# VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

# The key to mobility.

ANNUAL REPORT 2012

# Volkswagen Financial Services AG at a glance

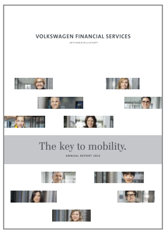
| in € million (as at 31.12.) | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Total assets | 87,379 | 76,946 | 65,332 | 60,286 | 57,279 |
| Receivables from customers arising from | | | | | |
| Retail financing | 38,127 | 33,261 | 30,505 | 26,603 | 21,913 |
| Wholesale financing | 10,781 | 10,412 | 8,828 | 8,391 | 9,584 |
| Leasing business | 15,312 | 14,252 | 13,643 | 13,935 | 14,912 |
| Leased assets | 7,474 | 6,382 | 4,974 | 3,666 | 3,003 |
| Customer deposits[1] | 24,889 | 23,795 | 20,129 | 19,532 | 12,835 |
| Equity | 8,800 | 7,704 | 6,975 | 6,311 | 6,780 |
| Operating result | 946 | 814 | 720 | 519 | 720 |
| Pre-tax result | 993 | 933 | 870 | 554 | 792 |
| Taxes on income and earnings | – 264 | – 275 | – 247 | – 159 | – 214 |
| Net income | 729 | 658 | 623 | 395 | 578 |

| in % (as at 31.12.) | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Cost/income ratio[2] | 60 | 60 | 60 | 69 | 61 |
| Equity ratio[3] | 10.1 | 10.0 | 10.7 | 10.5 | 11.8 |
| Core capital ratio[4] | 9.2 | 9.8 | 10.5 | 11.2 | 8.8 |
| Overall ratio[5] | 9.8 | 10.1 | 10.5 | 11.4 | 10.8 |
| Equity ratio before taxes[6] | 12.0 | 12.7 | 13.1 | 8.5 | 12.4 |

| Number (as at 31.12.) | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Employees | 8,770 | 7,322 | 6,797 | 6,775 | 6,639 |
| In Germany | 4,971 | 4,599 | 4,297 | 4,290 | 4,128 |
| Abroad | 3,799 | 2,723 | 2,500 | 2,485 | 2,511 |

| Rating 2012[7] | Standard & Poor's | | | Moody's Investors Service | | |
|---|---|---|---|---|---|---|
| | short-term | long-term | outlook | short-term | long-term | outlook |
| Volkswagen Financial Services AG | A–2 | A– | positive | Prime-2 | A3 | positive |
| Volkswagen Bank GmbH | A–2 | A– | positive | Prime-2 | A3 | positive |

1 The year-end customer deposit figure for 2009 was adjusted to the customer deposit definition applicable from 2010 onwards.
2 General administration expenses divided by net income from lending, leasing and insurance transactions after provisions for risks and net commission income
3 Equity divided by total assets
4 Core capital ratio = Core capital / ((Capital requirement for credit risks + operational risks + market risks) × 12.5) × 100
5 Overall ratio = Own funds / ((Capital requirement for credit risks + operational risks + market risks) × 12.5) × 100
6 Pre-tax result divided by the average equity
7 For details see section "Capital market activities"




The cover features some of our employees who are lending their images as Volkswagen Financial Services AG company ambassadors in our human resources campaign. In this financial report, we explain our human resources strategy and work in more detail.

# The “FS Way”:
# Our values, our conviction

The “FS Way” describes our leadership and corporate culture – in other words, how we intend to implement our business strategy – helping us to become the world’s best automotive financial services group by 2018.

Our culture is rooted in our FS values

- A living commitment to our customers
- Responsibility
- Trust and confidence
- Courage
- Enthusiasm

combined with the pursuit of continuous improvement. This is our goal, and we are actively implementing the associated changes.

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# Foreword of the Board of Management

"Our stated goal is to be the partner of choice for our customers in all aspects of mobility."

**FRANK WITTER,**
Chairman of the Board of Management

Ladies and Gentlemen,

The year 2012 was a highly successful one for Volkswagen Financial Services AG. We reached the targets we had set for our key indicators, in some cases far exceeding them. Our refinancing strategy continues to benefit from our excellent standing in the international financial markets. By rolling out new products we are consolidating our position as an innovative financial services provider; at the same time, we have systematically pursued our goal of becoming a primary insurer by making the decision to assume the risks of our car insurance business. Our expansion in key growth markets such as China, India and Russia continued according to plan. One of the main factors contributing to our positive results in the past financial year was undoubtedly the encouraging development of the Volkswagen Group brands. Despite the high bar set in 2011, the brands once again lifted their sales by 11 percent to the record figure of over 9 million vehicles delivered. This also provided us with further customer potential. Together with an even higher proportion of customers who financed or leased their car through our company, we thus created additional business volume. As the sales promoter for the Group brands, we ensured even better coverage of the entire automotive value chain last year, which also improved the quality of our earnings.

In 2012, we came closer to our stated goal of being the world's best automotive financial services provider. For example, we further expanded our market share and increased the penetration rate among buyers of the Group's products. We are also present in challenging markets like Portugal, where we opened a branch of Volkswagen Bank. A key success factor for us is cost-effective refinancing in the international money and capital markets. Our bonds and securitisation transactions are enjoying continued high acceptance among international investors. Our broadly diversified refinancing activities give us a stable base that will enable us to continue to offer our customers attractive terms and conditions.

At the same time, we want to be the partner of choice for our customers in all aspects of mobility. With new products such as the sophisticated "FleetTRUCKS" reporting system, we have the right tools for enterprises such as fleet operators to increase the transparency and efficiency of their vehicle fleet. And to enable smaller fleet operators to benefit from cost-effective one-stop shopping with vehicle-related services such as refuelling, insurance, tyre services, maintenance or inspections, we are offering the new service from CarMobility GmbH.

Establishing Braunschweig-based Volkswagen Autoversicherung AG in a strategic cooperation with Allianz is an important step for us. It gives our car insurance activities a significant boost and establishes us as a primary insurer. This company commenced operations and plans on launching its product on the market from 1 April 2013.

We are continuing to focus on offering new, integrated and sustainable mobility solutions. Volkswagen Leasing GmbH now has a portfolio of some 216,000 environmentally friendly vehicles. In addition, average $CO_2$ emissions in all vehicle deliveries to fleet customers of Volkswagen Leasing have fallen by 12 percent in the past four years.

The common foundation for all our activities is our “WIR2018” strategy, which we are continuing to pursue and implement. Last year, recruiting even more motivated, highly qualified people for our company was a particular focus. We are conscious of the fact that in view of the demographic change we can only achieve our ambitious goals if we retain our best employees at an early stage. To this end, we launched our own e-recruiting drive last year and organised the second SpeedUpYourCareer event in late summer to recruit young computer scientists. Last year’s prestigious employer competition Great Place to Work, for instance, showed that we have come much closer to becoming a top team, ranking first in the category of companies with 2,001 to 5,000 employees.

On behalf of the entire Board of Management, I would like to take this opportunity to thank our dedicated employees for their great commitment. The fact that 2012 was such a successful year for us is essentially thanks to them. We would also like to extend particular thanks to our customers and to the dealers and the Group brands for the trust they place in us. Given the prevailing uncertainty in the global economy, next year will definitely present many challenges for us, but in spite of these challenges we have confidence in our ability to generate earnings on a par with the 2012 level.

Sincerely,

Frank Witter
Chairman of the Board of Management

Braunschweig, March 2013

# The Board of Management of Volkswagen Financial Services AG

Trust and confidence

Enthusiasm

A living commitment to our customers

Courage

Responsibility


**DR. MICHAEL REINHART**
Risk Management

**LARS-HENNER SANTELMANN**
Sales and Marketing

**FRANK WITTER**
Chairman of the Board of Management

**CHRISTIANE HESSE**
Human Resources and Organisation

**FRANK FIEDLER**
Finance

# Human resources strategy

We have set ourselves the goal in our strategy of becoming the best automotive financial services provider in the world by 2018. And we have embarked on our way towards achieving this ambition – we call it our “FS Way”. The “FS Way” expresses our leadership and corporate culture as well as our common values. Our human resources strategy fills it with life.

# On the "FS Way" to becoming the best automotive financial services provider

We are using our human resources strategy to shape the "FS Way" and ensure the successful performance of our more than 9,100 employees at our various sites in 40 countries.

Our WIR2018 strategy comprises four target areas in which we are on the path to becoming the best automotive financial services provider in the world:

- We commit to boosting long-term sales of the Volkswagen Group's automotive brands and providing the highest quality products and services on the market to dealers and our private customers.
- We are a top team! As a TOP employer, we have TOP employees who make our success possible.
- We pursue substantial volume growth with the Volkswagen Group brands in both the new and used car business worldwide.
- We generate an adequate and sustainable level of profitability.

#### WE ARE A TOP TEAM

Our human resources strategy as part of our WIR2018 strategy aims to ensure that our employees are highly qualified, satisfied and engaged in line with our motto "We are a top team!". This will ensure that they produce excellent results which make our customers happy and promote the growth and profitability of our company. After all, we can only meet our strategic goals if we all pitch in. At the same time, our human resources work must reinforce a fair balance between give and take by employees and the company.

It is our task at Volkswagen Financial Services AG to create an environment worthy of a TOP employer. For us, this above all includes offering attractive and varied work assignments, extensive opportunities for personal and professional development and the opportunity for a positive work-life balance. We also offer performance-aligned compensation and equitable profit-sharing as well as a wide range of social benefits.

In return, we expect our TOP employees to be willing to change and be open to flexible job assignments, be strongly motivated to pursue training, and be prepared to increase their work productivity and optimise processes.

#### WHAT DEFINES OUR "FS WAY"?

The "FS Way" describes our leadership and corporate culture. It stands for the way we will become the best automotive financial services provider in the world by pursuing our WIR2018 strategy. The "FS Way" in turn is rooted in our values, "a living commitment to our customers, responsibility, trust and confidence, courage and enthusiasm", along with a mindset that entails a continuous search for improvements and active implementation of the accompanying changes.

We see the "FS Way" as an end-to-end concept whose core elements are applied throughout the Volkswagen Financial Services Group worldwide:

- A positive approach to change processes, ensured on the one hand by the enormous flexibility of our employees and on the other hand by job security provided by Volkswagen Financial Services AG.
- Leadership and management principles based on our values.
- A continual improvement process that is actively shaped through means including idea management and the performance of process improvement meetings.
- Regular employee performance reviews.

We believe that the "FS Way" is a unique path – it links our strong commitment to our customers and the automotive brands of the Volkswagen Group; it combines enthusiasm for trendsetting, innovative technologies and products with our all-around financing expertise. It is this combination with which we identify – true to our motto: "Focused on finance. Driven by fuel."

#### CONTINUAL IMPROVEMENT – WITH THE HUMAN RESOURCES STRATEGY CARD

The Human Resources Strategy Card is the most important leadership tool for implementing the personnel aspects of our WIR2018 strategy. We have used this strategy card to set clear goals for ourselves as a TOP employer and for our TOP employees so that we can do justice to our guiding principle "We are a top team!" and improve constantly.

These overarching goals have been broken down into specific individual targets. Country- and organisation-specific measures for meeting these objectives are determined in the national subsidiaries.

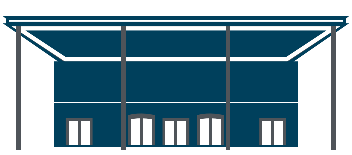
#### WE ARE ALL WORKING HAND IN HAND – WORLDWIDE

The Human Resources Strategy Card is our uniform worldwide tool for implementing the personnel strategy. This instrument allows all measures to be defined and tailored specifically to each country so that we can achieve our strategic goals. Each national company assesses its own target achievement annually in a self-assessment and discusses the results with the head human resources manager in the International Human Resources division and with the Board of Management member responsible for Human Resources. In addition, our regular regional HR conferences and workshops provide a forum for ongoing exchange of best practices and alignment of measures for reaching our strategic goals. The discussions by the national subsidiaries amongst themselves and with the headquarters in Braunschweig provide us with a shared analysis of the current situation that tells us the following: What has been achieved? What remains to be done? Where can we improve? Which best practices can be transferred? Where can headquarters offer support? The responsibility for implementing the measures always remains with the national subsidiaries, whereas headquarters sets the framework, provides tools for implementation and offers consulting as needed.

#### VOLKSWAGEN FINANCIAL SERVICES AG – ONE OF THE BEST EMPLOYERS IN THE WORLD

We intend to pursue our strategic goal – "We are a top team!" – worldwide. Against this backdrop, we meet the expectations placed on modern, attractive employers head on in various employer rankings, allowing our human resources work to be reviewed externally. This gives us the ability to improve all the time and never diminish our efforts to attract and retain the best employees in our company today and in the future.

### "WE ARE A TOP TEAM!"



**AS TOP EMPLOYER…**

"… we invest in our employees and expect top performance."

"… we recognize and appreciate the performance of our employees."

"… we share our success with our employees according to their performance."

**AS TOP EMPLOYEE…**

"… we work customer and service oriented."

"… we always give our individual top performance."

"… we focus our actions on the economic success of Volkswagen Financial Services AG as integral part of the Volkswagen Group."

**ANJA CHRISTMANN**
Head of Human Resources, Germany

# "Just a few words are enough to describe our employer brand: Focused on finance. Driven by fuel."

The "FS Way" involves give and take – the balance between a TOP employer and TOP employees. It embodies our leadership and corporate culture, i.e., the path we are taking to become the best automotive financial services provider in the world by pursuing our WIR2018 strategy.

We will meet our strategic goal of becoming a TOP employer by consistently implementing a circle of success based on our first-rate human resources work. In this circle of success, we challenge and support our employees and, with a top team, generate excellent results. Our success is therefore vitally dependent on the performance of our employees.

In 2012 alone, we hired more than 450 staff in Germany, including 43 trainees. Our company continues to receive a large number of applications. Whereas we receive numerous applications from the Braunschweig region from college graduates and for trainee positions, the search for experienced IT and risk managers, and other specialists, is more challenging.

For this reason, we have defined our employer brand using the motto "Focused on finance. Driven by fuel.". The objective here is positioning the company as an attractive employer, which means an employee-oriented, international and multi-faceted one. These are our core attributes. We want to transmit these values as we understand ourselves. This is why we launched the "Gib der FS AG (D)ein Gesicht!" (Give FS AG a (Your) Face!) employee campaign with a photo shoot to position our own employees as brand ambassadors. More than 250 employees submitted applications – an impressive number. Forty employees were cast, 16 of these became our brand ambassadors. When considering all of the applications, we decided on our company's ambassadors, taking into account an even distribution in terms of age, gender and position.

This is how we strive to further raise our profile as a TOP employer and reach our target groups. With our motto "Focused on finance. Driven by fuel.", we support the consistent implementation of the WIR2018 strategy: financing and automobiles – the key components of our overall business success.

Our active employer branding and the inclusion of employees on a personal level have further improved identification with our company. After the initiative we heard many times, particularly from the participants, "I am proud to work for this company."

We were equally pleased with our excellent results in the German "Great Place to Work" competition: We were named "Best Workplace in Germany 2012", taking first place among companies with up to 5,000 employees. This award is a sign of responsible management, cooperation based on fairness and respect, a powerful team spirit and strong identification with the company. It is not without good reason that 96 % of our surveyed employees say their workplace is excellent.

The fact that our human resources strategy is achieving success is also indicated by the two honours we received in the Human Resources Excellence Awards 2012 in December. Two first-place rankings for the best recruiting event and the best employer brand strategy validate our activities.

We participated in the distinguished Great Place to Work competition several times in past years. After not placing among the top companies in 2009, we were able to position the company as an attractive employer and ranked in the TOP 100 list in 2010. In 2012 we were named number one among German employers in the 2,001-to-5,000 employee category by the Great Place to Work Institute. This award is a sign of responsible management, cooperation with employees based on fairness and respect, strong identification with the company by employees and powerful team spirit.

We were able to achieve success in employer rankings not only in Germany, but in many other countries as well. For instance, we were also named one of the best workplaces in Brazil and the United Kingdom in the aforementioned Great Place to Work ranking.

These awards underscore our efforts to become an international TOP employer.

### EVIDENCE SHOWS THAT TOP EMPLOYEES ARE TRUSTED BY OUR CUSTOMERS

Our high standards for our company as an employer and for our employees – which are underscored by our excellent placements in employer rankings – must, in the end, pay off for our customers and our market success.

Against this backdrop, awards by customers are very important for us. We are proud to have received many honours from our customers, such as the reader prize as the BEST BRAND 2012 in the passenger car banks category by auto motor und sport magazine, the best automotive bank by AUTO BILD, the Flottina Awards 2012 by Flottenmanagement magazine and first place in the "Leasing" category in the Fleet Award by Autoflotte magazine.

### ACTIVE FEEDBACK CULTURE – INSIDE AND OUTSIDE THE COMPANY

Our work is based on dialogue. Our managers have to know the opinions and assessments of their employees, while employees in turn must receive a clear picture of where the employees are seen and whereto they are supposed to develop. An honest feedback culture and open, constructive interaction are therefore top priorities for us. It is through feedback that we learn whether our employees enjoy working in a team, or if other combinations would produce even better results. We hit upon these opportunities for optimisation by acknowledging the opinion of each and every employee and asking their opinion in the annual "FS Pulse", an employee opinion survey.

Feedback thus becomes an effective management tool that adds value as part of a holistic view of the situation. We therefore obtain input about our company from outside as well – using the Dealer Satisfaction Index to survey customer satisfaction among dealers, and the Brand Satisfaction Index to find out the level of satisfaction with the Volkswagen Group's automotive brands. Our end customers, the drivers of all Group automotive brands we finance or lease, also provide us with feedback – in a Customer Satisfaction Index.

And we go even one step further. Internal services are provided to the company by the departments without direct customer contact. They also deserve feedback for their work. Therefore, the human resources department has developed a feedback tool to measure satisfaction with customer relationships within the company. In this way, we also make the work quality of these departments measurable and accordingly can manage them successfully. More and more divisions will receive specific feedback in the course of the rollout currently underway.

All of the feedback indicates that we are improving continually and that our customers are enthusiastic about the company. And we have also discovered that our improvement process will never be complete, since this feedback also always shows that we have potential for optimisation. However, this is precisely why we stand behind our feedback culture.

### IDENTIFYING AND PROMOTING TALENT

A vital tool for meeting our strategic group and human resources objectives is optimal personnel development and talent promotion. The key here is that professional and leadership skills must be systematically developed across national boundaries – and that this development can be used to the advantage of our employees and our company as a whole.

Our personnel development strategy aims to ascertain professional and leadership skills transparently and further develop them in line with the company's needs and goals.

The various personnel development programmes are continually being updated and adapted to regional and function-specific requirements.

### OCCUPATIONAL HEALTH MANAGEMENT

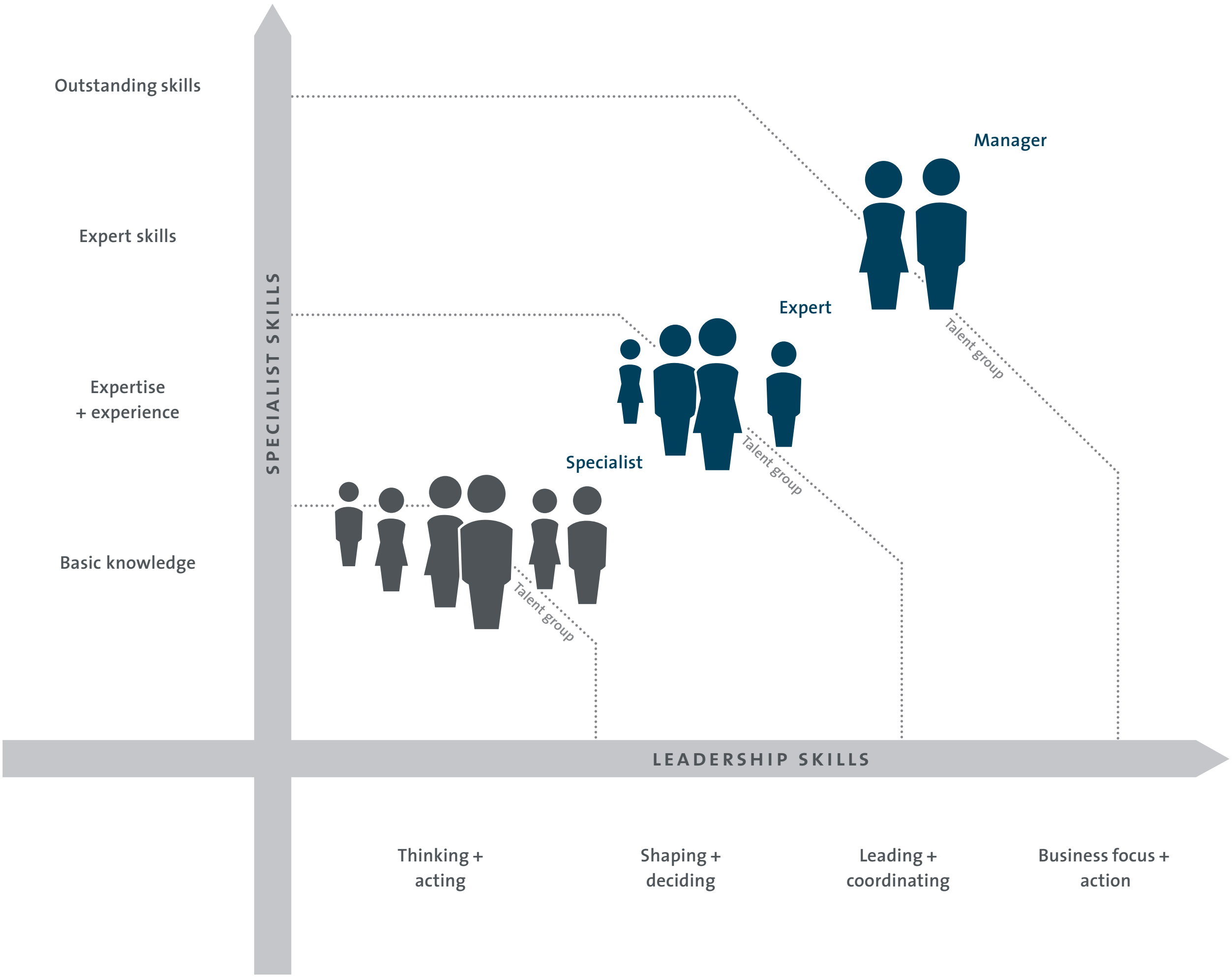
Promoting health is a crucial issue for us. We support our employees in finding a healthy lifestyle that suits them individually. To this end, it is important for them to regularly receive information about the status of their health. Performed by our occupational health service and available to all employees free of charge and during working hours, the "FS CheckUp" features state-of-the-art medical diagnostic procedures. On the one hand, the check-up reflects employees' current health and, on the other, it puts the focus on the promotion and maintenance of health for the long term thanks to personalised advising. We offer follow-up programmes on exercise, nutrition and psychological health for this purpose. If indication of a serious illness is detected during the check-up, this is treated further by specialists.

Additional special health coaching, events and workshops on health-related topics seek to identify health risks as early as possible so that timely countermeasures can be taken.

#### OUR HUMAN RESOURCES STRATEGY ENSURES OUTSTANDING HUMAN RESOURCES WORK, THUS ENABLING OUR STRATEGIC SUCCESS

We are well on our way – our "FS Way" – towards fulfilling our WIR2018 strategy and being completely justified in saying that "We are a top team!" Our human resources strategy and daily human resources work measurably and sustainably add value, which is experienced individually by our employees, our customers and our company. We have the right people in the right places in the company, and we all contribute to our company's long-term success by giving our personal best. That makes us attractive – to both employees and customers. And it takes us further along the way to becoming the best automotive financial services provider in the world.

#### DEVELOPMENT PATHS IN HUMAN RESOURCES DEVELOPMENT



**CHRISTIANE HESSE,**
Member of the Board of Management,
responsible for Human Resources and Organisation

# A conversation

"My job is to shape the human resources policy of this company so that we impress our customers with our professional expertise, keep our employees satisfied and make a profit while doing both. All three of these components must be in place."

# Human resources work makes up the "How" in our strategy implementation

Volkswagen Financial Services AG has already been honoured multiple times for its human resources work. One of the most recent awards is a first place in the Great Place to Work employer ranking. The Investor Relations team talked to Christiane Hesse, who is the Board of Management member responsible for Human Resources and Organisation at Volkswagen Financial Services AG, to get background information on human resources work.

**Ms. Hesse, how did Volkswagen Financial Services AG do in 2012?**

CHRISTIANE HESSE: This year we confirmed once again that we have a strong business model. We impressed customers with our great products and our highly qualified workforce. This is also evident in the remarkably good results that we were able to achieve.

**You already mentioned a successful workforce. Obviously, you have a knack for picking good employees. What is your recipe for success?**

CHRISTIANE HESSE: It's easy – enthusiasm. Like all of us at Volkswagen Financial Services, I am excited about what we are doing. That is illustrated really well by our motto: "Focused on finance. Driven by fuel.", which applies to trainees and experienced managers alike. Cooperation with our customers – end customers, dealers, the Volkswagen Group's brands – and employees really is exciting. We make a positive impression with our enthusiasm for cars, innovative financial products, excellent processes and expert advising, and as a TOP employer with TOP employees. It takes a lot of effort to accomplish this.

**Is the first place in the Great Place to Work employer ranking proof of this?**

CHRISTIANE HESSE: Yes. The award highlights our company's trustworthiness, respect, fairness, pride and team spirit. That said, we are not resting on our laurels, but instead viewing this achievement as incentive to maintain this position and also improve internationally. And I wouldn't be so pleased about this honour awarded to us as an employer if we didn't win customer awards at the same time. A few days after we received the Great Place to Work prize, our customers rewarded our excellent product and service quality in reader polls conducted by AUTO BILD and auto motor und sport magazine – that is sustainability. It's exciting to work in a company that can do that!

**Aren't your employees also motivated for very personal reasons to work for Volkswagen Financial Services?**

CHRISTIANE HESSE: Of course. And as a financial services provider to the Volkswagen Group with worldwide operations, we offer employees precisely what makes a company attractive to employees: interesting and varied work assignments, very good opportunities for finding a work-life balance, security and a long-standing excellent reputation as an employer. The fact that we offer extensive social services in addition to very attractive financial compensation is seen by many as the icing on the cake, so to speak.

**Where do employees believe they belong? Do they see themselves as Volkswagen or as Volkswagen Financial Services employees?**

CHRISTIANE HESSE: I think our employees consider themselves both: They feel an allegiance to the large Volkswagen Group as well as to the financial services field. You could say that our employees have their own DNA which combines automobiles with an equal measure of financial services.

**How would you describe your workday to someone outside the company?**

CHRISTIANE HESSE: I work daily with my international human resources team to attract the best employees for our company and to systematically develop the skills of our employees. My job is to shape the human resources policy of this company so that we impress our customers with our professional expertise, keep our employees satisfied and make a profit while doing both. All three of these components must be in place.

**The strategy pursued by Volkswagen Financial Services Group is called WIR2018 (WE2018) and includes the idea that "We are a top team!". What does this mean in practice?**

CHRISTIANE HESSE: The "we" expresses that "We can only do it together!". "We are a top team!" is the title we have given the employee component of our strategy, one of four action areas also including "customers", "volume" and "profitability". We must work on these four strategy components simultaneously to make our vision – becoming the

“I work daily with my international human resources team to attract the best employees for our company and to systematically develop the skills of our employees.”

best automotive financial services provider in the world – a reality. It is a strategy in which the “What” – becoming the leading international automotive financial services provider by 2018 – is just as important as the “How”, that is, the path to reaching this goal: our “FS Way”. And this is the path that everyone in the company is taking together.

**How do you approach the issue of human resources management worldwide?**

CHRISTIANE HESSE: The goals of our WIR2018 strategy apply not only in Germany, but to our 40 sites across the globe as well. In terms of our human resources work, we translated the strategy into what is known as the “Human Resources Strategy Card”, our worldwide measuring stick for meeting individual targets. It also embodies our expectations of our international human resources work. For example, that talent is fostered, that employees share in our company’s profits and that we intend to recruit 80 % of our management trainees from within the company. So, we are heading in the same direction worldwide with this human resources strategy.

**What is the diversity situation at Volkswagen Financial Services?**

CHRISTIANE HESSE: For me, diversity means having variety in the company. Variety in the company reflects our society and our customers – in terms of heritage, gender, religion and sexual identity. Diversity opens up perspectives from which we can look at our customers from various points of view. After all, everyone is not the same. In addition, I am convinced that diverse teams produce better results. Therefore it is also sensible from a business perspective to promote and safeguard diversity. At an international company like ours, logic dictates that we stand against exclusion. You could say that working toward diversity just makes common sense for us!

> "We must create an environment in which younger employees are bursting with ideas while our older employees can contribute their experience without stifling what is new."

**Do you think a quota is needed for women?**

CHRISTIANE HESSE: We have set the goal of having 30 % female managers in our company. We aren't there yet. But this goal is our own, and we aim to pursue it, for instance through mentoring programmes for talented women. We do not believe that a statutory quota would help us achieve this goal. In terms of university graduates, more than 50 % of our hires are women already.

**What solutions do you offer for a better work-life balance?**

CHRISTIANE HESSE: We offer a wide range of solutions for meeting the individual needs of our employees. Firstly, of course we are proud of our company child care centre "Frech Daxe" ("Cheeky Kids"), which has space for 180 children and is one of the largest company child care centres in Germany. Secondly, we promote a balance between career and family by offering more than 140 flexible part-time work models – and that applies for men as well as women. In short, we attempt to create a balance between personal and work concerns.

