VOLKSWAGEN BANK

GMBH






The key to mobility.

ANNUAL REPORT 2012 (HGB)





Volkswagen Bank GmbH (HGB)
at a glance

€ million	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Total assets	40,303	37,285	32,870	32,647	30,868
Receivables arising from					
Retail financing	18,303	16,247	16,308	14,571	11,110
Leasing business	1,327	1,205	1,045	978	923
Dealer financing	7,497	7,501	6,228	6,373	7,586
Customer deposits[1]	23,409	22,592	20,078	19,489	12,829
Equity	3,940	3,940	3,930	3,579	2,979

%	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Equity ratio	9.8	10.6	12.0	11.0	9.7
Core capital ratio	13.5	14.4	15.6	14.9	12.8
Overall ratio	14.9	16.3	18.6	18.0	18.8
Return on equity	11.2	10.6	10.3	6.7	6.9

€ million	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Result from ordinary business activities	439	418	342	210	204
Extraordinary result	0	2[2]	12[3]	–	–
Taxes on income and earnings, other taxes	149	190	150	84	70
Profits transferred under a profit transfer agreement	290	230	180	126	134

Number	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Employees	864	753	631	644	669

RATING 2012	STANDARD & POOR'S			MOODY'S INVESTORS SERVICE		
	short-term	long-term	outlook	short-term	long-term	outlook
Volkswagen Bank GmbH	A–2	A–	positive	Prime–2	A3	positive
Volkswagen Financial Services AG	A–2	A–	positive	Prime–2	A3	positive

1 The year-end customer deposit figure for 2009 was adjusted to the customer deposit definition applicable from 2010 onwards.
2 Income results from the merger of shares in affiliated companies
3 Expense results from change due to the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz BilMoG).

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Development of business
Volkswagen Bank GmbH boosts business volume

The mood in the global economy darkened perceptibly in the 2012 financial year, dragging down the automotive industry substantially in some cases. Volkswagen Bank GmbH nevertheless succeeded in consolidating its market position.

GLOBAL ECONOMY LOSES MOMENTUM

In 2012, the global economy grew at a slower rate than in the preceding year. Industrialised countries recorded only minimal expansion as a consequence of structural impediments, mainly due to partly overstretched national budgets. The emerging markets continued to outperform the global economy, though at a reduced pace. In spite of the expansionary monetary policy adopted by many central banks, inflation remained moderate. Global economic growth in 2012 stood at 2.6% (previous year: 3.0%).

Europe

The gross domestic product (GDP) of Western Europe receded by an average of 0.2% after a 1.5% increase in the previous year. In addition to the euro zone countries in Southern Europe, a number of Northern European countries also recorded negative growth rates. Average unemployment across the euro zone rose to 11.8% (previous year: 10.6%), though the jobless figures were much higher in Greece, Ireland, Portugal and Spain. The GDP growth rate in Central and Eastern Europe fell to 2.5% on average (previous year: 4.8%).

Germany

With the global economy losing steam and no sign of the euro zone crisis ending, the rate of economic expansion in Germany also declined in 2012 compared with the previous year. The labour market recovery continued in the reporting year, with the associated growth in income stimulating domestic demand and stabilising the economy. In spite of this encouraging development, the German economy grew by just 0.9% on average over the year (previous year: 3.1%).

FINANCIAL MARKETS

The development of the global financial markets in 2012 was overshadowed by the European banking and sovereign debt crisis.

In the European Union's crisis meetings, it became apparent that there was a political intention to use the crisis to strengthen unity within the European Union and tighten budgetary controls within the currency union to be able to prevent individual countries from creating debt problems in the future. This intention helped to calm the global financial markets as the year progressed. The measures resolved by the European Central Bank (ECB) in the second half of the year to support the euro by buying up unlimited numbers of bonds from struggling countries as necessary also had a major influence on this. In the shadow of these decisions, rating downgrades of individual EU countries by international rating agencies in the meantime did not rattle the financial markets any further.

Europe

In Europe, the interdependence of the international banking crisis and the debt problems of individual euro zone countries became very apparent as the euro crisis deepened. Only the measures taken by the ECB and the structural reforms instituted in the euro zone countries helped reassure the financial markets, on which private capital flows had been severely disrupted by the loss of confidence in the credit quality of public budgets. After the stock market indices plunged due to widespread uncertainty around mid-year, the indices ended the year on a high note once more. In the EU, the net issue volume of bonds rose slightly in 2012. While the volume of new government bond issues declined, companies in the private sector substantially increased their bond issue volumes year on year.

Germany

In 2012, the financial sector largely benefited from stabilising factors, due in particular to the injections of cash from the ECB. On the whole, bond issues took a downtrend, driven by the much lower volume of new issues by financial institutions and a slight decrease in government issues. Companies outside the financial sector recorded significantly higher issue volumes in spite of much lower interest rates.

INTEGRATION INTO THE VOLKSWAGEN GROUP

Volkswagen Bank GmbH is part of the Volkswagen Financial Services AG Sub-group, which combines the Volkswagen Group's financial services activities. In close cooperation with the brands of the Volkswagen Group, Volkswagen Bank GmbH primarily handles the financing business for private and corporate customers and dealer partners.

DEMAND FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES REACHES NEW HIGH

In the 2012 financial year, passenger car sales rose worldwide by 7.2 % to 66.6 million vehicles, surpassing the record level of 2011. All regions with the exception of Western Europe contributed to this increase. In Central and Eastern Europe, more new vehicles were sold than in the previous year, though fewer than in 2008 and 2007.

Worldwide passenger car production rose during the reporting period by 6.0% to 70.5 million units.

INDUSTRY-SPECIFIC BUSINESS ENVIRONMENT

The established passenger car markets developed at different rates in 2012. Whilst some industrialised countries were impacted by the sovereign debt crisis and its consequences, others – among them Germany – benefited from the continued robust demand in some of the growth markets during the year's first half.

Europe

As expected, new passenger car registrations in Western Europe during the reporting period fell short of the prior-year figure. Instead, at 11.7 million vehicles (–8.2%), the lowest overall market volume since 1993 was recorded. The repercussions of the sovereign debt crisis, the weak economy, rising unemployment and the associated uncertainty among market participants were the main factors leading to the large downswings in the Southern European markets in particular. Demand declined perceptibly in the large-volume markets of Italy (–19.9%), France (–14.1%) and Spain (–13.4%). In the United Kingdom, however, buoyant demand among private customers generated market growth of 5.3%. At 54.9%, the market share of diesel vehicles (passenger cars) in Western Europe in 2012 nearly reached the peak level recorded in the previous year.

Germany

New passenger car registrations in Germany in the 2012 financial year were down slightly compared with the previous year. This 2.9% decline to 3.1 million vehicles was due exclusively to consumer restraint among private customers. The growing uncertainty about how the economy will continue to develop pushed down demand in the second half of the year in particular. The market volume for light commercial vehicles also fell short of the prior-year figure. New vehicle registrations decreased overall by 6.2% to 226,000 vehicles. In 2012, both domestic production and exports missed the prior-year figures 2011. Passenger car production fell by 3.7% to 5.4 million vehicles, while exports of passenger cars were down 2.6% to 4.1 million vehicles, mainly due to a large drop in exports to other euro zone countries caused by the ongoing recessionary trend.

The Volkswagen Group managed to further expand its market leadership in Germany by increasing its market share to 37.7% (previous year: 35.9%).

OVERALL APPRAISAL OF THE DEVELOPMENT OF BUSINESS

In the view of the Board of Management of Volkswagen Bank GmbH, business developed positively in 2012. Earnings in 2012 were in line with expectations and therefore higher than in 2011.

New business throughout Europe has developed positively during the year. Whilst business volume grew again 2012, margins contracted compared to the previous year. Both interest income and interest expense declined due to lower interest rate levels. Refinancing costs saw a slightly disproportionate decrease as a result of favourable interest rates, among other factors. Risk costs fell in comparison with the previous year

In the 2012 financial year, Volkswagen Bank GmbH boosted its business volume year on year – especially in Germany, Italy, Ireland and France. Please see the section on the analysis of the company's business development for more information on the development of current contracts.

Volkswagen Bank GmbH 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 GO40 strategy launched in 2011 in conjunction with the vehicle brands is 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 Volkswagen Bank direct division continues to be of great significance given its deposit volume and its use of innovative sales channels. Volkswagen Bank GmbH further expanded its deposit business from the previous year's high level.

Effective 01 January 2012, the outstanding stake in VOLKSWAGEN BANK POLSKA S.A., Warsaw, which until then had been jointly controlled, was acquired from the former co-owner, Kulczyk Pon Investment B.V., Leusden, to strengthen sales activities in Poland.

With the bank branch in Portugal opening for business, we gained entry into another market. Initially, the dealer organisation here will be supported in selling vehicles with a financing package by the Group.

Management and organisation
New structures and growth

The customer-focused realignment in the German market continued.

KEY OBJECTIVES

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

Financing business

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

Leasing transactions

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

Direct banking business

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

Agency business

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

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

The company's key indicators are calculated based on IFRS and presented in the "Financial Analysis" report.

Among the key financial indicators included in the reporting are the operating result, the return on equity and the cost/income ratio.

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

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

ORGANISATION OF VOLKSWAGEN BANK GMBH

Volkswagen Bank GmbH is another step closer to its goal of aligning the Group such that the quality it offers customers and dealers alike is improved, its processes are streamlined and additional synergies are leveraged. Employee motivation and satisfaction are an important factor in order to defend our top position as an attractive employer.

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

Individual Customers & Corporate Customers, another customer group, is headed by Anthony Bandmann and has aligned its internal customer service along regional lines with the North, West, South and East regions analogous to its field sales. The main focus is on comprehensive consulting services for customers and fixed dealer assignment. The processes for acquiring financing contracts and, as a service for Volkswagen Leasing GmbH, for acquiring leasing contracts have been combined. A close regional integration of the Market and Market Support functions is also the foundation for fully leveraging the Corporate Customer segment. Market Support combines credit analysis and loan approval processes in order to guarantee rapid process speed and a high degree of customer satisfaction. Leadership was transferred as at 01 January 2013 from Dr. Michael Reinhart to Dr. Heidrun Zirfas, who also assumed responsibility for Finance and Risk Management.

The organisational realignment of controlling for the German market undertaken in the previous year for purposes of implementing the WIR2018 strategy and meeting higher standards from groupwide management proved to be successful.

Effective 01 January 2012, the responsibility as primary institution was transferred from Volkswagen Bank GmbH to Volkswagen Financial Services AG.
The structure and organisation of Volkswagen Bank GmbH comply with the requirements of MaRisk.

REPORT ON THE BRANCHES AND BRANCH OFFICES

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

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

At the end of the 2012 financial year, Volkswagen Bank GmbH was represented in the European market by branches in eight EU countries, which were set up using the "European Passport". Each of the international branches of Volkswagen Bank GmbH in France, Greek, the United Kingdom, Ireland, Italy, the Netherlands, Portugal and Spain conducted its local business with its own staff. In the previous year, Volkswagen Financial Services AG and D'Ieteren S.A., Belgium, established a joint venture named Volkswagen D'Ieteren Finance S.A. Among other things, this entity was founded for the purpose of handling customer and dealer financing in Belgium. Based on a contract entered into in 2011, select assets and liabilities of Volkswagen Bank GmbH, which had been allocated to the Belgium branch within the other branches segment, were transferred to Volkswagen D'Ieteren Finance S.A. as at 13.02.2012. The Belgium branch was subsequently wound up and closed on 06.08.2012. The branches employed 695 members of staff as at the end of 2012 (previous year: 591).

Analysis of the company's business development and position
Further improvement of earnings

Larger volumes and stable margins, coupled with lower and optimised risk costs enabled Volkswagen Bank GmbH to increase its earnings further.

Volkswagen Bank GmbH succeeded in consolidating its strong market position in 2012 as well. Thanks to the close cooperation with the brands, the intensive collaboration with the dealers of the Volkswagen Group and the attractive product portfolio of the Volkswagen Group, customer receivables again rose over the level at 31 December 2011. Net interest income including net income from leasing transactions decreased slightly year on year.

RESULTS OF OPERATIONS

The 2012 financial year was a positive one for Volkswagen Bank GmbH. The result from ordinary business activities was € 439.3 million compared to € 418.4 million in the previous year. Foreign branches contributed € 54.0 million (previous year: € 95.3 million) to earnings. The change in earnings was mainly influenced by a decline in net interest income (€ –57.1 million) and an increase in general administration expenses (€ +63.9 million). These developments stand mainly in contrast to significant increases in other operating income (€ +86.7 million) and a decrease in write-downs and bad debt allowances (€ –33.6 million).

The net interest income earned by Volkswagen Bank GmbH including the net income from leasing transactions was € 1,202.4 million compared to € 1,259.5 million in the previous year. Of this decline, € 62.1 million stems from the decrease in net interest income from retail financing, which is contrasted by a € 5.0 million increase in net income from leasing.

Interest income from lending and money market transactions including finance leasing continues to stem primarily from consumer financing, as well as from vehicle and investment financing for the dealers of the Volkswagen Group.

Volkswagen Bank GmbH posted interest income of € 98.9 million (previous year: € 87.0 million) from securities, € 58.3 million (previous year: € 55.3 million) of which was attributable to securities purchased by special purpose entities of Volkswagen Bank GmbH. These securities securitise Volkswagen Bank GmbH's own receivables, which were sold to the respective special purpose entities as part of ABS transactions. An additional € 5.8 million (previous year: € 19.0 million) related to interest income from securities acquired by special purpose entities of Volkswagen Leasing GmbH.

Volkswagen Bank GmbH succeeded in reducing its interest expense by 9.1% to € 505.6 million year on year thanks to the consistent continuation of its diversified refinancing strategy and the flexible utilisation of capital market instruments.

Operating leases contributed € 164.6 million (previous year: € 159.6 million) to net interest income and net income from leasing.

Income from equity investments resulted almost exclusively from the investment in Global Mobility Holding B.V., Amsterdam. Although remaining negative, the net commission income improved year on year, from € –18.5 million to € –4.6 million. The development in Germany and the branches diverged from one another. Whilst in Germany the positive net commission income increased by 32.9% to € 86.7 million, in the foreign branches commission expenses aimed at boosting dealer loyalty as part of the GO^{40} strategy rose substantially. The positive net commission income generated in Germany again could not fully offset the negative result of the foreign branches.

