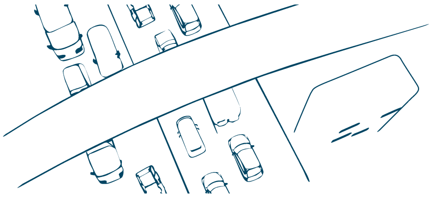
VOLKSWAGEN FINANCIAL SERVICES

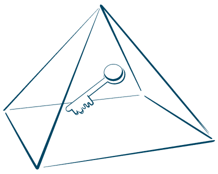
AKTIENGESELLSCHAFT



A chave da mobilidade.

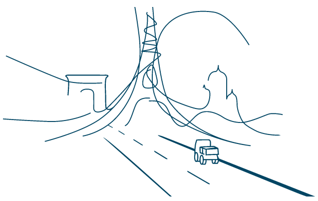
The key to mobility.

Ключ



Der Schlüssel zur Mobilität.

गतिशीलता की कुंजी.



La chiave per la mobilità.

ANNUAL REPORT 2011

Volkswagen Financial Services AG at a glance

in € million (as at 31.12.)	2011	2010	2009	2008	2007
Total assets	76,946	65,332	60,286	57,279	52,314
Receivables arising from					
Retail financing	33,261	30,505	26,603	21,913	20,884
Wholesale financing	10,412	8,828	8,391	9,584	9,360
Leasing business	14,252	13,643	13,935	14,912	13,639
Leased assets	6,382	4,974	3,666	3,003	2,436
Customer deposits[1]	23,795	20,129	19,532	12,835	9,620
Equity	7,704	6,975	6,311	6,780	6,012
Pre-tax result	933	870	554	792	809
Taxes on income and earnings	– 275	– 247	– 159	– 214	– 90
Net income	658	623	395	578	719

in % (as at 31.12.)	2011	2010	2009	2008	2007
Cost/income ratio[2]	60	60	69	61	58
Equity ratio[3]	10.0	10.7	10.5	11.8	11.5
Core capital ratio	9.8	10.5	11.2	8.8	7.0
Overall ratio	10.1	10.5	11.4	10.8	8.9
Return on equity[4]	12.7	13.1	8.5	12.4	15.2

Number (as at 31.12.)	2011	2010	2009	2008	2007
Employees	7,322	6,797	6,775	6,639	6,138
In Germany	4,599	4,297	4,290	4,128	3,856
Abroad	2,723	2,500	2,485	2,511	2,282

Rating[5]	Standard & Poor's			Moody's Investors Service		
	short-term	long-term	outlook	short-term	long-term	outlook
Volkswagen Financial Services AG	A–2	A–	stable	Prime-2	A3	positive
Volkswagen Bank GmbH	A–2	A–	stable	Prime-2	A3	positive

1 The year-end customer deposit figure for 2009 was adjusted to the customer deposit definition applicable from 2010 onwards.
2 General administration expenses divided by net income from lending, leasing and insurance transactions after provisions for risks and net commission income
3 Equity divided by total assets
4 Pre-tax result divided by the average equity
5 For details see section "Capital market activities"

We are determined to continue expanding our market and innovation leadership, and consistently pursue our transformation into a comprehensive mobility services provider. Our product innovations will allow us to continue giving our customers the right “key to mobility” in future too.

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Foreword of the Board of Management

FRANK WITTER, Chairman of the Board of Management

Ladies and Gentlemen,

2011 was a good year for Volkswagen Financial Services AG. It was a year in which the global automotive industry recorded healthy growth. The Volkswagen Group benefited in particular from this growth, with sales and earnings topping even optimistic forecasts. Also our company achieved the ambitious targets we had set ourselves: our pre-tax result rose by a substantial 7.2 % year on year to reach € 933 million. This excellent result was driven primarily by lower risk costs, strong sales performance and refinancing costs that increased slowly as expected.

The economic environment is still dominated by the effects of the euro crisis on the money and capital markets, and – consequently – on the finance industry as a whole. Thanks to our broadly diversified refinancing activities, we are ideally positioned to meet the challenges we face as a result of this crisis. The high acceptance enjoyed by our bonds, even in this difficult market environment, reflects our excellent standing in the capital markets. We also take this as proof that we have not only weathered the crisis well but have further consolidated our competitive position.

Selling financial services is our core competency. We act as a promoter for the Volkswagen Group brands and our innovative products are making a key contribution to the sales of the Group's products. The expansion of our non-asset-based business – the sale of insurance and services centred on automotive mobility – is becoming particularly important in this context.

As our business involves providing the solutions to customers' individual mobility needs, our product range focuses squarely on generating benefit for customers. Last year, with this end in mind, we sharpened the focus of all our divisions on our customer groups, starting in Germany. This further improves the efficiency of our sales organisation to ensure that our sustainable growth continues into the future. Last year, we demonstrated once again that we are the industry's innovation leader. A good example of this is the "up!grade" full-service package – the first such package developed for a Group vehicle, the Volkswagen up!. From early 2011, we have also been marketing the superior warranty insurance offered by the recently established Volkswagen Versicherung AG. Last but not least, our new "credit2drive" service, which makes it easier for prospective drivers to finance their driving licence and become mobile, is a further example of the innovative customer solutions we offer.

We also systematically pressed ahead with expanding our global presence, as has been demonstrated by the substantial volume increases in the United Kingdom and Brazil, for example. In addition, we secured a licence to provide financial services in India, which has brought us much closer to our goal of developing new international growth markets. On top of this, we also succeeded in entering the warranty insurance business in France and expanding our activities in Korea. These efforts have enabled us to further increase our number of contracts worldwide and thus enlarge our global footprint. Once again, we paid particular attention to creating innovative and sustainable products in 2011. Launched in conjunction with the Volkswagen brand, the “Quicar” programme in Hanover was the first step towards making attractive, energy-efficient automobiles available for short-term rental.

We also continued our successful joint environmental programme with NABU (the German Nature and Biodiversity Conservation Union) aimed at encouraging environmentally conscious fleet management. At the same time, we pushed ahead with promoting our next joint climate protection project. Such activities show that Volkswagen Financial Services AG is consciously facing up to its responsibility to the environment and future generations with sustainable actions. All of these examples are testimony to our claim of being a pioneer in the provision of integrated, responsible mobility services.

We have embedded our different business activities within our WIR2018 strategy. In 2011, we proceeded to systematically implement these as part of operations, backing them with concrete measures and monitoring them. Our all-encompassing WIR2018 strategy is very clearly a growth strategy that concentrates on tapping and penetrating further into new markets, expanding our services business and developing new mobility concepts. Close integration with the Volkswagen Group brands is a key element of this strategy.

I would like to thank our partners at the Volkswagen Group brands for their excellent teamwork, as well as our customers, dealers and business partners for the trust they place in us. We look forward to continuing our successful cooperation. My special thanks go to our wonderful staff. We know that we demanded a lot from our employees over the last year, and that only a highly competent and dedicated team of people can make this kind of success possible. Our strategy is called “WIR2018” (“WE2018”) for a reason!

Only with a clear picture of our customers’ needs and with motivated employees can we be “the best automotive financial services provider in the world”.

Sincerely,

Frank Witter
Chairman of the Board of Management

Braunschweig, March 2012

The Board of Management of Volkswagen Financial Services AG

DR. MICHAEL REINHART
Risk Management

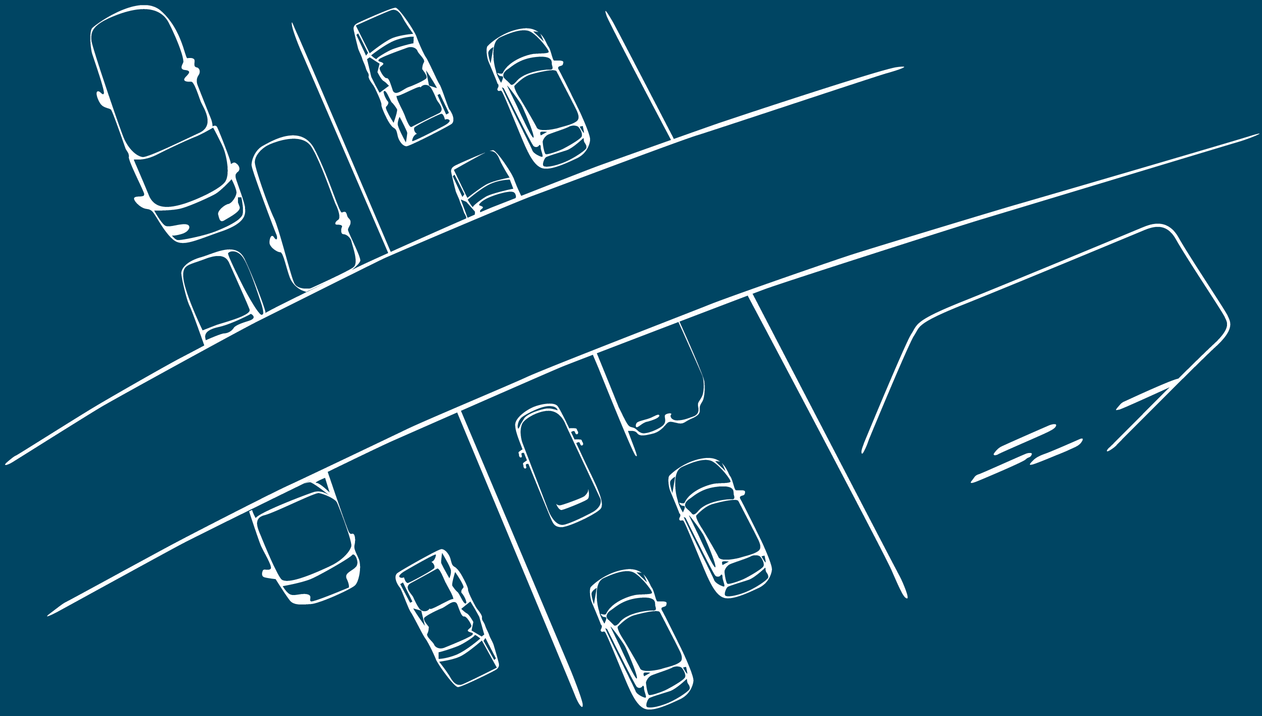
LARS-HENNER SANTELMANN
Sales and Marketing

FRANK WITTER
Chairman of the Board of Management

CHRISTIANE HESSE
Human Resources and Organisation

FRANK FIEDLER
Finance

Our sales strategy



Volkswagen Financial Services AG is the Volkswagen Group's second core competence. We boost the sales of the Group's automotive brands through our financing, leasing, insurance and service products, ensuring long-term customer loyalty. Our financial services are also key to the range of innovative solutions we offer for a New Mobility.

Delivering pioneering mobility services

We exploit opportunities as they arise based on our sales strategy, thus ensuring our success as both the financial services provider and the sales promoter for our automotive brands.

The name says it all: Volkswagen Financial Services AG operates the financial services business within the Volkswagen Group. As a captive, i.e. the Group's financial services provider, more than 60 years ago we started to finance the legendary "Beetle" and Volkswagen Transporter for both private and corporate customers under the name Volkswagen Finanzierungsgesellschaft mbH. Later on, the range of offerings was complemented by automotive leasing, expanded by the insurance business and given an international outlook.

WE OFFER ALL PRODUCTS AND SERVICES AROUND THE AUTOMOBILE

Today Volkswagen Financial Services AG offers all products and services around the automobile related to financing, leasing, insurance and service contracts. The range of our financial services extends to integrated mobility packages, which offer a unique combination of our products and services or enable the New Mobility, e.g. in conjunction with rental or car-sharing models.

OUR SALES STRATEGY HAS THE STRUCTURE OF A PYRAMID

We have given our sales strategy the structure of a growth pyramid.

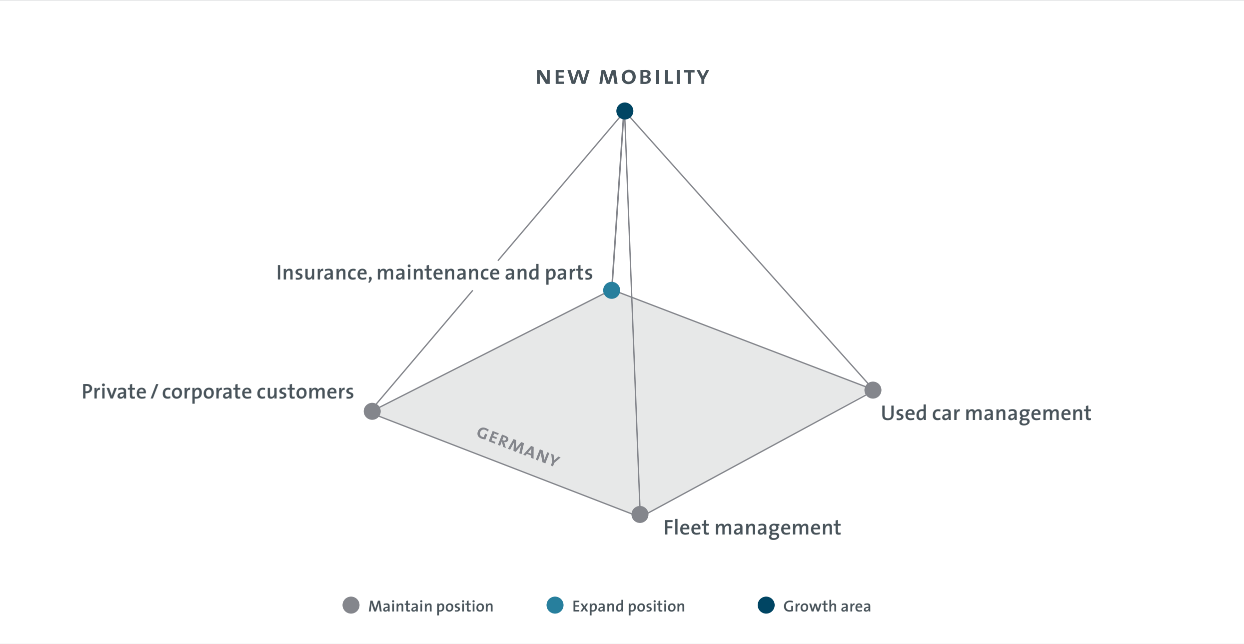
This growth pyramid encompasses five central areas that we leverage to continue broadening our success. We engage in all five areas simultaneously and intensely, as shown here using Germany as an example:

- Private and corporate customers: We are the market leader in the business with our end customers and corporate customers, i.e. the dealers. We will maintain this position by optimising our offerings and processes on a continuous basis.

- Fleet management: We offer our fleet customers comprehensive services that generate substantial added value in terms of costs and benefits. We are gradually extending our market leadership in Germany to Europe and other markets worldwide.

- Used car management: We continuously develop new, innovative products and services for used cars, the "young used car" segment for instance, making an active contribution to value stability in the used car market. We will continue to grow thanks to our products, services and expertise in this area.

OUR GROWTH PYRAMID FOR THE GERMAN MARKET – THE BASIS FOR WORLDWIDE APPLICATION



- Car insurance as well as contracts for maintenance, inspection and other repair shop services: We are constantly developing new offerings for these aftersales services and market them successfully. We will pursue targeted growth in this area of our non-asset-based business, and our approaches regularly give us access to vehicle data. This enables us to deepen our customer relationships and secure our position as a comprehensive mobility services provider.

- New Mobility: This aspect of our growth pyramid entails working on innovative approaches, which will deliver the right "key to mobility" in future too – regardless of whether one owns a car or wants to use a vehicle for an hour, a day, a month, a year or its entire life cycle. The trend is thus moving away from ownership and toward mere usage of a car. Today customers still own cars, in future many drivers might even share one. We offer innovative solutions for this New Mobility.

THE DIRECT BANKING STRATEGY WORKS HAND IN GLOVE

Our sales strategy applies Group-wide to all divisions and subsidiaries of Volkswagen Financial Services AG. The direct bank is an important pillar in this respect. At more than one million customers, it is one of Germany's largest direct banks. We will intensify the extent to which we leverage this potential in terms of customer contacts and customer trust through our expanded direct banking strategy for all automotive related services.

WE LEVERAGE GROWTH POTENTIAL WORLDWIDE

Growth potential arises not just from the introduction of innovative products and services but also from the worldwide expansion of our activities. It is our aim as the sales promoter of the Volkswagen Group to offer our products and services wherever the Group's automotive brands are sold. Volkswagen Financial Services AG already maintains a presence in 38 countries. But we still see a lot of potential in terms of both the number of markets and our ability to penetrate them, i. e. the number of vehicles sold which we "equip" with financial services packages.

Among the developed markets, Germany possesses special significance for us not just because it is our domestic market but also because it is our reference market. Many of the products and approaches that we develop here can be applied to other markets. But new offerings specific to given markets are developed independently of that and launched successfully, above all in the emerging markets. Many decades of experience and our innovation know-how benefit us in developing suitable products and services. The fleet market in Brazil is one example because it is more like a car rental business than a fleet business. We are now launching a fleet concept in this market that takes its specific requirements into account and can subsequently be applied to fleet markets such as South Africa or Mexico that have a similar structure.

OUR SELF-IMAGE: INNOVATION LEADER DEDICATED TO ITS PRODUCTS

As an integral part of the Volkswagen Group, we are closely integrated with the automotive brands because product and market development work hand in glove. We define ourselves through these products, just as the Group's automotive brands. This dedication to the product – Volkswagen's very own DNA – makes itself felt throughout the entire Group. All of us are proud of our products and their success. Perfectionism also is the hallmark of our financial services business. Being and staying the innovation leader in the market – i. e. quickly turning our innovative ideas into real products and services – is an existential necessity for us.

Our market leadership is rooted precisely in our innovation leadership and the way we shield ourselves from being copied. Our products and services are seamlessly embedded in the automotive value chain and backed by efficient processes. This is where our decisive competitive advantage comes into play. As a captive financial services provider, we possess a business model that is unrivalled in terms of its diversity and its breadth, and we are continuously expanding it such that it is almost impossible to reproduce it. Our approach leverages both the expertise and the linkages in automotive manufacturing as well as our unique

"Well positioned for the future of (auto)mobility."

CORNELIA WIEDEMANN
Head of Mobile Services

In the past, the connection between driver and car was limited to the key in one's pocket and the vehicle registration in one's wallet. But there are new options thanks to the Internet and smartphones. Connectivity – the continuous link between person and car – is the catchword.

There are already new services on the horizon that will broaden the product range of financial services providers and facilitate our mobility in future, whether checking the status of the battery in an electric car using one's mobile phone, reserving a vehicle under the car-sharing scheme or making entries in an electronic driver's logbook.

We want to build these – and other very interesting products – into cars and offer them to our customers in future. In practice this means that developing new car models will require thinking not just in terms of the metal required but also in terms of the services right from the start.

It is my task to network the developers of the vehicles and Volkswagen's financial services providers in order to ensure that appropriate interfaces are available. We can contribute our experience as Europe's largest fleet company to the development of and planning for new vehicles because we know our customers' needs very well.

We have already launched several pilot projects in cooperation with the Volkswagen Passenger Cars and Audi brands to test new approaches to leasing or usage-based billing (pay-as-you-drive = PAYD). The experience gained then becomes the basis for developing new business models.

Linking car and services – i. e. the concept of total mobility – thus is not a daydream. We closely analyse both the business model and its utility for customers. It is the only way to integrate the future of mobility into cars, safely and profitably.

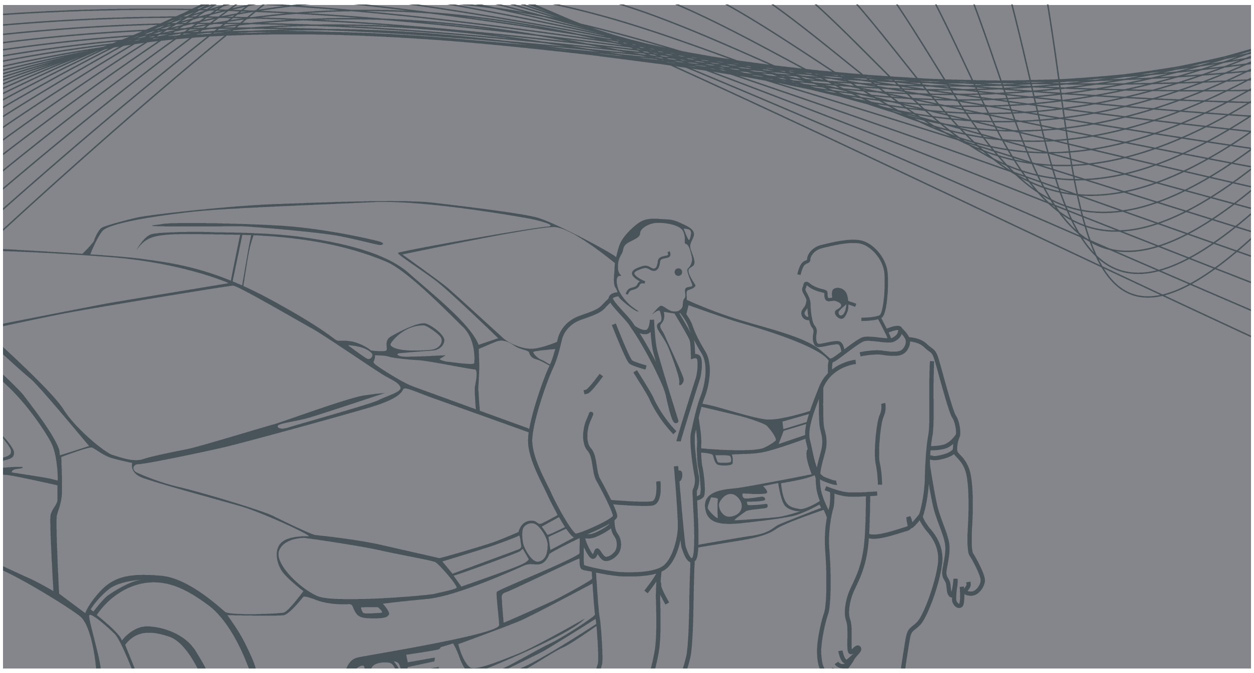
Our ability to bring innovations successfully to market will allow us to continue giving our customers the right "key to mobility" in future too.

experience of many years in the financial services business. The pioneering products and services within our worldwide sales network that transcends individual sales channels is made possible by a top team of currently 7,322 employees. It is unique in terms of the variety of skills it combines and is given a perfect face in sales especially by our highly capable local dealers.

OUR EMPLOYEES AND DEALERS ARE KEY SUCCESS FACTORS

The breadth of our range of services places high requirements on our employees and dealers alike. Besides professional competence, they must also possess a lot of flexibility and creativity. For instance, the new rental packages that entail short rental periods have boosted the number of customer contacts. In contrast to a purchase or financing deal, in these cases customers must pick a particular service provider much more often. That's a challenge for our team and our partners. But it also gives us the opportunity to strengthen customer loyalty through these frequent customer contacts and to draw their attention to complementary products for example.

Qualified and motivated staff are central to success in our business. Hence our growth strategy is based on our aim to have the best teams in every market – teams that display their expertise in conventional financial services but also fulfil the job requirement profiles in new areas and the New Mobility. Our global alignment enables us to work within an international network on a interdisciplinary basis.



OUR STRATEGIC AIMS ARE CLEARLY DEFINED

Volkswagen Financial Services AG is pursuing a clear goal based on its WIR2018 strategy: We want to be the best automotive financial services provider in the world. This allows us to actively support the Volkswagen Group in the pursuit of its Strategy 2018 with the overarching aim of becoming the world's leading automobile company. It is our strategic aim to equip one out of two new cars with at least one financial services contract.

Our WIR2018 strategy entails delivering the best mobility packages to our customers in terms of both processes and products: optimally aligned and capable of satisfying customer needs in comprehensive fashion. We want to be the most attractive sales promoter worldwide for all automotive brands of the Volkswagen Group. As the quality leader that does business with the dealers, customers and brands of the Volkswagen Group, we also aim to boost both dealer loyalty and customer loyalty along the automotive value chain. In doing so our products can support customers throughout their experience as drivers – starting with the financing of a driver's licence for instance, all the way to used car warranties or rental offers. We meet these standards through our top team – i. e. our high-performing staff.

Our WIR2018 strategy and the sales strategy we have derived from it will enable us to boost both our business volume and our profitability. Our ability to bring innovations successfully to market will allow us to continue giving our customers the right "key to mobility" in future too.

A conversation

LARS-HENNER SANTELMANN, member of the Board of Management responsible for Sales and Marketing

"We have been offering automotive financial services for over 63 years, but the products we provide have never been so good, so varied and so perfectly tailored to our customers' needs and to the Volkswagen Group brand products as they are today. Yet there is always room for improvement. Getting better at what we do is the only way we will remain pioneers."

Selling automotive financial services is practical work for individual mobility worldwide

"What sets Volkswagen Financial Services AG apart? What do customers around the world want and how can they be won over? How does a person think that needs to know the answers?" These and other questions were discussed at length by the Investor Relations team with Lars-Henner Santelmann, the member of the Board of Management of Volkswagen Financial Services AG responsible for Sales and Marketing. The group came to a remarkable conclusion: highly gifted trend scouts are sometimes only five years old!

Mr. Santelmann, what is it about your job that you like most?

LARS-HENNER SANTELMANN: We offer our customers a broad range of services. Since we are unable to patent most of our products, we permanently work on creating new innovative solutions to stay ahead of our competitors. Continuously refining our products is therefore essential. There's never a dull moment. That excites me!

How does Volkswagen Financial Services AG differ from a "regular" financial services provider?

LARS-HENNER SANTELMANN: We love the vehicles developed by the Volkswagen Group brands and provide customised solutions for them. At the same time, the services we offer go far beyond those of an automotive bank or a direct bank. They include fleet management, fuel cards, automobile and repair insurance, and vehicle leasing. This makes us much more than a "regular" financial services provider.

These days, owning a car does not seem to be as important for young people as it was for generations before them. How old were you when you got your first car – and how did you pay for it?

LARS-HENNER SANTELMANN: Nowadays, cars play an even greater role in individual mobility than in the past. However, for young people having easy access to the use of a vehicle is actually much more important than owning one. That was also true in my case. When I was 18, I used to drive my mother's 'Stroke/8' Mercedes. That was my first car. I drove it frequently – and without paying a cent for the privilege!

What do you think it will be like when your children grow up?

LARS-HENNER SANTELMANN: My five-year-old daughter Franziska recently told me in the car that she plans to lease cars in the future rather than buying them. She gave a valid reason: "Then I can always change the colour."

> “We are particularly proud of the achievements of our employees, our partner dealers and the Volkswagen Group brands. We are all acting in concert – worldwide. This is what makes us successful.”
>
> LARS-HENNER SANTELMANN
> Member of the Board of Management

For you as a financial services provider, what is the main difference between “old” and “new” mobility?

LARS-HENNER SANTELMANN: “Old” mobility was all about owning your car, whereas the New Mobility relates to vehicle use. Having access to the best vehicle that suits your specific needs is becoming increasingly important. For example, using the small Volkswagen up! for driving to work every day, the Audi A6 Avant for holidays with the whole family and a Volkswagen Crafter for when your eldest son moves out.

Which of your company’s product innovations do you regard as especially pioneering?

LARS-HENNER SANTELMANN: We have identified particularly innovative paths in two different directions: Firstly with the highly successful packages we offer comprising automotive financing, insurance and services, and secondly with the online vehicle management systems for cost-effective vehicle fleet operation.

Volkswagen Financial Services claims to be the innovation leader in the industry. Still, is there any idea you wish you had come up with yourself?

LARS-HENNER SANTELMANN: Yes! Sixt’s Angela Merkel advertisement.

Nothing works perfectly all the time in any company. What annoys you in particular?

LARS-HENNER SANTELMANN: What gets my goat is when great ideas have been filed away for too long before being offered to our customers. In recent years, we perceptibly reduced our time to market, though the solution is still “even faster, even better”.

And when everything keeps going well, what are you particularly proud of?

LARS-HENNER SANTELMANN: We are particularly proud of the achievements of our employees, our partner dealers and the Volkswagen Group brands. We are all acting in concert – worldwide. This is what makes us successful. And it is always a good reason to celebrate such achievements.

The current auto boom in the emerging markets is reminiscent of earlier developments in Germany and Europe. What are your experience and products worth in these markets?

LARS-HENNER SANTELMANN: We have operations worldwide and naturally transfer the experience and expertise we have built up in one market to other markets as well. In today's growth markets, development cycles are much faster than in established markets. Particularly in the new megacities, customers are very well informed, which means we can introduce innovative financial services there very quickly.

Which blank spots on the world map are you hoping to fill next?

LARS-HENNER SANTELMANN: We are in the middle of entering the South Korean market. This will be followed by Portugal and a new joint venture in Belgium. And a list of the next candidates already exists. We are therefore continuing to expand.

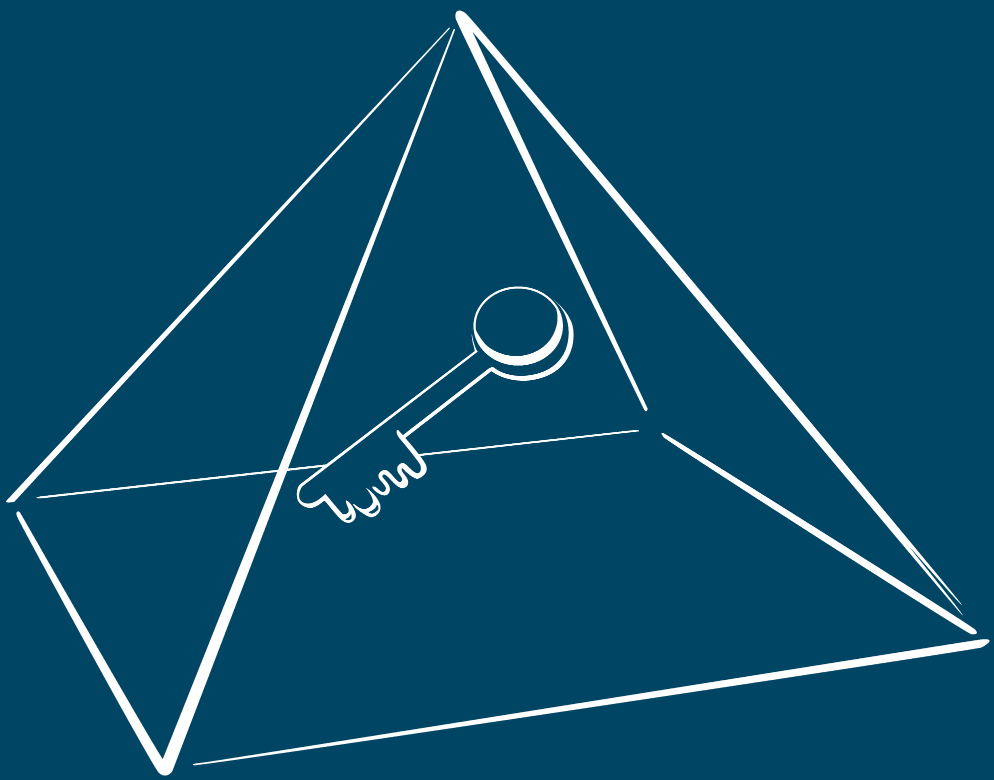
In both established and emerging markets alike, cars now "live" for a lot longer than before. At what stage does a vehicle stop being interesting for you?

LARS-HENNER SANTELMANN: A vehicle only stops being interesting when scrapped. While it is true to say that financing is no longer an issue for very old cars because of their low residual value, vehicle liability insurance is always required. In this respect, we aim to accompany our vehicles throughout their entire life cycle. We call this "car relationship management".

Volkswagen Financial Services is striving to be "the best automotive financial services provider in the world". When will this happen? And how much progress have you already made?

LARS-HENNER SANTELMANN: I firmly believe that we are close to achieving this goal. The next five years should see us wrapping it up in the principal dimensions – pioneering innovation management, implementation speed, worldwide presence and focusing squarely on our customers' wishes.

Sales in practice



We offer the "key to mobility" for Volkswagen Group vehicles – that's our brand guideline. It provides the parameters within which we develop and implement our pioneering and customer-focused range of services in efficient and timely fashion. This is our principal function in sales.

Getting things done is integral to our brand guideline

Our ability to get things done is visible in the way we implement our growth-oriented business model, tap into new markets and develop innovative products.

Our WIR2018 strategy and the resulting sales strategy define the course for our daily work at the operating level. Our aim is to use continuously optimised offerings for private and corporate customers to secure our market leadership by being an innovation leader that cares for its products. But our current business model is also aimed at broader customer groups and takes into account dynamic changes in consumer demand. We leverage the resulting growth potential by developing and implementing innovative products and services. The success of our ability to get things done shows especially in fleet management, in used vehicle management, in aftersales and finally in the so-called New Mobility.

WE MAKE FLEET MANAGEMENT EVEN BETTER, EVEN MORE INTERNATIONAL

Our fleet customer business in Germany generated exceptional growth in recent years. The fleet customer contract portfolio has soared by just under 100 % to about 400,000 contracts since 2005, rising at an accelerated rate the past three years. Our business model is based on a full-service concept that is continuously broadened through new technical solutions. FleetCARS, an integrated and customer-focused management and reporting system, is a current example of this concept. At the same time, we are continuously expanding the range of our offerings – e. g. through new products related to fuel cards, car insurance or tyre services.

We have succeeded in enhancing this positive development in Germany step by step through selective expansion. The fleet management experience that we have gained in Germany also enables us now to continue expanding our fleet activities and systems in Europe. This creates both international presence and expertise which in turn is the prerequisite for growing the fleet customer business. This makes it easier for us to win international tenders and thus boost our opportunities to do business with companies that operate globally. In 2011 we established or further expanded our fleet management capability in all major European markets by establishing the range of our products and services in nine European Union countries including Germany.

OUR USED CAR BUSINESS ENTAILS PROACTIVE RESIDUAL VALUE MANAGEMENT

A brisk business has developed in the German used vehicle business given the increasing saturation of the new vehicle market. The young used car market – i. e. vehicles that are up to four years old – is attracting much interest from private customers in search of financial services packages. We have boosted our market share in the financing of used Volkswagen Group brand vehicles on a continuous basis to almost 60 % in recent years. Our service packages for used cars thus also help to secure residual vehicle values and insofar are integral to proactive and successful residual value management. The range of services for used cars has by now become equivalent to that for new cars.

We are also pursuing new approaches to sales of used cars. The "I love yoused" pilot project with one of our fleet customers allows this customers' employees to lease high-value young used cars and return them at the end of the lease or purchase them at terms that are comparable to those offered to Volkswagen Group employees. The programme will be expanded to additional customers in 2012 given the good response that it has elicited.

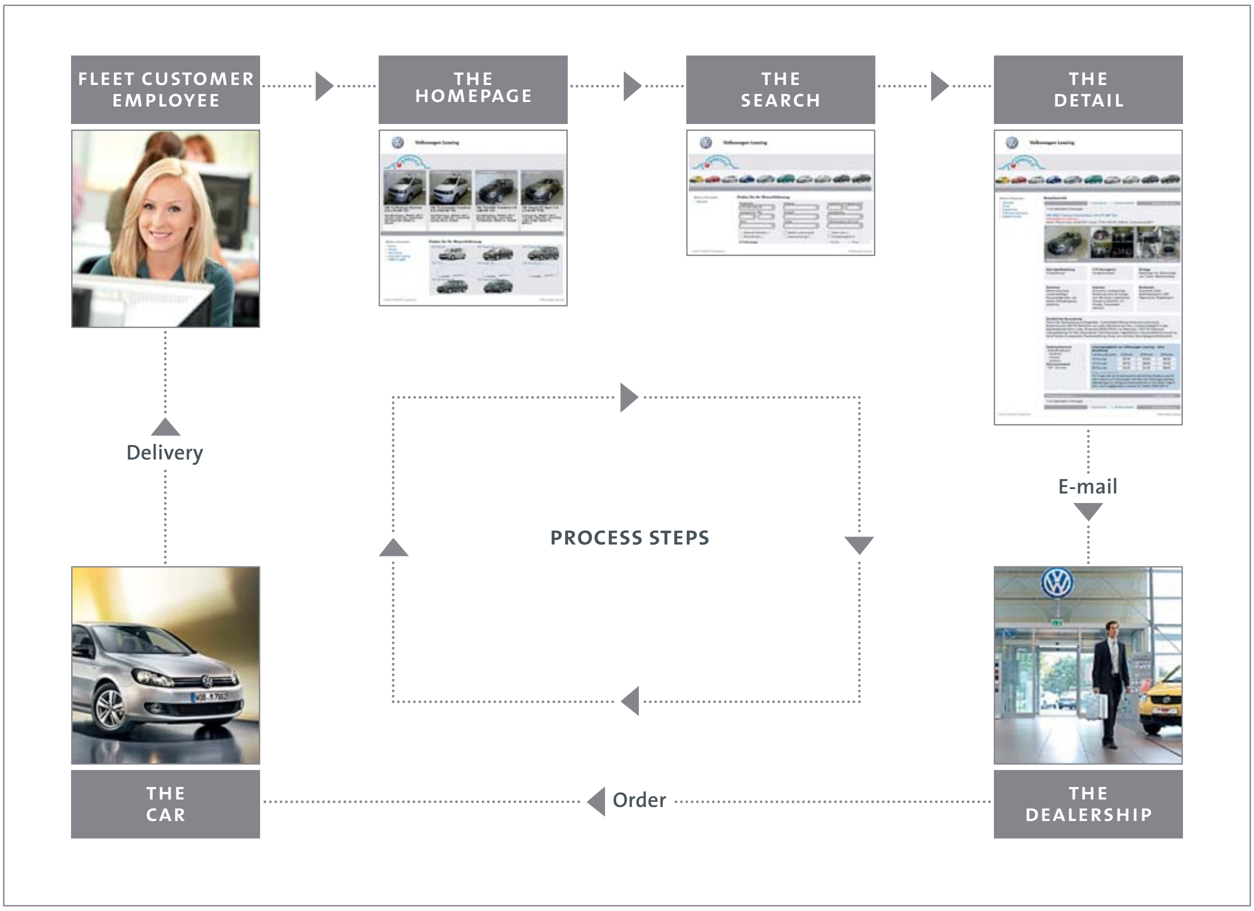
We believe that the used car business also gives us opportunities to apply the experience we have gained in Germany to European markets where we can expect strong growth in the used car contract portfolio. Of course, we are already thinking of emerging markets as well where professional management of used cars still is a side issue. We will be ready when the new cars that are being sold today in those markets are "reborn" as used cars.

AFTERSALES REQUIRES A CONCEPTUAL APPROACH FROM THE START

Volkswagen Financial Services AG is faced with a particularly interesting task in aftersales services. For us all, aftersales are mobility services that customers request after they have bought a car and use it. This includes car insurance, i. e. assuming risk functions in connection with the replacement of tyres, extended warranties as well as maintenance and parts services. Volkswagen Versicherung AG, our own insurance company that has been active since 1 January 2011, has given this business additional momentum and is the linchpin in the massive expansion of our market share in aftersales.

The car insurance business offers new options for boosting sales – both internally and through dealers – thanks to our broad range of products. An extended warranty has been added as a new product; it entails no-deductible insurance that may be purchased subsequently to the two-year manufacturer's warranty. Leasing-Kasko (comprehensive insurance in the leasing business) will be offered in 2012 as a new product as well, with Volkswagen Leasing GmbH assuming the risk. The purchase price protection insurance – an insurance policy that guarantees the purchase price of a car in case it is totalled or stolen – which was introduced in Germany in October 2011 is a successful example of our creativity. Our fuel card is another new product. It is an interesting component of our aftersales strategy because a car's mileage can be stored on the card. Storing this information gives us the ability to approach a customer about buying a new car or – currently this is merely a vision for the future – sell them electricity for their

ACTIVE CAR LIFE CYCLE MANAGEMENT: THE "I LOVE YOUSED" PROJECT



Quicar car-sharing, offered in cooperation with Volkswagen, is one of the most efficient car-sharing fleets available. Golf BlueMotion vehicles have been offered at stations throughout the city of Hanover since mid-November 2011 for short-term hire, and Quicar Plus makes additional cars available for hires of ten hours or more. The number of stations is to be raised to up to 100 later on. These two approaches offer high availability, an affordable and flexible rate system, high-value and efficient models as well as a particularly simple operating concept. This is because our customers can book their Golf BlueMotion flexibly on the Internet, a mobile app or through a call centre once they have registered.

