

# VOLKSWAGEN BANK

GMBH



## Interim Management Report and Half-Year Financial Statements 2008 (HGB)

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## **Interim management report**

### **Economic environment**

#### **Global economy**

Global economic growth weakened substantially in the second quarter of 2008, due in particular to continuously rising oil prices and the fallout from the financial crisis. The worldwide increase in inflationary pressures has caused many countries to adopt more restrictive monetary policies. Yet the economies of emerging countries in Asia, South America as well as Central and Eastern Europe continued to grow unabated.

In Western Europe, growth slowed considerably in the second quarter of 2008. With the exception of Hungary, the economic expansion in Central and Eastern European countries remained relatively strong. However, ongoing inflationary pressures, currency appreciation and diminishing prospects for exporters dampened economic expectations.

Germany has seen a sharp decline in the economic factors driving growth. Continually rising prices for foodstuffs and energy are increasingly undermining consumption and investment. And the strength of the euro as well as declining growth worldwide are burdening the export sector.

### **Financial and automobile markets**

#### **Financial markets**

In addition to the uncertainty that has gripped global financial markets since the middle of 2007 in the wake of the US subprime crisis, the ramifications of the sharp increase in commodity prices, especially for crude oil, have also had a major impact. The resulting inflationary pressures have triggered the first signs of an economic downturn in the industrial nations, especially in the United States. Despite central banks' countermeasures, this pressure made itself felt in the financial markets in the

first six months of 2008 through sharp interest rate increases, which in turn resulted in considerable increases in refinancing expense. All of this was intensified in the area of refinancing by the dramatic decline in the volume of new issues on the securitised receivables market.

The deposit business in Germany clearly reflected the refinancing bottleneck. In the first six months of 2008, the direct access to the market provided by the Internet further intensified competition in regards to terms offered, particularly due to the activities of both domestic and international competitors on the Web.

The automobile financing business registered a slight upturn at the start of the current year as a result of the upward trend in newly registered cars, which benefited the captives. But fierce competition continued to limit opportunities for improving margins.

In the period under review, registrations of new passenger cars worldwide surpassed the previous year's level (+1.0%). Especially the regions Asia Pacific, Central and Eastern Europe as well as South America posted above-average growth rates in this area while demand for passenger cars in Japan, Western Europe and particularly North America continued to decline.

In Western Europe, the number of newly registered cars was slightly lower year on year in the first six months of 2008. While the French passenger car market posted a small gain, demand weakened substantially in both Italy and Spain and slightly in the United Kingdom. Growth rates remained high in Central and Eastern Europe during the reporting period, with Russia and the Ukraine being by far the region's most important growth markets.

In Germany, high fuel prices and the uncertainty regarding the details of a future CO<sub>2</sub> based car tax prevented the auto industry from continuing its recovery. The country's passenger car market rose but slightly in the first half of 2008 compared with the same period the previous year.

## **Tasks and organisation of Volkswagen Bank GmbH**

In the reporting period, Volkswagen Bank GmbH acquired VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, from Volkswagen HOLDING FINANCIÈRE S.A., Villers-Cotterêts, France, and merged the acquired company into the bank's French branch effective 1 January 2008. As a result, Volkswagen Bank GmbH has been conducting both the finance leasing business and the operating leasing business through its French branch since 1 January 2008.

No other substantial changes occurred in the first half of 2008 relative to the description in the 2007 annual report.

## **Analysis of the company's business performance and position**

Volkswagen Bank GmbH succeeded in fortifying its market position in the first half of 2008 and further increasing the volume of both its receivables and contracts.

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 the bank's French branch resulted both in an expansion of the retail and finance leasing business and the integration of operating leasing into Volkswagen Bank GmbH. The goodwill arising from the merger was € 37.6 million.

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

Compared to the close of the previous financial year, receivables in dealer financing rose from € 7.4 billion by 6.2% to € 7.9 billion.

Refinancing expense of Volkswagen Bank was managed in line with the capital markets in the first half year of 2008 through securitisation of receivables by way of additional ABS transactions, ongoing expansion of the deposit business and continued rating differentiation relative to both Volkswagen AG and Volkswagen Financial Services AG.

