VOLKSWAGEN BANK

GMBH

The key to mobility.

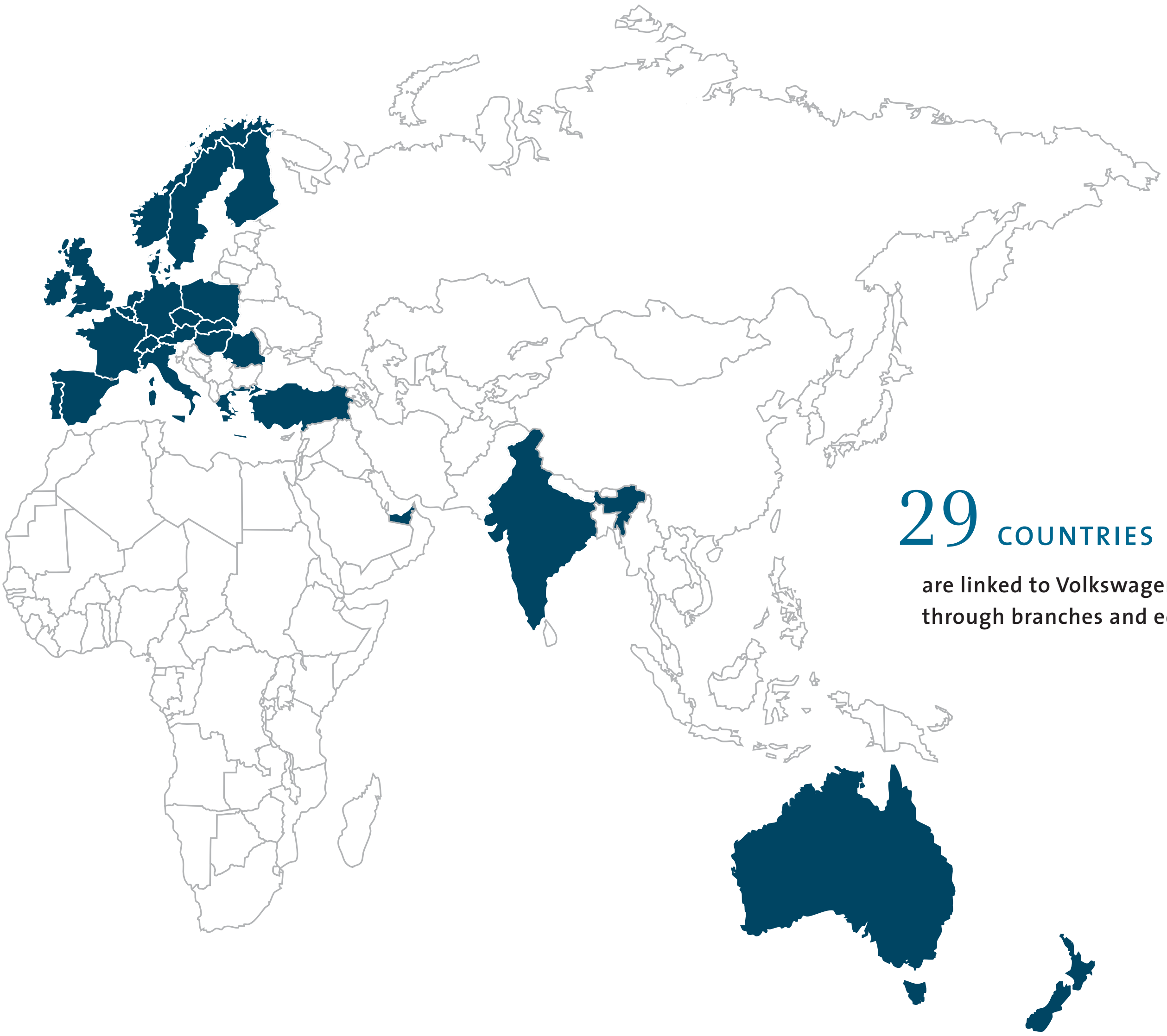
ANNUAL REPORT 2008 (IFRS)

Volkswagen Bank GmbH in 2008

Australia
Austria
Belgium
Brazil
Czech Republic
Denmark
Finland
France
Germany
Greece
Hungary
India
Ireland
Italy
Luxembourg
The Netherlands
New Zealand
Norway
Poland
Portugal
Romania
Slovakia
Spain
Sweden
Switzerland
Turkey
United Arab Emirates
United Kingdom
USA

2.2 MILLION PRIVATE AND CORPORATE CUSTOMERS

are supported by Volkswagen Bank GmbH, strengthening the loyalty to the brands of the Volkswagen Group.



29 COUNTRIES

are linked to Volkswagen Bank GmbH through branches and equity investments.

12.8 BILLION EUROS IN CUSTOMER DEPOSITS

make Volkswagen Bank *direct* one of the most successful direct banks.

The Volkswagen Bank GmbH Group at a glance (IFRS)

in € million (as at 31.12.)	2008	2007	2006
Total assets	33,497	26,539	23,538
Receivables arising from			
Retail financing	15,481	14,078	12,978
Dealer financing	7,653	7,465	5,845
Leasing business	1,136	292	254
Customer deposits	12,829	9,620	8,827
Equity	3,318	3,379	2,987
Pre-tax result	375	472	409
Taxes on income and earnings	– 84	– 149	– 112
Net income	291	323	297
in % (as at 31.12.)			
Cost / income ratio [1]	56	52	48
Equity ratio	9.9	12.7	12.7
Core capital ratio [2]	12.8	14.2	13.4
Overall ratio [2]	18.8	20.8	20.1
Return on equity	11.2	14.8	14.0
Number (as at 31.12.)	**2008**	**2007**	**2006**
Employees	669	585	3,855

Rating 2008	Standard & Poor's			Moody's Investors Service		
	short-term	long-term	outlook	short-term	long-term	outlook
Volkswagen Bank GmbH	A–1	A	negative	Prime-1	A2	stable
Volkswagen Financial Services AG	A–2	A–	stable	Prime-2	A3	positive

For the 2007 financial year, the Group prepared consolidated financial statements according to IFRS for the first time. Comparative figures for the years 2004 and 2005 are therefore not available.

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

2 The regulatory core capital ratio/overall ratio of Volkswagen Bank GmbH as at 31 December 2007 and 2008 was calculated in accordance with the standardised approach to credit and operational risks based on the Solvency Regulations that took effect on 1 January 2007. The figures for 2006 were calculated in accordance with the old Principle I.

VOLKSWAGEN BANK

GMBH

Table of contents

MANAGEMENT REPORT (IFRS)

FINANCIAL STATEMENTS OF THE VOLKSWAGEN BANK GMBH GROUP (IFRS)

Management report (IFRS)

Management report (IFRS)

ECONOMIC ENVIRONMENT

Global economy

The upturn of the global economy continued until the middle of 2008. However, the dramatic intensification of the international financial market an economic crisis in the year's second half triggered recessionary trends in the major industrialised countries and a noticeable loss of economic momentum in the emerging countries. The substantial decline in prices for commodities and energy slowed previously rising inflation rates worldwide. Overall global economic growth was only about 1.7 % (previous year: 3.5 %).

In Western Europe, growth declined substantially in the second half of 2008, giving rise to recessionary developments in many countries. On average, GDP grew 0.9 % (previous year: 2.7 %). The unemployment rate in the euro zone fell to a record low of 7.2 % at the start of 2008. While the euro climbed to new heights relative to both the US dollar and the yen in the middle of the year, it dropped dramatically in subsequent months. At 4.7 % (previous year: 6.4 %), growth in Central and Eastern Europe remained quite solid but lost some of its momentum in the year's second half.

In Germany, economic growth in 2008 slowed to 1.3 % (previous year: 2.5 %). While the export industry continued to provide most of the impetus for growth despite the expensive euro, private consumption remained weak as a result of declining purchasing power and mounting economic uncertainty. Not even the positive development in the labour market did anything to alter this development. In October 2008, the employment figure fell below three million for the first time in 16 years.

Financial and automobile markets

At the end of September 2008, the global banking system had to weather the biggest challenge in its history as a result of the US mortgage crisis which broke out in 2007. Only support measures by national governments all over the world prevented it from collapsing; The Federal Republic of Germany alone enacted a financial market stabilisation fund of up to € 480 billion. The crisis of the system sparked a sweeping consolidation process which, in several countries, led to states making equity investments in banks, insurance companies and investment firms or to bank mergers. In the United States, the developments forced previously prestigious investment firms to sell themselves, file for bankruptcy or give up their investment banking status.

The ramifications of the crisis also affected the German mobility services providers in 2008. While the captive auto banks (or captives) managed to increase the number of new vehicle contracts by almost 6 % to 668,000 in the first half of the year thanks especially to the positive business with private customers, demand fell substantially in the second half of the year as a result of rising uncertainty among consumers. At the same time, the industry's refinancing costs rose intermittently due to the dramatic deterioration in the international financial markets. Against this backdrop, some of the captives had to turn to the European Central Bank (ECB) or their corporate parent for refinancing.

The banks' deposit business grew in importance as it became increasingly difficult to obtain refinancing in the international capital markets. Both the security of bank deposits and the level of interest rates became key factors for business in Germany. Competition among the direct banks engaged in the deposit business intensified yet again as a result of interest rate campaigns, increasing the pressure on interest margins.

The threat of a looming recession compounded the pressure on the financial markets, sparking a sharp decline worldwide in the fourth quarter of 2008.

In 2008, worldwide passenger car sales fell to 55.6 million vehicles, down 5.9 % from the record number of registrations the previous year. The ramifications of the international financial market crisis became more intense in the course of the year. In turn, this amplified consumers' reluctance to make purchases, owing also to the tight situation on the credit markets. Massive increases in the prices for commodities and energy in the first six months of the year compounded these developments. North America and Western Europe, in particular, recorded above-average declines. In Central and Eastern Europe, South America as well as Asia Pacific, the positive development held steady for a while but did weaken substantially in the year's second half. Worldwide automobile production fell in the 2008 financial year by 3.9 % to 69.2 million units, of which passenger cars accounted for 57.5 million (– 4.8 %).

In Western Europe, the demand for passenger cars fell by 8.4 % to 13.6 million vehicles. At almost 53.0 % (previous year: 53.3 %), the share of diesel vehicles remained as high as the previous year due to high petrol prices. The markets with the largest volumes – Spain (– 28.1 %), Italy (– 13.4 %) and the United Kingdom (– 11.3 %) – were hit particularly hard by the financial market crisis and posted dramatic declines in sales. In France (– 0.7 %), the tax incentives aimed at fuelling demand for low CO_2 cars that had been enacted at the start of the year prevented a major downturn in the market. In Central and Eastern Europe in contrast, the number of newly registered vehicles rose yet again but the growth momentum clearly slowed in the year's second half. As in the previous year, Russia (+ 15.5 %) and the Ukraine (+ 14.9 %) were the main growth drivers. The passenger car markets in the Central European member states of the EU posted growth of 4.7 %. Passenger car sales in Turkey during the reporting period were substantially lower year on year (– 14.4 %).

At 3.4 million automobiles, in 2008 the German automotive market fell 1.6 % below the previous year's level. While the total of 335,000 new registrations of commercial vehicles was as high as the previous year (+ 0.3 %), demand for passenger cars dropped to its lowest level since reunification. This overall contraction of the passenger car market by 1.8 % to 3.1 million vehicles was mainly due to high petrol prices and consumer's uncertainty regarding both the ramifications of the financial market crisis and the details of the future CO_2-based automotive tax.

Among German manufacturers, weak demand at home and abroad led to declines from the previous year's records in both domestic production (– 2.7 % to 6.0 million automobiles) and exports (– 3.5 % to 4.5 million automobiles).

Despite the difficult conditions however, the Volkswagen Group managed in 2008 to enhance its market share in Germany to 33.6 % (previous year: 32.7 %) and to further expand its market leadership.

THE VOLKSWAGEN BANK GMBH GROUP

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

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

Volkswagen Bank GmbH has an indirect stake in LeasePlan Corporation N.V., Amsterdam – Europe's largest provider of multi-brand fleet management – via its 50 % interest in Global Mobility Holding B.V., Amsterdam. The bank also holds 60 % of the shares of VOLKSWAGEN BANK POLSKA S.A., Warsaw. VOLKSWAGEN BANK POLSKA S.A. is one of Poland's largest online direct banks and provides automotive financial services. Both companies are included at equity in the IFRS consolidated financial statements of Volkswagen Bank. The result from this equity investment in the financial year just ended was € 105 million (previous year: € 128 million).

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

VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, was acquired from VOLKSWAGEN HOLDING FINANCIÈRE S.A., Villers-Cotterêts, France, during the reporting period and merged into the French branch of Volkswagen Bank GmbH effective 1 January 2008.

TASKS AND ORGANISATION OF VOLKSWAGEN BANK GMBH

Key objectives

Volkswagen Bank GmbH was established in 1949 as Volkswagen Finanzierungsgesellschaft mbH for the purpose of vehicle financing. One of the milestones in the company's history is its entry into direct banking in 1990. Volkswagen Bank *direct* has around 812,000 customers in Europe, making it Europe's largest direct bank among automotive financial services providers.

Today, 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
  In addition, Volkswagen Bank GmbH has been operating its finance leasing business through its branch in Italy since 2000.
  Following the merger of VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, into the French branch of Volkswagen Bank GmbH, said branch has engaged in both finance and operating leasing since 1 January 2008.

- Direct banking business
  Volkswagen Bank *direct* offers private customers the entire portfolio of a direct bank, from account management and instalment loans to savings and investment products.

Volkswagen Bank *direct* provides its business customers with overnight deposit accounts, as well as a variety of payment transaction services.

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

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

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

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

Organisational changes in the Volkswagen Bank GmbH Group

Rainer Blank was appointed Spokesman of the Board of Management of Volkswagen Bank GmbH effective 16 September 2008 in connection with changes on the Board of Management of Volkswagen Financial Services AG.

In addition to changes among Board personnel, Volkswagen Bank GmbH substantially enhanced the international focus of its core business by bundling all European sales activities in a division named International/European Sales.

ANALYSIS OF THE BUSINESS PERFORMANCE AND POSITION OF THE VOLKSWAGEN BANK GROUP

The Volkswagen Bank Group was able to further increase its receivables and contract volume in 2008.

In the retail financing segment, the bank continued its close collaboration with the brands of the Volkswagen Group. This cooperation with Volkswagen Group dealers helped sustain the number of new contracts at the high level recorded for the same period in the previous year.

The merger of VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, into Volkswagen Bank GmbH resulted both in an expansion of the retail and finance leasing business and the integration of operating leasing into the bank.

Compared to the close of the previous financial year, receivables in dealer financing rose from € 7.5 billion by 2.5 % to € 7.7 billion.

The deposit volume, which had been built up continually in previous years, rose considerably despite intensified competition in the direct banking business.

The refinancing expense of Volkswagen Bank GmbH was managed in line with the capital markets in 2008 through the continued utilisation of ABS transactions, the ongoing expansion of the deposit business and the continued rating differentiation relative to both Volkswagen AG and Volkswagen Financial Services AG.

In 2008, both Driver Five GmbH and Driver Six GmbH sold German loan receivables with an aggregate value of approximately € 2.6 billion that were issued in the form of securities notes. Additional receivables totalling € 0.3 billion were securitised through Private Driver 2008-1 GmbH. Furthermore, receivables of about € 3.4 billion were securitised by Private Driver 2008-2 GmbH, Private Driver 2008-3 GmbH and Private Driver 2008-4 GmbH. Volkswagen Bank GmbH purchased the senior portion of the debentures issued by these special purpose entities and deposited it with the ECB for purposes of participating in its open market operations.

Results of operations

The ramifications of the financial market crisis for the money and capital markets are also affecting the Volkswagen Bank GmbH Group. Rising interest rates and spreads have triggered an increase in funding costs compared to the period before the crisis. The deterioration in the economic situation as a result of the financial crisis has had a substantial impact on the allocation of risk provisions.

The pre-tax result in 2008 was € 375 million compared to € 472 million in the previous year. Foreign branches contributed € 111 million (previous year: € 103 million) to consolidated earnings. The change in earnings is substantially affected by higher depreciation, amortisation and write-downs and by allowances for doubtful receivables as a result of the development of both volume and risk in dealer financing.

The net interest income earned by the Volkswagen Bank Group including the net income from leasing transactions was € 758 million compared to € 675 million in the previous year, against a backdrop of increased pressures from both the competition and the capital markets. This positive change arose particularly from the initial consolidation of the French branch's leasing business.

Interest income from lending and leasing transactions before risk provisions in the amount of € 1,819 million (previous year: € 1,487 million) stems primarily from consumer financing, as well as from vehicle and investment financing for our dealers. The financing packages provided in cooperation with Volkswagen AG account for a substantial portion of the consumer lending business. As with the other low-interest and special offer products, these offers were settled at margins that cover cost, primarily in cooperation with participating brand manufacturers and dealers of Volkswagen Bank GmbH.

The initial consolidation of the French branch's leasing activities generated net income of € 62.2 million from leasing transactions. Overall net income from leasing transactions climbed by € 67 million to € 83 million.

Total interest expense rose to € 1,061 million (previous year: 812 million), primarily as a result of rising interest rates.

The allowances and provisions recognised in connection with the lending business take into account all impairments existing as at the balance sheet date. Continual risk analysis plus the balanced management of receivables and collection are designed to minimise the default rate to the extent possible. Nevertheless, the financial crisis, among other factors, caused the risk provision required for write-downs and bad debt allowances to rise significantly above the previous year's figure.

The net commission income increased year on year, from € 56 million to € 71 million. The change results primarily from the significant increase in the income from insurance agency services. This was contrasted by the increase in commission expenses related to the initial consolidation of the French branch's leasing business.

In 2008, the result from joint ventures accounted for at equity declined primarily due to higher refinancing costs and rising residual value risks.

Volkswagen Bank GmbH was responsible for all primary costs within the Volkswagen Financial Services AG Group until 30 June 2007. All the staff and non-staff costs of the domestic affiliates were incurred by Volkswagen Bank GmbH and were debited to the other companies on the basis of internal cost allocations. In this respect, administration expenses reported are directly related to other operating income. Since 1 July 2007, the primary costs of the Volkswagen Financial Services Group have essentially been recognised by the originating companies. Shifting substantial portions of the bank's staff to Volkswagen Financial Services AG has resulted in a significant reduction in staff costs. Administration expenses however, have climbed because Volkswagen Financial Services AG bills them to Volkswagen Bank GmbH on a pro rata basis. Other administration expenses are primarily attributable to measures aimed at ensuring customer loyalty and gaining new customers, product development, regulatory compliance, and the ongoing optimisation of the quality of customer service.

Net income was € 291 million (previous year: € 323 million).