All of these concepts – but especially their implementation – are tied into our specific structure from the start, which of course also includes close and proactive integration with our direct bank. It is a key sales channel and at the same time offers highly secure systems for payment processing in connection with the services obtained. This special structure is an excellent basis for customer-focused comprehensive mobility packages.

e-vehicle. Bundling Car & Customer Relationship Management (CRM[2]) as we call it is not possible without it.

NEW MOBILITY MUST BE REDEFINED DAILY

A growth plan would not be complete without ideas on how to use the New Mobility that is making itself felt worldwide in megatrends. These trends signal one thing above all else: Customers want to use cars – not own them. The New Mobility is not just limited to automobiles; it concerns all innovative approaches to mobility. We have begun to implement initial approaches to the New Mobility and are already marketing numerous products and services. One of them concerns long-term car rental, which was introduced in 2010 and expands our competence in the direction of using and selling mobility. Equally interesting are new telematic applications such as "pay-as-you-drive", the electronic driver's logbook or fuel efficiency and route optimisation. These programmes make it possible to bill the mobility services made available in targeted, individualised ways specific to the given use. Mobility concepts such as the Quicar car-sharing scheme that we launched in cooperation with Volkswagen in Hanover also give us the edge in terms of both innovation and growth. Integrated concepts that include other modes of transportation besides the automobile as the key component of mobility finally round out the range of our offerings in connection with the New Mobility.

TAPPING INTO OPPORTUNITIES WORLDWIDE

As a captive, we always have the option of becoming active wherever the automotive brands of the Volkswagen Group are sold. A comparative glance at a world map reveals that there are still quite a few growth opportunities for us. We tap into them by going into those markets that still offer business potential and developing business models that are specific to the given country and market.

The developments in India, Russia, South Korea and Norway are good examples of start-ups.

- We hitched our flag in India, initially by entering into cooperation agreements with selected banks in 2009. In March 2011 Volkswagen Finance Private Limited, Mumbai, was granted a financial services licence by the Central Bank of India. The private customer business on its own books has been successful, and its portfolio is being expanded.

- In 2010 we used our own bank to establish a platform for financing packages aimed at dealers and end customers in Russia. The used vehicle warranty programme that meets the requirements of the "Das WeltAuto" scheme is being prepared for the Moscow metropolitan area. A comprehensive leasing package has been available for quite some time now.

- Our South Korean presence is anchored by our new subsidiary in that country, Volkswagen Financial Services Korea Co., Ltd., Seoul. Its task is to promote the sale of cars in Volkswagen's prime segment – Volkswagen Passenger Cars, Audi and Bentley.

- In Norway we had already established a joint venture, Volkswagen Møller Bilfinans AS, Oslo, back in 2009. It has done extremely well in the market and validated our expansion strategy within a very short time.

GETTING THINGS DONE EASILY – THANKS TO OUR TOOL BOX

We have used Germany as the reference market for most of our strategic growth projects in order to be able to apply business models or products in new markets, to the extent that it makes sense under our expansion strategy. We always aim to achieve our objectives in new markets rapidly and efficiently. This is why we developed a tool box that serves to share information and expertise worldwide. In certain situations, for instance the launch of standard products in new markets, the tool box must be used as a blueprint of sorts for carrying out sales-related matters.

> "In recent years, the offerings have become ever more innovative, imaginative and competitive."
>
> **BERND KUSSMAUL**
> Managing Partner, Auto Wichert GmbH

Bernd Kußmaul has been running Hamburg-based Auto Wichert GmbH as the managing partner jointly with Bernd Glathe since 1986. With a total of just under 800 employees, the company offers all vehicles, parts and repair shop services for the Volkswagen Passenger Cars, Volkswagen Commercial Vehicles, Audi and ŠKODA brands – of course including all related financial and mobility services. Its cooperation with Volkswagen Financial Services AG is close. "Luckily so", says Kußmaul, "because comprehensive leasing, warranty extensions, used car warranties and similar products or product packages are big hits." Kußmaul is happy that the professional, competent and friendly collaboration with Volkswagen Financial Services AG and its subsidiaries allows sufficient leeway for developing solutions tailored to the specific needs of his customers.

Whilst this has mainly involved attractive leasing products to date, in Kußmaul's view the offerings related to automotive financing and insurance in recent years have also become ever more innovative, imaginative and competitive: "By now customers are coming to us because of specific financial services packages." Whilst Auto Wichert is already selling financing and leasing solutions for about 75 % of the new vehicles it sells, Kußmaul expects the rate to exceed 90 % in ten years. Why? "Because mobility means freedom – and that's a basic need. Individual mobility plays a special role in that connection", says Kußmaul. The need and demand for points of contact to customers is growing because, increasingly, mobility is being paid for based on usage – not possession.

Auto Wichert believes that it will serve as an important "face to the customers" in future as well, with state-of-the-art and intelligent financial services playing a key role. "Braunschweig remains very important for us", says Kußmaul succinctly.

The monitoring system used in fleet management is one example of how our tool box is utilised. It enables comprehensive fleet management – from the allocation of cost centres, to reporting data on the condition of a vehicle all the way to the driver's logbook, to name just a few. Additional tool box solutions are currently available. This includes pricing systems, an important issue, through which we give our sales teams worldwide a tool to price our offerings in ways appropriate to the given markets and customers. Of course, the tool box is being expanded on a continuous basis such that implementing and selling our products and services is becoming ever more efficient.

SALES SUCCESS IS DEALER SUCCESS

The interactions between us, the automotive brands of the Volkswagen Group and our dealers are the key to the success of our sales efforts. It is precisely our trusting collaboration with Group dealers, which has evolved through decades, that is the backbone of our sales organisation. Whilst the dealers make their entrepreneurial decisions independently, they are a part of our organisation nonetheless and thus our most important "ear to the market". Our offerings must always fit optimally into the dealers' strategies such that they can sell our products and services efficiently. The dealers are the central sales channel for our products, and our collaboration thus is very close. This interdependence is obvious and demonstrates that our success in the market also is a success on the dealers' part.

Maintaining business relationships with our partners and customers worldwide requires extensive communications. New business models must be explained, and new technologies must be launched and supported in competent ways. We have built up a highly capable team of professionals to this end. Permanent technological change, ongoing innovation and increased communication with customers due to our new business models require staff that fulfils requirements beyond those of a purely financial firm in terms of training as well as flexibility and values.

Finally, regional expansion into the markets we wish to tap also requires our employees to be open and willing to integrate. Volkswagen Financial Services AG is developing into a truly international company through its expansion into new markets.

WE ARE WORKING CLOSELY INTEGRATED WITH THE VOLKSWAGEN GROUP

In the final analysis, our collaboration with the automotive brands of the Volkswagen Group is the key to our success. Our job has changed fundamentally, in contrast to the past when Volkswagen Finanzierungsgesellschaft was tasked with financing the cars produced by the Volkswagen Group for sales purposes. Thanks to our proximity to the end customer and the services we render throughout the car life cycle over several years, we serve as an excellent platform for the Volkswagen Group from which to observe trends, customer behaviour and financial decision making. What matters in the end is our ability to contribute the insights we gain through our market presence and from our observations to joint working groups with colleagues from the Volkswagen Group's automotive brands. This cooperation has already been organisationally anchored in many areas, e. g. the fleet services, the aftersales offers and the New Mobility. As a result, we are always in a position to satisfy current and future customer needs as best as possible jointly with the Volkswagen Group.

Our brand vision thrives on the fact that integrating our organisation with the automotive brands and dealerships of the Volkswagen Group enables us not only to develop customer-focused products and services but also to successfully offer them in the market. Our superior range of services gives our customers access to and thus the "key to mobility".

Capital market activities

Volkswagen Financial Services AG was a successful participant in the international capital markets throughout the year.

International, diversified, sound

Our diversified refinancing structure has proven to be sound and reliable. Experience shows us that – weighing up costs and risks – the numerous factors affecting the capital markets can be balanced most successfully using a broad range of refinancing sources.

Reliable access to attractive sources of refinancing is decisive to our success in the market. Our clear diversification strategy enables us to successfully use a broad range of instruments and currencies that provide a solid foundation for the strong international growth of our financing and leasing activities.

Deposits, money and capital market instruments as well as ABS transactions are the main sources of refinancing; equity, confirmed credit facilities from banks and the industry-specific funding by the European Central Bank are available as well.

The rapid growth of our subsidiaries worldwide imposes special requirements on our funding and makes us focus on using appropriate instruments in all currency zones relevant to our business. The development of local refinancing sources is strategic to the achievement of our corporate goals, and this task is implemented locally in close coordination with Braunschweig headquarters.

Transparent and direct communication with our investors is yet another key element for achieving our goals. Capital market participants are briefed at investor meetings and conferences on the development of our business and our refinancing strategy.

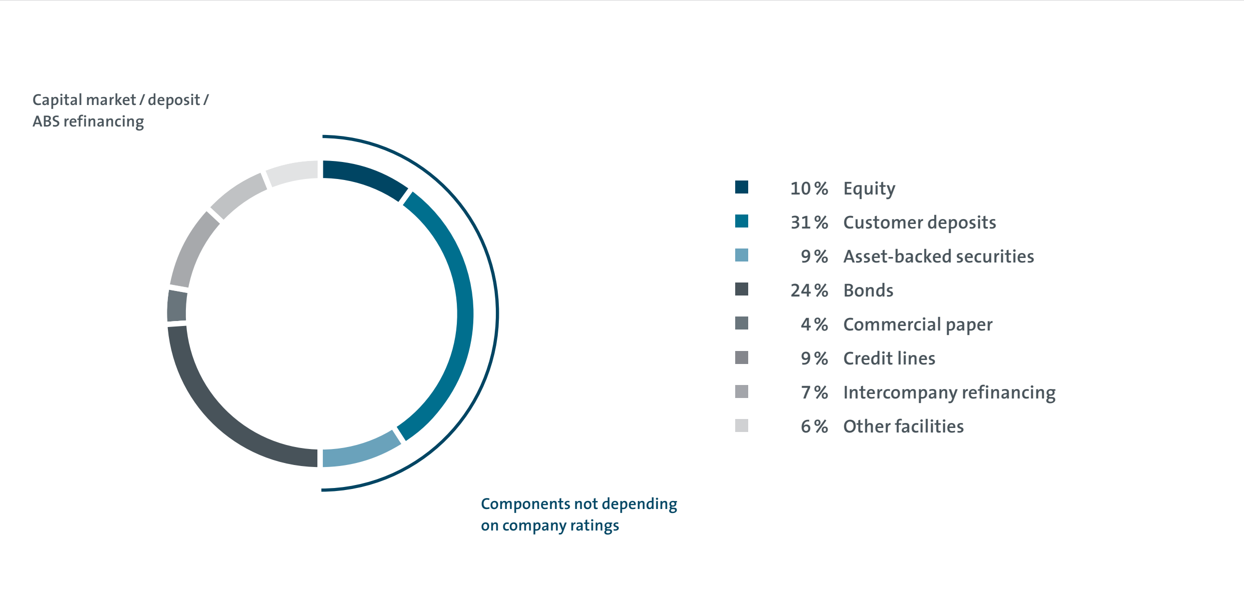
SUCCESSFUL REFINANCING ACTIVITIES

Volkswagen Financial Services AG and its subsidiaries placed both unsecured and secured bonds with high issuing volumes during the reporting year. In January Volkswagen Leasing GmbH opened the euro capital market with a € 1.25 billion benchmark debt issue. In April Volkswagen Bank GmbH issued two bonds with a total volume of € 1.0 billion under its € 10 billion capital market programme.

In May Volkswagen Leasing GmbH successfully placed two issues for a total of € 1.25 billion under the € 18 billion capital market programme of Volkswagen Financial Services AG. This transaction consisted of one bond with a variable interest rate and a second one with a fixed interest rate subject to maturities of two and five years, respectively, such that investors' divergent interests were taken into account as best as possible. In November Volkswagen Leasing GmbH issued two tranches with maturities of three and six and a half years, respectively, and a total volume of € 1.5 billion.

The year 2011 also turned out to be a good one for asset-backed security issues. The Driver España One securitisation transaction was successfully placed in the market in Spain. It constitutes the first public Spanish automotive

REFINANCING SOURCES AS AT 31 DECEMBER 2011



ABS transaction since 2007 and the first ever ABS transaction that is secured through the receivables of Volkswagen's Spanish subsidiary, Volkswagen Finance S.A., Madrid. This makes Spain the third country after Germany and the United Kingdom where Volkswagen Financial Services AG actively pursues its Driver platform. Receivables of Volkswagen Bank GmbH were successfully placed with a broad investor base in Germany through the Driver 8 and Driver 9 ABS transactions. Receivables of Volkswagen Leasing GmbH triggered strong market demand in connection with the "Volkswagen Car Lease 13" (VCL 13) issue in March and the "Volkswagen Car Lease 14" (VCL 14) issue in September – despite the tight market environment. All German transactions fulfil the requirements of the TSI quality label "Certified by TSI – Deutscher Verbriefungsstandard". This seal certifies that our securitisation transactions are deemed exceptional in the European securitisation market in terms of quality, security and transparency. In 2011 a total of € 4.48 billion in receivables were sold worldwide by means of ABS transactions.

RATING

The rating of Volkswagen Financial Services AG in its capacity as a wholly-owned subsidiary of Volkswagen AG corresponds to that of the Group parent by both Moody's Investors Service (Moody's) and Standard & Poor's (S&P). Moody's confirmed its P–2 (short-term) and A3 (long-term) ratings with a positive outlook. The rating of S&P is A–2 (short-term) and A– (long-term) with a stable outlook.

As a wholly-owned subsidiary of Volkswagen Financial Services AG, Volkswagen Bank GmbH is given a separate rating by both firms.

S&P confirmed its short-term (A–2) and long-term (A–) ratings for Volkswagen Bank GmbH with a "stable" outlook. Moody's rating is P–2 (short-term) and A3 (long-term) with a positive outlook. Due to a change in the methods it uses to rate banks, Moody's now rates Volkswagen Bank GmbH at the same level as Volkswagen Financial Services AG; the positive rating of the bank's financial strength has not changed.

Volkswagen Financial Services AG and its subsidiaries believe that they are well equipped to meet future challenges in regards to refinancing.

"Successful liquidity management requires good planning as well as securing healthy and stable funding sources."

SILKE FINGER
Head of Treasury Europe & Liquidity Management

Whilst in the past money flowed just like electricity flows from a socket, today our cellars are filled with many more batteries and emergency generators as a precaution. This is a good way to illustrate the changes in the capital markets. Successful liquidity management requires good planning as well as securing healthy and stable funding sources.

We have weathered past crises successfully. Our direct bank drew many customers during the financial crisis and we were always able to refinance ourselves via both the capital market and ABS activities, even during the crisis. This is certainly due to our well-diversified funding, our solid business model and the excellent reputation of our parent company, Volkswagen AG.

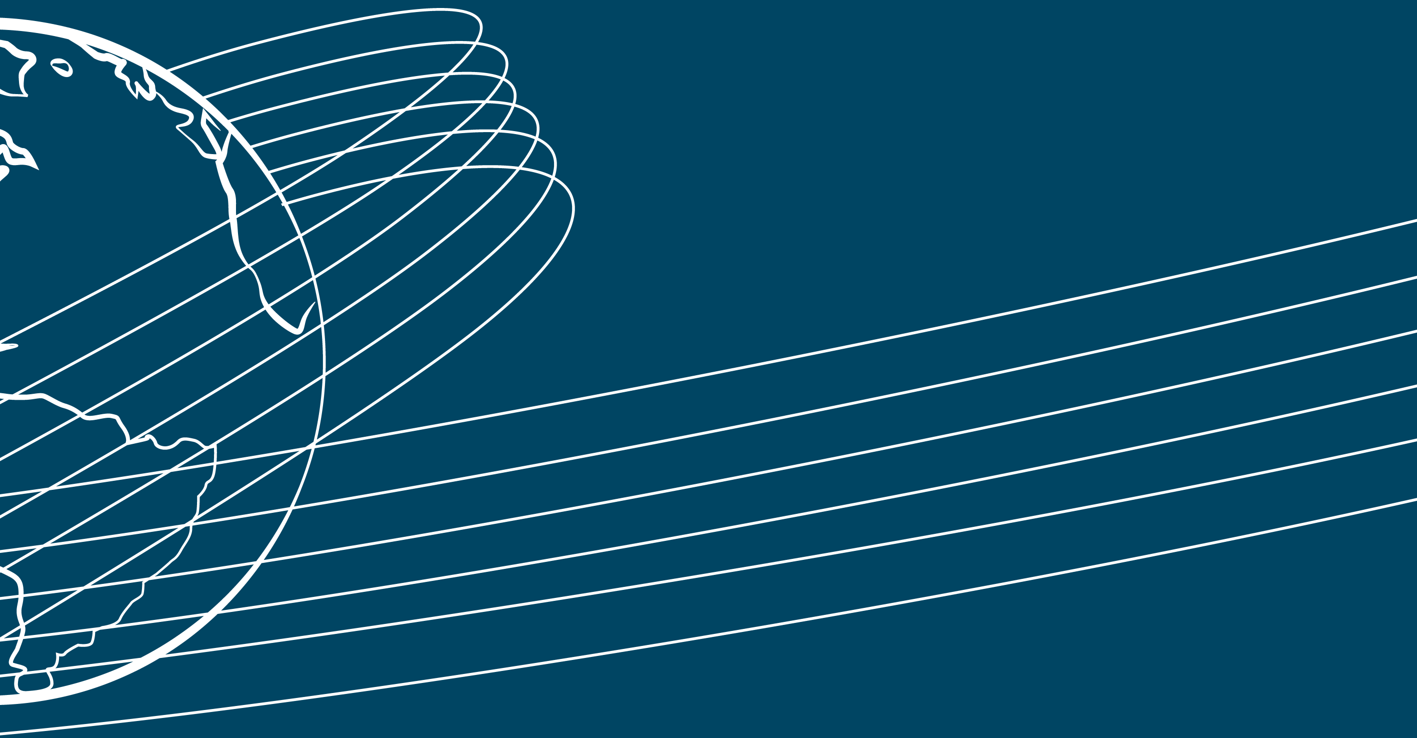
We engage in daily liquidity planning and management by estimating future liquidity needs based on the anticipated business volume. To this end, we analyse the probable future cash flows using in-depth forecasts and taking into account known maturities. We are faced with a range of unknowns in this connection such as the status of customer deposits, the business volume in retail, leasing and wholesale financing, or seasonal transactions. Our business is particularly complex moreover because it is international and thus requires a good overview of the markets. Whilst our subsidiaries are themselves responsible for liquidity planning and always have sufficient liquidity cushions, their liquidity is centrally managed and monitored.

It is my assessment of the capital markets' development in future that quiet times are still a way off. Countries' sovereign debt problems must be solved; otherwise banks will not get out of these troubled waters. In terms of our day-to-day business, this means that we cannot turn on the auto pilot; we keep a firm grip on the wheel. The most important thing in that respect is to use both our head and our intuition!

Our markets

Directly, as well as through equity participations and service contracts, Volkswagen Financial Services AG offers financial services for the Volkswagen Group brands in 38 countries worldwide.

ARGENTINA
AUSTRALIA
AUSTRIA
BAHRAIN
BELGIUM
BRAZIL
CHINA
CZECH REPUBLIC
ESTONIA
FRANCE
GERMANY
GREECE
INDIA
IRELAND
ITALY
JAPAN
KUWAIT
LATVIA
LITHUANIA
MEXICO
NORWAY
OMAN
POLAND
PORTUGAL
QATAR
RUSSIA
SINGAPORE
SLOVAKIA
SOUTH AFRICA
SOUTH KOREA
SPAIN
SWEDEN
SWITZERLAND
TAIWAN
THE NETHERLANDS
TURKEY
UNITED ARAB EMIRATES
UNITED KINGDOM



The German market

Germany:

Volkswagen Financial Services AG has been active in the German market as the successor of Volkswagen Finanzierungsgesellschaft mbH, which was founded in 1949, and is one of the world's pioneers in mobility financing. Enhancing sales for the Volkswagen Group and its brands as well as offering automotive financial services are its central tasks.

GENERAL DEVELOPMENT OF BUSINESS IN GERMANY

Recording growth of 3.3 %, in 2011 Germany again was a stability factor within the euro zone and, particularly in the year's first half, also its growth engine. The positive performance of the Volkswagen Group's automotive and financial services business reflected these facts. This environment enabled us to continue the successful implementation of our WIR2018 strategy. The number of financing and leasing contracts in the new and used car business rose substantially by a total of 46,892 – an increase of 7.2 % compared with the previous year. A penetration rate of 50.3 % means that by now more than every second vehicle of the Volkswagen Group in Germany is financed or leased by us.

PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

In the 2011 financial year, Volkswagen Bank GmbH closed 397,675 new contracts in the German private customer market, thus surpassing even the high level of new contracts in 2010. Volkswagen Leasing GmbH succeeded in boosting the number of new contracts in the private customer segment by just under 18 %, signing more than 112,000 new contracts.

Demand for the extended warranty, which was introduced in the German market for the first time at the start of 2011, was particularly strong. The extension corresponds in full to the scope of the manufacturer's warranty, offering new car buyers comprehensive protection for up to five years. More than 156,000 new customers had been attracted to this product by the end of the reporting year. The strategy of running the warranty insurance business ourselves through the newly founded Volkswagen Versicherung AG has thus paid off. We remain the innovation leader in the highly competitive insurance business. In 2011 we successfully brought numerous other new insurance products to market besides the warranty extension. Both the fixed-price insurance for Audi models and the novel "purchase price protection", which was first introduced in October 2011 and provides financial protection in case a vehicle is written off due to damage or theft, met with the market's highly positive response. Volkswagen Financial Services AG offers its corporate customers in Germany a broad range of financing, service and deposit products through Volkswagen Bank GmbH. In 2011 we also increased the volume of new and used vehicle financing in the corporate customer segment by 23 % over the previous year. This successful development was also driven by numerous measures at the operating level that serve to improve our collaboration with dealers, for instance via the "isa" dealer workplace system.

PENETRATION RATE

In 2011, the penetration rate in the German market was ....

The penetration rate reflects the percentage of new car sales where the vehicles are financed or leased.

FLEET CUSTOMERS

The fleet customer segment again recorded substantial growth in terms of business volume. Whilst the fleet customer market on the whole grew by 17.5 % in 2011, the number of new contracts signed with Volkswagen Leasing GmbH in this segment even increased by 20.3 % to more than 172,000 new contracts. This means that we remain the unchallenged number one in the German fleet market.

The services business recorded similar increases. More than 110,000 new contracts were signed in the full-service lease business. This represents an increase of 22 % compared with the previous year. Given the success of the long-term car rental product, additional innovative pilot projects were launched. Among others, these include Quicar, a car-sharing project in Hanover that is run jointly with Volkswagen AG, or "I love youseds", a new approach to the marketing of lease returns to the employees of our fleet customers.

We also offer our fleet customers products for ecologically responsible fleet management, which are complemented by offers such as eco-driver training or CO_2 monitoring.

DIRECT BANK

As a direct bank, Volkswagen Bank GmbH offers modern direct banking as well as new and innovative mobility packages; hence it also serves as a sales channel for the automotive segment.

In Volkswagen Bank GmbH's deposit business, we further improved on the previous year's high level. As at the balance sheet date, the customer deposit volume was € 22.6 billion, up 13 % compared to 31 December 2010 (€ 20.1 billion). Volkswagen Bank GmbH succeeded in further expanding its market leadership among automotive direct banks thanks to this level of deposits. As in the previous year, the share of these deposits in the refinancing mix of Volkswagen Financial Services AG was 31 %. Numerous campaigns in connection with the WIR2018 strategy will enable Volkswagen Bank GmbH to continue maintaining its market position thanks not only to its attractive deposit business. The non-vehicle credit and commission business or attractive mobility products and services also help to gain new customers and ensure customer loyalty.

"We look to the future with much confidence because our innovation pipeline is filled to the brim."

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

"Given that it is one of the most developed markets, the success of our business in Germany depends especially on our power to innovate. This does not scare us at all. On the contrary. We look to the future with much confidence and will tap into additional customer potential because our innovation pipeline is filled to the brim. We will present new solutions for maintenance and parts services or fuel cards for both private and corporate customers. We will also intensify our collaboration with the dealers through new, attractive structures. We are working on a highly innovative solution for a used car warranty in the insurance business, which will fully cover customers' mobility needs for used cars as well."

Region Europe

Countries in the region:

Austria, Belgium, Czech Republic, Estonia, France, Greece, Ireland, Italy, Latvia, Lithuania, Norway, Poland, Portugal, Russia, Slovakia, Spain, Sweden, Switzerland, The Netherlands, Turkey and United Kingdom.

GENERAL DEVELOPMENT OF BUSINESS IN THE REGION

Despite the economic turmoil especially in Europe, Volkswagen Financial Services AG successfully increased its contract volume and penetration rate in most markets. Growth was driven by the intensified collaboration with the automotive brands of the Volkswagen Group, which focused on jointly developing attractive and customer-oriented campaigns. As one example, Volkswagen Financial Services AG was involved in the planning process and market launch of the new Volkswagen up!. In Belgium, a joint venture with D'leteren is launched in the first quarter of 2012, targeting the private customer, dealer and fleet customer business.

Additionally, our investment in long-term structural measures means that we are very much on track to achieve the targets of our WIR2018 strategy. In both product development and systems, topics such as three-way financing, services and maintenance, package solutions and CRM were further expanded, sales processes were supported through integrated training and point-of-sale systems, and dealer performance management was further refined.

Our international teams for aftersales products, residual value management and CRM were also strengthened with the aim of boosting growth. Representatives from 25 countries participated in our second Sales & Marketing Conference. Presentations of numerous examples of best practices – i. e. particularly successful projects – gave our international guests the opportunity to learn from each other and adopt proven concepts for their own markets.

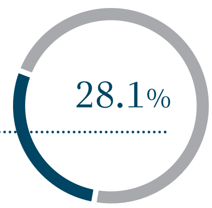
PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

Amidst a competitive landscape and a changing segment mix in France, Volkswagen Financial Services recorded a growth in penetration rate, driven by excellent performance from retail marketing campaigns. The bundling strategy also proved successful, achieving an average of two service or insurance products per finance contract sold.

Using a mix of attractive campaigns and products, as well as a new and improved dealer compensation system, the penetration rate in Italy was boosted to more than 36 %.

PENETRATION RATE

In 2011, the penetration rate in the countries of the Region Europe was ....



The penetration rate reflects the percentage of new car sales where the vehicles are financed or leased.

In Spain, the penetration rate in the private customer business also increased compared to the previous year. Volkswagen Financial Services AG owes this success primarily to its service offerings and the attractive interest rates included in its financing packages. Spain led the market with the launch of a new AutoCredit product, together with an all-inclusive offer that covered maintenance and an extended warranty.

Although already at a high level, Volkswagen Financial Services in the United Kingdom achieved further growth in penetration over 2010, also significantly extending its market share in the fleet segment.

In the Czech Republic, penetration increased compared to 2010, with the Volkswagen Passenger Car brand performing well as a result of attractive offers such as 0 % finance and financing including fuel cards.

The penetration rate among private customers in Poland was 35 % in 2011, primarily due to the successful implementation of 50/50 financing campaigns focusing on converting cash customers to financing customers.

In Greece, the crisis was seen as an opportunity for growth, resulting in an increase in retail penetration to 20 % in 2011. During this difficult time, the Greek branch of Volkswagen Bank GmbH supported both the dealers and the brands of the Volkswagen Group.

The Irish branch of Volkswagen Bank GmbH achieved an outstanding result in 2011, boosting retail penetration from 14 % in 2010 to 25 % in 2011. Contract volume increased substantially by 65 %, thanks to a combination of close cooperation with all of the Volkswagen Group brands and a strong focus on dealer training and development.

Overcoming continued competitive pressure, Volkswagen Financial Services AG in Sweden demonstrated positive volume and penetration development, driven by its service and maintenance product offering.

In Russia, which is a strategically important market, the penetration rate also increased in 2011 to 26 %.

FLEET CUSTOMERS

A clear-cut focus on the development of competitive fleet packages has proven successful in the EU4 markets (United Kingdom, France, Italy and Spain). In France, the sales activities of the local branch of both Volkswagen Bank GmbH and Groupe Volkswagen France were bundled into a single organisation for all Volkswagen Group brands and the attendant financial services. The joint sales team, which is also responsible for financial services, helps to push the fleet business of the Volkswagen Group and thus further optimise performance per customer.

In the Netherlands, Volkswagen Pon Financial Services B.V. has acquired six leasing companies to further expand its fleet business.

In Spain, implementation of the automated service factory system has made it possible for us to offer individual services that have been settled in-house from this year. The service factory system is a standard component of our "Toolbox" solutions. Among other things, it gives us the opportunity to tailor our services even better to customers' needs.

"Our close collaboration with the Group's automotive brands has proven a successful strategy."

DR. CHRISTIAN DAHLHEIM
Regional Manager Europe & International

"In 2011 we succeeded in achieving excellent results in all European markets in times of great economic uncertainty thanks to our commitment to growth and our close partnership with both the automotive brands and the dealers. At the same time, we made substantial investments in structural measures in order to boost our competitiveness in the long term. Our financial services are important for delivering affordable mobility solutions to customers, providing access to financing for dealers, increasing profits per customer, ensuring customer loyalty and opening up new sales opportunities for the future."

Region Asia Pacific

Countries in the region:

Australia, China, India, Japan, Singapore, South Korea and Taiwan.

GENERAL DEVELOPMENT OF BUSINESS IN THE REGION

Sustained growth is still the defining characteristic of the macroeconomic situation in the Region Asia Pacific. But the high inflation rate of 6 % p. a. in China poses a serious threat to the country's domestic market. Government initiatives have been taken throughout 2011 to curb price increases. This resulted in a restrictive monetary policy, which put a substantial damper on the development of the financial services sector as well as small and medium-sized companies.

The growth potential in both China and India is significant.

PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

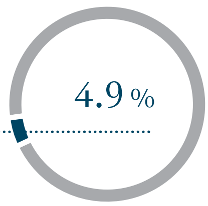
In 2011 Volkswagen Finance China posted yet another record year in retail financing despite the restrictive environment in the financial services sector. The Chinese market will continue to offer considerable growth potential because cash purchases remain the norm to this day. It already offers attractive opportunities such as the use of financial calculators or web-based virtual "sales assistants". Rising demand among both private and corporate customers in China for customised mobility solutions offers Volkswagen Financial Services AG the possibility to develop new areas of business. As a result the company is currently preparing the launch of a mobility services affiliate. Under this newly established roof, we will start providing new and urban mobility solutions to a prospering customer segment in 2012.

Close collaboration with automotive partners was one of the keys to our success in Taiwan this past year. As a result, its retail finance penetration rose to a level of more than 23 %. We have also been offering car insurance for the Volkswagen Group's private customers since the fourth quarter of 2011.

Volkswagen Finance Private Ltd., an entity domiciled in Mumbai, India, is the youngest of our companies in this region. This new company launched its operations in the private customer business under its own direction in March 2011 and expanded its activities to wholesale financing in the fourth quarter of 2011. It had a good start and makes us expect strong growth in future thanks to its close collaboration with the brands of the Volkswagen Group.

PENETRATION RATE

In 2011, the penetration rate in the countries of the Region Asia Pacific was



The penetration rate reflects the percentage of new car sales where the vehicles are financed or leased.

In Australia we also used customised financial services packages to support the ambitious growth course of the Volkswagen Group in the long term.

In Japan we boosted both the contract volume and the penetration rate of financial services year on year despite the natural disasters at the start of the reporting year. Besides the staff's special commitment, the steps taken under the business continuity management programme of Volkswagen Financial Services Japan Ltd. have been useful and ensured the seamless continuation of business.

Volkswagen Financial Services AG opened its operating business in South Korea effective 1 August 2011 via its subsidiary, Volkswagen Financial Services Korea Co., Ltd., Seoul. It offers both financial and leasing products, and has already launched successful campaigns tailored to end customers in close cooperation with the Volkswagen Passenger Car, Audi and Bentley brands.

OTHER

Volkswagen Financial Services Australia relocated to a new office building on 25 November 2011 in Chulora, Australia, jointly with the Volkswagen Passenger Car brand in order to have sufficient space available for the resources it will need in future.

"Automotive financial services are an important enabler to sustain positive momentum."

REINHARD FLEGER
Regional Manager China, India, Taiwan and ASEAN

"China and India continued their robust growth in 2011. The automotive industry has again contributed to the economic progress in these markets. We strongly believe that automotive financial services will be an important enabler to sustain this positive momentum. Our target is to become the leading provider of automotive financial services."

Region North America / Region South America

Countries in the region:

Argentina, Brazil, Mexico.

GENERAL DEVELOPMENT OF BUSINESS IN THE REGION

The countries in this region continued to record economic growth. And yet, at the same time, government policies increasingly focused on rising inflation rates.

Brazil continues on its course of growth, driven by the market launch of credit products for private customers. Given the international economic environment and the Brazilian government's efforts at reducing inflation, some turbulence is to be expected in the short to medium term.

There are mixed realities in the Mexican economy, too. On the downside, the weaker economy in the United States is curbing potential growth in Mexico. On the positive side, inflation control, exchange rate stability and a credit market in full expansion have lead to automotive industry growth of nearly 10 % compared to the previous year, with retail sales of around 900,000 units.

In the Region South America on the whole, Volkswagen Financial Services AG expanded its contract volume in 2011 by 16.8 % to 311,000 new customer financing, leasing, service and insurance contracts.

PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

Volkswagen Financial Services Brazil financed a total of 218,000 new and used vehicles in 2011, a year-on-year increase of 7.3 %. In the truck and bus segment, the company's share of the financed vehicles market was 55 %.

The rising demand for individual mobility in the past two years has led to a substantial increase in the sales of Consórcio products, a mix of financing and lottery. Sales of these products have grown three-fold in the last three years.

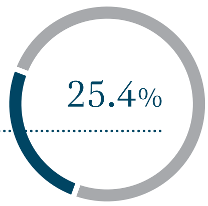
The development of the Brazilian economy and the growth of the country's lower middle class are substantially fuelling the Consórcio market. Compared to the previous year, sales in 2011 rose by 42 % and the market share was 9 %.

In Mexico, the company achieved good results despite the intensely competitive environment, with a 24 % improvement in new cars financed and leased, and a 6 % increase in used car financing.

In dealer financing, the Region maintained its solid performance: Volkswagen Financial Services Brazil financed 87.8 % of all vehicles sold to local dealer partners and Volkswagen Financial Services Mexico achieved a financing rate of 85.2 %.

PENETRATION RATE

In 2011, the penetration rate in the countries of the Region North America / Region South America was ....



The penetration rate reflects the percentage of new car sales where the vehicles are financed or leased.

Volkswagen Credit Argentina and Volkswagen Argentina continued with the promotion of their joint "Volkswagen Mobility" offer with the insurer La Caja. In this initiative, Volkswagen dealers can offer motor insurance and warranty extensions to Volkswagen customers who purchase their vehicles without recourse to any financing or the Consórcio programme.

Volkswagen Credit Argentina operates the retail financing segment as a commissions business under a cooperation agreement with HSBC. The agreement began in 2007 and was extended in mid-2010 by another three years.

The companies in both countries expanded their insurance and commissions business and adjusted their product range and sales channels to meet new regulatory requirements. In Brazil, the branded motor insurance offer ("Seguros Volkswagen") was fully implemented. Positive performance is expected to continue throughout 2012, supported by the introduction of new products and sales channels. In Mexico, new offers for cash buyers were launched in cooperation with the Volkswagen Group's Mexican dealer association.

FLEET CUSTOMERS

In 2011, opportunities to expand activities in the increasingly important fleet segment were investigated for the region. Following a detailed market study, plans are now being implemented in Brazil to offer the Volkswagen Group's customers and dealers a fleet product that combines financing and services in a way similar to the European leasing model, while differentiating itself from other products in the market. In Mexico, the current range of fleet products is being expanded to offer bundled products of financing and services.

OTHER

In Brazil and Mexico, the financing companies commenced long term projects to modernise their IT architecture aimed at providing better support for achieving the goals of the Group's WIR2018 strategy.

These major projects will continue for the next three years and are designed to result in significant improvements to internal business processes. This will also be reflected in improved customer service and shorten the time needed to develop market-ready new products and services. It also generates optimised opportunities for managing operations.

Options for diversifying refinancing are still being pursued for Brazil and Mexico. In Brazil, the first phase of Banco Volkswagen S.A.'s certificate of deposit was completed, allowing Volkswagen Group dealers to place short-term cash deposits with the company. The second phase of this initiative has now been launched, targeting suppliers and fleet customers of the Volkswagen Group.

"Growth opportunities are being captured primarily in the customer financing, fleet management and insurance business areas."

BRYAN MARCUS
Regional Manager South America; Mexico

"The Region is making a significant contribution to the success story of Volkswagen Financial Services AG. I expect this to continue, since the subsidiaries are working even more closely with their counterparts in Volkswagen's local sales organisations and are capturing the growth opportunities in the customer financing, fleet management and insurance business areas."

Management report

Development of business
Contract portfolio reaches all-time high of 7 million contracts

Both the global economy and worldwide automobile sales have developed positively despite some turbulence. The earnings of Volkswagen Financial Services AG in 2011 were higher year on year, especially due to larger volumes, stable margins and lower risk costs.

GLOBAL ECONOMY CONTINUES TO GROW

Whilst the global economy continued to grow in the 2011 financial year, the recovery lost steam in the year's second half, especially in Western Europe. Growth in most emerging countries remained strong but also lost some of its momentum. Continued expansionary monetary policies in many countries and high prices for commodities and energy have intensified inflationary trends. The global economy expanded by 3.0 % overall in the reporting year compared to 4.3 % the previous year.

Europe

At 1.5 % (previous year: 1.9 %) the average growth of Western Europe's gross domestic product (GDP) was low, and Southern European countries had to contend with steep economic downturns. As in the previous year, the average unemployment rate in the euro zone was about 10 % but it was more than twice as high in Spain. The GDP growth rate in Central and Eastern Europe was 4.5 % on average (previous year: 4.4 %).

Germany

Due to the strength of its export sector, at 3.0 % (previous year: 3.7 %) Germany's expansion surpassed that of all major industrialised countries. But the strong growth momentum at the start of the year weakened substantially as the year wore on. The impetus for growth shifted from foreign demand to domestic demand owing to the positive development of the labour market and the related income growth.

North America

The US economy expanded by 1.7 % in 2011, compared with growth of 3.0 % the previous year. Unemployment remained high despite the country's ongoing very expansive monetary policy. The US dollar weakened against the euro by the middle of the year but recovered substantially in the year's second half. Canada's GDP rose by 2.3 % (previous year: 3.2 %), and the Mexican economy expanded by 3.9 % (previous year: 5.4 %).

South America

The GDP growth rate in Brazil fell to 2.9 % (previous year: 7.5 %) while it remained stable in Argentina at 9.2 %. Inflationary pressures remained high in both countries.

Asia Pacific

Most of Asia's emerging countries developed dynamically in the 2011 financial year as well. At 9.2 % (previous year: 10.4 %) China's economic growth was only slightly lower year on year. India's economy grew by 7.0 % (previous year: 8.8 %). In Japan, the natural disasters caused GDP to decline by 0.7 % (previous year: +4.4 %).

FINANCIAL MARKETS

In the 2011 financial year, the financial markets moved in the shadows of a particularly uncertain phase in the development of the global economy. In the year's first half, the markets largely managed to avoid various disruptive factors, some of which were intense. At first, the political developments in the Middle East, the dramatic effects from the natural disasters in Japan as well as the smouldering crisis in the euro zone initially did not have much of an impact. In the year's second half however, the unresolved sovereign debt problems of both Greece and Italy drove the European Union into a critical situation. The global financial markets reacted with unusually strong fluctuations and retreated from both risky investments and the government bonds of some euro zone countries. These countries' sovereign debt crisis, which also led to the downgrading of the country ratings by the international rating firms, in turn fuelled doubts about the solidity of individual creditor banks that could only be kept afloat through government aid. The general mood in the financial markets remained nervous, given the potential ramifications of this negative development on the real economy.

Europe

The sovereign debt crisis and the expected decline in global economic growth hit the European banking industry particularly hard. In the second half of 2011, the banks' re-emerging mistrust of each other and investors' wait-and-see attitude initially made refinancing in the money and capital markets more expensive. In the euro zone, the European Central Bank facilitated refinancing operations by lowering the prime rate in December 2011 and ensured adequate liquidity throughout the banking system. Some of the monetary policy steps taken served to bridge the acute tensions in the financial markets.

Germany

The effects of the Greek sovereign debt crisis on the German banking system were moderate thanks to its relatively low loan exposure. The banks remained uncertain about the development of the capital ratios and capital adequacy requirements under Basel III, potential additional requirements and the introduction of a new financial transaction tax on stock market activities.