In the first six months of 2008, Driver Five GmbH issued asset-backed-securities notes from securitised German credit receivables with a volume of around € 1.5 billion. Additional receivables totalling € 0.3 billion were securitised through Private Driver 2008-1 GmbH. They were refinanced by way of a private placement. On the other hand, remaining receivables worth € 0.1 billion were repurchased through a "clean-up call".

### **Results of operations**

The comments on the results of operations concern changes relative to the same period the previous year: (1.1.2007 - 30.6.2007).

Income from ordinary business activities in the first half of 2008 was € 164.2 million, down from € 186.5 million for the same period in the previous year. Foreign branches contributed € 38.6 million (previous year: € 59.2 million) to earnings. The change in earnings is essentially influenced by increased write-downs and bad debt allowances as a result of the development of volume and risk in dealer financing as well as write-downs on the goodwill acquired in the merger with VOLKSWAGEN FINANCE S.A.

The net interest income earned by Volkswagen Bank GmbH including the net income from leasing transactions was € 313.6 million compared to € 310.8 million in the previous year, against a backdrop of increasing pressures from both the competition and the capital markets.

Interest income from lending and money market transactions in the amount of € 734.6 million (previous year: € 632.1 million) stems primarily from consumer financing, as well as from vehicle and investment financing for the dealers of the Volkswagen Group.

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. Income from dealer financing also showed a - primarily volume-driven - increase, as did other interest income.

Net income from leasing transactions climbed by € 31.9 million to € 40.6 million, particularly after VOLKSWAGEN FINANCE S.A. was merged into the bank's French branch.

Refinancing expenses declined correspondingly as a consequence of the ABS transactions. Yet the interest expense of Volkswagen Bank rose to a total of € 461.6 million (previous year: € 329.9 million) in connection with both the volume growth and the current development on the capital market.

Income from shareholdings results from the investments in Global Mobility Holding B.V., Amsterdam, and VOLKSWAGEN BANK POLSKA S.A., Warsaw. The majority of the income from shareholdings for 2007 was recognised in the second half of the previous year.

The net commission income rose by 22.0% year on year, from € 25.7 million to € 31.4 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 rise 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.

The sale of assets within the Volkswagen Financial Services AG Group was recognised under the "Other operating expenses / other operating income" item until 30 June 2007. A year ago the amount shown in other operating expenses was essentially compensated for in the corresponding item. Effective 2 July 2007, fixed assets valued at € 8.4 million were transferred to Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Brunswick.

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. The sale of receivables effected through the ABS transactions ensured that Volkswagen Bank GmbH would no longer bear the attendant default risks. Risk provisions related to the loan portfolio of the Driver Five ABS transaction and Driver 2008-01 were thus reversed to income in the first half of 2008. Nevertheless, the risk provision required for write-downs and bad debt allowances was significantly higher than in the previous year.

## **Summary**

The result from ordinary business activities for the first half of 2008 decreased compared to the same period the previous year. Volkswagen Bank GmbH sought to



counteract the developments in the capital market by means of a balanced refinancing and hedging strategy. 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**

The comments on the assets and financial position concern changes relative to the balance sheet date 31 December 2007.

### ***Lending business***

The lending business of Volkswagen Bank GmbH focuses on the provision of loans to private and commercial customers. The receivables shown in the balance sheet total € 21.7 billion (previous year: € 20.2 billion). The share of foreign branches in the retail lending volume rose from € 5.8 billion to € 6.9 billion, essentially as a result of the expansion of the French branch. Furthermore, the company manages receivables sold through ABS transactions in the amount of € 4.3 billion (previous year: € 3.2 billion). The receivables managed by Volkswagen Bank GmbH thus increased by 11.2% from € 23.4 billion to a total of € 26.0 billion.

### **Retail financing**

As at 30 June 2008, the company had 1,619,000 retail financing contracts under management. This translates into an increase of 5.4% since 31.12.2007.

Receivables under management rose by 6.4%, from € 14.5 billion to € 15.5 billion during the same period. Additions from branches (+ € 0.4 billion) were due almost exclusively to the merger of VOLKSWAGEN FINANCE S.A. with the French branch.

Market penetration in Germany, the Group's largest market, remained at the previous year's high level. Total receivables after the sale of receivables effected through ABS transactions were € 11.1 billion as at 30.6.2008 compared to € 11.3 billion as at 31.12.2007.

