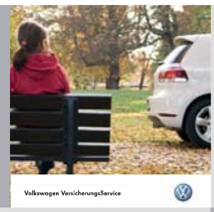
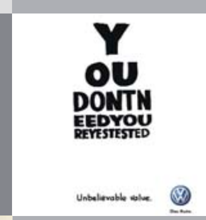
VOLKSWAGEN BANK

GMBH



Getting things done

The key to mobility.



Pioneering

Customer-focused

ANNUAL REPORT 2010 (IFRS)

The Volkswagen Bank GmbH Group at a glance (IFRS)

in € million (as at 31.12.)	2010	2009	2008	2007	2006
Total assets	32,826	34,193	33,497	26,539	23,538
Receivables arising from					
Retail financing	17,696	17,421	15,481	14,078	12,978
Dealer financing	6,261	6,427	7,653	7,465	5,845
Leasing business	1,232	1,156	1,136	292	254
Customer deposits[1]	20,078	19,489	12,829	9,620	8,827
Equity	4,690	4,095	3,318	3,379	2,987
Pre-tax result	480	330	375	472	409
Taxes on income and earnings	–131	–81	–84	–149	–112
Net income	349	249	291	323	297
in % (as at 31.12.)					
Cost/income ratio[2]	53	60	56	52	48
Equity ratio	14.3	12.0	9.9	12.7	12.7
Core capital ratio[3]	15.6	14.9	12.8	14.2	13.4
Overall ratio[3]	18.6	18.0	18.8	20.8	20.1
Return on equity	10.9	8.9	11.2	14.8	14.0
Number (as at 31.12.)					
Employees	631	644	669	585	3,855

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

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

2 General administration expenses net of charges passed on, divided by net income from lending and leasing transactions after provisions for risks and net commission income.

3 The regulatory core capital ratio/overall ratio of Volkswagen Bank GmbH 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.

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CONSOLIDATED FINANCIAL STATEMENTS OF THE VOLSWAGEN BANK GMBH GROUP (IFRS)

MANAGEMENT REPORT (IFRS)

Development of business
Solid growth after the crisis

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

RECOVERY OF GLOBAL ECONOMY CONTINUES

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

Europe

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

Germany

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

FINANCIAL MARKETS

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

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

Europe

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

Germany

In Germany, the government worked on developing an instrument suitable for separating the resolution of systemic financial crises from governmental bailouts and thus to prevent the financial market from collapsing. The restructuring law that was enacted in October 2010 is designed to obligate all banks to participate in the establishment of a restructuring fund at a level that corresponds to the systemic risk they pose. The "Minimum requirements for risk management" (MaRisk) issued by the Federal Financial Supervisory Authority (BaFin) in 2009 were further revised in 2010 with the aim of strengthening financial insitutions' risk-bearing capacity. As a result, banks will face yet another tightening of the MaRisk.

GLOBAL AUTOMOBILE BUSINESS DEVELOPS BETTER THAN EXPECTED

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

In 2010, the established markets were greatly affected by the governmental stimulus packages. Whilst these programmes shifted demand in favour of 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.

Europe

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

Germany

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

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

OVERALL APPRAISAL OF THE DEVELOPMENT OF BUSINESS

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

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

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

The downturn in vehicle sales in the international automotive markets was not as sharp as expected. The number of Volkswagen Bank GmbH's new vehicle financing contracts also developed better than expected but remained below the previous year's level. New vehicle deliveries to individual customers in Germany, Volkswagen Bank GmbH's core market, declined by 40 % to 515,000 units as a result of vehicle purchases made earlier than planned in connection with the scrapping bonus. In contrast, the decline in volume was smaller than expected thanks to the improvement in the German economy and the resulting reduction in the unemployment rate. Substantial increases were recorded in foreign markets, however. The customer-friendly terms have helped to further enhance the competitive position. As a result, 188,000 new contracts were sold in the new vehicle financing business despite the difficult market environment.

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

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

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

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

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

Management and organisation
New structures and growth

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

THE VOLKSWAGEN BANK GMBH GROUP

Volkswagen Bank GmbH is a wholly-owned subsidiary of Volkswagen Financial Services AG, Braunschweig, which in turn is a wholly-owned subsidiary of Volkswagen AG, Wolfsburg.

As a general principle, all companies and branches are fully consolidated in which Volkswagen Bank GmbH has the possibility, directly or indirectly, to determine the financial and business policy in such a way that the Volkswagen Bank GmbH Group benefits from the activities of these companies (subsidiaries).

Volkswagen Bank GmbH has an indirect stake in LeasePlan Corporation N.V., Amsterdam – Europe's largest provider of multi-brand fleet management – via its 50% interest in Global Mobility Holding B.V., Amsterdam. The bank also holds 60% of the shares of VOLKSWAGEN BANK POLSKA S.A., Warsaw. VOLKSWAGEN BANK POLSKA S.A. is one of Poland's largest direct banks and provides automotive financial services. Both companies are included at equity in the IFRS consolidated financial statements of Volkswagen Bank GmbH. The result from this equity investment in the financial year just ended was € 91 million (previous year: € 71 million).

Volkswagen Bank GmbH acquired Volkswagen Insurance Brokers GmbH, Braunschweig, during the financial year. This company offers insurance agency services. It was not consolidated because it is insignificant to the Group's results of operations, assets and financial position.

The ABS transactions of Volkswagen Bank GmbH are handled by special purpose entities that are fully consolidated in the consolidated financial statements of Volkswagen Bank GmbH. These entities are: Driver Two GmbH, Driver Three GmbH, Driver Four GmbH, Driver Five GmbH, Driver Six GmbH, Driver Seven GmbH as well as Private Driver 2007 GmbH, Private Driver 2008-1 GmbH, Private Driver 2008-2 GmbH, Private Driver 2008-3 GmbH, Private Driver 2008-4 GmbH and Private Driver 2010-1 fixed GmbH (all with registered offices in Frankfurt/Main). The combined earnings of the special purpose entities in the 2010 financial year were less than € 0.5 million, just as in the previous year.

KEY OBJECTIVES

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

Financing business

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

Leasing transactions

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

Direct banking business

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

Agency business

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

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

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

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

ORGANISATION OF VOLKSWAGEN BANK GMBH

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

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

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

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

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

Analysis of the Group's business development and position
Substantial improvement in earnings

Whilst business was steady, Volkswagen Bank GmbH posted substantially higher earnings based on improved margins.

The Volkswagen Bank GmbH Group maintained its strong market position in the 2010 financial year, supported by an attractive product range and the loyalty of customers and dealers alike. In the retail financing segment, the bank continued its close collaboration with the brands of the Volkswagen Group. The customer financing volume increased by 1.6% to € 17.7 billion compared to 31 December 2009, thanks also to the intensive collaboration with the Volkswagen Group's dealerships.

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

RESULTS OF OPERATIONS

The 2010 financial year was a positive one for the Volkswagen Bank GmbH Group even though risk costs increased yet again, thus continuing to reflect the fallout of the financial market crisis.

The pre-tax result was € 480 million compared to € 330 million in the previous year. Foreign branches contributed € 83 million (previous year: € 89 million) to earnings. The change in earnings was substantially affected by the positive development of interest margins even though it was contrasted by a significant reduction in net commission income.

The net income from lending and lasing transactions before risk provisions earned by the Volkswagen Bank GmbH Group was € 1,082 million compared to € 805 million in the previous year. This significant increase was essentially due to the higher net interest income from retail financing.

Interest income from lending and money market transactions continues to stem primarily from consumer financing, as well as from vehicle and investment financing for the dealers of the Volkswagen Group. The decline in the interest income from dealer financing before risk provisions in the amount of € 76 million was only partially offset by the increase in interest income from retail financing before risk provisions in the amount of € 35 million.

The Volkswagen Bank GmbH Group succeeded in lowering its interest expense by 33.4% to € 637 million year on year thanks to the consistent execution of its diversified refinancing strategy, the flexible utilisation of its instruments and the positive developments in the capital market.

Operating leases contributed € 30 million (previous year: € 25 million) to the total net income from leasing transactions before provisions for risks.

The allowances and provisions recognised in connection with the lending business take into account all impairments existing as at the balance sheet date. At € 508 million, the required risk provision expenses were also substantially below the previous year's level (€ 634 million). Indirect residual value risks were thus also taken into account by recognising provisions. However, reversals of provisions were substantially lower in the financial year just ended, as was income from receivables written off. The remaining expenses overall rose from € 273 million to € 318 million. The risks specific to dealer financing were fully taken into account in this context.

Volkswagen Bank GmbH Group raised its net income after provisions for risks by 43.6% to € 764 million despite the increase in provisions for risks.

The net commission income declined year on year, from € 83 million to € 21 million. The increased competition in the automobile industry triggered a substantial rise in commission expenses aimed at supporting dealer loyalty. Larger dealer bonuses, which were rooted in the positive sales figures for the previous year and served as an incentive for new business, triggered an increase in commission expenses.

Under the existing profit transfer agreement, the remaining profit after tax pursuant to German commercial law of Volkswagen Bank GmbH, amounting to € 180 million, is transferred to the parent company, Volkswagen Financial Services AG.

SUMMARY

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

FINANCIAL KEY PERFORMANCE INDICATORS

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

in % (as at 31.12.)	2010	2009	2008	2007	2006
Cost/income ratio [1]	53	60	56	52	48
Equity ratio[2]	14.3	12.0	9.9	12.7	12.7
Core capital ratio [3]	15.6	14.9	12.8	14.2	13.4
Overall ratio (regulatory)[3]	18.6	18.0	18.8	20.8	20.1
Return on equity[4]	10.9	8.9	11.2	14.8	14.0

1 General administration expenses net of charges passed on, divided by net income from lending and leasing transactions after provisions for risks and net commission income.
2 Ratio between equity and total capital.
3 Core capital ratio = Core capital/ ((Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100
Overall ratio (regulatory) = Own funds/ ((Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100
The regulatory core capital ratio/overall ratio of Volkswagen Bank GmbH 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 Pre-tax result divided by the average equity.

DISCLOSURES ON THE EQUITY RATIO

The equity of the Volkswagen Bank GmbH Group rose by 14.5%, primarily as a result of Volkswagen Financial Services AG's payments of € 350 million into the capital reserve of Volkswagen Bank GmbH Group on 26 November 2010. Since the business volume fell slightly by 4% in the 2010 financial year, the equity ratio rose from 12.0% to 14.3%.

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

ASSETS AND FINANCIAL POSITION

LENDING BUSINESS

The lending business of the Volkswagen Bank Group focuses on the provision of loans to private and commercial customers as well as dealers. The volume of these receivables again was € 28.3 billion. The share of the foreign branches in the retail lending volume increased from € 6.6 billion to € 7.5 billion.

RETAIL FINANCING

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

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

At 1,813,308 contracts, the automotive financing portfolio remained stable on the whole. At the close of 2010, retail financing receivables were € 17.7 billion (previous year: € 17.4 billion). Foreign branches accounted for € 2.8 billion of this amount (previous year: € 2.3 billion).

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

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

DEALER FINANCING

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

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

Total dealer financing receivables as at the balance sheet date were € 6.3 billion compared to € 6.4 billion at the end of the previous year. The foreign branches accounted for € 3.1 billion of these aggregate receivables (previous year: € 2.8 billion).

The investment financing included in dealer financing fell slightly to € 529 million at the close of the 2010 financial year.

The write-downs of receivables increased from € 549 million to € 584 million year on year.

LEASING BUSINESS

The Volkswagen Bank GmbH Group offers finance leasing and operating leasing through the foreign branches of Volkswagen Bank GmbH. While the French branch engages in both finance and operating leasing, the Italian branch continues to offer only finance leasing. Receivables as at the end of the 2010 financial year again amounted to € 1.2 billion. They largely comprise receivables from finance leasing.

COMPANIES INCLUDED AT EQUITY

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

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

Since the control of VOLKSWAGEN BANK POLSKA S.A. is contractually excluded, the company is included at equity in the IFRS consolidated financial statements of Volkswagen Bank GmbH as a joint venture according to IAS 31, as is Global Mobility Holding B.V.