North America

In the USA the economy gained momentum in the second half of 2011. However, it became apparent that the goal of reducing the country's debt was not achieved. The Federal Reserve remained flexible in its monetary support against this backdrop. Mexico retained its loose, non-restrictive monetary policy given moderate inflation.

South America

Aside from selective, targeted interventions in the foreign exchange markets to curb rising inflation, in Brazil the requirements regarding both minimum reserves and capital commitments for certain consumer loan exposures were raised in the year's first half.

Asia Pacific

China continued its tight monetary and credit policy in 2011 to contain inflation with the help of lending restrictions, higher interest rates and tighter minimum capital reserve requirements. In India, inflationary pressures remain high as well. The growth in the lending volume remained strong despite restrictive monetary policies. Japan's economy regained its momentum after the natural disasters in March 2011. Interest rates were low again, and the capital markets turned out to be relatively robust. In South Korea, the central bank kept prime rates at a stable level starting in mid-year given prevailing fears of the global economy's instability.

DEMAND FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES CONTINUES TO GROW

In the 2011 financial year, passenger car sales rose worldwide by 4.8 % to 62.0 million vehicles – thus exceeding the previous record that was set in 2007. Especially the United States, China and Russia accounted for this growth. The development of the Region South America was positive as well and surpassed the previous year's record. Demand in Western Europe was just slightly lower year on year – thanks in particular to the recovery of the German market – whilst the markets in Central and Eastern Europe continued their recovery. In the Region Asia Pacific excluding China, new registrations fell short of the previous year's level due to the Japanese market's dramatic collapse in the wake of the natural disasters. Worldwide automobile production rose during the reporting period by 3.6 % to 80.3 million units, with passenger cars accounting for 66.3 million units (+4.6 %).

Industry-specific business environment

The established passenger car markets developed at different rates in 2011. Whilst some industrialised countries were impacted by the sovereign debt crisis and its consequences, others – Germany in particular – benefited from robust demand in the growth markets during the year's first half. As expected, the phasing out of the governmental stimulus packages also triggered negative effects in Western Europe. The manufacturers' and dealers' active risk management as well as the close collaboration with financial services providers helped to overcome these effects.

The comprehensive development of two major markets (China and Brazil), the expansion of activities in India and the satisfaction of demand in Russia are becoming ever more important for the automobile industry.

The trend toward free trade is continuing in many Asian, African and Latin American markets. But the re-emergence of protectionist measures in these markets cannot be precluded if the global economy collapses yet again.

Europe

The total number of new passenger car registrations in the Western European markets fell slightly during the reporting period (– 1.5 %). At 12.8 million passenger cars, the total market volume again fell short of the previous year and was the lowest in the past 16 years. The decline in most of the large-volume markets was mainly due to the very weak first quarter of 2011 compared with the previous year, especially because the governmental stimulus packages had been phased out in the course of 2010.

Furthermore, low economic growth, rising unemployment and the sovereign debt crisis in some countries also caused the market volume to fall below the previous year's figures, in part substantially. The countries suffering downturns in the 2011 financial year were Spain (–17.7 %), Italy (–11.6 %), the United Kingdom (–4.4 %) and France (–2.1 %). The German passenger car market in contrast expanded at a robust pace once again (+8.8 %), up from a very weak 2010. The market share of diesel vehicles in Western Europe rose substantially to 55.4 % (previous year: 51.7 %) in the reporting year, surpassing the previous record that was set in 2007.

The passenger car markets in Central and Eastern Europe continued to recover in 2011. At an expansion of 26.0 % to 3.7 million passenger cars however, demand still lagged far behind the record level of 2008. The increase resulted almost exclusively from the highly positive development of the Russian market. Governmental stimulus packages as well as the substantial improvement in consumer confidence boosted passenger car sales in Russia by 39.8 % to 2.5 million units. Manufacturers with local production facilities benefited the most from this boom. In contrast to 2010, the Central European EU member states also saw an overall increase in the number of new registrations. The passenger car markets in the Baltic states (+83.9 %), Bulgaria (+19.9 %), Slovakia (+6.5 %), Hungary (+3.2 %) and the Czech Republic (+2.4 %) all posted growth. In Poland (–10.6 %), Romania (–8.9 %) and Slovenia (–2.2 %) however, the number of new passenger car registrations was lower year on year. At 578,000 units (+13.4 %), passenger car sales in Turkey set a new record.

Germany

Demand for passenger cars in Germany rose by 8.8 % in the 2011 financial year to 3.2 million vehicles. The previous year's very low level and the upturn in 2011 both contributed to this large increase. Just as in the previous year, the market for light commercial vehicles recorded double-digit growth of 18.3 % to 241,000 vehicles, especially due to rising transportation needs: In the 2011 reporting year, the German manufacturers posted new records in both production and exports, thus substantially surpassing the records set in 2007, the year before the crisis. Compared with 2010, domestic passenger car production rose by 5.6 % to 5.9 million vehicles and passenger car exports rose by 6.6 % to 4.5 million units. The Volkswagen Group managed to further expand its market leadership in Germany by increasing its market share to 35.9 % (previous year: 35.1 %).

North America

In 2011, demand for passenger cars and light commercial vehicles (up to 6.35 t) in the North American market rose year on year by 9.3 % to 15.3 million vehicles. Vehicles manufactured in North America were almost the only ones to benefit from this increase in sales. In the United States the multitude of new models and higher demand for parts substantially boosted automobile sales in spite of the general economic slowdown. At 12.8 million units (+10.3 %) however, the market volume of passenger cars and light commercial vehicles still fell substantially short of the 2007 level. In Canada growth slowed year on year during the reporting period, and sales rose by 1.8 % to 1.6 million vehicles. The increase in sales by 9.7 % to 0.9 million vehicles in the Mexican market on the other hand was more or less at the previous year's level.

South America

In 2011, vehicle sales in the Region South America rose substantially year on year, even surpassing the previous record that was set in 2010. The Brazilian market again slightly exceeded the previous year's record: The number of new passenger car registrations during the reporting year was up 0.1 % year on year. Despite a largely stable economy, demand for automobiles significantly weakened during the second half of the year. This development was driven by uncertainty among consumers due to rising inflation and high interest rates. Import vehicles recorded substantial growth, boosted by the strong real. To protect the local industry, the Brazilian government in September 2011 decided to raise the industry tax on imported vehicles; this measure took effect on 15 December 2011. At 542,000 units (+7.7 %), Brazilian vehicle exports again rose year on year.

In Argentina, the region's second-largest automotive market, at 620,000 units demand for passenger cars (+28.4 %) substantially surpassed the previous year's record. Aside from relatively low-cost consumer loans, this was primarily due to consumers' behaviour: Given high inflation, they invested in tangible assets such as cars to protect themselves from the erosion of their purchasing power.

Asia Pacific

During the reporting period, 2.5 % more passenger cars than a year earlier were newly registered in the Region Asia Pacific. The Chinese automobile market grew by 876,000 to 12.3 million vehicles. In contrast to 2009 and 2010, when vehicle sales in China recorded high double-digit growth, sales figures in 2011 rose relatively moderately (+7.6 %). This was due to the expiry of several governmental stimulus packages. New passenger car registrations in Japan fell by 16.3 % to 3.5 million vehicles. This steep decline was caused by the general economic uncertainty but primarily by the large number of production losses in the wake of the natural disasters on 11 March 2011 and the early new car purchases in 2010 under governmental stimulus packages that were promoted at the time. At an increase of 5.6 % to 2.3 million passenger cars, the Indian passenger car market set yet another record against the backdrop of slower growth. Here, high interest rates and rising petrol prices were the main reasons for the rather restrained development of demand especially in the year's second half.

WORLDWIDE DELIVERIES TO CUSTOMERS IN 2011

	VEHICLE DELIVERIES		
	2011	2010[1]	Changes in %
Worldwide	8,265,012	7,203,184	14.7
Volkswagen Passenger Cars	5,090,849	4,502,832	13.1
Audi	1,302,659	1,092,411	19.2
ŠKODA	879,184	762,600	15.3
SEAT	350,009	339,501	3.1
Bentley	7,003	5,117	36.9
Lamborghini	1,602	1,302	23.0
Volkswagen Commercial Vehicles	528,810	435,669	21.4
Scania	80,108	63,712	25.7
Bugatti	38	40	– 5.0
MAN[2]	24,750	0	–

1 The 2010 deliveries and market shares were updated due to statistical extrapolation.
2 The deliveries of the MAN brand are included only for the period from 9 November to 31 December 2011.

OVERALL APPRAISAL OF THE DEVELOPMENT OF BUSINESS

In the view of the Board of Management of Volkswagen Financial Services AG, business developed positively in 2011. Earnings in 2011 were in line with expectations and therefore higher than in 2010.

The global economy has recovered as predicted, and new business worldwide developed well during the year. Accompanied by declining risk costs, the increase in funding costs was slower than expected.

In the 2011 financial year, Volkswagen Financial Services AG boosted its business volume year on year – especially in Germany, France, Brazil and the United Kingdom.

Margins remained stable compared to the previous year. Volkswagen Financial Services AG also continued to enhance the leveraging of potential along the automotive value chain. As in recent years, we further intensified the integration of our financial services into the sales activities of the Volkswagen Group brands. Volkswagen Financial Services AG continued to push the consistent implementation of its WIR2018 strategy in the reporting year and the German market underwent a customer-focused realignment. Volkswagen Versicherung AG was established and assumed responsibility for its risks. This completed the change from an insurance broker to a primary insurer. At 5,635 new contracts, the long-term rental product was successfully launched in 2011. Volkswagen Financial Services AG continued to expand its European fleet business in 2011. The company offers a comprehensive range of full-service leasing packages in all European core markets and thus is the number 1 partner of the Volkswagen Group brands in the European fleet business.

In 2011, Volkswagen Financial Services AG again pushed its international growth by acquiring a portfolio in the Netherlands together with its local joint venture partner and by developing new markets as part of its overall strategy through the establishment and launch of an entity in South Korea. In addition, the acquisition of Euromobil Autovermietung GmbH helped to substantially strengthen the New Mobility business. The takeover was completed in early 2012.

Steering, organisation and equity investments
Boosting international growth

Volkswagen Financial Services AG continued its internationalisation strategy by investing in new and growing markets

KEY OBJECTIVES AND MANAGEMENT

Over the years, the companies in the Volkswagen Financial Services AG Group have increasingly evolved into providers of comprehensive mobility services who manage complex tasks in connection with the financial and insurance-related mobility of their customers. As previously, the key objectives of Volkswagen Financial Services AG include:

- Promotion of Group product sales in the interest of the Volkswagen Group brands and the partners appointed to distribute them, and strengthening of customer loyalty to the Volkswagen Group brands along the automotive value chain;
- Service provider functions of the Volkswagen Group and its brands, with optimised products, processes and information systems;
- Intensification of the cross-border transfer of experience and know-how, and close cooperation with the national companies;
- Utilisation of synergies from close cooperation with the Group Treasury of Volkswagen AG, for best possible refinancing.

The company's key indicators are calculated based on IFRS and presented in its internal reporting. Among the key financial indicators included in the reporting are the operating result, the return on equity and the cost/income ratio.

ORGANISATION OF VOLKSWAGEN FINANCIAL SERVICES AG

Volkswagen Financial Services AG provides financial services to the following customer groups: Private Customers, Corporate Customers, Fleet Customers and Direct Banking Customers. Our structural organisation is fully aligned with these customer groups. The close integration of marketing, sales and customer service eliminates process discontinuities, streamlines processes and ensures more effective implementation of the sales strategy. Cross-divisional functions such as Internal Services and Information Technology have been combined and centralised to leverage additional synergies and ensure the quality of services.

Volkswagen Financial Services AG has integrated itself very closely with the aftersales areas of the Volkswagen Group and consolidated all aftersales matters in a separate key account structure for purposes of exploiting the services business to optimal effect.

A separate organisational Compliance unit was established to bundle activities to prevent legal violations and punishable offences. Volkswagen Financial Services AG has been the financial holding group's primary company since 1 January 2012. Organisational foundations were thus put in place in order to be able to assume all aspects of groupwide risk management.

CHANGES IN EQUITY INVESTMENTS

Effective 1 January 2011, Volkswagen Business Services GmbH was merged into Volkswagen Financial Services AG whilst Volkswagen Insurance Brokers GmbH was merged into Volkswagen Bank GmbH.

Volkswagen Financial Services Taiwan LTD. founded Volkswagen International Insurance Agency Co., Limited, Taiwan, in September 2011.

In the fourth quarter of 2011, Volkswagen Financial Services AG established a joint venture in Belgium with D'Ieteren in order to improve its ability to operate in this market starting in the first quarter of 2012.

In December 2011, Volkswagen Financial Services AG founded Volkswagen New Mobility Services (China) Investment Company in Beijing.

In the reporting year, Volkswagen AG increased the equity of Volkswagen Financial Services AG by € 650 million given anticipated growth in both existing and new markets.

With the aim of strengthening the companies' equity, in 2011 Volkswagen Financial Services AG increased the capital of Volkswagen Financial Services N.V., Amsterdam, the Netherlands, by a total of € 375 million; that of Volkswagen Bank GmbH, Braunschweig, Germany, by a total of € 50 million; that of VOLKSWAGEN FINANCE PRIVATE LIMITED, Mumbai, India, by a total of € 32 million; that of Limited Liability Company Volkswagen Bank RUS, Moscow, Russia, by € 49 million; that of VOLKSWAGEN BANK SA INSTITUCION DE BANCA MULTIPLE, Puebla, Mexico, by € 29 million; that of VOLKSWAGEN MØLLER BILFINANS AS, Oslo, Norway, by € 9 million; and that of Volkswagen Financial Services Korea Co., Ltd, Seoul, South Korea, by € 4 million. These campaigns serve to expand our business and support the growth strategy we are pursuing in tandem with both the Volkswagen Group and the sales organisations.

There were no other significant changes in equity investments. For detailed disclosures please see the section on shareholdings pursuant to § 285 HGB and § 313 HGB at www.vwfsag.com/listofholdings2011.

Analysis of the Group's business development and position

Further improvement of earnings

Larger volumes and stable margins, coupled with lower risk costs enabled Volkswagen Financial Services AG to further increase its earnings.

RESULTS OF OPERATIONS

The 2011 financial year was defined by the positive development of the global economy even though the financial markets remained unsettled.

The pre-tax result of € 933 million surpassed the previous year's level of € 870 million (+7.2 %). In this connection larger volumes at stable margins and lower risk costs had a particularly positive effect. The return on equity[1] fell slightly to 12.7 % (previous year: 13.1 %) owing to the substantial increase in equity.

At € 2,443 million, the net income from lending, leasing and insurance transactions before risk provisions surpassed the previous year's result due to the positive development of business in almost all regions.

At € 513 million, risk costs were lower than the previous year (previous year: € 619 million). Additional default risks arising for the Volkswagen Financial Services AG Group as a result of the crisis situation in Greece, Ireland, Spain and Italy were accounted for in the amount of € 188 million.

Commission income rose substantially year on year, basically due to the change in the commission model used in insurance brokerage and the positive development worldwide of the insurance brokerage business.

At € 1,259 million, general administration expenses were higher year on year owing to more comprehensive banking regulations, volume effects from the expansion of business and investments in strategic projects.

The cost/income ratio[2] remained stable at 60 % (previous year: 60 %). A total of € 56 million was allocated to provisions for legal risks.

The result from equity investments accounted for using the equity method – in particular the joint ventures, LeasePlan Corporation N.V. (LeasePlan), Amsterdam, as well as Volkswagen Pon Financial Services B.V., Amersfoort – was € 132 million and thus € 7 million higher year on year.

Taking into account the result from the measurement of derivative financial instruments in the amount of € –22 million (previous year: € 46 million) and the remaining earnings components, the net income of the Volkswagen Financial Services AG Group for the year was € 658 million (+5.6 %).

The profit made by Volkswagen Financial Services AG in the amount of € 512 million based on its single-entity financial statements under the German Commercial Code was transferred to Volkswagen AG, the company's sole shareholder, under the existing control and profit transfer agreement.

With about 56.1 % of the contract portfolio, once again the German companies generated the highest business volume, thus providing a solid and strong basis. They generated a pre-tax result of € 402 million (previous year: € 501 million).

Volkswagen Bank GmbH maintained its strong market position in 2011, supported by an attractive product range and the loyalty of customers and dealers alike. In that connection the bank succeeded in maintaining its net income at the previous year's good level despite having to account for additional default risks to which it is exposed in connection with the crisis situation in individual EU countries. This enabled Volkswagen Bank GmbH once again to make a substantial contribution to the success of Volkswagen Financial Services AG.

As in recent years, Volkswagen Leasing GmbH successfully developed its business in the 45th year of its existence, surpassing the record level of 400,000 fleet customer contracts in September. This means that Volkswagen Leasing GmbH again made a substantial contribution to the positive result of Volkswagen Financial Services AG.

The car insurance portfolio of Volkswagen Versicherungsdienst GmbH contracted in a market still.

1 Pre-tax result divided by the average equity

2 General administration expenses divided by net income from lending, leasing and insurance transactions after provisions for risks and net commission income

dominated by stiff competition because campaigns it had launched in previous years were being phased out. A new product line, which comprises purchase price protection insurance and offers considerable new business potential, was launched effective 1 October 2011.

Volkswagen Versicherung AG successfully completed its first year as a primary insurer with a portfolio of 177,000 warranty insurance contracts.

The primary insurance business comprising warranty insurance under the European Passport was launched in January 2011 through the French branch.

The portfolio of active reinsurance basically encompasses the German car insurance business that is brokered by Volkswagen Versicherungsdienst GmbH and the German credit protection insurance business that is generated by Volkswagen Bank GmbH.

All of the foreign financial services companies included as fully consolidated entities in the consolidated financial statements of Volkswagen Financial Services AG generated positive net income for the year.

ASSETS AND FINANCIAL POSITION

Lending business

Receivables from customers – which represent the core business of the Volkswagen Financial Services AG Group – plus leased assets amounted to € 67.9 billion, and thus accounted for approximately 88 % of the consolidated total assets. The positive development reflects the expansion of business, particularly in Brazil, the United Kingdom and Australia.

The loan volume from retail financing increased by € 2.8 billion or 9.0 % to € 33.3 billion in the year just ended. The number of new contracts amounted to 1,136,000, which was an increase of 4.6 % compared to the previous year. This meant that the number of current contracts rose to 3,022,000 by the end of the year (+6.6 %). With a volume of 1,849,000 contracts (previous year: 1,813,000), Volkswagen Bank GmbH remained the Group company with the highest business volume.

The loan volume in the wholesale financing business – which consists of receivables from Group dealers in connection with the financing of vehicles in stock plus equipment and investment loans – rose to € 10.4 billion (+17.9 %).

Receivables from leasing transactions amounted to € 14.3 billion, which is an increase compared to the previous year (+4.5 %). Leased assets also saw growth of € 1.4 billion, rising to € 6.4 billion (+28.3 %).

At 539,000, the number of new leasing contracts in the reporting year was up compared to the previous year (+25.1 %). As at 31 December 2011, there were 1,203,000 leased vehicles in stock, which is an increase of 7.4 % in comparison to the previous year. As in previous years, Volkswagen Leasing GmbH once again made the largest contribution to the Group, with a current contract level of 876,000 (+9.2 %) leased vehicles.

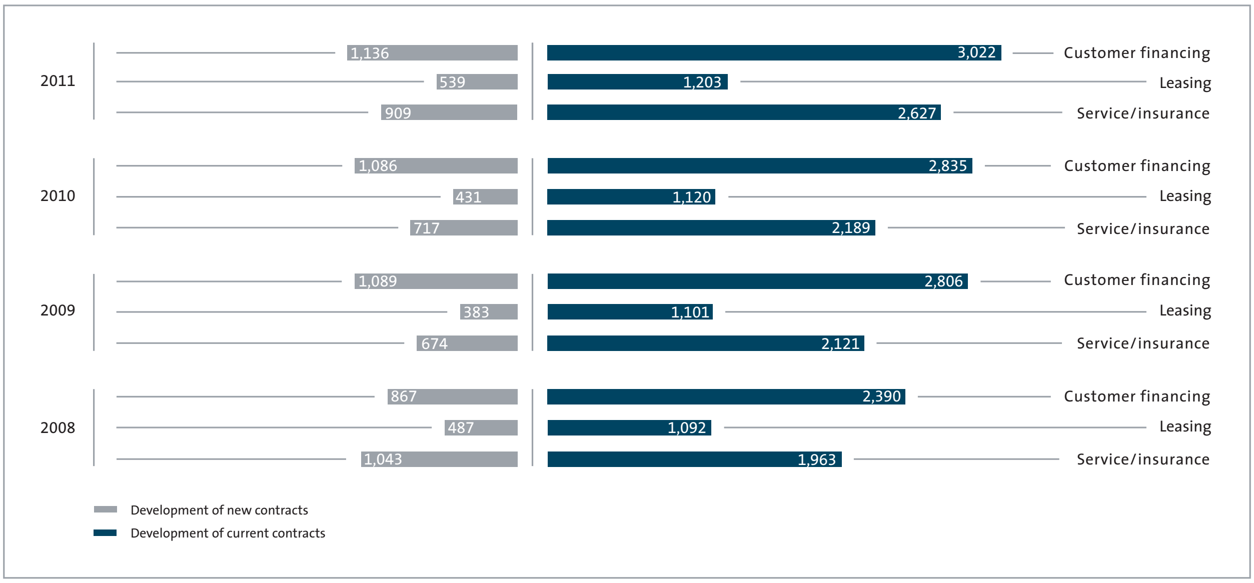
CURRENT CONTRACTS, NEW CONTRACTS AND CONTRACT VOLUME AS AT 31.12.

in thousands	VW FS AG	Europe	of which Germany	of which Italy	of which United Kingdom	of which France	Asia Pacific	North America/ South America
Current contracts	6,852	5,846	3,845	367	656	231	205	801
Retail financing	3,022	2,283	1,455	162	328	127	125	614
Leasing	1,203	1,108	854	51	60	61	3	92
Service/insurance	2,627	2,455	1,536	154	268	43	77	95
New contracts	2,584	2,189	1,289	171	335	111	67	328
Retail financing	1,136	820	447	68	151	69	48	268
Leasing	539	516	406	19	29	26	1	22
Service/insurance	909	853	436	84	155	16	18	38
in € million								
Receivables from customers arising from								
Retail financing	33,261	23,570	14,694	1,474	4,319	960	2,505	7,186
Wholesale financing	10,412	8,317	3,786	688	1,316	999	639	1,456
Leasing	14,252	13,439	10,929	598	116	846	144	669
Leased assets	6,382	6,381	4,566	370	856	202	0	1
in %								
Penetration rates[1]	34.7	37.0	50.3	31.9	32.6	28.8	30.6	28.8

1 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles based on the fully consolidated entities of Volkswagen Financial Services AG

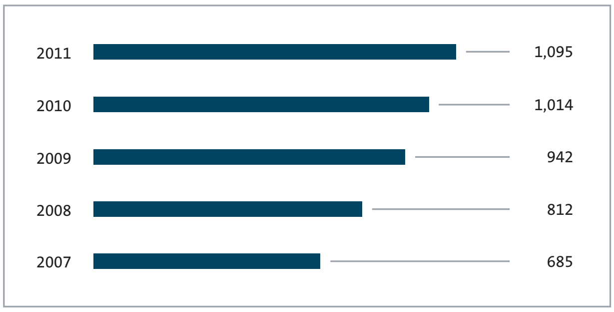
DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS AT 31.12.

in thousand contracts



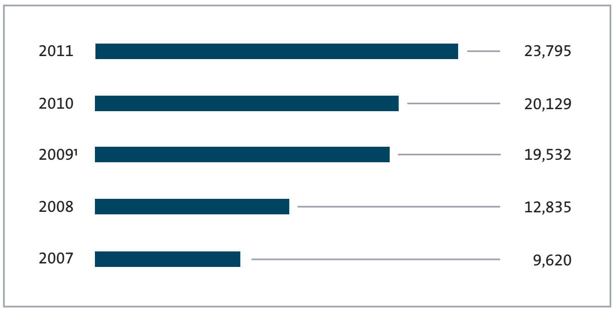
DIRECT BANKING CUSTOMERS AS AT 31.12.

Lending and deposit business and borrowings (in thousands)



CUSTOMER DEPOSITS AS AT 31.12.

In € million



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

Compared to the previous year, the total assets of Volkswagen Financial Services AG rose to € 76.9 billion (+17.8 %). This increase is essentially due to the growth in receivables from customers (+11.7 %) and leased assets (+28.3 %), reflecting the expanded business in the year just ended.

At the end of the year, the service and insurance contract portfolio contained 2,627,000 contracts (previous year: 2,189,000). At 909,000 contracts (previous year: 717,000), the volume of new business was 26.8 % above the level of the previous year.

Deposit business and borrowings

Significant items in liabilities and equity include liabilities to financial institutions in the amount of € 7.3 billion (+0.7 %), liabilities to customers in the amount of € 29.7 billion (+14.5 %), as well as securitised liabilities in the amount of € 26.2 billion (+27.3 %). Details concerning the company's refinancing and hedging strategy are provided in a separate section of this management report.

Specifically, the deposit business of Volkswagen Bank GmbH, reported as part of the liabilities to customers, again reached a new record high of € 23.8 billion (+18.2 %) as at 31 December 2011. With this level of deposits, Volkswagen Bank GmbH continues to be one of the largest players in the sector. The bank had 1,095,000 direct banking customers (+8.0 %) as at 31 December 2011.

Subordinated capital

The subordinated capital increased from € 1.7 billion to € 2.7 billion.

Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at € 411 million in the 2011 financial year. IFRS equity was € 7.7 billion (previous year: € 7.0 billion). This yields an equity ratio[1] of 10.0 % relative to the total equity and liabilities of € 76.9 billion.

Capital adequacy according to regulatory requirements

International capital adequacy regulations require a minimum core capital ratio (frequently also referred to as "Tier I Capital") of 4.0 % and an overall ratio of at least 8.0 %.

The requirements defined under the "Basel II" framework comprise three pillars: minimum capital requirements (Pillar I), a supervisory review process to ensure that banks have adequate capital to support all the risks in their business (Pillar II), as well as disclosure requirements (Pillar III). Volkswagen Bank GmbH has applied the provisions of the new Solvency Regulation as early as possible, i.e. from 2007 – both for itself and the financial holding group. In so doing, the bank and the financial holding group use the so-called standardised approach to determine capital adequacy in connection with credit risks and operational risks.

We have the option until the end of 2015 to determine the financial holding group's solvency ratios pursuant to either § 10a Para. 6 German Banking Act or § 10a Para. 7 German Banking Act. Thereafter, only the procedure set forth in § 10a Para. 7 German Banking Act will apply; the IFRS consolidated financial statements must be used as the basis for determining both consolidated equity and consolidated risk positions. We already switched the determination of the solvency ratios to the procedure set out in § 10a Para. 7 German Banking Act in 2009.

The risk-weighted position of the financial holding group in accordance with the standardised approach to credit as at the end of December 2011 was € 60.3 billion, a slight increase compared to the previous year (€ 51.1 billion). This increase is mainly due to the increase in business volume.

The following charts contain details regarding the composition of own funds and their changes compared to 2010 as well as the aggregate risk position:

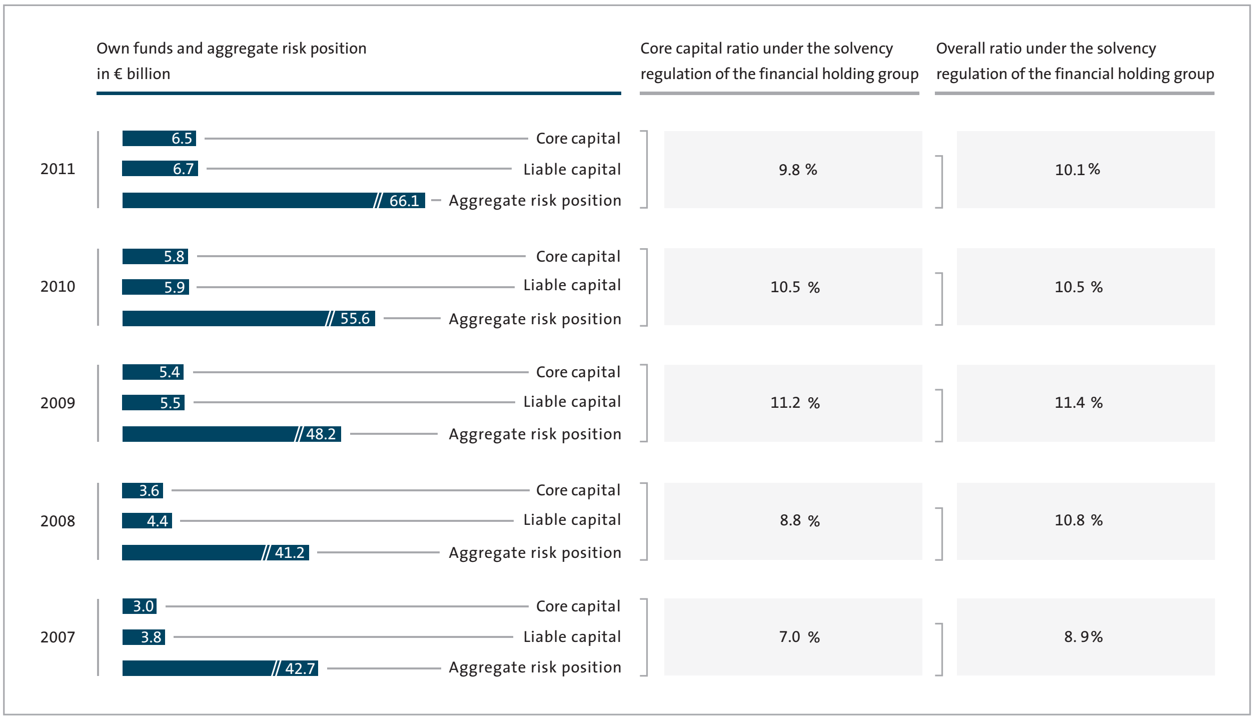
1 Equity divided by total assets

OWN FUNDS AND AGGREGATE RISK POSITION

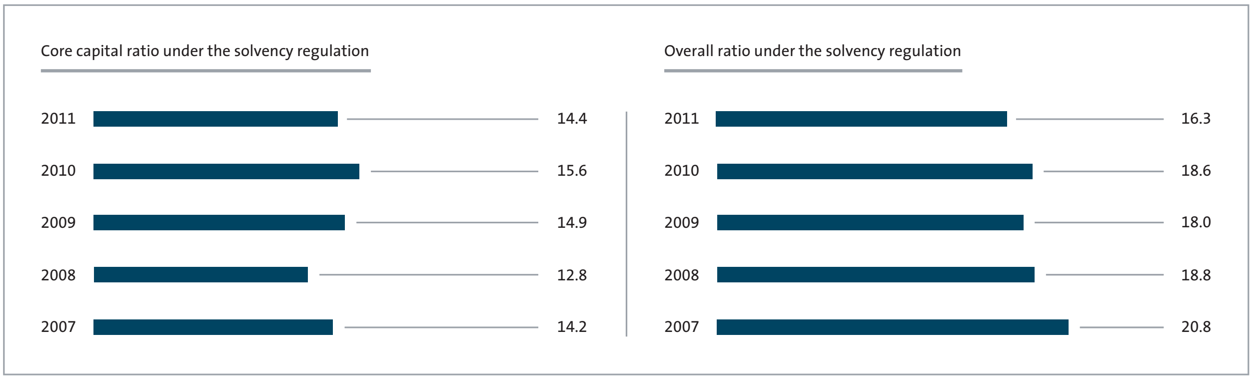
	31.12.2011	31.12.2010
Aggregate risk position (€ million)	66,069	55,591
of which weighted position according to the standardised approach to credit risks	60,254	51,146
of which market risk positions * 12.5	2,452	2,020
of which operational risks * 12.5	3,363	2,425
Liable capital (€ million)	6,694	5,851
of which core capital[1]	6,476	5,810
of which supplementary capital[1]	218	41
Own funds (€ million)	6,694	5,851
Core capital ratio (%)[2]	9.8	10.5
Overall ratio (%)[3]	10.1	10.5

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

CORE CAPITAL RATIO AND OVERALL RATIO UNDER THE SOLVENCY REGULATION OF THE FINANCIAL HOLDING GROUP AS AT 31.12.



CORE CAPITAL RATIO AND OVERALL RATIO UNDER THE SOLVENCY REGULATION OF VOLKSWAGEN BANK GMBH AS AT 31.12.
GIVEN THE SIGNIFICANCE OF VOLKSWAGEN BANK GMBH, BOTH THE CORE CAPITAL RATIO AND THE OVERALL RATIO OF VOLKSWAGEN BANK GMBH ARE ALSO DISCLOSED.
Figures in%



Even with a rapidly increasing business volume and geographic expansion, Volkswagen Bank GmbH is in a position to secure adequate capital resources for itself and the financial holding group, Volkswagen Financial Services AG, at short notice and at optimal cost by raising appropriate amounts of supplementary capital in the form of participation right liabilities and subordinated liabilities and by receiving payments into its reserves from Volkswagen AG. In addition, ABS transactions are utilised to optimise capital management. As a result, Volkswagen Bank GmbH and the companies belonging to the Volkswagen Financial Services AG financial holding group have a sound basis for the ongoing expansion of their financial services business.

REFINANCING

Strategic principles

In terms of its refinancing activities, Volkswagen Financial Services AG generally follows a strategy aimed at diversification, which is conceived as the best possible weighing of cost and risk factors. This entails developing a diverse range of refinancing sources in different regions and countries with the aim of ensuring the sustained availability of such resources at attractive terms. Investors' substantial interest in the bonds and securitisation transactions documents their unwavering confidence in the performance of both Volkswagen Financial Services AG and the Volkswagen Group.

Implementation

In January 2011, Volkswagen Leasing GmbH opened the euro capital market with a € 1.25 billion benchmark debt issue. In April Volkswagen Bank GmbH issued two bonds with a total volume of € 1.0 billion under its € 10 billion capital market programme.

In May Volkswagen Leasing GmbH successfully placed two further issues for a total of € 1.25 billion under the € 18 billion capital market programme of Volkswagen Financial Services AG. This transaction consisted of one bond with a variable interest rate and a second one with a fixed interest rate subject to maturities of two and five years, respectively, such that investors' divergent interests were taken into account as best as possible. In November Volkswagen Leasing GmbH successfully issued two tranches with maturities of three and six and one half years, respectively, and a total volume of € 1.5 billion.

The year 2011 also turned out to be a good one for asset-backed security issues. In Germany receivables of Volkswagen Bank GmbH were successfully placed with a broad investor base through the Driver 8 and Driver 9 ABS transactions. Receivables of Volkswagen Leasing GmbH triggered strong market demand in connection with the "Volkswagen Car Lease 13" (VCL 13) issue in March and the "Volkswagen Car Lease 14" (VCL 14) issue in September – despite the tight market environment. All German transactions fulfil the requirements of the TSI quality label "Certified by TSI – Deutscher Verbriefungsstandard". This seal certifies that our securitisation transactions are deemed exceptional in the European securitisation market in terms of quality, security and transparency. In 2011 a total of € 4.48 billion in receivables were sold worldwide by means of ABS transactions.

At growth of € 3.7 billion to € 23.8 billion in the financial year just ended, the customer deposit business was expanded continuously.

Volkswagen Financial Services N.V. managed to meet the liquidity needs of its international financing companies with a number of unsecured bond issues in different currencies. But other companies of the Volkswagen Financial Services AG Group also actively utilised the international capital markets for their local refinancing purposes in the year just ended. In Mexico, for instance, VOLKSWAGEN LEASING SA DE CV, Puebla, issued a MXN 2.0 billion bond in April with a maturity of three years, and Volkswagen Bank S.A., Puebla, debuted with a bond for more than MXN 1 billion in December. In India, VOLKSWAGEN FINANCE PRIVATE LIMITED, Mumbai, launched its local refinancing activities in November through a commercial paper programme. VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD., Tokyo, placed five bonds for a total of JPY 10.5 billion, and VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED, Botany, used the local capital market for four bonds totalling AUD 525 million.

The company borrowed at corresponding maturities and used derivatives in line with its strategy of refinancing to the greatest extend at matching maturities. Raising funds in local currencies served to follow the approach of refinancing at matching currencies; currency risks were precluded through the use of derivatives.

Opportunity and risk report
Managing risks responsibly

Volkswagen Financial Services AG responsibly assumes a multitude of risks typical of the financial services business in order to take advantage of the resulting market opportunities in targeted ways.

MACROECONOMIC OPPORTUNITIES

The Board of Management of Volkswagen Financial Services AG expects the number of vehicle deliveries to Volkswagen AG customers to continue growing and the world market share to continue expanding against the backdrop of moderate economic growth. Volkswagen Financial Services AG supports this positive trend through financial services products designed to boost sales.

STRATEGIC OPPORTUNITIES

In addition to intensifying its international alignment by entering new markets, Volkswagen Financial Services AG sees further opportunities in the development of innovative products that are aligned with customers' changed mobility requirements. Marketing campaigns are being implemented and growth areas such as the New Mobility (long-term rental, car sharing) are being developed and expanded to boost Group earnings.

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

The Internal Control System (ICS) that is relevant to the preparation of the consolidated financial statements of Volkswagen Financial Services AG is the sum of all principles, methods and actions aimed at ensuring the effectiveness, economy and propriety of the company's accounting as well as ensuring compliance with material legal requirements. In terms of the accounting system, the risk management system (IRMS) concerns the risk of misstatements in the bookkeeping at the level of the individual entity and the Group as well as in the external reporting system. The material elements of the internal control system and the risk management system as they relate to the accounting process at Volkswagen Financial Services AG are described below.

- Given its function as the corporate body tasked with managing the company's business and in view of ensuring proper accounting, the Board of Management of Volkswagen Financial Services AG has established Accounting, Customer Service, Treasury, Risk Management and Controlling departments and has clearly delineated their respective spheres of responsibility and authority. Key cross-divisional functions are controlled by the Boards of Management of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Leasing GmbH.
- Groupwide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process.
- For instance, the accounting standards of the Volkswagen Financial Services AG Group – including the International Financial Reporting Standards – govern the accounting policies applied by the domestic and foreign entities that are consolidated in the Volkswagen Financial Services AG Group's annual financial statements.
- The accounting standards of Volkswagen Financial Services AG also govern concrete formal requirements that the consolidated financial statements must fulfil. They not only determine which companies to include in consolidation, they also fix the components of the reporting packages that the Group companies must prepare in detail. Among other things, these formal requirements serve to ensure the binding utilisation of a standardised and complete set of forms. The accounting standards also contain specific requirements regarding the treatment and settlement of intra-group transactions and the reconciliation of accounts based thereon.
- At the Group level, specific elements of control designed to ensure the propriety and reliability of Group accounting principles comprise analyses and possibly revisions of Group companies' single-entity financial statements, with due regard for the reports submitted by the auditors or the discussions held with them to this end.
- All of this is supplemented by the clear delineation of spheres of responsibility as well as a variety of controlling and monitoring mechanisms. The aim is to ensure that all transactions are accurately posted, processed, evaluated and included in the company's financial accounting.
- These controlling and monitoring mechanisms are designed to be process-integrated and independent of

processes. Hence automated IT process controls besides manual process controls (such as the "four-eyes" principle) comprise material components of the process-integrated activities. These controls are supplemented by specific Group functions of the parent company, Volkswagen AG, for example Group Controlling.

- Risk management is fully integrated into the accounting process by virtue of continuous risk monitoring and the risk reporting system.
- Nevertheless, Internal Audit is also a key corporate body that is integral to the controlling and monitoring system of the Volkswagen Financial Services AG Group. Internal Audit regularly performs audits, both in Germany and abroad, of processes relevant to accounting as part of its risk-based audit procedures and directly reports its findings to the Board of Management of Volkswagen Financial Services AG.

In sum, the existing internal controlling and monitoring system of the Volkswagen Financial Services AG Group is designed to ensure that the information on the financial position of the Volkswagen Financial Services AG Group as at the 31 December 2011 reporting date is proper and reliable. No material changes were made to the internal controlling and monitoring system of the Volkswagen Financial Services AG Group after the reporting date.

ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

Volkswagen Financial Services AG understands risk to entail a risk of loss or damage that arises when an anticipated future development takes a more negative course than planned.

Volkswagen Financial Services AG including its subsidiaries and affiliates (hereafter: "Volkswagen Financial Services AG") 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.

