

# VOLKSWAGEN BANK

GMBH

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## The key to mobility.

ANNUAL REPORT 2008 (HGB)



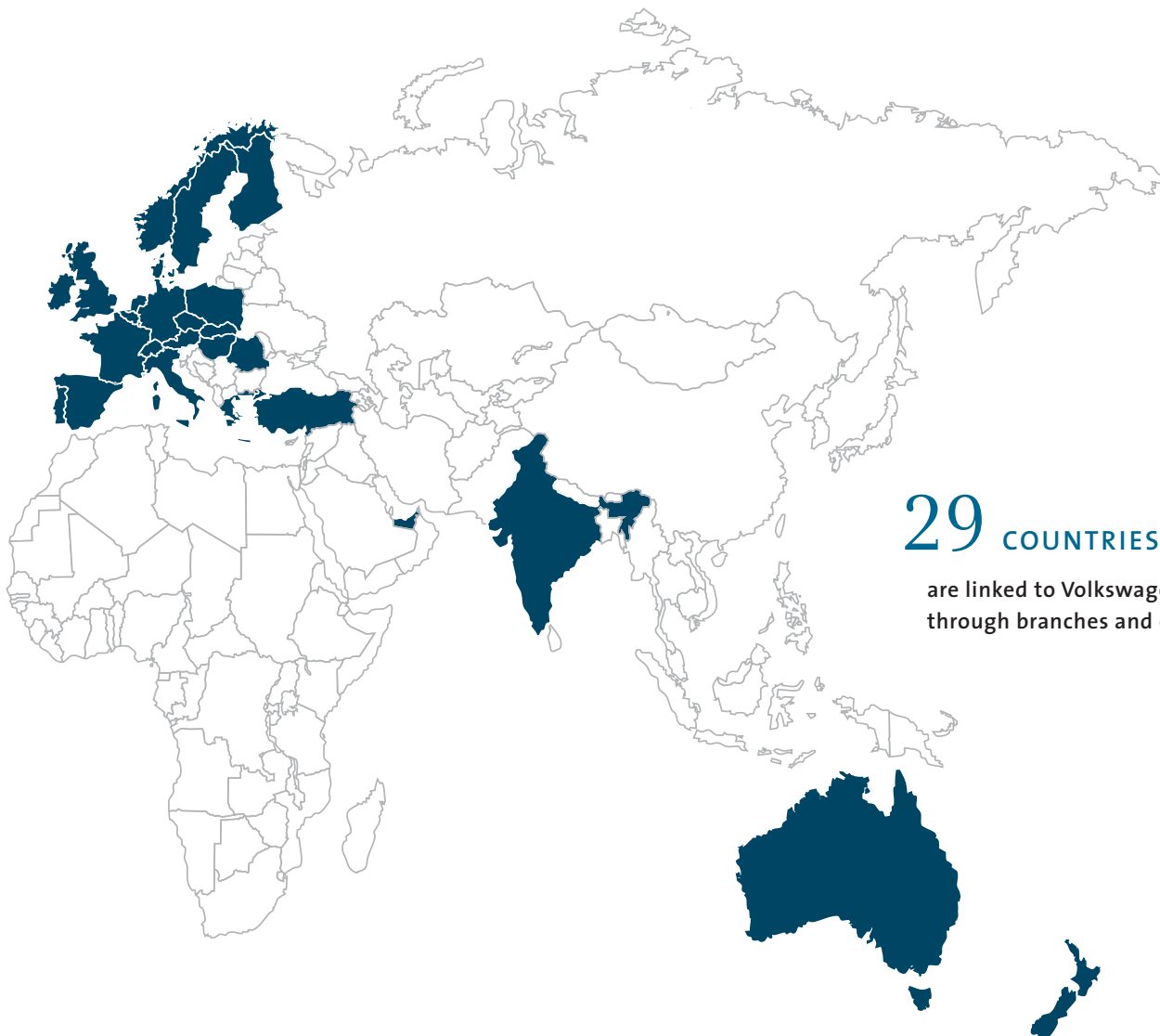
# Volkswagen Bank GmbH in 2008

- Australia
- Austria
- Belgium
- Brazil
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Greece
- Hungary
- India
- Ireland
- Italy
- Luxembourg
- The Netherlands
- New Zealand
- Norway
- Poland
- Portugal
- Romania
- Slovakia
- Spain
- Sweden
- Switzerland
- Turkey
- United Arab Emirates
- United Kingdom
- USA



## 2.2 MILLION PRIVATE AND CORPORATE CUSTOMERS

are supported by Volkswagen Bank GmbH, strengthening the loyalty to the brands of the Volkswagen Group.



## 29 COUNTRIES

are linked to Volkswagen Bank GmbH through branches and equity investments.

## 12.8 BILLION EUROS IN CUSTOMER DEPOSITS

make Volkswagen Bank *direct* one of the most successful direct banks.

# Volkswagen Bank GmbH at a glance (HGB)

<b>in € million (as at 31.12.)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Total assets	30,868	23,325	21,023	19,084	21,435
Receivables arising from					
Retail financing	11,110	11,334	10,943	9,792	9,943
Leasing business	923	290	253	232	221
Dealer financing	7,586	7,411	5,827	5,583	4,913
Customer deposits	12,829	9,620	8,827	8,735	8,017
Equity	2,979	2,979	2,679	2,649	2,126
<b>in % (as at 31.12)</b>					
Equity ratio	9.7	12.8	12.8	13.9	9.9
Core capital ratio <sup>1</sup>	12.8	14.2	13.4	14.2	11.5
Overall ratio <sup>1</sup>	18.8	20.8	20.1	20.4	18.8
Return on equity	6.9	11.6	13.3	13.0	19.5
<b>in € million (as at 31.12.)</b>					
Result from ordinary business activities	204	329	354	309	294
Taxes on income and earnings, other taxes	70	105	119	101	111
Profits transferred under a profit transfer agreement	134	224	235	208	183
Net income	-	-	-	-	-
<b>Number (as at 31.12.)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Employees	669	585	3,855	3,820	3,739

Rating 2008	Standard & Poor's			Moody's Investors Service		
	short-term	long-term	outlook	short-term	long-term	outlook
Volkswagen Bank GmbH	A-1	A	negative	Prime-1	A2	stable
Volkswagen Financial Services AG	A-2	A-	stable	Prime-2	A3	positive

<sup>1</sup> The regulatory core capital ratio/overall ratio of Volkswagen Bank GmbH as at 31 December 2007 and 2008 was calculated in accordance with the standardised approach to credit and operational risks based on the Solvency Regulations that took effect on 1 January 2007. The figures for 2004 – 2006 were calculated in accordance with the old Principle I.

# **VOLKSWAGEN BANK**

GMBH

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# Management report (HGB)

## ECONOMIC ENVIRONMENT

### Global economy

The upturn of the global economy continued until the middle of 2008. However, the dramatic intensification of the international financial market an economic crisis in the year's second half triggered recessionary trends in the major industrialised countries and a noticeable loss of economic momentum in the emerging countries. The substantial decline in prices for commodities and energy slowed previously rising inflation rates worldwide. Overall global economic growth was only about 1.7 % (previous year: 3.5 %).

In Western Europe, growth declined substantially in the second half of 2008, giving rise to recessionary developments in many countries. On average, GDP grew 0.9 % (previous year: 2.7 %). The unemployment rate in the euro zone fell to a record low of 7.2 % at the start of 2008. While the euro climbed to new heights relative to both the US dollar and the yen in the middle of the year, it dropped dramatically in subsequent months. At 4.7 % (previous year: 6.4 %), growth in Central and Eastern Europe remained quite solid but lost some of its momentum in the year's second half.

In Germany, economic growth in 2008 slowed to 1.3 % (previous year: 2.5 %). While the export industry continued to provide most of the impetus for growth despite the expensive euro, private consumption remained weak as a result of declining purchasing power and mounting economic uncertainty. Not even the positive development in the labour market did anything to alter this development. In October 2008, the employment figure fell below three million for the first time in 16 years.

### Financial and automobile markets

At the end of September 2008, the global banking system had to weather the biggest challenge in its history as a result of the US mortgage crisis which broke out in 2007. Only support measures by national governments all over the world prevented it from collapsing; The Federal Republic of Germany alone enacted a financial market stabilisation fund of up to € 480 billion. The crisis of the system sparked a sweeping consolidation process which, in several countries, led to states making equity investments in banks, insurance companies and investment firms or to bank mergers. In the United States, the developments forced previously prestigious investment firms to sell themselves, file for bankruptcy or give up their investment banking status.

The ramifications of the crisis also affected the German mobility services providers in 2008. While the captive auto banks (or captives) managed to increase the number of new vehicle contracts by almost 6 % to 668,000 in the first half of the year thanks especially to the positive business with private customers, demand fell substantially in the second half of the year as a result of rising uncertainty among consumers. At the same time, the industry's refinancing costs rose intermittently due to the dramatic deterioration in the international financial markets. Against this backdrop, some of the captives had to turn to the European Central Bank (ECB) or their corporate parent for refinancing.

The banks' deposit business grew in importance as it became increasingly difficult to obtain refinancing in the international capital markets. Both the security of bank deposits and the level of interest rates became key factors for business in Germany. Competition among the direct banks engaged in the deposit business intensified yet again as a result of interest rate campaigns, increasing the pressure on interest margins.

The threat of a looming recession compounded the pressure on the financial markets, sparking a sharp decline worldwide in the fourth quarter of 2008.

In 2008, worldwide passenger car sales fell to 55.6 million vehicles, down 5.9 % from the record number of registrations the previous year. The ramifications of the international financial market crisis became more intense in the course of the year. In turn, this amplified consumers' reluctance to make purchases, owing also to the tight situation on the credit markets. Massive increases in the prices for commodities and energy in the first six months of the year compounded these developments.

North America and Western Europe, in particular, recorded above-average declines. In Central and Eastern Europe, South America as well as Asia Pacific, the positive development held steady for a while but did weaken substantially in the year's second half. Worldwide automobile production fell in the 2008 financial year by 3.9 % to 69.2 million units, of which passenger cars accounted for 57.5 million (-4.8 %).

In Western Europe, the demand for passenger cars fell by 8.4 % to 13.6 million vehicles. At almost 53 % (previous year: 53.3 %), the share of diesel vehicles remained as high as the previous year due to high petrol prices. The markets with the largest volumes – Spain (-28.1 %), Italy (-13.4 %) and the United Kingdom (-11.3 %) – were hit particularly hard by the financial market crisis and posted dramatic

declines in sales. In France (– 0.7 %), the tax incentives aimed at fuelling demand for low CO<sub>2</sub> cars that had been enacted at the start of the year prevented a major downturn in the market. In Central and Eastern Europe in contrast, the number of newly registered vehicles rose considerably yet again but the growth momentum clearly slowed in the year's second half. As in the previous year, Russia (+ 15.5 %) and the Ukraine (+ 14.9 %) were the main growth drivers. The passenger car markets in the Central European member states of the EU posted growth of 4.7 %. Passenger car sales in Turkey during the reporting period were substantially lower year on year (– 14.4 %).

At 3.4 million automobiles, in 2008 the German automotive market fell 1.6 % below the previous year's level. While the total of 335,000 new registrations of commercial vehicles was as high as the previous year (+ 0.3 %), demand for passenger cars dropped to its lowest level since reunification. This overall contraction of the passenger car market by 1.8 % to 3.1 million vehicles was mainly due to high petrol prices and consumer's uncertainty regarding both the ramifications of the financial market crisis and the details of the future CO<sub>2</sub>-based automotive tax.

Among German manufacturers, weak demand at home and abroad led to declines from the previous year's records in both domestic production (– 2.7 % to 6.0 million automobiles) and exports (– 3.5 % to 4.5 million automobiles).

Despite the difficult conditions however, the Volkswagen Group managed in 2008 to enhance its market share in Germany to 33.6 % (previous year: 32.7 %) and to further expand its market leadership.