Summary

In the wake of the financial crisis, the pre-tax result for 2008 decreased compared to the same period the previous year. The Volkswagen Bank Group sought to counteract the developments in the capital market by means of a balanced refinancing and hedging strategy and targeted measures aimed at ensuring its liquidity. The company responded to additional impacts from fiercer competition in particular by launching sales campaigns and financing promotions jointly with the manufacturers and dealers, and by expanding its commission and direct banking businesses.

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

in % (as at 31.12.)	2008	2007	2006
Cost / income ratio [1]	56	52	48
Equity ratio	9.9	12.7	12.7
Core capital ratio [2]	12.8	14.2	13.4
Overall ratio [2]	18.8	20.8	20.1
Return on equity	11.2	14.8	14.0

For the 2007 financial year, the Group prepared consolidated financial statements according to IFRS for the first time. Comparative figures for the years 2004 and 2005 are therefore not available.

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

2 The regulatory core capital ratio/overall ratio of Volkswagen Bank GmbH as at 31 December 2007 and 2008 was calculated in accordance with the standardised approach to credit and operational risks based on the Solvency Regulations that took effect on 1 January 2007. The figures for 2006 were calculated in accordance with the old Principle I.

Disclosures on the equity ratio
Volkswagen Bank GmbH's good standing on the capital market and the expansion of the company's deposit business enabled it to raise funds even despite the difficult market conditions, particularly in the year's second half. An increasing portion of these funds (+ € 2.4 billion compared to 31.12.2007) were channelled into the refinancing of Volkswagen Financial Services AG Group companies.

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

Assets and financial position

Lending business
The lending business of the Volkswagen Bank Group focuses on the provision of loans to private and commercial customers as well as dealers. These receivables total € 28.4 billion (previous year: € 23.0 billion). The share of foreign branches in the retail lending volume rose from € 5.8 billion to € 6.9 billion, essentially as a result of the expansion of the French branch's business.

Given the steadily deteriorating conditions in the financial markets, it became very difficult to raise funds on the money and capital markets especially in the year's second half. To ensure the supply of liquidity, ABS transactions having a volume of € 3.4 billion were executed toward the end of the year. However, they were not sold to investors but utilised instead by Volkswagen Bank GmbH as collateral for participating in the open market operations of the European Central Bank (ECB). This enabled Volkswagen Bank GmbH to generate liquidity at attractive terms in a difficult market environment.

Retail financing
Dealers' new vehicle deliveries to both the retail market and individual commercial customers remained at the 2007 level despite the financial crisis.

The new vehicle financing business held steady at the previous year's high level. In the used vehicle business, new business rose by 5.2 % year on year.

AutoEuropa Bank, a branch of Volkswagen Bank GmbH, covers the leisure industry and non-captive passenger car dealerships; the development of new activities in the multi-brand dealer segment for instance will also serve to harness potential marketing and sales strategies arising from the amendment of the Block Exemption Regulation (BER) for the company's benefit.

In the year just ended, AutoEuropa Bank's development was very positive due especially to the substantial increase in its new business.

A total of 1,638,000 retail financing contracts were under management as at 31 December 2008 – an increase of 6.6 % over the previous year.

Retail financing receivables at the close of 2008 were € 15.5 billion (previous year: € 14.1 billion). Foreign branches accounted for € 2.3 billion of this amount (previous year: € 2.1 billion).

Dealer financing

The holistic approach of supporting corporate customers in their dual role as brokers of retail products and users of corporate customer products, which was implemented in the sales organisation in 2007, proved its worth in 2008.

Automotive financing receivables in the dealer financing segment rose 2.5 % year on year in spite of the difficult market situation.

Investment financing receivables increased by 1.2 % in the reporting year.

Total dealer financing receivables at the close of the year just ended were € 7.7 billion compared to € 7.5 billion at the end of the previous year. The foreign branches accounted for € 3.1 billion of these aggregate receivables (previous year: € 3.2 billion).

Risk provisions for dealer financing rose by 68.3 % year on year due to the worsening economic conditions in the wake of the financial crisis, among other factors.

Leasing business

Volkswagen Bank GmbH offers finance leasing and operating leasing through its foreign branches. Following the merger of VOLKSWAGEN FINANCE S.A. into the French branch, the latter now 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 2008 financial year totalled € 1.1 billion (previous year: € 0.3 billion), largely due to receivables from finance leasing.

Companies included at equity

Volkswagen Bank GmbH holds a 50 % stake in Global Mobility Holding B.V., Amsterdam. The Saudi Arabian Olayan Group and the Mubadala Group, Abu Dhabi, each hold 25 % in Global Mobility Holding B.V. Global Mobility Holding B.V. in turn holds all shares of LeasePlan Corporation N.V., Amsterdam.

In Poland, Volkswagen Bank GmbH is represented through its 60 % stake in VOLKSWAGEN BANK POLSKA S.A., Warsaw. VOLKSWAGEN BANK POLSKA S.A. covers the same business areas and is one of the country’s largest online direct banks. Since the control of VOLKSWAGEN BANK POLSKA S.A. is contractually excluded, the company is included at equity in the IFRS financial statements of the Volkswagen Bank Group as a joint venture according to IAS 28, as is Global Mobility Holding B.V.

CURRENT AND NEW CONTRACTS

in thousands (as at 31.12.)	2008	2007	2006	2005	2004
New contracts					
Retail financing	563	559	612	528	511
Leasing business	36	6	5	5	5
Service / insurance	169	119	106	75	62
Current contracts					
Retail financing	1,638	1,536	1,476	1,408	1,372
Leasing business	77	15	14	14	15
Service / insurance	482	259	186	138	121
Direct banking customers	812	685	641	617	626

Deposit business and borrowings

Besides equity, the main liability items include liabilities to customers in the amount of € 14.9 billion (previous year: € 11.3 billion) and securitised liabilities in the amount of € 9.6 billion (previous year: € 9.0 billion). Details concerning the company's refinancing and hedging strategy are provided in a separate section of this management report.

Deposit business

The deposit volume rose from € 9.6 billion in 2007 to € 12.8 billion in 2008. The share of deposits in the Volkswagen Bank Group's refinancing mix is thus 38.2 %.

Private customer/direct bank deposit business

Volkswagen Bank *direct* – a division of Volkswagen Bank GmbH – substantially boosts customer loyalty to the Volkswagen Group brands through its products that transcend the automotive value chain. Open-ended financial services products such as overnight deposit accounts, current accounts and credit cards are thus designed to ensure a constant stream of opportunities for customer contact.

In 2008, the number of Volkswagen Bank *direct*'s existing customers rose to a new total of 812,000. A significant contribution to this result was made by the "Pluskonto TopZins" account (a variant of the overnight deposit account) as well as non-vehicle consumer loans. Short-term fixed deposits also developed positively. This growth as well as successful sales cooperation deals with partners in the retail business lifted the deposit volume by 27 % to € 11.5 billion at year's end – despite the turbulent events in the financial markets.

Deposit business for corporate customers

The findings of an extensive customer satisfaction survey concerning the deposit business, which a market research institute conducted by telephone, were positive indeed.

We also carried out numerous sales campaigns for new and existing customers. As a result, the fixed-term deposits just about doubled year on year.

The deposit volume in the corporate customer market was approximately € 1.3 billion at year's end (previous year: € 0.5 billion).

Equity

The subscribed capital of € 318 million remained unchanged in the 2008 financial year.

In its capacity as the primary credit institution as defined by the German Banking Act, Volkswagen Bank GmbH is responsible for ensuring the capital adequacy of the financial holding group, Volkswagen Financial Services AG.

Capital adequacy according to regulatory requirements

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

The German Solvency Regulations took effect on 1 January 2007, replacing Principle I. Volkswagen Bank GmbH did not avail itself of the transitional option in 2007 to continue calculating its capital requirements pursuant to Principle I and instead switched to filing the requisite reports in accordance with the Solvency Regulations at the beginning of 2007. The calculation of capital adequacy in connection with credit risks as well as operational risks that were recently added to the requirement is based on the so-called standardised approach.

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

	31.12.2008		31.12.2007	
Aggregate risk position (€ million)		23,387		21,161
of which weighted position according to the standardised approach to credit risks	21,449		19,217	
of which market risk positions * 12.5	252		247	
of which operational risks * 12.5	1,686		1,697	
Liable capital (€ million)		4,396		4,405
of which core capital [1]	2,991		3,000	
of which supplementary capital [1]	1,405		1,405	
Own funds (€ million)		4,396		4,405
Core capital ratio [2] (%)		12.8		14.2
Overall ratio [3] (%)		18.8		20.8

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

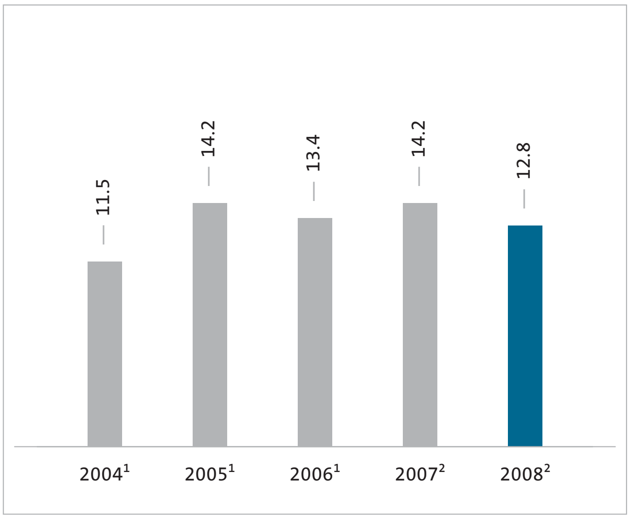
The six True Sale ABS transactions that were carried out in the financial year just ended had a dampening effect on the growth of risk assets resulting from the increase in business volume.

Overall, the core capital ratio changed from 14.2 % to 12.8 % as a result of a growth in business, and the own funds ratio changed from 20.8 % to 18.8 %.

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

CORE CAPITAL RATIO UNDER PRINCIPLE I / SOLVENCY REGULATIONS OF VOLKSWAGEN BANK GMBH AS AT 31.12.

in %

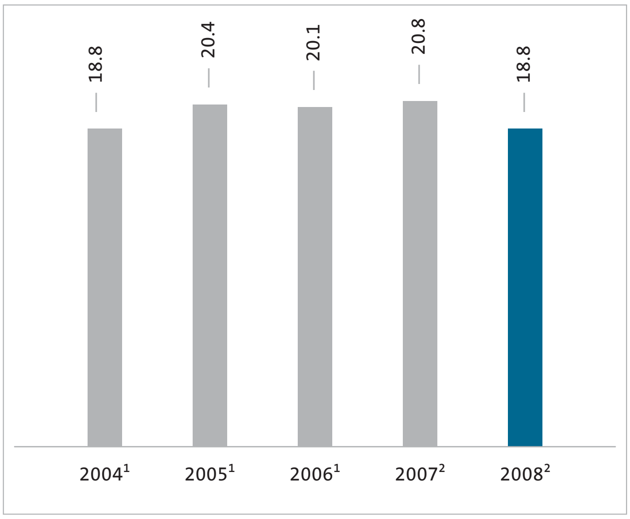


1 Core capital ratio according to Principle I

2 Core capital ratio = Core capital / (Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100

OVERALL RATIO UNDER PRINCIPLE I / SOLVENCY REGULATIONS OF VOLKSWAGEN BANK GMBH AS AT 31.12.

in %



1 Overall ratio according to Principle I

2 Overall ratio = Own funds / (Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100

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

Basel II

Volkswagen Bank GmbH is currently implementing the Internal Ratings Based Approach (IRB approach) to credit risks; the project will likely be completed in the course of the year. The Federal Financial Supervisory Authority (BaFin) has no plans at present to recognise the IRB approach.

Refinancing and hedging strategy

Principles

In the financial year just ended, the Volkswagen Bank GmbH Group did not fundamentally alter its strategic policy to refinance its receivables portfolio at matching maturities and currencies despite the profound changes and major challenges in the money and capital markets. The concept of matching maturities refers to both fixed interest periods and the tying up of liquidity.

While optimising refinancing costs still had absolute priority in the first six months of the year, leveraging our well-established reputation in the capital market to the optimal extent possible came to the fore in the second half of the year. It is this reputation that made it possible for Volkswagen Bank GmbH to obtain refinancing funds by recourse to a variety of instruments despite extremely difficult market conditions.

In 2008, the significance of Volkswagen Bank *direct*'s deposit business also continued to grow in connection with our refinancing activities.

Implementation

The securitisation of receivables by means of diverse ABS transactions undoubtedly developed into our most important refinancing instrument in the financial year just ended.

Volkswagen Bank GmbH kicked off its large-volume capital market transactions in the Volkswagen Bank Group through Driver Five with an aggregate volume of € 1.3 billion in February 2008.

Aside from a private placement of € 0.3 billion in May 2008, the last public ABS transaction for the 2008 financial year was placed in September with an aggregate volume of € 1.1 billion. This ABS transaction of Driver Six GmbH in particular demonstrated that our pioneering role and expertise, which we established over the years, is bearing fruit especially in difficult market conditions.

Three private ABS placements that were structured at the close of the financial year serve to raise funds in connection with ECB's open market operations. Once market conditions change, the bonds that were initially held back can be resold to investors at any time.

Despite adverse market conditions, we were also able to deploy unsecured capital market programmes through one large-volume transaction. A benchmark bond issue that was placed in June 2008 was increased from initially € 500 million to € 700 million the following month. The bond's two-year maturity ideally reflects the average term of our portfolio of receivables.

Various smaller debt issues still played a subordinate role in the refinancing of Volkswagen Bank GmbH. The primary aim of these issuances was to establish the instrument as a future source of refinancing. At the same time, they are designed to offer investors the option of investing in the risk associated with Volkswagen Bank GmbH without mark-to-market measurements.

With a deposit volume growth of € 3.2 billion, Volkswagen Bank *direct* strengthened its position as the largest and most important source of refinancing for Volkswagen Bank GmbH.

The company has pursued its strategy of refinancing largely at matching maturities by borrowing funds with corresponding maturities. The interest rate risk is controlled by deploying derivatives. To the extent possible, individual underlying transactions are linked to derivatives to create efficient hedging relationships (microhedging) – also in accordance with IAS 39 – and they thus minimise the effects of a market valuation of derivatives on the income statement. Derivatives are utilised for hedging purposes and, as a rule, are held until the planned maturity date.

Matching currencies were achieved by raising liquidity in euros and by hedging it utilising derivatives.

RISK REPORT

Strategy and standards

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

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

Volkswagen Bank GmbH has set up a system for identifying, measuring, monitoring and controlling risk positions, in accordance with the requirements of § 25a Para. 1 German Banking Act and by applying § 91 Para. 2 German Stock Corporation Act analogously. This system has also been implemented as the Group-wide risk management system of the financial holding group in accordance with § 25a Para. 1 German Banking Act. This risk management system allows timely detection of developments that might jeopardise the company's activities. The system encompasses both a framework of risk principles as well as organisational structures and processes for risk measurement and monitoring that are tightly integrated in the activities of the individual divisions.

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

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

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

Strategic parameters are determined for all material risks based on risk management guidelines and the risk-bearing capacity of Volkswagen Bank GmbH. In addition to risks of counterparty default – credit risks, in particular – market price risks, liquidity risks and operational risks are also reviewed in detail.

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

- The Board of Management determines the risk potential.
- The risk potential of Volkswagen Bank GmbH is generally moderate. Only predictable and workable risks are incurred. An avoidance or mitigation strategy is applied to operational and liquidity risks.
- Risks from new or modified products, new sales channels and/or new markets are subject to a fixed evaluation and approval process.
- Volkswagen Bank GmbH's processes are continuously subject to quality assurance.
- Risk is spread across customers, products and countries.
- Security is obtained for all vehicle and investment financing loans.
- Risk provision is based on a risk-oriented value adjustment policy.
- Lending processes and responsibilities are subject to guidelines applicable to the different divisions and are decided in accordance with an approval process subject to credit limits.
- Credit risks are factored into the pricing.
- Loans are granted solely after appropriate identity and credit checks.

Decisions regarding the assumption or avoidance of risks are supported by the use of suitable control instruments, such as credit assessment procedures or early warning systems.

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

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

The risk manual describes the risk management system in detail.

All divisions annually rate identified risks using the risk map pursuant to an expert system. Group Risk Management assesses, monitors, aggregates and reports all relevant results to the Board of Management, the Supervisory Board and Volkswagen AG. In addition to defining the likelihood of risks actually occurring and assessing their possible negative effects, the risk map also contains information about existing procedures and rules, areas of responsibility and derived measures.

Besides quantifying risk positions as required under the regulatory regime (pursuant to the Solvency Regulations) and representing the existent equity components, Volkswagen

Bank GmbH has also established an economic system for determining its risk-bearing capacity that matches the economic risk to the hedging potential.

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

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

The economic risk is quantified for two scenarios. The "normal scenario" assumes a confidence level of 99 % and a one-year holding period while the "worst-case scenario" assumes a confidence level of 99.93 % and a one-year holding period.

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

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

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

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

The limit system comprises two stages. Stage 1 entails the determination of risk limits for the bank as a whole while stage 2 entails the determination of the risk type limits.

Risk limits for the bank as a whole are fixed for both a normal scenario and a worst-case scenario.

Risk type limits are defined as the percentage of available risk limits for the bank as a whole and reflect the company's business alignment. The determination is executed on an annual basis pursuant to a resolution of the Board of Management.

Group Risk Management reports the risk of counterparty default, market price and residual value risks as well as operational risks by submitting a risk management report to the Board of Management and the Supervisory Board at least once a quarter. For high-risk markets, reporting is done on a monthly basis.

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

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

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

Structure and organisation

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

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

The Chief Risk Officer (CRO) is responsible for executing the overall risk strategy established by the Board of Management of Volkswagen Bank GmbH. The CRO regularly reports Volkswagen Bank GmbH's overall risk position to both the Supervisory Board and the Board of Management. In addition to being responsible for Central Risk Management, Risk Assessment Procedures, Basel II, Audits as well as Controlling, the CRO is also responsible for Market Support/Dealer Restructuring.

The Group Risk Management department formulates risk policy guidelines for risk management, develops methods and processes, conducts ongoing analyses of the current risk situation and ensures transparent reporting. The basic decision relating to strategy and tools for risk management are the responsibility of the Board of Management of Volkswagen Bank GmbH. As a neutral and independent department, Group Risk Management reports directly to the Board of Management of Volkswagen Bank GmbH.

The Risk Assessment Procedures and Basel II department establishes the basic definitions for the procedures used at Volkswagen Bank GmbH to asses creditworthiness and collateral; develops models for assessing creditworthiness such as rating and scoring procedures and parameter assessment (probability of default, loss given default, credit conversion factor); and analyses the quality of the procedures and processes used for determining creditworthiness and collateral as well as assessment parameters.