FINANCIAL ASSETS

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

CURRENT AND NEW CONTRACTS

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

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

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

DEPOSIT BUSINESS AND BORROWINGS

Besides equity, notable liability items include liabilities to customers in the amount of € 21.3 billion (previous year: € 20.7 billion) as well as securitised liabilities in the amount of € 4.9 billion (previous year: € 6.8 billion). The deposit business of Volkswagen Bank direct – which includes sight deposits, fixed-term deposits and savings certificates for private customers as well as overnight deposits for the corporate customers – accounts for most of our liabilities to customers. Details concerning the company's refinancing and hedging strategy are provided in a separate section of this management report.

SUMMARY

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

DEPOSIT BUSINESS

Volkswagen Bank GmbH further expanded its deposit business from the previous year's high level. As at the balance sheet date, the customer deposit volume was € 20.1 billion, up 3.1% 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. Volkswagen Bank direct accounted for € 18.9 billion of these deposits, thus contributing substantially to customer loyalty to the Volkswagen Group. Its share in the refinancing mix of the Volkswagen Bank GmbH Group is 61.3% (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.).

EQUITY

The subscribed capital of Volkswagen Bank GmbH again remained unchanged at € 318 million in the 2010 financial year. In its capacity as the primary credit institution as defined by the German Banking Act, Volkswagen Bank GmbH is responsible for ensuring the capital adequacy of the financial holding group, Volkswagen Financial Services AG.

CAPITAL ADEQUACY ACCORDING TO REGULATORY REQUIREMENTS

Under the provisions of the Solvency Regulations, banking regulatory authorities assume that a company's capital is adequate if the core capital ratio is at least 4.0% and the regulatory overall ratio is at least 8.0%. The so-called standardised approach to determine capital adequacy in connection with credit risks and operational risks is applied in accordance with the Solvency Regulation.

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

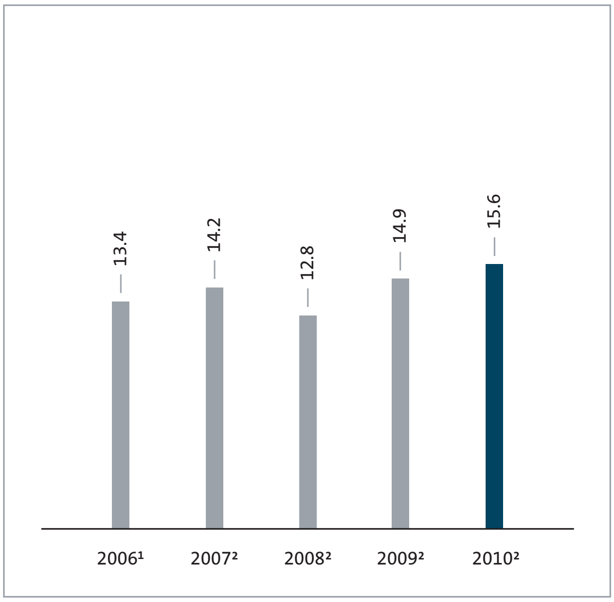
		31.12.2010		31.12.2009
Aggregate risk position (€ million)		24,975		24,121
of which weighted position according to the standardised approach to credit risks	23,523		22,508	
of which market risk positions * 12.5	0		61	
of which operational risks * 12.5	1,452		1,552	
Liable capital[1] (€ million)		4,648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

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

Overall, the core capital ratio changed from 14.9% to 15.6% as a result of a growth in business and the capital measures, and the own funds ratio changed from 18.0% to 18.6%.

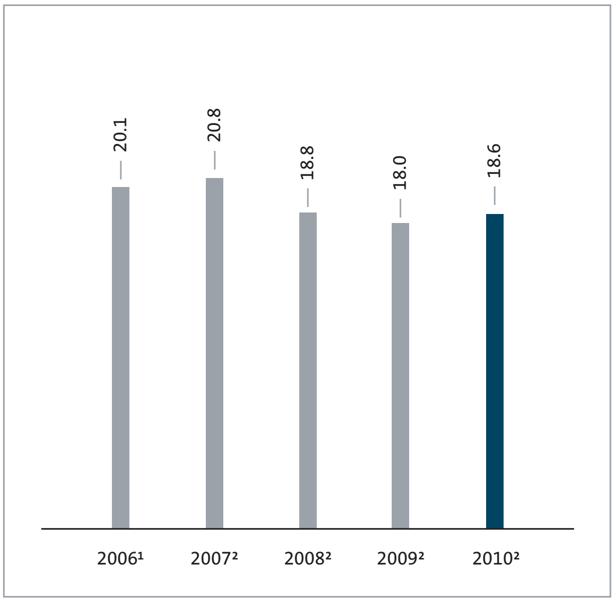
The core capital and own funds ratios developed as follows in recent years:

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



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

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



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

The own funds ratio of Volkswagen Bank GmbH is relatively high, ensuring adequate capitalisation even in the event of large increases in its business volume. In principle, the bank can use ABS transactions and raise supplementary capital as needed in the form of participation right liabilities and subordinated liabilities in order to optimise its equity management. As a result, Volkswagen Bank GmbH has a sound basis for the ongoing expansion of its financial services business. In the 2010 financial year, the bank's own funds rose by € 65 million through subordinated loans from Volkswagen Financial Services AG and by € 170 million through subordinated loans from Volkswagen International Finance N.V. Profit-participation rights with a nominal value of € 90 million have not been considered since January 2010 because their residual term was less than the two years required under the regulatory regime.

BASEL II

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

REFINANCING AND HEDGING STRATEGY

Strategic principles

In terms of its refinancing activities, the Volkswagen Bank GmbH Group 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. The Volkswagen Bank GmbH Group wants to leverage this approach in order to attain the volume and profitability targets of the Group's WIR2018 strategy.

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

Implementation

The successful diversification strategy in refinancing was continued. In April, Volkswagen Bank GmbH further stimulated the euro ABS market through its Driver Seven benchmark securitisation transaction comprising receivables from over 41,000 automobile loans. An ABS bond was structured to raise funds in connection with ECB's open market operations in October. The company issued a € 1.0 billion fixed-income bond in June as well as a € 500 million bond carrying a variable interest rate in September under its € 10 billion Debt Issuance Programme.

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

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

Opportunity and risk report
Risk management is the key to success

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

MACROECONOMIC OPPORTUNITIES

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

STRATEGIC OPPORTUNITIES

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

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

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

- Given its function as the corporate body tasked with managing the company's business and in view of ensuring proper accounting, the Board of Management of Volkswagen Bank GmbH has established Accounting, Customer Service, Treasury, Risk Management and Controlling departments and has clearly delineated their respective spheres of responsibility and authority. Key cross-divisional functions are controlled by the Board of Management of Volkswagen Financial Services AG as well as by the executive management of Volkswagen Bank GmbH, Volkswagen Leasing GmbH as well as Volkswagen Business Services GmbH.
- Groupwide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process.
- 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 Bank GmbH Group Group's annual financial statements.
- The accounting standards of Volkswagen Bank GmbH 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 ultimate parent company, Volkswagen AG, for example Group Controlling.
- Risk management is fully integrated into the accounting process by virtue of continuous risk monitoring and the risk reporting system.
- Internal Audit is also a key corporate body that is integral to the controlling and monitoring system of the Volkswagen Bank GmbH Group. Internal Audit regularly performs audits, both in Germany and abroad, of processes relevant to accounting as part of its risk-based audit procedures and directly reports its findings to the Board of Management of Volkswagen Bank GmbH.

In sum, the existing internal controlling and monitoring system of the Volkswagen Bank GmbH Group is designed to ensure that the information on the financial position of the Volkswagen Bank GmbH 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 Bank GmbH Group after the reporting date.

STRATEGY AND STANDARDS

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

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

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

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

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

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

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

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

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

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

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

- The Board of Management determines the risk preference. The Supervisory Board regularly monitors the risk profile of Volkswagen Bank GmbH.
- The risk preference of Volkswagen Bank GmbH is generally moderate. Only predictable and workable risks are incurred. In the case of operational risks, a prevention/reduction strategy is pursued.
- Risks from new or modified products, new sales channels and/or new markets are subject to a fixed evaluation and approval process.

- Volkswagen Bank GmbH's processes are continuously subject to quality assurance.
- Risk is spread across customers, products and countries.
- Security is obtained for all vehicle and investment financing loans.
- Risk-oriented value adjustments are recognised.
- Lending processes and responsibilities are subject to guidelines applicable to the different divisions and are decided in accordance with an approval process subject to credit limits.
- Credit risks are factored into the pricing.
- Loans are granted solely after appropriate identity and credit checks.
- Volkswagen Bank GmbH makes loans largely taking into account total customer value.
- Decisions regarding the assumption or avoidance of risks are supported by the use of suitable control instruments, such as credit rating procedures or early warning systems.

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

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

The risk manual describes the risk management system in detail.

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

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

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

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

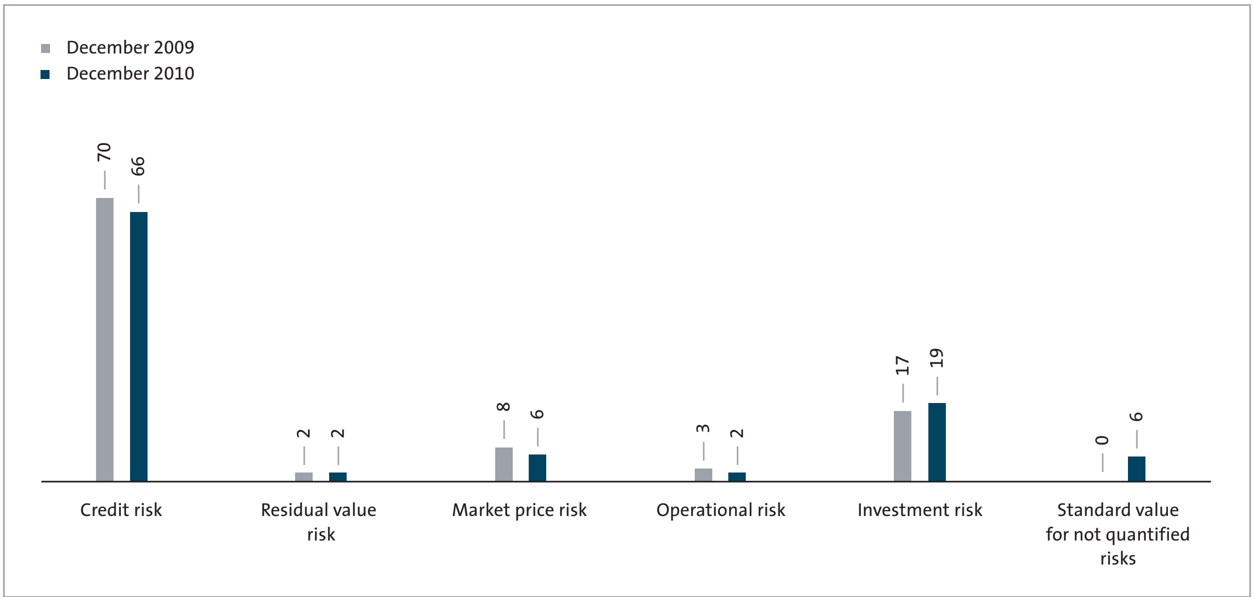
Volkswagen Bank GmbH has selected a sufficiently conservative approach by assuming a 1:1 correlation between risk types.

The economic risk is quantified for two scenarios.

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

SHARE OF NORMAL SCENARIO RISKS IN THE OVERALL RISK

Figures in %



In 2010 Volkswagen Bank GmbH worked intensively on methods to quantify its risks. Comparability with the previous year is therefore limited. This analysis of its risk-bearing capacity serves to examine, on a quarterly basis, whether Volkswagen Bank GmbH is capable at all times to bear the risks potentially resulting from its operating business.

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

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

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

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

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

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

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

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

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

STRUCTURE AND ORGANISATION

Volkswagen Bank GmbH is the primary institution of the financial holding group.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RISK TYPES

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

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

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

The typical risks for Volkswagen Bank GmbH are:

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

RISK OF COUNTERPARTY DEFAULT

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

Credit risk

Definition

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

For the whole year 2010, trends of an economic recovery were identified. Prices for used cars recovered slightly as well.

