VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

ANNUAL REPORT 2010

Volkswagen Financial Services AG
at a glance

in € million (as at 31.12.)	2010	2009	2008	2007	2006
Total assets	65,332	60,286	57,279	52,314	43,923
Receivables arising from					
Retail financing	30,505	26,603	21,913	20,884	17,262
Wholesale financing	8,828	8,391	9,584	9,360	6,989
Leasing business	13,643	13,935	14,912	13,639	12,759
Leased assets	4,974	3,666	3,003	2,436	1,476
Customer deposits[1]	20,129	19,532	12,835	9,620	8,827
Equity	6,975	6,311	6,780	6,012	4,603
Pre-tax result	870	554	792	809	705
Taxes on income and earnings	–247	– 159	– 214	– 90	– 230
Net income	623	395	578	719	475

in % (as at 31.12.)	2010	2009	2008	2007	2006
Cost/income ratio[2]	60	69	61	58	60
Equity ratio	10.7	10.5	11.8	11.5	10.5
Core capital ratio[3]	10.5	11.2	8.8	7.0	8.2
Overall ratio[3]	10.5	11.4	10.8	8.9	8.8
Return on equity	13.1	8.5	12.4	15.2	15.8

Number (as at 31.12.)	2010	2009	2008	2007	2006
Employees	6,797	6,775	6,639	6,138	5,022
In Germany	4,297	4,290	4,128	3,856	3,602
Abroad	2,500	2,485	2,511	2,282	1,420

Rating 2010[4]	Standard & Poor's			Moody's Investors Service		
	short-term	long-term	outlook	short-term	long-term	outlook
Volkswagen Financial Services AG	A–2	A–	negative	Prime-2	A3	stable
Volkswagen Bank GmbH	A–2	A–	stable	Prime-1	A2	stable

1 The year-end customer deposit figure for 2009 was adjusted to the customer deposit definition applicable from 2010 onwards.
2 General administration expenses (adjusted for extraordinary items) divided by net income from lending, leasing and insurance transactions after provisions for risks and net commission income.
3 The regulatory core capital ratio/overall ratio as at 31 December 2007 to 2010 was calculated in accordance with the standardised approach to credit and operational risks based on the Solvency Regulation that took effect on 1 January 2007. The figures for 2006 were calculated in accordance with the old Principle I.
4 For details see section "Capital market activities – Sound and strategically diversified".

Our overall brand guideline

“Pioneering”, “getting things done” and “customer-focused”.
These are the parameters within which we develop our products and services: “the key to mobility” for our customers.

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Foreword of the Board of Management

"Our clearly structured business model, innovative strength and cost discipline generated our positive result, and we expect this development to continue."

FRANK WITTER, Chairman of the Board of Management

Ladies and Gentlemen,

One year ago, few expected that the automotive industry and the financial markets would see an uptrend in 2010. Under the shadow of the global financial and economic crisis, we had predicted a pre-tax result of around € 550 million for last year, the same level as in 2009. Today we are delighted to report that we significantly exceeded this forecast with earnings before taxes of € 870 million. Our clearly structured business model, innovative strength and cost discipline generated our positive result, and we expect this development to continue.

For financial services providers, the global financial and economic crisis was the toughest stress test in post-war history. It really brought home to the industry how fundamentally important responsible risk management is. Against this backdrop, we demonstrated that we have a functioning, reliable risk management system in place worldwide that enables us to manage our risks successfully.

With crises come opportunities, however, and we actively used our opportunities to emerge from the crisis stronger than before and on track to achieve our strategic goals for 2018. Following the “private customer year” we had in 2009 induced by the scrapping bonus, 2010 was all about the fleet business of commercial customers. In this segment, some temporary restraint was seen on the part of our competitors, while we substantially expanded our market share. Here, the focus is not solely on quantitative growth, but rather – and in particular – on qualitative growth. Volkswagen Leasing GmbH, for example, promotes environmentally responsible fleet management with its “Environment Programme”. Other factors contributing to the gratifying business performance are financial services products that offer customers predictable monthly mobility costs – primarily our established all-inclusive packages. In Germany’s difficult car insurance market, we further increased our penetration rates with offerings such as combined financing, leasing and insurance packages tailored to customers’ requirements. We are also pursuing this strategy internationally, and its success in many countries confirms our approach. Our direct bank again increased its deposit volume in its 20th year of business. Thanks to this success with its customers, it is now an integral part of our refinancing business. In addition, we pushed ahead with the internationalisation of our business by setting up subsidiaries in Russia and South Korea and are expanding the market position of established companies through concerted investments.

We lifted our business volume in customer financing to over € 30 billion for the first time. The total number of contracts was 6,144 thousand, up 1.9 % year-on-year; new financing and leasing contracts saw an increase of 3.1 %. We are pleased to report that our margins improved in step with these positive trends – mainly due to lower risk and refinancing costs.

The past year was testimony to the fact that a clear strategy is invaluable, particularly in crisis situations. Our WIR2018 strategy coupled with our vision of being the best automotive financial services provider in the world is proving effective. Concrete, measurable courses of action that are mostly in advanced stages of implementation have been defined for each of our markets.

In the course of our strategic market development we are generating growth in our established markets with new products. In Europe, for example, we will emphasise the expansion of our fleet business, initially in the United Kingdom. Starting in 2011, we will offer an extended warranty for the first time in Germany and France through our own primary insurer, the benefits of which will be similar to those of the manufacturer's warranty. We will further expand our presence in the global growth markets. Examples of this approach include Russia, where we were awarded a banking licence, and India, where we applied for a licence for offering financial services.

The same way powertrain technology is changing in the automotive industry, for example, customer behaviour is changing in the financial services sector. We are continuously aligning our business model to the new trends and will develop our ideas for future forms of mobility into marketable commodities in close collaboration with the brands of the Volkswagen Group. Many more of tomorrow's customers will expect rapid, flexible use of a car without necessarily wanting to own it.

Our strategy is global, but is being implemented by our local employees, whose dedication successfully drives the achievement of our goals. We would like to thank our employees and our partners in the Group brands in particular for their outstanding commitment and excellent cooperation. Our thanks also go to our customers, dealers and business partners for the trust they place in us. We look forward to continuing our successful collaboration in future.

Sincerely,

Frank Witter
Chairman of the Board of Management

Braunschweig, March 2011

The Board of Management of Volkswagen Financial Services AG

CHRISTIANE HESSE
Human Resources and Organisation

DR. MICHAEL REINHART
Risk Management

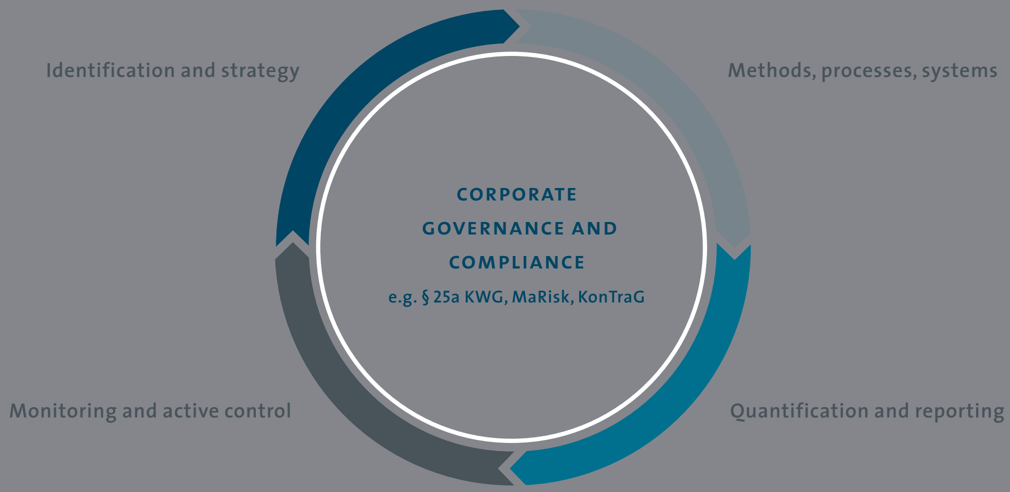
FRANK FIEDLER
Finance

FRANK WITTER
Chairman of the Board of Management

LARS-HENNER SANTELMANN
Sales and Marketing

Risk management

MAIN TASKS / RISK MANAGEMENT LOOP



Supported by the firm foundations of our risk-bearing capacity and a balanced opportunity/risk ratio, we promote sales of all the Group's vehicle brands, thereby achieving sustainable commercial success.

Success factor for solid growth

The Volkswagen Group is seeking to become the world's leading automaker with its "Strategy 2018". Next to the automotive brands, Volkswagen Financial Services AG is an integral part of this powerful group and consolidates its global offering of financial services.

Our customers' satisfaction is our number one priority, derived from our vision of being the best automotive financial services provider in the world. For our customers, being the "key to mobility" means focusing squarely on their specific needs. Whether these are retail customers, businesses, dealers or commercial fleet customers is irrelevant. Making carefree mobility possible for our customers increases their loyalty, which translates into higher vehicle sales in all of the Group's automotive brands.

The high speed of innovation in the area of automotive and financial mobility is leading to constant change in the needs of customers. We are meeting this challenge by continuously enhancing our extensive range of efficient products. Consolidating all areas of automotive financial services such as banking, leasing and insurance under the umbrella of Volkswagen Financial Services AG benefits us and enables us to quickly and flexibly put together innovative packages of products that provide lasting advantages for our customers. We will continue to leverage these strengths to service our customers in established markets with products that are tailored to their needs and expand our business model to other markets too.

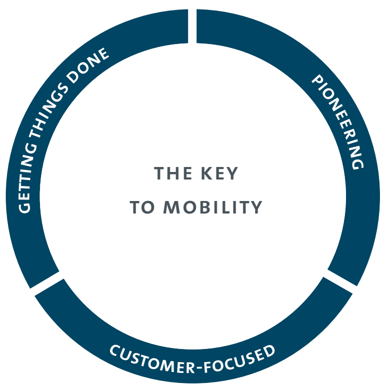
This far-reaching, "living" business model of Volkswagen Financial Services AG traditionally places strong emphasis on the function of risk management as a crash barrier. Exploiting our tremendous opportunities as an automotive financial services provider in a global automotive corporation also involves taking risks actively and consciously. For us, opportunities and risks are two sides of the same coin! Controlled assumption of risk with a well-measured risk appetite for systematically tapping earnings potential is our core business. By actively managing risk in all business lines of Volkswagen Financial Services AG, we can avoid surprises and do our best to ensure sustainable commercial success.

THE WIR2018 STRATEGY – REQUIREMENTS FOR RISK MANAGEMENT

We are pursuing our vision of being the best automotive financial services provider in the world in a highly complex and intensely competitive environment.

This requires a clear outlook for both the medium- and the long-term roadmap. Our WIR2018 strategy looks towards the next few years in particular, focusing primarily on four action areas: customer, employee, profitability and volume. In its capacity as a crash barrier, the risk manage-

OUR OVERALL BRAND GUIDELINE



ment function in all four action areas is helping us create a reliable, safe and successful path forward.

With our compelling sales concepts in the "customer" action area, we are still aiming to be the most attractive promoter of the Volkswagen Group's automotive brands as well as the quality leader in the business with our retail customers and dealers. The risk management function supports these goals by providing efficient methods, processes and tools such as our rating and scoring procedures, but also through continuous analysis and reporting on our current risks and opportunities. When the occasion arises, active control signals are set to positively influence the opportunity/risk ratio in the interests of our business and risk strategy. This active control is performed in coordination with the vehicle brands of the Volkswagen Group and is designed to create maximum benefit for our customers through the cooperation of all partners in the Volkswagen Group.

This requires a first-class team of staff with implementation expertise – our strategic objective in the "employee" action area. As a top employer, we encourage and challenge our staff, show appreciation of their work and allow them to participate in the company's success based on their performance. Thanks to our innovative strength and internationality, we provide an interesting and challenging working environment, especially for risk management specialists. We use active knowledge transfer in our international vocational training and exchange programmes to the benefit of our employees, which also allows us to encourage the worldwide implementation and refinement of our high quality standards in risk management.

In the "profitability" action area we define our quantitative targets, for example in relation to the return on equity and the cost/income ratio. Our goal is to derive maximum benefit from our earnings potential; here, risk management traditionally takes on special importance as a form of transparent management of all risk types. Risks need to be actively managed if we are to avoid potential reductions in earnings where possible. Optimising our refinancing structure and refinancing costs is another strategy that helps us maximise our profitability. By constantly controlling adherence to limits for market risks, risk management fulfils its function as a crash barrier here, too. Last but not least, the implementation of our profitability targets is flanked by a series of measures designed to enhance our processes and improve our cost efficiency.

Our growth strategy is reflected in the "volume" action area. Using products that are tailored to customers' needs, our plan is to further expand our market share in established markets and also capture new markets. The used vehicle business, for example, still has huge growth potential both nationally and internationally. The role of risk management in this action area particularly involves harnessing this growth securely and sustainably for the conscious, controlled assumption of risks. This means, for example, that before commencing operations in new markets or with new products all necessary requirements must be met as regards staffing, stable processes and systems as well as suitable procedures for risk management in purchase and ongoing portfolio management.

WHICH ARE THE MAIN TYPES OF RISKS INVOLVED?

Our business and risk strategy explicitly defines the business areas in which we are active, clearly outlines the scope of the associated risks and establishes our risk appetite for each type of risk. Here, we mainly distinguish between the following types of risk:

- *Credit risk* refers to the possibility in the lending and leasing business that customers will be unable to meet their payment obligation. Entering into credit risks is our bread and butter business as a financial services provider, so to speak. On account of our many years of experience and thanks to effective control instruments such as sophisticated rating and scoring procedures, these risks are transparent and manageable for us. By broadly diversifying risk among a very large number of customers, we benefit from significant diversification effects both nationally and internationally. Conscious acceptance and management of credit risk is central to our commercial success.

- The same applies to *residual value risk*, which is inextricably linked to the opportunities in the leasing business. Residual risk refers to the possibility that the recoverable used car value for a leased vehicle could be lower at the time the contract expires than forecast at the time the contract was signed. Effective management of residual value risk requires mature processes for forecasting appropriate residual values. As part of the Volkswagen Group we use our superior expertise for this, particularly in relation to the model policy and technical innovations for all of the Group's vehicle brands. We are guided by the principle of recognising only realistic residual values that we take over. Due to the broad range of vehicle classes in Volkswagen Group brands, in relation to residual value risk we also benefit from the effect of risk diversification – something which alongside good sales channels for used vehicles has proven to be an extremely important factor, especially during the crisis. Our toolbox for effective management of residual value risk is rounded off by sophisticated instruments for ongoing management of our leasing portfolio in line with the current opportunity/risk ratio and a broad range of sales channels for our lease returns.

- We assume *insurance risks* to a minor extent in Volkswagen Versicherung AG's reinsurance business in the motor insurance, residual debt insurance and commercial lines insurance segments. The lion's share of these risks is passed on to reinsurance partners outside the Volkswagen Group through the process of retrocession. To protect Volkswagen Versicherung AG's remaining deductible, we also take out policies for major losses. As custom-tailored insurance products form an important part of our product portfolio, we decided after careful analysis that from 2011 onwards we will also act as the primary insurer for customers in selected countries through an extended warranty.

- *Market risk*, for example interest rate risk, exchange rate risk or liquidity risk, arises in connection with the refinancing of our lending business on the money and capital markets. Using sophisticated tools for measuring and limiting these risks, we can effectively manage these through controlled assumption or prevention of risk. We take account of the fact that the assumption of market risk is not the focus of our core business by showing only a conservative risk appetite and by limiting this risk type accordingly.

- *Operational risk*, for example the failure of IT systems, human error or natural disasters, is a risk to which all companies are exposed regardless of which sector they are in. In contrast to the types of risks mentioned above, it is generally important to avoid operational risks as far as possible because unlike the above-mentioned risk types they do not provide any opportunities. Here, too, we use efficient methods, processes and systems that create the necessary transparency and allow targeted measures to be derived for minimising operational risks.

An important guiding principle in opportunity and risk management at Volkswagen Financial Services AG is that expected adverse developments from the current risk situation are always hedged through appropriate provisions for risks in compliance with the accounting standards and the regulatory requirements. Furthermore, our concept of risk-bearing capacity helps to ensure that our risk appetite – also in relation to unexpected events – is balanced against our aggregate risk cover, for example in the form of our equity. In this connection, we conduct regular, supplementary stress tests for all principal types of risk in order to be able to estimate the effects of extreme market situations on our risk-bearing capacity and ensure the necessary risk coverage.

We are continuously developing our methods, systems and processes in line with our high quality standards and the regulatory requirements. The challenge of transparent Group-wide management of all business activities of Volkswagen Financial Services AG in over 20 countries has top priority for us. In the context of risk management, it is important, for example, to continuously review the selectivity of our global creditworthiness analysis procedures and to regularly quantify the effects of hypothetical crisis scenarios through cross-divisional stress tests. We also place particular emphasis on protecting our IT systems and databases that are in use all around the world. In applying our risk management as a crash barrier, we strive to avoid all operating risks that could jeopardise the availability, integrity and safety of our system environment.

Our business and risk strategy therefore reflects our systematic, active risk management approach in a variety of ways. As part of our core business as an automotive financial services provider, risks are exclusively taken in a conscious and controlled manner, actively managed and appropriately limited or hedged. Supported by the firm foundations of our risk-bearing capacity and a balanced opportunity/risk ratio, we promote sales of all the Group's vehicle brands, thereby achieving sustainable commercial success.

A conversation

DR. MICHAEL REINHART, member of the Board of Management

"Risk management is a very intellectually stimulating task and a valuable skill. Risk managers need to remain vigilant, think ahead and, when it comes to the worst, act fast and forcefully – this is not and will certainly never be boring!"

Risk management during the global financial and economic crisis

Dr. Michael Reinhart is the member of the Board of Management of Volkswagen Financial Services AG who is responsible for risk management. Speaking to the freelance financial journalist Wolf R. Ussler, he explains how he experienced the financial and economic crisis, how the Group's risk management approach helped it get through these particularly turbulent times successfully and in what direction risk management is evolving.

How were the last two years of the global financial and economic crisis for you as a risk manager?

DR. MICHAEL REINHART: It was an extremely tense time, not just for me but for everyone involved in risk management. The bursting of the real estate bubble in the US unleashed a gigantic downward spiral for assets, which generated widespread uncertainty on the global financial markets. There was an atmosphere of considerable mistrust among the major international banks, especially after Lehman Brothers collapsed, and important sources of funding suddenly dried up or were available only at very high "panic prices". That was something we had never experienced before.

Our job was to actively and closely manage our existing and new lending and leasing portfolios worldwide and – whenever necessary – to step in immediately with concrete measures so as to avoid impending losses.

I can now say that we passed this difficult test with flying colours. Time has shown that the methods, processes and systems we established are effective and that our team is capable of extraordinary achievements when the situation requires. Word also spread quickly among our customers and investors that at Volkswagen Bank GmbH their money is in safe hands. Even in 2009, which was a critical year, our deposit volume increased by over 40 % compared with the previous year – an important sign of confidence.

What did this mean for us? Suddenly everyone was talking about the value and importance of risk management. It was plain that this function is a key success factor for all companies and that only with a controlled assumption of risk on a solid foundation of risk-bearing capacity can we be successful in the long term. That we also succeeded in identifying numerous opportunities for improvement and enhanced our processes during this time goes without saying.

How do you explain the fact that Volkswagen Financial Services AG was affected by the crisis to a far lesser extent than other financial services providers?

DR. MICHAEL REINHART: That's simple! Because we have a business model that works. We focus our activities on our core business as an automotive financial services provider of the Volkswagen Group, benefiting here from our many years of expertise and high level of professionalism. Fooling around with investments in high-risk securities or derivatives was and is unthinkable for us. Our treasury activities focus on the refinancing of our lending business; we do not engage in active proprietary trading as traditional investment banking does. This means that our market risks are low and therefore fairly manageable overall.

Customers' and investors' confidence in the Volkswagen Group is another important factor, of course. The Group's strength, product quality and capacity for innovation on the automotive side also carry over to Volkswagen financial services. As Europe's largest captive financial services provider, we additionally benefit from considerable risk diversification by virtue of our extremely broad base of end customers and our presence in over 20 international markets, among other things.

I am proud to say that it is undoubtedly also thanks to the expertise, vigilance and outstanding dedication of our national and international risk managers that we were able to cope with the crisis so well.

What were the greatest challenges facing Volkswagen Financial Services AG as an automotive financial services provider?

DR. MICHAEL REINHART: The crisis in the global financial markets changed the face of our entire economic environment. This happened at a time when the established automotive markets were already seeing increasing saturation in difficult circumstances. The whole industry was experiencing consolidation pressures – automakers, suppliers and, above all, dealers.

It was the dealers in particular who became a concern for us in some cases. Decreasing unit sales, a decline in the return on sales and erosion of the equity base due to operating losses considerably weakened many dealers' financial position as the crisis progressed. Then, at the height of the financial market crisis, came liquidity bottlenecks that threatened their very existence. Even financially strong dealerships were not safe because many commercial banks suddenly and sometimes radically stopped lending to dealers on account of their own problems.

During this period, the government scrapping bonus helped to boost new car sales again, especially sales of fuel-efficient vehicles. Subsequently, however, prices for used cars came under considerable pressure, which had a knock-on effect on residual values in the leasing business. Corresponding anticipated losses in turn reduced dealers' bottom line.

Well-directed assistance was therefore necessary in many areas!

What specific steps did you take to deal with this difficult situation?

DR. MICHAEL REINHART: To ensure that the sometimes critical situation of dealers did not become a pitfall for us, we had to act quickly, effectively and in a results-orientated manner. The government scrapping bonus in 2009 that I mentioned earlier fortunately helped us by giving an extraordinary push to our retail business. As a result, many dealers got off lightly, as they say, and we were able to concentrate on the difficult cases.

What did this help entail? First, we had to focus squarely on risk management's "twin" – opportunity management. We sat down with dealers whose very existence was hanging in the balance due to the liquidity squeeze, analysed concrete opportunities for strengthening the business model and implemented appropriate measures. Our aim was to prevent imminent illiquidity if the prospects for the future were generally deemed positive. By implementing viable restructuring concepts, we were thus instrumental in safeguarding the future of a considerable number of dealerships. We have been getting to grips with the Achilles' heel of the wholesale business – residual risk – since 2008. In view of the trend in residual values, to support the wholesale business together with the brands we developed targeted, pioneering programmes for safeguarding and subsequently also supporting residual value in selected vehicle models. I believe that this process brought us all closer together and showed – especially during this period – that we as a captive are a reliable partner to dealers even in tough times.

That said, where the long-term prospects of success were negative, we were unable to prevent insolvencies in individual cases.

What was the supervisory authorities' reaction to the crisis?

DR. MICHAEL REINHART: We must not forget that the scale of the crisis caused alarm amongst the national and international banking supervisory authorities. They were concerned by the fact that the existing codes and supervisory practice failed to prevent the near crash of the banking system. When representatives of the world's 20 leading industrial nations met at the summit in Pittsburgh back in September 2009, they resolved to take steps to prevent the uncontrolled spread of high-risk financial transactions with the goal of making the financial sector less vulnerable.

The stress tests conducted by the banking supervisory authorities in this context generated an urgent need for action in a number of cases. Today we know in what ways the general conditions for financial services providers will be tightened. In this context we can basically differentiate between three categories: bank levies, tightening qualitative requirements and stricter capital adequacy requirements.

For risk managers it is particularly important that many qualitative banking supervisory requirements were significantly expanded once again and explained in detail in the revised version of the "Minimum Requirements for Risk Management" (MaRisk) dated August 2009 and its further amendment in December 2010. This is something we can perceive, and we need to continue working on the implementation of these requirements with all our strength!

> "Our intention as risk managers at Volkswagen Financial Services AG is to continue to ensure that we will turn our opportunities into sustainable commercial success on established paths and with a responsible risk appetite."

In what way do the main changes in the MaRisk affect Volkswagen Financial Services AG?

DR. MICHAEL REINHART: I would first like to point out that the processes established at Volkswagen Financial Services AG long before the crisis have generally stood the test of time very well. This means we already have a solid base for continuously developing our quality standards. We firmly believe that effective risk management is essential if we are to be successful in the long term. By the same token, regulatory requirements are a "strict constraint", compliance with which is unquestionably a top priority for us.

A number of new items were included in the MaRisk in August 2009 and again in December 2010, with precise explanations being provided in many places. Some examples are the much more detailed instructions for conducting stress tests and for managing liquidity risk. Concrete requirements for identifying and continuously monitoring concentrations of risk in all major risk types were also included in the MaRisk.

However, for us as a global financial services provider, the greatest challenges are the much more clearly formulated requirements for group-wide management. On the basis of a materiality analysis, consistency in all methods, processes and systems must be ensured for all companies in a financial holding group. For us this means that, especially in the areas of risk management and IT, we will have to act even more from our headquarters in future in keeping with our function as a crash barrier. We are making good headway here, but are still some distance from our goal.

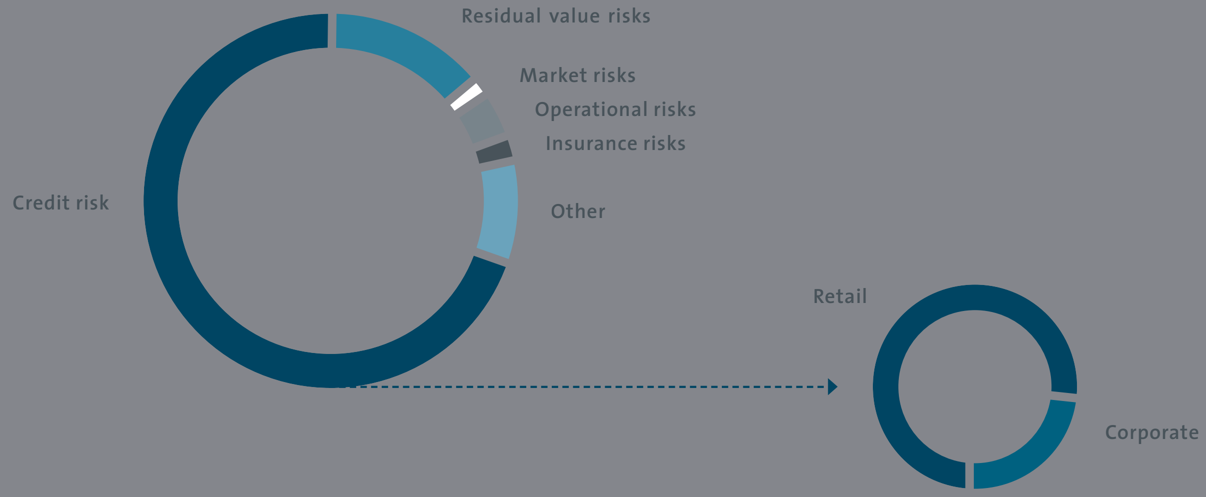
How do you envisage the next few years from a risk management perspective?