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

As a rule, operational risk management in the sense of modern portfolio management is integrated into the individual divisions. The consistent organisational separation of the Market and Market Support functions ensures the independence of risk evaluation and monitoring of areas responsible for risk and earnings. The individual decision-making authorities in each division are governed by competences specified by the Board of Management of Volkswagen Bank GmbH.

In the case of market price risks, organisational separation of risk management and risk controlling is ensured up to the level of the Board of Management.

Internal Audit at Volkswagen Bank GmbH independently examines all operational and business procedures of Volkswagen Bank GmbH on behalf of the Board of Management, taking due account of the provisions of bank regulatory regulations.

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

Risk types

Volkswagen Bank GmbH defines risk as any uncertainty about future developments that might have a negative impact on the Group's economic situation. This risk can itself be divided into different types of risk. At the same time, Volkswagen Bank GmbH constantly analyses and assesses the opportunities that arise from consciously entering into risks. The business decisions of Volkswagen Bank GmbH are therefore based on the risk vs. opportunity weighting described here.

The typical risks for Volkswagen Bank GmbH are:

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

Risk of counterparty default

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

Credit risk

Definition

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

Parameters/risk strategy

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

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

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

Risk assessment

Credit assessment in connection with lending decisions at Volkswagen Bank GmbH is carried out on the basis of rating and scoring procedures. A rating manual provides the framework within which the rating systems must be developed and maintained.

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. Generic score cards and score cards based on data histories going back several years are used in the portfolios of Volkswagen Bank GmbH to supplement the lending decisions taken by the respective departments.

Volkswagen Bank GmbH has further improved its credit rating procedures, notably in its foreign branches. Scoring procedures are applied to both the purchase and measurement of all of Volkswagen Bank GmbH's significant portfolios. Default probabilities are allocated to these score classes based on customers or contracts deemed to have defaulted within one year. Procedures that also assign a default probability to individual contracts once a month based on the relevant customer's payment history are in place for purposes of performing portfolio valuations.

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

Rating procedures in the corporate business
Volkswagen 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 resulting credit score constitutes an individual probability of default that conforms to the Solvency Regulations and is mapped onto Volkswagen Bank GmbH's 15-tier master scale. The workflow-based rating application CARAT, which was introduced in 2007, was rolled out at the foreign branches in order to support the analysis of customers' creditworthiness.

The result of the rating provides a material basis for decisions on the approval and prolongation of credit commitments and value adjustments. The definition of competencies and the monitoring of the corporate portfolio are also based on the results of ratings.

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

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

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

Value adjustments
The determination of adjustments based on the incurred loss model pursuant to IAS 39 also takes risks of counterparty default in connection with ABS transactions into account. The model we used for determining these adjustments was derived from the Basel II risk quantification method.

Risk management and monitoring
Appropriate processes are used to monitor all loans in regards to the underlying economic conditions and collateral, compliance with limits, contractual obligations as well as both external and internal requirements. Commitments are subject to suitable controls (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 in order to ensure comparability of the international portfolios of Volkswagen Bank GmbH. Risk reviews are performed at the branch level in the event of problems. The credit rating procedures that ensure the functionality and validity of the procedures are also monitored.

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

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

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

Counterparty risk

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

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

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

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

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

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

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

Country risk

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

Shareholder risk

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

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

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

Volkswagen Bank GmbH influences the business and risk policies of companies in which it holds an equity interest via its agents on the ownership or supervisory bodies.

Volkswagen Bank GmbH has been holding a substantial – i. e. 50 % – stake in LeasePlan Corporation N.V., Amsterdam, which is held indirectly via Global Mobility Holding B.V. (GMH), Amsterdam, since the end of 2004. The bank also has held 60 % of the shares of VOLKSWAGEN BANK POLSKA S.A., Warsaw, since mid-2001.

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 Group/Equity Controlling (all other equity investments) support the management of both Volkswagen Financial Services AG and Volkswagen Bank GmbH in the pursuit of their interests.

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

The current economic downturn of the global economy goes hand in hand with increases in both residual value risks and refinancing costs and will impose new challenges on LeasePlan in 2009. The rating firm Standard & Poor's has already adjusted its rating to A–/negative outlook in the light of these developments. Moody's Investors' Service has placed its A3 rating on its pending review list in anticipation of a possible downgrade. The shareholder risk is assessed based on the company's current economic development applying a median probability of its occurring. LeasePlan is expected to continue to show a sustained, positive development based on its leading position in worldwide multi-brand fleet management.

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

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

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

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

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

Market price risk

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

Risk Controlling in this context, which is integrated in the Group Risk Management department, is responsible for the measurement, analysis and monitoring of items affected by market price risks including the overall interest rate positions.

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

All risk types are assessed in the monthly Risk Controlling report using the value-at-risk (VaR) method and are offset against the ceiling for losses of Volkswagen Bank GmbH. The report makes the risk exposure arising from each individual type of risk transparent and includes recommendations aimed at countering these risks.

Interest rate risk

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

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

Risk assessment
Volkswagen Bank GmbH determines its interest rate risks as part of monthly monitoring using the value-at-risk (VaR) method based on a 40-day holding period and a confidence level of 99 %. This model is based on a historical simulation and calculates potential losses taking 1,000 historical market fluctuations (volatilities) into account.

While the VaR so determined for monitoring purposes serves to assess potential losses under normal market conditions, forward-looking analyses are also performed using extreme scenarios. Interest rate positions are subjected to stress tests comprising extraordinary changes in interest rates and worst case scenarios and are subsequently analysed in terms of the at-risk potentials using the simulated results. In this connection, changes in the present value are also quantified and monitored monthly using the + 130 and – 190 basis points interest rate shock scenarios defined by the Federal Financial Supervisory Authority (BaFin).

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

Risk management and monitoring
Treasury is responsible for risk management based on the resolutions of the Asset Liability Committee (ALC). Risk Controlling is tasked with monitoring interest rate risks.

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

Foreign currency risk

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

They are quantified monthly based on the VaR approach, analogous to the market price risks, and are included in risk assessment. Compared to the entire portfolio, these play only a subordinate role. In addition, endowment capital in the amount of GBP 107 million was made available to the branch in the United Kingdom. Given its unlimited maturity, the endowment capital which is refinanced in euros is not secured through hedging transactions.

Price risk

Volkswagen Bank GmbH incurs price risks in connection with the fund-based pension plan for its employees. Volkswagen Bank GmbH has undertaken to meet these pension obligations in the event the fund can no longer satisfy our employees' guaranteed claims. This is why Volkswagen Bank GmbH also determines the risk exposure arising therefrom based on the value-at-risk (VaR) method and includes this result in the risk assessment described above.

Liquidity risk

Definition

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

Parameters/risk strategy

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

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

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

Risk assessment

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

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

Liquidity risks are identified and recorded based on daily liquidity requirements; daily, monthly and annual liquidity planning; as well as all available liquid reserves. The determinants of liquidity planning take into account known payment obligations for one and the cash flow forecasts that are regularly verified based on historical values for another.

Volkswagen Bank GmbH has access to standby lines of credit at other banks to protect it from unexpected fluctuations in cash flow. New loans granted as well as withdrawals of both short-term refinancing and refinancing due in six months are taken into account in the determination of the standby line limits. Normal case and worst case analyses are performed as part of the quarterly determination of these credit lines. As a rule, standby credit lines are not utilised; they serve solely to secure liquidity. Additionally, loans of securities are used to increase Volkswagen Bank GmbH's operational safe custody account with the German Central Bank for the purpose of expanding its participation in the ECB's refinancing facilities.

To ensure professional liquidity management, Treasury prepares cash flow development statements, performs cash flow forecasts and determines the period for which cash will suffice, taking into account various basic assumptions and premises; this includes stress tests (normal case with availability of external funds and worst case with no availability of external funds at all). Furthermore, the liquid reserves are analysed as to their adequacy on a quarterly basis taking both a normal and a worst case scenario into account.

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

Risk management and monitoring

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

Both an emergency plan for liquidity bottlenecks and a suitable action plan for obtaining liquidity are available in the event of a market crisis. These measures prescribe immediate notification of a fixed set of recipients including the Board of Management in the event of a severe liquidity bottleneck (complete drying up of the markets). A crisis committee is appointed; it is tasked with making all decisions relevant to liquidity and/or laying the groundwork for decisions by the Board of Management.

The external ratings of Volkswagen Bank GmbH and Volkswagen Financial Services AG affect the refinancing costs of capital market programmes; note that the differentiated rating of Volkswagen Bank GmbH is one level better than that of Volkswagen Financial Services AG and the parent group due to its own positive risk and financial profile. While Volkswagen Financial Services AG, like Volkswagen AG, has received an A– rating with a stable outlook from S&P and an A3 rating with a positive outlook from Moody's, the rating agencies have issued a long-term rating of A with a negative outlook (S&P) and A2 with a stable outlook (Moody's) for Volkswagen Bank GmbH.

We have further diversified the sources of refinancing since the onset of the financial crisis, which has been ongoing since the third quarter of 2008. For the first time, ABS transactions were placed by both Volkswagen Bank GmbH and Volkswagen Leasing GmbH and acquired by Volkswagen Bank GmbH for the purpose of depositing the proceeds in the collateral deposit account and thus participating in the ECB's open market operations.

Risk communication

As part of risk communication, the managing directors of Volkswagen Bank GmbH are informed daily of outstanding refinancing, open confirmed bank credit lines and the value of the standby credit line with the German Central Bank. The Board of Management is informed monthly of the current liquidity situation including its adequacy. Material information is also transmitted on short notice through ad hoc reports.

Operational risk

Definition

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

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

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

Parameters/risk strategy

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

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

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

Risk identification and assessment

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

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

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

Risk management and monitoring

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

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

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

Risk communication

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

Business continuity management

The goal of the Corporate Security unit is to ensure security for individuals and property at Volkswagen Bank GmbH and to avoid damage to its image and losses from operational disruptions. Under Corporate Security's direction, Volkswagen Bank GmbH is establishing a global security quality management system together with its affiliated companies and branches, which, among other things, takes into account the varying government and civil security requirements.

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

Company-wide crisis and emergency management deals with business continuity planning, among other things. It focuses on avoiding and/or mitigating losses from operational disruptions by designing and establishing emergency and restart plans that are tested at regular intervals.

Other risk

Residual value risk

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

Direct and indirect residual value risks are differentiated relative to the bearer of the residual value risks. A direct residual value risk is present when the residual value risk is borne by Volkswagen Bank GmbH or one of its branches. An indirect residual value risk is present if the residual value risk has been transferred to a third party based on the guaranteed residual value (e. g. customers, dealerships). The initial risk is that the counterparty guaranteeing the residual value might default. If the guarantor of the residual value defaults, the leased asset and hence the residual value risk are transferred to the lessor.

Parameters/risk strategy
The residual value risk management feedback control system requires regular residual value forecasts and continuous risk assessments in regards to direct residual value risks only. Proactive marketing activities are derived from the measurement results in order to optimise earnings from the assumption of residual value risks. The marketing results so obtained are considered in the review of the residual value guidelines.

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

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

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

The difference between the calculated residual value and the forecast for the used car constitutes the risk/opportunity ratio upon expiry of a contract.

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

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

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

Opportunities from residual values are not considered when setting up 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 net amounts of risk allocated to the remaining term must still be earned and included in the writedowns to the lower net realisable value.

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

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

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

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

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

Risk communication
Group Risk Management reports on the situation regarding residual value risks as part of the risk management report.

In Germany, the indirect residual value risk is measured analogous to the direct residual value risks and communicated to the Board of Management in a separate report.

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

Special risks arising from the global financial market crisis

The global crisis of the financial markets, which continues to jeopardise the development of the global economy, can expose Volkswagen Bank GmbH to additional risks on three levels – the sales level, the settlement level and the refinancing level. The large threat emanating from the ongoing crisis and the difficulty in forecasting its development have caused the Group's Board of Management, in coordination with the Board of Management of Volkswagen Bank GmbH, to set up a working group tasked with analysing these special risks on a continuous basis and supplementing the existing risk management system of the Group as necessary.

Our company participates in the Compensation Scheme of the Association of German banks. We cannot rule out extraordinary contributions to the scheme in connection with a major current loss event.

Risks at the sales level

At the level of the consumer, the crisis of the financial markets has led to considerable uncertainty and scepticism regarding future economic developments. In turn, this has sparked an increasing reluctance to make new purchases, particularly new or used automobiles.

In its capacity as a mobility services provider, Volkswagen Bank GmbH depends directly on successful sales of the Volkswagen Group's automobiles and on sales of used cars. The core business of Volkswagen Bank GmbH – i. e. the financing and leasing of vehicles – is also disrupted if these sales stall. This development can cause interest income to decline and trigger losses from the marketing of the pre-owned vehicles derived from expired contracts if they are sold below their calculated residual value. Furthermore, remeasurement of the portfolio of current contracts that are subject to residual value risks can make additional adjustments necessary.

Risks at the contract settlement level

In the customer business, disruptions in the execution of contracts can occur as a result of the recession which was sparked by the crisis of the financial markets. Such disruptions – which can be triggered by unemployment, reductions in income, the loss of income or bankruptcies – can make themselves felt in a rising number of late payments and defaults unless these risks are hedged by means of residual debt insurance. These risks, as well as additionally declining collateral values may require increased individual write-downs and – in the event of complete non-payment – higher write-offs of uncollectible receivables, thus increasing the company's risk of loss.

Risks at the refinancing level

The company's limited ability to refinance itself via the international money and capital markets in the wake of the financial market crisis has made short-term substitutes necessary. For example, Volkswagen Bank GmbH is making greater use of the European Central Bank's refinancing facilities.

The security of customer deposits attained central significance in the course of the crisis of the financial markets. In Germany, certain bank deposits such as checking accounts or term deposits are guaranteed by the Federal Republic of Germany.

Any dramatic withdrawal of bank deposits from Volkswagen Bank GmbH in the wake of the financial market crisis or a further deterioration of the situation on the money and capital markets would greatly undermine the Group's ability to refinance itself. Yet this potential loss of liquidity could be counteracted if Volkswagen Bank GmbH is given permission to avail itself of the statutory financial market stabilisation fund that was created in October 2008 and the liquidity infusions that the ECB is providing to banks.

Volkswagen Bank GmbH has applied for guarantees under the German Financial Market Stabilisation Fund Act for refinancing purposes.

Summary

In connection with its business activities, Volkswagen Bank GmbH responsibly assumes risks typical of banks with the aim of taking advantage of specific market opportunities. 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 has been continuously enhanced in 2008, bearing in mind the legal requirements associated with risks in the banking and leasing business.

Among the default risk categories, credit risk in the dealer and retail customer business represents the material risk type for Volkswagen Bank GmbH. By using modern tools for risk identification, analysis and monitoring, credit risk in connection with our business activities is actively controlled and secured using our own resources in accordance with the requirements of the German Banking Act.

In 2008 Volkswagen Bank GmbH successfully met its challenges despite the difficult conditions; in the final analysis, adequate handling of the risks arising from the worldwide crisis of the financial markets (primarily the resulting liquidity crisis) was critical to the company's success.

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

OPPORTUNITIES FOR THE VOLKSWAGEN BANK GROUP

Macroeconomic opportunities

The economic development anticipated for the next years is likely to result in a downturn of automobile sales. The Volkswagen Bank Group will participate in this trend through its core business of automotive financial services.

The markets' general revaluation of credit risks also affects Volkswagen Bank GmbH. The company's balanced refinancing mix, its solid capitalisation, the high quality of its financial assets and prudent liquidity targets are now paying off. Volkswagen Bank GmbH expects its own economic development to consolidate against the backdrop of a climate still characterised by uncertainty.

Strategic opportunities

Geographic expansion

There are opportunities above and beyond the internationalisation strategy described in the section entitled "Anticipated developments". These opportunities concern further geographic expansion into markets where the Volkswagen Bank Group can use its financial services to promote the sales of Group vehicles. The targeted rates of return of the Volkswagen Bank Group as well as the sales promotion potential are relevant to any decision to enter a particular market.

Positioning in the market

The share of financed vehicles in total vehicle sales continues to rise in the new and used car segment as a result of changing consumption patterns. Together with the heightened integration of the Volkswagen Bank Group with the brands of the Automotive Division, this creates the opportunity to expand the volume above and beyond the targets previously anticipated.

Cost synergies

Aside from the aforementioned measures that serve to enhance efficiency in individual markets, both the ongoing development of IT systems and the joint utilisation of system platforms across several countries offer additional opportunities for realising cost synergies.

PERSONNEL REPORT

Personnel figures

In 2007, the Volkswagen Financial Services Group was restructured with the aim of transferring non-banking processes to Volkswagen Financial Services AG and its domestic subsidiaries. Until then, almost all employees of the Volkswagen Financial Services Group's domestic companies had an employment contract with Volkswagen Bank GmbH.

As part of this restructuring, 3,290 employees were transferred to Volkswagen Financial Services AG from Volkswagen Bank GmbH in 2007. Because the business processes and related activities were spun off to the German Group companies in this connection, these employees now work in the relevant subsidiaries under staff leasing agreements with Volkswagen Financial Services AG. By year's end, Volkswagen Financial Services AG had leased 777 employees (previous year: 1,316) to Volkswagen Bank GmbH in connection with Volkswagen Bank GmbH's increasing use of the services of Volkswagen Business Services GmbH.

Volkswagen Bank GmbH had a total of 669 (previous year: 585) employees as at 31 December 2008, of which 146 (previous year: 215) were employed in Germany.

Currently, Volkswagen Bank GmbH still has 19 trainees in Germany. Trainees have been employed via Volkswagen Financial Services AG since 1 July 2007.

Key issues in personnel management

At Volkswagen Financial Services AG, personnel management covers all domestic companies of the Volkswagen Financial Services Group and thus Volkswagen Bank GmbH too.

Personnel management dealt principally with ten issues.

First, the role of personnel management as both service provider and shaper was further refined, for one in regards to the development of the company's corporate strategy and for another in regards to linking individual employees' know-how and the company's organisational structures with the drivers of Volkswagen Financial Services AG's success.

Second, we carried out the so-called mood barometer, a voluntary and anonymous staff survey concerning issues of leadership and corporate culture for the second time. The high participation rate of 82 % enabled management to pursue numerous changes and improvement potentials.

Third, existing instruments and processes used to fine tune personnel management were improved by laying the groundwork for the introduction of a standardised, international personnel reporting system and organising personnel planning workshops.

Fourth, aside from training opportunities for bank officers, insurance and finance specialists as well as IT specialists, we also offer promising candidates wishing to join Volkswagen Financial Services AG the option to pursue a dual-track Bachelor of Arts (BA) programme that combines on-the job training in the company with management and business studies at the so-called Welfenakademie, a university of co-operative education.

The fifth focal point concerned a need-based analysis of human resources planning and development. Besides the annual employee performance review, during which the employee's need for qualification is systematically determined and suitable measures are stipulated, a broad range of vocational as well as professional development and related seminars are provided at the company's own training centre. Here, the focus was on personnel development in sales.