## TASKS AND ORGANISATION OF VOLKSWAGEN BANK GMBH

### Key objectives

Volkswagen Bank GmbH was established in 1949 as Volkswagen Finanzierungsgesellschaft mbH for the purpose of vehicle financing. One of the milestones in the company's history is its entry into direct banking in 1990. Volkswagen Bank *direct* has around 812,000 customers in Europe, making it Europe's largest direct bank among automotive financial services providers.

Today, 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

In addition, Volkswagen Bank GmbH has been operating its finance leasing business through its branch in Italy since 2000.

VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, was acquired from Volkswagen HOLDING FINANCIÈRE S.A., Villers-Cotterêts, France, during the reporting period and merged into the bank's French branch effective 1 January 2008. In this connection, Volkswagen Bank GmbH has engaged both in finance and operating leasing through its French branch since 1 January 2008.

- Direct banking business

Volkswagen Bank *direct* offers private customers the entire portfolio of an online 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.

### Organisational changes in Volkswagen Bank GmbH

Rainer Blank was appointed Spokesman of the Board of Management of Volkswagen Bank GmbH effective 16 September 2008 in connection with changes on the Board of Management of Volkswagen Financial Services AG.

In addition to changes among Board personnel, Volkswagen Bank GmbH substantially enhanced the international focus of its core business by bundling all European sales activities in a division named International/European Sales.

## ANALYSIS OF THE COMPANY'S BUSINESS PERFORMANCE AND POSITION

Volkswagen Bank GmbH was able to further increase its receivables and contract volume in 2008.

In the retail financing segment, the bank continued its close collaboration with the brands of the Volkswagen Group. This cooperation with Volkswagen Group dealers helped to lift both the number of new contracts and current contracts above the level recorded for the same period in the previous year.

The merger of VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, into Volkswagen Bank GmbH resulted both in an expansion of the retail and finance leasing business and the integration of operating leasing into the bank.

Compared to the close of the previous financial year, receivables in dealer financing rose from € 7.4 billion by 2.4 % to € 7.6 billion.

The deposit volume, which had been built up continually in previous years, rose considerably despite intensified competition in the direct banking business.

The refinancing expense of Volkswagen Bank GmbH was managed in line with the capital markets in 2008 through the continued utilisation of ABS transactions, the ongoing expansion of the deposit business and the continued rating differentiation relative to both Volkswagen AG and Volkswagen Financial Services AG.

In 2008, both Driver Five GmbH and Driver Six GmbH purchased German loan receivables with a value of approximately € 2.6 billion that were issued in the form of securities notes. Additional receivables totalling € 0.3 billion were securitised through Private Driver 2008-1 GmbH. Furthermore, receivables of about € 3.4 billion were securitised by Private Driver 2008-2 GmbH, Private Driver 2008-3 GmbH and Private Driver 2008-4 GmbH. Volkswagen Bank GmbH purchased the senior portion of the debentures issued by these special purpose entities and deposited it with Deutsche Bundesbank for purposes of participating in its open market operations. On the other hand, remaining receivables worth € 0.1 billion were repurchased through a "clean-up call".

### Results of operations

The ramifications of the financial market crisis for the money and capital markets are also affecting both Volkswagen Bank GmbH and its affiliates: Rising interest rates and spreads have triggered an increase in funding costs compared to the period before the crisis. The deterioration in the economic situation as a result of the financial crisis has had a substantial impact on the allocation of risk provisions.

Income from ordinary business activities of Volkswagen Bank GmbH in 2008 was € 204.3 million compared to € 329.0 million in the previous year. Foreign branches contributed € 81.2 million (previous year: € 102.9 million) to earnings.

The change in earnings is substantially affected by higher depreciation, amortisation and write-downs and by allowances for doubtful receivables as a result of the development of both volume and risk in dealer financing and by lower income from equity investments.

The net interest income earned by Volkswagen Bank GmbH including the net income from leasing transactions was € 668.9 million compared to € 614.1 million in the previous year, against a backdrop of increased pressures from both the competition and the capital markets. This positive change arose particularly from the initial consolidation of the French branch's leasing business. This caused the net income from finance and operating leasing to rise from € 82.9 million to € 100.9 million.

Interest income from lending and money market transactions to the amount of € 1,524.5 million (previous year: € 1,339.6 million) stems primarily from consumer financing and finance leasing, as well as from automotive and investment financing for our dealers. The financing packages provided in cooperation with Volkswagen AG account for a substantial portion of the consumer lending business. As with the other low-interest and special offer products, these offers were settled at margins that cover cost, primarily in cooperation with participating brand manufacturers and dealers of Volkswagen Bank GmbH.

Interest income from retail financing was impacted by the sale of customer receivables through ABS transactions. The resulting decrease in interest income was more than offset by income from the reversal of interest accruals that were no longer needed, and by volume effects of the company's expanded business. Interest income from dealer financing also showed an increase, as did other interest income.

The initial consolidation of the French branch's leasing activities generated net income of € 31.6 million from operating leasing transactions.

Refinancing expenses declined correspondingly as a consequence of the ABS transactions. Yet the interest expense of Volkswagen Bank rose to a total of € 904.9 million (previous year: € 725.5 million) in connection with both the volume growth and the current development on the capital market.

Income from equity investments essentially results from the investments in Global Mobility Holding B.V., Amsterdam, and VOLKSWAGEN BANK POLSKA S.A., Warsaw. In 2008, the result from equity investments declined primarily due to higher refinancing costs and rising residual value risks.

The net commission income increased year on year, from € 36.0 million to € 54.1 million. The change results primarily from the significant increase in the income from insurance agency services. An increase was also shown in fee income from the management of receivables sold in connection with the ABS transactions, which continues to be operated by

Volkswagen Bank GmbH. This was contrasted by the increase in commission expenses related to the initial consolidation of the French branch's leasing business.

Volkswagen Bank GmbH was responsible for all primary costs within the Volkswagen Financial Services AG Group until 30 June 2007. All the staff and non-staff costs of the domestic affiliates were incurred by Volkswagen Bank GmbH and were debited to the other companies on the basis of internal cost allocations. In this respect, administration expenses reported are directly related to other operating income. Since 1 July 2007, the primary costs have essentially been recognised by the originating companies. Shifting substantial portions of Volkswagen Bank GmbH's staff to Volkswagen Financial Services AG has resulted in a significant reduction in staff costs. Administration expenses however, have climbed because Volkswagen Financial Services AG bills them to Volkswagen Bank GmbH on a pro rata basis. Other administration expenses are primarily attributable to measures aimed at ensuring customer loyalty and gaining new customers, product development, regulatory compliance, and the ongoing optimisation of the quality of customer service.

Volkswagen Bank GmbH transferred GBP 107 million in endowment capital to its UK branch pursuant to the letter from the German Ministry of Finance dated 28 September 2004; there are no plans to make a general demand for repayment of this capital. Other operating expenses of € 30.7 million were incurred in connection with foreign currency measurement.

The allowances and provisions made for the lending business were measured by taking into consideration all discernible risks. The latent risk was covered by the recognition of generalised value adjustments. Continual risk analysis plus the balanced management of receivables and collection are designed to minimise the default rate to the extent possible. Risk provisions for the loan portfolio sold to Driver Five GmbH, Driver Six GmbH and Privat Driver 2008-1 GmbH in connection with the 2008 ABS transactions were reversed to the income statement because the default risks are no longer borne by Volkswagen Bank GmbH. Nevertheless, the risk provision required for write-downs and bad debt allowances was significantly higher than in the previous year, due to the financial crisis, among other things.

Under the existing profit transfer agreement, the remaining profit after tax, amounting to € 133.9 million, is transferred to the parent company, Volkswagen Financial Services AG.

## Summary

In the wake of the financial crisis, the result from ordinary business activities for 2008 decreased compared to previous year. Volkswagen Bank GmbH sought to counteract the developments in the capital market by means of a balanced refinancing and hedging strategy and targeted measures aimed at ensuring its liquidity. The company responded to additional impacts from fiercer competition in particular by launching sales campaigns and financing promotions jointly with the manufacturers and dealers, and by expanding its commission and direct banking businesses.

## Assets and financial position

### *Lending business*

The lending business of Volkswagen Bank GmbH focuses on the provision of loans to private and commercial customers as well as dealers. These receivables total € 23.7 billion (previous year: € 20.2 billion). The share of foreign branches in the retail lending volume rose from € 5.8 billion to € 6.6 billion, essentially as a result of the expansion of the French branch's business. Furthermore, the company manages receivables sold through ABS transactions in the amount of € 4.9 billion (previous year: € 3.2 billion). The receivables managed by Volkswagen Bank GmbH thus increased by 21.9 % from € 23.4 billion to a total of € 28.5 billion.

### *Retail financing*

Dealers' new vehicle deliveries to both the retail market and individual commercial customers remained at the 2007 level despite the financial crisis.

The new vehicle financing business held steady at the previous year's high level. In the used vehicle business, new business rose by 5.2 % year on year.

AutoEuropa Bank, a branch of Volkswagen Bank GmbH, covers the leisure industry and non-captive passenger car dealerships; the development of new activities in the multi-brand dealer segment for instance will also serve to harness potential marketing and sales strategies arising from the amendment of the Block Exemption Regulation (BER) for the company's benefit.

In the year just ended, AutoEuropa Bank's development was very positive due especially to the substantial increase in its new business.

Vehicle financing for consumers continues to be offered in cooperation with the ADAC and Allianz AG.

A total of 1,638,000 retail financing contracts were under management as at 31 December 2008 – an increase of 6.7 % over the previous year.

At the close of the 2008 financial year, retail financing receivables totalled € 11.1 billion (previous year: € 11.3 billion) following the sale of receivables in connection with

ABS transactions. Foreign branches accounted for € 2.4 billion of this amount (previous year: € 2.1 billion).

#### *Dealer financing*

The holistic approach of supporting corporate customers in their dual role as brokers of retail products and users of corporate customer products, which was implemented in the sales organisation in 2007, proved its worth in 2008.

Dealer financing receivables rose 2.4 % year on year overall despite difficult market conditions.

Investment financing receivables contained in this total rose by 1.2 % in the reporting year.

Total dealer financing receivables at the close of the year just ended were € 7.6 billion compared to € 7.4 billion at the end of the previous year. The foreign branches accounted for € 3.1 billion of these aggregate receivables (previous year: € 3.2 billion).

Risk provisions for dealer financing rose by 77.4 % year on year due to the worsening economic conditions in the wake of the financial crisis, among other factors.

#### *Leasing business*

Volkswagen Bank GmbH offers finance leasing and operating leasing through its foreign branches. Following the merger of VOLKSWAGEN FINANCE S.A. into the French branch, the latter now 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 2008 financial year totalled € 0.9 billion (previous year: € 0.3 billion), largely due to receivables from finance leasing.

#### *Bonds and debentures*

Given the steadily deteriorating conditions in the financial markets, it became very difficult to raise funds on the money and capital markets especially in the year's second half. Three ABS transactions with an aggregate volume of € 3.4 billion in securitised receivables were executed toward the end of the year in order to ensure the supply of liquidity. Volkswagen Bank GmbH purchased all senior ABS debentures related to these transactions. They serve as collateral for participating in Deutsche Bundesbank's open market operations. Economically, the receivables will continue to be attributed to Volkswagen Bank GmbH and recognised in its assets. This enabled Volkswagen Bank GmbH to generate liquidity at attractive terms in a difficult market environment.

#### *Equity investments*

Volkswagen Bank GmbH holds a 50 % stake in Global Mobility Holding B.V., Amsterdam. The Saudi Arabian Olayan Group and the Mubadala Group, Abu Dhabi, each hold 25 % in Global Mobility Holding B.V. Global Mobility Holding B.V. in turn holds all shares of LeasePlan Corporation N.V., Amsterdam.

In Poland, Volkswagen Bank GmbH is represented through its 60 % stake in VOLKSWAGEN BANK POLSKA S.A., Warsaw. VOLKSWAGEN BANK POLSKA S.A. operates in the same business areas.

#### *Deposit business and borrowings*

Besides equity, the main liability items include liabilities to customers in the amount of € 17.7 billion (previous year: € 11.2 billion) as well as securitised liabilities in the amount of € 5.3 billion (previous year: € 6.1 billion). Details concerning the company's refinancing and hedging strategy are provided in a separate section of this management report.