**We would like to look into the future with you now: From your perspective, how will the working world change in the coming years?**

CHRISTIANE HESSE: Looking further into the future, I see a trend away from fixed working hours and fixed workplaces, not least due to new means of communication. That is true to a limited extent, of course. If you work in automotive manufacturing, for example, there are times when everyone needs to work on the production line at the same time, or no cars would be produced. We will continue to keep our eye on these issues and their consequences for our working environment.

As early as the next few years, the question of the effects of demographic change will become increasingly pressing. I am convinced that the assumption that older employees are less productive is not true – not true at all. Experience and knowledge are accumulated. Older employees are very meticulous. Younger employees have different qualities: They are very result-oriented. Teams with mixed genders and age groups perform better. We must create an environment in which younger employees are bursting with ideas while our older employees contribute experience and rationality.

**So, the issue is corporate culture?**

CHRISTIANE HESSE: Yes. In an open culture, every individual can contribute his or her skills. In order to secure our implementation capabilities, we have established a lively feedback culture. After all, our WIR2018 strategy consists of two parts: We describe "What" we want to do and "How" we want to do it. We measure the status of implementation of the "How" component using feedback. For example, are errors and disruptions resolved quickly? How is the team cooperating? To find out, we conduct an annual "FS Pulse" survey. In addition, we obtain feedback from our customers using standardised questionnaires: from dealers, the Volkswagen Group's brands and our retail customers. We have supplemented this feedback culture with another tool which our internal service providers at the company use to receive internal customer feedback. They can use this to determine both how well they are doing and how they can improve on an ongoing basis.

**One last question: As the Volkswagen Financial Services AG Board of Management member responsible for Human Resources, what makes you particularly proud?**

CHRISTIANE HESSE: I am truly proud that our human resources strategy is backed by the entire Board of Management, management and the Works Council. When you embark on a new path with ambitious goals, you need a wide base of support and the ability to drive the process and radiate a new spirit. And that's going really well at our company!

# Human resources work in practice

Human resources work is one of the four key com - ponents of our WIR2018 strategy. In our daily human resources work, we strive to be a TOP employer and being perceived as such. This is how we attract and keep TOP employees.

# Outstanding human resources work – every day

Our success as a company is also the success of each and every employee. We have “Focused on finance. Driven by fuel.”. Our outstanding human resources work enable us to seek out, find, challenge and promote the right TOP employees.

Attracting the best employees to Volkswagen Financial Services AG and making them drivers of our corporate culture, retaining them and helping them develop their skills – it all begins with making them aware of the company in the first place. We do this at trade fairs, presentations and, increasingly, via the Internet. To this end, we use the career page of our website, Internet-based recruiting and online application management as well as social networks (Xing, Facebook). Building on an initial web-based contact, we conduct personal job interviews and professional assessment centres. Internships and work-study positions, which give both employees and the company the chance to get to know each other, led to 37 new permanent hires in 2012.

#### ATTRACTING AND INTEGRATING TOP EMPLOYEES INTO THE COMPANY

After a successful application procedure, new employees participate in our orientation programme by attending onboarding events in their first 100 days. At these events, we provide them with general information about the company, specific information about their departments and specialised information about their area of responsibility. We take the time to take new employees on board and welcome them as new members of our team. In the initial days of employment, they are familiarised with our corporate culture, in-house development opportunities and the wide range of social benefits we offer. Our trainees are also prepared for everyday operations during a two-week orientation. During this time, trainers with practical experience inform them, for example, about their rights and responsibilities as trainees, communication procedures and corporate health management.

As they get to know and experience our corporate culture, these employees become part of this culture more and more every day. Also serving this purpose are fireside evenings where Board of Management members and managing directors report on their everyday business or larger issues and participate in casual discussions with a smaller group of participants. In our company childcare centre, children can truly be "cheeky kids" ("Frech Daxe") without their parents having to worry. We are very happy about all of our TOP employees who are parents and successfully work for our company. For this reason, we also greet each new child in employee families with a teddy bear named "Financy". Sometimes it is the seemingly small things that stand for something larger – in this case, combining career and family.

**OUR "FINANCY"**


For children, a teddy bear is more than just a cuddly toy. The same is true for Volkswagen Financial Services. Financy welcomes every new child in our employees' families. And it symbolises the compatibility of career and family – at an employer with one of the largest company child care centres in Germany, "Frech Daxe".

### OUTSTANDING HUMAN RESOURCES WORK – WHAT DOES THAT MEAN?

We put our WIR2018 strategy into practice in daily human resources work as well. The Human Resources Strategy Card in which we have defined the goals we need to attain on the way to becoming a top team, helps us to implement in operations our intention of becoming the best automotive financial services provider. The degree of target achievement is determined by each national subsidiary during an annual assessment of the current status of implementation. After this survey of the current situation, the projects yet to be completed are identified and the next steps to be taken are agreed. During this process, we always keep an eye out for worldwide best practices that we can transfer to our company successfully.

Human resources managers play a key role in implementing in daily operations the goals and measures that make up our WIR2018 strategy. Fulfilling our quality standards requires superbly trained, technically and personally skilled specialists. We believe that human resources work is particularly successful when a human resources specialist is responsible for no more than 300 employees in a specifically defined area. The added value for our company and employees comes from their extensive knowledge of this area of responsibility – with a precise understanding of the department's requirements and knowledge of the personal and technical skills of the employees managed which is acquired from direct contact. In this way, our human resources specialists are able to work as partners to employees and management to find a balance between individual requirements and corporate interests.

### SUSTAINABLE EMPLOYEE DEVELOPMENT

Suitable employee development is tailored not only to the requirements of the company, but always also to the individual needs and interests of employees to further their personal development. The human resources department plans no fewer than five development days per year for each employee to make lifelong learning possible. In addition, sophisticated and differentiated approaches are required in employee development, particularly with regard to function-specific requirements. A separate organisational unit is responsible for our development issues. We use various programmes for focused development of our employee potential:

- Talent groups in which we foster and develop employees who show above-average performance and commitment.

**ANIKA PAUL**
Head of Human Resources and Organisational Development

# “Developing employee competence in vocational groups allows us to improve even further.”

Our feedback tools enable us to promote dialogue within the company and the professional development of each individual at Volkswagen Financial Services AG.

In annual employee performance reviews conducted between employees and their direct supervisors, targets for the coming financial year are agreed and the employee’s individual development over the last twelve months – both professional and personal – is discussed. The dialogue includes a current and fair assessment of the employee’s professional position and development. Based on this, performance-related compensation is also agreed during the performance review.

In addition, the insights from the prior financial year are used to compare the existing skills of the employee with the requirements of the employee’s job. In some departments, such as IT and direct banking branches, we have already defined competency profiles for employee positions. This enables us to ensure that employees are trained in the same competencies for the same positions independently of the teams.

The relevant employee competence developments can be selected from an extensive catalogue of seminars and workshops and directly entered into the employee performance review form. In addition to seminars on methodological and social competence, this catalogue also includes technical and professional sessions run by our in-house training centre as well as specialised seminars for specific target groups.

To round out professional and need-based competence development – what we call training in vocational groups – we organise annual training conferences. In these conferences, we work with managers and experts to determine and jointly prioritise current and future requirements in competence development. In 2012 we used such a conference to identify the needs of the fleet customer segment, which is characterised by growth and new products, processes and new business models.

The results of the training conference enables us to update existing and define new competence profiles.

Our approach to competence development is also aligned with one of the ideas formulated in our leadership principles: learning as a key factor for success.

**NADINE SCHRAPEL**
"Wanderjahre" (years abroad) at Volkswagen Bank Polska S.A.

# "Wanderjahre" – a development programme for young professionals

Volkswagen has borrowed a good, old tradition from the trades and is sending freshly trained employees out to "Wanderjahre" (years abroad).

During her professional training as a banker at Volkswagen Bank GmbH in Braunschweig, Nadine Schrapel took the opportunity to spend a week at Volkswagen Bank Polska S.A. in Warsaw. After she successfully completed her training, Nadine Schrapel received her own desk in Warsaw in early February 2012. For twelve months, she is participating in our "Wanderjahre" programme. This stay abroad is giving the qualified and motivated career starter the opportunity to get to know a different business culture, prove herself professionally and have personally fulfilling experiences. The "Wanderjahre" programme necessitates mobility, flexibility, openness and curiosity about other cultures and working styles. Volkswagen Financial Services supports employees in preparing for their time abroad. Intercultural training and an intensive language-learning course make getting started in the new location easier. Respect for other cultures requires that our employees understand and abide by the customs of the countries in question. Above all, learning a set of basic vocabulary is essential for making an easier start, both at work and outside of work.

The one-on-one lessons Nadine Schrapel began in Braunschweig continued in Warsaw for three months. "The language is very difficult, and the culture completely different, but I am having a lot of fun working here in Poland, and the conditions at the start were very good," according to Nadine Schrapel. As soon as she saw the presentation of the "Wanderjahre" programme at the beginning of her training, the desire grew to take this unique opportunity and gain international experience right after her apprenticeship. After a one-week visit in Poland, Nadine Schrapel was sure.

"I have built a daily routine here and pursue my hobbies. In addition, I already knew some colleagues here in Poland. That made it easier for me." Nadine Schrapel is happy that she was awarded one of the sought-after spots for participation in the "Wanderjahre" programme. Four participants from her apprenticeship are already exploring the world.

"My parents and my twin sister didn't think I could do it at first, that I would really make it – but since then they have visited me in Poland and are very proud of me," Nadine Schrapel says happily. After her year abroad in which she will have worked in controlling, finance and risk management in Poland, her goal is to work in one of these areas back in Germany as well.

- Job rotations in which employees temporarily switch positions with colleagues from other departments to learn other perspectives and get to know other responsibilities in our company, improve networking within the company and become able to work more efficiently in day-to-day business along job-related interfaces.

- “Wanderjahre” (years abroad), a programme where young people who have completed apprenticeships or a cooperative study programme are given the opportunity to work abroad for a year.

- “Pitstop Leadership”, a training series with which we support managers in their everyday management duties.

- The mentoring programme, a successful concept for offering up-and-coming female employees personal support on their career path from a male or female mentor, informally and outside of their own departments.

#### LIVELY FEEDBACK CULTURE

Our “FS Pulse” survey, a key tool for transparent feedback on satisfaction with our company, is conducted annually in all national subsidiaries. Our feedback culture is also put into practice through manager feedback in which all managers receive the results of a survey by their team conducted and facilitated professionally. This is used to jointly derive specific ways to improve cooperation. In addition, all employees discuss goals and responsibilities – such as the employee’s personal development – with their supervisors in annual employee performance reviews. Agreement is reached here on training courses as well as the amount of performance-based compensation to be granted. Moreover, the results from participation in employer rankings and from our dealer, customer and brand satisfaction indices and internal customer feedback allow us to become better all the time at our everyday business. All of our tools show how intensively we put our feedback culture into practice at all levels.

#### INTERNATIONAL EXCHANGE OF KNOWLEDGE AND EXPERIENCE

As a company with worldwide operations within the Volkswagen Group, we possess a unique treasure trove of knowledge and experience that we share with each other. In terms of our human resources work, this happens in regular conferences of the Board of Management members responsible for human resources in the Volkswagen Group. At Volkswagen Financial Services, regional HR workshops are held in addition to the annual human resources conference. Best practice examples are made available to all national subsidiaries in an HR toolbox. Ronald Kulikowski, who is the Board of Management member responsible for human resources at Volkswagen Bank Polska S.A., describes the advantages as follows: “The clear definition of our goals in the HR Strategy Card gives my employees and me at Volkswagen Bank Polska S.A. a compass to follow and highlights our contribution to meeting the objectives in the WIR2018 strategy. Exchanging best practices enables us to benefit from other companies. And we are equally pleased when our solutions are implemented in other countries.”

In national and international talent groups for up-and-coming managers, we give employees – and us as a company – the chance to network and learn from each other worldwide. Our daily worldwide work makes us cultural ambassadors. And our motto applies to each of us – individually and as a group: “Focused on finance. Driven by fuel.”.

# Capital market activities

Volkswagen Financial Services AG was a successful player in the international capital markets throughout the year.

# Refinancing: Diversified and international

In order to support our growing international business activities, we use the best possible refinancing mix through our diversified refinancing sources to ensure that there is sufficient liquidity in all of our markets at all times.

The positive development of our operations is closely connected with our success in raising and increasing outside capital. On the international money and capital markets, Volkswagen Financial Services AG and its subsidiaries have shown themselves to be a reliable player whose clear strategy is appreciated by investors and analysts alike.

A key component of our success in the market is our strategy of diversification, both in terms of the instruments used and by central currency zones. The main sources of refinancing are deposits from the direct banking business, money and capital market instruments, and ABS transactions.

To achieve the targets of the WIR2018 strategy, Treasury at Volkswagen Financial Services AG pursues the goal of safeguarding liquidity in all our markets at all times by diversifying the refinancing instruments and optimising costs. In the 2012 financial year, the marketing of “Letra Financeira” securities in Brazil for the first time and the Japanese “Driver Japan One” ABS transaction demonstrate the successful implementation of our strategy and the effective use of the established transaction structures, also internationally.

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

### SUCCESSFUL REFINANCING ACTIVITIES

In spite of the volatility on the markets, the refinancing situation in the reporting period was stable and all instruments were used at the best possible terms.

Volkswagen Leasing GmbH placed benchmark bonds in the market on multiple occasions in 2012. In June, a three-year € 1.0 billion fixed-interest bond from the € 18 billion capital market programme of Volkswagen Financial Services AG was placed at historically favourable terms. In September, new groups of investors were addressed with the € 1.0 billion bond with a strategically motivated term of ten years.

Volkswagen Financial Services N.V. managed to meet the liquidity needs of its international financing companies with a number of unsecured bond issues in different currencies. Especially noteworthy is Brazil, where Banco Volkswagen S.A. placed its first issue by a Volkswagen company in the Brazilian capital market with a “Letra Financeira” and a volume of BRL 300 million. Accompanying our successful financial services activities in India, we also tapped into a local refinancing source for the first time in that country. Volkswagen Finance Private Limited simultaneously issued two bonds of INR 1.5 billion each with terms of two and three years, respectively.

We also pushed ahead with expanding our international footprint in the area of asset-backed securities. Through the successful “Driver Japan One” transaction in January, Japanese auto loans were securitised for the first time in a public ABS transaction. Since July, Banco Volkswagen S.A.

has also been refinanced through ABSs in the "Driver Brasil One" transaction. Both transactions follow the global Volkswagen Driver standard. German receivables of Volkswagen Leasing GmbH with low risk premiums triggered strong market demand in connection with the "Volkswagen Car Lease 15" (VCL 15) issue in March and the "Volkswagen Car Lease 16" (VCL 16) issue in September. All German transactions fulfil the requirements of the TSI quality label "Certified by TSI – Deutscher Verbriefungsstandard". In addition, "Driver Japan One" is the first ABS transaction backed by foreign receivables that has received the renowned TSI seal of quality. This seal certifies that our securitisation transactions are deemed exceptional in the global securitisation market in terms of quality, security and transparency.

In 2012 a total of € 2.75 billion in receivables were sold worldwide by means of ABS transactions.

### RATING

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

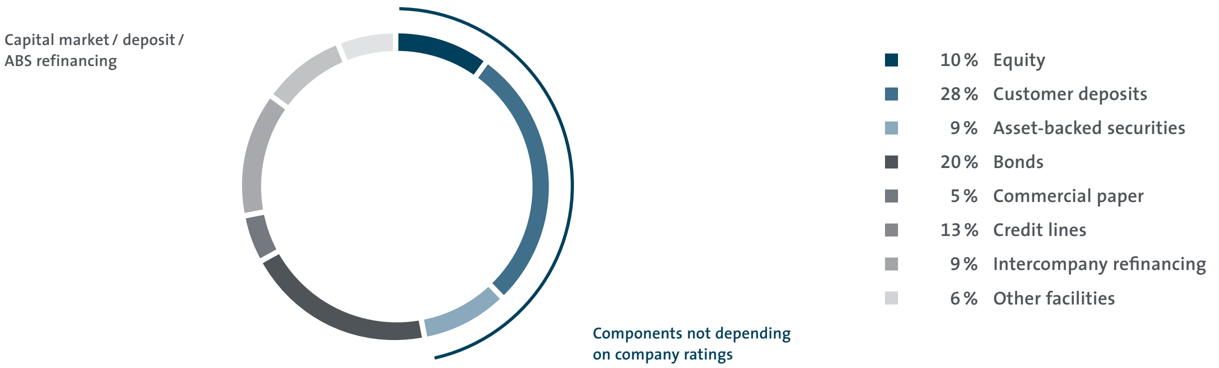
Moody's confirmed its P-2 (short-term) and A3 (long-term) ratings with a positive outlook. The rating of S&P remained at A–2 (short-term) and A– (long-term). The outlook was raised from "stable" to "positive" in August 2012.

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

Moody's rating of P-2 (short-term) and A3 (long-term) with a positive outlook was confirmed. S&P confirmed the A–2 (short-term) and A– (long-term) ratings of Volkswagen Bank GmbH and raised the outlook from "stable" to "positive" in August 2012. Raising the outlook took account of the strength of our business model as a captive financial services provider.

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

### REFINANCING SOURCES AS AT 31 DECEMBER 2012



**STEFAN ROLF**
Head of Asset Backed Securitisation

## “Properly done, securitisation is an extremely reliable refinancing tool that is ideally suited to us and our business model.”

At first glance, financial markets and cars have little in common, but in our ABS activities we have very consciously created a platform by orienting us towards the Volkswagen Group parent in its way of thinking and form of implementation. For years, ABS securitisations have been a strategically important instrument for raising capital, and their principle is simple: the Volkswagen financial services providers sell their loan or leasing receivables to a special-purpose vehicle that issues debentures in return. Investors buy the debentures of the special-purpose company. The receivables owed to the financing company are paid with these and the investors now receive monthly customer payments.

A prerequisite for the securitisation – in other words, the selling of receivables – are granular receivables with a stable, predictable cash flow. These are typical characteristics of a car finance company’s receivables. As we have been financing Volkswagen Group vehicles since 1949, we are familiar with our customers and their behaviour. Thanks to our experience and a sophisticated risk management system, we know exactly how the portfolios, i. e. the package of individual contracts, develop.

We set high standards for our securitisations. Not only do they have to be as safe and reliable as any of our Group’s vehicles, but they must also offer the same level of comfort in everyday use. For this reason, we have created two brands in our ABS transactions: in the “VCL” transactions leasing receivables are securitised, while in the “Driver” transactions loan receivables are securitised. These transactions always follow the same structural principles and the reports provided to investors have an identical structure. Inspired by automotive engineering, we developed a uniform securitisation platform so that a “Driver” transaction is always very similar, regardless of whether it comprises German, Spanish, Brazilian or Japanese loan receivables. This standardisation in securitisation requires careful structuring, comprehensible transactions and transparent reporting over the term of the transaction.

I am proud that investors are rewarding our efforts in active customer focus and appreciate the ABS transactions of the Volkswagen financial services providers as an attractive asset class. This enables us to raise funds on the capital markets at attractive terms and conditions, which helps the Volkswagen financial services providers and translates into attractive financing terms for the buyers of our Group vehicles.

# Our markets

Directly, as well as through equity participations and service contracts, Volkswagen Financial Services AG offers financial services for the Volkswagen Group brands in 40 countries worldwide.

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

# Germany

Volkswagen Financial Services AG has been active in the German market as the successor of Volkswagen Finanzierungsgesellschaft mbH, which was founded in 1949, and is one of the world's pioneers in mobility financing. Enhancing sales for the Volkswagen Group and its brands as well as offering automotive financial services are its central tasks.

#### GENERAL DEVELOPMENT OF BUSINESS IN GERMANY

Recording relatively stable development in 2012 with growth of 0.9 %, Germany again resisted being dragged down by the euro zone crisis. The Volkswagen Group's automotive and financial services business performed solidly in an increasingly difficult environment.

The number of new financing and leasing contracts in the new and used car business rose substantially by more than 60,000 – an increase of 8 % compared with the previous year. A penetration rate of 53.1 % means that by now more than every second vehicle of the Volkswagen Group in Germany is financed or leased by us.

#### PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

Volkswagen Bank GmbH continued to expand its private customer business in the 2012 financial year, signing 410,500 new contracts. The leasing business also performed well, allowing Volkswagen Leasing GmbH to increase the number of new contracts concluded with private customers to 114,100.

As an expert partner for mobility products, we convinced our customers once more in 2012 with an attractive offering of insurance and vehicle-related services. The realignment of the car insurance business was a particular focus in 2012.

In collaboration with our partner Allianz, we laid the basis for a new strategic cooperation whose range of products will allow us to address a higher number of customers.

We further stepped up our cooperation with our corporate customers in 2012, increasing financing volume to € 4.3 billion.

Our customers were able to draw on a broad range of financing, service and deposit products.

#### FLEET CUSTOMERS

In the 2012 financial year, Volkswagen Leasing GmbH maintained its business volume in the fleet customer market at the same high level as in the previous year, recording further growth in areas such as maintenance, wear-and-tear repairs and tyre services in particular. The lease contract portfolio rose by 11 % to over 452,000 vehicles reported under fixed assets. Around 171,000 new leases were added to the portfolio in 2012.

Volkswagen Bank GmbH grew its new business in the fleet customer segment to around 26,500 contracts. This enabled us to further expand our position as the unchallenged number one in the German fleet market.

Also in the services business, we continued the successful course we had embarked on in the previous year. In 2012, Volkswagen Leasing GmbH concluded over 141,000 service contracts with its fleet customers, an increase of 10 % compared with the previous year. On the whole, the product range in the services business now comprises more than 20 service segments. Of particular note are the successes in the maintenance and wear-and-tear repairs, tyre services, fuel cards and insurance segments. The Fleet-CARS fleet management and reporting system was enhanced with innovative expansion levels, enabling many new customers to be acquired in this area, too.

In July 2012, Volkswagen Leasing GmbH successfully launched its new product innovations in the field of third-party liability and comprehensive cover. The appeal of the "HaftpflichtSchutz" (third-party liability protection) and "KaskoSchutz" (comprehensive protection) products lies in their simple, transparent contract terms and conditions as well as an easy-to-calculate contract term during the leasing period. Market activities are also being expanded further in the area of fleet management for customers with large fleets. In October 2012, the subsidiary of Volkswagen Leasing GmbH, CarMobility GmbH, commenced professional fleet management operations for customers with fleets of over 50 vehicles. Volkswagen Leasing GmbH's acquisition in January 2012 of Euromobil Autovermietung GmbH enabled synergies connected with Volkswagen Leasing GmbH's long-term rental business to be leveraged with success in 2012.

### DIRECT BANK

As a division of Volkswagen Bank GmbH, Volkswagen Bank direct makes a substantial contribution to both refinancing Volkswagen's financial services providers and enhancing customers' loyalty to the Volkswagen Group brands.

Numerous campaigns in connection with the WIR2018 strategy will enable Volkswagen Bank direct to continue to maintain its market position, thanks not only to its deposit business but also to the non-vehicle lending and commission business. Through attractive mobility products and services and the sale of automobile-related financial services products to primary direct banking customers, we will also continue to tap into areas of potential and growth.

In Volkswagen Bank GmbH's deposit business, we maintained the previous year's high level, despite historically low interest rates. As at the balance sheet date, the customer deposit volume was € 23.3 billion, up 3.5 % compared to 31 December 2011 (€ 22.6 billion). Deposits mainly comprise overnight deposits as well as various savings certificates and plans of Volkswagen Bank GmbH. As in the previous year, the share of these deposits in the refinancing mix of Volkswagen Financial Services AG was 27 %.

**ANTONY BANDMANN**
Member of management of the Volkswagen Financial Services AG Subgroup and spokesman of the Board of Management of Volkswagen Bank GmbH

"This year, we again succeeded in further enhancing our strong market position. As a reliable partner to the dealers, we meet customers' needs for individual mobility with attractive financial services and vehicle-related services. This has enabled us to further expand our quality leadership in the industry. We are therefore looking forward very optimistically to 2013."

# Europe

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

### GENERAL DEVELOPMENT OF BUSINESS

Despite the strained situation in vehicle sales in nearly all markets, Volkswagen Financial Services AG increased its penetration rate in 2012 on the back of higher sales of after-sales products such as service and maintenance contracts as well as insurance policies. These positive trends more than compensated for the volume effect caused by the decline in vehicle sales.

This success is rooted in deeper cooperation with the Volkswagen Group brands. In 2012, the strategy was aimed at adding value in the fleet and retail campaigns, implemented by integrating service and maintenance packages into the majority of financial services offerings.

Developing campaigns with service and maintenance contracts increases dealer profitability in the short and medium term. In the long term, these products give dealers greater opportunities to strengthen loyalty and customer retention in connection with higher customer footfall.

In addition, Volkswagen Financial Services AG was involved once again in the planning process and the market launch of various Group models. Activities in 2012 centred on the new Golf. The cooperation with AUDI AG was also continued for the integrated market launch of the A3 Sportsback. The jointly developed roll-out programmes for the Volkswagen up! delivered outstanding results with penetration rates of between 40 % and 50 %.

### PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

The Volkswagen financial services companies in the United Kingdom achieved record levels of penetration. Their work also focused on increasing the number of service contracts to improve the after-sales business for the dealers and the financing of used cars.

In France, the decline in deliveries to private customers was compensated by higher penetration rates. The strategy of combining financial products with lower financing rates through residual value products was pursued further, giving customers greater flexibility and strengthening their loyalty to the Group at the same time.

Implementing cost-effective retail finance campaigns helped to put Volkswagen in pole position in Ireland. Additional investments were made to extend financial products, especially in the area of three-way financing.

In Italy, the up! was rolled out with a uniform national insurance policy. This offers greater transparency and vehicle insurance at a fixed price for all drivers across Italy.

In Russia, the bank cooperation exceeded expectations, supported in particular by the commencement of retail business in April 2012.

Our Volkswagen financial services companies in Turkey followed the successful example set by our French companies in 2011, developing a strategy that combined the sale of several insurance products with each retail financing transaction, which in turn increased the penetration rate. The expansion of insurance agency services through the dealer network is being continued.

Our Czech company celebrated its 20th anniversary with several sales promotions that lifted the level of penetration by 15.4 % to 27.0 %.

Although Portugal is impacted by the economic crisis, Volkswagen Bank GmbH opened its first branch there to support the brands and dealers in offering dealer, retail and after-sales products.

The Volkswagen financial services companies in Sweden and Norway demonstrated steady growth in an economically stable environment.

#### FLEET CUSTOMERS

By setting up our international fleet organisation, we have succeeded in providing a consistent range of products for our international fleet customers across seven EU countries (Germany, United Kingdom, Spain, France, Italy, the Netherlands and Poland). This harmonisation of products and processes is currently underway in Belgium and the Czech Republic as well and in 2013 will be extended to 20 countries, in cooperation with Porsche Bank. We also signed our international master agreement (IMA) – a European master agreement approved for 20 countries – with our first international fleet customer. There were also noteworthy developments in the fleet business in France, the Netherlands and Belgium.

The success of the joint sales organisation of the Financial Services and Automotive divisions in France was demonstrated by the monthly increases in penetration rates in the focus market of small and medium-sized enterprises.

In the Netherlands, regardless of the tax pressure that impacts the leasing business, the leasing business was expanded further by Volkswagen Pon Financial Services. The leasing business acquired was successfully integrated.

The joint venture with D'Ieteren in Belgium started operations in the first quarter of 2012. The company is developing as expected, both financially and in terms of volumes.

We will internationalise our FleetCARS reporting system and intend to begin cross-border reporting for international fleet customers in the first half of 2013. We are also continuing to work on an international user-chooser configuration and calculation tool that will enable us to mirror our customers' fleet policy so that the vehicles can be configured and ordered online.

**JENS LEGENBAUER**
Regional Manager Europe

"In this far more difficult economic climate, our range of financial services including service and insurance contracts is helping to stabilise the brands' vehicle sales and strengthen our dealers' after-sales business. Financial services enable customers to buy vehicles and provide dealers with an additional source of income. This increases customer loyalty and raises the customer's contribution to the Group's enterprise value. The GO[40] strategy for increasing penetration rates that we set up in conjunction with the brands will therefore be systematically pursued."

# Asia Pacific

**COUNTRIES:** Australia, China, India, Japan, Singapore, South Korea and Taiwan.

#### GENERAL DEVELOPMENT OF BUSINESS

Stability and growth remained the defining characteristics of the macroeconomic situation in Asia Pacific in 2012.

China once again demonstrated its importance as a growth engine for the global economy in 2012. However, at 7.8 %, the rate of economic growth was more modest than in the preceding years. The primary cause of the slowdown was the restrictive monetary policy in the first half of the year, which successfully lowered the high inflation rate from over 6 % in 2011 to less than 3 % per year. Apart from China, India still has considerable future growth potential.

The Australian economy continued its growth in 2012 for the 21st year running. Here, consumer demand is sustained by a low unemployment rate and rising household incomes. The new car market expanded slightly compared with 2011. Despite increasingly fierce competition, the Group brands increased total vehicle sales year-on-year.

The Japanese economy is well on the way to recovery following the natural disasters of 2011. In contrast to recent years, the current economic climate stems from higher domestic demand. In connection with a funding programme for environmentally friendly vehicles, this led to a strong increase in new vehicle registrations in Japan. The market share of imported vehicles rose at a higher-than-average rate.