Developing the FS Way based on the Volkswagen Way was issue number six. The Volkswagen Way is a long-term programme that serves to support the Volkswagen Group's Strategy 2018 project to become the world's largest automobile manufacturer. In this connection, Volkswagen Financial Services AG supports Volkswagen AG in its capacity as a partner of the brands in the automotive value chain.

Intensifying employees' focus on services and customers was the seventh most important issue. To that end, personnel management assisted the company's workforce through defined group classes and individual training sessions on topics such as customer loyalty, the quality of customer relationships or professional sales conduct.

Health management constituted priority number eight. The benchmark comparison of a potential health analysis showed that among the 400 participating companies, Volkswagen Financial Services AG is very well positioned in terms of health and social programmes.

In addition, the demographic master plan is used as a strategic tool for exerting a positive influence on hot topics pertaining to aging and age in the workplace, especially in Germany.

Finally, we focused on reinforcing international personnel management. At issue here was the development of an international human resources strategy aimed at enhancing international personnel management through closer collaboration of all foreign subsidiaries.

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.

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

Volkswagen Bank GmbH is represented in the European market by branches in eight EU countries, which were set up using the "European Passport". Each of the international branches of Volkswagen Bank GmbH in Belgium, France, Greek, the United Kingdom, Ireland, Italy, the Netherlands and Spain conduct their local business with its own staff. The branches employed 523 members of staff as at the end of 2008 (previous year: 370).

EVENTS AFTER THE BALANCE SHEET DATE

No important events beyond those described in this report occurred after the close of the 2008 financial year.

ANTICIPATED DEVELOPMENTS

Global economy

Global economic growth will probably be negative in 2009. A sustained recovery is not expected to occur until 2010 despite worldwide support measures aimed at both the finance sector and the real economy. Asian emerging markets are expected to grow the strongest, especially China and India, while the GDP growth rate in Latin America will decline slightly. The recessionary trends in the major industrialised countries will continue until at least the middle of the year.

These prognoses were prepared taking current assessments of external institutions into account. Among others, these include economic research institutes, banks, multinational organisations and consulting firms.

In Western Europe, GDP will shrink in 2009 from its 2008 levels. Negative growth rates are expected too for Central and Eastern Europe following the robust expansion in recent years.

The recessionary development of the German economy will continue for most of 2009. Unemployment figures will rise substantially again following the record low in the autumn of 2008.

Financial and automobile markets

Environment for the development of the financial markets
In 2009, the financial markets are faced with fundamental structural changes. The financial market crisis has shown all too clearly that the international financial system had developed an increasingly complex life of its own and, in the end, was no longer capable of counteracting the loss of confidence and ordering its responsibilities for the cash and credit markets on its own. Numerous industrialised countries took comprehensive state measures designed to stabilise the financial markets. In October 2008, the establishment of the Sonderfonds Finanzmarktstabilisierung (special fund for the stabilisation of the financial market – SoFFin) in Germany created a tool that is intended to overcome liquidity bottlenecks and strengthen the capital base of banks, insurance companies and pension funds. Aid is available as needed in the form of guarantees, equity or the assumption of risk. The crisis has exerted considerable pressure to change the refinancing system with regard to structured finance products in the international capital markets. Essentially, this involves asset-backed securities (ABS) that combine bonds into tranches with varying levels of risk.

Transactions involving such securities came to a virtual standstill owing to the disrepute that ABS transactions have acquired during the crisis. We cannot anticipate at this time when the ABS business will restart through the issue of “reformed products”. For the time being, the range of refinancing options remains limited to the ECB’s credit facility, unsecured notes (commercial paper and bonds), intragroup refinancing and the deposit business.

Currently there are no indications that we will have additional leeway to adjust interest rates in the lending business, even against the backdrop of the automotive segment’s weak sales. The strong liquidity inflows from the central banks have further depressed short-term interest rates. Continued uncertainty among market participants and latent fears of deflation lead us to expect that nothing will change. In the medium term, however, interest rates are expected to rise given the massive growth of budget deficits. This is compounded by the fear that setting up allowances for doubtful accounts might cause the company to incur additional costs due to the uncertain economic situation.

Continued consolidation of non-captive automobile banks is indeed a possibility in light of the situation’s overall instability. The captives in contrast are best equipped to weather the foreseeable adjustment process because they possess a strong product portfolio geared to the market, solid residual value costing models and a good reputation in the global financial markets; they also operate a healthy deposit business.

This development notwithstanding, both the ongoing internationalisation of business and the ability to innovate financial products will once again play a greater role in defining the market position of automobile banks.

Development of the automobile markets
The year 2009 will be one of crisis management: Declines in the number of new registrations are anticipated for almost all of the world’s automobile markets in 2009. India is the only country for which slight growth is being forecast because of its growing importance.

In Western Europe (excluding Germany), demand for passenger cars is expected to drop substantially as a result of the financial market crisis. This will also affect Central and Eastern Europe.

In Germany, a difficult 2009 is expected to follow a weak 2008. The extent of the uncertainty resulting from the crisis of the financial markets is greatly affecting private consumption and thus the automotive market too. It remains to be seen to what extent the economic stimulus packages enacted by the German government – specifically, the programme aimed at boosting automotive demand – can actually revive the sale of cars. This also applies to the economic stimulus packages that have been adopted or announced in other countries.

Development of the Volkswagen Bank Group

In light of macroeconomic developments, the company anticipates its financial services business to consolidate. In 2009 and 2010, it will be necessary to strengthen and further expand the close cooperation with the brands in the Volkswagen Group, a process that has been carried out successfully since 2007. The closer integration of brands and financial services not only led to the creation of attractive product packages for customers but also drove up value creation in the Group. This successful strategy will be pursued further, and extended to other Group brands and markets.

The Volkswagen Bank *direct* division continues to be of great significance given its deposit volume and its use of innovative sales channels. Consistent development of this division aims to boost the deposit volume on a continuous basis for refinancing purposes.

Internationally, Volkswagen Bank GmbH will focus on the continued expansion of its activities in existing branches.

Its 50 % share in Global Mobility Holding B.V. gives Volkswagen Bank GmbH an indirect interest in LeasePlan Corporation N.V. and thus in the latter’s earnings from multi-brand fleet management.

LeasePlan Corporation N.V. posted good organic growth during the reporting period. In 2008, LeasePlan Corporation N.V. further expanded its regional activities by establishing a company in Mexico and strengthened its market position in

France by acquiring Daimler Chrysler Fleet Management S.A.S. In 2009, achieving growth will pose a challenge given the economic downturn in world markets.

Sales in the automotive markets, refinancing opportunities, and a competitive cost structure are the key factors that will influence the future development of the Volkswagen Bank GmbH Group.

The harmonisation and standardisation of business processes is crucial for the development of the Volkswagen Bank GmbH Group. Standardised business processes that can be integrated into the divisions of the Volkswagen Financial Services AG Group provide the basis for increasing flexibility for new products and targeting customers based on their requirements.

Close integration with the brands of the Volkswagen Group and the subsidiaries within Volkswagen Financial Services AG will play a decisive role for the Volkswagen Bank GmbH Group. The brand-orientated mobility packages developed on the basis of these cooperation models will help to stabilise the competitive position of Volkswagen Bank GmbH.

The following overall picture emerges, taking the aforementioned factors into account:

The Board of Management expects the development of volumes and margins to remain tight against the backdrop of the global financial market crisis. There is the possibility furthermore that risk premiums will increase due to conditions in the real economy as a whole and impact earnings accordingly.

Financial statements of the Volkswagen Bank GmbH Group (IFRS)

INCOME STATEMENT OF THE VOLKSWAGEN BANK GMBH GROUP

	Notes	1.1. – 31.12.2008 € million	1.1. – 31.12.2007 € million	Change in %
Interest income from lending transactions before provisions for risks		1,736	1,471	18.0
Net income from leasing transactions before provisions for risks	(15)	83	16	418.8
Interest expense		1,061	812	30.7
Net income from lending and leasing transactions before provisions for risks	(5, 20)	758	675	12.3
Provisions for risks arising from lending and leasing business	(9, 21, 30)	181	104	74.0
Net income from lending and leasing transactions after provisions for risks		577	571	1.1
Commission income		175	147	19.0
Commission expenses		104	91	14.3
Net commission income	(5, 22)	71	56	26.8
Result from derivative financial instruments	(10, 23)	– 25	– 18	38.9
Result from joint ventures accounted for at equity		105	128	– 18.0
Result from other financial assets		2	–	×
General administration expenses	(5, 24)	430	516	– 16.7
Other operating result	(5, 25)	75	251	– 70.1
Pre-tax result		**375**	**472**	**– 20.6**
Taxes on income and earnings	(6, 26)	84	149	– 43.6
Net income		**291**	**323**	**– 9.9**
Net income attributable to Volkswagen Financial Services AG		291	323	– 9.9

BALANCE SHEET OF THE VOLKSWAGEN BANK GMBH GROUP

Assets	Notes	31.12.2008 € million	31.12.2007 € million	Change in %
Cash reserve	(7, 28)	694	435	59.5
Receivables from financial institutions	(8)	1,432	1,132	26.5
Receivables from customers arising from				
Retail financing		15,481	14,078	10.0
Dealer financing		7,653	7,465	2.5
Leasing business	(15)	1,136	292	289.0
Other receivables		4,087	1,177	247.2
Receivables from customers in total	(8, 9, 29, 30)	28,357	23,012	23.2
Derivative financial instruments	(10, 31)	190	149	27.5
Securities	(11, 32, 48)	542	–	×
Joint ventures accounted for at equity	(2, 33)	1,248	1,290	– 3.3
Other financial assets	(12, 33)	0	0	–
Intangible assets	(13, 34)	5	4	25.0
Property, plant and equipment	(14, 35)	13	21	– 38.1
Leased assets	(15, 36)	169	–	×
Investment property	(15, 36)	2	–	×
Deferred tax assets	(6, 37)	701	423	65.7
Income tax assets	(6)	60	24	150.0
Other assets	(38)	84	49	71.4
Total		**33,497**	**26,539**	**26.2**

Liabilities	Notes	31.12.2008 € million	31.12.2007 € million	Change in %
Liabilities to financial institutions	(16, 39)	2,975	765	288.9
Liabilities to customers	(16, 39)	14,880	11,254	32.2
Securitised liabilities	(16, 40)	9,595	8,984	6.8
Derivative financial instruments	(10, 41)	226	108	109.3
Provisions	(17, 18, 42)	74	75	– 1.3
Deferred tax liabilities	(6, 43)	658	363	81.3
Income tax obligations	(6)	26	28	– 7.1
Other liabilities	(44)	54	40	35.0
Subordinated capital	(45)	1,691	1,543	9.6
Equity	(46)	3,318	3,379	– 1.8
Subscribed capital		318	318	–
Capital reserve		2,596	2,596	0.0
Retained earnings		61	279	– 78.1
Consolidated net retained profits		343	186	84.4
Total		**33,497**	**26,539**	**26.2**

STATEMENT OF RECOGNISED INCOME AND EXPENSE OF THE VOLKSWAGEN BANK GMBH GROUP

€ million	Notes	1.1. – 31.12.2008	1.1. – 31.12.2007
Actuarial gains and losses	(42)	3	26
Cash flow hedges:	(10)		
– Fair value changes recognised in equity		– 55	12
– Recognised in the income statement		– 9	– 4
Currency translation differences	(4)	– 34	– 17
Deferred taxes on items recognised directly in equity	(6, 26)	18	– 12
Income and expense of shares measured at equity, recognised directly in equity, after taxes		– 117	– 13
Income and expense recognised directly in equity		**– 192**	**– 8**
Net income		291	323
Recognised income and expense		**99**	**315**

Equity is shown in note (46).

CASH FLOW STATEMENT OF THE VOLKSWAGEN BANK GMBH GROUP

€ million	1.1. – 31.12.2008	1.1. – 31.12.2007
Net income	**291**	**323**
Depreciation, value adjustments and write-ups	261	127
Change in provisions	– 5	– 98
Change in other items not affecting payments	– 45	– 24
Result from the sale of financial assets and property, plant and equipment	6	5
Interest result and dividend income	– 779	– 762
Other adjustments	39	102
Change in receivables from financial institutions	– 293	– 340
Change in receivables from customers	– 4,567	– 2,680
Change in other assets from operating activities	– 11	– 17
Change in liabilities to financial institutions	1,629	– 145
Change in liabilities to customers	3,285	905
Change in securitised liabilities	611	1,938
Change in other liabilities from operating activities	7	5
Interest received	1,808	1,487
Dividends received	32	87
Interest paid	– 1,061	– 812
Income tax payments	– 106	– 109
Cash flow from operating activities	**1,102**	**– 8**
Cash inflows from the sale of leased assets and investment property	36	–
Cash outflows from the purchase of leased assets and investment property	– 88	–
Cash inflows from the sale of subsidiaries and joint ventures	–	–
Cash outflows from the purchase of subsidiaries and joint ventures	– 178	–
Cash inflows from the sale of other assets	12	28
Cash outflows from the purchase of other assets	– 6	– 17
Change in investments in securities	– 542	–
Cash flow from investing activities	**– 766**	**11**
Cash inflows from changes in capital	–	300
Profit transfer to Volkswagen Financial Services AG	– 223	– 235
Change in funds resulting from subordinated capital	148	– 3
Cash flow from financing activities	**– 75**	**62**
Cash and cash equivalents at the end of the previous period	**435**	**370**
Cash flow from operating activities	1,102	– 8
Cash flow from investing activities	– 766	11
Cash flow from financing activities	–75	62
Effects from exchange rate changes	–2	0
Cash and cash equivalents at the end of the period	**694**	**435**

Comments on the cash flow statement are shown in note (58).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE VOLKSWAGEN BANK GMBH GROUP AS AT 31.12.2008

General comments

Volkswagen Bank GmbH is a limited liability company under German law. It has its head office in Germany at Gifhorner Strasse, Brunswick, and is registered in the Brunswick Register of Companies (under file number HRB 3790).

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

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

The annual financial statements of Volkswagen Bank GmbH included in the consolidated annual financial statements of Volkswagen AG, Wolfsburg, which are published in the electronic Federal Gazette and the Company Register.

Group accounting principles

Volkswagen Bank GmbH prepared its consolidated financial statements as per 31.12.2008 according to International Financial Reporting Standards (IFRS), as applicable in the European Union, and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC), as well as supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB). All the IFRS that were approved by the International Accounting Standards Board (IASB) by 31.12.2008, and whose application was obligatory for the 2008 financial year, were taken into account in these consolidated annual financial statements.

In addition to the income statement and the balance sheet, the consolidated annual financial statements according to IFRS include the statement of recognised income and expense, the cash flow statement and the notes. The separate report on the risks of future development (risk report according to § 315 Para. 1 HGB) is contained in the management report on pages 15 – 24. It contains the qualitative disclosures required under IFRS 7 regarding the type and scope of risks from financial instruments.

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

Effects of new and revised IFRS

The following revision of a standard, which was approved by the IASB, had to be observed for the first time by the Volkswagen Bank GmbH Group in the current financial year:

• IAS 39 / IFRS 7, Reclassification of Financial Assets

Initial application of the amended standards had no effects on the presentation in the consolidated financial statements.

New or revised IFRS whose application is not yet mandatory and which were not applied voluntarily

In its consolidated financial statements for 2008, Volkswagen Bank GmbH did not take into account the following new or amended accounting standards which were adopted by the IASB but whose application in the financial year is not mandatory for Volkswagen Bank GmbH.

Standard/interpretation		Published by the IASB	Mandatory application**	Adopted by the EU commission*	Expected effects
IFRS 1	First-time Adoption of IFRS	25.11.2008	1.1.2010	No	None
IFRS 1/IAS 27	Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate	22.5.2008	1.1.2009	No	None
IFRS 2	Share-based Payment – Vesting Conditions and Cancellations	17.1.2008	1.1.2009	Yes	None
IFRS 3/IAS 27	Business Combinations / Consolidated Financial Statements	10.1.2008	1.1.2010	No	Change in the treatment of business combinations
IFRS 8	Operating Segments	30.11.2006	1.1.2009	Yes	Segment reporting
IAS 1	Presentation of Financial Statements	6.9.2007	1.1.2009	Yes	Restructuring of elements of the financial statements
IAS 1/IAS 32	Puttable Financial Instruments and Obligations Arising on Liquidation	14.2.2008	1.1.2009	No	None
IAS 23	Borrowing Costs	29.3.2007	1.1.2009	Yes	Slight increase in the measurement of qualified assets
IAS 39	Exposures Qualifying for Hedge Accounting	31.7.2008	1.1.2010	No	None
	General improvements***	22.5.2008	1.1.2009/ 1.1.2010	No	Insignificant
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions		1.1.2009	Yes	No material effects
IFRIC 12	Service Concession Arrangements	30.11.2006	1.1.2009	No	None
IFRIC 13	Customer Loyalty Programmes	28.6.2007	1.1.2009	Yes	None
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	5.7.2008	1.1.2009	No	None
IFRIC 15	Agreements for the Construction of Real Estate	3.7.2008	1.1.2009	No	None
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	3.7.2008	1.1.2009	No	None
IFRIC 17	Distributions of Non-cash Assets to Owners	27.11.2008	1.1.2010	No	None

* on 31.12.2008
** First-time application mandatory for the Volkswagen Bank GmbH Group
*** Minor amendments to numerous standards (IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41)

Accounting policies

(1) Principles

All the companies included in consolidation have drawn up their annual financial statements as at the balance sheet date of 31.12.2008.

The accounting in the Volkswagen Bank GmbH Group is carried out in accordance with IAS 27 using uniform accounting policies.

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

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

(2) Basis of consolidation

As a general principle, all companies are fully consolidated in which Volkswagen Bank GmbH has the possibility, directly or indirectly, to determine the financial and business policy in such a way that the Volkswagen Bank GmbH Group benefits from the activities of these companies (subsidiaries). Inclusion in the basis of consolidation begins at the point in time from which the possibility of control exists; it ends when the possibility of control ceases to exist. At the balance sheet date, eleven special purpose entities whose assets, regarded in economic terms, are attributable to the Volkswagen Bank GmbH Group, were fully consolidated.

VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, was acquired from VOLKSWAGEN HOLDING FINANCIÈRE S.A., Villers-Cotterêts, France, during the reporting period and merged into the French branch of Volkswagen Bank GmbH effective 1 January 2008.

We dispensed with the purchase price allocation pursuant to IFRS 3 because this merger constitutes a business combination within the Volkswagen Financial Services AG Group, thus satisfying the criterion that both companies must be under common control. Volkswagen Bank GmbH applies predecessor accounting.

The assets and liabilities that were taken over from VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, were thus recognised at the carrying amounts from the point of view of Volkswagen Financial Services AG, which is the next-higher company in the hierarchy.

The negative goodwill resulting from the merger was charged directly to the bank's equity.