#### *Deposit business*

The deposit volume rose from € 9.6 billion in 2007 to € 12.8 billion in 2008. The direct bank's in the refinancing mix of Volkswagen Bank GmbH is thus 41.6 %.

#### *Private customer/direct bank deposit business*

Volkswagen Bank *direct* – a division of Volkswagen Bank GmbH – substantially boosts customer loyalty to the Volkswagen Group brands through its products that transcend the automotive value chain. Open-ended financial services products such as overnight deposit accounts, current accounts and credit cards are thus designed to ensure a constant stream of opportunities for customer contact.

In 2008, the number of Volkswagen Bank *direct*'s existing customers rose to a new total of 812,000. A significant contribution to this result was made by the "Pluskonto TopZins" account (a variant of the overnight deposit account) as well as non-vehicle consumer loans. Short-term fixed deposits also developed positively. This growth as well as successful sales cooperation deals with partners in the retail business lifted the deposit volume by 27 % to € 11.5 billion at year's end – despite the turbulent events in the financial markets.

## CURRENT AND NEW CONTRACTS

in thousands (as at 31.12.)	2008	2007	2006	2005	2004
New contracts					
Retail financing	563	559	612	528	511
Leasing business	36	6	5	5	5
Service/insurance	169	119	106	75	62
Current contracts					
Retail financing	1,638	1,536	1,476	1,408	1,372
of which sold through ABS transactions	726	537	354	213	111
Leasing business	77	15	14	14	15
Service/insurance	482	259	186	138	121
Direct banking customers	812	685	641	617	626

*Deposit business for corporate customers*

The findings of an extensive customer satisfaction survey concerning the deposit business, which a market research institute conducted by telephone, were positive indeed.

We also carried out numerous sales campaigns for new and existing customers. As a result, the fixed-term deposits doubled year on year.

The deposit volume in the corporate customer market was approximately € 1.3 billion at year's end (previous year: € 0.5 billion).

*Equity*

The subscribed capital of Volkswagen Bank GmbH remained unchanged at € 358.3 million in the 2008 financial year. This includes an affiliate's silent partner contribution in the amount of € 40.0 million.

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 German Solvency Regulations took effect on 1 January 2007, replacing Principle I. Volkswagen Bank GmbH did not avail itself of the transitional option in 2007 to continue calculating its capital requirements pursuant to Principle I and instead switched to filing the requisite reports in accordance with the Solvency Regulations at the beginning of 2007. The calculation of capital adequacy in connection with credit risks as well as operational risks that were recently added to the requirement is based on the so-called standardised approach.

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

€ million	31.12.2008	31.12.2007
Aggregate risk position (€ million)	23,387	21,161
of which weighted position according to the standardised approach to credit risks	21,449	19,217
of which market risk positions * 12.5	252	247
of which operational risks * 12.5	1,686	1,697
Liable capital (€ million)	4,396	4,405
of which core capital <sup>1</sup>	2,991	3,000
of which supplementary capital <sup>1</sup>	1,405	1,405
Own funds (€ million)	4,396	4,405
Core capital ratio <sup>2</sup> (%)	12.8	14.2
Overall ratio <sup>3</sup> (%)	18.8	20.8

<sup>1</sup> The deductible items are already deducted from core and supplementary capital

<sup>2</sup> Core capital ratio = Core capital / (Capital requirement for (credit risks + operational risks + market risks) \* 12.5) \* 100

<sup>3</sup> Overall ratio (own funds ratio under Principle I) = Own funds / (Capital requirement for (credit risks + operational risks + market risks) \* 12.5) \* 100

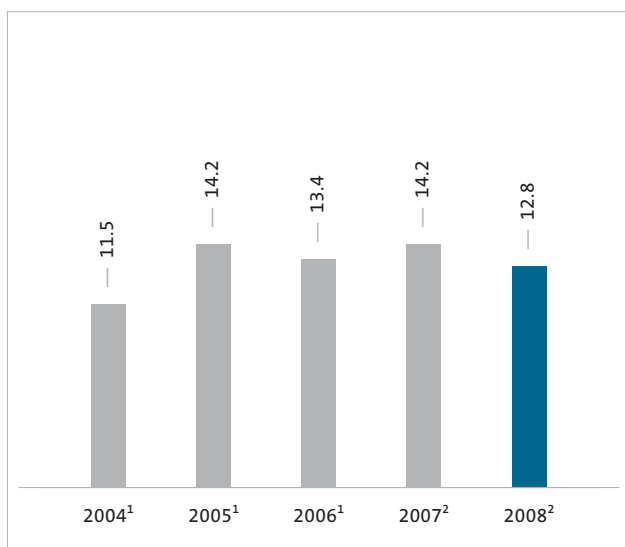
The six True Sale ABS transactions that were carried out in the financial year just ended had a dampening effect on the growth of risk assets resulting from the increase in business volume.

Overall, the core capital ratio changed from 14.2 % to 12.8 % as a result of a growth in business, and the own funds ratio changed from 20.8 % to 18.8 %.

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

#### CORE CAPITAL RATIO UNDER PRINCIPLE I/SOLVENCY REGULATIONS OF VOLKSWAGEN BANK GMBH AS AT 31.12.

in %

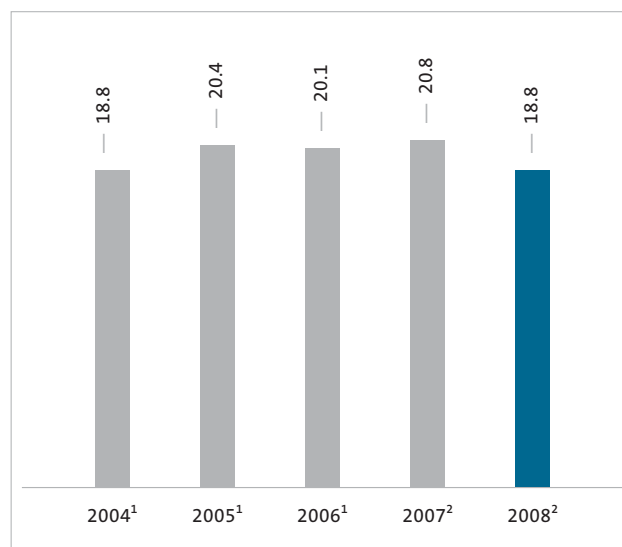


<sup>1</sup> Core capital ratio according to Principle I

<sup>2</sup> Core capital ratio = Core capital / (Capital requirement for (credit risks + operational risks + market risks) \* 12.5) \* 100

#### OVERALL RATIO UNDER PRINCIPLE I/SOLVENCY REGULATIONS OF VOLKSWAGEN BANK GMBH AS AT 31.12.

in %



<sup>1</sup> Overall ratio according to Principle I

<sup>2</sup> 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. The bank uses ABS transactions and raises supplementary capital as needed in the form of participation right liabilities and 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.

#### *Basel II*

Volkswagen Bank GmbH is currently implementing the Internal Ratings Based Approach (IRB approach) to credit risks; the project will likely be completed in the course of the year. The Federal Financial Supervisory Authority (BaFin) has no plans at present to recognise the IRB approach.

#### *Financial key performance indicators*

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

	2008	2007	2006	2005	2004
Equity ratio <sup>1</sup>	9.7 %	12.8 %	12.8 %	13.9 %	9.9 %
Core capital ratio <sup>2</sup>	12.8 %	14.2 %	13.4 %	14.2 %	11.5 %
Overall ratio <sup>2</sup> (regulatory)	18.8 %	20.8 %	20.1 %	20.4 %	18.8 %
Leverage <sup>3</sup>	9.3	6.8	6.8	6.1	9.0
Return on equity <sup>4</sup>	6.9 %	11.6 %	13.3 %	13.0 %	19.5 %

<sup>1</sup> **Equity ratio**

Ratio between equity and total capital

<sup>2</sup> **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 for 2004 - 2006 were calculated in accordance with the old Principle I.

<sup>3</sup> **Leverage**

Gearing = Total borrowings / (Equity + funds for general banking risks)

<sup>4</sup> **Return on equity**

Result from ordinary business activities divided by average equity

#### *Notes to the equity ratio and leverage*

Volkswagen Bank GmbH's good standing on the capital market and the expansion of the company's deposit business enabled it to raise funds even despite the difficult market conditions, particularly in the year's second half. An increasing portion of these funds (+ € 2.4 billion compared to 31.12.2007) were channelled into the refinancing of Volkswagen Financial Services AG Group companies. Additional liquid reserves were generated using ABS transactions by purchasing debentures and contributing them to Deutsche Bundesbank's collateral deposit account. In this respect, please see the disclosures on bonds and debentures in the section, assets and financial position.

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

## Refinancing and hedging strategy

### Principles

In the financial year just ended, Volkswagen Bank GmbH did not fundamentally alter its strategic policy to refinance its receivables portfolio at matching maturities and currencies despite the profound changes and major challenges in the money and capital markets. The concept of matching maturities refers to both fixed interest periods and the tying up of liquidity.

While optimising refinancing costs still had absolute priority in the first six months of the year, leveraging the company's well-established reputation in the capital market to the optimal extent possible came to the fore in the second half of the year. It is this reputation that made it possible for Volkswagen Bank GmbH to obtain refinancing funds by recourse to a variety of instruments despite extremely difficult market conditions.

In 2008, the significance of Volkswagen Bank *direct*'s deposit business also continued to grow in connection with our refinancing activities.

### Implementation

The securitisation of receivables by means of diverse ABS transactions undoubtedly developed into our most important refinancing instrument in the financial year just ended.

Volkswagen Bank GmbH kicked off its large-volume capital market transactions through Driver Five with an aggregate volume of € 1.3 billion in February 2008.

Aside from a private placement of € 0.3 billion in May 2008, the last public ABS transaction for the 2008 financial year was placed in September with an aggregate volume of € 1.1 billion. This ABS transaction of Driver Six GmbH in particular demonstrated that the bank's pioneering role and expertise, which it established over the years, is bearing fruit especially in difficult market conditions.

Three private ABS placements that were structured at the close of the financial year serve to raise funds in connection with Deutsche Bundesbank's open market operations. Once market conditions change, the bonds that were initially held back can be resold to investors at any time.

Despite adverse market conditions, Volkswagen Bank GmbH was also able to deploy its unsecured capital market programmes through one large-volume transaction. A benchmark bond issue that was placed in June 2008 was increased from initially € 500 million to € 700 million the following month. The bond's two-year maturity ideally reflects the average term of our portfolio of receivables.

Various smaller debt issues still played a subordinate role in the refinancing of Volkswagen Bank GmbH. The primary aim of these issuances was to establish the instrument as a future source of refinancing.

With a deposit volume growth of € 3.2 billion, Volkswagen Bank *direct* strengthened its position as the largest and most important source of refinancing for Volkswagen Bank GmbH.

The company has pursued its strategy of refinancing largely at matching maturities by borrowing funds with corresponding maturities. The interest rate risk is controlled by deploying derivatives. Derivatives are utilised for hedging purposes and, as a rule, are held until the planned maturity date.

Matching currencies were achieved by raising liquidity in euros and by hedging it utilising derivatives.

## RISK REPORT

### Strategy and standards

Volkswagen Bank GmbH including its branches and affiliates (jointly "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. 1 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 man-

agement 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 and operational 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 potential.
- The risk potential of Volkswagen Bank GmbH is generally moderate. Only predictable and workable risks are incurred. An avoidance or mitigation strategy is applied to operational and liquidity risks.
- 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.

Decisions regarding the assumption or avoidance of risks are supported by the use of suitable control instruments, such as credit assessment 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.

All divisions annually rate identified risks using the risk map pursuant to an expert system. Group Risk Management

assesses, monitors, aggregates and reports all relevant results to the Board of Management, the Supervisory Board and Volkswagen AG. In addition to defining the likelihood of risks actually occurring and assessing their possible negative effects, the risk map also contains information about existing procedures and rules, areas of responsibility and derived measures.