## **Dealer financing**

Last year's restructuring of our sales organisations now enables us to offer corporate customers an integrated approach. Corporate customers are both sellers of retail products and users of products aimed at corporate customers, and increased attention to this dual role will be paid in the future.

The dealer financing volume in Germany rose yet again over the high level as at 31.12.2007. The foreign markets succeeded in enhancing their dealer financing volume overall. Receivables as at the end of the half-year totalled € 7.9 billion compared to € 7.4 billion as at 31.12.2007.

## **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 first six months of 2008 totalled € 0.8 billion (previous year: € 0.3 billion), largely due to receivables from finance leasing.

## **Shareholdings**

In the reporting period, Volkswagen Bank GmbH continued to hold its shares in Global Mobility Holding B.V., Amsterdam, and VOLKSWAGEN BANK POLSKA S.A., Warsaw.

## ***Deposit business and borrowings***

Besides equity, the main liability items are € 13.1 billion in liabilities to customers including the direct banking business (previous year: € 11.2 billion) and 5.8 billion in securitised liabilities (previous year: € 6.1 billion).

## Direct banking business

The deposit-taking business of Volkswagen Bank GmbH showed a positive development. At mid-year, the customer deposit volume reached € 11.6 billion, up 20.8% compared to 31 December 2007 (€ 9.6 billion). Volkswagen Bank *direct* thus makes a significant contribution to strengthening customer loyalty to the Volkswagen Group. The share of direct banking in the refinancing mix of Volkswagen Bank GmbH was 46.3% (previous year: 41.2%). The number of customers also increased by 14% which is partly a result of several sales partnerships.

## Equity

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

The determination of the regulatory equity ratios has been made in accordance with the standardised approach to credit and operational risks.

## Financial key performance indicators

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

	<b>30.06.2008</b>	<b>31.12.2007</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
<b>Equity ratio 1)</b>	<b>11.9 %</b>	<b>12.8%</b>	<b>12.8%</b>	<b>13.9 %</b>
	<b>31.03.2008</b>	<b>31.12.2007</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
<b>Core capital ratio 2)</b>	<b>13.3%</b>	<b>14.2 %</b>	<b>13.4%</b>	<b>14.2 %</b>
<b>Overall ratio 2) (regulatory)</b>	<b>19.6 %</b>	<b>20.8 %</b>	<b>20.1%</b>	<b>20.4 %</b>

Disclosures as at 30 June 2008 and 31 March 2008 do not include net retained profits.

### 1) Equity ratio

Ratio between equity and total capital

## **2) Core capital and overall ratio (regulatory)**

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

Overall ratio = Own funds/ ((Capital requirement for credit risks + operational risks + market risks)\*12.5)\*100

The figures as at 31.12.2006 and 31.12.2005 were computed in accordance with the old PrincipleI.

For non-financial key performance indicators, please see the 2007 personnel report.

## **Risk report**

There have been no significant changes relative to the disclosures in the "Risk report" of the 2007 annual report, which described all potential risks as well as the risk management methods employed.

Risks in the dealer financing segment are expected to increase slightly in the second six months of 2008 – especially in Germany – given the continued weakness of earnings of vehicle dealers.

There are no indications, either direct or indirect, that the US subprime crisis and its consequences for the international financial markets will affect Volkswagen Bank GmbH's exposure to risk. Volkswagen Bank GmbH is not active on the American market, and this risk segment is generally not part of its business strategy.

## **Opportunities**

Relative to the chapter entitled "Opportunities for Volkswagen Bank GmbH" in the 2007 annual report, no major changes are expected for the second half of 2008 in terms of opportunities.

## **Personnel report**

The restructuring of the German legal entities of the Volkswagen Financial Services AG Group was brought to a successful conclusion in 2007. The employees of Volkswagen Financial Services AG now work for the relevant subsidiaries under staff leasing agreements.

As a result, 773 employees of Volkswagen Financial Services AG were working in Volkswagen Bank GmbH's business units at 30 June 2008. The number of leased employees thus was 41.3% lower than at the close of 2007 (1,316 leased employees).

However, Volkswagen Bank GmbH continues to employ certain staff directly due to regulatory requirements. At 30 June 2008, this staff numbered 689 (31.12.2007: 585), 161 of which are employed in Germany.