DR. MICHAEL REINHART: They will remain interesting at any rate! Our business model as a global automotive financial services provider of the Volkswagen Group still provides a wealth of opportunities in both established and growth markets. With our WIR2018 strategy we have clearly defined our roadmap for the coming years and will use this as a guide for the next concrete steps we take. Derived from our vision of being the best automotive financial services provider worldwide, these are, of course, highly challenging and ambitious. This is really motivating the entire team. Our intention as risk managers at Volkswagen Financial Services AG is to continue to ensure that we will turn our opportunities into sustainable commercial success on established paths and with a responsible risk appetite.

We intend to consistently pursue the path we have taken, especially given that the volatility on the global markets is likely to increase and regulatory requirements will become more stringent in the foreseeable future. What delights us as risk managers of Volkswagen Financial Services AG is clearly defined. Risk management is a very intellectually stimulating task and a valuable skill. Risk managers need to remain vigilant, think ahead and, when it comes to the worst, act fast and forcefully – this is not and will certainly never be boring!

Risk management in practice

RISK STRUCTURE AND SHARE OF THE RETAIL BUSINESS



In the area of credit risk, the retail segment of our core business generates over 75 % of Volkswagen Financial Services AG's total lending and leasing volume. It weathered the storm of the crisis on the back of its high quality and broad diversification among a large number of customers.

Managing credit risk

Credit risk is the most important type of risk in our business model, and conscious assumption and controlled management of this risk are central to our commercial success. Although our portfolio as an automotive financial services provider naturally focuses on specific industries, we can benefit from substantial diversification effects that reduce our risk exposure particularly with regard to credit risk in the retail or private customer business.

Due to our presence in over 20 countries, it goes without saying that we also leverage the positive effects of geographical and international diversification. Last year, for example, we were able to more than compensate for the weaker overall situation in the German market after the discontinuation of the scrapping bonus by delivering a very strong performance in international markets such as Brazil. This basic principle in risk management of optimising the opportunity/risk ratio through maximum diversification also applies to the liabilities side of our balance sheet. We draw on a wide range of possible sources for the refinancing of our lending business both nationally and internationally. They can be roughly divided into three categories: customer deposits, ABS programmes, and money and capital market issues.

ACTIVE MANAGEMENT OF THE LENDING AND LEASING PORTFOLIO

Just as systematically as it follows the principle of diversification, the risk management function at Volkswagen Financial Services AG follows the principle of actively supporting all investments with our retail, corporate and fleet customers throughout the entire cycle, i.e. from the purchase until the expiry of the contract.

To ensure responsible lending, new vehicle financing is always preceded by an in-depth analysis of the customer's creditworthiness. In our retail business, we use tried-and-tested scorecards for this in conjunction with specific purchase regulations that are the product of extensive expertise built up over many years in our core business. The same applies to our rating procedure, which we use to carefully evaluate our customers' financial situation in the individual lending business, for example in dealer financing in Germany. The result of the rating then provides the basis for the risk-adjusted pricing of our extensive product portfolio in this area of our core business.

Active risk management is, of course, also performed in our continuous support of the investments. Apart from the periodic updating of credit ratings for our borrowers, our pioneering early warning system for risks continuously evaluates a stream of current information on relevant developments at our customers. This enables us to identify possible negative trends at an early stage at both portfolio level and the level of individual customers, and take effective countermeasures. During the financial and economic crisis, our early warning system proved its merit and was also refined further.

THE WHOLESALE BUSINESS PUT TO THE TEST

The difficult economic conditions during the crisis presented the German dealer network in particular with a considerable challenge. A sluggish used car market – especially after the government scrapping bonus came to an end – dragged down revenues from the sale of vehicle returns, which severely squeezed equity and liquidity at a number of dealerships, putting them in a critical financial situation. In many cases, this delicate situation was exacerbated by the often spontaneous and radical withdrawal of third-party banks from dealer financing.

Thanks to our long-standing experience and ties with our partners in the dealer organisation, Volkswagen Financial Services AG fulfilled its responsibility as an automotive financial services provider of the Volkswagen Group even in this critical situation. Through active risk management, such as efficient programmes for supporting and safeguarding residual value, we provided rapid, effective, customer-focused support to the dealer organisation in collaboration with the brands. In addition, many dealership owners used the crisis as an opportunity for essentially redefining their position and also aligning their business processes to meet profitability and cost efficiency targets where necessary. During this phase, Volkswagen Financial Services AG as a reliable partner to the dealer network actively supported a series of promising restructuring concepts culminating in viable investor solutions. In line with our business and risk strategy and based on our deep insight into the dealer organisation, we hedged adverse developments immediately and adequately with provisions for risks.

RISK MANAGEMENT – A STRATEGIC SUCCESS FACTOR

A successful business model, a well-defined business and risk strategy, a clear path forward in line with our WIR2018 strategy as well as active risk management in all market segments and corporate departments are our recipe for putting into practice our vision of being the best automotive financial services provider.

Risk management in practice

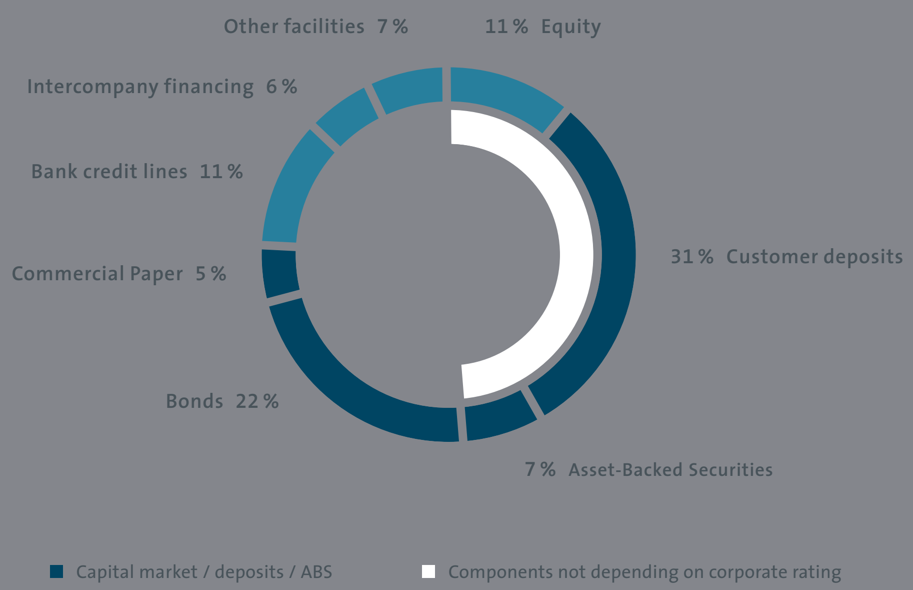
BODO STEINIGER, Head of Central Risk Management

Our tried-and-tested approach to risk management served us well during the tough times of the financial and economic crisis. While some competitors left the business, our risk management methods and processes put us in a good position even during the crisis to fulfil Volkswagen Financial Services AG's mandate of promoting sales in the Volkswagen Group brands. We ensure this worldwide by collaborating closely at an international level in operating risk management. We do this by setting Group-wide standards, but also by liaising individually with local risk managers in the different regions at regular intervals.

Together with all branches and subsidiaries we create risk transparency and derive the necessary measures on this basis. We then supervise and monitor their implementation closely. Continuous exchange of best practices between the companies is also part of our understanding of practical risk management. For this we have set up special risk management units here at our headquarters in Braunschweig that coordinate the syntonize with the Group companies in all regions, thereby ensuring close, long-term collaboration. Our actions are guided by the principle of driving forward the implementation of consistent standards and providing support for these at the same time.

Capital market activities

OUR REFINANCING SOURCES AS AT 31 DECEMBER 2010



Volkswagen Financial Services AG's refinancing strategy proved successful once again in 2010 in markets experiencing continued volatility.

Sound and strategically diversified

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.

Our refinancing sources range from deposits to ABS issues to money and capital market instruments. Our high equity and confirmed credit lines with banks supplement this mixture.

We also use suitable instruments in all local markets relevant to our business in order to enhance the viability and flexibility of this balanced composition of refinancing sources. Whilst we have successfully implemented this refinancing strategy particularly in the euro zone, its execution in other regions depends on the state of development of the respective markets.

SUCCESSFUL REFINANCE ACTIVITIES

The refinancing volume of Volkswagen Financial Services AG as at 31 December 2010 was about € 65.3 billion.

In January 2010 Volkswagen Financial Services AG placed a € 1.0 billion benchmark debt issue with a maturity of four years under its existing Debt Issuance Programme. Volkswagen Bank GmbH issued a bond for a total of € 1.0 billion in June and successfully placed a variable-interest bond for a total of € 500 million in September under the € 10 billion Debt Issuance Programme.

The year 2010 turned out to be a good one for issues in regards to asset-backed securities, too. VCL Master transactions were placed in the market in January and February, setting the tone for the year. The VCL Master transactions offer Volkswagen Leasing GmbH a refinancing volume of up to € 1.25 billion through the sale of leasing receivables and residual values. The securitisation of residual values created a new category of receivables for the first time. A prerequisite for this approach is our successful residual value management. In April, Volkswagen Bank GmbH further stimulated the euro ABS market through its Driver 7 benchmark securitisation transaction comprising receivables from over 41 thousand automobile loans. In September, German leasing receivables were also placed successfully in the market as part of the VCL 12 securitisation transaction. Volkswagen Leasing GmbH placed a benchmark issue of € 519 million with a multitude of national and international investors under the new quality label, "CERTIFIED BY TSI – DEUTSCHER VERBRIEFUNGS-STANDARD". These transactions enhance the excellent reputation of both Volkswagen Financial Services AG and its subsidiaries among investors and underscore our market leadership in the European securitisation market.

We are particularly pleased that the volume of deposits is continuing to grow steadily – confirmation of our customers' enormous trust in our direct bank. Since 31 December 2009, the deposit volume has been expanded by € 598 million to € 20.1 billion under stable terms. This development in particular evidences the trust that our customers place in the Volkswagen name and in us as the global mobility services provider of the Volkswagen Group.

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 Prime-2 (short-term) and A3 (long-term) ratings with a stable outlook. The rating of S&P is A–2 (short-term) and A– with a negative outlook.

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

Moody's rating is Prime-1 (short-term) and A2 (long-term) with a stable outlook. This means that the rating of Volkswagen Bank GmbH is one grade better than that of the Volkswagen Group.

S&P confirmed its short-term (A–2) and long-term (A–) ratings for Volkswagen Bank GmbH, raising its outlook from "negative" to "stable" at the same time. These ratings are also slightly better than those for the Volkswagen Group.

The rating agency increased its outlook based on higher profit forecasts for 2010 and 2011, the strong capitalisation and the contribution of the stable deposit volume to Volkswagen Bank GmbH's refinancing mix. The overall rating that the rating agencies have given to both companies provide them with a solid basis for executing their refinancing strategy in the money and capital markets.

The company's considerable ability to refinance itself from equity, direct bank deposits and ABS issues is not affected by any credit rating decisions. Currently, this potential source of refinancing accounts for approximately 50 % of Volkswagen Financial Services AG's total refinancing volume. The fact that a large percentage of our refinancing sources is not contingent on any credit rating is also an outcome of our diversification strategy. Volkswagen Financial Services AG and its subsidiaries are well equipped to meet future challenges in regards to refinancing.

EXCERPTS FROM OUR ISSUING ACTIVITIES IN 2010

Information Memorandum

VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED
(ABN 20 097 071 460)
- Initial Issuer -

VOLKSWAGEN FINANCIAL SERVICES AG
(a company incorporated under the laws of Germany)
- Guarantor -

A$2,000,000,000
Debt Issuance Programme

for the issuance of electronic promissory notes, short term notes and medium term notes

Co-Arrangers

Australia and New Zealand Banking Group Limited
Citigroup Global Markets Australia Pty Limited

Dealers

Australia and New Zealand Banking Group Limited
Citigroup Global Markets Australia Pty Limited
Commonwealth Bank of Australia
The Royal Bank of Scotland

The date of this Information Memorandum is 31 August 2010.

Australia

PROSPECTUS

CERTIFIED BY TSI
DEUTSCHER VERBRIEFUNGSSTANDARD

VCL MULTI-COMPARTMENT S.A.
acting for and on behalf of its Compartment VCL 12
(incorporated with limited liability in Luxembourg with registered number B 148436)

EUR 500,000,000 Class A Asset Backed Floating Rate Notes of 2010/2016

(the "**Class A Notes**")

Issue Price: 100 per cent.

EUR 19,100,000 Class B Asset Backed Floating Rate Notes of 2010/2016

(the "**Class B Notes**")

Issue Price: 100 per cent.

Each Class A Note and each simultaneously issued subordinated Class B Note (together the "**Notes**") entitles the holder to demand the payment of a particular amount of interest and/or principal only, if and to the extent such amounts have been received by VCL Multi-Compartment S.A., acting for and on behalf of its Compartment VCL 12 (the "**Issuer**") from Collections, from a Cash Collateral Account, from the enforcement of the Security and from the Swap Agreements. The sum of the Nominal Amount of the Notes plus the overcollateralisation amount plus the Subordinated Loan equals the present value of the Purchased Lease Receivables discounted to the Issue Date using the Discount Rate. Subject to the Available Distribution Amount and in accordance with the Order of Priority, each holder of a Class A Note is entitled to payment of the amount of EUR 100,000 plus interest equivalent to one month EURIBOR plus 0.68 per cent. per annum and each holder of a subordinated Class B Note, respectively, to payment of the amount EUR 100,000 plus interest equivalent to one month EURIBOR plus 1.50 per cent. per annum, calculated in each case with reference to the principal amount of each Note remaining outstanding immediately prior to the time of each payment and published pursuant to Condition 12. Payments of principal and interest on each class of Notes will be made monthly in arrear on the 21st day of each calendar month in each year, or, in the event such day is not a Business Day, then payments shall be due on the next following Business Day, unless that day falls in the next calendar month, in which case payments shall be due on the first preceding day that is a Business Day. The first Payment Date shall be the Payment Date falling in 21 October 2010.

The Class A Notes and the Class B Notes of the Issuer are backed by a portfolio of auto lease receivables of EUR 546,452,075.92 (the "**Purchased Lease Receivables**") secured by certain passenger cars and/or commercial vehicles (the "**Financed Objects**") and certain other collateral more specifically described herein (the Financed Objects, the other collateral more specifically described herein and the proceeds therefrom, the "**Lease Collateral**").

Application has been made to the Commission de Surveillance du Secteur Financier (the "**CSSF**") of Luxembourg in its capacity as competent authority (the "**Competent Authority**") under the Luxembourg law relating to prospectuses for securities dated 10 July 2005 (*loi relative aux Prospectus pour valeurs mobilieres*) for the approval of the Prospectus. Application has been made to list the Notes on the official list of the Luxembourg Stock Exchange and to be admitted to trade the Notes on the regulated market of the Luxembourg Stock Exchange on 27 September 2010 (the "**Issue Date**"). The Luxembourg Stock Exchange's regulated market is a regulated market for the purpose of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC. This Prospectus constitutes a prospectus for the purpose of article 5.3 of Directive 2003/71/EC.

Each of the Notes in the denomination of EUR 100,000 will be governed by the laws of Germany, be issued in new global note ("**NGN**") form, and will be initially represented by a temporary global bearer note (the

582360/ v43

Germany

2010 年 6 月 30 日

フォルクスワーゲン・ファイナンシャル・サービシズ・アーゲー保証
フォルクスワーゲン・ファイナンシャル・サービス・ジャパン株式会社発行

コマーシャル・ペーパー・プログラム
60,000,000,000 円

発行会社および保証会社に関する説明書

取扱ディーラー

株式会社三菱東京ＵＦＪ銀行
株式会社三井住友銀行
株式会社みずほコーポレート銀行

斡旋人

株式会社三菱東京ＵＦＪ銀行

Japan

Dated 6 August 2010

*This document constitutes four base prospectuses for the purposes of Article 5.4 of Directive 2003/71/EC: (i) the base prospectus of Volkswagen Financial Services Aktiengesellschaft in respect of non-equity securities within the meaning of Art. 22 No. 6 (4) of the Commission Regulation (EC) No. 809/2004 of 29 April, 2004 ("**Non-Equity Securities**"), (ii) the base prospectus of Volkswagen Leasing GmbH in respect of Non-Equity Securities, (iii) the base prospectus of Volkswagen Financial Services N.V. in respect of Non-Equity Securities and (iv) the base prospectus of Volkswagen Financial Services Japan Ltd. in respect of Non-Equity Securities (together, the "**Debt Issuance Programme Prospectus**" or the "**Prospectus**")*

VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT
Braunschweig, Federal Republic of Germany
– Issuer and/or Guarantor –

VOLKSWAGEN LEASING GMBH
Braunschweig, Federal Republic of Germany
– Issuer –

VOLKSWAGEN FINANCIAL SERVICES N.V.
Amsterdam, The Netherlands
– Issuer –

VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.
Tokyo, Japan
– Issuer –

EUR 18,000,000,000
Debt Issuance Programme (the "**Programme**")

Arranger
COMMERZBANK

Dealers

BAYERNLB	**BNP PARIBAS**	**CITI**
COMMERZBANK	**DEUTSCHE BANK**	**DZ BANK AG**
ING COMMERCIAL BANKING	**J.P. MORGAN**	**LANDESBANK BADEN-WÜRTTEMBERG**
SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING	**THE ROYAL BANK OF SCOTLAND**	**UNICREDIT BANK**

Issuing Agent
CITIBANK, N.A.

Application has been made to the *Commission de Surveillance du Secteur Financier* of the Grand Duchy of Luxembourg (the "**Commission**"), which is the Luxembourg competent authority for the purpose of Directive 2003/71/EC (the "**Prospectus Directive**"), for the approval of this Prospectus.

Application has been made to the Luxembourg Stock Exchange for notes ("**Notes**") issued under this Prospectus to be admitted to trading on the regulated market of the Luxembourg Stock Exchange (as defined below) and to be listed on the official list of the Luxembourg Stock Exchange. Notes issued under the Programme may also be listed and traded on an alternative stock exchange or may not be listed at all.

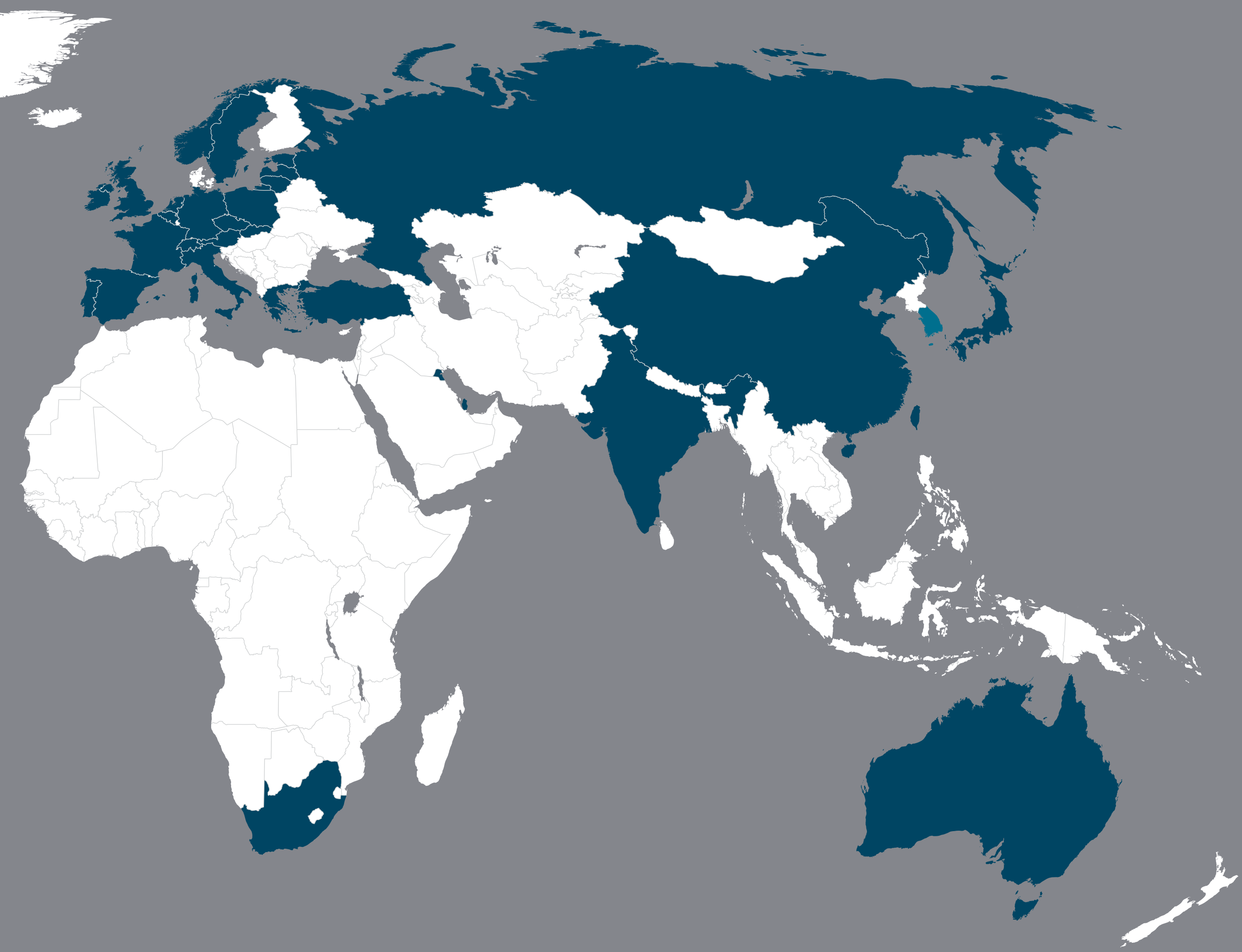
Each Issuer has requested the Commission to provide the competent authorities in the Federal Republic of Germany, the Kingdom of the Netherlands, the United Kingdom of Great Britain and Northern Ireland, the Republic of Ireland and the Republic of Austria with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the *Loi relative aux prospectus pour valeurs mobilières* which implements the Prospectus Directive into Luxembourg law ("**Notification**"). Each Issuer may request the Commission to provide competent authorities in additional Member States within the European Economic Area with a Notification.

This Prospectus will be published in electronic form on the website of the Luxembourg Stock Exchange (www.bourse.lu) and the website of Volkswagen Financial Services Aktiengesellschaft (www.vwfs.com). This Prospectus replaces the Prospectus dated 6 August 2009. It is valid for a period of 12 months from its date of publication.

International

Worldwide presence

Directly, as well as through equity participations and service contracts, Volkswagen Financial Services AG offers financial services for the Volkswagen Group brands in 35 countries worldwide.



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

* Market entry in 2010

OUR MARKETS

Our markets – Worldwide expansion of our position

We are present worldwide, carrying out our activities as the holding company for the international financial services business of the Volkswagen Group. We are Europe's largest automotive financial services provider. Our activities are grouped in four regions: Germany, Europe, Asia Pacific and North America / South America.

The German market

GENERAL DEVELOPMENT OF BUSINESS

In the 2010 financial year, the market volume of passenger cars in Germany was 23.4 % lower year on year due to the difficult economic climate. Volkswagen Financial Services AG maintained its position despite these difficulties. The strategy of further expanding the close integration of all its customer segments and divisions with the Volkswagen Group brands was key to our success yet again.

The German companies closed 1,111,000 new customer financing, leasing as well as service and insurance contracts (– 8.6 %).

COLLABORATION WITH THE GROUP'S AUTOMOTIVE BRANDS

Volkswagen Financial Services AG benefited from its close collaboration with all of the Group's automotive brands as well as from the ongoing enhancement of its portfolio of cutting-edge financial services packages for new and used vehicles alike.

Refining the all-inclusive packages helped to keep the company on a course of growth in the private customer business. This included introducing the VarioCredit product for the new Audi A1; its flexible loan contracts combined with innovative service and insurance products greatly supported the launch of the Audi A1.

In 2010, the used vehicle business was as important as before. Expanding the used vehicle programmes sparked robust volume growth in both financing and services as well as substantial improvements in the position of all brands' used vehicles.

The successful introduction of the business customer programmes, which comprises a special portfolio of automotive services for small businesses, constituted yet anoth-

Germany

er milestone and gave further momentum to our growth in the German market.

PRIVATE CUSTOMER SEGMENT

A marked reluctance to make new purchases characterised the private customer segment. It was due to the 2009 scrapping bonus that had moved some private customers to make their new vehicle purchases earlier than planned, thus depressing the market volume once the programme expired.

Volkswagen Bank GmbH further expanded its deposit business from the previous year's high level. As at the balance sheet date, the customer deposit volume was € 20.1 billion, up 3.1 % compared to 31 December 2009 (€ 19.5 billion). Volkswagen Bank GmbH succeeded in further expanding its market leadership among automotive direct banks thanks to this level of deposits. The share of these deposits in the refinancing mix of Volkswagen Bank GmbH was 61.2 % (previous year: 57.0 %).