Commission income from the sale of receivables effected through the ABS transactions, which continues to be managed by Volkswagen Bank GmbH, increased by 18.6% to € 58.4 million in 2012 compared with the previous year.

The increase in other operating income by € 86.7 million is mainly the result of income from so-called clean-up calls related to maturing ABS transactions (€ +48.7 million) and the reversal of provisions no longer needed (€ +20.9 million).

General administration expenses rose by € 63.9 million in line with the growth in business volume. The majority of this is due to personnel expenses and personnel lease costs of € 37.3 million.

The allowances and provisions made for the lending business were again measured by taking into consideration all discernible risks. Receivables from vehicle financing at the retail level that fulfil a default criterion under Basel II were subject to individual value adjustments. All other receivables related to vehicle financing at the retail level were broken down according to risk classes and written down in accordance with the respective risk class using portfolio-based value adjustments. Deferred risks were covered by generalised value adjustments in dealer financing and other retail financing. ABS transactions where the default risks are no longer borne by Volkswagen Bank GmbH were not issued in 2012.

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 in 2012. This gave an overall boost to earnings of € 25.1 million in the 2012 financial year. all other methods and procedures for recognising and assessing risks remained unchanged from the previous year's financial statements. Risks from changed court rulings were fully accounted for again in the 2012 financial year. The underlying parameters were adjusted in line with current expectations. Although the corresponding provisions had to be increased by € 40.9 million in 2012, other operating expenses still declined by € 27.5 million.

The write-downs and bad debt allowances required in the customer financing and direct banking businesses were lower than in the previous year. Dealer financing, in contrast, saw a substantial increase in additions to value adjustments. Overall, risk costs declined significantly year on year by € 33.6 million to € 128.3 million.

Under the existing profit transfer agreement, the remaining profit after tax, amounting to € 290.2 million, is transferred to the parent company, Volkswagen Financial Services AG.

SUMMARY

Despite slightly lower net interest income, Volkswagen Bank GmbH succeeded yet again in 2012 in increasing its result from ordinary business activities year on year, especially due to the positive effects of the increase in other operating income and the substantial improvement in risk costs.

ASSETS AND FINANCIAL POSITION

Lending business

The lending business of Volkswagen Bank GmbH focuses on the provision of loans to private and commercial customers. The receivables shown in the balance sheet increased from € 28.7 billion to € 31.3 billion. The share of foreign branches in the retail lending volume rose from € 8.9 billion to € 9.1 billion. Furthermore, the company manages receivables sold through ABS transactions in the amount of € 1.4 billion (previous year: € 2.4 billion). The receivables managed by Volkswagen Bank GmbH thus increased by 5.0% to a total of € 32.6 billion.

Retail financing

New vehicle deliveries to individual customers within the Volkswagen Group declined from the previous year. In keeping with this market development, 376,210 (previous year: 344,653) new contracts were sold in the new vehicle financing business and 296,580 in the used car financing business (previous year: 263,970).

The automotive financing portfolio on the whole rose to 1,946,360 contracts in 2012 (previous year: 1,848,588 contracts). At year-end, retail financing receivables were € 18.3 billion (previous year: € 16.2 billion). At € 3.7 billion, the portion attributable to foreign branches remained almost unchanged (previous year: € 3.6 billion).

Dealer financing

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

The volume of new and used vehicle financing contracts in the corporate customer group was higher than the previous year in both Germany and the European branches owing to the year-on-year increase in the number of vehicles delivered.

Total dealer financing receivables as at the balance sheet date were € 7.5 billion – the same as the previous year. At € 3.7 billion, the portion of aggregate receivables attributable to foreign branches was also unchanged.

Leasing business

Volkswagen Bank GmbH offers finance leasing and operating leasing through its foreign branches. The French branch of Volkswagen Bank GmbH engages in both finance and operating leasing; the Italian branch, on the other hand, continues to offer only finance leasing. Receivables as at the end of the 2012 financial year rose from € 1.2 billion to € 1.3 billion. They largely comprise receivables from finance leasing.

Bonds and debentures
Volkswagen Bank GmbH mainly holds securities from ABS transactions.

In the past years, Volkswagen Bank had executed ABS transactions and acquired the senior ABS debentures related to these transactions. In 2012, Volkswagen Bank placed three ABS transactions with an aggregate volume of € 3.1 billion in receivables, specifically Private Driver 2012-1, Private Driver 2012-2 and Private Driver 2012-3. Securities of tranches A and B were acquired from these transactions. All these transactions resulted in a securities portfolio amounting to € 4.2 billion (previous year: € 2.6 billion). Furthermore, the company had senior ABS debentures issued by special purpose entities of Volkswagen Leasing GmbH with a total volume of € 0.5 billion in its portfolio for investment purposes.

Securities in the amount of € 6.0 billion serve as collateral for participating in Deutsche Bundesbank's open market operations. At the balance sheet date there were open market transactions of € 2.2 billion.

In 2012 the balance of € 0.4 billion in receivables outstanding was bought back in connection with the clean-up calls related to Driver Three, Driver Six, Private Diver 2008-2, Private Driver 2008-3 and Private Driver 2008-4.

Equity investments
Volkswagen Bank GmbH holds a 50% stake in Global Mobility Holding B.V., Amsterdam. Global Mobility Holding B.V. in turn holds all shares of LeasePlan Corporation N.V., Amsterdam. This equity investment of Volkswagen Bank GmbH was sold to Volkswagen AG effective 22 January 2013 as part of internal restructuring of the Group.

Volkswagen Bank GmbH is represented in Poland through its affiliated company VOLKSWAGEN BANK POLSKA S.A., Warsaw. Volkswagen Bank bought the 40% of the equity interest in VOLKSWAGEN BANK POLSKA S.A., Warsaw, which were held by Kulczyk Pon Investment B.V., Leusden, the Netherlands, with an effective date of 01 January 2012.

Volkswagen Bank GmbH also continues to hold an equity interest of 1% in Limited Liability Company Volkswagen Bank RUS, Moscow, which was established in 2010.

CURRENT AND NEW CONTRACTS

In thousands (as at 31.12.)	2012	2011	2010	2009	2008
New contracts[1]					
Retail financing[2]	694	626	623	690	563
Leasing business	39	36	29	27	36
Service/insurance	86	70	59	58	45
Current contracts[3]					
Retail financing	1,946	1,849	1,813	1,940	1,638
of which sold through ABS transactions	563	523	437	597	726
Leasing business	103	91	83	78	77
Service/insurance	128	115	104	105	117
Direct banking customers	1,116	1,095	1,014	939	812

1 The new contracts in 2008 were adjusted to the volume definition applicable from 2009 onwards.
2 Including direct banking business
3 The year-end figure for 2008 was adjusted to the volume definition applicable from 2009 onwards.

Deposit business and borrowings
Besides equity, the main items under equity and liabilities are € 25.0 billion in liabilities to customers including the direct banking business (previous year: € 24.7 billion) and € 2.8 billion in securitised liabilities (previous year: € 3.7 billion). The increase in liabilities to financial institutions is largely the result of the acquisition of a low-interest loan from Deutsche Bundesbank for € 2.0 billion in April 2012 and a further short-term open-market transaction with Deutsche Bundesbank totalling € 0.2 billion in December 2012.

Deposit business
Volkswagen Bank GmbH slightly expanded its deposit business from the previous year's high level. As at the balance sheet date, the customer deposit volume was € 23.4 billion, up 4.8% compared to 31 December 2011 (€ 22.6 billion). Volkswagen Bank GmbH succeeded in consolidating its market leadership among automotive direct banks thanks to this level of deposits. The deposit business is thus contributing substantially to customer loyalty to the Volkswagen Group. Its share in the refinancing mix of Volkswagen Bank GmbH is 58.8% (previous year: 60.6%).

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

SUMMARY

Volkswagen Bank GmbH managed to expand both its retail and dealer financing business, driven, in particular, by the stable economic situation in the core market of Germany. This growth was funded through the growing deposit business of Volkswagen Bank direct and an increase in liabilities to banks.

Equity

Equity remained unchanged year on year.

Volkswagen Bank GmbH was the primary credit institution under the German Banking Act (Kreditwesengesetz - KWG) until 31 December 2011. Volkswagen Financial Services AG assumed the function of the primary company starting on 01 January 2012. As such it is now responsible for ensuring the capital adequacy of the financial holding group, Volkswagen Financial Services AG.

Capital adequacy according to regulatory requirements

Under the provisions of the Solvency Regulations, banking regulatory authorities assume that a company’s capital is adequate if the core capital ratio is at least 4.0% and the regulatory overall ratio is at least 8.0%.

The so-called standardised approach to determine capital adequacy in connection with credit risks and operational risks is applied in accordance with the Solvency Regulation.

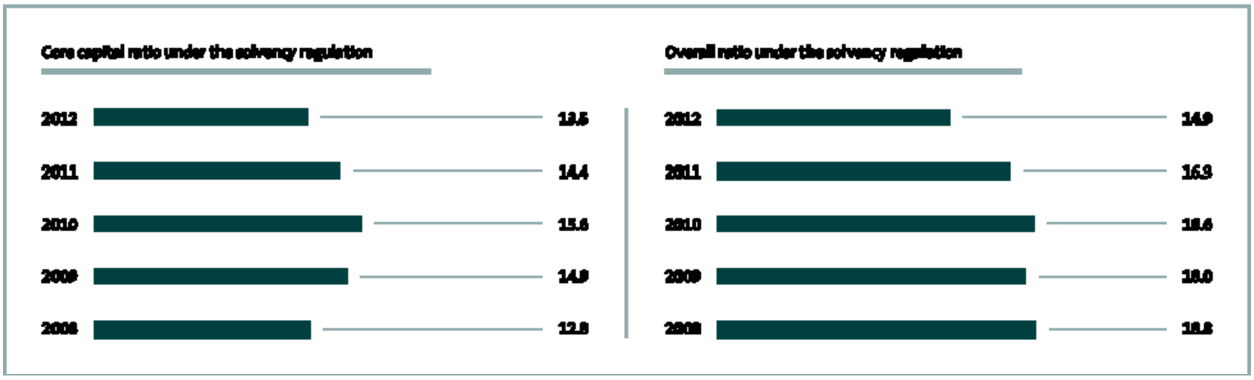
Accordingly, this gives rise to the following regulatory figures and financial ratios for Volkswagen Bank GmbH:

		31.12.2012		31.12.2011
Aggregate risk position (€ million)		29,168		27,461
of which weighted position according to the standardised approach to credit risks	27,214		25,781	
of which market risk positions * 12.5	128		121	
of which operational risks * 12.5	1,826		1,559	
Liable capital[1] (€ million)		4,355		4,464
of which core capital[2]	3,948		3,951	
of which supplementary capital[2]	407		513	
Own funds (€ million)		4,355		4,464
Core capital ratio [3] (%)		13.5		14.4
Overall ratio[4] (%)		14.9		16.3

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

Overall, the core capital ratio changed from 14.4% to 13.5% as a result of a growth in business (increase in risk assets), the change in the core capital and the subordinated funds, and the overall ratio changed from 16.3% to 14.9%. The core capital ration and the overall ratio developed as follows in recent years:

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



The own funds ratio of Volkswagen Bank GmbH is relatively high, ensuring adequate capitalisation even in the event of large increases in its business volume. In principle, the bank can use ABS transactions and raise supplementary capital as needed in the form of subordinated liabilities in order to optimise its equity management. As a result, Volkswagen Bank GmbH has a sound basis for the ongoing expansion of its financial services business.

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

	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Equity ratio [1]	9.8%	10.6%	12.0%	11.0%	9.7%
Core capital ratio[2]	13.5%	14.4%	15.6%	14.9%	12.8%
Overall ratio [3] (regulatory)	14.9%	16.3%	18.6%	18.0%	18.8%
Leverage [4]	9.2	8.4	7.3	8.1	9.3
Return on equity [5]	11.2%	10.6%	10.3%	6.7%	6.9%

1 Ratio between equity and total capital
2 Core capital ratio = Core capital/ ((Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100
3 Overall ratio (regulatory) = Own funds/ ((Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100
4 Leverage
5 Income from ordinary business activities divided by average equity

NOTES TO THE EQUITY RATIO AND LEVERAGE

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.

Since the business volume grew by around 8% in the 2012 financial year, the equity ratio decreased to 9.8% (previous year: 10.6%) whilst leverage increased slightly. Volkswagen Bank GmbH managed to raise funds at all times thanks to its good standing in the capital market and the expansion of its deposit business.

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

REFINANCING

Strategic principles

In terms of its refinancing activities, Volkswagen Bank GmbH generally follows a strategy aimed at diversification, which is conceived as the best possible weighing of cost and risk factors. This entails developing a diverse range of refinancing sources in different regions and countries with the aim of ensuring the sustained availability such resources at optimum terms.

Implementation

Despite volatile markets, the refinancing situation in the financial year just ended was marked by stability and continual availability; the company was able to utilise all instruments at optimal terms and conditions. In the past financial year, Volkswagen Bank GmbH availed itself of the European Central Bank's refinancing facility in the amount of € 2.0 billion. The funds were used in the core business of automotive financial services, existing maturities were replaced and refinancing costs were optimised further. Furthermore, private placements totalling € 305 million were marketed successfully during the year. Receivables of Volkswagen Bank GmbH in the amount of € 3.1 billion were securitised as asset-backed securities. These were repurchased by Volkswagen Bank GmbH in full for the purpose of depositing collateral with the European Central Bank.

With interest rates at historical lows, the customer deposit business grew by € 0.8 billion to € 23.4 billion in the financial year just ended.

The company borrowed at corresponding maturities and used derivatives in line with its strategy of refinancing largely at matching maturities. Currency risks were largely precluded through the use of derivatives. Volkswagen Bank GmbH remained solvent at all times throughout financial year 2012. The broadly diversified structure of our refinancing sources and our active liquidity management will also ensure continuous solvency in future. No liquidity commitments were issued to special purpose entities.