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

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

Parameters/risk strategy

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

The goal is to optimise the opportunity/risk ratio.

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

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

Risk assessment

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

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

Scoring procedures in the retail business

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

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

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

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

Simplified procedures are also in place for smaller portfolios.

Rating procedures in the corporate business

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

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

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

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

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

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

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

Collateral

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

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

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

The determination of adjustments based on the incurred loss model pursuant to IAS 39 also takes risks of counterparty default in connection with ABS transactions into account.

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

Risk management and monitoring

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

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

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

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

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

Risk communication

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

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

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

Counterparty risk

Definition

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

Parameters/risk strategy

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

Risk assessment

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

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

Risk management and monitoring

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

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

Risk communication

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

Country risk

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

Shareholder risk

Definition

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

Parameters/risk strategy

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

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

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

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

Risk assessment

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

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

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

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

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

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

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

Risk management and monitoring

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

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

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

Risk communication

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

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

MARKET PRICE RISK

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

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

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

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

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

Interest rate risk

Definition

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

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

Parameters/risk strategy

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

Risk assessment

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

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

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

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

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

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

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

Risk management and monitoring

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 crisis. Risk Management is tasked with monitoring interest rate risks and reporting on them.

Risk communication

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

Foreign currency risk

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

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

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

Price risk

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

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

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

LIQUIDITY RISK

Definition

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

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

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

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

Parameters/risk strategy

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

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

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

Risk assessment

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

The Treasury unit of Volkswagen Bank GmbH bundles and evaluates the expected cash flows of Volkswagen Financial Services AG, Volkswagen Leasing GmbH and

Volkswagen Bank GmbH. Daily liquidity needs are determined by the cash management office of Volkswagen Bank GmbH's Treasury back office for all companies domiciled in Germany.

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

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

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

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

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

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

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

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

Risk management and monitoring

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

Risk Management monitors liquidity in terms of its adequacy.

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

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

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

Risk communication

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

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

OPERATIONAL RISK

Definition

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

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

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

Parameters/risk strategy

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

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

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

Risk identification and assessment

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

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

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

Risk management and monitoring

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

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

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

Risk communication

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

Business continuity management

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

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

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

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

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

RESIDUAL VALUE RISK

Definition

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

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

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

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

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

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

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

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

Parameters/risk strategy

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

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

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

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

Risk identification and assessment

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

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

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

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

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

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

Risk management and monitoring

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

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

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

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.

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

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

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

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

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

Risk communication

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

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

STRATEGIC RISK

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

REPUTATION RISK

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

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

CONCENTRATIONS OF RISK

EXPLANATION OF OUR BUSINESS MODEL

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

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

CONCENTRATIONS OF CREDIT RISK

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

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

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

CONCENTRATIONS OF RISK CLASSES

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

CONCENTRATIONS OF INDUSTRIES

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

CONCENTRATIONS OF COLLATERAL

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

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

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

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

CONCENTRATIONS OF PRODUCTS

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

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

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

REGIONAL AND COUNTRY CONCENTRATIONS

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

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

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

COUNTERPARTY RISK

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

CURRENCY RISK

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

PRICE RISK

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

INTEREST RATE RISK

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

OPERATIONAL RISK

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

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

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

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

RESIDUAL VALUE RISK

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

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

INCOME CONCENTRATIONS

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

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

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

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

SUMMARY

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

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

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

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

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

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

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

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

EVENTS AFTER THE BALANCE SHEET DATE

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

Personnel report
Implementation of the personnel strategy

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

PERSONNEL FIGURES

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

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

KEY ISSUES IN PERSONNEL MANAGEMENT

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

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

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

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

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

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

REPORT ON THE BRANCHES AND BRANCH OFFICES

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

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

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

Anticipated developments
On a growth trajectory

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

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

GLOBAL ECONOMIC DEVELOPMENT

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

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

Europe

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.

Germany

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

FINANCIAL MARKETS

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

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

DEVELOPMENT OF THE AUTOMOBILE MARKETS

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

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

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

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

Europe

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

Germany

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

INTEREST RATE TRENDS

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

MOBILITY PACKAGES

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

DEVELOPMENT OF THE VOLKSWAGEN BANK GMBH GROUP

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

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

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

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

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

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

PROSPECTS FOR 2011 AND 2012

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

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

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

The net commission income of the Volkswagen Bank GmbH Group will be comparable to the previous years.

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

Against this backdrop, the earnings of the Volkswagen Bank GmbH Group in both 2011 and 2012 are expected to exceed those of 2010.

CONSOLIDATED FINANCIAL STATEMENTS OF THE VOLKSWAGEN BANK GMBH GROUP (IFRS)

Income statement

of the Volkswagen Bank GmbH Group

€ million	Notes	1.1. – 31.12.2010	1.1. – 31.12.2009	Change in %
Interest income from lending transactions before provisions for risks		1,610	1,660	–3.0
Net income from leasing transactions before provisions for risks	(15)	109	102	6.9
Interest expense		–637	–957	–33.4
Net income from lending and leasing transactions before provisions for risks	(5, 20)	1,082	805	34.4
Provisions for risks arising from lending and leasing business	(9, 21, 30)	–318	–273	16.5
Net income from lending and leasing transactions after provisions for risks		764	532	43.6
Commission income		185	188	–1.6
Commission expenses		–164	–105	56.2
Net commission income	(5, 22)	21	83	–74.7
Result from derivative financial instruments	(10, 23)	40	–4	X
Result from joint ventures accounted for using the equity method	(5, 26)	91	71	28.2
Result from other financial assets	(5)	0	0	X
General administration expenses	(5, 6, 14, 15, 24)	–492	–429	14.7
Other operating result	(5, 14, 25)	56	77	–27.3
Pre-tax result		**480**	**330**	**45.5**
Taxes on income and earnings	(6, 26)	–131	–81	61.7
Net income		**349**	**249**	**40.2**
Net income attributable to Volkswagen Financial Services AG		349	249	40.2

Statement of comprehensive income

of the Volkswagen Bank GmbH Group

€ million	Notes	1.1. – 31.12.2010	1.1. – 31.12.2009
Net income		**349**	**249**
Actuarial gains and losses	(17, 43)	–6	–2
deferred taxes thereon	(6, 26)	2	1
Available-for-sale financial assets (securities):	(11, 32, 49)		
Fair value changes recognised in equity		–1	4
Recognised in the income statement		–	–
deferred taxes thereon	(6, 26)	0	–1
Cash flow hedges:	(10)		
Fair value changes recognised in equity		15	–3
Recognised in the income statement		5	16
deferred taxes thereon	(6, 26)	–6	–4
Currency translation differences	(4)	3	8
Income and expense of shares measured at equity, recognised directly in equity, after taxes		64	35
Income and expense recognised directly in equity		**76**	**54**
Comprehensive income		**425**	**303**
Comprehensive income attributable to Volkswagen Financial Services AG		425	303

Balance sheet

of the Volkswagen Bank GmbH Group

Assets (€ million)	Notes	31.12.2010	31.12.2009	Change in %
Cash reserve	(7, 28)	470	614	−23.5
Receivables from financial institutions	(8)	861	1,501	−42.6
Receivables from customers arising from				
Retail financing		17,696	17,421	1.6
Dealer financing		6,261	6,427	−2.6
Leasing business	(15)	1,232	1,156	6.6
Other receivables		3,095	3,304	−6.3
Receivables from customers in total	(8, 9, 29, 30)	28,284	28,308	−0.1
Derivative financial instruments	(10, 31)	165	207	−20.3
Securities	(11, 32)	1,081	1,420	−23.9
Joint ventures accounted for using the equity method	(2, 33)	1,502	1,351	11.2
Other financial assets	(12, 33)	1	0	X
Intangible assets	(13, 34)	7	10	−30.0
Property, plant and equipment	(14, 35)	9	11	−18.2
Leased assets	(15, 36)	181	167	8.4
Investment property	(15, 36)	2	2	X
Deferred tax assets	(6, 37)	104	463	−77.5
Income tax assets	(6)	56	55	1.8
Other assets	(38)	103	84	22.6
Total		**32,826**	**34,193**	**−4.0**

Equity and liabilities (€ million)	Notes	31.12.2010	31.12.2009	Change in %
Liabilities to financial institutions	(16, 40)	418	713	−41.4
Liabilities to customers	(16, 40)	21,299	20,703	2.9
Securitised liabilities	(41)	4,851	6,802	−28.7
Derivative financial instruments	(10, 42)	131	295	−55.6
Provisions	(17, 18, 43)	178	81	119.8
Deferred tax liabilities	(6, 44)	53	423	−87.5
Income tax obligations	(6)	27	22	22.7
Other liabilities	(45)	85	61	39.3
Subordinated capital	(46)	1,094	998	9.6
Equity	(47)	4,690	4,095	14.5
Subscribed capital		318	318	X
Capital reserve		3,546	3,196	11.0
Retained earnings		826	581	42.2
Total		**32,826**	**34,193**	**−4.0**

Statement of changes in equity

of the Volkswagen Bank GmbH Group

€ million	Sub-scribed capital	Capital reserve	RETAINED EARNINGS						Total-equity
			Accum-ulated profits	Currency trans-lation	Cash flow hedges	Actuarialgains and losses	Market valuation securities	Shares measured using the equity method	
Balance as at 1.1.2009	**318**	**2,596**	**590**	**–51**	**–25**	**–5**	**0**	**–105**	**3,318**
Net income	–	–	249	–	–	–	–	–	249
Income and expense recognised directly in equity	–	–	–	8	9	–1	3	35	54
Comprehensive income	–	–	249	8	9	–1	3	35	303
Payments into the capital reserve	–	600	–	–	–	–	–	–	600
Distributions/profit transfer to Volkswagen Financial Services AG	–	–	–126	–	–	–	–	–	–126
Balance as at 31.12.2009/1.1.2010	**318**	**3,196**	**713**	**–43**	**–16**	**–6**	**3**	**–70**	**4,095**
Net income	–	–	349	–	–	–	–	–	349
Income and expense recognised directly in equity	–	–	–	3	14	–4	–1	64	76
Comprehensive income	–	–	349	3	14	–4	–1	64	425
Payments into the capital reserve	–	350	–	–	–	–	–	–	350
Distributions/profit transfer to Volkswagen Financial Services AG	–	–	–180	–	–	–	–	–	–180
Balance as at 31.12.2010	**318**	**3,546**	**882**	**–40**	**–2**	**–10**	**2**	**–6**	**4,690**

Cash flow statement

of the Volkswagen Bank GmbH Group

€ million	1.1. – 31.12.2010	1.1. – 31.12.2009
Net income	**349**	**249**
Depreciation, value adjustments and write-ups	343	344
Change in provisions	97	6
Change in other non-cash items	–79	29
Result from the sale of financial assets and property, plant and equipment	3	0
Interest result and dividend income	–1,063	–789
Other adjustments	0	0
Change in receivables from financial institutions	640	–68
Change in receivables from customers	–241	–188
Change in leased assets	–61	–46
Change in other assets from operating activities	–19	–1
Change in liabilities to financial institutions	–296	–2,262
Change in liabilities to customers	538	5,831
Change in securitised liabilities	–1,951	–2,793
Change in other liabilities from operating activities	24	7
Interest received	1,695	1,744
Dividends received	5	3
Interest paid	–637	–957
Income tax payments	–144	–81
Cash flow from operating activities	**–797**	**1,028**
Cash inflows from the sale of investment property	–	–
Cash outflows from the purchase of investment property	–	–
Cash inflows from the sale of subsidiaries and joint ventures	–	–
Cash outflows from the purchase of subsidiaries and joint ventures	–1	–
Cash inflows from the sale of other assets	1	1
Cash outflows from the purchase of other assets	–6	–9
Change in investments in securities	339	–874
Cash flow from investing activities	**333**	**–882**
Cash inflows from changes in capital	350	600
Profit transfer to Volkswagen Financial Services AG	–126	–134
Change in funds resulting from subordinated capital	96	–692
Cash flow from financing activities	**320**	**–226**
Cash and cash equivalents at the end of the previous period	**614**	**694**
Cash flow from operating activities	–797	1,028
Cash flow from investing activities	333	–882
Cash flow from financing activities	320	–226
Effects from exchange rate changes	0	0
Cash and cash equivalents at the end of the period	**470**	**614**

Comments on the cash flow statement are shown in note (59).