South Korea's economy continues to witness an upswing, though at a slower pace than in 2011. Although the overall market is seeing a slight downtrend, the imported vehicles market, which is characterised by tough competition, recorded growth.

#### PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

Once again, a key element of the success of our business in 2012 was the close cooperation with the automotive distribution partners.

China's financing business is on a growth course. Beijing-based Volkswagen Finance China had a record year with 149,168 new contracts, an increase of 91 % compared with 2011.

Financing is becoming an increasingly important marketing tool in the automotive industry. The innovative "Upgrade Finance" product has also been successful in attracting customers in what is traditionally a cash payer segment. This new product covers over 25 % of the new financing business.

Volkswagen Finance India, with headquarters in Mumbai, commenced operations in March 2011. Since then, both retail and wholesale financing have been successfully introduced for Volkswagen Group brands in India. An all-inclusive package comprising vehicle financing, car insurance and an extended warranty was also established in the market under the name "Mobility Max". Thanks to the close cooperation with the Volkswagen Group brands, business is gaining considerable momentum.

In Taiwan, the extremely successful car insurance and extended warranty products that were recently introduced are generating vehicle sales in addition to the financing activities.

Volkswagen Financial Services Australia continued its growth course in 2012 and now finances almost every fourth vehicle delivered by the Volkswagen Group. This success builds on the close cooperation with Volkswagen Group Australia and Audi Australia. To continue to support the brands with customised financing products and to identify new growth potential, extensive structural investments were made in 2012, particularly in the areas of brand management and business development.

Japan also succeeded in sustaining the encouraging performance seen in recent years. Compared with the previous year, the penetration rate was increased slightly once more at a high level. The enhancement of IT solutions and existing products created the basis for continuing this development in the long term. In the premium segment, after warranty processing for new cars, warranty processing for used cars from the Bentley brand was transferred to Volkswagen Financial Services Japan.

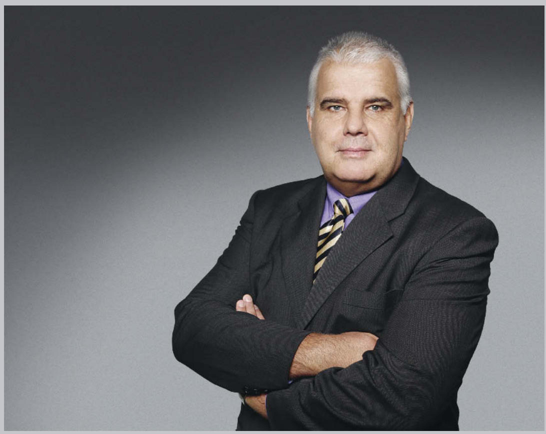
In South Korea, the first full financial year exceeded expectations. Around one-third of the vehicles delivered by the Group were already financed by Volkswagen Financial Services Korea. The successful start to the business is due firstly to the structured expansion of the product range in the private customer segment and secondly to early, close integration of the brands and the dealer network when the company was being set up as well as continuation of this close cooperation in ongoing business operations.

### OTHER

Volkswagen New Mobility Services was founded in Beijing, China, at the beginning of 2012. This company is setting up the insurance, services and leasing business so that better use of the automotive value chain can be made in future. The first concrete results are the nationwide establishment of car insurance services and the piloting of the extended warranty business in the import segment. Volkswagen moved into the leasing business by acquiring two local leasing companies.

**REINHARD FLEGER**
Regional Manager China, India, ASEAN

"Our team did an excellent job in 2012. This forms the basis for our business success. To safeguard our market position in these dynamic markets and expand further in pursuit of our strategic objectives, we need to be attractive for talented employees and give them prospects for development. Recently being named TOP employer in China shows that we are on the right track."



**OLIVER SCHMITT**
Regional Manager International

"Consistent integration with the Group brands' sales strategies remains the key to successful implementation of our ambitious business policy. Systematic expansion of the product range and development of new areas of business will be important building blocks in future for increasing customer loyalty in the region and attracting new customers."

# North America / South America

**COUNTRIES:** Argentina, Brazil and Mexico.

#### GENERAL DEVELOPMENT OF BUSINESS

The three countries in this region are maintaining their growth path. However, signs of a slight economic downturn reflecting the international economic environment are nonetheless evident, especially as regards Argentina and Brazil.

Overall, the region accounts for approximately 17 % of global new financing volume for Volkswagen Financial Services. Recording a substantial year-on-year increase in contracts of 32.6 %, the region contributed to this success with a total of 644,200 financing, leasing, service and insurance contracts. As a consequence, this region remains one of the most important growth markets within Volkswagen Financial Services.

#### PRIVATE CUSTOMERS / CORPORATE CUSTOMERS

Despite a more challenging market situation, Volkswagen Financial Services Brazil expanded its new and used car financing and leasing business year-on-year by 21.0 % to a total of 295,000 contracts in 2012. The truck and bus business closed the 2012 financial year with 22,908 contracts and was thus unable to match previous years' levels, due to increasing competitive pressure in this market segment and new exhaust emission standards, which had driven up demand in the previous year. The Brazilian government played its part in the much stronger second half of 2012 with lower base interests and tax cuts to support the automotive industry. The Consórcio product, a mix of financing and lottery, continued the success of previous years in 2012, setting a new record of 142,000 contracts signed. Utilising additional private customer finance offers, Volkswagen Financial Services Brazil increased its penetration by 9.6 % to 32.0 % in 2012.

The Mexican automotive industry continues to exhibit an upward growth trend with sales of around 1,020,000 units in 2012, an increase of 10.0 % compared to the previous year. The Volkswagen Financial Services companies in Mexico outperformed the market growth with an increase in contracts of 42.1 %. Volkswagen Financial Services closed the year with an addition of 65,300 new and used car financing and leasing contracts, making it number two in the market. Finance penetration for Volkswagen Financial Services companies in Mexico improved significantly in 2012, rising 28.5 % to set a new record high of 34.7 %.

The dealer financing business in the region maintained its consistent performance of recent years. Volkswagen Financial Services Brazil financed 96.8 % of its wholesale business and Volkswagen Financial Services Mexico achieved a figure of 100 % at the close of the 2012 financial year.

In Brazil the insurance business developed well in terms of volume, increasing by 60.4 % compared to the previous year to a total of 144,100 insurance contracts.

The insurance business in Mexico showed year-on-year increase of 56 %, closing the 2012 financial year with a total of 102,800 insurance contracts.

Volkswagen Credit Argentina continues to operate the retail financing segment as a commissions business under a cooperation agreement with HSBC. Sales of insurance products, jointly offered with the local insurer La Caja, improved but were unable to fully meet expectations in 2012.

### FLEET CUSTOMERS

Initiated in Brazil in 2011, the operating lease and fleet management project, will "go live" in the first quarter of 2013.

In the Mexican market, a new fleet product has been launched successfully in June 2012, offering the customers an integrated solution for the financing, management and control of their fleets.

### OTHER

Business operations in Brazil and Mexico are continuing to pursue their long-term goal of modernising IT infrastructure and business processes. These projects are starting to transition the preparation and design phases into real business implementations. The two countries are collaborating strongly on these topics in order to leverage further synergies within the region.

With an eye on the ever-growing importance of insurance business in the global market, the countries in the region are making preparations to further increase their participation in these business opportunities. Product offerings are being extended in order to meet increasing customer demand and collaboration with local insurance partners is being optimised further.

Underpinning these changes is an increased focus on stronger strategic and tactical alignment with all of the Volkswagen Group brands to ensure better integration and thereby drive stronger sales and customer loyalty.

**BRYAN MARCUS**
Regional Manager South America, Mexico

"The region is making a significant contribution to the financial success story of Volkswagen Financial Services AG and to the sales performance of the Volkswagen Group brands within the region. I expect this to continue, since the financial services companies are working even more closely with their counterparts in Volkswagen's local sales organisations. Our goal is to initiate growth opportunities especially in the customer financing, fleet management and insurance business areas and drive up automotive sales and customer loyalty."

# Management report

# Development of business
## Contract portfolio at almost 8 million contracts

The mood in the global economy darkened perceptibly in the 2012 financial year, dragging down the automotive industry substantially in some cases. Volkswagen Financial Services AG performed well despite this difficult environment. Its earnings in 2012 increased year on year.

### GLOBAL ECONOMY LOSES MOMENTUM

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

#### Europe/Other markets

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

The economy of South Africa, where unemployment remained high, expanded by 2.5% in the reporting period (previous year: 3.5%).

#### Germany

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

#### North America

The US economy expanded by 2.2% in 2012 compared with growth of 1.8% the previous year. Unemployment retreated only marginally although the country continued its highly expansionary monetary policy. The US dollar remained volatile against the euro throughout 2012 before closing the year at around the same level as at the beginning of the year. Canada's GDP rose by 2.0% (previous year: 2.6%), while the Mexican economy expanded by 3.8% (previous year: 3.9%).

#### South America

The GDP growth rate in Brazil fell to 1.0% (previous year: 2.7%), while in Argentina it slumped to 1.7% (previous year: 8.9%). Brazil recorded a slight decrease in inflation, whereas Argentina continued to witness severe price hikes.

#### Asia Pacific

The economies of Asia's emerging markets continued to develop very encouragingly in 2012, though with reduced momentum. At 7.8%, China's economic growth lagged behind the prior-year rate of 9.3%, but still exceeded the target of 7.5% set by its central government. India's economy grew by 5.1% (previous year: 6.9%). In the course of its recovery from the natural disasters of 2011, the Japanese economy expanded by 2.0% (previous year: –0.5%).

### FINANCIAL MARKETS

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

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

#### Europe/Other markets

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

In Russia, the inflation rate rose to 6.6%, exceeding targets. With calm being restored to economic activity in Russia and stable growth in its lending volume, the country's financial markets entered a quieter phase in the second half of the year. The Russian bond market showed a positive trend. By placing large-volume, US dollar-denominated government bonds with long terms, Russia made effective use of the international capital markets. New issue volumes of corporate bonds also rose appreciably.

#### Germany

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

#### North America

The US Federal Reserve Board, whose policy is aimed at increasing employment while keeping prices stable, launched a programme in 2012 to buy additional mortgage-backed bonds with the goal of strengthening the economy. This helped to stabilise the financial markets in the USA. The crippling tax increases looming because of the fiscal cliff and budget cuts were averted by a compromise reached after the US presidential elections. New issues of government bonds plummeted in 2012 against the backdrop of the already high levels of government debt. This trend was countered by a significant increase in the volume of new corporate bond placements, as a result of which the previous year's bond issue volume was actually exceeded.

In Mexico, the sustained economic growth continued, however with inflation rising at the same time. The Mexican capital market benefited in 2012 from a rising share of capital flows into the growth markets. This was also evident in the bond market, which was marked by rising emission volumes by government and private-sector issuers.

#### South America

On the evidence of favourable economic prospects and falling unemployment, the Brazilian Central Bank simplified its monetary policy in 2012. Thanks to a moderate expansion of lending and an inflation rate within the target range, the Brazilian economy registered higher injections of capital from abroad. In Brazil, both government and private bond issuers also made use of the favourable refinancing options. The issue volume of bonds, both in US dollars and in local currency, grew significantly. Rising by over 50% year on year, government issues in particular made a substantial contribution to this increase.

#### Asia Pacific

The financial markets continued to expand amid the reforms envisaged by the government and innovations, helping to optimise investments and support growth in the real sector. Buoyed by increased interest among investors, the bond indices recorded an uptrend, while the equity indices receded from their historic highs.

In 2012, economic growth in India fell to just 5.1% year on year due to a general decline in demand in the Indian economy as well as crop failures that also put a damper on financial market activity.

Thanks to the demand generated by the reconstruction, the Japanese economy essentially recovered in the deflationary climate that followed the natural disasters of the previous year. In agreement with the Japanese government, the Bank of Japan followed an expansionary monetary policy to overcome the deflation and was active on the capital market by making purchases to support the currency.

In South Korea, prime rates were lowered slightly in view of the still moderate and healthy growth of the economy.

The corporate bonds issuing business in the Asia Pacific economic area increased significantly year on year in 2012. Not only was there a higher number of issues, but the average issue volume also rose by more than 30%.

### DEMAND FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES REACHES NEW HIGH

In the 2012 financial year, passenger car sales rose worldwide by 7.2 % to 66.6 million vehicles, surpassing the record level of 2011. All regions with the exception of Western Europe contributed to this increase. This trend benefited in particular from the double-digit growth rate in the North American market as well as the above-average rise in new vehicle registrations in Asia Pacific. Demand in South America reached a new record high. In Central and Eastern Europe as well, more new vehicles were sold than in the previous year, though fewer than in 2008 and 2007. The uptrend in South Africa seen in the past two years was sustained.

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

#### Industry-specific business environment

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

The comprehensive development of the two major markets China and Brazil, the expansion of activities in India and the satisfaction of demand in Russia are becoming ever more important for the automobile industry.

The trend to remove trade barriers is continuing in many Asian and African markets. But if the global economy collapses yet again, it cannot be ruled out that protectionist measure are taken again.

#### Europe/Other markets

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

The passenger car markets in the Region Central and Eastern Europe continued their recovery in the past financial year with an increase of 5.9% to 3.9 million units. As in the two preceding years, the main growth driver was the Russian market, which with an increase of 10.9% to 2.7 million vehicles sold only narrowly missed the 2008 record. Following the expiry of the government stimulus packages, this development primarily benefited foreign providers with production facilities in Russia. The Central European EU countries achieved a lower market volume (–3.7%) with 0.7 million passenger cars. The passenger car markets in Hungary (+6.7%), the Baltic states (+2.4%), Slovakia (+2.0%) and the Czech Republic (+0.4%) all posted growth. By contrast, the number of car registration dropped in Romania (–25.6%), Slovenia (–16.8%), Bulgaria (–4.3%) and Poland (–0.4%); in some cases the drop was substantial.

In Turkey, sales decreased to 549,000 vehicles (–7.4%), due in particular to weaker demand in the first half of 2012.

On the South African market, new vehicle registrations increased by 11.0% to 443,000 units in the reporting period, boosted in particular by improved financing options.

#### Germany

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

#### North America

In 2012, demand for passenger cars and light commercial vehicles (up to 6.35 t) in the North American market rose by a substantial 12.4% to 17.2 million units, the best sales performance of the past five years. Vehicle sales in the United States increased by 13.4% to 14.5 million units, mainly on the back of higher demand for replacements and favourable credit terms. The US market recorded the highest absolute growth in unit sales worldwide in 2012, but was still markedly below the pre-crisis level of 2007. In Canada, the overall market volume rose by 5.7% year on year to 1.7 million vehicles in the reporting period. Mexico achieved growth of 10.4% to around 1.0 million units.

### South America

Demand for passenger cars in the Region South America in the reporting period exceeded the all-time high recorded in 2011. New car registrations in Brazil rose by 7.7% to 2.9 million vehicles. The new record figure was mainly achieved on the strength of a short-term tax cut. Vehicles manufactured in Brazil were the only ones to benefit from this measure, which significantly reduced the share of imported vehicles in the second half of 2012. At 442,000 units (–20.1%), Brazilian vehicle exports were down substantially year on year, mainly due to the decline in exports to Argentina.

Demand in the Argentinian automotive market slipped 5.4% to 587,000 units, below the record figure for the previous year. This was mainly attributable to a sharp decrease in imports, which became far more difficult in the past financial year owing to the restrictions on imports imposed by the Argentinian government aimed at protecting the domestic industry.

### Asia Pacific

After North America, the Region Asia Pacific was the principal growth driver of global automotive demand in the 2012 financial year. Overall, the number of new passenger car registrations here rose by 13.3% to a new high of 25.7 million vehicles. In 2012, China had a market volume of 13.5 million vehicles. The high growth of 9.3% was mainly attributable to foreign brands.

Market growth in India picked up speed once again in the reporting period with an increase of 11.1% to 2.5 million passenger cars. The new record figure was achieved in spite of high interest rates, rising fuel prices and weaker economic growth year on year. India's automotive industry benefited in particular from the considerably expanded range of new diesel models on offer.

The Japanese passenger car market recorded a stronger-than-average increase in new vehicle registrations of 29.5% to 4.6 million vehicles. The positive trend stems primarily from the weak overall market in the preceding year as a consequence of the natural disasters as well as from government subsidies for purchases of energy-efficient vehicles.

WORLDWIDE DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP[1]

| | VEHICLE DELIVERIES | | |
|---|---|---|---|
| | 2012 | 2011 | Changes in % |
| Worldwide | 9,275,909 | 8,265,266 | + 12.2 |
| Volkswagen Passenger Cars | 5,738,449 | 5,091,035 | + 12.7 |
| Audi | 1,455,123 | 1,302,659 | + 11.7 |
| ŠKODA | 939,202 | 879,184 | + 6.8 |
| SEAT | 321,002 | 350,009 | – 8.3 |
| Bentley | 8,510 | 7,003 | + 21.5 |
| Lamborghini | 2,083 | 1,602 | + 30.0 |
| Porsche[2] | 59,513 | – | – |
| Volkswagen Commercial Vehicles | 550,370 | 528,878 | + 4.1 |
| Scania | 67,401 | 80,108 | – 15.9 |
| Bugatti | 31 | 38 | – 18.4 |
| MAN[3] | 134,225 | 24,750 | x |

1 The 2011 deliveries and market shares were updated due to statistical extrapolation.
2 The deliveries of the Porsche brand are included only for the period from 1 August to 31 December 2012.
3 The deliveries of the MAN brand are included only for the period from 9 November to 31 December 2011.

#### OVERALL APPRAISAL OF THE DEVELOPMENT OF BUSINESS

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

Globally, new business has developed positively during the year. With an increase in business volume, the rise in funding costs was disproportionately low due to favourable interest rates, among other things. Risk costs fell in comparison with the previous year whilst margins remained stable.

In the 2012 financial year, Volkswagen Financial Services AG boosted its business volume year on year – especially in Germany and the United Kingdom. The proportion of the total number of vehicles delivered by the Volkswagen Group worldwide accounted for by leased or financed vehicles (penetration) was 24.3 % (previous year: 34.7 %) with unchanged credit eligibility criteria. The decrease is attributable to the first-time full consolidation of Volkswagen Finance (China) Co., Ltd., Beijing, because the proportion of leased or financed vehicles in China is much lower than the average in other automotive markets.

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

One of the new mobility packages is the "Quicar – Share a Volkswagen" car-sharing package that Volkswagen Leasing GmbH has been operating under a pilot project in Hanover. Along with "Quicar", its mainly urban mobility package, and the long-term rental product with rental periods of between one and twelve months, Volkswagen Financial Services AG entered the traditional short-term car rental business in January 2012 focusing on workshop replacement mobility through the acquisition of Euromobil Autovermietung GmbH by Volkswagen Leasing GmbH.

On its way to becoming a primary vehicle insurer, Volkswagen Financial Services AG laid the foundations for further strategic cooperation in 2012 together with Allianz SE in a move designed to intensify its vehicle insurance activities. This new partnership will provide insurance customers with customised automotive insurance products.

Volkswagen Financial Services AG continued its growth course at an international level in 2012. In Western and Southern Europe (France, Italy and Greece), the new passenger car business is declining due to the difficult macroeconomic situation. Despite these challenging market conditions, the company managed to improve its penetration in Italy and France.

In 2012, the outstanding stake in VOLKSWAGEN BANK POLSKA S.A., Warsaw, and Volkswagen Leasing Polska Sp. z o.o., Warsaw, was acquired from the former co-owner, Kulczyk Pon Investment B.V., Leusden, to strengthen sales activities in Poland. These companies were also fully consolidated in the reporting year for the first time.

With the bank branch in Portugal opening for business, we gained entry into another market. Besides introducing dealer and importer financing (factoring), the business with products for private customers was expanded by offering vehicle financing and insurance brokerage as well as maintenance and wear-and-tear services. Through the acquisition in 2012 of VOLKSWAGEN D'IETEREN FINANCE S.A., Brussels, a joint venture with the Belgian vehicle importer, Volkswagen Financial Services AG considerably expanded its product range in Belgium and now also offers leasing for private and commercial customers plus, increasingly, insurance brokerage.

We pressed ahead with expanding our financial services business in the major growth markets. In Brazil, for example, fleet management was cultivated, while in Russia the wholesale financing business was expanded further following its successful positioning in the market. The private customer offering was expanded at the end of 2012. The upswing in the financial services business continued in India. Following the introduction of the private customer business in 2011, the wholesale financing business was launched in 2012 with financing for vehicles in stock and real estate loans for the Audi, Volkswagen, Porsche and Škoda brands. Due to its sustained growth, the national company Volkswagen Finance (China) Co., Ltd., Beijing, was fully consolidated in 2012 for the first time. Furthermore, Volkswagen New Mobility Services Consulting (Beijing), Co., Ltd., Beijing, was founded. This company will help to build up the insurance and services business and create the opportunity to offer combined mobility packages in the future. To expand the fleet business, contracts of sale were also signed for the acquisition of two local leasing companies.

# Steering, organisation and equity investments
## International growth continued

Global investments of Volkswagen Financial Services AG in new and growing markets.

### KEY OBJECTIVES AND MANAGEMENT

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

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

The company's key indicators are calculated based on IFRS and presented in its internal reporting. Among the key financial indicators included in the reporting are the operating result, the return on equity and the cost/income ratio.

### ORGANISATION OF VOLKSWAGEN FINANCIAL SERVICES AG

The companies of the Volkswagen Financial Services AG Group provide financial services to the following customer groups: Private/Corporate Customers, Fleet Customers and Direct Banking Customers. The close integration of marketing, sales and customer service focused on customers' needs goes a long way towards keeping our processes lean and our sales strategy efficient. Cross-divisional functions such as Internal Services and Information Technology have been combined and centralised to ensure that we offer high-quality services and leverage synergies in the interests of our customers.

Volkswagen Financial Services AG has integrated itself very closely with the aftersales areas of the Volkswagen Group and consolidated all aftersales matters in a separate key account structure for purposes of exploiting the services business to optimal effect.

Volkswagen Financial Services AG has been the financial holding group's primary company since 1 January 2012. The groupwide risk management and the prevention of legal violations and punishable offences have a high priority for us. Structure and organisation comply with the requirements of MaRisk.

### CHANGES IN EQUITY INVESTMENTS

Effective 1 January 2012, the outstanding stake in VOLKSWAGEN BANK POLSKA S.A., Warsaw, and Volkswagen Leasing Polska Sp. z o.o., Warsaw, which until then had been jointly controlled, was acquired from the former co-owner, Kulczyk Pon Investment B.V., Leusden, and included in the group of consolidated companies.

Effective 1 January 2012, the newly established branch of Volkswagen Bank GmbH in Portugal commenced operations.

Volkswagen Finance (China) Co., Ltd., Beijing, was included in the group of consolidated companies in February 2012 for the first time, with retroactive effect to 1 January 2012.

The portfolio of Volkswagen Bank GmbH in Belgium was contributed to VOLKSWAGEN D'IETEREN FINANCE S.A., a joint venture with D'Ieteren S.A., in February 2012.

In Spain, Volkswagen Versicherungsvermittlung GmbH, Braunschweig, sold its 100% interest in VOLKSWAGEN INSURANCE SERVICES, CORREDURIA DE SEGUROS, S.L., Barcelona, within the Volkswagen Group to VOLKSWAGEN FINANCE, S.A. – Establecimiento Financiero de Crédito –, Madrid. As a result, the entire financial services business in Spain is now controlled from a single source, which facilitates an integrated financial services offering that adds value for customers and brands.

With the aim of strengthening the companies' equity, in 2012 Volkswagen Financial Services AG increased the capital of VOLKSWAGEN FINANCE BELGIUM S.A., Brussels, Belgium, by € 300 million; that of Volkswagen Finance (China) Co., Ltd., Beijing, China, by a total of € 243 million; that of Volkswagen Finans Sverige AB, Södertälje, Sweden, by a total of € 181 million; that of VOLKSWAGEN FINANCE PRIVATE LIMITED, Mumbai, India, by € 121 million; that of OOO Volkswagen Bank RUS, Moscow, Russia, by € 63 million; that of VOLKSWAGEN D'IETEREN FINANCE S.A., Brussels, Belgium, by € 60 million; that of Volkswagen New Mobility Services Investment Co., Ltd., Beijing, China, by € 38 million; that of Volkswagen Financial Services Korea Co., Ltd., Seoul, South Korea, by € 32 million; that of VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED, Botany, Australia, by € 28 million; that of Volkswagen Financial Services Beteiligungsgesellschaft mbH, Braunschweig, Germany, by € 12 million; and that of Volkswagen Versicherung AG, Braunschweig, Germany, by € 10 million.

These measures serve to expand our business and support the growth strategy we are pursuing in tandem with both the Volkswagen Group and the sales organisations.

There were no other significant changes in equity investments. For detailed disclosures please see the section on shareholdings pursuant to § 285 HGB and § 313 HGB at www.vwfsag.com/listofholdings2012.

# Analysis of the Group's business development and position

## Positive development of earnings

Earnings showed a positive development driven by a continued increase in volume, stable margins and low risk costs.

**RESULTS OF OPERATIONS**

Although the mood in the global economy darkened perceptibly in the 2012 financial year, Volkswagen Financial Services AG delivered a strong performance.

The pre-tax result of € 993 million surpassed the previous year's level of € 933 million (+6.4%). In this connection larger volumes at stable margins and lower risk costs had a particularly positive effect. The return on equity[1] fell slightly to 12.0% (previous year: 12.7%) owing to the substantial increase in equity.

At € 2,871 million, the net income from lending, leasing and insurance transactions before risk provisions surpassed the previous year's result due to the positive development of business in almost all regions.

At € 474 million, risk costs were lower than the previous year (€ 513 million).

At the beginning of 2012, the method used to calculate provisions for indirect residual value risks underwent further refinement and the parameters used were adapted to reflect the changes in the market conditions. This gave an overall boost to earnings of € 67.9 million in the 2012 financial year.

Net commission income fell short of the prior-year figure as a result of higher selling costs principally attributable to the business expansion.

At € 1,531 million, general administration expenses were higher year on year, owing to more comprehensive banking regulations, volume effects from the expansion of business and investments in strategic projects.

The cost/income ratio[2] remained stable at 60.4% (previous year: 60.0%). A total of € 120 million was allocated to provisions for legal risks.

The result from equity investments accounted for using the equity method – in particular the joint ventures, LeasePlan Corporation N.V. (LeasePlan), Amsterdam, as well as Volkswagen Pon Financial Services B.V., Amersfoort – was € 147 million and thus € 15 million higher year on year.

Taking into account the result from the measurement of derivative financial instruments in the amount of € –134 million (previous year: € –22 million) and the remaining earnings components, the net income of the Volkswagen Financial Services AG Group for the year was € 729 million (+10.8%).

The profit made by Volkswagen Financial Services AG in the amount of € 170 million based on its single-entity financial statements under the German Commercial Code was transferred to Volkswagen AG, the company's sole shareholder, under the existing control and profit transfer agreement.

With about 52.8% of the contract portfolio, once again the German companies generated the highest business volume, thus providing a solid and strong basis. They generated a pre-tax result of € 427 million (previous year: € 402 million).

Volkswagen Bank GmbH maintained its strong market position in 2012, supported by an attractive product range and the loyalty of customers and dealers alike. This enabled Volkswagen Bank GmbH once again to make a substantial contribution to the success of Volkswagen Financial Services AG.

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

In 2012 Volkswagen Leasing GmbH again managed to increase the number of leasing contracts year on year despite the intensely competitive market environment, thus making a key contribution to the Group's profit.

1 Pre-tax result divided by the average equity
2 General administration expenses divided by net income from lending, leasing and insurance transactions after provisions for risks and net commission income

Although the market remains highly competitive, the car insurance portfolio of Volkswagen Versicherungsdienst GmbH stabilised at the prior-year level. The product line of purchase price protection insurance launched at the end of 2011 developed encouragingly in 2012. Since the beginning of the year, new business has continuously grown to reach approximately 21,000 new contracts signed at year-end.

Volkswagen Versicherung AG successfully concluded the financial year with a portfolio of 354,000 warranty insurance contracts in the German and French markets.

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

## ASSETS AND FINANCIAL POSITION

### Lending business

Receivables from customers – which represent the core business of the Volkswagen Financial Services AG Group – plus leased assets amounted to € 77.2 billion, and thus accounted for approximately 88% of the consolidated total assets.

The loan volume from retail financing increased by € 4.9 billion or 14.6% to € 38.1 billion in the year just ended. The number of new contracts amounted to 1,437,000, which was an increase of 26.5% compared to the previous year. This meant that the number of current contracts rose to 3,566,000 by the end of the year (+ 18.0%). With a volume of 1,974,000 contracts (previous year: 1,848,000), Volkswagen Bank GmbH remained the Group company with the highest business volume.

The loan volume in the wholesale financing business – which consists of receivables from Group dealers in connection with the financing of vehicles in stock plus equipment and investment loans – rose to € 10.8 billion (3.5%).

Receivables from leasing transactions amounted to € 15.3 billion, which is an increase compared to the previous year (+ 7.4%). Leased assets also saw growth of € 1.1 billion, rising to € 7.5 billion (+ 17.1%).