Opportunity and risk report

Opportunity and risk management – a success factor

A multitude of risks are taken in the financial services business. In doing so, Volkswagen Bank GmbH acts responsibly in order to take advantage of the resulting market opportunities for long-term commercial success.

MACROECONOMIC OPPORTUNITIES

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

STRATEGIC OPPORTUNITIES

In addition to intensifying its international alignment by entering new markets, Volkswagen Bank GmbH sees further opportunities in the development of innovative products that are aligned with customers' changed mobility requirements. Growth areas are being developed and expanded thoroughly.

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

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

- Given its function as the corporate body tasked with managing the company's business and in view of ensuring proper accounting, the Board of Management of Volkswagen Bank GmbH has established Accounting, Customer Service, Treasury, Risk Management and Controlling departments and has clearly delineated their respective spheres of responsibility and authority.
- Groupwide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process.
- Control activities at several levels of Volkswagen Bank GmbH, such as reviewing and analysing the financial statements, ensure the propriety and reliability of its accounting.
- 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 Volkswagen Bank GmbH. Internal Audit regularly performs audits, both in Germany and abroad, of processes relevant to accounting as part of its risk-based audit procedures and directly reports its findings to the Board of Management of Volkswagen Bank GmbH.

In sum, the existing internal controlling and monitoring system of Volkswagen Bank GmbH is designed to ensure that the information on the financial position of Volkswagen Bank GmbH as at the 31 December 2012 reporting date is proper and reliable. No material changes were made to the internal controlling and monitoring system of Volkswagen Bank GmbH after the reporting date.

ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

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

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

This risk management system allows timely detection of developments that might jeopardise the company's activities.

The system encompasses both a framework of risk principles as well as organisational structures and processes for risk measurement and monitoring that are tightly integrated in the activities of the individual divisions.

The suitability of individual system elements is reviewed regularly in a risk-oriented manner by Internal Audit.

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

The Chief Risk Officer (CRO) regularly reports Volkswagen Bank GmbH's overall risk position to both the Board of Management and the sole shareholder, Volkswagen Financial Services AG. The Supervisory Board of Volkswagen Bank GmbH was dissolved effective 15.05.2012; its tasks have been assumed by the company's shareholder.

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 defines parameters for the procedures and models used worldwide for assessing creditworthiness and collateral and it is responsible for monitoring their adequacy.

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

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

RISK STRATEGY AND RISK MANAGEMENT

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

As part of its overall responsibility, the Board of Management of Volkswagen Bank GmbH and the Board of Management of Volkswagen Financial Services AG jointly established and documented a strategy process that conforms to minimum risk management requirements as well as a business and risk strategy.

The WIR2018 business strategy sets out the fundamental views of the Board of Management of Volkswagen Bank GmbH on key matters of business policy.

It contains the goals for every key business activity and the steps required to achieve these goals.

The risk strategy, which is consistent with the business 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 (until 15.05.2012) or the shareholders' meeting of Volkswagen Bank GmbH (from 16.05.2012).

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

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

The Board of Management of Volkswagen Bank GmbH is responsible for executing the risk strategy established by itself within Volkswagen Bank GmbH.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

A system is in place at Volkswagen Bank GmbH to determine the company's risk-bearing capacity by comparing its economic risk to its hedging 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 hedging potential.

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

Risk quantification is executed by means of different approaches pursuant to the methodological recommendations of the Basel Capital Accord based on statistical models and supported by expert estimates.

The material risks are quantified as part of the analysis of the risk-bearing capacity based on a general confidence level of 90% and an observation period of one year. A holding period of 40 trading days is applied for market price risks.

Volkswagen Bank GmbH's risk-bearing capacity was certain throughout the year 2012.

In addition, Volkswagen Bank GmbH uses a limit system derived from its analysis of risk-bearing capacity in order to specifically limit the risk coverage capital in accordance with the risk appetite of the Board of Management of Volkswagen Bank GmbH.

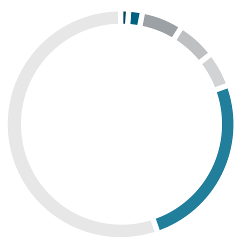
Establishing the risk limit system as the core element in capital allocation limits risks at different levels, thus ensuring the economic risk-bearing capacity of Volkswagen Bank GmbH. The risk hedging potential is determined based on the available equity and income components, taking various deductible items into account. In keeping with the risk appetite of the Board of Management of Volkswagen Bank GmbH, only a portion of this risk hedging 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 price risk for purposes of monitoring and steering at the operating level. Furthermore, a system of risk limits has been put in place for the these risks at the branch level.

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

The overall risk of Volkswagen Bank GmbH amounts to € 765.7 million and is distributed as follows across the individual types of risk. The percentages shown are based on IFRS figures.

DISTRIBUTION OF RISKS BY TYPE OF RISK

Figures as at 30.09.



Stress tests are conducted across all institutions at Volkswagen Bank GmbH, taking historical and hypothetical scenarios into account.

The Groupwide inverse stress test also includes examining for the bank which plausible events could expose it to a going-concern risk.

Based on calculations of risk-bearing capacity, all material risks that could adversely affect the assets, results of operations or liquidity situation were sufficiently hedged at all times through the available risk hedging potential.

During the financial year, risk coverage capital was kept below the overall internal risk limit.

The stress tests performed do not indicate any need for action. A list of measures to be taken in case the euro zone breaks up was developed based on the results of the inverse stress test.

RISK REPORTING

The risk-bearing capacity is the starting point in the risk management report. After describing the Bank's overall risk, Group Risk Management & Methods addresses the credit, market price, liquidity, operational, residual value and shareholder risks in detail in its quarterly risk management report. This report is addressed directly to the Board of Management of Volkswagen Bank GmbH as well as the Supervisory Board (until 15.05.2012) or the shareholders' meeting (from 16.05.2012).

Regular reporting is supplemented by ad hoc reporting.

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

FOURTH AMENDED VERSION OF MARISK

The Federal Financial Supervisory Authority (BaFin) published the new version of MaRisk in December 2012. Among other changes, it stipulates the following:

- a stronger risk control function,
- critical analyses of risk quantification procedures for all relevant risk types to be performed at least annually,
- new and more specific requirements for risk-bearing capacity,
- setting up a MaRisk-compliant, multi-year capital planning process in accordance with Pillar I (regulatory minimum capital requirements) and Pillar II (internal capital adequacy requirements to ensure risk-bearing capacity beyond the risk evaluation period of one year),
- setting up early warning indicators for all material risk types as well as across risk types,
- setting up processes preceding material changes in organisational structure and workflows and in IT systems for analysing the effects of planned changes on control procedures and control intensity,
- setting up a groupwide compliance function and
- setting up a suitable liquidity netting procedure.

The required changes and the need for action were analysed. The new requirements are scheduled to be implemented in 2013.

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

RISK TYPES

RISK OF COUNTERPARTY DEFAULT

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

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

Credit risk

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

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

Risk assessment

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

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

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

Volkswagen Bank GmbH bases its lending decisions on credit assessments of the given borrowers using rating and scoring procedures.

Parameters for developing and maintaining rating systems are described in a working guideline. There is also a rating manual, which governs the application rating systems as part of the loan approval process.

Scoring procedures in the retail business

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

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 static methods. In a departure from the above, 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 estimates at the risk pool level serve to classify the risk of the loan portfolio.

Rating procedures in the corporate business

Volkswagen Bank GmbH uses credit rating procedures to rate its national and international corporate customers (e.g. automobile dealers).

The assessment includes both the key performance indicators from annual financial statements as well as qualitative factors – such as the outlook for future business development, the quality of management, the climate in both the market and industry, as well as the customer's payment behaviour. To the extent possible, all these factors are taken into account statistically.

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

The centrally maintained, workflow-based rating application (CARAT), which had initially been used only in Germany and certain branches, was rolled out worldwide to support analyses of creditworthiness.

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

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

All rating and scoring models used in Germany and abroad are validated regularly, monitored as well as adjusted and refined as necessary.

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

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

Validation refers in particular to checking whether the models are separable and calibrated in ways adequate to the risks. In order to ensure a high standard of quality, the models developed abroad are subject to centralised quality assurance, which centrally monitors all models in Germany and enhances them as necessary. A risk committee which meets in different committees is in place to approve rating and scoring procedures.

Collateral

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

The valuations in local collateral guidelines are based on historical data and many years of expert experience.

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

Volkswagen Bank GmbH therefore monitors the development of vehicles' market values. Adjustments of the valuation methods and disposal processes are made in the event of major changes in these market values.

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

Value adjustments

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

As a rule, a conservative approach is used in connection with model and parameter assumptions.

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 Bank GmbH's approval limits. These approval limits are fixed for each branch individually. The local decision makers can exercise discretion within these limits.

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

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

Concentrations of risk

Concentrations of credit risk

Concentrations of credit risk arise if a major portion of the loans are extended to a just few borrowers/ contracts. Volkswagen Bank GmbH is an institute focused on specialised financial services (captive). Hence this risk is analysed and reported in detail in accordance with the business model. By its nature, this business model makes it impossible to avoid concentrations of risk in the risk type, "credit risk". Existing concentrations of risk are thus adequately considered and monitored.

But concentrations of credit risk are of secondary significance to Volkswagen Bank GmbH given its international positioning and the fact that its activities mainly concern small (retail) loans.

Concentrations of industries

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

Concentrations of collateral

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

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

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

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

Developments/Outlook
The economic horizon remained dim in 2012, particularly in the crisis-affected Southern European countries. This also impacted on the market for motor vehicles. While the portfolios in Germany and the United Kingdom showed a stable trend, markets such as Italy or Greece witnessed a sharp rise in the volume of bad debts.

The retail portfolio accounts for 72% of the customer credit business, while the corporate portfolio accounts for 28%.

Driven by the manufacturer's marketing campaigns and an economic environment that was stable especially in the first six months of the year, the retail portfolios grew, particularly in the major European markets.

Defaults in the private customer segment were up slightly, primarily in Southern European markets.

Stabilising trends in the business with commercial borrowers continued until the end of the first half of 2012. In the second half of 2012, the first signs of darkening skies emerged on the economic horizon. Overall, the dealer business continued to grow in connection with the expansion of the factoring business.

The economic environment is expected to become increasingly challenging in 2013. Resolving the sovereign debt crisis in Europe and its ramifications will be decisive.

Counterparty/issuer risk

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.

Volkswagen Bank GmbH 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 cease to repay the principal and/or the interest as contractually required.

Risk assessment
Counterparty/issuer risks are recorded as part of the risks of counterparty default.

Counterparty/issuer risk is calculated using a Monte Carlo simulation to determine the unexpected loss (value-at-risk and expected shortfall).

Risk management and monitoring
Treasury is responsible for risk management in relation to counterparty/issuer risks. The counterparty/issuer default risk is calculated and monitored monthly by Group Risk Management.

In addition, the investment volume per counterparty is controlled using counterparty volume limits. Compliance with these counterparty volume limits is monitored by the Treasury back office.

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 must be paid to country risk at Volkswagen Bank GmbH, particularly in the case of refinancing and equity investments in foreign companies as well as in the lending business of the bank branches. However, due to business focus of Volkswagen Bank GmbH, there is virtually no chance that country risks will arise.

Shareholder risk

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

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

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

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

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

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

The fleet management contract portfolio changed by 1.5% over the prior year. Despite growing macroeconomic challenges in key markets, LeasePlan was able to slightly increase the result from ordinary business activities as against previous years.

Due to the unstable market environment in the euro zone, rating agency Moody's downgraded LeasePlan's credit rating by two levels to Baa2 in June 2012.

Rating agency Fitch (A-) lowered the outlook for LeasePlan from stable to negative and also justified this based on the difficult market climate in the euro zone. In contrast, S&P kept its rating unchanged at BBB+.

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

Risk management and monitoring

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

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

The 50% equity investment by Volkswagen Bank GmbH in Global Mobility Holding, which holds 100% of LeasePlan Corporation N.V., was sold to Volkswagen AG effective 22.01.2013 as part of internal restructuring of the Group.

MARKET PRICE RISK

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

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 Bank GmbH and recommending results-oriented risk management measures.

Volkswagen Bank GmbH's banking book was examined in accordance with IDW RS BFA 3 to determine whether it was necessary to recognise provisions for anticipated losses; there were no indications that this is the case.

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 Bank GmbH.

Risk assessment

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

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

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

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

In this connection, changes in the present value are also quantified and monitored monthly using the +200 and – 200 basis points interest rate shock scenarios defined by the Federal Financial Supervisory Authority (BaFin).

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

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

Risk management and monitoring

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

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

Group Risk Management & Methods is tasked with monitoring interest rate risks and reporting on them.

Risk communication

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

Foreign currency risk

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

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

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

In addition, endowment capital in the amount of GBP 96 million was made available to the branch in the United Kingdom as at 31.12.2012. Given its unlimited maturity, the endowment capital which is refinanced in euros is not secured through hedging transactions.

Fund price risk

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

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

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

EARNINGS RISK (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.

Risk measurement

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

Risk management and monitoring

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

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

Concentrations of risk

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

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

Volkswagen Bank GmbH thus is exposed to concentrations of income from its business model by definition.

LIQUIDITY RISK

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

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

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

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

Parameters

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

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

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

Risk assessment

The Treasury unit of Volkswagen Bank GmbH evaluates the expected cash flows of Volkswagen Bank GmbH.

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

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

Managing Volkswagen Bank GmbH's liquidity requires strict compliance with the liquidity ratio prescribed by the Liquidity Regulation. It was between 2.19 and 3.53 from January to December of the reporting year and thus always substantially higher than the regulatory floor of 1.0. Treasury continually monitors this liquidity ratio and actively manages it by imposing a floor for internal management purposes.

Liquidity management and monitoring

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

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

The ability required under the regulatory regimen to bridge any liquidity needs over a time horizon of seven and 30 days with a highly liquid cushion and the corresponding liquidity reserve constitutes a strict constraint.

Both an emergency plan for liquidity bottlenecks and a suitable action plan for obtaining liquidity are available in the event of an internal or external liquidity bottleneck. An emergency can be triggered by both Liquidity Risk Management (Group Risk Management & Methods) and by Liquidity Management and Planning (OLC).