## **Report on the branches and branch offices**

One change occurred in the first half of 2008 relative to the description in the 2007 annual report. The branches of Volkswagen Bank GmbH had 528 employees as at 30 June 2008 (31.12.2007: 370). The increase by 158 staff is due to the fact that the employees of VOLKSWAGEN FINANCE S.A. now have employment contracts with the French branch of Volkswagen Bank GmbH.

## **Events after the balance sheet date**

Aside from the events described above, no events of substantial significance occurred after completion of the interim report as at 30 June 2008.

## **Anticipated developments**

### **Global economy**

Continually rising prices for commodities and energy coupled with the uncertainty regarding both the duration and the consequences of the mortgage crisis in the United States will continue to affect the global economy in the second half of 2008.

### **Automobile and financial markets**

The global automobile markets are expected to show a year-on-year downturn in growth in 2008. South America, Russia, India and China will continue to be the world's growth drivers even though the pace will slow down somewhat in South America. The number of new car registrations is expected to decrease in Western Europe and the United States.

The mood in the international financial markets will probably remain quite anxious in the second half of 2008. Two contrasting factors are at work here: for one, the negative impact of the American subprime crisis as well as the inflationary ramifications of soaring crude oil prices and for another, the unabated dynamic of those countries with high growth rates that continue to stimulate the global economy. Given these uncertain times, the liquidity situation in both the money and interbank markets will remain tight.

An upturn in banks' refinancing of the securitised loan business by issuing tradable securities such as ABS is unlikely in the near future. The market now believes that the securitisation model used to date requires new standards, which must be developed both out of market participants' reactions and expected changes in the regulatory environment.

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

There have been no fundamental changes in the developments forecast in the 2007 annual report concerning our expectations for automotive sales and the resulting effects on the financial services business, as well as the utilisation of potentials within the automotive value-added chain.

We will continue to pursue our national and international activities, paying particular attention to cost management and process optimisation with the aim of improving our competitive position in the second half of 2008.

The Board of Management of Volkswagen Bank GmbH expects earnings for the full financial year 2008 to be slightly below those of the previous year.

# Half-year financial statements 2008

## Balance sheet as at 30 June 2008 of Volkswagen Bank GmbH, Brunswick

<b>Assets</b>	<b>€ 000</b>	<b>30.6.2008 € 000</b>	<b>31.12.2007 € 000</b>
<b>1. Cash reserve</b>			
a) Cash in hand	248		477
b) Deposits with central banks	<u>496,748</u>		<u>434,206</u>
of which:		496,996	434,683
at the Deutsche Bundesbank			
€ 489,960,000			(430,814)
<b>2. Receivables from financial institutions</b>			
a) Payable on demand	348,102		559,503
b) Other receivables	<u>651,017</u>		<u>500,843</u>
		999,119	1,060,346
<b>3. Receivables from customers</b>		21,690,959	20,213,719
<b>4. Debentures and other fixed-interest rate Securities</b>			
a) Bonds and debentures			
aa) By public-sector issuers	62,075		113,214
of which:			
eligible as collateral at the Deutsche Bundesbank € 62,075,000			(113,214)
ab) By other issuers	<u>110,865</u>		198,615
of which:			
eligible as collateral at the Deutsche Bundesbank € 110,865,000			(198,615)
		172,940	311,829
<b>5. Leased assets</b>		378,319	0
<b>6. Shares and other non-fixed-interest rate securities</b>		6,771	6,215
<b>7. Shareholdings</b>		1,079,991	1,079,991
of which:			
in financial institutions € 16,106,000			(16,106)
<b>8. Intangible assets</b>		32,135	3,706
<b>9. Tangible fixed assets</b>		14,918	18,638
<b>10. Other assets</b>		193,179	179,498
<b>11. Prepaid expenses</b>		16,592	16,274
<b>Total assets</b>		<b>25,081,919</b>	<b>23,324,899</b>