At 574,000, the number of new leasing contracts in the reporting year was up compared to the previous year (+ 6.5%). As at 31 December 2012, there were 1,323,000 leased vehicles in stock, which is an increase of 10.0% in comparison to the previous year. As in previous years, Volkswagen Leasing GmbH once again made the largest contribution to the Group, with a current contract level of 956,000 (+ 9.1%) leased vehicles.

CURRENT CONTRACTS, NEW CONTRACTS AND CONTRACT VOLUME AS AT 31.12.2012[1]

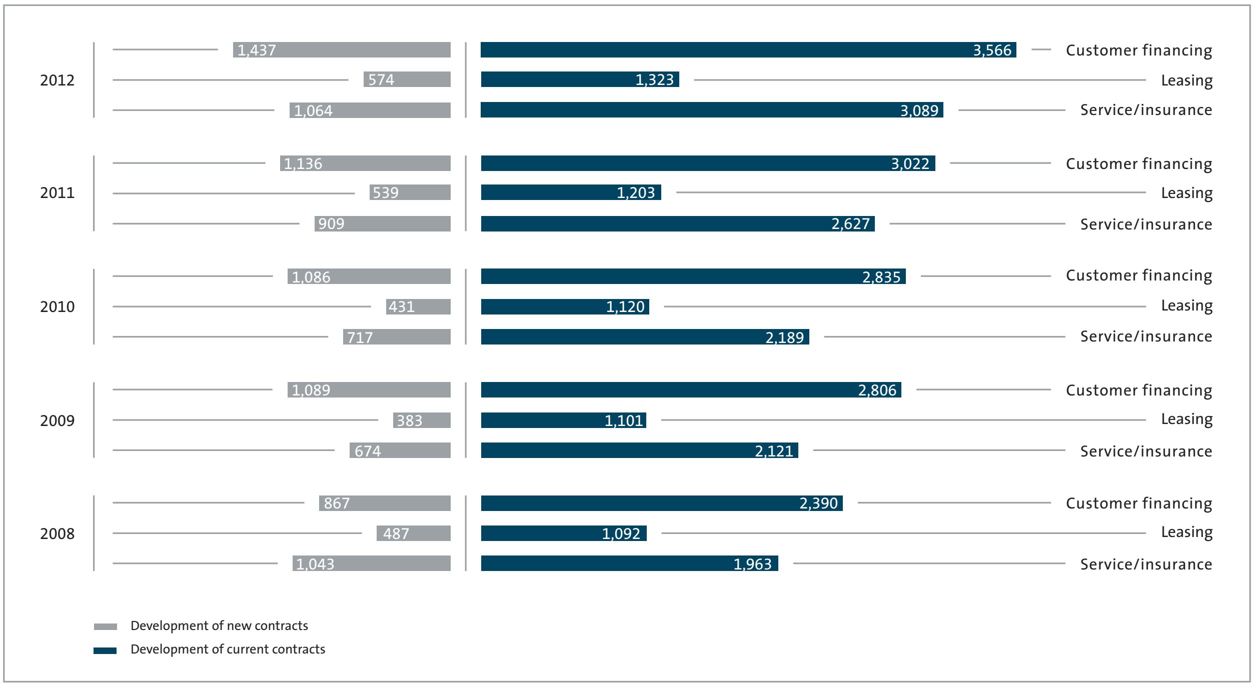
| in thousands | VW FS AG | Europe | of which Germany | of which Italy | of which United Kingdom | of which France | Asia Pacific | North America/ South America |
|---|---|---|---|---|---|---|---|---|
| Current contracts | 7,977 | 6,586 | 4,210 | 407 | 834 | 287 | 464 | 927 |
| Retail financing | 3,566 | 2,463 | 1,499 | 186 | 386 | 166 | 368 | 735 |
| Leasing | 1,323 | 1,243 | 934 | 54 | 73 | 70 | 3 | 77 |
| Service/insurance | 3,089 | 2,881 | 1,778 | 167 | 376 | 51 | 92 | 116 |
| New contracts | 3,074 | 2,429 | 1,429 | 153 | 396 | 132 | 226 | 420 |
| Retail financing | 1,437 | 899 | 493 | 68 | 190 | 59 | 204 | 334 |
| Leasing | 574 | 551 | 423 | 17 | 29 | 29 | 1 | 22 |
| Service/insurance | 1,064 | 979 | 512 | 68 | 176 | 45 | 22 | 63 |
| | | | | | | | | |
| in € million | | | | | | | | |
| Receivables from customers arising from | | | | | | | | |
| Retail financing | 38,127 | 26,108 | 15,642 | 1,678 | 5,428 | 1,149 | 4,669 | 7,350 |
| Wholesale financing | 10,781 | 8,513 | 3,842 | 636 | 1,337 | 1,020 | 927 | 1,341 |
| Leasing | 15,312 | 14,577 | 11,480 | 633 | 188 | 940 | 199 | 536 |
| Leased assets | 7,474 | 7,471 | 5,376 | 367 | 1,029 | 255 | 0 | 3 |
| | | | | | | | | |
| in % | | | | | | | | |
| Penetration rates[2] | 24.3 | 42.0 | 53.1 | 40.0 | 38.6 | 31.8 | 6.5 | 32.6 |

1 The individual figures are rounded, which may result in small deviations when they are added.

2 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles based on the fully consolidated entities of Volkswagen Financial Services AG

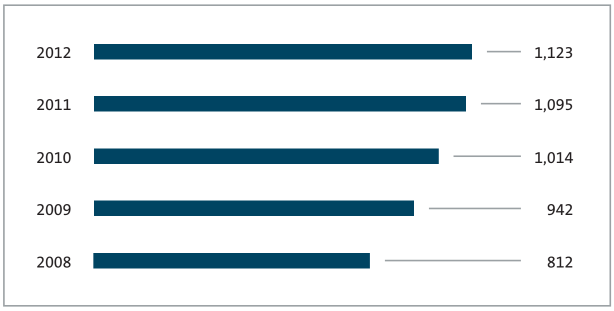
DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS AT 31.12.

in thousand contracts



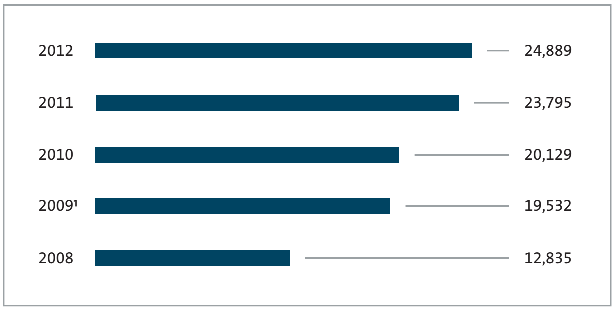

DIRECT BANKING CUSTOMERS AS AT 31.12.

Lending and deposit business and borrowings (in thousands)




CUSTOMER DEPOSITS AS AT 31.12.

In € million




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

Compared to the previous year, the total assets of Volkswagen Financial Services AG rose to € 87.4 billion (+13.6%). This increase is essentially due to the growth in receivables from customers (+13.3%) and leased assets (+17.1%), reflecting the expanded business in the year just ended. At the end of the year, the service and insurance contract portfolio contained 3,089,000 contracts (previous year: 2,627,000). At 1,064,000 contracts (previous year: 909,000), the volume of new business was 17.1% above the level of the previous year.

**Deposit business and borrowings**

Significant items in liabilities and equity include liabilities to financial institutions in the amount of € 11.7 billion (+59.4%), liabilities to customers in the amount of € 31.1 billion (+4.7%), as well as securitised liabilities in the amount of € 29.2 billion (+11.2%). The substantial increase in liabilities to financial institutions is due to the fact that Volkswagen Bank GmbH also utilised a € 2.0 billion funding offer from the European Central Bank. Details concerning the company's refinancing and hedging strategy are provided in a separate section of this management report.

Specifically, the deposit business of Volkswagen Bank GmbH, reported as part of the liabilities to customers, again reached a new record high of € 24.9 billion (+4.6%) as at 31 December 2012. With this level of deposits, Volkswagen Bank GmbH continues to be one of the largest direct banks in Germany. The bank had 1,123,000 direct banking customers (+2.6%) as at 31 December 2012.

**Subordinated capital**

The subordinated capital amounted to € 2.7 billion, as in the previous year.

**Equity**

The subscribed capital of Volkswagen Financial Services AG remained unchanged at € 441 million in the 2012 financial year. In the reporting year, Volkswagen AG increased the equity of Volkswagen Financial Services AG by € 650 million given anticipated growth in both existing and new markets. IFRS equity was € 8.8 billion (previous year: € 7.7 billion). This yields an equity ratio[1] of 10.1% relative to the total equity and liabilities of € 87.4 billion.

**Capital adequacy according to regulatory requirements and Basel III**

International capital adequacy regulations require a minimum core capital ratio (frequently also referred to as "Tier I Capital") of 4.0% and an overall ratio of at least 8.0%.

The requirements defined under the "Basel II" framework comprise three pillars: Minimum capital requirements (Pillar I), a supervisory review process to ensure that banks have adequate capital to support all the risks in their business (Pillar II), as well as disclosure requirements (Pillar III). Both Volkswagen Bank GmbH and the financial holding group have applied the provisions of the new Solvency Regulation since 2007. In so doing, the bank and the financial holding group use the so-called standardised approach to determine capital adequacy in connection with credit risks and operational risks.

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

The risk-weighted position of the financial holding group in accordance with the standardised approach to credit as at the end of December 2012 was € 68.5 billion, a slight increase compared to the previous year (€ 60.3 billion). This increase is mainly due to the increase in business volume.

The following charts contain details regarding the composition of own funds and their changes compared to 2011 as well as the aggregate risk position:

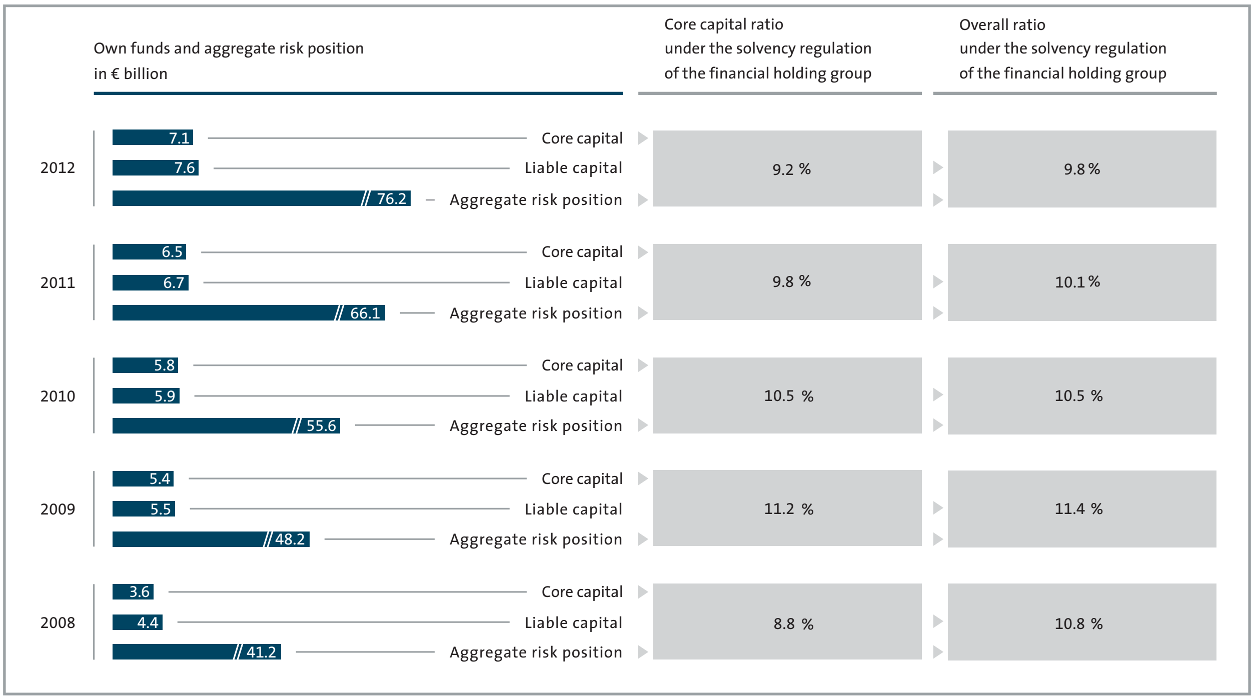
1 Equity divided by total assets

OWN FUNDS AND AGGREGATE RISK POSITION

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Aggregate risk position (€ million) | 76,198 | 66,069 |
| of which weighted position according to the standardised approach to credit risks | 68,487 | 60,254 |
| of which market risk positions * 12.5 | 3,473 | 2,452 |
| of which operational risks * 12.5 | 4,238 | 3,363 |
| Liable capital (€ million)[1] | 7,470 | 6,694 |
| of which core capital [2] | 6,975 | 6,476 |
| of which supplementary capital [2] | 495 | 218 |
| Own funds (€ million) | 7,470 | 6,694 |
| Core capital ratio (%)[3] | 9.2 | 9.8 |
| Overall ratio (%)[4] | 9.8 | 10.1 |

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

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




CORE CAPITAL RATIO AND OVERALL RATIO ACCORDING TO SOLVENCY REGULATION OF VOLKSWAGEN BANK GMBH[1] AS AT 31.12.
Figures in %


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

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

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

## REFINANCING

### Strategic principles

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

### Implementation

In spite of the volatility on the markets, the refinancing situation in the past financial year was stable and all instruments were used at the best possible terms. Volkswagen Leasing GmbH placed benchmark bonds in the market on multiple occasions in 2012. In June, a three-year €1.0 billion fixed-income bond from the €18 billion capital market programme of Volkswagen Financial Services AG was placed at historically favourable terms. In September, new groups of investors were addressed with the €1.0 billion bond with a strategically motivated term of ten years.

Volkswagen Financial Services N.V., Amsterdam, managed to meet the liquidity needs of its international financial services companies with a number of unsecured bond issues in different currencies. But other companies of the Volkswagen Financial Services AG Group also actively utilised the international capital markets for their local refinancing purposes in the year just ended.

In Australia, VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED, Botany, increased the volume of an existing bond by AUD 150 million to AUD 300 million in March and placed a five-year fixed-income bond of AUD 150 million in June to expand the maturity band. Some weeks later, the total issue volume of this bond was raised by AUD 100 million to AUD 250 million.

Last year, VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD., Tokyo, issued ten bonds with a total volume of JPY 20 billion and maturities ranging between 18 months and five years. In Mexico, Volkswagen Bank S.A., Puebla, issued a four-year MXN 1.0 billion bond in June. VOLKSWAGEN LEASING SA DE CV, Puebla, issued a three-year MXN 2.5 billion bond in November.

In Brazil, Banco Volkswagen S.A., São Paulo, placed its first issue by a Volkswagen company in the local capital market with a "Letra Financeira" that has a volume of BRL 300 million. In India, an issue was also placed in the local capital market for the first time: VOLKSWAGEN FINANCE PRIVATE LIMITED, Mumbai, simultaneously issued two bonds of INR 1.5 billion each with terms of two and three years, respectively.

We pushed ahead with expanding our international footprint in the area of asset-backed securities. Through the successful Driver Japan One transaction in January, Japanese auto loans were securitised for the first time in a public ABS transaction. Since July, Banco Volkswagen S.A., São Paulo, has also been refinanced through ABSs in the Driver Brasil One transaction. Both transactions follow the global Volkswagen Driver standard. German receivables of Volkswagen Leasing GmbH with low risk premiums triggered strong market demand in connection with the "Volkswagen Car Lease 15" (VCL 15) issue in March and the "Volkswagen Car Lease 16" (VCL 16) issue in September. All German transactions fulfil the requirements of the TSI quality label "Certified by TSI – Deutscher Verbriefungsstandard". In addition, "Driver Japan One" is the first ABS transaction backed by foreign receivables that has received the renowned TSI seal of quality. This seal certifies that our securitisation transactions are deemed exceptional in the global securitisation market in terms of quality, security and transparency.

In 2012 a total of € 2.75 billion in receivables were sold worldwide by means of ABS transactions.

With interest rates at historical lows, the customer deposit business grew by € 1.1 billion to € 24.9 billion in the financial year just ended.

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

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

# Opportunity and risk report
## Risk management – a success factor

Volkswagen Financial Services AG lays the foundations for long-term commercial success through responsible management of the risks typical of the financial services business. This also involves the selective exploitation of market opportunities.

#### MACROECONOMIC OPPORTUNITIES

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

#### STRATEGIC OPPORTUNITIES

In addition to intensifying its international alignment by entering new markets, Volkswagen Financial Services AG sees further opportunities in the development of innovative products that are aligned with customers' changed mobility requirements. Growth areas such as the New Mobility (long-term rental, car sharing) are being developed and expanded thoroughly.

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

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

- Given its function as the corporate body tasked with managing the company's business and in view of ensuring proper accounting, the Board of Management of Volkswagen Financial Services AG has established Accounting, Customer Service, Treasury, Risk Management and Controlling departments and has clearly delineated their respective spheres of responsibility and authority. Key cross-divisional functions are controlled by the Boards of Management of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Leasing GmbH.
- Groupwide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process.
- For instance, the accounting standards of the Volkswagen Financial Services AG Group – including the International Financial Reporting Standards – govern the accounting policies applied by the domestic and foreign entities that are consolidated in the Volkswagen Financial Services AG Group's annual financial statements.
- The accounting standards of Volkswagen Financial Services AG also govern concrete formal requirements that the consolidated financial statements must fulfil. They not only determine which companies to include in consolidation, they also fix the components of the reporting packages that the Group companies must prepare in detail. Among other things, these formal requirements serve to ensure the binding utilisation of a standardised and complete set of forms. The accounting standards also contain specific requirements regarding the treatment and settlement of intra-group transactions and the reconciliation of accounts based thereon.
- At the Group level, specific elements of control designed to ensure the propriety and reliability of Group accounting principles comprise analyses and possibly revisions of Group companies' single-entity financial statements, with due regard for the reports submitted by the auditors or the discussions held with them to this end.
- All of this is supplemented by the clear delineation of spheres of responsibility as well as a variety of controlling and monitoring mechanisms. The aim is to ensure that all transactions are accurately posted, processed, evaluated and included in the company's financial accounting.
- These controlling and monitoring mechanisms are designed to be process-integrated and independent of processes. Hence automated IT process controls

besides manual process controls (such as the "four-eyes" principle) comprise material components of the process-integrated activities. These controls are supplemented by specific Group functions of the parent company, Volkswagen AG, for example Group Controlling.
- Internal Audit is a key component of the controlling and monitoring system of the Volkswagen Financial Services AG Group. It regularly performs audits, both in Germany and abroad, of processes relevant to accounting as part of its risk-based audit procedures and directly reports its findings to the Board of Management of Volkswagen Financial Services AG.

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

#### ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

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

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

Volkswagen Financial Services AG has been the financial holding group's superordinate company since 1 January 2012. Under its overall responsibility in accordance with § 25a German Banking Act in conjunction with AT 3 and AT 4.5 MaRisk, Volkswagen Financial Services AG has set up a groupwide risk management 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.

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

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

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

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

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

Group Risk Management & Methods is responsible for the formulation of risk management guidelines, the development of methods and processes, the identification of potential risks, the analysis and quantification as well as the assessment of risks and the resulting determination of risk management measures.

Group Risk Management & Methods defines parameters for the procedures and models used worldwide for assessing creditworthiness and collateral and it is responsible for monitoring their adequacy. As a neutral and independent department, Group Risk Management & Methods reports directly to the Board of Management of Volkswagen Financial Services AG.

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

#### RISK STRATEGY AND RISK MANAGEMENT

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

The Board of Management of Volkswagen Financial Services AG – under its overall responsibility in accordance with § 25a German Banking Act (KWG) in conjunction with AT 3 and AT 4.5 MaRisk – has established and documented a strategy process that conforms to minimum risk management requirements as well as a business and risk strategy.

The WIR2018 business strategy sets out the fundamental views of the Board of Management of Volkswagen Financial Services AG on key matters of business policy. It contains the goals for every key business activity and the steps required to achieve these goals.

The risk strategy, which is consistent with the business strategy, is reviewed annually based on the risk inventory, the risk-bearing capacity and legal requirements, adjusted as necessary and discussed with the Supervisory Board of Volkswagen Financial Services AG.

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

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

The Board of Management of Volkswagen Financial Services AG is responsible for the realization of the groupwide risk strategy within Volkswagen Financial Services AG under its overall responsibility.

#### RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

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

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

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

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

Volkswagen Financial Services AG's risk-bearing capacity was certain throughout 2012.

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

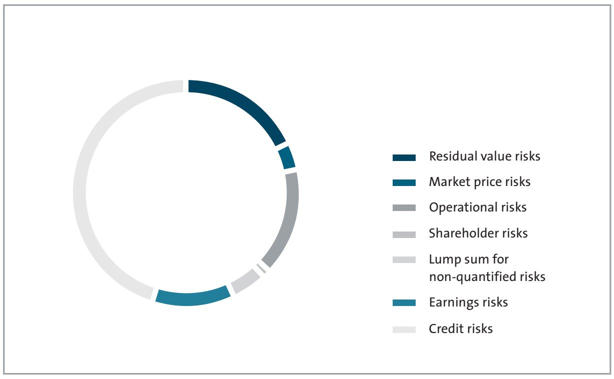
Establishing the risk limit system as the core element in capital allocation limits risks at different levels, thus ensuring the Subgroup's economic risk-bearing capacity. The risk taking potential is determined based on the available equity and income components, taking various deductible items into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

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

The overall risk of Volkswagen Financial Services AG amounts to € 2.16 billion and is distributed as follows across the individual types of risk:

DISTRIBUTION OF RISKS BY TYPE OF RISK

Figures as at 30.09.




Stress tests are conducted groupwide and across all institutes at Volkswagen Financial Services AG, taking historical and hypothetical scenarios into account. These are complemented by so-called inverse stress tests in order to examine what events could expose the Group to a going-concern risk. Based on calculations of risk-bearing capacity, all material risks that could adversely affect the assets, results of operations or liquidity situation were sufficiently hedged at all times through the available risk taking potential.

During the financial year, risk-adjusted capital was kept below the overall internal risk limit. The stress tests performed do not indicate any need for action. A list of measures was developed based on the results of the inverse stress test.

#### RISK REPORTING

The risk-bearing capacity is the starting point in the risk management report. After describing the Bank's overall risk, Group Risk Management&Methods addresses credit, market price, liquidity, operational, residual value, shareholder and underwriting risks in detail in its quarterly risk management report. These are reported directly to the

Board of Management of Volkswagen Financial Services AG and the Supervisory Board. Regular reporting is supplemented by ad hoc reporting at Group level.

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

### FOURTH AMENDED VERSION OF MARISK

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

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

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

Volkswagen Financial Services AG is further pursuing the development of both its system for measuring and monitoring risk positions and the relevant control systems on the basis of the legal requirements for risks in the banking and leasing business.

## RISK TYPES

### RISK OF COUNTERPARTY DEFAULT

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

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

#### Credit risk

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

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

Risk assessment

The "New Product and New Market Process" of Volkswagen Financial Services AG must be applied before new products are brought to market or activities are launched in new markets.

Timely identification of changes in risk is assured by means of regular portfolio analyses, planning rounds and business financial reviews. All risks are quantified in a quarterly assessment process at the company level in accordance with categories of receivables. In addition, an unexpected loss is calculated for the sum total of all loans and included in the value-at-risk (VaR) calculation of the company's risk-bearing capacity.

Volkswagen Financial Services AG bases its lending decisions on credit assessments of the given borrowers using rating and scoring procedures.

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

Scoring procedures in the retail business

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

These scoring systems utilise internally and externally available data on the borrowers and generally estimate the probability of default of the customer transaction requested based on several years of historical data using static methods. In a departure from the above, both generic and robust scorecards and expert systems are used largely for smaller portfolios with lower risk exposures to measure the risk inherent in loan requests.

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

Rating procedures in the corporate business

Volkswagen Financial Services AG assesses the creditworthiness of corporate customers based on rating procedures. The assessment includes both the key performance indicators from annual financial statements as well as qualitative factors – such as the outlook for future business development, the quality of management, the climate in both the market and industry, as well as the customer's payment behaviour.

The credit rating procedure results in the assignment to a rating class which is connected to a probability of default. The centrally maintained, workflow-based rating application CARAT, which had initially been used only in Germany and certain national subsidiaries, was rolled out worldwide to support analyses of creditworthiness. The result of the rating provides an important basis for decisions on the approval and prolongation of credit commitments and value adjustments.

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

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

Group Risk Management&Methods reviews the validity of the models and procedures used by the local risk management units abroad to assess creditworthiness, initiates appropriate measures in cooperation with the local risk management if it identifies any need for action and monitors the implementation of these measures. Validation refers in particular to checking whether the models are separable and calibrated in ways adequate to the risks.

Collateral

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

The valuations in local collateral guidelines are based on historical data and many years of expert experience. We ensure that collateral adequate to the relevant risk is available for covering credit risks. Automobiles, in their capacity as collateral, are material to this approach because the activities of Volkswagen Financial Services AG focus on financing customer purchases and dealer sales as well as vehicle leasing.

Volkswagen Financial Services AG therefore monitors the development of vehicles' market values. Adjustments of the valuation methods and disposal processes are made in the event of major changes in these market values. Group Risk Management&Methods also carries out regular quality assurance regarding local guidelines for collateral. This includes reviewing and, if necessary, adjusting the valuations for collateral.

Value adjustments

Value adjustments are determined based on the incurred loss model pursuant to IAS 39. The model we used for determining these adjustments was derived from the Basel II risk quantification method. As a rule, a conservative approach is used in connection with model and parameter assumptions.

Risk management and monitoring

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

Appropriate processes are used to monitor all loans in regards to the underlying economic conditions and collateral, compliance with limits, contractual obligations as well as both external and internal requirements. Commitments are subject to suitable controls (normal/intensive or problem loan monitoring) in accordance with their risk content.

Furthermore, credit risks are also managed by applying Volkswagen Financial Services AG's reporting limits. These reporting limits are fixed for each company individually. The local decision makers can exercise discretion within these limits.

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

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

**Concentrations of risk**

Concentrations of credit risk

Concentrations of credit risk arise if a major portion of the loans are extended to a just few borrowers/contracts. Volkswagen Financial Services AG is a captive. Hence this risk is analysed and reported in detail in accordance with the business model. By its nature, this business model makes it impossible to avoid concentrations of risk in the risk type, "credit risk". Existing concentrations of risk are thus adequately considered and monitored.

Concentrations of credit risk are of secondary significance to Volkswagen Financial Services AG given its international positioning and the fact that its activities mainly concern small (retail) loans.

Concentrations of industries

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

Concentrations of collateral

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

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

In terms of the vehicles that serve as collateral, Volkswagen Financial Services AG is diversified not just across all automotive segments but also across many countries worldwide. The range of vehicles that are financed and leased is equally diversified. Both of these effects reduce the risk of concentrations of collateral.

**Developments/Outlook**

The economic horizon remained dim in 2012, particularly in the crisis-affected Southern European countries. This also impacted on the market for motor vehicles. The economic environment remained relatively stable in the Asia-Pacific region and in North and South America.

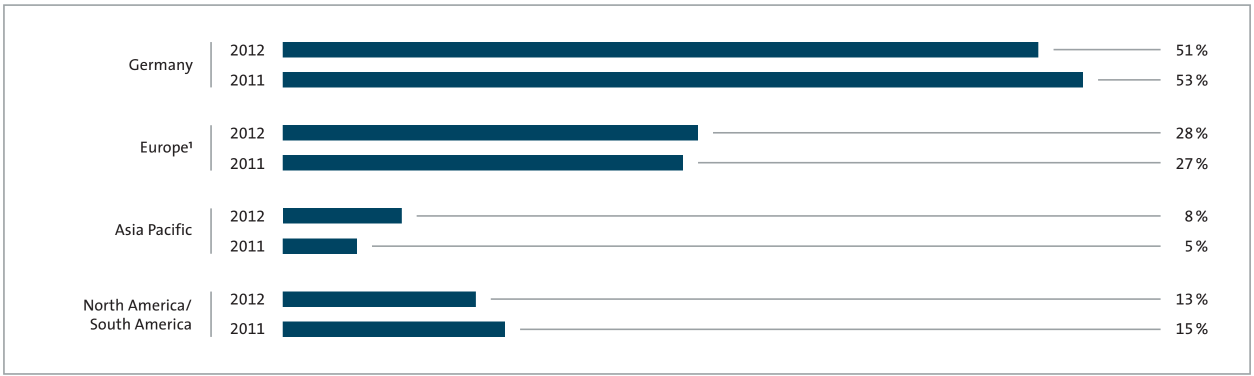
The retail portfolio accounts for 74% of the customer credit business, while the corporate portfolio accounts for 26 %.

Driven by the manufacturer's marketing campaigns and an economic environment that was stable especially in the first six months of the year, the retail portfolios grew, particularly in the major European markets. Defaults in the private customer segment were up slightly, primarily in Southern European markets.

Business with commercial borrowers developed unevenly. In crisis-affected areas, fewer loans were extended and the number of defaults grew due to a severe downturn in vehicle markets. The other markets in Europe showed a stable trend in the dealer business. In the fleet business, the stable growth trend continued.

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

DISTRIBUTION OF CREDIT VOLUME BY REGION AS AT 31.12.




1 Region Europe excluding Germany

**Counterparty/issuer risk**

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

Volkswagen Financial Services AG takes the counterparty risk to mean the risk that may arise from the loss of assets in connection with investments in money, securities or bonds because counterparties cease to repay the principal and/or the interest as contractually required.