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 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 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.

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.

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 appetite of the Board of Management of Volkswagen Bank GmbH.

The limit system comprises two stages. Stage 1 entails the determination of risk limits for the bank as a whole while stage 2 entails the determination of the risk type limits.

Risk limits for the bank as a whole are fixed for both a normal scenario and a worst-case scenario.

Risk type limits are defined as the percentage of available risk limits for the bank as a whole and reflect the company's business alignment. The determination is executed on an annual basis pursuant to a resolution of the Board of Management.

Group Risk Management reports the risk of counterparty default, market price and residual value risks as well as operational risks by submitting a risk management report to the Board of Management and the Supervisory Board at least once a quarter. For high-risk markets, 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 Supervisory Board and the Board of Management. 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 Risk Assessment Procedures and Basel II department establishes the basic definitions for the procedures used at Volkswagen Bank GmbH to assess creditworthiness and collateral; develops models for assessing creditworthiness such as rating and scoring procedures and parameter assessment (probability of default, loss given default, credit conversion factor); and analyses the quality of the procedures and processes used for determining creditworthiness and collateral as well as assessment parameters.

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.

In the case of market price risks, organisational separation of risk management and risk controlling is ensured up to the level of the Board of Management.

Internal Audit at Volkswagen Bank GmbH independently examines all operational and business procedures of Volkswagen Bank GmbH on behalf of the Board of Management, taking due account of the provisions of bank regulatory regulations.

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.

#### 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
- Other risk:
  - Residual value 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.

*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 guidelines 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 credit risk strategies of the branches are combined in the overall risk strategy.

*Risk assessment*

Credit assessment in connection with lending decisions at Volkswagen Bank GmbH is carried out on the basis of rating and scoring procedures. A rating manual provides the framework within which the rating systems must be developed and maintained.

*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. Generic score cards and score cards based on data histories going back several years are used in the portfolios of Volkswagen Bank GmbH to supplement the lending decisions taken by the respective departments.

Volkswagen Bank GmbH has further improved its credit rating procedures, notably in its foreign branches. Scoring procedures are applied to both the purchase and measurement of all of Volkswagen Bank GmbH's significant portfolios. Default probabilities are allocated to these score classes based on customers or contracts deemed to have defaulted within one year. Procedures that also assign a default prob-

ability to individual contracts once a month based on the relevant customer's payment history are in place for purposes of performing portfolio valuations.

This allows us to rate and control these portfolios' credit risks in ways adequate to the risks concerned when determining default rates.

*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 resulting credit score constitutes an individual probability of default that conforms to the Solvency Regulations and is mapped onto Volkswagen Bank GmbH's 15-tier master scale. The workflow-based rating application CARAT, which was introduced in 2007, was rolled out at the foreign branches in order to support the analysis of customers' 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 using the expected loss method 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 valuation guidelines are based on historical data and many years of expert knowledge.

*Risk management and monitoring*

Appropriate processes are used to monitor all loans in regards to the underlying economic conditions and collateral, com-

pliance with limits, contractual obligations as well as both external and internal requirements. Commitments are subject to suitable controls (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 in order to ensure comparability of the international portfolios of Volkswagen Bank GmbH. Risk reviews are performed at the branch level in the event of problems. The credit rating procedures that ensure the functionality and validity of the procedures are also monitored.

#### *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 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 Controlling 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 influences the business and risk policies of companies in which it holds an equity interest via its agents on the ownership or supervisory bodies.

Volkswagen Bank GmbH has been holding a substantial – 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. The bank also has held 60 % of the shares of VOLKSWAGEN BANK POLSKA S.A., Warsaw, since mid-2001.

##### *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 Group/Equity 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.

The current economic downturn of the global economy goes hand in hand with increases in both residual value risks and refinancing costs and will impose new challenges on LeasePlan in 2009. The rating firm Standard & Poor's has already adjusted its rating to A-/negative outlook in the light of these developments. Moody's Investors' Service has placed its A3 rating on its pending review list in anticipation of a possible downgrade. The shareholder risk is assessed based on the company's current economic development applying a median probability of its occurring.

Despite the currently difficult economic environment, LeasePlan is expected to continue to generate profits based on its leading position in worldwide multi-brand fleet management.

#### *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 Controlling in this context, which is integrated in the Group Risk Management department, 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 Controlling 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*

Treasury is responsible for risk management based on the resolutions of the Asset Liability Committee (ALC). Risk Controlling is tasked with monitoring interest rate risks.

*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.

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.

*Parameters/risk strategy*

The prime objective of cash flow 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 of Volkswagen Financial Services AG and prevailing mar-

ket conditions. The Operational Liquidity Committee (OLC) and the Liabilities Management Group provide the strategic underpinnings for assessing the liquidity risk of Volkswagen Financial Services AG and 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 liquidity risks 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 for one and the cash flow forecasts that are regularly verified based on historical values for another.

Volkswagen Bank GmbH has access to standby lines of credit at other banks to protect it from unexpected fluctuations in cash flow. New loans granted as well as withdrawals of both short-term refinancing and refinancing due in six months are taken into account in the determination of the standby line limits. Normal case and worst case analyses are performed as part of the quarterly determination of these credit lines. As a rule, standby credit lines are not utilised; they serve solely to secure liquidity. Additionally, loans of securities are used to increase Volkswagen Bank GmbH's operational safe custody account with the German Central Bank for the purpose of expanding its participation in the ECB's refinancing facilities.

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 includes stress tests (normal case with availability of external funds and worst case with no availability of external funds at all). Furthermore, the liquid reserves are analysed as to their adequacy on a quarterly basis taking both a normal and a worst case scenario into account.

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 weekly meetings and either decides on refinancing measures or prepares the requisite decisions for the decision makers. Risk Controlling 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 a market crisis. These measures prescribe immediate notification of a fixed set of recipients including the Board of Management in the event of a severe liquidity bottleneck (complete drying up of the markets). 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 ratings of Volkswagen Bank GmbH and Volkswagen Financial Services AG affect the refinancing costs of capital market programmes; note that the differentiated rating of Volkswagen Bank GmbH is one level better than that of Volkswagen Financial Services AG and the parent group due to its own positive risk and financial profile. While Volkswagen Financial Services AG, like Volkswagen AG, has received an A- rating with a stable outlook from S&P and an A3 rating with a positive outlook from Moody's, the rating agencies have issued a long-term rating of A with a negative outlook (S&P) and A2 with a stable outlook (Moody's) for Volkswagen Bank GmbH.

We have further diversified the sources of refinancing since the onset of the financial crisis, which has been ongoing since the third quarter of 2008. For the first time, ABS transactions were placed by both Volkswagen Bank GmbH and Volkswagen Leasing GmbH and acquired by Volkswagen Bank GmbH for the purpose of depositing the proceeds in the collateral deposit account and thus participating in the Deutsche Bundesbank's open market operations.

### *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 the German Central Bank. 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 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 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 planning, 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.

*Other risk**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 guarantor of the residual value defaults, the leased asset and hence the residual value risk are transferred to the lessor.

*Parameters/risk strategy*

The residual value risk management feedback control system requires regular residual value forecasts and continuous risk

assessments in regards to direct residual value risks only. 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 contractually stipulated residual values are compared to attainable market values that are generated from both the data of external providers and our own marketing data.

The difference between the calculated residual value and the forecast for the used car constitutes the risk/opportunity ratio upon expiry of a contract.

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.

*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 setting up risk provisions.

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

Group Risk Management reports on the situation regarding residual value risks as part of the risk management report.

In Germany, the indirect residual value risk is measured analogous to the direct residual value risks and communicated to the Board of Management in a separate report.

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

### Special risks arising from the global financial market crisis

The global crisis of the financial markets, which continues to jeopardise the development of the global economy, can expose Volkswagen Bank GmbH to additional risks on three levels – the sales level, the settlement level and the refinancing level. The large threat emanating from the ongoing crisis and the difficulty in forecasting its development have caused the Group's Board of Management, in coordination with the Board of Management of Volkswagen Bank GmbH, to set up a working group tasked with analysing these special risks on a continuous basis and supplementing the existing risk management system of the Group as necessary.

Our company participates in the Compensation Scheme of the Association of German banks. We cannot rule out extraordinary contributions to the scheme in connection with a major current loss event.

### Risks at the sales level

At the level of the consumer, the crisis of the financial markets has led to considerable uncertainty and scepticism regarding future economic developments. In turn, this has sparked an increasing reluctance to make new purchases, particularly new or used automobiles.

In its capacity as a mobility services provider, Volkswagen Bank GmbH depends directly on successful sales of the Volkswagen Group's automobiles and on sales of used cars. The core business of Volkswagen Bank GmbH – i. e. the financing and leasing of vehicles – is also disrupted if these sales stall. This development can cause interest income to decline and trigger losses from the marketing of the pre-owned vehicles derived from expired contracts if they are sold below their calculated residual value. Furthermore, remeasurement of the portfolio of current contracts that are subject to residual value risks can make additional adjustments necessary.

### Risks at the contract settlement level

In the customer business, disruptions in the execution of contracts can occur as a result of the recession which was sparked by the crisis of the financial markets. Such disruptions – which can be triggered by unemployment, reductions in income, the loss of income or bankruptcies – can make

themselves felt in a rising number of late payments and defaults unless these risks are hedged by means of residual debt insurance. These risks, as well as additionally declining collateral values may require increased individual write-downs and – in the event of complete non-payment – higher write-offs of uncollectible receivables, thus increasing the company's risk of loss.

### Risks at the refinancing level

The company's limited ability to refinance itself via the international money and capital markets in the wake of the financial market crisis has made short-term substitutes necessary. For example, Volkswagen Bank GmbH is now making greater use of the European Central Bank's refinancing facilities.

The security of customer deposits attained central significance in the course of the crisis of the financial markets. In Germany, certain bank deposits such as checking accounts or term deposits are now guaranteed by the Federal Republic of Germany above and beyond the existing guarantee mechanisms (German Deposit Insurance Fund).

Any dramatic withdrawal of bank deposits from Volkswagen Bank GmbH in the wake of the financial market crisis or a further deterioration of the situation on the money and capital markets would greatly undermine the Group's ability to refinance itself. Yet this potential loss of liquidity could be counteracted if Volkswagen Bank GmbH is given permission to avail itself of the statutory financial market stabilisation fund that was created in October 2008 and the liquidity infusions that the ECB is providing to banks.

Volkswagen Bank GmbH has applied for guarantees under the German Financial Market Stabilisation Fund Act for refinancing purposes.

### Summary

In connection with its business activities, Volkswagen Bank GmbH responsibly assumes risks typical of banks with the aim of taking advantage of specific market opportunities. 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 has been continuously enhanced in 2008, bearing in mind the legal requirements associated with risks in the banking and leasing business.

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.

In 2008 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 (primarily the resulting liquidity crisis) was critical to the company's success.

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

## OPPORTUNITIES FOR VOLKSWAGEN BANK GMBH

### Macroeconomic opportunities

The economic development anticipated for the next years is likely to result in a downturn of automobile sales. Volkswagen Bank GmbH will participate in this trend through its core business of automotive financial services.

The markets' general revaluation of credit risks also affects Volkswagen Bank GmbH. The company's balanced refinancing mix, its solid capitalisation, the high quality of its financial assets and prudent liquidity targets are now paying off. Volkswagen Bank GmbH expects its own economic development to consolidate against the backdrop of a climate still characterised by uncertainty.

### Strategic opportunities

#### *Geographic expansion*

There are opportunities above and beyond the internationalisation strategy described in the section entitled "Anticipated developments". These opportunities concern further geographic expansion into markets where Volkswagen Bank GmbH can use its financial services to promote the sales of Group vehicles. The targeted rates of return of Volkswagen Bank GmbH as well as the sales promotion potential are relevant to any decision to enter a particular market.

#### *Positioning in the market*

The share of financed vehicles in total vehicle sales continues to rise in the new and used car segment as a result of changing consumption patterns. Together with the heightened integration of Volkswagen Bank GmbH with the brands of the Automotive Division, this creates the opportunity to expand the volume above and beyond the targets previously anticipated.

