VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

ANNUAL REPORT

OF VOLKSWAGEN FINANCIAL SERVICES AG

2013

Key figures

in € million (as at 31.12.)	2013	2012[1]	2011	2010	2009
Total assets	90,992	87,378	76,946	65,332	60,286
Receivables from customers arising from					
Retail financing	40,284	38,127	33,261	30,505	26,603
Wholesale financing	11,082	10,781	10,412	8,828	8,391
Leasing business	16,298	15,312	14,252	13,643	13,935
Leased assets	8,545	7,474	6,382	4,974	3,666
Customer deposits	24,286	24,889	23,795	20,129	19,532
Equity	8,883	8,802	7,704	6,975	6,311
Operating result	1,214	945	814	720	519
Pre-tax result	1,315	992	933	870	554
Taxes on income and earnings	–373	–264	–275	–247	–159
Result after taxes	942	728	658	623	395

in % (as at 31.12.)	2013	2012	2011	2010	2009
Cost income ratio[2]	58	60	60	60	69
Equity ratio[3]	9.8	10.1	10.0	10.7	10.5
Core capital ratio[4]	8.6	9.2	9.8	10.5	11.2
Overall ratio[5]	9.6	9.8	10.1	10.5	11.4
Return on equity[6]	14.9	12.0	12.7	13.1	8.5

Number (as at 31.12.)	2013	2012	2011	2010	2009
Employees	9,498	8,770	7,322	6,797	6,775
In Germany	5,319	4,971	4,599	4,297	4,290
Abroad	4,179	3,799	2,723	2,500	2,485

	Standard & Poor's			Moody's Investors Service		
Rating 2013	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Volkswagen Financial Services AG	A–2	A–	Positive	Prime-2	A3	Positive
Volkswagen Bank GmbH	A–2	A–	Positive	Prime-2	A3	Positive

1 The previous year's figure was adjusted due to the amendment of IAS 19.
2 General administration expenses divided by net income from lending, leasing and insurance transactions after provisions for risks and net commission income
3 Equity divided by total assets
4 Core capital ratio = Core capital / ((Capital requirement for counterparty risks + operational risks + market risks) * 12.5) * 100
5 Overall ratio = Own funds / ((Capital requirement for counterparty risks + operational risks + market risks) * 12.5) * 100
6 Pre-tax result divided by the average equity

The "character traits" of Volkswagen Financial Services

Customer-focused

We offer tailored and brand specific product bundles and services to our customers from one single source.

Pioneering

We develop mobility concepts, which will still be here tomorrow, and take reponsibility for the future.

Getting things done

We do it – and make it easy for our customers: with high performance products and efficient solutions.

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Foreword of the Board of Management

"Our attractive financial and mobility services will enable us to specifically take advantage of the opportunities arising from the major mobility trends in society."

Frank Witter
Chairman of the Board of Management

Ladies and Gentlemen,

The year 2013 was another highly successful financial year for Volkswagen Financial Services AG. With an operating result of € 1.2 billion, we continued to generate a high level of earnings. The number of contracts in our portfolio rose from just under 8 million to over 8.8 million, an increase of around 10.9 %. Two factors were responsible for this encouraging growth. First, in spite of the rather weak automobile market in Europe, the total number of vehicles delivered by the Volkswagen Group rose by around 5 % to more than 9.7 million. Second, as Volkswagen Financial Services AG we were able to attract a higher number of customers of the Group brands with our products and services. In Germany, the penetration rate – in other words, the share of customers who when buying a vehicle choose a financing or lease contract from our company – is around 56 %. Excluding China, which is traditionally a cash buyer market, the global penetration rate is above 42 %.

Our company is achieving sustained growth in three dimensions. We are growing together with the new brands of the Volkswagen Group, in new markets and with new products in existing markets. Incidentally, our three dimensions of growth – brands, markets and products – are the main themes in this year's Annual Report. Since about summer 2013, Volkswagen Financial Services AG has also offered finance and insurance for the Group's new Ducati brand. We have already commenced operations in Italy, Germany, Turkey, Greece, Brazil and the United States as Ducati Financial Services. And by purchasing MAN Finance International GmbH at the end of 2013/beginning of 2014, we acquired the financial arm of the Group's MAN brand. As a result, Volkswagen Financial Services AG includes financial services for trucks and buses in its international core business. In the course of last year, we teamed up with MAN to implement joint projects in eight markets, including Mexico, Belgium and South Korea.

By developing new markets and innovative products to meet the needs of our customers, we are extending the value chain of the Volkswagen Group and promoting customer retention as well as stimulating unit sales of the Group brands. Be it in the developed countries of Western Europe or in the emerging economies of Asia, customised financing concepts and mobility packages now play a key role in the competition for customers everywhere.

The offerings of Volkswagen Autoversicherung AG are also custom-tailored. Our joint venture with Allianz kicked off on 1 April 2013 with the sale of Allianz products. We are still convinced that the strategic step we took in becoming a primary insurer was the right one and are optimistic that we will achieve our ambitious volume targets in the coming financial year.

Our attractive financial and mobility services will enable us to specifically take advantage of the opportunities arising from the major mobility trends in society. Flexible use of vehicles rather than ownership is becoming increasingly important for younger people in particular, which is why we offer suitable mobility solutions ranging from leasing to long- and short-term rental to micro rentals (car sharing). To this end, in April 2013 we and our partner Pon Holdings B.V. acquired a stake in the Dutch car sharing market leader Collect Car B.V., better known as Greenwheels. With a fleet of around 2,000 vehicles, this company is the leading car sharing provider in the Netherlands. The stake in Greenwheels was mainly acquired with the intention of enhancing our business model and possibly expanding into other countries, especially in Europe. We also consider Greenwheels to be an innovative platform of modular concepts for all Volkswagen Group brands.

Another key success factor for us is cost-effective refinancing in the international money and capital markets. As in previous years, our reputation was excellent in these markets, which enabled us to refinance our business at competitive terms. An essential component of our refinancing strategy is asset-backed securitisation (ABS), with which we securitise our loan and leasing receivables in several currency areas.

However, one consequence of the growing size of our business and our activities in the global financial markets is that we are facing increasingly stiff regulatory requirements. For example, Volkswagen Financial Services AG is now overseen by the European Central Bank as part of the Single Supervisory Mechanism (SSM).

To meet the operational and regulatory challenges, we carried out a comprehensive internal realignment of Volkswagen Financial Services AG as a holding company in the past year. Thus realigned, we increase our efficiency and also that of the individual national subsidiaries. The foundation for all our activities is still our “WIR2018” corporate strategy, which we continue to pursue consistently.

In all activities we also aim to live up to our responsibility to society and the environment to the best possible extent. This prompted us to set up a Corporate Responsibility (CR) Excellence Team in 2013 comprising experts from all relevant areas of the company. Together, they developed a strategic framework for our CR activities and defined our future action areas. The very high response rate to a survey of stakeholders conducted in this context underlined yet again the importance of corporate responsibility and sustainability in the opinion not just of our customers and business partners, but also of politics, science and the media.

More than ever before, we are dependent on motivated and highly qualified staff to achieve our ambitious goals. Here, we have already reached a high level, as shown by the numerous awards our company has received. We set up the Financial Services Academy in June 2013 to be able to provide even greater support to our colleagues. The Academy is primarily tasked with combining training and work processes, integrating the knowledge of departmental experts and developing additional forms of learning.

On behalf of the entire Board of Management, I would like to take this opportunity to extend particular thanks to our customers and our employees. Our success in the financial year is essentially due to their extraordinary commitment.

As you can see, we successfully completed 2013 and laid the foundations for an equally good financial year in 2014. This makes us confident of achieving profitable growth in the current year as well.

Sincerely,

Frank Witter
Chairman of the Board of Management

Braunschweig, March 2014

Board of Management

VOLKSWAGEN FINANCIAL SERVICES AG

Dr. Michael Reinhart
Risk Management

Lars-Henner Santelmann
Sales and Marketing

Frank Witter
Chairman of the Board of Management

Christiane Hesse
Human Resources and Organisation

Frank Fiedler
Finance

Dr. Mario Daberkow
IT and Processes

Growth in three dimensions

Brands, markets & products

The Volkswagen Group's success and growth go hand-in-hand with an optimal mix of automotive products and customised financial services. The aim is to successfully integrate financial services into the automotive value chain of the Volkswagen Group.

The financial services providers in the Volkswagen Group represent a broad spectrum of attractive automotive products, ranging from dealer and customer financing through leasing to banking and insurance products. Efficient fleet management and countless other innovative services round out this portfolio.

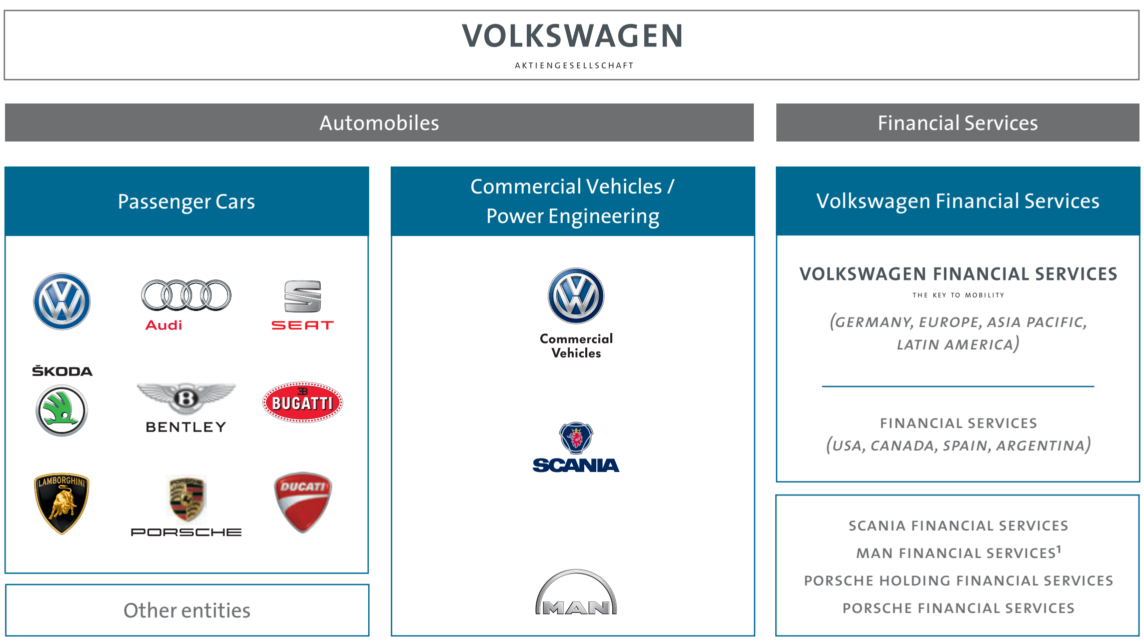
CHALLENGING BUSINESS CONDITIONS AND CONSTANT CHANGE

The challenges we must overcome include constant change coupled with ever shorter development and product life cycles as well as global trends, which sometimes shift customer requirements considerably. The current market conditions in the automotive industry and the financial sector have a substantial effect on our business, not to mention the fact that growing environmental requirements demand new solutions. Last, but not least, options for financing mobility are also an issue that must be addressed.

It is our mission to find suitable answers to precisely these questions. We therefore provide customised products and services to meet our customers' multifaceted requirements in markets worldwide. Our financial services inspire our customers – dealers as well as private individuals and corporate customers – to remain loyal to us and to the Volkswagen Group. We thus make an important contribution to promoting the Volkswagen Group's automobile sales and profitability. The framework for our plans is our WIR2018 business strategy, which will drive us to become the best automotive financial services provider in the world in the next five years.

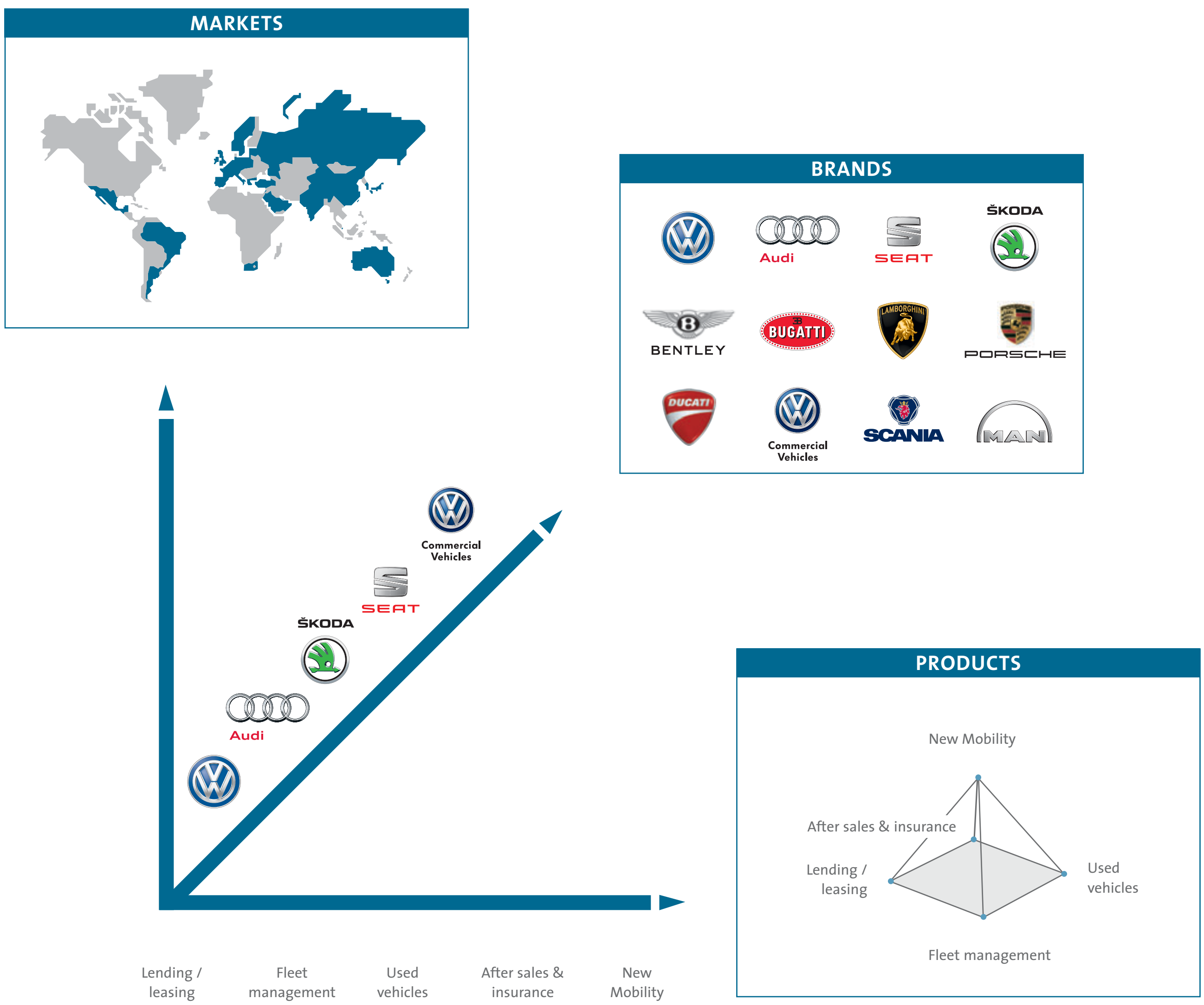
In line with the WIR2018 strategy, we are pursuing our growth targets in three dimensions: brands, markets and products.

Structure



1) Acquired by Volkswagen Financial Services AG effective 01.01.2014

Our dimensions of growth



BRAND GROWTH DIMENSION – PARTNERING WITH THE AUTOMOTIVE BRANDS OF THE VOLKSWAGEN GROUP

The variety embodied by the Volkswagen Group's twelve brands offers us as a captive finance company attractive potential for growth. To date, we have offered our financial services mainly in conjunction with the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles, Audi, SEAT and ŠKODA automotive brands. However, in many countries, our financial services are already available for additional Group brands.

This is a growth course we will systematically continue to pursue. "Tailored" means that we meet the needs of brands, dealers, importers, private customers and corporate customers in equal measure. Our action-oriented approach allows us to bring brand solutions to market quickly, and our experience with other brands and in other countries is vital to this process. Moreover, we bring our powerful organisation and our highly developed processes to the table in partnerships with the brands – consequently ensuring sustainable growth.

The success of our integrated automotive financial services contributes to the positive performance of the automotive brands in terms of capturing customer loyalty, boosting sales and ensuring profitability. This is why, for example, we participate in the product creation process as early as the vehicle development phase. We can therefore together launch a package of vehicle and financial services in the market successfully in pursuit of our overarching goal of integrated mobility solutions.

The commencement of Ducati Financial Services' business in 2013 is an exemplary step in furthering the brand dimension of growth. It shows how quickly and efficiently we can establish a smoothly functioning organisation and the associated processes.

MARKET GROWTH DIMENSION – FOCUS ON INTERNATIONALISATION

In terms of international growth, we benefit from the valuable experience we have gained in our home market of Germany and in many other countries. This expertise enables us to optimally localise and successfully market our financial services. We take a very structured approach to developing new markets. The top priority here is our customers' wishes, localisation in line with legal and cultural norms, and dovetailing with the automotive brands of the Volkswagen Group in the respective country. For instance, in some countries we work in partnerships or joint ventures, while in other places we establish a subsidiary so that we can provide a full range of products and services. In addition, we provide fleet customers with international offerings such as one-stop, cross-border fleet management.

We now do business in over 40 countries across the globe. This means there are still some markets we have not entered. A good example of our internationalisation strategy is our entry into the South Korean market. Launching our business in this very competitive market paid off quickly, and it took just two years for Volkswagen Financial Services to become a permanent player in the South Korean market. Equally positive are the contributions of this success to customer loyalty, penetration rates and sales promotion. In December 2013, we also began operating in South Africa via a joint venture.

PRODUCT GROWTH DIMENSION – ATTRACTIVE SOLUTIONS TO MEET MULTI-FACETED DEMAND

Everyone talks about mobility. We deliver solutions. Our contribution is to financially enable the mobility of private and commercial end customers. Our product solutions are tailored and are updated continually.

This allows us to boost our growth potential in markets worldwide with the step-by-step rollout of our product range:

- Effective packaging of services into attractive bundled solutions.
- Continual improvement of our products. Thanks to an optimised value chain, we can further improve market penetration of the relevant markets in partnership with the Volkswagen Group's automotive brands.
- Rollout of the entire product line in all markets.
- Growth generated by new products aligned with changing customer requirements. The drivers here include growing demand for financial services for used cars, fleet management and short-term vehicle use.

Nonetheless, we remain steadfastly committed to our core competencies in our range of automotive financial services. They include dealer and customer financing, leasing, banking and insurance services, fleet management and innovative mobility products.

The latter are driven mainly by a change in customer requirements. In the past, the focus was purely on financing vehicle purchases over a period of up to five years. Today, customers are increasingly requesting short-term mobility solutions. "From ownership to use" – that is how we describe the trend. This in turn means that our solutions must include the sale of mobility as well as the sale of vehicles.

We are addressing this trend by entering the car-sharing business, including launching the "Quicar – Share a Volkswagen" pilot project in Hanover. We gained valuable experience from the project in conjunction with the Volkswagen brand. In 2013, Volkswagen Financial Services also acquired a stake in Netherlands-based industry pioneer Greenwheels, which already has international car-sharing expertise. We have gained a very successful partner in Greenwheels. For one, Greenwheels operates corporate car-sharing projects together with AUDI AG in several locations. The new mobility providers also include the rental car company Euromobil, a subsidiary of Volkswagen Leasing GmbH.

These individual projects are not stand-alones at our company. After all, our primary goal is to cover all customer needs from car sharing through rental cars to leasing – and thus to achieve greater market penetration.

REFINANCING AS A KEY STRATEGIC FACTOR

In order to protect our growth strategy, we ensure solid and secure funding at all times. A sufficient equity base and healthy refinancing mix are decisive factors in this regard. Our refinancing strategy is based on the best possible utilisation of local funding options and the optimal use of various refinancing instruments. In this context, we concentrate on three sources, which ideally should each account for one-third of the refinancing volume in the overall mix for our sub-group: deposits, capital market issues and ABS issuances. This allows us to secure liquidity in all markets at all times through systematic diversification.

Our strategy will prove its worth in an environment of widespread changes thanks to the development of new dimensions of growth. We work closely with the brands, pursue market internationalisation, and develop and launch new products to generate dynamic growth.

RISK MANAGEMENT – A SUCCESS FACTOR

Two types of risk deserve particular attention: credit risk and residual value risk. Sophisticated scoring and rating procedures developed in-house are used to assess credit risk. Analysing the creditworthiness of private customers involves scoring systems that are integrated in the purchasing processes, while the credit ratings of corporate customers are determined using special rating processes.

The share of used vehicles in the product portfolio that we market ourselves is growing constantly. For this reason, residual value risk is critically important to the success of our company. As a result, we began to implement a residual value risk management circle several years ago. This enables detailed residual value forecasts from which the assumption of residual value risk is determined and optimised using active marketing strategies.

OUR STRATEGY IN AN ENVIRONMENT OF CONTINUALLY CHANGING MARKETS

We are very optimistic that our strategy will prove its worth in an environment of widespread changes thanks to the development of new dimensions of growth. We work closely with the brands, pursue market internationalisation, and develop and launch new products to generate dynamic growth. However, this initiative cannot be successful without our highly qualified and committed employees. They have many years of experience and expertise in integrating and handling complex organisations and processes. Taking into account growing regulatory, technical and market-specific aspects also contributes to creating the foundation for our success in implementing the WIR2018 strategy. The goal has been defined clearly: We want to be the best automotive financial services provider in the world.

Ducati Financial Services

Setting out for new shores with new brands

The motorcycle manufacturer Ducati had only been part of the Volkswagen Group for ten months. In this short period, we succeeded in establishing Ducati Financial Services together with the manufacturer. We were able to offer our financial services to drivers on two wheels for the first time. The high speed of brand integration is primarily attributable to our process expertise as a captive finance company within the Volkswagen Group. In 2013, we introduced Ducati Financial Services in a total of six markets, with more to follow.

Since early February 2013 we have been marketing financial services to motorcycle customers in conjunction with Ducati Financial Services. Our spectrum comprises specific financing products for the well-known Italian models. When we entered the market, Ducati had only been part of Audi, and therefore the Volkswagen Group, for barely ten months. The rapid pace of integration underscores our product and process expertise. The successful partnership was and is driven by our common conviction that a premium motorcycle brand also requires a premium financial services provider. Together, we develop attractive products for dealers and end customers alike. We aim for these products to contribute to improving both customer satisfaction and motorcycle sales.

EXPLOITING CUSTOMER POTENTIAL AND BOOSTING BRAND LOYALTY

In a very short period of time, we developed customised solutions aligned with the requirements of the dealers and customers of iconic manufacturer Ducati. These solutions allow us to make the dream of owning a motorcycle a financial reality for our customers. At the same time, we are able to optimally exploit customer potential. And we generate a measurable increase in sales figures and customer loyalty in the context of the brand. Market activities commenced in Italy and Germany, and then were launched in the United States and Brazil. Our worldwide rollout continued with the Greek and Turkish markets.

OUTSTANDING PROCESSES AS A PREREQUISITE FOR SALES SUCCESS

The effective launch and positive international rollout of Ducati Financial Services are based on comprehensive analysis and planning that specifically take into account operating processes. Based on our established product toolbox, we researched various aspects of motorcycle financing in Italy and developed tailored products. Then, the relevant IT systems were harmonised, a Ducati dealer workplace system was developed, and dealer sales processes were synchronised. The result is a state-of-the-art, forward-looking process infrastructure enabling efficient performance and rapid market development. Pro-active customer relationship management efforts are also underway.

"The time elapsed between the decision to establish Ducati Financial Services in Germany to paying out financing to the first end customer was barely six months. Is there any better proof of the speed, flexibility and expertise with which we begin and successfully launch new business activities?"

Marcus Kando
Head of Sales Germany, Ducati Financial Services

SUCCESS THROUGH DEALER INVOLVEMENT

In addition to regular sales training and information on regulatory rules, intensive and results-oriented cooperation with dealers and sales units is one of the pillars of our coordinated approach to market development for our brands. In this context, we expressly take into account the needs of the dealer network in our organisational structure and workflows. For example, our product marketing is brand specific – tailored to the dynamic visuals of Ducati. Thanks to our extensive integration of the sales organisation, our customer focus is optimal, and we are able to achieve sustainable growth in our markets.

WORKING ALONGSIDE DUCATI WORLDWIDE

Working with Ducati means growing together. Currently, Ducati sells its products in 88 countries through its own dealers or networks of independent dealers. In the course of our rollout, we will further increase the number of countries in which we market our joint financial services.

ACTIVE PRODUCT DEVELOPMENT IN EXISTING MARKETS

Sales promotion for the brands – and, of course, for Ducati as our motorcycle brand – is one of our key strategic goals. Against this backdrop, we have adapted our range of products to align with the needs of motorcycle riders as well as dealers and importers worldwide, differentiated our services according to demand, and introduced market innovations. Currently, we are also reviewing innovative long-term rental and engine insurance solutions for the motorcycle market. By optimally integrating our financial services into the value chain of new brands, we are securing growth in the strategic dimensions of the brands.

South Korea – an example of success

Growing further in the global markets

Our growth is driven not only by the cooperation with the brands or by products, but also by conscious development of new markets and regions. We have been active in the South Korean market since September 2011, recording rapid growth ever since.

When we commenced operations in South Korea, we initially offered traditional, accepted retail financing and leasing products. "Simple and smart" was our motto. With a widely communicated opening offer – an attractive lease payment for the Audi A8 – we quickly acquired a high profile. In addition, we succeeded in directly increasing the penetration rate for this model to around 75 %, boosting unit sales by over 40 %. We also launched a targeted campaign for the Golf GTI in conjunction with the Volkswagen brand. These two initiatives significantly increased our footprint. In hindsight, we can say that closely integrating the Volkswagen Group's automotive brands early on was a success factor for our market entry.

Today, we are already a key player in the South Korean market. We rolled out a series of product innovations, product variations and packages, for example financing combined with new vehicle replacement insurance. In addition, we successfully marketed products for our dealers, such as factoring and financing for vehicles in stock.

AUTOMOBILITY IS HUGELY IMPORTANT IN SOUTH KOREA

South Korea is a highly developed new vehicle market. Every year, around 1.3 million vehicles are sold in this Asian country. The import quota is continuously growing and therefore offers substantial market potential for us. However, in 2013 all importers together had a combined market share of just 10 %. The undisputed leaders are the German manufacturers, who delivered around 80 % of the imported vehicles. The Volkswagen Group in turn leads the import segment with its vehicle brands, supplying over one-third of all foreign models. The mix of models demanded in South Korea is especially interesting for our business. Customers particularly look for high-value premium models combined with financial services. South Korea is one of the largest single markets for the Volkswagen Phaeton and the Audi A8, for example.

FINANCIAL ADVISORS – A DISTINCT FEATURE OF THE SOUTH KOREAN MARKET

In South Korea, a mandatory statutory distinction is made between the seller of a vehicle and the agent assisting with its financing (financial advisor). To be able to offer a customer-friendly, uniform, seamless sales process, Volkswagen Financial Services Korea supplies the financial advisors. This means we have staff at every dealership, which has several advantages: customers can enjoy a holistic sales process, while we benefit from the excellent credit quality of the contracts brokered. The Korean dealers appreciate this arrangement, embracing us as a reliable partner and an elementary part of the sales process.

HIGH PRESSURE ON PROCESSES

Another characteristic feature of the Korean market is the timing of vehicle sales and the associated requests for financing. These are concentrated at the end of the month: in our experience, about 50 % of all sales and financing transactions are effected in the last five days of the month, putting considerable pressure on our processes and systems. However, what is in principle a rather unfavourable distribution of incoming orders can be used to increase customer and dealer loyalty. We specifically achieve this by answering financing questions rapidly and delivering vehicles as requested using our integrated processes – between dealers, the importer and the automotive brands of the Volkswagen Group.

SUCCESS FACTORS FOR OUR GROWTH IN SOUTH KOREA

Our success in South Korea essentially comes down to two main factors:

- We have a flexible, highly motivated team in South Korea that lives the values of Volkswagen Financial Services – trust and confidence, responsibility, a living commitment to our customers, enthusiasm and courage – and is fully committed to the WIR2018 strategy.

- We collaborate closely and in a spirit of trust with our process partners and the automotive brands of the Volkswagen Group. Our networking has facilitated successful market penetration, which is now paying dividends in the further development of the market.

A KEY PLAYER AFTER JUST TWO YEARS

Thanks to our brand-related financial services, we succeeded in driving up customer loyalty, lifting penetration rates and actively promoting vehicle sales. We now offer our services for the Volkswagen, Audi, Bentley and Lamborghini brands. Our service concept is not only borne out by our employees, who without exception gave us an excellent testimony in an internal staff survey, but has also been praised by the South Korean Ministry of Education, which praised Volkswagen Financial Services Korea one of the best “Foreign Investment Companies”.

HARNESSING MARKET OPPORTUNITIES FOR COMMERCIAL VEHICLES AS WELL

In August 2013, we added services for commercial vehicles to our portfolio under the name MAN Finance Korea. For the collaboration with the Volkswagen Group subsidiary MAN Truck & Bus Korea we set ourselves a joint goal: in addition to a variety of financing alternatives, we will also offer the entire range of financial and service products, focusing on services that add value for customers. We will therefore combine financial services with service offerings for the vehicles, supplementing these with appropriate insurance products. With these attractive package solutions we are creating ample cost transparency and budget security for our corporate customers.

ACTIVELY SHAPING SOUTH KOREA’S AUTOMOTIVE FUTURE

We have a clear goal – to continue the success story of Volkswagen Financial Services Korea. To achieve this, we will build on our strengths in South Korea – implementation speed, capacity for innovation and flexibility – in a manner that promotes continued growth and success.

The FS Way is shaping our corporate culture worldwide

The insurance business in Mexico

Adding value internationally with new approaches

We have been marketing insurance products for over 65 years, and in Mexico vehicle insurance has also been part of our product spectrum for quite some time. Growing interest in insurance over the years has encouraged us to provide fresh impetus with new sales and settlement processes and increasingly diverse insurance products. These have enabled us to significantly expand our position in Mexico.

In Mexico, Volkswagen Financial Services has offered financing services for about 40 years. On the basis of Volkswagen Financial Services' long-standing experience in the Mexican market and in view of the global strategy it is pursuing and implementing, Volkswagen Leasing S.A. was founded in Mexico in 2006, followed by Volkswagen Bank S.A. the year after.

MEXICO – A LARGE MARKET WITH GOOD PROSPECTS FOR DEVELOPMENT

On the whole, the insurance market in Mexico is still relatively small. This is because there is not yet a great deal of interest in insurance products among the Mexican population and an "insurance culture" is only gradually emerging. However, we estimate that as the market evolves, considerable potential for growth with insurance products will unfold.

MOTOR INSURANCE AND CPI – STARTING WITH TRADITIONAL PRODUCTS

The business with our insurance products is based around motor insurance, which primarily serves to hedge risks arising from damage to a vehicle or the financial consequences of an accident. We kicked off with this traditional product, which has already been perfected in many countries. Success came fast, and a penetration rate in the new vehicle business of around 30 % was achieved straight away. In 2010, we expanded our offering to include credit protection insurance (CPI). In the wake of the global financial crisis and its repercussions, even Mexican businesses rapidly developed an awareness of the value of such insurance, which offers clients comprehensive financial protection against credit risks and insolvency. As CPI protects both the creditor and the borrower from the consequences of overdue debt, the insurance policy quickly became a standard feature in our packages of services – frequently taken out together with motor insurance. The demand for cover was so great that just one year after CPI was introduced a penetration rate of over 55 % was achieved based on the new vehicle financing business of the Volkswagen brand. The current penetration rate is even higher.

ACHIEVING A UNIFORM MARKET PRESENCE WITH "DON GOYO"

The development of the insurance business, accompanied by a gratifying level of profitability, held the promise of fresh growth – driven by greater customer loyalty with a proprietary sales and settlement organisation. Our goal is to improve the integrated market presence of brand, dealers and financial services providers vis-à-vis the customer. Our project for increasing customer loyalty in the insurance business in Mexico was given the name "Don Goyo", the Mexicans' cherished nickname for their country's most active volcano, the Popocatépetl. In this project we created new products in the insurance business: Siempre Volkswagen, Audi Safety Plan and SEAT Care. In place of multiple independent agents – the model used in the past – a well-known Mexican insurance broker was commissioned to take over central management of the insurance policies and contract management.

THE KEY TO SUCCESS: ENTREPRENEURIAL SPIRIT AND THE PRODUCT TOOLBOX

The new business model had an immediate impact. Just one year after its introduction, the penetration rate and the number of contracts signed surged. High success rates were achieved in 2013. The penetration rate for motor insurance doubled to 40 % and the penetration rate for CPI advanced to as much as 66 %. This success is also evidenced by the number of new insurance policies, totalling 133,000, a two-fold increase in just two years. In line with this development, our insurance business became significantly more profitable.

The example of Mexico demonstrates the opportunities open to us in regions around the world: with entrepreneurial spirit and the courage to embark on new paths, together with our toolbox for introducing and "reconfiguring" customised products, we can refine and market our products efficiently, rapidly and successfully.

In Mexico, we have thus made an active contribution to vehicle sales, customer loyalty and profitability. And, at the same time, the local companies safeguard our sustained growth in Mexico with customised packages of products.

"Siempre Volkswagen" campaign in Mexico

A conversation

with Dr. Mario Daberkow, Board of Management member responsible for IT & Processes

"Information technology is the central nervous system of Volkswagen Financial Services AG. For our core business, optimally coordinated IT is clearly a success factor."

Dr. Mario Daberkow
Board of Management member responsible for IT & Processes

Dr. Daberkow, when you joined the company on 1 July 2013, a new Board of Management position designated IT & Processes was created. Why?

Information technology is the central nervous system of Volkswagen Financial Services AG. For our core business – not least because we are a direct bank – optimally coordinated IT is clearly a success factor. IT systems map our successful products in the financing business: in day-to-day payment processing, in contract administration, in accounting and in many other areas. A Board of Management position dedicated to "IT and Processes" in financial services, the second core competence of the Volkswagen Group, was therefore an obvious choice.

As regulatory requirements for financial services providers grow, IT requirements also increase. What has changed in IT since the financial crisis five years ago? What has been done to meet the demands of financial regulators?

Due to our smoothly functioning, low-risk business model and not least due to active risk management in the front-office units and the Corporate Center, Volkswagen Financial Services AG successfully made it through the crisis. In addition, our company saw the writing on the wall, and pro-actively took steps to prepare for new banking requirements. Moreover, around 300 employees in various areas of the company took on many issues to address the higher expectations. These issues were continually coordinated with Internal Audit and external consultants to ensure the highest possible quality. In this process, we also actively sought out a dialogue with the authorities. A prominent example is our Access Identity Management, which was newly adjusted in 2011 to further improve our data, process and information security.

Data and information security are a very timely topic. In view of the revelations by a former US intelligence agency employee and the wire-tapping scandal involving the National Security Agency, what is the security situation vis-à-vis the outside world?

In my view, the public discussion on data security precipitated by the events you mention does not bring up any new issues for Volkswagen Financial Services AG – information and data protection have always been a top priority for us. We are committed to and put into practice a comprehensive information security system.

In this regard, we do everything in our power to protect the data and information of our customers and of Volkswagen Financial Services AG. We continually analyse our IT risks and our protection requirements and conduct IT security audits worldwide. Implementation of all statutory and contractual regulations is monitored on an ongoing basis both within the company and with our contractual IT partners. All customers and employees can rest assured that we will continue to make every effort to protect our data and information at the national and international levels.

A fundamental task currently facing financial services providers is the introduction of the Single Euro Payments Area (SEPA). How does this affect Volkswagen Financial Services AG?

The SEPA transition affects all of our business activities. This concept must be integrated into all processes – whether that's the direct banking business, financing, leasing and insurance, payments, application and management, systems or financial accounting. To this extent, our IT team is working at full speed with all departments to adapt our systems accordingly. Nonetheless, SEPA will be a huge challenge because the entire financial services industry along with the real economy is entering a new payment processing world.

Changes resulting from the introduction of SEPA or increasingly complex structures are also a challenge for system stability and performance. How will disruptions be dealt with in the long term? How can stability be assured in an environment of ongoing technical development?

This will require all participants groupwide to stand together to ensure our operational excellence. We will also in the future devote the greatest possible attention to this issue. For instance, special releases will only be made when they are urgently necessary. System operations will have the right to veto special transports. Development tests will also be conducted across IT systems. Moreover, all changes in releases will be subject to centralised release management. This will allow us to further improve operating quality by working as a team, again lower the error rate of applications and further stabilise IT processes. After all, stability and quality are the most important factors in our business processes.

As a service provider of IT services, you want to offer not only systems, but also solutions, in the long run. What does that mean exactly?

It goes without saying that, as a service provider, we have to provide all of the services required by our business model. Classic banking services are supplemented with automobile-specific products, such as rental models, after-sales service, warranties, innovative financing and leasing solutions. What is interesting here is networking this variety of services in a logical way and placing them in an international context. This is the only way we can implement WIR2018 and reach the growth targets formulated in this strategy. For our department "IT and Processes", this means that we must have a convincing service and solution concept. In other words, our service portfolio must be defined in the geographic dimension and in the functional dimension. Against the backdrop of our growth in the brand, market and product dimensions, we will also upgrade and globalise our corporate processes and IT systems.

You mentioned growth: In 2013, 76 employees were hired in IT in the head office in Braunschweig alone. Where is the growth reflected in the global market? And what challenges does expansion bring – for IT especially?

In 2013, we were active in 42 countries worldwide and we aim to extend our international reach. The challenge is to equip the new national subsidiaries and sites with technology, establish modern systems, network individual products and place them in an international context, and in the process guarantee the financial integrity of Volkswagen Financial Services AG. We function as technical consultants in the partnerships with the national subsidiaries, which in some cases represent new brands for us, and the other sites. Each unit has specific requirements in this regard, and some of these are based on a local statutory framework. We must address these requirements with our IT systems in future as well. What are known as IT maps are used to provide an overview of the existing systems as well as "blank spots" and identify action items. We will step up internationalisation of our organisation through expertise in project management, which is growing worldwide. Our future goal is a largely homogeneous IT landscape that supports our business model. The motto is increasingly true: "We are a global team."

Profile: → Dr. Mario Daberkow

Born 25 June 1969 in Neuss → Partner, one son → University degree in mathematics, Düsseldorf → Doctor of natural sciences, Berlin → Management consultant at McKinsey & Co. → Deutsche Post AG, manager of the Pension Services business division → Deutsche Postbank AG, head of Bank Organisation IT/Operations → Deutsche Postbank AG, General Representative → Deutsche Postbank AG, member of the Board of Management responsible for Services → Deutsche Postbank AG, CIO/COO on the Board of Management → Since 1 July 2013: Volkswagen Financial Services AG, Board of Management member responsible for IT & Processes

We take responsibility

We have embedded corporate responsibility (CR) firmly in our values and actively take on this responsibility. CR is therefore an integral part of our WIR2018 strategy – on the way to becoming the best automotive financial service provider in the world. This is something we want to achieve by doing business in a responsible and sustainable manner.

CR can be subdivided into three key components – corporate social responsibility, corporate citizenship and corporate governance.

1. *Corporate Social Responsibility* comprises our environmental, economic and social responsibility in our core business. We have further broken down this responsibility into four action areas – Environment, Products, Dialogue and People.

2. *Corporate citizenship* means we take responsibility as part of society, even outside our core business. Here we support numerous initiatives and projects, and we will continue to pursue this commitment on an ongoing basis. To name just a few examples: our company foundation – "Our Children in Braunschweig", support for the "Classics in the Park" concerts, our commitment to the "Building Bridges" project run by the Braunschweig Community Foundation and the "Sommerlochfestival" diversity initiative. Additionally, our Works Council makes a valuable contribution with numerous other initiatives such as employee donation drives, a Christmas giving tree and the fair-trade buying initiative for Lebenshilfe, an organisation that helps people with disabilities.

3. *Corporate Governance* is the third key component of CR and is defined as the pursuit of exemplary corporate leadership and ethics. Our company has a worldwide compliance organisation and acts according to the collective rules of conduct of the Volkswagen Group. In addition, we have established an effective anti-corruption system that operates successfully with an anti-corruption officer, an anti-corruption working group and rules applicable worldwide as well as training and external ombudsmen. Moreover, employee training to combat money laundering and other criminal activities and on the topics of competition and anti-trust law are an integral part of our corporate governance efforts.

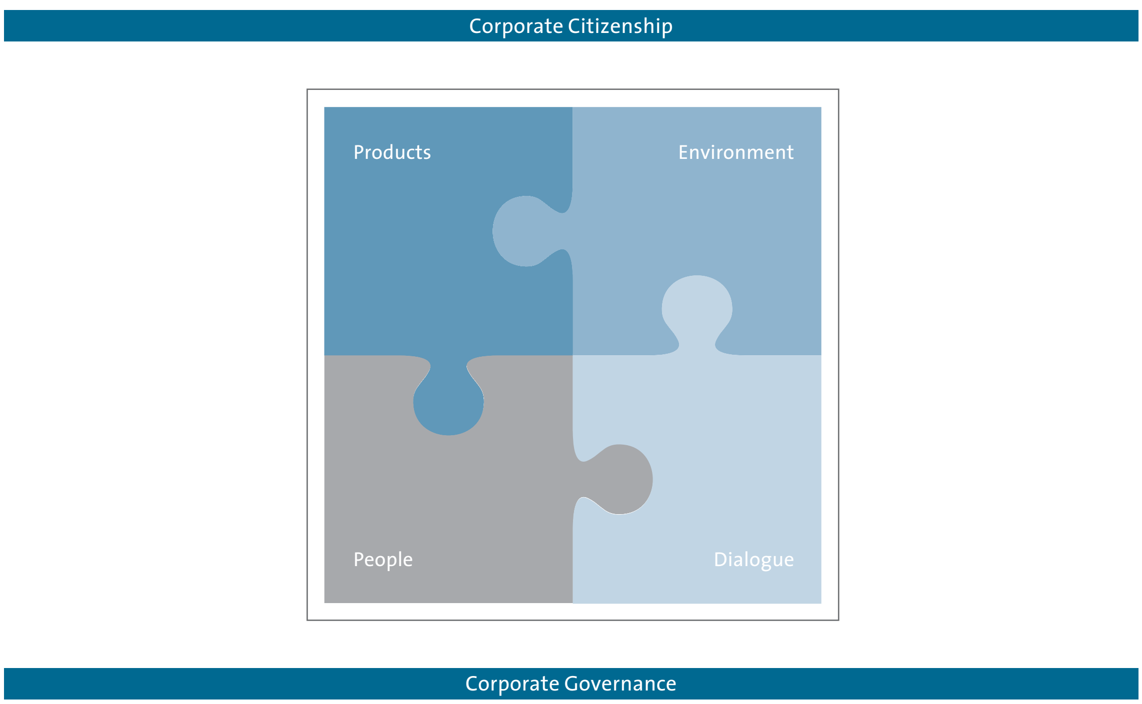
RESPONSIBILITY MUST BE VISIBLY ENTRENCHED IN THE COMPANY

CR is not merely an empty promise – it is part of our day-to-day business. Now that a central coordination office has been set up, we will make CR a continual and permanent part of our corporate activities worldwide. In January 2013 we began formulating our corporate responsibility strategy. Frank Witter, Chairman of the Board of Management of Volkswagen Financial Services AG, has assumed responsibility for CR at Board of Management level. The Corporate Responsibility Coordination office will manage development of the CR strategy and its coordination. The office will be assisted by the CR Excellence Team composed of experts and leaders from the Human Resources, Corporate Communications, Compliance, Political Affairs, Investor Relations, Risk Management, IT and Marketing/Sales functions. The focus of the team's work in 2013 was on conceptualising the strategy and determining the four action areas of our CR strategy.