Risk assessment

Counterparty/issuer risks are recorded as part of the risks of counterparty default. Counterparty/issuer risk is calculated by using a Monte Carlo simulation to determine the unexpected loss (value-at-risk and expected shortfall). In this context, the respective risks of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Leasing GmbH are determined separately.

Risk management and monitoring

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

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

**Country risk**

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

**Shareholder risk**

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

Parameters

Generally, Volkswagen Financial Services AG makes equity investments in other companies that serve to achieve its own corporate goals. The intention to hold an investment in the long term is the decisive criterion in this regard. Mergers & Acquisitions is responsible for managing the company's equity investments as well as the related acquisition and disposal processes.

Volkswagen 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., Amsterdam, since the end of 2004.

Risk assessment

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

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

Due to the unstable market environment in the euro zone, rating agency Moody's downgraded LeasePlan's credit rating by two levels to Baa2 in June 2012. Rating agency Fitch (A–) lowered the outlook for LeasePlan from stable to negative and also justified this based on the difficult market climate in the euro zone. In contrast, S&P kept its rating unchanged at BBB+.

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

Risk management and monitoring

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

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

## MARKET PRICE RISK

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

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

### Interest rate risk

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

Risk assessment

Interest rate risks are determined for Volkswagen Financial Services AG as part of monthly monitoring using the value-at-risk (VaR) method based on a 40-day holding period and a confidence level of 99%.

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

While the VaR so determined for monitoring purposes serves to assess potential losses under historical market conditions, forward-looking analyses are also performed using extreme scenarios. Interest rate positions are subjected to stress tests comprising extraordinary changes in interest rates and worst case scenarios and are subsequently analysed in terms of the at-risk potentials using the simulated results. In this connection, changes in the present value are also quantified and monitored monthly using the +200 and –200 basis points interest rate shock scenarios defined by the Federal Financial Supervisory Authority (BaFin).

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

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

Risk management and monitoring

Treasury is responsible for risk management based on the resolutions of the Asset Liability Committee (ALC). Interest rate risks are managed through interest rate derivatives at both the micro level and the portfolio level. Central Risk Management & Methods is tasked with monitoring interest rate risks and reporting on them.

Risk communication

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

### Foreign currency risk

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

**Fund price risk**

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

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

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

## EARNINGS RISK (SPECIFIC PROFIT/LOSS RISK)

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

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

Risk measurement

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

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

Risk management and monitoring

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

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

Concentrations of risk

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

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

Volkswagen Financial Services AG thus is exposed to concentrations of income from its business model by definition.

## LIQUIDITY RISK

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

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

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

Parameters

The prime objective of liquidity management at Volkswagen Financial Services AG is to ensure the ability to pay at all times.

The refinancing of the companies belonging to Volkswagen Financial Services AG is essentially executed using capital market and asset-backed securities programmes as well as the direct bank deposits of Volkswagen Bank GmbH.

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

Risk assessment

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

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

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

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

Liquidity management and monitoring

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

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

The ability required under the regulatory regimen to bridge any liquidity needs over a time horizon of 7 and 30 days with a highly liquid cushion and the corresponding liquidity reserve constitutes a strict constraint. Both an emergency plan for liquidity bottlenecks and a suitable action plan for obtaining liquidity are available in the event of an internal or external liquidity bottleneck. An emergency can be triggered by both Liquidity Risk Management (Group Risk Management&Methods) and by Liquidity Management and Planning (OLC).

## OPERATIONAL RISK

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

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

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

Risk identification and assessment

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

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

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

Risk management and monitoring

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

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

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

Outsourcing

The risks arising from outsourcing activities are documented and managed within operational risks. The crash barriers are stipulated by the general guidelines for the outsourcing process. These guidelines require that a risk analysis be prepared before any outsourcing is undertaken to determine the risk in each case. This analytical process serves as a component of the crash barriers and ensures that sufficient management and control intensity is applied.

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

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

Corporate Security

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

Business continuity management

A business continuity management system, which is based on the British BS 25999 Standard, was introduced in order to ensure Volkswagen Financial Services AG's ability to withstand crises ("business resilience").

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

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

### RESIDUAL VALUE RISK

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

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

A direct residual value risk is present when the residual value risk is borne directly by Volkswagen Financial Services AG or one of its companies (because of contractual provisions).

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

An indirect residual value risk is present if the residual value risk has been transferred to a third party based on the guaranteed residual value (e.g. dealerships). The initial risk is that the counterparty guaranteeing the residual value might default. If the guarantor of the residual value defaults, the residual value risk is transferred to Volkswagen Financial Services AG.

Risk identification and assessment

The "New Product Process" is carried out before business activities in new markets or in connection with new products are launched. This process includes analysing potential direct residual value risks. In addition, local risk managers obtain data on the indirect residual value risks from market participants at regular intervals.

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

The change in the projected residual value one year ahead of contract expiry is measured at the sale price actually achieved (adjusted for losses and deviations from rated mileage) for purposes of quantifying the UL. Using the price for used cars enables integrating an observable benchmark into the model, with the result that the modelling may be deemed to be statistically valid. In a first step, the change in value is analysed per individual contract and period. Given the size of the portfolios and the multitude of vehicles however, the systematic risk is so significant that, in a second step, the median change in value of the projected residual values is determined across several periods. In the final analysis, this is relevant to the determination of the residual value risk. The resulting deduction is determined using the quantile function of the normal distribution based on a prescribed confidence level.

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

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

Moreover, the existing procedure for quantifying the indirect residual value risk was refined further. In particular, the parameterisation of the loss ratio was adjusted based on the historical information now available.

The parameters used include the probability that the dealerships will recover as well as a rate for the expiry of premature and normal contract terminations in "normal" operations. The business trend and the above-mentioned refinement of the quantification methods will further reduce the indirect residual value risks (in comparison with previous years).

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

Risk management and monitoring

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

The adequacy of the risk provisions as well as the residual value risk potential are regularly monitored as part of risk management. Opportunities from residual values are not considered when recognising risk provisions.

Given risk distribution, as at the assessment date the risks incurred may not always be hedged in full at the level of the individual contract while it is in effect. As far as previously identified risks are concerned, in future the amounts of risk allocated to the residual term must still be earned and recognised as impairment losses (in accordance with IAS 36).

The resulting residual value risk potential is used to take a variety of measures as part of proactive risk management in order to limit the residual value risk. Residual value recommendations regarding new business must take both prevailing market conditions and future drivers into account. In order to reduce the risks upon expiry of a contract, the sales channels must be reviewed continuously such that the best possible result may be achieved at the time the vehicles are sold.

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

The indirect residual value risks of Volkswagen Financial Services AG or one of its Group companies are subject to plausibility checks and measured based on the amount of the risk and its significance.

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

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

### Concentrations of risk

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

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

#### Developments/Outlook

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

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

## UNDERWRITING RISK

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

The business purpose of Volkswagen Versicherung AG is to support the sales of the Volkswagen Group’s products. This is to be achieved through the warranty insurance business as the primary insurer and active reinsurance of portfolios, which a Volkswagen Group company brokers for other primary insurers.

### Risk identification and assessment

To identify its materiality, the underwriting risk was measured using a qualitative assessment of the risks broken down by the amount of the loss and the attendant probability of occurring. The quantitative method for assessing the risks is rooted in the QIS 5 approach as the basic approach.

### Risk management and monitoring

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

Group Risk Management & Methods is responsible for risk monitoring.

## STRATEGIC RISK

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

Likewise the strategic risk also encompasses all risks arising from the integration/reorganisation of technical systems, personnel and corporate culture. This may be rooted in fundamental decisions on the company’s structure, which management makes in respect of its positioning in the market.

## REPUTATION RISK

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

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

## SUMMARY

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

This system was continuously refined in 2012 as well.

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

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

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

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

## EVENTS AFTER THE BALANCE SHEET DATE

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

To strengthen equity, a total of € 200 million was paid into the capital reserve of Volkswagen Bank GmbH in January 2013.

No other important events occurred after the close of the 2012 financial year.

# Sustainability
## Our corporate responsibility

**We believe that corporate responsibility makes a significant contribution to our company's sustained development. We pursue social, ecological and economic goals in equal measure.**

Our way of managing and using resources must not diminish the opportunities available to later generations. This conviction within the Volkswagen Group puts us in line with international efforts to develop a sustainable economic order.

Corporate governance that is committed to the corporate vision of sustainability thus ensures the company's viability in the long term. Tying core economic processes to ecological and social issues is integral to our corporate policies. Corporate Responsibility (CR) also means assuming responsibility on a voluntary basis to a degree that goes above and beyond compliance with statutory requirements. In the final analysis CR makes an important contribution to safeguarding the company's future and enhancing its enterprise value.

Volkswagen Financial Services AG believes that social responsibility is integral to its entrepreneurial activities. We support social projects as well as cultural and educational programmes. We initiate projects related to regional structural development, the promotion of health as well as sports and natural conservation.

Besides our commercial activities as an automotive financial services provider that are aimed at enhancing shareholder value, we have broken down our work in connection with sustainability, which also addresses the non-financial performance indicators that are material to our business, into the following three topics:

- Employees and social responsibility,
- The environment,
- Governance.

We endeavour to be an even more responsible corporate citizen by implementing a corporate responsibility strategy and, in this way, help to solve global challenges as a company. We will integrate these solutions and the resulting activities closely into our corporate strategy. At the end of 2012, the Board of Management of Volkswagen Financial Services AG set up a Group Corporate Responsibility office for this purpose, embedding this function into the organisational structure. This will enable us to more successfully meet the expectations of our stakeholders.

### EMPLOYEES AND SOCIAL RESPONSIBILITY

Our company's sustained success is only possible thanks to our employees' best efforts. For this reason, our human resources strategy is geared toward consistently attracting the best applicants to our company and taking a focused and systematic approach to promoting and developing employees in our company. Our WIR2018 strategy also entails continuing to establish ourselves as a TOP employer. We fulfil our social responsibility moreover by contributing to our employees' health and families through a multitude of actions and by engaging in the region in a socially responsible way.

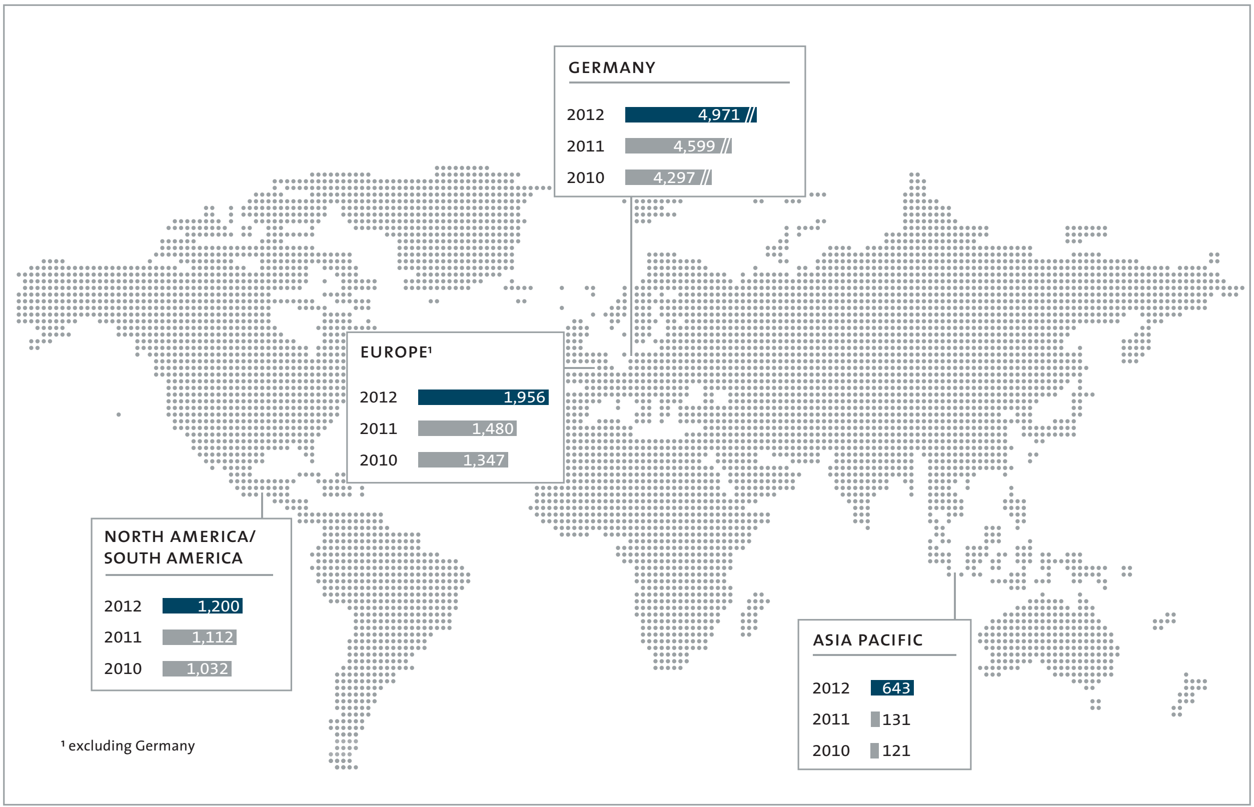
#### Our employees worldwide

The Volkswagen Financial Services AG Group had a total of 8,770 employees as at 31 December 2012 (previous year: 7,322). Of these, 4,971 (previous year: 4,599), or 56.7%, were employed in Germany and 3,799 (previous year: 2,723), or 43.3%, were employed at our international locations. The personnel turnover rate in Germany of less than 1% was significantly below the industry average.

In accordance with the substance-over-form principle, 297 employees of VOLKSWAGEN SERVICIOS SA DE CV, Puebla, Mexico, an unconsolidated company, are included in the overall personnel numbers.

EMPLOYEES – BY REGION

As at 31.12.




**Our human resources strategy**

The "We are a top team" employee strategy supports goal achievement in the four action areas, "customers", "employees", "profitability" and "volume". Targeted personnel development serves to foster and challenge employees. We are consciously leveraging in-house talent as we strive to achieve our goal of becoming a TOP employer by 2018.

The talent programme launched in 2010 was continued in 2012. Young talent, experts and up-and-coming managers received individual guidance, supported by core modules for the individual talent groups. Currently, a total of 65 high-performing employees are participating in the three groups. In the fourth quarter, an international talent summit was held in the United Kingdom for the new members of the "Management" talent group in which 55 high-performing managers from 13 countries took part to build and expand their own personal and professional networks with colleagues from subsidiaries worldwide.

The KuNDe project led to creation of a flexible organisation able to fulfil the expectations of the market and customers. In this context, a new capacity management method has proven effective for two years now in the operating units of Volkswagen Financial Services AG in Germany. The refined tool for determining personnel needs creates a transparent and unified capacity planning system. In the long term, standard process will constitute a precise planning tool for the planning rounds.

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

Our aim, "We are a top team", is measured based on our participation in employer competitions as well as the "mood barometer", our internal staff survey. The internal staff survey is already being conducted on a regular basis in 30 national subsidiaries.

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

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

The WIR2018 corporate strategy is being complemented by the so called "FS Way". It describes how to attain the goals in the four strategic action areas customers, employees, profitability and volume, how to approach projects and how to act in the work environment. The FS Way is rooted in the "FS values", "active customer focus", "responsibility", "trust", "courage" and "enthusiasm". The framework works agreement regarding the FS Way served to both confirm and specify the fundamental principle of a balanced give and take between Volkswagen Financial Services AG as the employer and the workforce: Volkswagen Financial Services AG offers job security and wage insurance, a comprehensive range of training options and the environment of a TOP employer as set out in the WIR2018 strategy. The employees in turn shall be open to change and flexibility, willing to improve their qualifications and committed to making an active contribution to increasing the productivity of their work.

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

An open and active feedback culture constitutes a material factor for improving our corporate culture, customer focus, work climate and performance. The introduction of the standardised "Internal Customer Feedback on Customer and Service Focus" feedback tool in Germany offers the business units that have no contact with external customers the opportunity to obtain internal customer feedback. All employees in their capacity as internal customers of the business unit in question can fill out a quantitative and qualitative online survey to express their degree of satisfaction with the focus on customers and service using defined criteria. The pilot survey was carried out in the spring in Human Resources and Organisation.

Just like the "Employee Feedback on Executive Leadership Qualities" personnel tool already established in Germany, the "Internal Customer Feedback on Customer and Service Focus" tool pushes the ongoing development of our corporate and leadership culture as defined in the FS way and the feedback culture. Both tools are important building blocks for achieving the company's strategic goals in terms of acting on its "We are a top team" employee strategy. The "Employee Feedback on Executive Leadership Qualities" survey helps managers and executives to analyse their own executive leadership qualities as they relate to the FS values based on employee assessment of their current personal position. The principles and aims of both tools were defined in a works agreement.

#### Human resources planning and development

In 2012 we hired 43 new trainees/students of Welfen Akademie and Leibniz-Akademie, two universities of co-operative education that offer dual-track courses of study leading respectively to a Bachelor of Arts and a Bachelor of Science. The trainees/students, who were chosen from a total of 1,700 applicants, include 20 banking professionals, 15 specialists for insurance and finance and eight IT technicians.

As at 31 December 2012, a total of 128 trainees and students of Welfen Akademie were employed with us in Germany for the duration of the apprenticeship programmes and in all occupational groups. A trainee of Volkswagen Financial Services AG was given the Best Apprentice Award as the year's best trainee by Volkswagen Coaching GmbH yet again. Three additional trainees were honoured by the Braunschweig Chamber of Commerce and Industry as the best graduates in their professional training programme.

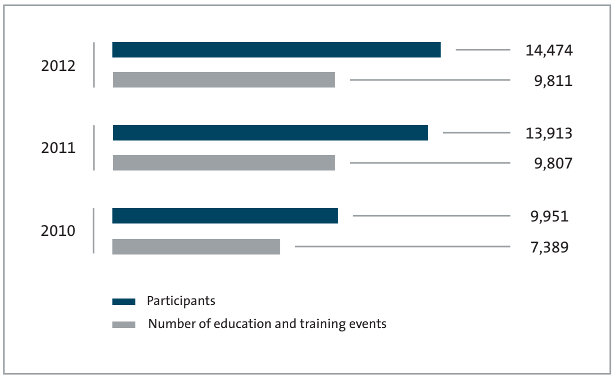
Immediately following the completion of their training, in 2012 four trainees were given the opportunity to broaden their horizons in a 12-month assignment abroad. This "Years abroad" programme is designed for trainees and students of the two universities of co-operative education who have completed their apprenticeship and studies with above-average credentials and development potential. In total, 38 trainees successfully transitioned into jobs in various departments with permanent employment contracts in the reporting year.

In 2012, eight "Deutschlandstipendien" (scholarships in Germany jointly funded by the public and private sectors) were awarded for the first time to attract college and university students and graduates to Volkswagen Financial Services AG as early as possible. This assistance is embedded in an all-around concept for recruiting and retaining young academics. In the second half of 2012, partnership agreements were signed with Harz University of Applied Sciences, Ostfalia University of Applied Sciences and Braunschweig University of Technology in an effort to work still more closely with selected universities.

The objective of these activities is to enable students to participate in an internship or work-study programme, thus encouraging them to work directly for or join the trainee programme at Volkswagen Financial Services AG. The 12-month development programme, which takes place both at home and abroad, further prepares the ground for ensuring the company's viability in future.

Each employee's need for qualifications is determined in the annual employee performance review, and suitable measures aimed at developing their competence are agreed upon with them. Many employees in Germany obtained their qualifications at the internal training centre, which offers a broad technical and professional range of seminars and workshops. These training programmes are closely aligned with the company's products, processes and systems. The high volume of employee qualifications from the previous year was continued in 2012; overall more than 9,800 training events with more than 14,000 participants were organised.

EDUCATIONAL AND TRAINING PROGRAMMES
As at 31.12.




In addition, the need for specialists is identified in coordination with the appropriate departments and suitable development concepts are drawn up. One example is the successful two-year leasing specialist training programme in collaboration with both Welfen Akademie and the Braunschweig Chamber of Commerce and Industry. Continued development of employees' competence also focuses on refining their marketing skills and their consciousness of the customer- and service-based nature of our business. A call centre and service training programme was launched to this end in the corporate customer segment for instance.

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

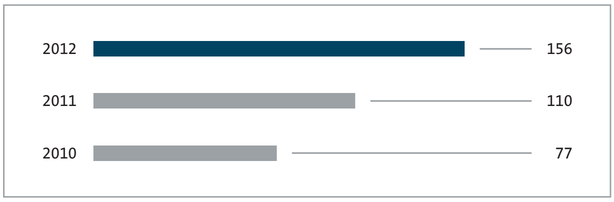
Internationally, we continued to work on broad-based introduction and optimisation of Group standards. For instance, one focal point of our international human resources activities in 2012 was to establish a uniform management selection process in all companies. In this context, the first cross-border management assessment centre was conducted in fall of 2012, which enables the smaller companies to participate in the standard process.

In addition, the fourth General Management Programme was launched in 2012 to systematically prepare future country managers to assume these responsibilities. Participants in the programme are trained and supervised over a period of five months in five different modules.

In 2012, we also implemented an international leadership training module called "FS Way Leadership Training" in additional regions; this module is aimed at all country managers and those who report to them directly. The focus in this connection is on the definition of leadership within Volkswagen Financial Services AG, taking into account the FS values and the promotion of a positive leadership and feedback culture.

The total of 156 foreign assignments and thus yet another increase by more than 40% clearly reflects the internationalisation of our business model.

ASSIGNMENTS
As at 31.12.




**Raising the percentage of women in the company**
Women constitute 51.0% of the workforce of Volkswagen Financial Services AG – a level that is not yet reflected in leadership positions. We have made it our goal to raise the number of women in executive positions to 30% to lasting effect.

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

In 2012, we succeeded in further raising the percentage of women at the management level of Volkswagen Financial Services AG Germany to 10.2% in upper management; the proportion of women in management is 16.4%. Internationally, the percentages were 14.5% in upper management and 23.5% in management. Regular reporting makes the progress of this matter transparent for the Board of Management.

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

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

#### Diversity

Besides promoting women in targeted ways, the diversity concept has been an integral part of our corporate culture since 2002. This is reflected in the findings of the employer benchmark study entitled "Great Place to Work".

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

#### Health and family

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

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

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

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

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

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

#### Social and regional responsibility

Volkswagen Financial Services AG encourages voluntary work in select non-profit projects throughout the region. For six years now, our employees have been volunteering at the "Building Bridges – Corporate Commitments" day of action in Braunschweig. In 2012 we were able to support three social service institutions due to our large number of volunteers. Our selected projects benefited children and parents, seniors and the mentally disabled.

Established by Volkswagen Financial Services AG in December 2008, the non-profit foundation "Our Children in Braunschweig" focuses on socially disadvantaged children. It substantially intensified its commitment to hot-button social issues in Braunschweig, the site of the company's headquarters, thus underscoring its deep roots in the region. We supported the foundation by adding to its capital once again in the reporting year. True to the motto "Together we are making Braunschweig's children strong. Strong for a promising future!", employees of Volkswagen

Financial Services AG are being motivated to contribute their money, time and ideas. For example, regular donations are collected in voluntary fundraising efforts at sporting events, anniversary and Christmas parties as well as via the monthly workplace giving initiative "1 for All".

Six institutions – three child care centres, two primary schools and one lower secondary school – were given need-based support in education, healthy nutrition, physical education and early instruction in music. Sustainable projects have priority: New jungle gyms on the playground, swimming classes or a trampoline are good ways to motivate children to exercise. The installation of child-friendly kitchen equipment, a "nutrition passport" for children and a varied daily breakfast all help to promote vital nutrition education. In addition, musical instruments are being purchased and existing projects, such as music education for all and music in child care centres, are being co-financed to a large degree by the foundation.

For several years now, we have enabled our employees to apply to Stiftung Neue Verantwortung ("New Responsibility Foundation") and make a personal contribution. The Associate programme operated by the foundation in Berlin is intended for selected young experts who wish to work on specific political and societal issues and problems.

Volkswagen Financial Services AG also carries out donation drives at regular intervals. As in the previous years, the so-called "May Employee Donation" benefited social institutions in the region. The monthly "Remaining Cent Donation" is given to the Terre des Hommes campaign, "One Hour for the Future". On the World AIDS Day in December 2012, the company collected donations for Braunschweig's AIDS Relief charity. As part of the Xmas campaign "Donations Instead of Gifts", which was initiated in 2010, in the financial year just ended the company dispensed yet again with presenting gifts to business partners, donating a certain amount of funds to the foundation, "Our Children in Braunschweig", instead. The Works Council's Xmas tree wish list campaign in collaboration with a number of social institutions has also become an integral part of employees' activities as volunteers. It enabled each employee to fulfil the Xmas wish of a socially disadvantaged child.

Volkswagen Financial Services AG celebrated an anniversary in its sponsorship of social service activities: ten years of financing trips to exhibitions at Kunstmuseum (Art Museum) Wolfsburg for schoolchildren in Lower Saxony. The annual allotment of bus trips has been permanently increased from 12 to 16 weeks. The art bus has brought around 45,000 schoolchildren to the museum since 2002.

Moreover, Volkswagen Financial Services AG participated in the Germany-wide moment of silence for the victims of extreme right-wing violence and further supported the "Initiative for Respect and Tolerance" of the Volkswagen Group's General Works Council.

Volkswagen Financial Services AG engages in select high-profile projects related to sports, culture and social issues in the Braunschweig region as a sponsor. In sports, among other things we act as main and jersey sponsors for the Eintracht Braunschweig football club and as jersey sponsors for Braunschweig's first division basketball club, New Yorker Phantoms. Our cultural activities enable such events in Braunschweig as the International Film Festival Braunschweig or the event known as "Classics in the Park" where the State Orchestra of Braunschweig's State Theatre gives a free concert in a park. Aside from the aforementioned foundation, we also assume social responsibility in connection with projects such as the "Gemeinsam-Preis" (Together Prize) of the Braunschweiger Zeitung, which aims to get people to engage as citizens, or "Eintracht kicks", which entails having a football coach from Eintracht Braunschweig offer training in Braunschweig's Youth Centres; the participating children and teenagers are given jerseys and other equipment and following the training session, receive their certificates of participation on the pitch of Eintracht Stadium before a game.

### THE ENVIRONMENT

We consider environmental protection to be key component of sustainability and thus are directly committed to it. Environmental issues arise for Volkswagen Financial Services AG in two respects: For one they concern our products and our comprehensive packages and for another both our daily work and our environment.

**Environmental programmes in our product portfolio**

Besides demand-related and economic factors, we also always consider the environmental effects of the products that we develop and bring to market. Hence packages that clearly focus on protecting the environment have been an integral part of our products and services for a long time. One example of this is Volkswagen Leasing GmbH's environmental programme. Volkswagen Leasing GmbH and NABU, the German Nature and Biodiversity Conservation Union, have used this programme since 2008 to make an environmental topic an industry trend.

The number of particularly environmentally friendly vehicles in the portfolio of Volkswagen Leasing GmbH has climbed to about 216,000 (12/2012) since the programme's inception. This represents a year-on-year increase of around 48 %. This joint environmental programme has already received multiple awards from independent bodies. For instance, the initiators received the celebrated ÖkoGlobe award in 2010. In 2012 Volkswagen Leasing GmbH also received a "Landmark in a Land of Ideas" prize for the programme and in addition was one of the finalists in the International German PR Awards.

The fact that working together to promote environmental and climate protection has good long-term prospects was underscored by our cooperation partners in December 2011. The successful partnership was extended for another five years, and the German Fund for the Protection of Bogs was founded at the same time. Volkswagen Leasing GmbH has equipped the Fund for the Protection of Bogs with € 1.6 million in funding. This creates a powerful instrument for protecting and restoring bogs. Our stated goal in that connection is to maintain biological diversity and promote climate protection. The "Großes Moor" Renaturing Project, which concerns wetlands in Northern Germany's Gifhorn region that serves as a major carbon sink, and the "Lichtenmoor" in the district of Nienburg/Soltau-Fallingbostel are among the supported projects.

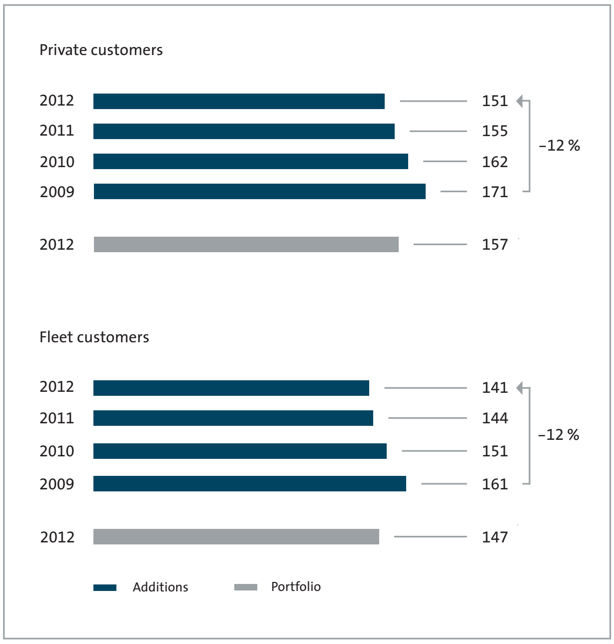
The GREEN FLEET award, which was initiated by Volkswagen Leasing GmbH in 2010 jointly with NABU solely for fleet customers, closely mirrors our product-related environmental focus. The award was presented for the third time in 2012.