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

Germany

FLEET CUSTOMERS

The fleet customer segment recorded substantial growth in terms of business volume, bucking general market trends. After the boom in the private customer market defined the 2009 financial year, this development normalised to the benefit of commercial buyers in the financial year just ended. Whilst the overall fleet customer market rose by 17.9 %, Volkswagen Leasing GmbH's new contract portfolio for this segment climbed by 23.0 %.

At 44.7 %, the year-on-year increase in service contracts was even more pronounced. As a pure leasing company, Volkswagen Leasing GmbH now ranks first among the automobile leasing companies in Europe. At a penetration rate of 60 %, in Germany the company is the market leader in the fleet customer business with Group vehicles.

Our focus on ecological fleet management and ecological mobility packages intensified in 2010, and our collaboration with NABU, the German Society for the Conservation of Nature, was expanded. As part of its environmental programme, Volkswagen Leasing GmbH supports the use of fuel-efficient and reduced-emission vehicles by making a contribution to NABU's climate protection project, "Renaturing the Theikenmeer Moorlands".

Customers are increasingly availing themselves of the comprehensive consulting activities of the Fleet Management Services unit. Environmental topics are gaining in importance and becoming ever more significant in fleets' company car policies; for instance, monetary incentives are being granted for reduced-emission vehicles.

The introduction of the pioneering product, "long-term car rental", which will be offered as an entry-level product for mobility services and thus close the gap in the related range of services, is but one example of the implementation of the WIR2018 strategy.

CORPORATE CUSTOMER SEGMENT

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

The volume of new and used vehicle financing contracts in the corporate customer group fell 10.9 % compared to the previous year owing to the year-on-year decline in the number of vehicles delivered and reduced idle times.

INSURANCE

Intelligent automobile and warranty insurance solutions serve to enhance customer loyalty, vehicle repair shop capacity utilisation and the sale of OEM parts. In 2010, Volkswagen Financial Services AG once again paid particular attention to the expansion of its insurance products throughout Europe in cooperation with the Group's automotive brands.

Germany

Volkswagen Financial Services AG has thus decided to bear risk on its own via Volkswagen Versicherung AG in connection with lifetime guarantees – a growth area. This will enable us to further enhance the comprehensive and customer-focused nature of our warranty products, providing yet another example of the consistent and concrete implementation of the WIR2018 strategy.

The "Safety Year 2010" car insurance campaign served to continue the successful strategy of honouring customers' investments in additional vehicle safety through incentives related to vehicle liability and comprehensive insurance. Those who opt for additional "driver assist systems" when buying certain Volkswagen, Audi or Škoda models are granted discounts of up to 10 % on the insurance premium.

NEW MOBILITY

Social and political conditions are having a growing impact on people's approach to mobility, clearly sparking a trend towards changed ways of using automobiles. We are preparing pioneering approaches to the expansion of our business model, especially taking the expected use of electrical vehicles into account.

Region Europe

GENERAL DEVELOPMENT OF BUSINESS

Region Europe at Volkswagen Financial Services AG comprises the following countries: Austria, Belgium, the Czech Republic, Estonia, France, Greece, Ireland, Italy, Latvia, Lithuania, the Netherlands, Norway, Poland, Russia, Slovakia, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

Volkswagen Financial Services AG raised the penetration rate to 31.3 % (previous year: 30.0 %) despite the difficult economic situation all across Europe and the year-on-year decline in automotive sales by 5.1 %, emerging with even more market share in 2010 than before. The portfolio of retail financing, leasing, service and insurance contracts was 1,695,000 in the reporting year (previous year: 1,493,000 contracts), thus surpassing targets thanks to the intensified collaboration with the Group's automotive brands. Our focus in the financial year just ended was on achieving the aims of the WIR2018 strategy, especially through intensive exchanges on best practices and the implementation of action plans.

COLLABORATION WITH THE GROUP'S AUTOMOTIVE BRANDS

The WIR2018 strategy is rooted in cooperation with the automotive brands of the Volkswagen Group, both at headquarters and in individual markets. In 2010, this close cooperation had a positive effect on sales and market penetration alike.

Volkswagen Financial Services AG uses the balanced scorecard as a control instrument. Regular meetings serving to define and verify compliance with goals were introduced to refine the balanced scorecard in targeted ways.

Given the successful collaboration between Volkswagen Financial Services AG and Audi AG in the market launch of the Audi A1, a project team is currently developing an integrated financial services package in cooperation with the Volkswagen brand for the market launch of the Volkswagen UP! in 2011.

Porsche Financial Services GmbH and Volkswagen Financial Services AG have agreed on cooperation models in both the United Kingdom and Spain. Whilst the coopera-

France

tion in the UK already commenced in 2010, the introduction of a branded product portfolio for Porsche in Spain is scheduled for early 2011. This cooperation aims to offer the full range of financial services to Porsche customers and the brand's dealer network. All details are defined in close cooperation with Porsche importers and Porsche Financial Services.

To complement the close cooperation with the Group brands in promoting new vehicle sales, WIR2018 is focused on four key elements of volume growth in Europe:

- the fleet business;
- the insurance business;
- the used car business; and
- the New Markets.

FLEET BUSINESS

Activities to expand the fleet business and deliver a consistent product portfolio to customers across Europe have continued. All markets are on track to achieve or even surpass fleet penetration targets. Capabilities will be further enhanced in 2011. The focus will be on building up in-house service management processing and introducing a state-of-the-art fleet reporting tool. These activities are in line with the overriding goal of standardising service levels in EU core markets and harmonising the product range for international fleet customers. Particular emphasis will be placed on the strategically important markets France, the UK and Spain.

INSURANCE BUSINESS

The insurance business is still one of the key growth areas of Volkswagen Financial Services AG in Europe. The results for 2010 show that the new business in the core products – car insurance, warranty extensions, GAP insurance and creditor protection – improved substantially year on year and surpassed targets. In particular, this was due to the successful introduction of innovative, branded insurance products tailored to customers' needs (such as the motor insurance products in the Russian market) as well as the improvement in sales in most European markets.

As before, strategic activities in Spain focused on bundling financing packages with cost-efficient insurance products. This combination is mainly aimed at young drivers and has been particularly successful among buyers of SEAT vehicles.

At the start of 2010, Volkswagen Financial Services (UK) Ltd., Milton Keynes, and Allianz Insurance plc jointly launched a new motor insurance programme in the United Kingdom. The product portfolio was enhanced further by an innovative modular premium system for the individual brands, a seven-day, no-fee insurance offer, and the use of direct sales channels.

Ireland

A variety of motor insurance products was brought to market in Russia for the Volkswagen Passenger Cars, Audi, Škoda and Volkswagen Commercial Vehicles brands. It was clear after a mere four months of activity that the car insurance sales target for all of 2010 would be achieved.

In July 2010, a new car insurance product named "Volkswagen Kasko" that had been developed specifically for the Volkswagen brand was launched in Turkey. It is sold through authorised dealers and all Allianz insurance brokers and is designed for owners of Volkswagen models up to ten years old. Given the successful launch of Volkswagen Kasko, preparations for the introduction of similar products for the Group's other automotive brands are underway. The new products offer all players – customers, dealers, brands, insurers and VDF SIGORTA ARACILIK HIZMETLERI A.S., Istanbul, Turkey – substantial added value.

In 2010, an extended warranty product was successfully launched in the Netherlands jointly with Allianz Nederland Groep N.V.

United Kingdom

USED CAR BUSINESS

The highly successful programme for young used cars that was introduced back in 2009 was continued and expanded in France, the United Kingdom, Ireland, Italy, Sweden, Spain, and the Czech Republic in 2010.

The number of new contracts rose to 145,000 in 2010, up from 121,000 the previous year, underscoring the continuous increase in new contract sales since 2007.

A variety of campaigns served to promote service plans, low-interest financing and attractive insurance packages in this market segment.

NEW MARKETS

Russia

In the third quarter of 2010, Volkswagen Financial Services AG successfully established its own bank in the Russian market and has already offered financing packages for dealers of the Group's automotive brands. The new Limited Liability Company Volkswagen Bank RUS, Moscow, will serve as a platform for the ongoing expansion of the financial services portfolio in Russia.

We plan to introduce a used vehicle warranty programme that meets the requirements of the "Das WeltAuto" scheme through select dealerships in the Moscow region. New vehicle warranty extensions will follow in a next step.

Norway

The Volkswagen MØLLER BILFINANS AS, Oslo, joint venture launched in 2009 in Norway was very successful in 2010. Its broad product range was well received by dealers and end customers alike. The penetration rate is 21.8 %.

Region Asia Pacific

GENERAL DEVELOPMENT OF BUSINESS

Volkswagen Financial Services AG does business in the Region Asia Pacific through its subsidiaries in Australia, China, India, Japan, Singapore, South Korea and Taiwan.

The Australian economy continued to grow in 2010 thanks particularly to strong global demand for the country's commodities. Volkswagen Group brands increased deliveries to customers in the highly competitive Australian automotive market by 23.3 %. The Chinese economy continued to grow at an extraordinary pace. The automotive sector has been one of the main drivers of this growth, as reflected in the increase in sales by 34.4 % to 11.27 million vehicles. At sales of 1.92 million vehicles, an increase of 37.4 % over the strong previous year, the Volkswagen Group continued along its growth trajectory. China thus remains both the world's largest automotive market and the largest individual market for Volkswagen Group vehicles.

India is another key growth market in the region – in both general economic terms and in regards to the automotive market. The strong growth momentum of India's economy continued, just as in China, largely delinking itself from recessionary trends in other markets. The Volkswagen Group sold 53,000 new vehicles, an increase of 181% compared to 2009, thanks also to enhanced production capacities resulting from the construction of a new plant.

In 2010, the Japanese economy did not fully recover from the financial crisis. Domestic demand remained weak. However, Volkswagen Passenger Cars and Audi increased both volume and market share because the Japanese government promoted new vehicle sales through scrapping bonuses and tax incentives for environmentally friendly vehicles. Volkswagen Passenger Cars defended its position as the leading brand in the import vehicle segment.

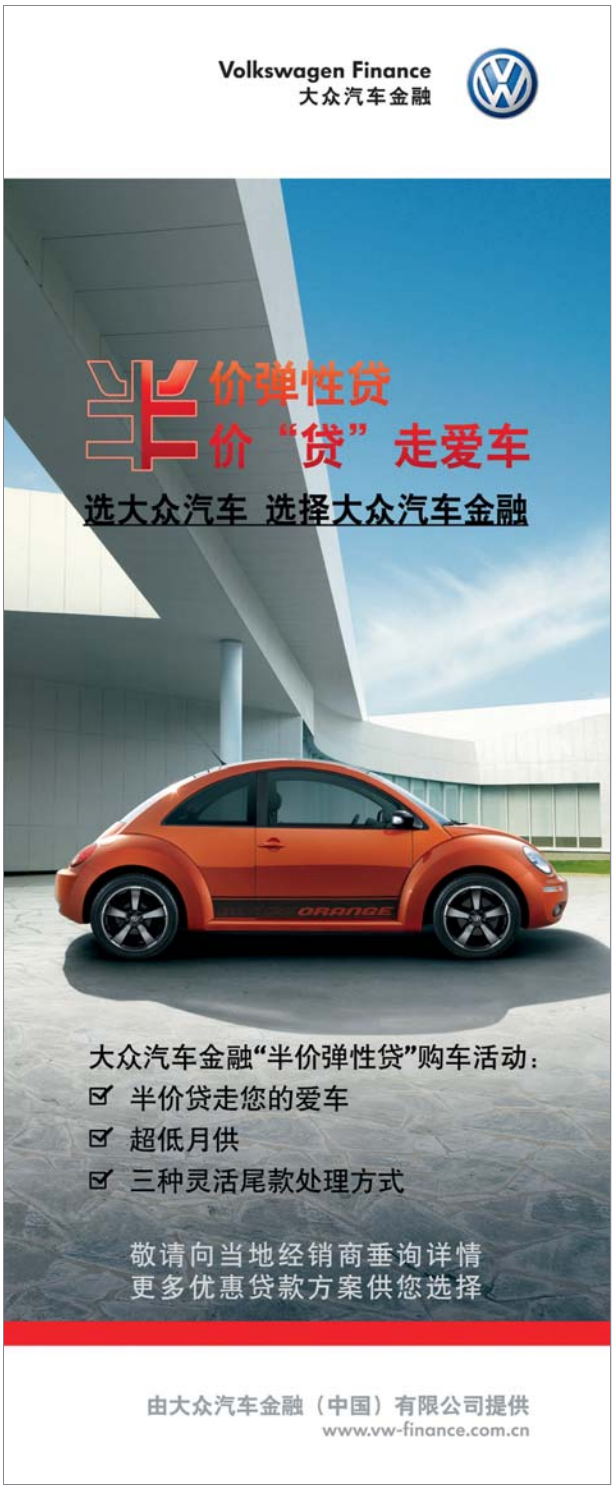
The Taiwanese market also posted strong growth thanks in part to a ground-breaking economic framework agreement with the People's Republic of China, which provides a solid basis for exports to China. The People's Republic of China is the largest and most important trading partner of the export-led Taiwanese economy. The automotive market continued to grow in 2010. Starting from a relatively low level in absolute terms, the Volkswagen Group substantially outperformed the market year on year in both sales and market share. In 2010, the number of new contracts in the Region Asia Pacific rose by about 15 % over the previous year to just under 78,000 contracts. The prerequisites for benefiting in future from the increase in Volkswagen Group automotive brand sales – some of which are substantial – were put in place for all companies selling automotive financial services.

COLLABORATION WITH THE GROUP'S AUTOMOTIVE BRANDS

All subsidiaries in the region have intensified their cooperation with Group partners and successfully implemented a number of joint initiatives.

China

The decision to launch the "Lighthouse" strategy in China was made in the middle of the reporting year. It focuses on the import vehicles of the Volkswagen Group. Volkswagen Finance (China) Co., Ltd., Beijing, is using special service packages and product innovations for wholesale and retail customers to highlight the innovative power of Volkswagen Financial Services AG in this dynamic segment of the Volkswagen Group. Within just a few months, Volkswagen Finance (China) Co., Ltd. posted a substantial increase in retail finance penetration and simultaneously boosted the number of dealers that use the company's offers.



China

Volkswagen Finance (China) Co., Ltd. initiated a number of joint campaigns related to the "volume" and "customer" action areas in cooperation with Volkswagen Import Company Ltd., Tianjin, the Group company responsible for Volkswagen's import business in China. These campaigns have already had a positive impact for instance on penetration and the quality of services.

Other growth areas are being explored in close collaboration with all Group companies. Projects aimed at launching the used vehicle, fleet and insurance business have started. Volkswagen Finance (China) Co., Ltd. also plans to launch the retail and wholesale financing business in cooperation with Porsche Sales China in 2011.

The framework agreement between Volkswagen Financial Services Taiwan LTD., Taipei, and the importer of the Volkswagen Passenger Cars and Škoda brands, as well as the close cooperation with AUDI Taiwan Co., Ltd., are other examples of successful collaboration with the brands. The point of sale (POS) campaigns and materials, dealer training programmes as well as the exclusive assignment of personnel from Volkswagen Financial Services Taiwan LTD. to the AUDI brand are particularly noteworthy in this connection.

As part of the WIR2018 strategy, VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED, Botany, launched a number of new financing programmes and initiatives jointly with the importers of the Volkswagen Group. This includes attractive low-interest loans, guaranteed residual values, offers for young used vehicles and a new rate lock pilot programme. These programmes serve to help customers make purchasing decisions and promote Group brand sales.

In Japan, the collaboration between the Volkswagen Group and Audi Japan K.K., Tokyo, led to the implementation of a range of low-interest offers, including a successful scheme for young used cars.

NEW VEHICLE FINANCING

Australia

VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED, Botany, increased total earning assets by 39 % compared to the previous year. This stemmed from the sharp rise in the number of new retail contracts to 15,000 (+ 6 % year on year) and the successful acquisition of dealers for floorplan financing.

Australia

China
Volkswagen Finance (China) Co., Ltd. boosted the number of new contracts in the retail financing business by 77 % year on year to 51,000 contracts (previous year: 29,000 contracts). This positive development underscores the excellent opportunities for growth. At present, only about 10 % of the vehicle purchases are financed, indicating additional new customer potential in future in connection with automotive financial services.

India
Our Indian subsidiary, VOLKSWAGEN FINANCE PRIVATE LIMITED, Mumbai, opened for business in 2009. As a marketing company for the financing business, it has put in place cooperation agreements with select banks. In the insurance segment, the company works exclusively with Bajaj Allianz General Insurance Company Limited, a subsidiary of Allianz AG. With the help of its partners, the company has achieved high penetration rates for the Volkswagen Passenger Cars, Audi and Škoda brands. Given the strong growth of the automotive partners and our own ambitious plans for the future, it was decided to enter the financing business in 2011.

Japan
The new car retail financing business of VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD., Tokyo, posted growth due to rising demand in the automotive market. The company provides comprehensive support to the dealer network by refining and expanding its tailor-made customer relationship management (CRM) infrastructure and related activities. This development is occurring against the backdrop that since December 2010, more than one half of all Volkswagen dealers that used to be part of the Toyota distributorship have entered into direct dealer contracts with VOLKSWAGEN Group Japan K.K.

Taiwan
Volkswagen Financial Services Taiwan LTD., Taipei, improved its finance penetration rate thanks to a new cooperation agreement with the privately owned importer of Volkswagen and Škoda.

INSURANCE BUSINESS

Volkswagen Financial Services AG successfully offers insurance services in Australia, India and Japan. Furthermore, the company's Taiwanese and Chinese subsidiaries have conducted market surveys to ensure the success of the insurance business in their respective markets from 2011.

Australia

VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED, Botany, offers a range of insurance products in collaboration with Allianz Australia Insurance Limited. The number of new policies written rose substantially in 2010.

India

Pursuant to a partnership with Bajaj Allianz General Insurance Company Limited, a subsidiary of the Allianz Group, in India customised insurance products and services are offered to retail and wholesale customers of the Volkswagen Passenger Cars, Audi and Škoda brands. The offerings are not limited to car insurance but instead also comprise warranty extensions as well as maintenance and service plans sold in cooperation with the Group's subsidiary, LeasePlan India.

Japan

VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD., Tokyo, offers car insurance in cooperation with leading Japanese insurers. This business has generated a stable revenue stream for the Group's Japanese financial services subsidiary.

NEW MARKETS

South Korea

In mid-2010, Volkswagen Financial Services AG decided to enter the South Korean market by establishing a wholly-owned subsidiary. Volkswagen Financial Services Korea Co., Ltd., Seoul, has been founded in the meantime and preparations for the 2011 launch of its operating business are in full swing. In future, the company will offer wholesale and retail products and services to push the sales of Volkswagen Passenger Cars, Audi and Bentley in the Korean market.

ASEAN

Furthermore, Volkswagen Financial Services AG is also participating in the Volkswagen Group's initiatives in ASEAN countries with the aim of strengthening the market share of the Group's automotive brands in these markets too.

Region North America / Region South America

GENERAL DEVELOPMENT OF BUSINESS

In the Region North America, Volkswagen Financial Services AG is active in Mexico; in the Region South America, it is active in Argentina and in Brazil. The automobile industry with its large customer base is one of the key economic sectors in these regions.

As far as its automotive industry's significance is concerned, Brazil has a leading position given both the presence of global manufacturers and the industry's growth potential. In 2010, the country's automotive production totalled 3.5 million vehicles. This means that the Brazilian car market – including trucks and buses – expanded by 12 % on average. Today it is one of the largest markets worldwide. In this environment, Volkswagen Brazil's had a passenger car market share of 21% in 2010. The respective penetration rates were 26 % in the passenger car segment and 48 % in the truck and bus segment. The close cooperation with MAN in the truck and bus segment was very successful.

The vehicle financing segment in the Mexican market on the whole contracted in 2010 and the large majority of captive providers and banks had to contend with declining penetration rates. The companies of Volkswagen Financial Services AG in Mexico were among the few captive providers of automotive financing that managed to grow, reaching a penetration rate of 26 % in 2010.

The Argentinian market experienced a remarkable recovery in 2010 after a moderate retreat in the previous year triggered by the effects of the global financial crisis. Compared to 2009, vehicle sales increased by approximately 29 % to 655,000, surpassing the previous record of 602,000 vehicles in 2008. At 132,000 vehicles, Volkswagen Argentina's sales in 2010 were 23 % higher year on year. Among other things, this was due to the successful market

Brazil

launch of the Amarok pick-up model. Hence Volkswagen Argentina has successfully defended its market leadership for the seventh year in a row.

In the Region South America on the whole, Volkswagen Financial Services AG expanded its contract volume by 5.7 % to 454,000 new customer financing, leasing, service and insurance contracts. The penetration rate in the financial services segment rose from 24.2 % in 2009 to 24.5 % in 2010.

COLLABORATION WITH THE GROUP'S AUTOMOTIVE BRANDS

In 2010, the company developed a number of marketing campaigns in the Regions North America and South America in cooperation with the Group's automotive brands.

In Brazil, a new insurance business model was introduced together with Volkswagen do Brasil to strengthen the company's competitiveness. Campaigns aimed specifically at enhancing customer relationships were initiated in connection with the market launch of the New Fox, the New Space Fox, the Gol Seleção and the Amarok. The products of our Brazilian companies were also integrated into the training programmes of Volkswagen. A special financing programme aimed to motivate dealers to purchase more demo vehicles. A particularly cost-efficient insurance package was put together for the Amarok. Subsidised interest rates and special conditions were offered in cooperation with the brands in the fleet segment.

Loyalty programmes, customer retention campaigns, dealer campaigns and changes in the sales process helped to substantially improve strategic collaboration with the brands in Mexico. For instance, the new Jetta Bicentenario and the 2011 Golf Sportwagen were brought to market bundled with an exclusive mobility package. Additional incentives were offered for both the A3 and the A4 Audi models as well as for the SEAT Ibiza. The Company started to implement a joint balanced scorecard as part of the WIR2018 strategy in order to improve collaboration with the brands.

Volkswagen Credit Argentina and Volkswagen Argentina launched the "Volkswagen Mobility" offer together 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. The communications campaign, which includes visiting dealerships, as well as advertising and press events, was carried out in coordination with Volkswagen Argentina.

PRIVATE CUSTOMER BUSINESS

Brazil

A few major providers are active in Brazil's highly developed automotive financing market. Despite the highly competitive market, a remarkable result was achieved in 2010. A total of 203,000 new and used vehicles were financed in 2010, a year-on-year increase of 2.5 %. The business volume in the passenger car and light commercial vehicle segment rose slightly until March 2010, especially as a result of tax incentives. The reduction in government stimulus funding in the second quarter also had an impact on the financing business. In the truck and bus segment, the company's share of the financed vehicles market was 55 %. This increase was triggered especially by the new economic stimulus package that was enacted by the National Bank in July 2010.

Mexico

In the Mexican market, Volkswagen Financial Services AG boosted its share in the financing of both new and used vehicles by 10 % to 61%. More than 40,000 vehicles were financed in 2010 on the whole. This corresponds to a year-on-year growth rate of 15 %. New products consisted of pilot programmes with terms of 47 and 60 months subject to special statutory guarantees. Compared to the same period the previous year, the used vehicle business rose by 37 %.

Argentina

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

FLEET CUSTOMERS / INTERNATIONAL FLEET BUSINESS

Brazil

The quality of the fleet customer portfolio in the Brazilian market has been improving further since March 2009. Volkswagen Brazil sold 185,000 passenger cars and light commercial vehicles in the period under review, an increase of 17 % compared to the previous year.

Mexico

The company's strategy in the fleet business is to focus primarily on small and mid-cap companies. VOLKSWAGEN LEASING SA DE CV, Puebla, offers its customers a broad range of products such as maintenance and warranty extensions. The leasing business rose by 4 % year on year in 2010.

WHOLESALE FINANCING

Brazil

The wholesale financing offered exclusively by Banco Volkswagen S.A., São Paulo, was utilised by 90 % of the Brazilian dealers (VW, MAN, Audi). In the used car segment, Banco Volkswagen S.A., São Paulo, had to contend with a decline of 14 % to 14.9,000 vehicles (VW, MAN, Audi). Its financing volume fell by 1.4 % overall.

Mexico

The introduction of a used vehicle financing programme for dealers in the second quarter of 2010 intensified dealer loyalty.

INSURANCE BUSINESS

Brazil

The penetration rate in the Brazilian insurance business was 5.4 %; the plan is to boost it in the coming years through a cooperation deal with a global insurer.

Mexico

Improvements in the products, negotiations with insurers regarding better terms and campaigns to promote mobility packages in cooperation with the brands were at the centre of our activities in 2010. The share of vehicle insurance contracts that were financed from the start in 2010 was 40 %.

CONSÓRCIO PRODUCTS

In 2010, demand for Consórcio products – a combination of savings and lotteries – continued to grow in South America. 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, monthly sales rose by 21%. The share of Volkswagen Consórcio in the market on the whole increased to 9 % in 2010.

Mexico

MANAGEMENT REPORT

Development of business
Solid growth after the crisis

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

RECOVERY OF GLOBAL ECONOMY CONTINUES

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

North America

After declining by 2.6% in 2009, the US economy achieved a turnaround and posted growth of 2.9% in the reporting period. However, the high unemployment rate fell but slightly despite the government's highly expansionary monetary policy. The US dollar once again shed much of its value relative to the euro, after attaining its high for the year in June 2010. Canada's gross domestic product (GDP) rose by 2.9% (previous year: –2.5%); and the Mexican economy grew by 5.4% (previous year: –6.1%).

South America

At growth of 7.5% (previous year: –0.6%) in Brazil and 8.3% (previous year: 0.9%) in Argentina, the process of recovery in South America's largest countries developed strong momentum. Whilst the average inflation rate in Brazil was comparable to the previous year, in Argentina it accelerated substantially.