<b>Liabilities and equity</b>		<b>30.6.2008</b>	<b>31.12.2007</b>
	<b>€ 000</b>	<b>€ 000</b>	<b>€ 000</b>
<b>1. Liabilities to financial institutions</b>			
a) Payable on demand	14,839		23,759
b) With agreed repayment period or period of notice	<u>847,483</u>	862,322	<u>807,234</u> 830,993
<b>2. Liabilities to customers</b>			
a) Other liabilities			
aa) Payable on demand	8,123,205		7,229,878
ab) With agreed repayment period or period of notice	<u>4,962,707</u>	13,085,912	<u>3,949,524</u> 11,179,402
<b>3. Securitised liabilities</b>			
a) Debentures issued		5,783,092	6,128,473
<b>4. Other liabilities</b>		261,909	200,051
<b>5. Deferred income</b>		403,407	412,511
<b>6. Provisions</b>			
a) Provisions for pensions and similar obligations	44,724		43,537
b) Tax provisions	24,111		28,186
c) Other provisions	<u>84,550</u>	153,385	<u>84,751</u> 156,474
<b>7. Special tax-allowable reserve</b>		2,269	2,305
<b>8. Subordinated liabilities</b>		1,320,000	1,320,000
<b>9. Participation right liabilities</b>		90,000	90,000
<b>10. Fund for general banking risks</b>		25,565	25,565
<b>11. Equity</b>			
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
d) Net retained profits	<u>114,933</u>	3,094,058	<u>0</u> 2,979,125
<b>Total liabilities and equity</b>		<b>25,081,919</b>	<b>23,324,899</b>
<b>1. Contingent liabilities</b>			
a) Liabilities from surety and warranty agreements		72,482	11,135
<b>2. Other obligations</b>			
a) Irrevocable credit commitments		897,324	1,033,093

**Profit and loss account of Volkswagen Bank GmbH, Brunswick  
for the period from 1 January to 30 June 2008**

		2008	2007
	€ 000	€ 000	€ 000
<b>1. Interest income from lending and money market transactions</b>		734,607	632,095
<b>2. Net income from leasing transactions</b>		40,595	8,664
<b>3. Interest expense</b>		<u>461,581</u>	<u>329,923</u>
		313,621	310,836
<b>4. Current income from</b>			
a) Shares and other non-fixed interest rate securities		327	0
b) Shareholdings		<u>29,919</u>	<u>4,680</u>
		30,246	4,680
<b>5. Commission income</b>		115,652	94,168
<b>6. Commission expenses</b>		<u>84,271</u>	<u>68,451</u>
		31,381	25,717
<b>7. Other operating income</b>		53,835	172,634
<b>8. Income from the reversal Of the special tax-allowable reserve</b>		36	36
<b>9. General administration expenses</b>			
a) Staff costs			
aa) Wages and salaries	25,181		121,010
ab) Social security costs and expenses for pensions and support of which: for pension schemes: € 3,343,000	<u>7,786</u>	32,967	<u>26,684</u> 147,694 (6,011)
b) Other administration expenses		<u>169,723</u>	<u>147,980</u>
		202,690	295,674
<b>10. Depreciation, amortisation and value adjustments To intangible and tangible fixed assets</b>		12,267	6,196
<b>11. Other operating expenses</b>		5,427	11,952
<b>12. Depreciation and value adjustments to receivables and certain securities, as well as transfers to provisions for lending business</b>		44,167	13,597
<b>13. Depreciation and value adjustments to shareholdings, shares in affiliated companies and securities treated as fixed assets</b>		400	0
<b>14. Income from ordinary business activities</b>		164,168	186,484
<b>15. Taxes on income and earnings</b>		48,223	68,758
<b>16. Other taxes, unless shown under item 11</b>		1,012	748
<b>17. Net income for the half-year</b>		114,933	116,978
<b>18. Net retained profits</b>		<b>114,933</b>	<b>116,978</b>

## **Notes to the financial statements of Volkswagen Bank GmbH, Brunswick, as at 30 June 2008**

### **I. General comments about the half-year financial statements**

The half-year 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 2007 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 personnel 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.

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

These half-year financial statements were not subjected to a review.

### **II. Accounting policies**

The same accounting policies that were used in the annual financial statements for 2007 were applied to the preparation of the half-year financial statements and the determination of the corresponding amounts for the previous year. A detailed description of these methods is contained in the notes to the annual financial statements of the 2007 annual report.

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 over their useful life, using the straight-line method. The useful life of passenger cars is six years.

### III. Notes to the balance sheet

The notes to the balance sheet concern changes relative to the balance sheet date 31 December 2007.

#### Receivables from financial institutions

Receivables from financial institutions include receivables from affiliated companies amounting to € 0 (previous year: € 500,598,000) and receivables from joint ventures amounting to € 21,000 (previous year: € 245,000).