As part of the joint environmental programme, this environmental prize for ecologically responsible fleet management is designed to recognise companies whose fleets make a decisive contribution to the reduction in fuel consumption – and thus $CO_2$ emissions – by using state-of-the-art automotive technologies and innovative fleet solutions. The prize serves as a platform for supporting fleet managers in the greening of their fleets. This gives effect to an incentive that offers the companies long-term image and cost benefits today from which the environment will benefit tomorrow.

With a total of about 12,000 vehicles, all 94 participants in the third GREEN FLEET environmental award cut $CO_2$ emissions by 1,785 tonnes within six months, reducing their fuel consumption by around 680,000 litres.

DEVELOPMENT OF $CO_2$ EMISSIONS AMONG NEW CONTRACTS

Average $CO_2$ emissions in g/km




The awards were bestowed on the participating companies in the categories, "Highest fuel savings in percent", "Lowest average fuel consumption" and "Largest number of fuel- and emission-optimised vehicles", separately by smaller and major fleets. Volkswagen Leasing GmbH made a separate contribution in the amount of € 50,000 to the aforementioned "Lichtenmoor" Renaturing Project in connection with the awarding of this prize.

**Work and environment**

In both our work and our environment, we place great stock in activities that are meaningful not just economically but also ecologically. As a result we focus on conserving our natural resources and cutting both emissions and energy consumption. This gives us the incentive to always look for potential improvements. As a financial services company, sustainable facility management and resource-conserving paper consumption have become important issues.

Sustainable facility management

In the reporting year, efforts to ensure that our buildings are operated in an environmentally friendly manner were integral to our activities. The standards of the DGNB, the German Sustainable Building Council, are applied to new buildings as well as renovation projects.

For example, a building constructed in the 1960's was fully updated to current energy standards and adapted to meet all modern requirements of an office building. Sustainability is at the forefront in the discussion of planning considerations; work is due to begin in 2013.

Another example is the 55 kWp photovoltaics unit, our second, which is located on Volkswagen Financial Services AG buildings and was commissioned in early 2012.

New buildings are influencing the work of the facility management unit again this year. They are designed and built according to the same standards as the building gold-certified by the DGNB, and improvements are made continually. In addition, buildings that have been in operation for five to ten years are analysed to determine their energy efficiency so that we can improve operation of these buildings on an ongoing basis. We strive for DGNB certification for buildings in operation.

### Resource-conserving paper consumption

Our "Digitales Autohaus" (Digital Car Dealership) project as well as "e-invoicing" and "e-billing" are part of our actions aimed at reducing the use of paper. Using a comprehensive approach that integrates all dealers, suppliers and customers, these projects allow us to put in place the technical and procedural requirements for transmitting all incoming and outgoing invoices digitally in the long term. In 2012 alone Volkswagen Financial Services AG already processed more than 1.5 million invoices in this optimised manner.

Thanks to the Digitales Autohaus project, financing applications at car dealerships are being transitioned to a largely paperless application process with digital workflow components and status reports. After the pilot phase is complete, the rollout is expected to begin at the end of 2013. In a second phase, leasing and insurance applications will subsequently be switched over to the paperless process. This will permanently reduce paper consumption in car dealerships.

## GOVERNANCE

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

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

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

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

The focus of the compliance measures in 2012 was on competition and anti-trust law and anti-corruption efforts. Awareness was raised among members of management regarding statutory competition and anti-trust rules in on-site training. Practical examples provided a clear illustration of how to deal with anti-trust issues. In addition, uniform rules for issuing invitations and giving gifts to employees and third parties were introduced in all affiliated companies and foreign branches. In Germany the members of management also completed an online learning programme on avoiding corruption. Training was additionally conducted with select groups of employees.

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

# Anticipated developments
## Continued growth

Volkswagen Financial Services AG aims to continue growing its business by expanding its product range and tapping into new markets.

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

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

### GLOBAL ECONOMIC DEVELOPMENT

Our plans are based on the assumption that the global economy will continue to grow. As in recent years, we expect the emerging markets, especially in Asia and Latin America, to generate the greatest economic momentum; in our view the major industrialised countries will achieve only moderate growth rates in the medium term.

#### Europe/Other markets

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

We expect the South African economy to grow at a slightly higher rate in 2013 and 2014 than in the reporting year.

#### Germany

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

#### North America

In the current year, growth in the USA, Canada and Mexico will remain close to that of the previous year. As the world economy begins to recover in 2014, we also expect to see an upturn in economic activity in North America.

#### South America

Brazil should experience much higher growth in 2013 than in the previous year. Argentina will also be able to boost its GDP, with inflation remaining high. Growth in both countries should continue in 2014.

#### Asia Pacific

China can be expected to maintain into 2013 and 2014 the robust growth rates it enjoyed in the reporting year. We expect India to expand faster than it did in 2012. The economic recovery in Japan will slow in the wake of the natural disasters of 2011.

### FINANCIAL MARKETS

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

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

## DEVELOPMENT OF THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

### Europe/Other markets

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

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

After three years of high growth rates, the pace of growth in the South African car market should slow in 2013 and 2014.

### Germany

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

### North America

In spite of the restrained economic recovery, the US vehicle market benefited from the accumulated replacement demand in 2012. We expect this trend to continue at a lower level in 2013. The continued uncertain outlook of US fiscal policy, the weakness of the labour market and possible restrictions in granting loans, however, affect market development in the short term. We expect to see sustained positive market growth in 2014. The Canadian and Mexican markets for passenger cars and light commercial vehicles should show an upward trend in 2013 and 2014.

### South America

Because of their dependence on the demand for raw materials, the South American markets are strongly influenced by developments in the world economy. Moreover, growing protectionist tendencies are holding back the development of automobile markets in the region. This is particularly relevant to Brazil and Argentina, which maintain restrictions on the importation of vehicles. In Brazil, the region's biggest market, tax incentives provided a powerful boost to demand for vehicles in 2012. Because these incentives are being phased out during 2013, however, demand will very likely be flat year on year. On account of the weak macroeconomic environment, we expect growth in the Argentinian market to continue to decline. From 2014 on, however, we expect the region's automobile markets to return to growth as the major South American economies start to benefit from the predicted recovery in the global economy.

### Asia Pacific

The markets in Asia Pacific are likely to continue expanding in 2013, but at a reduced pace. The growing appetite for personal mobility, will boost demand, especially in China. Any signs of a slowdown in economic growth could, however, have a dampening effect on the demand for automobiles. Furthermore, the restrictions on car registrations – such as those already introduced in Beijing and other cities – might be extended to other metropolitan areas in China. This would curb the growth of the Chinese market. An encouraging volume trend is also likely in India, though this will depend on the general policy environment. The market in Japan grew to an exceptionally high level in the reporting year as a result of government incentives and the backlog of pent-up demand caused by natural disasters. We therefore expect demand to fall substantially in 2013, a trend which will be exacerbated by the weakness of the economy. In 2014, we expect to see continued growth in the Asian automotive markets, especially in China and the markets in the ASEAN region.

## INTEREST RATE TRENDS

In the 2012 financial year and also at the start of the current financial year, the central banks supported the global economy and the financial system with low interest rates and an unconventional monetary policy. On account of the continuing uncertainty about the growth of the global economy and the sovereign debt crisis in Europe, monetary policy stimulus programmes are likely to be extended in spite of historically low interest rates. We expect monetary policies to be implemented in Europe and the United States during 2013 that make an increase in interest rates unlikely. Long-term interest rates should remain stable worldwide. Interest rates could rise in 2014 if an inflationary trend emerges.

#### MOBILITY PACKAGES

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

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

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

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

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

#### NEW MARKETS/INTERNATIONALISATION/NEW SEGMENTS

In the coming year, Volkswagen Financial Services AG will further pursue its goal of supporting the Volkswagen Group brands internationally as a provider of financial services, thus continuing its growth. Besides the expansion of the insurance business within the scope of the strategic cooperation with Allianz SE, which is due to commence in 2013, the growth in the dynamic markets in particular will enhance the prospects of further business success.

In the major growth markets, Volkswagen Financial Services AG will continue to develop new markets through both organic and inorganic growth. Strengthening the captive model in South Africa will be one of the strategies considered. Particularly in China, the company will push ahead with expanding its product portfolio and making the new products available in more cities and towns.

#### DEVELOPMENT OF VOLKSWAGEN FINANCIAL SERVICES AG

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

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

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

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

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

## PROSPECTS FOR 2013 AND 2014

The following overall picture emerges, taking the aforementioned factors and the development of the market into account: Expectations in terms of earnings are influenced by the assumption of stable refinancing costs, continued significant uncertainties regarding the economic environment and their impact on risk costs, among others. Earnings in 2013 and 2014 are expected to fall short of the 2012 level, mainly due to the lack of income from the equity investment in Global Mobility Holding B.V., which was sold to Volkswagen AG on 22 January 2013.

Braunschweig, 8 February 2013
The Board of Management

Frank Witter

Frank Fiedler

Christiane Hesse

Dr. Michael Reinhart

Lars-Henner Santelmann

# Consolidated financial statements

# Income statement

## of the Volkswagen Financial Services AG Group

| € million | Note | 1.1. – 31.12.2012 | 1.1. – 31.12.2011 | Change in % |
|---|---|---|---|---|
| Interest income from lending transactions | | 3,644 | 3,221 | 13.1 |
| Net income from leasing transactions before provisions for risks | | 1,228 | 1,192 | 3.0 |
| Interest expense | | –2,022 | –1,985 | 1.9 |
| Net income from insurance business | | 21 | 15 | 40.0 |
| Net income from lending, leasing and insurance transactions before provisions for risks | 21 | 2,871 | 2,443 | 17.5 |
| Provisions for risks arising from lending and leasing business | 9, 22, 33 | –474 | –513 | –7.6 |
| Net income from lending, leasing and insurance transactions after provisions for risks | | 2,397 | 1,930 | 24.2 |
| Commission income | | 477 | 441 | 8.2 |
| Commission expenses | | –337 | –288 | 17.0 |
| Net commission income | 23 | 140 | 153 | –8.5 |
| Result from financial instruments | 10, 24 | –134 | –22 | X |
| Result from available for-sale assets | | –1 | –2 | –50.0 |
| Result from joint ventures accounted for using the equity method | | 147 | 132 | 11.4 |
| Result from other financial assets | 25 | 33 | 8 | X |
| General administration expenses | 26 | –1,531 | –1,259 | 21.6 |
| Other operating result | 27 | –58 | –7 | X |
| **Pre-tax result** | | **993** | **933** | **6.4** |
| Taxes on income and earnings | 6, 28 | –264 | –275 | –4.0 |
| **Net income** | | **729** | **658** | **10.8** |
| Minority interest in net income | | – | – | – |
| Net income attributable to Volkswagen AG | | 729 | 658 | 10.8 |

# Statement of comprehensive income

## of the Volkswagen Financial Services AG Group

| € million | Note | 1.1.–31.12.2012 | 1.1.–31.12.2011 |
|---|---|---|---|
| **Net income** | | **729** | **658** |
| Actuarial gains and losses | 45 | –81 | –10 |
| deferred taxes thereon | 6, 28 | 24 | 3 |
| Available-for-sale financial assets (securities): | | | |
| – Fair value changes recognised in equity | | –23 | –9 |
| – Recognised in the income statement | | 5 | 0 |
| deferred taxes thereon | 6, 28 | 5 | 3 |
| Cash flow hedges: | 10 | | |
| – Fair value changes recognised in equity | | –15 | 24 |
| – Recognised in the income statement | | 11 | 7 |
| deferred taxes thereon | 6, 28 | 2 | –10 |
| Currency translation differences | 4 | –50 | –67 |
| Income and expense of shares measured using the equity method, recognised directly in equity, after taxes | | 9 | –8 |
| **Income and expense recognised directly in equity** | | **–113** | **–67** |
| **Comprehensive income** | | **616** | **591** |
| Comprehensive income attributable to Volkswagen AG | | 616 | 591 |

# Balance sheet

## of the Volkswagen Financial Services AG Group

| € million | Note | 31.12.2012 | 31.12.2011 | Change in % |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash reserve | 7, 30 | 355 | 352 | 0.9 |
| Receivables from financial institutions | 8, 31 | 2,215 | 3,109 | –28.8 |
| Receivables from customers arising from | | | | |
| Retail financing | | 38,127 | 33,261 | 14.6 |
| Wholesale financing | | 10,781 | 10,412 | 3.5 |
| Leasing business | | 15,312 | 14,252 | 7.4 |
| Other receivables | | 5,497 | 3,634 | 51.3 |
| Receivables from customers in total | 8, 32 | 69,717 | 61,559 | 13.3 |
| Derivative financial instruments | 10, 34 | 754 | 709 | 6.3 |
| Securities | 11 | 1,718 | 897 | 91.5 |
| Joint ventures accounted for using the equity method | 35 | 1,932 | 1,795 | 7.6 |
| Other financial assets | 12, 35 | 540 | 362 | 49.2 |
| Intangible assets | 13, 36 | 155 | 83 | 86.7 |
| Property, plant and equipment | 14, 37 | 250 | 234 | 6.8 |
| Leased assets | 16, 38 | 7,474 | 6,382 | 17.1 |
| Investment property | 16, 38 | 10 | 10 | 0.0 |
| Deferred tax assets | 6, 39 | 677 | 302 | X |
| Income tax assets | 6 | 157 | 132 | 18.9 |
| Other assets | 40 | 1,425 | 1,020 | 39.7 |
| **Total** | | **87,379** | **76,946** | **13.6** |

| | Note | 31.12.2012 | 31.12.2011 | Change in % |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Liabilities to financial institutions | 17, 42 | 11,696 | 7,337 | 59.4 |
| Liabilities to customers | 17, 42 | 31,128 | 29,739 | 4.7 |
| Securitised liabilities | 43 | 29,180 | 26,233 | 11.2 |
| Derivative financial instruments | 10, 44 | 416 | 366 | 13.7 |
| Provisions | 18–20, 45 | 1,511 | 1,147 | 31.7 |
| Deferred tax liabilities | 6, 46 | 493 | 513 | –3.9 |
| Income tax obligations | 6 | 323 | 241 | 34.0 |
| Other liabilities | 47 | 1,141 | 989 | 15.4 |
| Subordinated capital | 48 | 2,691 | 2,677 | 0.5 |
| Equity | 50 | 8,800 | 7,704 | 14.2 |
| Subscribed capital | | 441 | 441 | 0.0 |
| Capital reserve | | 4,709 | 4,059 | 16.0 |
| Retained earnings | | 3,650 | 3,204 | 13.9 |
| **Total** | | **87,379** | **76,946** | **13.6** |

# Statement of changes in equity

## of the Volkswagen Financial Services AG Group

| € million | Sub-scribed capital | Capital reserve | RETAINED EARNINGS | | | | | | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | | Accumu-lated Profits | Currency translation | Cash flow Hedges | Actuarial gains and losses | Market valuation securities | Equity-accounted invest-ments | |
| **Balance as at 31.12.2010/1.1.2011** | **441** | **3,409** | **3,052** | **126** | **–13** | **–36** | **1** | **–5** | **6,975** |
| Net income | – | – | 658 | – | – | – | – | – | 658 |
| Income and expense recognised directly in equity | – | – | – | –67 | 21 | –7 | –6 | –8 | –67 |
| Comprehensive income | – | – | 658 | –67 | 21 | –7 | –6 | –8 | 591 |
| Payments into the capital reserve | – | 650 | – | – | – | – | – | – | 650 |
| Distributions/profit transfer to Volkswagen AG | – | – | –512 | – | – | – | – | – | –512 |
| **Balance as at 31.12.2011/1.1.2012** | **441** | **4,059** | **3,198** | **59** | **8** | **–43** | **–5** | **–13** | **7,704** |
| Net income | – | – | 729 | – | – | – | – | – | 729 |
| Income and expense recognised directly in equity | – | – | – | –50 | –2 | –57 | –13 | 9 | –113 |
| Comprehensive income | – | – | 729 | –50 | –2 | –57 | –13 | 9 | 616 |
| Payments into the capital reserve | – | 650 | – | – | – | – | – | – | 650 |
| Distributions/profit transfer to Volkswagen AG | – | – | –170 | – | – | – | – | – | –170 |
| **Balance as at 31.12.2012** | **441** | **4,709** | **3,757** | **9** | **6** | **–100** | **–18** | **–4** | **8,800** |

Further comments on the cash flow statement are shown in note (50).

# Cash flow statement

## of the Volkswagen Financial Services AG Group

| € million | 1.1. – 31.12.2012 | 1.1. – 31.12.2011 |
|---|---|---|
| **Net income** | **729** | **658** |
| Depreciation, amortisation, value adjustments and write-ups | 1,985 | 1,836 |
| Change in provisions | 394 | 234 |
| Change in other non-cash items | 10 | 92 |
| Result from the sale of financial assets and property, plant and equipment | –27 | –5 |
| Interest result and dividend income | –2,533 | –2,196 |
| Other adjustments | 0 | –1 |
| Change in receivables from financial institutions | 953 | –2,157 |
| Change in receivables from customers | –7,594 | –7,438 |
| Change in leased assets | –2,535 | –2,568 |
| Change in other assets from operating activities | –422 | –257 |
| Change in liabilities to financial institutions | 3,722 | 434 |
| Change in liabilities to customers | 1,251 | 4,016 |
| Change in securitised liabilities | 2,922 | 5,652 |
| Change in other liabilities from operating activities | 149 | 187 |
| Interest received | 4,538 | 4,144 |
| Dividends received | 17 | 37 |
| Interest paid | –2,022 | –1,985 |
| Income tax payments | –542 | –404 |
| **Cash flow from operating activities** | **995** | **279** |
| Cash inflows from the sale of investment property | – | 1 |
| Cash outflows from the purchase of investment property | –1 | –2 |
| Cash inflows from the sale of subsidiaries and joint ventures | 29 | 5 |
| Cash outflows from the purchase of subsidiaries and joint ventures | –371 | –98 |
| Cash inflows from the sale of other assets | 6 | 7 |
| Cash outflows from the purchase of other assets | –77 | –67 |
| Change in investments in securities | –777 | –779 |
| **Cash flow from investing activities** | **–1,191** | **–933** |
| Cash inflows from changes in capital | 650 | 650 |
| Distribution/profit transfer to Volkswagen AG | –512 | –810 |
| Change in funds resulting from subordinated capital | 60 | 973 |
| **Cash flow from financing activities** | **198** | **813** |
| | | |
| **Cash and cash equivalents at the end of the previous period** | **352** | **193** |
| Cash flow from operating activities | 995 | 279 |
| Cash flow from investing activities | –1,191 | –933 |
| Cash flow from financing activities | 198 | 813 |
| Effects from exchange rate changes | 1 | 0 |
| **Cash and cash equivalents at the end of the period** | **355** | **352** |

Comments on the cash flow statement are shown in note (62).

# Notes

## to the consolidated financial statements of the Volkswagen Financial Services AG Group as at 31 December 2012

### General comments

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

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

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

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

### Group accounting principles

VW FS AG prepared its consolidated financial statements as per 31.12.2012 according to International Financial Reporting Standards (IFRS), as applicable in the European Union, and the interpretations of the International Financial Reporting Standards Interpretation Committee (IFRS IC), as well as supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB). All the IFRS that were approved by the International Accounting Standards Board (IASB) by 31.12.2012, and whose application in the European Union was obligatory for the 2012 financial year, were taken into account in these consolidated annual financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the consolidated financial statements according to IFRS include the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks of future development (risk report according to § 315 Para. 1 HGB) is contained in the management report on pages 54 – 67.

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

The Board of Management prepared the consolidated financial statements on 8 February 2013. The period allowing for adjustments of amounts recognised in the financial statements ended with this date.

### Estimates and assumptions by management

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

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

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

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

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

The recognition and measurement of provisions is also based on the assumption about the amount and the probability of occurrence of future events as well as on the estimate of the discount factor. Past experience or reports by external experts are also drawn on wherever possible. In 2012, the method used to calculate provisions for indirect residual value risks underwent further refinement and the parameters used were adapted to reflect the changes in the market conditions. This gave an overall boost to earnings of € 67.9 million in the 2012 financial year. In addition, the measurement of pension provisions is dependent on the estimate of changes in plan assets. Please refer to item 18 for the assumptions underlying the calculation of pension provisions. Actuarial gains and losses are recognised in other comprehensive income and do not affect the profit or loss presented in the income statement. Any change in estimates of the amount of other provisions must always be included in profit or loss. Due to the recognition of empirical values, subsequent additions are frequently made to provisions or unused provisions are reversed. Reversals of provisions are recognised as other operating income, while the expense from the recognition of new provisions is allocated directly to the relevant functions. Provisions for the insurance business are presented in item 19. Items 20 and 45 provide an overview of the other provisions.

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

The underlying assumptions and estimates are based on the information available at the preparation date. In particular, the expected future business development was based on the circumstances prevailing at the time of preparation of the consolidated financial statements and a realistic assumption of the future development of the global and sector-related environment. Our estimates and assumptions remain subject to a high degree of uncertainty due to the future uncertain development of business, which is partly beyond the control of the Group's management. This applies in particular to short- and medium-term cash flow forecasts and to the discount rates used.

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

The global economy continued growing in the reporting period, though at a much slower pace in the second half of the year. We assume that the worldwide economic expansion will continue at the same level in 2013. As things stand today, therefore, management does not believe that there will be any requirement for material adjustments to the carrying amounts of assets and liabilities reported in the consolidated financial statements in the following financial year. Estimates and assumptions by management were based in particular on assumptions relating to the development of the general economic environment, the automobile markets, the financial markets and the legal environment. These and further assumptions are explained in detail in the section entitled "Anticipated developments".

## Effects of new and revised IFRS

VW FS AG has implemented all accounting standards that had to be applied starting in the 2012 financial year.

The amendment to IFRS 7 in October 2010 extended the disclosure requirements in connection with the transfer of financial assets. Additional disclosures must be made for both transferred financial assets that are derecognised in their entirety and financial assets that are transferred but not derecognised in their entirety.

## New or revised IFRS that were not applied

In its consolidated financial statements for 2012, VW FS AG did not take into account the following accounting standards which were adopted by the IASB but whose application was not mandatory in the financial year.

| Standard/ Interpretation[1] | | Published by the IASB | Mandatory application[2] | Adopted by the EU[1] | Expected effects |
|---|---|---|---|---|---|
| IFRS 1 | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters | 20.12.2010 | 01.01.2013 | Yes | None |
| IFRS 1 | Government Grants | 13.03.2012 | 01.01.2013 | No | None |
| IFRS 7 | Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities | 16.12.2011 | 01.01.2013 | Yes | Expanded disclosures in the notes on offsetting financial instruments |
| IFRS 9 | Financial Instruments: Classification and Measurement | 12.11.2009/ 28.10.2010 | 01.01.2015[3] | No | Change in the accounting treatment of fair value changes in financial instruments previously classified as available for sale |
| IFRS 10 | Consolidated Financial Statements | 12.05.2011 | 01.01.2014 | Yes | No material effects |
| IFRS 11 | Joint Arrangements | 12.05.2011 | 01.01.2014 | Yes | No material effects |
| IFRS 12 | Disclosures of Interests in Other Entities | 12.05.2011 | 01.01.2014 | Yes | Expanded disclosures in the notes of interests in other entities |
| | Transition Guidance to IFRS 10, IFRS 11, IFRS 12 | 28.06.2012 | 01.01.2013 | No | No material effects |
| | Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27) | 31.10.2012 | 01.01.2014 | No | None |
| IFRS 13 | Fair Value Measurement | 12.05.2011 | 01.01.2013 | Yes | Adjustments and expanded disclosures in the notes of fair value measurements |
| IAS 1 | Presentation of Financial Statements: Presentation of Items of other Comprehensive Income | 16.06.2011 | 01.01.2013 | Yes | Changes in the presentation of other comprehensive income |
| IAS 12 | Deferred Taxes: Recovery of Underlying Assets | 20.12.2010 | 01.01.2013 | Yes | No material effects |
| IAS 19 | Employee Benefits | 16.06.2011 | 01.01.2013 | Yes | Change in the presentation and expanded disclosures in the notes of employee benefits |
| IAS 27 | Separate Financial Statements | 12.05.2011 | 01.01.2014 | Yes | None |
| IAS 28 | Investments in Associates and Joint Ventures | 12.05.2011 | 01.01.2014 | Yes | None |
| IAS 32 | Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities | 16.12.2011 | 01.01.2014 | Yes | No material effects |
| | Improvements to International Financial Reporting Standards 2011[4] | 17.05.2012 | 01.01.2013 | No | No material effects |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | 19.10.2011 | 01.01.2013 | Yes | None |

1 Until 31.12.2012.
2 First-time application mandatory for VW FS AG.
3 Postponement of first-time application from 2013 to 2015 under the Mandatory Effective Day project.
4 Minor amendments to numerous IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34).

# Accounting policies

## 1 | Principles

All the companies included in consolidation have drawn up their annual financial statements as at the balance sheet date of 31.12.2012.

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

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

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

## 2 | Basis of consolidation

All companies are fully consolidated in which VW FS AG has the possibility, directly or indirectly, to determine the financial and business policy in such a way that the VW FS AG Group benefits from the activities of these companies (subsidiaries). Inclusion in the basis of consolidation begins at the point in time from which the possibility of control exists; it ends when the possibility of control ceases to exist. Seven domestic (as in the previous year) and 25 foreign subsidiaries (previous year: 22) were fully consolidated at the balance sheet date. In addition, the consolidated annual financial statements contain 28 (previous year: 27) special purpose entities whose assets, regarded in economic terms, are attributable to the VW FS AG Group.

To strengthen its sales activities in Poland, Volkswagen Financial Services AG acquired with effect from 1 January 2012 the remaining 40% of the interests in the financial services companies Volkswagen Bank Polska S.A., Warsaw, and Volkswagen Leasing Polska Sp. z o.o., Warsaw, which up to then had been managed as a joint venture, from the previous co-owner (Kulczyk Pon Investment B.V.).

The total purchase price of € 44 million was paid in cash. On the acquisition of the remaining interests, the interests that until the acquisition date had been accounted for using the equity method were remeasured at the fair value of € 66 million. Amounts arising from this transaction that had previously been recognised in equity (other comprehensive income) generated expense of € 6 million, with the result that the transition to full consolidation produced a non-cash accounting profit of € 21 million. This profit is recognised under the result from joint ventures accounted for using the equity method.

Goodwill was measured based on the following:

| € million | 2012 |
| --- | --- |
| Purchase price of the acquired shares | 44 |
| Fair value of the shares previously held | 66 |
| **Basis for measuring goodwill** | **110** |

Transaction costs of € 0.5 million were directly expensed.

The allocation of the purchase price to assets and liabilities is shown in the following table:

| € million | IFRS carrying amounts at acquisition date | Purchase price allocation | Fair values at acquisition date |
|---|---|---|---|
| Cash reserve | 8 | – | 8 |
| Receivables from financial institutions | 64 | – | 64 |
| Receivables from customers | 568 | – | 568 |
| Securities | 62 | – | 62 |
| Other assets* | 97 | 27 | 124 |
| of which customer bases | 0 | 14 | 14 |
| of which acquired brands | 0 | 11 | 11 |
| of which other contract-based intangible assets | 0 | 2 | 2 |
| **Total assets** | **799** | **27** | **826** |
| Liabilities to financial institutions | 250 | – | 250 |
| Liabilities to customers | 350 | – | 350 |
| Securitised liabilities | 84 | – | 84 |
| Other liabilities | 55 | 5 | 60 |
| **Total liabilities** | **739** | **5** | **744** |

* Excluding goodwill of VW FS AG

The gross carrying amount of the acquired receivables at the acquisition date was € 670 million, while the net carrying amount (corresponding to the fair value) was € 632 million. The contractual cash flows that are expected to be uncollectible were taken into account in the recognition of provisions for risks.

In the purchase price allocation, fair value adjustments on assets to be disclosed were identified in the amount of € 27 million. The acquisition therefore resulted in non-tax-deductible goodwill of € 28 million. This is attributable to much-improved opportunities to control the Volkswagen Financial Services AG Group as well as to future profit expectations.

The integration of the two Polish FS companies lifted the Group's sales by € 78 million and net income by € 2 million as at 31 December 2012 after allowing for fair value adjustments of the assets identified in the course of the purchase price allocation.

Volkswagen Finance (China) Co. Ltd., Beijing, was included in the group of consolidated companies in February 2012 for the first time, with retroactive effect to 1 January 2012.

Furthermore, in February 2012, the portfolio of the branch of Volkswagen Bank GmbH in Belgium was integrated into a joint venture with D´Ieteren S.A. The Belgian branch of Volkswagen Bank GmbH was subsequently closed in August 2012. Since business commenced in 2012, the Volkswagen D'Ieteren Finance S.A. joint venture has been accounted for in the consolidated financial statements using the equity method.

In Spain, Volkswagen Versicherungsvermittlung GmbH, Braunschweig, sold its 100% interest in VOLKSWAGEN INSURANCE SERVICES, CORREDURIA DE SEGUROS, S.L., Barcelona, within the Volkswagen Group to VOLKSWAGEN FINANCE, S.A. – Establecimiento Financiero de Crédito – , Madrid.

Volkswagen Leasing GmbH acquired all shares in Euromobil Autovermietung GmbH at the beginning of 2012. This company has not been consolidated for reasons of materiality.