As a result of the acquisition of this entity in addition to the separate disclosure of the net income from leasing transactions, the items "Leased assets" and "Investment property" are shown in the balance sheet for the first time.

Volkswagen Bank GmbH holds a 50 % stake in Global Mobility Holding B.V., Amsterdam. The Saudi Arabian Olayan Group and the Mubadala Group, Abu Dhabi, each hold 25 % in Global Mobility Holding B.V. Global Mobility Holding B.V. in turn holds all shares of LeasePlan Corporation N.V., Amsterdam. The core business of LeasePlan Corporation N.V. is focused on multi-brand fleet management.

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

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

€ million	2008	2007
Receivables from financial institutions	540	299
Receivables from customers	1,631	1,628
Leased assets	6,051	5,835
Other assets	1,532	1,343
Liabilities to financial institutions	1,249	911
Liabilities to customers	995	563
Securitised liabilities	4,009	4,957
Other liabilities	2,272	1,403
Equity	1,229	1,271
Income	496	516
Expenses	391	395

The list of equity investments is shown in item 64.

(3) Principles of consolidation

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

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

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

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

(4) Currency translation

The foreign branches belonging to the Volkswagen Bank GmbH Group are independent entities, whose financial statements are translated according to the concept of "functional currency". According to this concept, all asset and liability items, with the exception of equity, are translated using the exchange rate on the balance sheet date. Equity, on the other hand, is carried at historical rates, with the exception of the reserve for cash flow hedges and the reserve for actuarial gains and losses. The resulting currency translation differences are treated as not affecting income and are shown as a separate item under equity.

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

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

		Balance sheet		Income statement	
		Middle rate as at 31.12.		Average exchange rate	
	€	2008	2007	2008	2007
United Kingdom	GBP	0.95250	0.73335	0.7963	0.68455

(5) Realisation of income and expense

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

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

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

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

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

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

(6) Income tax

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

Starting in 2008, the assets and liabilities arising from the company's inclusion in the Volkswagen Financial Services AG consolidated tax group must also be recognised in the balance sheet under income tax assets and liabilities. In the year just ended, receivables from the allocation of income taxes totalled € 0 million, and liabilities to Volkswagen Financial Services AG were € 9 million. The change in the recognition brought about an adjustment of € 8 million in the previous year's income tax assets.

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

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

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

(7) Cash reserve
The cash reserve is shown at nominal value.

(8) Receivables
Originated receivables from financial institutions and from customers are always stated in the balance sheet at amortised cost according to the effective interest rate method. Portfolio hedging was carried out for the first time in the 2008 financial year in connection with customer receivables; the associated customer receivables were recognised at their fair value. Profits or losses resulting from the development of amortised cost are recognised in income including the effects from exchange rate changes. For current receivables (residual term up to one year) neither compounding nor discounting is performed for reasons of materiality.

Receivables in foreign currency are translated at the middle rate on the balance sheet date. They are accounted for as of the settlement date.

(9) Provisions for risks
We take full account of the non-payment risks in the banking business by means of individual value adjustments and portfolio-based allowances made in accordance with IAS 39.

Individual value adjustments corresponding to the loss already incurred are made for existing credit risks related to significant individual receivables in connection with customer or bank receivables (e. g. receivables from dealer financing and from fleet customers) in accordance with uniform standards applicable throughout the Group.

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

Generalised individual value adjustments are made for receivables that are not significant (e. g. receivables from retail financing), which means that upon recognising the loss the amount of the allowance is calculated in a generalised procedure. Receivables that are not significant as well as significant individual receivables for which no impairment is indicated, are combined into homogeneous portfolios based on comparable credit risk characteristics and divided into risk classes. Average historical loss probabilities related to the respective portfolio are employed to determine the extent of the impairment loss as long as there is uncertainty as to losses on specific receivables. Back-testing is used to regularly review the appropriateness of the allowances.

The receivables are shown in the balance sheet at net carrying amount. Notes to the provisions for risks are presented under item (30). The provisions for risks for off-balance sheet transactions – guarantees, endorsement liabilities, credit commitments – are shown as provisions for risks from lending business.

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

(10) Derivative financial instruments

The derivative financial instruments are made up of assets and/or obligations from hedge-ineffective and hedge-effective transactions. All derivatives are stated at fair value and shown separately under items (31) and (41). They are recognised as of the respective trade date.

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

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

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

IAS 39 also permits the application of a fair value hedge not only for individual underlying transactions but also for a class of similar underlying transactions. In the financial year just ended, Volkswagen Bank GmbH executed a fair value portfolio hedge pursuant to the requirements of IAS 39 AG 114ff. for the first time. In a portfolio hedge, the recognition of the changes in fair value corresponds to the changes in a fair value hedge.

Changes to the fair value of a derivative that has been designated to hedge the fair value of an underlying transaction and fulfils the required conditions of IAS 39 are recognised in income, as is the change to the fair value of the secured asset or secured debt (underlying transaction) attributable to the hedged risk. The effects of derivatives and underlying transactions on income are to a very large extent offsetting. In the financial year just ended, Volkswagen Bank GmbH for the first time recognised fair value portfolio hedges pursuant to the requirements of IAS 39 AG 114ff., which also apply to these terms.

The effective portion of changes to the fair value of a derivative that has been designated to secure future cash flows and fulfils the corresponding conditions is recognised directly in equity in the reserve for cash flow hedges. Adjustments to income merely arise from the ineffective portion of the change in the fair value. The amounts recognised in equity are recognised in the periods of the income statement in which the balance sheet item bearing variable interest rates or the anticipated transaction has an effect on income.

Changes to the fair values of derivatives which do not fulfil the conditions of IAS 39 for hedge accounting are recognised in income.

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

(11) Securities

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

(12) Other financial assets

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

(13) Intangible assets

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

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

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

(14) Property, plant and equipment

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

Depreciation is mainly based on the following useful lives:

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

Write-downs are recognised if the requirements of IAS 36 are satisfied, i. e. when the realisable net selling price or value in use of the asset concerned has fallen below its carrying amount. If the reasons for write-downs made in previous years no longer apply, appropriate write-ups are recognised. Special tax allowances are not taken into account.

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

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

(15) Leasing business

The Group as lessor

In addition to finance leasing, the Volkswagen Bank GmbH Group has also been engaged in operating leasing since 1 January 2008 as a result of the merger of VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, into the French branch of Volkswagen Bank GmbH. This business concerns essentially vehicles and, to a lesser extent, land and buildings, as well as equipment and furnishings for dealers.

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

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

Land and buildings which serve to obtain rental income are recognised under the balance sheet item, investment property, and are stated at depreciated cost. As a rule, these are properties leased to dealers. Depreciation is carried out using the straight-line method over the agreed useful life of ten to 50 years. Impairments identified on the basis of the impairment test in compliance with IAS 36 are recognised through write-downs.

The Group as lessee

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

(16) Liabilities

Liabilities to financial institutions and to customers as well as securitised liabilities are recognised at amortised cost according to the effective interest rate method. Profits or losses resulting from the development of amortised cost are recognised in income including the effects from exchange rate changes.

Liabilities in foreign currency are translated at the middle rate on the balance sheet date. They are recognised as of the settlement date.

(17) Pension provisions and similar obligations

In Germany, there is a defined contribution, basic state pension for employees which makes pension payments at a level dependent on income and contributions paid. Domestic companies made contributions to the statutory pension scheme amounting to € 1 million (previous year: € 10 million).

Both defined contribution and defined benefit pension commitments exist under company pension plans for employees. In the case of the defined contribution plans, contributions are paid to state or private pension insurance providers under statutory or contractual provisions or on a voluntary basis. The defined benefit plans, on the other hand, are financed by making provisions and, since 2001, also by making transfers into an external pension fund.

In the case of defined contribution plans, the Volkswagen Bank GmbH Group does not enter into any payment obligations beyond payment of contributions to special-purpose funds. The expenses from contribution payments in the current period are shown under staff costs. Payments to defined contribution pension plans were less than € 0.5 million, just as in the previous year.

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

Since 1.1.2001, pension expenses for new expectancies of employees have been financed through an external pension fund. The annual salary-related pension expenses are invested in special funds by VW Pension Trust e. V. acting as trustee. Since the fund shares administered by the trustee fulfil the requirements of IAS 19 as plan assets, they are offset against provisions. This model offers the possibility of increasing the pension entitlements through the fund's investment, and also secures these entitlements fully.

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

Material actuarial premises applied by Volkswagen Bank GmbH and its foreign branches:

	Germany		Abroad	
%	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Expected return on plan assets	5.00	5.00	5.42	3.60
Discount rate	5.75	5.50	5.35 – 6.50	5.35 – 5.80
Expected rate of salary increases	2.50	2.50	2.00 – 4.50	2.00 – 4.80
Expected rate of pension increases	1.50	1.50	2.00 – 3.00	2.00 – 3.30
Fluctuation rate	0.75	0.75	4.86	3.10

(18) Other provisions

Other provisions are made in accordance with IAS 37 for uncertain liabilities vis-à-vis third parties and imminent losses from pending transactions in the amount of the expected drawings.

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

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

Provisions are not offset against recourse claims.

(19) Trust activities

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

Notes on the income statement

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

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

€ million	2008	2007
Interest income from lending and money market transactions	1,736	1,471
Income from leasing transactions	195	16
Expenses from leasing business	63	0
Depreciation and impairment losses on leased assets and investment property	49	–
Interest expense	1,061	812
Total	**758**	**675**

The interest income from lending and money market transactions as well as the income from leasing transactions contain interest income on impaired receivables in the amount of € 23 million (previous year: € 19 million).

Income from leasing transactions includes rental income from investment property amounting to € 1 million (previous year: none).

In the reporting period, impairment losses of € 5 million based on impairments tests were recognised on leased assets and on investment property.

Interest income from financial instruments not measured at fair value included here amounts to € 1,808 million (previous year: € 1,487 million).

Interest expense contains refinancing expenses from lending and leasing transactions and concern financial instruments not measured at fair value.

(21) Provisions for risks arising from lending and leasing business

Provision for risks relates only to the balance sheet item "Receivables from customers". It has the following effect on the Group's income statement:

€ million	2008	2007
Additions to provisions for risks	357	254
Reversal of provisions for risks	190	165
Direct depreciation	40	30
Income from receivables written off	26	15
Total	**181**	**104**

(22) Net commission income

The net commission income of € 71 million (previous year: € 56 million) contains € 125 million (previous year: € 103 million) in income from insurance agency services.

(23) Result from derivative financial instruments

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

The result from hedging transactions contains income and expenses from the fair value measurement of hedging transactions and underlying transactions. Under the gains and losses from hedge-ineffective derivatives we show income and expenses from ineffective portions of hedge-effective hedging transactions and market value changes of derivatives which do not fulfil the requirements of IAS 39 for hedge accounting.

The detailed figures are as follows:

€ million	2008	2007
Gains / losses on fair value hedging instruments	– 8	– 7
Gains / losses on underlying transactions of fair value hedges	3	6
Ineffective portion of cash flow hedging instruments	0	0
Gains / losses on other hedge-ineffective derivatives	– 20	– 17
Total	**– 25**	**– 18**

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

(24) General administration expenses

The general administration expenses are made up as follows:

€ million	2008	2007
Staff costs	65	177
Non-staff costs	325	297
Costs of advertising, PR work and sales promotion	33	32
Depreciation of property, plant and equipment and amortisation of intangible assets	5	8
Other taxes	2	2
Total	**430**	**516**

The non-staff costs contain expenses for leased assets under operating leases amounting to € 3 million (previous year: € 0 million).

As required by § 314 Para. 1 No. 9 HGB, the general administration expenses for the 2008 financial year include fees for the audit of the annual financial statements amounting to € 1 million (previous year: € 1 million). A total of € 2 million (previous year: € 0 million) were incurred for other services in connection with the audit of the annual financial statements, for other auditing and valuation services and for tax consultancy services.

(25) Other operating result

The other operating result is made up as follows:

€ million	2008	2007
Income from costs charged to companies of the VW Group	67	191
Income from the reversal of provisions	3	8
Income from the transfer of pension provisions	–	29
Refund of other taxes	–	15
Losses from the disposal of assets	1	5
Miscellaneous operating result	6	13
Other operating result	**75**	**251**

(26) Taxes on income and earnings

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

€ million	2008	2007
Effective tax expense in Germany	45	76
Effective tax expense abroad	24	28
Effective tax expense	**69**	**104**
Income from the reversal of tax provisions and tax refunds	1	0
Effective taxes on income and earnings	**68**	**104**
of which not attributable to the period under review	8	7
Deferred tax income/expense in Germany	0	37
Deferred tax income/expense abroad	16	8
Deferred tax income/expense	**16**	**45**
of which not attributable to the period under review	– 9	0
Total	**84**	**149**

The deferred taxes of the financial year do not contain deferred tax expenses from the use of previously capitalised deferred tax assets on tax losses carried forward (previous year: € 7 million).

The actual tax expense in 2008 amounting to € 84 million (previous year: € 149 million) was € 27 million lower than the expected tax expense of € 111 million (previous year: € 181 million), which would have resulted if a tax rate of 29.5 % (previous year: 38.3 %) had been applied on the Group's pre-tax result. The following reconciliation shows the connection between taxes on income and earnings and the pre-tax result in the financial year:

€ million	2008	2007
Pre-tax result	**375**	**472**
multiplied by the German income tax rate of 29.5 % (previous year: 38.3 %)		
= Arithmetical income tax expense in the financial year at the German income tax rate	**111**	**181**
+ Effects from tax credits	–	–
+ Effects from German/foreign tax rate	2	– 5
+ Effects from tax rate changes	–	14
+ Effects from permanent valuation differences	4	2
+ Effects on account of tax-free income from shareholdings	– 9	– 33
+ Effects from losses carried forward	2	1
+ Temporary valuation differences without calculation of deferred taxes	– 22	– 16
+ Taxes not attributable to the period under review	– 1	7
+ Other differences	– 3	– 2
= Current taxes on income and earnings	**84**	**149**

The domestic income tax rate chosen as the basis for the reconciliation is made up of the corporation tax rate of 15 % applicable in Germany (previous year: 25 %), plus solidarity surcharge of 5.5 % (previous year: 5.5 %) and an average rate for trade tax of 13.67 % (previous year: 16.3 %). Taking into account the non-deductibility of trade tax as a business expense from the 2008 financial year, the German income tax rate amounts to 29.5 % (previous year: 38.3 %). Income from equity investments and profit from the sale of equity investments in joint stock companies have not generally been subject to taxation on earnings since 1.1.2002.

Changes in tax rates did not result in deferred tax income (previous year: tax expense of € 14 million) and in any tax effects recognised directly in equity (previous year: 1 € million). The effects from tax rate changes are essentially due to the change in tax rates that became effective from 1.1.2008 in Germany.

The effects resulting from different rates of income tax in other countries arise due to the income tax rates of the individual countries where the bank branches have their registered office. These rates, which differ from the German income tax rate, are between 12.5 % and 33.99 % (previous year: 12.5 % and 38.3 %).

As at 31.12.2008, the company's tax losses carried forward not yet used to date were € 26 million (previous year: € 14 million), for which deferred tax assets of € 8 million (previous year: € 5 million) were recognised. Of these unused tax losses carried forward, € 26 million (previous year: € 14 million) can be utilised indefinitely. No deferred tax assets were recognised on € 7 million in unused tax losses carried forward (previous year: none) because they are classified as unusable.

Of the deferred taxes recognised in the balance sheet, a total of € 12 million (previous year: € – 5 million) relate to business transactions that are recognised directly in equity. A partial amount of € 2 million (previous year: € 3 million) concerns actuarial gains/losses (IAS 19), a partial amount of € 10 million (previous year: € – 8 million) concerns derivative financial instruments, and a further € 0 million (previous year: none) concern the market valuation of securities.

(27) Further notes to the income statement

Income from commission not taken into account using the effective interest method amounted to € 1 million (previous year: € 1 million).

Notes to the balance sheet

(28) Cash reserve
The cash reserve essentially contains balances at Deutsche Bundesbank in the amount of € 686 million (previous year: € 431 million).

(29) Receivables from customers
Receivables from customers include unsecuritised receivables from affiliated companies amounting to € 3,145 million (previous year: € 757 million) and receivables from joint ventures amounting to € 996 million (previous year: € 498 million). There are receivables from the sole shareholder, Volkswagen Financial Services AG, amounting to € 641 million (previous year: € 5 million).

Receivables from retail financing contain, in principle, vehicle financing loan agreements with private and commercial customers. Financed vehicles are usually assigned to us as collateral. The dealer financing contracts contain financing of vehicles in stock and equipment and investment loans to the dealer organisation. Here too, security assignments are used as collateral, as well as surety agreements and charges on property. Receivables from leasing business contain receivables from finance leases and receivables due from leased assets. Other receivables essentially consist of receivables from companies in the Volkswagen Group and of credit lines and overdraft facilities utilised by customers.

The terms of the contracts are usually between six and 72 months. As a rule, credit lines are granted indefinitely. The interest rates, which essentially are fixed, are between 0.00 % and 19.06 % (previous year: 0.10 % and 13.90 %).

Portions of the retail financing subject to fixed interest rates were hedged for the first time in a portfolio hedge pursuant to IAS 39 AG 114ff. against fluctuations of the risk-free base rate.

The reconciliation from the balance sheet figures is as follows:

€ million	31.12.2008	31.12.2007
Receivables from customers	**28,357**	**23,012**
of which market value adjustment from portfolio hedging	– 42	–
Receivables from customers less market value adjustment from portfolio hedging	28,315	23,012

Receivables from leasing transactions include due receivables amounting to € 6 million (previous year: € 3 million).

The receivables from operating leasing transactions total € 3 million as at the balance sheet date (previous year: none).

The receivables from finance leases are made up as follows:

€ million	31.12.2008	31.12.2007
Gross receivables from finance leases	**1,249**	**309**
by residual term		
up to one year	554	140
more than one year and up to five years	695	166
more than five years	0	3
Interest not yet earned from finance leases	**115**	**18**
Net receivables from finance leases	**1,134**	**292**
by residual term		
up to one year	497	132
more than one year and up to five years	637	157
more than five years	0	3

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

A provision for risks arising from outstanding minimum lease payments exists in the amount of € 18 million (previous year: € 2 million).

(30) Provisions for risks arising from lending and leasing business

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

	Individual value adjustments		Portfolio-based value adjustments		Total	
€ million	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
As at 1.1.	326	313	266	258	592	571
Additions	292	211	65	43	357	254
Disposals	232	180	57	42	289	222
of which uses	99	57	0	–	99	57
of which reversals	133	123	57	42	190	165
Transfers	12	1	13	7	25	8
Interest income from impaired receivables	23	19	0	–	23	19
Currency translation	– 2	0	– 1	0	– 3	0
Provisions for risks arising from lending and leasing business as at 31.12.	**373**	**326**	**286**	**266**	**659**	**592**

In 2008, the value adjustments in the amount of € 25 million that were transferred to the French branch in connection with the merger of VOLKSWAGEN FINANCE S.A., France, were shown as transfers.