Under its overall responsibility in accordance with § 25a German Banking Act in conjunction with AT 3 and AT 4.5 MaRisk, 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 (KWG) and by applying § 91 Para. 2 German Stock Corporation Act analogously.

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

Volkswagen Bank GmbH was the superordinate company of the financial holding group until 31 December 2011.

The staff and control functions for Volkswagen Financial Services AG are organised in the following units: Controlling, Legal Services, Internal Audit, Accounting, Group Risk Management & Methods as well as Treasury.

Within Volkswagen Financial Services AG, the Chief Risk Officer (CRO) is responsible for risk management.

The CRO regularly reports the overall risk position of Volkswagen Financial Services AG to the Supervisory Board and the Board of Management of Volkswagen Bank GmbH and to the Board of Management of Volkswagen Financial Services AG.

The Group Risk Management and Risk Assessment Procedures and Basel II departments were combined into Group Risk Management & Methods in 2011.

The latter is responsible for the formulation of risk management guidelines, the development of methods and processes, the identification of potential risks, the analysis and quantification as well as the assessment of risks and the resulting determination of risk management measures. Group Risk Management & Methods determines the parameters of the procedures used to measure both creditworthiness and collateral and ensures that the models and procedures applied are adequate worldwide.

As a neutral and independent department, Group Risk Management & Methods reports directly to the Boards of Management of Volkswagen Bank GmbH and Volkswagen Financial Services AG.

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 Financial Services AG.

RISK STRATEGY AND RISK MANAGEMENT

The basic decisions relating to strategy and tools for risk management rest with the Boards of Management of Volkswagen Bank GmbH, Volkswagen Leasing GmbH, Volkswagen Financial Services AG and Volkswagen Versicherung AG.

The Board of Management of Volkswagen Bank GmbH – under its overall responsibility in accordance with § 25a German Banking Act in conjunction with AT 3 and AT 4.5 MaRisk – and the Board of Management of Volkswagen Financial Services AG have established and documented a strategy process for business and risk strategy that conforms to minimum risk management requirements.

The WIR2018 business strategy sets out the fundamental views of the Board of Management of Volkswagen Financial Services AG on key matters of business policy. It contains the goals for every key business activity and the steps required to achieve these goals.

The Board of Management of Volkswagen Bank GmbH – under its overall responsibility in accordance with § 25a German Banking Act (KWG) in conjunction with AT 3 and AT 4.5 MaRisk – and the Board of Management of Volkswagen Financial Services AG have been pursuing a risk strategy in connection with their mid-term planning that conforms to minimum risk management requirements and is consistent with the companies' business strategy.

It is reviewed annually based on the risk inventory, the risk-bearing capacity and legal requirements, adjusted as necessary and discussed with the Supervisory Boards of Volkswagen Bank GmbH and Volkswagen Financial Services AG.

The risk strategy sets out the key risk management objectives for each type of risk, taking into account the company's approach to business (business strategy), its current risk exposure, expected developments and the risk potential. Actions are taken to achieve these goals, and their effects are described.

The groupwide risk strategy covers all material quantifiable and unquantifiable risks. It is further detailed and specified by means of secondary risk strategies for the individual risk types and operationalised in the planning round process. Materiality is determined in the risk inventory process, which must be carried out annually.

Until 31 December 2011, the Board of Management of Volkswagen Bank GmbH was responsible for executing within Volkswagen Financial Services AG the groupwide risk strategy established by the Board of Management of Volkswagen Bank GmbH under its overall responsibility and by the Board of Management of Volkswagen Financial Services AG. Effective 01 January 2012, Volkswagen Financial Services AG assumed overall responsibility for the groupwide risk strategy in its capacity as the superordinate company.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

A system is in place at Volkswagen Financial Services AG to determine the company's risk-bearing capacity by comparing its economic risk to its risk taking potential. A credit institution's risk-bearing capacity is given if, at a minimum, all of its material risks are continuously hedged through its risk taking potential.

The material risks of Volkswagen Financial Services AG are identified at least once a year in connection with a risk inventory; this provides a detailed basis for designing the risk management process and including it in the risk-bearing capacity.

Risk quantification is executed 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 Financial Services AG has selected a sufficiently conservative approach by assuming a 1:1 correlation between risk types in connection with the quantification of its economic risk.

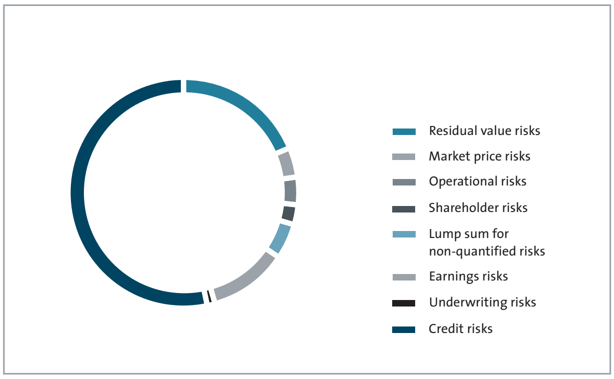
Volkswagen Financial Services AG's risk-bearing capacity was certain throughout 2011.

In addition, Volkswagen Financial Services AG uses a limit system derived from its analysis of risk-bearing capacity in order to specifically limit the risk capital in accordance with the risk appetite of the Boards of Management of Volkswagen Bank GmbH, Volkswagen Leasing GmbH and Volkswagen Financial Services AG.

Establishing the risk limit system as the core element in capital allocation limits risks at different levels, thus ensuring the Subgroup's economic risk-bearing capacity. The risk taking potential is determined based on the available equity and income components, taking various deductible items into account. In keeping with the risk appetite of the Boards of Management of Volkswagen Bank GmbH, Volkswagen Leasing GmbH and Volkswagen Financial Services AG, only a portion of this risk taking potential is defined as the upper risk limit of an overall risk limit. In the next step, the overall risk limit is allocated to the risk types credit risk, residual value risk, market price risk and underwriting risk for purposes of monitoring and steering at the operating level. Furthermore, a system of risk limits has been put in place for the most significant risks at the company level. The limit system makes a management tool available to management such that it can fulfil its responsibility to manage the company's business strategically and operationally in accordance with statutory requirements.

DISTRIBUTION OF RISKS BY TYPE OF RISK

Figures as at 30.09.2011



Stress tests are conducted groupwide and across all institutes at Volkswagen Financial Services AG, taking historical and hypothetical scenarios into account. These are complemented by so-called inverse stress tests in order to examine what events could expose the Group to a going-concern risk.

RISK REPORTING

The risk-bearing capacity is the starting point in the risk management report. After describing the Bank's overall risk, Group Risk Management&Methods addresses the counterparty default, market price, liquidity, operational, residual value and underwriting risks in detail in its quarterly risk management report. This report is addressed directly to the Boards of Management of Volkswagen Bank GmbH and Volkswagen Financial Services AG as well as the Supervisory Boards. Regular reporting is supplemented by ad hoc reporting.

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

IMPLEMENTATION OF THE THIRD MARISK AMENDMENT

The Federal Financial Supervisory Authority (BaFin) published an amendment of MaRisk on 15 December 2010. Volkswagen Financial Services AG analysed the new requirements, which concern especially the risk-bearing capacity and the strategy process, early on and implements them to lasting effect.

Volkswagen Financial Services AG 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 for risks in the banking and leasing business.

RISK TYPES

RISK OF COUNTERPARTY DEFAULT

The risk of counterparty default is defined as the potential negative deviation of the actual counterparty risk outcome from the planned one. The deviation in outcome occurs when the actual loss exceeds the expected loss due to changes in credit ratings or credit losses.

In this connection, an approach that addresses risk-bearing capacity typically considers the credit risk from customer transactions as well as counterparty, country, shareholder and issuer risks.

Credit risk

The credit risk concerns the risk of loss through defaults in customer business, specifically, non-payments by a borrower or lessee or the loss of receivables from an insurance policy holder. The loss is contingent on the inability or unwillingness of the borrower or lessee to make payments. This includes scenarios where the contracting party makes payments on interest and principal late or not in full.

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.

Risk assessment

Volkswagen Financial Services AG bases its lending decisions on credit assessments of the given borrowers using rating and scoring procedures. Parameters for developing and maintaining rating systems are described in a working guideline. There is also a rating manual, which governs the application of credit rating procedures for corporate customers as part of the loan approval process.

The New Product/New Market Process of Volkswagen Financial Services AG must be applied before new products are brought to market or activities are launched in new markets.

Timely identification of changes in risk is assured by means of regular portfolio analyses, planning rounds and business financial reviews.

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

Scoring procedures in the retail business

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

Generic scorecards and scorecards based on data histories going back several years are used in the portfolios of Volkswagen Financial Services AG to supplement the lending decisions taken by the respective departments.

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

This allows us to rate and control these portfolios' credit risks in ways adequate to the risks concerned when determining loss given default (LGD).

Rating procedures in the corporate business

Volkswagen Financial Services AG assesses creditworthiness based on rating procedures.

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.

The centrally maintained workflow-based rating application CARAT will be rolled out abroad in 2012 to enhance the assessments of creditworthiness. CARAT is currently being used in Germany, the United Kingdom, Italy, Ireland, Russia, Mexico and Brazil.

The result of the rating provides an important 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.

The models and procedures controlled by Group Risk Management & Methods are regularly validated, adjusted as necessary and refined.

This concerns the models and procedures for assessing creditworthiness (such as rating and scoring procedures) and for assessing probabilities of default, loss given default and credit conversion factors (CCF).

Group Risk Management & Methods reviews the validity of the models and procedures used by the local risk management units abroad to assess creditworthiness, initiates appropriate measures in cooperation with the local risk management if it identifies any need for action and monitors the implementation of these measures.

Collateral

As a rule, credit transactions are secured in ways adequate to the risks concerned. A groupwide guideline establishes the requirements that collateral as well as assessment procedures and principles must satisfy. Additional local guidelines prescribe concrete valuations as well as regional specificities.

The valuations in local collateral guidelines are based on historical data and many years of expert experience. We ensure that collateral adequate to the relevant risk is available for covering credit risks. Automobiles, in their capacity as collateral, are material to this approach because the activities of Volkswagen Financial Services AG focus on financing customer purchases and dealer sales as well as vehicle leasing.

Volkswagen Financial Services AG therefore monitors the development of vehicles' market values. Adjustments of the valuation methods and disposal processes are made in the event of major changes in these market values. Group Risk Management & Methods also carries out regular quality assurance regarding local guidelines for collateral. This includes reviewing and, if necessary, adjusting the valuations for collateral.

Value adjustments

Value adjustments are determined based on the incurred loss model pursuant to IAS 39. The model we used for determining these adjustments was derived from the Basel II risk quantification method.

Risk management and monitoring

Group Risk Management & Methods establishes crash barriers for the 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.

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

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

Furthermore, credit risks are also managed by applying Volkswagen Financial Services AG's reporting limits. These reporting limits are fixed for each company individually. The local decision makers can exercise discretion within these limits.

Analyses of the portfolios are performed at the portfolio level for risk monitoring purposes. The Credit Risk Portfolio Rating combines different risk parameters in a key ratio, ensuring comparability of the international portfolios of Volkswagen Financial Services AG. Risk reviews are performed at the company level in the event of problems.
Stress tests for credit risks entail sensitivity and scenario analyses. Whilst sensitivity analyses are implemented based on models, scenario analyses are based on expert opinions subject to the participation of both centralised and decentralised risk specialists. This provides a comprehensive view of the risk sensitivity of the credit business, particularly against the backdrop of a changing economic climate.

Concentrations of risk

Concentrations of credit risk

Concentrations of credit risk arise if a major portion of the loans are extended to a just few borrowers/contracts. Volkswagen Financial Services AG is a captive. Hence this risk is analysed and reported in detail in accordance with the business model. By its nature, this business model makes it impossible to avoid concentrations of risk in the risk type, "credit risk". Existing concentrations of risk are thus adequately considered and monitored.

Concentrations of credit risk are of secondary significance to Volkswagen Financial Services AG given its international positioning and the fact that its activities mainly concern small (retail) loans.

Concentrations of industries

In sectoral terms, Volkswagen Financial Services AG is broadly positioned by country and industry in both the retail and the corporate-non-dealer business. Sectoral risks in the dealer business are inherent to a captive and are analysed in ways appropriate to the given industry. It was determined that on the whole specific industries did not have a particular impact in downturns such as the most recent economic crisis.

Concentrations of collateral

Concentrations of collateral are inherent to a captive and arise when a substantial portion of receivables or leasing transactions are collateralised by a single type of security.

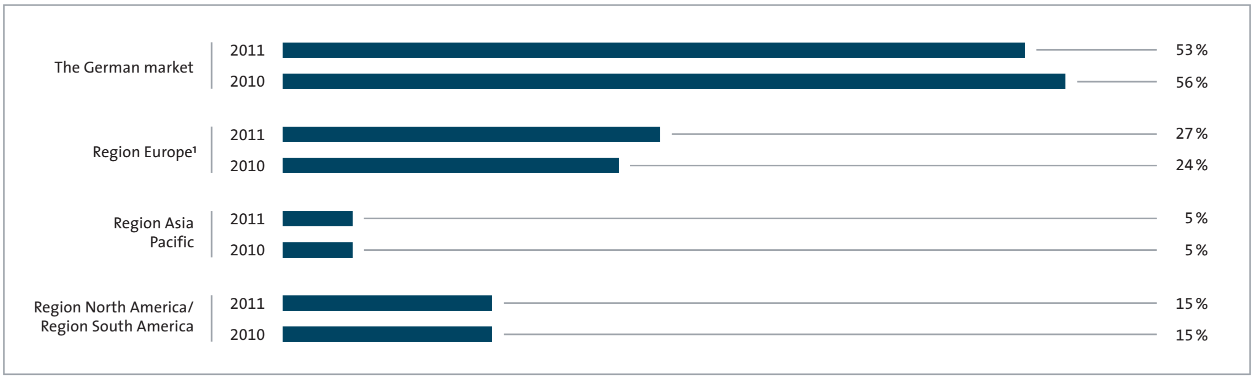
Vehicles are the dominant type of collateral for Volkswagen Financial Services AG. Risks arising from such concentrations of collateral basically arise when negative price developments in the used vehicle markets reduce both the value of the collateral and the proceeds from the disposal of the collateral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

In terms of the vehicles that serve as collateral, Volkswagen Financial Services AG is diversified not just across all automotive segments but also across many countries worldwide. The range of vehicles that are financed and leased is equally diversified.

Both of these effects reduce the risk of concentrations of collateral.

Developments/Outlook

DISTRIBUTION OF CREDIT VOLUME BY REGION AS AT 31.12.



1 Region Europe excluding Germany

The retail portfolio accounts for 73 % of the customer credit business, while the corporate portfolio accounts for 27 %.

The trend toward economic recovery continued in the first half of 2011. But the economic horizon dimmed in subsequent months especially as a result of the sovereign debt crisis in Europe, whilst the economic environment in the Region Asia Pacific and the Region North America/Region South America remained stable.

Driven by the manufacturer's marketing campaigns and a positive economic environment, the retail portfolios have been growing particularly in the major European markets.

Defaults in the private customer segment have declined as a result of this growth.

Defaults have only increased in Southern European markets such as Greece, owing to the crisis.

Business with commercial borrowers continued to stabilise in 2011. The dealer business continued to grow in connection with the expansion of the factoring business.

We believe that the economic environment will remain uncertain and volatile in 2012. Resolving the sovereign debt crisis in Europe and its global ramifications will be decisive.

Counterparty risk

The counterparty risk arises from overnight and term deposits, the conclusion of derivatives as well as pension funds.

Risk assessment

Counterparty risks are recorded as part of the risks of counterparty default.

The risks of counterparty default are determined using the Monte Carlo simulation. In this context, the respective exposure to risks of counterparty default of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Leasing GmbH is determined. The resulting unexpected loss (value at risk and expected shortfall) is based on a normal scenario, two stress scenarios and the expected loss.

Risk management and monitoring

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

A limit system is used for risk monitoring to limit the counterparty volume per counterparty and/or rating class. Compliance with these counterparty volume limits is monitored by the back office.

Country risk

The evaluation and management of country risks is based on the assessment of a country's long-term foreign currency liabilities (sovereign rating) carried out by the rating firms, Moody's and S&P. Measured against the overall portfolio, the scope of country risks is small.

Shareholder risk

Shareholder risk denotes the risk that losses with negative effects on the carrying amount of the equity investment might occur after contributions of equity capital or receivables akin to equity capital (e.g. undisclosed contributions) are made to an entity.

Parameters

Generally, Volkswagen Financial Services AG 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. Mergers&Acquisitions is responsible for managing the company's equity investments as well as the related acquisition and disposal processes.

Volkswagen Financial Services AG 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.

Risk assessment

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

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

Lease Plan's fleet management contract portfolio rose by 2.7 % year on year. Sales and earnings growth in 2011 compared with the previous year is basically due to higher margins, lower residual value losses on the sale of vehicles upon contract expiry, the growth in the number of fleet vehicles and the leveraging of the current business model in all markets.

The rating firm Moody's has raised its rating forecast for LeasePlan from "negative" to "stable" given the improvement in the company's income, its strong capitalisation and the easing of pressure in the refinancing market; at A– (Fitch, Moody's) and BBB+ (S&P), the long-term ratings remained stable.

The shareholder risk was assigned a median probability of occurring, based on current economic developments. LeasePlan is expected to continue to generate profits.

Risk management and monitoring
Equity investments are integrated in the annual strategy and planning processes of Volkswagen Financial Services AG. The company influences the business and risk policies through its agents on ownership or supervisory bodies.

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

MARKET PRICE RISK

Market price risk refers to the potential loss resulting from disadvantageous changes in market prices or parameters that influence prices. Volkswagen Financial Services AG is exposed to major market price risks due to price changes that trigger a change in the value of open interest rate or currency positions.

Interest rate risk

The interest rate risk includes potential losses from changes in market rates. It arises from non-matching fixed-interest periods of a portfolio's assets and liabilities. Interest rate risks are incurred in the banking book of Volkswagen Financial Services AG.

Risk assessment
Interest rate risks are determined for Volkswagen Financial Services AG as part of quarterly 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 +200 and –200 basis points interest rate shock scenarios defined by the Federal Financial Supervisory Authority (BaFin).

The calculation of interest rate risks uses theoretical scenarios 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).

Interest rate risks are managed through interest rate derivatives at both the micro level and the portfolio level.

No changes in the parameters for controlling market price risks were made during the financial market crisis. Risk Management is tasked with monitoring interest rate risks and reporting on them.

Foreign currency risk

Currency risks arise in connection with deviations from numerical inconsistencies between foreign currency items shown in assets and in liabilities. In individual cases, open currency items are conceivable. Measured against the overall portfolio, however, the scope of foreign currency risk is small.

Fund price risk

The fund price risk arises from potential changes in market prices.

Volkswagen Financial Services AG incurs "general fund price risks" in connection with the fund-based pension plan for its employees (pension fund).

Volkswagen Bank GmbH and Volkswagen Financial Services AG have undertaken to meet these pension obligations in the event the fund can no longer satisfy our employees' guaranteed claims.

This is why Volkswagen Financial Services AG also determines the risk exposure arising therefrom based on the value-at-risk (VaR) method.

Additional fund price risks can arise indirectly from the capital investments of Volkswagen Versicherung AG.

These investing activities are consistent with the investment guidelines adopted by the Board of Management, duly considering both the company's risk tolerance and the regulations of BaFin.

All such investments aim to hedge reinsurance liabilities. All portfolios are regularly monitored and measured.

EARNINGS RISK (SPECIFIC PROFIT/LOSS RISK)

Earnings risks denote the danger of deviations from the targets for specific items in the income statement that cannot be measured by means of risk types described elsewhere.

This includes the risks of

- unexpectedly low commission (commission risk),
- unexpectedly high costs (cost risk),
- excessively large targets for earnings from (new) business volume (sales risk), and
- unexpectedly low income from equity investments.

Risk assessment

Since 2011, Volkswagen Financial Services AG has been quantifying its earnings risks based on a parametric earnings-at-risk (EaR) model, taking into account the confidence level determined in connection with the calculation of its risk-bearing capacity as well as a one-year forecasting horizon.

The relevant income statement items provide the basis for these calculations. The earnings risks are then estimated based on the observed relative deviations from targets for one and by determining the volatilities and interdependency of the individual items for another. Both components are included in the EaR quantification. In addition stress tests specific to risk types are conducted quarterly using historical and hypothetical scenarios.

Risk management and monitoring

During the year, the actual values of the items subject to earnings risks are compared to the targeted values at the market level. This comparison takes place in connection with Controlling's regular reporting mechanism.

The results of the quarterly risk quantification of earnings risks are included in the determination of the risk taking potential as a deductible item in connection with the analysis of the risk-bearing capacity. The results are monitored by Group Risk Management & Methods.

Concentrations of risk

Concentrations of income arise from an asymmetric distribution of a credit institution's sources of income.

The activities of Volkswagen Bank GmbH, Volkswagen Leasing GmbH and Volkswagen Financial Services AG focus on financing and leasing vehicles, including the related financial services, and thus in the final analysis on promoting the sales of the Volkswagen Group's different brands. This particular constellation gives rise to substantial interdependences and concentrations, which have a direct impact on the development of income.

Volkswagen Financial Services AG thus is exposed to concentrations of income from its business model by definition.

LIQUIDITY RISK

The liquidity risk entails the risk of a negative deviation between actual and expected cash inflows and outflows.

Liquidity risk means the risk of not being able to fulfil payment obligations that are due in full or in timely fashion or – in the event of a liquidity crisis – of only being able to raise refinancing funds at higher market rates or only being able to sell assets at discounted market rates.

The liquidity risk thus concerns the risk of not being able to raise needed funds at all or only at a higher cost.

This leads to the distinction between insolvency risks (day-to-day operational liquidity risk including call and maturity risk), refinancing risks (structural liquidity risk) and market liquidity risks.

The cost of the instruments that Volkswagen Financial Services AG uses for refinancing purposes via the money and capital markets has risen in the wake of the euro zone sovereign debt crisis.

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

Parameters

The prime objective of liquidity management at Volkswagen Financial Services AG is to ensure the ability to pay at all times.

The refinancing of the companies belonging to Volkswagen Financial Services AG is essentially executed using capital market and asset-backed securities programmes as well as the direct bank deposits of Volkswagen Bank GmbH.

Volkswagen Bank GmbH has liquid reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. In addition, the company has access to standby lines of credit at other banks to protect it from unexpected fluctuations in cash flow. As a rule, standby credit lines are not utilised; they serve solely to secure liquidity.

Risk assessment
The Treasury of Volkswagen Bank GmbH and the Group companies are responsible 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.

Liquidity risks are identified and recorded by Group Risk Management&Methods. Based on cash flow development statements as defined in MaRisk. These cash flow development statements are subjected to scenario-based stress tests using triggers specific to the credit institution itself, market wide triggers as well as combinations of them. The given parameterisation of these stress scenarios is based on two methods. Historically analysed events are used, and the different degrees of hypothetically conceivable events are defined. To quantify the refinancing risk, this approach takes into account the material manifestations of the insolvency risk as well as changes in spreads that are driven by credit ratings or the market.

Treasury also prepares four different cash flow development statements to ensure adequate liquidity management, performs cash flow forecasts and determines the period for which cash will suffice.

Managing Volkswagen Bank GmbH's liquidity requires strict compliance with the liquidity ratio prescribed by the Liquidity Regulation. It was between 2.28 and 3.66 from January to December of the reporting year and thus always substantially higher than the regulatory floor of 1.0. Treasury continually monitors this liquidity ratio and actively manages it by imposing a floor for internal management purposes.

Liquidity management and monitoring
The Operational Liquidity Committee (OLC) monitors both the current liquidity situation and the sufficiency of cash in bi-weekly meetings. It decides on refinancing measures or prepares the requisite decisions for the decision makers.

Group Risk Management&Methods communicates the material risk management data or relevant early warning indicators pertaining to the insolvency risk and the refinancing risk. In terms of the insolvency risk, this entails adequate limits for the utilisation rates – taking into account access to the relevant refinancing sources – across different time horizons. The potential refinancing costs are used to assess the refinancing risk.

The ability required under the regulatory regimen to bridge any liquidity needs over a time horizon of 7 and 30 days with a highly liquid cushion and the corresponding liquidity reserve constitutes a strict constraint. Both an emergency plan for liquidity bottlenecks and a suitable action plan for obtaining liquidity are available in the event of an internal or external liquidity bottleneck. An emergency can be triggered by both Liquidity Risk Management (Group Risk Management&Methods) and by Liquidity Management and Planning (OLC).

Risk communication
As part of risk communication, the Board of Management of Volkswagen Financial Services AG is informed monthly of the current liquidity situation.

OPERATIONAL RISK

Operational risks (OpR) are defined as the risk of losses that arise from the inappropriateness or failure of internal processes (process risks), employees (personnel risks) and systems (infrastructure and IT risks). Risks that occur as a result of external events (external risks, e.g. terror attacks, catastrophes) are also taken into account.

Operational risk management aims to make operational risks transparent and initiate countermeasures as necessary with the aim of avoiding similar losses in future.

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

Risk identification and assessment
Risk assessment is designed to arrive at a joint monetary estimate of the loss exposure based on the assessments derived from the different quantitative and qualitative identification methods.

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

At least once a year, risk scenarios are recorded, assessed in quantitative terms and analysed centrally by local experts in a variety of risk categories according to estimates of loss amounts and frequencies using standardised and IT-based self assessments.

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&Methods is tasked with reviewing the plausibility of local self assessments regarding the extent and frequency of losses. Ongoing internal recording of monetary operational losses and storing the relevant data in the loss database enables local experts to systematically analyse occurrences of loss and monitor the measures that were initiated.

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

Business continuity management
The goal of the Corporate Security unit is to ensure security for individuals and property at Volkswagen Financial Services AG and to avoid or reduce damage to its image and losses from operational disruptions. Reflecting the crash barrier role, all related tasks are carried out both nationally and internationally.

A business continuity management system, which is based on the British BS 25999 Standard, was introduced in order to ensure the company's ability to withstand crises.

In that connection, the Corporate Security unit establishes the appropriate crash barriers for managing external risks (catastrophes) capable of triggering the loss of infrastructure, buildings or personnel; the respective departments use these crash barriers to analyse their risks from time-sensitive activities and take precautions based on appropriate measures.

These emergency plans contain appropriate restart and business continuation plans.

Groupwide crisis management was also established.

RESIDUAL VALUE RISK

A residual value risk arises if 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 directly by Volkswagen Financial Services AG or one of its companies (because of contractual provisions).
A residual value risk management circle has been implemented at Volkswagen Financial Services AG or one of its Group companies. This circle requires regular residual value forecasts and continuous risk assessments, mainly in regards to direct residual value risks. Proactive marketing activities are derived from the measurement results in order to optimise earnings from the assumption of residual value risks. The marketing results so obtained are considered in the review of the residual value guidelines.

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. 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 Volkswagen Financial Services AG.

Risk identification and assessment
The New Product Process is carried out before business activities in new markets or in connection with new products are launched. This process includes analysing potential direct residual value risks. In addition, local risk managers obtain data on the indirect residual value risks from market participants at regular intervals.

Direct residual value risks are regularly quantified throughout the year in respect of both the expected and the unexpected loss using measurement methods and systems based on individual contracts. The contractually stipulated residual values are compared to attainable market values or unexpectedly poor market values. The realisable residual values are determined by the local residual value committees and used in the measurement.
In contrast, unexpectedly negative market values are determined based on the market's historical changes over a period of one year.

The difference between the forecast value of the used car (both expected and unexpected) and the calculated residual value yields the residual value risk/opportunity.

The results of the quantification are used in the assessment of the exposure to risk, i.e. among other things assessments of the adequacy of the risk provisions as well as the risk-bearing capacity.

Indirect residual value risks are quantified for the purpose of determining the residual value risk analogous to the method used for the direct residual value risks; dealer defaults are also taken into account.
Above and beyond that, unexpected losses from residual value risks are not determined at this time because this risk type is currently deemed non-material.

A method for determining and verifying the materiality of indirect residual value risks was developed during the reporting period based on the direct residual value risk model.

This method for analysing indirect residual value risks will be reviewed and refined as necessary in connection with the next risk inventory.

Risk management and monitoring

Group Risk Management&Methods monitors residual value risks within Volkswagen Financial Services AG.

The adequacy of the risk provisions as well as the residual value risk potential are regularly monitored as part of risk management.

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

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

As far as previously identified risks are concerned, in future the amounts of risk allocated to the residual term must still be earned and recognised as impairment losses (in accordance with IAS 36).

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.

The stress test for direct residual value risks entails scenario analyses that are performed by experts in collaboration with central and local risk specialists. This provides a comprehensive view of the risk sensitivity of the residual value business, particularly against the backdrop of a changing economic climate.

The indirect residual value risks of Volkswagen Financial Services AG or one of its Group companies are subject to plausibility checks and measured based on the amount of the risk and its significance.

As part of risk management, Group Risk Management&Methods regularly monitors the adequacy of the risk provisions for indirect residual value risks and the residual value risk potential.

The resulting residual value risk potential is used to take a variety of measures in close cooperation with the brands and dealerships in order to limit the indirect residual value risk.

Concentrations of risk

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

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

Outlook

The residual value portfolio has grown due to both the general economic recovery at the start of 2011 and additional sales promotion campaigns in different markets.

Rising demand for used cars in the markets has caused residual value risks to decline generally and marketing revenue to stabilise.

This positive trend faded away toward year's end due to the sovereign debt crisis.

Residual value risks are expected to remain largely stable at the current level in 2012. A general economic environment that is stable to positive is necessary for stable development.

UNDERWRITING RISK

Insurance companies are inherently exposed to underwriting risks. The underwriting risk resides in the possibility that payment streams material to the insurance business may deviate from the expected value. This risk stems from the uncertainty whether or not the sum total of the actual claims payments will correspond to the sum total of the expected claims payments. In particular, an insurance company's exposure to risk resides in the fact that it collects the premiums at the inception of an insurance period whereas the contractually promised payments thereunder are random.

This requires distinguishing between:

- Premium risks
- Reservation risks
- Catastrophic risk

The business purpose of Volkswagen Versicherung AG is to support the sales of the Volkswagen Group's products. This is to be achieved through the warranty insurance business as the primary insurer and active reinsurance of portfolios, which a Volkswagen Group company brokers for another primary insurer.

Risk identification and assessment

To identify its materiality, the underwriting risk was measured using a qualitative assessment of the risks broken down by the amount of the loss and the attendant probability of occurring. The quantitative method for assessing the risks is rooted in the QIS 5 approach as the basic approach.

Risk management and monitoring

Risk management is performed by local risk management in close coordination with Group Risk Management&Methods subject to plausibility checks. Subsequently, the findings are communicated to the appropriate individuals and departments.

Group Risk Management & Methods is responsible for risk monitoring.

STRATEGIC RISK

The strategic risk means the risk of a direct or indirect loss through strategic decisions that are defective or based on false assumptions.

Likewise the strategic risk also encompasses all risks arising from the integration/reorganisation of technical systems, personnel and corporate culture. This is rooted in fundamental decisions on the company's structure, which management makes in respect of its positioning in the market.

REPUTATION RISK

The reputation risk denotes the danger that an event or several successive events might cause reputational damage (public opinion), which might limit the company's current and future business opportunities and activities (potential success) and thus lead to indirect financial losses (customer base, sales, equity, refinancing costs etc.) or direct financial losses (penalties, litigation costs etc.).

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

SUMMARY

In connection with its business activities, Volkswagen Financial Services AG responsibly assumes risks. 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 was continuously refined in 2011 as well.

Among the default risk categories, credit risk in the dealer and retail customer business represents the material risk type for Volkswagen Financial Services AG.

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

The trend toward economic recovery continued in the first half of 2011. In the second half of the year, the economic horizon darkened as a result of the sovereign debt crisis in Europe.

In 2011 Volkswagen Financial Services AG successfully met its challenges despite the effects that the euro crisis has on the financial sector.

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

EVENTS AFTER THE BALANCE SHEET DATE

Effective 1 January 2012, Volkswagen Financial Services AG acquired the outstanding 40 % stake in each of the Polish FS companies (VOLKSWAGEN BANK POLSKA S.A., Warsaw, and Volkswagen Leasing Polska Sp. z o.o., Warsaw) from the previous joint ventures.

Volkswagen Financial Services AG has been the financial holding group's primary company since 1 January 2012.

No other important events occurred after the close of the 2011 financial year.

Sustainability
Our social responsibility

We believe that corporate social responsibility (CSR) makes a significant contribution to our company's sustained development. We pursue social, ecological and economic goals in equal measure.

Our way of managing and using resources must not diminish the opportunities available to later generations. This conviction within the Volkswagen Group puts us in line with international efforts to develop a sustainable economic order.

Corporate governance that is committed to the corporate vision of sustainability thus ensures the company's viability in the long term. Tying core economic processes to ecological and social issues is integral to our corporate policies. CSR means assuming social responsibility on a voluntary basis to a degree that goes above and beyond compliance with statutory requirements. In the final analysis CSR makes an important contribution to safeguarding the company's future and enhancing its enterprise value.

Volkswagen Financial Services AG believes that social responsibility is integral to its entrepreneurial activities. We support social projects as well as cultural and educational programmes. We initiate projects related to regional structural development, the promotion of health as well as sports and natural conservation.

Besides our commercial activities as an automotive financial services provider that are aimed at enhancing shareholder value, we have broken down our work in connection with sustainability, which also addresses the non-financial performance indicators that are material to our business, into the following three topics:

- Employees and social responsibility
- Environment
- Governance

At this time we are intensifying our efforts to put in place transparent and continuous reporting on both CSR and sustainability. In future we will pay even closer attention to the expectations of our stakeholders in this respect.

EMPLOYEES AND SOCIAL RESPONSIBILITY

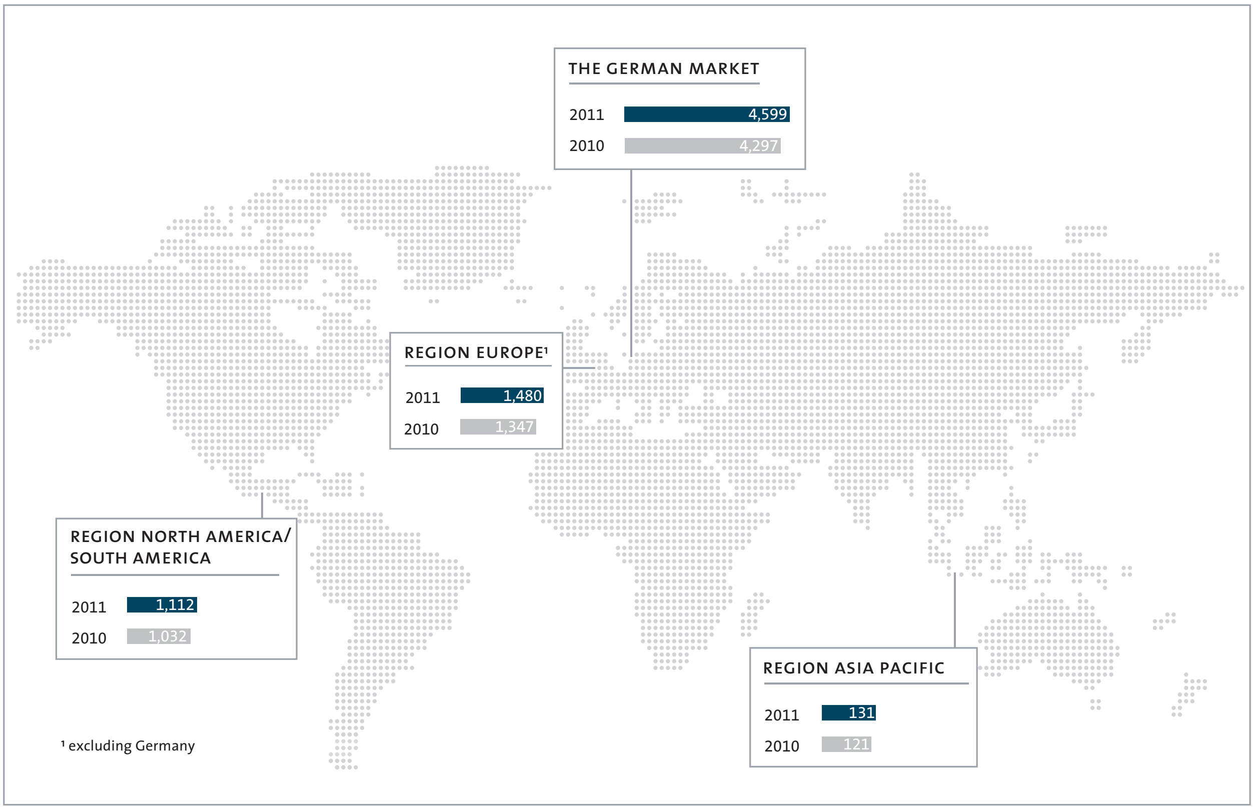
Our company's sustained success is only possible thanks to our employees' best efforts. Our personnel strategy thus serves to promote and develop talent within the company and to always recruit the best applicants for the company. Our WIR2018 strategy also entails establishing ourselves as the TOP employer. We fulfil our social responsibility moreover by contributing to our employees' health and families through a multitude of actions and by engaging in the region in a socially responsible way.

Our employees worldwide

The Volkswagen Financial Services AG Group had a total of 7,322 employees as at 31 December 2011 (previous year: 6,797). Of these, 4,599 (previous year: 4,297), or 62.8 %, were employed in Germany and 2,723 (previous year: 2,500), or 37.2 %, were employed at our international locations. The personnel turnover rate in Germany of less than 1 % was significantly below the industry average.

EMPLOYEES – BY REGION

As at 31.12.



Our personnel strategy

The "We Are a Top Team" employee strategy supports goal achievement in the four areas of activity, "customers", "employees", "profitability" and "volume". Targeted personnel development serves to foster and challenge employees. We are consciously leveraging in-house talent as we strive to achieve our goal of becoming a TOP employer by 2018.The aim is to identify talents in-house, make them visible and subsequently promote them on an individual basis. In Germany the first talent group was launched in November 2010 with six young talents. Talent groups comprising twelve experts and 15 promising management trainees followed at the start of 2011. The year 2011 also saw the first international talent summit, where 62 talents from 22 countries were given the opportunity to tour the company's headquarters, establish relationships and develop a business network.

The flexible, customer-focused organisation is designed to rapidly meet the expectations of markets and customers alike. To this end a new capacity management method was thus introduced in Germany for the operating areas of Volkswagen Financial Services AG. A refined tool for determining personnel needs creates a transparent and unified capacity planning system. Operational interactions between linked areas are also taken into account in this connection. In the long term, this standardised process will constitute a much more precise planning tool for future planning rounds.

Volkswagen Financial Services AG already offers competitive and performance-based compensation. The introduction of the performance appraisal as part of employee performance reviews in the German market in the past financial year has also added an individual performance-based component to the compensation of all employees subject to collectively agreed terms.

Our aim, "We are a Top Team", is measured based on the employer benchmark study ("Great Place to Work") as well as on the results of "FS Pulse", our internal staff survey. The internal staff survey is already being conducted on a regular basis in 28 national subsidiaries.

In 2011 Volkswagen Financial Services AG participated for the fifth time in the employer competition. Successful placement as a TOP employer in Germany and Europe as well as the insights from the benchmark study are important strategic parameters and indicators. The ranking in the Top 100 lists in Germany will be announced out in the spring of 2012. The already available results of the employee survey conducted as part of the benchmark study point to a truly substantial improvement over the assessments in 2010 and show that we are already on the right track in terms of shaping our corporate and leadership structure. In 2011 several larger subsidiaries also participated in national employer competitions. It is up to the foreign subsidiaries to implement the employee strategy internationally and locally. International human resources management focuses on systematically helping our foreign subsidiaries to implement the employee strategy. Best practices and related tools were shared through the HR Toolbox.

The WIR2018 corporate strategy is being complemented by the so called “FS way”. It describes how to attain the goals in the four strategic areas of activity “customers”, “employees”, “profitability” and “volume”, how to approach projects and how to act in the work environment. The FS way is rooted in the “FS values”, “a living commitment to our customers”, “responsibility”, “trust and confidence”, “courage” and “enthusiasm”. The framework works agreement regarding the FS way served to both confirm and specify the fundamental principle of a balanced give and take between Volkswagen Financial Services AG as the employer and the workforce: Volkswagen Financial Services AG offers job security and wage insurance, a comprehensive range of training options and the environment of a TOP employer as set out in the WIR2018 strategy. The employees in turn shall be open to change and flexibility, willing to improve their qualifications and committed to making an active contribution to increasing the productivity of their work.