Risk communication

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

The Board of Management is informed monthly of the current liquidity situation.

OPERATIONAL RISK

Operational risk (OpR) is defined as the risk of losses that arise from the inappropriateness or failure of internal processes (process risks), employees (personnel risks) and systems (infrastructure and IT risks) or from external factors (external risks, e.g. terrorist attacks). The definitions of these four risk categories include the respective legal risks.

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

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

Risk identification and assessment

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

Self-assessment and the loss database are key elements for managing operational risks.

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

Risk management and monitoring

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

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

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

Outsourcing

The risks arising from outsourcing activities are documented and managed within operational risks.

The crash barriers are stipulated by the general guidelines for the outsourcing process. These guidelines require that a risk analysis 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.

All outsourcing activities are combined in Group Outsourcing Coordination. This coordination office has information about all outsourcing activities and the associated risks – the Board of Management is regularly informed about these risks.

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.

Corporate Security

The goal of the Corporate Security unit is to ensure security for individuals, information and property at Volkswagen Bank GmbH and to avoid or reduce damage to its image and losses from operational disruptions. To this end, we use Security Management at Volkswagen AG's Group sites worldwide and our network of security services, associations and security officers of other companies in Germany and abroad when necessary.

Business continuity management

A business continuity management system, which is based on the British BS 25999 Standard, was introduced in order to ensure Volkswagen Bank GmbH’s ability to withstand crises (“global business resilience”).

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

Strategic crisis management at Volkswagen Bank GmbH serves to establish a groupwide crisis management organisation whose mission is to ensure a coordinated and structured approach to crises. Active monitoring of the global security situation as an integral part of Strategic Crisis Management is a forward-looking, preventive measure that bolsters Volkswagen Bank GmbH's capacity for action, even in extreme situations that endanger the company as a whole.

RESIDUAL VALUE RISK

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

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

A direct residual value risk is present when the residual value risk is borne directly by Volkswagen Bank GmbH or one of its branches (because of contractual provisions).

A residual value risk management circle has been implemented at Volkswagen Bank GmbH or one of its branches. This circle requires regular residual value forecasts and continuous risk assessments, mainly in regards to direct residual value risks. Proactive marketing activities are derived from the measurement results in order to optimise earnings from the assumption of residual value risks. The marketing results so obtained are considered in the review of the residual value guidelines.

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

The initial risk is that the counterparty guaranteeing the residual value might default.

If the guarantor of the residual value defaults, the residual value risk is transferred to Volkswagen Bank GmbH.

Risk identification and assessment

The New Product Process is carried out before business activities in new markets or in connection with new products are launched. This process includes analysing potential direct residual value risks.

In addition, local risk managers obtain data on the indirect residual value risks from market participants at regular intervals.

Direct residual value risks are regularly quantified throughout the year in respect of both the expected 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. Using the price for used cars enables integrating an observable benchmark into the model, with the result that the modelling may be deemed to be statistically valid. 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. In the final analysis, this is relevant to the determination of the residual value risk. The resulting deduction is determined using the quantile function of the normal distribution based on a prescribed confidence level.

The unexpected loss 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 expected loss. 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.

In addition, the existing procedure for quantifying the indirect residual value risk was refined further. In particular, the parameterisation of the loss ratio was adjusted based on the historical information now available. The parameters used include the probability that the dealerships will recover as well as a rate for the expiry of premature and normal contract terminations in "normal" operations. The business trend and the above-mentioned refinement of the quantification methods will further reduce the indirect residual value risks (in comparison with previous years).

As a consequence, the indirect residual value risks will continue to be classified as an "insignificant risk type" for our company.

Risk management and monitoring

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

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

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

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

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

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

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

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

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

The indirect residual value risks of Volkswagen Bank GmbH are regularly monitored in connection with portfolio assessment.

The indirect residual value risks of Volkswagen Bank GmbH's branches are subject to plausibility checks and measured based on the amount of the risk and its significance.

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

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

Concentrations of risk

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

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

Developments/Outlook

In the first half of 2012, residual value risks were mostly stable. In the second half-year, however, pressure on used car markets again built increasingly, which led to a slight increase in residual value risks.

As a result of the expansion of the fleet business in France, the residual value portfolio will continue to grow on the whole in 2013. A car market expected to continue to be weak will result in an overall increase in risks again next year due to a fundamental downturn in residual values.

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.

REPUTATION RISK

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

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

SUMMARY

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

This system was continuously refined in 2012 as well.

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

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

Volkswagen Bank GmbH succeeded in mastering challenges in 2012 despite the still-darkened economic horizon, particularly in the Southern European countries affected by the economic crisis.

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

EVENTS AFTER THE BALANCE SHEET DATE

Volkswagen Financial Services AG paid € 200 million into the capital reserve in January.

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 22.01.2013 as part of internal restructuring of the Group.

No important events beyond those described in this report occurred after the close of the 2012 financial year.

Personnel report
Successful ranking as a TOP employer

Volkswagen Bank GmbH and Volkswagen Financial Services AG are jointly and successfully implementing their personnel strategy.

PERSONNEL FIGURES

As at the end of 2012, a total of 1,892 (previous year: 1,787) employees of Volkswagen Financial Services AG were working in Volkswagen Bank GmbH's business units under staff leasing agreements.

Volkswagen Bank GmbH continues to employ certain staff directly due to regulatory requirements. At 31 December 2012, this staff numbered 169 in Germany (previous year: 162). The branches of Volkswagen Bank GmbH had 695 employees (previous year: 591).

EMPLOYEES

Our company's sustained success is only possible thanks to our employees' best efforts. 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.

Our personnel strategy

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

The "We Are a Top Team" employee strategy supports goal achievement in the four action areas, "customers", "employees", "profitability" and "volume". Targeted personnel development serves to foster and challenge employees. We are consciously leveraging in-house talent as we strive to achieve our goal of becoming a TOP employer by 2018. The talent programme launched in 2010 was continued in 2012. Currently, a total of 65 high-performing employees are participating in the three groups.

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

The aim, "We are a top team", is measured by Volkswagen Financial Services AG based on participation in employer competitions as well as the "mood barometer", the company's internal staff survey.

Volkswagen Financial Services AG's participation in the 2012 "Best Workplace in Germany (Great Place to Work") employer benchmark survey produced the best possible result: first place in the category for companies with 2,001 to 5,000 employees. The very positive responses by the employees surveyed in the competition indicate that we have embarked on the right path for shaping our company and leadership culture. The successful ranking as a TOP employer in Germany and the insights from the benchmark study are important strategic parameters and indicators that help us to safeguard and further build on what we have achieved.

Human resources planning and development

In 2012 Volkswagen Financial Services AG hired 43 new trainees/students of WelfenAkademie 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 were chosen from a pool of 1,700 applicants.

As at 31 December 2012, a total of 128 trainees and students of WelfenAkademie were employed with us in Germany for the duration of the apprenticeship programmes and in all occupational groups. Volkswagen Financial Services AG also offers college graduates and young professionals attractive job opportunities as trainees.

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 range of seminars and workshops. These training programmes are closely aligned with the company's products, processes and systems. In addition, the need for specialists is identified in coordination with the appropriate departments and suitable development concepts are drawn up. 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.

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. Internationally, we continued to work on broad-based introduction and optimisation of Group standards, e.g. the establishment of a uniform management selection process.

Anticipated developments
Weaker growth expected

Despite economic uncertainties, the global economy and many automotive markets are expected to grow further in 2013 and 2014. Volkswagen Bank anticipates moderate growth.

The material risks arising in connection with the business activities of Volkswagen Bank GmbH were described in detail in the risk report above. Below we are describing the expected future development of the Volkswagen Bank GmbH Group and the environment in which it does business. The resulting opportunities and potentials 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 plans are based on the assumption that the global economy will continue to grow. As in recent years, we expect the emerging markets to generate the greatest economic momentum; in our view the major industrialised countries will achieve only moderate growth rates in the medium term.

Europe

Due to the continuing sovereign debt crises, we expect the Western European economies to stagnate in 2013, with recessionary trends evident in Southern Europe. A robust recovery will only be possible in 2014 if significant progress is made in solving the crisis in the euro zone. In Central and Eastern European countries, on the other hand, we believe that much higher growth rates are likely, although growth will still be influenced to a large degree by developments in Western Europe.

Germany

After last year's downturn in the economy, we expect no more than modest growth from the German economy in 2013. The labour market situation will remain stable for the time being. The German economy is expected to resume moderate growth in 2014. The size of the growth rate will greatly depend on future developments in the euro zone.

FINANCIAL MARKETS

Going forward, the financial markets will remain dependent on the progress made in managing the European banking and sovereign debt crisis. In view of the close links with the global economy, this is a global challenge. The shortfall of capital flows to other regions of the world, especially the USA and Japan, owing to the euro zone crisis still poses a risk to the stability of the global financial markets given the uncertain economic growth in these markets too. In view of this situation, financial investments will also gain in importance in the growth markets of Brazil, Russia, India and China.

In Europe, the European banking system will have to adapt to the European banking supervision proposed by the European Commission in September 2012. In line with the European Commission's plans, the ECB will act as a watchdog and progressively supervise all banks in the 17 euro zone countries in 2013. The changes in the overall conditions are forcing a number of European banks to realign their business models, increase their equity ratios and implement further measures to reduce costs.

DEVELOPMENT OF THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

We expect developments in the markets for passenger cars and light commercial vehicles in the individual regions to be mixed in 2013; on the whole, global demand for new vehicles will probably grow at a much slower pace than in the reporting period. The market is likely to pick up speed in 2014 compared with 2013.

The Volkswagen Group is well positioned for a heterogeneous development of the automobile markets. Its broad product range, which includes the most recent generation of fuel-optimised engines, gives the Volkswagen Group 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.

Europe

We expect demand for automobiles to decline in Western Europe in 2013. The continuing sovereign debt crisis in many European countries is damaging consumer confidence and limiting the ability of consumers to finance new car purchases. In major markets such as Spain and Italy in particular, the government's austerity measures have dampened demand. We expect the economic situation in Western Europe to ease somewhat in 2014. As a result, we are likely to see a moderate recovery in demand for new vehicles in many markets.

For the markets in Central and Eastern Europe we anticipate that demand for vehicles in 2013 will be only marginally higher than in 2012, though growth rates should increase again in 2014. In Russia, demand in 2013 will not exceed the high level of the previous year, although the market is expected to return to growth in 2014.

Germany

The general downturn in consumer spending in Western Europe also reached the German market during the course of the year despite the stability of the country's economy. For 2013, we are therefore forecasting a slight fall in demand. From 2014, automotive demand in Germany should return to moderate growth, depending on future developments in the euro zone.

INTEREST RATE TRENDS

In the 2012 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. We expect monetary policies to be implemented in Europe and the United States during 2013 that make an increase in interest rates unlikely. Long-term interest rates should remain stable worldwide. Interest rates could rise in 2014 if an inflationary trend emerges.

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 Bank GmbH 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. Simple, transparent, safe, reliable, affordable, flexible – those are the key requirements that our business must satisfy in future. Volkswagen Bank GmbH 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.

DEVELOPMENT OF VOLKSWAGEN BANK GMBH

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

For more information of credit and residual value risk, please see the disclosures in the Opportunity and Risk Report.

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

In addition, Volkswagen Bank GmbH intends to continue pursuing its activities designed to enhance its ability to leverage potential along the automotive value chain.

Our aim is to fulfil the desires and needs of our customers in cooperation with the Volkswagen Group brands as best we can along this chain. The product packages that were successfully introduced in recent years will be further refined according to customer needs. This approach is a key element in international competition.

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

The Volkswagen Bank direct division remains highly significant to the development of Volkswagen Bank GmbH due to its deposit volume. We aim to steadily increase the number of customers through attractive and innovative products.

PROSPECTS FOR 2013 AND 2014

In 2013 and 2014 there is expected to be considerable uncertainty about conditions in the real economy.

Nevertheless, the Board of Management of Volkswagen Bank GmbH anticipates a moderately higher business volume depending on the performance of the Volkswagen Group.

A muted rise in interest rates from 2014 onwards at the earliest is expected to result in only a slight narrowing of interest margins and stable refinancing costs.

Taking into account the aforementioned factors and market developments, adverse effects are also anticipated, for instance on risk costs.

The deposit volume in the Volkswagen Bank direct division is to be further expanded in the next years through solutions geared to customers' needs.

In 2013 a positive effect on earnings will come mainly from the one-time, extraordinary effect of the sale of Global Mobility Holding B.V. to Volkswagen AG that was completed on 22 January 2013. Earnings in 2014 are expected to be lower than in 2012.