The full amount of the provisions for risks was recognised in relation to receivables from customers.

(31) Derivative financial instruments

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

€ million	31.12.2008	31.12.2007
Assets from hedging transactions	93	40
Fair value hedges on assets (currency risk)	–	–
Fair value hedges on liabilities (currency risk)	–	–
Fair value hedges (interest rate risk)	31	8
Portfolio fair value hedges on assets (interest rate risk)	–	–
Cash flow hedges on interest payments (currency risk)	–	–
Cash flow hedges (interest rate risk)	62	32
Assets from hedge-ineffective derivatives	97	109
Total	**190**	**149**

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

(32) Securities

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

(33) Joint ventures accounted for at equity and other financial assets

€ million	Companies accounted for at equity	Other financial assets	Total
Cost of acquisition			
As at 1.1.2007	1,262	0	1,262
Exchange rate changes/effects recognised directly in equity	– 13	–	– 13
Changes in the basis of consolidation	–	–	–
Additions	128	–	128
Transfers	–	–	–
Disposals	87	–	87
As at 31.12.2007	1,290	0	1,290
Depreciation			
As at 1.1.2007	–	–	–
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	–	–	–
Transfers	–	–	–
Disposals	–	–	–
Write-ups	–	–	–
As at 31.12.2007	–	–	–
Carrying amount 31.12.2007	**1,290**	**0**	**1,290**
Carrying amount 1.1.2007	**1,262**	**0**	**1,262**

€ million	Companies accounted for at equity	Other financial assets	Total
Cost of acquisition			
As at 1.1.2008	1,290	0	1,290
Exchange rate changes/effects recognised directly in equity	– 117	–	– 117
Changes in the basis of consolidation	–	–	–
Additions	105	–	105
Transfers	–	–	–
Disposals	30	–	30
As at 31.12.2008	1,248	0	1,248
Depreciation			
As at 1.1.2008	–	–	–
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	–	–	–
Transfers	–	–	–
Disposals	–	–	–
Write-ups	–	–	–
As at 31.12.2008	–	–	–
Carrying amount 31.12.2008	**1,248**	**0**	**1,248**
Carrying amount 1.1.2008	**1,290**	**0**	**1,290**

The result from other financial assets amounting to € 2 million essentially includes income from the shares held in Visa Inc., San Francisco, USA.

(34) Intangible assets

€ million	2008	2007
Cost of acquisition		
As at 1.1.	12	9
Exchange rate changes	–	–
Changes in the basis of consolidation	4	–
Additions	2	3
Transfers	–	–
Disposals	1	–
As at 31.12.	17	12
Amortisation		
As at 1.1.	8	6
Exchange rate changes	–	–
Changes in the basis of consolidation	3	–
Additions	1	2
Disposals	–	–
Write-ups	–	–
Write-downs	–	–
As at 31.12.	12	8
Carrying amount 31.12.	**5**	**4**
Carrying amount 1.1.	**4**	**3**

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

(35) Property, plant and equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost of acquisition			
As at 1.1.2007	21	49	70
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	0	14	14
Transfers	–	–	–
Disposals	0	45	45
As at 31.12.2007	21	18	39
Depreciation			
As at 1.1.2007	11	13	24
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	–	–
Additions	1	5	6
Transfers	–	–	–
Disposals	–	12	12
Write-ups	–	–	–
As at 31.12.2007	12	6	18
Carrying amount 31.12.2007	**9**	**12**	**21**
Carrying amount 1.1.2007	**10**	**36**	**46**

€ million	Land and buildings	Operating and office equipment	Total
Cost of acquisition			
As at 1.1.2008	21	18	39
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	6	6
Additions	0	4	4
Transfers	–	–	–
Disposals	0	15	15
As at 31.12.2008	21	13	34
Depreciation			
As at 1.1.2008	12	6	18
Exchange rate changes	–	–	–
Changes in the basis of consolidation	–	3	3
Additions	1	2	3
Transfers	–	–	–
Disposals	0	3	3
Write-ups	–	–	–
As at 31.12.2008	13	8	21
Carrying amount 31.12.2008	**8**	**5**	**13**
Carrying amount 1.1.2008	**9**	**12**	**21**

As in the previous year, no assets under construction were included in land and buildings in the 2008 financial year.

(36) Leased assets and investment property

€ million	Movable leased assets	Advance payments on movable leased assets	Investment property	Advance payments on investment property	Total
Cost of acquisition					
As at 1.1.2008	–	–	–	–	–
Exchange rate changes	–	–	–	–	–
Changes in the basis of consolidation	240	–	3	–	243
Additions	88	–	–	–	88
Transfers	–	–	–	–	–
Disposals	83	–	–	–	83
As at 31.12.2008	245	–	3	–	248
Depreciation					
As at 1.1.2008	–	–	–	–	–
Exchange rate changes	–	–	–	–	–
Changes in the basis of consolidation	69	–	1	–	70
Additions	44	–	0	–	44
Transfers	–	–	–	–	–
Disposals	42	–	–	–	42
Write-ups	–	–	–	–	–
Write-downs	5	–	–	–	5
As at 31.12.2008	76	–	1	–	77
Carrying amount 31.12.2008	**169**	**–**	**2**	**–**	**171**
Carrying amount 1.1.2008	**–**	**–**	**–**	**–**	**–**

The fair value of investment property amounts to € 2 million. During the period under review, maintenance expenses of € 0 million (previous year: zero) were incurred for investment property.

We expect payments of € 14 million in 2009, € 34 million from 2010 to 2013 and € 41 million in the years thereafter from unterminable leasing and rental contracts.

(37) Deferred tax assets

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

€ million	31.12.2008	31.12.2007
Deferred taxation	1,693	972
of which non-current	1,541	818
Capitalised benefits from unused tax losses carried forward	8	5
of which non-current	8	5
Netting (with deferred tax liabilities)	– 1,000	– 554
Total	**701**	**423**

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

€ million	31.12.2008	31.12.2007
Property, plant and equipment/intangible assets	23	25
Leased assets	230	–
Other financial assets	833	4
Other assets	0	1
Derivative financial instruments (obligations)	66	31
Provisions	22	14
Liabilities	519	897
Other liabilities	0	–
Total	**1,693**	**972**

(38) Other assets

Other assets concern the following items:

€ million	31.12.2008	31.12.2007
Receivables from other taxes	10	5
Prepaid expenses	11	5
Vehicles taken back for resale	7	–
Miscellaneous	56	39
Total	**84**	**49**

(39) Liabilities to financial institutions and customers

The liabilities to financial institutions and customers are all unsecuritised.

The securitised liabilities are shown separately.

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

The drawing on funds, which is shown as unsecuritised liabilities to customers, amounts to € 1,692 million (previous year: € 1,367 million) in liabilities to affiliated companies – of which € 158 million (previous year: € 444 million) is attributable to the sole shareholder, Volkswagen Financial Services AG, including the profit transfer.

Liabilities to customers contain deposits at Volkswagen Bank GmbH amounting to € 12,829 million (previous year: € 9,620 million). They mainly comprise overnight and fixed-term deposits as well as various savings certificates and plans. Relative to the term, the "Direkt" savings plan has the longest investment horizon. The maximum term is ten years. The nominal interest rate for newly signed savings plans, savings certificates and fixed-term deposits in the financial year just ended was between 3.80 % and 5.40 % (previous year: between 3.15 % and 4.5 %). The average interest rate for overnight deposit accounts was 3.97 % at 31.12.2008, the balance sheet date.

(40) Securitised liabilities

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

€ million	31.12.2008	31.12.2007
Debentures issued	9,338	8,171
Money market papers issued	257	813
Total	**9,595**	**8,984**

The Volkswagen Bank GmbH Group utilises ABS transactions, in addition to the options mentioned above, for the purpose of refinancing. At year's end, the associated liabilities contained in the debentures issued amounted to € 3,951 million (previous year: € 2,854 million), those in the liabilities to financial institutions amounted to € 372 million (previous year: € 245 million) and those in the subordinated liabilities amounted to € 219 million (previous year: € 104 million). Receivables in the amount of € 4,588 million (previous year: € 3,438 million) arising from retail financing serve as collateral. Given the IFRS requirement that special purpose entities must be consolidated, the assets and corresponding liabilities are continued to be recognised at Volkswagen Bank GmbH.

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

(41) Derivative financial instruments

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

€ million	31.12.2008	31.12.2007
Obligations from hedging transactions	107	25
Fair value hedges on assets (currency risk)	–	–
Fair value hedges on liabilities (currency risk)	–	–
Fair value hedges (interest rate risk)	14	25
Portfolio fair value hedges on assets (interest rate risk)	33	–
Cash flow hedges on interest payments (currency risk)	–	–
Cash flow hedges (interest rate risk)	60	–
Obligations from hedge-ineffective derivatives	119	83
Total	**226**	**108**

(42) Provisions

The provisions break down as follows:

€ million	31.12.2008	31.12.2007
Provisions for pensions and similar obligations	47	51
Other provisions	27	24
Total	**74**	**75**

The provisions for pensions and similar obligations are provisions for the obligations to provide company retirement pensions on the basis of direct pension commitments. The type and amount of pensions for employees entitled to a company pension are governed by the relevant pension rules applicable at the inception of the employment contract (including pension guidelines, pension regulations, defined contribution pension plans and pension commitments based on individual contracts). According to these rules, pensions are paid after entering retirement either when the age limit is reached or prematurely in the event of invalidity or death.

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

The following amounts were recognised for defined benefit plans in the balance sheet:

€ million	31.12.2008	31.12.2007
Present value of funded obligations	10	11
Fair value of plan assets	11	11
Surplus/deficit	**– 1**	**0**
Present value of unfunded obligations	47	51
Net liability stated in the balance sheet	**46**	**51**

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

€ million	31.12.2008	31.12.2007
Pension provisions	47	51
Other assets	1	–
Net liability stated in the balance sheet	**46**	**51**

The pension provisions essentially concern pension commitments of German companies.

The present value of the commitments developed as follows:

€ million	2008	2007
Present value of obligations as at 1.1.	62	155
Current service cost	2	5
Interest on obligation	3	5
Actuarial gains and losses (recognised in equity)	– 4	– 26
Employee contributions to the fund	0	0
Pension payments out of company assets	2	2
Pension payments out of the fund	1	0
Other changes	– 3	– 75
Currency differences from foreign plans	– 1	0
Present value of obligations as at 31.12.	**56**	**62**

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

€ million	2008	2007
Fair value of the plan assets as at 1.1.	11	36
Expected return on plan assets	1	1
Actuarial gains and losses (recognised in equity)	– 1	0
Employer contributions to the fund	1	3
Employee contributions to the fund	0	0
Pension payments out of the fund	1	0
Other changes	0	– 29
Currency differences from foreign plans	0	0
Fair value of the plan assets as at 31.12.	**11**	**11**

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

The actual return on plan assets amounted to € 0 million (previous year: € 1 million).

The interest rate for the expected long-term returns of the fund assets is based on the portfolio’s actual income generated over the long term, on historical total market returns and on forecasts regarding the likely returns of the classes of securities the portfolios contain. These forecasts are based on expected returns for comparable pension funds during the respective employee’s remaining years of service as an investment horizon, as well as on the experience of major portfolio managers and investment experts. In 2009, we expect to earn a return of € 1 million from our fund assets. Employer’s contributions to the fund are expected to total € 1 million and service cost is expected to total € 2 million in 2009.

The fund assets comprise the following components:

%	2008	2007
Shares	17	26
Fixed-income securities	62	65
Cash	8	2
Property	1	4
Other	12	3

The following amounts were recognised in the income statement:

€ million	2008	2007
Current service cost	2	5
Interest on obligation	4	5
Expected return on plan assets	1	1
Past service cost	–	0
Total amount stated under staff costs	**5**	**9**

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

€ million	2008	2007
Net liability at 1.1.	**51**	**119**
Net expense in the income statement	5	9
Pension benefits and fund allocations paid	4	5
Actuarial gains and losses (recognised in equity)	– 4	– 26
Other changes	– 2	– 46
Currency differences from foreign plans	0	0
Net liability at 31.12.	**46**	**51**

Of the net liabilities recognised in the balance sheet, € 44 million (previous year: € 49 million) have a residual term of more than one year.

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

	2008	2007
Differences between expected and actual development		
in % of the present value of obligations	2.95	– 0.58
in % of the fair value of plan assets	– 5.72	0.01

Other provisions developed as follows:

€ million	Other provisions: Human resources	Other provisions: Miscellaneous
As at 1.1.2008	**13**	**11**
New companies brought forward	–	3
Use	9	4
Reversal	1	2
Addition	11	5
Other changes	0	0
As at 31.12.2008	**14**	**13**

The provisions in human resources include, in particular, one-off annual payments, payments on account of staff anniversaries of company service and other costs of the workforce. The other provisions essentially contain the costs of litigation risks and the costs of maintenance contracts.

The terms of the other provisions are as follows:

€ million	31.12.2008 Residual term more than one year	31.12.2008 Total	31.12.2007 Residual term more than one year	31.12.2007 Total
Human resources	9	14	8	13
Miscellaneous	1	13	1	11
Total	**10**	**27**	**9**	**24**

The expected outflow of payments is as follows: 63 % in the following year, 16 % in the years 2010 to 2013 and 21 % thereafter.

(43) Deferred tax liabilities

The deferred tax liabilities break down as follows:

€ million	31.12.2008	31.12.2007
Deferred income tax obligations	1,658	917
of which non-current	877	403
Netting (with deferred tax assets)	– 1,000	– 554
Total	**658**	**363**

The deferred income tax obligations contain taxes from temporary differences between measurements in accordance with IFRS and amounts arising from the determination of Group companies' taxable earnings.

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

€ million	31.12.2008	31.12.2007
Receivables from customers	1,545	835
Derivative financial instruments (assets)	56	44
Property, plant and equipment / intangible assets	1	1
Cash and cash equivalents, and securities	23	21
Other assets	4	2
Provisions	12	14
Other liabilities	17	–
Total	**1,658**	**917**

(44) Other liabilities

Other liabilities concern the following items:

€ million	31.12.2008	31.12.2007
Liabilities from other taxes	24	20
Liabilities within the framework of social security and wage and salary settlement	6	4
Deferred income	13	4
Other	11	12
Total	**54**	**40**

(45) Subordinated capital

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

€ million	31.12.2008	31.12.2007
Subordinated liabilities	259	144
of which: due within two years	158	68
Subordinated bonds	1,192	1,166
of which: due within two years	–	–
Subordinated borrower's note loans	137	134
of which: due within two years	–	–
Participation right liabilities	103	99
of which: due within two years	–	–
Total	**1,691**	**1,543**

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

In the period under review, an interest expense for subordinated liabilities and subordinated bonds amounting to € 60 million (previous year: € 55 million) was incurred in the Group.

Interest expense for the subordinated borrower's note loans amounted to € 7 million (previous year: € 7 million).

The participation right liabilities serve to strengthen the liable capital in accordance with the regulations of § 10 Para. 5 of the German Banking Act. The participating certificates issued amount to a nominal € 1 million (previous year: € 1 million) in relation to the sole shareholder, Volkswagen AG, and a nominal € 102 million (previous year: € 98 million) in relation to non-Group third parties.

Total expenses in connection with entering into participation right liabilities were € 6 million (previous year: € 6 million).

(46) Equity

The equity of the Volkswagen Bank GmbH Group developed as follows:

€ million	Subscribed capital	Capital reserve	Retained earnings including consolidated net retained profits: Accumulated profits	Currency translation reserve	Reserve for cash flow hedges	Reserve for actuarial gains and losses	Shares measured at equity	Total equity
Balance as at 1.1.2007	**318**	**2,296**	**356**	**–**	**14**	**– 22**	**25**	**2,987**
Payment into the capital reserve	–	300	–	–	–	–	–	300
Dividends paid/profit transferred to Volkswagen Financial Services AG	–	–	– 223	–	–	–	–	– 223
Actuarial gains and losses	–	–	–	–	–	26	–	26
Cash flow hedges:								
Fair value changes recognised in equity	–	–	–	–	12	–	– 5	7
Recognised in the income statement	–	–	–	–	– 4	–	–	– 4
Currency translation differences	–	–	–	– 17	–	–	– 10	– 27
Deferred taxes on items recognised directly in equity	–	–	–	–	– 1	– 11	1	– 11
Result after taxes	–	–	323	–	–	–	–	323
Other changes	–	–	–	–	–	–	1	1
Balance as at 31.12.2007/1.1.2008	**318**	**2,596**	**456**	**– 17**	**21**	**– 7**	**12**	**3,379**
Payment into the capital reserve	–	–	–	–	–	–	–	–
Dividends paid/profit transferred to Volkswagen Financial Services AG	–	–	– 134	–	–	–	–	– 134
Actuarial gains and losses	–	–	–	–	–	3	–	3
Cash flow hedges:								
Fair value changes recognised in equity	–	–	–	–	– 55	–	– 101	– 156
Recognised in the income statement	–	–	–	–	– 9	–	–	– 9
Currency translation differences	–	–	–	– 34	–	0	– 29	– 63
Deferred taxes on items recognised directly in equity	–	–	–	–	19	– 1	13	31
Result after taxes			291				–	291
Other changes	–	–	– 23	–	– 1	–	–	– 24
Balance as at 31.12.2008	**318**	**2,596**	**590**	**– 51**	**– 25**	**– 5**	**– 105**	**3,318**

The accumulated deferred taxes recognised in equity amounted to € 19 million (previous year: € – 12 million).

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

The capital reserves of Volkswagen Bank GmbH include the capital contributions of Volkswagen Financial Services AG, the company's sole shareholder.

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

Under the existing control and profit transfer agreement, a total of € 134 million (previous year: € 223 million) was transferred to Volkswagen Financial Services AG, the company's sole shareholder.

(47) Capital management

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

Liable capital under regulatory requirements is distinguished from equity under IFRS (cf. item 46 for its components).

Liable capital comprises the so-called core capital and the supplementary capital (subordinated liabilities, participation right liabilities, extraordinary items under § 340 HGB) net of certain deductible items and must satisfy specific legal requirements.

Capital measures by the parent company of Volkswagen Bank GmbH affect both equity under IFRS and the liable capital.

Under banking regulations (German Banking Act, Solvency Regulations), the bank regulatory authorities generally assume that the capitalisation is adequate if the companies subject to banking supervision show a consolidated core capital ratio of at least 4.0 % and consolidated regulatory capital and overall ratios, respectively, of at least 8.0 %. In determining these ratios, the regulatory equity is considered in relation to the multiples determined in accordance with statutory requirements relative to credit risks, operational risks and market risk positions. A planning procedure that is integrated into the internal reporting system was established in order to ensure compliance at all times with these capital adequacy requirements; it serves to determine ongoing regulatory equity requirements based on the actual and expected development of business. As a result, compliance with the minimum capital requirements was ensured at all times during the reporting year on both the Group level and the level of individual companies that are subject to special capital adequacy requirements.