Notes

to the consolidated financial statements of Volkswagen Bank GmbH as at 31.12.2010

I. General comments regarding the consolidated financial statements

Volkswagen Bank GmbH is a limited liability company under German law. It has its head office in Germany at Gifhorner Strasse, Braunschweig, and is registered in the Braunschweig Register of Companies (under file number HRB 1819).

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 Financial Services AG, Braunschweig, is the sole shareholder of Volkswagen Bank GmbH. A control and profit transfer agreement between these two companies is in place.

The annual financial statements of Volkswagen Bank GmbH 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

Volkswagen Bank GmbH 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 14-28. It contains the qualitative disclosures required under IFRS 7 regarding the type and scope of risks from financial instruments.

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

Volkswagen Bank GmbH 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 measured at fair value through profit or 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 – Amendment 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, Volkswagen Bank GmbH did not take into account the following new or amended accounting standards which were adopted by the IASB but whose application in the financial year is not mandatory for Volkswagen Bank GmbH.

Standard/Interpretation[1]		Published by the IASB	Mandatory application[2]	Adopted by the EU commission[1]	Expected effects
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	28.1.2010	1.1.2011	Yes	None
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	20.12.2010	1.1.2012	No	None
IFRS 7	Disclosures on the transfer of financial instruments	7.10.2009	1.1.2012	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	1.1.2013	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	1.1.2012	No	No material effects
IAS 24	Related Party Disclosures	4.11.2009	1.1.2011	Yes	Simplification of reporting with state-controlled entities and their subsidiaries
IAS 32	Classification of Rights Issues	8.10.2009	1.1.2011	Yes	None
	Improvements to International Financial Reporting Standards 2010[3]	6.5.2010	1.1.2011	No	Change in the disclosure in the notes on financial instruments
IFRIC 14	Prepayments of a Minimum Funding Requirement	26.11.2009	1.1.2011	Yes	None
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	26.11.2009	1.1.2010	Yes	None

1 Until 31.12.2010.
2 First-time adoption required from the perspective of the Volkswagen Bank GmbH Group.
3 Minor amendments to numerous standards (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 Volkswagen Bank GmbH Group is carried out in accordance with IAS 27 using uniform accounting policies.

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 Volkswagen Bank GmbH has the possibility, directly or indirectly, to determine the financial and business policy in such a way that the Volkswagen Bank GmbH 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 at the balance sheet date, twelve special purpose entities whose assets, regarded in economic terms, are attributable to the Volkswagen Bank GmbH Group are fully consolidated.

Volkswagen Bank GmbH holds a 50% stake in Global Mobility Holding B.V., Amsterdam. The Saudi Arabian Olayan Group and the Mubadala Group, Abu Dhabi, each held 25% in Global Mobility Holding B.V. until 31 January 2010. Since 1 February 2010, Fleet Investment B.V., Amsterdam has been a new shareholder of Global Mobility Holding B.V., also holding a 50% stake. Global Mobility Holding B.V. in turn holds all shares of LeasePlan Corporation N.V., Amsterdam. The core business of LeasePlan Corporation N.V. is focused on multi-brand fleet management.

Volkswagen Bank GmbH is represented in Poland through its 60% stake in VOLKSWAGEN BANK POLSKA S.A., Warsaw. The core business of VOLKSWAGEN BANK POLSKA S.A. comprises retail financing, dealer financing as well as the direct banking business. The company is classified as a joint venture because the shareholder agreement provides for joint management of the company by both shareholders.

Foreign joint ventures are included at equity in the consolidated financial statements. The following table provides an overview of the assets, liabilities as well as income and expenses related to the interest in the joint ventures:

€ million	2010	2009
Receivables from financial institutions	825	719
Receivables from customers	1,610	1,509
Leased assets	5,716	5,774
Other assets	1,425	1,428
Liabilities to financial institutions	1,107	1,292
Liabilities to customers	1,177	296
Securitised liabilities	4,208	5,034
Other liabilities	1,602	1,475
Equity	1,482	1,333
Income	519	443
Expenses	428	−372
Contingent liabilities	935	835

The list of equity investments is shown in item 65.

3 | Principles of consolidation

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 Volkswagen Bank GmbH Group.

Consolidation events 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.

The interest of the special purpose entities in the equity and result is less than € 0.5 million and therefore is not shown as a separate item under equity and in the income statement.

4 | Currency translation

The foreign branches belonging to the Volkswagen Bank GmbH 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 treated as not affecting income and are shown as a separate item under equity.

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 accumulated profits/deficits of the branch in the United Kingdom 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
United Kingdom	GBP	0.8608	0.8881	0.8578	0.8909

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 interest income from lending and leasing 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 contains income from costs charged to affiliated companies.

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

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

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. Portfolio hedging was carried out for the first time in the 2008 financial year in connection with a portion of the customer receivables. 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 (30). 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 (31) and (42). They are recognised as of the respective trade date.

The fair value is determined based on 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. In accordance with IAS 39, hedge accounting 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, Volkswagen Bank GmbH 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.

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 Volkswagen Bank GmbH 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 Volkswagen Bank GmbH Group.

11 | Securities

Securities are measured at fair value. The present value of the expected future cash flows discounted to the reporting date based on the risk-adjusted interest rate curve is used to measure securities that are not traded on an active market, to the extent that it is impossible to directly determine a price for them.

12 | Other financial assets

Under other assets we show equity investments. Effective 01 December 2010, Volkswagen Bank GmbH acquired Volkswagen Insurance Brokers GmbH, Braunschweig, from Volkswagen Versicherungsdienst GmbH, Braunschweig. For reasons of materiality, this company is not consolidated. Furthermore, Volkswagen Bank GmbH holds a 1% stake in its affiliate, Limited Liability Company Volkswagen Bank RUS, Moscow, which was founded in 2010. They are recognised at cost, since there is no active market for these companies and their fair values cannot be determined with reasonable effort. Significant or long-term impairment losses are recognised in profit or loss.

13 | Intangible assets

Purchased intangible assets with a limited useful life, essentially software, are capitalised at cost and amortised over their economic life of three years using the straight-line method.

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.

The recoverable amount is the higher of the recoverable net selling price and the 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.

14 | Property, plant and equipment

Property, plant and equipment – land and buildings and operating and office equipment – is measured at cost less depreciation according to its expected economic useful life. It is depreciated using the straight-line method pro rata temporis over the expected useful life. Low-value purchases are written down completely and derecognised in the year of acquisition.

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, i.e. when the realisable net selling price or value in use of the asset concerned has fallen below its carrying amount. If the reasons for write-downs made in previous years no longer apply, appropriate write-ups are recognised.

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

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

15 | Leasing business

THE GROUP AS LESSOR

In addition to finance leasing, the Volkswagen Bank GmbH Group has also been engaged in operating leasing since 1 January 2008 as a result of the merger of VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, into the French branch of Volkswagen Bank GmbH. 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 or the net selling price are recognised through write-downs and adjustments of the depreciation rates. Write-ups are made if the reasons for write-downs in previous years no longer apply. Write-downs and write-ups are contained in the net income from leasing transactions before provisions for risks. Leasing income is recognised on a straight-line basis over the term of the lease and comprises the interest and repayment portions.

Land and buildings which serve to obtain rental income are recognised under the balance sheet item, investment property, and are stated at depreciated cost. As a rule, these are properties leased to dealers. 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.

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 was 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 € 1 million (previous year: € 1 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 Volkswagen Bank GmbH 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. Payments to defined contribution pension plans were less than € 0.5 million, just as in the previous year.

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 Volkswagen Bank GmbH and its foreign branches:

%	GERMANY 31.12.2010	GERMANY 31.12.2009	ABROAD 31.12.2010	ABROAD 31.12.2009
Expected return on plan assets	4.25	5.00	3.00 – 5.40	4.00 – 5.70
Discount rate	4.90	5.40	4.50 – 5.30	5.35 – 5.40
Expected rate of salary increases	2.70	2.50	3.75	3.75
Expected rate of pension increases	1.50	1.50	2.00 – 3.40	2.00 – 3.70
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 | 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.

19 | Trust activities

Transactions which are based on administration or placement of assets for third-party account – trust activities – are not shown in the balance sheet.

Notes to the income statement

20 | Net income from lending and leasing transactions before provisions for risks

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

€ million	2010	2009
Interest income from lending and money market transactions	1,610	1,660
Income from leasing transactions	222	217
Expenses from leasing business	–66	–66
Depreciation on leased assets and investment property	–47	–49
Interest expense	–637	–957
Total	**1,082**	**805**

The interest income from lending and money market transactions as well as the income from leasing transactions contain interest income on impaired receivables in the amount of € 16 million (previous year: € 13 million). Interest income included here from financial instruments which are not attributable to the category of assets or financial liabilities measured at fair value through profit or loss amounts to € 1,610 million (previous year: € 1,660 million).

Income from leasing transactions includes rental income from investment property amounting to € 1 million (previous year: € 1 million). As in the previous year, this income does not include income from the write-up on write-downs carried out in previous years on leased assets and investment property.

In the reporting period, no impairment losses based on impairments tests were recognised on leased assets and on investment property, as in the previous year.

The interest expense contains refinancing expenses from lending and leasing transactions. A total of € 685 million (previous year: € 877 million) of that expense concerns financial instruments not measured at fair value through profit or loss. They were reduced by the net interest income of € 48 million from hedge-ineffective derivatives for the current financial year (previous year: € – 80 million).

21 | Provisions for risks arising from lending and leasing business

Provisions for risks essentially concern the balance sheet item "receivables from customers". In addition indirect residual value risks were taken into account by means of provisions. It has the following effect on the Group's income statement:

€ million	2010	2009
Additions to provisions for risks	– 413	– 522
Reversal of provisions for risks	159	304
Direct depreciation	– 96	– 72
Additions from receivables written off	32	17
Total	**– 318**	**– 273**

22 | Net commission income

The net commission income of € 21 million (previous year: € 83 million) contains € 120 million (previous year: € 128 million) in income from insurance agency services.

23 | Result from derivative financial instruments

This item contains the results from hedging transactions and hedge-ineffective derivatives.

The result from hedging transactions contains income and expenses from the fair value measurement of hedging transactions and underlying transactions. Gains and losses from hedge-ineffective derivatives contain income and expenses from ineffective portions of hedging transactions and 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	6	48
Gains/losses on underlying transactions of fair value hedges	−23	−17
Ineffective portion of cash flow hedging instruments	0	0
Gains/loses from the measurement of foreign currency receivables/liabilities	0	−1
Gains/losses on other hedge-ineffective derivatives	57	−34
Total	**40**	**−4**

24 | General administration expenses

The general administration expenses are made up as follows:

€ million	2010	2009
Staff costs	−69	−63
Non-staff costs	−381	−331
Costs of advertising, PR work and sales promotion	−33	−28
Depreciation of property, plant and equipment and amortisation of intangible assets	−7	−5
Other taxes	−2	−2
Total	**−492**	**−429**

The non-staff costs contain expenses for leased assets under operating leases amounting to € 6 million (previous year: € 5 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 € 0 million (previous year: € 1 million). As in the previous year, only minor expenses were incurred for other auditing and valuation services and for tax consultancy services.

25 | 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	75	63
Income from the reversal of provisions	6	1
Losses from the disposal of assets	−3	0
Miscellaneous operating result	−22	13
Other operating result	**56**	**77**

26 | Taxes on income and earnings

Taxes on income and earnings include taxes debited by Volkswagen Financial Services AG because of the company's inclusion in the consolidated tax group, taxes which are owed by the foreign branches of the bank, and deferred taxes. The income taxes are made up as follows:

€ million	2010	2009
Effective tax expense in Germany	−126	−63
Effective tax expense abroad	−23	−20
Effective tax expense	**−149**	**−83**
Income from the reversal of tax provisions and tax refunds	2	1
Effective taxes on income and earnings	**−147**	**−82**
of which not attributable to the reporting period	−9	1
Deferred tax income/expense in Germany	25	12
Deferred tax income/expense abroad	−9	−11
Deferred tax income/expense	**16**	**1**
of which not attributable to the reporting period	–	–
Total	**−131**	**−81**

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

The actual tax expense in 2010 amounting to € 131 million (previous year: € 81 million) was € 11 million lower than the expected tax expense of € 142 million (previous year: € 97 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	**480**	**330**
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	**–142**	**–97**
+ Effects from tax credits	–	–
+ Effects from German/foreign tax rate	–1	–2
+ Effects from tax rate changes	0	–
+ Effects from permanent valuation differences	–5	–4
+ Effects on account of tax-free income from equity investments	1	1
+ Effects from losses carried forward	–1	0
+ Temporary valuation differences without calculation of deferred taxes	26	20
+ Taxes not attributable to the reporting period	–9	1
+ Other differences	0	0
= Current taxes on income and earnings	**–131**	**–81**

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 13.66% (previous year: 13.67%). Taking into account the non-deductibility of trade tax as a business expense from the 2008 financial year, 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.