Annual Financial Statements (HGB)

Balance sheet

as at 31 December 2012 of Volkswagen Bank GmbH, Braunschweig

€ 000		31.12.2012	31.12.2011
Assets			
1. Cash reserve			
a) Cash in hand	924		738
b) Deposits with central banks	659,163		643,112
of which:			
at the Deutsche Bundesbank € 654,627,000			(636,588)
c) Deposits with post giro offices	92		100
		660,179	643,950
2. Receivables from financial institutions			
a) Payable on demand	155,241		491,980
b) Other receivables	176,541		1,430,105
		331,782	1,922,085
3. Receivables from customers		31,274,746	28,671,782
4. Debentures and other fixed-income securities			
a) Bonds and debentures			
aa) By public-sector issuers	1,541,460		800,874
of which:			
eligible as collateral at the Deutsche Bundesbank € 1,478,873,000			(740,880)
ab) By other issuers	4,669,927		3,502,818
of which:			
eligible as collateral at the Deutsche Bundesbank € 4,669,927,000			(3,502,818)
		6,211,387	4,303,692
5. Shares and other non-fixed-income securities		503	503
6. Equity investments		1,063,933	1,080,080
of which:			
in financial institutions € 29,000			(16,106)
7. Investments in affiliated companies		52,026	941
of which:			
in financial institutions € 52,026,000			(941)
8. Intangible assets			
b) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	6,706		7,495
c) Goodwill	1,000		1,167
d) Advance payments made	749		0
		8,455	8,662
9. Tangible fixed assets		13,050	10,579
10. Leased assets		442,992	389,085
11. Other assets		226,722	227,252
12. Deferred income		16,578	26,186
13. Excess of plan assets over pension liability		956	556
Total assets		**40,303,309**	**37,285,353**

€ 000		31.12.2012	31.12.2011
Equity and liabilities			
1. Liabilities to financial institutions			
a) Payable on demand	133,623		8,695
b) With repayment period or period of notice	2,320,755		117,580
		2,454,378	126,275
2. Liabilities to customers			
a) Other liabilities			
aa) Payable on demand	18,261,412		17,628,230
ab) With agreed repayment period or period of notice	6,710,773		7,017,468
		24,972,185	24,645,698
3. Securitised liabilities			
a) Debentures issued	2,604,420		3,395,368
b) Other securitised liabilities	242,872		265,453
of which:			
Money market papers € 242,872,000			(265,453)
		2,847,292	3,660,821
4. Other liabilities		4,579,418	3,362,295
5. Deferred income		475,992	471,410
6. Provisions			
a) Provisions for pensions and similar obligations	57,286		56,808
b) Tax provisions	27,447		22,311
c) Other provisions	357,649		318,004
		442,382	397,123
7. Special tax-allowable reserve		1,414	1,483
8. Subordinated liabilities		565,000	565,000
9. Participation right liabilities		0	90,000
of which:			
due within less than two years € 0			(90,000)
10. Fund for general banking risks		25,565	25,565
11. Equity			
a) Subscribed capital	318,279		318,279
b) Capital reserves	3,595,800		3,595,800
c) Revenue reserves			
ca) Other revenue reserves	25,604		25,604
		3,939,683	3,939,683
Total equity and liabilities		**40,303,309**	**37,285,353**
1. Contingent liabilities			
a) Liabilities from surety and warranty agreements		198,808	97,244
of which:			
to affiliated companies		2,912	62,562
2. Other obligations			
a) Irrevocable credit commitments		1,263,653	1,258,986
of which:			
to affiliated companies		182,016	235,418

Income statement

of Volkswagen Bank GmbH, Braunschweig, for the period from 1 January to 31 December 2012

€ 000			2012	2011
1. Interest income from				
a) Lending and money market transactions	1,444,515			1,569,322
b) Fixed-income securities and book-entry securities	98,856			87,019
		1,543,371		1,656,341
2. Interest expense		505,598		556,481
			1,037,773	1,099,860
3. Current income from				
a) Shares and other non-fixed-income securities		18		6
b) Equity investments		2,457		4,975
			2,475	4,981
4. Income from leases		268,139		280,207
5. Expenses from leases		103,495		120,596
			164,644	159,611
6. Commission income		303,511		266,148
7. Commission expenses		308,096		284,644
			–4,585	–18,496
8. Other operating income			315,748	229,083
9. Income from the reversal of the special tax-allowable reverse			70	70
10. General administration expenses				
a) Personnel expenses				
aa) Wages and salaries	76,868			67,985
ab) Social security costs and expenses for pensions and support	18,361			14,651
of which:		95,229		82,636
for pension schemes € 6,091,000				(4,233)
b) Other administration expenses		554,404		503,147
			649,633	585,783
11. Depreciation, amortisation and value adjustments to intangible and tangible fixed assets and leased assets				
a) Depreciation, amortisation and value adjustments to intangible and tangible fixed assets		7,466		6,275
b) Depreciation on leased assets		133,408		117,236
			140,874	123,511
12. Other operating expenses			158,012	185,558
13. Amortisation and value adjustments to receivables and certain securities, as well as transfers to provisions for lending business			128,342	161,904
14. Income from reversals of write-downs of equity investments, shares in affiliated companies and securities classified as fixed assets			19	0
15. Result from ordinary business activities			439,283	418,353
16. Extraordinary income		0		1,752
17. Extraordinary expenses		0		0
18. Extraordinary result			0	1,752
19. Taxes on income and earnings			147,560	187,636
of which:				
Expenditure from the change in deferred taxes € 20,000				(420)
20. Other taxes, unless shown under Item 12			1,475	2,801
21. Profit transferred on the basis of a profit and loss transfer agreement			290,248	229,668
22. Net income			0	0
23. Retained profits brought forward from the previous year			0	0
24. Net retained profits			**0**	**0**

Notes

of Volkswagen Bank GmbH, Braunschweig, as at 31 December 2012

I. General comments regarding the annual financial statements

The annual financial statements were drawn up according to the stipulations of the German Commercial Code (HGB) and the Ordinance on Accounting for Banks (RechKredV).

A profit transfer agreement concluded with Volkswagen Financial Services AG came into effect on 1 January 2002.

Under § 285 no. 21 German Commercial Code (HGB), Volkswagen Bank GmbH must disclose material transactions with related parties that are not conducted at prevailing market terms. All transactions with related parties were conducted at prevailing market terms.

Volkswagen Bank GmbH executed three new ABS transactions in 2012, the objective of which was to repurchase the securities issued by the ABS special purpose entities in order to obtaining paper eligible as collateral as a liquidity reserve. Volkswagen Bank GmbH thus did not initially receive any liquidity from these transactions. Seven additional transactions from previous years are being amortised. In addition to these transactions, there were no additional material effects on the current and future liquidity and financial position of Volkswagen Bank GmbH.

II. Accounting policies

Assets and liabilities are measured in accordance with the provisions of §§ 252 ff. HGB, supplemented by the provisions of §§ 340 ff. HGB. Unless indicated otherwise, accounting methods and measurement are based on the same principles as in the previous year.

Foreign currency transactions within the non-trading portfolio are measured in accordance with § 340h in conjunction with § 256a HGB. In accordance with the risk strategy of Volkswagen Bank GmbH, the portfolio of assets, liabilities or futures that is hedged in accordance with § 340h HGB comprises all material foreign currency transactions. The hedged transactions are allocated at the level of individual contracts. They are measured at the reporting date middle spot rate. Income and expenses from the translation of foreign currency items hedged through foreign currency items in the same currency are accounted for in the income statement.

Pursuant to § 256a sentence 1 HGB, foreign currency assets and liabilities not subject to special hedge accounting in the same currency are translated at the reporting date middle spot rate, taking the acquisition cost and imparity principle into account. If the residual term is one year or less, the gains and losses from currency translation are fully recognised through profit and loss in accordance with § 256a sentence 2 HGB.

Unsettled forward exchange transactions within the non-trading portfolio that serve to hedge interest-bearing balance sheet items are measured by applying the split forward rate method. This involves splitting up the forward exchange transactions into its components, spot rate and swap rate (premium/discount). Premium and discount are accrued pro rata temporis like interest over the term of the forward exchange transaction. The transaction is accounted for by contrasting its spot basis with the reporting date middle spot rate. Positive and negative spot rate differences within the same currency are offset. The net amount is shown as an adjustment item under “Other assets” or “Other liabilities”.

The interest rate and currency derivatives concluded by Volkswagen Bank GmbH are part of general economic hedging relationships. Use is not made of the explicit option to perform hedge accounting.

Tangible fixed assets and intangible assets with a limited period of use are depreciated using the straight-line method based on the useful lives defined in the tax depreciation tables.

The vehicles shown under Leased assets are depreciated using the straight-line method. Write-downs to the lower fair value are recognised in cases of a likely permanent impairment for the balance sheet items, tangible fixed assets, intangible assets and leased assets. Upon disposal of vehicles classified as leased assets, the proceeds are recognised under income from leasing transactions, while the residual book values of the disposals are reported under expenses from leasing transactions. As a result, the prior-year write-downs are no longer initially recognised in income with a correspondingly higher expense figure being reported under leasing expenses. Instead, since financial year 2012, the residual book value less the write-downs is recognised in expenses from leasing transactions.

Equity investments are recognised at cost and receivables at their nominal value less provisions for risks. In dealer financing, individual value adjustments were determined on a contract-by-contract basis. Risks associated with non-impaired dealer receivables are addressed by recognising general value adjustments. In customer financing, generalised individual value adjustments are applied. The model we used for determining these adjustments was derived from the Basel II risk quantification method. Liabilities are recognised at their settlement amount. Differences between net loan proceeds and nominal value are transferred to prepaid expenses/deferred income and written off according to schedule. Stock and shares in affiliated companies are measured at the lower of fair value or cost.

The measurement of provisions is based on the best estimate of the necessary settlement value.

Dr. Klaus Heubeck’s current mortality tables from 2005 were used in the measurement of the pension obligations. The provisions for pension obligations are discounted using the average market interest rate for the last seven years. The residual term of the obligations is generally assumed to be 15 years. The pension provisions comprise the sum of the pension liabilities and the attendant plan assets recognised at fair value.

Pursuant to § 253 Para. 2 HGB, other provisions with a residual term of more than one year were discounted based on their residual term. The discount rates published by Deutsche Bundesbank for the residual terms were applied, and the mark-up contains the expected inflation rate for the corresponding terms.

Volkswagen Bank GmbH’s banking book was examined in accordance with IDW RS BFA 3 to determine whether it was necessary to recognise provisions for anticipated losses; the net present value method was applied for this purpose. Risk costs still expected to arise plus a risk cost premium and administrative costs were recognised by way of inclusion in the rate used to discount cash flows, and the present value calculated in this way was compared to the book value in accordance with the HGB (German Commercial Code). There were no grounds for recognising a provision for anticipated losses.

Loans involving securities are measured based on the securities' fair value at the transaction date. For securities in the liquidity reserves, which are measured based on market-related parameters, the strict lower-of-cost-or-market principle is applied, while securities shown under assets are measured according to the modified lower-of-cost-or-market principle.

For all discernible risks, adequate precautions have been taken in the annual financial statements by means of individual value adjustments and by creating provisions. The deferred risk in the lending business is covered by general value adjustments.

III. Notes to the balance sheet

RECEIVABLES FROM FINANCIAL INSTITUTIONS

Receivables from financial institutions include receivables from affiliated companies amounting to € 196,906,000 (previous year: € 449,883,000) and receivables from investees amounting to € 2,440,000 (previous year: € 6,518,000).

Of the receivables from financial institutions, maturity breaks down as follows:
- Payable on demand € 155,241,000 (previous year: € 491,980,000)
- Up to three months € 176,541,000 (previous year: € 1,430,105,000)
- More than three months and up to one year € 0 (previous year: € 0)
- More than one year and up to five years € 0 (previous year: € 0)
- More than five years € 0 (previous year: € 0)

All receivables from financial institutions are unsecuritised.

RECEIVABLES FROM CUSTOMERS

This item includes receivables from affiliated companies amounting to € 1,272,897,000 (previous year: € 1,702,741,000) and receivables from investees amounting to € 1,860,735,000 (previous year: € 1,411,628,000).

The maturity of the total receivables from customers, all of which are unsecuritised, breaks down as follows:
- Up to three months € 6,035,060,000 (previous year: € 6,325,386,000)
- More than three months and up to one year € 6,420,756,000 (previous year: € 4,792,540,000)
- More than one year and up to five years € 15,829,592,000 (previous year: € 13,711,932,000)
- More than five years € 397,502,000 (previous year: € 505,361,000).

The item "Receivables from customers" contains receivables with an indefinite maturity (under § 9 Para. 3 No.1 Ordinance on Accounting for Banks) amounting to € 2,591,836,000 (previous year: € 3,336,563,000).

The balance sheet item "Receivables from customers" includes subordinated receivables of € 483,121,000 (previous year: € 4,000,000), of which € 129,290,000 (previous year: € 0) are attributable to subordinated receivables from the ABS transactions executed by Volkswagen Bank GmbH.

Receivables from the leasing business total € 1,327,166,000 (previous year: € 1,204,846,000), of which € 737,192,000 (previous year: € 643,851,000) are attributable to the French bank branch and € 589,595,000 (previous year: € 560,995,000) are attributable to the Italian bank branch.

The French bank branch accounts for receivables from retail financing totalling € 1,164,531,000 (previous year: € 973,437,000).

RECEIVABLES FROM SHAREHOLDERS

Receivables from our sole shareholder, Volkswagen Financial Services AG, Braunschweig, as at the balance sheet date amounted to € 9,499,000 (previous year: € 0).

DEBENTURES AND OTHER FIXED-INCOME SECURITIES

To ensure the supply of liquidity, Volkswagen Leasing GmbH executed ABS transactions. Not all of the securities issued by the acquiring special purpose entities were sold to investors. Instead, some were purchased by Volkswagen Bank GmbH and pledged as collateral for its participation in the open market operations of Deutsche Bundesbank. The total portfolio of these securities amounts to € 484,738,000 (previous year: € 477,539,000). These securities are fully allocated to the liquidity reserve; they are measured according to the strict lower-of-cost-or-market principle. Given the lack of a market, we used our own measurement model to determine the value of these securities, which are marketable and listed. The cash flows were discounted in that connection using a uniform interest rate swap curve of the Volkswagen Group plus a credit spread. The credit spread was validated by indirect means based on various banks' indicative prices.

This item also contains the securities that Volkswagen Bank GmbH acquired from 2010 to 2012 as part of ABS transactions. These securities worth € 4,181,936,000 (previous year: € 2,966,582,000) securitise the company's own receivables and are not measured because the risk of counterparty default is already taken into account in the receivables' measurement. The debentures are recognised at cost less repayments received during the term of the transactions.

The Bank repeatedly purchased highly rated European government bonds in the amount of € 1,541,460,000 (previous year: € 800,874,000) in order to create collateral for participating in the open market operations and to meet future requirements in accordance with the liquidity coverage ratio. These securities have been allocated to current assets and are measured at the strict lower-of-cost-or-market principle.

The item also contains € 0 in debentures borrowed (previous year: € 51,005,000) and other debentures amounting to € 3,253,000 (previous year: € 7,692,000).

The securities and debentures shown in this balance sheet item concern € 6,211,387,000 (previous year: € 4,303,693,000) in marketable and listed securities.

The securities in the portfolio in the amount of € 6,042,228,000 (previous year: € 4,243,698,000) were deposited with Deutsche Bundesbank. The serve as collateral for refinancing transactions. There were open market loans amounting to € 2,200,000,000 (previous year: € 0) as of the balance sheet date.

A nominal amount of € 1,957,219,000 (previous year: € 1,737,413,000) of these debentures and other fixed-income securities will be due in the financial year following the balance sheet date.