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

On the basis of the holdings in joint ventures, the following values can be attributed to the Group:

| € million | 2012 | 2011 |
|---|---|---|
| Receivables from financial institutions | 1,156 | 1,031 |
| Receivables from customers | 3,348 | 3,309 |
| Leased assets | 6,751 | 6,436 |
| Other assets | 1,471 | 1,513 |
| Liabilities to financial institutions | 2,693 | 2,174 |
| Liabilities to customers | 2,139 | 1,702 |
| Securitised liabilities | 4,545 | 5,178 |
| Other liabilities | 1,465 | 1,489 |
| Equity | 1,884 | 1,747 |
| Income | 796 | 673 |
| Expenses | 658 | 542 |
| Share in discontinued operations | – | – |

Subsidiaries are not consolidated if they are of secondary importance for the VW FS AG Group. Altogether this concerns 5 domestic companies (previous year: 4) and 16 foreign companies (previous year: 18).

Furthermore, there are 11 (previous year: 12) branches outside Germany which were set up by three domestic affiliated companies.

The list of all shareholdings in accordance with §§ 285 and 313 HGB is available under www.vwfsag.com/listofholdings2012.

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

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

## 3 | Principles of consolidation

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

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

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

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

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

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

## 4 | Currency translation

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

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

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

| € | | BALANCE SHEET MIDDLE RATE AS AT 31.12. 2012 | 2011 | INCOME STATEMENT AVERAGE EXCHANGE RATE 2012 | 2011 |
|---|---|---|---|---|---|
| Australia | AUD | 1.2712 | 1.2723 | 1.2407 | 1.3484 |
| Brazil | BRL | 2.7036 | 2.4159 | 2.5084 | 2.3265 |
| China | CNY | 8.2207 | – | 8.1052 | – |
| Czech Republic | CZK | 25.1510 | 25.7870 | 25.1491 | 24.5898 |
| United Kingdom | GBP | 0.8161 | 0.8353 | 0.8109 | 0.8679 |
| Japan | JPY | 113.6100 | 100.2000 | 102.4919 | 110.9586 |
| Mexico | MXN | 17.1845 | 18.0512 | 16.9029 | 17.2877 |
| Poland | PLN | 4.0740 | – | 4.1847 | – |
| Sweden | SEK | 8.5820 | 8.9120 | 8.7041 | 9.0298 |

## 5 | Realisation of income and expense

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

The realisation of interest income in the income statement is always carried out according to the effective interest rate method. Income from financing and leasing transactions, and expenses for their refinancing, are contained in net income from lending, leasing and insurance transactions. Interest for borrowings is not capitalised unless it is significant.
The net commission income contains income and expenses from the insurance agency services and commissions from the financing and financial services business.

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

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

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

## 6 | Income tax

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

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

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

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

## 7 | Cash reserve

The cash reserve is shown at nominal value.

## 8 | Receivables

Originated receivables from financial institutions and from customers are always stated in the balance sheet at amortised cost according to the effective interest rate method. Profits or losses resulting from the development of amortised cost are recognised in income including the effects from exchange rate changes. For current receivables (residual term up to one year) neither compounding nor discounting is performed for reasons of materiality. A portion of the receivables from customers is included in a portfolio hedge. The customer receivables allocated to portfolio hedging are measured at fair value.

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

## 9 | Provisions for risks

We take full account of the default risks in the banking business by means of individual value adjustments and portfolio-based value adjustments made in accordance with IAS 39. In addition indirect residual value risks were taken into account by means of provisions.

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

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

Receivables that are not significant as well as significant individual receivables for which no impairment is indicated, are combined into homogeneous portfolios based on comparable credit risk characteristics and divided into risk classes. Average historical loss probabilities related to the respective portfolio are employed to determine the extent of the impairment loss as long as there is uncertainty as to losses on specific receivables. Back-testing is used to regularly review the appropriateness of the allowances.

The receivables are shown in the balance sheet at net carrying amount. Notes to the provisions for risks are presented under item (33).

Unrecoverable receivables – which are being settled and in regards to which all collateral was disposed of and all other options for realising these receivables have been exhausted – are written off directly. Previously recognised 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-effective transactions and derivatives that are not hedges. All derivatives are stated at fair value and shown separately under items (34) and (44). They are recognised as of the respective trade date.

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

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

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

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

Another fair value hedge relationship existed at the level of the VW FS AG Group. It served to hedge the fair value from the change in the risk-free base rate of fixed income securities. In partial term hedging, the residual terms of these bonds were included in the hedge relationship. At the level of the VW FS AG Group, the changes in the fair value of both the underlying transaction and the hedge largely offset each other. This hedge expired at the end of the 2011 financial year.

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

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

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

## 11 | Securities

Securities principally include fixed-income government bonds as well as investments made in accordance with the investment guidelines laid down by VW Versicherung AG (primarily fixed-income securities and shares).

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

Fixed-income bonds in the amount of € 1,465 million (previous year: € 741 million) are pledged as security for own liabilities. The securities are deposited with Deutsche Bundesbank and have been pledged to it in connection with the Company's participation in open market operations.

## 12 | Other financial assets

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

## 13 | Intangible assets

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

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

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

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

The original goodwill as determined using the discounted cash flow method is used to determine the impairment of goodwill based on the management's current five-year plans with subsequent perpetual annuity. In each case, the planning premises are adjusted to the current level of knowledge. The discount rate applied is based on the applicable long-term market interest rate corresponding to the relevant cash generating unit (regions or markets). A cost of equity rate of 10.2% (previous year: 8.8%) was used throughout the Group. This entails taking into account both appropriate assumptions regarding macroeconomic trends and historical developments. As required, the cost of equity rate is adjusted by applying country- and business-specific discount factors. The growth rates expected for the individual markets are used to determine the respective cash flows. The estimate of the cash flows after the close of the planning period is based on a growth rate of 1 % p.a. (previous year: 1 % p.a.).

## 14 | Property, plant and equipment

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

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

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

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 | Impairment of non-financial assets

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

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

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

## 16 | Leasing business

**THE GROUP AS LESSOR**

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

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

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

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

#### THE GROUP AS LESSEE

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

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

## 17 | Liabilities

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

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

## 18 | Provisions for pensions 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 € 27 million (previous year: € 24 million). Both defined contribution and defined benefit pension commitments exist under company pension plans for employees. In the case of the defined contribution plans, contributions are paid to state or private pension insurance providers under statutory or contractual provisions or on a voluntary basis. The defined benefit plans, on the other hand, are financed by making provisions and, since 2001, also by making transfers into an external pension fund.

In the case of defined contribution plans, the VW FS AG Group does not enter into any payment obligations beyond payment of contributions to special-purpose funds. The expenses from contribution payments in the current period are shown under staff costs. In the reporting period, payments amounting to € 2 million (previous year: € 3 million) were made to defined contribution pension plans.

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

Since 1 January 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.

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

Material actuarial premises applied by the national companies:

| | GERMANY | | ABROAD | |
|---|---|---|---|---|
| % | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 |
| Expected return on plan assets | 3.75 | 3.75 | 6.19 | 5.67 |
| Discount rate | 3.20 | 4.60 | 0.70 – 8.47 | 1.00 – 10.00 |
| Expected rate of salary increases | 2.70 | 2.80 | 2.00 – 3.33 | 2.50 – 6.25 |
| Expected rate of pension increases | 1.80 | 1.50 | 2.00 – 4.50 | 2.00 – 4.25 |
| Fluctuation rate | 0.75 | 0.75 | 2.80 – 5.00 | 3.00 – 5.00 |

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

## 19 | Provisions for the insurance business

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

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

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

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

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

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

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

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

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

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

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

## 20 | Other provisions

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

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

Provisions are not offset against claims for reimbursement.

# Notes to the income statement

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

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

| € million | 2012 | 2011 |
|---|---|---|
| Interest income from lending and money market transactions | 3,644 | 3,221 |
| Income from leasing transactions and service contracts | 8,741 | 7,647 |
| Expenses from leasing business and service contracts | – 6,032 | – 5,259 |
| Depreciation and impairment losses on leased assets and investment property | – 1,481 | – 1,196 |
| Interest expense | – 2,022 | – 1,985 |
| **Total** | **2,850** | **2,428** |

The interest income from lending and money market transactions as well as the income from leasing transactions and service contracts contain interest income on impaired receivables in the amount of € 33 million (previous year: € 30 million).

Income from leasing transactions and service contracts includes rental income from investment property amounting to € 3 million (previous year: € 3 million). Furthermore, contingent rents under finance leases of € 46 million (previous year: € 33 million) and under operating leases of € 15 million (previous year: € 11 million) were recognised under income from leasing transactions and service contracts.

Impairment losses recognised as a result of the impairment test on leased assets amounted to € 113 million (previous year: € 70 million) and are contained in the depreciation and impairment losses on leased assets. Income from the reversal of impairment losses recognised in previous years on leased assets amounted to € 2 million (previous year: € 7 million) and is contained in the income from leasing transactions.

Interest income included here from financial instruments which are not attributable to the category of assets or financial liabilities measured at fair value through profit or loss amounts to € 3,644 million (previous year: € 3,221 million).

The net income from insurance transactions is comprised as follows:

| € million | 2012 | 2011 |
|---|---|---|
| Premiums earned from insurance business | 68 | 48 |
| Expenses for claims | – 36 | – 22 |
| Expenses for reinsurance commissions and profit sharing | – 11 | – 11 |
| Other underwriting expenses | 0 | 0 |
| **Total** | **21** | **15** |

The interest expense contains refinancing expenses from lending and leasing transactions. A total of € 2,045 million (previous year: € 2,029 million) of that expense concerns financial instruments not measured at fair value and through profit or loss. They were reduced by the net interest income of € 23 million (previous year: € 44 million) recorded in the financial year from derivatives that are not hedges.

## 22 | Provisions for risks arising from lending and leasing business

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

| € million | 2012 | 2011 |
|---|---|---|
| Additions to provisions for risks | –862 | –829 |
| Reversal of provisions for risks | 449 | 380 |
| Direct depreciation | –86 | –124 |
| Payments from receivables written off | 25 | 60 |
| **Total** | **–474** | **–513** |

Additional default risks arising for the Volkswagen Financial Services AG Group as a result of the crisis situation in Greece, Ireland, Spain and Italy were accounted for in the amount of € 10 million in the current financial year (previous year: € 188 million).

## 23 | Net commission income

The net commission income of € 140 million (previous year: € 153 million) contains € 351 million (previous year: € 331 million) income from insurance agency services.

## 24 | Result from financial instruments

This item contains the results from hedging transactions, derivatives that are not hedges and from the measurement of foreign currency receivables and liabilities.

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

The detailed figures are as follows:

| € million | 2012 | 2011 |
|---|---|---|
| Gains/losses on fair value hedging instruments | 29 | 11 |
| Gains/losses on underlying transactions of fair value hedges | –114 | –32 |
| Ineffective portion of cash flow hedging instruments | –5 | –2 |
| Gains/losses from currency hedging instruments | –10 | –20 |
| Gains/losses from the measurement of foreign currency receivables/liabilities | –17 | 2 |
| Gains/losses from other derivatives that are not hedges | –17 | 19 |
| **Total** | **–134** | **–22** |

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

## 25 | Result from other financial assets

The result from other financial assets comprises dividend and sale results from equity investments and shares in non-consolidated, affiliated companies in the amount of € 27 million (previous year: € 5 million), and also income and expenses from investment securities.

## 26 | General administration expenses

The general administration expenses are made up as follows:

| € million | 2012 | 2011 |
|---|---|---|
| Staff costs | –694 | –550 |
| Non-staff costs | –719 | –578 |
| Costs of advertising, PR work and sales promotion | –49 | –52 |
| Depreciation of property, plant and equipment and amortisation of and impairment losses on intangible assets | –52 | –56 |
| Other taxes | –17 | –23 |
| **Total** | **–1,531** | **–1,259** |

The non-staff costs contain expenses for leased assets under operating leases amounting to € 23 million (previous year: € 17 million).

As required by § 314 Para. 1 No. 9 HGB, the general administration expenses for the 2012 financial year include fees billed for the audit of the annual financial statements amounting to € 2 million (previous year: € 2 million), for other assurance and valuation services amounting to € 1 million (previous year: € 1 million), and for other services amounting to € 3 million (previous year: € 3 million).

Amortisation and impairment losses on intangible assets contain an impairment loss of € 0 million (previous year: € 7 million) recognised on internally generated software.

## 27 | Other operating result

The other operating result is made up as follows:

| € million | 2012 | 2011 |
|---|---|---|
| Income from costs charged to companies of the Volkswagen Group | 54 | 53 |
| Income from the reversal of provisions and accrued liabilities | 144 | 86 |
| Income from claims for damages | 8 | 7 |
| Other operating income | 165 | 282 |
| Other operating expenses | –429 | –435 |
| **Other operating result** | **–58** | **–7** |

## 28 | Taxes on income and earnings

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

| € million | 2012 | 2011 |
|---|---|---|
| Effective tax expense in Germany | –306 | –341 |
| Effective tax expense abroad | –304 | –183 |
| **Effective tax expense** | **–610** | **–524** |
| Income from the reversal of tax provisions and tax refunds | 2 | 12 |
| **Effective taxes on income and earnings** | **–608** | **–512** |
| of which not attributable to the reporting period | 12 | 10 |
| Deferred tax income/expense in Germany | 224 | 238 |
| Deferred tax income/expense abroad | 120 | –1 |
| **Deferred tax income/expense** | **344** | **237** |
| of which not attributable to the reporting period | –3 | 3 |
| **Total** | **–264** | **–275** |

The actual tax expense in 2012 amounting to € 264 million is € 29 million lower than the expected tax expense of € 293 million, which results from applying a tax rate of 29.5% (previous year: 29.5%) on the Group's pre-tax result. The previous year's actual tax expense amounting to € 275 million corresponded to the expected tax expense of € 275 million. The following reconciliation shows the connection between taxes on income and earnings and the pre-tax result in the financial year:

| € million | 2012 | 2011 |
|---|---|---|
| **Pre-tax result** | **993** | **933** |
| multiplied by the German income tax rate of 29.5 % (previous year: 29.5 %) | | |
| **= Arithmetical income tax expense in the financial year at the German income tax rate** | **–293** | **–275** |
| + Effects from tax credits | 0 | 0 |
| + Effects from German/foreign tax rate | –1 | –9 |
| + Effects from tax rate changes | 7 | –2 |
| + Effects from permanent accounting differences | 12 | 7 |
| + Effects on account of tax-free income from equity investments | 55 | 43 |
| + Effects from losses carried forward | –5 | –8 |
| + Effects from non-deductible operating expenses | –36 | –43 |
| + Taxes not attributable to the reporting period | 9 | 13 |
| + Other differences | –12 | –1 |
| **= Actual taxes on income and earnings** | **–264** | **–275** |

The domestic income tax rate chosen as the basis for the reconciliation is made up of the corporation tax rate of 15% applicable in Germany (previous year: 15%), plus solidarity surcharge of 5.5% (previous year: 5.5%) and an average rate for trade tax of 13.73% (previous year: 13.67%). Taking into account the non-deductibility of trade earnings tax as a business expense, the German income tax rate amounts to 29.5% (previous year: 29.5%). Income from equity investments and profit from the sale of equity investments in joint stock companies have not generally been subject to taxation on earnings since 1 January 2002.

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

As at 31 December 2012, the company's tax losses carried forward not yet used to date were € 90 million (previous year: € 150 million), for which deferred tax assets of € 13 million (previous year: € 45 million) were recognised. Of these unused tax losses carried forward, € 5 million (previous year: € 50 million) can be utilised indefinitely. There were also tax losses carried forward of € 84 million (previous year: € 93 million), which can be used within the next five years and € 0.4 million (previous year: € 7 million), which must be used within a period of five to ten years.

In the financial year just ended, a reduction in effective tax expenses of € 1 million resulted from the use of previously not capitalised tax losses carried forward. In the previous year, the deferred tax expenses were reduced by € 2 million as a result of tax losses and tax credits from a previous period which had not yet been taken into account. The amount of deferred tax expense was not reduced in 2012. In 2012, there was no tax expense resulting from the write-down of deferred tax assets (previous year: € 10 million).

No deferred tax asset was recognised on € 39 million unusable tax losses carried forward (previous year: € 18 million).

Of the deferred taxes recognised in the balance sheet, a total of € 48 million (previous year: € 16 million) relate to business transactions that are recognised directly in equity. A partial amount of € 42 million (previous year: € 18 million) concerns actuarial gains/losses (IAS 19), a partial amount of € –2 million (previous year: € –4 million) concerns derivative financial instruments, and a partial amount of € 8 million (previous year: € 3 million) concerns the market valuation of securities.

## 29 | Further notes to the income statement

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

| € million | 2012 | 2011 |
|---|---|---|
| Commission income | 48 | 39 |
| Commission expenses | 0 | 0 |
| **Total** | **48** | **39** |

# Notes to the balance sheet

## 30 | Cash reserve

The cash reserve contains deposits with the Deutsche Bundesbank amounting to € 336 million (previous year: € 340 million).

## 31 | Receivables from financial institutions

The receivables from financial institutions include receivables from affiliated companies amounting to € 36 million (previous year: € 19 million). There are no receivables from joint ventures (previous year: € 2 million).

## 32 | Receivables from customers

Receivables from customers include unsecuritised receivables from affiliated companies amounting to € 1,274 million (previous year: € 779 million) and receivables from joint ventures amounting to € 3,931 million (previous year: € 2,403 million). There are receivables from the sole shareholder, Volkswagen AG, amounting to € 36 million (previous year: € 119 million).

Receivables from retail financing contain, in principle, vehicle financing loan agreements with private and commercial customers. Financed vehicles are usually assigned to us as collateral. The wholesale financing contracts contain financing of vehicles in stock and equipment and investment loans to the dealer organisation. Here too, security assignments are used as collateral, as well as surety agreements and charges on property. Receivables from leasing business contain receivables from finance leases and due receivables from leased assets. Other receivables essentially consist of receivables from companies in the Volkswagen Group and of credit lines and overdraft facilities utilised by customers. The other receivables contain subordinated assets amounting to € 20 million (previous year: € 20 million).

The terms of the contracts are usually between six and 72 months. As a rule, credit lines are granted indefinitely. The interest rates, which essentially are fixed, are between 0.01% and 24.88% (previous year: 0.01% and 28.48%).

Portions of the retail financing and finance leasing receivables subject to fixed interest rates were hedged in a portfolio hedge against fluctuations of the risk-free base rate. Receivables from operating leasing transactions are excluded from this hedging strategy because they do not satisfy the definition of a financial instrument within the meaning of IAS 39 in conjunction with IAS 32.

The reconciliation from the balance sheet figures is as follows:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| **Receivables from customers** | **69,717** | **61,559** |
| Market value adjustment from portfolio hedging | 55 | 46 |
| Receivables from customers less market value adjustment from portfolio hedging | 69,662 | 61,513 |

Receivables from leasing transactions include due receivables amounting to € 205 million (previous year: € 172 million).

The receivables from operating leasing transactions total € 84 million as at the balance sheet date (previous year: € 62 million).

The receivables from finance leases are made up as follows:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| **Gross receivables from finance leases** | **16,276** | **15,231** |
| by residual term | | |
| up to one year | 5,932 | 6,153 |
| more than one year and up to five years | 10,308 | 9,042 |
| more than five years | 36 | 36 |
| **Interest not yet earned from finance leases** | **1,049** | **1,041** |
| **Net receivables from finance leases** | **15,227** | **14,190** |
| by residual term | | |
| up to one year | 5,547 | 5,710 |
| more than one year and up to five years | 9,648 | 8,449 |
| more than five years | 32 | 31 |

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

A provision for risks arising from outstanding minimum lease payments exists in the amount of € 99 million (previous year: € 106 million).

## 33 | Provisions for risks arising from lending and leasing business

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

Reconciliation based on classes in accordance with IFRS 7 is as follows:

Class: "Assets measured at amortised cost"

| | INDIVIDUAL VALUE ADJUSTMENTS | | PORTFOLIO-BASED VALUE ADJUSTMENTS | | TOTAL | |
|---|---|---|---|---|---|---|
| € million | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| **As at 1.1.** | **836** | **1,061** | **635** | **440** | **1,471** | **1,501** |
| Changes in the basis of consolidation | 28 | – | 13 | – | 41 | – |
| Additions | 537 | 371 | 226 | 315 | 763 | 686 |
| Transfers | –11 | –43 | –40 | –30 | –51 | –73 |
| Disposals | 528 | 506 | 126 | 81 | 654 | 587 |
| of which uses | 295 | 248 | – | – | 295 | 248 |
| of which reversals | 233 | 258 | 126 | 81 | 359 | 339 |
| Interest income from impaired receivables | 29 | 27 | – | – | 29 | 27 |
| Currency translation | –10 | –20 | –12 | –9 | –22 | –29 |
| **Provisions for risks arising from lending and leasing business as at 31.12.** | **823** | **836** | **696** | **635** | **1,519** | **1,471** |

Class: “Hedge accounting”

| € million | INDIVIDUAL VALUE ADJUSTMENTS 2012 | INDIVIDUAL VALUE ADJUSTMENTS 2011 | PORTFOLIO-BASED VALUE ADJUSTMENTS 2012 | PORTFOLIO-BASED VALUE ADJUSTMENTS 2011 | TOTAL 2012 | TOTAL 2011 |
|---|---|---|---|---|---|---|
| **As at 1.1.** | **134** | **91** | **176** | **45** | **310** | **136** |
| Changes in the basis of consolidation | – | – | – | – | – | – |
| Additions | 47 | 42 | 36 | 99 | 83 | 141 |
| Transfers | 9 | 40 | 42 | 33 | 51 | 73 |
| Disposals | 65 | 36 | 19 | 1 | 84 | 37 |
| of which uses | 28 | 15 | – | – | 28 | 15 |
| of which reversals | 37 | 21 | 19 | 1 | 56 | 22 |
| Interest income from impaired receivables | 4 | 3 | – | – | 4 | 3 |
| Currency translation | 0 | – | 0 | – | 0 | – |
| **Provisions for risks arising from lending and leasing business as at 31.12.** | **121** | **134** | **235** | **176** | **356** | **310** |

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

## 34 | Derivative financial instruments

This item contains the positive market values from hedging transactions and from derivatives that are not hedges; it is made up as follows:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Assets from hedging transactions | 625 | 540 |
| Fair value hedges on assets (currency risk) | 7 | 32 |
| Fair value hedges on liabilities (currency risk) | 0 | 0 |
| Fair value hedges (interest rate risk) | 568 | 418 |
| Portfolio fair value hedges (interest rate risk) | 41 | 57 |
| Cash flow hedges on interest payments (currency risk) | 9 | 31 |
| Cash flow hedges (interest rate risk) | 0 | 2 |
| Assets from derivatives that are not hedges | 129 | 169 |
| **Total** | **754** | **709** |

With the exception of derivatives that are not hedges, no financial instruments are classified as being held for trading.

## 35 | Joint ventures accounted for using the equity method and other financial assets

| € million | Companies accounted for using the equity method | Other financial assets | Total |
|---|---|---|---|
| **Cost of acquisition** | | | |
| **As at 1.1.2011** | **1,733** | **266** | **1,999** |
| Exchange rate changes | – | 0 | 0 |
| Changes in the basis of consolidation | – | 0 | 0 |
| Additions | – | 98 | 98 |
| Transfers | – | – | – |
| Disposals | – | 1 | 1 |
| Effects recognised in profit or loss | 132 | – | 132 |
| Dividends | 36 | – | 36 |
| Effects recognised in equity | – 8 | – | – 8 |
| **As at 31.12.2011** | **1,821** | **363** | **2,184** |
| **Depreciation/write-downs as at 1.1.2011** | **26** | **1** | **27** |
| Exchange rate changes | – | – | – |
| Changes in the basis of consolidation | – | – | – |
| Additions | – | – | – |
| Transfers | – | – | – |
| Disposals | – | – | – |
| Write-ups | – | – | – |
| Write-downs | – | – | – |
| **As at 31.12.2011** | **26** | **1** | **27** |
| **Carrying amount 31.12.2011** | **1,795** | **362** | **2,157** |
| **Carrying amount 1.1.2011** | **1,707** | **265** | **1,972** |

| € million | Companies accounted for using the equity method | Other financial assets | Total |
|---|---|---|---|
| **Cost of acquisition** | | | |
| **As at 1.1.2012** | **1,821** | **363** | **2,184** |
| Exchange rate changes | – | 0 | 0 |
| Changes in the basis of consolidation | –66 | –96 | –162 |
| Additions | 87 | 275 | 362 |
| Transfers | – | – | – |
| Disposals | 2 | 1 | 3 |
| Effects recognised in profit or loss | 126 | – | 126 |
| Dividends | 11 | – | 11 |
| Effects recognised in equity | 3 | – | 3 |
| **As at 31.12.2012** | **1,958** | **541** | **2,499** |
| **Depreciation/write-downs as at 1.1.2012** | **26** | **1** | **27** |
| Exchange rate changes | – | – | – |
| Changes in the basis of consolidation | – | – | – |
| Additions | – | – | – |
| Transfers | – | – | – |
| Disposals | – | – | – |
| Write-ups | – | – | – |
| Write-downs | – | – | – |
| **As at 31.12.2012** | **26** | **1** | **27** |
| **Carrying amount 31.12.2012** | **1,932** | **540** | **2,472** |
| **Carrying amount 1.1.2012** | **1,795** | **362** | **2,157** |

Starting in the 2012 financial year, the effects recognised in profit or loss, the dividends received and the effects recognised in equity have been presented separately in the development from joint ventures accounted for using the equity method. The previous year's figures were adjusted.

The changes in the basis of consolidation of € 66 million resulting from joint ventures accounted for using the equity method relate to the reclassification of the interests in Volkswagen Bank Polska S.A. and Volkswagen Leasing Polska Sp. z o.o. as a consequence of the first-time consolidation in the financial year. The profit of € 27 million generated from the termination of the use of the equity method is reported under additions.

Effective 22 January 2013, the interest in Global Mobility Holding B.V., Amsterdam, which was previously accounted for using the equity method, was sold to Volkswagen AG, Wolfsburg, in the course of intragroup restructuring. The purchase price was stipulated in the agreement dated 22 January 2013 and paid on the same day. In return, the interests in Global Mobility Holding B.V. were transferred to Volkswagen AG on 22 January 2013. The sale of the company will only be recognised in income for the 2013 financial year. In the segment reporting of the 2012 consolidated financial statements of VW FS AG, Global Mobility Holding B.V. is allocated to the reconciliation.

## 36 | Intangible assets

| € million | Internally generated software | Goodwill, brand name, customer base | Other intangible assets | Total |
|---|---|---|---|---|
| **Cost of acquisition** | | | | |
| **As at 1.1.2011** | **82** | **48** | **97** | **227** |
| Exchange rate changes | 0 | –4 | 0 | –4 |
| Changes in the basis of consolidation | – | 3 | 0 | 3 |
| Additions | 7 | – | 11 | 18 |
| Transfers | – | – | – | – |
| Disposals | – | – | 1 | 1 |
| **As at 31.12.2011** | **89** | **47** | **107** | **243** |
| **Amortisation/write-downs** | | | | |
| **As at 1.1.2011** | **48** | **10** | **74** | **132** |
| Exchange rate changes | 0 | –1 | 0 | –1 |
| Changes in the basis of consolidation | – | 1 | 0 | 1 |
| Additions | 9 | 3 | 10 | 22 |
| Transfers | –2 | – | 2 | – |
| Disposals | – | – | 1 | 1 |
| Write-ups | – | – | – | – |
| Write-downs | 7 | – | – | 7 |
| **As at 31.12.2011** | **62** | **13** | **85** | **160** |
| **Carrying amount 31.12.2011** | **27** | **34** | **22** | **83** |
| **Carrying amount 1.1.2011** | **34** | **38** | **23** | **95** |

| € million | Internally generated software | Goodwill, brand name, customer base | Other intangible assets | Total |
|---|---|---|---|---|
| **Cost of acquisition** | | | | |
| **As at 1.1.2012** | **89** | **47** | **107** | **243** |
| Exchange rate changes | 1 | 2 | –1 | 2 |
| Changes in the basis of consolidation | – | 55 | 12 | 67 |
| Additions | 9 | – | 23 | 32 |
| Transfers | – | – | – | – |
| Disposals | – | – | 4 | 4 |
| **As at 31.12.2012** | **99** | **104** | **137** | **340** |
| **Amortisation/write-downs** | | | | |
| **As at 1.1.2012** | **62** | **13** | **85** | **160** |
| Exchange rate changes | 1 | –1 | –1 | –1 |
| Changes in the basis of consolidation | – | 0 | 8 | 8 |
| Additions | 6 | 3 | 12 | 21 |
| Transfers | – | – | 0 | 0 |
| Disposals | – | – | 3 | 3 |
| Write-ups | – | – | – | – |
| Write-downs | – | – | – | – |
| **As at 31.12.2012** | **69** | **15** | **101** | **185** |
| **Carrying amount 31.12.2012** | **30** | **89** | **36** | **155** |
| **Carrying amount 1.1.2012** | **27** | **34** | **22** | **83** |

Intangible assets having indefinite useful lives at the balance sheet date comprise one item of goodwill and a brand name. The indefinite useful lives arise from the fact that both the goodwill and the brand name are derived from the relevant cash generating unit and thus exist as long as that unit exists. The customer base is amortised over a period of five years.