Asia Pacific

Just as in 2009 the Asian emerging markets recorded the highest growth rates worldwide in 2010 as well, although the pace of expansion slowed slightly at year's end. At 10.3% (previous year: 9.2%), China's GDP once again surpassed the previous year's level. After a sharp 6.3% drop in GDP in 2009, Japan posted positive growth of 4.3% but deflation remained unaffected. India's economy grew at a robust pace of 8.5% (previous year: 6.5%).

Europe/Other markets

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

At a growth rate of 2.7% (previous year: –1.7%), South Africa succeeded in overcoming the recession sooner than expected although the significant jump in the value of the rand had a dampening effect on this development.

Germany

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

FINANCIAL MARKETS

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

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

North America

The signs of a slowdown in Mexico's growth indicate that its monetary policy will not change for the foreseeable future; falling prime rates signal that the capital market is open for business.

South America

Brazil's financial markets continued to develop along a stable trajectory, largely unaffected by the global crisis scenario. Liquidity in the interbank market did not dry up and, after an initial lateral price movement, short-term interest rates rose in the second half of the year whilst long-term interest rates remained stable.

Asia Pacific

In Japan interest rates remained stable at a low level, the capital markets were open after a hesitant start and the market for short-term debentures flourished at tightening risk premiums. In Australia the capital markets were open at substantially rising interest rates. Interest rates in China were relatively stable, following an upward trend only at the end of the year fuelled by fears of inflation. There were no capital market or ABS activities due to the regulatory environment.

Europe

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

Germany

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

GLOBAL AUTOMOBILE BUSINESS DEVELOPS BETTER THAN EXPECTED

In 2010, passenger car sales rose worldwide by 11.4% to 58.7 million vehicles. Posting the second-best sales volume ever, the industry just barely missed the record sales it posted in 2007 – the year before the crisis. The Region Asia Pacific turned out to be the key driver of economic momentum especially due to the above-average increase in new passenger car registrations in China. Demand in North and South America also rose substantially year on year. In the European market however, sales of new vehicles fell, Whilst Central and Eastern Europe recorded increases in new passenger car registrations – especially due to high growth in Russia – Western Europe missed the previous year's level by a substantial margin. among other things due to the sharp decline in demand for passenger cars in Germany once the scrapping bonus had expired. The South African automotive market expanded for the first time after three years of declining growth.

In 2010, the established markets were greatly affected by the governmental stimulus packages. Whilst these programmes shifted demand in favour of small cars, the trend was reversed again as soon as the scrapping bonus ended. Purchases finally made by people who had delayed their purchasing decisions helped the Volkswagen Group to boost its sales and expand its market share. Governmental subsidies substantially lowered the risk of major downturns in individual markets. The decline in the value of the euro in 2010 enhanced opportunities for exports to countries outside the euro zone. Consistently working the major markets (China and Brazil), expanding its activities in India and Russia as well as satisfying renewed demand in Russia are becoming ever more important to the automobile industry.

Free trade continues to improve in Asia, Africa and Latin America.

North America

Demand for passenger cars and light commercial vehicles in the North American market rose in the 2010 financial year by 10.4% over the previous year, during which consumption had been very restrained. In particular, the improvement in US economic conditions stimulated automotive demand. The automobile industry in the US posted year-on-year growth in sales of passenger cars (+5.2% to 6.0 million units) as well as light commercial vehicles (+18.2% to 5.6 million units). Yet the number of new registrations was the second-worst in 28 years. In Canada, the sales volume rose 6.6% to 1.6 million vehicles during the reporting year. The sales volume in the Mexican market also climbed year on year, specifically, by 8.7% to 0.8 million units.

South America

In 2010, vehicle sales in the South American automotive markets rose year on year, even surpassing the previous record that was set in 2008. Sales in Brazil also reached a new high in 2010. The government's economic stimulus package was the main driver of this positive development, thus helping to push the increase in new registrations by 10.6% to 3.3 million passenger cars and light commercial vehicles. At 767,000 units (+61.4%), Brazil's vehicle exports rose year on year for the first time since 2005. The Argentinean passenger car market also benefited from the automobile market's good climate in South America. At 483,000 vehicles (+27.6%), passenger car sales rose substantially in the reporting year, surpassing the 2008 record.

Asia Pacific

In the financial year just ended, the Region Asia Pacific experienced the most dynamic growth by far. The Chinese passenger car market posted the largest sales increase worldwide in absolute terms for the ninth year in a row. At an increase of 3.0 million to 11.5 million vehicles (+35.1%), new passenger car registrations substantially exceeded the previous year's level yet again. Domestic sales benefited primarily from governmental incentives. New passenger car registrations in Japan rose by 7.4% over the previous year's very low level to 4.2 million vehicles, putting a stop to the downward trend in recent years. Tax incentives and scrapping bonuses supported the Japanese new vehicle business until September 2010. The Indian passenger car market posted large double-digit growth rates in the reporting year. Sales increased year on year by 29.8% to 2.2 million units. Rising incomes and the broader range of models – especially in the mini and small vehicle segment – accelerated the upturn.

Europe/Other markets

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

In Central and Eastern Europe, new passenger car registrations recovered but slightly in the reporting year from the steep collapse in demand the previous year; the market on the whole expanded thanks mainly to the Russian automotive market, which showed renewed strength. In the financial year just ended, passenger car sales rose by 29.0% to 1.8 million units due especially to an ongoing governmental economic stimulus package that provides for grants and lower-cost loans in connection with purchases of new vehicles manufactured in Russia. Fewer passenger cars were sold overall in the Central European EU member states during the reporting year than in 2009. Hungary (–32.4%), Romania (–17.0%) and Slovakia (–14.3%) declined whilst Poland (+1.8%) and the Czech Republic (+0.7%) grew. In Turkey passenger car sales surpassed the previous year's figure by 37.8%.

At growth of 29.8% to 335,000 units, demand for passenger cars in the South African market rose for the first time in four years, among other things due to improved credit terms.

Germany

New passenger car registrations in Germany fell by 23.4% to 2.9 million vehicles in the 2010 financial year. The one-off early effects resulting from the scrapping bonus enacted in 2009 were the main factor in this sharp decline to the lowest level ever since German reunification. But the German commercial vehicle market recovered. At 282,000 newly registered vehicles, it surpassed the previous year's weak result by 16.5%. German manufacturers boosted production of both passenger cars and commercial vehicles in domestic factories by 13.4% to 5.9 million units thanks in particular to strong demand from abroad, in turn causing exports to soar by 25.0% to 4.5 million vehicles. Despite declining sales figures, the Volkswagen Group managed to further expand its market leadership in Germany by increasing its market share to 35.1% (previous year: 34.2%).

	VEHICLE DELIVERIES		
	2010	2009[1]	Change in %[1]
Worldwide	7,203,094	6,336,319	+ 13.7
Volkswagen Passenger Cars	4,502,827	3,954,551	+ 13.9
Audi	1,092,411	949,729	+ 15.0
Škoda	762,600	684,226	+ 11.5
SEAT	339,501	336,683	+ 0.8
Bentley	5,117	4,616	+ 10.9
Lamborghini	1,302	1,515	– 14.1
Volkswagen Commercial Vehicles	435,584	361,506	+ 20.5
Scania	63,712	43,443	+ 46.7
Bugatti	40	50	– 20.0

1 The 2009 deliveries and markets were updated due to statistical extrapolation.

OVERALL APPRAISAL OF THE DEVELOPMENT OF BUSINESS

In the view of the Board of Management of Volkswagen Financial Services AG, business developed positively in 2010. Earnings in 2010 exceeded the forecasts, improving substantially over the level in 2009.

New business in the international automotive markets did not stagnate as had been anticipated owing to lowered expectations for car sales, and the global economy recovered much more rapidly than forecasted. In addition to this development, our WIR2018 strategy was consistently implemented.

Regulatory requirements were tightened in 2010, particularly due to the amendment of the European Capital Requirements Directive. The changes focus principally on a tightening of the regulations governing major loan facilities.

In the 2010 financial year Volkswagen Financial Services AG lifted its contract volume beyond the previous year's level despite the expiry of the governmental economic stimulus packages. Margins rose especially due to lower risk and refinancing costs. 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.

Supported by a Groupwide programme for young used cars that was launched in 2009 in Europe, the used vehicle market continued to develop positively in 2010. Promotional campaigns entailing service plans, low-interest financing and attractive insurance packages were offered.

Compared to 2009 the financial services business related to the strategically important used vehicle segment grew by 17% overall in Europe. We consistently pursued our internationalisation strategy aimed at achieving sustainable and profitable growth. This entailed developing markets in regions with major potential as well as successfully expanding and consolidating existing business opportunities.

- Our application for a banking licence from the Russian Central Bank was successful. As a result, besides offering leasing products for corporate customers as well as financing and insurance products for private customers via existing companies, we can now offer wholesale financing through Limited Liability Company Volkswagen Bank RUS, Moscow, as well.
- VOLKSWAGEN FINANCE PRIVATE LIMITED, Mumbai, India, which had been established in 2009, developed successfully in 2010.
- July 2010 saw the establishment of a South Korean subsidiary named Volkswagen Financial Services Korea Co., Ltd. Its operating business will be launched in 2011.
- The Norwegian joint venture established together with a local importer toward the end of 2009 intensified its activities and managed to benefit from the positive developments in the local market. Cooperative financing and leasing campaigns by both joint venture partners for private and corporate customers drove up sales of the Volkswagen Passenger Cars, Audi, Škoda and Volkswagen Commercial Vehicles brands.

Steering, organisation and equity investments
New structures and growth

The realignment of our focus on customer groups in the German market continued. Volkswagen Financial Services AG invested in both new and growing markets as part of the WIR2018 strategy.

KEY OBJECTIVES

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.

ORGANISATION OF VOLKSWAGEN FINANCIAL SERVICES AG

In 2010 the company consistently pursued its customer-focused realignment in the German market that had been initiated incrementally in 2009. The sales department of the Insurance division was fully integrated into the individual and corporate customer segment.

The prerequisites for substantially improving the quality of our financial services for customers and dealers alike were put in place in keeping with the watchword, "learn from the past and apply the best to a viable structure that is adapted to current circumstances".

Volkswagen Financial Services AG provides financial services to the following customer groups: Individual Customers, Corporate Customers, Fleet Customers and Direct Banking Customers. Our structural organisation is now fully aligned with these customer groups. In future units with overall responsibility will carry out the work under the direction of the given customer group. The close integration of marketing, sales and customer service eliminates superfluous interfaces and streamlines processes. Cross-divisional functions such as Internal Services and Information Technology will be placed under a single management to leverage additional synergies and ensure the quality of services.

CHANGES IN EQUITY INVESTMENTS

In July 2010 Volkswagen Financial Services AG established a wholly-owned subsidiary in South Korea. The new company is called Volkswagen Financial Services Korea Co., Ltd., Seoul, and will offer financial services for the brands Volkswagen Passenger Cars, Audi and Bentley. July also saw the establishment of the wholly-owned subsidiary Limited Liability Company Volkswagen Bank RUS, Moscow, in Russia; its purpose is to offer financing for the Volkswagen Passenger Cars, Audi and Škoda brands. With the aim of strengthening the companies' equity, in 2010 Volkswagen Financial Services AG increased the capital of Volkswagen Financial Services N.V., Amsterdam, the Netherlands, by a total of € 478 million in several steps; that of VOLKSWAGEN MØLLER BILFINANS AS, Oslo, Norway, by a total of € 19 million in two steps; that of VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED, Botany, Australia, by € 19 million; that of Volkswagen Versicherung AG, Braunschweig, Germany, by € 10 million; and that of VOLKSWAGEN FINANCE PRIVATE LIMITED, Mumbai, India, by a total of € 7 million in two steps. 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.

In November 2010 Volkswagen Reinsurance AG was renamed Volkswagen Versicherung AG. A branch was established in France and registered in December 2010 in connection with the planned 2011 launch of the warranty insurance business abroad. The approval of the French regulatory agency is expected in the first quarter of 2011.

In November Volkswagen AG increased the equity of Volkswagen Financial Services AG by € 600 million given anticipated growth in both existing and new markets. Also in November, Volkswagen Financial Services AG increased the equity of Volkswagen Bank GmbH by € 350 million.

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/listofholdings2010.

Analysis of the Group's business development and position

Substantial improvement in earnings

Larger volumes and better margins enabled Volkswagen Financial Services AG to substantially increase its earnings.

RESULTS OF OPERATIONS

The 2010 financial year was defined by the global economic recovery.

The pre-tax result of € 870 million clearly surpassed the previous year's level of € 554 million (+57.0%). The return on equity rose accordingly to 13.1% (previous year: 8.5%). In this connection larger volumes and better margins had a particularly positive effect given improved refinancing conditions.

At € 2,355 million, the net income from lending, leasing and insurance transactions before risk provisions substantially surpassed the previous year's result due to the positive development of business in almost all regions.

Risk costs were lower than the previous year but had not yet returned to pre-crisis levels.

The net commission income was lower year on year, especially due to higher dealer bonuses stemming from positive sales a year earlier.

At € 185 million, general administration expenses were higher year on year owing to tightened banking regulations, volume effects from the expansion of business as well as the implementation of strategic and IT projects.

The cost/income ratio improved to 60% (previous year : 69%).

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 € 125 million and thus € 34 million higher year on year due to higher margins and the stabilising of residual values.

Taking into account the result from the measurement of derivative financial instruments in the amount of € 46 million (previous year: € -45 million) and the remaining earnings components, the net income of the Volkswagen Financial Services AG Group for the year was € 623 million (+57.7%).

The profit made by Volkswagen Financial Services AG in the amount of € 810 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.

The German Volkswagen Financial Services AG Group companies were successful in what is a saturated market and made a substantial contribution to the earnings of Volkswagen Financial Services AG. Sales were promoted by systematically bundling excellent vehicles with attractive financial services, in effect integrating customers even more closely into the value chain of both the Volkswagen Group and the dealer organisation.

With about 57.8% 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 € 501 million (previous year: € 321 million).

Volkswagen Bank GmbH maintained its strong market position in 2010, supported by an attractive product range and the loyalty of customers and dealers alike. Earnings improved substantially given the slight increase in customer lending and deposit volumes. They enabled Volkswagen Bank GmbH once again to make a substantial contribution to the success of Volkswagen Financial Services AG.

In 2010 Volkswagen Leasing GmbH again increased the number of leasing contracts compared to the previous year despite the intensely competitive market environment, thus continuing to account for a major portion of the Group's profit.

Volkswagen Versicherungsdienst GmbH again succeeded in consolidating its portfolio of vehicle and warranty insurance contracts at a high level in 2010, despite the difficult market environment owing to low automotive demand. Automotive demand declined because the scrapping bonus had been granted the previous year to force up new vehicle sales, resulting in a one-off early effect. The vehicle portfolio stabilised at about one million contracts thanks to the continuation of tried and tested product and package strategies as well as comprehensive sales activities. The positive trend in the strategically important warranty insurance business continued unabated. At year's end the number of warranty insurance contracts again was approximately 800,000.

Volkswagen Versicherungsvermittlung GmbH further reduced insurance costs and premiums for the Volkswagen Group in 2010 while simultaneously optimising approaches to insurance coverage. Hence it made yet another stable and positive contribution to Group profits.

All but two of the fully-consolidated foreign financial services companies belonging to Volkswagen Financial Services AG generated positive 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 € 60.1 billion, and thus accounted for approximately 92% 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 € 3.9 billion or 14.7% to € 30.5 billion in the year just ended. The number of new contracts amounted to 1,086,000 (-0.3% versus 2009), which was just short of the previous year's record figure. This meant that the number of current contracts rose to 2,835,000 by the end of the year (+1.0%). With a volume of 1,813,000 contracts (previous year: 1,940,000), 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 € 8.8 billion (+5.2%).

Receivables from leasing transactions amounted to € 13.6 billion, which is a decline compared to the previous year (– 2.1%). Leased assets, on the other hand, saw growth of € 1.3 billion, rising to € 5.0 billion (+35.7%).

At 431,000, the number of new leasing contracts in the reporting year was up compared to the previous year (+12.5%). As at 31 December 2010, there were 1,120,000 leased vehicles in stock, which is an increase of 1.7% 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 802,000 (+5.0%) leased vehicles.

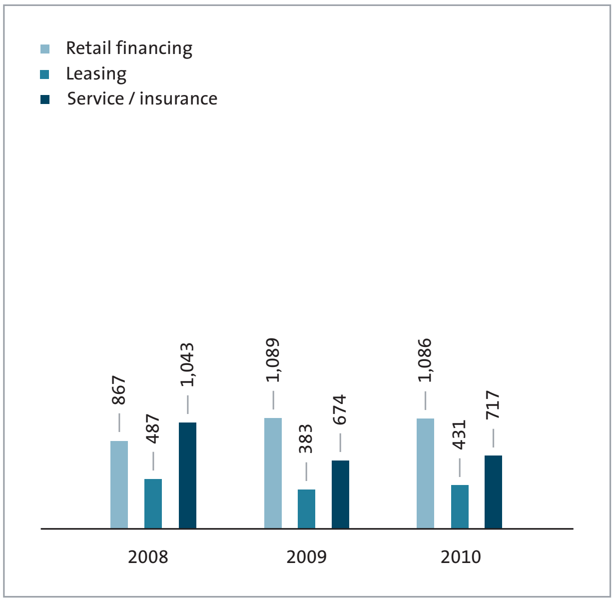
CURRENT CONTRACTS, NEW CONTRACTS AND CONTRACT VOLUME

in thousands (as at 31.12.2010)	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	6,144	5,243	3,548	304	543	187	182	719
Retail financing	2,835	2,199	1,485	142	302	94	115	521
Leasing	1,120	1,010	784	44	47	57	3	107
Service/insurance	2,189	2,034	1,279	118	194	36	64	91
New contracts	2,234	1,876	1,111	138	302	90	53	305
Retail financing	1,086	801	453	56	163	56	37	248
Leasing	431	410	326	15	20	22	1	20
Service/insurance	717	665	332	67	119	12	15	37
in € million (as at 31.12.2010)								
Receivables from customers arising from								
Retail financing	30,505	22,091	14,901	1,186	3,505	668	2,012	6,402
Wholesale financing	8,828	6,896	3,160	582	1,034	812	521	1,411
Leasing	13,643	12,677	10,522	517	76	751	110	856
Leased assets	4,974	4,973	3,641	317	607	181	1	-
in % (as at 31.12.2010)								
Penetration rates*	30.0	31.3	48.8	25.4	29.7	26.2	22.0	27.1

* New contracts for new Group vehicles divided by deliveries of Group vehicles.

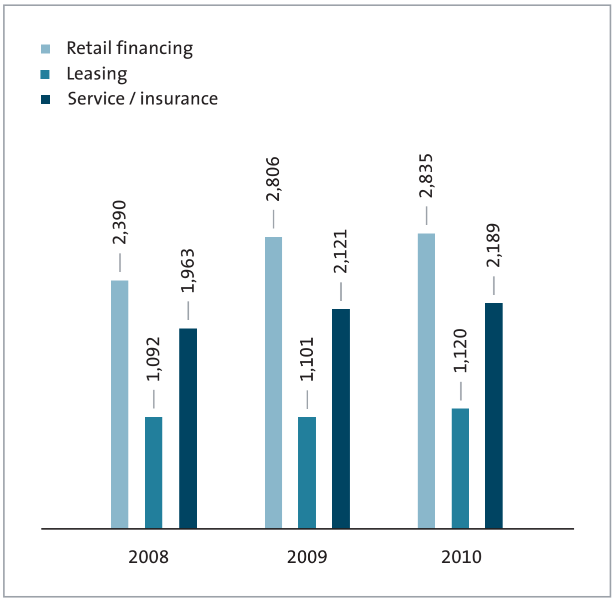
DEVELOPMENT OF NEW CONTRACTS

in thousand contracts



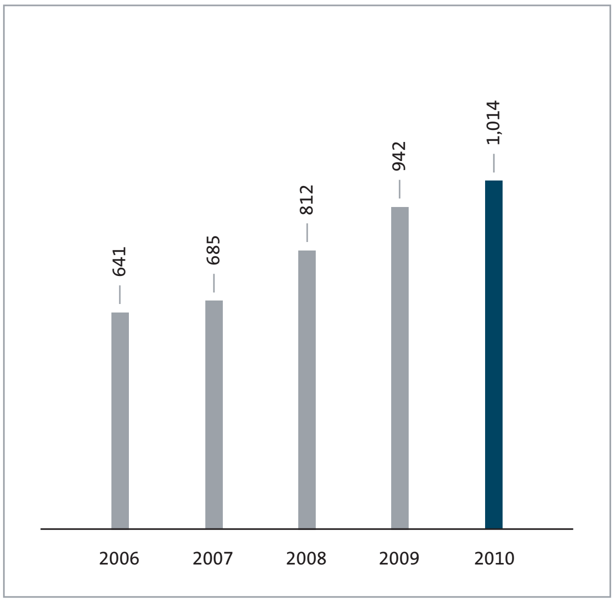
DEVELOPMENT OF CURRENT CONTRACTS

in thousand contracts



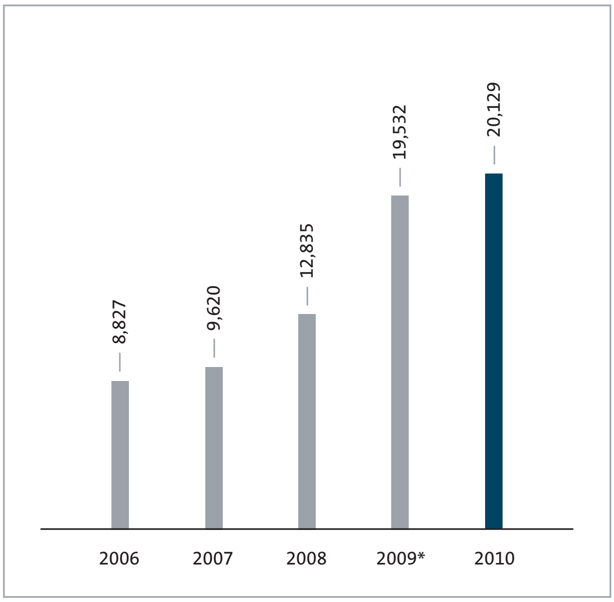
DIRECT BANKING CUSTOMERS

Lending and deposit business and borrowings (in thousands)



CUSTOMER DEPOSITS

in € million



* 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 € 65.3 billion (+8.4%). This increase is essentially due to the growth in receivables from customers (+14.7%) and leased assets (+35.7%), reflecting the expanded business in the year just ended.

At the end of the year, the service and insurance contract portfolio contained 2,189,000 contracts (previous year: 2,121,000). At 717,000 contracts (previous year: 674,000), the volume of new business was 6.4% 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 (+10.1%), liabilities to customers in the amount of € 26.0 billion (+13.0%), as well as securitised liabilities in the amount of € 20.6 billion (+1.2%). 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 € 20.1 billion (+3.1%) as at 31 December 2010. With this level of deposits, Volkswagen Bank GmbH continues to be one of the largest players in the sector. The bank had 1,014,000 direct banking customers (+8.0%) as at 31 December 2010.

EQUITY

The subscribed capital of Volkswagen Financial Services AG remained unchanged at € 441 million in the 2010 financial year. IFRS equity was € 7.0 billion (previous year: € 6.3 billion). This yields an equity ratio of 10.7% relative to the total equity and liabilities of € 65.3 billion, which is above average in comparison to international companies.

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%.

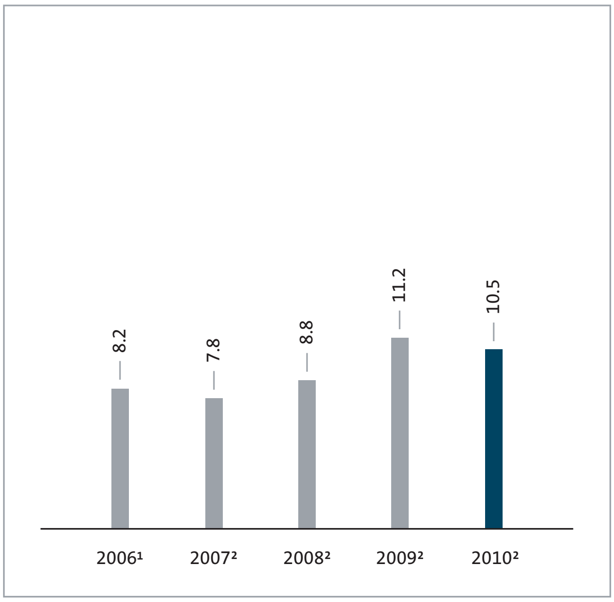
The requirements defined under the "Basel II" framework comprise three pillars: minimum capital requirements (Pillar I), a supervisory review process to ensure that banks have adequate capital to support all the risks in their business (Pillar II), as well as disclosure requirements (Pillar III). Volkswagen 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 2010 was € 51.2 billion, a slight increase compared to the previous year (€ 44.7 billion). This increase is mainly due to the increase in business volume.