The debentures and other fixed-income securities do not include any securities concerning affiliated companies or investors or investees.

SHARES AND OTHER NON-FIXED-INCOME SECURITIES

A total of € 503,000 in marketable and listed shares in VISA Inc., USA (previous year: € 503,000) were recognised by applying the strict lower-of-cost-or-market principle.

EQUITY INVESTMENTS AND SHARES IN AFFILIATED COMPANIES

Effective 01 January 2012, the outstanding stake in VOLKSWAGEN BANK POLSKA S.A., Warsaw, which until then had been jointly controlled, was acquired from the former owner, KPI Polska. An amount of € 50,450,000 is therefore shown for this company under this item; in the previous year, € 16,016,000 were recognised under equity investments in banks.

A list of equity investments and information on shares in affiliated companies can be found in the “Shareholdings” section under “Other notes”.

Volkswagen Bank GmbH’s shares in the equity investments and shares in affiliated companies are neither marketable nor listed.

INTANGIBLE ASSETS

Intangible assets decreased by € 956,000 to € 7,706,000 (previous year: € 8,662,000).

The merger of Volkswagen Insurance Brokers GmbH, Braunschweig, into Volkswagen Bank GmbH gave rise to goodwill of € 1,333,000. The merger was executed at book value effective 01.01.2011. The residual useful life of the goodwill at the reporting date is six years. According to an expert opinion, it can be assumed that the contracts taken over will remain in effect for up to eleven more years.

TANGIBLE FIXED ASSETS

The total value of the buildings and land used for our own activities is € 4,396,000 (previous year: € 4,272,000). The share of operating and office equipment in the tangible fixed assets is € 6,728,000 (previous year: € 4,603,000).

LEASED ASSETS

This item comprises € 442,992,000 (previous year: € 389,085,000) in leased vehicles related to the operating leasing business of Volkswagen Bank GmbH's French branch.

OTHER ASSETS

The item contains receivables from interest rate hedging transactions amounting to € 58,551,000 (previous year: € 72,239,000), commissions due from insurance agency services amounting to € 259,000 (previous year: € 7,975,000) and tax receivables amounting to € 68,609,000 (previous year: € 76,236,000), of which € 25,948,000 arise from the Italian bank branch's input tax credit. It also contains € 14,130,000 in claims against the special purpose ABS entities related to returns of collateral provided that are not yet due, fees for services and interest (previous year: € 31,641,000).

PREPAID EXPENSES

The item includes accrued discounts amounting to € 1,626,000 (previous year: € 2,703,000) and insurance premiums paid in advance amounting to € 421,000 (previous year: € 466,000) as well as prepaid commission due to the growth in new business at the Italian bank branch amounting to € 13,692,000 (previous year: € 21,929,000).

LIABILITIES TO FINANCIAL INSTITUTIONS

The maturity of the total liabilities to financial institutions, all of which are unsecuritised, breaks down as follows:

- Payable on demand € 133,623,000 (previous year: € 8,695,000)
- Up to three months € 227,076,000 (previous year: € 18,438,000)
- More than three months and up to one year € 14,992,000 (previous year: € 11,383,000)
- More than one year and up to five years € 2,050,952,000 (previous year: € 46,083,000)
- More than five years € 27,735,000 (previous year: € 41,676,000).

The liabilities to financial institutions contain liabilities to affiliated companies in the amount of € 66,000 (previous year: € 0) and liabilities to investors and investees in the amount of € 4,000 (previous year: € 0).

To collateralise liabilities vis-à-vis Deutsche Bundesbank in the amount of € 2,200,000,000, securities in the same amount were deposited as collateral.

LIABILITIES TO CUSTOMERS

The item includes unsecuritised liabilities to affiliated companies amounting to € 3,524,039,000 (previous year: € 3,033,290,000).

Customer deposits (including direct bank deposits) amount to € 23,408,572,000 (previous year: € 22,592,078,000).

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

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

- Up to three months € 2,768,632,000 (previous year: € 4,705,716,000)
- More than three months and up to one year € 2,183,860,000 (previous year: € 1,759,107,000)
- More than one year and up to five years € 1,589,017,000 (previous year: € 522,571,000)
- More than five years € 169,264,000 (previous year: € 30,074,000).

As in the previous year, the liabilities to customers do not contain any liabilities to investors and investees.

LIABILITIES TO SHAREHOLDERS

Liabilities to our sole shareholder, Volkswagen Financial Services AG, Braunschweig, as at the balance sheet date amounted to € 498,386,000 (previous year: € 771,029,000).

SECURITISED LIABILITIES

The securitised liabilities comprise commercial paper and debentures.
The item, "a) Debentures issued", comprises the following:
Debentures: € 2,604,420,000 (previous year: € 3,395,368,000)

Remaining maturity:

- Up to three months € 74,420,000 (previous year: € 55,368,000)
- More than three months and up to one year € 1,530,000,000 (previous year: € 1,065,000,000)
- More than one year and up to five years € 1,000,000,000 (previous year: € 2,275,000,000)
- More than five years € 0 (previous year: € 0)

The item, "b) other securitised liabilities", comprises the following:
Commercial paper: € 242,872,000 (previous year: € 265,453,000)
Remaining maturity:

- Up to three months € 203,000,000 (previous year: € 235,701,000)
- More than three months and up to one year € 39,872,000 (previous year: € 29,752,000)

The securitised liabilities do not contain any liabilities to affiliated companies or investors and investees.

Of the debentures issued, € 1,580,000,000 becomes due in the following year.

OTHER LIABILITIES

Of the liabilities, € 4,364,768,000 (previous year: € 3,120,501,000) is collateralised. These liabilities stem from ABS transactions where Volkswagen Bank GmbH retains economic ownership of the receivables sold.

This item also includes interest and principal payable under ABS transactions amounting to € 114,140,000 (previous year: € 128,446,000), liabilities from interest rate hedging transactions amounting to € 20,664,000 (previous year: € 26,336,000), liabilities to the German Tax Office amounting to € 33,007,000 (previous year: € 42,479,000) and liabilities from accrued interest for subordinated bonds and for participation right liabilities amounting to € 4,805,000 (previous year: € 11,207,000).

Forward exchange transactions executed to hedge currency translation risks resulted in an equalisation item under other liabilities amounting to € 24,597,000 (previous year: € 19,261,000).

DEFERRED INCOME

This item essentially comprises accrued amounts from manufacturer and partner participation in sales promotion campaigns in the amount of € 430,534,000 (previous year: € 437,027,000), which are recognised over the term of the respective contracts.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The pension obligations are determined annually by an independent actuary according to the projected unit credit method.

The material actuarial principles and measurement assumptions applied by Volkswagen Bank GmbH are:

	Germany	Abroad
Discount rate	5.05%	3.70 – 5.05%
Expected rate of salary increases	2.70%	3.66%
Expected rate of pension increases	1.80%	2.00%
Fluctuation rate	0.75%	5.00%

In Germany the discount rate as at 30.11.2012 was used since there was no material change at the balance sheet date.

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

Securities-based investment funds totalling a settlement amount of € 14,952,000 were offset against pension obligations and comparable obligations. These securities were purchased at a cost of € 15,467,000, and their fair value as at the balance sheet date was € 14,952,000. The securities were measured at their balance sheet date closing price.

A total of € 306,000 in income from the fair value obligation of the securities-based investment fund were offset against € 306,000 in interest expense related to provisions in connection with the netting of the fair value obligation and the respective securities-based investment funds.

OTHER PROVISIONS

A total of € 85,364,000 were recognised in other provisions during the reporting year in connection with risks from an amended court ruling. In addition, provisions of € 25,820,000 were recognised for indirect residual value risks (previous year: € 43,731,000)

SPECIAL TAX-ALLOWABLE RESERVE

The special tax-allowable reserve was recognised on the basis of § 3 of the Law for the Promotion of the Economy of the Border Regions (Zonen-RFG). The reversal of this reserve in the reporting period increased net income for the year by € 70,000 (previous year: € 70,000).

SUBORDINATED LIABILITIES

The total portfolio of subordinated liabilities amounts to € 565,000,000 (previous year: € 565,000,000).

Subordinated liabilities amounting to € 411,162,000 (previous year: € 512,368,000) are a component of liable capital under the stipulations of the German Banking Act (§ 10 Para. 5a).

The total amount includes subordinated bonds placed on the public capital market amounting to € 136,000,000 (previous year: € 136,000,000) and subordinated borrower's note loans amounting to € 134,000,000 (previous year: € 134,000,000).

There are no early repayment obligations for the subordinated liabilities.

A conversion into capital or other form of debt has not been agreed, nor is it planned. Derivative transactions were undertaken in order to hedge interest rate risks. The expenses in connection with the raising of subordinated loans and bonds amounted to € 14,558,000 (previous year: € 18,127,000).

The expenses in connection with the raising of subordinated borrower's note loans amounted to € 6,954,000 (previous year: € 6,936,000).

The subordinated liabilities to affiliated companies amount to € 295,000,000 (previous year: € 295,000,000). This item includes € 125,000,000 in liabilities to our sole shareholder (previous year: € 125,000,000) and € 170,000,000 in liabilities to other affiliated companies (previous year: € 170,000,000). There are no subordinated liabilities to other investees or investors.

SUBORDINATED BONDS

AS AT: Beginning of term	31.12.2012 € million	Interest rate	LISTED Valid until	New interest rate agreement based on	Due date
11.09.2003	16.0	5.25000%	11.09.2013	Fixed interest rate	11.09.2013
19.09.2003	50.0	5.12500%	19.09.2013	Fixed interest rate	19.09.2013
26.09.2003	20.0	5.40000%	26.09.2023	Fixed interest rate	26.09.2023
23.09.2003	10.0	1.26500%	25.03.2013	6-month Euribor plus 80 basis points	23.09.2013
19.12.2003	10.0	5.14200%	19.12.2013	Fixed interest rate	19.12.2013
07.06.2004	10.0	5.50000%	07.06.2024	Fixed interest rate	07.06.2024
18.08.2004	20.0	5.12500%	18.08.2014	Fixed interest rate	18.08.2014

Nor subordinated bond exceeds 10% of the total amount of subordinated liabilities. In the event of the issuer's dissolution, liquidation or insolvency, obligations under these bonds will be subordinated to the claims of all unsubordinated creditors of the issuer so that in any such event no amounts shall be payable under such obligations until the claims of all unsubordinated creditors of the issuer shall have been satisfied in full. No subsequent agreement may limit the subordination or shorten the term of the bond. Early redemption of the bonds shall be possible no earlier than five years after their issue and shall require the redemption of the respective bond by the issuer. A redemption is conditional upon a replacement of the early redemption amount by paying in other liable capital of at least equivalent status within the meaning of the German Banking Act or prior approval of the Federal Financial Supervisory Authority to such redemption. Furthermore, the issuer may redeem the bonds due to changes in the tax laws or regulations of the Federal Republic of Germany or any change in the official interpretation of such laws and regulations.

SUBORDINATED BORROWER'S NOTE LOANS

AS AT: Beginning of term	31.12.2012 € million	Interest rate	Valid until	New interest rate agreement based on	Due date
20.07.2004	5.0	5.27000%	21.07.2014	Fixed interest rate	21.07.2014
20.07.2004	5.0	5.27000%	21.07.2014	Fixed interest rate	21.07.2014
22.07.2004	20.0	5.22000%	22.07.2014	Fixed interest rate	22.07.2014
06.08.2004	10.0	5.19700%	06.08.2014	Fixed interest rate	06.08.2014
11.08.2004	10.0	5.16000%	11.08.2014	Fixed interest rate	11.08.2014
16.08.2004	10.0	5.07000%	15.08.2014	Fixed interest rate	15.08.2014
25.08.2004	10.0	5.07000%	25.08.2014	Fixed interest rate	25.08.2014
17.08.2004	10.0	5.07000%	18.08.2014	Fixed interest rate	18.08.2014
04.08.2004	2.5	5.21000%	04.08.2014	Fixed interest rate	04.08.2014
04.08.2004	10.0	5.21000%	04.08.2014	Fixed interest rate	04.08.2014
04.08.2004	5.0	5.21000%	04.08.2014	Fixed interest rate	04.08.2014
04.08.2004	2.5	5.21000%	04.08.2014	Fixed interest rate	04.08.2014
19.08.2004	2.0	5.10000%	19.08.2014	Fixed interest rate	19.08.2014
19.08.2004	12.0	5.10000%	19.08.2014	Fixed interest rate	19.08.2014
28.07.2004	10.0	5.08000%	28.07.2014	Fixed interest rate	28.07.2014
13.08.2004	10.0	5.20000%	13.08.2014	Fixed interest rate	13.08.2014

SUBORDINATED LOANS

AS AT:	31.12.2012				
Beginning of term	€ million	Interest rate	Valid until	New interest rate agreement based on	Due date
10.11.2009	15.0	1.94200%	14.02.2013	3-month Euribor plus 175 basis points	14.11.2014
22.12.2009	90.0	1.93300%	22.03.2013	3-month Euribor plus 175 basis points	22.01.2015
01.07.2010	20.0	2.71600%	07.01.2013	3-month Euribor plus 250 basis points	06.07.2015
28.09.2010	170.0	2.21800%	07.01.2013	3-month Euribor plus 200 basis points	05.10.2015

The subordinated loans in the amount of € 90,000,000 and € 170,000,000 exceed 10% of the total amount of subordinated liabilities. In the event of the issuer's dissolution, liquidation or insolvency, obligations will be subordinated to the claims of all unsubordinated creditors of the issuer so that in any such event no amounts shall be payable under such obligations until the claims of all unsubordinated creditors of the issuer shall have been satisfied in full. No subsequent agreement may limit the subordination or shorten the term of these loans. Early repayment of the loans shall be possible and shall require the termination of the respective loan by the debtor. A redemption is conditional upon a replacement of the early redemption amount by paying in other liable capital of at least equivalent status within the meaning of the German Banking Act or prior approval of the Federal Financial Supervisory Authority to such redemption. Furthermore, the debtor may terminate and repay the loans due to changes in the tax laws or regulations of the Federal Republic of Germany or any change in the official interpretation of such laws and regulations.

