decision making in regards to personnel and social issues subject to the Supervisory Board's authority under both the law and its rules of procedure. This committee comprises three members of the Supervisory Board. Its decisions are adopted by means of circular memorandum. Approvals of powers of representation (“Prokura”) constituted material aspects of its work.

The credit committee is responsible for approving issues the Supervisory Board must deal with under the law and under its rules of procedure such as for instance proposed credit commitments, company borrowings, factoring transactions and general agreements pertaining to the assumption of receivables as well as assuming guarantees, warranties and the like. The credit committee comprises three members of the Supervisory Board; it also makes its decisions by means of circular memorandum.

DELIBERATIONS OF THE SUPERVISORY BOARD

Following a detailed review at its meeting on 19 February 2010, the Supervisory Board approved the consolidated financial statements and the annual financial statements of Volkswagen Bank GmbH for 2009, which had been prepared by the Board of Management, and accepted the annual report by Internal Audit regarding the results of its audits.

The Board of Management provided extensive reports on the company's and the Group's economic and financial position, both at the aforesaid meeting and at the meetings on 10 June 2010 and 3 December 2010. In this connection, we also dealt intensively with the current risk exposure which the Board of Management reported to us, as well as with the company’s measures to refine its risk management. In addition, we dealt with the implementation of our international growth strategy – specifically, the expansion of the used vehicle business and the increasingly significant new market of Russia.

At our meeting on 10 June 2010, we approved an amendment of the investment guideline in order to expand the Board of Management options for investing excess liquidity as necessary. We also approved the acquisition of Volkswagen Insurance Brokers GmbH and its merger with the Bank.

On 3 December 2010, we engaged in an extensive discussion of the company's medium-term financial and investment planning with the Board of Management. The Board of Management reported to us on its IT strategy and explained its strategic plans and actions for furthering growth in the European markets through closer integration with the brands. We approved the establishment of another branch in Lisbon, Portugal.

At this meeting, the Board of Management also explained both the company's and the Group's current exposure to risk, especially credit and residual value risks. In addition, it reported on the preliminary results of the audit by the regulators of the risk management system at both the single entity and the Group level in accordance with MaRisk and the resulting measures.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PriceWaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit the consolidated financial statements in accordance with IFRS and the annual financial statements of Volkswagen Bank GmbH in accordance with the German Commercial Code (HGB) for the year ended 31 December 2010, including the accounting and the management reports.

The Supervisory Board had at its disposal the consolidated financial statements in accordance with IFRS and the annual financial statements in accordance with HGB of Volkswagen Bank GmbH for the year ended 31 December 2010 and the management reports. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the bookkeeping and the management reports, and issued an unqualified auditors' report in each case. The Supervisory Board approves the results of these audits.

The Supervisory Board's review of the consolidated financial statements, the annual financial statements and the management reports did not give rise to any reservations. The auditors were present at the Supervisory Board meeting when this item of the agenda was dealt with and they reported on the main results of their audit.

During its meeting on 18 February 2011, the Supervisory Board approved the consolidated financial statements and the annual financial statements of Volkswagen Bank GmbH prepared by the Board of Management. The consolidated financial statements and the annual financial statements are thereby adopted.

Under the existing profit transfer agreement, the profit made in 2010 in accordance with HGB is transferred to Volkswagen Financial Services AG

The Supervisory Board wishes to acknowledge and express its appreciation to the Board of Management, the members of the works council and all members of staff of the Volkswagen Bank GmbH Group for their work. Through their great dedication they have all contributed to the ongoing development of the Volkswagen Bank GmbH Group.

Braunschweig, 18 February 2011

Hans Dieter Pötsch
Chairman of the Supervisory Board

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements concerning the future business development of Volkswagen Bank GmbH. These statements include, among others, assumptions about the development of the global economy, as well as the financial and automobile markets. Volkswagen Bank GmbH has made these assumptions on the basis of available information and believes that they can be currently said to offer a realistic picture. These estimates necessarily include certain risks, and actual development may differ from these expectations.

Should actual development therefore deviate from these expectations and assumptions, or should unforeseen events occur that impact the business of Volkswagen Bank GmbH, then the business development will be accordingly affected.

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