#### *Cost synergies*

Aside from the aforementioned measures that serve to enhance efficiency in individual markets, both the ongoing development of IT systems and the joint utilisation of system platforms across several countries offer additional opportunities for realising cost synergies.

## PERSONNEL REPORT

### Personnel figures

In 2007, the Volkswagen Financial Services Group was restructured with the aim of transferring non-banking processes to Volkswagen Financial Services AG and its domestic subsidiaries. Until then, almost all employees of the Volkswagen Financial Services Group's domestic companies had an employment contract with Volkswagen Bank GmbH.

As part of this restructuring, 3,290 employees were transferred to Volkswagen Financial Services AG from Volkswagen Bank GmbH in 2007. Because the business processes and related activities were spun off to the German Group companies in this connection, these employees now work in the relevant subsidiaries under staff leasing agreements with Volkswagen Financial Services AG. By year's end, Volkswagen Financial Services AG had leased 777 employees (previous year: 1,316) to Volkswagen Bank GmbH in connection with Volkswagen Bank GmbH's increasing use of the services of Volkswagen Business Services GmbH.

Volkswagen Bank GmbH had a total of 669 (previous year: 585) employees as at 31 December 2008, of which 146 (previous year: 215) were employed in Germany.

Currently, Volkswagen Bank GmbH still has 19 trainees in Germany. Trainees have been employed via Volkswagen Financial Services AG since 1 July 2007.

### Key issues in personnel management

At Volkswagen Financial Services AG, personnel management covers all domestic companies of the Volkswagen Financial Services Group and thus Volkswagen Bank GmbH too.

Personnel management dealt principally with ten issues.

First, the role of personnel management as both service provider and shaper was further refined, for one in regards to the development of the company's corporate strategy and for another in regards to linking individual employees' know-how and the company's organisational structures with the drivers of Volkswagen Financial Services AG's success.

Second, we carried out the so-called mood barometer, a voluntary and anonymous staff survey concerning issues of leadership and corporate culture for the second time. The high participation rate of 82 % enabled management to pursue numerous changes and improvement potentials.

Third, existing instruments and processes used to fine tune personnel management were improved by laying the groundwork for the introduction of a standardised, international personnel reporting system and organising personnel planning workshops.

Fourth, aside from training opportunities for bank officers, insurance and finance specialists as well as IT specialists, we also offer promising candidates wishing to join Volkswagen Financial Services AG the option to pursue a dual-track

Bachelor of Arts (BA) programme that combines on-the-job training in the company with management and business studies at the so-called Welfenakademie, a university of co-operative education.

The fifth focal point concerned a need-based analysis of human resources planning and development. Besides the annual employee performance review, during which the employee's need for qualification is systematically determined and suitable measures are stipulated, a broad range of vocational as well as professional development and related seminars are provided at the company's own training centre. Here, the focus was on personnel development in sales.

Developing the FS Way based on the Volkswagen Way was issue number six. The Volkswagen Way is a long-term programme that serves to support the Volkswagen Group's Strategy 2018 project to become the world's largest automobile manufacturer. In this connection, Volkswagen Financial Services AG supports Volkswagen AG in its capacity as a partner of the brands in the automotive value chain.

Intensifying employees' focus on services and customers was the seventh most important issue. To that end, personnel management assisted the company's workforce through defined group classes and individual training sessions on topics such as customer loyalty, the quality of customer relationships or professional sales conduct.

Health management constituted priority number eight. The benchmark comparison of a potential health analysis showed that among the 400 participating companies, Volkswagen Financial Services AG is very well positioned in terms of health and social programmes.

In addition, the demographic master plan is used as a strategic tool for exerting a positive influence on hot topics pertaining to aging and age in the workplace, especially in Germany.

Finally, we focused on reinforcing international personnel management. At issue here was the development of an international human resources strategy aimed at enhancing international personnel management through closer collaboration of all foreign subsidiaries.

## REPORT ON THE BRANCHES AND BRANCH OFFICES

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

Volkswagen Bank GmbH has branch offices in Berlin, Brunswick, 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, Greece, the United Kingdom, Ireland, Italy, the Netherlands and Spain conduct their local business with its own staff. The branches employed 523 members of staff as at the end of 2008 (previous year: 370).

## EVENTS AFTER THE BALANCE SHEET DATE

No important events beyond those described in this report occurred after the close of the 2008 financial year.

## ANTICIPATED DEVELOPMENTS

### Global economy

Global economic growth will probably be negative in 2009. A sustained recovery is not expected to occur until 2010 despite worldwide support measures aimed at both the finance sector and the real economy. Asian emerging markets are expected to grow the strongest, especially China and India, while the GDP growth rate in Latin America will decline slightly. The recessionary trends in the major industrialised countries will continue until at least the middle of the year. These prognoses were prepared taking current assessments of external institutions into account. Among others, these include economic research institutes, banks, multinational organisations and consulting firms.

In Western Europe, GDP will shrink in 2009 from its 2008 levels. Negative growth rates are expected too for Central and Eastern Europe following the robust expansion in recent years.

The recessionary development of the German economy will continue for most of 2009. Unemployment figures will rise substantially again following the record low in the autumn of 2008.

## Financial and automobile markets

### *Environment for the development of the financial markets in 2009*

In 2009, the financial markets are faced with fundamental structural changes. The financial market crisis has shown all too clearly that the international financial system had developed an increasingly complex life of its own and, in the end, was no longer capable of counteracting the loss of confidence and ordering its responsibilities for the cash and credit markets on its own. Numerous industrialised countries took comprehensive state measures designed to stabilise the financial markets. In October 2008, the establishment of the Sonderfonds Finanzmarktstabilisierung (special fund for the stabilisation of the financial market – SoFFin) in Germany created a tool that is intended to overcome liquidity bottlenecks and strengthen the capital base of banks, insurance companies and pension funds. Aid is available as needed in the form of guarantees, equity or the assumption of risk. The crisis has exerted considerable pressure to change the refinancing system with regard to structured finance products in the international capital markets. Essentially, this involves asset-backed securities (ABS) that combine bonds into tranches with varying levels of risk.

Transactions involving such securities came to a virtual standstill owing to the disrepute that ABS transactions have acquired during the crisis. We cannot anticipate at this time when the ABS business will restart through the issue of “reformed products”. For the time being, the range of refinancing options remains limited to the ECB’s credit facility, unsecured notes (commercial paper and bonds), intragroup refinancing and the deposit business.

Currently there are no indications that we will have additional leeway to adjust interest rates in the lending business, even against the backdrop of the automotive segment’s weak sales. The strong liquidity inflows from the central banks have further depressed short-term interest rates. Continued uncertainty among market participants and latent fears of deflation lead us to expect that nothing will change. In the medium term, however, interest rates are expected to rise given the massive growth of budget deficits. This is compounded by the fear that setting up allowances for doubtful accounts might cause the company to incur additional costs due to the uncertain economic situation.

Continued consolidation of non-captive automobile banks is indeed a possibility in light of the situation’s overall instability. The captives in contrast are best equipped to weather the foreseeable adjustment process because they possess a strong product portfolio geared to the market, solid residual value costing models and a good reputation in the global financial markets; they also operate a healthy deposit business.

This development notwithstanding, both the ongoing internationalisation of business and the ability to innovate financial products will once again play a greater role in defining the market position of automobile banks.

### *Development of the automobile markets*

The year 2009 will be one of crisis management: Declines in the number of new registrations are anticipated for almost all of the world’s automobile markets in 2009. India is the only country for which slight growth is being forecast because of its growing importance.

In Western Europe (excluding Germany), demand for passenger cars is expected to drop substantially as a result of the financial market crisis. This will also affect Central and Eastern Europe.

In Germany, a difficult 2009 is expected to follow a weak 2008. The extent of the uncertainty resulting from the crisis of the financial markets is greatly affecting private consumption and thus the automotive market too. It remains to be seen to what extent the economic stimulus packages enacted by the German government – specifically, the programme aimed at boosting automotive demand – can actually revive the sale of cars. This also applies to the economic stimulus packages that have been adopted or announced in other countries.

### **Development of Volkswagen Bank GmbH**

In light of macroeconomic developments, the company anticipates its financial services business to consolidate. In 2009 and 2010, it will be necessary to strengthen and further expand the close cooperation with the brands in the Volkswagen Group, a process that has been carried out successfully since 2007. The closer integration of brands and financial services not only led to the creation of attractive product packages for customers but also drove up value creation in the Group. This successful strategy will be pursued further, and extended to other Group brands and markets.

The Volkswagen Bank *direct* division continues to be of great significance given its deposit volume and its use of innovative sales channels. Consistent development of this division aims to boost the deposit volume on a continuous basis for refinancing purposes.

Internationally, Volkswagen Bank GmbH will focus on the continued expansion of its activities in existing branches.

Its 50 % share in Global Mobility Holding B.V. gives Volkswagen Bank GmbH an indirect interest in LeasePlan Corporation N.V. and thus in the latter’s earnings from multi-brand fleet management.

LeasePlan Corporation N.V. posted good organic growth during the reporting period. In 2008, LeasePlan Corporation N.V. further expanded its regional activities by establishing a company in Mexico and strengthened its market position in France by acquiring Daimler Chrysler Fleet Management S.A.S.

In 2009, achieving growth will pose a challenge given the economic downturn in world markets.

Key factors that will influence the future development of Volkswagen Bank GmbH are sales in the automotive markets, refinancing opportunities, and a competitive cost structure.

The harmonisation and standardisation of business processes is crucial for the development of Volkswagen Bank GmbH. Standardised business processes that can be integrated into the divisions of the Volkswagen Financial Services AG Group provide the basis for increasing flexibility for new products and targeting customers based on their requirements.

Close integration with the brands of the Volkswagen Group and the subsidiaries within Volkswagen Financial Services AG will play a decisive role for Volkswagen Bank GmbH. The brand-orientated mobility packages developed on the basis of these cooperation models will help to stabilise the competitive position of Volkswagen Bank GmbH.

The following overall picture emerges, taking the aforementioned factors into account:

The Board of Management expects the development of volumes and margins to remain tight against the backdrop of the global financial market crisis. There is the possibility furthermore that risk premiums will increase due to conditions in the real economy as a whole and impact earnings accordingly.





# Annual financial statements (HGB)

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## BALANCE SHEET AS AT 31 DECEMBER 2008 OF VOLKSWAGEN BANK GMBH, BRUNSWICK

Assets	€ 000	31.12.2008 € 000	31.12.2007 € 000
1. Cash reserve			
a) Cash in hand	384		477
b) Deposits with central banks	693,174		434,206
of which:			
at the Deutsche Bundesbank € 686,320,000			(430,814)
c) Deposits with postal giro offices	23		0
		693,581	434,683
2. Receivables from financial institutions			
a) Payable on demand	814,220		559,503
b) Other receivables	497,663		500,843
		1,311,883	1,060,346
3. Receivables from customers		23,680,277	20,213,719
4. Debentures and other fixed-income securities			
a) Bonds and debentures			
aa) By public-sector issuers	0		113,214
of which:			
eligible as collateral at the Deutsche Bundesbank € 0			(113,214)
ab) By other issuers	3,401,375		198,615
of which:			
eligible as collateral at the Deutsche Bundesbank € 3,401,375,000			(198,615)
		3,401,375	311,829
5. Shares and other non-fixed-income securities		7,153	6,215
6. Equity investments		1,079,991	1,079,991
of which:			
in financial institutions € 16,106,000			(16,106)
7. Intangible assets		6,906	3,706
8. Tangible fixed assets		14,382	18,638
9. Leased assets		405,070	0
10. Other assets		251,371	179,498
11. Prepaid expenses		15,561	16,274
<b>Total assets</b>		<b>30,867,550</b>	<b>23,324,899</b>