OUR CR STRATEGY WILL BE FURTHER DEVELOPED IN DIALOGUE WITH STAKEHOLDER GROUPS

We determined the specifics of our CR strategy not at the drawing board, but instead in dialogue with our stakeholders. To this end, we asked for information in a representative survey of various groups, including private customers, dealers, fleet customers, suppliers and business partners, unions, investors, media representatives, non-governmental organisations and politicians as well as our colleagues in the Volkswagen Group and employees of Volkswagen Financial Services AG. This provided a good picture of how the CR activities of our company to date are viewed, which channels our stakeholders use to inform themselves and what concrete expectations they have of us.

The four action areas of the CR strategy



Our survey resulted in the following key insights:

- There is little knowledge of our CR activities currently, but they are described as particularly credible. Our stakeholders inform themselves about our CR commitment mainly through three channels: the general media (newspapers, television and radio), our website and our annual report.

- The greatest CR challenge our stakeholders see for Volkswagen Financial Services AG is developing new mobility products and concepts, dealing with climate change and environmental pollution, and the dwindling supply of energy and resources. Furthermore, sustainability is increasingly becoming a decision-making criterion for customers, investors and others.

This well-founded feedback from our stakeholders will be incorporated in the process of further defining our four action areas.

ENVIRONMENT ACTION AREA

At Volkswagen Financial Services AG, environmental protection is a key component of long-term sustainable action.

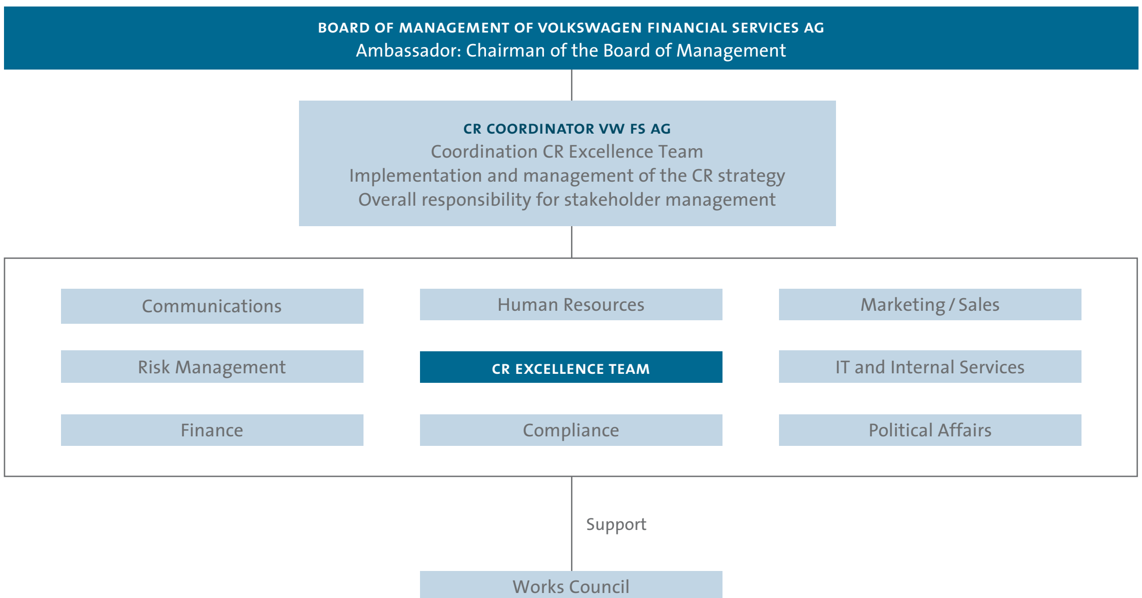
We want to contribute actively to environmental and climate protection. Our goal is therefore to introduce an ISO 14001-certified environmental management system in 2014. We are confident that this step will allow us to improve energy efficiency and promote the development of more far-reaching tools. In developing new products, we consider the impact on the environment in addition to economic factors. A good example is the environmental programme we participate in along with NABU, the German Nature and Biodiversity Conservation Union. This partnership aims to reduce average CO2 emissions in all vehicle deliveries to fleet customers. Thanks to our work with NABU, large areas of bogs in Germany were returned to their natural state and are again able to function as an important CO2 storage medium.

PRODUCT ACTION AREA

Our stakeholders have high expectations for the provision of responsible financial services and new mobility solutions. So do we. We will continue to fulfil and further develop these in the future. For instance, we promote environmentally friendly vehicle fleet management with the “Green Fleet” environmental award. We support our fleet customers in implementing environmentally friendly fleet management by providing specific information on setting up a green car policy, offering fuel-saving driver training, and making environmental successes visible with our FleetCARS software, a state-of-the-art digital reporting system. In collaboration with the automotive brands of the Volkswagen Group, Volkswagen Financial Services AG is working intensely to be a pioneer in the development of new mobility packages. Examples are the “Quicar – Share a Volkswagen” urban car-sharing pilot programme, our stake in the car-sharing company Greenwheels, our long-term rental product (one- to twelve-months rentals) and the car rental business of Euromobil Autovermietung GmbH, which rounds out the mobility needs of our customers.

Responsible financial services are a justified and basic requirement. In 2010, Volkswagen Bank GmbH joined the ranks of the signatories of the voluntary “Responsible Lending to Consumers” code of conduct. The code provides an overview of standards and contains a series of consumer-friendly regulations that go beyond the requirements of law.

The CR organisation of Volkswagen Financial Services AG



DIALOGUE ACTION AREA

In order to continually refine our CR strategy, intensive dialogue with our employees, colleagues in the Volkswagen Group and external stakeholder groups is important. One fundamental step in this direction was the stakeholder survey conducted for the first time in 2013.

In 2013, we also entered into an active dialogue with our internal stakeholders – our employees – firstly by holding an event called "WIR2018 in Dialogue", a round table where interested employees could discuss fundamental strategic issues with management. In addition, the members of the CR Excellence Team of Volkswagen Financial Services AG function as multipliers and messengers for our CR activities. A stepped-up exchange of information with the Volkswagen Group takes place through the position of CR Coordinator of Volkswagen Financial Services AG.

PEOPLE ACTION AREA

The People action area aims to address our responsibility as an employer and embed CR in our corporate culture. To this end, we develop information modules for existing human resources development tools in order to raise awareness among trainees, employees and managers about the CR aspects of their daily work and decision-making processes. We also want to influence society in a positive way in our core competencies as a financial and mobility service provider. Our work as a partner to My Finance Coach Stiftung GmbH involves sending our employees to schools to serve as finance coaches and providing ad-free, basic financial education. For more than ten years now, our art bus project has enabled students and seniors in our region to visit the art museum in Wolfsburg. This is our way of interconnecting culture and mobility.

CR IS AN INTERNATIONAL ISSUE FOR US

Our commitment to CR does not stop at the German border. Initially, the CR framework will be drafted by the CR Coordination office from the insights gained mostly from the German market. Subsequently, we plan to draft this concept as guidelines ("10 Golden Rules") for an international rollout in our various markets.

"For me, corporate responsibility means not just being active in cultural and social issues, but also making sure all of our business activities look to the future. A successful CR strategy is one that everyone in the company practices in real life. We are all responsible!"

Angela Kleinhans
Head of Strategic Trends and Innovation

Success with global management and local tools

The publication “Euroweek” named the treasury departments of Volkswagen AG and Volkswagen Financial Services as the best funding team of 2013, while “Asiamoney” selected the “Driver Japan One” transaction as the best Japanese securitisation transaction of the past year. These awards underscore the effectiveness of our strategy of diversified funding and recognition of this fact by the financial markets.

The positive development of our operations is closely connected with our success in raising and increasing debt financing. Volkswagen Financial Services AG and its subsidiaries have a clear strategy. A key component is our strategy of diversification, both in terms of the instruments used and by currency areas. The main sources of refinancing are money and capital market instruments, ABS transactions and deposits from the direct banking business.

In the 2013 financial year, internationalisation in particular was further advanced by the development of local financial instruments. For example, our Turkish joint venture Volkswagen Doğuş debuted on the local capital market with an issue amounting to TRY 100 million in June, and in Brazil we repeated last year’s success with a second publicly marketed “Letra Financeira” by Banco Volkswagen. All bonds saw high demand by investors and garnered positive attention on the local and international markets.

The internationalisation of our financial instruments was actively advanced in the area of securitisation transactions as well. The transactions follow the proven standards of the “Volkswagen Driver” and “Volkswagen Car Lease” – VCL platforms. In 2013, the following projects stand out in particular: In Japan, the success story of the “Driver Japan” transactions continued with “Driver Japan Two”: In February, Japanese car loans were securitised locally for the second time in a public transaction. The successful “Driver France One” issue in Europe with a volume of around € 500 million was the first ABS transaction by Volkswagen Bank France. Due to the strong demand by investors and substantial oversubscription, the tranches were sold at the lower end of the price range. In November, our ABS programme was expanded by a new currency area and a new continent with the addition of “Driver Australia One” in Australia. This opened up a new local funding source for further promoting our successful Australian business.

Volkswagen Financial Services AG is now an active participant in the ABS market in the following eight countries: Germany, the United Kingdom, the Netherlands, Spain, Brazil, Japan, France and Australia.

Along with this, we brief capital market participants on our business performance and our refinancing strategy at international investor meetings, presentations and conferences. Current information and presentations are also promptly published on the Investor Relations website at www.vwfs.com/ir.

RATING

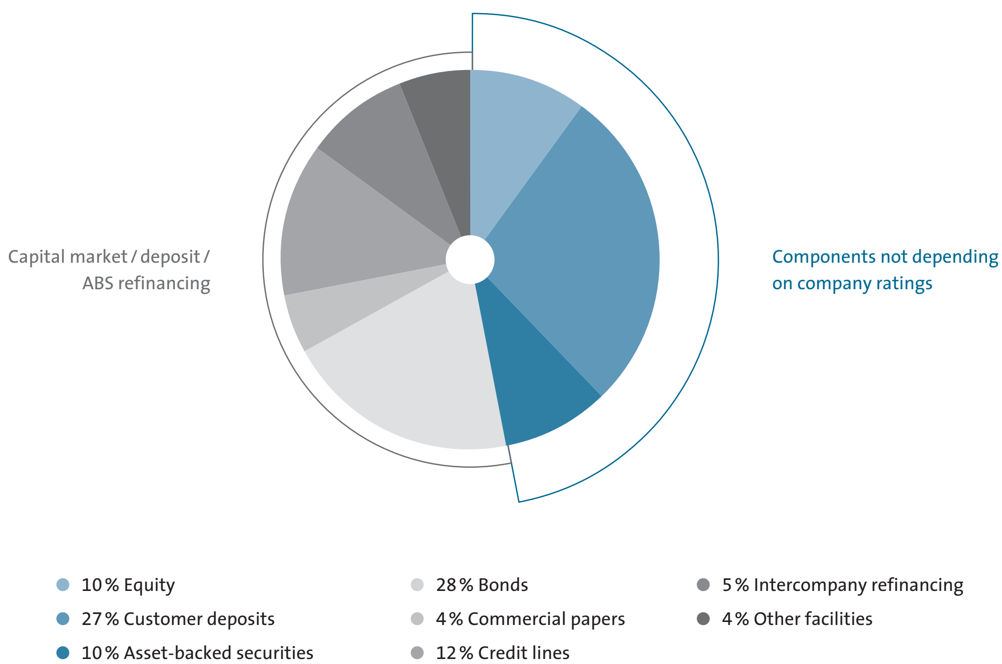
The rating of Volkswagen Financial Services AG in its capacity as a wholly-owned subsidiary of Volkswagen AG corresponds to that of the Group parent by both Moody's Investors Service (Moody's) and Standard & Poor's (S&P).

Moody's confirmed its P-2 (short-term) and A3 (long-term) ratings with a positive outlook. The rating of S&P remained at A–2 (short-term) and A– (long-term).

As a wholly-owned subsidiary of Volkswagen Financial Services AG, Volkswagen Bank GmbH is given a separate rating by both firms. Moody's rating of P-2 (short-term) and A3 (long-term) with a positive outlook was confirmed. S&P confirmed its short-term (A–2) and long-term (A–) ratings for Volkswagen Bank GmbH.

Thanks to the high creditworthiness confirmed in the rating, the strong financial figures and the deep trust of investors, Volkswagen Financial Services AG and its subsidiaries have excellent access to the capital markets at all times.

Refinancing sources as at 31 December 2013



"The launch and expansion of our international capital market activities forms the foundation and guarantees the success of our ambitious growth plans worldwide."

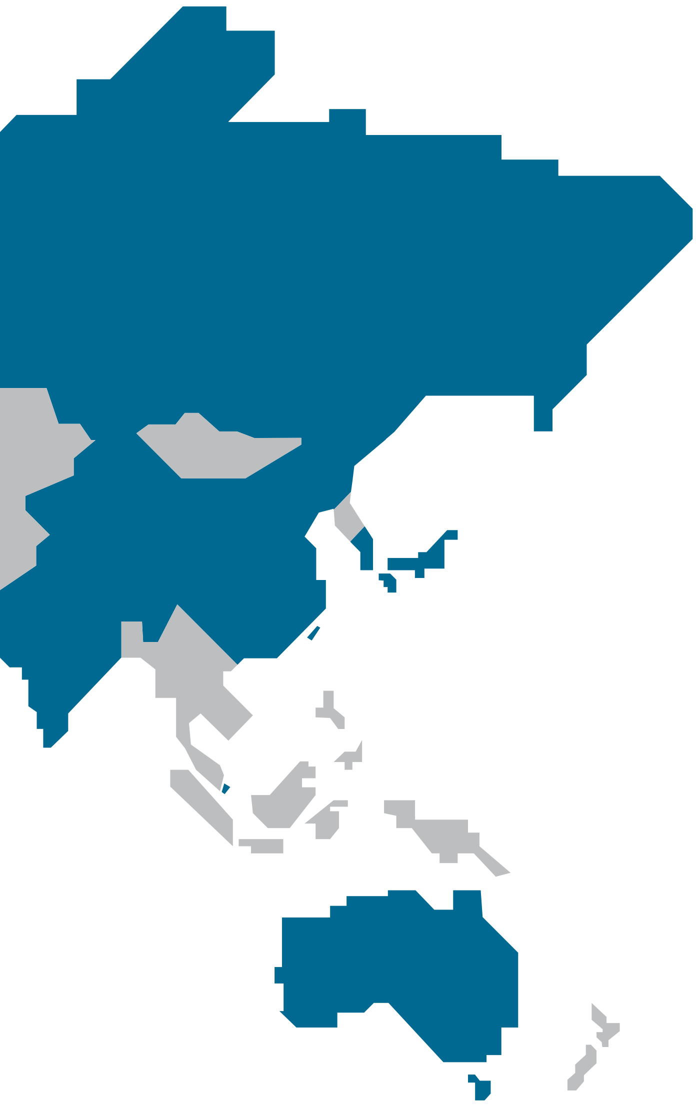
Dirk Bauer
Head of Capital Markets and Rating

We have refinanced nearly 28 % of the total assets of our financial services companies worldwide with unsecured capital market issues. Reflecting our presence on our largest markets, these activities take place mainly in the European capital market.

But not just there. We realised early on that we must put our business on a much broader, global foundation to ensure secure long-term capital market financing that appropriately addresses risks. In our growth markets in particular and due to the experience gained from the financial crisis, we do not wish to rely on sufficient required funding always being supplied by our international banking partners or the European capital market alone.

Based on the European capital market expertise we have acquired over the years, we have been very successful in obtaining fresh capital market access in a number of countries in recent years. Again and again, our issues have proven that we take our funding strategy and expansion of our international market presence very seriously. In addition to many years of experience in markets such as Australia, Mexico, Brazil and India, we also placed a bond in Turkey for the first time in the past financial year.

Worldwide presence



Volkswagen Financial Services AG offers financial services for the Volkswagen Group brands in 42 countries worldwide – directly, as well as through equity investments and service contracts.

- Abu Dhabi
- Argentina
- Australia
- Austria
- Bahrain
- Belgium
- Brazil
- China
- Czech Republic
- Dubai
- Estonia
- France
- Germany
- Greece
- India
- Ireland
- Italy
- Japan
- Jordan
- Kuwait
- Latvia
- Lebanon
- Lithuania
- Mexico
- The Netherlands
- Norway
- Oman
- Poland
- Portugal
- Qatar
- Russia
- Saudi Arabia
- Singapore
- Slovakia
- South Africa
- South Korea
- Spain
- Sweden
- Switzerland
- Taiwan
- Turkey
- United Kingdom

Germany

GENERAL DEVELOPMENT OF BUSINESS

Even though forecasts for the German market continued to predict only modest growth, the Volkswagen Group managed to consolidate its good market position and even expanded it in several areas of business, reaching a new record with additions of 282,017 contracts in the used car business. A total of 948,766 new financing and leasing contracts for new and used cars was recorded. The penetration rate in Germany was further increased to 55.8 %. This means that today more than every second vehicle of the Volkswagen Group is financed or leased by us.

PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

The focus in the private customer business in the 2013 financial year was on stabilising our strong position in financing and leasing and growing the insurance and services businesses. Volkswagen Autoversicherung, the joint venture with Allianz whose product offerings are expected to leverage additional customer potential, was launched in April 2013. New sales channels were opened up through platforms such as the leasing exchange for brand, dealers and financial services providers and are also fostering growth in the used vehicle business.

Volkswagen Bank GmbH added a total of 457,597 contracts. Volkswagen Leasing GmbH also continued to position itself successfully on the market, concluding 106,092 new contracts with private customers.

In the corporate customer business, we supplied the dealers with an extensive range of financing, service, investment and deposit products again in 2013, increasing the financing volume to € 4.19 billion.

FLEET CUSTOMERS

In the 2013 financial year, Volkswagen Bank GmbH added around 25,000 new finance leases to its portfolio in the fleet customer segment.

Volkswagen Leasing GmbH maintained its business volume in the fleet customer market at the same high level as in the previous year and once again asserted its strong position in the German and European fleet business. This was confirmed by Leaseurope, the European Federation of Leasing Company Associations, through its ranking of Volkswagen Leasing GmbH as the European market leader in automotive leasing. Around 168,000 new leases were added to the portfolio in 2013 and the lease contract portfolio rose again by 6 % to over 477,000 vehicles.

Also in the services business, we likewise continued the successful course we had taken in the previous year. The figures in the service areas of maintenance, wear-and-tear repairs and tyres in particular were given a further boost. Overall, Volkswagen Leasing GmbH concluded over 127,000 service contracts with its fleet customers in 2013.

In addition, market activities were expanded further in the area of fleet management for customers with large fleets. Alongside its extensive product portfolio in the services business for passenger cars, Volkswagen Leasing GmbH now also offers services products for the truck industry with the MAN ServiceCard and the FleetTRUCKS reporting system.

Moreover, the subsidiaries of Volkswagen Leasing GmbH struck out on new paths in 2013. In addition to its existing franchise business, Euromobil Autovermietung GmbH has also had its own rental outlets since the beginning of the year, including at Hanover Airport and in the city of Hanover. Carmobility GmbH augmented its portfolio with new services and a new systems architecture, with which it offers professional fleet management services for medium-sized fleets as well.

DIRECT BANK

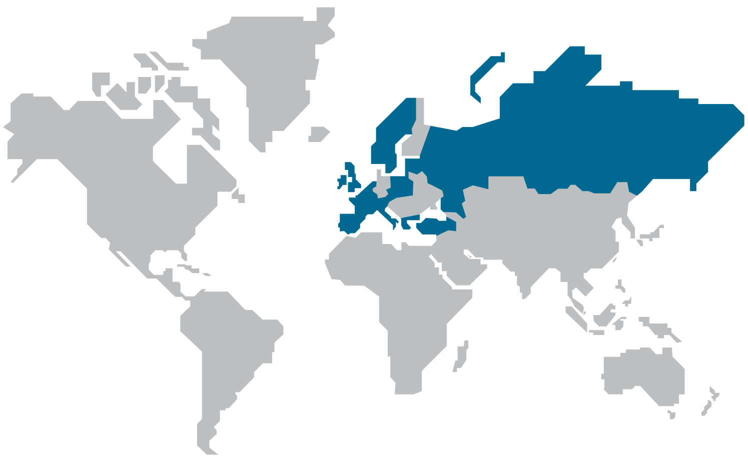
Numerous campaigns in connection with the WIR2018 strategy enabled us to continue to maintain its market position and serve as a sales channel for the automotive segment through the sale of automobile-related financial services products to primary direct banking customers. The deposits from the deposit business are instrumental in funding Volkswagen's financial services providers.

Here, we maintained the previous year's high level, despite historically low interest rates. As at the balance sheet date, the customer deposit volume was €22.3 billion. Deposits mainly comprise overnight deposits as well as various savings certificates and plans of Volkswagen Bank GmbH. The share of these deposits in the refinancing mix of Volkswagen Financial Services AG was 25 %.

"In Germany we are dealing with a saturated market in which we already operate at a very high level in both financing and leasing. In addition to stabilising this market position, we are therefore focusing on tapping into other areas of business such as insurance and financial services – always with the goal of being the most attractive financial services provider for the Volkswagen Group and successfully fulfilling our role as a sales promoter as well as a strong partner to the dealers."

Anthony Bandmann
Spokesman of the Board of Management of Volkswagen Bank GmbH and Chairman German Market

Europe



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

GENERAL DEVELOPMENT OF BUSINESS

In 2013, amid a difficult economic environment, nearly all of the countries in this region again managed to meet their budget targets. Especially within the EU4 (Italy, Spain, the UK and France), the surge in the retail penetration rate underscored our growth course. By systematically continuing the GO^{40} program, these countries succeeded in reaching the target of a penetration rate of 40 % set for 2015 ahead of time, thereby illustrating the value added by cooperating directly with the brands. Linked to this, Audi, for example, lifted its market share across the EU4 for the fifth consecutive year.

The spotlight in 2013 was on stepping up the cooperation with the brands and focusing squarely on the needs of the markets and customers. In the after-sales business, for instance, investments in the markets were planned and a joint concept was developed whose implementation is expected to generate further positive effects in the future.

To provide the best possible support for the Group's used car strategy and to live up to the expectations of us as a sales promoter, the financial services providers' used car concept is aligned with the brands' planning. For this, the used vehicle warranty for dealers and customers was rolled out across Europe, fulfilling to the letter the requirements of the "Das WeltAuto" scheme (Volkswagen, ŠKODA, SEAT) and Audi Approved Plus.

The continuation of Volkswagen Financial Services' involvement in the planning process and the market launch of various Group models goes hand in hand with the internal integration. The successful cooperation was repeated in 2013 with the Volkswagen e-up! and the Audi A1 admired.

PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

The United Kingdom succeeded in continuing its growth path and achieving new records with levels of overall penetration of over 40 %, with more than 65 % in the retail business. Finance campaigns that included products for maintenance and wear-and-tear stimulated positive growth and the service volume.

The extremely successful finance campaign for the launch of the new Golf generated considerable upselling effects in Italy with regard to additional equipment from the Volkswagen Group. Finance for Ducati motorcycles was available in 2013 for the first time, rounding off the Group brand world in the financial services portfolio. The financial services companies in Spain raised their overall penetration rate to 51.8 %, lifting Volkswagen's retail penetration rate to over 60 %. These outstanding results can be attributed to the current campaign structure, which promotes a high level of integration between the financial services and sales of the brands.

Russia's retail business continued to develop very encouragingly, with the promotional business and government programmes sustainably strengthening Volkswagen Bank RUS's own business in particular. Business with corporate customers proved robust in 2013.

The Turkish market again recorded strong growth in 2013. Business in Sweden was expanded further through the offer of motor insurance in the direct business in 2013 for the first time, with used vehicle marketing being taken over by the importer. In spite of the still strained economic situation, Greece succeeded in stabilising its private customer business and also posting positive performance in the insurance business in 2013.

FLEET CUSTOMERS

Product and process harmonisation in Europe was completed and has now moved into the implementation phase. The Netherlands was the first country to implement all standards and products in full. Outside Europe, product harmonisation will be pushed worldwide.

The new reporting tool, FleetCARS International, was launched in 2013. This system allows us to offer our international customers uniform, cross-border reporting spanning 20 countries. In addition, it was nominated for Fleet Europe magazine's Innovation Award. The International Fleet Program (IFP), aimed at the worldwide roll-out of fleet systems, was also kicked off in 2013 to support our brands in the international business.

Furthermore, there were noteworthy developments in the fleet business in Italy, Belgium and the Netherlands. Support activities and campaigns for fleet customers were initiated locally in Italy in conjunction with the Volkswagen and Audi brands. This "GO Fleet" initiative enabled Volkswagen to become the local market leader in the long-term renting ranking of all Group brands. Other ambitious goals for these initiatives have been set for the coming year. The truck and bus financial services business, introduced in the Netherlands and Belgium in 2013, performed well. In the Netherlands, the integration of the leasing companies acquired and further implementation of the captive leasing strategy are important cornerstones for local fleet growth.

"The GO^{40} strategy with the brands has been in existence for three years and has already achieved the target increase in the penetration rate to over 40 % in many cases. We are pushing the international fleet business in parallel with standardised products, processes and systems. We support the brands' WeltAuto and Audi Approved Plus initiatives throughout Europe with our products such as the used vehicle warranty for dealers and customers. After-sales products such as maintenance, wear-and-tear services and car insurance ensure capacity utilisation at the dealers' workshops."

Jens Legenbauer
Regional Manager Europe

China, India, ASEAN

Countries:
China, India, Singapore, Taiwan

GENERAL DEVELOPMENT OF BUSINESS

The countries in this region presented us with challenges.

Following a government shake-up, China is setting course for a transformation of its economy. Until now, investments in industry and infrastructure and enduring foreign trade surpluses had generated strong growth. Precipitated, among other things, by the recent decrease in export performance resulting from the tail end of the recession in Europe, more robust domestic demand and the introduction of risk-adjusted capital allocation are expected to restore sustained, organic growth in the future. The Chinese Central Bank is thus taking systematic steps to counteract inflation warnings such as capping monetary growth in the fourth quarter of 2013.

Taiwan failed to achieve its ambitious economic growth targets in 2013. In 2014, trade with China in particular is expected to fuel economic growth once more.

Rising inflation, the strong devaluation of the Indian rupee against the US dollar and the euro, the unexpectedly weak economic growth plus highly volatile money and capital markets presented India with challenges in 2013. This put a damper on market participants' willingness to invest.

PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

China's financing business is clearly picking up momentum. Two main drivers of this development can be observed. Firstly, consumer demand for vehicle financing is growing. Secondly, the integration of the financing business into manufacturers' sales activities is being continuously perfected. Volkswagen Finance China had another record year with 227,279 new contracts, an increase of 52 % compared with 2012. Due to orders to check credit growth in the fourth quarter of 2013, it was impossible to leverage all market potential.

In close cooperation with the automotive distribution partners, the sales promotion function was successfully continued in Taiwan with numerous tailored finance campaigns.

In Volkswagen Financial Services Taiwan's broad product range, the car insurance and extended warranty business also continued to develop very successfully.

Volkswagen Finance Ltd. India, with headquarters in Mumbai, recorded a substantial increase in access to finance in 2013 (+21,159 contracts). This successful development can also be attributed to the very close cooperation with the Group brands. The Volkswagen Passenger Cars brand, for example, profitably marketed the "Fully Loaded" package comprising vehicle financing, car insurance, maintenance and inspection, as well as an extended warranty for new vehicles. In its third year after going into business, Volkswagen Finance Ltd. is therefore already a full-service provider for customers of the Group brands in India.

FLEET CUSTOMERS & OTHER

Headquartered in Beijing, China, Volkswagen New Mobility Services created the necessary infrastructure for a nation-wide leasing package in 2013. Subsidiaries and branches of Volkswagen Leasing were set up in a total of 14 metropolitan areas. On account of exceedingly heterogeneous requirements at local level, this construction work was highly complex and very time-consuming, but the results were undoubtedly fundamental for pressing ahead with the start of operations. Founded in 2011, Volkswagen New Mobility Services covers another important growth field in parallel with its after-sales services, enabling initial experience to be built up in the extended warranty business, for example.

"In spite of a tougher macroeconomic environment in 2013, our sales promotion function in China, Taiwan and India performed even better than in the previous year. The outstanding cooperation with our automotive distribution partners is the driving force that allows us to mature and grow in the markets."

Reinhard Fleger
Regional Manager China, India and ASEAN

Latin America

Countries:
Argentina, Brazil and Mexico

GENERAL DEVELOPMENT OF BUSINESS

All three countries in the Latin America region recorded moderate growth in 2013. In Brazil, the economic slowdown continued despite an increase in gross domestic product (GDP). This is generally manifested in a decrease in foreign investment and specifically in the flattening out of the growth curve in the automotive industry. Mexico's GDP rose by a moderate 1.3 % in 2013. This is mainly attributable to the challenging economic situation worldwide, which had a substantial impact on development in Mexico. Nevertheless, there was little change in inflation, unemployment and the political environment, which strengthened the country's general stability. In spite of moderate economic growth, the automotive industry continued its upward trend in 2013 with total sales of 1,063,000 units, an improvement of 8 % on the previous year.

In Argentina, pull-forward effects stemming from high inflation and the lack of alternative investments enabled the automotive market to record total sales of 833,000 units, thus outperforming the record year of 2012, in which 948,000 units had been sold, by 14 %.

The three countries in this region ended 2013 with 843,000 new contracts, an increase of 12 % over the previous year.

PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

Brazil primarily counteracted the generally unfavourable market conditions with more intense sales drives and by continuing the global Volkswagen brand strategy to strengthen the position of the company. Volkswagen Financial Services Brazil improved its penetration rate from 32.0 % in the previous year to 38.4 % in 2013, once again increasing its financing rate for new vehicles.

The financing and leasing business increased year-on-year by 6 % to a total of 254,000 contracts in 2013. The truck and bus business closed the year 2013 with 24,000 contracts.

The Consórcio product, a mix of financing and lottery, continued the success of previous years in 2013, setting a new record of 166,000 contracts, an increase of 15 % year-on-year.

The Volkswagen Group broadened its market share in Mexico in the reporting year. Volkswagen Financial Services Mexico sustained its position in the captives market. The company ended 2013 with an increase of 11,000 new and used car financing and leasing contracts, recording growth of 19 % year-on-year. In terms of vehicle deliveries to customers, the penetration rate in 2013 also rose slightly compared with the previous year, from 36.1 % to 37.2 %.

Volkswagen Credit Argentina continues to operate the retail financing segment as a commissions business under a cooperation agreement with HSBC. The highest market share since the start of the partnership was achieved in 2013, aided by the introduction of subsidy programmes in agreement with the Volkswagen Group brands.

The dealer financing business in the region maintained its consistent performance of recent years. At Volkswagen Financial Services Mexico, the growth of the contract portfolio was supported by higher unit sales in the automotive brands and the implementation of coordinated financing solutions. In Brazil, the insurance business developed well in terms of volume, increasing by 13 % against the previous year. The insurance business in Mexico showed year-on-year increase of 24 %, closing the 2013 financial year with a total of 128,000 insurance contracts.

Sales of non-financed motor insurance products jointly offered with the Argentinian insurance company La Caja reached a constant level in 2013 with a share of 13 % of Volkswagen's total unit sales.

OTHER

In the reporting year, Volkswagen Financial Services was also active for the Ducati brand in Brazil, one of the first foreign markets.

Volkswagen Financial Services Mexico has additional opportunities to generate business in key segments such as the truck, bus and fleet business. This will be supported by stepping up the joint development of attractive offerings with MAN as well as through public funding for the development of strategically important segments of the economy.

"Latin America remains a focus of interest – firstly because Volkswagen Financial Services AG and the automotive brands of the Volkswagen Group have successfully teamed up to enhance the activities required to twthe Volkswagen Group brands in recent years, we generated strong growth. What we need to do now is strengthen the market position we have established – even though the market conditions may change."

Robert Löffler
Regional Manager Latin America

International

Countries:
Australia, Japan, South Africa, South Korea

GENERAL DEVELOPMENT OF BUSINESS

Stability and growth remained the defining characteristics of the macroeconomic situation in the countries of the Region International in 2013. The Australian economy continued its positive trend, growing for the 22nd year running, though at a slower pace than in the previous year. The new car market expanded slightly year-on-year. The Volkswagen Group brands likewise increased total vehicle sales compared with the previous year. The Japanese economy continues to be dominated by low growth rates. New registrations of imported vehicles rose again in the reporting period. Both Volkswagen and Audi lifted unit sales substantially over 2012, maintaining the Volkswagen Group's market lead in the import segment of Japan's automotive market. In spite of tension in the relationship with North Korea at the beginning of 2013, the South Korean economy recorded higher growth year-on-year. While the overall vehicle market expanded slightly, the imported vehicles market grew twenty times faster than the market for local manufacturers. The Volkswagen Group successfully competed in the import segment, supplying five of the top ten imported models.

PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

In Australia, Volkswagen Financial Services Australia Pty. Ltd. sustained the strong business development witnessed in recent years, systematically continuing its growth course in 2013. Volkswagen Financial Services Australia Pty. Ltd. increased its share of total vehicle deliveries financed in the reporting year and reached a new high. The Australian company now finances more than one out of four vehicles delivered by the Volkswagen Group. This business success is primarily attributable to the close cooperation with the Group brands as well as to the establishment and expansion of business relations with existing dealerships in the area of purchase financing. Despite stiff competition in nearly all product segments, the Australian company managed to grow its insurance business further, exceeding the expectations for this year in some cases. In the past, extensive structural investments had been made to safeguard and increase its business success in the long term. These are laying the foundations for further expansion of the product and services portfolio, with a view to continuing the joint growth path with the Group brands in the future.

Japan also succeeded in sustaining the encouraging performance seen in recent years and cementing its penetration rate at a high level. In the reporting year, Volkswagen Financial Services Japan Ltd. again financed approximately one in three Group vehicles – a particularly noteworthy achievement given that the Volkswagen up!, a vehicle with an expected high cash payer rate, was launched on the Japanese market in the past financial year. By enhancing its existing IT systems, Volkswagen Financial Services Japan Ltd. created greater transparency for dealers and thus further optimised processes. Progress was also made in the area of new mobility; the existing offering was realigned with Audi in Tokyo through online campaigns and by other means and enhanced at other sites through Volkswagen brand offerings.

In South Korea, the second full financial year again exceeded expectations. Well over 40 % of all vehicles sold were financed by Volkswagen Financial Services Korea Co. Ltd. At the Audi brand, almost half of the vehicles sold were financed by the local financial services company. Furthermore, the MAN Truck & Bus brand was successfully integrated into the services portfolio of Volkswagen Financial Services Korea Co. Ltd. in Korea, one of the pilot markets, in the past financial year. In September, the Volkswagen financial services providers began to arrange financing contracts for MAN Truck & Bus.

OTHER

In December 2013, pilot operations with selected trade partners began at the newly established joint venture in South Africa.

"The close integration of the long-term strategies with the brands and the dealers is making a substantial contribution to the positive business development of the individual countries in the Region International. Another gratifying development is that the Region International is continuing its geographic growth course, adding another country at the end of the reporting period – South Africa."

Oliver Schmitt
Regional Manager International

Combined management report

Fundamental information about the Group

Steady international growth confirms the business model of Volkswagen Financial Services AG.

The introduction of new accounting standards led to a change in the structure of the management report compared with the previous year. In addition, the Group management report and the management report of Volkswagen Financial Services AG were combined for the first time.

BUSINESS MODEL

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

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

ORGANISATION OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

The companies of the Volkswagen Financial Services AG Group provide financial services to the following customer groups: Private/Corporate Customers, Fleet Customers and Direct Banking Customers. The close integration of marketing, sales and customer service focused on customers' needs goes a long way towards keeping our processes lean and our sales strategy efficient. Volkswagen Financial Services AG consolidated all aftersales matters in a separate key account structure for purposes of exploiting the services business to optimal effect.

An in-depth analysis of the tasks of all companies in the Volkswagen Financial Services AG Group in Germany was conducted in the reporting year with the goal of achieving, from 2014, a clear organisational, legal and personnel separation of the functions and areas of activity between the holding company and the German market. The aim is to outline clear responsibilities, avoid duplicated functions and leverage further potential for optimisation.

Cross-divisional functions such as Internal Services and Information Technology have been combined and centralised to ensure that we offer high-quality services and leverage synergies in the interests of our customers. Dr. Mario Daberkow, the new Board of Management member with responsibility for IT & Processes, took charge of these issues with effect from 1 July 2013. In connection with the analysis and separation of activities for the holding company and the German market, this responsibility will be shared. Andreas Kiefer will take over Internal Services in the German market from 1 January 2014. The overarching, global IT function will remain in the holding company.

INTERNAL MANAGEMENT

The company's control variables are calculated based on IFRSs and presented in its internal reporting. The most important non-financial control variables are penetration, the volume of current contracts and new contracts. The key financial control variables are the volume of business, the deposit volume, the operating result, the return on equity and the cost/income ratio.

KEY CONTROL VARIABLES

	Definition
Non-financial key performance indicators	
Penetration	Ratio of new contracts for new Group vehicles arising from retail financing and leasing to deliveries of Group vehicles based on the fully consolidated entities of Volkswagen Financial Services AG
Current contracts	Number of contracts recognised in the reporting period at the reporting date
New contracts	Number of contracts recognised in the reporting period for the first time
Financial key performance indicators	
Business volume	Receivables from customers arising from retail financing, wholesale financing and leasing, as well as leased assets
Deposit volume	Customer deposits = sum of liabilities arising from deposits from the direct banking business, current wholesale accounts, the non-direct banking business
Operating result	Net income from lending, leasing and insurance transactions after provisions for risks and net commission income as well as general administration expenses and other operating income and expenses. Similar to the segment reporting, portions of net interest income, the other operating result and general administration expenses are eliminated.
Return on equity	Return on equity before taxes = earnings before taxes / average equity
Cost/income ratio	General administration expenses / net income from lending, leasing and insurance transactions after provisions for risks and net commission income

CHANGES IN EQUITY INVESTMENTS

The 50% equity investment by Volkswagen Bank GmbH in Global Mobility Holding B.V., which holds 100% of LeasePlan Corporation N.V., was sold to Volkswagen AG effective 22 January 2013 as part of internal restructuring of the Group. Fifty percent of this equity investment was previously deducted from core and supplementary capital in accordance with § 10 Para. 6 Sentence 1 No. 1 German Banking Act. The elimination of this deductible item results in a positive effect of € 1 billion on liable capital.

The purchase of a second leasing company in China in March 2013 expanded the offering for fleet customers in the capital Beijing.

The areas of cooperation between Volkswagen Financial Services AG and the Allianz Group in the field of motor vehicle insurance were largely consolidated in a separate company, Volkswagen Autoversicherung AG, whose shares are held by Volkswagen Financial Services AG and Allianz Versicherungs-AG through an intermediate holding company. Volkswagen Autoversicherung AG, which is headquartered in Braunschweig, commenced operations in Germany in April 2013.

In April 2013, together with its partner Pon Holdings B.V., Volkswagen Financial Services AG acquired a stake in the Dutch car-sharing market leader Collect Car B.V., which operates under the Greenwheels brand name. This equity investment is held by Kever Beheer B.V., Almere, 60% of which was acquired by Volkswagen Financial Services AG.

A joint venture was founded in South Africa on 5 August 2013. Volkswagen Financial Services AG holds 51% of the newly established company, while the joint venture partner, First Rand Investment Holding (FRIHL), holds the remaining 49%. Pilot operations at this company began in December 2013.

With the aim of strengthening the companies' equity, in the reporting year Volkswagen Financial Services AG increased the capital of Volkswagen Bank GmbH, Braunschweig, Germany, by € 200 million; that of OOO Volkswagen Bank RUS, Moscow, Russia, by approx. € 80 million; that of Volkswagen Financial Services Korea Co., Ltd., Seoul, South Korea, by approx. € 27 million; that of Volkswagen Autoversicherung Holding GmbH, Braunschweig, Germany, by approx. € 23 million; that of VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED, Chullora, Australia, by approx. € 17 million; that of VOLKSWAGEN MØLLER BILFINANS AS, Oslo, Norway, by approx. € 14 million; and that of VOLKSWAGEN FINANCIAL SERVICES SOUTH AFRICA (PTY) LTD, Sandton, South Africa, by approx. € 4 million. These measures serve to expand our business and support the growth strategy we are pursuing together with the brands of the Volkswagen Group.

There were no other significant changes in equity investments. For detailed disclosures please see the section on shareholdings pursuant to § 285 HGB and § 313 HGB at www.vwfsag.com/listofholdings2013.

Report on economic position

The global economy witnessed only moderate growth in 2013. In spite of this, the automotive industry reported a new record in new passenger car registrations worldwide. Volkswagen Financial Services AG's earnings increased year-on-year.

STILL LITTLE MOMENTUM IN THE GLOBAL ECONOMY

In 2013, the global economy grew at a slower rate than in the preceding year, slipping from 2.6% to 2.5%. The economic situation in the industrialised countries improved somewhat in the course of the year despite persistent structural impediments. Most of the emerging markets registered robust economic development. In spite of the expansionary monetary policy adopted by many central banks, inflation remained moderate on the whole.

Europe/Other markets

The gross domestic product (GDP) of Western Europe stagnated in 2013 after receding 0.3% in the previous year. Most of the euro zone countries of Southern Europe again showed negative rates of expansion in the reporting year, due among other things to the impact of the sovereign debt crisis, while the majority of Northern European countries recorded positive growth rates. Average unemployment across the euro zone continued to rise, reaching 12.6% (previous year: 11.8%), though the jobless figures were much higher in Greece, Portugal, Spain and Cyprus. The GDP growth rate in Central and Eastern Europe fell to 2.1% on average (2.4%), mainly due to muted development in Russia, where GDP edged up 1.6% (previous year 3.4%).

Economic growth in South Africa was 1.8% in the reporting period, down on the prior-year figure of 2.5%.

Germany

In 2013, the upbeat mood amongst consumers and the stable labour market were unable to compensate for the impact of the slowdown in the global economy on German economic growth: GDP rose by 0.5%, falling short of the prior-year figure (0.9%).

North America

In spite of higher consumer spending and lower unemployment, the US economy expanded by just 1.9% in the reporting year, compared with 2.8% in 2012. The US dollar remained volatile against the euro throughout the year, depreciating at the end of the year. Canada's GDP rose by 1.7% (1.7%).