The works agreement entitled “Leadership Principles”, which was signed in 2011, underscores executives’ decisive responsibility for implementing our corporate strategy and the binding principles of the FS way.

The introduction in Germany of a standardised, interactive personnel tool named “Employee Feedback on Executive Leadership Qualities” in the last year pushes the ongoing development of our corporate and leadership culture as defined in the FS way and the feedback culture. This is yet another step toward achievement of the company's strategic goals in terms of acting on its “We Are a Top Team” employee strategy. An open and active feedback culture as well as executives’ exemplary conduct – especially in respect of embodying the FS values – constitute material factors for improving our corporate culture, customer focus, work climate and performance. The Employee Feedback on Executive Leadership Qualities helps managers and executives to analyse their own executive leadership qualities based on employees’ assessment of their current personal position. Our employees are expected to actively participate in shaping our interactive culture, communicate their expectations as to leadership qualities and thus contribute to trusting and positive collaboration. The principles and aims of the Employee Feedback on Executive Leadership Qualities were also fixed in a works agreement.

Human resources planning and development

In 2011 we hired 44 new trainees resp. students of Welfen Akademie and Leibniz-Akademie, two universities of co-operative education that offer dual-track courses of study leading respectively to a Bachelor of Arts and a Bachelor of Science. The number of trainee slots was raised by 10 % due to the double Abitur graduation class in the German State of Lower Saxony. They include 22 banking professionals, 16 specialists for insurance and finance and six IT technicians.

As at 31 December 2011, a total of 123 trainees and students of Welfen Akademie were employed with us in Germany for the duration of the apprenticeship programmes and in all occupational groups. A trainee of Volkswagen Financial Services AG was given the Best Apprentice Award as the year's best trainee by Volkswagen Coaching GmbH yet again. Four additional trainees were honoured by the Braunschweig Chamber of Commerce and Industry as the best graduates in the Insurance professional training programme.

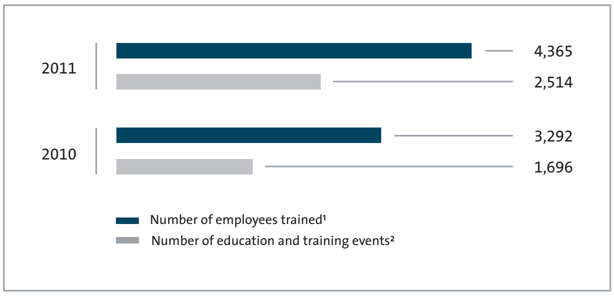
Immediately following the completion of their training, in 2011 three trainees were given the opportunity to broaden their horizons in a 12-month assignment abroad. This Explore the World programme is designed for trainees who have completed their apprenticeship and studies with above-average credentials and development potential.

Volkswagen Financial Services AG also offers college graduates and young professionals attractive job opportunities as trainees. The 12-month development programme, which takes place both at home and abroad, further prepares the ground for ensuring the company’s viability in future.

Each employee's need for qualifications is determined in the annual employee performance review, and suitable measures aimed at developing their competence are agreed upon with them. Many employees in Germany obtained their qualifications at the internal training centre, which offers a broad technical and professional range of seminars and workshops. These training programmes are closely aligned with the company's products, processes and systems. The high volume of employee qualifications from the previous year was continued in 2011; overall more than 500 training events with some 4,000 participants were organised.

EDUCATIONAL AND TRAINING PROGRAMMES

As at 31.12.



1 Employees were counted only once, regardless of how many training events they attended.

2 Each type of event was counted only once.

In addition, the need for specialists is identified in coordination with the appropriate departments and suitable development concepts are drawn up. One example is the successful two-year leasing specialist training programme in collaboration with both Welfen Akademie and the Braunschweig Chamber of Commerce and Industry. Continued development of employees' competence also focuses on refining their marketing skills and their consciousness of the customer- and service-based nature of our business. A call centre and service training programme was launched to this end in the corporate customer segment for instance.

A standardised process for managers governing both performance targets and performance evaluation was introduced in cooperation with our parent company, Volkswagen AG. It includes an appraisal of expertise, Cooperation and Leadership as well as entrepreneurial thinking and acting. This performance evaluation along with the degree of target achievement is the basis for determining the personal performance bonus. A new performance-based component of compensation, specifically, the groupwide "long-term incentive", was introduced in 2010; it has been an additional component of compensation alongside the base salary, the personal performance bonus and the company bonus since 2011. Other standards such as the international introduction of the manager selection process were further refined.

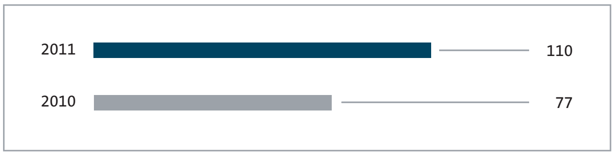
Another important management development programme already saw its third successful instalment in 2011: the General Management Programme, which systematically prepares country managers for assuming this responsibility. Participants in the programme were trained and supervised over a period of five months in five different modules.

In 2011, we also developed and implemented an international leadership training module, which is aimed at all country managers and those who report to them directly. The focus in this connection is on the definition of leadership within Volkswagen Financial Services AG, taking into account the FS values and the promotion of a positive leadership and feedback culture.

The total of 110 foreign assignments and thus yet another increase by more than 40 % clearly reflects the internationalisation of our business model.

ASSIGNMENTS

As at 31.12.



Raising the percentage of women in the company

Women constitute 52.2 % of the workforce of Volkswagen Financial Services AG – a level that is not yet reflected in leadership positions. We have made it our goal to raise the number of women in the workforce on the whole as well as in specialist and leadership positions to lasting effect.

We are working in a focused way to achieve the targets that we set for ourselves in 2010 with respect to women in management by giving female candidates special consideration in both recruitment and successor planning and by launching campaigns aimed at achieving work-life balance as well as through systematic successor planning and development of human resources tools. For instance, female university graduates are hired in proportion to the number of women who have completed the given course of studies. This rising number of highly qualified women joining the company will enable us to boost the percentage of female executives for different management tiers on a continuous basis in the years to come.

In 2011, we already succeeded in raising the percentage of women at the management level of Volkswagen Financial Services AG Germany by 8.0 % in upper management and 18.0 % in management. Internationally, the percentages were 11.3 % in upper management and 27.3 % in management. Regular reporting makes the progress of this matter transparent for the Board of Management.

Under Volkswagen Financial Services AG's new Mentoring Programme, female managers serve as mentors for the up-and-coming generation of executives and impart their practical knowledge and know-how. This mentoring programme entails making issues of leadership competence and day-to-day management transparent and providing individual assistance.

Four female employees successfully participated in the groupwide mentoring programme. The 12-month programme was aimed at advising, assisting and coaching qualified female staff by the Group's managers. During this time, these mentees worked on a project-based special task and underwent a development programme comprising a number of components.

Diversity

Besides promoting women in targeted ways, the diversity concept has been an integral part of our corporate culture since 2002. This is reflected in the findings of the employer benchmark study entitled "Great Place to Work".

Volkswagen Financial Services AG is active in different markets for a most diverse range of customer groups. As a result we promote a work environment that is characterised by openness, a sense of community, respect and high regard as well as a global organisation where the working life is defined by the effective and achievement-oriented cooperation of all colleagues.

Health and family

Special health coaching, events and workshops on all issues relevant to matters of health are designed to identify employees' health problems as early as possible in order to counteract these risks in timely fashion through a multitude of comprehensive and integrated steps. All health management measures are already aligned with demographic developments. We start with the trainees in a manner geared to the specific target group. We are continuously refining our integrated approach to health as necessary. For instance this includes state-of-the-art approaches to issues such as "active relaxation break" and "identifying stress factors including supportive interaction".

Work and the family are very important to Volkswagen Financial Services AG. This is why the company promotes a family-friendly environment and offers a diverse range of campaigns and programmes aimed at achieving work-life balance.

The "Frech Daxe" (cheeky kids) children's house is Volkswagen Financial Services AG's child care centre; it is run by Gesellschaft für Kinderbetreuung und Schule mbH&Co. KG. The children's house is located in the immediate vicinity of our company headquarters. Both the response to and the capacity utilisation of the children's house are excellent. Creating afternoon childcare spots and making changes in the groups enabled the childcare centre to boost the number of slots to 180 in 2011. The children's house still is Germany's largest corporate childcare centre. Children aged a few months up to children starting school are cared for between 7:00 a.m. and 8:30 p.m. in a total of ten groups. We also offered to care for school kids during the summer holidays.

The children's house has already received two awards: The German Choir Association gives its Felix Award to kindergartens that are particularly active in the field of music and carry out exemplary work in it. The "House of the Little Researchers" Award is a national brand that is bestowed by the Network of the Braunschweig Research Region.

Social and regional responsibility

Volkswagen Financial Services AG has been fostering voluntary work in select non-profit projects throughout the region for many years. The response to the company's fifth participation in the Braunschweig-based day of action "Building Bridges - Corporate Commitments" again was so large that employees and for the first time also managers were able to contribute actively to two projects. Our employees supported institutions through actions benefiting children, parents and dementia patients.

The foundation "Our Children in Braunschweig" focuses on socially disadvantaged children. It was established by Volkswagen Financial Services AG in December 2008 and substantially intensified its commitment to hot-button social issues in Braunschweig, the site of the company's headquarters. We continued to support the foundation in the financial year just ended. Five institutions – three childcare centres and two primary schools – were given need-based support in education, healthy nutrition, physical education and early instruction in music.

Volkswagen Financial Services AG also carries out donation drives at regular intervals. As in the previous years, the so-called "May Employee Donation" benefited social institutions in the region. The monthly "Remaining Cent Donation" is given to the Terre des Hommes campaign, "One Hour for the Future". There were several spontaneous fundraising campaigns during the year for the victims of natural disasters. On the World AIDS Day in December 2011, the company collected donations for Braunschweig's AIDS Relief charity. As part of the Xmas campaign "Donations Instead of Gifts", which was initiated in 2010, in the financial year just ended the company dispensed yet again with presenting gifts to business partners, donating a certain amount of funds to the foundation, "Our Children in Braunschweig", instead. The Works Council's Xmas tree wish list campaign in collaboration with a number of social institutions has also become an integral part of employees' activities as volunteers. It enabled each employee to fulfil the Xmas wish of a socially disadvantaged child. Volkswagen Financial Services AG also supports the "Initiative for Respect and Tolerance" of the Volkswagen Group's General Works Council.

Volkswagen Financial Services AG engages in select high-profile projects related to sports, culture and social issues in the Braunschweig region as a sponsor. In sports, among other things we act as main and jersey sponsors for the Eintracht Braunschweig football club and as jersey sponsors for Braunschweig's first division basketball club, New Yorker Phantoms. Our cultural activities enable such events in Braunschweig as the International Film Festival Braunschweig or the event known as "Classics in the Park" where the State Orchestra of Braunschweig's State Theatre gives a free concert in a park. Aside from the aforementioned foundation, we also assume social responsibility in connection with projects such as the "Gemeinsam-Preis" (Mutual Price) of the Braunschweiger Zeitung, which aims to get people to engage as citizens, or "Eintracht kicks", which entails having a football coach offer training in Braunschweig's Youth Centre; the participating children and teenagers are given jerseys and other equipment.

THE ENVIRONMENT

We consider environmental protection to be at the heart of sustainability and thus are directly committed to it. Environmental issues arise for Volkswagen Financial Services AG in two respects: For one they concern our products and our comprehensive packages and for another both our daily work and our environment.

Environmental programmes in our product portfolio

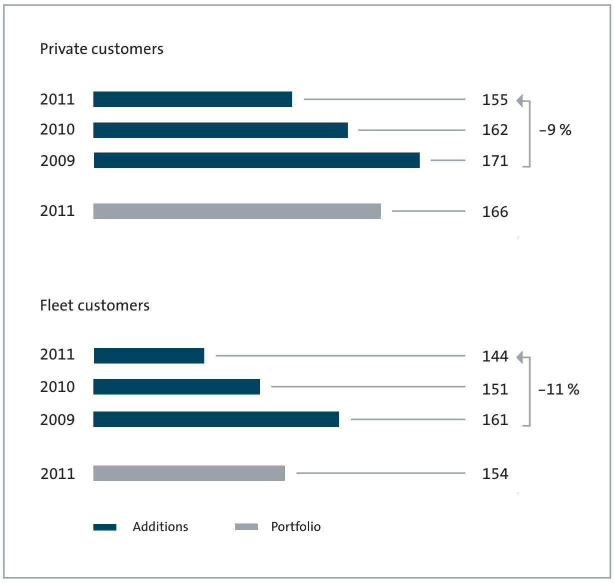
Besides demand-related and economic factors, we also always consider the environmental effects of the products that we develop and bring to market. Hence packages that clearly focus on protecting the environment have been an integral part of our products and services for a long time. This includes the "Umwelt-Paket" (environmental package), Audi Bank's "Umweltprämie Plus" (enhanced government scrapping bonus) or Volkswagen Leasing GmbH's environmental programme. Volkswagen Leasing GmbH and NABU, the German Nature and Biodiversity Conservation Union, have used this programme since 2008 to make an environmental topic an industry trend. The number of particularly environmentally friendly vehicles in the portfolio of Volkswagen Leasing GmbH has climbed to about 150,000 since the programme's inception. An independent entity also awarded the renowned "EcoGlobe" prize for 2010 to the aforementioned joint environmental programme this past year.

In December 2011, the two cooperation partners continued their successful collaboration by establishing the German Fund for the Protection of Bogs and extended their partnership for another five years. Volkswagen Leasing GmbH has equipped the Fund for the Protection of Bogs with € 1.6 million in funding. This creates a powerful instrument for protecting and restoring bogs. Our stated goal in that connection is to maintain biological diversity and promote climate protection. The "Großes Moor" Renaturing Project, which concerns wetlands in Northern Germany's Gifhorn region that serves as a major carbon sink, is one of the supported projects.

The GREEN FLEET AWARD, which was initiated by Volkswagen Leasing GmbH in 2010 jointly with NABU solely for fleet customers, closely mirrors our product-related environmental focus.

DEVELOPMENT OF CO_2 EMISSIONS AMONG NEW CONTRACTS

Average CO_2 emissions in g/km



As part of the joint environmental programme, this environmental prize for ecologically responsible fleet management is designed to recognise companies whose fleets make a decisive contribution to the reduction in fuel consumption – and thus CO_2 emissions – by using state-of-the-art automotive technologies and innovative fleet solutions. The prize serves as a platform for supporting fleet managers in the greening of their fleets. This gives effect to an incentive that offers the companies long-term image and cost benefits today from which the environment will benefit tomorrow.

With a total of about 9,200 vehicles, all 77 participants in the second GREEN FLEET environmental award cut CO_2 emissions by 1,650 tonnes within six months, reducing their fuel consumption by just under 630,000 litres.

The awards were bestowed on the participating companies in the categories, "Highest fuel savings in percent", "Lowest average fuel consumption" and "Largest number of fuel- and emission-optimised vehicles", separately by smaller and major fleets. An initiative prize for a fleet strategy with a particularly strong environmental focus was awarded in 2011 for the first time.

Volkswagen Leasing GmbH made a separate contribution in the amount of € 50,000 to the aforementioned "Großes Moor" Renaturing Project in connection with the awarding of this prize.

Work and environment

In both our work and our environment, we place great stock in activities that are meaningful not just economically but also ecologically. As a result we focus on conserving our natural resources and cutting both emissions and energy consumption. This gives us the incentive to always look for potential improvements. As a financial services company, sustainable facility management and resource-conserving paper consumption have become important issues.

Sustainable facility management

In 2008/2009, we erected a building in Braunschweig, the site of our headquarter, using novel, ecologically optimised technology.

The experience of our employees in existing buildings was taken into account from the very first plan and integrated into its design. The aim was to develop a building that is based on both ecological and economic principles, takes into account social and functional elements and offers outstanding technology and process quality.

Participating in the certification by DGNB, the German Sustainable Building Council, in cooperation with the Federal Ministry of Transport, Building and Urban Development allowed us to document achievement of the envisioned goals. This office building is one of the first six office buildings in Germany to be awarded a gold certificate based on 61 environmentally relevant criteria.

The centralised energy monitoring system of Volkswagen Financial Services AG's facility management, which has been in operation since 2009, is integral to the resource-conserving building technology. Using innovative systems and services, this monitoring process helps facility management ensure both good levels of user comfort on a continuous basis and energy-efficient building operations.

The centralised use of so-called multifunction devices is highly significant to facility management. Analysing the use of printers, photocopiers and fax machines in the company makes it possible to identify the potential for reducing the number of devices in order to lower the consumption of electricity and thus cut CO_2 emissions.

The installation of a 16 kWp photovoltaics unit on the roof of our children's house is another forward-looking step. About 36 tonnes of CO_2 have been prevented from entering the atmosphere since its installation. An office building under construction contains a 55 kWp PV unit.

Resource-conserving paper consumption

Our "paperless application processing by dealers" project as well as "e-invoicing" and "e-billing" are part of our actions aimed at reducing the use of paper. Using a comprehensive approach that integrates all dealers, suppliers and customers, these projects allow us to put in place the technical and procedural requirements for transmitting all incoming and outgoing invoices digitally in the long term. In 2011 alone Volkswagen Financial Services AG already processed more than one million invoices in this optimised manner.

Following a pilot test in select entities in 2012, all administration of leasing and loan agreements is to be digitised, thus significantly reducing dealers' use of paper.

GOVERNANCE

Not just statutory and internal requirements are binding on Volkswagen Financial Services AG. Commitments that the company has made voluntarily as well as ethical standards are an integral part of our corporate culture and serve at the same time as the guiding principle for our decision making. In addition, the conventions of the International Labour Organisation (ILO) and the OECD'S Guidelines for Multinational Enterprises also are material signposts for our corporate policies.

We are also committed to the Global Compact via the Volkswagen Group. Comprising more than 7,000 enterprises from more than 135 countries, the Global Compact is the world's largest and most important CSR initiative. Its aim is to bring about a global economy that is more sustainable and just. Volkswagen's commitment contributes to the achievement of this goal. The Global Compact is rooted in ten principles respecting human rights, work standards, environmental protection and the fight against corruption.

The Board of Management of Volkswagen Financial Services AG ensures compliance with and adherence to both statutory requirements and intragroup guidelines within the Volkswagen Financial Services AG Group. The Supervisory Board monitors this matter.

Our compliance activities are rooted in a groupwide compliance strategy that follows a preventive approach. In 2011, the Volkswagen Group's Code of Conduct, which applies worldwide, was also introduced in the We are consciously leveraging in-house talent as we strive to achieve our goal of becoming a TOP employer by 2018.

Volkswagen Financial Services Subgroup. These governing principles sum up the material rules of conduct, which serve as the guidelines for our employees in dealing with both legal and ethical requirements in their day-to-day work. Each year, relevant and current issues of compliance are discussed on all levels within the Group, and new compliance activities are developed. We are continuing to expand our worldwide compliance organisation in order to be better able to support our Group companies and branches in promoting and ensuring compliance.

The Volkswagen Group has a global anti-corruption system with independent attorneys and an internal anti-corruption officer. Volkswagen Financial Services AG has joined this system.

In 2011, we focused on preventive compliance measures pertaining to anti-corruption issues, in particular the handling of benefits to business partners. Web-based training was also introduced to avoid conflicts of interest and corruption when monies and gifts are accepted.

Anticipated developments
Stable performance

Given stabilising volumes in saturated markets and opportunities in the growth markets, Volkswagen Financial Services AG expects earnings in 2012 to be at the level of 2011.

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

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

GLOBAL ECONOMIC DEVELOPMENT

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

Europe

Most Western European countries will probably generate little growth in 2012 due to the sovereign debt crises. Even a recession has become a likely scenario for some countries. A rapid recovery will take place in 2013 only if substantial successes have been achieved in resolving the sovereign debt crises. The developments in Western Europe will also have a decisive impact on the outlook in the Central and Eastern European countries.

Germany

We only expect low growth in 2012 following the robust growth of the gross domestic product (GDP) in the past two years. But the development of the labour market will remain positive for the time being. In our view the German economy will return to moderate growth starting in 2013.

North America

We forecast that the United States and Canada will generate growth in 2012 that is approximately at the level of 2011. A further upturn is expected for 2013 as part of the global economy's recovery. In contrast, there are signs that Mexico's GDP growth rate will decline substantially in 2012. The following year however, Mexico will benefit greatly from the development of the US economy.

South America

We expect Brazil's growth in 2012 to be roughly equivalent to 2011 whilst much weaker GDP growth must be anticipated for Argentina. In 2013 both countries are likely to generate above-average growth rates again.

Asia Pacific

We expect China's dynamic growth to continue in both 2012 and 2013 albeit at a lower rate than in 2011. Japan will continue to recover from the recession that was triggered by the natural disasters in March 2011. Regarding India, we expect the country's strong growth to increase slightly in both 2012 and 2013.

FINANCIAL MARKETS

The financial markets are likely to remain greatly unsettled in the current financial year due to some countries' smouldering sovereign debt crisis. Substantial risks particularly for the European economy on the whole and the banking system arise from a possible increase in tensions on the government bond markets in the euro zone. The weaker global economic activity overall, the pessimistic view of the EU Commission of the EU's economic growth in 2012 and equally uncertain growth prospects in the United States are generating additional uncertainty. The imminent tighter regulation of the banking sector in Germany and the financial transaction tax that has been proposed to prevent speculative financial transactions further contribute to the financial markets' jitteriness.

DEVELOPMENT OF THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

We assume that in 2012 the markets for passenger cars and light commercial vehicles will develop at different rates in the different regions and that, on the whole, worldwide demand for new vehicles is likely to grow at a slower pace. We expect overall growth to be slightly higher in 2013 than in 2012.

The actions taken by some Western European countries to reduce sovereign debt and the resulting weakening of their economies in 2012 will have an adverse impact on the demand for new vehicles. The sovereign debt crisis in Europe and the United States will have a negative impact on the development of individual growth markets. However, we expect China and India – two important markets, strategically speaking – to continue their positive trend in 2012, and we also anticipate an increase in demand for vehicles in North and South America.

We expect the economic climate in Europe to stabilise in 2013 but the markets are likely to recover slowly. We expect demand for passenger cars to continue to rise in other regions where the Volkswagen Group maintains a presence.

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

Europe

We expect automotive demand in Western Europe excluding Germany to decline in 2012. The current sovereign debt crisis above all else is unsettling consumers in many of the region's countries and limiting their financial freedom. The broad austerity packages being adopted by the governments in some key markets – especially Spain and Italy – along with higher taxes will delay the recovery of demand. We expect the economic climate in most Western European countries to stabilise in 2013 and demand for both passenger cars and light commercial vehicles to return to positive growth.

In our view automotive demand in Central and Eastern Europe will cool off in 2012, especially in Russia where we expect substantially weaker growth year on year. In 2011 the automotive market benefited from the economy's rapid recovery and governmental stimulus packages. The market should have recovered from this effect in 2013 and return to substantial growth.

Germany

Demand for passenger cars in Germany rose substantially in 2011 due to the good economic climate but we expect this trend to be interrupted in 2012. The sovereign debt crisis in some European countries has unsettled consumers in Germany despite the country's largely stable economic environment. Whilst this will have a negative effect on automotive demand in Germany, it should begin to rise again in 2013 against the backdrop of the stabilising European economy.

North America

For 2012, we expect the economic climate in the United States to continue recovering from the fallout of the financial and economic crisis. But high petrol prices and cautious lending will continue to hamper the development of the markets. Strained consumer confidence is likely to improve in 2012 and generate rising demand in the US automotive market, which should continue in 2013, subject to intensifying consolidation of the economy. We expect both the Canadian and the Mexican market for passenger cars and light commercial vehicles to follow a positive trend in both 2012 and 2013.

South America

The South American markets depend in large measure on the global economy. Lower economic growth could have a negative impact on the demand for commodities and thus inhibit economic development in the Region South America. But we believe nonetheless that both 2012 and 2013 will offer potential for moderate growth in automotive demand. The prospects for increased personal consumption as well as rising demand for both passenger cars and light commercial vehicles are particularly good in Brazil thanks to the planned programme for supporting the economy. In contrast, we expect a weaker market development in Argentina.

Asia Pacific

The markets in Asia Pacific are likely to continue expanding in 2012. The rising need for individual mobility will drive demand, especially in China and India. High commodities prices, stricter emission standards and the phasing out of governmental incentives might adversely affect automotive demand however. In addition, the restrictions on car registrations in metropolitan areas – such as those enacted for Beijing in 2011 – might be expanded to other large cities in China. This would curb the growth of the Chinese market. We expect the Japanese automobile industry to recover to a considerable extent in 2012. Catch-up effects in particular from demand that built up in 2011 will have a positive effect on the development of the local market for passenger cars and light commercial vehicles. The Asian vehicle markets should continue on their course of growth in 2013. In India in particular, market growth should again accelerate in tandem with the economic development.

INTEREST RATE TRENDS

Many countries' expansive monetary policies and comparably low inflation rates led to low interest rates in the 2011 financial year, which did not change much at the start of the current financial year. We expect monetary policies to be implemented in Europe and the United States during

2012 that make an increase in interest rates unlikely. Long-term interest rates should remain stable worldwide. If inflationary tendencies continued to increase, short- and long-term interest rates would rise in 2013.

MOBILITY PACKAGES

Social and political parameters increasingly impact many people's approach to mobility. Large metropolitan areas are giving rise to new challenges in connection with the design of an intelligent mobility mix comprising mainly public transportation, cars and bicycles. Mobility is being redefined in many respects.

The Volkswagen Group has already responded in comprehensive fashion to these challenges by developing fuel- and emission-optimised vehicles that can be operated in a sustainable manner. In collaboration with the automotive brands of the Volkswagen Group, Volkswagen Financial Services AG is working intensely to be a pioneer in the development of innovative mobility packages just as it has been for a long time in the classical automotive business.

New mobility packages will supplement traditional car ownership. "Quicar – Share a Volkswagen", the car sharing package that Volkswagen Financial Services AG has been operating jointly with the Volkswagen Passenger Cars brand in Hanover under a pilot project since the end of 2011 or the long-term rental product of Volkswagen Financial Services AG that has already been brought to market are exemplary in this respect: simple, transparent, safe, reliable, affordable, flexible – those are the key requirements that our business must satisfy in future. Volkswagen Financial Services AG is carefully tracking the development of the mobility market and is already developing new models for supporting alternative marketing approaches and establishing new mobility concepts with the aim of hedging and expanding its business model.

In doing so we will realise the core of our brand promise in future too and remain the key to mobility in the long term.

NEW MARKETS/INTERNATIONALISATION/NEW SEGMENTS

Volkswagen Financial Services AG will fulfil its task as the supporter of both the brands and the Volkswagen Group internationally during the current year as well and pursue its growth course with determination.

The intra-European banking business will be strengthened to this end by developing the Portuguese market and by launching our business activities in Belgium in cooperation with the local importer via a joint venture in order to improve operations in the Belgian market. All financial services activities in Belgium will be combined once this deal has been closed in the first quarter of 2012. This joint development of the market is aimed at boosting both sales and market shares, generating higher sales per customer through a comprehensive range of products and services as well as improving dealers' profitability in general.

As regards the Polish market, the Volkswagen Group made the strategic decision to carry out all wholesale activities in future through its own National Sales Company and not through independent importers and joint ventures as has been the case to date. As part of this restructuring, effective 1 January 2012 the outstanding equity interests of 40% in all of the Polish FS companies were acquired from the existing joint ventures, and these entities are now wholly owned by the FS Subgroup. The equity interests in the two FS companies in Poland were raised from previously 60% to 100%.

DEVELOPMENT OF VOLKSWAGEN FINANCIAL SERVICES AG

Volkswagen Financial Services AG expects its growth in the next two financial years to follow that of the Volkswagen Group. Increasing the penetration rate and expanding the product range in existing markets as well as opening up new markets are aimed at boosting the company's business volume and intensifying its international alignment.

Sales activities related to the Volkswagen Group brands will be further intensified, particularly through strategic projects carried out jointly with the Group brands aimed at boosting the penetration rate.

In addition, Volkswagen Financial Services AG intends to continue pursuing its activities designed to enhance its ability to leverage potentials along the automotive value chain.

Our aim is to fulfil the desires and needs of our customers in cooperation with the Volkswagen Group brands as best we can along this chain. The desire for mobility and fixed predictable payments, in particular, are foremost on customers' minds. The product packages that were successfully introduced in some markets in recent years will be further refined and launched in new markets, taking customer needs into account. This approach is a key element in international competition.

The close integration of the Volkswagen Group brands with Volkswagen Financial Services AG will also enable us to generate strong added value in financial services.

Strategic investment in structural projects as well as process optimisations and productivity gains will further enhance the position of Volkswagen Financial Services AG vis-à-vis its global competition in parallel with the company's market-based activities.

PROSPECTS FOR 2012 AND 2013

The following overall picture emerges, taking the aforementioned factors and the development of the market into account:

The Board of Management of Volkswagen Financial Services AG expects volumes to stabilise in saturated markets and perceives opportunities primarily in the growth markets.

Assuming slightly increasing refinancing costs and a highly uncertain economic environment with an impact on risk costs, among others, and based on currently available information and analyses, earnings in 2012 are expected to be at the level of 2011. We believe that 2013 will offer an opportunity to stabilise the situation at the macroeconomic level, which might have a positive effect on the development of risk costs in individual markets. Earnings for 2013 are therefore expected to be stable year on year, with volumes developing steadily.

Braunschweig, 8 February 2012
The Board of Management

Frank Witter

Frank Fiedler

Christiane Hesse

Dr. Michael Reinhart

Lars-Henner Santelmann

Consolidated financial statements

Income statement

of the Volkswagen Financial Services AG Group

€ million	Note	1.1. – 31.12.2011	1.1. – 31.12.2010	Change in %
Interest income from lending transactions		3,221	2,904	10.9
Net income from leasing transactions before provisions for risks		1,192	1,285	– 7.2
Interest expense		– 1,985	– 1,839	7.9
Net income from insurance business		15	5	X
Net income from lending, leasing and insurance transactions before provisions for risks	21	2,443	2,355	3.7
Provisions for risks arising from lending and leasing business	9, 22, 33	– 513	– 619	– 17.1
Net income from lending, leasing and insurance transactions after provisions for risks		1,930	1,736	11.2
Commission income		441	400	10.3
Commission expenses		– 288	– 308	– 6.5
Net commission income	23	153	92	66.3
Result from financial instruments	10, 24	– 22	46	X
Result from available-for-sale assets		– 2	0	X
Result from joint ventures accounted for using the equity method		132	125	5.6
Result from other financial assets	25	8	3	X
General administration expenses	26	– 1,259	– 1,101	14.4
Other operating result	27	– 7	– 31	– 77.4
Pre-tax result		**933**	**870**	**7.2**
Taxes on income and earnings	6, 28	– 275	– 247	11.3
Net income		**658**	**623**	**5.6**
Minority interest in net income		–	–	–
Net income attributable to Volkswagen AG		658	623	5.6

Statement of comprehensive income

of the Volkswagen Financial Services AG Group

€ million	Note	1.1.–31.12.2011	1.1.–31.12.2010
Net income		**658**	**623**
Actuarial gains and losses	45	–10	–17
deferred taxes thereon	6, 28	3	5
Available-for-sale financial assets (securities):			
– Fair value changes recognised in equity		–9	–1
– Recognised in the income statement		0	0
deferred taxes thereon	6, 28	3	0
Cash flow hedges:	10		
– Fair value changes recognised in equity		24	43
– Recognised in the income statement		7	7
deferred taxes thereon	6, 28	–10	–15
Currency translation differences	4	–67	165
Income and expense of shares measured using the equity method, recognised directly in equity, after taxes		–8	64
Income and expense recognised directly in equity		**–67**	**251**
Comprehensive income		**591**	**874**
Comprehensive income attributable to Volkswagen AG		591	874

Balance sheet

of the Volkswagen Financial Services AG Group

€ million	Note	31.12.2011	31.12.2010	Change in %
Assets				
Cash reserve	7, 30	352	193	82.4
Receivables from financial institutions	8, 31	3,109	975	X
Receivables from customers arising from				
Retail financing		33,261	30,505	9.0
Wholesale financing		10,412	8,828	17.9
Leasing business		14,252	13,643	4.5
Other receivables		3,634	2,146	69.3
Receivables from customers in total	8, 32	61,559	55,122	11.7
Derivative financial instruments	10, 34	709	637	11.3
Securities	11	897	125	X
Joint ventures accounted for using the equity method	35	1,795	1,707	5.2
Other financial assets	12, 35	362	265	36.6
Intangible assets	13, 36	83	95	–12.6
Property, plant and equipment	14, 37	234	218	7.3
Leased assets	16, 38	6,382	4,974	28.3
Investment property	16, 38	10	9	11.1
Deferred tax assets	6, 39	302	104	X
Income tax assets	6	132	135	–2.2
Other assets	40	1,020	773	32.0
Total		**76,946**	**65,332**	**17.8**

	Note	31.12.2011	31.12.2010	Change in %
Equity and liabilities				
Liabilities to financial institutions	17, 42	7,337	7,284	0.7
Liabilities to customers	17, 42	29,739	25,983	14.5
Securitised liabilities	43	26,233	20,605	27.3
Derivative financial instruments	10, 44	366	336	8.9
Provisions	18–20, 45	1,147	937	22.4
Deferred tax liabilities	6, 46	513	542	–5.4
Income tax obligations	6	241	135	78.5
Other liabilities	47	989	810	22.1
Subordinated capital	48	2,677	1,725	55.2
Equity	49	7,704	6,975	10.5
Subscribed capital		441	441	–
Capital reserve		4,059	3,409	19.1
Retained earnings		3,204	3,125	2.5
Total		**76,946**	**65,332**	**17.8**

Statement of changes in equity

of the Volkswagen Financial Services AG Group

€ million	Sub-scribed capital	Capital reserve	RETAINED EARNINGS						Total equity
			Accumu-lated profits	Currency translation	Cash flow hedges	Actuarial gains and losses	Market valuation securities	Equity-accounted investments	
Balance as at 31.12.2009/1.1.2010	**441**	**2,809**	**3,239**	**–40**	**–47**	**–24**	**2**	**–69**	**6,311**
Net income	–	–	623	–	–	–	–	–	623
Income and expense recognised directly in equity	–	–	–	166	34	–12	–1	64	251
Comprehensive income	–	–	623	166	34	–12	–1	64	874
Payments into the capital reserve	–	600	–	–	–	–	–	–	600
Distributions/profit transfer to Volkswagen AG	–	–	–810	–	–	–	–	–	–810
Balance as at 31.12.2010/1.1.2011	**441**	**3,409**	**3,052**	**126**	**–13**	**–36**	**1**	**–5**	**6,975**
Net income	–	–	658	–	–	–	–	–	658
Income and expense recognised directly in equity	–	–	–	–67	21	–7	–6	–8	–67
Comprehensive income	–	–	658	–67	21	–7	–6	–8	591
Payments into the capital reserve	–	650	–	–	–	–	–	–	650
Distributions/profit transfer to Volkswagen AG	–	–	–512	–	–	–	–	–	–512
Balance as at 31.12.2011	**441**	**4,059**	**3,198**	**59**	**8**	**–43**	**–5**	**–13**	**7,704**

Further comments on the cash flow statement are shown in note (49).

Cash flow statement

of the Volkswagen Financial Services AG Group

€ million	1.1. – 31.12.2011	1.1. – 31.12.2010
Net income	**658**	**623**
Depreciation, amortisation, value adjustments and write-ups	1,836	1,640
Change in provisions	234	222
Change in other non-cash items	92	–160
Result from the sale of financial assets and property, plant and equipment	–5	2
Interest result and dividend income	–2,196	–2,114
Other adjustments	–1	1
Change in receivables from financial institutions	–2,157	520
Change in receivables from customers	–7,438	–3,136
Change in leased assets	–2,568	–2,203
Change in other assets from operating activities	–257	–121
Change in liabilities to financial institutions	434	–92
Change in liabilities to customers[1]	4,016	2,557
Change in securitised liabilities	5,652	–206
Change in other liabilities from operating activities	187	194
Interest received	4,144	3,924
Dividends received	37	29
Interest paid	–1,985	–1,839
Income tax payments	–404	–381
Cash flow from operating activities [1]	**279**	**–540**
Cash inflows from the sale of investment property	1	–
Cash outflows from the purchase of investment property	–2	0
Cash inflows from the sale of subsidiaries and joint ventures	5	–
Cash outflows from the purchase of subsidiaries and joint ventures	–98	–89
Cash inflows from the sale of other assets	7	7
Cash outflows from the purchase of other assets	–67	–46
Change in investments in securities	–779	–27
Cash flow from investing activities	**–933**	**–155**
Cash inflows from changes in capital	650	600
Distribution/profit transfer to Volkswagen AG[1]	–810	–478
Loss absorption by Volkswagen AG	–	–
Change in funds resulting from subordinated capital	973	423
Cash flow from financing activities [1]	**813**	**545**
Cash and cash equivalents at the end of the previous period	**193**	**343**
Cash flow from operating activities[1]	279	–540
Cash flow from investing activities	–933	–155
Cash flow from financing activities[1]	813	545
Effects from exchange rate changes	0	0
Cash and cash equivalents at the end of the period	**352**	**193**

1 Previous year's figure adjusted
Comments on the cash flow statement are shown in note (61).

Notes

to the consolidated financial statements of the Volkswagen Financial Services AG Group as at 31.12.2011

General comments

Volkswagen Financial Services Aktiengesellschaft (VW FS AG) is a joint stock company. It has its head office in Germany at Gifhorner Strasse, Braunschweig, and is registered in the Braunschweig Register of Companies (under file number HRB 3790).

The object of the company is the development, sale and management of own and outside financial services in Germany and abroad, which are appropriate for furthering the business of Volkswagen AG and the companies affiliated with it.

Volkswagen AG, Wolfsburg, is the sole shareholder in the parent company, VW FS AG. A control and profit transfer agreement exists between Volkswagen AG and VW FS AG.

The annual financial statements of the VW FS AG Group companies are included in the consolidated annual financial statements of Volkswagen AG, Wolfsburg, which are published in the electronic Federal Gazette and the Company Register.

Group accounting principles

VW FS AG prepared its consolidated financial statements as per 31.12.2011 according to International Financial Reporting Standards (IFRS), as applicable in the European Union, and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC), as well as supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB). All the IFRS that were approved by the International Accounting Standards Board (IASB) by 31.12.2011, and whose application in the European Union was obligatory for the 2011 financial year, were taken into account in these consolidated annual financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the consolidated financial statements according to IFRS include the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks of future development (risk report according to § 315 Para. 1 HGB) is contained in the management report on pages 52-64.

All estimates and assessments required for accounting and measurement under IFRS were made in accordance with the applicable standard. They are remeasured continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If estimates to a greater extent were necessary, the assumptions made are explained in detail in the note to the corresponding item.

The Board of Management prepared the consolidated financial statements on 8 February 2012. The period allowing for adjustments of amounts recognised in the financial statements ended with this date.

Estimates and assumptions by management

Preparation of the consolidated financial statements requires management to make certain assumptions and estimates that affect the amount and presentations of recognised assets and liabilities and income and expenses, as well as the disclosure of contingent assets and liabilities in the reporting period. The assumptions and estimates essentially relate to the following items:

Impairment testing of both non-financial assets (particularly goodwill and brand names) and equity investments measured using the equity method or at cost requires assumptions to be made about future cash flows during and possibly after the planning period as well as the discount rate used.

The recoverable amount of the Group's leased assets also depends in particular on the residual value of the leased vehicles after the end of the lease term, because this is a major component of the expected cash flows. For more information on impairment testing as well as on the measurement parameters used, please refer to the explanations on the accounting policies for intangible assets (item 13) and leasing (item 16).

If there are no observable market prices, the fair value of any assets and liabilities acquired in a business combination is calculated using a recognised valuation technique such as the relief-from-royalty method or the residual value method.

Calculating the recoverable amount of financial assets requires estimates to be made about the amount and the probability of occurrence of future events. Where possible, the estimates are derived from empirical values. In the case of receivables from customers, both individual value adjustments and portfolio-based value adjustments are recognised. For an overview of the individual and portfolio-based value adjustments, please refer to the notes to the provisions for risks (item 9).