As in the previous year, the deferred tax expense resulting from changes in tax rates was insignificant. 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 bank branches have their registered office. As in the previous year, these rates, which differ from the German income tax rate, are between 12.5% and 33.99%.

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 € 17 million (previous year: € 14 million), for which deferred tax assets of € 5 million (previous year: € 4 million) were recognised. Of these unused tax losses carried forward, € 17 million (previous year: € 14 million) can be utilised indefinitely. No deferred tax assets were recognised on € 11 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 € 4 million (previous year: € 8 million) relate to business transactions that are recognised directly in equity. A partial amount of € 4 million (previous year: € 2 million) concerns actuarial gains/losses (IAS 19), a partial amount of € 1 million (previous year: € 7 million) concerns derivative financial instruments, and a further € –1 million (previous year: € –1 million) concern the market valuation of securities.

27 | Further notes to the income statement

Income from commission not taken into account using the effective interest method was insignificant, as in the previous year.

Notes to the balance sheet

28 | Cash reserve

The cash reserve essentially contains balances at Deutsche Bundesbank in the amount of € 460 million (previous year: € 605 million).

29 | Receivables from customers

Receivables from customers include unsecuritised receivables from affiliated companies amounting to € 1,931 million (previous year: € 2,394 million). There are receivables from the sole shareholder, Volkswagen Financial Services AG, amounting to € 420 million (previous year: € 544 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 21.49% (previous year: 0.9% and 15.15%).

Portions of the retail financing subject to fixed interest rates were hedged in a portfolio fair value 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
Receivables from customers	**28,284**	**28,308**
of which market value adjustment from portfolio fair value hedging	6	–26
Receivables from customers less market value adjustment from portfolio fair value hedging	28,290	28,282

Receivables from leasing transactions include due receivables amounting to € 10 million (previous year: € 15 million).

The receivables from operating leasing transactions total € 6 million as at the balance sheet date (previous year: € 5 million). The have a residual term of up to one year.
The receivables from finance leases are made up as follows:

€ million	31.12.2010	31.12.2009
Gross receivables from finance leases	**1,326**	**1,263**
by residual term		
up to one year	488	467
more than one year and up to five years	838	796
more than five years	0	0
Interest not yet earned from finance leases	**99**	**111**
Net receivables from finance leases	**1,227**	**1,152**
by residual term		
up to one year	441	410
more than one year and up to five years	786	742
more than five years	0	0

At the Volkswagen Bank 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 € 26 million (previous year: € 24 million).

30 | 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.	**594**	**361**	**210**	**250**	**804**	**611**
Additions	267	467	64	53	331	520
Disposals	176	209	56	103	232	312
of which uses	79	47	–	–	79	47
of which reversals	97	162	56	103	153	265
Transfers	–23	–6	–15	10	–38	4
Interest income from impaired receivables	16	12	–	–	16	12
Currency translation	3	–7	1	0	4	–7
Provisions for risks arising from lending and leasing business as at 31.12.	**649**	**594**	**204**	**210**	**853**	**804**

Class: Hedge accounting:

€ million	INDIVIDUAL VALUE ADJUSTMENTS 2010	2009	PORTFOLIO-BASED VALUE ADJUSTMENTS 2010	2009	TOTAL 2010	2009
As at 1.1.	**1**	**12**	**1**	**36**	**2**	**48**
Additions	18	1	3	0	21	1
Disposals	10	17	1	25	11	42
of which uses	5	4	–	–	5	4
of which reversals	5	13	1	25	6	38
Transfers	23	6	15	–10	38	–4
Interest income from impaired receivables	1	1	–	–	1	1
Currency translation	–	–	–	–	–	–
Provisions for risks arising from lending and leasing business as at 31.12.	**31**	**1**	**18**	**1**	**49**	**2**

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

31 | 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		97		47
Fair value hedges on assets (currency risk)	–		–	
Fair value hedges on liabilities (currency risk)	–		–	
Fair value hedges (interest rate risk)	31		33	
Portfolio fair value hedges on assets (currency risk)	57		4	
Cash flow hedges on interest payments (currency risk)	9		–	
Cash flow hedges (interest rate risk)	–		10	
Assets from hedge-ineffective derivatives		68		160
Total		**165**		**207**

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

32 | Securities

Securities essentially comprise asset-backed securities issued by special purpose entities of Volkswagen Leasing GmbH.

33 | Joint ventures accounted for at equity and other financial assets

€ million	Companies accounted for using the equity method	Other financial assets	Total
Cost of acquisition			
As at 1.1.2009	**1,248**	**0**	**1,248**
Exchange rate changes/effects recognised in equity	35	–	35
Changes in the basis of consolidation	–	–	–
Additions	72	0	72
Transfers	–	–	–
Disposals	4	–	4
As at 31.12.2009	**1,351**	**0**	**1,351**
Depreciation			
As at 1.1.2009	**–**	**–**	**–**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	–	–	–
Transfers	–	–	–
Disposals	–	–	–
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2009	**–**	**–**	**–**
Carrying amount 31.12.2009	**1,351**	**0**	**1,351**
Carrying amount 1.1.2009	**1,248**	**0**	**1,248**

€ million	Companies accounted for using the equity method	Other financial assets	Total
Cost of acquisition			
As at 1.1.2010	**1,351**	**0**	**1,351**
Exchange rate changes/effects recognised in equity	64	–	64
Changes in the basis of consolidation	–	–	–
Additions	91	1	92
Transfers	–	–	–
Disposals	4	–	4
As at 31.12.2010	**1,502**	**1**	**1,503**
Depreciation			
As at 1.1.2010	**–**	**–**	**–**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	–	–	–
Transfers	–	–	–
Disposals	–	–	–
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2010	**–**	**–**	**–**
Carrying amount 31.12.2010	**1,502**	**1**	**1,503**
Carrying amount 1.1.2010	**1,351**	**0**	**1,351**

34 | Intangible assets

€ million	2010	2009
Cost of acquisition		
As at 1.1.	**25**	**17**
Exchange rate changes	0	0
Changes in the basis of consolidation	–	–
Additions	3	8
Transfers	–	–
Disposals	3	0
As at 31.12.	**25**	**25**
Amortisation		
As at 1.1.	**15**	**12**
Exchange rate changes	0	0
Changes in the basis of consolidation	–	–
Additions	3	3
Transfers	–	–
Disposals	0	0
Write-ups	–	–
Write-downs	–	–
As at 31.12.	**18**	**15**
Carrying amount 31.12.	**7**	**10**
Carrying amount 1.1.	**10**	**5**

Intangible assets essentially comprise purchased software.

As at the balance sheet date, no intangible assets which have an indefinite useful life exist.

35 | Property, plant and equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost of acquisition			
As at 1.1.2009	**21**	**13**	**34**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	0	1	1
Transfers	–	–	–
Disposals	1	1	2
As at 31.12.2009	**20**	**13**	**33**
Depreciation			
As at 1.1.2009	**13**	**8**	**21**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	0	1	1
Transfers	–	–	–
Disposals	0	0	0
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2009	**13**	**9**	**22**
Carrying amount 31.12.2009	**7**	**4**	**11**
Carrying amount 1.1.2009	**8**	**5**	**13**

€ million	Land and buildings	Operating and office equipment	Total
Cost of acquisition			
As at 1.1.2010	**20**	**13**	**33**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	0	3	3
Transfers	–	–	–
Disposals	–	2	2
As at 31.12.2010	**20**	**14**	**34**
Depreciation			
As at 1.1.2010	**13**	**9**	**22**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	2	2	4
Transfers	–	–	–
Disposals	–	1	1
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2010	**15**	**10**	**25**
Carrying amount 31.12.2010	**5**	**4**	**9**
Carrying amount 1.1.2010	**7**	**4**	**11**

As in the previous year, no assets under construction were included in land and buildings in the 2010 financial year.

36 | Leased assets and investment property

€ million	Movable leased assets	Investment property	Total
Cost of acquisition			
As at 1.1.2009	**245**	**3**	**248**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	86	–	86
Transfers	–	–	–
Disposals	87	–	87
As at 31.12.2009	**244**	**3**	**247**
Depreciation			
As at 1.1.2009	**76**	**1**	**77**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	49	0	49
Transfers	–	–	–
Disposals	48	–	48
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2009	**77**	**1**	**78**
Carrying amount 31.12.2009	**167**	**2**	**169**
Carrying amount 1.1.2009	**169**	**2**	**171**

€ million	Movable leased assets	Investment property	Total
Cost of acquisition			
As at 1.1.2010	**244**	**3**	**247**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	99	–	99
Transfers	–	–	–
Disposals	86	–	86
As at 31.12.2010	**257**	**3**	**260**
Depreciation			
As at 1.1.2010	**77**	**1**	**78**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	47	0	47
Transfers	–	–	–
Disposals	48	–	48
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2010	**76**	**1**	**77**
Carrying amount 31.12.2010	**181**	**2**	**183**
Carrying amount 1.1.2010	**167**	**2**	**169**

The fair value of investment property amounts to € 2 million (previous year: € 2 million). Operating costs of € 1 million (previous year: none) were incurred for maintaining investment property.

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

37 | 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	664	1,070
of which non-current	349	903
Capitalised benefits from unused tax losses carried forward	5	4
of which non-current	3	4
Netting (with deferred tax liabilities)	−565	−611
Total	**104**	**463**

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

€ million	31.12.2010	31.12.2009
Property, plant and equipment/intangible assets	17	20
Leased assets	3	5
Other financial assets	326	552
Cash and cash equivalents, and securities	248	18
Other assets	1	3
Derivative financial instruments (obligations)	33	79
Provisions	33	25
Liabilities	3	365
Other liabilities	0	3
Total	**664**	**1,070**

38 | Other assets

Other assets concern the following items:

€ million	31.12.2010	31.12.2009
Receivables from other taxes	35	28
Prepaid expenses	27	14
Vehicles taken back for resale	5	6
Miscellaneous	36	36
Total	**103**	**84**

39 | Non-current assets

€ million	31.12.2010	of which non-current	31.12.2009	of which non-current
Cash reserve	470	–	614	–
Receivables from financial institutions	861	–	1,501	–
Receivables from customers	28,284	13,461	28,308	13,601
Derivative financial instruments	165	97	207	174
Securities	1,081	402	1,420	783
Joint ventures accounted for using the equity method	1,502	1,502	1,351	1,351
Other financial assets	1	1	0	0
Intangible assets	7	7	10	10
Property, plant and equipment	9	9	11	11
Leased assets	181	181	167	167
Investment property	2	2	2	2
Deferred tax assets	104	62	463	456
Income tax assets	56	–	55	–
Other assets	103	5	84	2
Total	**32,826**	**15,729**	**34,193**	**16,557**

40 | 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 Volkswagen Bank GmbH 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 € 1,988 million (previous year: € 2,008 million) in liabilities to affiliated companies – of which € 200 million (previous year: € 138 million) is attributable to the sole shareholder, Volkswagen Financial Services AG, including the profit transfer.

The liabilities to customers essentially comprise customer deposits. They mainly comprise overnight and fixed-term deposits as well as various savings certificates and plans. Relative to the term, the Direkt savings plan and the Plus saving certificate have the longest investment horizon. The maximum term is ten years. Portions of the liabilities to customers were hedged in a portfolio fair value hedge against fluctuations of the risk-free base rate for the first time in 2009.