Latin America

The GDP growth rate in Argentina climbed to 4.9% (1.9%), while Brazil's growth rate recovered and increased by 2.3% (1.0%). Structural deficits and high inflation rates put a damper on the economic situation of both countries. The Mexican economy expanded by just 1.3% (3.9%).

Asia Pacific

At 7.7% (7.7%), China's economic growth exceeded the target of 7.5% set by its central government. India's economy grew by 5.0% (5.1%), with structural problems and substantial price increases impacting on development. The expansion of the Japanese economy stabilised at 1.7% (1.4%) as a result of monetary and fiscal policy measures and the devaluation of the yen.

FINANCIAL MARKETS

Marked by a more expansionary monetary policy worldwide

The US Federal Reserve (Fed) continued its expansionary monetary policy that was accelerated by the QE3 (quantitative easing) programme. Due to the budget dispute in October, plans to gradually reduce the bond-buying programmes were postponed to 2014. An extremely expansionary monetary policy was also followed by the European Central Bank (ECB) and the Japanese Central Bank. This gave a particular boost to the equity markets in the industrialised countries, which were the recipients of much of the liquidity generated by the massive shift in investments from bonds to shares. As a result, the share indices in the United States and, to some extent, in Europe reached new record highs. New issues on the bond markets worldwide fell across the board in 2013. In the United States, this was due to a dwindling issue volume of government bonds. Around the world, financial institutions in particular are radically scaling back new issues of bonds.

Sector-specific environment

On the whole, the financial markets were caught between massive inflows of cash and fears that the central banks were about to abandon their low interest rate policy due to the emerging economic recovery. The real economy nevertheless remained in a weak state in 2013, particularly in the first half of the year.

Europe

Even though the crisis symptoms in the euro area re-appeared in the first six months of 2013 with the problems relating to public finance in Cyprus and the consequences of these for creditors, they had little effect on the financial markets. The interest rate spreads of European government bonds narrowed further. The support measures implemented to finance the national budgets of countries in Southern Europe and the ECB's cut of its key rate to 0.5% in May and to the historically low level of 0.25% in November 2013 played an important part in this. In addition, the euro zone emerged from recession in the second quarter of the year, though the pace of economic growth remained muted and the inflation rate diminished further. In this environment, the volume of new bond issues in the euro zone fell sharply in 2013. Although governments' gross issue volumes remained more or less steady, financial institutions in particular dramatically reduced issues of debt instruments. Banks focused mainly on debt servicing. In spite of low interest rates, euro zone companies outside the financial sector also scaled back their issue activity.

In 2013, the UK economy grew at a faster pace than the euro zone economy. The financial markets were in robust shape. The Bank of England's key rate, which had already been at a record low of 0.5% since 2009, was left unchanged. The gross volume of bond issues declined markedly in 2013.

Despite the weak economic climate, the Russian Central Bank pursued a somewhat restrictive monetary policy in view of the fact that the inflation rate exceeded the target corridor. The volume of new issues on the bond market decreased.

Germany

The federal government's borrowings were facilitated by Germany's low interest rates. Supported by the robust domestic economy and the high employment rate, tax income also continued to rise. The national budget again shows a slight surplus for 2013, while the level of debt fell in relation to GDP. This enabled the state's volumes of new issues to be reduced substantially. Germany's financial institutions also curtailed their new issue activity. By contrast, companies outside the financial sector made use of the low interest rates, significantly stepping up their issuance of debt securities.

North America

In 2013, the Fed spent USD 85 billion per month on buying up treasury securities and mortgage-backed securities on the capital markets in an effort to keep mortgage interest rates very low. The budget dispute in the United States led to a temporary government shut-down in October and rattled the financial markets. The budget compromise with a temporary lifting of the debt ceiling and a transitional budget initially deferred the problem until the beginning of 2014. Against this backdrop, the Fed announced its decision to continue its expansionary course into next year. However, in December 2013 it announced plans to reduce its monthly purchases of government bonds and mortgage-backed securities by USD 10 billion to USD 75 billion. On the whole, this stabilised the financial markets in the United States and around the world. The new issues on the US bond market were dominated by a decrease in Treasury securities and a further increase in corporate bonds to a new record high of USD 1,590 billion. Financial institutions raised their issue volumes slightly.

Latin America

Brazil's economic growth slowed in 2013 but was stabilised through government intervention. The devaluation of the Brazilian real also had a positive effect on exports. To keep inflation low and within the target corridor, Brazil's central bank raised its key rate in several stages. In this climate, the country recorded sustained inflows of capital. Compared with the previous year, however, the Brazilian bond market saw a sharp drop in new issue activity.

Alongside a moderate rise in inflation, economic growth in Mexico weakened perceptibly in 2013, prompting the central bank to cut its key rate in several stages to a record low. The government also introduced further structural reforms. Mexico's capital market initially suffered losses on the expectation that the US Federal Reserve would abandon its cheap money policy. The Fed's decision to extend its expansionary monetary policy into 2014 eased the pressure on Mexico's financial market, stemming the outflow of capital to some extent. The government benefited from the low local interest rate as well as from the low risk premiums and bonds issued with longer maturities.

Asia Pacific

The Chinese economy continued to lose momentum in 2013. The government had set a target of GDP growth of 7.5%. The International Monetary Fund (IMF) assumes that going forward the pace of growth in China will be slightly slower than in recent years. The Chinese government is redoubling its efforts to strengthen the domestic economy with lasting tax reforms. Economic stimulus programmes were categorically rejected. The country is also progressively deregulating its financial markets. Chinese monetary policy focused on promoting solid growth and the reforms, even though the – in some cases – sharp rise in the indebtedness of Chinese companies and surplus capacity presented major challenges. The money supply grew faster than the real economy, which restricted the liquidity supply via the interbank market with regard to interest rates. The volume of new issues on the bond market rose again in 2013, driven mainly by government issuers as well as companies outside the financial sector.

Similar to 2012, India's economy had to contend with a high rate of inflation and sluggish economic growth. Although the agricultural industry picked up perceptibly after the crop failures in 2012, the domestic economy remained weak, especially the manufacturing industry and the services sector. This was due to a tight monetary policy and only modest global economic growth. India's equity market moved higher in 2013 amid considerable volatility. Volumes of both government and private bond issues decreased in 2013.

Japan's government and central bank attempted to overcome the deflation with an expansionary fiscal and monetary policy. The Bank of Japan has an inflation rate of 2% in its sights. In 2013, the yen lost significant ground, stimulating exports. Japan's equity market received a significant boost. The favourable climate on the bond market enabled Japanese companies and financial institutions to increase the volume of new issues.

Overshadowed by North Korea's nuclear programme and the uncertainty about the Federal Reserve's monetary policy, South Korea's financial markets became increasingly volatile at times. The insolvency and liquidity crisis of two large companies also dragged down the corporate bond market. The volume of new issues decreased substantially.

In 2013, Australia's economy felt the effects of the slump in demand from Asia. Its traditionally strong raw materials industry was especially impacted by the slower growth in China. To counteract the economic slowdown, the Australian central bank cut its key rate to a record low of 2.5%, which pushed up inflation considerably. The new Abbott government elected in September also vowed to promptly repeal the carbon tax to stimulate Australia's internal market. While the volume of bond issues by the state and countries outside the financial sector soared in 2013, financial institutions in Australia issued lower volumes of bonds than in the preceding year.

GLOBAL REGISTRATIONS OF NEW PASSENGER CARS REACH NEW RECORD HIGH

In the 2013 financial year, demand for passenger cars rose worldwide by 5.0% to 70.1 million vehicles, surpassing the record level of 2012. Particularly the dynamic growth in China and the NAFTA region contributed to this increase. Global passenger car production rose by 5.6% to 74.6 million units in the reporting period.

Sector-specific environment

The established passenger car markets developed at very different rates in the 2013 financial year. Whilst some industrialised countries were persistently impacted by the sovereign debt crisis and its consequences, individual growth markets benefited from the continued robust demand.

The progressive penetration of the major markets of China and Brazil, the expansion of activities in India and the ASEAN region and the growing presence in Russia are still hugely important for the automotive industry.

Trade barriers were lifted in many Asian and African markets. However, it cannot be ruled out that governments will not again resort to protectionist measures in the event of a renewed downturn in the global economy.

Europe/Other markets

The number of new passenger car registrations in Western Europe during the reporting period fell short of even the low prior-year figure. At 11.5 million vehicles (-1.9%), the lowest level of demand in 20 years was recorded. However, the passenger car markets, which had been hit particularly hard by the effects of the sovereign debt crisis, stabilised at a low level in the second half of the year. Compared with the preceding year, demand declined in the large-volume markets of France (-5.6%) and Italy (-7.1%). In Spain (+3.3%), government sales incentives impeded a further slide in new vehicle registrations. In the United Kingdom, sustained strong demand among private customers generated market growth of 10.7%. At 53.1%, the market share of diesel vehicles (passenger cars) in Western Europe in 2013 was below the prior-year figure.

Demand in Central and Southern Europe dipped by 3.9% to 3.8 million vehicles. In Russia, which is by far the most important passenger car market in this region, the government subsidisation of auto loans introduced with effect from 1 July 2013 was also unable to halt the decline in demand, which contracted by 5.7% to 2.6 million vehicles. The new special tax on imported vehicles put a damper on sales of passenger cars. Overall, the Central European EU countries recorded a market volume of 0.8 million passenger cars, which was comparable to the previous year's figure.

In Turkey, sales reached a new record high in 2013 of 643,000 vehicles (+15.7%), due in particular to a sharp increase in the number of imported vehicles.

Sales on the South African market grew for the fourth consecutive year. New registrations rose by 3.4% in the reporting period to 455,000 units, mainly bolstered by the relatively low interest rates as well as sales incentives from manufacturers and dealers.

Germany

At 3.0 million units (-4.2%), the demand for passenger cars in Germany in the 2013 financial year was even lower than in the preceding year and was thus the second-lowest result since German reunification. Initial stabilisation trends began to emerge in the fourth quarter, however. In spite of an upbeat mood among consumers, restraint was exercised in new vehicle purchases. By contrast, the demand for used vehicles rose. Still, both domestic production of passenger cars (+1.0% to 5.4 million vehicles) and passenger car exports (+1.6% to 4.2 million units) were up slightly on the prior-year level and exceeded the comparable average figures for the previous ten years.

North America

Sales of passenger cars and light commercial vehicles (up to 6.35 t) in the Region North America surged in 2013. The total volume in the United States rose by 7.7% to 15.6 million units, mainly on the back of favourable credit terms from manufacturers and higher demand for replacements. In Canada, demand increased by 4.0% to reach a new record of 1.7 million vehicles.

Latin America

At 2.8 million units, demand for passenger cars in Brazil fell short of the all-time-high recorded in 2012 by 3.1%. The market continued to be propped up by government tax incentives, though this effect had a stronger impact in the preceding year. Imported passenger cars accounted for 17.0% of new vehicle registrations, down from 18.8% in 2012. By contrast, at 563,000, Brazilian vehicle exports were up by 26.5%.

With a 7.7% increase to 1.1 million units, the Mexican market exceeded the mark of 1 million new vehicle registrations last achieved in 2008.

Demand for passenger cars in Argentina rose by 8.9% in the 2013 financial year to a record volume of 640,000 units, the high level of inflation leading consumers to invest more heavily in material assets.

Asia Pacific

In 2013, the Region Asia Pacific saw its market expand by 8.6% to a new record high of 28.0 million units. The principal growth driver was the Chinese market, which for the first time since 2010 posted a double-digit growth rate of 17.0% to 15.8 million vehicles. The unexpectedly dynamic development was facilitated primarily by the robust macroeconomic environment in China, a large number of new passenger car models and the still comparatively low density of passenger cars.

For the first time since 2001, the Indian passenger car market fell short of the prior-year figure with a decrease of 6.7% to 2.4 million units. The weaker economic situation, persistently high financing costs and rising fuel prices were the main reasons for this downtrend.

In Japan, the number of new passenger car registrations in the 2013 financial year remained at the prior-year level with a total volume of 4.6 million vehicles (-0.1%). The encouraging trend in the Japanese economy had a positive effect on the vehicle market. In 2012, the Japanese market had still benefited from the strong backlog in demand resulting from the natural disasters in 2011 as well as from government subsidies.

WORLDWIDE DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP[1]

	VEHICLE DELIVERIES		
	2013	2012	Changes in %
Worldwide	9,730,680	9,275,683	4.9
Volkswagen Passenger Cars	5,932,308	5,738,417	3.4
Audi	1,575,480	1,455,123	8.3
ŠKODA	920,750	939,202	−2.0
SEAT	355,004	321,002	10.6
Bentley	10,120	8,510	18.9
Lamborghini	2,121	2,083	1.8
Porsche	162,145	59,513	172.5
Volkswagen Commercial Vehicles	551,908	550,156	0.3
Scania	80,464	67,401	19.4
Bugatti	47	31	51.6
MAN	140,333	134,245	4.5

1 Deliveries for 2012 have been updated to reflect subsequent statistical trends. Including the Chinese joint ventures. The Porsche brand's deliveries are included as from 1 August 2012.

OVERALL ASSESSMENT OF THE COURSE OF BUSINESS AND THE POSITION OF THE GROUP

In the view of the Board of Management of Volkswagen Financial Services AG, business developed positively in 2013. Earnings developed much better than forecast and were higher than in 2012.

Globally, new business developed positively during the year. With an increase in business volume, the rise in funding costs was disproportionately low due to favourable interest rates, among other things. Provisions for risks arising from lending and leasing business were up year-on-year, with margins remaining stable.

In the 2013 financial year, Volkswagen Financial Services AG boosted its business volume year-on-year – especially in Germany, the United Kingdom and China.

Volkswagen Financial Services AG also continued to enhance the leveraging of potential along the automotive value chain. As in recent years, we further intensified the integration of our financial services into the sales activities of the Volkswagen Group brands. The GO^{40} strategy launched in 2011 in conjunction with the vehicle brands was a key part of this process. By increasing penetration rates, we will especially boost customer loyalty and strengthen the dealer network through the creation of additional sources of income. In particular, integrating service and maintenance packages will further increase the contribution customers make to raising the Group's enterprise value.

The areas of cooperation between Volkswagen Financial Services AG and Allianz SE in the field of motor vehicle insurance were largely transferred to a separate company, Volkswagen Autoversicherung AG, whose shares are held by Volkswagen Financial Services AG and Allianz SE through a holding company. This company, which is headquartered in Braunschweig, commenced operations in Germany in April 2013.

The acquisition through Kever Beheer B.V., Almere, of Collect Car B.V., which offers car sharing in the Netherlands and Germany under the Greenwheels brand name, extended the overall product range of Volkswagen Financial Services AG in April 2013 to include "new mobility" services.

In addition, the product portfolio was expanded further in the Netherlands in conjunction with the Group's local importer Pon Holdings B.V. through the acquisition of PON Equipment Rental + Lease B.V., which markets leasing and insurance products for MAN trucks and buses.

The geographical expansion continued with the establishment of a joint venture in South Africa on 5 August 2013. Volkswagen Financial Services AG holds 51% of this company, while the joint venture partner, First Rand Investment Holding (FRIHL), holds the remaining 49%. Pilot operations at this company began in December 2013. By expanding its activities, Volkswagen Financial Services AG is endeavouring to intensify its financial services offering for customers of the Group.

DEVELOPMENT OF KEY CONTROL VARIABLES FOR FINANCIAL YEAR 2013 COMPARED WITH THE PRIOR-YEAR FORECAST

	Forecast for 2013	Actual 2013
Non-financial key performance indicators		
Penetration in %	> 24.3	25.8
Number of current contracts, in thousands	>7,977	8,848
Number of new contracts, in thousands	>3,074	3,518
Financial key performance indicators		
Business volume, in € million	>71,694	76,209
Deposit volume, in € million	>24,889	24,286
Operating result, in € million	>945	1,214
Return on equity, in %	> 12.0	14.9
Cost/income ratio	< 60	58

RESULTS OF OPERATIONS

The global economy witnessed only moderate growth in 2013. Nevertheless, Volkswagen Financial Services AG delivered a strong performance.

The operating result rose by 28.5% to € 1,214 million (previous year: € 945 million). In this connection larger volumes at stable margins from the lending and leasing business had a particularly positive effect.

The pre-tax result of € 1,315 million also clearly surpassed the previous year's level of € 992 million (+32.6%).

The return on equity therefore improved to 14.9% (previous year: 12.0%).

At € 3,261 million, the net income from lending, leasing and insurance transactions before risk provisions substantially surpassed the previous year's result due to the positive course of business in almost all regions.

At € 615 million, risk costs were higher than the previous year (€ 474 million). In the previous year, the method used to calculate provisions for indirect residual value risks underwent further refinement and the parameters used were adapted to reflect the changes in the market conditions. This one-off effect pushed up earnings by a total of € 68 million. Default risks arising for the Volkswagen Financial Services AG Group as a result of the crisis situation in a number of euro zone countries were accounted for by recognising valuation allowances, which increased by € 150 million year-on-year to € 348 million.

Net commission income was comparable to the previous year's figure.

At € 1,604 million, general administration expenses were higher year-on-year. Volume effects arising from the expansion of business as well as the implementation of strategic projects and compliance with stricter regulatory requirements are the main drivers in this connection. At 58%, the cost/income ratio (previous year: 60%) improved year-on-year. A total of € 67 million was allocated to provisions for legal risks.

At € 77 million, the net income from equity investments accounted for using the equity method was down € 70 million year-on-year. The decline is primarily due to an intra-Group restructuring of the 50% equity investment by Volkswagen Bank GmbH in Global Mobility Holding B.V., which holds 100% of LeasePlan Corporation N.V. and was sold to Volkswagen AG in January 2013. The sale generated income of € 32 million.

Taking into account the result from the measurement of derivative financial instruments and hedged items in the amount of € 8 million (previous year: € -134 million) and the remaining earnings components, result after taxes of the Volkswagen Financial Services AG Group was € 942 million (+29.4%).

The profit made by Volkswagen Financial Services AG in the amount of € 617 million based on its single-entity financial statements under the German Commercial Code was transferred to Volkswagen AG, the company's sole shareholder, under the existing control and profit transfer agreement.

With about 49.4% of the contract portfolio, once again the German companies generated the highest business volume, thus providing a solid and strong basis. They generated a pre-tax result of € 661 million (previous year: € 427 million).

Volkswagen Bank GmbH maintained its strong market position in 2013, supported by an attractive product range and the loyalty of customers and dealers alike. This enabled Volkswagen Bank GmbH once again to make a substantial contribution to the success of Volkswagen Financial Services AG.

In 2013 Volkswagen Leasing GmbH again managed to increase the number of leasing contracts year-on-year despite the intensely competitive market environment, thus also making a key contribution to the Group's profit.

In the motor insurance business, 2013 was dominated by the market entry of Volkswagen Autoversicherung AG. Since 1 April 2013, Volkswagen Versicherungsdienst GmbH has principally acted as an insurance broker for this new company. On account of the now diminishing contract portfolio from the original partnership with Allianz Versicherungs-AG and the slowly increasing contract portfolio arising from this new cooperation, the number of contracts in the portfolio is down slightly year-on-year. The product line of purchase price protection insurance continued to develop very positively in 2013, with the number of policies increasing more than twofold on the previous year.

Volkswagen Versicherung AG successfully concluded the financial year with a portfolio of 634,000 warranty insurance contracts in the German, French, Spanish, Italian, Czech and Swedish markets.

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

NET ASSETS AND FINANCIAL POSITION

Lending business

Receivables from customers plus leased assets – which represent the core business of the Volkswagen Financial Services AG Group – amounted to € 81.7 billion, and thus accounted for approximately 90% of the consolidated total assets.

The loan volume from retail financing increased by € 2.2 billion or 5.7% to € 40.3 billion in the year just ended. The number of new contracts amounted to 1,612,000, which was an increase of 12.2% compared to the previous year. This meant that the number of current contracts rose to 3,950,000 by the end of the year (+10.8%). With a volume of 2,033,000 contracts (+3.7%), Volkswagen Bank GmbH remained the largest Group company.

The loan volume in the wholesale financing business – which consists of receivables from Group dealers in connection with the financing of vehicles in stock plus equipment and investment loans – rose to € 11.1 billion (+2.8%).

Receivables from leasing transactions amounted to € 16.3 billion, which is an increase compared to the previous year (+6.4%). Leased assets also saw growth of € 1.1 billion, rising to € 8.5 billion (+14.3%).

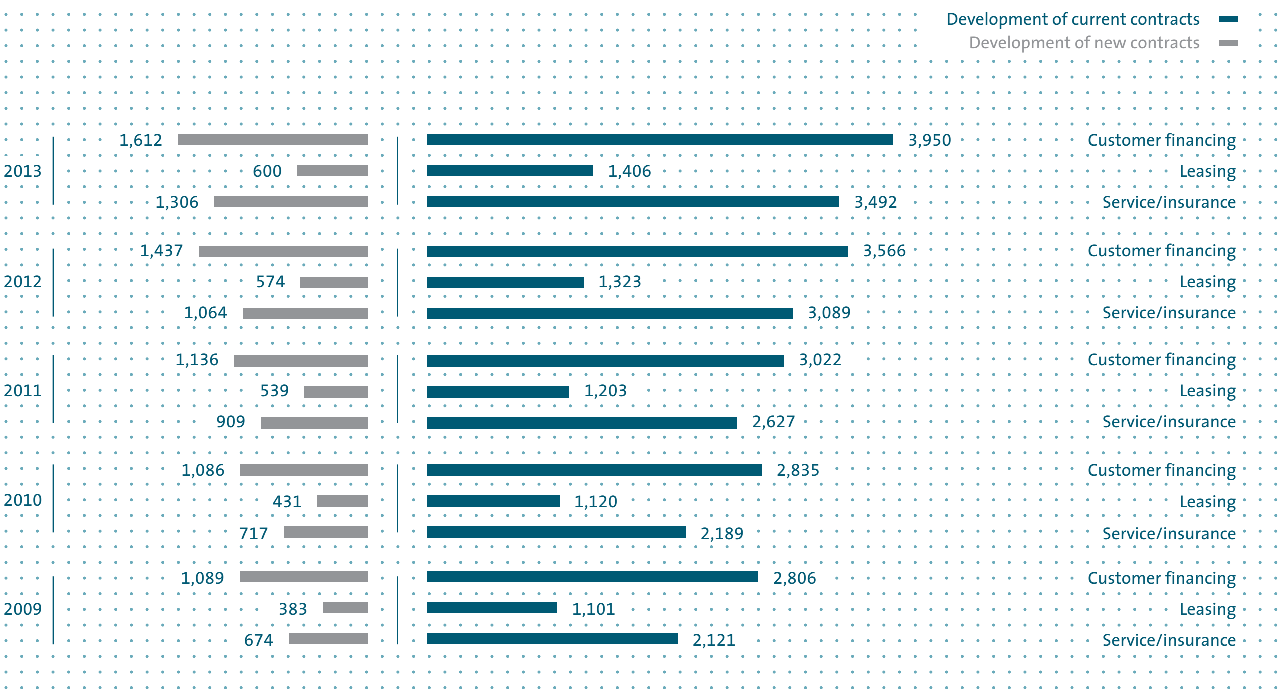
At 600,000, the number of new leasing contracts in the reporting year was up compared to the previous year (+4.5%). As at 31 December 2013, there were 1,406,000 leased vehicles in stock, which is an increase of 6.3% in comparison to the previous year. As in previous years, Volkswagen Leasing GmbH once again made the largest contribution to the Group, with a current contract level of 1,014,000 (+6.1%) leased vehicles.

KEY FIGURES BY SEGMENT AS AT 31 DECEMBER 2013[1]

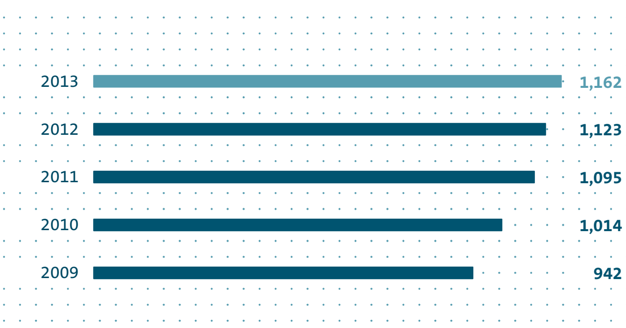
in thousands	VW FS AG	Germany	Europe	Asia Pacific	Latin America
Current contracts	8,848	4,374	2,719	628	1,126
Retail financing	3,950	1,513	1,096	513	829
Leasing	1,406	993	349	4	60
Service/insurance	3,492	1,869	1,274	111	238
New contracts	3,518	1,518	1,175	320	505
Retail financing	1,612	520	451	292	350
Leasing	600	429	146	1	24
Service/insurance	1,306	569	578	27	131
in € million					
Receivables from customers arising from					
Retail financing	40,284	16,299	11,906	5,331	6,748
Wholesale financing[3]	11,082	3,766	4,697	1,034	1,238
Leasing	16,298	12,262	3,403	175	458
Leased assets	8,545	6,179	2,362	1	3
Capital expenditures[2]	3,376	2,251	1,122	1	2
Operating result[3]	1,214	637	335	83	282
in %					
Penetration	25.8	55.8	45.1	8.3	38.2

1 The individual figures are rounded, which may result in small deviations when they are added.
2 Corresponds to the additions to non-current leased assets.
3 Holding and financing companies are included in the VW FS AG column.

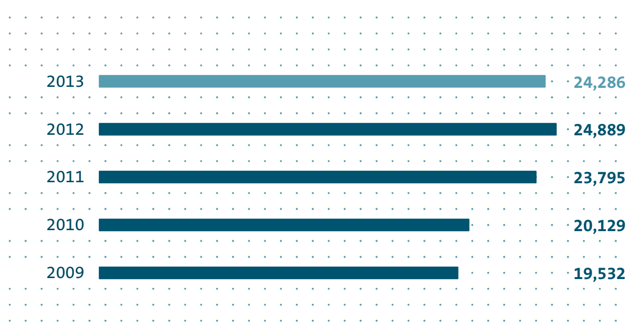
DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS AT 31.12.
in thousand contracts



DIRECT BANKING CUSTOMERS AS AT 31.12.
Lending and deposit business and borrowings (in thousands)



CUSTOMER DEPOSITS AS AT 31.12.
In € million



Compared to the previous year, the total assets of the Volkswagen Financial Services AG Group rose to € 91.0 billion (+4.1%). This increase is essentially due to the growth in receivables from customers (+5.0%) and leased assets (+14.3%), reflecting the expanded business in the year just ended. At the end of the year, the service and insurance contract portfolio contained 3,492,000 contracts (previous year: 3,089,000). At 1,306,000 contracts (previous year: 1,064,000), the volume of new business was 22.7% above the level of the previous year.

Deposit business and borrowings

With regard to the capital structure, significant items in liabilities and equity include liabilities to financial institutions in the amount of € 11.1 billion (-4.8%), liabilities to customers in the amount of € 33.7 billion (+8.3%), as well as securitised liabilities in the amount of € 31.5 billion (+8.0%). Details concerning the company's refinancing and hedging strategy are provided in a separate section of this management report.

At € 24.3 billion, the deposit business particularly of Volkswagen Bank GmbH, reported as part of the liabilities to customers, was down slightly year-on-year (-2.4%). With its level of deposits, Volkswagen Bank GmbH continues to be one of the largest direct banks in Germany. The bank had 1,162,000 direct banking customers (+3.5%) as at 31 December 2013.

Subordinated capital

The subordinated capital amounted to € 2.1 billion, which was below the previous year's figure (-20.7%).

Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at € 441 million in the 2013 financial year. IFRS equity was € 8.9 billion (previous year: € 8.8 billion). This yields an equity ratio (equity divided by total assets) of 9.8% relative to the total assets of € 91.0 billion.

Capital adequacy according to regulatory requirements and Basel III

International capital adequacy regulations require a minimum core capital ratio (frequently also referred to as "Tier I Capital") of 4.0% and an overall ratio of at least 8.0%. The requirements defined under the "Basel II" framework comprise three pillars: Minimum capital requirements (Pillar I), a supervisory review process to ensure that banks have adequate capital to support all the risks in their business (Pillar II), as well as disclosure requirements (Pillar III). Both Volkswagen Bank GmbH and the financial holding group have applied the provisions of the Solvency Regulation since 2007. In so doing, the bank and the financial holding group use the so-called standardised approach to determine capital adequacy in connection with credit risks and operational risks.

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

The risk-weighted position of the financial holding group in accordance with the standardised approach to credit as at the end of December 2013 was € 74.0 billion, a slight increase compared to the previous year (€ 68.5 billion). This increase is mainly due to the increase in business volume.

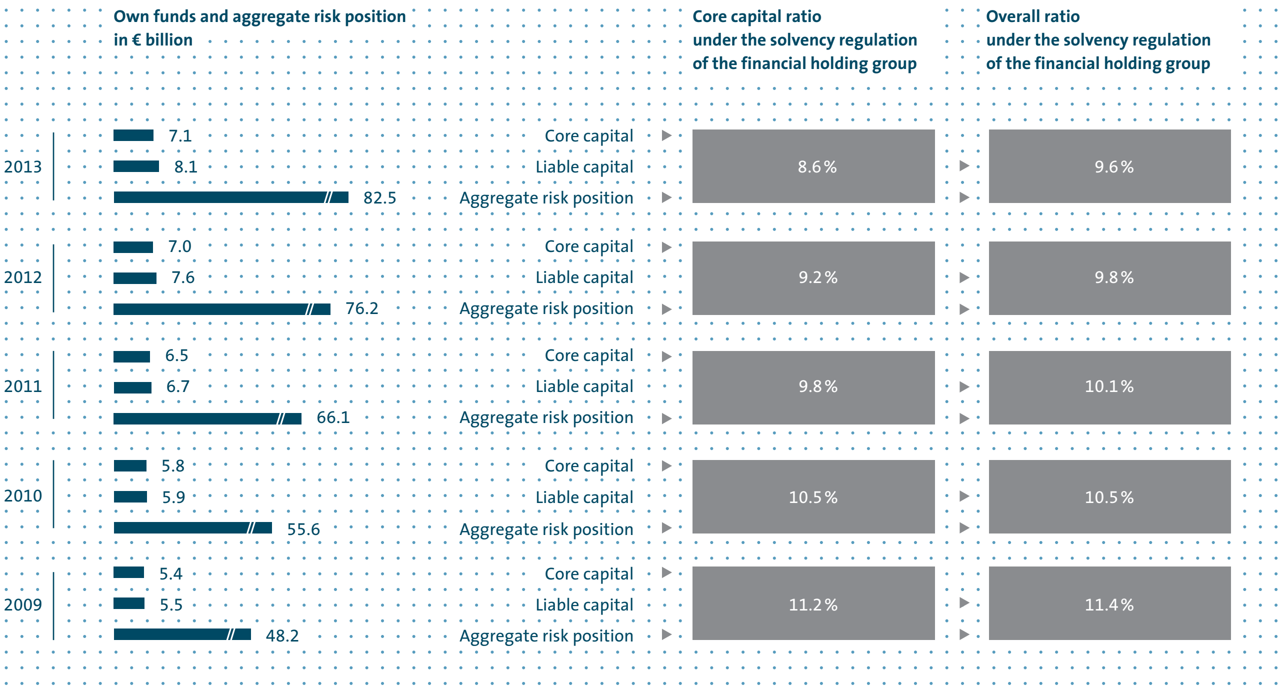
The following charts contain details regarding the composition of own funds and their changes compared to 2012 as well as the aggregate risk position:

OWN FUNDS AND AGGREGATE RISK POSITION

	31.12.2013	31.12.2012
Aggregate risk position (€ million)	82,549	76,198
of which weighted position according to the standardised approach to credit risks	73,987	68,487
of which market risk positions * 12.5	3,599	3,473
of which operational risks * 12.5	4,963	4,238
Liable capital (€ million)[1]	8,083	7,626
Modified available capital (€ million)[2]	7,961	7,470
of which core capital[3]	7,135	6,975
of which supplementary capital[3]	826	495
Own funds (€ million)	7,961	7,470
Core capital ratio (%)[4]	8.6	9.2
Overall ratio (%)[5]	9.6	9.8

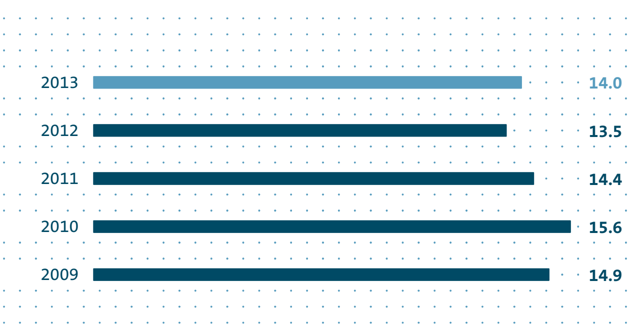
1 Calculation according to §10 Para. 2 Sentence 2 German Banking Act.
2 Calculation according to §10 Para. 1d Sentence 2 German Banking Act.
3 The deductible items are already deducted from core and supplementary capital
4 Core capital ratio = Core capital/ ((Capital requirement for counterparty risks + operational risks + market risks) * 12.5) * 100
5 Overall ratio = Own funds/ ((Capital requirement for counterparty risks + operational risks + market risks) * 12.5) * 100

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

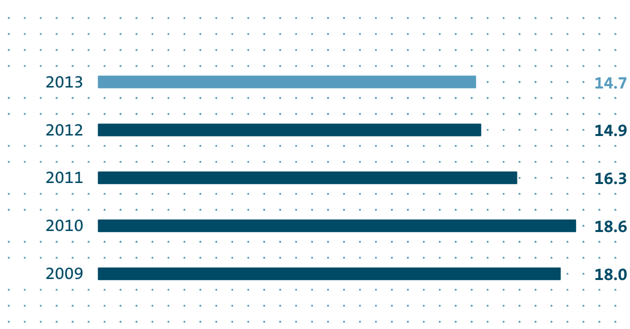


Given the significance of Volkswagen Bank GmbH, the charts below show the development of both the core capital ratio and the overall ratio of Volkswagen Bank GmbH:

CORE CAPITAL RATIO UNDER SOLVENCY REGULATION
Figures in %



OVERALL RATIO UNDER SOLVENCY REGULATION
Figures in %



Even with a rapidly increasing business volume and geographic expansion, the Volkswagen Financial Services AG financial holding group is in a position to secure adequate capital resources for itself mainly by receiving payments into its reserves from Volkswagen AG. In addition, ABS transactions are utilised to optimise its equity management. As a result, the companies belonging to the Volkswagen Financial Services AG financial holding group have a sound basis for the ongoing expansion of their financial services business.

The Basel Committee has published a new set of rules on the regulation of banks in response to the financial crisis. Besides stricter capital adequacy requirements and a leverage ratio, this comprehensive package of reforms known as Basel III for the first time contains concrete quantitative requirements in regards to liquidity risks that are intended to enhance banks' ability to weather crises.

The legal basis for implementing Basel III is provided by EU Regulation No. 575/2013 (CRR) and EU Directive No. 2013/36, both of which became effective on 1 January 2014.

Changes in off-balance-sheet commitments

The off-balance-sheet commitments increased by a total of € 122 million year-on-year to € 3,660 million as at 31 December 2013. The increase is mainly attributable to higher irrevocable credit commitments, which rose by € 166 million to € 3,367 million. This was offset by a decrease in liabilities from surety and warranty agreements from € 200 million in 2012 to € 111 million in 2013.

Liquidity analysis

The refinancing of the companies belonging to Volkswagen Financial Services AG is essentially executed using capital market and asset-backed securities programmes as well as the direct bank deposits of Volkswagen Bank GmbH. Volkswagen Bank GmbH has liquid reserves in the form of securities deposited in the collateral deposit account with Deutsche Bundesbank. Active management of the collateral deposit account, which enables Volkswagen Bank GmbH to avail itself of the refinancing facilities, has turned out to be an efficient liquidity reserve. In addition to bonds issued by various countries in the amount of € 1.4 billion, senior ABS debentures issued by special purpose entities of Volkswagen Leasing GmbH and Volkswagen Bank GmbH in the amount of € 4.7 billion have been deposited as security in the collateral deposit account. In addition, the company has access to a small number of standby lines of credit at other banks to protect it from unexpected fluctuations in cash flow. As a rule, standby credit lines are not utilised; they serve solely to secure liquidity.

Treasury prepares four different cash flow development statements to ensure adequate liquidity management, performs cash flow forecasts and determines the period for which cash will suffice. In the reporting period, liquidity measured in terms of its adequacy together with a simulated, limited refinancing arrangement and a partial discount of the overnight deposits amounted to at least 28 weeks.

Compliance with the liquidity coverage ratio prescribed by the Liquidity Regulation is a stricter prerequisite for managing the liquidity of Volkswagen Bank GmbH. It was between 1.9 and 3.0 from January to December of the reporting year and thus always substantially higher than the regulatory floor of 1.0. Treasury continually monitors this liquidity coverage ratio and actively manages it by imposing a floor for internal management purposes. Following the introduction of the new liquidity coverage ratio for Volkswagen Bank GmbH and the companies of the regulatory group of consolidated companies of Volkswagen Financial Services AG, liquidity management in 2014 will be based on this ratio.

The bridging of any liquidity requirements over a time frame of 7 and 30 days with a highly liquid liquidity cushion and a corresponding reserve, as required by the MaRisk for Volkswagen Bank GmbH and Volkswagen Leasing GmbH, was possible at any time, even under a variety of stress scenarios. Compliance with this requirement is determined and continually reviewed in the course of liquidity risk management. To this end, cash flows are forecast for the next twelve months and compared against the refinancing potential in the relevant maturity band. The resulting utilisation of the refinancing potential through liquidity requirements did not exceed 8% at any time in normal cases or 63% in the stress tests required by the MaRisk for Volkswagen Bank GmbH.

REFINANCING

Strategic principles

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

Implementation

In spite of the volatility on the markets, the refinancing situation in the past financial year was stable and all instruments could be used at the best possible terms. Furthermore, both the securitised and the non-securitised capital market activities were successfully rolled out internationally, enabling new markets to be developed.

In April 2013, Volkswagen Bank GmbH placed a dual tranche benchmark bond comprising a variable-interest tranche of € 750 million with a three-year term and a fixed-interest tranche of € 500 million with a term of just under five years.

Volkswagen Financial Services N.V., Amsterdam, was able to meet the liquidity requirements of the subsidiary in the United Kingdom with as many as three bond issues in sterling. In addition, Volkswagen Financial Services N.V. was active in other currencies to refinance national subsidiaries of Volkswagen Financial Services AG either directly or indirectly.

But other companies of the Volkswagen Financial Services AG Group also actively utilised the international capital markets for their local refinancing purposes in the reporting year.

Volkswagen Leasing S.A. DE CV, Puebla, issued MXN 2.0 billion bonds in Mexico in March and in September, each with a term of four years.

In Brazil, the success of the first issue in 2012 was repeated in June with the second publicly marketed "Letra Financeira" placed by Banco Volkswagen S.A., São Paulo, with a volume of BRL 500 million.

Also in June, VOLKSWAGEN DOĞUŞ TÜKETICI FINANSMANI A. S. placed its first issue in the local capital market in Turkey with a volume of TRY 100 million.

Volkswagen Financial Services Japan LTD, Tokyo, issued seven bonds with a total volume of JPY 19 billion.

In the area of asset-backed securities as well, the proven structures were successfully rolled out in two more markets. All of the transactions follow the global Volkswagen Driver standard.

In France, with "Driver France One", French auto loans with a volume of € 500 million were securitised on the local capital market for the first time in October.

In Australia, with "Driver Australia One", the Volkswagen financial services provider issued its first auto asset-backed securities transaction in November with a volume of AUD 500 million.

In Japan and Brazil, auto loans were securitised locally for the second time in a public ABS transaction with the successful "Driver Japan Two" transaction in February and the "Driver Brazil Two" transaction in November.

German receivables of Volkswagen Bank GmbH were successfully securitised in the amount of € 1 billion with the "Driver Ten" transaction in February and in the amount of € 750 million with the "Driver Eleven" transaction in July. The transactions of Volkswagen Leasing GmbH – "Volkswagen Car Lease 17" (VCL 17) in March and "Volkswagen Car Lease 18" (VCL 18) in October – of € 750 million each triggered strong market demand with low risk premiums. All German transactions fulfil the requirements of the TSI quality seal "CERTIFIED BY TSI – DEUTSCHER VERBRIEFUNGSSTANDARD". Furthermore, "Driver Japan Two", "Driver France One" and "Driver Australia One" also received the renowned TSI quality seal. This seal certifies that the securitisation transactions are deemed exceptional in the global securitisation market in terms of quality, security and transparency.

In 2013 a total of € 5.75 billion in receivables were sold worldwide by means of ABS transactions.

Customer deposits amounted to € 24.3 billion as at 31 December 2013 (-2.4%).

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

In the reporting year, the Investor Relations team briefed investors and analysts on the development of business and the refinancing strategy. Most of these events took place in Europe and Asia. Contact was maintained with over 200 investors and analysts at national and international investor meetings and conferences and in individual discussions. Current information and presentations were promptly published on the Investor Relations website at www.vwfs.com/ir.

Volkswagen Financial Services AG

DEVELOPMENT OF BUSINESS IN 2013

In the 2013 financial year our result from ordinary business activities was € 901 million.

Other operating income totalled € 712 million (previous year: € 689 million), with other operating expenses amounting to € 688 million (previous year: € 690 million).

These items include income from costs charged to Group companies and expenses from the cost transfer of personnel and administrative expenses.

Net income from equity investments income increased by € 398 million to € 1,059 million (previous year: € 661 million) due to the transfer of profits by all domestic companies except two. A dividend from a foreign investee amounting to € 12 million is also included in this figure.

The net profit of € 617 million after taxes will be transferred to Volkswagen AG pursuant to the existing control and profit transfer agreement.

The intangible assets reported under fixed assets totalling € 8 million declined by 7.7%, while property, plant and equipment increased by 21.6% to € 23 million. Financial assets were up slightly by 1.6% to € 10,410 million. The change resulted from capital payments to affiliated companies and investees of € 775 million, a capital repayment of € 605 million, write-ups of € 1 million and a decline in loans to affiliated companies of € 5 million.

Receivables from affiliated companies rose by € 534 million (64.9%). This was primarily due to the increase in receivables from profit transfer. Receivables from other investees or investors grew € 527 million (156.3%) and resulted mainly from term money and loans.

The increase in provisions by € 27 million (9.1%) is primarily due to personnel expenses of € 20 million.

Bonds increased by € 100 million, or 3.1%, year-on-year to € 3,300 million.

Liabilities to affiliated companies rose by € 1,036 million (41.2%), largely due to the assumption of loans. The equity ratio is 41.4% (previous year: 44.6 %). Total assets in the reporting year amounted to € 12,685 million.

NUMBER OF EMPLOYEES

Volkswagen Financial Services AG had a total of 5,125 employees as at 31 December 2013 (previous year: 4,774). The personnel turnover rate in Germany of <1.0% was significantly below the industry average.