The recognition and measurement of provisions is also based on the assumption about the amount and the probability of occurrence of future events as well as on the estimate of the discount factor. Past experience or reports by external experts are also drawn on wherever possible. In addition, the measurement of pension provisions is dependent on the estimate of changes in plan assets. Please refer to note 18 for the assumptions underlying the calculation of pension provisions. Actuarial gains and losses are recognised in other comprehensive income and do not affect the profit or loss presented in the income statement. Any change in estimates of the amount of other provisions must always be included in profit or loss. Due to the recognition of empirical values, subsequent additions are frequently made to provisions or unused provisions are reversed. Reversals of provisions are recognised as other operating income, while the expense from the recognition of new provisions is allocated directly to the relevant functions. Provisions for the insurance business are presented in item 19. Notes 20 and 45 provide an overview of the other provisions.

When deferred tax assets are being calculated, assumptions must be made about future taxable income and the timing of the utilisation of the deferred tax assets.

The underlying assumptions and estimates are based on the information available at the preparation date. In particular, the expected future business development was based on the circumstances prevailing at the time of preparation of the consolidated financial statements and a realistic assumption of the future development of the global and sector-related environment. Our estimates and assumptions remain subject to a high degree of uncertainty due to the future uncertain development of business, which is partly beyond the control of the Group's management. This applies in particular to short- and medium-term cash flow forecasts and to the discount rates used.

Actual amounts may differ from the original estimates because of changes in this environment that differ from the assumptions and lie outside the control of management. If actual developments differ from the expected developments, the underlying assumptions and, if necessary, the carrying amounts of the assets and liabilities affected are adjusted.

The global economy continued growing in the reporting period, though at a much slower pace in the second half of the year. We assume that the worldwide economic expansion will continue at the same level in 2012. As things stand today, therefore, management does not believe that there will be any requirement for material adjustments to the carrying amounts of assets and liabilities reported in the consolidated financial statements in the following financial year.

Estimates and assumptions by management were based in particular on assumptions relating to the development of the general economic environment, the automobile markets, the financial markets and the legal environment. These and further assumptions are explained in detail in the section entitles "anticipated developments".

Effects of new and revised IFRS

VW FS AG has implemented all accounting standards that had to be applied starting in the 2011 financial year.

Under the provisions of revised IAS 24, entities may choose to simplify their reporting with regard to public institutions and their subsidiaries. VW FS AG is not using this option. Revised IAS 24 also clarifies the definitions of related parties as well as reportable transactions. Reportable transactions by related parties were supplemented by additional contractual commitments in this connection. The previous year's figures were adjusted.

Disclosure obligations with respect to the nature and extent of risks from financial instruments were adjusted in connection with the amendment of IFRS 7 as part of the 2010 improvements of the International Financial Reporting Standards. Among other things, this requires disclosures on the financial effects of the collateral held and credit enhancements. The duty to disclose the carrying amounts of financial instruments where the relevant contracts were amended in order to avoid arrears was eliminated.

Furthermore, the following amendments to standards and interpretations had to be applied for the first time in the current financial year. This did not have any effect on the presentation of the consolidated financial statements.

- IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- IAS 32: Classification of Rights Issues
- Improvements to International Financial Reporting Standards 2010 – Minor amendments to numerous IFRS (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IAS 18, IFRIC 13) and subsequent amendments resulting from them
- IFRIC 14: Prepayments of a Minimum Funding Requirement
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

New or revised IFRS that were not applied

In its consolidated financial statements for 2011, VW FS AG did not take into account the following accounting standards which were adopted by the IASB but whose application was not mandatory in the financial year.

Standard/ Interpretation[1]		Published by the IASB	Mandatory application [2]	Adopted by the EU[1]	Expected effects
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	20.12.2010	01.01.2012	No	None
IFRS 7	Disclosures on the transfer of financial instruments	07.10.2010	01.01.2012	Yes	Expanded disclosures in the notes on the transfer of financial instruments
IFRS 7	Disclosures in the notes on offsetting financial assets and financial liabilities	16.12.2011	01.01.2013	No	Expanded disclosures in the notes on offsetting financial instruments
IFRS 9	Financial Instruments: Classification and Measurement	12.11.2009/ 28.10.2010	01.01.2015[3]	No	Change in the accounting treatment of fair value changes in financial instruments previously classified as available for sale
IFRS 10	Consolidated Financial Statements	12.05.2011	01.01.2013	No	No material effects
IFRS 11	Joint Arrangements	12.05.2011	01.01.2013	No	No material effects
IFRS 12	Disclosures of Interests in Other Entities	12.05.2011	01.01.2013	No	Expanded disclosures in the notes of interests in other entities
IFRS 13	Fair Value Measurement	12.05.2011	01.01.2013	No	Adjustments and expanded disclosures in the notes of fair value measurements
IAS 1	Presentation of Financial Statements: Presentations of items of other comprehensive income	16.06.2011	01.01.2013	No	Changes in the presentation of other comprehensive income
IAS 12	Deferred Taxes: Realising the carrying amount of an asset	20.12.2010	01.01.2012	No	No material effects
IAS 19	Employee Benefits	16.06.2011	01.01.2013	No	Change in the presentation and expanded disclosures in the notes of employee benefits
IAS 27	Separate Financial Statements	12.05.2011	01.01.2013	No	None
IAS 28	Investments in Associates and Joint Ventures	12.05.2011	01.01.2013	No	None
IAS 32	Financial Instruments: Offsetting financial assets and financial liabilities	16.12.2011	01.01.2014	No	No material effects
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	19.10.2011	01.01.2013	No	None

1 Until 31.12.2011.

2 First-time application mandatory for VW FS AG.

3 Postponement of first-time application from 2013 to 2015 under the Mandatory Effective Date project.

Accounting policies

1 | Principles

All the companies included in consolidation have drawn up their annual financial statements as at the balance sheet date of 31.12.2011.

The accounting in the VW FS AG Group is carried out in accordance with IAS 27 using uniform accounting policies throughout the Group.

Amounts are stated in millions of euros (€ million), unless indicated otherwise.

Items of assets and liabilities are shown in descending order of liquidity in accordance with IAS 1.60.

2 | Basis of consolidation

All companies are fully consolidated in which VW FS AG has the possibility, directly or indirectly, to determine the financial and business policy in such a way that the VW FS AG Group benefits from the activities of these companies (subsidiaries). Inclusion in the basis of consolidation begins at the point in time from which the possibility of control exists; it ends when the possibility of control ceases to exist. Seven domestic (previous year: eight) and, as in the previous year, 22 foreign subsidiaries were fully consolidated at the balance sheet date. In addition, the consolidated annual financial statements contain 27 (previous year: 24) special purpose entities whose assets, regarded in economic terms, are attributable to the VW FS AG Group.

Effective 1 January 2011, Volkswagen Business Services GmbH was merged into Volkswagen Financial Services AG whilst Volkswagen Insurance Brokers GmbH was merged into Volkswagen Bank GmbH.

In September 2011, Volkswagen Financial Services Taiwan LTD. founded Volkswagen International Insurance Agency Co., Limited, Taiwan.

In the fourth quarter of 2011, Volkswagen Financial Services AG established a joint venture in Belgium with D'leteren.

In December 2011, Volkswagen Financial Services AG founded Volkswagen New Mobility Services (China) Investment Company in Beijing.

The newly established companies have not yet been consolidated for reasons of materiality.

Only minor costs were incurred for the foundation of new companies in 2011 as described above.

As in the previous year, seven foreign joint ventures including their subsidiaries are included at equity in the consolidated annual financial statements. Also as in the previous year, three foreign joint ventures are carried at the lower of cost of acquisition or fair value in the consolidated financial statements because they are only of minor significance for the presentation of a true and fair view of the net assets, financial position and results of operations of the VW FS AG Group. They are recognised under other financial assets. The joint ventures also include companies in which the VW FS AG has a majority of the voting rights and of the capital, if according to the shareholders' agreements material decisions can only be taken unanimously (minority protection).

On the basis of the holdings in joint ventures, the following values can be attributed to the Group:

€ million	2011	2010
Receivables from financial institutions	1,031	875
Receivables from customers	3,309	3,288
Leased assets	6,436	5,867
Other assets	1,513	1,483
Liabilities to financial institutions	2,174	2,403
Liabilities to customers	1,702	1,185
Securitised liabilities	5,178	4,581
Other liabilities	1,489	1,686
Equity	1,747	1,658
Income	673	779
Expenses	542	655
Share in discontinued operations	–	–

Subsidiaries are not consolidated if they are of secondary importance for the VW FS AG Group. Altogether this concerns four domestic companies (as in the previous year) and 18 (previous year: 17) foreign companies.

Furthermore, as in the previous year there are 12 branches outside Germany which were set up by three domestic affiliated companies.

The list of all shareholdings in accordance with §§ 285 and 313 HGB is available under .

The following corporations are fully consolidated German affiliates that have fulfilled the requirements of § 264 Para. 3 HGB and will use the exemption rule:

- Volim GmbH, Braunschweig
- Volkswagen-Versicherungsdienst GmbH, Braunschweig
- Volkswagen Financial Services Beteiligungsgesellschaft mbH, Braunschweig
- Volkswagen Versicherungsvermittlung GmbH, Braunschweig

3 | Principles of consolidation

Capital consolidation is carried out by offsetting the carrying amounts of investments against the proportionate newly measured equity of the subsidiaries at the time of acquisition or first-time inclusion in the consolidated annual financial statements and in subsequent periods.

The assets and liabilities as well as contingent consideration are measured at fair value as at the acquisition date. Subsequent changes in the value of contingent consideration generally do not trigger adjustments of the acquisition date measurement. Acquisition-related costs (ancillary costs) that do not serve to raise equity are not added to the acquisition price but are expensed instead. This results in goodwill to the extent that the acquisition price of the equity investment exceeds identifiable assets and liabilities. Goodwill is subjected to an annual impairment test (impairment-only approach) in order to assess its impairment. If the goodwill is impaired, an impairment loss is recognised; otherwise the recognition of the goodwill remains unchanged relative to the previous year. To the extent that the acquisition price of the equity investment is less than the identifiable assets and liabilities, the difference must be recognised in income in the year the equity investment is acquired. The subsidiaries carry goodwill in their functional currencies.

Assets and liabilities newly recognised at their fair value in connection with the acquisition are subject to depreciation over their respective useful life. If the expected useful life is indefinite, the need to recognise any possible impairment loss is determined in a manner analogous to that for goodwill. Fair value adjustments of assets and liabilities are subject to depreciation over their remaining terms.

Receivables, liabilities, expenses and income based on business relations of consolidated companies are eliminated within the framework of debt, expense and income consolidation using the accounting policies applicable to the VW FS AG Group.

Consolidation events recognised in income are subject to accrual of deferred taxes. Shares in subsidiaries which are not consolidated because they are of secondary importance and other equity investments are shown under other financial assets.

Intra-Group transactions are conducted at prevailing market terms. Intercompany results arising therefrom are eliminated.

4 | Currency translation

The foreign companies belonging to the VW FS AG Group are independent entities, whose financial statements are translated according to the concept of "functional currency". According to this concept, all asset and liability items, with the exception of equity, are translated using the exchange rate on the balance sheet date. Equity is carried at historical rates, with the exception of the income and expenses recognised directly in equity. The resulting currency translation differences are shown as a separate item under equity until the subsidiary is disposed of.

The change data in the statement of fixed assets are translated at the weighted annual average exchange rate. A separate line, "Exchange rate changes", is dedicated to the arithmetical alignment with the balances brought forward, translated at the middle spot rates of the previous year, and the annual average rates of the change data with the translated final levels at the middle spot rate of the current year.

In the income statement, weighted annual average exchange rates are applied. The net retained profits/accumulated deficits are translated at the middle spot rate on the balance sheet date. The difference between the arithmetic annual result and the net retained profits/accumulated deficits at the rate on the balance sheet date is shown in a separate item in equity.

		BALANCE SHEET MIDDLE RATE AS AT 31.12.		INCOME STATEMENT AVERAGE EXCHANGE RATE	
	€	2011	2010	2011	2010
Australia	AUD	1.2723	1.3136	1.3484	1.4423
Brazil	BRL	2.4159	2.2177	2.3265	2.3314
Czech Republic	CZK	25.7870	25.0610	24.5898	25.2840
United Kingdom	GBP	0.8353	0.8608	0.8679	0.8578
Japan	JPY	100.2000	108.6500	110.9586	116.2386
Mexico	MXN	18.0512	16.5475	17.2877	16.7373
Sweden	SEK	8.9120	8.9655	9.0298	9.5373

5 | Realisation of income and expense

Income and expenses are deferred pro rata temporis and are recognised in income in the period to which they are economically attributable.

The realisation of interest income in the income statement is always carried out according to the effective interest rate method. Income from financing and leasing transactions, and expenses for their refinancing, are contained in net income from lending, leasing and insurance transactions. Interest for borrowings is not capitalised.

The net commission income contains income and expenses from the insurance agency services and commissions from the financing and financial services business.

Dividends are received at the time of the legal claim, i.e. always upon passing of the resolution to distribute profits.

The general administration expenses are composed of staff and non-staff costs, the depreciation of property, plant and equipment, amortisation of intangible assets, as well as other taxes.

The other operating result essentially comprises income from costs charged to affiliated companies as well as income from the reversal of provisions.

6 | Income tax

Current income tax assets and obligations are measured using the tax rates at which the refund from or payment to the respective tax authorities is expected. Current income tax is generally shown unnetted.

Deferred income tax assets and liabilities are calculated from different measurements of a reported asset or an obligation and the respective taxable carrying amount. It is expected that this will in future result in income tax burden or relief effects (temporary differences). They are measured at the country-specific income tax rates of the particular country of incorporation, whose validity for the corresponding period of its realisation is to be expected.

Deferred tax assets on tax losses carried forward that have not yet been made use of are shown in the balance sheet if it is likely that future taxable profits will occur in the same tax unit. Deferred income tax assets and obligations with the same maturity vis-à-vis the same tax authority are netted. Discounting for deferred taxes is not carried out.

The tax expense chargeable to the pre-tax result is shown in the income statement of the Group under the item taxes on income and earnings; in the notes it is divided into current and deferred income tax of the financial year. Other taxes that are not linked to income are reported in the item general administration expenses.

The non-current portion of income tax obligations amounts to € 8 million (previous year: € 7 million).

7 | Cash reserve

The cash reserve is shown at nominal value.

8 | Receivables

Originated receivables from financial institutions and from customers are always stated in the balance sheet at amortised cost according to the effective interest rate method. Profits or losses resulting from the development of amortised cost are recognised in income including the effects from exchange rate changes. For current receivables (residual term up to one year) neither compounding nor discounting is performed for reasons of materiality. A portion of the receivables from customers is included in a portfolio hedge. The customer receivables allocated to portfolio hedging are measured at fair value.

Receivables in foreign currency are translated at the middle rate on the balance sheet date.

9 | Provisions for risks

We take full account of the non-payment risks in the banking business by means of individual value adjustments and portfolio-based value adjustments made in accordance with IAS 39. In addition indirect residual value risks were taken into account by means of provisions.
Individual value adjustments corresponding to the loss already incurred are made for existing credit risks related to significant individual receivables in connection with customer or bank receivables (e.g. receivables from wholesale financing and from fleet customers) in accordance with uniform standards applicable throughout the Group.

Potential impairment is assumed if certain circumstances exist such as, for example, delays of payment over a certain period of time, initiation of compulsory measures, imminent insolvency or overindebtedness, application for insolvency or initiation of insolvency proceedings, or failure of restructuring measures.

Receivables that are not significant as well as significant individual receivables for which no impairment is indicated, are combined into homogeneous portfolios based on comparable credit risk characteristics and divided into risk classes. Average historical loss probabilities related to the respective portfolio are employed to determine the extent of the impairment loss as long as there is uncertainty as to losses on specific receivables. Back-testing is used to regularly review the appropriateness of the allowances.

The receivables are shown in the balance sheet at net carrying amount. Notes to the provisions for risks are presented under item (33).

Unrecoverable receivables – which are being settled and in regards to which all collateral was disposed of and all other options for realising these receivables have been exhausted – are written off directly. Previously recognised individual value adjustments are utilised. Income from receivables written off is recognised in profit or loss.

10 | Derivative financial instruments

The derivative financial instruments are made up of assets and/or obligations from hedge-effective transactions and derivatives that are not hedges. All derivatives are stated at fair value and shown separately under items (34) and (44). They are recognised as of the respective trade date.

The fair value is determined based on bank confirmations or a computer-based measurement using the discounted cash flow method.

Derivatives are used as a hedging instrument to secure the fair value or to secure future cash flows. Hedge accounting in accordance with IAS 39 is used only in the case of highly effective hedging transactions.

In fair value hedges, the changes in the fair value of the derivative financial instrument designated to hedge the fair value of the underlying asset or liability are recognised in income. The change in the fair value of the underlying transaction that is attributable to the hedged risk is also recognised in income. The effects on earnings of both the hedging instrument and the underlying transaction fully offset each other.

IAS 39 also permits the application of a fair value hedge not only for individual underlying transactions but also for a class of similar underlying transactions. In the financial year just ended, the VW FS AG Group executed fair value portfolio hedges. In a portfolio hedge, the recognition of the changes in fair value corresponds to the changes in a fair value hedge.
Another fair value hedge relationship existed at the subgroup level. It served to hedge the fair value from the change in the risk-free base rate of fixed income securities. In partial term hedging, the residual terms of these bonds were included in the hedge relationship. At the subgroup level, the changes in the fair value of both the underlying transaction and the hedge largely offset each other. This hedge expired at the end of the financial year.

The effective portion of changes to the fair value of a derivative that has been designated to secure future cash flows and fulfils the corresponding conditions is recognised directly in equity

in the reserve for cash flow hedges. Adjustments to income merely arise from the ineffective portion of the change in the fair value. The amounts recognised in equity are recognised in the periods of the income statement in which the balance sheet item bearing variable interest rates or the anticipated transaction has an effect on income.
Changes to the fair values of derivatives which do not fulfil the conditions of IAS 39 for hedge accounting are recognised in income.

The VW FS AG Group documents all the relationships between hedging instruments and secured items. The effectiveness is assessed continuously. Transactions intended solely to serve speculative purposes do not exist in the VW FS AG Group.

11 | Securities

Securities principally include fixed-income government bonds as well as investments made in accordance with the investment guidelines laid down by VW Versicherung AG (primarily fixed-income securities and shares).

The securities are classified as available-for-sale financial assets and recognised directly in equity. Permanent changes in value are recognised in profit or loss.

Fixed-income bonds in the amount of € 741 million (previous year: € 10 million) are pledged as security for own liabilities. The securities are deposited with Deutsche Bundesbank and there is no original right of disposal or pledge for the secured party.

12 | Other financial assets

Under other financial assets we show equity investments and shares in non-consolidated subsidiaries. They are recognised at cost, since there is no active market for these companies and their fair values cannot be determined with reasonable effort. Significant or long-term impairment losses are recognised in profit or loss.

13 | Intangible assets

Purchased intangible assets with a limited useful life, essentially software, are capitalised at cost and amortised over their economic life of three years using the straight-line method. Software developed in-house is capitalised under the conditions of IAS 38 with directly attributable direct and indirect costs. It is also amortised over a period of three years using the straight-line method.

We assess at each balance sheet date whether there is any indication that an intangible asset having a limited useful life has been impaired. If necessary, the carrying amount is compared to the recoverable amount and the respective asset is written down to the lower recoverable amount.
Intangible assets having an indefinite useful life are not amortised. We review annually whether the useful life of an intangible asset is indefinite. The impairment of such assets is reviewed annually based on a comparison between the carrying amount and the recoverable amount pursuant to IAS 36. If necessary, the asset is written down to the lower recoverable value (compare item 15).

Goodwill is tested for impairment on an annual basis as well as at the time the relevant events occur or the circumstances change. An impairment loss is recognised if the goodwill is impaired.

The original goodwill as determined using the discounted cash flow method is used to determine the impairment of goodwill based on the management's current five-year plans with subsequent perpetual annuity. In each case, the planning premises are adjusted to the current level of knowledge. The discount rate applied is based on the applicable long-term market interest rate corresponding to the relevant cash generating unit. A cost of equity rate of 8.8 % (previous year: 9.1 %) was used throughout the Group. This entails taking into account both appropriate assumptions regarding macroeconomic trends and historical developments. The growth rates expected for the individual markets are used to determine the respective cash flows. The estimate of the cash flows after the close of the planning period is based on a growth rate of 1 % p.a. (previous year: 1 % p.a.).

14 | Property, plant and equipment

Property, plant and equipment – land and buildings and operating and office equipment – is measured at cost less depreciation according to its expected economic useful life. It is depreciated using the straight-line method pro rata temporis over the expected useful life.
Depreciation is mainly based on the following useful lives:

Property, plant and equipment	Useful life
Buildings and property facilities	10 to 50 years
Operating and office equipment	3 to 10 years

Write-downs are recognised if the requirements of IAS 36 are satisfied (compare item 15).

Both the residual carrying amounts and the useful lives are reviewed at the given balance sheet date and adjusted as necessary.

The cost of depreciation is contained in the general administration expenses. Income from write-ups is contained in the other operating result.

15 | Impairment of non-monetary assets

Assets with an indefinite useful life are not subject to depreciation or amortisation; they are tested for impairment on an annual basis as well as at the time relevant events occur or circumstances change. Assets subject to depreciation or amortisation are tested for impairment if relevant events or changed circumstances indicate that the carrying amount might no longer be recoverable.

An impairment loss is recognised for the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less disposal costs and value in use. The fair value is the amount that could be realised in an arm’s length transaction between knowledgeable, willing parties. The value in use arises from the present value of future cash flows which are expected to be derived from the asset.

If the reasons for write-downs made in previous years no longer apply, appropriate write-ups are recognised. This does not apply to impairment of goodwill.

16 | Leasing business

THE GROUP AS LESSOR

The VW FS AG Group is engaged in both finance leases and operating leases. This business concerns essentially vehicles and, to a lesser extent, land and buildings, as well as equipment and furnishings for dealers.

In the case of finance leases, the economic ownership passes to the lessee. In the consolidated balance sheet, receivables from finance leases are therefore shown under receivables from customers, where the net investment value always corresponds to the cost of the leased assets. Interest income from these transactions is shown under leasing income in the income statement. The interest paid by the customer is received in such a way that a constant periodic rate of interest on the outstanding leasing receivables results.

In the case of operating leases, the economic ownership of the object of the lease remains with the lessor. In this case the leased items are shown in the consolidated balance sheet in the separate item, leased assets, measured at cost less regular straight-line depreciation over the term of the lease to the imputed residual value. Impairments identified on the basis of the impairment test in compliance with IAS 36 by taking into account the value in use are recognised through write-downs and adjustments of the depreciation rates. Write-ups are made if the reasons for write-downs in previous years no longer apply. Write-downs and write-ups are contained in the net income from leasing transactions before provisions for risks. Leasing income is recognised on a straight-line basis over the term of the lease and comprises the interest and repayment portions.

Land and buildings which serve to obtain rental income are recognised under the balance sheet item, investment property, and are stated at depreciated cost. As a rule, these are properties leased to dealers. The fair values additionally contained in the notes are determined by the respective company by discounting the estimated future payment flows with the corresponding long-term market interest rate. Depreciation is carried out using the straight-line method over the agreed useful life of ten to 50 years. Impairments identified on the basis of the impairment test in compliance with IAS 36 are recognised through write-downs.

THE GROUP AS LESSEE

The leasing instalments paid under operating leases are shown under the general administration expenses.

For finance leases, the respective leased assets are capitalised at the lower of cost or present value of the minimum leasing payments, and depreciated using the straight-line method according to the economic life or over the term of the lease, whichever is shorter. The payment obligations resulting from the future leasing instalments are discounted and carried as a liability.

17 | Liabilities

Liabilities to financial institutions and to customers as well as securitised liabilities are recognised at amortised cost according to the effective interest rate method. Profits or losses resulting from the development of amortised cost are recognised in income including the effects from exchange rate changes. For current liabilities (residual term up to one year) neither compounding nor discounting is performed for reasons of materiality. A portion of the liabilities to customers is included in a portfolio hedge. The liabilities to customers allocated to portfolio hedging are measured at fair value.

Liabilities in foreign currency are translated at the middle rate on the balance sheet date.

18 | Provisions for pensions and similar obligations

In Germany, there is a defined contribution, basic state pension for employees which makes pension payments at a level dependent on income and contributions paid. Domestic companies made contributions to the statutory pension scheme amounting to € 24 million (previous year: € 22 million). Both defined contribution and defined benefit pension commitments exist under company pension plans for employees. In the case of the defined contribution plans, contributions are paid to state or private pension insurance providers under statutory or contractual provisions or on a voluntary basis. The defined benefit plans, on the other hand, are financed by making provisions and, since 2001, also by making transfers into an external pension fund.

In the case of defined contribution plans, the VW FS AG Group does not enter into any payment obligations beyond payment of contributions to special-purpose funds. The expenses from contribution payments in the current period are shown under staff costs. In the reporting period, payments amounting to € 3 million (previous year: € 2 million) were made to defined contribution pension plans.

In the case of defined benefit plans, provisions are made for pension obligations in respect of old age, invalidity and surviving dependants' benefits. The defined benefit plans are measured on the basis of actuarial reports, which are determined in accordance with IAS 19 (Employee Benefits) by means of the international projected unit credit method. This means that the future obligations are measured on the basis of the benefit entitlements acquired up to the balance sheet date. Such measurement takes account of trend assumptions of relevant influencing factors which affect the level of benefits.

Since 1.1.2001, pension expenses for new expectancies of employees have been financed through an external pension fund. The annual salary-related pension expenses are invested in special funds by VW Pension Trust e.V. acting as trustee. Since the fund shares administered by the trustee fulfil the requirements of IAS 19 as plan assets, they are offset against provisions.

Actuarial profits/losses result from changes in actuarial assumptions and variances between the expected and the actual development of the calculation parameters. They are recognised in equity in the period in which they arise. The amounts recognised in equity are disclosed in the statement of comprehensive income.

Material actuarial premises applied by the national companies:

	GERMANY		ABROAD	
%	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Expected return on plan assets	3.75	4.25	5.67	6.16
Discount rate	4.60	4.90	1.00 – 10.00	1.20 – 10.19
Expected rate of salary increases	2.80	2.70	2.50 – 6.25	2.50 – 6.45
Expected rate of pension increases	1.50	1.50	2.00 – 4.25	2.00 – 4.25
Fluctuation rate	0.75	0.75	3.00 – 5.00	3.50

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

19 | Provisions for the insurance business

The insurance business that was taken over for reinsurance purposes and the direct insurance business is recognised for specific years without any delay.

Insurance contracts are recognised pursuant to IFRS 4 and, to the extent permissible, pursuant to the local accounting regulations in § 341 ff. HGB and the German Accounting Regulations for Insurance Companies (RechVersV).

The deferred premiums for the company's direct business are determined for each contract using the 1/act method in accordance with the development of the given risk.

The provisions for unsettled insurance claims in the direct insurance business were calculated and measured individually based on the probable utilisation per loss event. For unknown loss events, estimation methods (chain ladder method, credibility approach) were used to calculate the provision for IBNR claims. Deviations from calculated developments with regard to the number and amount of loss events may have an adverse effect on the underwriting result.

The other underwriting provisions include the provisions for cancellations for the direct business and are based on an estimate.

Equalisation provisions were not set up because IFRS 4 prohibits the recognition as a liability of such provisions.

The reinsurers' shares in the provisions are calculated in accordance with the agreements with the retrocessionaires and shown in “Other assets”.
The provisions for unsettled insurance claims in the insurance business that was taken over for reinsurance purposes are recognised in accordance with the cedant’s tasks. Own estimates are also made for unknown loss events.

Provisions in the business taken over are always recognised in accordance with the cedant’s contractual tasks. The reinsurers' shares in the provisions are calculated in accordance with the agreements with the retrocessionaires and shown in “Other assets”.

Actuarial methods and systems that ensure continuous management and monitoring of all material risks are used to review the adequacy of the provisions. Integrating all factors into Volkswagen Financial Services AG’s Group Risk Management makes them subject to the company's comprehensive requirements. The insurance business is dominated in particular by underwriting risks, specifically the premium/loss risk and the reserve risk. We counter these risks by continuously monitoring the calculation basis, making appropriate allocations to provisions, adopting a restrictive underwriting policy and through careful selection of our reinsurers.

Strategic risks are taken into account in the calculation of the company's risk-bearing capacity as part of a general risk buffer.

20 | Other provisions

In accordance with IAS 37, provisions are recognised to the extent that there is a current obligation vis-à-vis a third party arising from a past event which will probably lead to a future outflow of resources and the amount of which can be reliably estimated.

Provisions which do not lead to an outflow of resources in the following year are carried at the amount required to settle the respective obligation, discounted to the balance sheet. Discounting is based on market interest rates. The amount required to settle the obligation also comprises the expected cost increases.

Provisions are not offset against claims for reimbursement.

Notes to the income statement

21 | Net income from lending, leasing and insurance transactions before provisions for risks

The net income from lending and leasing transactions before provisions for risks developed as follows:

€ million	2011	2010
Interest income from lending and money market transactions	3,221	2,904
Income from leasing transactions and service contracts	7,647	5,849
Expenses from leasing business and service contracts	–5,259	–3,624
Depreciation and impairment losses on leased assets and investment property	–1,196	–940
Interest expense	–1,985	–1,839
Total	**2,428**	**2,350**

The interest income from lending and money market transactions as well as the income from leasing transactions and service contracts contain interest income on impaired receivables in the amount of € 30 million (previous year: € 37 million).

Income from leasing transactions and service contracts includes rental income from investment property amounting to € 3 million (previous year: € 3 million). Furthermore, contingent rents under finance leases of € 33 million (previous year: none) and under operating leases of € 11 million (previous year: none) were recognised under income from leasing transactions and service contracts.

Impairment losses recognised as a result of the impairment test on leased assets amounted to € 70 million (previous year: € 85 million) and are contained in the depreciation and impairment losses on leased assets. Income from the reversal of impairment losses recognised in previous years on leased assets amounted to € 7 million (previous year: € 6 million) and is contained in the income from leasing transactions.

Interest income included here from financial instruments which are not attributable to the category of assets or financial liabilities measured at fair value and recognised in income amounts to € 3,221 million (previous year: € 2,904 million).

The net income from insurance transactions is comprised as follows:

€ million	2011	2010
Premiums earned from insurance business	48	30
Expenses for claims	–22	–20
Expenses for reinsurance commissions and profit sharing	–11	–5
Other underwriting expenses	0	0
Total	**15**	**5**

The interest expense contains refinancing expenses from lending and leasing transactions. A total of € 2,029 million (previous year: € 1,885 million) of that expense concerns financial instruments not measured at fair value and recognised in income. They were reduced by the net interest income of € 44 million (previous year: € 46 million) recorded in the financial year from derivatives that are not hedges.

22 | Provisions for risks arising from lending and leasing business

Provision for risks relates to the balance sheet items "Receivables from customers" and "Provisions for lending transactions". It has the following effect on the Group's income statement:

€ million	2011	2010
Additions to provisions for risks	–829	–794
Reversal of provisions for risks	380	268
Direct depreciation	–124	–155
Additions from receivables written off	60	62
Total	**–513**	**–619**

Additional default risks arising for the Volkswagen Financial Services AG Group as a result of the crisis situation in Greece, Ireland, Spain and Italy were accounted for in the amount of € 188 million.

23 | Net commission income

The net commission income of € 153 million (previous year: € 92 million) contains € 331 million (previous year: € 295 million) in income from insurance agency services.

24 | Result from financial instruments

This item contains the results from hedging transactions, derivatives that are not hedges and from the measurement of foreign currency receivables and liabilities.

The result from hedging transactions contains income and expenses from the fair value measurement of hedging transactions and underlying transactions. Gains and losses from other derivatives that are not hedges contain income and expenses from market value changes of derivatives which do not fulfil the requirements of IAS 39 for hedge accounting.
The detailed figures are as follows:

€ million	2011	2010
Gains/losses on fair value hedging instruments	11	25
Gains/losses on underlying transactions of fair value hedges	–32	–94
Ineffective portion of cash flow hedging instruments	–2	1
Gains/losses from currency hedging instruments	–20	–9
Gains/losses from the measurement of foreign currency receivables/liabilities	2	25
Gains/losses from other derivatives that are not hedges	19	98
Total	**–22**	**46**

No further fair value changes had to be recognised in connection with financial instruments.

25 | Result from other financial assets

The result from other financial assets comprises dividend and sale results from equity investments and shares in non-consolidated, affiliated companies, and also income and expenses from investment securities.

26 | General administration expenses

The general administration expenses are made up as follows:

€ million	2011	2010
Staff costs	–550	–490
Non-staff costs	–578	–446
Costs of advertising, PR work and sales promotion	–52	–56
Depreciation of property, plant and equipment and amortisation of and impairment losses on intangible assets	–56	–84
Other taxes	–23	–25
Total	**–1,259**	**–1,101**

The non-staff costs contain expenses for leased assets under operating leases amounting to € 17 million (previous year: € 12 million).

As required by § 314 Para. 1 No. 9 HGB, the general administration expenses for the 2011 financial year include fees billed for the audit of the annual financial statements amounting to € 2 million (previous year: € 1 million), for other confirmation or measurement services amounting to € 1 million (previous year: € 0 million), as well as for tax consultancy services and for other services amounting to € 3 million (previous year: € 1 million).

Amortisation and impairment losses on intangible assets contain an impairment loss of € 7 million (previous year: € 32 million) recognised on internally generated software.

27 | Other operating result

The other operating result is made up as follows:

€ million	2011	2010
Income from costs charged to companies of the Volkswagen Group	53	47
Income from the reversal of provisions	86	61
Income from claims for damages	7	6
Other operating income	282	169
Other operating expenses	–435	–314
Other operating result	**–7**	**–31**

28 | Taxes on income and earnings

Taxes on income and earnings include taxes debited by Volkswagen AG because of fiscal unity, taxes which are owed by VW FS AG and its consolidated subsidiaries, and deferred taxes. The income taxes are made up as follows:

€ million	2011	2010
Effective tax expense in Germany	– 341	– 286
Effective tax expense abroad	– 183	– 85
Effective tax expense	**– 524**	**– 371**
Income from the reversal of tax provisions and tax refunds	12	14
Effective taxes on income and earnings	**– 512**	**– 357**
of which not attributable to the reporting period	10	– 9
Deferred tax income/expense in Germany	238	157
Deferred tax income/expense abroad	– 1	– 47
Deferred tax income/expense	**237**	**110**
of which not attributable to the reporting period	3	– 30
Total	**– 275**	**– 247**

The actual tax expense in 2011 amounting to € 275 million corresponded to the expected tax expense of € 275 million, which resulted from applying a tax rate of 29.5 % (previous year: 29.5 %) on the Group's pre-tax result. The previous year's actual tax expense amounting to € 247 million was € 10 million lower than the expected tax expense of € 257 million. The following reconciliation shows the connection between taxes on income and earnings and the pre-tax result in the financial year:

€ million	2011	2010
Pre-tax result	**933**	**870**
multiplied by the German income tax rate of 29.5 % (previous year: 29.5 %)		
= Arithmetical income tax expense in the financial year at the German income tax rate	**– 275**	**– 257**
+ Effects from tax credits	0	44
+ Effects from German/foreign tax rate	– 9	– 14
+ Effects from tax rate changes	– 2	0
+ Effects from permanent accounting differences	7	2
+ Effects on account of tax-free income from equity investments	43	43
+ Effects from losses carried forward	– 8	– 2
+ Effects from non-deductible operating expenses	– 43	– 21
+ Taxes not attributable to the reporting period	13	– 39
+ Other differences	– 1	– 3
= Current taxes on income and earnings	**– 275**	**– 247**

The domestic income tax rate chosen as the basis for the reconciliation is made up of the corporation tax rate of 15 % applicable in Germany (previous year: 15 %), plus solidarity surcharge of 5.5 % (previous year: 5.5 %) and an average rate for trade tax of 13.67 % (previous year: 13.67 %). Taking into account the non-deductibility of trade earnings tax as a business expense, the German income tax rate amounts to 29.5 % (previous year: 29.5 %). Income from equity investments and profit from the sale of equity investments in joint stock companies have not generally been subject to taxation on earnings since 1.1.2002.

The effects resulting from different rates of income tax in other countries arise due to the income tax rates of the individual countries where the Group companies have their registered office. These rates, which differ from the German income tax rate, are between 12.5 % and 40.7 % (previous year: 12.5 % and 40.7 %).

As at 31.12.2011, the company's tax losses carried forward not yet used to date were € 150 million (previous year: € 278 million), for which deferred tax assets of € 45 million (previous year: € 106 million) were recognised. Of these unused tax losses carried forward, € 50 million (previous year: € 106 million) can be utilised indefinitely. There were also tax losses carried forward of € 93 million (previous year: € 6 million), which can be used within the next five years and € 7 million (previous year: none), which must be used within a period of five to ten years.

The deferred tax liabilities are reduced by € 2 million (previous year: none) as a result of tax losses and tax credits from a previous period which had not yet been taken into account. The deferred tax liabilities resulting from the write-down of deferred tax assets amount to € 10 million (previous year: € 2 million).

No deferred tax asset was recognised on € 18 million in unused tax losses carried forward (previous year: € 10 million) because they are classified as unusable.

Of the deferred taxes recognised in the balance sheet, a total of € 16 million (previous year: € 20 million) relate to business transactions that are recognised directly in equity. A partial amount of € 18 million (previous year: € 15 million) concerns actuarial gains/losses (IAS 19), a partial amount of € –4 million (previous year: € 5 million) concerns derivative financial instruments, and a partial amount of € 3 million (previous year: € 0 million) concerns the market valuation of securities.

29 | Further notes to the income statement

Expenses and income from fees and commissions which are not attributable to the category of assets or liabilities measured at fair value and which are not taken into account using the effective interest rate method:

€ million	2011	2010
Commission income	39	33
Commission expenses	0	0
Fee expenses	–	–
Total	**39**	**33**

Notes to the balance sheet

30 | Cash reserve

The cash reserve contains deposits with the Deutsche Bundesbank amounting to € 340 million (previous year: € 182 million).

31 | Receivables from financial institutions

The receivables from financial institutions include receivables from an associated company amounting to € 19 million (previous year: € 20 million) and receivables from a joint venture totalling € 2 million (previous year: € 3 million).

32 | Receivables from customers

Receivables from customers include unsecuritised receivables from affiliated companies amounting to € 779 million (previous year: € 429 million) and receivables from joint ventures amounting to € 2,403 million (previous year: € 1,798 million). There are receivables from the sole shareholder, Volkswagen AG, amounting to € 119 million (previous year: € 30 million).

Receivables from retail financing contain, in principle, vehicle financing loan agreements with private and commercial customers. Financed vehicles are usually assigned to us as collateral. The wholesale financing contracts contain financing of vehicles in stock and equipment and investment loans to the dealer organisation. Here too, security assignments are used as collateral, as well as surety agreements and charges on property. Receivables from leasing business contain receivables from finance leases and receivables due from leased assets. Other receivables essentially consist of receivables from companies in the Volkswagen Group and of credit lines and overdraft facilities utilised by customers. The other receivables contained subordinated assets amounting to € 20 million (previous year: none).

The terms of the contracts are usually between six and 72 months. As a rule, credit lines are granted indefinitely. The interest rates, which essentially are fixed, are between 0.01 % and 28.48 % (previous year: 0.01 % and 28.46 %).

Portions of the retail financing and finance leasing receivables subject to fixed interest rates were hedged in a portfolio hedge against fluctuations of the risk-free base rate. Receivables from operating leasing transactions are excluded from this hedging strategy because they do not satisfy the definition of a financial instrument within the meaning of IAS 39 in conjunction with IAS 32.

The reconciliation from the balance sheet figures is as follows:

€ million	31.12.2011	31.12.2010
Receivables from customers	**61,559**	**55,122**
Market value adjustment from portfolio hedging	46	– 6
Receivables from customers less market value adjustment from portfolio hedging	61,513	55,128

Receivables from leasing transactions include due receivables amounting to € 172 million (previous year: € 154 million).

The receivables from operating leasing transactions total € 62 million as at the balance sheet date (previous year: € 69 million).

The receivables from finance leases are made up as follows:

€ million	31.12.2011	31.12.2010
Gross receivables from finance leases	**15,231**	**14,712**
by residual term		
up to one year	6,153	6,479
more than one year and up to five years	9,042	8,195
more than five years	36	38
Interest not yet earned from finance leases	**1,041**	**1,138**
Net receivables from finance leases	**14,190**	**13,574**
by residual term		
up to one year	5,710	5,954
more than one year and up to five years	8,449	7,588
more than five years	31	32

At the VW FS AG Group, the present value of the minimum leasing payments outstanding on the balance sheet date corresponds to the net receivables from finance leases reported above.