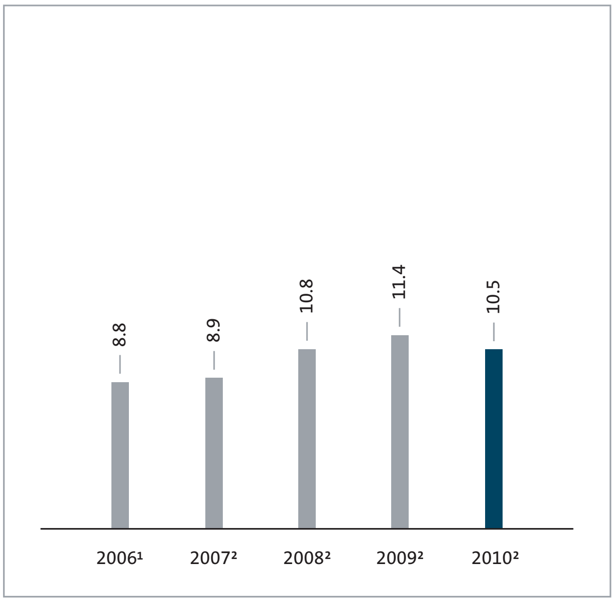
The following charts contain details regarding the composition of own funds and their changes compared to 2009 as well as the aggregate risk position:

CORE CAPITAL RATIO UNDER THE SOLVENCY REGULATION OF THE FINANCIAL HOLDING GROUP AS AT 31.12.
Figures in %



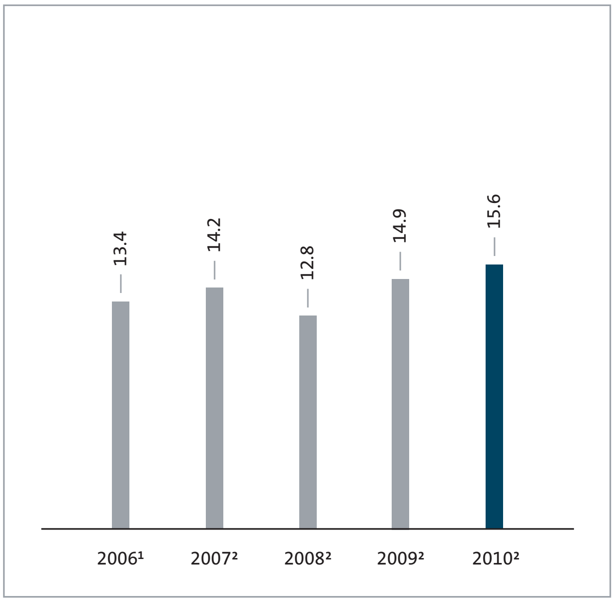
1 Core capital ratio under Principle I of the financial holding group as at 31.12.
2 Core capital ratio = Core capital/ ((Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100

OVERALL RATIO UNDER THE SOLVENCY REGULATION OF THE FINANCIAL HOLDING GROUP AS AT 31.12.
Figures in %



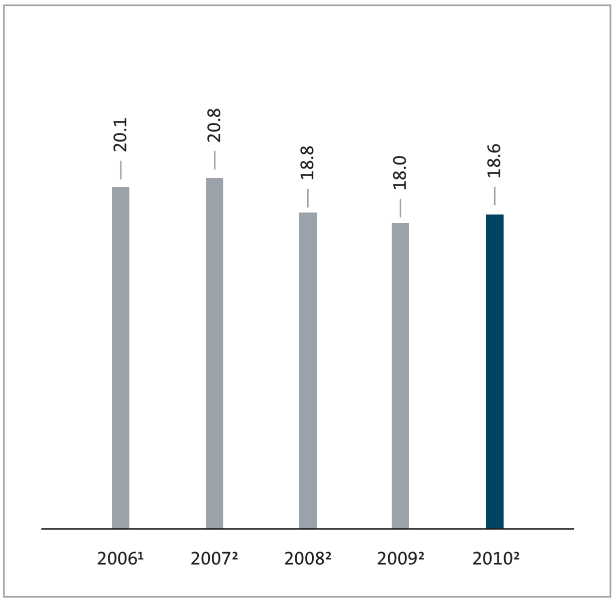
1 Overall ratio under Principle I of the financial holding group as at 31.12.
2 Overall ratio = Own funds/ ((Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100

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



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

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



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

Given the significance of Volkswagen Bank GmbH, both the core capital ratio and the overall ratio of Volkswagen Bank GmbH were also disclosed.

OWN FUNDS AND AGGREGATE RISK POSITION

	31.12.2010	31.12.2009
Aggregate risk position (€ million)	55,591	48,213
of which weighted position according to the standardised approach to credit risks	51,146	44,713
of which market risk positions * 12.5	2,020	1,588
of which operational risks * 12.5	2,425	1,912
Liable capital (€ million)	5,851	5,479
of which core capital [1]	5,810	5,393
of which supplementary capital [1]	41	86
Own funds (€ million)	5,851	5,479
Core capital ratio[2] (%)	10.5	11.2
Overall ratio[3] (%)	10.5	11.4

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

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 financial holding group, Volkswagen Financial Services AG, 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 refinancing funds at attractive terms. Investors' substantial interest in the bonds and securitisation transactions of Volkswagen Financial Services AG along with lower risk premiums documents their unwavering confidence in the performance of both Volkswagen Financial Services AG and the Volkswagen Group.

Implementation

The successful diversification strategy in refinancing was continued. In January 2010 Volkswagen Financial Services AG placed a € 1.0 billion benchmark bond issue with a maturity of four years under its existing Debt Issuance Programme. Volkswagen Bank GmbH issued a fixed rate bond for a total of € 1.0 billion in June and successfully placed a floating rate note for a total of € 500 million in September under the € 10 billion Debt Issuance Programme.

2010 turned out to be a good year for issues in regards to asset-backed securities too. The establishment of the VCL Master securitisation platform in January kicked off the year. It offers Volkswagen Leasing GmbH a refinancing volume of up to € 1.25 billion through the sale of leasing receivables and residual values. In April, Volkswagen Bank GmbH further stimulated the euro ABS market through its Driver 7 benchmark securitisation transaction comprising receivables from over € 41,000 automobile loans. In September, German leasing receivables were floated in the marketplace as part of the VCL 12 securitisation transaction. Volkswagen Leasing GmbH placed a benchmark issue of € 519 million with a multitude of national and international investors under the new quality label, "CERTIFIED BY TSI – DEUTSCHER VERBRIEFUNGSSTANDARD".

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

The companies of the Volkswagen Financial Services AG utilised capital markets outside of Europe for their local refinancing purposes in the year just ended as well. For instance, VOLKSWAGEN LEASING SA DE CV, Puebla, issued a MXN 1.5 billion bond with a maturity of four years in October. VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD., Tokyo, placed five bonds for a total of JPY 14 billion, and our Australian subsidiary used the local capital market for three bonds totalling AUD 450 million.

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

Opportunity and risk report
Risk management as a prerequisite of sustained success

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

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

STRATEGIC OPPORTUNITIES
There are opportunities above and beyond the internationalisation strategy described in the section entitled "Anticipated developments". These opportunities concern further geographic expansion into markets where Volkswagen Financial Services AG can use its financial services to promote the sales of Group vehicles. Additional opportunities are offered by the development of innovative products that are aligned with customers' changed mobility requirements. Growth areas such as new mobility (long-term rental, car sharing) must be expanded. Any decision to enter a particular market and develop new products is based on the sales promotion potential and strategic targets for rates of return.

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 Board of Management of Volkswagen Financial Services AG as well as by the executive management of Volkswagen Bank GmbH, Volkswagen Leasing GmbH as well as Volkswagen Business Services GmbH.
- Groupwide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process.
- For instance, the accounting standards of the Volkswagen Financial Services AG Group – including the International Financial Reporting Standards (IFRS) – 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 2010 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.

STRATEGY AND STANDARDS

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.

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.

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 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 basic decisions relating to strategy and tools for risk management rest with the Board of Management of Volkswagen Bank GmbH and with the Board of Management of Volkswagen Financial Services AG.

To ensure appropriate and consistent treatment of risks within Volkswagen Financial Services AG, the company has established risk management guidelines, which take the risk strategy of Volkswagen Financial Services AG and the development of own funds into account.

For years, 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 at least once a year, adjusted as necessary and discussed with the Supervisory Boards of Volkswagen Bank GmbH and Volkswagen Financial Services AG.

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

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

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

- The risk preference of the Volkswagen Financial Services AG Subgroup is determined by the Board of Management of Volkswagen Bank GmbH – under its overall responsibility in accordance with § 25a KWG in conjunction with AT 3 and AT 4.5 MaRisk – as well as by the Board of Management of Volkswagen Financial Services AG. The Supervisory Boards of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Leasing GmbH regularly review the risk profiles of the respective companies, and the Supervisory Board of Volkswagen Bank GmbH also reviews the risk profile of the entire Volkswagen Financial Services AG Subgroup.
- The risk preference of the Volkswagen Financial Services AG Subgroup, Volkswagen Bank GmbH and Volkswagen Leasing GmbH is generally moderate. Only predictable and workable risks are incurred. In the case of operational risks, a prevention/reduction strategy is pursued.
- Risks from new or modified products, new sales channels and/or new markets are subject to a fixed evaluation and approval process.
- The processes of Volkswagen Bank GmbH and Volkswagen Leasing GmbH are continuously subject to quality assurance.
- Risk is spread across customers, products and countries.
- Security is obtained for all vehicle and investment financing loans. Risk provision is based on a risk-oriented value adjustment policy.
- Lending processes and responsibilities are subject to guidelines applicable to the different divisions and are decided in accordance with an approval process subject to credit limits.
- Credit risks are factored into the pricing.
- Loans are granted solely after appropriate identity and credit checks.
- Volkswagen Financial Services AG makes loans largely taking into account total customer value.
- Decisions regarding the assumption or avoidance of risks are supported by the use of suitable control instruments, such as credit rating procedures or early warning systems.

Risk management essentially involves the identification, analysis and quantification of possible risks, as well as risk assessment and the resulting determination of control measures. A risk manual is central to the company's risk management system. All risks are reviewed as to their materiality at least once a year and, if necessary, the relevant assessments are revised and expanded by new risk factors. The risk manual describes the risk management system in detail.

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

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

Besides quantifying risk positions as required under the regulatory regime (pursuant to the Solvency Regulation) and representing the existent equity components, an economic system is in place at Volkswagen Financial Services AG for determining its risk-bearing capacity that matches the economic risk to the hedging potential.

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

Volkswagen Financial Services AG has selected a sufficiently conservative approach by assuming a 1:1 correlation between risk types.

The economic risk is quantified for two scenarios.

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

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

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

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

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

The limit system comprises two stages.

Stage 1 entails the determination of groupwide risk limits for risk under the normal scenario. This entails defining the extent to which the Volkswagen Financial Services AG can use the theoretically available risk hedging potential to plan operational risk provisioning. It therefore reflects the risk preference of Volkswagen Bank GmbH's Board of Management.

In stage 2, the risk type limits are defined as the monetary share of the groupwide risk limit; they reflect the company's business alignment. Risk-adjusted distribution applies. This determination is executed on an annual basis pursuant to a resolution of Volkswagen Bank GmbH and Volkswagen Financial Services AG.

Group Risk Management reports the risk of counterparty default, market price, underwriting and residual value risks as well as operational risks by submitting a risk management report to the Board of Management of Volkswagen Bank GmbH, the Board of Management of Volkswagen Financial Services AG and the Supervisory Boards at least once a quarter. For markets with a significant business volume, reporting is done on a monthly basis.

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

Volkswagen 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.

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.

STRUCTURE AND ORGANISATION

Volkswagen Bank GmbH is the primary institution of the financial holding group. 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/Risk Assessment Procedures and Basel II as well as Treasury.

The Chief Risk Officer (CRO) is responsible for executing within Volkswagen Financial Services AG the overall 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.

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.

Within Volkswagen Financial Services AG, the CRO is responsible for Group Risk Management.

The Group Risk Management department formulates risk policy guidelines for the risk management of Volkswagen Financial Services AG (Subgroup), develops methods and processes, conducts ongoing analyses of the current risk situation and ensures transparent reporting.

The basic decisions relating to strategy and tools for risk management rest with the Board of Management of Volkswagen Bank GmbH under its overall responsibility as well as with the Board of Management of Volkswagen Financial Services AG. As a neutral and independent department, Group Risk Management reports directly to the Boards of Management of Volkswagen Bank GmbH and Volkswagen Financial Services AG.

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

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

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

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

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

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

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

On behalf of the Board of Management of Volkswagen Financial Services AG and taking due account of regulatory requirements, Internal Audit at Volkswagen Financial Services AG independently and in a risk-oriented manner audits the operational and business procedures of Volkswagen Financial Services AG and third-party entities for which contractual auditing rights are in place.

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

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

Implementation of the measures and recommendations agreed in the audit reports is monitored by Internal Audit of Volkswagen Financial Services AG.

RISK TYPES

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

At the same time, Volkswagen Financial Services AG constantly analyses and assesses the opportunities that arise from consciously entering into risks.

The business decisions of Volkswagen Financial Services AG are therefore based on the risk vs. opportunity weighting described here.

The risks typical of financial services to which Volkswagen Financial Services AG is exposed are categorised in the following groups:

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

RISK OF COUNTERPARTY DEFAULT

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

Credit risk

Definition

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

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

Whilst the economic environment remained a challenge, signs indicating that an economic recovery was under way became apparent during the reporting period. Prices for used cars recovered slightly as well.

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

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

Parameters/Risk strategy

A core competence of Volkswagen Financial Services AG lies in utilising opportunities from assuming credit risks resulting from wholesale and retail financing and also from leasing transactions in the automobile business. The goal is to optimise the opportunity/risk ratio.

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

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

Risk assessment

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

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

Scoring procedures in the retail business

Analysing the creditworthiness of private customers involves scoring systems that are integrated in the purchasing 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 default probability to individual contracts once a month based on the relevant customer's payment history are in place for purposes of performing portfolio valuations at Volkswagen Bank GmbH.

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

Rating procedures in the corporate business

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

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.

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

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

Collateral

As a rule, credit transactions are secured in ways adequate to the risks concerned. A groupwide guideline establishes the requirements that collateral as well as assessment procedures and principles must satisfy. Additional local guidelines prescribe concrete valuations as well as regional specificities. The valuations in local collateral guidelines are based on historical data and many years of expert experience. We ensure that collateral adequate to the relevant risk is available for covering credit risks. Automobiles, in their capacity as collateral, are material to this approach because the activities of Volkswagen 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. The valuations for collateral are also regularly reviewed and adjusted as necessary.

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

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 approval limits. These approval 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.

The validity of the credit rating procedures used is also reviewed. The procedures are adjusted and refined if a need for action is identified.

Risk communication

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

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

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

Counterparty risk

Definition

At Volkswagen Financial Services AG, counterparty risk is the risk resulting from overnight deposit and term money transactions and from the conclusion of transactions with financial institutions involving interest rate and currency derivatives.

Parameters/Risk strategy

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

Risk assessment

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

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

Risk management and monitoring

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

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

Risk communication

Utilisation of the counterparty risk limit is published quarterly in the risk management report.

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

Definition

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

Parameters/Risk strategy

Generally, Volkswagen 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 declined by 1% year on year. Thanks to the recovery of the markets in the course of 2010, LeasePlan generated higher margins and realised residual value profits from the sale of vehicles upon contract expiry.

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

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

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

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

Risk management and monitoring

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

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

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

Risk communication

The executive managers, the Board of Management of Volkswagen Financial Services AG, the Supervisory Board as well as the relevant departments are notified ad hoc of early warning signals or significant (structural or economic) negative developments, and joint approaches are coordinated as necessary.

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

MARKET PRICE RISK

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

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

Interest rate risk

Definition

Interest rate risks include potential losses from changes in market rates. These risks arise from refinancing at non-matching maturities and from the different interest rate elasticities of individual assets and liabilities. Interest rate risks are incurred in the banking book of Volkswagen Financial Services AG.

Parameters/Risk strategy

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

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 +130 and -190 basis points interest rate shock scenarios defined by the Federal Financial Supervisory Authority (BaFin).

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

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

Risk management and monitoring

Treasury is responsible for risk management based on the resolutions of the Asset Liability Committee (ALC).

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.

Risk communication

The Boards of Management of Volkswagen Bank GmbH and Volkswagen Financial Services AG are notified of the company's current exposure to interest rate risks as part of the risk management report.

Foreign currency risk

The foreign currency risk is avoided by means of refinancing at matching currencies.

In individual cases, open currency items are conceivable. Measured against the overall portfolio, however, the scope of foreign currency risk is small.

Price risk

The Group incurs price risks via Volkswagen Bank GmbH and Volkswagen Financial Services AG in connection with its fund-based pension scheme for its employees. 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 Bank GmbH and Volkswagen Financial Services AG also determine the risk exposure arising therefrom based on the value-at-risk (VaR) method.

Additional price risks can arise indirectly from the capital investments of Volkswagen Reinsurance 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.

LIQUIDITY RISK

Definition

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

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

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

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

Parameters/Risk strategy

The prime objective of liquidity management at Volkswagen 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.

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

Risk assessment

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

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

The remaining subsidiaries of Volkswagen Financial Services AG plan and manage their liquidity largely independently.

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

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

Volkswagen Bank GmbH has access to standby lines of credit at other banks to protect it from unexpected fluctuations in cash flow. Besides these standby lines of credit, Volkswagen Bank GmbH has additional liquid reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank.

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

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

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

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

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

Risk management and monitoring

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

Risk Management monitors liquidity in terms of its adequacy.

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

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

The external rating of Volkswagen Financial Services AG has an impact on the refinancing costs of capital market programmes. At this time, the rating agencies have given Volkswagen Financial Services AG a long-term rating of A– with a negative outlook (S&P) and A3 with a stable outlook (Moody's).

Risk communication

As part of risk communication, the Boards of Management of Volkswagen Bank GmbH and Volkswagen Financial Services AG are informed monthly of the current liquidity situation including its adequacy. Material information is also transmitted on short notice through ad hoc reports.

OPERATIONAL RISK

Definition

Operational risks at Volkswagen Financial Services AG are defined as the threat of losses that occur as a result of inadequate or failing:

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

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

Parameters/Risk strategy

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

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

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

Risk identification and assessment

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

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

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

Risk management and monitoring

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

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

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

Risk communication

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

Business continuity management

The goal of the Corporate Security department is to ensure security for individuals and property at Volkswagen Financial Services AG and to avoid damage to its image and losses from operational disruptions.

Under Corporate Security's direction, Volkswagen Financial Services AG is establishing a global security quality management system together with international subsidiaries, which, among other things, takes into account the varying government and civil security requirements.

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

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

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

RESIDUAL VALUE RISK

Definition

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

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

A direct residual value risk is present when the residual value risk is borne by Volkswagen Financial Services AG or one of its companies.

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

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

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

As expected, covering the residual value risks in 2010 triggered smaller impairment losses than in the previous year.

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

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

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

Parameters/Risk strategy

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

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

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

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

Risk identification and assessment

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

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

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

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

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

Risk management and monitoring

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

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

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

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.

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

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

Risk communication

As part of the risk management report, Group Risk Management reports on the exposures to residual value risks to the Boards of Management of Volkswagen Bank GmbH, Volkswagen Leasing GmbH and Volkswagen Financial Services AG as well as the respective Supervisory Boards. In Germany indirect residual value risks are measured analogous to direct residual value risks and the findings are communicated to the Boards of Management of Volkswagen Bank GmbH, Volkswagen Leasing GmbH and Volkswagen Financial Services AG as well as the respective supervisory bodies in a separate report.

Events having significant effects on risk exposures are communicated to the Boards of Management of Volkswagen Bank GmbH and Volkswagen Financial Services AG using an ad hoc reporting system.

UNDERWRITING RISK

Definition

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.

Parameters/Risk strategy

On 2 November 2010 Volkswagen Reinsurance AG was renamed Volkswagen Versicherung AG. Effective 1 January 2011 it will launch the warranty insurance business in its capacity as a primary insurer. Active reinsurance will continue as before.

Volkswagen Versicherung AG is tasked with helping Volkswagen Financial Services AG become the leading international provider of comprehensive automotive mobility services.

As both a primary insurer and a reinsurer, Volkswagen Versicherung AG will be given greater authority to influence both product design and pricing. This is highly significant to the development of both insurance coverage and combined products (insurance, financing and automotive products) tailored to customers' needs with the aim of increasing automobile sales.

Risk identification and assessment

Risk identification serves to ensure that all material risks are recorded through systematic and focused risk analyses of the insurance company, its business procedures and its environmental factors with a reasonable degree of timeliness.

Underwriting risks can take several forms:

- Random risks
  The premium actually required and the actual loss experience deviate from the predetermined trend as a result of random fluctuations. Undesirable fluctuations can result from the insurance of major risks. Cumulative or catastrophic risk is a special type of risk.
- Change risks
  The circumstances governing a loss experience can change over time after the premium has been determined.
- Risk of error
  The risk of error is defined as the risk that an analysis of historical information relevant to a calculation is defective and that inaccurate laws derived from the loss experience are based thereon.
- Reserve risk
  The reserve risk follows from the adequacy of the insurance provisions for reported and unreported loss events.
- Retrocession risks
  There is the risk that the required retrocession might not be available at all, no longer in the desired amount or quality or only at terms that are substantially less favourable.
- Receivables default risks
  Risks from the non-payment of insurance business receivables arise especially in connection with receivables from retrocessionaires as well as from assignors and reinsurance brokers.

At present, the aforementioned individual risks are assessed in qualitative terms. Quantitative assessments of material underwriting risks as well as related developments and results are shown in summarised fashion.

Risk management and monitoring

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

Group Risk Management is responsible for risk monitoring.

Risk communication

Underwriting risks are reported as part of the risk management report. Events having significant effects on risk exposures are communicated to the Board of Management of Volkswagen Versicherung AG by means of an ad hoc reporting system.

STRATEGIC RISK

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

REPUTATION RISK

Reputation risk is defined as the risk of losses, declining income or reduced enterprise value in the wake of transactions that undermine the trust of the public or the media, employees or customers, rating firms, investors or business partners in Volkswagen Financial Services AG.

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

CONCENTRATIONS OF RISK

Explanation of our business model

Volkswagen Financial Services AG is a captive. By its nature, this business model makes it impossible to avoid concentrations of risk in the risk types, "credit risk" and "residual value risk". Hence these risks are analysed and reported in detail in accordance with the business model. Existing concentrations of risk in credit risks or residual value risks are thus adequately considered and monitored.

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

Concentrations of credit risk

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

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

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

Concentrations of risk classes

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

Concentrations of industries

In sectoral terms, Volkswagen 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 integral to the given business model. They arise when a substantial portion of receivables or leasing transactions are collateralised by a single type of security.

Vehicles are the dominant type of collateral for Volkswagen 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. In its capacity as an automotive financial services provider, Volkswagen Financial Services AG possesses broad expertise and many years of experience in managing and controlling the resulting risk.

Concentrations of products

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

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

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

Regional and country concentrations

Risks from concentrations of countries or regions arise from large loan portfolios in specific countries and regions even if the portfolio is broadly diversified. The portfolio of Volkswagen Financial Services AG is diversified in transnational terms, with a focus on Western Europe.

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

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

Counterparty risk

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

Currency risk

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

Price risk

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

Interest rate risk

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

Operational risk

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

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

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

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

Residual value risk

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

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

Income concentrations

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

Given the corporate aims of a mobility services provider, interest income from the lending business constitutes the main source of income. Other sources of income can be ignored in regards to income concentrations. Interest income from vehicle financing is considered the dominant source of income. Its main components are the interest rate and the vehicle financing volume, both of which are determined based on sales figures. Volkswagen Financial Services AG is aware of the fact that the integration with the vehicle sales of the Volkswagen Group is close, particularly owing to the business model for promoting sales of the vehicles of various Volkswagen Group brands and related financial services. This sales risk will be considered as a separate scenario in connection with overall stress tests.

SUMMARY

In connection with its business activities, Volkswagen 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 is refined on a continuous basis pursuant to bank regulators' audit in 2010 of the minimum requirements for risk management (MaRisk) and resulting measures.

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

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

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

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

No important events occurred after the close of the 2010 financial year.

Personnel report
Implementation of the personnel strategy

Volkswagen Financial Services AG was very successful in the employer competition.

WIR2018 PERSONNEL STRATEGY

The "employee" action area is one of the four pillars of our WIR2018 corporate strategy. The "We Are a Top Team" employee strategy supports goal achievement in the other action areas, "customers", "profitability" and "volume". Targeted personnel development serves to foster and challenge employees. The flexible, customer-focused organisation is designed to rapidly meet the expectations of markets and customers alike. Volkswagen Financial Services AG already offers competitive and performance-based compensation. This approach is to remain in place but will be refined.

Several important steps were taken in 2010 on the way to becoming the "Top Team" in Germany. The introduction of the "Young Talent" group as part of personnel development constitutes a milestone. The flexible use of human resources is a significant factor in the success of Volkswagen Financial Services AG. A concept for cross-divisional capacity management was developed to ensure as much.

Volkswagen Financial Services AG's aim, "We Are a Top Team", is reflected by the employer benchmark study ("Great Place to Work") as well as the "mood barometer", its internal staff survey. The internal staff survey is already being conducted on a regular basis in 23 national subsidiaries. Volkswagen Financial Services AG proved by participating in the benchmark study in 2010 that it is one of the top employers in both Germany and Europe. It was the fourth time that Volkswagen Financial Services AG participated in this employer competition and the company was very successful this time: The company placed sixth and thus is the second-best financial services provider in its category (2,001 to 5,000 employees in Germany). In addition, it ranked 45th in the "Large Workplaces" in Europe category.

It is up to the foreign subsidiaries to implement the employee strategy internationally and locally. In 2010 international human resources management focused on systematically helping our foreign subsidiaries to implement the employee strategy. There were exchanges on best practices, and related tools such as the HR Strategy Card and the HR Toolbox which were introduced worldwide.

CORPORATE CULTURE AS WELL AS REGIONAL AND SOCIAL RESPONSIBILITY

The WIR2018 corporate strategy is rooted in the FS way, which describes how to attain the goals, how to approach the projects and how to act in the work environment. The FS way in turn is rooted in the FS values, "active customer focus, responsibility, trust, courage and enthusiasm", along with a mindset that entails a continuous search for improvements and active implementation of the attendant changes.

In 2010 the company and the workforce entered into a framework works agreement regarding the FS way, which 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. Under the framework works agreement, 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 increasing the productivity of their work. Not just the company's good results in the employer competition but also the insights gained from the findings of the benchmark study are an important measure for Volkswagen Financial Services AG to gauge its progress on the way to achieving the goals of the WIR2018 strategy. Particularly the findings of the employee staff survey related to this study – which is separate from the annual internal staff survey known as the mood barometer – are decisive indicators of the progress the company has already achieved in shaping its corporate and leadership culture.

Volkswagen Financial Services AG was awarded the special prize in the "Promoting Employee Health" category as part of the employer competition "Germany's Best Employers". This award stands for comprehensive and integrated measures aimed at promoting employees' health through preventive care, consultations and sports activities; putting in place healthy and safe working conditions; as well as enhancing employees' ability to take the initiative in developing health-conscious behaviour. The approach to the company's integration management and the expansion of existing options for preventive care by a comprehensive medical check-up for all employees on a voluntary basis were given special mention.