Given the structure of the German legal entities of the Volkswagen Financial Services AG Group, the employees of Volkswagen Financial Services AG also work for the subsidiaries. At the close of 2013, 2,198 (previous year: 1,892) employees were leased to Volkswagen Bank GmbH, and 789 (previous year: 698) worked for Volkswagen Leasing GmbH. In addition, 340 (previous year: 585) employees were leased to Volkswagen Versicherungsdienst GmbH, 43 (previous year: 32) to Volkswagen Versicherungsvermittlung GmbH, 19 employees (previous year: 0) to Volkswagen Autoversicherung AG, 18 employees (previous year: 16) to Volkswagen Versicherung AG, and 2 employees (previous year: 1) to Financial Services Beteiligungsgesellschaft mbH.

Volkswagen Financial Services AG employed 128 trainees as at 31 December 2013.

INTERNAL MANAGEMENT AS WELL AS OPPORTUNITIES AND RISKS OF THE DEVELOPMENT OF BUSINESS OF VOLKSWAGEN FINANCIAL SERVICES AG

As a mainly pure holding company, Volkswagen Financial Services AG is integrated into the internal management concept of the Volkswagen Financial Services Group and is thus subject to the same control variables and the same opportunities and risks as the Volkswagen Financial Services Group. Here, the legal requirements governing the management of the legal unit Volkswagen Financial Services AG are taken into account using commercial law indicators such as net assets, excess of income over expenses and liquidity. We explain this internal management concept and these opportunities and risks in the section on the fundamental information about the Group (on pages 48 and 49) as well as in the report on opportunities and risks (pages 63 to 77) of this annual report.

INCOME STATEMENT OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG

€ million	1.1. - 31.12.2013	1.1. - 31.12.2012
General administration expenses	−155	−118
Other operating income	712	689
Other operating expenses	−688	−690
Net income from equity investments	1,059	661
Financial result	−27	−65
Result from ordinary business activities	**901**	**477**
Taxes on income and earnings	−284	−307
Profits transferred under a profit transfer agreement	−617	−170
Net income	**-**	**-**
Profit brought forward	2	2
Net retained profits	**2**	**2**

BALANCE SHEET OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS AT 31.12.2013

€ million	31.12.2013	31.12.2012
Assets		
A. Fixed assets		
I. Intangible assets	8	8
II. Tangible assets	23	19
III. Financial assets	10,410	10,245
	10,441	**10,272**
B. Current assets		
I. Receivables and other assets	2,240	1,232
II. Cash-in-hand and bank balances	1	256
	2,241	**1,488**
C. Prepaid expenses	**3**	**4**
Total assets	**12,685**	**11,764**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441	441
II. Capital reserve	4,709	4,709
III. Revenue reserves	100	100
IV. Net retained profits	2	2
	5,252	**5,252**
B. Provisions	**328**	**301**
C. Liabilities	**7,105**	**6,211**
D. Deferred income	**-**	**-**
Total equity and liabilities	**12,685**	**11,764**

Report on opportunities and risks

Volkswagen Financial Services AG continues to pursue its successful business model by taking a balanced approach to opportunity and risk management.

MACROECONOMIC OPPORTUNITIES

Anticipating continued global economic growth, the Board of Management of Volkswagen Financial Services AG expects a slight growth in the number of vehicle deliveries to Volkswagen Group customers and thus a sustained increase in global market share. Volkswagen Financial Services AG supports this positive trend through financial services products designed to boost sales.

STRATEGIC OPPORTUNITIES

In addition to maintaining its international alignment by entering new markets, Volkswagen Financial Services AG sees further opportunities in the development of innovative products that are aligned with customers' changed mobility requirements. Growth segments such as new mobility and service products (long-term rental, car sharing) are being tapped and expanded systematically. Further opportunities could be generated by introducing established products in additional markets.

If the interest rate structure in key currency areas continues to normalise, the outlook points to a boost in earnings.

OPPORTUNITIES ARISING FROM CREDIT RISKS

An opportunity can arise from credit risk if the loss incurred from a lending transaction is lower than the expected loss previously calculated. Especially in countries in which a conservative risk approach is followed due to an uncertain economic climate, there is a chance that the realised losses will be less than the expected losses if the economic situation stabilises, and borrower credit ratings improve as a result.

OPPORTUNITIES ARISING FROM RESIDUAL VALUE RISKS

When vehicles are disposed of, Volkswagen Financial Services AG may obtain a higher price than the calculated residual value if residual values are continually adjusted in line with current conditions and market values exceed expectations due to growing demand.

MATERIAL CHARACTERISTICS OF THE INTERNAL CONTROL AND THE INTERNAL RISK MANAGEMENT SYSTEM RELEVANT FOR THE FINANCIAL REPORTING PROCESS

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

- Given its function as the corporate body tasked with managing the company's business and in view of ensuring proper accounting, the Board of Management of Volkswagen Financial Services AG has established Accounting, Customer Service, Treasury, Risk Management and Controlling departments and has clearly delineated their respective spheres of responsibility and authority. Key cross-divisional functions are controlled by the Boards of Management of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Leasing GmbH.
- Groupwide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process.
- For instance, the accounting standards of the Volkswagen Financial Services AG Group – including the International Financial Reporting Standards – govern the accounting policies applied by the domestic and foreign entities that are consolidated in the Volkswagen Financial Services AG Group's annual financial statements.
- The accounting standards of Volkswagen Financial Services AG also govern concrete formal requirements that the consolidated financial statements must fulfil. They not only determine which companies to include in consolidation, they also fix the components of the reporting packages that the Group companies must prepare in detail. Among other things, these formal

requirements serve to ensure the binding utilisation of a standardised and complete set of forms. The accounting standards also contain specific requirements regarding the treatment and settlement of intra-group transactions and the reconciliation of accounts based thereon.

- At the Group level, specific elements of control designed to ensure the propriety and reliability of Group accounting principles comprise analyses and possibly revisions of Group companies' single-entity financial statements, with due regard for the reports submitted by the auditors or the discussions held with them to this end.
- All of this is supplemented by the clear delineation of spheres of responsibility as well as a variety of controlling and monitoring mechanisms. The aim is to ensure that all transactions are accurately posted, processed, evaluated and included in the company's financial accounting.
- These controlling and monitoring mechanisms are designed to be process-integrated and independent of processes. Hence automated IT process controls besides manual process controls (such as the "four-eyes" principle) comprise material components of the process-integrated activities. These controls are supplemented by specific Group functions of the parent company, Volkswagen AG, for example Group Controlling.
- Internal Audit is a key component of the controlling and monitoring system of the Volkswagen Financial Services AG Group. It regularly performs audits, both in Germany and abroad, of processes relevant to accounting as part of its risk-based audit procedures and directly reports its findings to the Board of Management of Volkswagen Financial Services AG.
- In sum, the existing internal controlling and monitoring system of the Volkswagen Financial Services AG Group is designed to ensure that the information on the financial position of Volkswagen Financial Services AG and the Group as at the 31 December 2013 reporting date is proper and reliable. No material changes were made to the internal controlling and monitoring system of Volkswagen Financial Services AG after the reporting date.

ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

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

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

As the superordinate credit institution of the financial holding group, Volkswagen Financial Services AG has set up a risk management system for the Group for identifying, assessing, managing, monitoring and communicating risks. The risk management 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. This structure enables the company to identify at an early stage trends that could endanger its continued existence so that suitable countermeasures can be introduced. In the past financial year, no material changes were made to risk management methods.

The adequancy of the risk management system is ensured with the appropriate procedures. On the first hand, the system is monitored on an ongoing basis by Group Risk Management & Methods and, on the other hand, the individual elements of the system are regularly reviewed in a risk-oriented manner by Volkswagen Financial Services AG's Internal Audit department and by external auditors during the audit of the annual financial statements.

Within Volkswagen Financial Services AG, the Chief Risk Officer (CRO) is responsible for risk management and credit analysis. In this capacity, he regularly reports the overall risk position of Volkswagen Financial Services AG to both the Supervisory Board and Board of Management of Volkswagen Financial Services AG .

Group Risk Management & Methods is responsible for the formulation of risk management guidelines, the development of methods and processes, the identification of potential risks, the analysis and quantification as well as the assessment of risks and the resulting determination of risk management measures. Group Risk Management & Methods also exercises a crash barrier role in the risk management organisation. This includes developing and maintaining risk management-related methods and processes as well as defining and tracking international parameters for the procedures used worldwide, particularly models for performing credit checks, calculating risk types and risk-bearing capacity and measuring collateral. Group Risk Management & Methods thus is responsible for the identification of potential risks, the analysis and quantification as well as the assessment of risks and the resulting determination of risk management measures. As a neutral and independent department, Group Risk Management & Methods reports directly to the Board of Management of Volkswagen Financial Services AG.

In short, ongoing risk monitoring, transparent and direct communication with the Board of Management and integrating newly acquired findings into operational risk management form the foundation for the best possible utilisation of market potentials based on the deliberate and effective control of the total risk of Volkswagen Financial Services AG.

RISK STRATEGY AND RISK MANAGEMENT

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

As part of its overall responsibility, the Board of Management of Volkswagen Financial Services AG has implemented a strategy process that conforms to the MaRisk as well as a business and risk strategy. The WIR2018 business strategy sets out the fundamental views of the Board of Management of Volkswagen Financial Services AG on key matters of business policy. It contains the targets for every key business activity as well as the steps required to achieve these targets. The WIR2018 business strategy also serves as the starting point for the creation and systematic determination of the risk strategy.

The risk strategy is reviewed annually based on the risk inventory, the risk-bearing capacity and legal requirements, adjusted as necessary and discussed with the Supervisory Board of Volkswagen Financial Services AG. The risk strategy sets out the key risk management objectives for each type of risk, taking into account the company's approach to business (business strategy), its current risk exposure, expected developments and the risk tolerance. Actions are taken to achieve these targets, and their effects are described. The achievement of targets is assessed annually. The causes of any deviations that arise are analysed and subsequently discussed with the Supervisory Board of Volkswagen Financial Services AG.

The groupwide risk strategy comprises all material quantifiable and unquantifiable risks. More extensive details and specifics concerning the individual types of risk are formulated in subrisk strategies and operationalised in the planning round process.

The Board of Management of Volkswagen Financial Services AG is responsible for the realisation of the groupwide risk strategy within Volkswagen Financial Services AG under its overall responsibility. After the resolution of the groupwide business and risk strategy, it will be communicated within the subgroup of Volkswagen Financial Services AG.

RISK INVENTORY

The objective of the risk inventory to be carried out once a year is to identify the main types of risk. For this, all known types of risk are analysed to determine whether they arise at Volkswagen Financial Services AG. In the risk inventory, the relevant risk types are analysed in greater detail and quantified, or unquantifiable types of risk are assessed for the purposes of an expert opinion and their materiality for the Group is subsequently determined.

The risk inventory performed on the basis of data as per 31 December 2012 showed that the quantifiable types of risk – counterparty credit risk, earnings risk, direct residual risk, market price risk, operational risk – and the unquantifiable types of risk – liquidity, reputation and strategic risk – qualify as significant types of risk. The indirect residual value risk and the underwriting risk were classified as non-material because they represent only a small proportion of the overall risk. Other existing subcategories of risk are taken into consideration in the above-mentioned risk types.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

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

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

Risk quantification is executed pursuant to the methodological recommendations of the Basel Capital Accord based on statistical models and supported by expert estimates. At banks, risks are normally assessed using the net method.

The material risks are quantified as part of the analysis of the risk-bearing capacity based on the going-concern approach with a general confidence level of 90% and an observation period of one year.

In addition, Volkswagen Financial Services AG uses a limit system derived from its analysis of risk-bearing capacity in order to specifically limit the risk coverage capital of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Leasing GmbH. Volkswagen Versicherung AG has its own limit system, which is oriented on MaRisk (VA).

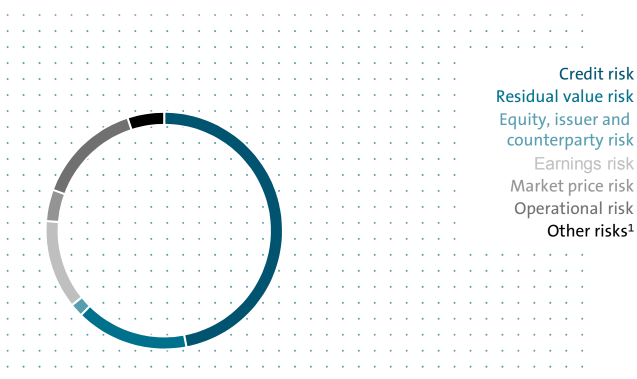
Establishing the risk limit system as the core element in capital allocation limits risks at different levels, thus ensuring the Subgroup's economic risk-bearing capacity. The risk taking potential is determined based on the available equity and income components, taking various deductible items into account. In keeping with the risk tolerance of the Board of Management of Volkswagen Financial Services AG, only a part of this risk taking potential is defined as the upper risk limit of an overall risk limit. In the next step, the overall risk limit is allocated to the risk types credit risk, residual value risk and market risk for purposes of monitoring and steering at the operating level. Furthermore, a system of risk limits has been put in place for these risks at the company level.

From 2014, limits will also be set for operational risk and liquidity risk. In addition, an aggregate limit will be implemented for the higher-level counterparty credit risk type, under which credit risk, shareholder risk, issuer risk and counterparty risk will be defined individually.

The limit system makes a management tool available to management such that it can fulfil its responsibility to manage the company's business strategically and operationally in accordance with statutory requirements.

The overall economic risk of Volkswagen Financial Services AG amounts to €2.3 billion and is distributed as follows across the individual types of risk:

DISTRUBUTION OF RISKS BY TYPE OF RISK
Figures as of 30.09.2013



1 Flat amount for non-quantifiable risks: liquidity risk, strategic risk, reputation risk

DEVELOPMENT OF RISK TYPES

	IN € MILLION		SHARE IN %	
	30.09.2013	31.12.2012	30.09.2013	31.12.2012
Risk types				
Credit risk	1,093	1,031	47	48
Residual value risk	359	346	16	16
Shareholder, issuer and counterparty risk	43	15	2	1
Earnings risk	282	221	12	10
Market price risk	100	77	4	4
Operational risk	334	334	14	16
Other risks[1]	116	107	5	5
Total	**2,327**	**2,131**	**100**	**100**

1 Calculated as a lump sum for non-quantifiable risks: Liquidity risk, strategic risk, reputation risk

As at 30 September 2013 the risk taking potential amounted to € 3.2 billion and was 71% utilised by the aforementioned risks. The maximum rate of utilisation of the risk taking potential in accordance with Pillar II was 71% during the period from 1 January 2013 to 30 September 2013.

Up to 31 December 2013, there were no indications of significant changes in the utilisation of the risk taking potential.

In addition to determining the risk-bearing capacity in a normal scenario, Volkswagen Financial Services AG also performs quarterly stress tests throughout the Group and across institutions, and reports the results directly to the Board of Management and Supervisory Board. The stress tests determine what effects extraordinary, but plausible, events could have on the risk-bearing capacity and financial strength of Volkswagen Financial Services AG. These scenarios serve to identify those risks at an early stage that would be particularly affected by the trends simulated in the scenarios so that timely countermeasures can be introduced, if necessary. The stress tests also account for historical scenarios (e.g. repeat of the 2008-2010 financial crisis) and hypothetical scenarios (e.g. worldwide economic downturn, sharp downturn in the Volkswagen Group's sales). These are complemented by so-called inverse stress tests in order to examine what events could expose the Group to a going-concern risk. The results of the inverse stress test did not indicate a necessity to update the measures already in place.

Based on calculations of risk-bearing capacity, all material risks that could adversely affect the net assets, results of operations or liquidity situation were sufficiently hedged at all times through the available risk taking potential. During the financial year, risk taking capital was kept below the overall internal risk limit. The stress tests performed do not indicate any need for action.

CONCENTRATIONS OF RISK

Volkswagen Financial Services AG is a manufacturer-associated automotive financial services provider (captive). Risk concentrations can arise to various degrees due to the company's business model, which focuses on promoting sales of the various Volkswagen Group brands.

For instance, concentrations of risk can be caused by an unbalanced distribution of a large share of loans.

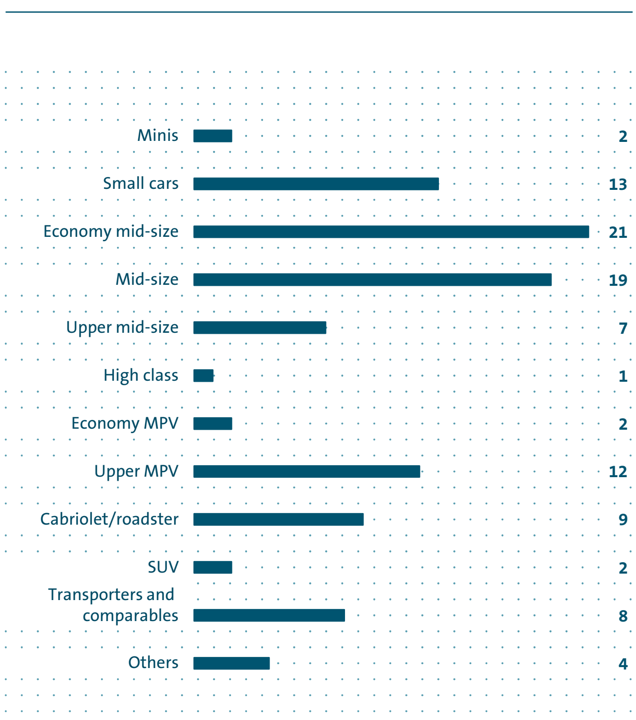
- to only a few borrowers (concentrations of counterparties),
- to only a few industries (concentrations of industries) or
- to companies within a geographically limited area (concentrations of regions) and
- when receivables are only secured with one or a few types of collateral (concentrations of collateral),
- a major portion of the risky residual values are limited to a few automotive segments and models (concentrations of residual value) or
- the income of Volkswagen Financial Services AG is only generated from a few sources (concentrations of income).

Volkswagen Financial Services AG's risk policy aims for broad diversification in order to reduce concentrations.

Concentrations of counterparties are insignificant for Volkswagen Financial Services AG because a large part of the lending business deals with small (retail) loans. Regarding regions, Volkswagen Financial Services AG's business is concentrated in the German market, but strives for broad, international diversification. However, industry concentrations in the dealer business are inherent to a captive finance company and are therefore analysed individually. It was determined that on the whole specific industries did not have a particular impact, even in downturns such as the recent economic crisis.

Concentrations of collateral are also unavoidable for captive finance companies, since vehicles are the dominant type of collateral due to the company's business model. Risks from concentrations of collateral can arise if negative price movements in used car markets or segments reduce proceeds from the disposal of collateral and, as a result, a decline in the value of collateral. However, with regard to the vehicles serving as collateral, Volkswagen Financial Services AG is broadly diversified (see chart below) across all automotive segments with a large range of various Volkswagen Group vehicle brands.

COLLATERAL STRUCTURE AS OF 30 SEPTEMBER 2013
Figures in %



Because of this broad selection of vehicles, there are no concentrations of residual value at Volkswagen Financial Services AG. A concentration of income arises per se due to the company's business model. The particular role as a sales promoter for the Volkswagen Group gives rise to dependencies that directly affect the development of income.

RISK REPORTING

Risk reporting is conducted quarterly in the form of an extensive risk management report which, like the stress tests, is sent directly to the Board of Management and the Supervisory Board. The starting point for the risk management report is the risk-bearing capacity due to its importance for the successful continuation of the company from a risk perspective. Also presented are the calculation of available risk taking potential, limit utilisation and the current percentage breakdown of overall risk by individual risk types. Moreover, Group Risk Management & Methods also reports in detail about credit, market price, liquidity, operational, residual value, shareholder and underwriting risks at aggregate and, to a large degree, at market level. In addition to a quantitative presentation of financial indicators, this includes a qualitative component comprising analyses of the current and expected situation in which recommendations for action are outlined, if necessary. Other risk type-specific reports are also produced. Regular reporting is supplemented as needed with ad hoc reports at Group level.

The information about structures and trends in the portfolios in the risk management report is continually refined and updated on an ongoing basis in view of current circumstances to maintain its high level of quality.

NEW PRODUCT- AND NEW MARKET-PROCESS

The New Product- and New Market-Process of Volkswagen Financial Services AG must be applied before new products are brought to market or activities are launched in new markets. All departments that participate in the process are included (e.g. Risk Management, Controlling, Accounting, Legal Services, Compliance, Treasury, IT). A written concept is prepared in which factors including the risk level of the new product are analysed and possible consequences for managing the risks are outlined. The product is approved or rejected by the responsible member of the Board of Management.

RISK TYPES

Risk of counterparty default

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

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

Credit risk

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

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

One target of systematic credit risk monitoring is to identify the possible insolvency of a borrower or lessee early on and, if necessary, taking timely measures to prevent a default as well as taking this into account within the provisioning policy.

The consequences of loan defaults include a loss of the company's assets, which would adversely affect the company's net assets, financial position and results of operations depending on the amount of the loss. If, for example, an economic downturn leads to increased inability or unwillingness to pay on the part of borrowers or lessees, increased write-downs will be required, which in turn adversely affects the operating result.

Risk identification and assessment

Volkswagen Financial Services AG bases its lending decisions on credit assessments of the given borrowers using rating and scoring methods, which provide an objective basis for the technical departments' decisions on granting loans.

Parameters for developing and maintaining rating systems are described in a working guideline. There is also a rating manual, which governs the application rating systems as part of the loan approval process. Similarly, the framework for developing, using and validating scoring procedures in the retail business is described in work instructions.

An expected loss (EL) and an unexpected loss (UL) are calculated at portfolio level for each company for the purpose of quantifying credit risks. The UL is equal to the value at risk (VaR) less the EL. This figure is quantified using an Asymptotic Single Risk Factor (ASRF) model in accordance with the capital requirements of the Basel Committee on Banking Supervision (Gordy formula) and takes into account the quality assessment of the individual rating and scoring procedures used.

Rating procedures in the corporate business

Volkswagen Financial Services AG assesses the creditworthiness of corporate customers based on rating procedures. The assessment includes both the key quantitative performance indicators from annual financial statements as well as qualitative factors – such as the outlook for future business development, the quality of management, the climate in both the market and industry, as well as the customer's payment behaviour. The credit rating procedure results in the customer's assignment to a rating class which is connected to a probability of default. Primarily a centrally maintained workflow-based rating application is used to support the assessments of creditworthiness. The result of the rating provides an important basis for decisions on the approval and prolongation of credit commitments and valuation allowances.

Scoring procedures in the retail business

Analysing the creditworthiness of private customers involves scoring systems that are integrated in the process for granting loans and managing existing loans which provide an objective decision-making basis for granting loans. These scoring systems utilise internally and externally available data on the borrowers and generally estimate the probability of default of the customer transaction requested based on several years of historical data using statistic methods. Deviating from the latter procedure, both generic and robust score cards and expert systems are used largely for smaller portfolios with lower risk exposures to measure the risk inherent in loan requests.

Depending on the portfolios' size and risk content, behavioural score cards as well as simple estimates at the risk pool level serve to classify the risk of the loan portfolio.

Control and review of retail and corporate procedures

The models and procedures controlled by Group Risk Management & Methods are regularly validated and monitored, adjusted as necessary and refined. This concerns the models and procedures for assessing creditworthiness and estimating the probability of default (such as rating and scoring procedures), loss given default and credit conversion factors.

Group Risk Management & Methods reviews the quality of the retail credit rating models and procedures supervised by the local risk management units abroad based on decentralised validations. In addition, when the need for action is identified, the unit develops measures in cooperation with the local risk management departments and monitors implementation of these measures. Validation refers in particular to checking whether the models are separable and calibrated in ways adequate to the risks. The treatment of corporate procedures is analogous. However, a centralised approach is taken to supervising and validating the procedures.

Collateral

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

The valuations in collateral guidelines are based on historical data and many years of expert experience. Automobiles, in their capacity as collateral, are material to this approach because the activities of Volkswagen Financial Services AG focus on financing customer purchases and dealer sales as well as vehicle leasing. For this reason, the development of vehicles' market values is monitored and analysed. Adjustments of the valuation methods and disposal processes are made in the event of major changes in these market values.

Group Risk Management & Methods also carries out regular quality assurance regarding local guidelines for collateral. This includes reviewing and, if necessary, adjusting the valuations for collateral.

Provision adjustments

Provision adjustments are determined based on the incurred loss model pursuant to IAS 39. They are calculated based on the performed rating and scoring processes.

Furthermore, where receivables are in default, a distinction is drawn between significant and insignificant receivables. Specific provision adjustments are recognised for significant receivables in default (loss identification pursuant to Basel II). In contrast, collective specific provisions are recognised for insignificant receivables in default (loss identification pursuant to Basel II). General provisions are recognised for receivables for which specific provisions have not been set up.

Over a period of twelve months, the following average values were determined for the entire active portfolio (i.e. portfolio not in default): For the probability of default (PD): 3.7%; the loss given default (LGD): 31.1%; and for the total receivable volume in relation to the active portfolio: € 73.7 billion.

Risk management and monitoring

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

Appropriate processes are used to monitor all loans in regards to the underlying economic conditions and collateral, compliance with limits, contractual obligations as well as both external and internal requirements. Commitments are subject to suitable controls (normal, intensive or problem loan monitoring) in accordance with their risk content. Furthermore, credit risks are also managed by applying Volkswagen Financial Services AG's reporting limits, which are determined individually for each company.

The portfolio is analysed with the help of the credit risk portfolio rating to monitor risks at portfolio level. This rating compiles various risk parameters into a single indicator to make the international portfolios of Volkswagen Financial Services AG comparable. In addition, in companies where problems are identified, risk reviews are conducted by Group Risk Management & Methods.

Development

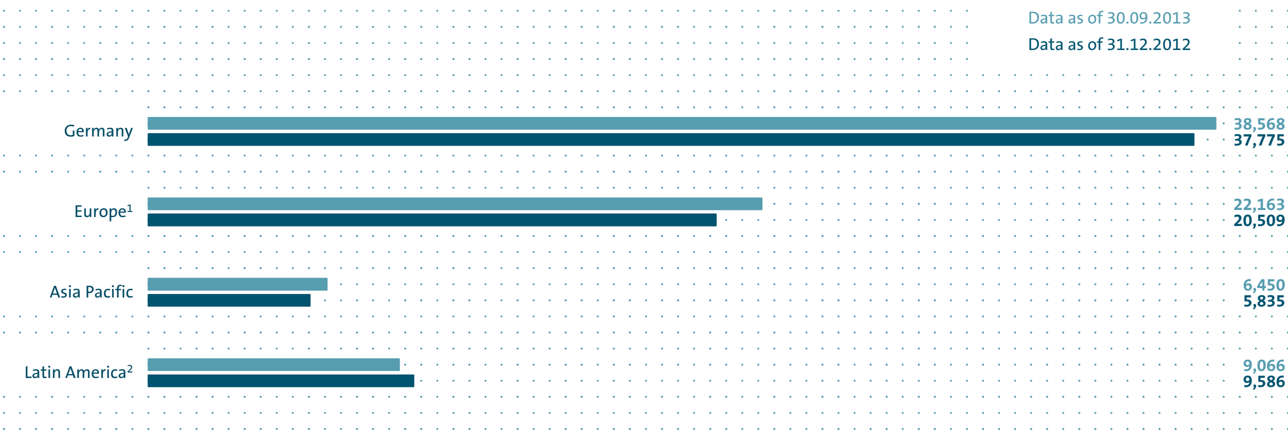
Retail portfolio

The sales promotion programmes implemented with the manufacturer in numerous markets and a stepped-up expansion of the fleet business have led to further growth in receivables in the retail business. The French market in particular benefited from these measures. Compared with the previous year, major growth drivers were primarily the German, UK and Chinese markets due to their stable vehicle markets. On the whole, risk in the portfolio remained relatively stable.

Corporate portfolio

Growth in the commercial borrower business slowed in the past year. The euro crisis and the severe downturn in vehicle markets are leaving their mark on European markets with lower sales targets and fewer loans extended at our dealers as a result. Overseas growth has continued for the most part with a stable risk situation, and we were able to continue to grow our large-scale leasing and fleet customer business. On the whole, credit risk remained mostly stable.

DISTRIBUTION OF CREDIT VOLUME BY REGION
in € million



1 Region Europe excluding Germany
2 Region Latin America includes the markets Mexico and Brazil

Counterparty/Issuer risk

Volkswagen Financial Services AG takes the counterparty risk to mean the risk that may arise from the loss of assets in connection with investments in money, securities or bonds because counterparties discontinue to repay the principal and/or the interest as contractually required. Similarly, issuer risk arises from the risk that the issuer of a financial product will become insolvent during the term of the product, resulting in the need to write down the invested capital including the expected interest payments in full or in part.

The counterparty risk arises from interbank overnight and term deposits, the conclusion of derivatives as well as the acquisition of pension fund shares for employee pensions. Issuer risks arise from the purchase of government bonds.

The primary target of counterparty and issuer risk management is the timely identification of potential defaults so that countermeasures can be introduced early, if possible. The objective is to restrict risk exposure to the approved limits.

If counterparty and issuer risks were to materialise, the consequences would be a potential loss of the company's assets, which would adversely affect the company's net assets, financial position and results of operations depending on the amount of the loss.

Risk identification and assessment

Counterparty and issuer risk are both included under counterparty credit risks. Both risk types are calculated using a Monte Carlo simulation to determine the unexpected loss (value-at-risk and expected shortfall) and the expected loss from a normal scenario as well as stress scenarios.

Risk management and monitoring

Volume limits for each counterparty and issuer are defined in advance to ensure effective management and monitoring. Daily compliance with these limits is monitored by Treasury. The volume limit amounts are based on an assessment of credit rating which is initially categorised and regularly reviewed by the Credit and Process Management department. Group Risk Management & Methods combines counterparty and issuer risks monthly, analyses them and communicates this information in the monthly market risk report as well as in the quarterly risk management report.

Country risk

Country risk comprises risks that arise in international business, which exist not on account of the contractual partner as such, but due to its head office being located abroad. As a result, political or economic crises or problems in the financial system as a whole of a country can, for example, lead to a stoppage of cross-border capital transfer services due to transfer difficulties resulting from governmental actions taken by a foreign state. Attention would have be paid to country risk in the Group, particularly in the case of funding and equity investments in foreign companies as well as in the lending business of the bank and leasing branches. However, due to the positioning of the Group's business, there is virtually no chance that country risks (e.g. exchange rate risks and legal risks) will arise.

Volkswagen Financial Services AG does not generally conduct any appreciable cross-border lending to borrowers outside of the group of consolidated companies. In principle, Volkswagen Financial Services AG is not involved in cross-border lending, with the exception of intercompany lending. The classic country risk approach is not applicable to intercompany lending, because if the aforementioned difficulties arise, financing provided to Group companies is extended, if necessary, with borrowings to guarantee continuation of strategic market activities. For this reason, setting up country or regional limits for the business as a whole, for example, to limit transfer risks, is not necessary.

Shareholder risk

Shareholder risk denotes the risk that losses with negative effects on the carrying amount of the equity investment might occur for Volkswagen Financial Services AG after contributions of equity capital or receivables similar to equity capital (e.g. undisclosed contributions) are made to an entity. Generally, Volkswagen Financial Services AG only makes equity investments in other companies that serve to achieve its own corporate targets and are commensurate with its long-term investment planning.

The consequences of the occurrence of shareholder risk in the form of a loss of market value or even loss of an equity investment would have a direct effect on the corresponding financial indicators. The results of operations and the net assets of Volkswagen Financial Services AG would be adversely affected by impairment losses recognised in profit or loss.

Risk identification and assessment

Shareholder risk is quantified by means of the carrying amounts of investments, a probability of default assigned to each equity investment, and a loss given default of 90% using an Asymptotic Single Risk Factor model. Moreover, stress scenarios with rating migrations (upgrade and downgrade) or complete losses of equity investments are simulated.

Risk management and monitoring

Equity investments are integrated in the annual strategy and planning processes of Volkswagen Financial Services AG. The company influences the business and risk policies of its equity investments through its agents on ownership or supervisory boards. However, responsibility for implementing risk management tools at the operating level rests with the appropriate business units.

Reinsurance risk

Reinsurance risk stems from the total or partial loss of receivables from reinsurers and retrocessionaires. At Volkswagen Financial Services AG, this risk exists primarily at the subsidiary Volkswagen Versicherung AG. Volkswagen Versicherung AG currently only assigns its portfolios in part, which limits reinsurance risk.

Furthermore, the target is to select only reinsurers and retrocessionaires whose external rating corresponds with a financial strength (FS) rating of “very good” to “good” to reduce reinsurance risk.

If a reinsurer or retrocessionaire falls below the minimum credit rating required, suitable protective measures must be taken as a consequence.

Risk identification and assessment

To identify its materiality, reinsurance risk is measured using a qualitative assessment of the risks by loss amount and the attendant probability of occurrence. This risk is quantified based on the current EIOPA Draft Technical Specifications on Solvency II.

Risk management and monitoring

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

Market price risk

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

The target of market price risk management is to keep losses of assets caused by this risk type to a minimum. Risk limits were agreed by the Board of Management to address this risk. If limits are exceeded, this is escalated ad hoc to the Board of Management and the Asset Liability Management Committee (ALM Committee). Risk-reduction measures are discussed and approved by the ALM Committee.

Managing risks includes transparently assessing market price risks in the monthly risk report using value-at-risk (VaR), offsetting these risks against the ceiling for losses of Volkswagen Financial Services AG and recommending results-oriented risk management measures.

Interest rate risk

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

The consequences of unforeseen interest rate changes mainly comprise interest rate losses due to the potential carrying of primarily long-term fixed interest rates. There is also a danger of losses, and therefore write-downs, of securities, which would have an adverse effect on the company's net assets, financial position and results of operations.

Risk identification and assessment
Interest rate risks are determined for Volkswagen Financial Services AG 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.

Whereas the VaR calculated for monitoring purposes serves to estimate potential losses under historical market conditions, future-oriented stress test scenarios are also run in which the interest rate positions are subjected to extraordinary changes in interest rates and worst case scenarios, and are subsequently analysed in terms of the at-risk potential using the simulated results. In this connection, changes in the present value are also quantified and monitored monthly using the +200 and - 200 basis points interest rate shock scenarios defined by the Federal Financial Supervisory Authority (BaFin).

The calculation of interest rate risks uses theoretical scenarios to account for early repayments under termination rights. The conduct of investors in connection with unlimited bank deposits is modelled using internal models and procedures for managing and monitoring interest rate risks.

Risk management and monitoring
Treasury is responsible for risk management based on the resolutions of the ALM Committee. Interest rate risks are managed in accordance with IFRS through interest rate derivatives at both the micro level and the portfolio level. The hedge accounting performed under IFRS is not taken over in the annual financial statements prepared in accordance with the German Commercial Code. Group Risk Management & Methods is tasked with monitoring interest rate risks and reporting on them.

Risk communication
A separate report concerning Volkswagen Financial Services AG's current exposure to interest rate risks is submitted to the Board of Management on a monthly basis.

Foreign currency risk

Currency risks arise in connection with numerical inconsistencies between foreign currency items shown in assets and in liabilities. However, such open currency items are permitted only in individual cases.

If foreign currency risks were to materialise, the consequence would be losses in all positions affected by a foreign currency.

Fund price risk

The risk from fund investments arises from possible changes in market price. It expresses the danger that the securities holding may lose value due to market price changes and therefore cause a loss to occur.

Volkswagen Financial Services AG incurs fund price risks in connection with the fund-based pension plan for its employees (pension fund). Volkswagen Financial Services AG and Volkswagen Bank GmbH have undertaken to meet these pension obligations in the event the fund can no longer satisfy our employees' guaranteed claims.

Additional fund price risks can arise indirectly from the capital investments of Volkswagen Versicherung AG. These investing activities are consistent with the investment guidelines adopted by the Board of Management, duly considering both the company's risk tolerance and the regulations of BaFin. All such investments aim to hedge reinsurance liabilities. For this purpose, all portfolios are regularly monitored and measured.

Development
On the whole, the market risks showed a stable development in the past year. The quantified risk remained within the set limits at all times.

Earnings risks (Specific profit/loss risk)

Earnings risks denote the danger of deviations from the targets for specific items in the income statement that are not covered by risk types described elsewhere. This includes the risks of

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

The objective here is to regularly analyse and monitor the risk potential associated with earnings risks in order to ensure early identification of deviations from targets and, if necessary, to initiate countermeasures. An occurrence of the risk would reduce profits and thus affect the operating result.

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

The relevant income statement items provide the basis for these calculations. The earnings risks are estimated based on the observed relative deviations from targets for one and by determining the volatilities and interdependency of the individual items for another. Both components are included in the EaR quantification.

Risk management and monitoring

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

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

Liquidity risk

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

Liquidity risk means the risk of not being able to fulfil payment obligations that are due in full or in timely fashion or – in the event of a liquidity crisis – of only being able to raise refinancing funds at higher market rates or only being able to sell assets at discounted market rates. This leads to the distinction between insolvency risks (day-to-day operational liquidity risk including call and maturity risk), funding risks (structural liquidity risk) and market liquidity risks.

The prime objective of liquidity management at Volkswagen Financial Services AG is to ensure the ability to pay at all times. For this purpose, Volkswagen Bank GmbH has liquid reserves in the form of securities deposited in its operational safe custody account with Deutsche Bundesbank. In addition, the company has access to standby lines of credit at other banks to protect it from unexpected fluctuations in cash flow. In principle, standby credit lines are not utilised; they serve solely to secure liquidity.

In the event that liquidity risk materialise, funding risk would result in higher costs and market liquidity risk would result in lower selling prices for assets – both would put downward pressure on results of operations. In the worst case scenario, the consequence of the risk of insolvency is insolvency due to a lack of liquidity, which liquidity risk management at Volkswagen Financial Services AG prevents.

Risk identification and assessment

Treasury bundles and evaluates the expected cash flows of Volkswagen Financial Services AG.

Liquidity risks are identified and recorded by Group Risk Management & Methods. These cash flow development statements are subjected to scenario-based stress tests using triggers specific to the credit institution itself, market wide triggers as well as combinations of them. The given parameterisation of these stress scenarios is based on two methods. On the one hand, historically analysed events are used, and the different degrees of hypothetically conceivable events are defined. To quantify the funding risk, this approach takes into account the material manifestations of the insolvency risk as well as changes in spreads that are driven by credit ratings or the market. On the other hand, Treasury also prepares four different cash flow development statements to ensure adequate liquidity management, performs cash flow forecasts and determines the period for which cash will suffice.

Risk management and monitoring

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

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

Operational risk

Operational risk (OpR) is defined as the risk of losses that arise from the inappropriateness or failure of internal processes (process risks), people (personnel risks) and systems (infrastructure and IT risks) or from external events (external risks). This definition includes legal risks.

Other risk types, such as reputation risks or strategic risks, are not included in the OpR definition.

The aim of OpR management is to transparently identify operational risks and to keep operational losses to a minimum. The consequence of the occurrence of an operational loss would be a loss of assets with the amount of financial damage varying widely depending on the case.

The approach for managing operational risks is laid down in the OpR strategy, and the OpR manual governs the implementation process and responsibilities.

Risk identification and assessment

Operational risks and losses are identified and assessed by local experts using the self-assessment and loss database OpR tools.

The self-assessment, which must be carried out at least yearly, comprises a standardised, technology-supported questionnaire that records and evaluates various risk scenarios by likelihood of occurrence and amount of loss. Losses incurred are recorded and assessed on an ongoing basis in the central loss database. The information documented includes the monetary loss, the course of the loss event and other background information.

Risk management and monitoring

Operational risks are managed by the companies/divisions based on the guidelines that have been put in place as well as the requirements applicable to the special units responsible for the special risk categories. That includes preventive management measures with regard to the risk potential identified in the self-assessment and countermeasures in the case of losses that have occurred.

Group Risk Management & Methods conducts plausibility checks of the assessments from the self-assessments and the reported losses, and monitors the full inclusion of all OpR divisions. In addition, the risk measurement methods and procedures used are regularly reviewed and updated as needed by this unit.

Furthermore, Group Risk Management & Methods issues regular reports and ad hoc announcements.

Development

The increase in operational risks in the past is due to factors including the business growth of Volkswagen Financial Services AG. Furthermore, training and efforts to raise awareness of the issue of operational risks led to improved documentation of losses. This is also reflected simultaneously in the estimates of future operational risk, which are based on the experience and expertise of the persons responsible locally. The insights gained from losses that have occurred allow potential risks to be estimated better and can also lead to the implementation of new scenarios.

Risk arising from outsourcing activities

Outsourcing means hiring another company (outsourcing company) to conduct activities and processes associated with services that would otherwise be performed by the company itself.

This does not include one-time or occasional procurement of third-party goods and services, or services that are typically obtained from a supervised company and, due to actual circumstances or legal requirements, usually cannot be performed either at the time of external procurement or in the future by the company outsourcing the work.

The aim of managing outsourcing risk is to identify and minimise the risks of all outsourcing. As part of outsourcing management and control intensities, measures are taken, if necessary, that monitor deviations from an identified risk and ensure that the original outsourcing risk situation can be reinstated.

Ultimately, a deviation from the calculated risk can lead to a mandatory change in service providers, or, if possible and strategically desirable, the outsourcing activity can be terminated. The activities in this case can be performed by the bank itself or are eliminated entirely.

Risk identification and assessment

Risk identification here is by means of a review of the circumstances and a risk analysis. The first step is to use the review of the circumstances to determine whether the planned activity constitutes external procurement or outsourcing. The risk analysis determines the level of risk inherent in an outsourcing activity using various criteria, and as a result the activity is deemed “non-material” or “material” outsourcing. Stricter control and management intensity is applicable to “material” outsourcing activities along with special and stricter contract clauses.

Risk management and monitoring

The risks arising from outsourcing activities are documented within operational risks. For effective management of these risks, general guidelines were drawn up stipulating the crash barriers for outsourcing processes. These guidelines require that a risk analysis has to be prepared before any outsourcing is undertaken to determine the risk in each case. This analytical process serves as a component of the crash barriers and ensures that sufficient management and control intensity is applied. The general guidelines also set out that all outsourcing activities must be agreed with Group Outsourcing Coordination department. This coordination office therefore has information about all outsourcing activities and the associated risks and also informs the Board of Management about these risks once a quarter.

Moreover, all risks arising from outsourcing activities are subject to risk monitoring and management by way of the operational risk loss database and the annual self-assessment.

Residual value risk

A residual value risk arises if the estimated market value of a leased asset at the time of disposal 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 through disposal.

Direct and indirect residual value risks are differentiated relative to the bearer of the residual value risks. A direct residual value risk is present when the residual value risk is borne directly by Volkswagen Financial Services AG or one of its companies (because of contractual provisions). An indirect residual value risk is present if the residual value risk has been transferred to a third party based on the guaranteed residual value (e.g. dealerships). The initial risk is that the counterparty guaranteeing the residual value might default. If the guarantor of the residual value defaults, the residual value risk is transferred to Volkswagen Financial Services AG.

The aim of residual risk management is to maintain risks within the agreed limits. If the residual value risk becomes significant, impairment losses are recognised, if necessary, which can adversely affect the results of operations.

Risk identification and assessment

Direct residual value risks are regularly quantified throughout the year in respect of both the expected loss (EL) and the unexpected loss (UL).