A provision for risks arising from outstanding minimum lease payments exists in the amount of € 106 million (previous year: € 94 million).

33 | Provisions for risks arising from lending and leasing business

The provisions for risks in the lending and leasing business are made in accordance with uniform rules throughout the Group and cover all recognisable credit risks.

Reconciliation based on classed in accordance with IFRS 7 is as follows:
Class: Assets measured at amortised cost

€ million	INDIVIDUAL VALUE ADJUSTMENTS 2011	INDIVIDUAL VALUE ADJUSTMENTS 2010	PORTFOLIO-BASED VALUE ADJUSTMENTS 2011	PORTFOLIO-BASED VALUE ADJUSTMENTS 2010	TOTAL 2011	TOTAL 2010
As at 1.1.	**1,061**	**1,034**	**440**	**404**	**1,501**	**1,438**
New companies brought forward	–	–	–	–	–	–
Additions	371	579	315	110	686	689
Transfers	– 43	– 46	– 30	– 22	– 73	– 68
Disposals	506	496	81	69	587	565
of which uses	248	307	–	–	248	307
of which reversals	258	189	81	69	339	258
Interest income from impaired receivables	27	36	–	–	27	36
Currency translation	– 20	26	– 9	17	– 29	43
Provisions for risks arising from lending and leasing business as at 31.12.	**836**	**1,061**	**635**	**440**	**1,471**	**1,501**

Class: Hedge accounting

€ million	Individual value adjustments 2011	Individual value adjustments 2010	Portfolio-based value adjustments 2011	Portfolio-based value adjustments 2010	Total 2011	Total 2010
As at 1.1.	**91**	**30**	**45**	**16**	**136**	**46**
New companies brought forward	–	–	–	–	–	–
Additions	42	34	99	10	141	44
Transfers	40	49	33	19	73	68
Disposals	36	21	1	0	37	21
of which uses	15	11	–	–	15	11
of which reversals	21	10	1	0	22	10
Interest income from impaired receivables	3	1	–	–	3	1
Currency translation	–	–	–	–	–	–
Provisions for risks arising from lending and leasing business as at 31.12.	**134**	**91**	**176**	**45**	**310**	**136**

The provisions for risks were recognised in relation to receivables from customers.

34 | Derivative financial instruments

This item contains the positive market values from hedging transactions and from derivatives that are not hedges; it is made up as follows:

€ million	31.12.2011	31.12.2010
Assets from hedging transactions	540	455
Fair value hedges on assets (currency risk)	32	9
Fair value hedges on liabilities (currency risk)	0	6
Fair value hedges (interest rate risk)	418	349
Portfolio fair value hedges (interest rate risk)	57	60
Cash flow hedges on interest payments (currency risk)	31	27
Cash flow hedges (interest rate risk)	2	4
Assets from derivatives that are not hedges	169	182
Total	**709**	**637**

With the exception of derivatives that are not hedges, no financial instruments are classified as being held for trading.

35 | Joint ventures accounted for using the equity method and other financial assets

€ million	Companies accounted for using the equity method	Other financial assets	Total
Cost of acquisition			
As at 1.1.2010	**1,571**	**176**	**1,747**
Exchange rate changes/effects recognised in equity	64	1	65
Changes in the basis of consolidation	–	–	–
Additions	125	89	214
Transfers	–	–	–
Disposals	–27	0	–27
As at 31.12.2010	**1,733**	**266**	**1,999**
Amortisation			
As at 1.1.2010	**26**	**1**	**27**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	–	–	–
Transfers	–	–	–
Disposals	–	0	0
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2010	**26**	**1**	**27**
Carrying amount 31.12.2010	**1,707**	**265**	**1,972**
Carrying amount 1.1.2010	**1,545**	**175**	**1,720**

€ million	Companies accounted for using the equity method	Other financial assets	Total
Cost of acquisition			
As at 1.1.2011	**1,733**	**266**	**1,999**
Exchange rate changes/effects recognised in equity	–8	0	–8
Changes in the basis of consolidation	–	0	0
Additions	132	98	230
Transfers	–	–	0
Disposals	–36	–1	–37
As at 31.12.2011	**1,821**	**363**	**2,184**
Amortisation			
As at 1.1.2011	**26**	**1**	**27**
Exchange rate changes	–	–	0
Changes in the basis of consolidation	–	–	0
Additions	–	–	0
Transfers	–	–	0
Disposals	–	–	0
Write-ups	–	–	0
Write-downs	–	–	0
As at 31.12.2011	**26**	**1**	**27**
Carrying amount 31.12.2011	**1,795**	**362**	**2,157**
Carrying amount 1.1.2011	**1,707**	**265**	**1,972**

36 | Intangible assets

€ million	Internally generated software	Goodwill, brand name, customer base	Other intangible assets	Total
Cost of acquisition				
As at 1.1.2010	**101**	**43**	**87**	**231**
Exchange rate changes	0	5	6	11
Changes in the basis of consolidation	–	–	–	–
Additions	9	–	10	19
Transfers	–	–	–	–
Disposals	28	–	6	34
As at 31.12.2010	**82**	**48**	**97**	**227**
Amortisation				
As at 1.1.2010	**33**	**6**	**62**	**101**
Exchange rate changes	0	1	4	5
Changes in the basis of consolidation	–	–	–	–
Additions	9	3	11	23
Transfers	–	–	–	–
Disposals	26	–	3	29
Write-ups	–	–	–	–
Write-downs	32	–	–	32
As at 31.12.2010	**48**	**10**	**74**	**132**
Carrying amount 31.12.2010	**34**	**38**	**23**	**95**
Carrying amount 1.1.2010	**68**	**37**	**25**	**130**

€ million	Internally generated software	Goodwill, brand name, customer base	Other intangible assets	Total
Cost of acquisition				
As at 1.1.2011	**82**	**48**	**97**	**227**
Exchange rate changes	0	−4	0	−4
Changes in the basis of consolidation	–	3	0	3
Additions	7	–	11	18
Transfers	–	–	–	–
Disposals	–	–	1	1
As at 31.12.2011	**89**	**47**	**107**	**243**
Amortisation				
As at 1.1.2011	**48**	**10**	**74**	**132**
Exchange rate changes	0	−1	0	−1
Changes in the basis of consolidation	–	1	0	1
Additions	9	3	10	22
Transfers	−2	–	2	–
Disposals	–	–	1	1
Write-ups	–	–	–	–
Write-downs	7	–	–	7
As at 31.12.2011	**62**	**13**	**85**	**160**
Carrying amount 31.12.2011	**27**	**34**	**22**	**83**
Carrying amount 1.1.2011	**34**	**38**	**23**	**95**

Intangible assets having indefinite useful lives at the balance sheet date comprise one item of goodwill and a brand name. The indefinite useful lives arise from the fact that both the goodwill and the brand name are derived from the relevant cash generating unit and thus exist as long as that unit exists. The customer base is amortised over a period of five years.

37 | Property, plant and equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost of acquisition			
As at 1.1.2010	**229**	**137**	**366**
Exchange rate changes	5	3	8
Changes in the basis of consolidation	–	–	–
Additions	4	23	27
Transfers	0	0	–
Disposals	0	14	14
As at 31.12.2010	**238**	**149**	**387**
Depreciation			
As at 1.1.2010	**53**	**93**	**146**
Exchange rate changes	1	2	3
Changes in the basis of consolidation	–	–	–
Additions	10	19	29
Transfers	–	–	–
Disposals	0	9	9
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2010	**64**	**105**	**169**
Carrying amount 31.12.2010	**174**	**44**	**218**
Carrying amount 1.1.2010	**176**	**44**	**220**

€ million	Land and buildings	Operating and office equipment	Total
Cost of acquisition			
As at 1.1.2011	**238**	**149**	**387**
Exchange rate changes	1	–1	0
Changes in the basis of consolidation	0	0	0
Additions	21	28	49
Transfers	0	0	–
Disposals	2	11	13
As at 31.12.2011	**258**	**165**	**423**
Depreciation			
As at 1.1.2011	**64**	**105**	**169**
Exchange rate changes	0	–1	–1
Changes in the basis of consolidation	0	0	0
Additions	7	18	25
Transfers	–	–	–
Disposals	0	6	6
Write-ups	–	–	–
Write-downs	2	–	2
As at 31.12.2011	**73**	**116**	**189**
Carrying amount 31.12.2011	**185**	**49**	**234**
Carrying amount 1.1.2011	**174**	**44**	**218**

Land and buildings include plant under construction with a carrying amount of € 2 million (previous year: € 3 million).

38 | Leased assets

€ million	Movable leased assets	Investment property	Total
Cost of acquisition			
As at 1.1.2010	**4,680**	**17**	**4,697**
Exchange rate changes	48	2	50
Changes in the basis of consolidation	–	–	–
Additions	5,020	0	5,020
Transfers	–	–	–
Disposals	3,424	–	3,424
As at 31.12.2010	**6,324**	**19**	**6,343**
Depreciation			
As at 1.1.2010	**1,014**	**8**	**1,022**
Exchange rate changes	10	1	11
Changes in the basis of consolidation	–	–	–
Additions	854	1	855
Transfers	–	–	–
Disposals	607	–	607
Write-ups	6	–	6
Write-downs	85	–	85
As at 31.12.2010	**1,350**	**10**	**1,360**
Carrying amount 31.12.2010	**4,974**	**9**	**4,983**
Carrying amount 1.1.2010	**3,666**	**9**	**3,675**

€ million	Movable leased assets	Investment property	Total
Cost of acquisition			
As at 1.1.2011	**6,324**	**19**	**6,343**
Exchange rate changes	35	1	36
Changes in the basis of consolidation	–	–	–
Additions	6,887	2	6,889
Transfers	–	–	–
Disposals	5,056	2	5,058
As at 31.12.2011	**8,190**	**20**	**8,210**
Depreciation			
As at 1.1.2011	**1,350**	**10**	**1,360**
Exchange rate changes	7	0	7
Changes in the basis of consolidation	–	–	–
Additions	1,125	1	1,126
Transfers	–	–	–
Disposals	737	1	738
Write-ups	7	–	7
Write-downs	70	–	70
As at 31.12.2011	**1,808**	**10**	**1,818**
Carrying amount 31.12.2011	**6,382**	**10**	**6,392**
Carrying amount 1.1.2011	**4,974**	**9**	**4,983**

The fair value of investment property amounts to € 10 million. Operating costs of € 3 million (previous year: € 3 million) were incurred for maintaining investment property.

We expect payments of € 56 million in 2012 and € 54 million between 2013 and 2016 from the non-cancellable leasing and rental contracts.

39 | Deferred tax assets

The deferred tax assets consist exclusively of deferred income tax assets, which are subdivided as follows:

€ million	31.12.2011	31.12.2010
Deferred taxation	4,731	4,230
of which non-current	2,518	2,751
Capitalised benefits from unused tax losses carried forward	45	106
of which non-current	45	102
Netting (with deferred tax liabilities)	– 4,474	– 4,232
Total	**302**	**104**

Tax accruals are recognised in connection with the following balance sheet items:

€ million	31.12.2011	31.12.2010
Property, plant and equipment/intangible assets	19	23
Leased assets	3,285	2,933
Other financial assets	0	326
Receivables and other assets	99	288
Cash and cash equivalents, and securities	941	249
Liabilities and provisions	387	411
Total	**4,731**	**4,230**

40 | Other assets

Other assets concern the following items:

€ million	31.12.2011	31.12.2010
Underwriting provisions attributable to reinsurance companies	126	129
Receivables from other taxes	110	133
Prepaid expenses	170	74
Vehicles taken back for resale	292	111
Miscellaneous	322	326
Total	**1,020**	**773**

The underwriting provisions attributable to reinsurance companies break down as follows:

€ million	31.12.2011	31.12.2010
Provisions for unsettled claims attributable to reinsurance companies	117	116
Provisions for deferred premiums attributable to reinsurance companies	8	11
Other underwriting provisions attributable to reinsurance companies	1	2
Total	**126**	**129**

41 | Non-current assets

€ million	31.12.2011	of which non-current	31.12.2010	of which non-current
Cash reserve	352	–	193	–
Receivables from financial institutions	3,109	13	975	–
Receivables from customers	61,559	32,326	55,122	28,245
Derivative financial instruments	709	539	637	476
Securities	897	–	125	–
Joint ventures accounted for using the equity method	1,795	1,795	1,707	1,707
Other financial assets	362	362	265	265
Intangible assets	83	83	95	95
Property, plant and equipment	234	234	218	218
Leased assets	6,382	4,938	4,974	3,964
Investment property	10	10	9	9
Deferred tax assets	302	302	104	104
Income tax assets	132	17	135	5
Other assets	1,020	204	773	134
Total	**76,946**	**40,823**	**65,332**	**35,222**

42 | Liabilities to financial institutions and customers

The liabilities to financial institutions and customers are all unsecuritised.

The securitised liabilities are shown separately.

To meet part of the capital requirements of the leasing and financing activities, the VW FS AG companies take advantage of the funds made available by the Volkswagen Group companies.

The drawing of funds, which is shown as unsecuritised liabilities to customers, amounts to € 4,884 million (previous year: € 5,054 million) in liabilities to affiliated companies – of which € 2,455 million (previous year: € 3,445 million) is attributable to the sole shareholder, Volkswagen AG.

The liabilities to customers contain € 23,795 million in customer deposits (previous year: € 20,129 million). They mainly comprise overnight and fixed-term deposits as well as various savings certificates and plans of Volkswagen Bank GmbH. Relative to the term, the "Direkt" savings plan and the "Plus Sparbrief" have the longest investment horizon. The maximum term is ten years.

Portions of the liabilities to customers are hedged in a portfolio hedge against fluctuations of the risk-free base rate.

The non-current portion of liabilities to financial institutions amounts to € 3,759 million (previous year: € 3,024 million). The non-current portion of liabilities to customers amounts to € 4,840 million (previous year: € 5,594 million).

The reconciliation from the balance sheet figures is as follows:

€ million	31.12.2011	31.12.2010
Liabilities to customers	**29,739**	**25,983**
Market value adjustment from portfolio hedging	6	–1
Liabilities to customers less market value adjustment from portfolio hedging	29,733	25,984

43 | Securitised liabilities

Debentures and money market papers (commercial paper) are shown as securitised liabilities.

€ million	31.12.2011	31.12.2010
Debentures issued	23,156	17,417
Money market papers issued	3,077	3,188
Total	**26,233**	**20,605**

The VW FS AG Group utilises ABS transactions, in addition to the options mentioned above, for the purpose of refinancing. At year's end, the associated liabilities contained in the debentures issued amounted to € 5,181 million (previous year: € 3,740 million), those in the liabilities to financial institutions amounted to € 309 million (previous year: € 121 million), those in the liabilities to customers amounted to 1,526 million (previous year: € 1,046 million) and those in the subordinated liabilities amounted to € 1,186 million (previous year: € 752 million). Receivables in the amount of € 8,005 million (previous year: € 6,350 million) arising from retail financing and the leasing business serve as security. This entails assigning the anticipated payments to single purpose entities and transferring the vehicles financed as collateral. Given the IFRS requirement that special purpose entities must be consolidated, the assets and corresponding liabilities are continued to be recognised at VW FS AG.

The majority of public and private ABS transactions of the Volkswagen Financial Services AG Group may be subject to early repayment (so-called clean-up call) if less than 9 % of the original transaction volume is outstanding. The ABS transactions of Volkswagen Financial Services UK (Ltd.) are amortised until all liabilities have been extinguished.

The non-current portion of securitised liabilities amounts to € 15,486 million (previous year: € 10,954 million).

44 | Derivative financial instruments

This item contains the negative market values from hedging transactions and from derivatives that are not hedges; it is made up as follows:

€ million	31.12.2011	31.12.2010
Obligations from hedging transactions	233	197
Fair value hedges on assets (currency risk)	8	5
Fair value hedges on liabilities (currency risk)	8	0
Fair value hedges (interest rate risk)	41	29
Portfolio fair value hedges (interest rate risk)	89	65
Cash flow hedges on interest payments (currency risk)	71	63
Cash flow hedges (interest rate risk)	16	35
Obligations from derivatives that are not hedges	133	139
Total	**366**	**336**

The non-current portion of derivative financial instruments amounts to € 221 million (previous year: € 172 million).

45 | Provisions

The provisions break down as follows:

€ million	31.12.2011	31.12.2010
Provisions for pensions and similar obligations	181	164
Underwriting provisions	230	184
Other provisions	736	589
Total	**1,147**	**937**

The provisions for pensions and similar obligations are provisions for the obligations to provide company retirement pensions on the basis of direct pension commitments. The type and amount of pensions for employees entitled to a company pension are governed by the relevant pension rules applicable at the inception of the employment contract (including pension guidelines, pension regulations, defined contribution pension plans and pension commitments based on individual contracts). According to these rules, pensions are paid after entering retirement either when the age limit is reached or prematurely in the event of invalidity or death.

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

The following amounts were recognised for defined benefit plans in the balance sheet:

€ million	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Present value of funded obligations	112	103	88	65	74
Fair value of plan assets	114	104	87	68	75
Surplus/deficit	**–2**	**–1**	**1**	**–3**	**–1**
Present value of unfunded obligations	180	163	139	124	121
Net liability recognised in the balance sheet	**178**	**162**	**140**	**121**	**120**

The net liability recognised in the balance sheet is contained in the following items:

€ million	31.12.2011	31.12.2010
Pension provisions	181	164
Other assets	3	2
Net liability recognised in the balance sheet	**178**	**162**

The pension provisions essentially concern pension commitments of German companies. The present value of the commitments developed as follows:

€ million	2011	2010	2009	2008	2007
Present value of obligations as at 1.1.	**266**	**227**	**188**	**195**	**193**
Changes in the basis of consolidation	–	–	–	–	8
Current service cost	12	10	9	9	9
Interest on obligation	14	13	11	11	10
Actuarial gains and losses (recognised in equity)	8	18	16	–14	–17
Employee contributions to the fund	1	1	1	1	1
Pension payments out of company assets	4	3	3	3	3
Pension payments out of the fund	2	1	1	3	1
Other changes	–1	–2	2	0	–3
Currency differences from foreign plans	–1	3	4	–8	–2
Present value of obligations as at 31.12.	**293**	**266**	**227**	**188**	**195**

The development of the plan assets is shown in the following table:

€ million	2011	2010	2009	2008	2007
Fair value of plan assets as at 1.1.	**104**	**87**	**68**	**75**	**58**
Changes in the basis of consolidation	–	–	–	–	9
Expected return on plan assets	6	5	4	5	4
Actuarial gains and losses (recognised in equity)	–2	1	3	–7	1
Employer contributions to the fund	9	7	7	6	6
Employee contributions to the fund	1	1	1	1	1
Pension payments out of the fund	1	1	1	3	1
Other changes	–1	0	1	–1	–1
Currency differences from foreign plans	–1	3	4	–8	–2
Fair value of the plan assets as at 31.12.	**115**	**104**	**87**	**68**	**75**

The actual return on plan assets amounted to € 4 million (previous year: € 5 million).

The interest rate for the expected long-term returns of the fund assets is based on the portfolio's actual income generated over the long term, on historical total market returns and on forecasts regarding the likely returns of the classes of securities the portfolios contain (shares and fixed-interest securities). These forecasts are based on expected returns for comparable pension funds during the respective employee's remaining years of service as an investment horizon, as well as on the experience of major portfolio managers and investment experts. In the next financial year, the Company expects a return from plan assets of € 6 million (previous year: € 6 million), employer contributions to the fund of € 11 million (previous year: € 9 million) and service cost of € 10 million (previous year: € 9 million).

The fund assets comprise the following components:

%	2011	2010	2009	2008	2007
Shares	22	24	25	15	28
Fixed-income securities	65	59	59	61	60
Cash	3	6	5	18	4
Property	2	3	3	1	2
Other	8	8	8	5	6

The following amounts were recognised in the income statement:

€ million	2011	2010
Current service cost	– 12	– 10
Interest on obligation	– 14	– 13
Expected return on plan assets	6	5
Past service cost	–	–
Total amount shown under staff costs	**– 20**	**– 18**

The net liability recognised in the balance sheet changed as follows:

€ million	2011	2010
Net liability at 1.1.	**162**	**140**
Net expense in the income statement	20	18
Pension benefits and fund allocations paid	13	14
Actuarial gains and losses (recognised in equity)	10	18
Other changes	1	0
Currency differences from foreign plans	0	0
Net liability at 31.12.	**178**	**162**

The following table shows the difference between the expected and actual development of obligations and plan assets:

	2011	2010	2009	2008	2007
Differences between expected and actual development					
in % of the present value of obligations	– 1.42	1.12	1.42	2	– 1.89
in % of the fair value of plan assets	– 2.10	0.92	2.41	– 7.52	0.86

Underwriting provisions developed as follows:

€ million	UNDERWRITING PROVISIONS Provisions for unsettled insurance claims	Provision for deferred premiums	Other underwriting provisions
As at 1.1.2010	**121**	**35**	**2**
Changes in the basis of consolidation	–	–	–
Use	54	–	–
Addition	65	15	0
Other changes	–	–	–
As at 31.12.2010	**132**	**50**	**2**

€ million	UNDERWRITING PROVISIONS Provisions for unsettled insurance claims	Provision for deferred premiums	Other underwriting provisions
As at 1.1.2011	**132**	**50**	**2**
Changes in the basis of consolidation	–	–	–
Use	53	25	0
Addition	54	70	–
Other changes	–	–	–
As at 31.12.2011	**133**	**95**	**2**

Terms of the underwriting provisions:

€ million	31.12.2011 Residual term more than one year	Total	31.12.2010 Residual term more than one year	Total
Provisions for unsettled insurance claims	74	133	71	132
Provision for deferred premiums	45	95	25	50
Other underwriting provisions	–	2	–	2
Total	**119**	**230**	**96**	**184**

Underwriting provisions for the direct business:

€ million	2011 Residual term more than one year	Total	2010 Residual term more than one year	Total
As at 1.1.	**–**	**–**	**–**	**–**
Use	–	–	–	–
Addition	14	39	–	–
Other changes	–	–	–	–
As at 31.12.	**14**	**39**	**–**	**–**

Underwriting provisions for the direct business were set up exclusively for warranty insurance.

Development of the underwriting provisions for the reinsurance business by type:

€ million	2010 Vehicle insurance	Commercial insurance	Credit protection insurance	Total
As at 1.1.	**115**	**4**	**38**	**157**
Use	48	2	4	54
Addition	66	2	13	81
Other changes	–	–	–	–
As at 31.12.	**133**	**4**	**47**	**184**

€ million	2011 Vehicle insurance	Commercial insurance	Credit protection insurance	Total
As at 1.1.	**133**	**4**	**47**	**184**
Use	55	4	18	77
Addition	54	1	29	84
Other changes	–	–	–	–
As at 31.12.	**132**	**1**	**58**	**191**

Other provisions developed as follows:

€ million	OTHER PROVISIONS Human resources	Litigation costs	Other
As at 1.1.2010	**78**	**180**	**131**
Exchange rate changes	1	27	0
Changes in the basis of consolidation	–	–	–
Use	39	8	50
Reversal	14	9	39
Addition	76	82	163
Unwinding of discounts	–	9	1
As at 31.12.2010	**102**	**281**	**206**

€ million	OTHER PROVISIONS Human resources	Litigation costs	Other
As at 1.1.2011	**102**	**281**	**206**
Exchange rate changes	0	– 23	0
Changes in the basis of consolidation	–	–	0
Use	59	33	12
Reversal	13	23	70
Addition	90	56	219
Unwinding of discounts	–	14	1
As at 31.12.2011	**120**	**272**	**344**

The provisions in human resources include, in particular, one-off annual payments, payments on account of staff anniversaries of company service and other costs of the workforce. The other provisions also contain € 45 million (previous year: € 64 million) in provisions for indirect default risks.

Terms of the other provisions:

€ million	31.12.2011 Residual term more than one year	31.12.2011 Total	31.12.2010 Residual term more than one year	31.12.2010 Total
Human resources	30	120	24	102
Provisions for litigation costs	271	272	269	281
Other	107	344	65	206
Total	**408**	**736**	**358**	**589**

The expected outflow of payments is as follows: 44 % in the following year, 53 % in the years 2013 to 2016 and 3 % thereafter.

46 | Deferred tax liabilities

The deferred tax liabilities break down as follows:

€ million	31.12.2011	31.12.2010
Deferred income tax obligations	4,987	4,774
of which non-current	2,863	2,996
Netting (with deferred tax assets)	–4,474	–4,232
Total	**513**	**542**

The deferred income tax obligations contain taxes from temporary differences between measurements in accordance with IFRS and amounts arising from the determination of Group companies' taxable earnings.
Deferred income tax obligations were recognised in connection with the following balance sheet items:

€ million	31.12.2011	31.12.2010
Receivables and other assets	4,408	4,270
Property, plant and equipment/intangible assets	62	36
Leased assets	366	283
Cash and securities	70	25
Liabilities, grants and provisions	81	160
Total	**4,987**	**4,774**

47 | Other liabilities

Other liabilities concern the following items:

€ million	31.12.2011	31.12.2010
Deferred income	370	249
Liabilities from other taxes	214	201
Liabilities within the framework of social security and the wage and salary settlement	37	32
Other	368	328
Total	**989**	**810**

A total of € 8 million (previous year: € 8 million) of the other liabilities shown in the consolidated financial statements are secured through charges on property.

The non-current portion of the other liabilities amounts to € 295 million (previous year: € 237 million).

48 | Subordinated capital

The subordinated capital is issued and raised by Volkswagen Bank GmbH, Volkswagen Leasing GmbH, Volkswagen Financial Services (UK) Ltd., Banco Volkswagen S.A. as well as VW FS AG and is divided as follows:

€ million	31.12.2011	31.12.2010
Subordinated liabilities	2,586	1,624
of which: due within two years	1,042	616
Participation right liabilities	91	101
of which: due within two years	91	101
Total	**2,677**	**1,725**

The subordinated liabilities to affiliated companies amount to € 2,220 million (previous year: € 1,076 million). The participating certificates issued amount to a nominal € 1 million (previous year: € 1 million) in relation to the sole shareholder, Volkswagen AG, and a nominal € 89 million (previous year: € 89 million) in relation to non-Group third parties.

The non-current portion of subordinated capital amounts to € 1,907 million (previous year: € 1,292 million).

49 | Equity

The subscribed capital of VW FS AG is divided into 441,280,000 fully paid-up no-par bearer shares with a nominal value of € 1 each, all of which are held by Volkswagen AG, Wolfsburg. Neither preferential rights nor limitations arise from the subscribed capital.

The capital reserve of VW FS AG includes the capital contributions of Volkswagen AG, the company's sole shareholder.

Retained earnings include undistributed profits from prior years. The retained earnings contain a legal reserve of € 44 million (previous year: € 44 million).

VW FS AG's profit of € 512 million based on its HGB single-entity financial statements (previous year: € 810 million) was transferred to Volkswagen AG, the company's sole shareholder, under its existing control and profit transfer agreement.

50 | Capital management

Capital in this connection generally refers to equity as defined in the IFRS. VW FS AG‘s capital management serves to support the company's rating through adequate capitalisation, raise equity for funding its growth targets in the following financial year and fulfil regulatory requirements regarding capital adequacy.

Liable capital under regulatory requirements is distinguished from equity under IFRS (cf. item 49 for its components).

Liable capital comprises the so-called core capital and the supplementary capital (subordinated liabilities, participation right liabilities) net of certain deductible items and must satisfy specific legal requirements.

Capital measures by the parent company of VW FS AG affect both equity under IFRS and the liable capital.

Under banking regulations (German Banking Act, Solvency Regulation), the bank regulatory authorities generally assume that the capitalisation is adequate if the companies subject to banking supervision show a consolidated core capital ratio of at least 4.0 % and consolidated regulatory capital and overall ratios, respectively, of at least 8.0 %. In determining these ratios, the regulatory equity is considered in relation to the multiples determined in accordance with statutory requirements relative to credit risks, operational risks and market risk positions. A planning procedure that is integrated into the internal reporting system was established in order to ensure compliance at all times with these capital adequacy requirements; it serves to determine ongoing regulatory equity requirements based on the actual and expected development of business. As a result, compliance with the minimum capital requirements was ensured at all times during the reporting year on both the Group level and the level of individual companies that are subject to special capital adequacy requirements.

The resulting figures and financial ratios for the financial holding group are as follows:

	31.12.2011	31.12.2010
Aggregate risk position (in € million)	66,069	55,591
of which weighted position according to the standardised approach to credit risks	60,254	51,146
of which market risk positions * 12.5	2,452	2,020
of which operational risks * 12.5	3,363	2,425
Liable capital [1] (in € million)	6,694	5,851
of which core capital [2]	6,476	5,810
of which supplementary capital [2]	218	41
Own funds[1] (in € million)	6,694	5,851
Core capital ratio[3] (in %)	9.8	10.5
Overall ratio[4] (in %)	**10.1**	**10.5**

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

Notes to the financial instruments

51 | Carrying amounts of financial instruments under the measurement categories specified in IAS 39

The VW FS AG Group has defined the measurement categories under IAS 39 as follows:

Loans and receivables are non-derivative financial instruments that are not traded on active markets and are subject to fixed payment agreements. The cash reserve is also included in this category.

Financial assets or liabilities measured at fair value and recognised in income include derivative financial instruments. The VW FS AG Group does not plan on allocating other financial instruments to this category.

Available-for-sale financial assets are either allocated specifically to this category or they are not allocated to any other category. Securities and other assets are included in this category at the VW FS AG Group.

All non-derivative financial instruments are recognised as of the settlement date. The derivative financial instruments are recognised as of the trading date.

The carrying amounts of the financial instruments pursuant to the measurement categories are as follows:

€ million	LOANS AND RECEIVABLES 31.12.2011	LOANS AND RECEIVABLES 31.12.2010	AVAILABLE-FOR-SALE FINANCIAL ASSETS 31.12.2011	AVAILABLE-FOR-SALE FINANCIAL ASSETS 31.12.2010	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST 31.12.2011	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST 31.12.2010	FINANCIAL ASSETS OR LIABILITIES MEASURED AT FAIR VALUE AND RECOGNISED IN INCOME 31.12.2011	FINANCIAL ASSETS OR LIABILITIES MEASURED AT FAIR VALUE AND RECOGNISED IN INCOME 31.12.2010
Assets								
Cash reserve	352	193	–	–	–	–	–	–
Receivables from financial institutions	3,109	975	–	–	–	–	–	–
Receivables from customers	47,307	41,479	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	169	182
Securities	–	–	897	125	–	–	–	–
Other financial assets	–	–	362	265	–	–	–	–
Other assets	234	244	–	–	–	–	–	–
Total	**51,002**	**42,891**	**1,259**	**390**	**–**	**–**	**169**	**182**
Liabilities								
Liabilities to financial institutions	–	–	–	–	7,337	7,284	–	–
Liabilities to customers	–	–	–	–	29,739	25,983	–	–
Securitised liabilities	–	–	–	–	26,233	20,605	–	–
Derivative financial instruments	–	–	–	–	–	–	133	139
Other liabilities	–	–	–	–	247	175	–	–
Subordinated capital	–	–	–	–	2,677	1,725	–	–
Total	**–**	**–**	**–**	**–**	**66,233**	**55,772**	**133**	**139**

Receivables from leasing business are not allocated to any category.
The net results of these categories were as follows:

€ million	2011	2010
Loans and receivables	2,862	2,369
Available-for-sale financial assets	23	3
Financial liabilities measured at amortised cost	–2,061	–1,839
Assets or financial liabilities measured at fair value and recognised in income	40	136

The results are determined as follows:

Measurement category	Measurement method
Loans and receivables	Interest income pursuant to the effective interest rate method in accordance with IAS 39 and expenses/income resulting from value adjustments in accordance with IAS 39 including effects from currency translation
Available-for-sale financial assets	Measurement at market value in accordance with IAS 39 including effects from currency translation
Financial liabilities measured at amortised cost	Interest expense pursuant to the effective interest rate method in accordance with IAS 39 including effects from currency translation
Assets or financial liabilities measured at fair value and recognised in income	Measurement at market value in accordance with IAS 39 including interest and effects from currency translation

52 | Classes of financial instruments

Financial instruments are classed as follows in the VW FS AG Group:
– Measured at fair value
– Assets measured at amortised cost
– Hedge accounting
– Other financial assets
– Liabilities measured at amortised cost
– Credit commitments
– Not subject to IFRS 7

Any reconciliation of the affected balance sheet items with the aforementioned classes follows from the following description:

	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTISED COST		HEDGE ACCOUNTING		OTHER FINANCIAL ASSETS		NOT SUBJECT TO IFRS 7	
€ million	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Assets												
Cash reserve	352	193	–	–	352	193	–	–	–	–	–	–
Receivables from financial institutions	3,109	975	–	–	3,109	975	–	–	–	–	–	–
Receivables from customers	61,559	55,122	–	–	50,521	48,755	11,038	6,367	–	–	–	–
Derivative financial instruments	709	637	169	182	–	–	540	455	–	–	–	–
Securities	897	125	897	125	–	–	–	–	–	–	–	–
Joint ventures accounted for using the equity method	1,795	1,707	–	–	–	–	–	–	–	–	1,795	1,707
Other financial assets	362	265	–	–	–	–	–	–	362	265	–	–
Other assets	1,020	773	–	–	234	244	–	–	–	–	786	529
Total	**69,803**	**59,797**	**1,066**	**307**	**54,216**	**50,167**	**11,578**	**6,822**	**362**	**265**	**2,581**	**2,236**
Liabilities												
Liabilities to financial institutions	7,337	7,284	–	–	7,337	7,284	–	–	–	–	–	–
Liabilities to customers	29,739	25,983	–	–	27,545	23,754	2,193	2,229	–	–	–	–
Securitised liabilities	26,233	20,605	–	–	26,233	20,605	–	–	–	–	–	–
Derivative financial instruments	366	336	133	139	–	–	233	197	–	–	–	–
Other liabilities	989	810	–	–	247	175	–	–	–	–	742	635
Subordinated capital	2,677	1,725	–	–	2,677	1,725	–	–	–	–	–	–
Total	**67,341**	**56,743**	**133**	**139**	**64,039**	**53,543**	**2,426**	**2,426**	**–**	**–**	**742**	**635**
Credit commitments	**3,549**	**2,821**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

53 | Measurement levels of the financial instruments measured at fair value

According to IFRS 7.27, the financial instruments that have been measured at fair value must be classified within a three-level fair value hierarchy. As such, classification within the individual levels is contingent on the availability of observable market prices.

The fair values of financial instruments, e.g. securities, for which a market price is directly observable are classified in Level 1.

Level 2 contains fair values determined on the basis of foreign exchange rates or interest rate curves using measurement methods relevant to the respective market. This concerns derivatives in particular.

Level 3 contains fair values that are determined using measurement methods that do not take directly observable factors in an active market into account.

The fair value of the other financial instruments corresponds to their carrying amount because there is no active market and because it is impossible to reliably determine the relevant fair value at a reasonable cost.

The following table shows how the financial instruments measured at fair value are categorised in this three level class hierarchy.

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	31.12. 2011	31.12. 2010	31.12. 2011	31.12. 2010	31.12. 2011	31.12. 2010
Assets						
Measured at fair value						
Derivative financial instruments	–	–	169	182	–	–
Securities	889	114	8	11	–	–
Hedge accounting						
Derivative financial instruments	–	–	540	455	–	–
Total	**889**	**114**	**717**	**648**	**–**	**–**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	133	139	–	–
Hedge accounting						
Derivative financial instruments	–	–	233	197	–	–
Total	**–**	**–**	**366**	**336**	**–**	**–**

54 | Fair value of financial instruments classed as follows: Assets or liabilities measured at amortised cost, Measured at fair value, Hedge accounting, and Other financial assets

The fair values of the financial instruments are shown in the following table. The fair value is the amount for which financial instruments can be sold or bought on fair terms on the balance sheet date. Market prices were applied wherever available (e.g. in connection with securities) for measurement purposes. Absent market prices, the fair values of receivables and liabilities are determined based on discounting, taking customary market interest rates adequate to the relevant risk and corresponding to the relevant maturity into account; i.e. risk-free interest rate curves were adjusted for the relevant risk factors as well as equity and administrative costs as necessary. The fair value of receivables and liabilities with a residual term of less than one year was taken to be the balance sheet value on grounds of materiality.

Likewise, no fair value is determined for the miscellaneous financial assets because there is no active market for the companies contained therein and because it is impossible to reliably determine the relevant fair value at a reasonable cost. There were no plans at the balance sheet date to dispose of these financial assets.

The fair value of the irrevocable credit commitments is zero due to their short-term nature and the variable interest rate that is tied to the market interest rate.

	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
€ million	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Assets						
Measured at fair value						
Derivative financial instruments	169	182	169	182	–	–
Securities	897	125	897	125	–	–
Measured at amortised cost						
Cash reserve	352	193	352	193	–	–
Receivables from financial institutions	3,109	975	3,109	975	–	–
Receivables from customers	51,384	48,558	50,521	48,755	863	–197
Other assets	234	244	234	244	–	–
Hedge accounting						
Receivables from customers	11,038	6,367	11,038	6,367	–	–
Derivative financial instruments	540	455	540	455	–	–
Other financial assets	362	265	362	265	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	133	139	133	139	–	–
Measured at amortised cost						
Liabilities to financial institutions	7,339	7,271	7,337	7,284	2	–13
Liabilities to customers	27,549	23,866	27,546	23,754	3	112
Securitised liabilities	26,329	21,263	26,233	20,605	96	658
Other liabilities	245	175	247	175	–2	–
Subordinated capital	2,765	1,789	2,677	1,725	88	64
Hedge accounting						
Liabilities to customers	2,193	2,229	2,193	2,229	–	–
Derivative financial instruments	233	197	233	197	–	–

The determination of the financial instruments' fair value was based on the following risk-free interest rate curves:

%	EUR	USD	GBP	JPY	BRL	MXN	SEK	CZK	AUD
Interest for six months	1,617	0,809	1,376	0,336	10,050	4,560	2,730	1,450	4,716
Interest for one year	1,947	1,128	1,871	0,554	10,020	4,630	2,900	1,730	4,884
Interest for five years	1,738	1,256	1,562	0,473	10,870	5,490	1,955	1,640	4,300
Interest for ten years	2,393	2,040	2,294	0,982	–	6,510	2,290	2,150	4,575

55 | Risk of counterparty default

Please see the risk report contained in the management report for the relevant qualitative representations.

The credit and default risk from financial assets consists of the risk of non-payment by a contracting party and thus no more than the amount of the claims against the respective counterparty based on recognised carrying amounts as well as the irrevocable credit commitments. The maximum credit and default risk is reduced through the collateral held and other credit enhancements in the amount of € 43,622 million (previous year: € 40,952 million). This concerns collateral held for receivables from customers classified as assets measured at amortised cost and hedge accounting. Vehicles and security assignments as well as surety agreements and charges on property are used as collateral.

The following table shows the quality of the financial assets:

€ million	GROSS CARRYING AMOUNT 31.12.2011	GROSS CARRYING AMOUNT 31.12.2010	NEITHER PAST DUE NOR IMPAIRED 31.12.2011	NEITHER PAST DUE NOR IMPAIRED 31.12.2010	PAST DUE AND NOT IMPAIRED 31.12.2011	PAST DUE AND NOT IMPAIRED 31.12.2010	IMPAIRED 31.12.2011	IMPAIRED 31.12.2010
Measured at fair value	1,066	307	1,066	307	–	–	–	–
Measured at amortised cost								
Cash reserve	352	193	352	193	–	–	–	–
Receivables from financial institutions	3,109	975	3,109	975	–	–	–	–
Receivables from customers	51,992	50,256	48,707	47,037	1,287	1,051	1,998	2,168
Other assets	234	244	233	244	1	0	0	–
Hedge accounting								
Receivables from customers	11,348	6,503	10,798	6,171	304	156	246	176
Derivative financial instruments	540	455	540	455	–	–	–	–
Other financial assets	362	265	362	265	–	–	–	–
Total	**69,003**	**59,198**	**65,167**	**55,647**	**1,592**	**1,207**	**2,244**	**2,344**

In the 2011 financial year, € 2 million in individual value adjustments (previous year: none) on securities measured at fair value were recognised.