The reconciliation from the balance sheet figures is as follows:

€ million	31.12.2010	31.12.2009
Liabilities to customers	**21,300**	**20,703**
of which market value adjustment from portfolio fair value hedging	–1	0
Liabilities to customers less market value adjustment from portfolio fair value hedging	21,299	20,703

41 | Securitised liabilities

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

€ million	31.12.2010	31.12.2009
Debentures issued	4,728	6,697
Money market papers issued	123	105
Total	**4,851**	**6,802**

The Volkswagen Bank GmbH 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 € 1,838 million (previous year: € 3,118 million), those in the liabilities to financial institutions amounted to € 121 million (previous year: € 258 million) and those in the subordinated liabilities amounted to € 151 million (previous year: € 170 million). Receivables in the amount of € 1,915 million (previous year: € 3,407 million) arising from retail financing serve as security. This entails selling 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 continue to be recognised at Volkswagen Bank GmbH.

All public and private ABS transactions of Volkswagen Bank GmbH may be subject to early repayment (so-called clean-up call) if less than 9% of the original transaction volume is outstanding.

42 | Derivative financial instruments

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

€ million	31.12.2010		31.12.2009	
Obligations from hedging transactions		68		75
Fair value hedges on assets (currency risk)	–		–	
Fair value hedges on liabilities (currency risk)	–		–	
Fair value hedges (interest rate risk)	1		1	
Portfolio fair value hedges on assets (currency risk)	25		2	
Cash flow hedges on interest payments (currency risk)	29		–	
Cash flow hedges (interest rate risk)	13		72	
Obligations from hedge-ineffective derivatives		63		220
Total		**131**		**295**

43 | Provisions

The provisions break down as follows:

€ million	31.12.2010	31.12.2009
Provisions for pensions and similar obligations	55	49
Other provisions	123	32
Total	**178**	**81**

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	14	13	10	11	37
Fair value of plan assets	14	12	11	11	36
Surplus/deficit	**0**	**1**	**–1**	**0**	**1**
Present value of unfunded obligations	55	48	47	51	118
Net liability recognised in the balance sheet	**55**	**49**	**46**	**51**	**119**

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

€ million	31.12.2010	31.12.2009
Pension provisions	55	49
Other assets	–	–
Net liability recognised in the balance sheet	**55**	**49**

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.	**61**	**56**	**62**	**155**	**133**
Current service cost	−2	−1	−2	−5	−10
Interest on obligation	−3	−3	−3	−5	−6
Actuarial gains and losses (recognised in equity)	6	2	−4	−26	3
Employee contributions to the fund	0	0	0	0	0
Pension payments out of company assets	2	2	2	2	2
Pension payments out of the fund	0	0	1	0	0
Other changes	−1	1	−3	−75	5
Currency differences from foreign plans	0	0	−1	0	0
Present value of obligations as at 31.12.	**69**	**61**	**56**	**62**	**155**

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.	**12**	**11**	**11**	**36**	**23**
Expected return on plan assets	1	0	1	1	2
Actuarial gains and losses (recognised in equity)	0	0	−1	0	0
Employer contributions to the fund	1	1	−1	3	8
Employee contributions to the fund	0	0	0	0	0
Pension payments out of the fund	0	0	1	0	0
Other changes	0	0	0	−29	3
Currency differences from foreign plans	0	0	0	0	0
Fair value of the plan assets as at 31.12.	**14**	**12**	**11**	**11**	**36**

In connection with the ongoing development of the company's structure, a significant percentage of the employees of Volkswagen Bank GmbH was transferred to Volkswagen Financial Services AG effective 1.7.2007. The pension provisions and the pension funds created for these employees were also transferred to Volkswagen Financial Services AG. This effect is contained in the item “Other changes” in the two tables presented above.

The actual return on plan assets amounted to € 0 million (previous year: € 1 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 € 1 million (previous year: € 1 million), employer contributions to the fund of € 1 million (previous year: € 1 million) and service cost of € 1 million (previous year: € 0 million).

The fund assets comprise the following components:

%	2010	2009	2008	2007	2006
Shares	21	21	17	26	38
Fixed-income securities	57	58	62	65	55
Cash	4	3	8	2	6
Property	2	2	1	4	–
Other	16	16	12	3	1

The following amounts were recognised in the income statement:

€ million	2010	2009
Current service cost	–2	–1
Interest on obligation	–3	–3
Expected return on plan assets	1	0
Past service cost	–	–
Total amount shown under staff costs	**–4**	**–4**

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

€ million	2010	2009
Net liability at 1.1.	**49**	**46**
Net expense in the income statement	–4	–4
Pension benefits and fund allocations paid	3	3
Actuarial gains and losses (recognised in equity)	6	2
Other changes	–1	0
Currency differences from foreign plans	0	0
Net liability at 31.12.	**55**	**49**

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	3.03	1.92	2.95	–0.58	–1.37
in % of the fair value of plan assets	–0.91	2.18	–5.72	0.01	1.04

Other provisions developed as follows:

	OTHER PROVISIONS	
€ million	Human resources	Miscellaneous
As at 1.1.2010	**15**	**17**
Use	10	1
Reversal	3	3
Addition	17	91
Other changes	0	0
As at 31.12.2010	**19**	**104**

The provisions in human resources include, in particular, one-off annual payments, payments on account of staff anniversaries of company service and other costs of the workforce. The other provisions essentially contain the costs of litigation risks and the costs of maintenance contracts. Provisions of € 64 million for indirect residual value risks were recognised under "other provisions".

The terms of the other provisions are as follows:

€ 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	2	19	2	15
Miscellaneous	–	104	–	17
Total	**2**	**123**	**2**	**32**

The expected outflow of payments of other provisions is as follows: 98% in the following year, 1% in the years 2012 to 2015 and 1% thereafter.

44 | Deferred tax liabilities

The deferred tax liabilities break down as follows:

€ million	31.12.2010		31.12.2009	
Deferred income tax obligations		618		1,034
of which non-current	335		485	
Netting (with deferred tax assets)		−565		−611
Total		**53**		**423**

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.

The deferred income tax obligations were recognised in connection with the following balance sheet items:

€ million	31.12.2010	31.12.2009
Receivables from customers	481	969
Derivative financial instruments (assets)	31	48
Property, plant and equipment/intangible assets	1	1
Cash and cash equivalents, and securities	–	–
Other assets	5	4
Liabilities	86	–
Provisions	9	11
Other liabilities	5	1
Total	**618**	**1,034**

45 | Other liabilities

Other liabilities concern the following items:

€ million	31.12.2010	31.12.2009
Liabilities from other taxes	52	35
Liabilities within the framework of social security and the wage and salary settlement	7	7
Deferred income	11	11
Miscellaneous	15	8
Total	**85**	**61**

46 | Subordinated capital

The subordinated capital is issued and raised by Volkswagen Bank GmbH and is divided as follows:

€ million	31.12.2010	31.12.2009
Subordinated liabilities	531	315
of which: due within two years	116	170
Subordinated bonds	324	443
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	**1,094**	**998**

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 Volkswagen AG and a nominal € 89 million (previous year: € 89 million) in relation to non-Group third parties.

47 | Equity

The subscribed capital of Volkswagen Bank GmbH is € 318 million. Neither preferential rights nor limitations arise from the subscribed capital.

The capital reserves of Volkswagen Bank GmbH include the capital contributions of Volkswagen Financial Services AG, the company's sole shareholder. As a result of a contribution of € 350 million made by Volkswagen Financial Services AG to Volkswagen Bank GmbH, the capital reserve increased to € 3,546 million in the 2010 financial year (previous year: € 3,196 million).

Retained earnings include undistributed profits from prior years. The retained earnings of Volkswagen Bank GmbH are subdivided into the legal reserve and other reserves which, in turn, contain the currency translation reserve, the reserve for cash flow hedges, the reserve for actuarial gains and losses and the reserve for the market valuation of securities.

The profit of € 180 million based on the HGB single-entity statements (previous year: € 126 million) was transferred to Volkswagen Financial Services AG, the company's sole shareholder, under its existing control and profit transfer agreement.

The accumulated deferred taxes recognised in equity amounted to € 4 million (previous year: € 11 million).

48 | Capital management

Capital in this connection generally refers to equity as defined in the IFRS. Volkswagen Bank GmbH's capital management serves to support the company's rating through adequate capitalisation, raise equity for funding its growth targets in the next financial years and fulfil regulatory requirements regarding capital adequacy.

Liable capital under regulatory requirements is distinguished from equity under IFRS (cf. Statement of changes in equity).

Liable capital under regulatory requirements 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 Volkswagen Bank GmbH affect both equity under IFRS and the liable capital.

Under banking regulations (German Banking Act, Solvency Regulations), 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.
Accordingly, this gives rise to the following regulatory figures and financial ratios for Volkswagen Bank GmbH:

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

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

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

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

Volkswagen Bank GmbH has selected a 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 Bank GmbH is capable at all times to bear the risks potentially resulting from its operating business.

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

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

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

The limit system comprises two stages.

Stage 1 entails the determination of the bank's aggregate risk limit for risk under the normal scenario. This entails defining the extent to which the Volkswagen Bank GmbH can use the theoretically available risk hedging potential to plan operational risk provisioning. Consequently, this reflects The Board of Management's risk appetite (risk tolerance). The risk taking potential of Volkswagen Bank GmbH as at 31.12.2010 was € 4,714 million (previous year: € 4,030 million).

In stage 2, the risk type limits are defined as the monetary share of the bank's aggregate risk limit; they reflect the company's business alignment. Risk-adjusted distribution applies. The determination is executed on an annual basis pursuant to a resolution of the Board of Management.

Notes to the financial instruments

49 | Carrying amounts of financial instruments under the measurement categories specified in IAS 39

The measurement categories defined in IAS 39 are reflected as follows in the Volkswagen Bank GmbH Group:

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 through profit or loss include derivative financial instruments. The Volkswagen Bank GmbH 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 Volkswagen Bank GmbH Group.

All non-derivative financial instruments are recognised as of the settlement date. The derivative financial instruments are recognised as of the trading date.

The carrying amounts of the financial instruments pursuant to the measurement categories are as follows:

€ million	LOANS AND RECEIVABLES 31.12.2010	LOANS AND RECEIVABLES 31.12.2009	AVAILABLE-FOR-SALE FINANCIAL ASSETS 31.12.2010	AVAILABLE-FOR-SALE FINANCIAL ASSETS 31.12.2009	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST 31.12.2010	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST 31.12.2009	FINANCIAL ASSETS OR LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS 31.12.2010	FINANCIAL ASSETS OR LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS 31.12.2009
Assets								
Cash reserve	470	614	–	–	–	–	–	–
Receivables from financial institutions	861	1,501	–	–	–	–	–	–
Receivables from customers	27,052	27,152	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	68	160
Securities	–	–	1,081	1,420	–	–	–	–
Other financial assets	–	–	1	0	–	–	–	–
Other assets	36	36	–	–	–	–	–	–
Total	**28,419**	**29,303**	**1,082**	**1,420**	**–**	**–**	**68**	**160**
Liabilities								
Liabilities to financial institutions	–	–	–	–	418	713	–	–
Liabilities to customers	–	–	–	–	21,299	20,703	–	–
Securitised liabilities	–	–	–	–	4,851	6,802	–	–
Derivative financial instruments	–	–	–	–	–	–	63	220
Other liabilities	–	–	–	–	15	8	–	–
Subordinated capital	–	–	–	–	1,094	998	–	–
Total	**–**	**–**	**–**	**–**	**27,677**	**29,224**	**63**	**220**

The receivables from leasing transactions are not allocated to any category.