Equity and liabilities	€ 000	31.12.2008 € 000	31.12.2007 € 000
1. Liabilities to financial institutions			
a) Payable on demand	12,336		23,759
b) With agreed repayment period or period of notice	2,689,508		807,234
		2,701,844	830,993
2. Liabilities to customers			
a) Other liabilities			
aa) Payable on demand	8,140,165		7,229,878
ab) With agreed repayment period or period of notice	9,512,431		3,949,524
		17,652,596	11,179,402
3. Securitised liabilities			
a) Debentures issued		5,260,343	6,128,473
4. Other liabilities		294,898	200,051
5. Deferred income		390,626	412,511
6. Provisions			
a) Provisions for pensions and similar obligations	42,129		43,537
b) Tax provisions	17,373		28,186
c) Other provisions	90,818		84,751
		150,320	156,474
7. Special tax-allowable reserve		2,233	2,305
8. Subordinated liabilities		1,320,000	1,320,000
9. Participation right liabilities		90,000	90,000
10. Fund for general banking risks		25,565	25,565
11. Equity			
a) Subscribed capital	358,279		358,279
b) Capital reserves	2,595,800		2,595,800
c) Revenue reserves			
ca) Other revenue reserves	25,046		25,046
		2,979,125	2,979,125
<b>Total equity and liabilities</b>		<b>30,867,550</b>	<b>23,324,899</b>
1. Contingent liabilities			
a) Liabilities from surety and warranty agreements		64,865	11,135
2. Other obligations			
a) Irrevocable credit commitments		777,024	1,033,093

**PROFIT AND LOSS ACCOUNT OF VOLKSWAGEN BANK GMBH, BRUNSWICK,  
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2008**

	€ 000	€ 000	2008 € 000	2007 € 000
1.1 Interest income from				
a) Lending and money market transactions	1,524,543			1,339,653
b) Fixed-income and book-entry securities	17,718			0
		1,542,261		1,339,653
1.2 Interest expense		904,915		725,521
			637,346	614,132
1.3 Net income from leasing transactions				
Income from leasing transactions		274,459		0
Expenses from leasing transactions		242,861		0
			31,598	0
			668,944	614,132
2. Current income from				
a) Shares and other non-fixed-income securities		490		0
b) Equity investments		31,613		86,911
			32,103	86,911
3. Commission income		224,445		178,304
4. Commission expenses		170,354		142,347
			54,091	35,957
5. Other operating income			111,132	241,076
6. Income from the reversal of the special tax-allowable reserve			73	73
7. General administration expenses				
a) Staff costs				
aa) Wages and salaries	48,403			143,906
ab) Social security costs and expenses for pensions and support	15,714			34,450
of which:		64,117		178,356
for pension schemes € 7,151,000				(10,401)
b) Other administration expenses		362,788		331,077
			426,905	509,433
8. Depreciation, amortisation and value adjustments to intangible and tangible fixed assets			7,507	10,509
9. Other operating expenses			43,045	35,038
10. Amortisation and value adjustments to receivables and certain securities, as well as transfers to provisions for lending business			183,968	99,528
11. Income from write-ups to equity investments, shares in affiliated companies and securities treated as fixed assets			0	5,404
12. Amortisation and value adjustments to equity investments, shares in affiliated companies and securities treated as fixed assets			576	0
13. Income from ordinary business activities			204,342	329,045
14. Taxes on income and earnings			67,857	103,650
15. Other taxes, unless shown under item 9			2,543	1,646
16. Profits transferred under a profit transfer agreement			133,942	223,749
17. Net income			0	0
18. Retained profits brought forward			0	0
19. Net retained profits			0	0

## NOTES TO THE FINANCIAL STATEMENTS OF VOLKSWAGEN BANK GMBH, BRUNSWICK, AS AT 31 DECEMBER 2008

### 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).

The changes to the corporate structure of the German companies of the Volkswagen Financial Services AG Group were completed as at 1 July 2007. The independent divisions Fleet Customers, Insurance and Operations/IT were transferred from Volkswagen Bank GmbH to the corresponding legal entities of the Group. A significant percentage of the 3,511 staff employed by Volkswagen Bank GmbH in Germany at the beginning of the financial year were given employment contracts with Volkswagen Financial Services AG. In this context, tangible fixed assets worth € 8.4 million were transferred to Volim GmbH, and pension fund shares (€ 49.3 million), pension provisions (€ 44.5 million) and other pension provisions (€ 51.0 million) were transferred to Volkswagen Financial Services AG.

Volkswagen Bank GmbH was responsible for all primary costs within the Volkswagen Financial Services AG Group until 30 June 2007. All the staff and non-staff costs of the domestic affiliates were incurred by Volkswagen Bank GmbH and were debited to the other companies on the basis of internal cost allocations. In this respect, administration expenses reported until that time are directly related to other operating income. Since 1 July 2007, the primary costs have essentially been recognised by the originating companies. Shifting substantial portions of Volkswagen Bank GmbH's staff to Volkswagen Financial Services AG has resulted in a significant reduction in staff costs. Administration expenses however, have climbed because Volkswagen Financial Services AG bills them to Volkswagen Bank GmbH on a pro rata basis.

Given the changes in cost allocation, the figures in the respective expense and income items are not fully comparable with those from 2007.

A profit transfer agreement concluded with Volkswagen Financial Services AG came into effect on 1.1.2002.

In connection with the merger of VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, into Volkswagen Bank GmbH, the assets, liabilities and prepaid and deferred items were measured and recognised as required under German commercial law.

To the extent that the purchase price exceeded the values of the acquired assets less liabilities as determined under the provisions of German commercial law, the difference was capitalised as goodwill as defined by § 255 Para. 4 HGB.

### II. Accounting policies

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

In accordance with § 340 h HGB, currency translation was executed using average spot rates applicable as at 31 December 2008. Foreign currency assets that are treated as fixed assets were translated at cost to the extent that they are not hedged by liabilities or futures in the same currency. Unsettled forward exchange deals that serve to hedge interest-bearing balance sheet items were translated at the split forward rate, and the stipulated swap amounts were recognised on a pro rata basis. The unrealised gains/losses from the measurement of the currency hedging transactions using the average spot rate as at the balance sheet date are recognised as an adjustment item under Other assets or Other liabilities.

Tangible fixed assets with a limited period of use are depreciated in accordance with the provisions of tax law. The basis for depreciation is the cost invoiced to us.

As a result of the merger with VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, in addition to the separate disclosure of the net income from leasing transactions, the item “Leased assets (leased vehicles)” is shown in the balance sheet for the first time. Vehicles are depreciated in accordance with the provisions of tax law, using the straight-line method.

Equity investments are recognised at cost, receivables at their nominal value, and liabilities at their repayment value. In addition, write-downs to the lower fair value are recognised in cases of permanent impairment. 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.

Loans involving securities are measured based on the securities’ fair value at the transaction date. Securities in the liquidity reserves are measured according to the strict lower-of-cost-or-market principle, while securities shown under assets are measured according to the modified lower-of-cost-or-market principle. In contrast to this, the securities acquired by Private Driver 2008-02 GmbH, Private Driver 2008-03 GmbH and Private Driver 2008-04 GmbH, which securitise the company’s own receivables, are measured at cost. The measurement of the underlying receivables is ensured through appropriate risk provisions.

The pension obligations are measured at their net present value determined according to actuarial principles, based on an interest rate of 6 % p. a. They are based on Dr. Klaus Heubeck’s current mortality tables from 2005.

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 € 511,101,000 (previous year: € 516,956,000) and receivables from joint ventures amounting to € 101,000 (previous year: € 245,000).

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

- Payable on demand € 814,220,000 (previous year: € 559,503,000)
- Up to one month € 261,190,000 (previous year: € 8,273,000)
- Up to three months € 123,430,000 (previous year: € 30,911,000)
- Up to one year € 113,043,000 (previous year: € 139,154,000)
- More than one year and up to five years € 0 (previous year: € 322,505,000).

#### *Receivables from customers*

The increase in receivables from customers is largely due to Volkswagen Bank GmbH’s greater share in refinancing affiliated companies and/or joint ventures.

This item includes unsecuritised receivables from affiliated companies amounting to € 3,120,668,000 (previous year: € 734,081,000) and receivables from joint ventures amounting to € 992,616,000 (previous year: € 515,972,000).

The maturity of the total amount of receivables from customers breaks down as follows:

- Up to three months € 7,038,997,000 (previous year: € 2,965,855,000)
- More than three months and up to one year € 2,862,258,000 (previous year: € 3,041,682,000)
- More than one year and up to five years € 8,238,128,000 (previous year: € 7,894,577,000)
- More than five years € 793,742,000 (previous year: € 436,525,000).

The item "Receivables from customers" contains receivables with an indefinite maturity (under § 9 Para. 3 No.1 Ordinance on Accounting for Banks) amounting to € 4,747,152,000 (previous year: € 5,875,080,000).

The balance sheet item "Receivables from customers" includes subordinated receivables of € 4,000,000 (previous year: € 3,000,000).

Receivables from the leasing business total € 923,428,000 (previous year: € 290,041,000), of which € 526,885,000 (previous year: € 0) are attributable to the French bank branch due to the merger with VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, as of 1 January 2008 and other transactions, and € 396,543,000 (previous year: € 290,041,000) are attributable to the Italian bank branch.

The French bank branch accounts for receivables from retail financing totalling € 360,484,000 (previous year: € 0) as a result of the merger.

#### *Receivables from shareholders*

Receivables from our sole shareholder, Volkswagen Financial Services AG, Brunswick, as at the balance sheet date amounted to € 640,698,000 (previous year: € 8,887,000).

#### *Debentures and other fixed-income securities*

To ensure the supply of liquidity, Volkswagen Bank GmbH and Volkswagen Leasing GmbH executed ABS transactions towards the end of the year. Class A securities having an aggregate volume of € 3,298,313,000 that were issued by the acquiring special purpose entities at the close of 2008 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. Including accrued interest, the company thus recognises securities that are marketable but not listed in the amount of € 3,302,269,000 (previous year: € 0).

The acquired ABS securities worth € 2,760,674,000, which securitise the company's own receivables, are not measured because the risk of counterparty default is already taken into account in the receivables' measurement. The debentures are recognised at cost during the term of the transactions.

The securities acquired from Private VCL S.A. in connection with the ABS transactions of Volkswagen Leasing GmbH are partly allocated to assets (€ 298,945,000) and to the liquidity reserves (€ 242,650,000). 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.

In addition, the item contains € 99,107,000 in marketable and listed debentures (previous year: € 311,830,000), all of which were borrowed by financial institutions. They are measured based on the securities' fair value at the transaction date. The issuer is entitled to income from these debentures.

A nominal amount of € 1,062,495,000 of these debentures and other fixed-income securities recognised in the balance sheet will be due in the 2009 financial year. This amount does not contain accrued interest.

*Shares and other non-fixed-income securities*

These concern a total of € 6,694,000 (previous year: € 6,215,000) in non-marketable securities-based investment funds that are treated as fixed assets and recognised in accordance with the modified lower-of-cost-or-market principle.

An impairment loss of € 576,000 (previous year: 0) was taken on the “employee overtime deferred compensation fund” in the 2008 financial year.

In contrast, we decided not to write down the pension fund by € 58,000 because the impairment is not deemed permanent.

Additionally, € 459,000 in marketable and listed shares in VISA Inc., USA (previous year: 0) were recognised at the market price as at 31.12.2008.

*Leased assets*

This item of € 405,070,000 (previous year: € 0) comprises leased vehicles as part of the operating leasing business of the French branch.

*Other assets*

The item contains receivables from interest rate hedging transactions amounting to € 68,050,000 (previous year: € 78,885,000), accrued commissions from insurance agency services amounting to € 11,437,000 (previous year: € 3,924,000) and tax receivables amounting to € 69,633,000 (previous year: € 20,223,000).

Forward exchange deals executed to hedge currency translation risks of the UK branch resulted in an equalisation item amounting to € 52,937,000 (previous year: € 37,287,000).

*Prepaid expenses*

The item includes accrued discounts amounting to € 7,328,000 (previous year: € 8,428,000) and insurance premiums paid in advance amounting to € 1,530,000 (previous year: € 2,347,000).

*Liabilities to financial institutions*

The increase in liabilities to financial institutions is due to the increased rate at which funds are obtained from Deutsche Bundesbank in connection with open market operations. The total amount of the assets transferred as collateral was € 1,800,000,000 (previous year: € 0).