The change in the projected residual value one year ahead of contract expiry is measured at the sale price actually achieved (adjusted for losses and deviations from rated mileage) for purposes of quantifying the UL. In a first step, the change in value is analysed per individual contract and period. Given the size of the portfolios and the multitude of vehicles however, the systematic risk is so significant that, in a second step, the median change in value of the projected residual values is determined across several periods. The resulting deduction is determined using the quantile function of the normal distribution based on a prescribed confidence level.

The UL is determined by multiplying the current residual value forecast with the discount. It may be determined for each and every vehicle contained in the portfolio irrespective of the EL. Analogous to the EL, the portfolio's UL follows from the ULs of all vehicles and must be determined on a quarterly basis. The results of the quantification are used in the assessment of the exposure to risk, i.e. among other things assessments of the adequacy of the risk provisions as well as the risk-bearing capacity.

Indirect residual value risks are quantified for the purpose of determining the residual value risk analogous to the method used for the direct residual value risks; dealer defaults are also taken into account.

Risk management and monitoring

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

For direct residual risks, the adequacy of the risk provisions as well as the residual value risk potential are regularly monitored as part of risk management. Opportunities from residual values are not considered when recognising risk provisions due to the taken conservative approach.

Given risk distribution, the risks incurred may not always be hedged in full at the level of the individual contract due to the difference between the residual value curve (degressive) and the incoming payments curve (linear) during the term of the contract. As far as previously identified risks are concerned, in future the amounts of risk allocated to the residual term must therefore still be earned and recognised as impairment losses (in accordance with IAS 36).

The resulting residual value risk potential is used to take a variety of measures as part of proactive risk management in order to limit the residual value risk. Residual value recommendations regarding new business must take both prevailing market conditions and future drivers into account. For a comprehensive picture of the risk sensitivity of the residual value business, various additional stress tests for direct residual value risks are planned that will be conducted by experts along with central and local risk specialists. The indirect residual value risks of Volkswagen Financial Services AG or one of its Group companies are subject to plausibility checks and measured based on the amount of the risk and its significance.

As part of risk management, Group Risk Management & Methods regularly monitors the adequacy of the risk provisions for indirect residual value risks and the residual value risk potential. The resulting residual value risk potential is used to take a variety of measures in close cooperation with the brands and dealerships in order to limit the indirect residual value risk.

Development

Year-on-year, the volume in most markets rose in the period under review. This volume growth also causes a rise in residual value risks in total, although the risk per vehicle remained stable on the whole. In the European markets, residual values were still under pressure, mainly due to a shrinking vehicle market. However, the countermeasures introduced (e.g. stepping up the remarketing process, aligning residual values to the current new business market situation, etc.) are bringing first successes.

Underwriting risk

Insurance companies are inherently exposed to underwriting risks. At Volkswagen Financial Services AG, this risk principally resides with its subsidiary Volkswagen Versicherung AG. The underwriting risk arises when the payment streams material to the insurance business deviate from the expected value. Among others, this risk stems from the uncertainty whether or not the sum total of the actual claims payments will correspond to the sum total of the expected claims payments. In particular, an insurance company's exposure to risk resides in the fact that it collects the premiums at the inception of an insurance period whereas the contractually promised payments thereunder are random. In this context, a distinction is made between premium, reserve and catastrophic risks.

The business purpose of Volkswagen Versicherung AG is to support the sales of the Volkswagen Group's products. This is to be achieved through the warranty insurance business as the primary insurer and active reinsurance of portfolios. A Volkswagen Group subsidiary will act as a broker for other primary insurers.

The objective of underwriting risk management is not to avoid these risks entirely, but to manage them in a target-oriented, systematic way. Only predictable and workable risks are incurred.

If the total of actual claims payments is significantly higher than the premium determined, the portfolios' risk exposure must be reviewed.

Risk identification and assessment

To identify its materiality, underwriting risk is measured using a qualitative assessment of the risks by loss amount and the attendant probability of occurrence. This risk is quantified based on the current EIOPA Draft Technical Specifications on Solvency II.

Risk management and monitoring

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

Strategic risk

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

Likewise the strategic risk also encompasses all risks arising from the integration/reorganisation of technical systems, personnel and corporate culture. This may be rooted in fundamental decisions on the company’s structure, which management makes in respect of its positioning in the market. The objective of Volkswagen Financial Services AG is controlled assumption of strategic risks for systematic leveraging of earnings potential in its core business. In the worst case scenario, the occurrence of strategic risk could endanger the company's existence as a going concern.

Strategic risk is addressed quantitatively with a reduction in risk-bearing capacity.

Reputation risk

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

The responsibilities of the corporate communications department include avoiding negative reports in the press or similar reputation-damaging reports or, if this effort is unsuccessful, assessing and initiating adequate, target group-specific communication activities to limit the damage to the company's reputation as much as possible. The strategic target is therefore to avoid or reduce negative deviations of reputation from the expected level. Damage to the company's reputation or image can result in a direct effect on the financial success of the company.

Reputation risk is addressed quantitatively with a reduction in risk-bearing capacity.

SUMMARY

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

Risk-bearing capacity was assured throughout 2013.

The system was continuously refined in 2013 as well, for example, in methods and models, systems, processes and IT.

Volkswagen Financial Services AG succeeded in mastering the economic challenges existing in 2013, particularly in the Southern European states.

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

MATERIAL RISK FORECAST

Credit risk forecast

In 2014, we anticipate the economic environment in European markets to continue to be difficult. The ongoing sovereign debt crisis in Southern Europe is not expected to improve until 2015 at the earliest. Besides this, the nominal risk costs could also be influenced by the expected growth trend overseas and in Asia. On the whole, the risk situation remains unchanged and stable.

Residual value risk forecast

Driven by growth programmes and further expansion of the fleet business, residual value portfolios will continue to grow overall in 2014. In most European vehicle markets, the situation will remain unchanged again in 2014 on account of the still-difficult economic climate. The countermeasures taken, such as the adjustment of residual values in the new vehicle business, are expected to counteract the rise in risk levels.

Market price risk forecast

Considering an interest rate environment anticipated to stay stable and moderate volatility in exchange rates, the market price risk situation is projected to remain the same in the 2014 financial year.

Operational risk forecast

Due to the trends in operational risks and future business growth already presented in the risk reporting section, the forecast indicates a moderate rise in risks. In this context, it is assumed that the effectiveness of efforts to prevent fraud and maintain the level of quality of processes and employee qualifications will remain unchanged.

Report on post-balance sheet date events

Volkswagen Financial Services AG acquired MAN Finance International GmbH, Munich, as at 1 January 2014 and therefore expanded its financial services business with the addition of the leasing and rental activities of the MAN brand. This move is aimed at strengthening the company's financial services activities and thus promoting the sales targets in the MAN Truck & Bus business. The future use of the infrastructure, resources and expertise of Volkswagen Financial Services AG enables both further expansion of geographical coverage and the development of comprehensive transportation solutions for MAN Truck & Bus customers. The medium-term goal is to position MAN financial services as a sales promotion benchmark for the Truck & Bus business.

In addition, MAN Versicherungsvermittlung GmbH, Munich, was acquired by Volkswagen Versicherungsvermittlung GmbH, Braunschweig, as at 1 January 2014. The systematic consolidation of the industrial insurance brokerage business at Volkswagen Financial Services AG has spurred further optimisation of the service range and terms for intra-Group customers.

In January 2014, Volkswagen AG increased the equity of Volkswagen Financial Services AG by € 2,255 million on the basis of the anticipated business growth. With the aim of strengthening the companies' equity, in January 2014 Volkswagen Financial Services AG increased the capital of Volkswagen Bank GmbH, Braunschweig, Germany, by € 150 million; that of OOO Volkswagen Bank RUS, Moscow, Russia, by € 25 million; and that of Volkswagen Versicherungsvermittlung GmbH, Braunschweig, Germany, by approx. € 5 million.

Volkswagen Leasing GmbH issued a € 1.25 billion benchmark bond on 15 January 2014 and placed an asset-backed securities transaction (VCL 19) of € 0.75 billion on 30 January. Volkswagen Bank GmbH issued a € 0.75 billion benchmark bond on 6 February 2014.

No other important events occurred after the close of the 2013 financial year.

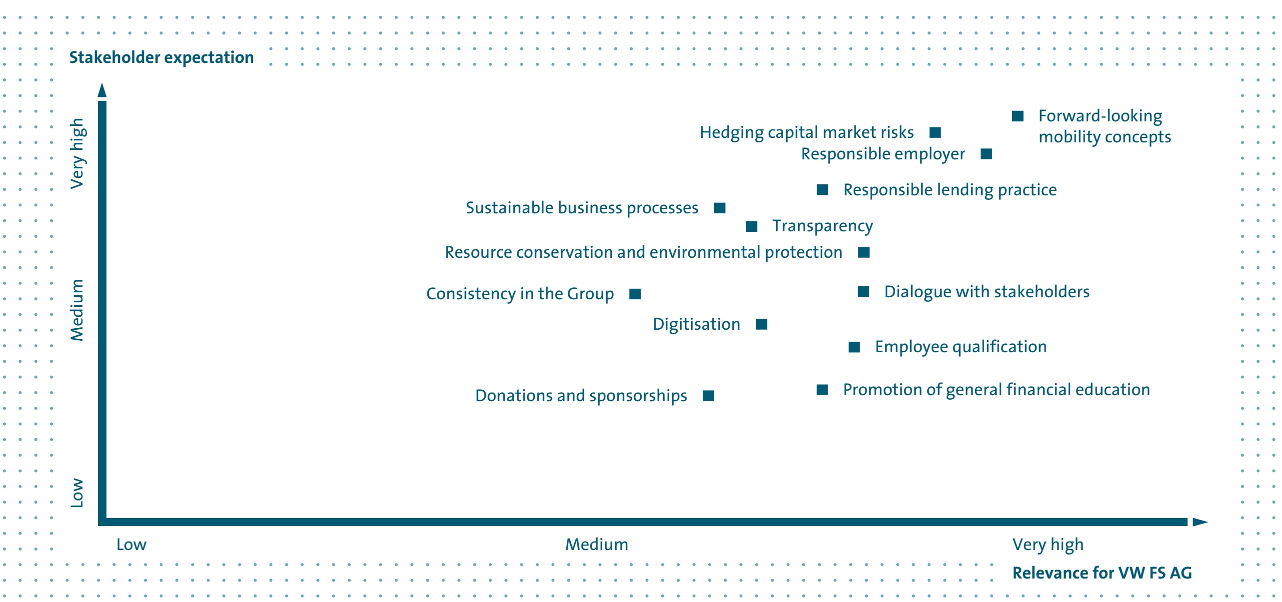
Corporate responsibility

At Volkswagen Financial Services AG corporate responsibility means taking environmental, economic and social responsibility in all areas of business – for our customers, for our employees and for society.

As a global financial services provider in the Volkswagen Group, we firmly believe that our business model can only be successfully implemented with sustainable and responsible action – now and in the future as well. We do not view sustainability and corporate responsibility as short-term trends; rather, we are certain that economic stability, responsible use of resources and social commitment contribute to our success. In order to achieve this ambitious goal, we act responsibly at all times and consider the economic, environmental and social effects of every decision we make. However, at Volkswagen Financial Services AG we assume responsibility to a degree that goes beyond compliance with statutory requirements (corporate governance). In our core business we include environmental aspects in the development of our products and create incentives for resource-friendly mobility. And beyond our products, we protect the environment through the energy-efficient management of buildings and technology, for example. Volkswagen Financial Services AG sees itself as part of society and promotes the health, develops the skills and encourages the social commitment of its employees as well as people in the region. Also outside its core business, Volkswagen Financial Services AG accepts its social responsibility and is committed to the region. By supporting and funding social projects, sporting activities and cultural events, it demonstrates how multifaceted responsible action can be. At Volkswagen Financial Services AG, corporate responsibility (CR) is much more than a collection of individual activities.

For this reason, with the aid of a stakeholder survey conducted in 2013 on the topic of corporate responsibility, the four action areas “people”, “environment”, “products” and “dialogue” were identified in 2013 for Volkswagen Financial Services AG and filled with content. The stakeholder survey generated the following materiality matrix for Volkswagen Financial Services AG:

MATERIALITY MATRIX



An overview of the measures that have been implemented in these action areas so far is provided below:

PEOPLE

Employees

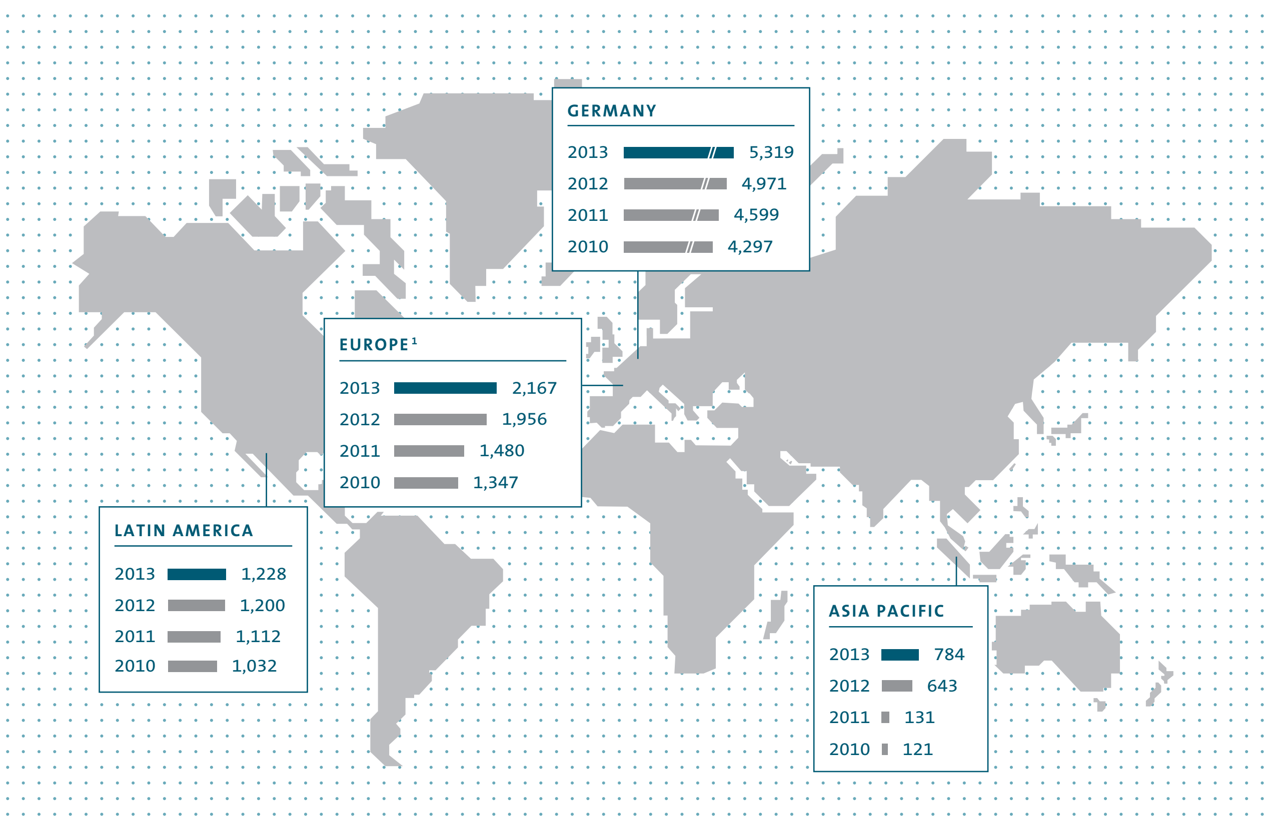
Our company's sustained success is only possible thanks to our employees' excellent work. For this reason, our personnel strategy is geared toward consistently attracting the best applicants to our company and taking a focused and systematic approach to promoting and developing employees in our company. Our WIR2018 strategy also entails continuing to establish ourselves as a TOP employer. Moreover, we fulfil our social responsibility by engaging in the region in a socially responsible way.

Our employees worldwide

The Volkswagen Financial Services AG Group had a total of 9,498 employees as at 31 December 2013 (previous year: 8,770). Of these, 5,319 (previous year: 4,971), or 56%, were employed in Germany and 4,179 (previous year: 3,799), or 44%, were employed at our international locations. The personnel turnover rate in Germany of less than 1% was significantly below the industry average.

In accordance with the substance-over-form principle, 286 employees of VOLKSWAGEN SERVICIOS SA DE CV, Puebla, Mexico, an unconsolidated company, are included in the overall personnel numbers.

EMPLOYEES – BY REGION
As at 31.12.



1 excluding Germany.

Our human resources strategy

Our employee strategy and its guiding principle, "We are a top team", support goal achievement in the four action areas of our WIR2018 strategy: "customers", "employees", "profitability" and "volume". Through specific skills development and the encouragement of commitment and satisfaction, our employees deliver first-class performance and impress our customers. We are consciously leveraging in-house talent as we strive to achieve our goal of becoming a TOP employer by 2018.

The talent programme launched in 2010 was continued in 2013. Since the launch of the programme, more than 100 talents in Germany in the three groups "young talent", "experts" and "up-and-coming managers" received individual guidance, supported by core modules for the individual talent groups. In the summer, an international talent summit was held for the members of the "management" talent group in which a total of 92 high-performing managers from 23 countries took part to build and expand their own personal and professional networks with colleagues from subsidiaries worldwide.

Volkswagen Financial Services AG already offers competitive and performance-based compensation. The introduction of the performance appraisal as part of employee performance reviews in Germany in 2011 has also added an individual performance-based component to the compensation of all employees subject to collectively agreed terms.

The internationally standardised Human Resources Strategy Card is the most important leadership tool for implementing our human resources strategy. We have used this strategy card to set clear goals for ourselves as an employer and for our employees and broken these down into specific individual targets. The achievement of targets is assessed annually in a global self-assessment. We measure the degree of maturity of our goal, "We are a top team", externally based on our participation in employer competitions as well as internally with the "mood barometer", our internal employee survey. The internal employee survey is already being conducted on a regular basis in 29 countries at our national subsidiaries.

Volkswagen Financial Services AG participated in the "Best Workplace in Germany" (Great Place to Work) employer competition for the sixth time in 2013 (for 2014). Our participation in 2012 produced the best possible result: first place in the category for companies with 2,001 to 5,000 employees. The results already available from the employee survey conducted as part of the benchmark study show a further improvement on the excellent ratings from 2011 (for 2012) and indicate that we have embarked on the right path for shaping our corporate and leadership culture. Likewise, in 2013 several international subsidiaries again participated in national employer competitions and derived measures to implement from the results of those surveys. The successful rankings as a TOP employer and the insights from the studies are important strategic parameters and indicators that help us to safeguard and further build on what we have achieved.

It is up to the foreign subsidiaries to implement the employee strategy internationally and locally. The international human resources department based at our headquarters provide support for our path to achieving top employer status by providing best practice examples in an HR toolbox. Moreover, sharing experiences is promoted at the international human resources manager conference held each year and in regional HR workshops.

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

The works agreement entitled "Leadership Principles" underscores executives' decisive responsibility for implementing our corporate strategy and the binding principles of the FS way.

An open and active feedback culture constitutes a material factor for improving our corporate culture, customer focus, work climate and performance. The standardised "Internal Customer Feedback on Customer and Service Focus" and "Employee Feedback on Executive Leadership Qualities" feedback tools support the ongoing development of our corporate and leadership culture as defined in the FS Way. Both tools are important building blocks for achieving the company's strategic goals in terms of acting on its employee strategy in Germany. The "Employee Feedback on Executive Leadership Qualities" survey helps managers and executives to analyse their own executive leadership qualities as they relate to the FS values based on employee assessment of their current personal position. The "Internal Customer Feedback on Customer and Service Focus" feedback tool offers the business units that have no contact with external customers the opportunity to call on all internal employees as customers of the business unit in question to fill out a quantitative and qualitative online survey to express their degree of satisfaction with the focus on customers and service using defined criteria. Both of these tools were implemented in 2013 for the second time. The principles and aims of both tools were defined in works agreements.

Human resources planning and development

In 2013 we hired 44 new trainees/students of Welfen Akademie and Leibniz-Akademie, two universities of co-operative education that offer dual-track courses of study leading respectively to a Bachelor of Arts and a Bachelor of Science. The trainees/students, who were chosen from a total of 1,548 applicants, include 20 banking professionals, 11 specialists for insurance and finance and 13 IT technicians.

As at 31 December 2013, a total of 128 trainees and dual-track students were employed with us in Germany for the duration of the apprenticeship programmes and in all occupational groups. A female trainee/dual-course student of Volkswagen Financial Services AG was given the Best Apprentice Award as the year's best trainee by Volkswagen Group Academy yet again. Five additional trainees were honoured by the Braunschweig Chamber of Commerce and Industry as the best graduates in their professional training programme. As in the previous year, one bachelor thesis was nominated for the "Marketing Lion" award. Immediately following the completion of their training, in 2013 four trainees/students from Welfen Akademie were given the opportunity to broaden their horizons in a 12-month assignment abroad. This "Years abroad" programme is designed for trainees and dual-track students who have completed their apprenticeship and studies with above-average credentials and development potential. Furthermore, three trainees from Volkswagen Financial Services AG participated in the Monument Preservation project for the first time, spending a week working at the memorial in Auschwitz with preparation and follow-up.

In 2013, an additional "automotive competence" qualification was added to the commercial apprenticeship to ensure that vocational training at Volkswagen Leasing GmbH meets the needs of sales, the dealers and the brands. In total, 43 trainees successfully transitioned into jobs in the reporting year.

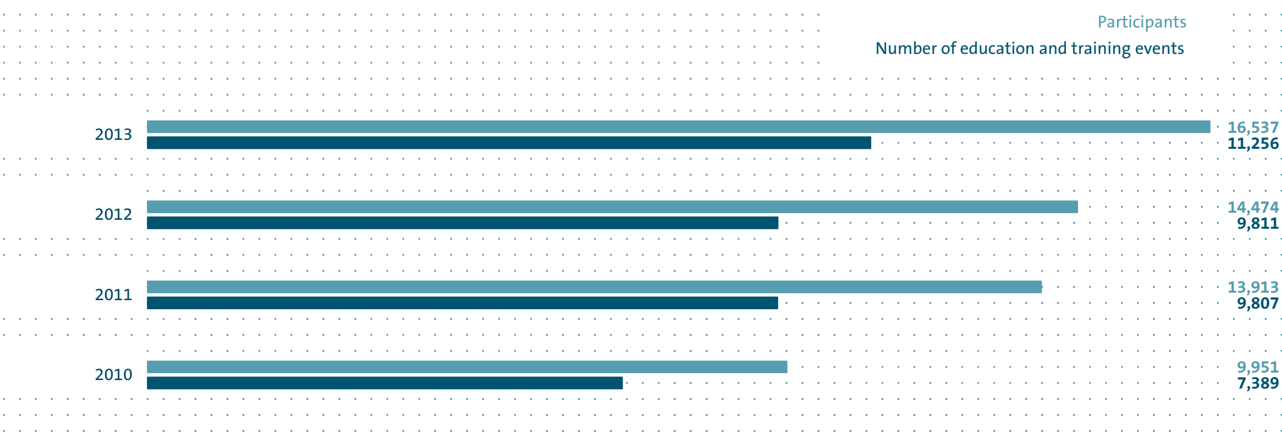
To continue to secure highly qualified, committed employees for our company going forward, Volkswagen Financial Services AG has a strict concept for recruiting and retaining young academics. Partnerships with selected universities provide a fixed framework for this. For example, in addition to the existing partnerships with Harz University of Applied Sciences, Ostfalia University of Applied Sciences and Braunschweig University of Technology, a partnership agreement was signed with the Institute of Insurance Economics at the University of Leipzig. By awarding "Deutschlandstipendien" (scholarships in Germany jointly funded by the federal government and private sectors), Volkswagen Financial Services AG supports students at an individual level. The number of scholarships awarded was increased to 13 in 2013.

The objective of these activities is to enable students to participate in an internship or work-study programme, thus encouraging them to work directly for or join the trainee programme at Volkswagen Financial Services AG. The 12-month development programme, which takes place both at home and abroad, further prepares the ground for ensuring the company's viability in future. We also implemented the student talent pool at Volkswagen Financial Services AG in 2013 with the aim of ensuring the development of promising young academics through their early identification, nurturing, long-term retention and recruitment as part of a forward-looking student talent management programme at Volkswagen Financial Services AG.

In 2013, Volkswagen Financial Services AG founded the FS Academy for the financial services family with the slogan "Erfolg braucht Kompetenz" (Success requires expertise). The FS Academy promotes systematic, specialist training in all automotive financial services offered by the Group: banking, leasing, insurance, mobile services and FS-specific risk management. The objective of the FS Academy is the consolidation, coordination and target group-oriented alignment of internal and external specialist training activities. Similar to our parent company, Volkswagen AG, we have been implementing the concept of training in job families since 2012. This reorientation of training has three core elements: skills development, professional skills management and the integration of experts from the financial services family as teachers. Amalgamating training and work processes, integrating the knowledge of departmental experts and developing additional forms of learning are elementary tasks. To identify the need for training in the individual departments, skills profiles are created (bottom-up approach) and strategic training conferences are held (top-down approach). Each employee's need for qualifications is determined in the annual employee performance review, and suitable measures aimed at developing their competence are agreed upon with them. Many employees in Germany obtained their qualifications at the internal training centre, which offers a broad technical and professional range of seminars and workshops. These training programmes are closely aligned with the company's products, processes and systems. The high volume of employee qualifications from the previous year was surpassed in 2013: overall more than 11,000 training events with more than 16,000 participants were organised.

One example for meeting our internal demand for experts is the successful two-year leasing specialist training programme in collaboration with both Welfen Akademie and the Braunschweig Chamber of Commerce and Industry. Continued development of employees' competence also focuses on refining their marketing skills and their consciousness of the customer- and service-based nature of our business.

EDUCATIONAL AND TRAINING PROGRAMMES
As at 31.12.



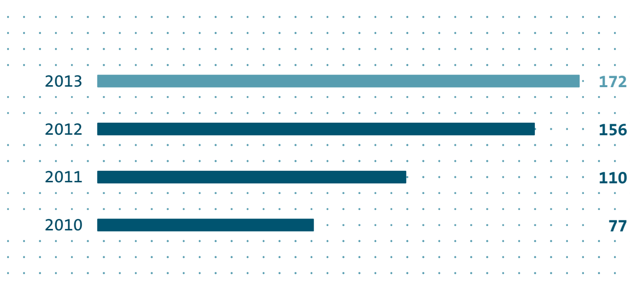
We conduct a standardised procedure for performance target meetings with all managers worldwide analogously to our parent company Volkswagen AG. In these discussions, we not only set goals for the coming financial year, but also evaluate the degree of target achievement for the year ended and the manager's performance in terms of professional skills, leadership and cooperation as well as entrepreneurial thinking and action. The performance appraisal along with the degree of target achievement is the basis for determining personal bonuses. At the same time, the assessment of the manager's potential lays the foundation for our management planning.

Internationally, we continued to work on broad-based introduction and optimisation of Group standards. One focal point of our international human resources activities in 2013 was to consolidate a uniform management selection process in all companies. We also began to roll out the leadership licence, a development programme for acquiring relevant leadership skills followed by certification at international level.

2013 also marked the end of the fourth General Management Programme, which systematically prepares future country managers to assume these responsibilities. The eleven participants in the programme received training over a period of almost six months in five different modules. Some of the participants are already working as country managers.

Those attending the Business Campus Week – first-liners from all national subsidiaries – were given the opportunity for a second time to obtain information about specialist topics of strategic importance. The international "FS Way Leadership Training" module also focuses on the definition of leadership within Volkswagen Financial Services AG, taking into account the FS values and the promotion of a positive leadership and feedback culture. This module, which is aimed at country managers and those who report to them directly, was implemented in two more regions in 2013. The total of 172 foreign assignments and thus yet another increase by more than 10% clearly reflects the internationalisation of our business model.

ASSIGNMENTS
as at 31.12.



Raising the percentage of women in the company

Women constitute 51.1% of the workforce of Volkswagen Financial Services AG – a level that is not yet reflected in leadership positions. We have made it our goal to raise the number of women in executive positions to 30% to lasting effect. It was against this backdrop that special personnel marketing measures aimed at women were initiated and executed successfully in this year.

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

In 2013, the percentage of women at the management level of Volkswagen Financial Services AG Germany was 10.2% in upper management and 17.2% in management. Internationally, the percentages were 12.5% in upper management and 25.8% in management. Regular reporting makes the progress of this matter transparent for the Board of Management.

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

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

Diversity

Besides promoting women in targeted ways, the diversity concept has been an integral part of our corporate culture since 2002. This is reflected in the findings of the employer benchmark study entitled "Great Place to Work". Volkswagen Financial Services AG set a clear signal in 2007 by signing the Diversity Charter and reaffirmed its commitment in the past financial year by participating in the first German Diversity Day.

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

Health and family

As necessary and taking into account the target group, we raise the topic of promoting health as early as the trainee stage, while human resources managers bring this message to the individual departments.

One of our most important tools is the "FS CheckUp", which is available to all employees free of charge and upon request during working hours. This programme includes state-of-the-art medical diagnostic procedures. On the one hand, the check-up reflects employees' current health and, on the other, it puts the focus on the promotion and maintenance of health for the long term thanks to personalised advising.

Special coaching, events and workshops on all relevant issues are designed to identify employees' health problems as early as possible in order to counteract these risks in timely fashion through a multitude of comprehensive and integrated steps. All health management measures are already aligned with demographic developments. We are continuously refining our integrated approach to health as necessary. For instance this includes implementing new approaches to issues such as "active relaxation break" and "identifying stress factors".

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

The "Frech Daxe" (cheeky kids) children's house – Volkswagen Financial Services AG's child care centre run by Impuls Soziales Management GmbH & Co. KG – celebrated its five-year anniversary in 2013. The child care centre is located immediately adjacent to our offices and is without equal in Germany in terms of the number of spots available (180) and flexible hours it offers. Both the response to and the capacity utilisation of the children's house are excellent. Children aged a few months up to children starting school can be cared for between 7:00 a.m. and 8:30 p.m. in a total of ten groups. We also offered to care for school kids during the summer holidays.

The children's house has already received several awards: The German Choir Association gives its Felix Award to kindergartens that are particularly active in the field of music and carry out exemplary work in it. The "House of the Little Researchers" Award is a national brand that is bestowed by the Network of the Braunschweig Research Region. In addition, Niedersächsischer Turner-Bund awarded the centre the designation "Bewegungskinderstätte" (a label that recognises child care centres for offering exercise and sports activities).

Education and mobility

Since 2013, Volkswagen Financial Services AG has sponsored My Finance Coach Stiftung GmbH in conjunction with other partners. This initiative aims to show children and adolescents ways and opportunities for living independent, self-determined lives and to impart practical skills for handling money. Interested employees from partner companies are trained as finance coaches and, in teams of mixed couples, visit school classes at lower secondary level in a voluntary capacity to teach students about complex issues and handling money and finances independently with the help of illustrative materials.

The "Bus Project", in which Volkswagen Financial Services AG gives children, teenagers and senior citizens the opportunity to view works of contemporary art in the art museum for 16 weeks per year by providing free transport, has been running for more than ten years. Since its launch in 2002, over 50,000 school students and around 7,000 senior citizens have visited the exhibitions.

Social and regional responsibility

Volkswagen Financial Services AG has sponsored selected non-profit projects throughout the region for many years. Our employees volunteered at the Braunschweig campaign day "Brücken bauen – Unternehmen engagieren sich" (Building bridges – companies get involved) for the seventh time. In 2013 we were again able to support three social service institutions due to our large number of volunteers. Our selected projects benefited children and parents, seniors and the mentally disabled.

Established by Volkswagen Financial Services AG in December 2008, the non-profit foundation "Our Children in Braunschweig" focuses on socially disadvantaged children. It substantially intensified its commitment to hot-button social issues in Braunschweig, the site of the company's headquarters, thus underscoring its deep roots in the region. We supported the foundation with a sizeable donation once again in the reporting year. True to the motto "Together we are making Braunschweig's children strong. Strong for a promising future!", employees of Volkswagen Financial Services AG are being motivated to contribute their money, time and ideas. For example, regular donations are collected in voluntary fundraising efforts at sporting events, anniversary and Christmas parties as well as via the monthly workplace giving initiative "1 for All".

Six institutions – three child care centres, two primary schools and one lower secondary school – currently receive needs-based support in education, healthy nutrition, physical education and early instruction in music. The focus is on the sustainable projects that were established many years ago, including the varied, healthy daily breakfast and the acquisition of the "nutrition passport" that helps to promote vital nutrition education. The swimming classes offered during school holidays aimed at getting children to swim in and under water without fear have enjoyed brisk demand and are very successful. In addition, existing projects, such as music education for all and music in child care centres, are being co-financed to a large degree by the foundation, for example through the purchase of the necessary musical instruments. An interactive circus in which children spend a week of their holidays having daily classes in juggling, acrobatics and clowning, designed to promote enjoyment of movement and increase their self-esteem, was added to the funding programme in 2013.

Volkswagen Financial Services AG also carries out donation drives at regular intervals. The so-called "May Employee Donation" benefited one social institution in the region. The monthly "Remaining Cent Donation" is given to the Terre des Hommes campaign, "One Hour for the Future". The workforce's second donation drive to collect donations in kind for the second-hand department store Fairkauf was also very successful. On the World AIDS Day in December 2013, the company collected donations for Braunschweig's AIDS Relief charity. As part of the Xmas campaign "Donations Instead of Gifts", which was initiated in 2010, in the financial year just ended the company dispensed yet again with presenting gifts to business partners, donating a certain amount of funds to the foundation, "Our Children in Braunschweig", instead. The Works Council's Xmas tree wish list campaign in collaboration with a number of social institutions has also become an integral part of employees' activities as volunteers. It enabled each employee to fulfil the Xmas wish of a socially disadvantaged child.

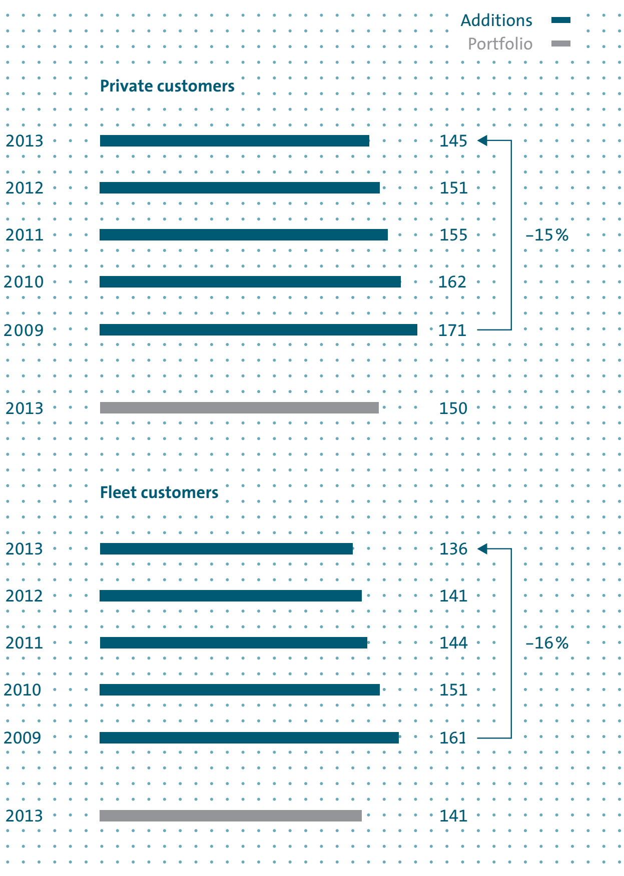
Volkswagen Financial Services AG focuses its sponsoring activities on long-term commitments in the fields of sports, culture and social issues in the Braunschweig region. In sports, among other things we act as the exclusive partner for Eintracht Braunschweig football club, as the premium sponsor and payment partner for VfL Wolfsburg football club and as jersey sponsors for Braunschweig's first division basketball club, New Yorker Phantoms. Our cultural activities enable such events in Braunschweig as the International Film Festival Braunschweig or the event known as "Classics in the Park" where the State Orchestra of Braunschweig's State Theatre gives a free concert in a park. Aside from the aforementioned foundation, we also assume social responsibility in connection with projects such as the "Gemeinsam-Preis" (Together Prize) of the Braunschweiger Zeitung, which aims to get people to engage as citizens.

THE ENVIRONMENT

Environmental programmes

At Volkswagen Financial Services AG, environmental protection is a key component of long-term sustainable action, which is why, when developing new products, we consider not only the profitability of the products but also their impact on the environment. One example of this is Volkswagen Leasing GmbH's environmental programme in cooperation with NABU, the German Nature and Biodiversity Conservation Union. This programme received the ÖkoGlobe award in 2010 and a "Landmark in a Land of Ideas" prize in 2012. The joint cooperation with NABU is also having a positive effect on our figures: since the inception of the cooperation, the number of particularly environmentally friendly vehicles in the portfolio of Volkswagen Leasing GmbH has climbed to about 283,859 (12/2013). In addition, average CO_2 emissions in all vehicle deliveries to fleet customers of Volkswagen Leasing GmbH have fallen by 14% in the last 4.5 years.

DEVELOPMENT OF CO_2 EMISSIONS AMONG NEW CONTRACTS
Average CO_2 emissions in g/km



Volkswagen Leasing GmbH's cooperation with NABU will be stepped up in a joint project for the protection of bogs, because as a large store of CO_2 these play a fundamental role in environmental and climate protection. The foundation of the German Fund for the Protection of Bogs in 2011, which will receive € 1.6 million in funding from Volkswagen Leasing GmbH up to 2016, has enabled a large number of bog protection projects to be implemented, among them the "Lichtenmoor" project in the district of Nienburg/Soltau-Fallingbostel. In this nature conservation project, dry sections of the moorland were successfully rehydrated. Some of the revenue supplied by customers of the Golf Blue-e-Motion trial fleet from the Hanover region in the form of user frees was invested in the renaturation of the Lichtenmoor.

Another project currently being implemented is the improvement of the water balance (renaturation) of the Königsdorfer Weidfilz bog in the Bavarian district of Bad-Tölz-Wolfratshausen, one of the areas in Bavaria with the highest proportion of moorland (11%). Our goal in 2014 is to expand our climate protection programmes for financing products and services for environmentally friendly vehicles in the retail business.

Introduction of an environmental management system

Even as a financial services provider, we constantly endeavour to conserve resources in our own operations and to increase our energy efficiency. We are looking to introduce a certifiable environmental management system (EMS) in 2014, for which we will establish specific measurement criteria and review the environmental impact of our processes.

Sustainable facility management

Sustainable facility operation is a key aspect of our corporate responsibility activities. Sustainability is very much at the forefront in both new constructions and renovation projects. This is primarily supported by a living, integral planning process through which construction costs below the benchmark are achieved. In this process we also consider the follow-up costs, i.e. in particular the operating costs, which facilitates sustainable planning. Such an approach enables us to comply with the standards set by the DGNB, the German Sustainable Building Council, to obtain the necessary certificates.

In the 2013 reporting year, the issues of acoustics in open-plan offices and lighting technology were particular areas of focus in new buildings and renovation projects. Utilising the latest technologies, such as a water cooling system that uses ground water and a night-time air purging system for improved air quality, is one of the tasks involved in sustainable facility management. Thus, we are continuously striving to make improvements, particularly in the field of energy efficiency, and to implement these in new buildings and renovation projects.

Resource-conserving paper consumption

By implementing projects such as "Digitales Autohaus" (Digital Car Dealership) as well as "e-invoicing" and "e-billing" in the company, we are taking steps to reduce the use of paper. Pursuing a comprehensive approach that integrates all dealers, suppliers and customers, these projects allow us to put in place the technical and procedural requirements for transmitting all incoming and outgoing invoices digitally in the long term. Volkswagen Financial Services AG already processes more than 1.5 million invoices in this optimised manner.

Thanks to the "Digitales Autohaus" project, financing applications at car dealerships are being transitioned gradually to a largely paperless application process with digital workflow components and status reports.

PRODUCTS

Green Fleet award

Our product-related environmental focus is reflected, for example, in the GREEN FLEET award, which was presented for the fourth time. Initiated jointly with NABU, the German Nature and Biodiversity Conservation Union, this environmental prize for ecologically responsible fleet management was awarded in three categories:

- for the "largest share of environmentally friendly vehicles of the Volkswagen Group";
- for the "largest share of alternative drive technologies of the Volkswagen Group";
- for the "lowest average CO_2 emissions".

This award created an incentive for the company to expand its long-term image and cost benefits.

Mobility packages

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

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

New mobility packages will supplement the traditional concept of having to own a car. From leasing to long-term rental and the car rental business to car-sharing, Volkswagen Financial Services AG now meets an even larger share of its customers' mobility needs through its subsidiaries.

Simple, transparent, safe, reliable, affordable and flexible – those are the key requirements that our business must satisfy. Volkswagen Financial Services AG is carefully tracking the development of the mobility market and is already developing new models for supporting alternative marketing approaches and establishing new mobility concepts with the aim of hedging and expanding its business model.

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

Responsible lending

Volkswagen Bank is aware of its responsibility as a lender, which is why it has been one of the signatories of the voluntary "Responsible Lending to Consumers" code of conduct since 2010. This code sets standards for lending and applies to all instalment and revolving credits. Volkswagen Bank has a fundamental interest in extending loans responsibly because it wants to ensure that its customers can repay the money lent to them. This is the reason there are high standards for the issue of consumer loans.

The code provides an overview of these standards and contains a series of consumer-friendly regulations that go beyond the requirements of law. It comprises a total of ten points based on the lending process, from advertising to handling liquidity problems. In signing the code, the member banks also commit to assuming social responsibility as an enterprise and to promoting general financial education.

DIALOGUE

Entrenching our CR strategy in the actions of our employees within the Volkswagen Group and externally requires closer integration of stakeholders, which we can achieve through exchange with and feedback from groups of stakeholders. We entered into dialogue with our internal stakeholders (employees) in 2013 by holding events such as "WIR2018 in Dialogue", a round table with interested staff formed to discuss elementary strategic issues with management, and also by holding monthly meetings with the CR Excellence team, at which we are continuing to develop the CR strategy together. The exchange is intensified by integration and networking with many committees of the Volkswagen Group, such as membership of the Group's Environment & Energy and CSR & Sustainability steering committees, as well as involvement in working groups of trade associations. Another important aspect is good stakeholder management, because only by conducting repeat surveys of external and internal stakeholders can we discover whether the CR activities performed are having a positive effect and are conducive to our goal of sustainable action in the long term.

CORPORATE GOVERNANCE

Not just statutory and internal requirements are binding on Volkswagen Financial Services AG. Commitments that the company has made voluntarily as well as ethical standards are an integral part of our corporate culture and serve at the same time as the guiding principle for our decision making.

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

Our compliance activities are rooted in a groupwide compliance strategy that follows a preventive approach. The Code of Conduct, which also applies throughout the Volkswagen Financial Services Subgroup, is a key document in this context.

Compliance officers who support the Chief Compliance Officer of Volkswagen Financial Services AG have been appointed in all affiliated companies and foreign branches. The compliance officers work on-site to ensure that requirements are met and preventive compliance measures are implemented.

One key focus of the compliance measures in 2013 again was on anti-corruption: supported by training, a new globally applicable guideline was introduced worldwide.