Notwithstanding § 11 Ordinance on Accounting for Banks, the deferred interest for subordinated liabilities is shown in the balance sheet item "Other liabilities", since interest is not offset in regulatory liable capital.

PARTICIPATION RIGHT LIABILITIES

The participation right liabilities in the amount of € 90,000,000 matured on 02 May 2012. The expenses in connection with the raising of funds amounted to € 2,148,000 (previous year: € 6,485,000).

EQUITY

There was no change in the equity of Volkswagen Bank GmbH in the 2012 financial year.

DEVELOPMENT OF THE FIXED ASSETS OF VOLKSWAGEN BANK GMBH, BRAUNSCHWEIG, FOR THE PERIOD FROM 01 JANUARY TO 31 DECEMBER 2012

	GROSS BOOK VALUES					
€ 000	Brought forward 01.01.2012	Additions	Disposals	Reclassifi-cation	Foreign currency translation	Balance 31.12.2012
Debentures and other fixed-income securities	367,059	0	367,059	0	0	0
Equity investments	1,080,080	0	70	−16,077	0	1,063,933
Investments in affiliated companies	941	35,008	0	16,077	0	52,026
Concessions and similar rights acquired free of charge	29,719	3,660	162	0	104	33,321
Goodwill	144,482	0	0	0	0	144,482
Advance payments made on intangible assets	0	749	0	0	0	749
Land, similar rights and buildings on land owned by others	23,595	813	0	0	0	24,408
Other plant, operational and office equipment	15,242	4,569	1,984	0	0	17,827
Advance payments made and assets under construction	0	415	0	0	0	415
Leased assets	559,678	265,821	184,445	0	0	641,054
Total fixed assets	**2,220,796**	**311,035**	**553,720**	**0**	**104**	**1,978,215**

€ 000	VALUE ADJUSTMENTS Brought forward 01.01.2012	Additions	Disposals	Write-ups	Foreign currency translation	Balance 31.12.2012	NET BOOK VALUES Balance 31.12.2012	Balance 31.12.2011
Debentures and other fixed-income securities	0	0	0	0	0	0	0	367,059
Equity investments	0	0	0	0	0	0	1,063,933	1,080,080
Investments in affiliated companies	0	0	0	0	0	0	52,026	941
Concessions and similar rights acquired free of charge	22,224	4,478	162	0	75	26,615	6,706	7,495
Goodwill	143,315	167	0	0	0	143,482	1,000	1,167
Advance payments made on intangible assets	0	0	0	0	0	0	749	0
Land, similar rights and buildings on land owned by others	17,619	882	0	0	0	18,501	5,907	5,976
Other plant, operational and office equipment	10,639	1,931	1,471	0	0	11,099	6,728	4,603
Advance payments made and assets under construction	0	0	0	0	0	0	415	0
Leased assets	170,593	134,208	106,739	0	0	198,062	442,992	389,085
Total fixed assets	**364,390**	**141,666**	**108,372**	**0**	**75**	**397,759**	**1,580,456**	**1,856,406**

IV. Notes to the income statement

INTEREST INCOME FROM LENDING AND MONEY MARKET TRANSACTIONS

The proportion of interest income generated at the foreign branches is 30.9% (previous year: 28.0%). The branches in Italy and France account for the largest share of this amount.

The interest income from lending and money market transactions contains € 94,044,000 in income from finance leasing (previous year: € 86,937,000).

INCOME FROM LEASES

The income from leasing transactions comprises earnings from operating leasing that are generated by the bank's branch in France. The total amount was € 268,139,000 (previous year: € 280,207,000). The difference compared to the previous year mainly results from the recognition of income and expenses in connection with the sale of vehicles that was described above.

EXPENSES FROM LEASES

Expenses from leases amounted to € 103,495,000 (previous year: € 120,596,000). The difference compared to the previous year also mainly results from the recognition of income and expenses in connection with the sale of vehicles that was described above.

NET COMMISSION INCOME

Commission income essentially results from selling insurance, especially residual debt insurance, from the administration and collection of receivables sold through the ABS transactions, and from other fees earned in the private customer business.
Commission income includes an income of € 760,000 (previous year: 1,128,000) which is not related to the accounting period and which essentially results from special compensation for residual debt insurance, "Euro-Cash" as well as from the credit card business.
Commission expenses essentially comprise dealer commissions in the consumer lending business.

OTHER OPERATING INCOME

The item contains € 103,038,000 (previous year: € 55,816,000) in income not related to the accounting period, of which € 2,975,000 (previous year: € 4,132,000) is in connection with the internal cost apportionment of the Volkswagen Financial Services AG Group and € 87,444,000 (previous year: € 45,834,000) is income from the reversal of provisions. The other operating income also contains € 7,894,000 in income from currency translation (previous year: € 15,701,000) and € 46,000 in effects from the discounting of provisions (previous year: € 365,000).

GENERAL ADMINISTRATION EXPENSES

The general administration expenses totalled € 649,633,000 (previous year: € 585,783,000). Aside from the personnel expenses of € 95,229,000 (previous year: € 82,636,000), allocated Group company costs of € 265,649,000 (previous year: € 237,454,000) accounted for a substantial portion of these expenses. These essentially concerned personnel leases.

DEPRECIATION, AMORTISATION AND VALUE ADJUSTMENTS TO INTANGIBLE AND TANGIBLE FIXED ASSETS AND LEASED ASSETS

Depreciation on leased assets amounting to € 133,408,000 (previous year: 117,236,000) is shown as a separate sub-item of this item.

The depreciation of the leased assets recognises the decline in the value of the leased vehicles belonging to the French branch. The straight-line method is used in that connection.

OTHER OPERATING EXPENSES

This item essentially results from a large number of individual items. It includes an amount of € 11,890,000 (previous year: € 5,567,000) in expenses not related to the accounting period, of which € 4,655,000 (previous year: € 1,762,000) concern the Italian branch and € 4,152,000 (previous year: € 0) concern die Portuguese branch. The other operating expenses also contain € 5,741,000 in expenses from currency translation (previous year: € 12,042,000) and € 4,300,000 in effects from the discounting of provisions (previous year: € 3,085,000). In the previous year, risks from changed court rulings were fully accounted for. Since substantially smaller additions to the respective provisions were required in 2012, other operating expenses fell by € 27.6 million.

TAXES ON INCOME AND EARNINGS

This item comprises domestic and foreign taxes on income. Volkswagen Financial Services AG, as the parent company, debited the domestic income tax of € 113,974,000 (previous year: € 164,078,000) for the current year to Volkswagen Bank GmbH within the framework of the consolidated tax group.

This item contains expenses of € 99,000 (previous year: € 732,000) not related to the accounting period and tax refunds received for previous years amounting to € 812,000 (previous year: € 2,012,000).

Solely € 84,584,000 (previous year: € 71,940,000) in the branches' deferred tax assets and € 31,817,000 (previous year: € 30,950,000) in their deferred tax liabilities were offset under the deferred taxes.

Offsetting tax assets and tax liabilities yields an excess of € 52,767,000 in tax assets (previous year: € 40,990,000), which will not be capitalised, given the option under § 274 German Commercial Code.

The determination was made individually at the tax rates applicable in the given countries. The deferred tax liabilities arise only in the French branch in the amount of € 31,817,000 (previous year: € 30,950,000) and result almost exclusively from the differences in the leased assets' useful lives.

For the most part, deferred tax assets arise in the company's Greek, Italian and Spanish branches, basically due to variations in the recognition of intangible assets as well as to the value adjustments.

V. Other notes

CONSOLIDATION ACCOUNTING

The annual financial statements of Volkswagen Bank GmbH are included in the consolidated financial statements of Volkswagen Bank GmbH, Braunschweig, which are drawn up according to the International Financial Reporting Standards. The consolidated financial statements of Volkswagen Bank GmbH, in turn, are included in the consolidated financial statements of Volkswagen AG, Wolfsburg. Both the single-entity financial statements of Volkswagen Bank GmbH and the consolidated financial statements of Volkswagen AG are published in the Federal Gazette.

SHAREHOLDINGS

As at 31 December 2012, Volkswagen Bank GmbH held a 100% stake in VOLKSWAGEN BANK POLSKA S.A., Warsaw. The profit of VOLKSWAGEN BANK POLSKA S. A. for the 2011 financial year amount to PLN 25,698,000 after PLN 32,242,000 in 2010. The company's equity as at 31 December 2011 was PLN 239,965,000. The company holds a Polish banking licence.

On the balance sheet date, Volkswagen Bank GmbH held a 50% stake in the Dutch company, Global Mobility Holding B.V., Amsterdam. The profit of Global Mobility Holding B.V., Amsterdam, for the period from 01 January 2011 to 31 December 2011 was € 4,839,000. The company's equity as at 31 December 2011 was € 2,090,405,000. No obligations arise from this equity investment.

As at the balance sheet date, Volkswagen Bank GmbH held a 0.01% stake in Society for Worldwide Interbank Financial Telecommunication SCRL (S.W.I.F.T. SCRL), La Hulpe, Belgium. The company's nominal capital as at 31 December 2011 was € 13,886,000. The company's equity as at 31 December 2011 was € 291,364,000. No obligations arise from this equity investment.

Volkswagen Bank GmbH holds a share of € 40,000 (0.02%) in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main. From this equity investment there arises an obligation to make further contributions as well as a joint liability to make up for deficits. The company's equity as at 31 December 2011 was € 230,658,000. Its net income for the 2011 financial year was € 2,295,000.

Volkswagen Bank GmbH has an equity investment of € 10 in the € 1,054 nominal capital of VISA Europe Limited, London. This equity investment was bestowed upon Volkswagen Bank GmbH on 01 July 2004 at no charge. No obligations arise from this equity investment. The equity of VISA Europe Limited as at 30 September 2011 was € 316,816,000. According to its consolidated financial statements, VISA Europe Limited posted profits of € 160,401,000 in the 2010/2011 financial year.

Furthermore, Volkswagen Bank GmbH holds a 1% stake in its affiliate, Limited Liability Company Volkswagen Bank RUS. The entity is domiciled in Moscow, Russian Federation. The company's equity as at 31 December 2011 was RUB 3,592,313,000. Its loss in the 2011 financial year amounted to RUB 151,316,000. The company holds a Russian banking licence.

CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

Aside from one individual credit commitment in the amount of € 150 million to a subsidiary, all irrevocable credit commitments are related to the regular banking business. They can be utilised at any time. These loans are subject to general credit monitoring rules and regulations if they are used.

The contingent liabilities in the amount of € 198,808,000 (previous year: € 97,244,000) solely comprise guarantees. Of these guarantees, € 185,828,000 concern international third-party customers (previous year: € 25,148,000); € 128,672,000 of this amount is hedged through contributions of Volkswagen Financial Services AG so that Volkswagen Bank GmbH does not incur a loss risk if they are utilised. The other guarantees, which are not rehedged, essentially concern two other foreign third-party customers. The probability that these guarantees will be utilised is currently deemed low.

OFF-BALANCE SHEET TRANSACTIONS AND OTHER FINANCIAL OBLIGATIONS

Derivative financial instruments

Derivative transactions were undertaken in order to hedge interest rate and currency risks. This involved interest rate swaps, currency swaps and forward exchange transactions purely for hedging purposes. Based on the market swap rates, the market values of the interest rate swaps, currency swaps and foreign exchange transactions were determined using suitable IT-based valuation methods (discounted cash flow method). They are not shown in the balance sheet. Interest on interest rate swaps is accrued according to their maturity.

Pursuant to § 285 No. 19 HGB, the derivative financial instruments break down as follows:

€ million	Nominal value 31.12.2011	Nominal value 31.12.2012	Market values* positive 31.12.2011	Market values* positive 31.12.2012	Market values* negative 31.12.2011	Market values* negative 31.12.2012
Interest rate risks						
Interest rate swaps	13,448.9	10,241.0	170.9	144.3	79.9	109.8
Currency risks						
Forward exchange transactions	1,712.7	1,657.8	2.4	2.5	22.3	16.9
Currency swaps	302.5	331.8	7.9	1.6	7.5	17.6
Cross-currency interest rate risks						
Cross-currency interest rate swap	76.7	0.0	0.0	0.0	0.8	0.0
Derivative transactions total	**15,540.8**	**12,230.6**	**181.2**	**148.4**	**110.5**	**144.3**

*The market value including accrued interest is shown for all contracts.

The maturity of the derivatives breaks down as follows:

Nominal values € million	Interest rate risks 31.12.2011	Interest rate risks 31.12.2012	Currency risks 31.12.2011	Currency risks 31.12.2012	Cross-currency interest rate risks 31.12.2011	Cross-currency interest rate risks 31.12.2012
Residual terms						
<= 3 months	803.0	895.0	1,485.2	1,491.8	0.0	0.0
<= 1 year	3,185.2	2,380.0	82.9	236.2	76.7	0.0
<= 5 years	8,089.1	6,934.3	447.1	261.6	0.0	0.0
> 5 years	1,371.6	31.7	0.0	0.0	0.0	0.0

Other financial obligations

There are no other financial obligations.

FOREIGN CURRENCIES

The total of assets in foreign currency on the balance sheet date amounted to € 2,288,007,000 (previous year: € 2,346,442,000). Foreign currency liabilities amounted to € 107,132,000 (previous year: € 114,091,000).

The volume of open forward exchange deals in foreign currencies as at the reporting date was € 1,657,767,000 (previous year: € 1,712,737,000). The nominal value of the currency swaps was € 331,808,000 (previous year: € 302,451,000).

INFORMATION ON CORPORATE BODIES

Three members of the Board of Management were paid by Volkswagen Bank GmbH. Their total compensation was € 1,614,000 (previous year: € 1,182,000); the remainder of the total compensation paid to the members of the Board of Management was borne by Volkswagen Financial Services AG. The pro rata provisions recognised for this group of people in connection with current pensions and entitlements amount to € 597,000 (previous year: € 2,865,000).