The maturity breaks down as follows:

- Payable on demand € 12,336,000 (previous year: € 23,759,000)
- Up to three months € 2,034,815,000 (previous year: € 65,161,000)
- More than three months and up to one year € 332,406,000 (previous year: € 506,923,000)
- More than one year and up to five years € 249,925,000 (previous year: € 170,852,000)
- More than five years € 72,362,000 (previous year: € 64,298,000).

The merger with VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, has resulted in a considerable increase to € 262,462,000 (previous year: € 1,201,000) in liabilities to financial institutions at the French bank branch.



*Liabilities to customers*

The item includes unsecuritised liabilities to affiliated companies amounting to € 1,670,907,000 (previous year: € 1,345,915,000).

The deposit volume in the direct banking business markedly improved as a result of competitive terms and our intensifying collaboration with sales partners. Currently, it is € 12,829,011,000 (previous year: € 9,620,086,000).

In addition to this, there are liabilities still to be settled vis-à-vis dealers, customers and other creditors. The share of liabilities from loans vis-à-vis ABS special purpose entities totalled € 2,844,427,000 (previous year: € 0).

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

- Up to three months € 2,268,354,000 (previous year: € 1,778,897,000)
- More than three months and up to one year € 2,983,578,000 (previous year: € 904,946,000)
- More than one year and up to five years € 4,091,627,000 (previous year: € 1,058,831,000)
- More than five years € 168,872,000 (previous year: € 206,850,000).

The French bank branch’s liabilities to customers increased to € 321,632,000 (previous year: € 33,876,000), mainly as a result of the merger with VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France.

*Liabilities to shareholders*

Liabilities to our sole shareholder, Volkswagen Financial Services AG, Brunswick, as at the balance sheet date amounted to € 157,900,000 (previous year: € 439,283,000).

*Securitised liabilities*

The securitised liabilities comprise commercial paper and debentures. The total value is shown in full in the sub-item “a) Debentures issued”.

*Commercial paper: € 256,836,000 (previous year: € 813,237,000)*

Remaining maturity

- Up to three months € 234,050,000 (previous year: € 701,470,000)
- More than three months and up to one year € 22,786,000 (previous year: € 111,767,000)

*Debentures: € 5,003,507,000 (previous year: € 5,315,236,000)*

Remaining maturity

- Up to three months € 558,507,000 (previous year € 385,236,000)
- More than three months and up to one year € 895,000,000 (previous year € 735,000,000)
- More than one year and up to five years € 3,550,000,000 (previous year: € 4,195,000,000)

**Other liabilities**

These are essentially interest and principal payable under ABS transactions amounting to € 198,144,000 (previous year: € 92,722,000), liabilities from interest rate hedging transactions amounting to € 45,570,000 (previous year: € 59,752,000), liabilities to the German Tax Office amounting to € 24,003,000 (previous year: € 20,202,000) and liabilities from accrued interest for subordinated bonds and for participation right liabilities amounting to € 14,174,000 (previous year: € 14,368,000).

**Deferred income**

This item essentially comprises accrued amounts from manufacturer and partner participation in sales promotion campaigns in the amount of € 373,855,000 (previous year: € 406,706,000) as well as interest payments received for construction loans in the amount of € 2,933,000 (previous year: € 1,586,000), which are recognised over the term of the respective contracts.

**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 € 73,000 (previous year: € 73,000).

**Subordinated liabilities**

The total amount includes to subordinated bonds placed on the public capital market amounting to € 1,186,000,000 (previous year: € 1,186,000,000) and subordinated borrower's note loans amounting to € 134,000,000 (previous year: € 134,000,000).

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 € 52,255,000 (previous year: € 50,464,000).

The expenses in connection with the raising of subordinated borrower's note loans amounted to € 6,999,000 (previous year: € 6,931,000).

**Subordinated bonds**

Beginning of term	€ 000	Interest rate %	Interest rate valid until	New interest rate agreement based on	Date due
11.09.2003	16,000	5.25000	11.09.2013	Fixed interest rate	11.09.2013
19.09.2003	50,000	5.12500	19.09.2013	Fixed interest rate	19.09.2013
26.09.2003	20,000	5.40000	26.09.2023	Fixed interest rate	26.09.2023
23.09.2003	10,000	6.03500	23.03.2009	6-month Euribor plus 80 basis points	23.09.2013
19.12.2003	10,000	5.14200	19.12.2013	Fixed interest rate	19.12.2013
07.06.2004	10,000	5.50000	07.06.2024	Fixed interest rate	07.06.2024
03.12.2004	750,000	3.87500	02.12.2009	Fixed interest rate	03.12.2014
18.08.2004	20,000	5.12500	18.08.2014	Fixed interest rate	18.08.2014
12.12.2005	120,000	3.47500	23.03.2009	3-month Euribor plus 35 basis points	21.12.2015
03.03.2006	130,000	3.72900	16.03.2009	3-month Euribor plus 40 basis points	14.03.2016
21.11.2006	50,000	4.33100	27.02.2009	3-month Euribor plus 43 basis points	30.11.2016

The subordinated bond in the amount of € 750,000,000 exceeds 10 % of the total amount of subordinated liabilities. In the event of the issuer's dissolution, liquidation or insolvency, obligations under this bond 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 or any applicable notice period. Early redemption of the bond shall be possible no earlier than five years after its issue and shall require the redemption of the entire 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 bond 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 and subordinated bonds is shown in the balance sheet item "Other liabilities", since interest is not offset in regulatory liable capital.

#### *Borrower's note loans*

Beginning of term	Interest rate		Interest rate valid until	New interest rate agreement based on	Date due
	€ 000	%			
20.07.2004	5,000	5.27000	21.07.2014	Fixed interest rate	21.07.2014
20.07.2004	5,000	5.27000	21.07.2014	Fixed interest rate	21.07.2014
22.07.2004	20,000	5.22000	22.07.2014	Fixed interest rate	22.07.2014
06.08.2004	10,000	5.19700	06.08.2014	Fixed interest rate	06.08.2014
11.08.2004	10,000	5.16000	11.08.2014	Fixed interest rate	11.08.2014
16.08.2004	10,000	5.07000	15.08.2014	Fixed interest rate	15.08.2014
25.08.2004	10,000	5.07000	25.08.2014	Fixed interest rate	25.08.2014
17.08.2004	10,000	5.07000	18.08.2014	Fixed interest rate	18.08.2014
04.08.2004	2,500	5.21000	04.08.2014	Fixed interest rate	04.08.2014
04.08.2004	10,000	5.21000	04.08.2014	Fixed interest rate	04.08.2014
04.08.2004	5,000	5.21000	04.08.2014	Fixed interest rate	04.08.2014
04.08.2004	2,500	5.21000	04.08.2014	Fixed interest rate	04.08.2014
19.08.2004	2,000	5.10000	19.08.2014	Fixed interest rate	19.08.2014
19.08.2004	12,000	5.10000	19.08.2014	Fixed interest rate	19.08.2014
28.07.2004	10,000	5.08000	28.07.2014	Fixed interest rate	28.07.2014
13.08.2004	10,000	5.20000	13.08.2014	Fixed interest rate	13.08.2014

#### **Participation right liabilities**

The participation right liabilities in the full amount are, under the stipulations of the German Banking Act (§ 10 Para. 5), a component of the liable capital. Of the obligations totalling € 90,000,000, € 825,000 are attributable to affiliated companies. Derivative transactions were undertaken in order to hedge interest rate risks. The expenses in connection with the raising of funds amounted to € 6,441,000 (previous year: € 6,480,000).

Beginning of term	€ 000	Interest rate %	Interest rate valid until	New interest rate agreement based on	Date due
27.03.2002	90,000	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”, since interest is not offset in the regulatory liable capital.

### Equity

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

This contribution meets the requirements of §10 Para. 4 German Banking Act. The depositor receives a remuneration on the book value of the contribution based on the 12-month Euribor plus 150 basis points.

### Development of the fixed assets of Volkswagen Bank GmbH, Brunswick, for the period from 1 January to 31 December 2008

Description	Gross book values					Value adjustments				Net book values		
	Brought forward	Additions from merger	Additions	Disposals	Balance	Brought forward	Additions from merger	Additions	Disposals	Balance	Balance	Balance
	1.1.2008	€ 000	€ 000	€ 000	€ 000	31.12.2008	1.1.2008	€ 000	€ 000	€ 000	€ 000	€ 000
Debtentures and other fixed-income securities	0	0	2,810,398	0	2,810,398	0	0	0	0	0	2,810,398	0
Leased assets	0	496,917	248,892	216,140	529,669	0	102,439	84,999	62,839	124,599	405,070	0
Shares and other non-fixed-income securities	6,215	0	1,650	595	7,270	0	0	576	0	576	6,694	6,215
Equity investments	1,079,991	0	0	0	1,079,991	0	0	0	0	0	1,079,991	1,079,991
Intangible assets	147,790	9,075	1,750	471	158,144	145,005	2,929	4,289	471	151,752	6,392	2,785
Advance payments on intangible assets	921	32	514	953	514	0	0	0	0	0	514	921
Land, similar rights and buildings on land owned by others	20,707	3,211	38	539	23,417	12,813	451	957	225	13,996	9,421	7,894
Other plant, operational and office equipment	18,300	6,069	1,256	12,087	13,538	7,556	2,951	2,261	4,191	8,577	4,961	10,744
<b>Total fixed assets</b>	<b>1,273,924</b>	<b>515,304</b>	<b>3,064,498</b>	<b>230,785</b>	<b>4,622,941</b>	<b>165,374</b>	<b>108,770</b>	<b>93,082</b>	<b>67,726</b>	<b>299,500</b>	<b>4,323,441</b>	<b>1,108,550</b>

The goodwill of € 4,881,000 that was recognised under intangible assets as a result of the merger with VOLKSWAGEN FINANCE S.A. is amortised over two years using the straight-line method. Furthermore, land and buildings which serve to obtain rental income are recognised for the first time (€ 2,669,000).

Other land, similar rights and buildings including buildings on land owned by others as well as operating and office equipment are used exclusively in the Bank's own business activities.

#### 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 33.1 % (previous year: 29.5 %). The branches in Italy and the United Kingdom account for the largest share of this amount. The interest income from lending and money market transactions contains € 69,307,000 in income from finance leasing (previous year: € 17,966,000).

##### *Net income from leasing transactions*

Net income from leasing transactions was recognised for the first time in 2008, given the growing significance of the leasing business to Volkswagen Bank GmbH.

The net income from leasing transactions comprises earnings from operating leasing that are generated by the bank's branch in France. While leasing income was € 274,459,000 (previous year: 0), expenses were € 157,862,000 (previous year: € 0) and depreciation, amortisation and write-downs totalled € 84,999,000 (previous year: € 0).

The changes resulted from the merger with VOLKSWAGEN FINANCE S.A.

##### *Commission income*

Commission income essentially results from selling residual debt and unemployment insurance, from selling insurance through the Italian branch, 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 € 8,325,000 (previous year: 7,155,000) which is not related to the accounting period and which essentially results from the participation in profits of residual debt and unemployment insurance.

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

##### *Other operating income*

The item contains € 27,821,000 (previous year: € 41,452,000) in income not related to the accounting period, of which € 5,871,000 (previous year: € 6,386,000) is in connection with the internal cost apportionment of the Volkswagen Financial Services AG Group and € 16,987,000 (previous year: € 15,528,000) is income from the reversal of provisions.

##### *General administration expenses*

As required under § 285 Para. 1 No. 17 German Commercial Code, the general administration expenses for the 2008 financial year include fees for the audit of the annual financial statements amounting to € 636,000 (previous year: € 584,000) – including € 160,000 for the voluntary consolidated financial statements –, for other auditing and valuation services amounting to € 112,000 (previous year: € 99,000), for tax consultancy services amounting to € 4,000 (previous year: € 8,000) and for other services amounting to € 1,622,000 (previous year: € 531,000).