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

Report on expected developments

The global economy and many automotive markets are expected to grow further in 2014. Global economic development continues to be driven primarily by expansion in fast-growing emerging economies.

After the material opportunities and risks of the company's business and their forecasts have been set out in the report on opportunities and risks, 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.

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

GLOBAL ECONOMIC DEVELOPMENT

Our planning is based on the assumption that the global economy will grow somewhat more robustly in 2014 than in the reporting year. We continue to anticipate the most rapid pace of growth from the emerging markets of Asia and Latin America in the future. For the major industrialised countries, we believe the economy will revive, but that expansion rates will remain moderate for the medium term.

The global economy should also grow further in the period from 2015 to 2018.

Europe/Other markets

In Western Europe, the economic recovery that began in the reporting year should take hold in 2014. Nonetheless, performance remains dependent on the resolution of structural problems, particularly in Southern Europe. In contrast, in the Central and Eastern European countries whose economies are heavily influenced by the economic situation in Western Europe, we consider significantly higher growth at the prior-year level to be likely. We anticipate the Russian economy to achieve a slightly higher rate of expansion than in 2013.

The South African economy remains marred by political uncertainty and social tensions, particularly due to high unemployment rates, in 2014. However, growth should pick up again to some extent.

Germany

In Germany, we expect the upward trend to continue and growth rates to rise in 2014. The labour market situation should also remain positive.

North America

In 2014, we forecast a further revival of economic activity in North America. Growth in the United States and Canada will pick up year-on-year in our opinion.

Latin America

Our forecast for Brazil in 2014 is a rate of growth comparable to the previous year. We believe that growth in Mexico will pick up year-on-year. The Argentinian economy should also expand, although at a reduced pace and with continued high inflation.

Asia Pacific

China's growth rate remains high and is expected to hit the government's target again in 2014. After recent below-average performance, we anticipate India to exhibit ongoing moderate growth. In Japan, economic growth should continue at the prior-year level against the backdrop of sustained expansive monetary policy.

FINANCIAL MARKETS

In 2014, the global financial markets will be shaped substantially by the effects of global economic growth, which will stem from the industrialised countries. The International Monetary Fund (IMF) expects 2014 to bring an increase in global GDP by 3.7% and further growth in the following year. However, with inflation rates extraordinarily low in the industrialised countries, deflation risks from the extremely low interest rate policy pursued by the central banks to date are rising and require a return to more conventional monetary policy in order to support the recovery and kick start a sustained growth trend. In contrast, emerging markets must increasingly use the freedom created by the low interest rate climate to implement structural reforms in the financial realm and for growth initiatives.

The banking system in Europe will take an important step forward toward a banking union. The ECB is assuming regulatory duties over the major European commercial banks. To this end, it will work with national regulators to subject 128 banks – including the Volkswagen Financial Services AG Group – initially to a three-phase asset quality review, including stress tests. The IMF expects that further efforts by the banks to increase their equity base and reduce risks will be necessary. European financial institutions can therefore be expected to be hesitant bond issuers again in 2014. Moreover, a trend toward declining new issues of government bonds is emerging in the euro zone. The main reason for this is the probably decreasing financing volume in Germany. For Italy and Spain, leading investment banks anticipate volumes to stabilise.

Key steps toward reform are expected for Chinese financial markets. Thus, in the future, regional governments will be able to issue bonds themselves on the market directly. This was previously solely the domain of the central government and selected regional institutions. What is more, incremental steps are being taken to make the renminbi freely convertible and the exchange rate determined by the market.

On the whole, therefore, the picture on global financial markets will vary.

DEVELOPMENT OF THE PASSENGER CAR MARKETS

In 2014, we project different trends for the passenger car markets in the various regions. On the whole, worldwide demand for new vehicles will likely rise more slowly than in the reporting year.

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

We expect global demand for passenger cars to continue growing in the period from 2015 to 2018 too.

Europe/Other markets

After four years of decline, we expect automobile demand to rise again in Western Europe in 2014. However, because the prolonged sovereign debt crisis continues to cause uncertainty among consumers in many countries in the region and to limit their financial options for buying new cars, we project only minimal growth. In major markets such as Spain and Italy in particular, the government's austerity measures have dampened demand.

In the Central and Eastern European markets, automotive demand in 2014 is likely to be moderately higher than in the previous year. The Russian market, which dominates this region, will be unable to compensate for the decline in demand in 2013 in the short term and will recover only slightly in 2014.

In 2014, the South African car market will grow at a somewhat slower pace than in the prior year.

Germany

After initial losses, the German automobile market stabilised more and more in the course of 2013. This trend will likely continue in 2014 and result in slight market growth.

North America

Although the uncertainty about US fiscal policy adversely affected consumer confidence in the last months of 2013, the market continues to benefit from accumulated replacement demand. We expect this trend to continue at a lower level in 2014. Demand should remain at the prior-year level in the Canadian passenger car market.

Latin America

Because of their dependence on the demand for raw materials, the South American markets are strongly influenced by developments in the world economy. Furthermore, increasingly protectionist tendencies are also adversely affecting the region's vehicle markets, especially in Brazil and Argentina, which have imposed restrictions on vehicle imports. In Brazil, South America's largest market, vehicle demand in 2013 was unable to reach the high previous-year level despite tax incentives still in force. In 2014, tax incentives are expected to continue, and we anticipate a market volume only marginally above that of the prior year. We believe the Mexican passenger car market will experience a positive trend in 2014. Due to the sustained high inflation rates and difficult macroeconomic situation, we believe that the Argentinian market will take a sharp downward turn in 2014.

Asia Pacific

The markets in Asia Pacific are likely to continue expanding in 2014, but at a reduced pace. The growing appetite for personal mobility, will boost demand, especially in China. In India, a market volume at the previous year's level is likely after a weak 2013, though this will depend on the general economic policy environment. Due to the satisfactory performance of the Japanese economy, the 2013 vehicle market there remained at the prior-year level, a trend positively influenced by buying incentives and catch-up effects. An already announced tax increase led to pull-forward effects in the reporting year, which is why the market as a whole will probably decline considerably in 2014. The ASEAN markets are expected to continue their growth in 2014.

INTEREST RATE TRENDS

In the 2013 financial year and also at the start of the current financial year, the central banks supported the global economy and the financial system with low interest rates and an unconventional monetary policy. On account of the continuing uncertainty about the growth of the global economy and the sovereign debt crisis in Europe, monetary policy stimulus programmes are likely to be extended in spite of historically low interest rates. In the further course of 2014, we anticipate the European and US central banks to continue their policy of low interest rates. Long-term interest rates are expected to remain low.

MOBILITY PACKAGES

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

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

New mobility packages will supplement the traditional concept of car ownership. From leasing to long-term rental and the car rental business to car-sharing, Volkswagen Financial Services AG now meets an even larger share of its customers' mobility needs through its subsidiaries.

Simple, transparent, safe, reliable, affordable, flexible – those are the key requirements that our business must satisfy in future. Volkswagen Financial Services AG is carefully tracking the development of the mobility market and is already developing new models for supporting alternative marketing approaches and establishing new mobility concepts with the aim of hedging and expanding its business model.

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

NEW MARKETS/INTERNATIONALISATION/NEW SEGMENTS

The financing, leasing and mobility services businesses are becoming increasingly important globally for attracting and ensuring customer loyalty for the long term. Volkswagen Financial Services AG as the financial services provider for the Volkswagen Group brands will further extend these business activities to additional geographical locations and specifically review expansion of our local presence in the ASEAN countries, Latin America and the Middle East by way of various market entry concepts.

SUMMARY OF THE COMPANY'S EXPECTED DEVELOPMENT

Volkswagen Financial Services AG expects its growth in the next financial year to be linked to the development of sales of the Volkswagen Group. Increasing the penetration rate and expanding the product range in existing markets as well as opening up new markets are aimed at boosting the company's business volume and intensifying its international alignment. For more information of credit and residual value risk, please see the disclosures in the report on opportunities and risks.

Sales activities related to the Volkswagen Group brands will be further intensified, particularly through strategic projects.

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

Our aim is to fulfil the desires and needs of our customers in cooperation with the Volkswagen Group brands as best we can. The desire for mobility and fixed predictable costs, in particular, are foremost on customers' minds. The product packages and mobility offers that were successfully introduced in recent years will be further refined according to customer needs.

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

Going forward, financing, leasing, rental and service products will be offered for the MAN Truck & Bus segment thanks to the acquisition of both MAN Finance International GmbH and Euro-Leasing GmbH as at 1 January 2014.

PROSPECTS FOR 2014

The following overall picture emerges, taking the aforementioned factors and the development of the market into account: Expectations in terms of earnings are based on the assumption of stable refinancing costs, continued significant uncertainties regarding the economic environment and their impact on risk costs, among others.

Assuming that margins come under further pressure in the coming year, the operating result for the 2014 financial year will be slightly below the prior-year level. However, if the economy recovers faster from the sovereign debt crisis in 2014, it can be expected that the previous year's operating result will again be achieved in 2014.

We anticipate the trend toward increasing new contracts and a growing portfolio of current contracts from previous years to continue. For 2014, we forecast constant growth in new contracts as well as current contracts at the previous year's level based on the trend of previous years. With the number of new contracts rising and an increase in vehicles delivered, we have planned for a slight improvement in the penetration rate for 2014. The volume of business should rise considerably in 2014. Deposits at Volkswagen Bank GmbH are expected to continue the trend of previous years and increase somewhat in 2014.

The stepped-up capital requirements and associated significantly higher capitalisation will lead in 2014 to a much lower return on equity than in the prior year. Depending on earnings, we expect the cost/income ratio in 2014 to be at the same level as in the previous year or slightly higher.

Braunschweig, 7 February 2014
The Board of Management

Frank Witter

Dr. Mario Daberkow

Frank Fiedler

Christiane Hesse

Dr. Michael Reinhart

Lars-Henner Santelmann

Consolidated financial statements

Income statement

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Note	1.1. - 31.12.2013	1.1. - 31.12.2012[1]	Change in %
Interest income from lending transactions[2]		3,337	3,517	−5.1
Net income from leasing transactions before provisions for risks[2]		1,333	1,159	15.0
Interest expense[2]		−1,441	−1,826	−21.1
Net income from insurance business		32	21	52.4
Net income from lending, leasing and insurance transactions before provisions for risks	21	3,261	2,871	13.6
Provisions for risks arising from lending and leasing business	9, 22, 33	−615	−474	29.7
Net income from lending, leasing and insurance transactions after provisions for risks		2,646	2,397	10.4
Commission income		542	477	13.6
Commission expenses		−402	−337	19.3
Net commission income	23	140	140	0.0
Result from the measurement of derivative financial instruments and hedged items	10, 24	8	−134	X
Result from joint ventures accounted for using the equity method		77	147	−47.6
Result from securities and other financial assets	25	8	32	−75.0
General administration expenses	26	−1,604	−1,532	4.7
Other operating result	27	40	−58	X
Pre-tax result		**1,315**	**992**	**32.6**
Taxes on income and earnings	6, 28	−373	−264	41.3
Result after taxes		**942**	**728**	**29.4**
Minority interest in result after taxes		-	-	-
Result after taxes attributable to Volkswagen AG		942	728	29.4

1 The previous year's figure was adjusted due to the amendment of IAS 19.
2 The previous year's figures were adjusted. Comments are shown in note (5).

Statement of comprehensive income

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP[1]

€ million	Note	1.1.-31.12.2013	1.1.-31.12.2012[2]
Result after taxes		**942**	**728**
Revaluations from pension plans recognised in equity	45	30	−81
deferred taxes thereon	6, 28	−9	24
Non-reclassifiable income and expense of shares measured using the equity method, recognised in equity, after taxes		−2	-
Income/loss not reclassifiable		**19**	**−57**
Available-for-sale financial assets (securities):			
– Fair value changes recognised in equity		13	−23
– Recognised in the income statement		22	5
deferred taxes thereon	6, 28	−10	5
Cash flow hedges:	10		
– Fair value changes recognised in equity		−21	−15
– Recognised in the income statement		14	11
deferred taxes thereon	6, 28	2	2
Currency translation differences	4	−275	−50
Income and expense of shares measured using the equity method, recognised directly in equity, after taxes		−8	9
Reclassifiable income/loss		**−263**	**−56**
Other comprehensive income after taxes		**−244**	**−113**
Comprehensive income		**698**	**615**
Comprehensive income attributable to Volkswagen AG		698	615

1 The presentation was adjusted due to the amendment of IAS 1.
2 The previous year's figure was adjusted due to the amendment of IAS 19.

Balance sheet

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Note	31.12.2013	31.12.2012[1]	Change in %
Assets				
Cash reserve	7, 30	220	355	−38.0
Receivables from financial institutions	8, 31	2,019	2,215	−8.8
Receivables from customers arising from				
Retail financing		40,284	38,127	5.7
Wholesale financing		11,082	10,781	2.8
Leasing business		16,298	15,312	6.4
Other receivables		5,527	5,497	0.5
Receivables from customers in total	8, 32	73,191	69,717	5.0
Derivative financial instruments	10, 34	509	754	−32.5
Securities	11	2,451	1,718	42.7
Joint ventures accounted for using the equity method	35	384	1,932	−80.1
Other financial assets	12, 35	622	540	15.2
Intangible assets	13, 36	154	155	−0.6
Property, plant and equipment	14, 37	264	250	5.6
Leased assets	16, 38	8,545	7,474	14.3
Investment property	16, 38	18	10	80.0
Deferred tax assets	6, 39	710	676	5.0
Income tax assets	6	161	157	2.5
Other assets	40	1,744	1,425	22.4
Total		**90,992**	**87,378**	**4.1**

	Note	31.12.2013	31.12.2012[1]	Change in %
Liabilities				
Liabilities to financial institutions	17, 42	11,134	11,696	−4.8
Liabilities to customers	17, 42	33,705	31,128	8.3
Securitised liabilities	43	31,516	29,180	8.0
Derivative financial instruments	10, 44	326	416	−21.6
Provisions	18 – 20, 45	1,459	1,508	−3.2
Deferred tax liabilities	6, 46	330	493	−33.1
Income tax obligations	6	364	323	12.7
Other liabilities	47	1,141	1,141	0.0
Subordinated capital	48	2,134	2,691	−20.7
Equity	50	8,883	8,802	0.9
Subscribed capital		441	441	-
Capital reserve		4,709	4,709	-
Retained earnings[2]		4,004	3,659	9.4
Other reserves[2]		−271	−7	X
Total		**90,992**	**87,378**	**4.1**

1 The previous year’s figure was adjusted due to the amendment of IAS 19.
2 The retained earnings contain the accumulated profits and the reserves from actuarial gains and losses. The remaining items are shown under other reserves. The previous year's figure was adjusted accordingly.

Statement of changes in equity

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

				OTHER RESERVES				
€ million	Subscribed capital	Capital reserve	Retained earnings	Currency translation	Cash flow hedges	Market valuation securities	Equity-accounted investments	Total equity
Balance before adjustment on 01.01.2012	**441**	**4,059**	**3,155**	**59**	**8**	**–5**	**–13**	**7,704**
Change in accounting due to IAS 19 R	-	-	3	-	-	-	-	3
Balance after adjustment on 01.01.2012	**441**	**4,059**	**3,158**	**59**	**8**	**–5**	**–13**	**7,707**
Result after taxes[1]	-	-	728	-	-	-	-	728
Other comprehensive income after taxes	-	-	–57	–50	–2	–13	9	–113
Comprehensive income[1]	-	-	671	–50	–2	–13	9	615
Payments into the capital reserve	-	650	-	-	-	-	-	650
Distributions/profit transfer to Volkswagen AG	-	-	–170	-	-	-	-	–170
Balance as at 31.12.2012	**441**	**4,709**	**3,659**	**9**	**6**	**–18**	**–4**	**8,802**
Balance before adjustment on 01.01.2013	**441**	**4,709**	**3,657**	**9**	**6**	**–18**	**–4**	**8,800**
Change in accounting due to IAS 19 R	-	-	2	-	-	-	-	2
Balance after adjustment on 01.01.2013	**441**	**4,709**	**3,659**	**9**	**6**	**–18**	**–4**	**8,802**
Result after taxes	-	-	942	-	-	-	-	942
Other comprehensive income after taxes	-	-	20	–275	–5	25	–9	–244
Comprehensive income	-	-	962	–275	–5	25	–9	698
Payments into the capital reserve	-	-	-	-	-	-	-	-
Distributions/profit transfer to Volkswagen AG	-	-	–617	-	-	-	-	–617
Balance as at 31.12.2013	**441**	**4,709**	**4,004**	**–266**	**1**	**7**	**–13**	**8,883**

1 The figures were adjusted due to the amendment of IAS 19.
Additional comments on equity are shown in note (50).

Cash flow statement

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	1.1. - 31.12.2013	1.1. - 31.12.2012 [1]
Result after taxes	**942**	**728**
Depreciation, amortisation, valuation allowances and write-ups	2,194	1,985
Change in provisions	11	395
Change in other non-cash items	644	11
Result from the sale of financial assets and property, plant and equipment	0	−27
Interest result and dividend income	−2,672	−2,533
Other adjustments	1	−1
Change in receivables from financial institutions	102	953
Change in receivables from customers	−6,631	−7,594
Change in leased assets	−2,645	−2,535
Change in other assets from operating activities	−378	−422
Change in liabilities to financial institutions	640	3,722
Change in liabilities to customers	2,865	1,251
Change in securitised liabilities	2,985	2,922
Change in other liabilities from operating activities	25	149
Interest received	4,096	4,538
Dividends received	17	17
Interest paid	−1,441	−2,022
Income tax payments	−570	−542
Cash flow from operating activities	**185**	**995**
Cash inflows from the sale of investment property	3	-
Cash outflows from the purchase of investment property	−12	−1
Cash inflows from the sale of subsidiaries and joint ventures	1,678	29
Cash outflows from the purchase of subsidiaries and joint ventures	−158	−371
Cash inflows from the sale of other assets	13	6
Cash outflows from the purchase of other assets	−101	−77
Change in investments in securities	−723	−777
Cash flow from investing activities	**700**	**−1,191**
Cash inflows from changes in capital	-	650
Distribution/profit transfer to Volkswagen AG	−570	−512
Change in funds resulting from subordinated capital	−449	60
Cash flow from financing activities	**−1,019**	**198**
Cash and cash equivalents at the end of the previous period	**355**	**352**
Cash flow from operating activities	185	995
Cash flow from investing activities	700	−1,191
Cash flow from financing activities	−1,019	198
Effects from exchange rate changes	−1	1
Cash and cash equivalents at the end of the period	**220**	**355**

1 The figures were adjusted due to the amendment of IAS 19.
Comments on the cash flow statement are shown in note (63).

Notes

TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP AS AT 31.12.2013

GENERAL COMMENTS

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

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

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

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

GROUP ACCOUNTING PRINCIPLES

VW FS AG prepared its consolidated financial statements as per 31.12.2013 according to International Financial Reporting Standards (IFRSs), as applicable in the European Union, and the interpretations of the International Financial Reporting Standards Interpretation Committee (IFRS IC), as well as supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB). All the IFRSs that were approved by the International Accounting Standards Board (IASB) by 31.12.2013, and whose application in the European Union was obligatory for the 2013 financial year, were taken into account in these consolidated financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the consolidated financial statements according to IFRSs 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 63 – 77.

All estimates and assessments required for accounting and measurement under IFRSs 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 7 February 2014. The period allowing for adjustments of amounts recognised in the financial statements ended with this date.

ESTIMATES AND ASSUMPTIONS BY MANAGEMENT

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

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

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

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

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

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

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

The underlying assumptions and estimates are based on the information available at the preparation date. In particular, the expected future business development was based on the circumstances prevailing at the time of preparation of the consolidated financial statements and a realistic assumption of the future development of the global and sector-specific environment. Our estimates and assumptions remain subject to a high degree of uncertainty because future business developments are subject to uncertainties that in part cannot be influenced by the Group. This applies in particular to short- and medium-term cash flow forecasts and to the discount rates used.

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

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

EFFECTS OF NEW AND REVISED IFRS

VW FS AG has implemented all accounting standards that had to be applied starting in the 2013 financial year.

In VW FS AG's consolidated financial statements, the amendment to IAS 36 (2013) "Recoverable Amount Disclosures for Non-Financial Assets" was voluntarily applied early in the current financial year. The amendments clarify and correct unwanted changes concerning the disclosure requirements for the recoverable amount in accordance with IFRS 13. The amendment of IAS 1 leads to a revised presentation of the statement of comprehensive income. The amended standard sets out that items of other comprehensive income must be presented separately. A distinction must be made between line items that will not be reclassified subsequently to profit or loss and line items that will be reclassified subsequently to profit or loss when specific conditions are met. The related tax effects must also be allocated to these two groups. VW FS AG has accordingly revised the statement of comprehensive income in the consolidated financial statements. The other amendments to IAS 1 have no effect on the presentation of the net assets, financial position and results of operations of the VW FS AG Group.

In this connection, the statement of changes in equity has also been amended. The retained earnings reported in the consolidated financial statements comprise the accumulated profits and the reserve from actuarial gains and losses. The remaining items are recognised as other reserves. The amendments to IAS 19 have changed the accounting for employee benefits.

This has the following effects in particular on the consolidated financial statements of VW FS AG:
- Step-up amounts for partial retirement agreements must be accrued for the block model used in the VW FS AG Group.
- Past service cost for pension commitments must be immediately recognised in profit or loss.
- A standard rate of interest must be charged on the pension commitment and plan assets (net interest approach).The following table shows the effects from the changed guidance of IAS 19 on balance sheet items:

	31.12.2012			01.01.2012		
€ million	Before adjustment	Adjustment	After adjustment	Before adjustment	Adjustment	After adjustment
Total assets	87,379	–1	87,378	76,946	–1	76,945
of which deferred tax assets	677	–1	676	302	–1	301
Total liabilities and provisions	78,579	–3	78,576	69,242	–4	69,238
of which other provisions	968	–3	965	736	–4	732
Total equity	8,800	2	8,802	7,704	3	7,707
of which retained earnings	3,657	2	3,659	3,155	3	3,158

The effects on the income statement mainly relate to general administration expenses and were not material. The other amendments to IAS 19 have no material effects on the presentation of the net assets, financial position and results of operations in the consolidated financial statements of VW FS AG. Continuing to apply the 2008 version of IAS 19 has an insignificant effect on the balance sheet of the VW FS AG Group for the period ended 31 December 2013 as well as on its income statement and statement of comprehensive income for the 2013 financial year.

IFRS 13 provides general guidance on the calculation of fair value in a separate standard. The Group implements the guidance in IFRS 13 when calculating fair value. This did not have a material effect on the net assets, financial position and results of operations presented in the consolidated financial statements of VW FS AG.

All other accounting standards to be applied for the first time in the 2013 financial year do not have a significant impact on the net assets, financial position and results of operations in the consolidated financial statements of VW FS AG.

NEW AND REVISED IFRS NOT APPLIED

In its consolidated financial statements for 2013, VW FS AG did not apply the following accounting pronouncement which were adopted by the IASB but whose application was not mandatory in the financial year.

Standard/ Interpretation		Published by the IASB	Mandatory application[1]	Adopted by the EU	Expected effects
IFRS 9	Financial Instruments: Classification and Measurement	12.11.2009/ 28.10.2010	to be determined	No	Change in the accounting treatment of fair value changes in financial instruments previously classified as available for sale
IFRS 9	Financial Instruments: Hedge Accounting	19.11.2013	to be determined	No	Expanded designation options, simplified effectiveness reviews, extended disclosures in the notes
	Financial Instruments: Effective Date and Transition Guidance to IFRS 9 and IFRS 7	16.12.2011	to be determined	No	Extended disclosures in the notes
IFRS 10	Consolidated Financial Statements	12.05.2011	01.01.2014	Yes	No material effects
IFRS 11	Joint Arrangements	12.05.2011	01.01.2014	Yes	No material effects
IFRS 12	Disclosures of Interests in Other Entities	12.05.2011	01.01.2014	Yes	Extended disclosures in the notes of interests in other entities
	Transition Guidance to IFRS 10, IFRS 11, IFRS 12	28.06.2012	01.01.2014	Yes	No material effects
	Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27)	31.10.2012	01.01.2014	Yes	None
IFRS 14	Regulatory Deferral Accounts	30.01.2014	01.01.2016	No	None
IAS 19	Employee Benefits: Defined Benefit Plans – Employee Contributions	21.11.2013	01.01.2015	No	No material effects
IAS 27	Separate Financial Statements	12.05.2011	01.01.2014	Yes	None
IAS 28	Investments in Associates and Joint Ventures	12.05.2011	01.01.2014	Yes	None
IAS 32	Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities	16.12.2011	01.01.2014	Yes	No material effects
IAS 39	Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting	27.06.2013	01.01.2014	Yes	No material effects
	Improvements to International Financial Reporting Standards 2012[2]	10.12.2013	01.07.2014[4]	No	Essentially extended segment reporting disclosures in the notes
	Improvements to International Financial Reporting Standards 2013[3]	10.12.2013	01.01.2015	No	No material changes
IFRIC 21	Levies	20.05.2013	01.01.2014	No	None

1 First-time application mandatory for VW FS AG.
2 Minor amendments to numerous IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38, IAS 24).
3 Minor amendments to numerous IFRSs (IFRS 1, IFRS 3, IFRS 13, IFRS 13, IAS 40).
4 This concerns the first-time application of the amendments to IFRS 2 and IFRS 3; the amendments to IFRS 8, IAS 16, IAS 24 and IAS 38 must be observed from 01.01.2015.

ACCOUNTING POLICIES

1. Principles

All the companies included in consolidation have drawn up their annual financial statements as at the balance sheet date of 31.12.2013.

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

Amounts are stated in millions of euros (€ million), unless indicated otherwise. Rounding differences of up to one unit (€, % etc.) in each direction may occur in tables for technical reasons.

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

2. Basis of consolidation

All companies are fully consolidated in which VW FS AG has the possibility, directly or indirectly, to determine the financial and business policy in such a way that the VW FS AG Group benefits from the activities of these companies (subsidiaries). Inclusion in the basis of consolidation begins at the point in time from which the possibility of control exists; it ends when the possibility of control ceases to exist. Seven domestic (as in the previous year) and 26 foreign subsidiaries (previous year: 25) were fully consolidated at the balance sheet date. In addition, the consolidated financial statements contain 30 (previous year: 28) special purpose entities whose assets, regarded in economic terms, are attributable to the VW FS AG Group.

The 50% equity investment by Volkswagen Bank GmbH in Global Mobility Holding B.V., which holds 100% of LeasePlan Corporation N.V., was sold to Volkswagen AG effective 22 January 2013 as part of internal restructuring of the Group.

The total purchase price paid for the interests in Global Mobility Holding B.V., Amsterdam, was € 1,678 million. The discontinuation of the equity method led to an expense of € 4 million, which up to now had been reported in equity (under other comprehensive income) and did not affect profit or loss reported in the income statement. Overall, the transaction generated income of € 32 million, which was reported under the result from joint ventures accounted for using the equity method.

Volkswagen Corretora de Seguros Ltda., Sao Paulo, which previously was considered non-material, was included in the group of consolidated companies in the reporting period for the first time.

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

The recently founded joint venture Volkswagen Autoversicherung Holding GmbH, Braunschweig, plus the subsidiary and the joint venture company Volkswagen Møller BilFinans AS, Oslo, which up to now was consolidated at cost, were consolidated using the equity method starting in the 2013 financial year.

Volkswagen Financial Services South Africa (PTY) Ltd., Sandton, a joint venture founded in August 2013, is consolidated at cost for materiality reasons.

The following carrying amounts are attributable to the Group from its proportionate interest in joint ventures:

€ million	2013	of which non-current	2012	of which non-current
Receivables from financial institutions	54	–	1,156	163
Receivables from customers	2,025	1,190	3,348	1,835
Leased assets	977	786	6,751	4,131
Other assets	217	62	1,471	774
Liabilities to financial institutions	2,485	841	2,693	1,139
Liabilities to customers	103	8	2,139	272
Securitised liabilities	224	224	4,545	2,970
Other liabilities	139	40	1,465	403
Equity	322	–	1,884	–
Income	642	–	796	–
Expenses	603	–	658	–
Share in discontinued operations	–	–	–	–

In April 2013, VW FS AG acquired 60% of the shares in Kever Beheer B.V., Almere, for a price of € 10 million. This company has not been consolidated for reasons of materiality.

Subsidiaries are not consolidated if they are of secondary importance for the VW FS AG Group. Altogether this concerns 5 domestic companies – as in the previous year – and 19 foreign companies (previous year: 16).

Furthermore, there are 14 (previous year: 11) branches outside Germany which were set up by three domestic affiliated companies.

The list of all shareholdings in accordance with §§ 285 and 313 HGB is available under www.vwfsag.com/listofholdings2013.

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

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

3. Principles of consolidation

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

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

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

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

Deferred taxes are recognised for consolidation adjustments recognised in the income statement. Shares in subsidiaries which are not consolidated because they are of secondary importance and other equity investments are shown under other financial assets.

As a rule, intra-Group transactions are conducted at prevailing market terms. Intercompany results arising therefrom are eliminated.

4. Currency translation

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

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

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

		BALANCE SHEET MIDDLE RATE AS AT 31.12.		INCOME STATEMENT AVERAGE EXCHANGE RATE	
€		2013	2012	2013	2012
Australia	AUD	1.54230	1.27120	1.37702	1.24071
Brazil	BRL	3.25760	2.70360	2.86694	2.50844
China	CNY	8.34910	8.22070	8.16549	8.10523
Czech Republic	CZK	27.42700	25.15100	25.98715	25.14907
United Kingdom	GBP	0.83370	0.81610	0.84925	0.81087
Japan	JPY	144.72000	113.61000	129.65950	102.49190
Mexico	MXN	18.07310	17.18450	16.96444	16.90293
Poland	PLN	4.15430	4.07400	4.19708	4.18474
Sweden	SEK	8.85910	8.58200	8.65050	8.70407

5. Realisation of income and expense

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

The realisation of interest income in the income statement is always carried out according to the effective interest rate method. Income from financing and leasing transactions, and expenses for their refinancing, are contained in net income from lending, leasing and insurance transactions.

Interest income and interest expense include components of profit or loss from interest rate hedging derivatives. In the reporting year, the gains on interest rate hedging derivatives were reported in the same income statement item as the hedged item in order to provide a better picture of the results of operations. The prior-year figures for the interest income from lending transactions (€ –127 million), net income from leasing transactions before provisions for risks (€ –69 million) and interest expense (€ +196 million) items were adjusted. On the whole, this did not affect the result for the year.

Contingent rents under finance leases and under operating leases are recognised upon the occurrence of the condition.

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

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

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

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

6. Income tax

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

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

Deferred tax assets are recognised if it is likely that future taxable profits will occur in the same tax unit. Deferred tax assets that are unlikely to be realised within a clearly predictable period are reduced by valuation allowances. Deferred income tax assets and obligations with the same maturity vis-à-vis the same tax authority are netted. 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 profit or loss including the effects from exchange rate changes. For current receivables (residual term up to one year) neither compounding nor discounting is performed for reasons of materiality. A portion of the receivables from customers is included in a portfolio hedge. The customer receivables allocated to portfolio hedging are measured at fair value.

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

Receivables are derecognised upon settlement.

The ABS transactions executed did not give any indications of a disposal of receivables or continuing involvement.

9. Provisions for risks

We take full account of the default risks in the banking business by means of specific valuation allowances and portfolio-based valuation allowances made in accordance with IAS 39. They are recognised in allowance accounts. In addition indirect residual value risks were taken into account by means of provisions.

Specific valuation allowances 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 there is no indication of impairment, 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 note (33).

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

10. Derivative financial instruments

The derivative financial instruments comprise hedge-effective transactions and derivatives that are not hedges. All derivatives are stated at fair value and shown separately under notes (34) and (44).

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

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

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

IAS 39 also permits the application of a fair value hedge not only for individual hedged items but also for a class of similar hedged items. In the financial year just ended, the VW FS AG Group executed fair value portfolio hedges. In a portfolio hedge, the recognition of the changes in fair value corresponds to the changes in a fair value hedge.

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 profit or loss.

The VW FS AG Group documents all the relationships between hedging instruments and hedged items. The effectiveness is assessed continuously. Solely hedge transactions as part of asset/liability management are concluded within the VW FS AG Group.

11. Securities

Securities principally include fixed-income government bonds, bonds arising from securitisation transactions by affiliated companies and investments made in accordance with the investment guidelines laid down by VW Versicherung AG (primarily fixed-income securities and shares).

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

An impairment loss is recognised on financial assets available for sale if there is objective evidence of permanent impairment. In the case of equity instruments, evidence of impairment is taken to exist, among other things, if the fair value decreases below cost significantly (by more than 20%) or the decrease is prolonged (by more than 10% of the average market prices over one year). If impairment is identified, the cumulative loss is recognised in other reserves and charged to profit and loss. In the case of equity instruments, reversals of impairment losses are taken directly to equity. Impairment losses are recognised on debt instruments if a decrease in the future cash flows of the financial asset is expected. An increase in the risk-free interest rate or an increase in credit risk premiums is not in itself evidence of impairment.

Fixed-income bonds and bonds arising from securitisation transactions by affiliated companies in the amount of € 1,994 million (previous year: € 1,465 million) are pledged as security for own liabilities. The securities are deposited with Deutsche Bundesbank and have been pledged to it in connection with the company’s participation in open market operations.

12. Other financial assets

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

13. Intangible assets

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

We assess at each balance sheet date whether there is any indication that an intangible asset having a limited useful life has been impaired. If necessary, the carrying amount is compared to the recoverable amount and the respective asset is written down to the lower recoverable amount.

Intangible assets having an indefinite useful life are not amortised. We review annually whether the useful life of an intangible asset is indefinite. The impairment of such assets is reviewed annually based on a comparison between the carrying amount and the recoverable amount pursuant to IAS 36. If necessary, the asset is written down to the lower recoverable value (compare note 15).

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

The original goodwill as determined using the discounted cash flow method is used to determine the impairment of goodwill based on the management's current five-year plans with subsequent perpetual annuity. In each case, the planning premises are adjusted to the current level of knowledge. The discount rate applied is based on the applicable long-term market interest rate corresponding to the relevant cash generating unit (regions or markets). A cost of equity rate of 9.5% (previous year: 10.2%) was used throughout the Group. This entails taking into account both appropriate assumptions regarding macroeconomic trends and historical developments. As required, the cost of equity rate is adjusted by applying country- and business-specific discount factors. The growth rates expected for the individual markets are used to determine the respective cash flows. The estimate of the cash flows after the close of the planning period is based on a growth rate of 1% p.a. (previous year: 1% p.a.).

14. Property, plant and equipment

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

Depreciation is mainly based on the following useful lives:

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

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

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

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

15. Impairment of non-financial assets

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

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

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

16. Leasing business

THE GROUP AS LESSOR

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

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

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

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

THE GROUP AS LESSEE

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

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

17. Liabilities

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

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

18. Provisions for pensions and similar obligations

Provisions for pension obligations are recognised for commitments arising from pension plans, i.e. retirement pensions, disability pensions and benefits for surviving dependants. The benefits provided by the Group vary according to the legal, tax and economic circumstances of the country concerned, and usually depend on the length of service and remuneration of the employees.

VW FS AG Group companies provide occupational pensions under both defined contribution and defined benefit plans. In the case of defined contribution plans, the company makes contributions to state or private pension schemes based on legal or contractual requirements, or on a voluntary basis. Once the contributions have been paid, there are no further obligations for VW FS AG. Current contributions are recognised as pension expenses of the period concerned. In 2013, they amounted to a total of € 3 million (previous year: € 2 million) in the VW FS AG Group. Contributions to the statutory pension scheme in Germany amounted to € 29 million (previous year: € 27 million).

Most pension plans are defined benefit plans, with a distinction made between pensions financed by provisions and externally funded plans. The pension provisions for defined benefits are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19, under which the future obligations are measured on the basis of the ratable benefit entitlements earned as at the balance sheet date. Measurement reflects actuarial assumptions for the discount rates, salary and pension trends, staff turnover rates and cost increases for health care, calculated for each Group company based on the economic conditions. Actuarial gains and losses arise from differences between actual trends and the prior-year assumptions as well as from changes in assumptions. Actuarial gains and losses are recognised in equity in the period in which they are incurred, net of deferred taxes.

19. Provisions for the insurance business

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

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

The deferred premiums for the company's direct business are determined for each contract using the 1/act method.

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

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

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

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

The provisions for unsettled insurance claims in the insurance business that was taken over for reinsurance purposes are recognised in accordance with the cedant’s tasks. Own estimates are also made for unknown loss events.

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

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

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

20. Other provisions

In accordance with IAS 37, provisions are recognised to the extent that there is a current legal or constructive 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 not resulting in an outflow of resources in the year immediately following are recognized at their settlement value discounted to the balance sheet date. Discounting is based on market interest rates. The amount required to settle the obligation also comprises the expected cost increases.

Provisions are not offset against claims for reimbursement.

NOTES TO THE INCOME STATEMENT

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

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

€ million	2013	2012
Interest income from lending and money market transactions[1]	3,337	3,517
Income from leasing transactions and service contracts[1]	9,593	8,672
Expenses from leasing business and service contracts	−6,712	−6,032
Depreciation and impairment losses on leased assets and investment property	−1,548	−1,481
Interest expense[1]	−1,441	−1,826
Total	**3,229**	**2,850**

1 The previous year's figures were adjusted. Comments are shown in note (5).

The interest income from lending and money market transactions as well as the income from leasing transactions and service contracts contain interest income on impaired receivables in the amount of € 27 million (previous year: € 33 million).

Income from leasing transactions and service contracts includes rental income from investment property amounting to € 2 million (previous year: € 3 million). Furthermore, contingent rents under finance leases of € 37 million (previous year: € 46 million) and under operating leases of € 12 million (previous year: € 15 million) were recognised under income from leasing transactions and service contracts.

Impairment losses recognised as a result of the impairment test on leased assets amounted to € 82 million (previous year: € 113 million) and are contained in the depreciation and impairment losses on leased assets. Income from the reversal of impairment losses recognised in previous years on leased assets amounted to € 13 million (previous year: € 2 million) and is contained in the income from leasing transactions.

Interest income included here from financial instruments which are not attributable to the category of assets or financial liabilities measured at fair value through profit or loss amounts to € 3,369 million (previous year: € 3,569 million).

The net income from insurance transactions is comprised as follows:

€ million	2013	2012
Premiums earned from insurance business	95	68
Expenses for claims	−57	−36
Expenses for reinsurance commissions and profit sharing	−6	−11
Other underwriting expenses	0	0
Total	**32**	**21**

The interest expense contains refinancing expenses from lending and leasing transactions. A total of € 1,447 million (previous year: € 1,926 million) of that expense concerns financial instruments not measured at fair value and recognised in profit or loss. The net interest expense in the financial year from derivatives that are not hedges amounts to € 47 million (previous year: net income of € 23 million).

22. Provisions for risks arising from lending and leasing business

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

€ million	2013	2012
Additions to provisions for risks	−834	−862
Reversal of provisions for risks	255	449
Direct depreciation	−121	−86
Additions from receivables written off	85	25
Total	**−615**	**−474**

Additional default risks arising for the Volkswagen Financial Services AG Group as a result of the euro zone crisis were accounted for in the amount of € 150 million in the current financial year (previous year: € 10 million).

23. Net commission income

The net commission income of € 140 million (previous year: € 140 million) contains € 412 million (previous year: € 351 million) in income from insurance agency services.

24. Result from the measurement of derivative financial instruments and hedged items

The designation of this item was changed from the previous year, but its content remains the same.
This item contains the result from hedging transactions, the result from derivatives that are not hedges and the result from the measurement of foreign currency receivables and liabilities.

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

The detailed figures are as follows:

€ million	2013	2012
Gains/losses on fair value hedging instruments	−218	29
Gains/losses on underlying transactions of fair value hedges	207	−114
Ineffective portion of cash flow hedging instruments	−4	−5
Gains/losses from currency hedging instruments	11	−10
Gains/losses from the measurement of foreign currency receivables/liabilities	−21	−17
Gains/losses from other derivatives that are not hedges	33	−17
Total	**8**	**−134**

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

25. Result from securities and other financial assets

In contrast to the previous year, this item was combined with the result from available-for-sale assets and the designation changed to reflect this. The result from securities and other financial assets comprises income and expenses from securities, dividend income, income and expenses from profit transfers as well as (in the previous year) sale results from equity investments and shares in non-consolidated, affiliated companies in the amount of € 27 million.

26. General administration expenses

The general administration expenses are made up as follows:

€ million	2013	2012[1]
Staff costs	–732	–695
Non-staff costs	–741	–719
Costs of advertising, PR work and sales promotion	–48	–49
Depreciation of property, plant and equipment and amortisation of and impairment losses on intangible assets	–62	–52
Other taxes	–21	–17
Total	**–1,604**	**–1,532**

1 The previous year's figure was adjusted due to the amendment of IAS 19..

The non-staff costs contain expenses for leased assets under operating leases that are attributable in particular to rental payments for land and buildings as well as operating and office equipment, in the amount of € 26 million (previous year: € 23 million).

As required by § 314 Para. 1 No. 9 HGB, the general administration expenses for the 2013 financial year include fees billed for the audit of the annual financial statements amounting to € 1 million (previous year: € 2 million), for other assurance and valuation services amounting to € 2 million (previous year: € 1 million), and for other services amounting to € 1 million (previous year: € 3 million).

Amortisation and impairment losses on intangible assets contain an impairment loss of € 9 million (previous year: € 0 million) recognised on internally generated software.

27. Other operating result

The other operating result is made up as follows:

€ million	2013	2012
Income from costs charged to companies of the Volkswagen Group	48	54
Income from the reversal of provisions and accrued liabilities	157	144
Income from claims for damages	12	8
Other operating income	204	165
Other operating expenses	–381	–429
Other operating result	**40**	**–58**

28. Taxes on income and earnings

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

€ million	2013	2012
Effective tax expense in Germany	−284	−306
Effective tax expense abroad	−367	−304
Effective tax expense	**−651**	**−610**
Income from the reversal of tax provisions and tax refunds	27	2
Effective taxes on income and earnings	**−624**	**−608**
of which not attributable to the reporting period	13	12
Deferred tax income/expense in Germany	110	224
Deferred tax income/expense abroad	141	120
Deferred tax income/expense	**251**	**344**
of which not attributable to the reporting period	15	−3
Total	**−373**	**−264**

The actual tax expense in 2013 amounting to € 373 million (previous year: € 264 million) is € 15 million (previous year: € 29 million) lower than the expected tax expense of € 388 million (previous year: € 293 million), which results from applying a tax rate of 29.5% (previous year: 29.5%) 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	2013	2012
Pre-tax result[1]	**1,315**	**992**
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	**−388**	**−293**
+ Effects from tax credits	1	0
+ Effects from German/foreign tax rate	7	−1
+ Effects from tax rate changes	−7	7
+ Effects from permanent accounting differences	6	12
+ Effects on account of tax-free income	31	55
+ Effects from losses carried forward	1	−5
+ Effects from non-deductible operating expenses	−45	−36
+ Taxes not attributable to the reporting period	28	9
+ Other differences	−7	−12
= Current taxes on income and earnings	**−373**	**−264**

1 The figures were adjusted due to the amendment of IAS 19.

The statutory corporation tax rate in Germany for the 2013 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.5%. On account of changes in the German tax group, a tax rate of 29.8% (previous year: 29.5%) is applied for the measurement of the deferred taxes of the German companies.