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 fourth participation in the Braunschweig-based day of action "Building Bridges – Corporate Commitments" was so large that the employees were able to contribute their expertise and their dedication to two projects. The focus in this connection was on actions benefiting socially disadvantaged children and their parents.

This is also the main focus of the foundation "Our Children in Braunschweig", which Volkswagen Financial Services AG established in December 2008 and which substantially intensified its commitment to hot-button social issues in Braunschweig, the site of the company's headquarters. Volkswagen Financial Services AG continued to support the foundation in 2010 as well. Aside from the facilities already being supported (two childcare centres and one primary school), one additional primary school and childcare centre each were given need-based support in education, healthy nutrition, physical education and early instruction in music.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

In 2010 Volkswagen Financial Services AG once again hired 40 new trainees/students of WelfenAkademie and Leibnizakademie, 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. They include 20 banking professionals, 15 specialists for insurance and finance and five IT technicians. As at 31 December 2010, a total of 120 trainees and students of WelfenAkademie were employed with us in Germany for the duration of the apprenticeship programmes and in all occupational groups. A female trainee of Volkswagen Financial Services AG was given the Best Apprentice Award as the year's best trainee by Volkswagen Coaching GmbH yet again.

Immediately following the completion of their training, in 2010 two trainees were given the opportunity to broaden their horizons in a 12-month assignment abroad. This programme is designed for trainees and students of the two universities of co-operative education 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 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 2010; overall just under 4,500 participants earned additional qualifications in approximately 500 training events.

In addition, the need for specialists is identified in coordination with the appropriate departments and suitable development concepts are drawn up. A two-year leasing specialist training programme in collaboration with both WelfenAkademie e.V. and the Braunschweig Chamber of Commerce and Industry was again carried out in 2010. The company's need-based personnel development is also reflected in the development of an additional study programme leading to a certificate in credit analysis that was carried out for the first time in November 2010. Competency profiles, site- and need-based training courses as well as supportive measures aimed at expanding employees' sales competency served to enhance the ongoing development of financial centre staff. In connection with management development one module of the junior management programme that focuses on improvement processes was successfully completed in September 2010

Women constitute 51.8% of the workforce of Volkswagen Financial Services AG in Germany – a level that is not yet reflected in leadership positions. The Board of Management has thus adopted targets for women in specialist and leadership positions that are to be achieved incrementally by 2012. To boost the number of women in these positions to lasting effect, the effort to identify and subsequently foster women with high development potential is being integrated into existing human resources tools, e.g. the personnel planning and development groups as well as the continuously adapted mentoring programmes. Volkswagen Financial Services AG also 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 childcare centre; it is run by Gesellschaft für Kinderbetreuung und Schule mbH&Co. KG. The children's house is located in the immediate vicinity of the company's headquarters. Both the response to and the capacity utilisation of the children's house are excellent. With 170 slots it still is Germany's largest corporate childcare centre. Currently, about 160 children of our employees use the children's house. Children under the age of one up to the age of six are cared for in a total of ten groups.

INTERNATIONAL HUMAN RESOURCES MANAGEMENT

A standardised process governing both performance targets and performance appraisals was introduced in cooperation with the parent company, Volkswagen AG. It includes an appraisal of professional performance, leadership and cooperation as well as entrepreneurial thinking and action. This performance appraisal along with the degree of target achievement is the basis for determining personal bonuses. A new performance-based component of compensation, specifically, the Groupwide "long-term incentive (LTI)", was introduced in 2010; it will be an additional component of compensation alongside the base salary, the personal performance bonus and the corporate bonus starting in 2011. Other standards such as the international introduction of the manager selection process – the so-called Assessment Centre for Managers (ACM) – were further refined.

In the reporting year our focus in management development was on preparing and training prospective or newly appointed Country Managers. In the spring 15 employees successfully completed the 2009/2010 General Management Programme, and in the fall 12 employees started in the class of 2010/2011. It serves to impart broad knowledge of the company's strategy, products and markets as well as of its principles and instruments of governance of Volkswagen Financial Services AG to newly appointed or potential Country Managers in a structured environment and to prepare them for the challenges they will face in their new positions.

The number of foreign assignments within the Group companies yet again in 2010 and reached at 28% above the previous year.

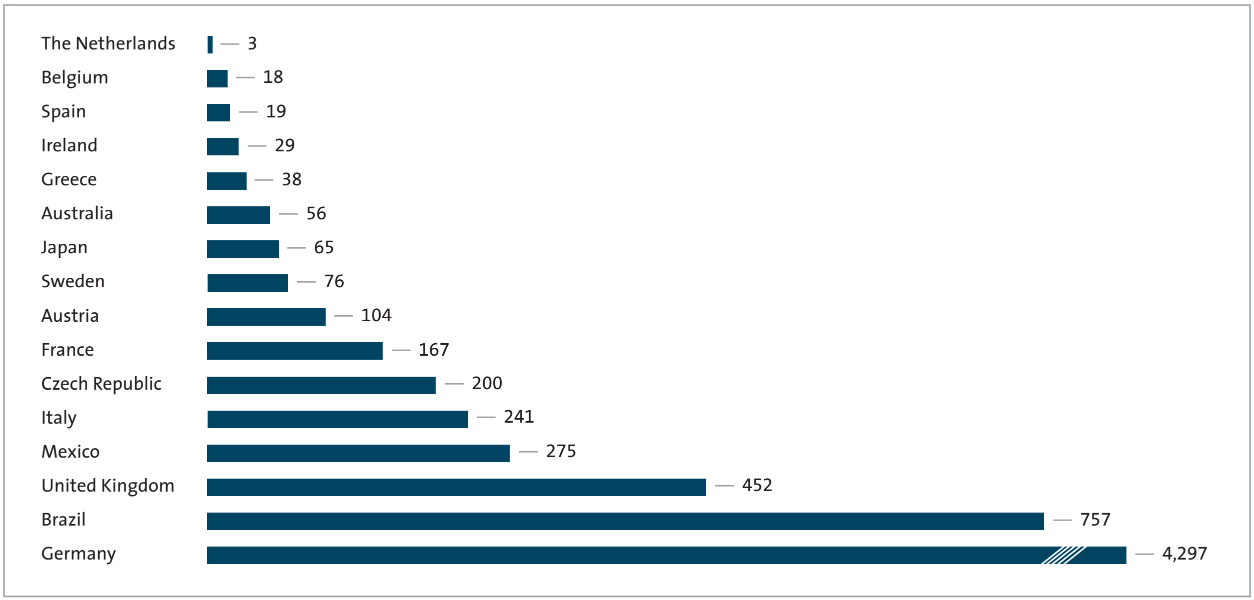
PERSONNEL DATA

The Volkswagen Financial Services AG Group had a total of 6,797 employees as at 31 December 2010 (previous year: 6,775). Of these, 4,297 or 63.2% were employed in Germany (previous year: 4,290). The personnel turnover rate in Germany of 1.0% was significantly below the industry average.

The personnel of Volkswagen Financial Services AG is largely employed with the respective subsidiaries owing to the structure of the company's legal entities in Germany. At the close of 2010, 842 (previous year: 838) employees were leased to Volkswagen Bank GmbH; 1,984 (previous year: 1,937) worked for Volkswagen Business Services GmbH; and 436 (previous year: 388) worked for Volkswagen Leasing GmbH. In addition, 230 employees (previous year: 204) were leased to Volkswagen Versicherungsdienst GmbH and 21 (previous year: 19) to Volkswagen Versicherungsvermittlung GmbH.

EMPLOYEES BY COUNTRY

As at 31.12.2010 (Total employees: 6,797)



Anticipated developments

On a growth trajectory

Volkswagen Financial Services AG expects earnings in 2011 to be slightly higher year on year against a backdrop of a positive economic environment and continued international expansion.

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

GLOBAL ECONOMIC DEVELOPMENT

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

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

North America

We expect growth in the United States in 2011 and 2012 to surpass the previous year's level. After a slight decline in GDP growth in 2011, we expect the Canadian economy to develop greater upward momentum in 2012. Whilst the growth of the Mexican economy will weaken in 2011 and 2012 compared to the reporting year, it will remain robust nonetheless.

South America

In 2011 and 2012 growth in Brazil and Argentina will be lower than in the reporting year but will remain above average internationally.

Asia Pacific

China's highly dynamic trajectory will continue in the medium term. Japan in contrast will achieve limited growth in 2011 and 2012 due to continued deflation. India's strong upward trajectory will continue in 2011 and beyond.

Europe/Other markets

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

The parameters for the South African economy to pursue stable growth in 2011 and 2012 are in place.

Germany

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

FINANCIAL MARKETS

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

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

National factors determine the outlook for the global financial markets in 2011 and 2012. In the Region Asia Pacific, Japan is expected to launch a determined fight against deflationary trends whilst China will aim to bring about a soft economic landing by adopting tighter monetary controls. Australia is likely to counteract the risk of imported inflation by raising interest rates.

Brazil will face the challenge of responsible growth management because both the increase in the currency's external value and inflationary trends must be controlled.

DEVELOPMENT OF THE AUTOMOBILE MARKETS

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

In 2011, sovereign debt and the expiration of stimulus packages will have an adverse impact on the demand for new vehicles in some European countries. At the same time, countries in Western Europe that have a strong export sector will profit from robust growth in Asia where the markets recovered faster than expected in 2010. We expect China and India – two important markets, strategically speaking – to continue along a positive trajectory and we also anticipate an increase in demand for vehicles in North and South America.

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

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

North America

For 2011, we expect the economic climate in the United States to continue recovering from the fallout of the financial and economic crisis. The development of the market however will be constrained by high petrol prices and tight credit. Given rising consumer confidence, we expect the US automotive market to follow a slightly positive trend in 2011, which should continue in 2012, subject to intensifying consolidation of the economy. Further momentum in the Canadian and Mexican markets is likely to spark demand for passenger cars and light commercial vehicles.

South America

The stabilising of the global economy will have a positive effect on the South American markets too. We expect Brazil in particular to benefit in 2011 and 2012 from continued strong demand for commodities; there will be a moderate improvement in demand for new vehicles.

Asia Pacific

We believe that the markets in Asia Pacific continue to offer growth potential in 2011 and 2012. The rising need for individual mobility particularly in China and India will boost demand. However, rising commodities prices, stricter emission standards as well as reductions in governmental aid might undercut automotive demand. We also expect the planned restrictions on new registrations in metropolitan areas to dampen growth in China. In Japan automotive demand is expected to drop substantially in 2011 after the expiry of the stimulus measures in 2010, before recovering once again in 2012.

Europe/Other markets

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

We expect the markets in Central and Eastern Europe grow again from 2011. Particularly in Russia, automotive demand is recovering rapidly from the economic crisis. Given that the Russian automotive market had contracted by half in 2009, demand returned to a growth trajectory in mid-2010 – thanks to the economic stimulus package launched in March 2010 and subsidised loans for vehicle purchases.

The South African automotive market will benefit from the sustained stabilising of the country's economy in 2011. But we do expect a slight weakening of the growth momentum in 2012 because interest rates are likely to rise starting at the end of 2011 in the wake of consumer price increases.

Germany

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

INTEREST RATE TRENDS

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

MOBILITY PACKAGES

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

NEW MARKETS/INTERNATIONALISATION/NEW SEGMENTS

Volkswagen Financial Services AG will continue to grow with and in international markets and thus consistently pursue its internationalisation strategy.

This will also help to lay the groundwork in the coming years for supporting both the Group and the brands in the respective growth markets through innovative and country-specific finance products in order to boost sales in the long term.

- The retail and wholesale financing portfolio will be expanded in India, a promising region, in order to support the growth of the Volkswagen Group and continue to push Group brand sales, especially given the increase in local production.
- Our South Korean subsidiary, which has already been established under the name Volkswagen Financial Services Korea Co., Ltd., will substantially lift the local sales potential of the Volkswagen Passenger Cars, Audi and Bentley brands once it launches its operating activities in 2011. In a first step, the product range will contain financing and leasing packages tailored for private and corporate customers in the South Korean market.
- In 2010 Volkswagen Reinsurance AG applied for a primary insurer licence and will launch its warranty insurance business in 2011 under the name Volkswagen Versicherung AG. The company will offer warranty insurance products for new and used vehicles. Volkswagen Versicherung AG will also continue to engage in the reinsurance business.
- The significance of the service business to customer and brand loyalty is rising; hence both the service business and fleet management are to be further expanded structurally. We plan to develop additional innovative mobility solutions in order to respond to the increasing shift worldwide from purchase to use of vehicles.
- Implementation of the full service fleet business in Europe will continue to strengthen the fleet segment. System and process environments are being broadened in both Spain and the UK to that end. The existing business is thus being expanded in keeping with the captive approach, taking customers' growing needs in a variety of target groups into account.

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 intensified.

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 2011 AND 2012

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 the development of volume to rise moderately in saturated markets and perceives substantial opportunities in the growth markets. Based on currently available information and analyses, slightly rising refinancing costs and the positive impact of the real economic conditions on risk costs lead us to believe that earnings in 2011 will surpass those achieved in 2010. The global economic environment is expected to stabilise in 2012. We anticipate falling risk costs but also higher interest rates in this environment. Earnings for 2012 are expected to be stable year on year, with volumes developing steadily.

Braunschweig, 11. February 2011
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. – 31.12.2010	1.1. – 31.12.2009	Change in %
Interest income from lending transactions		2,904	2,603	11.6
Net income from leasing transactions before provisions for risks		1,285	1,247	3.0
Interest expense		–1,839	–2,102	–12.5
Net income from insurance business		5	5	0.0
Net income from lending, leasing and insurance transactions before provisions for risks	20	2,355	1,753	34.3
Provisions for risks arising from lending and leasing business	9, 21, 32	–619	–654	–5.4
Net income from lending, leasing and insurance transactions after provisions for risks		1,736	1,099	58.0
Commission income		400	396	1.0
Commission expenses		–308	–172	79.1
Net commission income	22	92	224	–58.9
Result from financial instruments	10, 23	46	–45	X
Result from available-for-sale assets		0	1	X
Result from joint ventures accounted for using the equity method		125	91	37.4
Result from other financial assets	24	3	0	X
General administration expenses	25	–1,101	–912	20.7
Other operating result	26	–31	96	X
Pre-tax result		**870**	**554**	**57.0**
Taxes on income and earnings	6, 27	–247	–159	55.3
Net income		**623**	**395**	**57.7**
Minority interest in net income		–	–	X
Net income attributable to Volkswagen AG		623	395	57.7

Statement of comprehensive income

of the Volkswagen Financial Services AG Group

€ million	Note	1.1.–31.12.2010	1.1.–31.12.2009
Net income		**623**	**395**
Actuarial gains and losses	44	–17	–14
deferred taxes thereon	6, 27	5	4
Available-for-sale financial assets (securities):			
– Fair value changes recognised in equity		–1	2
– Recognised in the income statement		0	–1
deferred taxes thereon	6, 27	0	0
Cash flow hedges:	10		
– Fair value changes recognised in equity		43	6
– Recognised in the income statement		7	13
deferred taxes thereon	6, 27	–15	–4
Currency translation differences	4	165	173
Income and expense of shares measured at equity, recognised directly in equity, after taxes		64	35
Income and expense recognised directly in equity		**251**	**214**
Comprehensive income		**874**	**609**
Comprehensive income attributable to Volkswagen AG		874	609

Balance sheet

of the Volkswagen Financial Services AG Group

€ million	Note	31.12.2010	31.12.2009	Change in %
Assets				
Cash reserve	7, 29	193	343	–43.7
Receivables from financial institutions	8, 30	975	1,461	–33.3
Receivables from customers arising from				
Retail financing		30,505	26,603	14.7
Wholesale financing		8,828	8,391	5.2
Leasing business		13,643	13,935	–2.1
Other receivables		2,146	2,018	6.3
Receivables from customers in total	8, 31	55,122	50,947	8.2
Derivative financial instruments	10, 33	637	797	–20.1
Securities		125	98	27.6
Joint ventures accounted for using the equity method	34	1,707	1,545	10.5
Other financial assets	11, 34	265	175	51.4
Intangible assets	12, 35	95	130	–26.9
Property, plant and equipment	13, 36	218	220	–0.9
Leased assets	15, 37	4,974	3,666	35.7
Investment properties	15, 37	9	9	–
Deferred tax assets	6, 38	104	160	–35.0
Income tax assets	6	135	96	40.6
Other assets	39	773	639	21.0
Total		**65,332**	**60,286**	**8.4**

€ million	Note	31.12.2010	31.12.2009	Change in %
Equity and liabilities				
Liabilities to financial institutions	16, 41	7,284	6,615	10.1
Liabilities to customers	16, 41	25,983	22,997	13.0
Securitised liabilities	42	20,605	20,355	1.2
Derivative financial instruments	10, 43	336	629	–46.6
Provisions	17–19, 44	937	687	36.4
Deferred tax liabilities	6, 45	542	706	–23.2
Income tax obligations	6	135	118	14.4
Other liabilities	46	810	593	36.6
Subordinated capital	47	1,725	1,275	35.3
Equity	48	6,975	6,311	10.5
Subscribed capital		441	441	–
Capital reserve		3,409	2,809	21.4
Retained earnings		3,125	3,061	2.1
Total		**65,332**	**60,286**	**8.4**

Statement of changes in equity

of the Volkswagen Financial Services AG Group

€ million	Sub-scribed capital	Capital reserve	RETAINED EARNINGS Accumu-lated profits	Currency trans-lation	Cash flow hedges	Actuarial gains and losses	Market valuation securities	Shares measured at equity	Total equity
Balance as at 31.12.2008/1.1.2009	**441**	**2,809**	**3,922**	**−216**	**−59**	**−13**	**0**	**−104**	**6,780**
Net income	–	–	395	–	–	–	–	–	395
Income and expense recognised directly in equity	–	–	–	176	12	−11	2	35	214
Comprehensive income	–	–	395	176	12	−11	2	35	609
Payments into the capital reserve	–	–	–	–	–	–	–	–	–
Distributions/ profit transfer to Volkswagen AG	–	–	−1,078	–	–	–	–	–	−1,078
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	**441**	**3,409**	**3,052**	**126**	**−13**	**−36**	**1**	**−5**	**6,975**

Cash flow statement

of the Volkswagen Financial Services AG Group

€ million	1.1. – 31.12.2010	1.1. – 31.12.2009
Net income	**623**	**395**
Depreciation, value adjustments and write-ups	1,640	1,449
Change in provisions	222	83
Change in other non-cash items	–160	4
Result from the sale of financial assets and property, plant and equipment	2	0
Interest result and dividend income	–2,114	–1,563
Other adjustments	1	3
Change in receivables from financial institutions	520	–71
Change in receivables from customers	–3,136	–1,673
Change in leased assets	–2,203	–1,336
Change in other assets from operating activities	–121	153
Change in liabilities to financial institutions	–92	–1,710
Change in liabilities to customers	2,889	6,022
Change in securitised liabilities	–206	–1,352
Change in other liabilities from operating activities	194	57
Interest received	3,924	3,662
Dividends received	29	2
Interest paid	–1,839	–2,102
Income tax payments	–381	–256
Cash flow from operating activities	**–208**	**1,767**
Cash inflows from the sale of investment properties	–	0
Cash outflows from the purchase of investment properties	0	–2
Cash inflows from the sale of subsidiaries and joint ventures	–	0
Cash outflows from the purchase of subsidiaries and joint ventures	–89	–23
Cash inflows from the sale of other assets	7	5
Cash outflows from the purchase of other assets	–46	–60
Change in investments in securities	–27	–55
Cash flow from investing activities	**–155**	**–135**
Cash inflows from changes in capital	600	–
Distribution/profit transfer to Volkswagen AG	–810	–1,078
Loss absorption by Volkswagen AG	–	2
Change in funds resulting from subordinated capital	423	–639
Cash flow from financing activities	**213**	**–1,715**
Cash and cash equivalents at the end of the previous period	**343**	**422**
Cash flow from operating activities	–208	1,767
Cash flow from investing activities	–155	–135
Cash flow from financing activities	213	–1,715
Effects from exchange rate changes	0	4
Cash and cash equivalents at the end of the period	**193**	**343**

Comments on the cash flow statement are shown in note (60).

Notes

to the consolidated financial statements of the Volkswagen Financial Services AG Group as at 31.12.2010

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 31.12.2010 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 31.12.2010, and whose application was obligatory for the 2010 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 52–67.

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 11 February 2011. The period allowing for adjustments of amounts recognised in the financial statements ended with this date.

Effects of new and revised IFRS

VW FS AG has implemented all accounting standards that had to be applied starting in the 2010 financial year.

The provisions of revised IAS 27/IFRS 3 lead to a change in the recognition of future business combinations. In particular, there is now an option to capitalise the pro rata goodwill attributable to non-controlling interests. Old shares that had already been recognised before control was transferred must be recognised at fair value through profit and loss as at the acquisition date. Similarly, any interest in a subsidiary that is retained even after the loss of control must be recognised at fair value through profit and loss upon deconsolidation. Changes in the proportion of ownership interest in fully consolidated subsidiaries that do not result in a loss of control must be recognised directly in equity as before.

Furthermore, the following 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: First-time Adoption of IFRS (revised)
- IFRS 1: Additional exemptions for first-time adopters
- IFRS 1 / IFRS 5: Improvements to International Financial Reporting Standards 2008
- IFRS 2 / IFRIC 11: Group Cash-settled Share-based Payment Transactions
- IAS 39 / IFRS 7: Reclassification of Financial Assets – Effective Date and Transition
- IAS 39: Eligible Hedged Items – Amendments to IAS 39
- Improvements to International Financial Reporting Standards 2009 – Minor amendments to numerous IFRS (IFRS 2, IFRS 5, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) and subsequent amendments resulting from them
- IFRIC 12: Service Concession Arrangements
- IFRIC 15: Agreements for the Construction of Real Estate
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation
- IFRIC 17: Distribution of Non-cash Assets to Owners
- IFRIC 18: Transfer of Assets from Customers

New or revised IFRS that were not applied

In its consolidated financial statements for 2010, 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	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	28.01.2010	01.01.2011	Yes	None
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	07.10.2009	01.01.2012	No	Expanded disclosures in the notes on the transfer of financial instruments
IFRS 9	Financial Instruments: Classification and Measurement	12.11.2009/ 28.10.2010	01.01.2013	No	Change in the accounting treatment of fair value changes in financial instruments previously classified as available for sale
IAS 12	Deferred taxes - Realising the carrying amount of an asset	20.12.2010	01.01.2012	No	No material effects
IAS 24	Related Party Disclosures	04.11.2009	01.01.2011	Yes	Simplification of reporting with state-controlled entities and their subsidiaries
IAS 32	Classification of Rights Issues	08.10.2009	01.01.2011	Yes	None
	Improvements to International Financial Reporting Standards 2010[3]	06.05.2010	01.01.2011	No	Change in disclosure in the notes on financial instruments
IFRIC 14	Prepayments of a Minimum Funding Requirement	26.11.2009	01.01.2011	Yes	None
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	26.11.2009	01.01.2011	Yes	None

1 Until 31.12.2010.

2 First-time application mandatory for VW FS AG.

3 Minor amendments to numerous IFRS (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) and subsequent amendments resulting from them.

Accounting policies

1 | Principles

All the companies included in consolidation have drawn up their annual financial statements as at the balance sheet date of 31.12.2010.

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.

To improve clarity of presentation, individual items in the income statement and in the balance sheet have been grouped together and explained in the notes.

2 | Basis of consolidation

As a general principle, 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. As in the previous year, eight domestic and 22 foreign subsidiaries were fully consolidated at the balance sheet date. In addition, the consolidated annual financial statements contain 24 (previous year: 21) special purpose entities whose assets, regarded in economic terms, are attributable to the VW FS AG Group.

In July 2010, VW FS AG founded a wholly-owned subsidiary, Volkswagen Financial Services Korea Co., Ltd., Seoul, South Korea.

Limited Liability Company Volkswagen Bank RUS, Moscow, Russia was also founded in July 2010 as a wholly-owned subsidiary of VW FS AG.

These two companies were not consolidated for reasons of materiality.

The total cost in 2010 of these business start-ups amounted to € 63 million.

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, two 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 Group 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	2010	2009
Receivables from financial institutions	875	736
Receivables from customers	3,288	3,291
Leased assets	5,867	5,911
Other assets	1,483	1,479
Liabilities to financial institutions	2,403	2,561
Liabilities to customers	1,185	304
Securitised liabilities	4,581	5,522
Other liabilities	1,686	1,533
Equity	1,658	1,497
Income	779	729
Expenses	655	638
Contingent liabilities	1,017	899

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 17 (previous year: 14) 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 www.vwfsag.com/listofcompanies2010.

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
- Volkswagen Business Services GmbH
- Volkswagen Financial Services Beteiligungsgesellschaft mbH

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	
	€	2010	2009	2010	2009
Australia	AUD	1.3136	1.6008	1.4423	1.7727
Brazil	BRL	2.2177	2.5113	2.3314	2.7674
Czech Republic	CZK	25.0610	26.4730	25.2840	26.4349
United Kingdom	GBP	0.8608	0.8881	0.8578	0.8909
Japan	JPY	108.6500	133.1600	116.2386	130.3366
Mexico	MXN	16.5475	18.9223	16.7373	18.7989
Sweden	SEK	8.9655	10.2520	9.5373	10.6191

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 profit from the sale of intangible assets, 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 income taxes; 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.

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 credit risks in the banking business by means of individual value adjustments and portfolio-based allowances 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 (32).

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-ineffective and hedge-effective transactions. All derivatives are stated at fair value and shown separately under items (33) and (43). 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 exists at the subgroup level. It serves 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 are 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.

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 | 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.

12 | 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 14).

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 9.1 % (previous year: 8.4 %) 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.).

13 | 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 14).

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.

14 | 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.