The net results of these categories were as follows:

€ million	2010	2009
Loans and receivables	1,320	1,357
Available-for-sale financial assets	32	30
Financial liabilities measured at amortised cost	−685	−877
Assets or financial liabilities measured at fair value through profit or loss	105	−114

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 interest and 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 through profit or loss	Measurement at market value in accordance with IAS 39 including interest and effects from currency translation

50 | Classes of financial instruments

Financial instruments are classed as follows at Volkswagen Bank GmbH:

- 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	470	614	–	–	470	614	–	–	–	–	–	–
Receivables from financial institutions	861	1,501	–	–	861	1,501	–	–	–	–	–	–
Receivables from customers	28,284	28,308	–	–	25,186	28,187	3,098	121	–	–	–	–
Derivative financial instruments	165	207	68	160	–	–	97	47	–	–	–	–
Securities	1,081	1,420	1,081	1,420	–	–	–	–	–	–	–	–
Joint ventures accounted for using the equity method	1,502	1,351	–	–	–	–	–	–	–	–	1,502	1,351
Other financial assets	1	0	–	–	–	–	–	–	1	0	–	–
Other assets	103	84	–	–	36	36	–	–	–	–	67	48
Total	**32,467**	**33,485**	**1,149**	**1,580**	**26,553**	**30,338**	**3,195**	**168**	**1**	**0**	**1,569**	**1,399**
Liabilities												
Liabilities to financial institutions	418	713	–	–	418	713	–	–	–	–	–	–
Liabilities to customers	21,299	20,703	–	–	19,070	20,539	2,229	164	–	–	–	–
Securitised liabilities	4,851	6,802	–	–	4,851	6,802	–	–	–	–	–	–
Derivative financial instruments	131	295	63	220	–	–	68	75	–	–	–	–
Other liabilities	85	61	–	–	15	8	–	–	–	–	70	53
Subordinated capital	1,094	998	–	–	1,094	998	–	–	–	–	–	–
Total	**27,878**	**29,572**	**63**	**220**	**25,448**	**29,060**	**2,297**	**239**	**–**	**–**	**70**	**53**
Credit commitments	**1,352**	**876**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

51 | Measurement levels of the financial instruments measured at fair value

According to IFRS 7.27A, 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 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	–	–	68	160	–	–
Securities	–	–	1,081	1,420	–	–
Hedge accounting						
Derivative financial instruments	–	–	97	47	–	–
Total	**–**	**–**	**1,246**	**1,627**	**–**	**–**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	63	220	–	–
Hedge accounting						
Derivative financial instruments	–	–	68	75	–	–
Total	**–**	**–**	**131**	**295**	**–**	**–**

52 | 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 for measurement purposes. For part of the financial instruments, actuarial valuation models were applied due to the lack of market prices. 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.

€ million	FAIR VALUE 31.12.2010	FAIR VALUE 31.12.2009	CARRYING AMOUNT 31.12.2010	CARRYING AMOUNT 31.12.2009	DIFFERENCE 31.12.2010	DIFFERENCE 31.12.2009
Assets						
Measured at fair value						
Derivative financial instruments	68	160	68	160	–	–
Securities	1,081	1,420	1,081	1,420	–	–
Measured at amortised cost						
Cash reserve	470	614	470	614	–	–
Receivables from financial institutions	861	1,501	861	1,501	–	–
Receivables from customers	25,284	28,014	25,186	28,187	98	−173
Other assets	36	36	36	36	–	–
Hedge accounting						
Receivables from customers	3,098	121	3,098	121	–	–
Derivative financial instruments	97	47	97	47	–	–
Other financial assets	1	0	1	0	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	63	220	63	220	–	–
Measured at amortised cost						
Liabilities to financial institutions	417	710	418	713	−1	−3
Liabilities to customers	19,170	20,598	19,070	20,539	100	59
Securitised liabilities	4,851	6,802	4,851	6,802	–	–
Other liabilities	15	8	15	8	–	–
Subordinated capital	1,132	1,037	1,094	998	38	39
Hedge accounting						
Liabilities to customers	2,229	164	2,229	164	–	–
Derivative financial instruments	68	75	68	75	–	–

The determination of the financial instruments' fair value was based on the following risk-free interest rate curves:

%	EUR	GBP
Interest for six months	1.227	1.050
Interest for one year	1.507	1.509
Interest for five years	2.476	2.630
Interest for ten years	3.305	3.540

53 | 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	1,149	1,580
Measured at amortised cost		
Cash reserve	470	614
Receivables from financial institutions	861	1,501
Receivables from customers	25,186	28,187
Other assets	36	36
Hedge accounting		
Receivables from customers	3,098	121
Derivative financial instruments	97	47
Other financial assets	1	0
Irrevocable credit commitments	1,352	876
Total	**32,250**	**32,962**

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	1,149	1,580	1,149	1,580	–	–	–	–
Measured at amortised cost								
Cash reserve	470	614	470	614	–	–	–	–
Receivables from financial institutions	861	1,501	861	1,501	–	–	–	–
Receivables from customers	26,039	28,992	24,366	27,090	257	983	1,416	919
Other assets	36	36	36	36	–	–	–	–
Hedge accounting								
Receivables from customers	3,147	122	3,019	108	54	7	74	7
Derivative financial instruments	97	47	97	47	–	–	–	–
Other financial assets	1	0	1	0	–	–	–	–
Total	**31,800**	**32,892**	**29,999**	**30,976**	**311**	**990**	**1,490**	**926**

In the 2010 financial year, there were additions to risk provisions of € 331 million (previous year: € 520 million) in the class, Assets measured at amortised cost, and € 21 million (previous year: € 1 million) in the class, Hedge-accounting.

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	606
Other assets	–	–
Hedge accounting		
Receivables from customers	6	4
Derivative financial instruments	–	–
Other financial assets	–	–
Total	**740**	**610**

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	1,149	1,580	1,149	1,580	–	–
Measured at amortised cost						
Cash reserve	470	614	470	614	–	–
Receivables from financial institutions	861	1,501	861	1,501	–	–
Receivables from customers	24,366	27,090	21,348	23,921	3,018	3,169
Other assets	36	36	36	36	–	–
Hedge accounting						
Receivables from customers	3,019	108	2,633	95	386	13
Derivative financial instruments	97	47	97	47	–	–
Other financial assets	1	0	1	0	–	–
Total	**29,999**	**30,976**	**26,595**	**27,794**	**3,404**	**3,182**

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	257	983	182	665	75	316	–	2
Other assets	–	–	–	–	–	–	–	–
Hedge accounting								
Receivables from customers	54	7	38	5	16	2	–	0
Derivative financial instruments	–	–	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–	–	–
Total	**311**	**990**	**220**	**670**	**91**	**318**	**–**	**2**

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	1,416	919
Other assets	–	–
Hedge accounting		
Receivables from customers	74	7
Derivative financial instruments	–	–
Other financial assets	–	–
Total	**1,490**	**926**

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	30	103
Property	–	–
Other movables	–	–
Financial assets	–	1
Total	**30**	**104**

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

54 | 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	ASSETS 31.12.2009	PAYABLE ON DEMAND 31.12.2010	PAYABLE ON DEMAND 31.12.2009	UP TO 3 MONTHS 31.12.2010	UP TO 3 MONTHS 31.12.2009	3 MONTHS TO 1 YEAR 31.12.2010	3 MONTHS TO 1 YEAR 31.12.2009
Cash reserve	470	614	470	614	–	–	–	–
Receivables from financial institutions	861	1,501	199	1,007	613	494	49	0
Total	**1,331**	**2,115**	**669**	**1,621**	**613**	**494**	**49**	**0**

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

€ million	CASH OUTFLOWS 31.12.2010	CASH OUTFLOWS 31.12.2009	REMAINING CONTRACTUAL MATURITY up to 3 months 31.12.2010	up to 3 months 31.12.2009	3 months to 1 year 31.12.2010	3 months to 1 year 31.12.2009	1 to 5 years 31.12.2010	1 to 5 years 31.12.2009	more than 5 years 31.12.2010	more than 5 years 31.12.2009
Liabilities to financial institutions	426	612	174	121	132	183	71	252	49	56
Liabilities to customers	21,923	21,385	15,435	15,644	1,968	2,117	4,043	3,503	477	121
Securitised liabilities	4,995	6,886	451	1,463	2,262	2,766	2,282	2,657	–	–
Derivative financial instruments	1,556	312	1,071	73	335	121	150	118	0	0
Subordinated capital	1,227	979	72	21	127	94	804	434	224	430
Irrevocable credit commitments	1,352	876	1,352	876	–	–	–	–	–	–
Total	**31,479**	**31,050**	**18,555**	**18,198**	**4,824**	**5,281**	**7,350**	**6,964**	**750**	**607**

55 | 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 40-day interest rate changes in the market on the last 1,000 trading days are used. In addition, a confidence level of 99% is selected. There is a 99% probability that the maximum loss in the overall portfolio within a 40-day period will not exceed the value at risk so determined.

It requires an interest rate gap analysis that shows all cash flows resulting from primary and derivative financial instruments.

This yields the following figures:

€ million	2010	2009
Interest rate risk	44	55
Currency translation risk	0	0
Total market price risk	**44**	**55**

56 | Foreign currency items

In the Volkswagen Bank GmbH Group the following assets and liabilities are contained in the currencies shown as at 31.12.2010:

€ million	GBP	NOK	TRY	Other
Receivables from financial institutions	59	0	–	0
Receivables from customers	1,399	161	47	0
Intangible assets	3	–	–	–
Income tax assets	2	–	–	–
Assets	**1,463**	**161**	**47**	**0**
Liabilities to financial institutions	52	–	–	0
Liabilities to customers	10	–	–	–
Provisions	1	–	–	–
Income tax obligations	5	–	–	–
Liabilities	**68**	**–**	**–**	**0**

57 | Notes to the hedging policy

HEDGING POLICY AND FINANCIAL DERIVATIVES

On account of its activities in international financial markets, the Volkswagen Bank GmbH 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. New limits for the quantified risk and the open accounts were determined by the Board of Management in 2009.

The interest rate hedging contracts concluded primarily contain interest rate swaps and combined interest rate/currency 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 Volkswagen Bank GmbH 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 Volkswagen Bank GmbH 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	715	2,414	426	920	–	–
Cross-currency interest rate swaps	–	–	–	–	–	–
Currency futures contracts	1,272	0	182	–	–	–
Currency swaps	–	–	–	–	–	–
Other						
Interest rate swaps	6,138	5,932	7,322	8,292	31	77
Cross-currency interest rate swaps	–	–	–	–	–	–
Currency futures contracts	–	–	–	–	–	–
Currency swaps	–	–	–	–	–	–
Total	**8,125**	**8,346**	**7,930**	**9,212**	**31**	**77**

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

58 | Division by legal entities

The reportable segments of the Volkswagen Bank GmbH Group as defined by IFRS 8, based on the internal reporting structure, are the legal entities in Germany, Italy, France and other branches, with the latter including the branches in the United Kingdom, the Netherlands, Belgium, Spain, Ireland and Greece.

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.