The effects resulting from different rates of income tax in other countries arise due to the income tax rates of the individual countries where the Group companies have their registered office. These rates, which differ from the German income tax rate, are between 12.5% and 40.0% (previous year: 12.5% and 40.7%).

As at 31 December 2013, the company's tax losses carried forward not yet used to date were € 103 million (previous year: € 90 million), for which deferred tax assets of € 15 million (previous year: € 13 million) were recognised. Of these unused tax losses carried forward, € 10 million (previous year: € 5 million) can be utilised indefinitely. There were also tax losses carried forward of € 92 million (previous year: € 84 million), which can be used within the next five years and € 0.5 million (previous year: € 0.4 million), which must be used within a period of five to ten years.

No deferred tax asset was recognised on € 46 million in unusable tax losses carried forward (previous year: € 39 million). The unusable loss carryforwards expire between 2014 and 2023.

In the previous year, a reduction in effective tax expenses of € 1 million resulted from the use of previously not recognised tax losses carried forward. The effective tax expense was not reduced in 2013. In the financial year, the deferred tax liabilities were reduced by € 3 million as a result of previously unrecognised tax losses from a previous period. Deferred tax expenses (previous year: tax income) resulting from changes in tax rates amounted to €7 million at Group level (previous year: €7 million).

A deferred tax asset was not recognised in the balance sheet for deductible temporary differences of € 8 million (previous year: € 3 million).

Deferred taxes of € 43 million (previous year: € 38 million) were recognised without being offset by deferred tax liabilities in the same amount. The company concerned expects positive tax income in future following losses in the financial year under review and in the previous year.

Of the deferred taxes recognised in the balance sheet, a total of € 31 million (previous year: € 48 million) relate to business transactions that are recognised directly in equity. A partial amount of € 33 million (previous year: € 42 million) concerns actuarial gains/losses (IAS 19), a partial amount of € –0.3 million (previous year: € –2 million) concerns derivative financial instruments, and a partial amount of € –2 million (previous year: € 8 million) concerns the market valuation of securities.

29. Further notes to the income statement

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

€ million	2013	2012
Commission income	51	48
Commission expenses	0	0
Total	**51**	**48**

These concern income from trust activities.

NOTES TO THE BALANCE SHEET

30. Cash reserve

The cash reserve contains deposits with the Deutsche Bundesbank amounting to € 193 million (previous year: € 336 million).

31. Receivables from financial institutions

The receivables from financial institutions include receivables from affiliated companies amounting to € 201 million (previous year: € 36 million).

32. Receivables from customers

Receivables from customers include unsecuritised receivables from affiliated companies amounting to € 1,481 million (previous year: € 1,274 million) and receivables from joint ventures amounting to € 4,242 million (previous year: € 3,931 million). There are receivables from the sole shareholder, Volkswagen AG, amounting to € 41 million (previous year: € 36 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 dealer financing contracts contain financing of vehicles in stock and equipment and investment loans to the dealer organisation. Here too, collateral comprises assets transferred as security, as well as surety agreements and charges on property. Receivables from leasing business contain receivables from finance leases, receivables from leasing business with repurchase agreements and receivables due from leased assets. Other receivables essentially consist of receivables from companies in the Volkswagen Group and of credit lines and overdraft facilities utilised by customers. The other receivables contain subordinated assets amounting to € 20 million (previous year: € 20 million).

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 24.60% (previous year: 0.01% and 24.88%).

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

The reconciliation from the balance sheet figures is as follows:

€ million	31.12.2013	31.12.2012
Receivables from customers	**73,191**	**69,717**
Market value adjustment from portfolio hedging	–31	55
Receivables from customers less market value adjustment from portfolio hedging	73,222	69,662

Receivables from leasing transactions include due receivables amounting to € 221 million (previous year: € 205 million).

The receivables from operating leasing transactions total € 86 million as at the balance sheet date (previous year: € 84 million).

The receivables from finance leases are made up as follows:

€ million	31.12.2013	31.12.2012
Gross receivables from finance leases	**16,652**	**16,276**
by residual term		
up to one year	6,362	5,932
more than one year and up to five years	10,272	10,308
more than five years	18	36
Interest not yet earned from finance leases	**905**	**1,049**
Net receivables from finance leases	**15,747**	**15,227**
by residual term		
up to one year	6,022	5,547
more than one year and up to five years	9,708	9,648
more than five years	17	32

In contrast to the previous year, receivables from the leasing business that include repurchase agreements are no longer shown under other receivables from customers but under receivables from the leasing business.

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

A provision for risks arising from outstanding minimum lease payments exists in the amount of € 65 million (previous year: € 99 million).

33. Provisions for risks arising from lending and leasing business

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

Reconciliation based on classed in accordance with IFRS 7 is as follows:

Class: "Assets measured at amortised cost"

€ million	Specific valuation allowances 2013	Specific valuation allowances 2012	Portfolio-based valuation allowances 2013	Portfolio-based valuation allowances 2012	Total 2013	Total 2012
As at 1.1.	**823**	**836**	**696**	**635**	**1,519**	**1,471**
Changes in the basis of consolidation	0	28	–	13	0	41
Additions	430	537	268	226	698	763
Transfers	−2	−11	−5	−40	−7	−51
Disposals	324	528	87	126	411	654
of which uses	180	295	–	–	180	295
of which reversals	144	233	87	126	231	359
Interest income from impaired receivables	22	29	–	–	22	29
Currency translation	−41	−10	−31	−12	−72	−22
Provisions for risks arising from lending and leasing business as at 31.12.	**864**	**823**	**841**	**696**	**1,705**	**1,519**

Class: "Hedge accounting"

€ million	Specific valuation allowances 2013	Specific valuation allowances 2012	Portfolio-based valuation allowances 2013	Portfolio-based valuation allowances 2012	Total 2013	Total 2012
As at 1.1.	**121**	**134**	**235**	**176**	**356**	**310**
Changes in the basis of consolidation	–	–	–	–	–	–
Additions	69	47	63	36	132	83
Transfers	−4	9	11	42	7	51
Disposals	52	65	5	19	57	84
of which uses	41	28	–	–	41	28
of which reversals	11	37	5	19	16	56
Interest income from impaired receivables	5	4	–	–	5	4
Currency translation	0	0	0	0	0	0
Provisions for risks arising from lending and leasing business as at 31.12.	**129**	**121**	**304**	**235**	**433**	**356**

The provisions for risks were recognised in relation to receivables from customers. As at the end of the financial year, the valuation allowances on receivables in countries that are at the heart of the euro crisis amounted to € 348 million (previous year: € 198 million).

34. Derivative financial instruments

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

€ million	31.12.2013	31.12.2012
Assets from hedging transactions	420	625
Fair value hedges on assets (currency risk)	84	7
Fair value hedges on liabilities (currency risk)	16	0
Fair value hedges (interest rate risk)	279	568
Portfolio fair value hedges (interest rate risk)	20	41
Cash flow hedges on interest payments (currency risk)	22	9
Cash flow hedges (interest rate risk)	–1	0
Assets from derivatives that are not hedges	89	129
Total	**509**	**754**

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

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

€ million	Companies accounted for using the equity method	Other financial assets	Total
Cost			
As at 1.1.2012	**1,821**	**363**	**2,184**
Exchange rate changes	–	0	0
Changes in the basis of consolidation	−66	−96	−162
Additions	87	275	362
Transfers	–	–	–
Disposals	2	1	3
Recognition in profit or loss	126	–	126
Dividends	11	–	11
Effects recognised in equity	3	–	3
As at 31.12.2012	**1,958**	**541**	**2,499**
Amortisation/write-downs			
As at 1.1.2012	**26**	**1**	**27**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	–	–	–
Transfers	–	–	–
Disposals	–	–	–
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2012	**26**	**1**	**27**
Carrying amount 31.12.2012	**1,932**	**540**	**2,472**
Carrying amount 1.1.2012	**1,795**	**362**	**2,157**

€ million	Companies accounted for using the equity method	Other financial assets	Total
Cost			
As at 1.1.2013	**1,958**	**541**	**2,499**
Exchange rate changes	–	0	0
Changes in the basis of consolidation	–	–1	–1
Additions	37	120	157
Transfers	37	–37	–
Disposals	1,642	–	1,642
Recognition in profit or loss	45	–	45
Dividends	12	–	12
Effects recognised in equity	–13	–	–13
As at 31.12.2013	**410**	**623**	**1,033**
Amortisation/write-downs			
As at 1.1.2013	**26**	**1**	**27**
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	–	–	–
Transfers	–	–	–
Disposals	–	–	–
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2013	**26**	**1**	**27**
Carrying amount 31.12.2013	**384**	**622**	**1,006**
Carrying amount 1.1.2013	**1,932**	**540**	**2,472**

The disposal in the current financial year of € 1,642 million for joint ventures accounted for using the equity method relates to the share in Global Mobility Holding B.V., Amsterdam, sold with effect from 22 January 2013 as part of the internal Group restructuring at Volkswagen AG, Wolfsburg. The additions and transfers in the current financial year comprise the interests in Volkswagen Autoversicherung Holding GmbH and Volkswagen Møller BilFinans AS, which were accounted for using the equity method in 2013 for the first time.

36. Intangible assets

€ million	Internally generated software	Goodwill, brand name, customer base	Other intangible assets	Total
Cost				
As at 1.1.2012	**89**	**47**	**107**	**243**
Exchange rate changes	1	2	−1	2
Changes in the basis of consolidation	–	55	12	67
Additions	9	–	23	32
Transfers	–	–	–	–
Disposals	–	–	4	4
As at 31.12.2012	**99**	**104**	**137**	**340**
Amortisation/write-downs				
As at 1.1.2012	**62**	**13**	**85**	**160**
Exchange rate changes	1	−1	−1	−1
Changes in the basis of consolidation	–	0	8	8
Additions	6	3	12	21
Transfers	–	–	0	0
Disposals	–	–	3	3
Write-ups	–	–	–	–
Write-downs	–	–	–	–
As at 31.12.2012	**69**	**15**	**101**	**185**
Carrying amount 31.12.2012	**30**	**89**	**36**	**155**
Carrying amount 1.1.2012	**27**	**34**	**22**	**83**

€ million	Internally generated software	Goodwill, brand name, customer base	Other intangible assets	Total
Cost				
As at 1.1.2013	**99**	**104**	**137**	**340**
Exchange rate changes	0	−5	−7	−12
Changes in the basis of consolidation	–	–	0	0
Additions	12	–	27	39
Transfers	–	–	0	0
Disposals	7	12	7	26
As at 31.12.2013	**104**	**87**	**150**	**341**
Amortisation/write-downs				
As at 1.1.2013	**69**	**15**	**101**	**185**
Exchange rate changes	0	0	−5	−5
Changes in the basis of consolidation	–	–	0	0
Additions	4	2	15	21
Transfers	–	–	0	0
Disposals	7	12	4	23
Write-ups	–	–	–	–
Write-downs	9	–	–	9
As at 31.12.2013	**75**	**5**	**107**	**187**
Carrying amount 31.12.2013	**29**	**82**	**43**	**154**
Carrying amount 1.1.2013	**30**	**89**	**36**	**155**

The goodwill amounting to € 42 million (previous year: € 43 million) and the brand names amounting to € 26 million (previous year: € 29 million) existing at the balance sheet date in Brazil and Poland have an indefinite useful life. The indefinite useful lives arise from the fact that both the goodwill and the brand name are derived from the relevant cash generating unit and thus exist as long as that unit exists. The customer base in Brazil had already been amortised completely in 2012. The customer base in Poland is amortised over a period of 10 years.

37. Property, plant and equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost			
As at 1.1.2012	**258**	**165**	**423**
Exchange rate changes	–2	–3	–5
Changes in the basis of consolidation	0	15	15
Additions	13	32	45
Transfers	–1	1	–
Disposals	0	11	11
As at 31.12.2012	**268**	**199**	**467**
Depreciation/write-downs			
As at 1.1.2012	**73**	**116**	**189**
Exchange rate changes	–1	–1	–2
Changes in the basis of consolidation	0	5	5
Additions	8	23	31
Transfers	–	–	–
Disposals	0	6	6
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2012	**80**	**137**	**217**
Carrying amount 31.12.2012	**188**	**62**	**250**
Carrying amount 1.1.2012	**185**	**49**	**234**

€ million	Land and buildings	Operating and office equipment	Total
Cost			
As at 1.1.2013	**268**	**199**	**467**
Exchange rate changes	−5	−6	−11
Changes in the basis of consolidation	–	0	0
Additions	22	40	62
Transfers	0	0	0
Disposals	3	26	29
As at 31.12.2013	**282**	**207**	**489**
Depreciation/write-downs			
As at 1.1.2013	**80**	**137**	**217**
Exchange rate changes	−1	−3	−4
Changes in the basis of consolidation	–	0	0
Additions	8	23	31
Transfers	0	0	0
Disposals	1	18	19
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2013	**86**	**139**	**225**
Carrying amount 31.12.2013	**196**	**68**	**264**
Carrying amount 1.1.2013	**188**	**62**	**250**

Land charges in the amount of € 8 million (previous year: € 8 million) serve as collateral for financial liabilities in connection with land and buildings.

Land and buildings include plant under construction with a carrying amount of € 12 million (previous year: € 9 million).

38. Leased assets and investment property

€ million	Movable leased assets	Investment property	Total
Cost			
As at 1.1.2012	**8,190**	**20**	**8,210**
Exchange rate changes	41	–1	40
Changes in the basis of consolidation	0	1	1
Additions	7,616	1	7,617
Transfers	–	–	–
Disposals	6,138	–	6,138
As at 31.12.2012	**9,709**	**21**	**9,730**
Depreciation/write-downs			
As at 1.1.2012	**1,808**	**10**	**1,818**
Exchange rate changes	7	0	7
Changes in the basis of consolidation	0	–	0
Additions	1,367	1	1,368
Transfers	–	–	–
Disposals	1,058	–	1,058
Write-ups	2	0	2
Write-downs	113	–	113
As at 31.12.2012	**2,235**	**11**	**2,246**
Carrying amount 31.12.2012	**7,474**	**10**	**7,484**
Carrying amount 1.1.2012	**6,382**	**10**	**6,392**

€ million	Movable leased assets	Investment property	Total
Cost			
As at 1.1.2013	**9,709**	**21**	**9,730**
Exchange rate changes	−48	−2	−50
Changes in the basis of consolidation	–	–	–
Additions	7,837	12	7,849
Transfers	0	0	0
Disposals	6,456	5	6,461
As at 31.12.2013	**11,042**	**26**	**11,068**
Depreciation/write-downs			
As at 1.1.2013	**2,235**	**11**	**2,246**
Exchange rate changes	−9	0	−9
Changes in the basis of consolidation	–	–	–
Additions	1,465	0	1,465
Transfers	0	0	0
Disposals	1,263	3	1,266
Write-ups	13	–	13
Write-downs	82	–	82
As at 31.12.2013	**2,497**	**8**	**2,505**
Carrying amount 31.12.2013	**8,545**	**18**	**8,563**
Carrying amount 1.1.2013	**7,474**	**10**	**7,484**

The fair value of investment property amounts to € 19 million. As a rule, the fair value is determined using an income capitalisation approach based on internal calculations (Level 3 of the fair value hierarchy). Operating costs of € 1 million (previous year: € 3 million) were incurred for maintaining investment property.

We expect payments of € 89 million in 2014 and € 92 million between 2015 and 2018 from the non-cancellable leasing and rental contracts.

39. Deferred tax assets

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

€ million	31.12.2013	31.12.2012[1]
Deferred taxation	6,154	5,686
of which non-current	3,146	2,934
Capitalised benefits from unused tax losses carried forward	15	13
of which non-current	15	13
Netting (with deferred tax liabilities)	−5,459	−5,023
Total	**710**	**676**

1 The previous year’s figure was adjusted due to the amendment of IAS 19.

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

€ million	31.12.2013	31.12.2012[1]
Receivables and other assets	297	154
Securities and cash	1,218	1,288
Intangible assets/property, plant and equipment	16	21
Leased assets	4,171	3,800
Liabilities and provisions	452	423
Total	**6,154**	**5,686**

1 The previous year's figure was adjusted due to the amendment of IAS 19.

40. Other assets

Other assets concern the following items:

€ million	31.12.2013	31.12.2012
Vehicles taken back for resale	497	556
Restricted cash	459	87
Accrued assets	205	207
Receivables from other taxes	78	159
Underwriting provisions attributable to reinsurance companies	98	131
Other	407	285
Total	**1,744**	**1,425**

In the current financial year, restricted cash was reclassified out of receivables from financial institutions into other assets in connection with the provision of collateral for ABS transactions. The corresponding prior-year figure is € 184 million.

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

€ million	31.12.2013	31.12.2012
Provisions for unsettled claims attributable to reinsurance companies	81	122
Provisions for deferred premiums attributable to reinsurance companies	17	8
Other underwriting provisions attributable to reinsurance companies	0	1
Total	**98**	**131**

41. Non-current assets

€ million	31.12.2013	of which non-current	31.12.2012	of which non-current
Cash reserve	220	–	355	–
Receivables from financial institutions	2,019	139	2,215	35
Receivables from customers	73,191	39,851	69,717	37,932
Derivative financial instruments	509	268	754	648
Securities	2,451	–	1,718	1,297
Joint ventures accounted for using the equity method	384	384	1,932	1,932
Other financial assets	622	622	540	540
Intangible assets	154	154	155	155
Property, plant and equipment	264	264	250	250
Leased assets	8,545	6,584	7,474	5,790
Investment property	18	18	10	10
Income tax assets	161	15	157	19
Other assets	1,744	266	1,425	212
Total	**90,282**	**48,565**	**86,702**	**48,820**

42. Liabilities to financial institutions and customers

The liabilities to financial institutions and customers are all unsecuritised.

The securitised liabilities are shown separately.

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

The drawing of funds, which is shown as unsecuritised liabilities to customers, amounts to € 9,795 million (previous year: € 6,868 million) in liabilities to affiliated companies – of which € 1,792 million (previous year: € 1,698 million) is attributable to the sole shareholder, Volkswagen AG.

The liabilities to customers contain € 24,286 million in customer deposits (previous year: € 24,889 million). They mainly comprise overnight and fixed-term deposits as well as various savings certificates and plans of Volkswagen Bank GmbH. Relative to the term, the "Direkt" savings plan and the "Plus Sparbrief" have the longest investment horizon. The maximum term is ten years.

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

The reconciliation from the balance sheet figures is as follows:

€ million	31.12.2013	31.12.2012
Liabilities to customers	**33,705**	**31,128**
Market value adjustment from portfolio hedging	−6	3
Liabilities to customers less market value adjustment from portfolio hedging	33,711	31,125

43. Securitised liabilities

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

€ million	31.12.2013	31.12.2012
Debentures issued	28,230	24,916
Money market papers issued	3,286	4,264
Total	**31,516**	**29,180**

The VW FS AG Group utilises ABS transactions, in addition to the options mentioned above, for the purpose of refinancing. At year's end, the associated liabilities contained in the debentures issued amounted to € 9,694 million (previous year: € 7,397 million), those in the liabilities to financial institutions amounted to € 93 million (previous year: € 212 million) and those in the subordinated liabilities amounted to € 917 million (previous year: € 1,315 million). Receivables in the amount of € 10,811 million (previous year: € 9,135 million) arising from retail financing and the leasing business serve as security. This entails assigning the anticipated payments to special purpose entities and transferring the vehicles financed as collateral. Given the IFRS requirement that special purpose entities must be consolidated, the assets and corresponding liabilities are continued to be recognised at VW FS AG.

The majority of public and private ABS transactions of the Volkswagen Financial Services AG Group may be subject to early repayment (so-called clean-up call) if less than 9% or 10%, respectively, of the original transaction volume is outstanding. The ABS transactions of Volkswagen Financial Services UK (Ltd.) are essentially amortised until all liabilities have been extinguished.

44. Derivative financial instruments

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

€ million	31.12.2013	31.12.2012
Obligations from hedging transactions	229	278
Fair value hedges on assets (currency risk)	29	7
Fair value hedges on liabilities (currency risk)	95	8
Fair value hedges (interest rate risk)	50	54
Portfolio fair value hedges (interest rate risk)	37	148
Cash flow hedges on interest payments (currency risk)	15	57
Cash flow hedges (interest rate risk)	3	4
Obligations from derivatives that are not hedges	97	138
Total	**326**	**416**

45. Provisions

The provisions break down as follows:

€ million	31.12.2013	31.12.2012[1]
Provisions for pensions and similar obligations	246	265
Underwriting provisions	281	278
Other provisions	932	965
Total	**1,459**	**1,508**

1 The previous year's figure was adjusted due to the amendment of IAS 19.

The following amounts were recognised for defined benefit plans in the balance sheet:

€ million	31.12.2013	31.12.2012
Present value of funded obligations	139	138
Fair value of plan assets	142	128
Funded status (net)	**–3**	**10**
Present value of unfunded obligations	246	254
Amount not recognised as an asset due to the ceiling of IAS 19	0	0
Amount recognised in the balance sheet	**243**	**264**
of which provisions for pensions	246	265
of which other assets	3	1

Principal pension regulations in the VW FS AG Group:
VW FS AG provides post-employment benefits for its employees under contemporary, attractive company pension plans for the period following employees' active service. The majority of the pension commitments in the VW FS AG GROUP are pension plans for employees in Germany that are categorised as defined benefit plans in accordance with IAS 19. These commitments are mainly financed through provisions recognised in the balance sheet. These plans are now closed to new members. To reduce the risks associated with defined benefit plans, especially longevity, salary increases and inflation, the VW FS AG Group introduced new defined benefit plans in recent years whose benefits will be financed through corresponding external plan assets. The aforementioned risks were substantially reduced in these pension plans. In future, pension obligations financed through plan assets will account for an ever-larger share of the total obligation. The main pension commitments are described below.

Domestic pension plans financed exclusively through provisions recognised in the balance sheet
The pension plans financed exclusively through provisions recognised in the balance sheet are either contribution-based plans with guarantees or final salary-based defined benefit plans. In contribution-based plans, annual income- and status-linked pension expenses are converted into a lifelong pension using annuity conversion factors (guarantee components). The annuity conversion factors include a guaranteed interest rate. The annually acquired pension components are added when benefits become due. In final salary-based benefit plans, when benefits become due the salary used to calculate the pension is multiplied by a percentage depending on the employee's length of service until the time the benefits fall due. The present value of the guaranteed obligation rises when interest rates fall and is therefore subject to interest rate risk. The post-employment benefits system provides for lifelong pension payments. In this respect, the companies bear the longevity risk. This is taken into account by the fact that to calculate the annuity conversion factors and the present value of the guaranteed obligation the most recent generation mortality tables, Heubeck's 2005 G mortality tables, are used, which already factor in a future increase in life expectancy. To reduce the inflation risk by adjusting current pension payments in the amount of the inflation rate, a non-inflation-related pension adjustment was introduced for the pension obligations for which this is legally permissible.

Domestic pension plans financed with external plan assets
The pension plans financed with external plan assets are based on contribution-based plans with guarantees. Here, either annual income- and status-linked pension expenses are converted into a lifelong pension using annuity conversion factors (guarantee components) or the pension is paid out as a lump sum or in instalments. In some cases, employees may be able to top up their pensions by way of deferred compensation. The annuity conversion factors include a guaranteed interest rate. The annually acquired pension components are added when benefits become due. The pension expenses are regularly transferred to an investment fund that is managed in trust independently of the company and invested in the capital markets. If the plan assets are higher than the present value of the obligations calculated using the guaranteed interest rate, surpluses are allocated (surplus components). However, since the investment fund administered by the trustee meets the requirements of IAS 19 as plan assets, any surplus is set off against the obligations.

As the amount of the pension plan assets is subject to general market risk, the investment focus and how the funds are invested is continuously monitored by the trust committees, which include representatives of the companies. For example, the principles for capital investments are specified in investment guidelines with the aim of limiting market risk and its impact on the plan assets. In addition, asset/liability management studies are periodically conducted to ensure that the capital investment is in conformity with the obligations being hedged. Currently, the pension plan assets are primarily invested in investment funds comprising fixed-income securities or shares, which means the main risks are interest rate risk and share price risk. To hedge the market risk, the pension system also stipulates that funds be transferred to an equalisation reserve prior to the allocation of a surplus.

The present value of the obligation is recognised as the higher of the present value of the guaranteed obligation and the plan assets. If the value of the plan assets falls below the present value of the guaranteed obligation, a provision must be recognised in this amount. The present value of the guaranteed obligation rises when interest rates fall and is therefore subject to interest rate risk.

In the case of lifelong pension payments, VW FS AG Group bears the longevity risk. This is taken into account by the fact that to calculate the annuity conversion factors and the present value of the guaranteed obligation the most recent generation mortality tables, Heubeck's 2005 G mortality tables, are used, which already factor in a future increase in life expectancy. In addition, annual risk monitoring is performed by independent actuaries in connection with the review of the investments in the trusts.

To reduce the inflation risk by adjusting current pension payments in the amount of the inflation rate, a non-inflation-related pension adjustment was introduced for the pension obligations for which this is legally permissible.

The following actuarial assumptions were used in the calculation of the present value of the defined benefit pension obligations:

	GERMANY		ABROAD	
%	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Discount rate	3.70	3.20	6.02	5.22
Salary trend	3.32	2.70	2.05	2.22
Pension trend	1.80	1.80	3.42	3.42
Fluctuation rate	0.75	0.75	3.46	3.02
Annual increase in healthcare costs	–	–	2.00	2.00

These figures are averages that were weighted based on the present values of the defined benefit obligation.

In all countries, the most recent mortality tables are used for life expectancy; in Germany, for example, Professor Klaus Heubeck's 2005 G mortality tables are used. The discount rates are generally determined on the basis of returns from investment-grade corporate bonds whose maturity and currency are in line with the obligations in question. The iBoxx AA 10+ Corporates index was used to calculate the obligations of the Group's domestic companies. Comparable indices were used for the foreign pension obligations.

The salary trends comprise expected increases in wages and salaries that also make allowances for career-related increases. The pension trends correspond either to the contractually stipulated guaranteed pension adjustments or are based on the regulations governing pension adjustments in the countries in question. The fluctuation rates are based on past experience as well as future expectations.

The development of the recognised amounts from defined benefit pension commitments is shown below:

€ million	2013	2012
Balance on 01.01.	**264**	**178**
Changes in the basis of consolidation	–	−1
Current service cost	18	13
Net interest expense	8	8
Actuarial gains (–)/losses (+) due to changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) due to changes in financial assumptions	−34	74
Actuarial gains (–)/losses (+) due to experience adjustments	3	7
Income/expenses from plan assets not recognised in interest income	−1	1
Change in the amount not recognised as an asset due to the ceiling of IAS 19	0	0
Employer contributions to the fund	14	10
Pension payments from company assets	5	4
Other changes	3	0
Currency differences from foreign plans	−1	0
Balance on 31.12.	**243**	**264**

The development of the present value of the defined benefit pension obligations is comprised as follows:

€ million	2013	2012
Present value of obligations as at 1.1.	**392**	**293**
Changes in the basis of consolidation	–	−2
Current service cost	18	13
Interest cost	14	14
Actuarial gains (–)/losses (+) due to changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) due to changes in financial assumptions	−34	74
Actuarial gains (–)/losses (+) due to experience adjustments	3	7
Employee contributions to the fund	1	1
Pension payments from company assets	5	4
Pension payments out of the fund	1	1
Other changes	2	−1
Currency differences from foreign plans	−5	−2
Present value of obligations as at 31.12.	**385**	**392**

Changes in the material actuarial assumptions would have the following effects on the defined benefit pension obligation:

		31.12.2013	
Present value of the defined benefit obligations if		€ million	In %
Discount rate	is 0.5 percentage points higher	361	−6.17
	is 0.5 percentage points lower	424	10.12
Pension trend	is 0.5 percentage points higher	401	4.16
	is 0.5 percentage points lower	372	−3.35
Salary trend	is 0.5 percentage points higher	391	1.65
	is 0.5 percentage points lower	379	−1.53
Life expectancy	is one year higher	393	2.07

The sensitivity analyses depicted each take account of the change in an accounting assumption, with the other assumptions remaining unchanged on the original calculation, i.e. possible correlation effects between the individual assumptions are not reflected in the calculations.

To examine the sensitivity of the present value of the defined benefit pension obligation to a change in the assumed life expectancy, the mortality rates carried in a comparative calculation are lowered such that the reduction approximately leads to an increase in the life expectancy of one year.

The weighted average term to maturity based on the present value of the obligation (Macaulay duration) of the defined benefit pension obligation is 21 years (previous year: 22 years).

The present value of the defined benefit pension obligation is distributed as follows among the plan members:

€ million	2013	2012
Active members entitled to pensions	272	279
Members with vested benefits who are no longer with the company	35	38
Pensioners	78	75

The maturity profile of the payments for the defined benefit pension obligation, in which the present value of the obligation is broken down according to the maturity of the underlying payments, is shown in the table below:

€ million	2013	2012
Payments due within the next financial year	6	6
Payments due within two to five years	26	26
Payments due in more than five years	353	360

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

€ million	2013	2012
Fair value of plan assets at 1.1.	**128**	**115**
Changes in the basis of consolidation	–	–1
Interest income on plan assets determined using the discount rate	6	6
Income/expenses from plan assets not recognised in interest income	–1	1
Employer contributions to the fund	14	10
Employee contributions to the fund	1	1
Pension payments out of the fund	2	1
Other changes	0	–1
Currency differences from foreign plans	–4	–2
Fair value of plan assets at 31.12.	**142**	**128**

Investment of the plan assets to cover future pension obligations resulted in income in the amount of € 5 million (previous year: € 7 million).

Employer contributions to plan assets in the next financial year are expected to amount to € 15 million (previous year: € 13 million).

The plan assets have been invested in the following investment categories:

€ million	31.12.2013 Market price quotation in an active market	31.12.2013 No market price quotation in an active market	31.12.2013 Total	31.12.2012[1] Market price quotation in an active market	31.12.2012[1] No market price quotation in an active market	31.12.2012[1] Total
Cash and cash equivalents	8	–	8	10	–	10
Equity instruments	5	–	5	4	–	4
Debt instruments	36	–	36	39	–	39
Investments in real property	–	0	0	–	0	0
Derivatives	2	–	2	3	–	3
Equity funds	31	–	31	26	–	26
Bond funds	53	–	53	37	–	37
Property investment funds	2	–	2	2	–	2
Other funds	5	–	5	7	–	7
Other	0	–	0	0	–	0

1 The previous year's figure was adjusted due to the amendment of IAS 19.

42% of the plan assets are invested in German assets, 23% in other European assets and 35% in assets from other regions. Investments in debt instruments by the Volkswagen Group included in the plan assets are insignificant.

The following amounts were recognised in the income statement:

€ million	2013	2012
Current service cost	18	13
Net interest expense (+)/income (–)	8	8
Total amount shown under staff costs	**26**	**21**

Underwriting provisions developed as follows:

€ million	UNDERWRITING PROVISIONS Provisions for unsettled insurance claims	Provision for deferred premiums	Other underwriting provisions
As at 1.1.2012	**133**	**95**	**2**
Changes in the basis of consolidation	–	–	–
Use	50	39	–
Addition	59	78	0
Other changes	–	–	–
As at 31.12.2012	**142**	**134**	**2**

€ million	UNDERWRITING PROVISIONS Provisions for unsettled insurance claims	Provision for deferred premiums	Other underwriting provisions
As at 1.1.2013	**142**	**134**	**2**
Changes in the basis of consolidation	–	–	–
Use	78	50	2
Addition	40	93	0
Other changes	–	–	–
As at 31.12.2013	**104**	**177**	**0**

Terms of the underwriting provisions:

€ million	31.12.2013 Residual term more than one year	Total	31.12.2012 Residual term more than one year	Total
Provisions for unsettled insurance claims	61	104	75	142
Provision for deferred premiums	99	177	82	134
Other underwriting provisions	–	0	–	2
Total	**160**	**281**	**157**	**278**

Underwriting provisions for the direct business:

€ million	2013 Residual term more than one year	2013 Total	2012 Residual term more than one year	2012 Total
As at 1.1.	**44**	**71**	**14**	**39**
Use	–	26	–	14
Addition	9	75	30	46
Other changes	–	–	–	–
As at 31.12.	**53**	**120**	**44**	**71**

Underwriting provisions for the direct business were set up exclusively for warranty insurance.

Development of the underwriting provisions for the reinsurance business by type:

€ million	2012			
	Vehicle insurance	Credit protection insurance	Other	Total
As at 1.1.	**132**	**58**	**1**	**191**
Use	52	22	0	74
Addition	57	33	–	90
Other changes	–	–	–	–
As at 31.12.	**137**	**69**	**1**	**207**

€ million	2013			
	Vehicle insurance	Credit protection insurance	Other	Total
As at 1.1.	**137**	**69**	**1**	**207**
Use	77	26	0	103
Addition	23	33	0	56
Other changes	–	–	–	–
As at 31.12.	**83**	**76**	**1**	**160**

Other provisions developed as follows:

€ million	OTHER PROVISIONS		
	Human resources[1]	Litigation risks	Other
As at 1.1.2012	**116**	**272**	**344**
Exchange rate changes	0	–32	–1
Changes in the basis of consolidation	2	–	2
Use	80	7	10
Reversal	7	5	109
Addition	138	47	280
Unwinding of discounts	–	12	3
As at 31.12.2012	**169**	**287**	**509**

1 The previous year's figure was adjusted due to the amendment of IAS 19.

€ million	OTHER PROVISIONS		
	Human resources	Litigation risks	Other
As at 1.1.2013	**169**	**287**	**509**
Exchange rate changes	–2	–54	–1
Changes in the basis of consolidation	–	2	–
Use	113	12	14
Reversal	21	5	103
Addition	140	67	71
Transfers	0	–	0
Unwinding of discounts	–	11	1
As at 31.12.2013	**173**	**296**	**463**

The provisions in human resources include, in particular, one-off annual payments, payments on account of staff anniversaries of company service and other costs of the workforce. The other provisions also contain € 24 million (previous year: € 28 million) in provisions for indirect default risks.

Terms of the other provisions:

€ million	31.12.2013		31.12.2012[1]	
	Residual term more than one year	Total	Residual term more than one year	Total
Human resources	33	173	32	169
Litigation risks	295	296	287	287
Other	190	463	179	509
Total	**518**	**932**	**498**	**965**

1 The previous year's figure was adjusted due to the amendment of IAS 19.

The expected outflow of payments will be: 44% in the following year, 53% in the years 2015 to 2018 and 3% thereafter.

46. Deferred tax liabilities

The deferred tax liabilities break down as follows:

€ million	31.12.2013	31.12.2012
Deferred income tax obligations	5,789	5,516
of which non-current	3,057	2,927
Netting (with deferred tax assets)	−5,459	−5,023
Total	**330**	**493**

The deferred income tax obligations contain taxes from temporary differences between measurements in accordance with IFRSs and amounts arising from the determination of Group companies' taxable earnings.

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

€ million	31.12.2013	31.12.2012
Receivables and other assets	4,420	4,210
Securities and cash	60	55
Intangible assets/property, plant and equipment	22	29
Leased assets	520	438
Liabilities and provisions	767	784
Total	**5,789**	**5,516**

47. Other liabilities

Other liabilities concern the following items:

€ million	31.12.2013	31.12.2012
Accrued liabilities	428	425
Liabilities from other taxes	230	243
Liabilities within the framework of social security and the wage and salary settlement	48	45
Other	435	428
Total	**1,141**	**1,141**

48. Subordinated capital

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

€ million	31.12.2013	31.12.2012
Subordinated liabilities	2,134	2,691
of which: due within two years	891	1,270
Total	**2,134**	**2,691**

The subordinated liabilities to affiliated companies amount to € 1,868 million (previous year: € 2,317 million).

49. Non-current liabilities

€ million	31.12.2013	of which non-current	31.12.2012	of which non-current
Liabilities to financial institutions	11,134	3,378	11,696	5,588
Liabilities to customers	33,705	5,844	31,128	5,485
Securitised liabilities	31,516	18,123	29,180	18,637
Derivative financial instruments	326	187	416	304
Income tax obligations	364	0	323	5
Other liabilities	1,141	347	1,141	289
Subordinated capital	2,134	1,846	2,691	1,524
Total	**80,320**	**29,725**	**76,575**	**31,832**

50. Equity

The subscribed capital of VW FS AG is divided into 441,280,000 fully paid-up no-par bearer shares with a nominal value of € 1 each, all of which are held by Volkswagen AG, Wolfsburg. Neither preferential rights nor limitations arise from the subscribed capital.

The capital reserve of VW FS AG includes the capital contributions of Volkswagen AG, the company's sole shareholder.

Retained earnings include undistributed profits from prior years. The retained earnings contain a legal reserve of € 44 million (previous year: € 44 million).

VW FS AG's profit of € 617 million based on its HGB single-entity financial statements (previous year: € 170 million) was deducted from equity due to the existing control and profit transfer agreement with Volkswagen AG, the company's sole shareholder.

51. Capital management

Capital in this connection generally refers to equity as defined in the IFRSs. VW FS AG's capital management serves to support the company's rating through adequate capitalisation, raise equity for funding its growth targets in the following financial year and fulfil regulatory requirements regarding capital adequacy.

Liable capital under regulatory requirements is distinguished from equity under IFRSs (cf. note 50 for its components).

Liable capital under regulatory requirements comprises the so-called core capital and the supplementary capital (subordinated liabilities) net of certain deductible items and must satisfy specific legal requirements.

Capital measures by the parent company of VW FS AG affect both equity under IFRSs and the liable capital.

Under banking regulations (German Banking Act, Solvency Regulation), the bank regulatory authorities generally assume that the capitalisation is adequate if the companies subject to banking supervision show a consolidated core capital ratio of at least 4.0% and consolidated regulatory capital and overall ratios, respectively, of at least 8.0%. In determining these ratios, the regulatory equity is considered in relation to the multiples determined in accordance with statutory requirements relative to counterparty risks, operational risks and market risk positions. A planning procedure that is integrated into the internal reporting system was established in order to ensure compliance at all times with these capital adequacy requirements; it serves to determine ongoing regulatory equity requirements based on the actual and expected development of business. As a result, compliance with the minimum capital requirements was ensured at all times during the reporting year on both the Group level and the level of individual companies that are subject to special capital adequacy requirements.

The resulting figures and financial ratios for the financial holding group are as follows:

	31.12.2013	31.12.2012
Aggregate risk position (€ million)	82,549	76,198
of which weighted position according to the standardised approach to credit risks	73,987	68,487
of which market risk positions * 12.5	3,599	3,473
of which operational risks * 12.5	4,963	4,238
Liable capital (€ million)[1]	8,083	7,626
Modified available capital (€ million)[2]	7,961	7,470
of which core capital[3]	7,135	6,975
of which supplementary capital[3]	826	495
Own funds (in € million)	7,961	7,470
Core capital ratio (in %)[4]	8.6	9.2
Overall ratio (in %)[5]	9.6	9.8

1 Calculation according to § 10 Para. 2 Sentence 2 German Banking Act.
2 Calculation according to § 10 Para. 1d Sentence 2 German Banking Act.
3 The deductible items are already deducted from core and supplementary capital.
4 Core capital ratio = Core capital/ ((Capital requirement for counterparty risks + operational risks + market risks) * 12.5) * 100.
5 Overall ratio = Own funds/ ((Capital requirement for counterparty risks + operational risks + market risks) * 12.5) * 100.

NOTES TO THE FINANCIAL INSTRUMENTS

52. Carrying amounts of financial instruments under the measurement categories specified in IAS 39

The VW FS AG Group has defined the measurement categories under IAS 39 as follows:

Loans and receivables are non-derivative financial instruments that are not traded on active markets and are subject to fixed payment agreements. The cash reserve is also included in this category.

Financial assets or liabilities measured at fair value through profit or loss include derivative financial instruments. The VW FS AG Group does not plan on allocating other financial instruments to this category.

Available-for-sale financial assets are either allocated specifically to this category or are financial assets that cannot be assigned to any other category. Securities and other financial assets are included in this category at the VW FS AG Group.

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

The carrying amounts of the financial instruments (excluding hedge derivatives) pursuant to the measurement categories are as follows:

	LOANS AND RECEIVABLES		AVAILABLE-FOR-SALE FINANCIAL ASSETS		FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		FINANCIAL ASSETS OR LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	
€ million	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Assets								
Cash reserve	220	355	–	–	–	–	–	–
Receivables from financial institutions	2,019	2,215	–	–	–	–	–	–
Receivables from customers	56,884	54,402	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	89	129
Securities	–	–	2,451	1,718	–	–	–	–
Other financial assets	–	–	622	540	–	–	–	–
Other assets	663	268	–	–	–	–	–	–
Total	**59,786**	**57,240**	**3,073**	**2,258**	**–**	**–**	**89**	**129**
Liabilities								
Liabilities to financial institutions	–	–	–	–	11,134	11,696	–	–
Liabilities to customers	–	–	–	–	33,694	31,118	–	–
Securitised liabilities	–	–	–	–	31,516	29,180	–	–
Derivative financial instruments	–	–	–	–	–	–	97	138
Other liabilities	–	–	–	–	434	307	–	–
Subordinated capital	–	–	–	–	2,134	2,691	–	–
Total	**–**	**–**	**–**	**–**	**78,912**	**74,992**	**97**	**138**

Receivables from leasing business are not allocated to any category.

The net results of these categories were as follows:

€ million	2013	2012
Loans and receivables	2,880	3,215
Available-for-sale financial assets	3	71
Financial liabilities measured at amortised cost	−1,673	−2,103
Assets or financial liabilities measured at fair value through profit or loss	14	−9

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 valuation allowances in accordance with IAS 39 including effects from currency translation
Available-for-sale financial assets	Measurement at market value in accordance with IAS 39 including effects from currency translation
Financial liabilities measured at amortised cost	Interest expense pursuant to the effective interest rate method in accordance with IAS 39 including effects from currency translation
Assets or financial liabilities measured at fair value through profit or loss	Measurement at market value in accordance with IAS 39 including interest and effects from currency translation

53. Classes of financial instruments

Financial instruments are classed as follows in the VW FS AG Group:

- Measured at fair value
- Assets measured at amortised cost
- Hedge accounting
- Other financial assets
- Liabilities measured at amortised cost
- Credit commitments
- Not subject to IFRS 7

Any reconciliation of the affected balance sheet items with the aforementioned classes follows from the following description:

€ million	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTISED COST		HEDGE ACCOUNTING		OTHER FINANCIAL ASSETS		NOT SUBJECT TO IFRS 7	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Assets												
Cash reserve	220	355	–	–	220	355	–	–	–	–	–	–
Receivables from financial institutions	2,019	2,215	–	–	2,019	2,215	–	–	–	–	–	–
Receivables from customers	73,191	69,717	–	–	54,603	53,603	18,588	16,114	–	–	–	–
Derivative financial instruments	509	754	89	129	–	–	420	625	–	–	–	–
Securities	2,451	1,718	2,451	1,718	–	–	–	–	–	–	–	–
Joint ventures accounted for using the equity method	384	1,932	–	–	–	–	–	–	–	–	384	1,932
Other financial assets	622	540	–	–	–	–	–	–	622	540	–	–
Other assets	1,744	1,425	–	–	663	268	–	–	–	–	1,081	1,157
Total	**81,140**	**78,656**	**2,540**	**1,847**	**57,505**	**56,441**	**19,008**	**16,739**	**622**	**540**	**1,465**	**3,089**
Liabilities												
Liabilities to financial institutions	11,134	11,696	–	–	11,134	11,696	–	–	–	–	–	–
Liabilities to customers	33,705	31,128	–	–	32,797	29,190	908	1,938	–	–	–	–
Securitised liabilities	31,516	29,180	–	–	31,516	29,180	–	–	–	–	–	–
Derivative financial instruments	326	416	97	138	–	–	229	278	–	–	–	–
Other liabilities	1,141	1,141	–	–	434	307	–	–	–	–	707	834
Subordinated capital	2,134	2,691	–	–	2,134	2,691	–	–	–	–	–	–
Total	**79,956**	**76,252**	**97**	**138**	**78,015**	**73,064**	**1,137**	**2,216**	**–**	**–**	**707**	**834**

The credit commitments class includes liabilities arising from irrevocable credit commitments amounting to € 3,367 million (previous year: € 3,201 million).