15 | Leasing

THE GROUP AS LESSOR

The VW FS AG Group is engaged in both finance leases and – on a much smaller scale – 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 properties, 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.

16 | 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 was included in a portfolio hedge for the first time in the 2009 financial year. The customer receivables allocated to portfolio hedging are measured at fair value.

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

17 | Pension provisions 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 € 22 million (previous year: € 21 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 € 2 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. This model offers the possibility of increasing the pension entitlements through the fund's investment.

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	
%	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Expected return on plan assets	4.25	5.00	6.16	6.10
Discount rate	4.90	5.40	1.20 – 10.19	1.20 – 10.64
Expected rate of salary increases	2.70	2.50	2.50 – 6.45	0.00 – 5.60
Expected rate of pension increases	1.50	1.50	2.00 – 4.25	1.00 – 4.00
Fluctuation rate	0.75	0.75	3.50	4.86

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

18 | Provisions for the insurance business

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

Insurance contracts are recognised pursuant to IFRS 4.

Provisions are always recognised in accordance with the retrocessionaire's contractual tasks.

In addition, estimates based on assumptions regarding future developments are applied to the determination of the provision for loss.

The other insurance provisions include provisions for cancellations and dormant car insurance policies.

The reinsurers' shares in the provisions are calculated in accordance with the agreements with the retrocessionaires and shown in "Other assets".

19 | 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

20 | 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	2010	2009
Interest income from lending and money market transactions	2,904	2,603
Income from leasing transactions and service contracts	5,849	4,682
Expenses from leasing business and service contracts	−3,624	−2,688
Depreciation on leased assets and investment properties	−940	−747
Interest expense	−1,839	−2,102
Total	**2,350**	**1,748**

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 € 37 million (previous year: € 36 million).

Income from leasing transactions and service contracts includes rental income from investment properties amounting to € 3 million (previous year: € 2 million).

Impairment losses recognised as a result of the impairment test on leased assets amounted to € 85 million (previous year: € 133 million) and are contained in the depreciation on leased assets. Income from the reversal of impairment losses recognised in previous years on leased assets amounted to € 6 million (previous year: € 28 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 € 2,904 million (previous year: € 2,603 million).

The net income from insurance transactions is comprised as follows:

€ million	2010	2009
Premiums earned from insurance business	30	35
Expenses for claims	−20	−22
Expenses for reinsurance commissions and profit sharing	−5	−8
Other insurance-related expenses	0	0
Total	**5**	**5**

The interest expense contains refinancing expenses from lending and leasing transactions. A total of € 1,885 million (previous year: € 1,983 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 € 46 million from hedge-ineffective derivatives for the financial year.

21 | 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	2010	2009
Additions to provisions for risks	−794	−950
Reversal of provisions for risks	268	376
Direct depreciation	−155	−116
Additions from receivables written off	62	36
Total	**−619**	**−654**

22 | Net commission income

The net commission income of € 92 million (previous year: € 224 million) contains € 295 million (previous year: € 305 million) income from insurance agency services.

23 | Result from financial instruments

This item contains the results from hedging transactions, from hedge-ineffective derivatives 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 hedge-ineffective derivatives 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	2010	2009
Gains/losses on fair value hedging instruments	25	−72
Gains/losses on underlying transactions of fair value hedges	−94	23
Ineffective portion of cash flow hedging instruments	1	0
Gains/losses from currency hedging instruments	−9	−36
Gains/loses from the measurement of foreign currency receivables/liabilities	25	35
Gains/losses on other hedge-ineffective derivatives	98	5
Total	**46**	**−45**

No further fair value changes were recognised in connection with financial instruments.

24 | 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.

25 | General administration expenses

The general administration expenses are made up as follows:

€ million	2010	2009
Staff costs	–490	–431
Non-staff costs	–446	–344
Costs of advertising, PR work and sales promotion	–56	–45
Depreciation of property, plant and equipment and amortisation of intangible assets	–84	–46
Other taxes	–25	–46
Total	**–1,101**	**–912**

The non-staff costs contain expenses for leased assets under operating leases amounting to € 12 million (previous year: € 7 million).

As required by § 314 Para. 1 No. 9 HGB, the general administration expenses for the 2010 financial year include fees billed for the audit of the annual financial statements amounting to € 1 million (previous year: € 1 million) and for other services amounting to € 1 million (previous year: € 1 million). Only minor expenses were incurred for other auditing and valuation services (previous year: € 1 million) and for tax consultancy services.

Amortisation of intangible assets contains a write-down of € 32 million for self-developed software owing to new requirements and the self-developed software's realignment.

26 | Other operating result

The other operating result is made up as follows:

€ million	2010	2009
Income from costs charged to companies of the Volkswagen Group	47	45
Income from the reversal of provisions	61	18
Income from claims for damages	6	7
Miscellaneous operating result	–145	26
Other operating result	**–31**	**96**

27 | 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	2010	2009
Effective tax expense in Germany	−286	−218
Effective tax expense abroad	−85	−96
Effective tax expense	**−371**	**−314**
Income from the reversal of tax provisions and tax refunds	14	8
Effective taxes on income and earnings	**−357**	**−306**
of which not attributable to the reporting period	9	11
Deferred tax income/expense in Germany	157	134
Deferred tax income/expense abroad	−47	13
Deferred tax income/expense	**110**	**147**
of which not attributable to the reporting period	−30	−4
Total	**−247**	**−159**

The deferred tax expense of the financial year contains deferred tax expenses due to the use of previously capitalised deferred taxes on losses carried forward amounting to € 1 million (previous year: € 4 million).

The actual tax expense in 2010 amounting to € 247 million (previous year: € 159 million) was € 10 million lower than the expected tax expense of € 257 million (previous year: € 163 million), which would have resulted if a tax rate of 29.5 % (previous year: 29.5 %) had been applied on the Group's pre-tax result. The following reconciliation shows the connection between taxes on income and earnings and the pre-tax result in the financial year:

€ million	2010	2009
Pre-tax result	**870**	**554**
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	**−257**	**−163**
+ Effects from tax credits	44	–
+ Effects from German/foreign tax rate	−14	−5
+ Effects from tax rate changes	0	1
+ Effects from permanent valuation differences	−16	−11
+ Effects on account of tax-free income from equity investments	9	2
+ Effects from losses carried forward	−2	0
+ Temporary valuation differences without calculation of deferred taxes	31	24
+ Taxes not attributable to the reporting period	−39	7
+ Other differences	−3	−14
= Current taxes on income and earnings	**−247**	**−159**

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 in the previous year, the effects from temporary differences without calculation of deferred taxes essentially are caused by the result from joint ventures accounted for using the equity method.

As at 31.12.2010, the company's tax losses carried forward not yet used to date were € 278 million (previous year: € 41 million), for which deferred tax assets of € 106 million (previous year: € 12 million) were recognised. Of these unused tax losses carried forward, € 106 million (previous year: € 41 million) can be utilised indefinitely.

No deferred tax asset was recognised on € 10 million in unused tax losses carried forward (previous year: € 6 million) because they are classified as unusable.

Of the deferred taxes recognised in the balance sheet, a total of € 20 million (previous year: € 30 million) relate to business transactions that are recognised directly in equity. A partial amount of € 15 million (previous year: € 10 million) concerns actuarial gains/losses (IAS 19), and a partial amount of € 5 million (previous year: € 20 million) concerns derivative financial instruments.

28 | 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	2010	2009
Commission income	–	3
Commission expenses	0	−3
Fee expenses	–	−1
Total	**0**	**−1**

Notes to the balance sheet

29 | Cash reserve

The cash reserve contains receivables from Deutsche Bundesbank amounting to € 182 million (previous year: € 333 million).

30 | Receivables from financial institutions

The receivables from financial institutions include receivables from an associated company amounting to € 20 million (previous year: € 18 million) and receivables from a joint venture totalling € 3 million (previous year: one joint venture totalling less than € 1 million).

31 | Receivables from customers

Receivables from customers include unsecuritised receivables from affiliated companies amounting to € 429 million (previous year: € 675 million) and receivables from joint ventures amounting to € 1,798 million (previous year: € 1,486 million). There are receivables from the sole shareholder, Volkswagen AG, amounting to € 30 million (previous year: € 106 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 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 28.46 % (previous year: 0.90 % and 24.00 %).

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	31.12.2010	31.12.2009
Receivables from customers	**55,122**	**50,947**
of which market value adjustment from portfolio hedging	6	−82
Receivables from customers less market value adjustment from portfolio hedging	55,128	50,865

Receivables from leasing transactions include due receivables amounting to € 154 million (previous year: € 177 million).

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

The receivables from finance leases are made up as follows:

€ million	31.12.2010	31.12.2009
Gross receivables from finance leases	**14,712**	**15,216**
by residual term		
up to one year	6,479	6,380
more than one year and up to five years	8,195	8,800
more than five years	38	36
Interest not yet earned from finance leases	**1,138**	**1,350**
Net receivables from finance leases	**13,574**	**13,866**
by residual term		
up to one year	5,954	5,792
more than one year and up to five years	7,588	8,043
more than five years	32	31

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 € 94 million (previous year: € 125 million).

32 | 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:

	INDIVIDUAL VALUE ADJUSTMENTS		PORTFOLIO-BASED VALUE ADJUSTMENTS		TOTAL	
€ million	2010	2009	2010	2009	2010	2009
As at 1.1.	1,034	540	404	375	1,438	915
New companies brought forward	–	–	–	–	–	–
Additions	579	806	110	113	689	919
Transfers	–46	7	–22	55	–68	62
Disposals	496	307	69	153	565	460
of which uses	307	135	–	–	307	135
of which reversals	189	172	69	153	258	325
Interest income from impaired receivables	36	32	–	–	36	32
Currency translation	26	20	17	14	43	34
Provisions for risks arising from lending and leasing business as at 31.12.	**1,061**	**1,034**	**440**	**404**	**1,501**	**1,438**

Class: Hedge accounting

€ million	INDIVIDUAL VALUE ADJUSTMENTS 2010	2009	PORTFOLIO-BASED VALUE ADJUSTMENTS 2010	2009	TOTAL 2010	2009
As at 1.1.	30	70	16	89	46	159
New companies brought forward	–	–	–	–	–	–
Additions	34	27	10	4	44	31
Transfers	49	–14	19	–48	68	–62
Disposals	21	53	0	33	21	86
of which uses	11	35	–	–	11	35
of which reversals	10	18	0	33	10	51
Interest income from impaired receivables	1	4	–	–	1	4
Currency translation	–	4	–	4	–	8
Provisions for risks arising from lending and leasing business as at 31.12.	**91**	**30**	**45**	**16**	**136**	**46**

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

33 | Derivative financial instruments

This item contains the positive market values from hedging transactions and from hedge-ineffective derivatives and is made up as follows:

€ million	31.12.2010	31.12.2009
Assets from hedging transactions	455	475
Fair value hedges on assets (currency risk)	9	1
Fair value hedges on liabilities (currency risk)	6	27
Fair value hedges (interest rate risk)	349	421
Portfolio fair value hedges (interest rate risk)	60	4
Cash flow hedges on interest payments (currency risk)	27	11
Cash flow hedges (interest rate risk)	4	11
Assets from hedge-ineffective derivatives	182	322
Total	**637**	**797**

With the exception of hedge-ineffective derivatives, no financial instruments are classified as being held for trading.

34 | 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 1.1.2009	**1,443**	**157**	**1,600**
Exchange rate changes/effects recognised in equity	35	0	35
Changes in the basis of consolidation	–	–	–
Additions	95	19	114
Transfers	–	–	–
Disposals	2	0	2
As at 31.12.2009	**1,571**	**176**	**1,747**
Depreciation			
As at 1.1.2009	**26**	**1**	**27**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	–	–	–
Transfers	–	–	–
Disposals	–	0	0
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2009	**26**	**1**	**27**
Carrying amount 31.12.2009	**1,545**	**175**	**1,720**
Carrying amount 1.1.2009	**1,417**	**156**	**1,573**

€ 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**
Depreciation			
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**

35 | Intangible assets

€ million	Self-developed software	Goodwill, brand name, customer base	Other intangible assets	Total
Cost of acquisition				
As at 1.1.2009	**83**	**35**	**76**	**194**
Exchange rate changes	0	8	2	10
Changes in the basis of consolidation	–	–	–	–
Additions	19	–	10	29
Transfers	–	–	–	–
Disposals	1	–	1	2
As at 31.12.2009	**101**	**43**	**87**	**231**
Depreciation				
As at 1.1.2009	**24**	**3**	**52**	**79**
Exchange rate changes	0	1	1	2
Changes in the basis of consolidation	–	–	–	–
Additions	7	2	12	21
Transfers	2	–	– 2	0
Disposals	–	–	1	1
Write–ups	–	–	–	–
Write-downs	–	–	–	–
As at 31.12.2009	**33**	**6**	**62**	**101**
Carrying amount 31.12.2009	**68**	**37**	**25**	**130**
Carrying amount 1.1.2009	**59**	**32**	**24**	**115**

€ million	Self-developed 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**
Depreciation				
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**

Intangible assets having indefinite useful lifes at the balance sheet date comprise one item of goodwill and a brand name. The indefinite useful lifes 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.

36 | Property, plant and equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost of acquisition			
As at 1.1.2009	**219**	**124**	**343**
Exchange rate changes	−1	2	1
Changes in the basis of consolidation	–	–	–
Additions	15	16	31
Transfers	−4	4	–
Disposals	0	9	9
As at 31.12.2009	**229**	**137**	**366**
Depreciation			
As at 1.1.2009	**48**	**80**	**128**
Exchange rate changes	0	1	1
Changes in the basis of consolidation	–	–	–
Additions	7	17	24
Transfers	–	–	–
Disposals	0	5	5
Write-ups	2	0	2
Write-downs	–	–	–
As at 31.12.2009	**53**	**93**	**146**
Carrying amount 31.12.2009	**176**	**44**	**220**
Carrying amount 1.1.2009	**171**	**44**	**215**

€ 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	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**

Land and buildings include plant under construction with a carrying amount of € 3 million (previous year: € 5 million).

37 | Leased assets

€ million	Movable leased assets	Investment properties	Total
Cost of acquisition			
As at 1.1.2009	**3,763**	**15**	**3,778**
Exchange rate changes	56	0	56
Changes in the basis of consolidation	–	–	–
Additions	3,307	2	3,309
Transfers	–	–	–
Disposals	2,446	0	2,446
As at 31.12.2009	**4,680**	**17**	**4,697**
Depreciation			
As at 1.1.2009	**760**	**5**	**765**
Exchange rate changes	13	0	13
Changes in the basis of consolidation	–	–	–
Additions	611	1	612
Transfers	–	–	–
Disposals	475	0	475
Write-ups	28	–	28
Write-downs	133	2	135
As at 31.12.2009	**1,014**	**8**	**1,022**
Carrying amount 31.12.2009	**3,666**	**9**	**3,675**
Carrying amount 1.1.2009	**3,003**	**10**	**3,013**

€ million	Movable leased assets	Investment properties	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**

The fair value of investment properties amounts to € 9 million. Operating costs of € 3 million (previous year: € 4 million) were incurred for maintaining investment properties.

We expect payments of € 51 million in 2011 and € 49 million between 2012 and 2015 from the non-cancellable leasing and rental contracts.

38 | Deferred tax assets

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

€ million	31.12.2010	31.12.2009
Deferred taxation	4,230	4,552
of which non-current	2,751	3,223
Capitalised benefits from unused tax losses carried forward	106	12
of which non-current	102	9
Netting (with deferred tax liabilities)	–4,232	–4,404
Total	**104**	**160**

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

€ million	31.12.2010	31.12.2009
Derivative financial instruments (assets)	44	45
Property, plant and equipment/intangible assets	23	57
Leased assets	2,933	2,851
Other financial assets	326	552
Receivables and other assets	243	230
Cash and cash equivalents, and securities	249	19
Other assets	1	1
Derivative financial instruments (obligations)	71	172
Provisions	213	176
Liabilities and contributions	125	444
Other liabilities	2	5
Total	**4,230**	**4,552**

39 | Other assets

Other assets concern the following items:

€ million	31.12.2010	31.12.2009
Insurance-related provisions attributable to reinsurance companies	129	111
Receivables from other taxes	133	60
Prepaid expenses	74	55
Vehicles taken back for resale	111	145
Miscellaneous	326	268
Total	**773**	**639**

The insurance-related provisions attributable to reinsurance companies break down as follows:

€ million	31.12.2010	31.12.2009
Provisions for unsettled claims attributable to reinsurance companies	116	106
Provisions for deferred premiums attributable to reinsurance companies	11	4
Other insurance-related provisions attributable to reinsurance companies	2	1
Total	**129**	**111**

40 | Non-current assets

€ million	31.12.2010	of which non-current	31.12.2009	of which non-current
Cash reserve	193	–	343	–
Receivables from financial institutions	975	–	1,461	–
Receivables from customers	55,122	28,245	50,947	26,222
Derivative financial instruments	637	476	797	658
Securities	125	–	98	–
Joint ventures accounted for using the equity method	1,707	1,707	1,545	1,545
Other financial assets	265	265	175	175
Intangible assets	95	95	130	130
Property, plant and equipment	218	218	220	220
Leased assets	4,974	3,964	3,666	3,222
Investment properties	9	9	9	9
Deferred tax assets	104	104	160	160
Income tax assets	135	5	96	4
Other assets	773	134	639	97
Total	**65,332**	**35,222**	**60,286**	**32,442**

41 | 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 € 5,054 million (previous year: € 3,160 million) in liabilities to affiliated companies – of which € 3,445 million (previous year: € 2,235 million) is attributable to the sole shareholder, Volkswagen AG.

The liabilities to customers contain € 20,129 million in customer deposits (previous year: € 19,532 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 were hedged in a portfolio hedge against fluctuations of the risk-free base rate.

The reconciliation from the balance sheet figures is as follows:

€ million	31.12.2010	31.12.2009
Liabilities to customers	**25,983**	**22,997**
of which market value adjustment from portfolio hedging	–1	0
Liabilities to customers less market value adjustment from portfolio hedging	25,984	22,997

42 | Securitised liabilities

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

€ million	31.12.2010	31.12.2009
Debentures issued	17,417	18,986
Money market papers issued	3,188	1,369
Total	**20,605**	**20,355**

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 € 3,740 million (previous year: € 5,093 million), those in the liabilities to financial institutions amounted to € 121 million (previous year: € 257 million), those in the liabilities to customers amounted to 1,046 million (previous year: € 760 million) and those in the subordinated liabilities amounted to € 752 million (previous year: € 462 million). Receivables in the amount of € 6,350 million (previous year: € 6,550 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.

All 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 Conduit transactions of Volkswagen Financial Services (UK) Ltd. and VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD. are non-public transactions that are subject to cancellation at specific times.

43 | Derivative financial instruments

This item contains the negative market values from hedging transactions and from hedge-ineffective derivatives and is made up as follows:

€ million	31.12.2010	31.12.2009
Obligations from hedging transactions	197	271
Fair value hedges on assets (currency risk)	5	0
Fair value hedges on liabilities (currency risk)	0	4
Fair value hedges (interest rate risk)	29	73
Portfolio fair value hedges (interest rate risk)	65	73
Cash flow hedges on interest payments (currency risk)	63	4
Cash flow hedges (interest rate risk)	35	117
Obligations from hedge-ineffective derivatives	139	358
Total	**336**	**629**

44 | Provisions

The provisions break down as follows:

€ million	31.12.2010	31.12.2009
Provisions for pensions and similar obligations	164	141
Insurance-related provisions	184	157
Other provisions	589	389
Total	**937**	**687**

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	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Present value of funded obligations	103	88	65	74	61
Fair value of plan assets	104	87	68	75	58
Surplus/deficit	**−1**	**1**	**−3**	**−1**	**3**
Present value of unfunded obligations	163	139	124	121	132
Net liability recognised in the balance sheet	**162**	**140**	**121**	**120**	**135**

The net liability recognised in the balance sheet is contained in the following items:

€ million	31.12.2010	31.12.2009
Pension provisions	164	141
Other assets	2	1
Net liability recognised in the balance sheet	**162**	**140**

The pension provisions essentially concern pension commitments of German companies. The present value of the commitments developed as follows:

€ million	2010	2009	2008	2007	2006
Present value of obligations as at 1.1.	**227**	**188**	**195**	**193**	**169**
Changes in the basis of consolidation	–	–	–	8	–
Current service cost	10	9	9	9	12
Interest on obligation	13	11	11	10	8
Actuarial gains and losses (recognised in equity)	18	16	–14	–17	4
Employee contributions to the fund	1	1	1	1	0
Pension payments out of company assets	3	3	3	3	3
Pension payments out of the fund	1	1	3	1	0
Other changes	–2	2	0	–3	3
Currency differences from foreign plans	3	4	–8	–2	0
Present value of obligations as at 31.12.	**266**	**227**	**188**	**195**	**193**

The development of the plan assets is shown in the following table:

€ million	2010	2009	2008	2007	2006
Fair value of plan assets as at 1.1.	**87**	**68**	**75**	**58**	**38**
Changes in the basis of consolidation	–	–	–	9	–
Expected return on plan assets	5	4	5	4	3
Actuarial gains and losses (recognised in equity)	1	3	–7	1	1
Employer contributions to the fund	7	7	6	6	12
Employee contributions to the fund	1	1	1	1	0
Pension payments out of the fund	1	1	3	1	0
Other changes	0	1	–1	–1	4
Currency differences from foreign plans	3	4	–8	–2	0
Fair value of the plan assets as at 31.12.	**104**	**87**	**68**	**75**	**58**

The actual return on plan assets amounted to € 5 million (previous year: € 2 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: € 5 million), employer contributions to the fund of € 9 million (previous year: € 8 million) and service cost of € 9 million (previous year: € 8 million).

The fund assets comprise the following components:

%	2010	2009	2008	2007	2006
Shares	24	25	15	28	49
Fixed-income securities	59	59	61	60	45
Cash	6	5	18	4	6
Property	3	3	1	2	0
Other	8	8	5	6	0

The following amounts were recognised in the income statement:

€ million	2010	2009
Current service cost	−10	−9
Interest on obligation	−13	−11
Expected return on plan assets	5	4
Past service cost	–	0
Total amount shown under staff costs	**−18**	**−16**

The net liability recognised in the balance sheet changed as follows:

€ million	2010	2009
Net liability at 1.1.	**140**	**121**
Net expense in the income statement	18	16
Pension benefits and fund allocations paid	14	10
Actuarial gains and losses (recognised in equity)	18	14
Other changes	0	−1
Currency differences from foreign plans	0	0
Net liability at 31.12.	**162**	**140**

The following table shows the difference between the expected and actual development of obligations and plan assets:

	2010	2009	2008	2007	2006
Differences between expected and actual development					
in % of the present value of obligations	1.12	1.42	2	−1.89	−1.12
in % of the fair value of plan assets	0.92	2.41	−7.52	0.86	1.69

Insurance-related provisions developed as follows:

€ million	INSURANCE-RELATED PROVISIONS Provision for unsettled insurance claims	Provision for deferred premiums	Other insurance-related provisions
As at 1.1.2010	**121**	**35**	**2**
New companies brought forward	–	–	–
Use	54	–	–
Addition	65	15	0
Other changes	–	–	–
As at 31.12.2010	**132**	**50**	**2**

Terms of the insurance-related provisions:

€ million	31.12.2010 Residual term more than one year	Total	31.12.2009 Residual term more than one year	Total
Provision for unsettled insurance claims	71	132	44	121
Provision for deferred premiums	25	50	18	35
Other insurance-related provisions	–	2	–	1
Total	**96**	**184**	**62**	**157**

Other provisions developed as follows:

€ million	OTHER PROVISIONS Human resources	Litigation costs	Miscellaneous
As at 1.1.2010	**78**	**180**	**131**
Exchange rate changes	1	27	0
New companies brought forward	–	–	–
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**

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. Provisions of € 64 million for indirect default risks were recognised under “other provisions”.

Terms of the other provisions:

€ million	31.12.2010 Residual term more than one year	31.12.2010 Total	31.12.2009 Residual term more than one year	31.12.2009 Total
Human resources	24	102	28	78
Provisions for litigation costs	269	281	177	180
Miscellaneous	65	206	45	131
Total	**358**	**589**	**250**	**389**

The expected outflow of payments is as follows: 39 % in the following year, 59 % in the years 2012 to 2015 and 2 % thereafter.

45 | Deferred tax liabilities

The deferred tax liabilities break down as follows:

€ million	31.12.2010	31.12.2009
Deferred income tax obligations	4,774	5,110
of which non-current	2,996	3,151
Netting (with deferred tax assets)	−4,232	−4,404
Total	**542**	**706**

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	31.12.2010	31.12.2009
Receivables and other assets	4,109	4,611
Derivative financial instruments (assets)	156	206
Property, plant and equipment/intangible assets	36	28
Leased assets	283	173
Other assets	29	5
Derivative financial instruments (obligations)	15	20
Liabilities and contributions	90	9
Deferred income	10	17
Other liabilities	46	41
Total	**4,774**	**5,110**

46 | Other liabilities

Other liabilities concern the following items:

€ million	31.12.2010	31.12.2009
Deferred income	249	163
Liabilities from other taxes	201	125
Liabilities within the framework of social security and the wage and salary settlement	32	26
Miscellaneous	328	279
Total	**810**	**593**

47 | Subordinated capital

The subordinated capital is issued and raised by Volkswagen Bank GmbH, Volkswagen Leasing GmbH, Volkswagen Financial Services (UK) Ltd. and Banco Volkswagen S.A. and is divided as follows:

€ million	31.12.2010	31.12.2009
Subordinated liabilities	923	518
of which: due within two years	616	461
Subordinated bonds	563	517
of which: due within two years	–	–
Subordinated borrower's note loans	138	137
of which: due within two years	–	–
Participation right liabilities	101	103
of which: due within two years	101	–
Total	**1,725**	**1,275**

The subordinated liabilities are unsecuritised liabilities as defined under § 4 of the Ordinance on Accounting for Banks (RechKredV). The full amount of subordinated liabilities is due to affiliated companies. A conversion into capital or other form of debt has not been agreed, nor is it planned.