##### *Other operating expenses*

An amount of € 4,157,000 (previous year: € 1,859,000) concerns expenses not related to the accounting period, of which € 1,087,000 (previous year: € 481,000) concern the Italian branch.

Volkswagen Bank GmbH transferred GBP 107 million in endowment capital to its UK branch pursuant to the letter from the German Ministry of Finance dated 28 September 2004; there are no plans to make a general demand for repayment of this capital. The foreign currency measurement of the endowment capital gave rise to € 30.7 million in other operating expenses (previous year: € 11.7 million).

*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 € 44,818,000 (previous year: € 75,420,000) for the current year to Volkswagen Bank GmbH within the framework of the consolidated tax group.

This item contains expenses of € 7,471,000 (previous year: € 6,872,000) not related to the accounting period and tax refunds received for previous years amounting to € 655,000 (previous year: € 56,000).

**V. Other notes***Consolidation accounting*

The annual financial statements of Volkswagen Bank GmbH are included in the consolidated financial statements of Volkswagen Financial Services AG, Brunswick, which are drawn up according to the International Financial Reporting Standards. The consolidated financial statements of Volkswagen Financial Services AG, in turn, are included in the consolidated financial statements of Volkswagen AG, Wolfsburg. The financial statements 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, for € 1,063,874,000. The total nominal capital of the company amounts to € 900,000,000. No obligations arise from this equity investment. The profit of Global Mobility Holding B.V., Amsterdam, for the period from 1 January 2007 to 31 December 2007 was € 197,236,000. The company's equity is € 2.1 billion.

The bank holds a 0.0053 % stake in Society for Worldwide Interbank Financial Telecommunication SCRL (S.W.I.F.T. SCRL), La Hulpe. The company's nominal capital amounts to € 14.0 million. No obligations arise from this equity investment. The company's equity is € 254,809,000.

The Bank holds a share of € 40,000 (0.02 %; of which € 29,000 has been paid up) 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 is € 231,081,000.

Volkswagen Bank GmbH has an equity investment of € 10 in the € 1,000 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 capital of VISA Europe Limited as at 30.9.2008 is € 2.6 billion. According to its consolidated financial statements, VISA Europe Limited posted profits of € 2.4 billion in the 2007/2008 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 2007 financial year amounts to PLN 29,499,000 (previous year: PLN 35,356,000). The company's equity is PLN 217,094,000 (previous year: PLN 217,125,000). A revision of the 2006 financial statements of VOLKSWAGEN BANK POLSKA S.A. resulted in changes to the figures for the previous year.

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

### 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 and forward exchange deals purely for hedging purposes. The market values of the derivative financial instruments 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 Sent. 1 No. 18 German Commercial Code, the derivative financial instruments break down as follows:

in € million	Nominal value	Nominal value	Market values*	Market values*	Market values*	Market values*
	31.12.2007	31.12.2008	Positive	Positive	Negative	Negative
			31.12.2007	31.12.2008	31.12.2007	31.12.2008
Interest rate risks						
Interest rate swaps	13,036.8	15,126.1	57.7	125.2	106.0	140.6
Currency risks						
Forward exchange deals	1,047.9	1,253.1	35.5	61.1	0.0	7.0
<b>Derivative transactions</b>						
<b>Total</b>	<b>14,084.7</b>	<b>16,379.2</b>	<b>93.2</b>	<b>186.3</b>	<b>106.0</b>	<b>147.6</b>

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

The maturity of the derivatives breaks down as follows:

Nominal value	Interest rate risks	Interest rate risks	Currency risks	Currency risks
in € million	31.12.2007	31.12.2008	31.12.2007	31.12.2008
Residual terms				
≤ 3 months	1,343.7	875.0	960.2	1,141.8
≤ 1 year	3,659.3	3,056.0	87.7	6.3
≤ 5 years	7,489.1	7,685.9	0.0	105.0
> 5 years	544.7	3,509.2	0.0	0.0

#### Other financial obligations

There are no other financial obligations. We refer to the risk report contained in the management report for information regarding possible obligations arising from the global financial market crisis.

#### Foreign currencies

The total of assets in foreign currency on the balance sheet date amounted to € 1,325,042,000 (previous year: € 1,324,054,000). Foreign currency liabilities amounted to € 11,662,000 (previous year: € 160,927,000).

### **Information on corporate bodies**

A large part of the total remuneration of the Board of Management is borne by Volkswagen Financial Services AG. Use is therefore made of the exemption regulation under § 286 (4) of the German Commercial Code.

The Board of Management is comprised as follows:

#### *Rainer Blank*

Spokesman of the Board of Management (from 16.9.2008)  
Business Line Individual Customers & Corporate Customers (from 16.9.2008)  
Sales Individual Customers & Corporate Customers

#### *Klaus-Dieter Schürmann*

Spokesman of the Board of Management (until 15.9.2008)  
Business Line Individual Customers & Corporate Customers (until 15.9.2008)  
Direct bank  
International/Treasury

#### *Dr. Michael Reinhart*

Finance (including Company Management, Controlling), Risk Management, IT  
Market Support, Dealer Restructuring  
Human Resources, Organisation

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

#### *Dr. Horst Neumann*

Deputy Chairman (from 1.4.2008)  
Member of the Board of Management of Volkswagen AG  
Human Resources and Organisation

#### *Giuseppe Savoini (until 31.3.2008)*

Deputy Chairman  
Executive Vice President of Volkswagen AG  
Group Treasurer

#### *Waldemar Drosdziok*

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

#### *Dr. Jörg Boche (from 1.4.2008)*

Executive Vice President of Volkswagen AG (from 21.11.2008)  
Group Treasurer



*Sabine Ferken*

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

*Detlef Kunkel*

General Secretary / Principal Representative of IG Metall Brunswick

*Günther Müller (until 31.10.2008)*

Head of Controlling of Volkswagen Bank GmbH

*Gabor Polonyi (from 1.11.2008)*

Head of Management and Marketing 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

*Lothar Sander*

Member of the Board of Management Volkswagen Division  
Controlling and Accounting

*Axel Strotbek*

Member of the Board of Management  
AUDI AG  
Finance and Organisation

*Detlef Wittig*

Executive Vice President of Volkswagen AG  
Group Marketing and Sales

A total of € 2,081,000 (previous year: € 2,192,000) was recognised as provisions for pensions and similar obligations to former members of the Board of Management or their surviving dependants. In the financial year 2008, payments to these individuals amounted to € 247,000 (previous year: € 266,000).

The assets include receivables amounting to € 225,000 (previous year: € 229,000) from loans falling under §15 Para.1 No.1 and 3 of the German Banking Act.

**Number of employees**

	Female	Male	Total
Average for the year (excluding Board of Management)	247	403	650
of whom part-time	46	0	46

The Bank employed an average of 30 trainees during the year, who are not included in the number of employees.

**Branches and branch offices**

<b>Branches</b>
Audi Bank, Brunswick
SEAT Bank, Brunswick
Škoda Bank, Brunswick
AutoEuropa Bank, Brunswick
ADAC FinanzService, Brunswick
<b>Branch offices</b>
Volkswagen Bank, Berlin
Volkswagen Bank, Brunswick
Volkswagen Bank, Emden
Volkswagen Bank, Hanover
Volkswagen Bank, Kassel
Volkswagen Bank, Salzgitter
Volkswagen Bank, Wolfsburg
Volkswagen Bank, Zwickau
Audi Bank, Ingolstadt
Audi Bank, Neckarsulm
<b>Branches outside Germany</b>
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  
Chairman of the Supervisory Board of each
- Volkswagen Finance Belgium S.A., Brussels, Belgium  
Member of the Conseil d'Administration
- Volkswagen Reinsurance AG, Brunswick, Germany  
Member of the Supervisory Board
- 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 Reinsurance AG, Brunswick, 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  
Member of the Consejo de Administración of each

*Dr. Vincenzo Condorelli*

- VOLKSWAGEN HOLDING FINANCIERE S.A., Villers-Cotterêts, France  
Chairman of the Conseil de Surveillance
- VOLKSWAGEN FINANCE, S.A. – ESTABLECIMIENTO FINANCIERO DE CRÉDITO,  
Madrid, Spain
- ServiLease S.A., Madrid, Spain  
Chairman of the Consejo de Administración 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

*Bernd Bode*

- VOLKSWAGEN DOĞUŞ TÜKETİCİ FİNANSMANI A.Ş., Istanbul, Turkey
- VDF Servis Holding A.Ş., Istanbul, Turkey  
Member of the Board of Directors of each

*Egon van Geenhuizen*

- Volkswagen Finans Sverige AB, Södertälje, Sweden  
Member of the Board of Directors

*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

*Bryan Marcus*

- Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom
- Volkswagen Finans Sverige AB, Södertälje, Sweden  
Chairman of the Board of Directors of each
- Volkswagen Pon Financial Services B.V., Amersfoort, The Netherlands  
Member of the Supervisory Board
- VVS VERZEKERINGS-SERVICE N.V., Diemen, The Netherlands  
Member of the Raad van Commissarissen

*Günther Müller*

- VOLKSWAGEN Finančné služby Slovensko s.r.o., Bratislava, Slovakia
- VOLKSWAGEN BANK POLSKA S.A., Warsaw, Poland
- Volkswagen Leasing Polska Sp. z o.o., Warsaw, Poland  
Member of the Supervisory Board 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

*Gabriele de Neidels*

- LeasePlan Corporation N.V., Amsterdam, The Netherlands  
Member of the Supervisory Board

**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 principal opportunities and risks associated with the expected development of Volkswagen Bank GmbH.

Brunswick, 14 January 2009  
The Board of Management



Rainer Blank



Dr. Michael Reinhart



Klaus-Dieter Schürmann

## INDEPENDENT AUDITORS' REPORT

We have audited the annual financial statements – comprising the balance sheet, the profit and loss account and the notes – including the accounting, and the management report of Volkswagen Bank GmbH, Brunswick, for the financial year from 1 January to 31 December 2008. 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 opportunities and risks of future development.

Hanover, 19 February 2009

PricewaterhouseCoopers Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Eckes  
Auditor

ppa. Barrakling  
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 company's position and development.

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 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 97 %. All members attended more than one half of the meetings. Resolutions regarding urgent matters were adopted by means of circular memorandum.

### Work of the committees

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 20 February 2008, the Supervisory Board approved the annual financial statements for 2007 that had been prepared by the Board of Management and accepted the annual report by Internal Audit regarding the results of its audits.

The Board Management provided extensive reports on the company's and the subgroup's economic and financial position, both at the aforesaid meeting and at the meetings on 2 July 2008 and 26 November 2008. In this connection, we dealt with the options for fundamentally realigning the company's business such that it can attain its earnings targets in the long term.

At the meeting on 20 February 2008, we approved the Board of Management's project to contribute the bank's stake in Global Mobility Holding B.V., Amsterdam, the Netherlands, to the holding structure that Volkswagen Financial Services AG plans to establish in the Netherlands.

At our meeting on 2 July 2008, we dealt extensively with the company's current risk exposures in regards to both lending and residual values as well as with the fallout from the sub-prime crisis and the steps we must take in its wake.

On 26 November 2008, we engaged in an extensive discussion of the bank's financial and investment planning. The Board of Management informed us of the ramifications of the financial market crisis, the company's current liquidity situation and the measures that the Board has initiated. We also dealt with the company's strategic alignment in connection with the "Strategy 2018" project.

#### **Audit of the annual and consolidated financial statements**

PriceWaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the annual financial statements of Volkswagen Bank GmbH in accordance with the German Commercial Code (HGB) for the year ended 31 December 2008, including the bookkeeping and the management reports.

The Supervisory Board had at its disposal the consolidated annual financial statements in accordance with IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with HGB for the year ended 31 December 2008 and the management reports. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the accounting 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 in accordance with IFRS, the annual financial statements in accordance with HGB 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.

Under the existing control and profit transfer agreement, the profit made in 2008 in accordance with HGB is transferred to Volkswagen Financial Services AG

The Supervisory Board approved the annual financial statements prepared by the Board of Management and the consolidated financial statements of Volkswagen Bank GmbH.

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.

Brunswick, 20 February 2009



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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