54. Measurement levels of the financial instruments measured at fair value and at amortised cost

The financial instruments measured at fair value and at amortised cost 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 or securitised liabilities, for which a market price is directly observable on an active market are classified in Level 1.

Level 2 fair values are determined based on market inputs such as foreign exchange rates or interest rate curves using market-based valuation techniques. This includes, among others, derivatives or receivables from/liabilities to customers.

Level 3 fair values are calculated using valuation techniques that do not take directly observable factors in an active market into account.

There was no need to distinguish between the levels in the reporting year.

The following table shows how the financial instruments measured at fair value are categorised in this three level class hierarchy.

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Assets						
Measured at fair value						
Derivative financial instruments	–	–	89	129	–	–
Securities	1,705	1,715	746	3	–	–
Hedge accounting						
Derivative financial instruments	–	–	420	625	–	–
Receivables from customers	–	–	18,588	16,114	–	–
Total	**1,705**	**1,715**	**19,843**	**16,871**	**–**	**–**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	97	138	–	–
Hedge accounting						
Derivative financial instruments	–	–	229	278	–	–
Liabilities to customers	–	–	908	1,938	–	–
Total	**–**	**–**	**1,234**	**2,354**	**–**	**–**

The following table shows how the financial instruments measured at amortised cost are categorised in this three level class hierarchy.

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Assets						
Cash reserve	220	355	–	–	–	–
Receivables from financial institutions	1,773	2,090	246	125	–	–
Receivables from customers	7	2	54,375	52,302	1,097	1,388
Other assets	–	–	663	268	–	–
Total	**2,000**	**2,447**	**55,284**	**52,695**	**1,097**	**1,388**
Liabilities						
Liabilities to banks	–	–	11,125	11,694	–	–
Liabilities to customers	–	–	32,960	29,256	–	–
Securitised liabilities	17,116	16,558	14,613	13,063	–	–
Other liabilities	–	–	437	307	–	–
Subordinated capital	490	854	1,748	1,941	–	–
Total	**17,606**	**17,412**	**60,883**	**56,261**	**–**	**–**

Receivables classified in Level 3 are measured as shown in note 9.

55. Fair value of financial instruments classed as follows: Assets or liabilities measured at amortised cost, Measured at fair value, Hedge accounting, and Other financial assets

The fair values of the financial instruments are shown in the following table. The fair value is the amount for which financial instruments can be sold or bought on fair terms on the balance sheet date. Market prices were applied wherever available (e.g. in connection with securities) for measurement purposes. Absent market prices, the fair values of receivables and liabilities are determined based on discounting, taking customary market interest rates adequate to the relevant risk and corresponding to the relevant maturity into account; i.e. risk-free interest rate curves were adjusted for the relevant risk factors as well as equity and administrative costs as necessary. The fair value of receivables and liabilities with a residual term of less than one year was taken to be the balance sheet value on grounds of materiality.

Likewise, no fair value is determined for the miscellaneous financial assets because there is no active market for the companies contained therein and because it is impossible to reliably determine the relevant fair value at a reasonable cost. There were no plans at the balance sheet date to dispose of these financial assets.

The fair value of the irrevocable credit commitments is zero due to their short-term nature and the variable interest rate that is tied to the market interest rate.

€ million	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Assets						
Measured at fair value						
Derivative financial instruments	89	129	89	129	–	–
Securities	2,451	1,718	2,451	1,718	–	–
Measured at amortised cost						
Cash reserve	220	355	220	355	–	–
Receivables from financial institutions	2,019	2,215	2,019	2,215	0	–
Receivables from customers	55,479	53,692	54,603	53,603	876	89
Other assets	663	268	663	268	0	–
Hedge accounting						
Receivables from customers	18,588	16,114	18,588	16,114	–	–
Derivative financial instruments	420	625	420	625	–	–
Other financial assets	622	540	622	540	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	97	138	97	138	–	–
Measured at amortised cost						
Liabilities to financial institutions	11,125	11,694	11,134	11,696	−9	−2
Liabilities to customers	32,960	29,256	32,797	29,190	163	66
Securitised liabilities	31,729	29,621	31,516	29,180	213	441
Other liabilities	437	307	434	307	3	0
Subordinated capital	2,238	2,795	2,134	2,691	104	104
Hedge accounting						
Liabilities to customers	908	1,938	908	1,938	–	–
Derivative financial instruments	229	278	229	278	–	–

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

%	EUR	USD	GBP	JPY	BRL	MXN	SEK	CZK	AUD	CNY
Interest for six months	0.401	0.258	0.553	0.162	10.277	3.958	0.918	0.402	2.627	5.705
Interest for one year	0.428	0.304	0.644	0.181	10.560	4.060	0.991	0.524	2.653	5.882
Interest for five years	1.258	1.753	2.136	0.398	12.750	5.415	2.170	1.255	3.775	5.785
Interest for ten years	2.155	3.030	2.986	0.933	–	6.330	2.858	2.055	4.590	5.800

56. Offsetting financial assets and financial liabilities

The following table contains disclosures on the effects of offsetting on the consolidated balance sheet as well as the financial effects of offsetting financial instruments that are subject to an enforceable master netting arrangement or similar arrangement.

As a rule, financial assets and financial liabilities are recognised in gross amounts. Financial assets and financial liabilities are only offset if there is a legally enforceable right to set off the recognised amounts and the VW FS AG Group intends to settle on a net basis.

The amounts that are subject to a master netting arrangement but were not set off because they did not meet some or all of the offsetting criteria are disclosed in the "Financial instruments" column. These are mostly positive and negative market values from derivatives transactions entered into with the same contracting party.

The "Collateral received" and "Collateral furnished" columns show the amounts of cash collateral received and collateral pledged based on the total amount of assets and liabilities and reported in the form of financial instruments, including the collateral relating to assets and liabilities that have not been offset. This principally relates to collateral furnished in the form of cash collateral from ABS transactions and pledged securities as well as collateral received in the form of cash deposits.

€ million	Gross amount recognised for financial assets/ liabilities		Gross amount recognised for financial assets/ liabilities netted in the balance sheet		Net amount of financial assets /liabilities shown in the balance sheet		AMOUNTS NOT NETTED IN THE BALANCE SHEET: Financial instruments		Collateral received/furnished		Net amount	
	31.12. 2013	31.12. 2012	31.12. 2013	31.12. 2012	31.12. 2013	31.12. 2012	31.12. 2013	31.12. 2012	31.12. 2013	31.12. 2012	31.12. 2013	31.12. 2012
Assets												
Cash reserve	220	355	–	–	220	355	–	–	–	–	220	355
Receivables from financial institutions	2,019	2,215	–	–	2,019	2,215	–	–	–	–	2,019	2,215
Receivables from customers	73,315	69,804	−124	−87	73,191	69,717	–	–	−683	−732	72,508	68,985
Derivative financial instruments	509	754	–	–	509	754	−123	−179	–	–	386	575
Securities	2,451	1,718	–	–	2,451	1,718	–	–	–	–	2,451	1,718
Other financial assets	622	540	–	–	622	540	–	–	–	–	622	540
Other assets	670	290	−7	−22	663	268	–	–	–	–	663	268
Total	**79,806**	**75,676**	**−131**	**−109**	**79,675**	**75,567**	**−123**	**−179**	**−683**	**−732**	**78,869**	**74,656**
Liabilities												
Liabilities to financial institutions	11,134	11,696	–	–	11,134	11,696	–	–	−1,396	−1,465	9,738	10,231
Liabilities to customers	33,829	31,215	−124	−87	33,705	31,128	–	–	–	–	33,705	31,128
Securitised liabilities	31,516	29,180	–	–	31,516	29,180	–	–	−353	−245	31,163	28,935
Derivative financial instruments	326	416	–	–	326	416	−123	−179	–	–	203	237
Other liabilities	441	329	−7	−22	434	307	–	–	–	–	434	307
Subordinated capital	2,134	2,691	–	–	2,134	2,691	–	–	–	–	2,134	2,691
Total	**79,380**	**75,527**	**−131**	**−109**	**79,249**	**75,418**	**−123**	**−179**	**−1,749**	**−1,710**	**77,377**	**73,529**

57. Counterparty credit risk

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

The credit and default risk arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the amount of the claims under carrying amounts receivable from them and the irrevocable credit commitments. The maximum credit and default risk is reduced through the collateral held and other credit enhancements in the amount of € 48,330 million (previous year: € 46,936 million). This concerns collateral held for receivables from customers classified as assets measured at amortised cost and hedge accounting. Collateral comprises vehicles and assets transferred as security, as well as surety agreements and charges on property. Cash collateral is also used in connection with hedge accounting.

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	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Measured at fair value	2,540	1,847	2,540	1,847	–	–	–	–
Measured at amortised cost								
Cash reserve	220	355	220	355	–	–	–	–
Receivables from financial institutions	2,019	2,215	2,019	2,215	–	–	–	–
Receivables from customers	55,945	55,123	52,596	51,435	1,388	1,477	1,961	2,211
Other assets	663	268	660	262	3	6	–	0
Hedge accounting								
Receivables from customers	19,383	16,469	18,473	15,671	611	501	299	297
Derivative financial instruments	420	625	420	625	–	–	–	–
Other financial assets	622	540	622	540	–	–	–	–
Total	**81,812**	**77,442**	**77,550**	**72,950**	**2,002**	**1,984**	**2,260**	**2,508**

The maximum default risk from irrevocable credit commitments class is € 3,367 million (previous year: € 3,201 million).

These assets are measured in accordance with IAS 39, as already described in notes (8) and (9).

Financial assets that are neither past due nor impaired are allocated to risk classes as follows:

€ million	NEITHER PAST DUE NOR IMPAIRED		RISK CLASS 1		RISK CLASS 2	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Measured at fair value	2,540	1,847	2,540	1,847	–	–
Measured at amortised cost						
Cash reserve	220	355	220	355	–	–
Receivables from financial institutions	2,019	2,215	2,019	2,215	–	–
Receivables from customers	52,596	51,435	44,199	43,148	8,397	8,287
Other assets	660	262	658	262	2	0
Hedge accounting						
Receivables from customers	18,473	15,671	14,551	12,528	3,922	3,143
Derivative financial instruments	420	625	420	625	–	–
Other financial assets	622	540	622	540	–	–
Total	**77,550**	**72,950**	**65,229**	**61,520**	**12,321**	**11,430**

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 dealer 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	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Measured at fair value	–	–	–	–	–	–	–	–
Measured at amortised cost								
Cash reserve	–	–	–	–	–	–	–	–
Receivables from financial institutions	–	–	–	–	–	–	–	–
Receivables from customers	1,388	1,477	1,066	1,157	322	320	–	–
Other assets	3	6	3	6	–	0	–	–
Hedge accounting								
Receivables from customers	611	501	352	378	259	123	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–	–	–
Total	**2,002**	**1,984**	**1,421**	**1,541**	**581**	**443**	**–**	**–**

Collateral obtained in the financial year just ended for financial assets which are scheduled for disposal:

€ million	31.12.2013	31.12.2012
Vehicles	75	84
Property	–	–
Other movables	–	–
Total	**75**	**84**

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

58. 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 31.12.2013	ASSETS 31.12.2012	PAYABLE ON DEMAND 31.12.2013	PAYABLE ON DEMAND 31.12.2012	UP TO 3 MONTHS 31.12.2013	UP TO 3 MONTHS 31.12.2012	3 MONTHS TO 1 YEAR 31.12.2013	3 MONTHS TO 1 YEAR 31.12.2012	1 TO 5 YEARS 31.12.2013	1 TO 5 YEARS 31.12.2012
Cash reserve	220	355	220	355	–	–	–	–	–	–
Receivables from financial institutions	2,019	2,215	785	992	1,018	1,120	77	68	139	35
Securities	1,533	1,585	–	–	1,533	135	–	153	–	1,297
Total	**3,772**	**4,155**	**1,005**	**1,347**	**2,551**	**1,255**	**77**	**221**	**139**	**1,332**

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

			REMAINING CONTRACTUAL MATURITY							
	Cash outflows		up to 3 months		3 months to 1 year		1 to 5 years		more than 5 years	
€ million	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Liabilities to financial institutions	11,539	12,254	4,197	2,627	3,760	3,529	3,539	6,057	43	41
Liabilities to customers[1]	34,207	32,100	23,143	22,885	4,832	3,097	4,611	5,251	1,621	546
Securitised liabilities	32,475	30,636	4,858	4,436	8,862	6,500	17,660	17,831	1,095	1,869
Derivative financial instruments	8,881	7,093	840	2,309	4,118	1,835	3,860	2,949	63	0
Other liabilities	434	322	190	123	107	134	135	63	2	2
Subordinated capital	2,850	3,478	49	916	272	288	1,612	1,255	917	1,019
Irrevocable credit commitments	3,367	3,201	1,205	1,027	1,734	1,741	131	149	297	284
Total	**93,753**	**89,084**	**34,482**	**34,323**	**23,685**	**17,124**	**31,548**	**33,555**	**4,038**	**3,761**

1 A separate line was inserted for cash outflows from other liabilities. The previous year's figure was adjusted accordingly.

59. 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 risks. The VaR indicates the scope of a possible loss in the overall portfolio that will not be exceeded with a 99% probability within a 40-day period. It requires an interest rate gap analysis that shows all cash flows resulting from non-derivative and derivative financial instruments. The historical market data used to determine the VaR comprise the 1,000 most recent trade dates.

This yields the following figures:

€ million	31.12.2013	31.12.2012
Interest rate risk	123	77
Currency translation risk	86	108
Total market risk	**186**	**126**

60. Foreign currency items

In the VW FS AG Group the following assets and liabilities are contained in the currencies shown as at 31.12.2013:

€ million	BRL	GBP	CNY	SEK	AUD	JPY	MXN	NOK	CZK	PLN	Other	Total
Receivables from financial institutions	585	217	101	142	37	40	28	0	0	33	120	1,303
Receivables from customers	7,062	8,540	3,014	2,013	1,850	1,712	1,389	791	722	659	803	28,555
Assets	**7,647**	**8,757**	**3,115**	**2,155**	**1,887**	**1,752**	**1,417**	**791**	**722**	**692**	**923**	**29,858**
Liabilities to financial institutions	4,233	430	2,261	0	332	733	196	–	381	288	253	9,107
Liabilities to customers	1,277	1,660	426	394	6	125	113	7	43	476	36	4,563
Securitised liabilities	425	2,871	–	1,417	1,440	852	895	17	137	10	6	8,070
Subordinated capital	434	468	–	–	22	–	–	–	–	–	–	924
Liabilities	**6,369**	**5,429**	**2,687**	**1,811**	**1,800**	**1,710**	**1,204**	**24**	**561**	**774**	**295**	**22,664**

61. Notes to the hedging policy

HEDGING POLICY AND FINANCIAL DERIVATIVES

On account of its activities in international financial markets, the VW FS AG Group is affected by interest rate and currency fluctuations on the international money and capital markets. The general rules for the Groupwide foreign currency and interest rate hedging policy are laid down in Group-internal guidelines and fulfil the "Minimum requirements for risk management" issued by the Federal Financial Supervisory Authority (BAFin). National and international banks with excellent credit standing, whose creditworthiness is continuously scrutinised by rating firms, act as trading partners for the conclusion of appropriate financial transactions. To limit the currency and interest rate risks, appropriate hedging transactions are concluded. For this purpose, conventional derivative financial instruments are used.

MARKET RISK

A market 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). They are based on interest rate gap analyses which are subjected to various interest rate scenarios and thus quantify the interest rate risk, taking into account limits that are applied uniformly throughout the Group.

The interest rate hedging contracts concluded primarily contain interest rate swaps and combined interest rate/currency swaps. The company's interest hedging agreements comprise micro hedges and portfolio hedges. The portions of the assets or liabilities subject to fixed interest rates that were included in this hedging strategy are recognised at fair value in contrast to the original subsequent measurement (at amortised cost). The resulting effects in the income statement are basically compensated by the countervailing earnings effects of the interest rate hedges (swaps).

Currency risk

To avoid currency risks, currency hedging contracts consisting of forward exchange transactions and interest rate/currency swaps are used. As a rule, all cash flows in foreign currency are hedged.

LIQUIDITY RISK/FUNDING RISK

The VW FS AG Group makes provisions for securing against potential liquidity squeezes by maintaining confirmed credit lines at various commercial banks and by using multi-currency-capable continuous issuing programmes. In addition, securities deposited in Volkswagen Bank GmbH's operational safe custody account with Deutsche Bundesbank serve to secure the company's liquidity.

DEFAULT RISK

The default risk arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the total net amount of the claims against the respective counterparty.

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 default risk is considered to be small. Furthermore, the default risk from transactions is also minimised by furnishing collateral, as stipulated by regulatory provisions.

Concentrations of risk arise in the VW FS AG Group to varying degrees. A detailed description of these risks is provided in the report on opportunities and risks in the combined management report.

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	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Cash flow hedges						
Interest rate swaps	365	324	387	428	–	–
Cross-currency interest rate swaps	5	271	337	219	–	–
Currency futures contracts	3	1,670	1	2	–	–
Currency swaps	245	70	17	262	–	–
Other						
Interest rate swaps	18,699	12,638	24,460	29,719	6,734	1,782
Cross-currency interest rate swaps	2,122	545	1,268	1,551	–	–
Currency futures contracts	360	62	8	–	–	–
Currency swaps	576	1,190	217	–	–	–
Total	**22,375**	**16,770**	**26,695**	**32,181**	**6,734**	**1,782**

The periods related to future payments on the items hedged with the cash flow hedges correspond to the maturity of the hedges.

Cash flow hedges for which no underlying transaction is expected to occur in future were not recognised at the balance sheet date.

SEGMENT REPORTING

62. Division by geographical markets

The reportable segments pursuant to IFRS 8 based on the internal reporting structure of the VW FS AG Group are its geographical markets of Germany, Europe, Latin America as well as Asia Pacific. Foreign branches of German subsidiaries are included in the Europe segment. The Europe segment contains the subsidiaries and branches in the United Kingdom, Italy, France, the Czech Republic, Austria, the Netherlands, Spain, Sweden, Ireland, Greece, Portugal and Poland. The Latin America segment contains the subsidiaries in Mexico and Brazil. The Asia Pacific segment contains the subsidiaries in Australia, Japan and China.

The holding company, VW FS AG , and the holding and financing companies in the Netherlands and in Belgium are contained in the "Reconciliation" column. This presentation ensures a distinction between market performance and typical holding and financing functions in the internal reporting system.

The information made available to management for controlling purposes is based on the same accounting policies that are used in external accounting.

The performance of each individual segment is measured on the basis of the operating result and the pre-tax result.

The operating result includes the net income from lending, leasing and insurance transactions after provisions for risks, net commission income as well as general administration expenses and other operating income and expenses. Interest expense, general administration expenses and the other operating income and expenses that are not a component of the operating result essentially comprise interest income and expense from external tax audits, the cost of unwinding discounts for other provisions as well as interest expense for pension provisions and expected income from plan assets of externally financed pension obligations. Interest income not classified as revenue is interest income that is not attributable to the financial services business. It is not a component of the operating result.

DIVISION BY GEOGRAPHICAL MARKETS 2012:

	01.01. – 31.12.2012[1]						
€ million	Germany	Europe	Latin America	Asia Pacific	Total segments	Reconciliation	Group
Revenue from lending transactions with third parties[2]	1,094	775	1,175	387	3,431	61	3,492
Revenue from intersegment lending transactions	123	0	–	0	123	–123	–
Segment revenue from lending transactions[2]	1,217	775	1,175	387	3,554	–62	3,492
Revenue from leasing and service transactions[2]	5,243	3,315	109	11	8,678	–8	8,670
Premiums earned from insurance business	65	3	–	–	68	–	68
Commission income	289	115	70	3	477	0	477
Revenue	**6,814**	**4,208**	**1,354**	**401**	**12,777**	**–70**	**12,707**
Cost of sales from lending, leasing and service transactions	–3,425	–2,597	–8	–2	–6,032	–	–6,032
Write-ups on leased assets and investment property	1	1	–	–	2	–	2
Depreciation and impairment losses on leased assets and investment property	–1,065	–413	–2	–1	–1,481	–	–1,481
of which impairment losses pursuant to IAS 36	–101	–12	–	–	–113	–	–113
Expenses from insurance business	–46	–1	–	–	–47	–	–47
Interest expense (part of the operating result)[2]	–755	–302	–629	–198	–1,884	65	–1,819
Provisions for risks arising from lending and leasing business	–67	–123	–254	–31	–475	1	–474
Commission expenses	–138	–149	–44	–11	–342	5	–337
Result from the measurement of derivative financial instruments and hedged items (part of the operating result)	–8	–	–	–	–8	0	–8
General administration expenses (part of the operating result)	–792	–355	–196	–111	–1,454	–70	–1,524
Other operating result (part of the operating result)	–39	25	0	4	–10	–32	–42
Segment result (operating result)	**480**	**294**	**221**	**51**	**1,046**	**–101**	**945**
Interest income not classified as revenue	23	5	0	0	28	–3	25
Interest expense (not part of the operating result)	–1	0	–	0	–1	–6	–7
Result from the measurement of derivative financial instruments and hedged items (not part of the operating result)	–97	–15	–4	1	–115	–11	–126
Result from joint ventures accounted for using the equity method	–	–	–	–	–	147	147
Result from securities and other financial assets	29	3	–	–	32	–	32
General administration expenses (not part of the operating result)	–3	0	0	0	–3	–5	–8
Other operating result (not part of the operating result)	–4	0	–12	–	–16	–	–16
Pre-tax result	**427**	**287**	**205**	**52**	**971**	**21**	**992**
Taxes on income and earnings	–111	–76	–82	–18	–287	23	–264
Result after taxes	**316**	**211**	**123**	**34**	**684**	**44**	**728**
Segment assets	**36,434**	**20,100**	**9,229**	**5,796**	**71,559**	**303**	**71,862**
of which non-current	**22,388**	**10,966**	**4,795**	**3,564**	**41,713**	**–**	**41,713**
Segment liabilities	**45,532**	**18,003**	**8,462**	**5,434**	**77,431**	**–4,980**	**72,451**

1 The previous year's figure was adjusted due to the amendment of IAS 19.
2 The previous year's figures were adjusted. Comments are shown in note (5).

DIVISION BY GEOGRAPHICAL MARKETS 2013:

€ million	Germany	Europe	Latin America	Asia Pacific	Total segments	Recon-ciliation	Group
	01.01. – 31.12.2013						
Revenue from lending transactions with third parties	963	771	1,064	461	3,259	60	3,319
Revenue from intersegment lending transactions	85	0	–	0	85	–85	–
Segment revenue from lending transactions	1,048	771	1,064	461	3,344	–25	3,319
Revenue from leasing and service transactions	5,976	3,514	90	9	9,589	–9	9,580
Premiums earned from insurance business	90	6	–	–	96	–	96
Commission income	293	132	114	3	542	0	542
Revenue	**7,407**	**4,423**	**1,268**	**473**	**13,571**	**–34**	**13,537**
Cost of sales from lending, leasing and service transactions	–3,998	–2,709	–3	–2	–6,712	–	–6,712
Write-ups on leased assets and investment property	0	13	–	–	13	–	13
Depreciation and impairment losses on leased assets and investment property	–1,082	–465	–1	0	–1,548	–	–1,548
of which impairment losses pursuant to IAS 36	–68	–14	–	–	–82	–	–82
Expenses from insurance business	–62	–2	–	–	–64	0	–64
Interest expense (part of the operating result)	–486	–255	–517	–210	–1,468	30	–1,438
Provisions for risks arising from lending and leasing business	–256	–139	–184	–36	–615	0	–615
Commission expenses	–156	–164	–58	–29	–407	5	–402
Result from the measurement of derivative financial instruments and hedged items (part of the operating result)	–12	–	–	–	–12	–2	–14
General administration expenses (part of the operating result)	–818	–361	–194	–123	–1,496	–100	–1,596
Other operating result (part of the operating result)	100	–6	–29	10	75	–22	53
Segment result (operating result)	**637**	**335**	**282**	**83**	**1,337**	**–123**	**1,214**
Interest income not classified as revenue	18	1	0	0	19	–1	18
Interest expense (not part of the operating result)	–1	0	0	–	–1	–2	–3
Result from the measurement of derivative financial instruments and hedged items (not part of the operating result)	5	4	1	–1	9	13	22
Result from joint ventures accounted for using the equity method	–	–	–	–	–	77	77
Result from securities and other financial assets	5	3	–	–	8	–	8
General administration expenses (not part of the operating result)	–2	0	0	0	–2	–6	–8
Other operating result (not part of the operating result)	–1	0	–12	–	–13	–	–13
Pre-tax result	**661**	**343**	**271**	**82**	**1,357**	**–42**	**1,315**
Taxes on income and earnings	–203	–109	–61	–24	–397	24	–373
Result after taxes	**458**	**234**	**210**	**58**	**960**	**–18**	**942**
Segment assets	**38,128**	**22,466**	**8,447**	**6,540**	**75,581**	**812**	**76,393**
of which non-current	**23,707**	**12,497**	**4,122**	**3,796**	**44,122**	**–**	**44,122**
Segment liabilities	**45,750**	**20,118**	**7,864**	**6,051**	**79,783**	**3,938**	**75,845**

RECONCILIATION:

€ million	31.12.2013	31.12.2012
Total segment revenue[1]	**13,571**	**12,777**
Not allocated	258	319
Consolidation	−292	−389
Consolidated revenue[1]	**13,537**	**12,707**
Total segment result (operating result)	**1,337**	**1,046**
Not allocated	−125	−112
Consolidation	2	11
Consolidated operating result[1]	**1,214**	**945**
Total segment result before taxes	**1,357**	**971**
Not allocated	932	531
Consolidation	−974	−510
Consolidated profit/loss before tax[1]	**1,315**	**992**
Total segment assets	**75,581**	**71,559**
Not allocated	347	303
Consolidation	465	–
Consolidated assets acc. to segment reporting	**76,393**	**71,862**
Total segment liabilities	**79,783**	**77,431**
Not allocated	11,261	10,489
Consolidation	−15,199	−15,469
Consolidated liabilities acc. to segment reporting	**75,845**	**72,451**

1 The previous year's figures were adjusted. Comments are shown in note (5).

All business relations between the segments are handled at normal market terms.

The consolidation in the revenue from lending transactions and interest expenses results from the granting of Group-internal refinancing funds between the geographical markets.

Information regarding the most important products (lending and leasing business) is contained in the income statement (note 21).

The additions to non-current leased assets amount to € 2,251 million (previous year: € 2,101 million) in Germany, € 1,122 million (previous year: € 974 million) in the Europe segment, € 2 million (previous year: € 2 million) in the Latin America segment and € 1 million (previous year: none) in the Asia Pacific segment. The investments in the other assets are of secondary importance.

In the internal reporting, items are combined. The following table shows the allocation of these items to the disclosures in the segment reporting:

€ million	31.12.2013	31.12.2012
Interest income from lending transactions[1]	3,337	3,517
./. Interest income not classified as revenue	18	25
Net income from leasing transactions before provisions for risks[1]	1,333	1,159
./. Expenses from leasing business and service contracts	−6,712	−6,032
./. Depreciation and impairment losses on leased assets and investment property	−1,548	−1,481
./. Write-ups on leased assets and investment property	13	2
Net income from insurance business	32	21
./. Expenses from insurance business	−64	−47
Commission income	542	477
Revenue included in the other operating result	–	–
Consolidated revenue[1]	**13,537**	**12,707**
Net income from leasing transactions before provisions for risks[1]	1,333	1,159
./. Income from leasing transactions and service contracts[1]	9,593	8,672
./. Depreciation and impairment losses on leased assets and investment property	−1,548	−1,481
Cost of sales included in the other operating result	–	–
Consolidated cost of sales from lending, leasing and service transactions	**−6,712**	**−6,032**
Receivables from customers arising from		
Retail financing	40,284	38,127
Wholesale financing	11,082	10,781
Leasing business	16,298	15,312
Other receivables	5,527	5,497
of which not included in segment assets	−5,343	−5,329
Leased assets	8,545	7,474
Consolidated assets acc. to segment reporting	**76,393**	**71,862**
Liabilities to financial institutions	11,134	11,696
of which not included in segment liabilities	−2	−2
Liabilities to customers	33,705	31,128
of which not included in segment liabilities	−2,400	−2,008
Securitised liabilities	31,516	29,180
of which not included in segment liabilities	−242	−234
Subordinated capital	2,134	2,691
Consolidated liabilities acc. to segment reporting	**75,845**	**72,451**

1 The previous year's figures were adjusted. Comments are shown in note (5).

OTHER NOTES

63. Cash flow statement

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

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

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

64. Off-balance-sheet commitments

€ million	31.12.2013	31.12.2012
Contingent liabilities		
Liabilities from surety and warranty agreements	111	200
Other contingent liabilities	103	66
Other financial obligations		
Purchase obligations	70	64
Other	9	7
Other obligations		
Irrevocable credit commitments	3,367	3,201

A total of € 601 million (previous year: € 511 million) in fiduciary assets and liabilities of the savings and trust company belonging to the Latin American subsidiaries were not included in these consolidated financial statements.

The obligations under non-cancellable rental and leasing contracts in the VW FS AG Group trigger expenses of € 22 million (previous year: € 19 million) in the 2014 financial year, € 30 million (previous year: € 28 million) in the 2015 to 2018 financial years and € 14 million (previous year: € 17 million) in the financial years thereafter.

We expect the irrevocable credit commitments to be utilised.

65. Average number of employees during the financial year

	2013	2012
Salaried employees	9,123	8,354
Trainees	123	118
Total	**9,246**	**8,472**

66. Related parties

Related parties as defined by IAS 24 are persons or entities which can be influenced by VW FS AG or which can influence VW FS AG or are influenced by another related party of VW FS AG.

Volkswagen AG, Wolfsburg, is the sole shareholder of VW FS AG. Furthermore, with an equity stake of 50.73%, Porsche Automobil Holding SE, Stuttgart, owned the majority of the voting shares in Volkswagen AG as at the balance sheet date. The extraordinary Annual General Meeting of Volkswagen AG on 3 December 2009 resolved to give the German state of Lower Saxony the right to appoint board members. As a result, Porsche SE can no longer appoint the majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the opportunity to participate in the Volkswagen Group's corporate decision making. Porsche SE contributed its holding company operating business to Volkswagen AG by way of singular succession on 1 August 2012. Under the terms of the Comprehensive Agreement, Porsche SE and Volkswagen AG had granted each other put and call options with regard to the remaining 50.1% interest in Porsche Holding Stuttgart held by Porsche SE until the contribution of its holding company operating business to Volkswagen AG. The strike price for the two options was € 3,883 million and was subject to specific adjustments. In the course of the contribution, the legal position of Porsche SE under the put and call options was transferred to Volkswagen AG in each case such that the options were extinguished due to confusion of rights.

According to the notification dated 8 January 2014, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights of Volkswagen AG on 31 December 2013. In addition – as described above – the General Meeting of Volkswagen AG resolved on 3 December 2009 that the State of Lower Saxony is entitled to appoint two members of the Supervisory Board.

A control and profit transfer agreement exists between the sole shareholder, Volkswagen AG, and VW FS AG. The business relations between the two companies are handled at normal market terms.

Volkswagen AG and its subsidiaries make refinancing funds available to the companies of the VW FS AG Group at normal market terms. Furthermore, collateral from Volkswagen AG and its subsidiaries was furnished in our favour within the framework of the operating business.

To support sales promotion campaigns, the companies of the VW FS AG Group receive financial contributions from the production companies and importing companies of the Volkswagen Group.

All business relations with non-consolidated subsidiaries and joint ventures of VW FS AG as well as other Group entities that are related parties of Volkswagen are handled at normal market terms.

Transactions with related parties are shown in the following two tables:

2013 FINANCIAL YEAR

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties within the Group	Non-consolidated sub-sidiaries	Joint ventures
Receivables	0	0	47	–	1,818	490	4,323
Allowances on receivables	–	–	–	–	–	–	–
of which: additions, current year	–	–	–	–	–	–	–
Obligations	4	5	1,996	400	10,057	88	1
Interest income	0	0	8	–	125	15	96
Interest expense	0	0	–7	–1	–157	0	0
Services and products provided	–	–	401	0	1,761	22	31
Services and products received	–	–	5,980	–	3,514	27	12

2012 FINANCIAL YEAR

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche	Other related parties within the Group	Non-consolidated sub-sidiaries	Joint ventures
Receivables	0	0	43	–	1,014	262	3,931
Allowances on receivables	–	–	–	–	–	–	–
of which: additions, current year	–	–	–	–	–	–	–
Obligations	4	5	1,903	871	7,597	64	1
Interest income	0	0	11	0	140	4	96
Interest expense	0	0	–17	0	–156	0	0
Services and products provided	–	–	438	1	1,293	47	6
Services and products received	–	–	6,102	6	3,081	16	12

Since the contribution of the holding company operating business to Volkswagen AG on 1 August 2012, the Porsche column only shows the business relationships with Porsche SE. The obligations as at the balance sheet date result from term deposits of Porsche SE held with Volkswagen Bank GmbH. The column "Other related parties within the Group" includes, in addition to fellow subsidiaries, joint ventures and associated companies that are Group entities and as such are related parties of Volkswagen AG. The service relationships with the Supervisory Board and the Board of Management include the corresponding groups of people at VW FS AG and the Group parent, Volkswagen AG. The relationships to benefit plans and to the state of Lower Saxony were of minor importance, as in the previous year.

Members of the Board of Management and Supervisory Board of VW FS AG are members of boards of management and supervisory boards of other companies in the Volkswagen Group, with which, in some cases, we do business within the framework of normal business activities. All transactions with these related parties are conducted on an arm's length basis.

In the course of the financial year, standard short-term loans averaging € 523 million (previous year: € 595 million) were granted to related parties as part of the Group's wholesale financing activities.

REMUNERATION OF THE BOARD OF MANAGEMENT

€ million	2013	2012
Short-term benefits	7	6
Termination benefits	–	–
Post-employment benefits	1	5

In accordance with a resolution of the Annual General Meeting, the members of the Supervisory Board are generally entitled to receive an annual remuneration independent of the company's performance or the function exercised by the Supervisory Board member. Several members of the Supervisory Board are also members of other supervisory boards of Volkswagen AG subsidiaries. When calculating the remuneration paid for the functions of its Supervisory Board members, VW FS AG deducts the remuneration they receive for membership of other supervisory boards in Volkswagen AG subsidiaries. As a result, a total of less than € 0.05 million was paid to the members of the Supervisory Board in the 2013 financial year.

The employee representatives in the Supervisory Board who are employed at VW FS AG continue to receive a regular salary under the terms of their employment contract. This is based on the regulations set out in the German Works Constitution Act (Betriebsverfassungsgesetz) and constitutes appropriate remuneration for their corresponding function or activity in the company. The same applies to the management representative in the Supervisory Board.

Total emoluments of former members of the Board of Management and their surviving dependants amounted to € 0.4 million (previous year: € 0.4 million). The provisions for current pensions and pension expectancies made for this group of persons amount to € 11 million (previous year: € 12 million).

67. Corporate bodies of Volkswagen Financial Services AG

The Board of Management is comprised as follows:

FRANK WITTER
Chairman of the Board of Management
Corporate Steering
IT (until 30.06.2013), Insurance
China/India/ASEAN (from 01.01.2013)

DR. MARIO DABERKOW (FROM 01.07.2013)
Information Technology and Processes

FRANK FIEDLER
Finance

CHRISTIANE HESSE
Human Resources and Organisation

DR. MICHAEL REINHART
Risk Management
Credit Analysis

LARS-HENNER SANTELMANN
Sales and Marketing
Regions Germany (from 01.01.2013), Europe, International, South America (from 01.01.2013 to 31.07.2013)
Latin America (from 01.08.2013)

The Supervisory Board is comprised as follows:

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

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

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

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

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

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

CHRISTIAN KLINGLER
Member of the Board of Management of Volkswagen AG
Sales and Marketing

DETLEF KUNKEL
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Deputy Chairman of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

PETRA REINHEIMER
General Secretary of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

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

JÖRG THIELEMANN
Head of Customer Service Retail North/East of Volkswagen Bank GmbH

68. Letter of comfort for our affiliated companies

With the exception of political risks, Volkswagen Financial Services AG hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to creditors in the agreed manner. Moreover, Volkswagen Financial Services AG confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders.

69. Post-balance sheet date events

As part of an internal restructuring of the Group, VW FS AG acquired 100% of the interests in MAN Finance International GmbH, Munich, from MAN SE with effect from 1 January 2014.

In January 2014, Volkswagen AG increased the equity of Volkswagen VW FS AG by € 2,255 million on the basis of the anticipated business growth. With the aim of strengthening the companies' equity, in January 2014 VW FS AG increased the capital of Volkswagen Bank GmbH by € 150 million; that of OOO Volkswagen Bank RUS by € 25 million; and that of Volkswagen Versicherungsvermittlung GmbH by € 5 million.

Volkswagen Leasing GmbH issued a € 1.25 billion benchmark bond on 15 January 2014 and placed an asset-backed securities transaction (VCL 19) of € 0.75 billion on 30 January. Volkswagen Bank GmbH issued a € 0.75 billion benchmark bond on 6 February 2014. There were no other significant events up to 7 February 2014.

70. Responsibility statement of the Board of Management

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

Braunschweig, 7 February 2014
The Board of Management

Frank Witter

Dr. Mario Daberkow

Frank Fiedler

Christiane Hesse

Dr. Michael Reinhart

Lars-Henner Santelmann

Independent Auditors' Report

We have audited the consolidated financial statements prepared by Volkswagen Financial Services Aktiengesellschaft, Braunschweig, consisting of income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes as well as the Group management report, for the financial year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs as applicable in the EU and the supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB) is the responsibility of the company's Board of Management. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and on the combined management report.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations with a material impact on the presentation of net assets, financial position and results of operations conveyed by the consolidated financial statements with due regard to the applicable accounting principles, and by the combined 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 combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in consolidation, the definition of the scope of consolidation, the accounting and consolidation principles applied and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined 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 IFRSs as applicable in the EU and with the supplementary provisions applicable under § 315a Para. 1 HGB, and in accordance with these provisions give a true and fair view of the net assets, financial position and results of the operations of the Group. The combined 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, 7 February 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Ralf Schmitz
Auditor	Auditor

Report of the Supervisory Board

OF VOLKSWAGEN FINANCIAL SERVICES AG

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

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

The Supervisory Board is made up of twelve members. There were no changes in personnel in comparison with the previous year.

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 89%. All Supervisory Board members attended more than one half of the meetings. We resolved five urgent matters in writing by means of a circular memorandum. In addition, the Chairman of the Supervisory Board made one urgent decision using a written procedure as well.

COMMITTEE ACTIVITIES

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 27 February 2013, the Supervisory Board approved both the consolidated financial statements and the annual financial statements of Volkswagen Financial Services AG for 2012, which had been prepared by the Board of Management, and accepted the annual report by Internal Audit regarding the results of its audits. We also discussed the business and risk strategy for 2013, the implementation of the refinancing strategy – namely the capital market programmes in Russia, Turkey and Australia – as well as the creation and filling of the IT & Processes department on the Board of Management.

Both at this meeting and at the meetings on 12 June 2013 and 14 November 2013, the Board of Management provided extensive reports on the company's and the Group's economic and financial position. In this connection we also dealt in particular with the risk management requirements that the Group must fulfil.

At our meeting on 12 June 2013, the Board of Management reported to us at length on the current workforce figures and the details of the remuneration systems. In addition, we approved the optimisation of the company structure in Brazil for new areas of business, the establishment of leasing companies in China and the acquisition of dealer properties in the Netherlands.

At our meeting on 14 November 2013, we held a detailed discussion on the regulatory requirements for the remuneration system and the revised Remuneration Ordinance for Institutions. In addition, the Board of Management gave us an extensive review of the current IT landscape in Germany and we addressed the activities of our Group companies in China. At this meeting, we approved the acquisition of the MAN financial services companies, the acquisition of a leasing portfolio in Italy and the purchase of a loan and leasing portfolio in Norway. We also considered the establishment of business and market entry in new countries and approved the establishment of the Ducati Bank, Ducati Leasing and Ducati VersicherungsService branches as well as the foundation of a new company in Sweden which will offer the maintenance and wear-and-tear business in this country going forward. Finally, we approved both the company's and the Group's medium-term financial and investment planning after extensive deliberation.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit both the IFRS consolidated financial statements and the HGB annual financial statements of Volkswagen Financial Services AG for the year ended 31 December 2013, including the accounting and the management reports.

The Supervisory Board had at its disposal the consolidated financial statements of Volkswagen Financial Services AG in accordance with IFRSs and its annual financial statements in accordance with the German Commercial Code (HGB) for the year ended 31 December 2013, as well as the respective 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.

At its meeting on 26 February 2014, the Supervisory Board approved both the consolidated financial statements and the annual financial statements of Volkswagen Financial Services AG as prepared by the Board of Management. The consolidated financial statements and the annual financial statements are thereby adopted.

The profit of Volkswagen Financial Services AG for the 2013 financial year, as determined under the German Commercial Code, was transferred to Volkswagen AG in accordance with the existing control and profit transfer agreement.

The Supervisory Board wishes to acknowledge and express its appreciation to the members of the Board of Management, the members of the works council, the managerial staff and all the employees of Volkswagen Financial Services AG and its affiliated companies for their work. Through their great dedication they have all contributed to the ongoing development of Volkswagen Financial Services AG.

Braunschweig, 26 February 2014

Hans Dieter Pötsch
Chairman of the Supervisory Board

Supervisory Board

OF VOLKSWAGEN FINANCIAL SERVICES AG

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Head of Customer Service Retail North/East of Volkswagen Bank GmbH

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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We apologise to our readers for using the masculine grammatical form solely for purposes of linguistic convenience.

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