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

- Payable on demand € 348,102,000 (previous year: € 559,503,000)
- Up to one month € 651,017,000 (previous year: € 8,273,000)
- Up to three months € 0 (previous year: € 30,911,000)
- Up to one year € 0 (previous year: € 139,154,000)
- More than one year and up to five years € 0 (previous year: € 322,505,000).

The receivables from financial institutions do not contain any subordinated loans (previous year: € 0).

#### Receivables from customers

This item includes unsecuritised receivables from affiliated companies amounting to € 1,423,796,000 (previous year: € 734,081,000) and receivables from joint ventures amounting to € 608,806,000 (previous year: € 515,972,000).

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

- Up to three months € 3,961,868,000  
(previous year: € 2,965,855,000)
- More than three months and up to one year € 3,224,982,000  
(previous year: € 3,041,682,000)
- More than one year and up to five years € 7,995,224,000  
(previous year: € 7,894,577,000)
- More than five years € 451,097,000  
(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 € 6,057,788,000 (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 € 766,390,000 (previous year: € 290,041,000), of which € 430,702,000 (previous year: € 0) are attributable to the French bank branch and € 335,688,000 (previous year: € 290,041,000) are attributable to the Italian bank branch.

**Receivables from shareholders**

Receivables from our sole shareholder, Volkswagen Financial Services AG, Brunswick, as at the balance sheet date amounted to € 86,132,000 (previous year: € 8,887,000).

**Leased assets**

This item of € 378,319,000 (previous year: € 0) comprises leased vehicles as part of the operating leasing business of Volkswagen Bank GmbH's French branch.

**Liabilities to financial institutions**

The maturity breaks down as follows:

- Payable on demand € 14,839,000 (previous year: € 23,759,000)
- Up to three months € 100,058,000 (previous year: € 65,161,000)
- More than three months and up to one year € 389,806,000 (previous year: € 506,923,000)
- More than one year and up to five years € 284,272,000 (previous year: € 170,852,000)
- More than five years € 73,347,000 (previous year: € 64,298,000).

**Liabilities to customers**

The item includes unsecured liabilities to affiliated companies amounting to € 1,200,788,000 (previous year: € 1,345,915,000).

Deposits from the direct banking business amount to € 11,619,373,000 (previous year: € 9,620,086,000).

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

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

- Up to three months € 1,698,135,000 (previous year: € 1,778,897,000)
- More than three months and up to one year € 1,694,037,000 (previous year: € 904,946,000)
- More than one year and up to five years € 1,420,599,000 (previous year: € 1,058,831,000)
- More than five years € 149,936,000 (previous year: € 206,850,000).

**Liabilities to shareholders**

Liabilities to our sole shareholder, Volkswagen Financial Services AG, Brunswick, on the balance sheet date amounted to € 22,478,000 (previous year: € 439,283,000).

### **Securitised liabilities**

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

**Commercial papers:** € 445,355,000 (previous year: € 813,237,000)

Remaining maturity

- Up to three months € 425,963,000 (previous year: € 701,470,000)
- More than three months and up to one year € 19,392,000 (previous year: € 111,767,000)

**Debentures:** € 5,337,737,000 (previous year: € 5,315,236,000)

Remaining maturity

- Up to three months € 342,737,000 (previous year: € 385,236,000)
- More than three months and up to one year € 935,000,000 (previous year: € 735,000,000)
- More than one year and up to five years € 4,060,000,000 (previous year: € 4,195,000,000)

### **Subordinated liabilities**

The total volume did not change compared to the end of the previous year.

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 against interest rate risks. The expenses in connection with the raising of subordinated loans and bonds amounted to € 26,016,000 (previous year: € 24,514,000).

The expenses in connection with the raising of subordinated borrower's note loans amounted to € 3,471,000 (previous year: € 3,452,000).

### **Subordinated bonds**

There were no changes compared to the end of the previous year.

### **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 against interest rate risks. The expenses in connection with the raising of funds amounted to € 3,212,000 (previous year: € 3,213,000).

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", as interest is not offset in the liable capital relevant under Principle I.