The Board of Management is comprised as follows:

ANTHONY BANDMANN (FROM 01.02.2012)

Spokesman of the Board of Management (from 01.04.2012)
Strategy & Marketing (from 01.04.2012)
Sales Individual Customers & Corporate Customers (from 01.04.2012)
Customer Service & Process Management Individual Customers (from 01.04.2012)
International (from 01.04.2012)

RAINER BLANK (UNTIL 31.03.2012)

Spokesman of the Board of Management (until 31.03.2012)
Strategy & Marketing (until 31.03.2012)
Sales Individual Customers & Corporate Customers (until 31.03.2012)
Customer Service & Process Management Individual Customers (until 31.03.2012)
International (until 31.03.2012)

DR. MICHAEL REINHART (UNTIL 31.12.2012)

Finance/Risk Management (until 31.12.2012)
Market Support/Dealer Restructuring (until 31.12.2012)
Human Resources/Organisation (until 31.12.2012)

TORSTEN ZIBELL

Direct bank
Treasury

DR. HEIDRUN ZIRFAS (FROM 01.01.2013)

Finance/Risk Management (from 01.01.2013)
Market Support/Dealer Restructuring (from 01.01.2013)
Human Resources/Organisation (from 01.01.2013)

The shareholders' meeting resolved to amend the shareholder agreement and dissolve the Supervisory Board of Volkswagen Bank GmbH effective 15 May 2012. Until that date, the Supervisory Board was comprised as follows:

HANS DIETER PÖTSCH

Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

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

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

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

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

CHRISTIAN KLINGLER
Member of the Board of Management of Volkswagen AG
Sales and Marketing

DETLEF KUNKEL
General Secretary/Principal Representative of IG Metall Braunschweig

SIMONE MAHLER
Deputy Chairman of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

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

PETRA REINHEIMER
General Secretary of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

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

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

On 15 May 2012, the shareholders' meeting resolved to establish an Audit Committee in accordance with § 324 HGB for Volkswagen Bank GmbH in its capacity as a corporation as defined by § 264d. The Audit Committee has the following members:

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

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

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

JÖRG THIELEMANN (FROM 01.08.2012)
Head of Customer Service Retail North/East of Volkswagen Bank GmbH

GABOR POLONYI (UNTIL 31.07.2012)
Head of Sales Germany Private and Corporate Customers of Volkswagen Bank GmbH

A total of € 3,802,000 (previous year: € 2,197,000) was recognised as provisions for pensions and similar obligations to former members of the Board of Management or their surviving dependants. In financial year 2012, payments to these individuals amounted to € 281,000 (previous year: € 193,000).

The assets include receivables amounting to € 8,000 (previous year: € 82,000) from loans falling under § 15 Para. 1 No. 1 and 3 of the German Banking Act. This includes € 0 (previous year: € 8,000) in receivables from members of the Supervisory Board, € 7,000 (previous year: € 0) in receivables from members of the Audit Committee and € 1,000 (previous year: € 74,000) in receivables from members of the Board of Management.

Average number of employees during the financial year:

	2012	2011
Salaried employees	834	720
of which senior management	59	56
of which part time staff	44	52
Trainees	7	7

BRANCHES AND BRANCH OFFICES

Branches	
	Audi Bank, Braunschweig
	SEAT Bank, Braunschweig
	ŠKODA Bank, Braunschweig
	AutoEuropa Bank, Braunschweig
	ADAC FinanzService, Braunschweig
Branch offices	
	Volkswagen Bank, Berlin
	Volkswagen Bank, Braunschweig
	Volkswagen Bank, Emden
	Volkswagen Bank, Hanover
	Volkswagen Bank, Kassel
	Volkswagen Bank, Salzgitter
	Volkswagen Bank, Wolfsburg
	Volkswagen Bank, Zwickau
	Audi Bank, Ingolstadt
	Audi Bank, Neckarsulm
Branches outside Germany	
	Volkswagen Bank GmbH, St. Denis-Paris, France
	Volkswagen Bank GmbH, Glyfada-Athens, Greece
	Volkswagen Bank GmbH, Milton Keynes, United Kingdom
	Volkswagen Bank GmbH, Dublin, Ireland
	Volkswagen Bank GmbH, Milan, Italy
	Volkswagen Bank GmbH, Verona, Italy
	Volkswagen Bank GmbH, Amersfoort, the Netherlands
	Volkswagen Bank GmbH, Lisbon, Portugal
	Volkswagen Bank GmbH, Alcobendas-Madrid, Spain

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

DR. MICHAEL REINHART

> VOLKSWAGEN Finančné služby Slovensko s.r.o., Bratislava, Slovakia
> Volkswagen Versicherung AG, Braunschweig, Germany
  Chairman of the Supervisory Board of each
> VOLKSWAGEN BANK POLSKA S.A., Warsaw, Poland
> Volkswagen Leasing Polska Sp. z o.o., Warsaw, Poland
  Member of the Supervisory Board of each
> VOLKSWAGEN HOLDING FINANCIERE S.A., Villers-Cotterêts, France
  Member of the Conseil de Surveillance
> Volkswagen Leasing, S.A. de C.V., Puebla/Pue., Mexico
> Volkswagen Bank S.A. Institución de Banca Múltiple, Puebla/Pue., Mexico
> VOLKSWAGEN SERVICIOS S.A. DE C.V., Puebla/Pue., Mexico
  Member of the Consejo de Administración of each
> Volkswagen Participações Ltda., São Paulo, Brazil
  Member of the Conselho de Administração
> Phantoms Basketball Braunschweig GmbH, Braunschweig, Germany
  Member of the Supervisory Board

TORSTEN ZIBELL

> Volkswagen Bank S.A. Institución de Banca Múltiple, Puebla/Pue., Mexico
  Deputy member of the Consejo de Administración
> VOLKSWAGEN BANK POLSKA S.A., Warsaw, Poland
> Volkswagen Leasing Polska Sp. z o.o., Warsaw, Poland
  Member of the Supervisory Board of each
> Volkswagen Group Partner Services GmbH des Volkswagen Konzerns, Wolfsburg, Germany
  Member of the Advisory Board

NORBERT DORN

> VOLKSWAGEN BANK POLSKA S.A., Warsaw, Poland
> Volkswagen Leasing Polska Sp. z o.o., Warsaw, Poland
  Chairman of the Supervisory Board of each
> VOLKSWAGEN Finančné služby Slovensko s.r.o., Bratislava, Slovakia
> LLC Volkswagen Bank RUS, Moscow, Russia
  Member of the Supervisory Board of each
> VOLKSWAGEN DOĞUŞ TÜKETİCİ FİNANSMANI A.Ş., Istanbul, Turkey
> VDF Servis ve Ticaret A.Ş., Istanbul, Turkey
  Member of the Board of Directors of each

JENS LEGENBAUER

> VOLKSWAGEN HOLDING FINANCIERE S.A., Villers-Cotterêts, France
  Chairman of the Conseil de Surveillance
> Volkswagen Møller BilFinans AS, Oslo, Norway
  Chairman of the Styre
> Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom
> VOLKSWAGEN INSURANCE SERVICE Ltd., Milton Keynes, United Kingdom
  Chairman of the Board of Directors of each
> Volkswagen Financial Services Schweiz AG, Wallisellen, Switzerland
  Chairman of the Supervisory Board
> Volkswagen D'Ieteren Finance S.A., Brussels, Belgium
> D'Ieteren Lease S.A. / N.V., Brussels, Belgium
  Chairman of the Board of Directors of each

- Volkswagen Finance Belgium S.A., Brussels, Belgium
  Member of the Conseil d' Administration
- VOLKSWAGEN FINANCE, S.A. – ESTABLECIMIENTO FINANCIERO DE CRÉDITO, Madrid, Spain
- Volkswagen Renting S.A., Madrid, Spain
  Member of the Consejo de Administración of each

CHRISTIAN LÖBKE

- Volkswagen Bank S.A. Institución de Banca Múltiple, Puebla/Pue., Mexico
  Deputy member of the Consejo de Administración

MARTIN MEHRGOTT

- Volkswagen Finans Sverige AB, Södertälje, Sweden
  Chairman of the Board of Directors
- Volkswagen Møller BilFinans AS, Oslo, Norway
  Member of the Styre
- Volkswagen Pon Financial Services B.V., Amersfoort, The Netherlands
- VVS VERZEKERINGS-SERVICE N.V., Diemen, The Netherlands
  Member of the Raad van Commissarissen of each

FERNANDO ORTIZ-CAÑAVATE CELADA

- VOLKSWAGEN FINANCE, S.A. – ESTABLECIMIENTO FINANCIERO DE CRÉDITO, Madrid, Spain
- Volkswagen Renting S.A., Madrid, Spain
  Member of the Consejo de Administración of each

JÖRG THIELEMANN

- Volkswagen Financial Services AG, Braunschweig, Germany
  Member of the Supervisory Board

PATRICK WELTER

- VOLKSWAGEN BANK POLSKA S.A., Warsaw, Poland
- Volkswagen Leasing Polska Sp. z o.o., Warsaw, Poland
- VOLKSWAGEN Finančné služby Slovensko s.r.o., Bratislava, Slovakia
  Member of the Supervisory Board of each
- Volkswagen Møller BilFinans AS, Oslo, Norway
  Member of the Styre
- Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom
- VOLKSWAGEN DOĞUŞ TÜKETİCİ FİNANSMANI A.Ş., Istanbul, Turkey
- VDF Servis ve Ticaret A.Ş., Istanbul, Turkey
- Volkswagen Finans Sverige AB, Södertälje, Sweden
- VW Credit, Inc., Auburn Hills, Michigan (VCI), USA
- VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD., Tokyo, Japan
- Volkswagen Financial Services Australia Pty Ltd., Botany, Australia
  Member of the Board of Directors of each
- Volkswagen Pon Financial Services B.V., Amersfoort, The Netherlands
- VVS VERZEKERINGS-SERVICE N.V., Diemen, The Netherlands
  Member of the Raad van Commissarissen of each

LUTZ WITKOWSKI

- VOLKSWAGEN FINANCE, S.A. – ESTABLECIMIENTO FINANCIERO DE CRÉDITO, Madrid, Spain
- Volkswagen Renting S.A., Madrid, Spain
  Member of the Consejo de Administración of each

Responsibility statement of the Board of Management

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

Braunschweig, 07 February 2013
The Board of Management

Anthony Bandmann

Torsten Zibell

Dr. Heidrun Zirfas

Independent auditors' report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes – including the accounting, and the management report of Volkswagen Bank Gesellschaft mit beschränkter Haftung, Braunschweig, for the financial year from 01 January to 31 December 2012. The accounting and preparation of the annual financial statements and management report according to German commercial law and the supplementary provisions of the Articles of Association are the responsibility of the Company's Managing Directors. Our responsibility is to express an opinion on the annual financial statements, including the accounting, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements 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 accounting, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Managing Directors, as well as evaluating the overall presentation of the annual financial statements and the 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 annual financial statements are in compliance with legal provisions and the supplementary provisions of the Articles of Association and give a true and fair view of the net assets, financial situation and results of the operations of the company in accordance with the principles of proper accounting. The management report is consistent with the annual financial statements, provides a suitable understanding of the company's situation and suitably presents the risks of future development.

Hanover, 08 February 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes	ppa. Georg Lange
Auditor	Auditor

Report of the Audit Committee

of Volkswagen Bank GmbH

Since 15 May 2012, Volkswagen Bank GmbH has no longer had an optional Supervisory Board. Implementing § 324 HGB, the company established an Audit Committee whose principal tasks are described in § 107 Para. 3 Sentence 2 German Stock Corporation Act (AktG).

The Audit Committee comprises four members. The personnel changes described in the notes to the financial statements of Volkswagen Bank GmbH took effect on 15 May 2012.

The Audit Committee convened two regular meetings in the reporting period. There were no extraordinary meetings. In the reporting period there were no urgent matters to be resolved in writing by means of a circular memorandum. All members of the Audit Committee attended the meetings.

The Audit Committee convened its first meeting on 06 July 2012, at which it was briefed on important transactions. It also dealt with assessing the effectiveness of the internal control system (ICS), the risk management system and compliance issues. The Audit Committee asked the head of Group Risk Management & Methods, the head of Internal Audit and the Chief Compliance Officer to explain, among other things, core elements of and methods used in the ICS, the risk management system and compliance and to report on key components of the work performed on these topics during the financial year.

At its second meeting on 02 November 2012, the Audit Committee focused on assessing the effectiveness of Internal Audit as a component of the internal control system. In addition, the Audit Committee asked the head of Internal Audit to report on the audit planning, the processing status of the audit programme plus the key findings and the results of the work performed by Internal Audit. The Audit Committee also concerned itself with the audit of the financial statements. In this context, the Audit Committee requested the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover (PwC), to explain the audit planning and the areas of emphasis in the audit of the annual financial statements as at 31 December 2012. The auditors also reported on significant transactions in the reporting period as well as on important financial reporting and regulatory issues.

At its meeting on 27 February 2013, the Audit Committee examined the annual financial statements and the management report, the consolidated financial statements and the Subgroup management report of Volkswagen Bank GmbH for the 2012 financial year as well as the proposal on the appropriation of profit. At the same time, the reports on the audit of the annual financial statements and the management report, the consolidated financial statements and the Group management report of Volkswagen Bank GmbH as well as important matters and issues concerning the accounting were discussed with the auditors. The Audit Committee reported on the audit to the sole shareholder.

Furthermore, the Committee requested explanations of the extent to which relationships of a professional, financial or other nature exist between the auditor of the financial statements and the company or its corporate bodies in order to assess the independence of the auditor. In this context, the Audit Committee obtained information about the services performed for the company by the auditor in addition to auditing activities and about grounds for exclusion or indications of bias. After extensive review of the auditor's independence, the Audit Committee of the sole shareholder issued a recommendation on appointment of the auditor and prepared the resolution of the shareholders' meeting on issuing the audit engagement.

Braunschweig, 27 February 2013

The Audit Committee

Dr. Arno Antlitz
Chairman

Waldemar Drosdziok
Deputy Chairman

Dr. Jörg Boche
Member

Jörg Thielemann
Member

Note regarding forward-looking statements

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

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

Published by

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www.cat-consultants.de

TYPESETTING
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You will also find the Annual Report 2012 at www.vwfs.com/ar12

The Annual Report is also published in German.

We apologise to our readers for using the masculine grammatical form solely for purposes of linguistic convenience.

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