These assets are measured in accordance with IAS 39, as already described in items (8) and (9). Financial assets that are neither past due nor impaired are allocated to risk classes as follows:

€ million	NEITHER PAST DUE NOR IMPAIRED		RISK CLASS 1		RISK CLASS 2	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Measured at fair value	1,066	307	1,066	307	–	–
Measured at amortised cost						
Cash reserve	352	193	352	193	–	–
Receivables from financial institutions	3,109	975	3,109	975	–	–
Receivables from customers	48,707	47,037	42,746	41,167	5,961	5,870
Other assets	233	244	230	244	3	0
Hedge accounting						
Receivables from customers	10,798	6,171	8,810	5,217	1,988	954
Derivative financial instruments	540	455	540	455	–	–
Other financial assets	362	265	362	265		–
Total	**65,167**	**55,647**	**57,215**	**48,823**	**7,952**	**6,824**

In the financial services business, a borrower's credit rating is assessed in connection with all loans and leases. Scoring systems are utilised to this end in the volume business while rating systems are used in connection with fleet customers and receivables from wholesale financing. All receivables rated "good" in that process are assigned to risk class 1. Receivables from customers whose credit rating is not considered good but who have not yet defaulted are contained in risk class 2.

Age analysis according to classes of financial assets that are past due but not impaired:

€ million	Past due and not impaired		PAST DUE WITHIN THE FOLLOWING PERIODS					
			up to 1 month		1 to 3 months		more than 3 months	
	31.12. 2011	31.12. 2010	31.12. 2011	31.12. 2010	31.12. 2011	31.12. 2010	31.12. 2011	31.12. 2010
Measured at fair value	–	–	–	–	–	–	–	–
Measured at amortised cost								
Cash reserve	–	–	–	–	–	–	–	–
Receivables from financial institutions	–	–	–	–	–	–	–	–
Receivables from customers	1,287	1,051	938	736	349	315	–	–
Other assets	1	0	0	0	1	0	–	–
Hedge accounting								
Receivables from customers	304	156	158	82	146	74	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–	–	–
Total	**1,592**	**1,207**	**1,096**	**818**	**496**	**389**	**–**	**–**

Gross carrying amounts of impaired receivables:

€ million	31.12.2011	31.12.2010
Measured at fair value	–	–
Measured at amortised cost		
Cash reserve	–	–
Receivables from financial institutions	–	–
Receivables from customers	1,998	2,168
Other assets	0	–
Hedge accounting		
Receivables from customers	246	176
Derivative financial instruments	–	–
Other financial assets	–	–
Total	**2,244**	**2,344**

Collateral obtained in the financial year just ended for financial assets which are scheduled for disposal:

€ million	31.12.2011	31.12.2010
Vehicles	56	51
Property	–	–
Other movables	–	–
Total	**56**	**51**

Vehicle disposals are effected by means of direct sales and auctions to Volkswagen Group dealerships.

56 | Liquidity risk

In regards to our refinancing and hedging strategy, please see the management report.
The age analysis of financial assets held to manage the liquidity risk is as follows:

	ASSETS		PAYABLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS	
€ million	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash reserve	352	193	352	193	–	–	–	–	–	–
Receivables from financial institutions	3,109	975	1,474	525	1,622	424	–	26	13	–
Total	**3,461**	**1,168**	**1,826**	**718**	**1,622**	**424**	**–**	**26**	**13**	**–**

The age analysis of undiscounted cash outflows from financial liabilities is as follows:

€ million	CASH OUTFLOWS		REMAINING CONTRACTUAL MATURITY							
			up to 3 months		3 months to 1 year		1 to 5 years		more than 5 years	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Liabilities to financial institutions	7,953	8,870	1,748	2,363	1,989	3,011	4,170	3,446	46	50
Liabilities to customers	30,672	26,844	20,949	17,928	4,251	2,626	4,833	5,728	639	562
Securitised liabilities	27,413	21,829	4,934	3,957	6,837	5,932	14,868	11,940	774	–
Derivative financial instruments	6,313	5,438	2,262	2,224	2,428	1,440	1,622	1,774	1	0
Subordinated capital	3,592	1,849	581	323	239	152	1,665	1,060	1,107	314
Irrevocable credit commitments	3,549	2,821	72	0	3,361	2,821	116	0	–	–
Total	**79,492**	**67,651**	**30,546**	**26,795**	**19,105**	**15,982**	**27,274**	**23,948**	**2,567**	**926**

57 | Market risk

Please see the risk report contained in the management report for the relevant qualitative representations.

The value-at-risk (VaR) method based on historical simulation is used for quantitative measurements of the interest and currency translation risks. The VaR indicates the scope of a possible loss in the overall portfolio with a 99 % probability of occurring within a 40-day period. It requires an interest rate gap analysis that shows all cash flows resulting from original and derivative financial instruments. The historical market data used to determine the VaR comprise the 1,000 most recent trade dates.

This yields the following figures:

€ million	31.12.2011	31.12.2010
Interest rate risk	116	157
Currency translation risk	84	84
Total market price risk	**141**	**130**

58 | Foreign currency items

In the VW FS AG Group the following assets and liabilities are contained in the currencies shown as at 31.12.2011:

€ million	BRL	GBP	JPY	SEK	AUD	MXN	CZK	Other	Total
Receivables from financial institutions	351	138	25	112	25	31	0	1	683
Receivables from customers	8,424	5,767	1,769	1,641	1,539	897	730	1,035	21,802
Assets	**8,775**	**5,905**	**1,794**	**1,753**	**1,564**	**928**	**730**	**1,036**	**22,485**
Liabilities to financial institutions	5,181	249	700	8	142	139	435	41	6,895
Liabilities to customers	1,310	1,881	104	104	16	167	37	0	3,619
Securitised liabilities	–	2	947	982	1,142	482	28	9	3,592
Subordinated capital	525	538	–	–	–	–	–	–	1,063
Liabilities	**7,016**	**2,670**	**1,751**	**1,094**	**1,300**	**788**	**500**	**50**	**15,169**

59 | Notes to the hedging policy

HEDGING POLICY AND FINANCIAL DERIVATIVES

On account of its activities in international financial markets, the VW FS AG Group is affected by interest rate fluctuations on the international money and capital markets, while the exchange rate risk between foreign currencies and the euro plays a minor role. The general rules for the Groupwide foreign currency and interest rate hedging policy are laid down in Group-internal guidelines and fulfil the "Minimum requirements for risk management" issued by the Federal Financial Supervisory Authority (BAFin). National and international banks with excellent credit standing, whose creditworthiness is continuously scrutinised by rating firms, act as trading partners for the conclusion of appropriate financial transactions. To limit the currency and interest rate risks, appropriate hedging transactions are concluded. For this purpose, conventional derivative financial instruments are used.

MARKET PRICE RISK

A market price risk occurs when price changes on the financial markets (interest rates and exchange rates) have a positive or negative impact on the value of traded products. The market values shown in the tables were determined on the basis of the market information available on the balance sheet date, and they represent the present values of the financial derivatives. The present values were determined on the basis of standardised procedures or quoted prices.

INTEREST RATE RISK

Changes in interest rate levels on the money and capital markets constitute an interest rate risk in the case of refinancing not at matching maturities. Interest rate risks are managed on the basis of recommendations given by the Asset/Liability Management Committee (ALM Committee), which draws up risk-limiting requirements with regard to market risks and asset/liability management. The basis on which the resolutions of the ALM Committee are passed is provided by interest rate gap analyses which are subjected to various interest rate scenarios and thus quantify the interest rate risk, taking into account limits that are applied uniformly throughout the Group. The ALM Committee makes recommendations as strategic decision-making support for the respective interest rate policy orientation.

The interest rate hedging contracts concluded primarily contain interest rate swaps and combined interest rate/currency swaps. The company's interest hedging agreements comprise micro hedges and portfolio hedges. The portions of the assets or liabilities subject to fixed interest rates that were included in this hedging strategy are recognised at fair value in contrast to the original subsequent measurement (at amortised cost). The resulting effects in the income statement are compensated by the countervailing earnings effects of the interest rate hedges (swaps).

CURRENCY RISK

To avoid currency risks, currency hedging contracts consisting of forward exchange transactions and interest rate/currency swaps are used. All cash flows in foreign currency are hedged.

LIQUIDITY RISK/REFINANCING RISK

The VW FS AG Group makes provisions for securing against potential liquidity squeezes by maintaining confirmed credit lines at various commercial banks and by using multi-currency-capable continuous issuing programmes. In addition, securities deposited in Volkswagen Bank GmbH's operational safe custody account with Deutsche Bundesbank serve to secure the company's liquidity.

NON-PAYMENT RISK

The non-payment risk from financial assets consists of the risk of non-payment by a contracting party and therefore the maximum amount at risk is the balance vis-à-vis the respective counterparties.

As the transactions are only concluded with counterparties that have an excellent credit standing, and trading limits are set for each counterparty within the framework of risk management, the actual non-payment risk is considered to be small.

The VW FS AG Group is not subject to any particular risk concentration.

The nominal volumes of the derivative financial instruments are made up as follows:

	REMAINING CONTRACTUAL MATURITY					
	up to 1 year		1 to 5 years		more than 5 years	
€ million	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cash flow hedges						
Interest rate swaps	1,586	2,142	3,536	1,687	10	62
Cross-currency interest rate swaps	561	395	262	881	–	–
Currency futures contracts	1,543	1,274	186	182	–	–
Currency swaps	9	–	265	–	–	–
Other						
Interest rate swaps	15,058	13,614	22,821	19,366	906	31
Cross-currency interest rate swaps	983	247	1,376	606	–	0
Currency futures contracts	121	492	–	–	–	–
Currency swaps	1,089	816	10	1	–	–
Total	**20,950**	**18,980**	**28,456**	**22,723**	**916**	**93**

The periods related to future payments on the transactions underlying the cash flow hedges correspond to the maturity of the hedging transactions.

Cash flow hedges for which no underlying transaction is expected to occur in future were not recognised at the balance sheet date.

The effects of cash flow hedges realised in the reporting period are shown in interest expenses.

Segment reporting

60 | Division by geographical markets

The reportable segments pursuant to IFRS 8 based on the internal reporting structure of the VW FS AG Group are its geographical markets of Germany, Europe, North and South America as well as Asia Pacific. Foreign branches of German subsidiaries are included in the Europe segment. The Europe segment contains the subsidiaries and branches in the United Kingdom, Italy, France, the Czech Republic, Austria, the Netherlands, Belgium, Spain, Sweden, Ireland and Greece. The North and South America segment contains the subsidiaries in Mexico and Brazil. The Asia Pacific segment contains the subsidiaries in Australia and Japan.

The holding company, VW FS AG, and the holding and financing companies in the Netherlands and in Belgium are contained in the "Reconciliation" column. This presentation ensures a distinction between market performance and typical holding and financing functions in the internal reporting system.

The information made available to management for controlling purposes is based on the same accounting policies that are used in external accounting.

The performance of each individual segment is measured on the basis of the operating result and the pre-tax result.

The operating result includes the net income from lending, leasing and insurance transactions after provisions for risks, net commission income as well as general administration expenses and other operating income and expenses. Interest expense, general administration expenses and the other operating income and expenses that are not a component of the operating result essentially comprise interest income and expense from external tax audits, the cost of unwinding discounts for other provisions as well as interest expense for pension provisions and expected income from plan assets of externally financed pension obligations. Interest income not classified as revenue is interest income that is not attributable to the financial services business. It is not a component of the operating result.

Division by geographical markets 2010:

€ million	01.01. – 31.12.2010 Germany	Europe	North/ South America	Asia Pacific	Total seg-ments	Reconci-liation	Group
Revenue from lending transactions with third parties	1,289	607	914	126	2,936	12	2,948
Revenue from intersegment lending transactions	145	0	–	0	145	–145	–
Segment revenue from lending transactions	1,434	607	914	126	3,081	–133	2,948
Revenue from leasing and service transactions	3,671	2,023	154	7	5,855	–10	5,845
Premiums earned from insurance business	30	–	–	–	30	–	30
Commission income	280	77	40	3	400	0	400
Revenue	**5,415**	**2,707**	**1,108**	**136**	**9,366**	**–143**	**9,223**
Cost of sales from lending, leasing and service transactions	–2,149	–1,516	–6	–2	–3,673	–	–3,673
Write-ups on leased assets and investment property	–	6	–	–	6	–	6
Depreciation and impairment losses on leased assets and investment property	–654	–286	0	–1	–941	–	–941
of which impairment losses pursuant to IAS 36	–79	–6	–	–	–85	–	–85
Expenses from insurance business	–25	–	–	–	–25	–	–25
Interest expense (part of the operating result)	–1,021	–283	–565	–75	–1,944	113	–1,831
Provisions for risks arising from lending and leasing business	–296	–91	–223	–8	–618	–1	–619
Commission expenses	–197	–86	–27	–2	–312	4	–308
Result from financial instruments (part of the operating result)	–	–	–	–	–	1	1
General administration expenses (part of the operating result)	–675	–236	–144	–39	–1,094	0	–1,094
Other operating result (part of the operating result)	38	18	–14	2	44	–64	–20
Segment result (Operating result)	**436**	**233**	**129**	**11**	**809**	**–90**	**719**
Interest income not classified as revenue	3	1	0	0	4	0	4
Interest expense (not part of the operating result)	–4	–1	0	0	–5	–3	–8
Result from financial instruments (not part of the operating result)	72	0	2	0	74	–29	45
Result from available-for-sale assets	0	–	–	–	0	–	0
Result from joint ventures accounted for using the equity method	–	–	–	–	–	125	125
Result from other financial assets	9	–	–	–	9	–6	3
General administration expenses (not part of the operating result)	–2	0	0	0	–2	–5	–7
Other operating result (not part of the operating result)	–13	0	–9	–	–22	11	–11
Pre-tax result	**501**	**233**	**122**	**11**	**867**	**3**	**870**
Taxes on income and earnings	–163	–82	–30	–5	–280	33	–247
Net income	**338**	**151**	**92**	**6**	**587**	**36**	**623**
Segment assets	**32,310**	**14,169**	**8,668**	**2,644**	**57,791**	**302**	**58,093**
of which non-current	**18,615**	**7,542**	**4,143**	**1,486**	**31,786**	**–**	**31,786**
Segment liabilities	**36,407**	**12,509**	**7,607**	**2,584**	**59,107**	**–5,901**	**53,206**

Division by geographical markets 2011:

€ million	01.01. – 31.12.2011 Germany	Europe	North/ South America	Asia Pacific	Total seg- ments	Reconci- liation	Group
Revenue from lending transactions with third parties	1,240	732	1,090	156	3,218	25	3,243
Revenue from intersegment lending transactions	158	0	0	0	158	–158	–
Segment revenue from lending transactions	1,398	732	1,090	156	3,376	–133	3,243
Revenue from leasing and service transactions	4,636	2,875	132	7	7,650	–10	7,640
Premiums earned from insurance business	47	1	–	–	48	–	48
Commission income	282	108	48	3	441	0	441
Revenue	**6,363**	**3,716**	**1,270**	**166**	**11,515**	**–143**	**11,372**
Cost of sales from lending, leasing and service transactions	–2,973	–2,332	–10	–2	–5,317	–	–5,317
Write-ups on leased assets and investment property	6	1	–	–	7	–	7
Depreciation and impairment losses on leased assets and investment property	–862	–333	0	–1	–1,196	–	–1,196
of which impairment losses pursuant to IAS 36	–63	–7	–	–	–70	–	–70
Expenses from insurance business	–33	0	–	–	–33	0	–33
Interest expense (part of the operating result)	–1,012	–315	–675	–93	–2,095	112	–1,983
Provisions for risks arising from lending and leasing business	–228	–84	–195	–5	–512	–1	–513
Commission expenses	–142	–115	–32	–2	–291	3	–288
Result from financial instruments (part of the operating result)	–	–	–	–	–	3	3
General administration expenses (part of the operating result)	–712	–263	–164	–48	–1,187	–65	–1,252
Other operating result (part of the operating result)	–39	39	10	3	13	1	14
Segment result (Operating result)	**368**	**314**	**204**	**18**	**904**	**–90**	**814**
Interest income not classified as revenue	26	5	0	0	31	–4	27
Interest expense (not part of the operating result)	–1	0	0	0	–1	–1	–2
Result from financial instruments (not part of the operating result)	5	–4	–1	0	0	–25	–25
Result from available-for-sale assets	–2	–	–	–	–2	–	–2
Result from joint ventures accounted for using the equity method	–	–	–	–	–	132	132
Result from other financial assets	8	–	–	–	8	–	8
General administration expenses (not part of the operating result)	–3	0	0	0	–3	–4	–7
Other operating result (not part of the operating result)	1	0	–13	–	–12	–	–12
Pre-tax result	**402**	**315**	**190**	**18**	**925**	**8**	**933**
Taxes on income and earnings	–122	–86	–76	–8	–292	17	–275
Net income	**280**	**229**	**114**	**10**	**633**	**25**	**658**
Segment assets	**34,060**	**17,437**	**9,313**	**3,288**	**64,098**	**358**	**64,456**
of which non-current	**20,241**	**9,278**	**4,441**	**1,910**	**35,870**	**–**	**35,870**
Segment liabilities	**43,889**	**15,508**	**8,257**	**3,156**	**70,810**	**–7,174**	**63,636**

Reconciliation:

€ million	31.12.2011	31.12.2010
Total segment revenue	**11,515**	**9,366**
Not allocated	305	257
Consolidation	–448	–400
Consolidated revenue	**11,372**	**9,223**
Total segment result (Operating result)	**904**	**809**
Not allocated	–94	–89
Consolidation	4	–1
Consolidated operating result	**814**	**719**
Total segment result before taxes	**925**	**867**
Not allocated	861	1,168
Consolidation	–853	–1,165
Consolidated profit/loss before tax	**933**	**870**
Total segment assets	**64,098**	**57,791**
Not allocated	358	302
Consolidation	–	–
Consolidated assets acc. to segment reporting	**64,456**	**58,093**
Total segment liabilities	**70,810**	**59,107**
Not allocated	10,343	10,263
Consolidation	–17,517	–16,164
Consolidated liabilities acc. to segment reporting	**63,636**	**53,206**

All business transactions between the segments are carried out at normal market terms.

The consolidation in the revenue from lending transactions and interest expenses results from the granting of Group-internal refinancing funds between the geographical markets.

Information regarding the most important products (lending and leasing business) is contained in the income statement.

The additions to non-current leased assets amount to € 1,857 million (previous year: € 1,690 million) in Germany, € 914 million (previous year: € 740 million) in the Europe segment, € 1 million (previous year: none) in the North and South America segment and none (previous year: none) in the Asia Pacific segment. The investments in the other assets are of secondary importance.

In the internal reporting, items are combined. The following table shows the allocation of these items to the disclosures in the segment reporting:

€ million	31.12.2011	31.12.2010
Interest income from lending transactions	3,221	2,904
./. Interest income not classified as revenue	27	4
Net income from leasing transactions before provisions for risks	1,192	1,285
./. Expenses from leasing business and service contracts	−5,259	−3,624
./. Depreciation and impairment losses on leased assets and investment property	−1,196	−941
./. Write-ups on leased assets and investment property	7	6
Net income from insurance business	15	5
./. Expenses from insurance business	−33	−25
Commission income	441	400
Revenue included in the other operating result	49	49
Consolidated revenue	**11,372**	**9,223**
Net income from leasing transactions before provisions for risks	1,192	1,285
./. Income from leasing transactions and service contracts	7,647	5,850
./. Depreciation and impairment losses on leased assets and investment property	−1,196	−941
Cost of sales included in the other operating result	−58	−49
Consolidated cost of sales from lending, leasing and service transactions	**−5,317**	**−3,673**
Receivables from customers arising from		
Retail financing	33,261	30,505
Wholesale financing	10,412	8,828
Leasing business	14,252	13,643
Other receivables	3,634	2,146
of which not included in segment assets	−3,485	−2,003
Leased assets	6,382	4,974
Consolidated assets acc. to segment reporting	**64,456**	**58,093**
Liabilities to financial institutions	7,337	7,284
of which not included in segment liabilities	0	0
Liabilities to customers	29,739	25,983
of which not included in segment liabilities	−2,073	−2,137
Securitised liabilities	26,233	20,605
of which not included in segment liabilities	−277	−254
Subordinated capital	2,677	1,725
Consolidated liabilities acc. to segment reporting	**63,636**	**53,206**

Other notes

61 | Cash flow statement

The cash flow statement of the VW FS AG Group documents the change in funds available due to the cash flows resulting from operating activities, investing activities and financing activities. The cash flows resulting from investing activities comprise payments resulting from the purchase and proceeds resulting from the sale of investment property, subsidiaries and joint ventures and other assets. The financing activities comprise all the cash flows resulting from transactions with equity, subordinated capital and other financing activities. All other cash flows are assigned to operating activities, in accordance with international practice for financial services companies.

Cash and cash equivalents, narrowly defined, comprises only the cash reserve, which is made up of the cash in hand and deposits at central banks.

The changes to the balance sheet items applied for the development of the cash flow statement cannot be derived directly from the balance sheet, as effects from changes in the scope of consolidation are non-cash effects and are separated out.

In the previous year, the profit transfer to VW AG for 2010 was presented incorrectly in the cash flow statement. However, in 2010 the profit transfer for 2009 had an effect on cash. Correspondingly, the change in liabilities to customers was restated from € 2,889 million to € 2,557 million and the distribution/profit transfer to Volkswagen AG was restated from € – 810 million to € – 478 million. The totals shown in the rows "Cash flow from operating activities" and "Cash flow from financing activities" changed accordingly. As these changes do not affect the opening balance of the 2010 annual financial statements, this opening balance is not disclosed. This had no other effects on the consolidated financial statements.

62 | Off-balance sheet obligations

€ million	31.12.2011	31.12.2010
Contingent liabilities		
Liabilities from surety and warranty agreements	39	55
Other contingent liabilities	72	61
Other financial obligations		
Purchase obligations	28	–
Other	2	0
Other obligations		
Irrevocable credit commitments	3,549	2,821

A total of € 449 million (previous year: € 386 million) in fiduciary assets and liabilities of the savings and trust company belonging to the South American subsidiaries were not included in these consolidated financial statements.

The obligations under non-cancellable rental and leasing contracts in the VW FS AG Group trigger expenses of € 7 million (previous year: € 6 million) in the 2012 financial year, € 31 million (previous year: € 17 million) in the 2013 to 2016 financial years and € 17 million (previous year: € 15 million) in the financial years thereafter.

63 | Average number of employees during the financial year

	2011	2010
Salaried employees	7,033	6,579
Trainees	113	111
Total	**7,146**	**6,690**

64 | Related parties

Related parties and enterprises, as defined by IAS 24, are parties and enterprises which can be influenced by the reporting company or which can influence the reporting company.

Volkswagen AG, Wolfsburg, is the sole shareholder of VW FS AG.

The following must be said relative to Porsche:

With an equity stake of 50.73 %, Porsche Automobil Holding SE, Stuttgart, owned the majority of the voting shares in Volkswagen AG as at the balance sheet date. The extraordinary Annual General Meeting of Volkswagen AG on 3 December 2009 resolved to give the German state of Lower Saxony the right to appoint board members. Hence Porsche Automobil Holding SE can no longer appoint the majority of the members of Volkswagen AG's Supervisory Board as long as the state of Lower Saxony is holding at least 15 % of the ordinary shares. However, Porsche Automobil Holding SE has the opportunity to participate in the Volkswagen Group's corporate decision making. Prior to the Annual General Meeting, the Supervisory Board of Volkswagen AG had approved the basic agreement between Volkswagen AG, Porsche Automobil Holding SE, Porsche Holding Gesellschaft m.b.H. and Porsche GmbH (both domiciled in Salzburg), Porsche Zwischenholding GmbH, Stuttgart, the common shareholders of Porsche Automobil Holding SE as well as the Works Councils of Volkswagen AG, Porsche Automobil Holding SE und Dr. Ing. h. c. F. Porsche AG, Stuttgart, in regards to the creation of an integrated automotive group under the leadership of Volkswagen.

Volkswagen also granted Porsche Holding Gesellschaft m.b.H., a company owned by the Porsche and Piëch families, a put option on the company’s sales operation. In return, Volkswagen was granted rights to collaborate in the company’s management for the term of the option. The option was exercised on 10 November 2010. The sales company was transferred effective 1 March 2011 against a payment of € 3.3 billion.

A control and profit transfer agreement exists between the sole shareholder, Volkswagen AG, and VW FS AG. The business relations between the two companies are handled at normal market terms.

Volkswagen AG and its subsidiaries make refinancing funds available to the companies of the VW FS AG Group at normal market terms. Furthermore, financial guarantees from subsidiaries of the Volkswagen AG Group exist in our favour within the framework of the operating business.

To support sales promotion campaigns, the companies of the VW FS AG Group receive financial contributions from the production companies and importing companies of the Volkswagen Group.

All business relations with non-consolidated subsidiaries, joint ventures and associated companies of VW FS AG as well as other Group entities that are related parties of Volkswagen are handled at normal market terms.

Transactions with related parties are shown in the following two tables:

2011 financial year € million	Supervisory board	Board of Management	Volkswagen AG	Porsche	Other related parties within the Group	Non-consolidated subsidiaries	Joint ventures	Associated companies
Receivables	0	0	126	0	656	23	2,405	–
Allowances on receivables	–	–	–	–	–	–	–	–
of which: additions, current year	–	–	–	–	–	–	–	–
Obligations	2	2	2,652	3	4,780	42	150	–
Interest income	0	0	14	–	163	1	54	–
Interest expense	0	0	–21	0	–43	0	0	–
Services and products provided	–	–	432	3	303	22	4	–
Services and products received	–	–	6,256	12	891	8	9	–
Provision of sureties	–	–	–	–	–	–	84	–

2010 financial year € million	Supervisory Board	Board of Management	Volkswagen AG	Porsche	Other related parties within the Group	Non-consolidated subsidiaries	Joint ventures	Associated companies
Receivables	0	0	30	80	397	23	1,799	0
Allowances on receivables	–	–	–	–	–	–	–	–
of which: additions, current year	–	–	–	–	–	–	–	–
Obligations	2	1	3,546	19	3,327	20	150	0
Interest income	0	–	11	0	36	1	34	0
Interest expense	0	0	–11	0	–14	0	0	–
Services and products provided	–	–	262 [1]	30	630	12	–	1
Services and products received	–	–	4,532	294	672	10	8	6
Provision of sureties	–	–	–	–	–	–	41	–

1 In the previous year, the services and products provided to VW AG were shown at the incorrect amount of € 1,982 million; this figure hat to be corrected to € 262 million. This had no other effects on the consolidated financial statements.

Due to the amendment of IAS 24.18, starting in the 2011 financial year other contractual commitments toward related parties must also be disclosed. In accordance with the definition provided in IAS 24.9, the column "Other related parties within the Group" now includes, in addition to fellow subsidiaries, joint ventures and associated companies that are Group entities and as such are related parties of Volkswagen AG. The service relationships with the Supervisory Board and the Board of Management include the corresponding groups of people at VW FS AG and the Group parent, Volkswagen AG.

Previous year's figures were adjusted accordingly.

Members of the Board of Management and Supervisory Board of VW FS AG are members of boards of management and supervisory boards of other companies in the Volkswagen Group, with which, in some cases, we do business within the framework of normal business activities. All the business relations with these related parties are conducted under the same conditions as are usual with external third parties.

COMPENSATION OF THE BOARD OF MANAGEMENT

€ million	2011	2010
Short-term benefits	6	4
Termination benefits	–	–
Post-employment benefits	2	2

The employee representatives in the Supervisory Board who are employed at VW FS AG continue to receive a regular salary under the terms of their employment contract. This is based on the regulations set out in the German Works Constitution Act (Betriebsverfassungsgesetz) and constitutes appropriate remuneration for their corresponding function or activity in the Company. The same applies to the management representative in the Supervisory Board.

Total emoluments of former members of the Board of Management and their surviving dependants amounted to € 0.4 million (previous year: € 0.4 million). The provisions for current pensions and pension expectancies made for this group of persons amount to € 10 million (previous year: € 9 million).

Within the framework of the stock option plan of Volkswagen AG, members of the Board of Management of VW FS AG have taken up convertible bonds which entitle them to subscribe to ordinary shares in Volkswagen AG. Details of the stock option plans are contained in the Annual Report of Volkswagen AG.

65 | Corporate bodies of Volkswagen Financial Services AG

The Board of Management is comprised as follows:

FRANK WITTER
Chairman of the Board of Management
Corporate Steering
IT, Insurance
Region North America, Region South America, Region China/India

FRANK FIEDLER
Finance

CHRISTIANE HESSE
Human Resources and Organisation

DR. MICHAEL REINHART
Risk Management
Credit Analysis (from 01.01.2012)

LARS-HENNER SANTELMANN
Sales and Marketing
Region Europe/International

The Supervisory Board is comprised as follows:

HANS DIETER PÖTSCH
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

PROF. DR. HORST NEUMANN
Deputy Chairman
Member of the Board of Management of Volkswagen AG
Human Resources and Organisation

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

66 | Letter of comfort for our affiliated companies

With the exception of political risks, Volkswagen Financial Services AG hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to creditors in the agreed manner. Moreover, Volkswagen Financial Services AG confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders.

67 | Events after the balance sheet date

Effective 1 January 2012, Volkswagen Financial Services AG acquired the outstanding 40 % stake in each of the Polish FS companies (VOLKSWAGEN BANK POLSKA S.A., Warsaw, and Volkswagen Leasing Polska Sp. z o.o., Warsaw) from the previous joint ventures. There were no other significant events up to 8 February 2012.

68 | Responsibility statement of the Board of Management

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

Braunschweig, 8 February 2012
The Board of Management

Frank Witter

Frank Fiedler

Christiane Hesse

Dr. Michael Reinhart

Lars-Henner Santelmann

Independent Auditors' Report

We have audited the consolidated financial statements prepared by Volkswagen Financial Services Aktiengesellschaft, Braunschweig, consisting of income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes as well as the Group management report, for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as applicable in the EU and the supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB) is the responsibility of the company's Board of Management. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and on the Group management report.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations with a material impact on the presentation of net assets, financial position and results of operations conveyed by the consolidated financial statements with due regard to the applicable accounting principles, and by the Group management report are identified. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible errors 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 consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in consolidation, the definition of the scope of consolidation, the accounting and consolidation principles applied and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the Group 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 consolidated financial statements are in compliance with IFRS as applicable in the EU and with the supplementary provisions applicable under § 315a Para. 1 HGB, and in accordance with these provisions give a true and fair view of the net assets, financial position and results of the operations of the Group. The Group management report is consistent with the consolidated financial statements, provides a suitable understanding of the Group's situation and suitably presents the opportunities and risks of future development.

Hanover, 8 February 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Burkhard Eckes
Auditor	Auditor

Report of the Supervisory Board

of Volkswagen Financial Services AG

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

The Supervisory Board is made up of twelve members. There were changes in personnel in comparison with the previous year, which are shown in the section on corporate bodies in the notes. The Supervisory Board convened for three regular meetings in the reporting year; there were no extraordinary meetings. The Supervisory Board members' average attendance rate was 83 %. With the exception of one member, who was absent at two meetings, all members attended more than half of the meetings. We resolved two urgent matters in writing by means of a circular memorandum.

COMMITTEE WORK

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

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

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

DELIBERATIONS OF THE SUPERVISORY BOARD

Following a detailed review at its meeting on 18 February 2011, the Supervisory Board approved the consolidated financial statements and the annual financial statements of Volkswagen Financial Services AG for 2010, which had been prepared by the Board of Management, and accepted the annual report by Internal Audit regarding the results of its audits.

The Board of Management provided extensive reports on the company's and the Group's economic and financial position, both at the aforesaid meeting and at the meetings on 1 July 2011 and 6 October 2011. In this connection we also dealt with the risk management requirements that both the Group and the company must fulfil. We addressed the implementation of our international growth strategy, which requires intensifying our collaboration with the manufacturers and importers of the Volkswagen Group's brands, particularly in respect of fleet management, insurance and New Mobility.

At our meeting on 1 July 2011, we approved the acquisition of leasing portfolios in the Netherlands in order to run the leasing business in cooperation with the importer. Furthermore, we approved both the company's and the Group's financial and investment planning after extensive deliberation.

At our meeting on 6 October 2011, the Board of Management reported to us on changes in the compensation system applicable to the management and plans to optimise the insurance business. At this meeting, we approved the founding of a new investment company in China, which is tasked with developing additional lines of business. At this meeting, we also approved the founding of a joint venture in Belgium together with the local Volkswagen importer with the aim of intensifying our collaboration with this importer, especially in the leasing business.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit the consolidated financial statements in accordance with IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with the German Commercial Code (HGB) for the year ended 31 December 2011, including the accounting and the management reports. The Supervisory Board had at its disposal the consolidated financial statements in accordance with IFRS and the annual financial statements in accordance with HGB of Volkswagen Financial Services AG for the year ended 31 December 2011 and the management reports. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the bookkeeping and the management reports, and issued an unqualified auditors' report in each case. The Supervisory Board approves the results of these audits. The Supervisory Board's review of the consolidated financial statements, the annual financial statements and the management reports did not give rise to any reservations. The auditors were present at the Supervisory Board meeting when this item of the agenda was dealt with and they reported on the main results of their audit. During its meeting on 22 February 2012, the Supervisory Board approved the consolidated financial statements and the annual financial statements of Volkswagen Financial Services AG prepared by the Board of Management. The consolidated financial statements and the annual financial statements are thereby adopted.

Based on the existing control and profit transfer agreement, the profit of Volkswagen Financial Services AG that was recognised under German commercial law in the 2011 financial year, was transferred to Volkswagen AG.

The Supervisory Board wishes to acknowledge and express its appreciation to the members of the Board of Management, the members of the works council, the managerial staff and all the employees of Volkswagen Financial Services AG and its affiliated companies for their work. Through their great dedication they have all contributed to the ongoing development of Volkswagen Financial Services AG.

Braunschweig, 22 February 2012

Hans Dieter Pötsch
Chairman of the Supervisory Board

Supervisory Board

of Volkswagen Financial Services AG

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Member of the Board of Management
AUDI AG
Finance and Organisation

Glossary

Asset-backed securities (ABS)
Specific form of conversion of payment claims into negotiable securities vis-à-vis a single-purpose company, which have come about through the bundling of certain financial assets of a company.

Benchmark
Systematic and continuous process of comparing a company's products, services, key financial figures and processes with those of the industry leaders.

Captive
Financial enterprise owned and/or managed by an industrial company.

Cash flow
Net payment flows of a period from operating, investing and financing activities.

Cash flow statement
Economic parameter which helps to assess a company's ability to pay its bills.

Commercial paper programme
Framework programme for short-term debentures which enables money market papers to be issued quickly and flexibly.

Core capital
The core capital of the financial holding group, Volkswagen Financial Services AG, is essentially comprised of paid-in capital and reserves less deductible items in accordance with § 10 Para. 2a German Banking Act, such as, for instance, intangible assets or accumulated deficits, as well as 50 % of the deductible items in accordance with § 10 Para. 6 German Banking Act, such as certain equity investments in institutes or insurance companies.

Core capital ratio
Ratio between core capital and risk-weighted assets.
Core capital/ ((Capital requirement for credit risks + operational risks + market risks) *12.5) * 100

Derivative
Financial instrument whose value depends on the value of another original financial instrument. Derivatives is a generic term covering, for example, options, futures, forwards, interest rate swaps and currency swaps.

Derivative financial instrument (hedging transaction)
Rights and obligations for covering financial risks associated with original financial instruments.

Effective interest rate method
The calculation of interest taking into account all fees paid and received between contracting parties and other remuneration.

Equity method
Method of consolidation for integrating companies into consolidated financial statements. It is based on the historical cost of the equity investment, which is updated in line with the development of the pro rata equity in the following years.

Fair Value
Applicable value (e.g. market value) at which financial instruments can be bought and sold in a transaction between knowledgeable, willing parties in an arm's length transaction.

Finance leases
Type of leasing where the economic ownership of the leased asset passes to the lessee upon expiry of the term of the lease. The leased asset is recognised on the balance sheet of the lessee.

Financial holding group
According to the German Banking Act, such a group exists if a financial holding company (Volkswagen Financial Services AG) has subordinated financial institutions, financial services institutions, financial enterprises or providers of ancillary services, and at least one of the subordinated enterprises is a deposit-taking bank (Volkswagen Bank GmbH), for instance.

Goodwill
The difference between the purchase price for an acquired company and the value of the net assets acquired.

Hedge accounting
Hedge accounting aims at minimising the contradictory development of derivatives and underlying transactions on the income statement.

Impairment test
Impairment tests are carried out regularly to assess the recoverability of assets.

International Financial Reporting Standards (IFRS)
Accounting rules prepared by the International Accounting Standards Board (IASB, previously International Accounting Standards Committee (IASC)), an independent association.

Letter of comfort
Declaration of a parent company vis-à-vis third parties, e.g. banks, to meet the liabilities of its affiliate.

Liable capital
Core capital and supplementary capital minus deductible items, where the eligible supplementary capital shall not exceed core capital and the eligible subordinated loans shall not exceed 50 % of core capital.

Minimum Requirements for Risk Management (MaRisk)
The Minimum Requirements for Risk Management (MaRisk) are the central set of rules for qualitative banking supervision. Based on § 25a of the German Banking Act, they provide a flexible and realistic framework for designing banks' risk management systems.

Operating leasing
Type of leasing where the economic ownership of the leased asset and thus the realisation risk remains with the lessor upon expiry of the term

of the lease. The leased asset is recognised on the balance sheet of the lessor.

Overall ratio (regulatory)
The overall ratio must be determined in accordance with § 2 Para. 6 of the Solvency Regulations at the end of each quarter. It represents the ratio between eligible own funds as numerator and 12.5 times the sum of the total capital requirement for credit risks, the capital requirement for operational risks and the sum of the capital requirements for market risk positions including option transactions.

Own funds ratio (regulatory)
Ratio between own funds and aggregate risk position. The aggregate risk position is the sum of the risk-weighted assets and 12.5 times the capital requirement for market risks and operational risks.
Own funds/ ((Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100)

Rating
Ratings reflect the opinion of institutions specialising in checking creditworthiness (rating firms, banks, credit insurance providers) with regard to the economic capability, legal obligation and willingness of creditors to meet their payment obligations fully and in due time.

Securitisation
Conversion of a pool (clearly defined amount) of assets of the same type into marketable securities. Asset-backed securities (ABS) are securitisation products. The owner of such assets “sells” the pool to an intermediary - a so-called special purpose vehicle (SPV) - which refinances itself through the issuance of securities.

Solvency Regulation
Mandatory capital adequacy standard for financial institutions in the Federal Republic of Germany which replaced Principle I effective 1 January 2007.

Standardised approach for credit risks
In contrast to the old Principle I, the Solvency Regulation provide for two, more risk-sensitive methods for determining the capital requirements for credit risks: the standardised approach (SACR) and the approach based on internal ratings (IRB approach). Compared to the IRB approach, the standardised approach includes more specific requirements by the banking regulatory authorities regarding the factors determining capital requirements.

Supplementary capital
Essentially contingency reserves, participation right liabilities and subordinated liabilities.

Swap
Exchange of payment streams which can also take place between different currencies.

Value-at-risk
Maximum loss of a portfolio which can occur with a certain probability within a predefined period of time.

Volatility
Range of fluctuation, e.g. of markets or in the value of financial instruments

We apologise to our readers for using the masculine grammatical form solely for purposes of linguistic convenience.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements concerning the future business development of Volkswagen Financial Services AG. These statements include, among others, assumptions about the development of the global economy, as well as the financial and automobile markets. Volkswagen Financial Services AG 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 Financial Services AG, then the business development will be accordingly affected.

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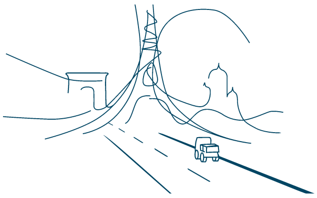
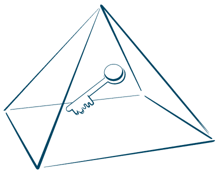


La clave para la movilidad.

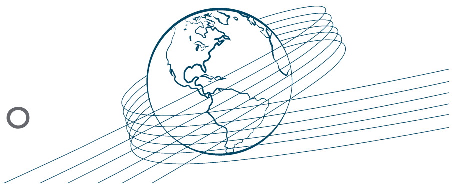
к мобильности.

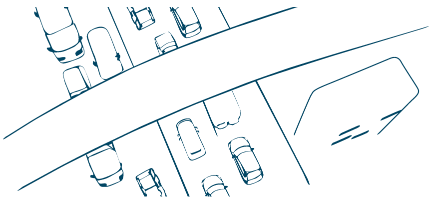


이동성을 향한 열쇠.

La clef de la mobilité.

钥 匙 在 手， 任 君 驰 骋。





Kluczem do mobilności.