## 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 30 June 2008

Description	Gross book values					Value adjustments					Net book values	
	Brought forward 1.1.08 € 000	Additions from merger € 000	Additions € 000	Disposals € 000	Balance 30.6.08 € 000	Brought forward 1.1.08 € 000	Additions from merger € 000	Additions € 000	Disposals € 000	Balance 30.6.08 € 000	Balance 30.6.08 € 000	Balance 31.12.07 € 000
Leased assets	0	496,917	99,314	106,852	489,379	0	107,617	36,760	33,317	111,060	378,319	0
Shares and other non-fixed-interest rate securities	6,215	0	1,195	239	7,171	0	0	400	0	400	6,771	6,215
Shareholdings	1,079,991	0	0	0	1,079,991	0	0	0	0	0	1,079,991	1,079,991
Intangible assets	147,790	4,194	38,391	0	190,375	145,005	2,929	10,340	0	158,274	32,101	2,785
Advance payments on intangible assets	921	32	2	921	34	0	0	0	0	0	34	921
Land, similar rights and buildings on land owned by others	20,707	3,218	32	539	23,418	12,813	451	493	225	13,532	9,886	7,894
Other plant, operational and office equipment	18,300	6,069	1,918	12,685	13,602	7,556	2,952	1,514	3,444	8,578	5,024	10,744
Advance payments made and construction in progress	0	0	8	0	8	0	0	0	0	0	8	0
<b>Total fixed assets</b>	<b>1,273,924</b>	<b>510,430</b>	<b>140,860</b>	<b>121,236</b>	<b>1,803,978</b>	<b>165,374</b>	<b>113,949</b>	<b>49,507</b>	<b>36,986</b>	<b>291,844</b>	<b>1,512,134</b>	<b>1,108,550</b>

The goodwill of € 37,624,000 that was recognised 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 are used exclusively in the Bank's own business activities.

## IV. Notes to the profit and loss account

The notes to the profit and loss account refer to changes compared to the same period last year (1.1.2007 to 30.6.2007).

### **Interest income from lending and money market transactions**

The proportion of interest income generated at the foreign branches is 29.4% (previous year: 28.3%), of which the largest share was generated by the branches in Italy and the United Kingdom.

As a result of disclosing the net income from leasing transactions in a separate item, income from finance leasing transactions totalling € 35,456,000 (previous year: € 8,664,000), which previously was shown under interest income, has been reclassified to net income from leasing transactions.

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

The net income from leasing transactions comprises earnings from finance leasing and operating leasing that are generated by the bank's branches in Italy and France. While leasing income was € 161,898,000 (previous year: 8,664,000), expenses were € 81,847,000 (previous year: € 0) and depreciation totalled € 39,456,000 (previous year: € 0). The changes essentially result from the takeover of the leasing business of 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 € 11,908,000 (previous year: 12,434,000) which is not related to the accounting period and which essentially results from the participation in profits of residual debt and unemployment insurance.

### **General administration expenses**

The general administration expenses that until 30 June 2007 were incurred primarily by Volkswagen Bank GmbH must be viewed in connection with the other operating income due to cost apportionments. Both items showed an increase.

## **V. Other notes**

### **Details of corporate bodies**

#### **The Board of Management of Volkswagen Bank GmbH**

##### **Klaus-Dieter Schürmann**

Spokesman of the Board of Management  
Business Line Individual Customers & Corporate Customers,  
Direct Banking, Treasury, Regions Northern Europe, Southern Europe and Eastern Europe

##### **Rainer Blank**

Sales Individual Customers & Corporate Customers

##### **Dr. Michael Reinhart**

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



## **Supervisory Board of Volkswagen Bank GmbH**

The following information is disclosed in addition to that provided in the 2007 annual report:

### **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

### **Dr. Jörg Boche** (from 1.4.2008)

Group Treasurer  
Volkswagen AG

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

The following information is disclosed in addition to that provided in the 2007 annual report:

As a result of the merger of VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, into the French branch of Volkswagen Bank GmbH, Dr. Michal Reinhart and Dr. Vincenzo Condorelli are no longer members of the supervisory body.

## Responsibility statement of the Board of Management

To the best of our knowledge, and in accordance with the applicable reporting principles, the half-year financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Volkswagen Bank GmbH, and the interim 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, 16 July 2008

The Board of Management



Klaus-Dieter Schürmann



Dr. Michael Reinhart



Rainer Blank

## **Publishing information**

### **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.

### **Published by:**

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You will also find the half-year financial report 2008 at [www.vwfs.de/hy08](http://www.vwfs.de/hy08).

This half-year financial report is also available in German.