The participation right liabilities serve to strengthen the liable capital in accordance with the regulations of § 10 Para. 5 of the German Banking Act. 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.

48 | 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 basic earnings per ordinary share in the amount of € 1.41 (previous year: € 0.90) correspond to the diluted earnings per ordinary share.

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 € 810 million based on its HGB single-entity financial statements (previous year: € 478 million) was transferred to Volkswagen AG, the company's sole shareholder, under its existing control and profit transfer agreement.

49 | 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 48 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:

	31.12.2010	31.12.2009
Aggregate risk position (in € million)	55,591	48,213
of which weighted position according to the standardised approach to credit risks	51,146	44,713
of which market risk positions * 12.5	2,020	1,588
of which operational risks * 12.5	2,425	1,912
Liable capital [1] (in € million)	5,851	5,479
of which core capital [2]	5,810	5,393
of which supplementary capital [2]	41	86
Own funds[1] (in € million)	5,851	5,479
Core capital ratio[3] (in %)	10.5	11.2
Overall ratio[4] (in %)	**10.5**	**11.4**

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

50 | 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		AVAILABLE-FOR-SALE FINANCIAL ASSETS		FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		FINANCIAL ASSETS OR LIABILITIES MEASURED AT FAIR VALUE AND RECOGNISED IN INCOME	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Assets								
Cash reserve	193	343	–	–	–	–	–	–
Receivables from financial institutions	975	1,461	–	–	–	–	–	–
Receivables from customers	41,479	37,012	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	182	322
Securities	–	–	125	98	–	–	–	–
Other financial assets	–	–	265	175	–	–	–	–
Other assets	773	639	–	–	–	–	–	–
Total	**43,420**	**39,455**	**390**	**273**	**–**	**–**	**182**	**322**
Liabilities								
Liabilities to financial institutions	–	–	–	–	7,284	6,615	–	–
Liabilities to customers	–	–	–	–	25,983	22,997	–	–
Securitised liabilities	–	–	–	–	20,605	20,355	–	–
Derivative financial instruments	–	–	–	–	–	–	139	358
Other liabilities	–	–	–	–	810	593	–	–
Subordinated capital	–	–	–	–	1,725	1,275	–	–
Total	**–**	**–**	**–**	**–**	**56,407**	**51,835**	**139**	**358**

Receivables from leasing business are not allocated to any category.
The net results of these categories were as follows:

€ million	2010	2009
Loans and receivables	2,369	2,168
Available-for-sale financial assets	3	1
Financial liabilities measured at amortised cost	−1,839	−2,102
Assets or financial liabilities measured at fair value and recognised in income	136	−31

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

51 | 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:

€ million	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTISED COST		HEDGE ACCOUNTING		OTHER FINANCIAL ASSETS		NOT SUBJECT TO IFRS 7	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Assets												
Cash reserve	193	343	–	–	193	343	–	–	–	–	–	–
Receivables from financial institutions	975	1,461	–	–	975	1,461	–	–	–	–	–	–
Receivables from customers	55,122	50,947	–	–	48,755	48,791	6,367	2,156	–	–	–	–
Derivative financial instruments	637	797	182	322	–	–	455	475	–	–	–	–
Securities	125	98	125	98	–	–	–	–	–	–	–	–
Joint ventures accounted for using the equity method	1,707	1,545	–	–	–	–	–	–	–	–	1,707	1,545
Other financial assets	265	175	–	–	–	–	–	–	265	175	–	–
Other assets	773	639	–	–	244	225	–	–	–	–	529	414
Total	**59,797**	**56,005**	**307**	**420**	**50,167**	**50,820**	**6,822**	**2,631**	**265**	**175**	**2,236**	**1,959**
Liabilities												
Liabilities to financial institutions	7,284	6,615	–	–	7,284	6,615	–	–	–	–	–	–
Liabilities to customers	25,983	22,997	–	–	23,754	22,833	2,229	164	–	–	–	–
Securitised liabilities	20,605	20,355	–	–	20,605	20,335	–	–	–	–	–	–
Derivative financial instruments	336	629	139	358	–	–	197	271	–	–	–	–
Other liabilities	810	593	–	–	175	134	–	–	–	–	635	459
Subordinated capital	1,725	1,275	–	–	1,725	1,275	–	–	–	–	–	–
Total	**56,743**	**52,464**	**139**	**358**	**53,543**	**51,192**	**2,426**	**435**	**–**	**–**	**635**	**459**
Credit commitments	**2,821**	**1,725**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

52 | 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	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Assets						
Measured at fair value						
Derivative financial instruments	–	–	182	322	–	–
Securities	114	87	11	11	–	–
Hedge accounting						
Derivative financial instruments	–	–	455	475	–	–
Total	**114**	**87**	**648**	**808**	**–**	**–**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	139	358	–	–
Hedge accounting						
Derivative financial instruments	–	–	197	271	–	–
Total	**–**	**–**	**336**	**629**	**–**	**–**

53 | 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	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Assets						
Measured at fair value						
Derivative financial instruments	182	322	182	322	–	–
Securities	125	98	125	98	–	–
Measured at amortised cost						
Cash reserve	193	343	193	343	–	–
Receivables from financial institutions	975	1,461	975	1,461	–	–
Receivables from customers	48,558	48,655	48,755	48,791	–197	–136
Other assets	244	225	244	225	–	–
Hedge accounting						
Receivables from customers	6,367	2,148	6,367	2,156	–	–8
Derivative financial instruments	455	475	455	475	–	–
Other financial assets	265	175	265	175	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	139	358	139	358	–	–
Measured at amortised cost						
Liabilities to financial institutions	7,271	6,601	7,284	6,615	–13	–14
Liabilities to customers	23,866	22,913	23,754	22,833	112	80
Securitised liabilities	21,263	20,858	20,605	20,355	658	503
Other liabilities	175	134	175	134	–	–
Subordinated capital	1,789	1,310	1,725	1,275	64	35
Hedge accounting						
Liabilities to customers	2,229	164	2,229	164	–	0
Derivative financial instruments	197	271	197	271	–	–

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	1.227	0.456	1.050	0.348	11.500	4.690	2.015	1.560	5.133
Interest for one year	1.507	0.781	1.509	0.566	11.930	4.780	2.310	1.800	5.678
Interest for five years	2.476	2.186	2.630	0.565	11.840	6.390	3.203	2.580	5.855
Interest for ten years	3.305	3.399	3.540	1.163	–	6.980	3.643	3.050	6.065

54 | Risk of counterparty default

Please see the risk report contained in the management report for the relevant qualitative representations.

Our maximum exposure to credit risks is calculated as follows:

€ million	31.12.2010	31.12.2009
Measured at fair value	307	420
Measured at amortised cost		
Cash reserve	193	343
Receivables from financial institutions	975	1,461
Receivables from customers	48,755	48,789
Other assets	244	225
Hedge accounting		
Receivables from customers	6,367	2,158
Derivative financial instruments	455	475
Other financial assets	265	175
Irrevocable credit commitments	2,821	1,725
Total	**60,382**	**55,771**

The following table shows the quality of the financial assets:

	GROSS CARRYING AMOUNT		NEITHER PAST DUE NOR IMPAIRED		PAST DUE AND NOT IMPAIRED		IMPAIRED	
€ million	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Measured at fair value	307	420	307	420	–	–	–	–
Measured at amortised cost								
Cash reserve	193	343	193	343	–	–	–	–
Receivables from financial institutions	975	1,461	975	1,461	–	–	–	–
Receivables from customers	50,256	50,228	47,037	45,597	1,051	2,977	2,168	1,654
Other assets	244	225	244	225	0	–	–	–
Hedge accounting								
Receivables from customers	6,503	2,203	6,171	2,010	156	131	176	62
Derivative financial instruments	455	475	455	475	–	–	–	–
Other financial assets	265	175	265	175	–	–	–	–
Total	**59,198**	**55,530**	**55,647**	**50,706**	**1,207**	**3,108**	**2,344**	**1,716**

The following table shows the carrying amounts of the financial instruments (broken down by classes) in regards to which the relevant contracts were amended in order to avoid arrears or recognising an impairment:

€ million	31.12.2010	31.12.2009
Measured at fair value	–	–
Measured at amortised cost		
Cash reserve	–	–
Receivables from financial institutions	–	–
Receivables from customers	734	609
Other assets	–	–
Hedge accounting		
Receivables from customers	7	2
Derivative financial instruments	–	–
Other financial assets	–	–
Total	**741**	**611**

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:

	NEITHER PAST DUE NOR IMPAIRED		RISK CLASS 1		RISK CLASS 2	
€ million	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Measured at fair value	307	420	307	420	–	–
Measured at amortised cost						
Cash reserve	193	343	193	343	–	–
Receivables from financial institutions	975	1,461	975	1,461	–	–
Receivables from customers	47,037	45,597	41,167	39,070	5,870	6,527
Other assets	244	225	244	225	0	–
Hedge accounting						
Receivables from customers	6,171	2,010	5,217	1,719	954	291
Derivative financial instruments	455	475	455	475	–	–
Other financial assets	265	175	265	175	–	–
Total	**55,647**	**50,706**	**48,823**	**43,888**	**6,824**	**6,818**

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	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Measured at fair value	–	–	–	–	–	–	–	–
Measured at amortised cost								
Cash reserve	–	–	–	–	–	–	–	–
Receivables from financial institutions	–	–	–	–	–	–	–	–
Receivables from customers	1,051	2,977	736	1,706	315	968	–	303
Other assets	0	–	0	–	0	–	–	–
Hedge accounting								
Receivables from customers	156	131	82	80	74	39	–	12
Derivative financial instruments	–	–	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–	–	–
Total	**1,207**	**3,108**	**818**	**1,786**	**389**	**1,007**	**–**	**315**

Gross carrying amounts of impaired receivables:

€ million	31.12.2010	31.12.2009
Measured at fair value	–	–
Measured at amortised cost		
Cash reserve	–	–
Receivables from financial institutions	–	–
Receivables from customers	2,168	1,654
Other assets	–	–
Hedge accounting		
Receivables from customers	176	62
Derivative financial instruments	–	–
Other financial assets	–	–
Total	**2,344**	**1,716**

Vehicles, mortgages, or other movable property are accepted as collateral for loans granted. Collateral obtained in the financial year just ended for financial assets that are past due but not impaired and impaired financial assets which are scheduled for disposal:

€ million	31.12.2010	31.12.2009
Vehicles	51	263
Property	–	–
Other movables	–	3
Total	**51**	**266**

Vehicle disposals are effected by means of direct sales and auctions to Volkswagen Group dealerships.

55 | 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:

€ million	ASSETS 31.12. 2010	31.12. 2009	PAYABLE ON DEMAND 31.12. 2010	31.12. 2009	UP TO 3 MONTHS 31.12. 2010	31.12. 2009	3 MONTHS TO 1 YEAR 31.12. 2010	31.12. 2009
Cash reserve	193	343	193	343	–	–	–	–
Receivables from financial institutions	975	1,461	525	1,175	424	278	26	8
Total	**1,168**	**1,804**	**718**	**1,518**	**424**	**278**	**26**	**8**

The age analysis of undiscounted cash outflows from financial liabilities is as follows:

	CASH OUTFLOWS		REMAINING CONTRACTUAL MATURITY							
			up to 3 months		3 months to 1 year		1 to 5 years		more than 5 years	
€ million	31.12. 2010	31.12. 2009	31.12. 2010	31.12. 2009	31.12. 2010	31.12. 2009	31.12. 2010	31.12. 2009	31.12. 2010	31.12. 2009
Liabilities to financial institutions	8,870	6,541	2,363	1,464	3,011	2,081	3,446	2,937	50	59
Liabilities to customers	26,844	24,253	17,928	17,094	2,626	2,460	5,728	4,434	562	265
Securitised liabilities	21,829	22,630	3,957	5,032	5,932	5,671	11,940	11,627	–	300
Derivative financial instruments	5,438	1,752	2,224	586	1,440	644	1,774	522	0	0
Subordinated capital	1,849	1,256	323	249	152	131	1,060	468	314	408
Irrevocable credit commitments	2,821	1,725	0	1,594	2,821	131	0	–	–	–
Total	**67,651**	**58,157**	**26,795**	**26,019**	**15,982**	**11,118**	**23,948**	**19,988**	**926**	**1,032**

56 | 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 any 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.

The parameters, trading days and time horizon, were adjusted to the expanded data histories. The previous year's figures for the interest rate, currency translation and market price risks were adjusted accordingly.

This yields the following figures:

€ million	31.12.2010	31.12.2009
Interest rate risk	157	149
Currency translation risk	84	59
Total market price risk	**130**	**120**

57 | Foreign currency items

In the VW FS AG Group the following assets and liabilities are contained in the currencies shown as at 31.12.2010:

€ million	BRL	GBP	JPY	SEK	AUD	MXN	CZK	Other	Total
Receivables from financial institutions	238	75	27	78	68	6	0	1	493
Receivables from customers	7,753	4,625	1,418	1,298	1,236	917	743	387	18,377
Assets	**7,991**	**4,700**	**1,445**	**1,376**	**1,304**	**923**	**743**	**388**	**18,870**
Liabilities to financial institutions	4,945	490	682	0	137	79	458	41	6,832
Liabilities to customers	120	1,354	72	247	8	112	18	0	1,931
Securitised liabilities	1,169	79	657	603	784	634	28	0	3,954
Subordinated capital	239	275	–	–	–	–	–	–	514
Liabilities	**6,473**	**2,198**	**1,411**	**850**	**929**	**825**	**504**	**41**	**13,231**

58 | 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 Group-wide 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, marketable 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. The ALM Committee makes recommendations as strategic decision-making support for the respective interest rate policy orientation. The quantified risk and the mismatch items are subject to maximum limits that apply uniformly throughout the Group.

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	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Cash flow hedges						
Interest rate swaps	2,142	3,146	1,687	2,600	62	542
Cross-currency interest rate swaps	395	193	881	615	–	–
Currency futures contracts	1,274	1	182	0	–	–
Currency swaps	–	772	–	–	–	–
Other						
Interest rate swaps	13,614	11,545	19,366	21,550	31	564
Cross-currency interest rate swaps	247	105	606	51	0	–
Currency futures contracts	492	355	–	–	–	–
Currency swaps	816	71	1	4	–	–
Total	**18,980**	**16,188**	**22,723**	**24,820**	**93**	**1,106**

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

59 | 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. 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 America segment contains the subsidiaries in Australia and Japan.

Given its typical functions as a holding company, VW FS AG, the holding company, is shown in the “Consolidation” column because it is not an integral part of the German market in terms of internal reporting.

The information made available to management for controlling purposes is based on the same accounting policies that are used in external accounting. Insofar no separate reconciliation is necessary.

Division by geographical markets:

€ million	Germany	Europe	North/ South America	Asia	Total seg-ments	Consoli-dation	Total
	01.01. - 31.12.2010						
Revenue from lending transactions with third parties	1,280	628	914	126	2,948	0	2,948
Revenue from intersegment lending transactions	154	23	–	0	177	−177	–
Segment revenue from lending transactions	1,434	651	914	126	3,125	−177	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**	**2,751**	**1,108**	**136**	**9,410**	**−187**	**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	−1,025	−317	−565	−75	−1,982	143	−1,839
Provisions for risks arising from lending and leasing business	−296	−92	−223	−8	−619	–	−619
Commission expenses	−197	−86	−27	−2	−312	4	−308
Interest income not classified as revenue	3	1	0	0	4	0	4
Result from financial instruments	72	1	2	0	75	−29	46
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	−677	−237	−144	−39	−1,097	−4	−1,101
Other operating result	25	18	−23	2	22	−53	−31
Pre-tax result	**501**	**243**	**122**	**11**	**877**	**−7**	**870**
Taxes on income and earnings	−163	−84	−30	−5	−282	35	−247
Net income	**338**	**159**	**92**	**6**	**595**	**28**	**623**
Segment assets	**32,310**	**14,471**	**8,668**	**2,644**	**58,093**	**–**	**58,093**
of which non-current assets	**18,615**	**7,542**	**4,143**	**1,486**	**31,786**	**–**	**31,786**
Segment liabilities	**36,407**	**14,151**	**7,607**	**2,584**	**60,749**	**−7,543**	**53,206**

The presentation for the previous year is as follows:

€ million	01.01. - 31.12.2009 Germany	Europe	North/ South America	Asia	Total seg- ments	Consoli- dation	Total
Revenue from lending transactions with third parties	1,298	645	634	88	2,665	0	2,665
Revenue from intersegment lending transactions	213	16	–	0	229	−229	0
Segment revenue from lending transactions	1,511	661	634	88	2,894	−229	2,665
Revenue from leasing and service transactions	3,313	1,222	118	12	4,665	−11	4,654
Premiums earned from insurance transactions	35	–	–	–	35	–	35
Commission income	289	78	28	1	396	0	396
Revenue	**5,148**	**1,961**	**780**	**101**	**7,990**	**−240**	**7,750**
Cost of sales from lending, leasing and service transactions	−1,934	−803	−6	−13	−2,756	–	−2,756
Write-ups on leased assets and investment property	–	28	–	–	28	–	28
Depreciation and impairment losses on leased assets and investment property	−431	−315	0	−1	−747	–	−747
of which impairment losses pursuant to IAS 36	−68	−67	–	–	−135	–	−135
Expenses from insurance business	−30	–	–	–	−30	–	−30
Interest expense	−1,403	−403	−452	−48	−2,306	204	−2,102
Provisions for risks arising from lending and leasing business	−415	−92	−144	−3	−654	–	−654
Commission expenses	−113	−43	−18	−1	−175	3	−172
Interest income not classified as revenue	4	2	0	0	6	0	6
Result from financial instruments	−25	2	–	0	−23	−22	−45
Result from available-for-sale assets	1	–	–	–	1	–	1
Result from joint ventures accounted for using the equity method	–	–	–	–	–	91	91
Result from other financial assets	4	–	–	–	4	−4	0
General administration expenses	−605	−183	−95	−29	−912	0	−912
Other operating result	120	11	1	2	134	−38	96
Pre-tax result	**321**	**165**	**66**	**8**	**560**	**−6**	**554**
Taxes on income and earnings	−95	−52	−20	−3	−170	11	−159
Net income	**226**	**113**	**46**	**5**	**390**	**5**	**395**
Segment assets	**32,337**	**12,190**	**6,243**	**1,970**	**52,740**	**–**	**52,740**
of which non-current assets	**19,003**	**6,000**	**2,928**	**1,109**	**29,040**	**–**	**29,040**
Segment liabilities	**36,688**	**11,870**	**5,446**	**1,964**	**55,968**	**−6,298**	**49,670**

All business transactions between the segments are carried out at normal market terms.

The consolidation in the interest income 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 leased assets and investment properties amount to € 1,690 million (previous year: € 1,498 million) in Germany, € 740 million (previous year: € 578 million) in the Europe segment, zero (previous year: € 1 million) in the Asia segment and zero (previous year: zero) in the North and South America segment. The investments in the other assets are of secondary importance.

Other notes

60 | 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 properties, 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. On account of the revised IAS 7, cash flows from changes in leased assets were for the first time assigned to operating activities. Previous year's figures were adjusted accordingly.

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.

61 | Off-balance sheet obligations

€ million	31.12.2010	31.12.2009
Contingent liabilities		
Liabilities from surety and warranty agreements	55	60
Liability arising from the provision of security for third-party liabilities	8	8
Other obligations		
Irrevocable credit commitments	2,821	1,725

The obligations under non-cancellable rental and leasing contracts in the VW FS AG Group trigger expenses of € 6 million (previous year: € 6 million) in the 2011 financial year, € 17 million (previous year: € 18 million) in the 2012 to 2015 financial years and € 15 million (previous year: € 11 million) in the financial years thereafter.

62 | Average number of employees during the financial year

	2010	2009
Salaried employees	6,579	6,574
Trainees	111	110
Total	**6,690**	**6,684**

63 | Relationships with 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:

At the start of the 2009 financial year, the interest of Porsche Automobil Holding SE, Stuttgart, in the ordinary shares of Volkswagen AG surpassed the threshold of 50 %. With an equity stake of 50.76 %, Porsche Automobil Holding SE owned the majority of the voting shares from that date. By exercising conversion rights under the stock option plan, this equity interest has fallen to 50.74 % in the meantime.

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 continues to have the opportunity to participate in the Volkswagen Group's corporate decision making. Prior to this, 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 transfer of the sales organisation is likely to be executed at a fixed price of € 3.34 billion during the first six months of 2011 but no later than effective 30 September 2011.

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 fellow subsidiaries and non-consolidated subsidiaries as well as joint ventures and associated companies are handled at normal market terms.
Transactions with related parties are shown in the following two tables:

2010 financial year € million	Super-visory Board	Board of Manage-ment	Volks-wagen AG	Porsche	Fellow sub-sidiaries	Non-consoli-dated sub-sidiaries	Joint ventures	Associ-ated companies
Receivables	0	0	30	80	306	23	1,799	0
Allowances on receivables	–	–	–	–	–	–	–	–
of which: additions, current year	–	–	–	–	–	–	–	–
Liabilities	1	0	3,546	4	3,272	20	0	0
Interest income	0	–	11	0	35	1	34	0
Interest expense	0	0	−11	0	−14	0	0	–
Services and products provided	0	–	1,982	30	558	12	–	1
Services and products received	–	–	4,558	294	566	10	8	6
Provision of sureties	–	–	–	–	–	–	41	–

2009 financial year € million	Super-visory Board	Board of Manage-ment	Volks-wagen AG	Porsche	Fellow sub-sidiaries	Non-consoli-dated sub-sidiaries	Joint ventures	Associ-ated companies
Receivables	0	0	106	66	228	35	1,474	0
Allowances on receivables	–	–	–	–	–	–	–	–
of which: additions, current year	–	–	–	–	–	–	–	–
Liabilities	1	0	1,757	4	1,590	13	0	–
Interest income	0	0	13	0	35	0	15	0
Interest expense	0	0	−3	0	−4	0	0	–
Services and products provided	–	–	12	28	152	9	3	0
Services and products received	0	0	10	73	11	0	3	5
Provision of sureties	–	–	–	–	–	20	12	–

In particular, Porsche includes Porsche Holding Gesellschaft m.b.H., Salzburg, and its subsidiaries.

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 companies are conducted under the same conditions as are usual with external third parties.

COMPENSATION OF THE BOARD OF MANAGEMENT

€ million	2010	2009
Short-term benefits	4	3
Termination benefits	–	–
Post-employment benefits	2	1

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 € 9 million (previous year: € 7 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.

64 | 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
Regions North America, South America, China/India

FRANK FIEDLER
Finance

CHRISTIANE HESSE
Human Resources and Organisation

DR. MICHAEL REINHART
Risk management

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

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

DR. ARNO ANTLITZ
Member of the Board of Management Volkswagen Brand
Controlling and Accounting

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

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

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

DETLEF KUNKEL
General Secretary/Principal Representative of IG Metall Braunschweig

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

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

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

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

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

65 | 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.

66 | Events after the balance sheet date

There were no significant events up to 11.02.2011.

67 | 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 principal opportunities and risks associated with the expected development of the Group.

Braunschweig, 11 February 2011
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 2010. 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, 11 February 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Burkhard Eckes
Auditor	Auditor

Report of the Supervisory Board

of the 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 81 %. With the exception of one member, who was absent at two meetings, all members attended more than half of the meetings. We resolved an urgent matter in writing by means of a circular memorandum; in addition, the Chairman of the Supervisory Board made two urgent decisions using a written procedure as well.

COMMITTEE WORK

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

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

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

DELIBERATIONS OF THE SUPERVISORY BOARD

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

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

At the meeting on 19 February 2010, the Board of Management explained its activities to date as well as its plans for repositioning the financial services business in the Indian market.

At our meeting on 10 June 2010, the Board of Management reported on the planned development of the insurance business by modifying its vertical integration as well as the planned launch by Volkswagen Versicherung AG of the primary insurance business in the warranty insurance contract segment, which we approved. We also approved the establishment of a subsidiary in Seoul, South Korea, which will run the financing business.

On 3 December 2010, we approved both the company's and the Group's financial and investment planning after extensive deliberation. We also agreed to the establishment of a new company headquartered in Taipei, Taiwan, which will launch the insurance brokerage business in that country.

At this meeting, the Board of Management reported to us on its IT strategy and its strategic plans and campaigns for pushing growth in the European markets through closer integration with the brands. We also dealt extensively with the company's and the Group's current exposures to risk, especially in regards to both lending and residual value risks. In addition, it reported on the preliminary results of the audit by the regulators of the risk management system at both the single entity and the Group level in accordance with MaRisk and the resulting measures.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

During its meeting on 18 February 2011, the Supervisory Board approved the consolidated financial statements and the annual financial statements of Volkswagen 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 2010 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, 18 February 2011

Hans Dieter Pötsch
Chairman of the Supervisory Board

Supervisory Board

of the Volkswagen Financial Services AG

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

Michael Riffel
Deputy Chairman
General Secretary of the General Works Council and Group Works Council of Volkswagen AG

Dr. Arno Antlitz
Member of the Board of Management Volkswagen Brand
Controlling and Accounting

Dr. Jörg Boche
Executive Vice President of Volkswagen AG
Group Treasurer

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

Christian Klingler (from 20.05.2010)
Member of the Board of Management of Volkswagen AG
Sales and Marketing

Detlef Kunkel
General Secretary/Principal Representative of
IG Metall Braunschweig

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

Gabor Polonyi
Head of Sales Germany Private and Corporate Customers of Volkswagen Bank GmbH

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

Axel Strotbek
Member of the Board of Management
AUDI AG
Finance and Organisation

Detlef Wittig (until 19.05.2010)
Executive Vice President of Volkswagen AG
Cooperations Japan

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.

Equity ratio (balance sheet)
Ratio between equity and total assets.

Fair Value
Applicable value (e.g. market value) at which financial instruments can be bought and sold by 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.

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.

Return on equity

Pre-tax result divided by the average equity.

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.

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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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