€ million	2010 FINANCIAL YEAR Germany	Italy	France	Other branches	Consoli-dation	Total
Revenue from lending transactions with third parties	1,346	94	53	117	–	1,610
Revenue from intersegment lending transactions	120	0	0	0	–120	–
Segment revenue from lending transactions	1,466	94	53	117	–120	1,610
Revenue from leasing transactions	–	41	181	–	–	222
Commission income	132	22	25	6	–	185
Revenue	**1,598**	**157**	**259**	**123**	**–120**	**2,017**
Cost of sales from lending and leasing transactions	–	–10	–56	–	–	–66
Write-ups on leased assets and investment property	–	–	–	–	–	–
Depreciation and impairment losses on leased assets and investment property	–	–	–47	–	–	–47
of which impairment losses pursuant to IAS 36	–	–	–	–	–	–
Interest expenses	–628	–48	–43	–38	120	–637
Provisions for risks arising from lending and leasing business	–263	–15	–18	–22	–	–318
Commission expenses	–126	–13	–23	–2	–	–164
Interest income not classified as revenue	–	–	–	–	–	–
Result from derivative financial instruments	40	–	–	–	–	40
Result from joint ventures accounted for using the equity method	91	–	–	–	–	91
Result from other financial assets	0	–	–	–	–	0
General administration expenses	–365	–41	–49	–38	1	–492
Other operating result	51	–1	7	0	–1	56
Pre-tax result	**398**	**29**	**30**	**23**	**–**	**480**
Taxes on income and earnings	–101	–12	–10	–8	–	–131
Net income	**297**	**17**	**20**	**15**	**–**	**349**
Net income attributable to Volkswagen Financial Services AG	297	17	20	15	–	349
Segment assets	**18,146**	**2,250**	**2,412**	**2,706**	**–**	**25,514**
of which non-current assets	**10,070**	**1,039**	**1,112**	**560**	**–**	**12,781**
Segment liabilities	**26,607**	**2,345**	**2,025**	**2,495**	**–6,403**	**27,069**

The presentation for the previous year is as follows:

€ million	2009 FINANCIAL YEAR Germany	Italy	France	Other branches	Consoli-dation	Total
Revenue from lending transactions with third parties	1,382	110	53	115	–	1,660
Revenue from intersegment lending transactions	163	0	0	0	–163	–
Segment revenue from lending transactions	1,545	110	53	115	–163	1,660
Revenue from leasing transactions	–	35	182	–	–	217
Commission income	134	32	17	5	–	188
Revenue	**1,679**	**177**	**252**	**120**	**–163**	**2,065**
Cost of sales from lending and leasing transactions	–	–7	–59	–	–	–66
Write-ups on leased assets and investment property	–	–	–	–	–	–
Depreciation and impairment losses on leased assets and investment property	–	–	–49	–	–	–49
of which impairment losses pursuant to IAS 36	–	–	–	–	–	–
Interest expenses	–937	–78	–58	–47	163	–957
Provisions for risks arising from lending and leasing business	–230	–10	–13	–20	–	–273
Commission expenses	–80	–10	–14	–1	–	–105
Interest income not classified as revenue	–	–	–	–	–	–
Result from derivative financial instruments	–4	–	–	–	–	–4
Result from joint ventures accounted for using the equity method	71	–	–	–	–	71
Result from other financial assets	0	–	–	–	–	0
General administration expenses	–333	–33	–32	–32	1	–429
Other operating result	75	0	2	1	–1	77
Pre-tax result	**241**	**39**	**29**	**21**	**–**	**330**
Taxes on income and earnings	–51	–15	–9	–6	–	–81
Net income	**190**	**24**	**20**	**15**	**–**	**249**
Net income attributable to Volkswagen Financial Services AG	190	24	20	15	–	249
Segment assets	**18,830**	**2,111**	**2,039**	**2,337**	**–**	**25,317**
of which non-current assets	**10,526**	**925**	**894**	**465**	**–**	**12,810**
Segment liabilities	**27,984**	**2,180**	**1,746**	**2,142**	**–5,309**	**28,743**

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

The consolidation in the interest income from lending transactions and interest expense results from the granting of Group-internal refinancing funds between the legal entities of the Volkswagen Bank GmbH Group.

Shares in joint ventures are attributed to the Germany segment.

Information regarding the most important products is contained in the income statement.

The additions to property, plant and equipment, intangible assets, leased assets and investment property amount to € 3 million (previous year: € 2 million) in the Italy segment, € 101 million (previous year: € 87 million) in the France segment and € 1 million (previous year: € 7 million) in the Other branches segment. As in the previous year, there were no additions to these assets in the Germany segment. Deprecation and impairment losses totalled € 2 million (previous year: € 1 million) in the Germany segment, € 2 million (previous year: € 2 million) in the Italy segment, € 48 million (previous year: € 50 million) in the France segment, and € 2 million (previous year: € 1 million) in the other branches segment.

Other notes

59 | Cash flow statement

The cash flow statement of the Volkswagen Bank GmbH Group documents the change in funds available due to the cash flows resulting from current operating activities, investing activities and financing activities. The cash flows resulting from investing activities comprise payments resulting from the purchase and proceeds resulting from the sale of investment property and other assets. The financing activities comprise all the cash flows resulting from transactions with equity, subordinated capital and other financing activities. All other cash flows are assigned to operating activities, in accordance with international practice for financial services companies.

Cash and cash equivalents, narrowly defined, comprises only the cash reserve, which is made up of the cash in hand and deposits at central banks.

The changes to the balance sheet items applied for the development of the cash flow statement cannot be derived directly from the balance sheet, as effects from changes in the scope of consolidation are non-cash effects and are separated out.

60 | Off-balance sheet obligations

€ million	31.12.2010	31.12.2009
Contingent liabilities		
Liabilities from surety and warranty agreements	100	104
Other obligations		
Irrevocable credit commitments	1,352	876

The obligations under non-cancellable rental and leasing contracts in the Volkswagen Bank GmbH Group trigger expenses of € 0 million (previous year: € 1 million) in the 2011 financial year and € 1 million (previous year: € 0 million) in the 2012 to 2015 financial years.

61 | Trust activities

As in the previous year, trust transactions which do not have to be shown on the balance sheet did not exist as at the balance sheet date.

62 | Average number of employees during the financial year

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

63 | 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 Financial Services AG, Braunschweig, is the sole shareholder of Volkswagen Bank GmbH.

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 30 September 2011.

A control and profit transfer agreement between Volkswagen Financial Services AG, the sole shareholder, and Volkswagen Bank GmbH is in place. 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 Volkswagen Bank GmbH 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 Volkswagen Bank GmbH 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:

€ million	Supervisory Board	Board of Management	Porsche companies	Volks wagen AG	Volkswagen Financial Services AG	Fellow subsidiaries	Non-consolidated subsidiaries	Joint ventures	Associated companies	Pension trust
2010 FINANCIAL YEAR										
Receivables	0	0	45	2	420	2,008	0	5	–	–
Allowances on receivables	–	–	–	–	–	–	–	–	–	–
of which: additions, current year	–	–	–	–	–	–	–	–	–	–
Liabilities	1	1	0	895	382	1,366	3	–	–	–
Interest income	0	0	0	7	3	58	–	0	–	–
Interest expenses	0	0	0	–	0	–1	0	0	–	–
Income from services	–	–	0	–	22	59	1	–	–	–
Income from licence fees	–	–	–	–	–	–	–	–	–	–
Sale of goods	–	–	–	–	–	–	–	–	–	–
Expenses for services	–	–	–209	0	–410	–192	0	0	–	0
Purchase of goods	–	–	–	–	–	–	–	–	–	–
Provision of sureties	–	–	–	–	–	–	–	–	–	–

€ million	Supervisory Board	Board of Management	Porsche companies	Volkswagen AG	Volkswagen Financial Services AG	Fellow subsidiaries	Non-consolidated subsidiaries	Joint ventures	Associated companies	Pension trust
2009 FINANCIAL YEAR										
Receivables	0	0	45	5	1,088	3,159	–	0	–	–
Allowances on receivables	–	–	–	–	–	–	–	–	–	–
of which: additions, current year	–	–	–	–	–	–	–	–	–	–
Liabilities	1	1	0	928	241	1,911	–	–	–	–
Interest income	0	0	0	6	6	81	–	0	–	–
Interest expenses	0	0	0	–	–	–5	–	0	–	–
Income from services	0	0	0	7	20	124	–	0	–	–
Income from licence fees	–	–	–	–	–	–	–	–	–	–
Sale of goods	–	–	–	–	–	–	–	–	–	–
Expenses for services	0	0	–1	–	–14	43	–	0	–	0
Purchase of goods	–	–	–	–	–	–	–	–	–	–
Provision of sureties	–	–	–	–	–	–	–	–	–	–

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

Members of the Board of Management and Supervisory Board of Volkswagen Bank GmbH 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.

Two members of the Board of Management were paid by Volkswagen Bank GmbH. Their total compensation was € 1 million; the remainder of the total compensation paid to the members of the Board of Management was borne by Volkswagen Financial Services AG. The pro rata provisions recognised for this group of people in connection with current pensions and entitlements amount to € 3 million (previous year: € 2 million).

A total of € 2 million (previous year: € 2 million) was recognised as provisions for pensions and similar obligations to former members of the Board of Management or their surviving dependants. The payments to former members of the Board of Management and their surviving dependants amounted to less € 0.5 million.
As in the previous year, no remuneration has been granted to the Supervisory Board.

64 | Corporate bodies of the Volkswagen Bank GmbH Group

The Board of Management is comprised as follows:

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

DR. MICHAEL REINHART
Finance, Risk Management
Market Support, Dealer Restructuring
Human Resources, Organisation

TORSTEN ZIBELL
Direct bank
Treasury

The Supervisory Board is comprised as follows:

HANS DIETER PÖTSCH
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

PROF. DR. HORST NEUMANN
Deputy Chairman
Member of the Board of Management of Volkswagen AG
Human Resources and Organisation

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

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

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

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

DETLEF KUNKEL
General Secretary/Principal Representative of IG Metall, Braunschweig

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

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

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

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

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

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

65 | Equity investments

Name and domicile of company	Percentage of capital and voting rights held
I. Joint ventures	
Global Mobility Holding B.V., Amsterdam, the Netherlands	50.0
LeasePlan Corporation N.V., Amsterdam, the Netherlands	50.0
VOLKSWAGEN BANK POLSKA S.A., Warsaw, Poland	60.0
II. Equity investments	
Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, Germany, Deutschland	0.02
Society for Worldwide Interbank Financial Telecommunication SCRL, La Hulpe, Belgium	0.0053
Visa Europe Limited, London, United Kingdom	0.0218
III. Investments in affiliated companies	
Limited Liability Company Volkswagen Bank RUS, Moscow, Russian Federation	1.0
Volkswagen Insurance Brokers GmbH, Braunschweig, Deutschland	100.0

As at 31 December 2009, the equity of Global Mobility Holding B.V. totalled € 2,090 million, that of LeasePlan Corporation N.V. totalled € 1,618 million, that of VOLKSWAGEN BANK POLSKA S.A. totalled € 54 million (PLN 217 million) and that of Volkswagen Insurance Brokers GmbH totalled € 1 million. In the 2009 financial year, the result posted by Global Mobility Holding B.V. was € – 0.1 million, that of LeasePlan Corporation N.V. was € 165.2 million, that of VOLKSWAGEN BANK POLSKA S.A. was € 4.3 million (PLN 17.1 million), and that of Volkswagen Insurance Brokers GmbH was € – 0.3 million.

The special purpose entities included in the consolidated financial statements pursuant to SIC 12 – Driver Two GmbH, Driver Three GmbH, Driver Four GmbH, Driver Five GmbH, Driver Six GmbH, Driver Seven GmbH, Private Driver 2007 GmbH, Private Driver 2008-1 GmbH, Private Driver 2008-2 GmbH, Private Driver 2008-3 GmbH, Private Driver 2008-4 GmbH and Private Driver 2010-1 fixed GmbH – each have equity of € 25,050. The special purpose entities that were operational in 2009 each posted earnings of under € 0.1 million in 2009.

No disclosures are made regarding the equity investments and Limited Liability Company Volkswagen Bank RUS, Moscow, Russian Federation, given their insignificance.

66 | Events after the balance sheet date

There were no significant events up to 11 February 2011.

67 | Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Braunschweig, 11 February 2011
The Board of Management

Rainer Blank

Dr. Michael Reinhart

Torsten Zibell

Independent Auditors' Report

To Volkswagen Bank Gesellschaft mit beschränkter Haftung

We have audited the consolidated financial statements prepared by Volkswagen Bank Gesellschaft mit beschränkter Haftung, Braunschweig, consisting of balance sheet, income statement, statement of comprehensive income, 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 is the responsibility of the company's Managing Directors. 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 situation and results of operations conveyed by the consolidated financial statements with due regard to the IFRS as applicable in the EU 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 Managing Directors, 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 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, 17 February 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes	ppa. Rolf Barrakling
Auditor	Auditor

Report of the Supervisory Board

of Volkswagen Bank GmbH

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

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

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

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

COMMITTEE WORK

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

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

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

DELIBERATIONS OF THE SUPERVISORY BOARD

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

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

At our meeting on 10 June 2010, we approved an amendment of the investment guideline in order to expand the Board of Management options for investing excess liquidity as necessary.

We also approved the acquisition of Volkswagen Insurance Brokers GmbH and its merger with the Bank.

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

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

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Braunschweig, 18 February 2011

Hans Dieter Pötsch
Chairman of the Supervisory Board

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

PUBLISHED BY:
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CONCEPT AND DESIGN:
CAT Consultants, Hamburg
www.cat-consultants.de

TYPESETTING:
Produced in-house with FIRE.sys

You will also find the Annual Report 2010 at www.vwfs.com/ar10

The Annual Report is also published in German.

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