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

	31.12.2008		31.12.2007	
Aggregate risk position (€ million)		23,387		21,161
of which risk-weighted position according to the standardised approach regarding credit risks	21,449		19,217	
of which market risk positions * 12.5	252		247	
of which operational risks * 12.5	1,686		1,697	
Liable capital (€ million)		4,396		4,405
of which core capital[1]	2,991		3,000	
of which supplementary capital[1]	1,405		1,405	
Own funds (€ million)		4,396		4,405
Core capital ratio[2] (%)		12.8		14.2
Overall ratio[3] (%)		18.8		20.8

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

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

An assessment concerning the extent of the unexpected loss as the total of all risk types in the overall portfolio of Volkswagen Bank GmbH is made in regards to economic risks. Risk values for the relevant risk types are determined by means of different approaches pursuant to the methodological recommendations of the Basel Capital Accord based on statistical models and supported by expert estimates. Volkswagen Bank GmbH has selected a conservative approach by assuming a 1:1 correlation between risk types.

The economic risk is quantified for two scenarios. The "normal scenario" assumes a confidence level of 99 % and a one-year holding period.In accordance with the target rating of A2 (S&P), the "worst-case scenario" assumes a confidence level of 99.93 %.

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

The risk-bearing capacity was certain at all times during the reporting year, both under the normal risk scenario (99 % confidence level) and the worst-case scenario (99.93 % confidence level).

Volkswagen Bank GmbH also uses a limit system derived from the analysis of its risk-bearing capacity that makes it possible to limit the net amount of individual risk types. The establishment of a limit system as the core element in capital allocation is designed to ensure that, for one, the individual risk types can be limited and controlled in regards to their risk content and, for another, that the risk capital can be specifically limited in accordance with the risk appetite of the bank's Board of Management.

The limit system comprises two stages. Stage 1 entails the determination of groupwide risk limits while stage 2 entails the determination of the risk type limits.

Risk limits for the bank as a whole are fixed for both a normal scenario and a worst-case scenario. This entails defining the extent to which the bank can use the theoretically available risk hedging potential to plan operational risk provisioning. Consequently, this reflects The Board of Management's risk appetite.
Risk type limits are defined as the percentage of available risk limits for the bank as a whole and reflect the company's business alignment. The determination is executed on an annual basis pursuant to a resolution of the Board of Management. To that end, the available risk limit for the bank as a whole is allocated pro rata to all risk types, duly taking the actual exposure to risk into account. Risk-adjusted distribution applies.

The risk taking potential of Volkswagen Bank GmbH as at 31.12.2008 was € 3,677 million (previous year: € 3,048 million). The risk limits for the bank as a whole in regards to the normal scenario (€ 1,103 million) and the worst-case scenario (€ 2,206 million) were fixed based on the risk taking potential so determined.

Notes to the financial instruments

(48) Carrying amounts of financial instruments under the measurement categories specified in IAS 39

The Volkswagen Bank GmbH Group has defined the measurement categories under IAS 39 as follows:

Loans and receivables are non-derivative financial instruments that are not traded on active markets and are subject to fixed payment agreements. The cash reserve is also included in this category.

Financial assets or liabilities measured at fair value and recognised in income include derivative financial instruments. The Volkswagen Bank GmbH Group does not plan on allocating other financial instruments to this category.

Available-for-sale financial assets are either allocated specifically to this category or they are not allocated to any other category.

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

	Loans and receivables		Available-for-sale financial assets		Financial liabilities measured at amortised cost		Financial assets or liabilities measured at fair value and recognised in income	
€ million	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Assets								
Cash reserve	694	435	–	–	–	–	–	–
Receivables from financial institutions	1,432	1,132	–	–	–	–	–	–
Receivables from customers	28,357	23,012	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	97	109
Securities	–	–	542	–	–	–	–	–
Other financial assets	–	–	0	0	–	–	–	–
Other assets	77	49	–	–	–	–	–	–
Total	**30,560**	**24,628**	**542**	**0**	**–**	**–**	**97**	**109**
Liabilities								
Liabilities to financial institutions	–	–	–	–	2,975	765	–	–
Liabilities to customers	–	–	–	–	14,880	11,254	–	–
Securitised liabilities	–	–	–	–	9,595	8,984	–	–
Derivative financial instruments	–	–	–	–	–	–	119	83
Other liabilities	–	–	–	–	54	40	–	–
Subordinated capital	–	–	–	–	1,691	1,543	–	–
Total	**–**	**–**	**–**	**–**	**29,195**	**22,586**	**119**	**83**

The net results of these categories were as follows:

€ million	2008	2007
Loans and receivables	1,627	1,383
Available-for-sale financial assets	2	–
Financial liabilities measured at amortised cost	– 1,061	– 812
Assets or financial liabilities measured at fair value and recognised in income	– 20	– 17

The results are determined as follows:

Measurement category	Measurement method
Loans and receivables	Interest income pursuant to the effective interest rate method in accordance with IAS 39 and expenses / income resulting from value adjustments in accordance with IAS 39 including effects from currency translation as well as market value adjustments from the application of portfolio hedging
Available-for-sale financial assets	Measurement at market value in accordance with IAS 39 including effects from currency translation
Financial liabilities measured at amortised cost	Interest expense pursuant to the effective interest rate method in accordance with IAS 39 including effects from currency translation
Assets or financial liabilities measured at fair value and recognised in income	Measurement at market value in accordance with IAS 39 including interest and effects from currency translation

(49) Classes of financial instruments

Financial instruments are classed as follows at Volkswagen Bank GmbH:

– Measured at fair value
– Assets measured at amortised cost
– Hedge accounting
– Other financial assets
– Liabilities measured at amortised cost
– Credit commitments
– Not subject to IFRS 7

Any reconciliation of the affected balance sheet items with the aforementioned classes follows from the following description:

	Balance sheet item		Measured at fair value		Measured at amortised cost		Hedge accounting		Other financial assets		Not subject to IFRS 7	
€ million	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
Assets												
Cash reserve	694	435	–	–	694	435	–	–	–	–	–	–
Receivables from financial institutions	1,432	1,132	–	–	1,432	1,132	–	–	–	–	–	–
Receivables from customers	28,357	23,012	–	–	24,503	23,012	3,854	–	–	–	–	–
Derivative financial instruments	190	149	97	109	–	–	93	40	–	–	–	–
Securities	542	–	542	–	–	–	–	–	–	–	–	–
Joint ventures accounted for at equity	1,248	1,290	–	–	–	–	–	–	–	–	1,248	1,290
Other financial assets	0	0	–	–	–	–	–	–	0	0	–	–
Other assets	77	49	–	–	56	39	–	–	–	–	21	10
Total	**32,540**	**26,067**	**639**	**109**	**26,685**	**24,618**	**3,947**	**40**	**0**	**0**	**1,269**	**1,300**
Liabilities												
Liabilities to financial institutions	2,975	765	–	–	2,975	765	–	–	–	–	–	–
Liabilities to customers	14,880	11,254	–	–	14,880	11,254	–	–	–	–	–	–
Securitised liabilities	9,595	8,984	–	–	9,595	8,984	–	–	–	–	–	–
Derivative financial instruments	226	108	119	83	–	–	107	25	–	–	–	–
Other liabilities	54	40	–	–	11	12	–	–	–	–	43	28
Subordinated capital	1,691	1,543	–	–	1,691	1,543	–	–	–	–	–	–
Total	**29,421**	**22,694**	**119**	**83**	**29,152**	**22,558**	**107**	**25**	**–**	**–**	**43**	**28**
Credit commitments	798	1,051										

(50) Fair value of financial instruments classed as follows: "Assets or liabilities measured at amortised cost, Measured at fair value, Hedge accounting, and Other financial assets"

The fair values of the financial instruments are shown in the following table. The fair value is the amount for which financial instruments can be sold or bought on fair terms on the balance sheet date. Market prices were applied wherever available for measurement purposes. For part of the financial instruments, actuarial valuation models were applied due to the lack of market prices. Absent market prices, the fair values of receivables and liabilities are determined based on discounting, taking customary market interest rates adequate to the relevant risk and corresponding to the relevant maturity into account; i. e. risk-free interest rate curves were adjusted for the relevant risk factors as well as equity and administrative costs as necessary. The fair value of receivables and liabilities with a residual term of less than one year was taken to be the balance sheet value on grounds of materiality.

Likewise, no fair value is determined for the miscellaneous financial assets because there is no active market for the companies contained therein and because it is impossible to reliably determine the relevant fair value at a reasonable cost. There were no plans at the balance sheet date to dispose of these financial assets.

The fair value of the irrevocable credit commitments is zero due to their short-term nature and the variable interest rate that is tied to the market interest rate.

€ million	Fair value 31.12.2008	Fair value 31.12.2007	Carrying amount 31.12.2008	Carrying amount 31.12.2007	Difference 31.12.2008	Difference 31.12.2007
Assets						
Cash reserve	694	435	694	435	–	–
Receivables from financial institutions	1,432	1,132	1,432	1,132	–	–
Receivables from customers	28,638	22,963	28,357	23,020	281	– 57
Derivative financial instruments	190	149	190	149	–	–
Securities	542	–	542	–	–	–
Other financial assets	0	0	0	0	–	–
Other assets	56	39	56	39	–	–
Liabilities						
Liabilities to financial institutions	2,977	766	2,975	765	2	1
Liabilities to customers	14,881	11,256	14,880	11,254	1	2
Securitised liabilities	9,644	8,994	9,595	8,984	49	10
Derivative financial instruments	226	108	226	108	–	–
Other liabilities	11	20	11	20	–	–
Subordinated capital	1,708	1,569	1,691	1,543	17	26

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

Interest rate structure table

%	EUR	GBP
Interest for six months	2.971	2.960
Interest for one year	3.049	3.074
Interest for five years	3.234	3.136
Interest for ten years	3.738	3.426

(51) Risk of counterparty default

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

Our maximum exposure to credit risks is calculated as follows:

€ million	31.12.2008	31.12.2007
Measured at fair value	639	109
Measured at amortised cost		
Cash reserve	694	435
Receivables from financial institutions	1,432	1,132
Receivables from customers	24,503	23,012
Other assets	56	39
Hedge accounting		
Receivables from customers	3,854	–
Derivative financial instruments	93	40
Other financial assets	0	0
Irrevocable credit commitments	798	1,051
Total	**32,069**	**25,818**

The following table shows the quality of the financial assets:

€ million	Gross carrying amount		Neither past due nor impaired		Past due and not impaired		Impaired	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Measured at fair value	639	109	639	109	–	–	–	–
Measured at amortised cost								
Cash reserve	694	435	694	435	–	–	–	–
Receivables from financial institutions	1,432	1,132	1,432	1,132	–	–	–	–
Receivables from customers	25,073	23,603	23,627	22,416	874	609	572	578
Other assets	56	39	56	39	–	–	–	–
Hedge accounting								
Receivables from customers	3,943	–	3,715	–	138	–	90	–
Derivative financial instruments	93	40	93	40	–	–	–	–
Other financial assets	0	0	0	0	–	–	–	–
Total	**31,930**	**25,358**	**30,256**	**24,171**	**1,012**	**609**	**662**	**578**

In the 2008 financial year, there were additions to risk provisions of € 308 million in the class, “Assets measured at amortised cost”, and € 49 million in the class, “Hedge-accounting”.

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

€ million	31.12.2008	31.12.2007
Measured at fair value	–	–
Measured at amortised cost		
Cash reserve	–	–
Receivables from financial institutions	–	–
Receivables from customers	496	456
Other assets	–	–
Hedge accounting		
Receivables from customers	78	–
Derivative financial instruments	–	–
Other financial assets	–	–
Total	**574**	**456**

Financial assets that are neither past due nor impaired are allocated to risk classes as follows:

	Neither past due nor impaired		Risk class 1		Risk class 2	
€ million	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Measured at fair value	639	109	639	109	–	–
Measured at amortised cost						
Cash reserve	694	435	694	435	–	–
Receivables from financial institutions	1,432	1,132	1,432	1,132	–	–
Receivables from customers	23,627	22,416	21,348	20,145	2,279	2,271
Other assets	56	39	56	39	–	–
Hedge accounting						
Receivables from customers	3,715	–	3,356	–	359	–
Derivative financial instruments	93	40	93	40	–	–
Other financial assets	0	0	0	0	–	–
Total	**30,256**	**24,171**	**27,618**	**21,900**	**2,638**	**2,271**

In the financial services business, a borrower's credit rating is assessed in connection with all loans and leases. Scoring systems are utilised to this end in the volume business while rating systems are used in connection with fleet customers and receivables from dealer financing. All receivables rated "good" in that process are assigned to risk class 1. Receivables from customers whose credit rating is not considered good but who have not yet defaulted are contained in risk class 2. These receivables from customers are subject to more regular and close monitoring and control by the respective credit managers than class 1 receivables.

Age analysis according to classes of financial assets that are past due but not impaired:

			Past due within the following periods					
	Past due and not impaired		up to 1 month		1 to 3 months		more than 3 months	
€ million	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**
Measured at fair value	–	–	–	–	–	–	–	–
Measured at amortised cost								
Cash reserve	–	–	–	–	–	–	–	–
Receivables from financial institutions	–	–	–	–	–	–	–	–
Receivables from customers	874	609	468	440	285	168	121	1
Other assets	–	–	–	–	–	–	–	–
Hedge accounting								
Receivables from customers	138	–	74	–	45	–	19	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–	–	–
Total	**1,012**	**609**	**542**	**440**	**330**	**168**	**140**	**1**

Gross carrying amounts of impaired receivables:

€ million	31.12.2008	31.12.2007
Measured at fair value	–	–
Measured at amortised cost		
Cash reserve	–	–
Receivables from financial institutions	–	–
Receivables from customers	572	578
Other assets	–	–
Hedge accounting		
Receivables from customers	90	–
Derivative financial instruments	–	–
Other financial assets	–	–
Total	**662**	**578**

Vehicles, mortgages, or other movable property are accepted as collateral for loans granted.

Collateral obtained in the financial year just ended for financial assets that are past due but not impaired and impaired financial assets which are scheduled for disposal:

€ million	31.12.2008	31.12.2007
Vehicles	111	51
Mortgages	–	–
Other movables	–	–
Total	**111**	**51**

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

(52) Liquidity risk

In regards to our refinancing and hedging strategy, please see the management report.

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

	Remaining contractual maturity									
	Cash outflows		up to 3 months		3 months to 1 year		1 to 5 years		more than 5 years	
€ million	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
Liabilities to financial institutions	2,984	800	2,259	108	262	253	391	357	72	82
Liabilities to customers	17,544	12,451	12,225	9,289	2,622	1,135	2,418	1,613	279	414
Securitised liabilities	9,914	9,768	915	1,217	1,328	1,552	7,551	6,999	120	–
Derivative financial instruments	274	240	27	39	145	77	102	120	0	4
Subordinated capital	1,691	1,563	15	8	44	30	377	205	1,255	1,320
Irrevocable credit commitments	798	1,051	798	1,051	–	–	–	–	–	–
Total	**33,205**	**25,873**	**16,239**	**11,712**	**4,401**	**3,047**	**10,839**	**9,294**	**1,726**	**1,820**

(53) Market risk

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

The value-at-risk (VaR) method based on historical simulation is used for quantitative measurements of the interest and currency translation risks. The VaR indicates the scope of any loss in the overall portfolio with a 99 % probability of occurring within a ten-day period. It requires an interest rate gap analysis that shows all cash flows resulting from original and derivative financial instruments. The historical market data used to determine the VaR comprise the 250 most recent trade dates.

This yields the following figures:

€ million	**2008**	**2007**
Interest rate risk	6	4
Currency translation risk	0	4
Total market price risk	**6**	**4**

(54) Foreign currency items

In the Volkswagen Bank GmbH Group the following assets and liabilities are contained in the currencies shown as at 31.12.2008:

	2008		**2007**	
	€ million	**GBP**	**€ million**	**GBP**
Receivables from financial institutions	12	11	–	–
Receivables from customers	1,033	984	1,309	960
Assets	**1,045**	**995**	**1,309**	**960**
Liabilities to financial institutions	8	8	11	8
Liabilities to customers	0	0	22	16
Securitised liabilities	–	–	134	100
Provisions	1	0	1	0
Income tax liabilities	3	3	4	3
Liabilities	**12**	**11**	**172**	**127**

(55) Notes to the hedging policy

Hedging policy and financial derivatives

On account of its activities in international financial markets, the Volkswagen Bank GmbH Group is affected by interest rate fluctuations on the international money and capital markets, while the exchange rate risk between foreign currencies and the euro plays a minor role. The general rules for the Group-wide foreign currency and interest rate hedging policy are laid down in Group-internal guidelines and fulfil the “Minimum requirements for risk management” issued by the Federal Financial Supervisory Authority (BAFin). National and international banks with excellent credit standing, whose creditworthiness is continuously scrutinised by rating firms, act as trading partners for the conclusion of appropriate financial transactions. To limit the currency and interest rate risks, appropriate hedging transactions are concluded. For this purpose, marketable derivative financial instruments are used.

Market price risk

A market price risk occurs when price changes on the financial markets (interest rates and exchange rates) have a positive or negative impact on the value of traded products. The market values shown in the tables were determined on the basis of the market information available on the balance sheet date, and they represent the present values of the financial derivatives. The present values were determined on the basis of standardised procedures or quoted prices.

Interest rate risk

Changes in interest rate levels on the money and capital markets constitute an interest rate risk in the case of refinancing not at matching maturities. Interest rate risks are managed on the basis of recommendations given by the Asset/Liability Management Committee (ALM Committee), which draws up risk-limiting requirements with regard to market risks and asset/liability management. The basis on which the resolutions of the ALM Committee are passed is provided by interest rate gap analyses which are subjected to various interest rate scenarios and thus quantify the interest rate risk. The ALM Committee makes recommendations as strategic decision-making support for the respective interest rate policy orientation. The quantified risk and the mismatch items are subject to maximum limits that apply uniformly throughout the Group.

Fair value hedge accounting for a portfolio hedge was performed for the first time in the 2008 financial year pursuant to IAS 39 AG 114 ff. as part of the interest rate hedging strategy. This entailed hedging customer receivables subject to fixed interest rates against fluctuations of the risk-free base rate. The portions of the assets subject to fixed interest rates that were included in this hedging strategy are recognised at fair value in contrast to the original subsequent measurement (at amortised cost). The resulting effects in the income statement are compensated by the countervailing earnings effects of the interest rate hedges (swaps).

The interest rate hedging contracts concluded primarily contain interest rate swaps and combined interest rate/currency swaps.

Currency risk

To avoid currency risks, currency hedging contracts consisting of forward exchange deals and interest rate/currency swaps are used. All cash flows in foreign currency are hedged.

Liquidity risk/refinancing risk

The Volkswagen Bank GmbH Group makes provisions for securing against potential liquidity squeezes by maintaining confirmed credit lines at various commercial banks and by using multi-currency-capable continuous issuing programmes.

Non-payment risk

The non-payment risk from financial assets consists of the risk of non-payment by a contracting party and therefore the maximum amount at risk is the balance vis-à-vis the respective counterparties.

As the transactions are only concluded with counterparties that have an excellent credit standing, and trading limits are set for each counterparty within the framework of risk management, the actual non-payment risk is considered to be small.

The Volkswagen Bank GmbH Group is not subject to any particular risk concentration.

The nominal volumes of the derivative financial instruments are made up as follows:

	Remaining contractual maturity					
	3 months to 1 year		1 to 5 years		more than 5 years	
€ million	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Cash flow hedges						
Interest rate swaps	3,529	2,734	1,574	2,815	–	10
Cross-currency interest rate swaps	–	–	–	–	–	–
Currency futures contracts	1,253	1,048	–	–	–	–
Currency swaps	–	–	–	–	–	–
Other						
Interest rate swaps	3,836	2,891	10,549	7,150	334	535
Cross-currency interest rate swaps	–	–	–	–	–	–
Currency futures contracts	–	–	–	–	–	–
Currency swaps	–	–	–	–	–	–
Total	**8,618**	**6,673**	**12,123**	**9,965**	**334**	**545**

The periods related to future payments on the transactions underlying the cash flow hedges correspond to the maturity of the hedging transactions.

Cash flow hedges for which no underlying transaction is expected to occur in future were not recognised at the balance sheet date.

The effects of cash flow hedges realised in the reporting period are shown in interest expense.

Segment reporting

(56) Primary segment

The reporting in the primary segment of the Volkswagen Bank GmbH Group is based on the geographical markets of Germany, Italy, France, United Kingdom and other branches, with the latter including the branches in the Netherlands, Belgium, Spain, Ireland and Greece.

Division by geographical markets:

€ million	2008 financial year Germany	Italy	France	United Kingdom	Other branches	Consoli-dation	Total
Interest income from lending transactions with third parties	1,314	144	74	102	102	–	1,736
Interest income from intersegment lending transactions	273	–	–	–	–	– 273	–
Segment interest income from lending transactions	1,587	144	74	102	102	– 273	1,736
Net income from leasing transactions	–	21	62	–	–	–	83
Interest expense	1,024	103	75	66	66	– 273	1,061
Net income from lending and leasing transactions before provisions for risks	563	62	61	36	36	–	758
Provisions for risks arising from lending and leasing business	163	9	10	6	– 7	–	181
Net income from lending and leasing transactions after provisions for risks	400	53	51	30	43	–	577
Net commission income	46	21	2	–	2	–	71
Result from financial instruments	– 25	–	–	–	–	–	–25
Result from joint ventures accounted for at equity	105	–	–	–	–	–	105
Result from other financial assets	2	–	–	–	–	–	2
General administration expenses	332	36	30	9	24	– 1	430
Other operating result	68	2	3	2	1	– 1	75
Pre-tax result	**264**	**40**	**26**	**23**	**22**	**–**	**375**
Taxes on income and earnings	45	13	10	7	9	–	84
Net income	**219**	**27**	**16**	**16**	**13**	**–**	**291**
Segment assets	**29,267**	**2,539**	**1,936**	**961**	**1,608**	**– 5,618**	**30,693**
Segment liabilities	**28,387**	**2,379**	**1,886**	**846**	**1,495**	**– 5,618**	**29,375**

The net income from leasing transactions results from the segments Italy and France. It is exclusively comprised of external income and expenses and is as follows:

€ million	2008 financial year Italy	France	Consolidation and other	Total
Income from leasing transactions	21	174	–	195
Expenses from leasing transactions	0	63	–	63
Depreciation and impairment losses on leased assets and investment property	–	49	–	49
Net income from leasing transactions	**21**	**62**	**–**	**83**

In the reporting period, impairment losses on leased assets and investment property totalling € 5 million (previous year: zero) were recognised in accordance with IAS 36.

The presentation for the previous year is as follows:

	2007 financial year						
€ million	Germany	Italy	France	United Kndom	Other branches	Consoli-dation	Total
Interest income from lending transactions with third parties	1,108	133	30	112	88	–	1,471
Interest income from intersegment lending transactions	213	–	–	–	–	– 213	–
Segment interest income from lending transactions	1,321	133	30	112	88	– 213	1,471
Net income from leasing transactions	–	16	–	–	–	–	16
Interest expense	794	84	20	73	54	– 213	812
Net income from lending and leasing transactions before provisions for risks	527	65	10	39	34	–	675
Provisions for risks arising from lending and leasing business	102	3	– 2	4	– 3	–	104
Net income from lending and leasing transactions after provisions for risks	425	62	12	35	37	–	571
Net commission income	36	20	– 1	–	1	–	56
Result from financial instruments	– 18	–	–	–	–	–	– 18
Result from joint ventures accounted for at equity	128	–	–	–	–	–	128
Result from other financial assets	–	–	–	–	–	–	–
General administration expenses	449	35	8	8	17	– 1	516
Other operating result	247	2	0	2	1	– 1	251
Pre-tax result	**369**	**49**	**3**	**29**	**22**	**–**	**472**
Taxes on income and earnings	113	20	1	8	7	–	149
Net income	**256**	**29**	**2**	**21**	**15**	**–**	**323**
Segment assets	**23,329**	**2,465**	**755**	**1,310**	**1,476**	**– 5,033**	**24,302**
Segment liabilities	**22,134**	**2,297**	**689**	**1,174**	**1,393**	**– 5,033**	**22,654**

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

The consolidation in the interest income from lending transactions and interest expense results from the granting of Group-internal refinancing funds between the geographical markets.

Shares in joint ventures are attributed to the Germany segment.

The investments in property, plant and equipment, intangible assets, leased assets and investment property amount to € 0 million (previous year: € 14 million) in Germany, € 2 million (previous year: € 2 million) in the Italy segment, € 92 million (previous year: € 0 million) in the France segment, and € 1 million (previous year: € 1 million) in the other branches. Deprecation, amortisation and impairment losses totalled € 1 million (previous year: € 5 million) in the Germany segment, € 2 million (previous year: € 2 million) in the Italy segment, € 45 million (previous year: € 0 million) in the France segment, and € 0 million (previous year: € 1 million) in the other branches segment.

There were also significant expenses for risk provisions.

(57) Secondary segment

In the secondary segment, the reporting is conducted according to the products of retail and dealer financing.

	2008 financial year		2007 financial year	
€ million	Segment income	Segment assets	Segment income	Segment assets
Retail financing	1,049	15,481	902	14,078
Dealer financing	524	7,653	458	7,465
Consolidation and other	–	7,559	–	2,759
Total	**1,573**	**30,693**	**1,360**	**24,302**

Other notes

(58) Cash flow statement

The cash flow statement of the Volkswagen Bank GmbH Group documents the change in funds available due to the cash flows resulting from operating activities, investing activities and financing activities. The cash flows resulting from investing activities comprise payments resulting from the purchase and proceeds resulting from the sale of leased assets, investment property and other assets. The financing activities comprise all the cash flows resulting from transactions with equity, subordinated capital and other financing activities. All other cash flows are assigned to operating activities, in accordance with international practice for financial services companies. Cash and cash equivalents, narrowly defined, comprises only the cash reserve, which is made up of the cash in hand and deposits at central banks.

The changes to the balance sheet items applied for the development of the cash flow statement cannot be derived directly from the balance sheet, as effects from changes in the basis of consolidation do not influence payments and are separated out.

(59) Off-balance sheet obligations

€ million	31.12.2008	31.12.2007
Contingent liabilities		
Liabilities from surety and warranty agreements	65	11
Other commitments		
Irrevocable credit commitments	798	1,051

(60) Trust activities

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

(61) Average number of employees during the financial year

€ million	2008	2007
Salaried employees	650	2,168
of which part time	46	390

(62) Relationships with related parties

Related parties, as defined by IAS 24, are parties which can be influenced by the reporting company or which can influence the reporting company.

Volkswagen Financial Services AG, Brunswick, is the sole shareholder of Volkswagen Bank GmbH.

A control and profit transfer agreement between Volkswagen Financial Services AG, the sole shareholder, and Volkswagen Bank GmbH is in place. The business relations between the two companies are handled at normal market terms.

Volkswagen AG and its subsidiaries make refinancing funds available to the companies of the Volkswagen Bank GmbH Group at normal market terms. Furthermore, financial guarantees from subsidiaries of the Volkswagen AG Group exist in our favour within the framework of the operating business.

To support sales promotion campaigns, the companies of the Volkswagen Bank GmbH Group receive financial contributions from the production companies and importing companies of the Volkswagen Group.

All business relations with fellow subsidiaries and non-consolidated subsidiaries as well as joint ventures and associated companies are handled at normal market terms.

Transactions with related parties are shown in the following two tables:

2008 financial year € million	Supervisory Board	Board of Management	Porsche companies	Volkswagen AG	Volkswagen Financial Services AG	Fellow subsidiaries	Non-consolidated subsidiaries	Joint ventures	Associated companies
Receivables	0	0	39	4	641	2,837	1	996	–
Allowances on receivables	–	–	–	–	–	–	–	–	–
of which additions, current year	–	–	–	–	–	–	–	–	–
Liabilities	2	1	0	356	158	1,919	6	–	–
Interest income	0	–	0	0	2	147	11	0	–
Interest expense	0	0	0	–	–	–	0	–	–
Income from services	–	–	–	0	17	40	3	–	–
Income from licence fees	–	–	–	–	–	–	–	–	–
Sale of goods	–	–	–	–	–	–	–	–	–
Expense for services	–	–	–	–	17	34	–	–	–
Purchase of goods	–	–	–	–	–	–	–	–	–
Provision of sureties	–	–	–	–	–	–	–	–	–

2007 financial year € million	Supervisory Board	Board of Management	Volkswagen AG	Volkswagen Financial Services AG	Fellow subsidiaries	Non-consolidated subsidiaries	Joint ventures	Associated companies
Receivables	0	0	4	–	1,009	–	504	–
Allowances on receivables	–	–	–	–	–	–	–	–
of which additions, current year	–	–	–	–	–	–	–	–
Liabilities	0	0	184	444	742	–	–	–
Interest income	0	0	262	1	153	–	0	–
Interest expense	0	0	7	10	26	–	0	–
Income from services	–	–	–	–	–	–	–	–
Income from licence fees	–	–	–	–	–	–	–	–
Sale of goods	–	–	–	–	8	–	–	–
Expense for services	–	–	–	–	–	–	–	–
Purchase of goods	–	–	7	–	6	–	–	–
Provision of sureties	–	–	–	–	–	–	–	–

Members of the Board of Management and Supervisory Board of Volkswagen Bank GmbH are members of boards of management and supervisory boards of other companies in the Volkswagen Group, with which, in some cases, we do business within the framework of normal business activities. All the business relations with these companies are conducted under the same conditions as are usual with external third parties.

A large majority of the total emoluments of the Board of Management is borne by Volkswagen Financial Services AG. As the disclosure of the emoluments of individual members of the Board of Management does not meet the requirement of IAS 24.10 regarding the substance of the relationship between the Board of Management and the company, no such disclosure is made here.

Total emoluments of former members of the Board of Management and their surviving dependants amounted to less than € 0.5 million. The provisions for current pensions and pension expectancies made for this group of persons amounted to € 2 million.

(63) Corporate bodies of Volkswagen Bank GmbH

The Board of Management is comprised as follows:

Rainer Blank

Spokesman of the Board of Management (from 16.9.2008)
Business Line Individual Customers & Corporate Customers (from 16.9.2008)
Sales Individual Customers & Corporate Customers

Klaus-Dieter Schürmann

Spokesman of the Board of Management (until 15.9.2008)
Business Line Individual Customers & Corporate Customers (until 15.9.2008)
Direct bank
International / Treasury

Dr. Michael Reinhart

Finance (including Company Management, Controlling), Risk Management, IT
Market Support, Dealer Restructuring
Human Resources / Organisation

As in the previous year, no remuneration has been granted to the Supervisory Board.

The Supervisory Board is comprised as follows:

Hans Dieter Pötsch
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

Dr. Horst Neumann
Deputy Chairman (from 1.4.2008)
Member of the Board of Management of Volkswagen AG
Human Resources and Organisation

Giuseppe Savoini (until 31.3.2008)
Deputy Chairman
Executive Vice President of Volkswagen AG
Group Treasurer

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

Dr. Jörg Boche (from 1.4.2008)
Executive Vice President of Volkswagen AG (from 21.11.2008)
Group Treasurer

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

Detlef Kunkel
General Secretary/Principal Representative of IG Metall Brunswick

Günther Müller (until 31.10.2008)
Head of Controlling of Volkswagen Bank GmbH

Gabor Polonyi (from 1.11.2008)
Head of Management and Marketing Corporate Customers
of Volkswagen Bank GmbH

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

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

Lothar Sander
Member of the Board of Management Volkswagen Division
Controlling and Accounting

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

Detlef Wittig
Executive Vice President of Volkswagen AG
Group Marketing and Sales

(64) Equity investments

Name and registered office of company	Percentage of capital and voting rights held
I. Joint ventures	
Global Mobility Holding B.V., Amsterdam, The Netherlands	50.0
LeasePlan Corporation N.V., Amsterdam, The Netherlands	50.0
VOLKSWAGEN BANK POLSKA S.A., Warsaw, Poland	60.0
II. Equity investments	
Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, Germany	0.02
Society for Worldwide Interbank Financial Telecommunication SCRL, La Hulpe, Belgium	0.0053
Visa Europe Limited, London, England	0.0703
III. Shareholding	
Visa Inc., San Francisco, USA	0.02

(65) Events after the balance sheet date

Porsche Automobil Holding SE, Stuttgart, and its shareholder to whom the voting shares of Volkswagen AG are attributable under Section 22 para 1 sentence 1 no. 1 German Securities Trading Act notified the company pursuant to Section 21 para 1 German Securities Trading Act that their interest in the voting shares of Volkswagen AG surpassed the threshold of 50 % on 5 January 2009 and that they were holding 50.76 % of the voting shares as of said date. The voting shares attributable to the individual notifying parties follow from Volkswagen AG's mandatory filing dated 12 January 2009 on its webpage, www.volkswagenag.com/ir. There were no other significant events up to 9 February 2009.

(66) Responsibility statement of the Board of Management

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

Brunswick, 9 February 2009
The Board of Management

Rainer Blank

Dr. Michael Reinhart

Klaus-Dieter Schürmann

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by Volkswagen Bank GmbH, Brunswick, consisting of balance sheet, income statement, statement of recognised income and expense, cash flow statement and notes, for the financial year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as applicable in the EU is the responsibility of the company's Managing Directors. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and on the Group management report.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the generally accepted German auditing standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations with a material impact on the presentation of net assets, financial situation and results of operations conveyed by the consolidated financial statements with due regard to the IFRS as applicable in the EU and by the Group management report are identified. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible errors are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in consolidation, the definition of the scope of consolidation, the accounting and consolidation principles applied and significant estimates made by the Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on the findings of the audit, the consolidated financial statements are in compliance with IFRS as applicable in the EU, and in accordance with these provisions give a true and fair view of the net assets, financial position and results of the operations of the Group. The Group management report is consistent with the consolidated financial statements, provides a suitable understanding of the Group's situation and suitably presents the opportunities and risks of future development.

Hanover, 19 February 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes	Rolf Barrakling
Auditor	Auditor

REPORT OF THE SUPERVISORY BOARD OF THE VOLKSWAGEN BANK GMBH GROUP

In the financial year just ended, the Supervisory Board regularly and exhaustively dealt with the company's position and development.

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

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

The Supervisory Board convened for three regular meetings in the reporting year; there were no extraordinary meetings. The Supervisory Board members' average attendance rate was 97 %. All members attended more than one half of the meetings. Resolutions regarding urgent matters were adopted by means of circular memorandum.

Work of the committees

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

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

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

Deliberations of the Supervisory Board

Following a detailed review at its meeting on 20 February 2008, the Supervisory Board approved the annual financial statements for 2007 that had been prepared by the Board of Management and accepted the annual report by Internal Audit regarding the results of its audits.

The Board Management provided extensive reports on the company's and the subgroup's economic and financial position, both at the aforesaid meeting and at the meetings on 2 July 2008 and 26 November 2008. In this connection, we dealt with the options for fundamentally realigning the company's business such that it can attain its earnings targets in the long term.

At the meeting on 20 February 2008, we approved the Board of Management's project to contribute the bank's stake in Global Mobility Holding B.V., Amsterdam, the Netherlands, to the holding structure that Volkswagen Financial Services AG plans to establish in the Netherlands.

At our meeting on 2 July 2008, we dealt extensively with the company's current risk exposures in regards to both lending and residual values as well as with the fallout from the subprime crisis and the steps we must take in its wake.

On 26 November 2008, we engaged in an extensive discussion of the bank's financial and investment planning. The Board of Management informed us of the ramifications of the financial market crisis, the company's current liquidity situation and the measures that the Board has initiated. We also dealt with the company's strategic alignment in connection with the "Strategy 2018" project.

Audit of the annual and consolidated financial statements

PriceWaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the annual financial statements of Volkswagen Bank GmbH in accordance with the German Commercial Code (HGB) for the year ended 31 December 2008, including the bookkeeping and the management reports.

The Supervisory Board had at its disposal the consolidated annual financial statements in accordance with IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with HGB for the year ended 31 December 2008 and the management reports. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the bookkeeping and the management reports, and issued an unqualified auditors' report in each case. The Supervisory Board approves the results of these audits.

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

Under the existing control and profit transfer agreement, the profit made in 2008 in accordance with HGB is transferred to Volkswagen Financial Services AG

The Supervisory Board approved the annual financial statements prepared by the Board of Management and the consolidated financial statements of Volkswagen Bank GmbH.

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

Brunswick, 20 February 2009

Hans Dieter Pötsch
Chairman of the Supervisory Board

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Published by
Volkswagen Bank GmbH
Gifhorner Strasse 57
38112 Braunschweig
Germany
Phone +49-531-212 38 88
Fax +49-531-212 35 31
info@vwfs.com
www.vwfs.com

Investor Relations
Phone +49-531-212 30 71

Concept and design
CAT Consultants, Hamburg

You will also find the Annual Report 2008 at www.vwfs.com/ar08

The Annual Report is also published in German.

VOLKSWAGEN BANK GMBH
Gifhorner Strasse 57 · 38112 Braunschweig · Germany · Phone +49–531–212 38 88 · Fax +49–531–212 35 31
info@vwfs.com · www.vwfs.com
Investor Relations: Phone +49–531–212 30 71