## 37 | Property, plant and equipment

| € million | Land and buildings | Operating and office equipment | Total |
|---|---|---|---|
| **Cost of acquisition** | | | |
| **As at 1.1.2011** | **238** | **149** | **387** |
| Exchange rate changes | 1 | –1 | 0 |
| Changes in the basis of consolidation | 0 | 0 | 0 |
| Additions | 21 | 28 | 49 |
| Transfers | 0 | 0 | – |
| Disposals | 2 | 11 | 13 |
| **As at 31.12.2011** | **258** | **165** | **423** |
| **Depreciation/write-downs** | | | |
| **As at 1.1.2011** | **64** | **105** | **169** |
| Exchange rate changes | 0 | –1 | –1 |
| Changes in the basis of consolidation | 0 | 0 | 0 |
| Additions | 7 | 18 | 25 |
| Transfers | – | – | – |
| Disposals | 0 | 6 | 6 |
| Write-ups | – | – | – |
| Write-downs | 2 | – | 2 |
| **As at 31.12.2011** | **73** | **116** | **189** |
| **Carrying amount 31.12.2011** | **185** | **49** | **234** |
| **Carrying amount 1.1.2011** | **174** | **44** | **218** |

| € million | Land and buildings | Operating and office equipment | Total |
|---|---|---|---|
| **Cost of acquisition** | | | |
| **As at 1.1.2012** | **258** | **165** | **423** |
| Exchange rate changes | –2 | –3 | –5 |
| Changes in the basis of consolidation | 0 | 15 | 15 |
| Additions | 13 | 32 | 45 |
| Transfers | –1 | 1 | – |
| Disposals | 0 | 11 | 11 |
| **As at 31.12.2012** | **268** | **199** | **467** |
| **Depreciation/write-downs** | | | |
| **As at 1.1.2012** | **73** | **116** | **189** |
| Exchange rate changes | –1 | –1 | –2 |
| Changes in the basis of consolidation | 0 | 5 | 5 |
| Additions | 8 | 23 | 31 |
| Transfers | – | – | – |
| Disposals | 0 | 6 | 6 |
| Write-ups | – | – | – |
| Write-downs | – | – | 0 |
| **As at 31.12.2012** | **80** | **137** | **217** |
| **Carrying amount 31.12.2012** | **188** | **62** | **250** |
| **Carrying amount 1.1.2012** | **185** | **49** | **234** |

Land and buildings include plant under construction with a carrying amount of € 9 million (previous year: € 2 million).

## 38 | Leased assets

| € million | Movable leased assets | Investment property | Total |
|---|---|---|---|
| **Cost of acquisition as at 1.1.2011** | **6,324** | **19** | **6,343** |
| Exchange rate changes | 35 | 1 | 36 |
| Changes in the basis of consolidation | – | – | – |
| Additions | 6,887 | 2 | 6,889 |
| Transfers | – | – | – |
| Disposals | 5,056 | 2 | 5,058 |
| **As at 31.12.2011** | **8,190** | **20** | **8,210** |
| **Depreciation as at 1.1.2011** | **1,350** | **10** | **1,360** |
| Exchange rate changes | 7 | 0 | 7 |
| Changes in the basis of consolidation | – | – | – |
| Additions | 1,125 | 1 | 1,126 |
| Transfers | – | – | – |
| Disposals | 737 | 1 | 738 |
| Write-ups | 7 | – | 7 |
| Write-downs | 70 | – | 70 |
| **As at 31.12.2011** | **1,808** | **10** | **1,818** |
| **Carrying amount 31.12.2011** | **6,382** | **10** | **6,392** |
| **Carrying amount 1.1.2011** | **4,974** | **9** | **4,983** |

| € million | Movable leased assets | Investment property | Total |
|---|---|---|---|
| **Cost of acquisition as at 1.1.2012** | **8,190** | **20** | **8,210** |
| Exchange rate changes | 41 | – 1 | 40 |
| Changes in the basis of consolidation | 0 | 1 | 1 |
| Additions | 7,616 | 1 | 7,617 |
| Transfers | – | – | – |
| Disposals | 6,138 | – | 6,138 |
| **As at 31.12.2012** | **9,709** | **21** | **9,730** |
| **Depreciation as at 1.1.2012** | **1,808** | **10** | **1,818** |
| Exchange rate changes | 7 | 0 | 7 |
| Changes in the basis of consolidation | 0 | – | 0 |
| Additions | 1,367 | 1 | 1,368 |
| Transfers | – | – | – |
| Disposals | 1,058 | – | 1,058 |
| Write-ups | 2 | 0 | 2 |
| Write-downs | 113 | – | 113 |
| **As at 31.12.2012** | **2,235** | **11** | **2,246** |
| **Carrying amount 31.12.2012** | **7,474** | **10** | **7,484** |
| **Carrying amount 1.1.2012** | **6,382** | **10** | **6,392** |

The fair value of investment property amounts to € 11 million. Operating costs of € 3 million (previous year: € 3 million) were incurred for maintaining investment property.

We expect payments of € 116 million in 2013 and € 18 million between 2014 and 2017 from the non-cancellable leasing and rental contracts.

## 39 | Deferred tax assets

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

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Deferred taxation | 5,687 | 4,731 |
| of which non-current | 2,935 | 2,518 |
| Capitalised benefits from unused tax losses carried forward | 13 | 45 |
| of which non-current | 13 | 45 |
| Netting (with deferred tax liabilities) | – 5,023 | – 4,474 |
| **Total** | **677** | **302** |

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

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Property, plant and equipment/intangible assets | 21 | 19 |
| Leased assets | 3,800 | 3,285 |
| Receivables and other assets | 154 | 99 |
| Cash and cash equivalents, and securities | 1,288 | 941 |
| Liabilities and provisions | 424 | 387 |
| **Total** | **5,687** | **4,731** |

## 40 | Other assets

Other assets concern the following items:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Vehicles taken back for resale | 556 | 292 |
| Prepaid expenses | 207 | 170 |
| Receivables from other taxes | 159 | 110 |
| Underwriting provisions attributable to reinsurance companies | 131 | 126 |
| Miscellaneous | 372 | 322 |
| **Total** | **1,425** | **1,020** |

The underwriting provisions attributable to reinsurance companies break down as follows:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Provisions for unsettled claims attributable to reinsurance companies | 122 | 117 |
| Provisions for deferred premiums attributable to reinsurance companies | 8 | 8 |
| Other underwriting provisions attributable to reinsurance companies | 1 | 1 |
| **Total** | **131** | **126** |

## 41 | Non-current assets

| € million | 31.12.2012 | of which non-current | 31.12.2011 | of which non-current |
|---|---|---|---|---|
| Cash reserve | 355 | – | 352 | – |
| Receivables from financial institutions | 2,215 | 35 | 3,109 | 13 |
| Receivables from customers | 69,717 | 37,932 | 61,559 | 32,326 |
| Derivative financial instruments | 754 | 648 | 709 | 539 |
| Securities | 1,718 | 1,297 | 897 | 719 |
| Joint ventures accounted for using the equity method | 1,932 | 1,932 | 1,795 | 1,795 |
| Other financial assets | 540 | 540 | 362 | 362 |
| Intangible assets | 155 | 155 | 83 | 83 |
| Property, plant and equipment | 250 | 250 | 234 | 234 |
| Leased assets | 7,474 | 5,790 | 6,382 | 4,938 |
| Investment property | 10 | 10 | 10 | 10 |
| Income tax assets | 157 | 19 | 132 | 17 |
| Other assets | 1,425 | 212 | 1,020 | 204 |
| **Total** | **86,702** | **48,820** | **76,644** | **41,240** |

## 42 | Liabilities to financial institutions and customers

The liabilities to financial institutions and customers are all unsecuritised.

The securitised liabilities are shown separately.

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

The drawing of funds, which is shown as unsecuritised liabilities to customers, amounts to € 6,868 million (previous year: € 4,884 million) in liabilities to affiliated companies – of which € 1,698 million (previous year: € 2,455 million) is attributable to the sole shareholder, Volkswagen AG.

The liabilities to customers contain € 24,889 million in customer deposits (previous year: € 23,795 million). They mainly comprise overnight and fixed-term deposits as well as various savings certificates and plans of Volkswagen Bank GmbH. Relative to the term, the “Direkt” savings plan and the “Plus Sparbrief” have the longest investment horizon. The maximum term is ten years.

Portions of the liabilities to customers are hedged in a portfolio hedge against fluctuations of the risk-free base rate.

The reconciliation from the balance sheet figures is as follows:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| **Liabilities to customers** | **31,128** | **29,739** |
| Market value adjustment from portfolio hedging | 3 | 6 |
| Liabilities to customers less market value adjustment from portfolio hedging | 31,125 | 29,733 |

## 43 | Securitised liabilities

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

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Debentures issued | 24,916 | 23,156 |
| Money market papers issued | 4,264 | 3,077 |
| **Total** | **29,180** | **26,233** |

The VW FS AG Group utilises ABS transactions, in addition to the options mentioned above, for the purpose of refinancing. At year's end, the associated liabilities contained in the debentures issued amounted to € 7,397 million (previous year: € 5,181 million), those in the liabilities to financial institutions amounted to € 212 million (previous year: € 309 million) and those in the subordinated liabilities amounted to € 1,315 million (previous year: € 1,186 million). The liabilities to customers do not contain any liabilities arising from ABS transactions (previous year: € 1,526 million). Receivables in the amount of € 9,135 million (previous year: € 8,005 million) arising from retail financing and the leasing business serve as security. This entails assigning the anticipated payments to single purpose entities and transferring the vehicles financed as collateral. Given the IFRS requirement that special purpose entities must be consolidated, the assets and corresponding liabilities are continued to be recognised at VW FS AG.

The majority of public and private ABS transactions of the Volkswagen Financial Services AG Group may be subject to early repayment (so-called clean-up call) if less than 9% or 10%, respectively, of the original transaction volume is outstanding. The ABS transactions of Volkswagen Financial Services UK (Ltd.) are amortised until all liabilities have been extinguished.

## 44 | Derivative financial instruments

This item contains the negative market values from hedging transactions and from derivatives that are not hedges; it is made up as follows:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Obligations from hedging transactions | 278 | 233 |
| Fair value hedges on assets (currency risk) | 7 | 8 |
| Fair value hedges on liabilities (currency risk) | 8 | 8 |
| Fair value hedges (interest rate risk) | 54 | 41 |
| Portfolio fair value hedges (interest rate risk) | 148 | 89 |
| Cash flow hedges on interest payments (currency risk) | 57 | 71 |
| Cash flow hedges (interest rate risk) | 4 | 16 |
| Obligations from derivatives that are not hedges | 138 | 133 |
| **Total** | **416** | **366** |

## 45 | Provisions

The provisions break down as follows:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Provisions for pensions and similar obligations | 265 | 181 |
| Underwriting provisions | 278 | 230 |
| Other provisions | 968 | 736 |
| **Total** | **1,511** | **1,147** |

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

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

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

| € million | 31.12.2012 | 31.12.2011 | 31.12.2010 | 31.12.2009 | 31.12.2008 |
|---|---|---|---|---|---|
| Present value of funded obligations | 138 | 112 | 103 | 88 | 65 |
| Fair value of plan assets | 128 | 114 | 104 | 87 | 68 |
| **Surplus/deficit** | **10** | **–2** | **–1** | **1** | **–3** |
| Present value of unfunded obligations | 254 | 180 | 163 | 139 | 124 |
| Amount not recognised as an asset due to the ceiling of IAS 19 | 0 | 0 | 0 | 0 | – |
| **Net liability recognised in the balance sheet** | **264** | **178** | **162** | **140** | **121** |

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

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Pension provisions | 265 | 181 |
| Other assets | 1 | 3 |
| **Net liability recognised in the balance sheet** | **264** | **178** |

The pension provisions essentially concern pension commitments of German companies.

The present value of the commitments developed as follows:

| € million | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **Present value of obligations as at 1.1.** | **293** | **266** | **227** | **188** | **195** |
| Changes in the basis of consolidation | –2 | – | – | – | – |
| Current service cost | 13 | 12 | 10 | 9 | 9 |
| Interest on obligation | 14 | 14 | 13 | 11 | 11 |
| Actuarial gains and losses (recognised in equity) | 81 | 8 | 18 | 16 | –14 |
| Employee contributions to the fund | 1 | 1 | 1 | 1 | 1 |
| Pension payments out of company assets | 4 | 4 | 3 | 3 | 3 |
| Pension payments out of the fund | 1 | 2 | 1 | 1 | 3 |
| Other changes | –1 | –1 | –2 | 2 | 0 |
| Currency differences from foreign plans | –2 | –1 | 3 | 4 | –8 |
| **Present value of obligations as at 31.12.** | **392** | **293** | **266** | **227** | **188** |

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

| € million | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **Fair value of plan assets as at 1.1.** | **115** | **104** | **87** | **68** | **75** |
| Changes in the basis of consolidation | –1 | – | – | – | – |
| Expected return on plan assets | 6 | 6 | 5 | 4 | 5 |
| Actuarial gains and losses (recognised in equity) | 1 | –2 | 1 | 3 | –7 |
| Employer contributions to the fund | 10 | 9 | 7 | 7 | 6 |
| Employee contributions to the fund | 1 | 1 | 1 | 1 | 1 |
| Pension payments out of the fund | 1 | 1 | 1 | 1 | 3 |
| Other changes | –1 | –1 | 0 | 1 | –1 |
| Currency differences from foreign plans | –2 | –1 | 3 | 4 | –8 |
| **Fair value of the plan assets as at 31.12.** | **128** | **115** | **104** | **87** | **68** |

The actual return on plan assets amounted to € 7 million (previous year: € 4 million).

The interest rate for the expected long-term returns of the fund assets is based on the portfolio's actual income generated over the long term, on historical total market returns and on forecasts regarding the likely returns of the classes of securities the portfolios contain (shares and fixed-interest securities). These forecasts are based on expected returns for comparable pension funds during the respective employee's remaining years of service as an investment horizon, as well as on the experience of major portfolio managers and investment experts. In the next financial year, the Company expects a return from plan assets of € 7 million (previous year: € 6 million), employer contributions to the fund of € 13 million (previous year: € 11 million) and service cost of € 12 million (previous year: € 10 million).

The fund assets comprise the following components:

| % | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Shares | 23 | 22 | 24 | 25 | 15 |
| Fixed-income securities | 60 | 65 | 59 | 59 | 61 |
| Cash | 8 | 3 | 6 | 5 | 18 |
| Property | 2 | 2 | 3 | 3 | 1 |
| Other | 7 | 8 | 8 | 8 | 5 |

The following amounts were recognised in the income statement:

| € million | 2012 | 2011 |
|---|---|---|
| Current service cost | –13 | –12 |
| Interest on obligation | –14 | –14 |
| Expected return on plan assets | 6 | 6 |
| Past service cost | – | – |
| **Total amount shown under staff costs** | **–21** | **–20** |

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

| € million | 2012 | 2011 |
|---|---|---|
| **Net liability at 1.1.** | **178** | **162** |
| Net expense in the income statement | 21 | 20 |
| Pension benefits and fund allocations paid | 14 | 13 |
| Actuarial gains and losses (recognised in equity) | 80 | 10 |
| Other changes | 0 | 1 |
| Currency differences from foreign plans | –1 | 0 |
| **Net liability at 31.12.** | **264** | **178** |

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

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Differences between expected and actual development | | | | | |
| in % of the present value of obligations | 1.05 | –1.42 | 1.12 | 1.42 | 2 |
| in % of the fair value of plan assets | 0.39 | –2.10 | 0.92 | 2.41 | –7.52 |

Underwriting provisions developed as follows:

| € million | UNDERWRITING PROVISIONS Provisions for unsettled insurance claims | Provision for deferred premiums | Other underwriting provisions |
|---|---|---|---|
| **As at 1.1.2011** | **132** | **50** | **2** |
| Changes in the basis of consolidation | – | – | – |
| Use | 53 | 25 | 0 |
| Addition | 54 | 70 | – |
| Other changes | – | – | – |
| **As at 31.12.2011** | **133** | **95** | **2** |

| € million | UNDERWRITING PROVISIONS Provisions for unsettled insurance claims | Provision for deferred premiums | Other underwriting provisions |
|---|---|---|---|
| **As at 1.1.2012** | **133** | **95** | **2** |
| Changes in the basis of consolidation | – | – | – |
| Use | 50 | 39 | – |
| Addition | 59 | 78 | 0 |
| Other changes | – | – | – |
| **As at 31.12.2012** | **142** | **134** | **2** |

Terms of the underwriting provisions:

| | 31.12.2012 | | 31.12.2011 | |
|---|---|---|---|---|
| € million | Residual term more than one year | Total | Residual term more than one year | Total |
| Provisions for unsettled insurance claims | 75 | 142 | 74 | 133 |
| Provision for deferred premiums | 82 | 134 | 45 | 95 |
| Other underwriting provisions | – | 2 | – | 2 |
| **Total** | **157** | **278** | **119** | **230** |

Underwriting provisions for the direct business:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| € million | Residual term more than one year | Total | Residual term more than one year | Total |
| **As at 1.1.** | **14** | **39** | **–** | **–** |
| Use | – | 14 | – | – |
| Addition | 30 | 46 | 14 | 39 |
| Other changes | – | – | – | – |
| **As at 31.12.** | **44** | **71** | **14** | **39** |

Underwriting provisions for the direct business were set up exclusively for warranty insurance.

Development of the underwriting provisions for the reinsurance business by type:

| € million | 2011 Vehicle insurance | Commercial insurance | Credit protection insurance | Total |
|---|---|---|---|---|
| **As at 1.1.** | **133** | **4** | **47** | **184** |
| Use | 55 | 4 | 18 | 77 |
| Addition | 54 | 1 | 29 | 84 |
| Other changes | – | – | – | – |
| **As at 31.12.** | **132** | **1** | **58** | **191** |

| € million | 2012 Vehicle insurance | Commercial insurance | Credit protection insurance | Total |
|---|---|---|---|---|
| **As at 1.1.** | **132** | **1** | **58** | **191** |
| Use | 52 | 0 | 22 | 74 |
| Addition | 57 | – | 33 | 90 |
| Other changes | – | – | – | – |
| **As at 31.12.** | **137** | **1** | **69** | **207** |

Other provisions developed as follows:

| € million | OTHER PROVISIONS Human resources | Provisions for litigation costs | Other |
|---|---|---|---|
| **As at 1.1.2011** | **102** | **281** | **206** |
| Exchange rate changes | 0 | – 23 | 0 |
| Changes in the basis of consolidation | – | – | 0 |
| Use | 59 | 33 | 12 |
| Reversal | 13 | 23 | 70 |
| Addition | 90 | 56 | 219 |
| Unwinding of discounts | – | 14 | 1 |
| **As at 31.12.2011** | **120** | **272** | **344** |

| € million | OTHER PROVISIONS Human resources | Provisions for litigation costs | Other |
|---|---|---|---|
| **As at 1.1.2012** | **120** | **272** | **344** |
| Exchange rate changes | 0 | – 32 | – 1 |
| Changes in the basis of consolidation | 2 | – | 2 |
| Use | 80 | 7 | 10 |
| Reversal | 7 | 5 | 109 |
| Addition | 137 | 47 | 280 |
| Unwinding of discounts | – | 12 | 3 |
| **As at 31.12.2012** | **172** | **287** | **509** |

The provisions in human resources include, in particular, one-off annual payments, payments on account of staff anniversaries of company service and other costs of the workforce. The other provisions also contain € 28 million (previous year: € 45 million) in provisions for indirect default risks.

Terms of the other provisions:

| € million | 31.12.2012 Residual term more than one year | 31.12.2012 Total | 31.12.2011 Residual term more than one year | 31.12.2011 Total |
|---|---|---|---|---|
| Human resources | 35 | 172 | 30 | 120 |
| Provisions for litigation costs | 287 | 287 | 271 | 272 |
| Other | 179 | 509 | 107 | 344 |
| **Total** | **501** | **968** | **408** | **736** |

The expected outflow of payments is as follows: 48% in the following year, 49% in the years 2014 to 2017 and 3% thereafter.

## 46 | Deferred tax liabilities

The deferred tax liabilities break down as follows:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Deferred income tax obligations | 5,516 | 4,987 |
| of which non-current | 2,927 | 2,863 |
| Netting (with deferred tax assets) | –5,023 | –4,474 |
| **Total** | **493** | **513** |

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

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

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Receivables and other assets | 4,210 | 4,408 |
| Property, plant and equipment/intangible assets | 29 | 62 |
| Leased assets | 438 | 366 |
| Cash and securities | 55 | 70 |
| Liabilities, grants and provisions | 784 | 81 |
| **Total** | **5,516** | **4,987** |

## 47 | Other liabilities

Other liabilities concern the following items:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Deferred income | 425 | 370 |
| Liabilities from other taxes | 243 | 214 |
| Liabilities within the framework of social security and the wage and salary settlement | 45 | 37 |
| Other | 428 | 368 |
| **Total** | **1,141** | **989** |

A total of € 8 million (previous year: € 8 million) of the other liabilities shown in the consolidated balance sheet are secured through charges on property.

## 48 | Subordinated capital

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

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Subordinated liabilities | 2,691 | 2,586 |
| of which: due within two years | 1,270 | 1,042 |
| Participation right liabilities | 0 | 91 |
| of which: due within two years | 0 | 91 |
| **Total** | **2,691** | **2,677** |

The subordinated liabilities to affiliated companies amount to € 2,317 million (previous year: € 2,220 million). In the previous year, the participating certificates issued amount to a nominal € 1 million in relation to the sole shareholder, Volkswagen AG, and a nominal € 89 million in relation to non-Group third parties.

## 49 | Non-current liabilities

| € million | 31.12.2012 | of which non-current | 31.12.2011 | of which non-current |
|---|---|---|---|---|
| Liabilities to financial institutions | 11,696 | 5,588 | 7,337 | 3,759 |
| Liabilities to customers | 31,128 | 5,485 | 29,739 | 4,840 |
| Securitised liabilities | 29,180 | 18,637 | 26,233 | 15,486 |
| Derivative financial instruments | 416 | 304 | 366 | 221 |
| Income tax obligations | 323 | 5 | 241 | 8 |
| Other liabilities | 1,141 | 289 | 989 | 295 |
| Subordinated capital | 2,691 | 1,524 | 2,677 | 1,907 |
| **Total** | **76,575** | **31,832** | **67,582** | **26,516** |

## 50 | Equity

The subscribed capital of VW FS AG is divided into 441,280,000 fully paid-up no-par bearer shares with a nominal value of € 1 each, all of which are held by Volkswagen AG, Wolfsburg. Neither preferential rights nor limitations arise from the subscribed capital.

The capital reserve of VW FS AG includes the capital contributions of Volkswagen AG, the company's sole shareholder.

Retained earnings include undistributed profits from prior years. The retained earnings contain a legal reserve of € 44 million (previous year: € 44 million).

VW FS AG's profit of € 170 million based on its HGB single-entity financial statements (previous year: € 512 million) was transferred to Volkswagen AG, the company's sole shareholder, under its existing control and profit transfer agreement.

## 51 | Capital management

Capital in this connection generally refers to equity as defined in the IFRS. VW FS AG's capital management serves to support the company's rating through adequate capitalisation, raise equity for funding its growth targets in the following financial year and fulfil regulatory requirements regarding capital adequacy.

Liable capital under regulatory requirements is distinguished from equity under IFRS (cf. item 50 for its components).

Liable capital under regulatory requirements comprises the so-called core capital and the supplementary capital (subordinated liabilities) net of certain deductible items and must satisfy specific legal requirements.

Capital measures by the parent company of VW FS AG affect both equity under IFRS and the liable capital.

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

The resulting figures and financial ratios for the financial holding group are as follows:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Aggregate risk position (in € million) | 76,198 | 66,069 |
| of which weighted position according to the standardised approach to credit risks | 68,487 | 60,254 |
| of which market risk positions * 12.5 | 3,473 | 2,452 |
| of which operational risks * 12.5 | 4,238 | 3,363 |
| Liable capital (in € million)[1] | 7,470 | 6,694 |
| of which core capital[2] | 6,975 | 6,476 |
| of which supplementary capital[2] | 495 | 218 |
| Own funds (in € million)[2] | 7,470 | 6,694 |
| Core capital ratio (in %)[3] | 9.2 | 9.8 |
| **Overall ratio (in %)[4]** | **9.8** | **10.1** |

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

# Notes to the financial instruments

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

The VW FS AG Group has defined the measurement categories under IAS 39 as follows:

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

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

Available-for-sale financial assets are either allocated specifically to this category or they are not allocated to any other category. Securities and other financial assets are included in this category at the VW FS AG Group.

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

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

| | 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 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 |
| **Assets** | | | | | | | | |
| Cash reserve | 355 | 352 | – | – | – | – | – | – |
| Receivables from financial institutions | 2,215 | 3,109 | – | – | – | – | – | – |
| Receivables from customers | 54,402 | 47,307 | – | – | – | – | – | – |
| Derivative financial instruments | – | – | – | – | – | – | 129 | 169 |
| Securities | – | – | 1,718 | 897 | – | – | – | – |
| Other financial assets | – | – | 540 | 362 | – | – | – | – |
| Other assets | 268 | 234 | – | – | – | – | – | – |
| **Total** | **57,240** | **51,002** | **2,258** | **1,259** | **–** | **–** | **129** | **169** |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Liabilities to financial institutions | – | – | – | – | 11,696 | 7,337 | – | – |
| Liabilities to customers | – | – | – | – | 31,118 | 29,739 | – | – |
| Securitised liabilities | – | – | – | – | 29,180 | 26,233 | – | – |
| Derivative financial instruments | – | – | – | – | – | – | 138 | 133 |
| Other liabilities | – | – | – | – | 307 | 247 | – | – |
| Subordinated capital | – | – | – | – | 2,691 | 2,677 | – | – |
| **Total** | **–** | **–** | **–** | **–** | **74,992** | **66,233** | **138** | **133** |

Receivables from leasing business are not allocated to any category.

The net results of these categories were as follows:

| € million | 2012 | 2011 |
|---|---|---|
| Loans and receivables | 3,215 | 2,862 |
| Available-for-sale financial assets | 71 | 23 |
| Financial liabilities measured at amortised cost | −2,103 | −2,061 |
| Assets or financial liabilities measured at fair value and recognised in income | −9 | 40 |

The results are determined as follows:

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

## 53 | Classes of financial instruments

Financial instruments are classed as follows in the VW FS AG Group:
– Measured at fair value
– Assets measured at amortised cost
– Hedge accounting
– Other financial assets
– Liabilities measured at amortised cost
– Credit commitments
– Not subject to IFRS 7

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

| € million | BALANCE SHEET ITEM | | MEASURED AT FAIR VALUE | | MEASURED AT AMORTISED COST | | HEDGE ACCOUNTING | | OTHER FINANCIAL ASSETS | | NOT SUBJECT TO IFRS 7 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31.12. 2012 | 31.12. 2011 | 31.12. 2012 | 31.12. 2011 | 31.12. 2012 | 31.12. 2011 | 31.12. 2012 | 31.12. 2011 | 31.12. 2012 | 31.12. 2011 | 31.12. 2012 | 31.12. 2011 |
| **Assets** | | | | | | | | | | | | |
| Cash reserve | 355 | 352 | – | – | 355 | 352 | – | – | – | – | – | – |
| Receivables from financial institutions | 2,215 | 3,109 | – | – | 2,215 | 3,109 | – | – | – | – | – | – |
| Receivables from customers | 69,717 | 61,559 | – | – | 53,603 | 50,521 | 16,114 | 11,038 | – | – | – | – |
| Derivative financial instruments | 754 | 709 | 129 | 169 | – | – | 625 | 540 | – | – | – | – |
| Securities | 1,718 | 897 | 1,718 | 897 | – | – | – | – | – | – | – | – |
| Joint ventures accounted for using the equity method | 1,932 | 1,795 | – | – | – | – | – | – | – | – | 1,932 | 1,795 |
| Other financial assets | 540 | 362 | – | – | – | – | – | – | 540 | 362 | – | – |
| Other assets | 1,425 | 1,020 | – | – | 268 | 234 | – | – | – | – | 1,157 | 786 |
| **Total** | **78,656** | **69,803** | **1,847** | **1,066** | **56,441** | **54,216** | **16,739** | **11,578** | **540** | **362** | **3,089** | **2,581** |
| | | | | | | | | | | | | |
| **Liabilities** | | | | | | | | | | | | |
| Liabilities to financial institutions | 11,696 | 7,337 | – | – | 11,696 | 7,337 | – | – | – | – | – | – |
| Liabilities to customers | 31,128 | 29,739 | – | – | 29,190 | 27,545 | 1,938 | 2,193 | – | – | – | – |
| Securitised liabilities | 29,180 | 26,233 | – | – | 29,180 | 26,233 | – | – | – | – | – | – |
| Derivative financial instruments | 416 | 366 | 138 | 133 | – | – | 278 | 233 | – | – | – | – |
| Other liabilities | 1,141 | 989 | – | – | 307 | 247 | – | – | – | – | 834 | 742 |
| Subordinated capital | 2,691 | 2,677 | – | – | 2,691 | 2,677 | – | – | – | – | – | – |
| **Total** | **76,252** | **67,341** | **138** | **133** | **73,064** | **64,039** | **2,216** | **2,426** | **–** | **–** | **834** | **742** |

The credit commitments class includes liabilities arising from irrevocable credit commitments amounting to € 3,201 million (previous year: € 3,549 million).

## 54 | Measurement levels of the financial instruments measured at fair value

According to IFRS 7.27, the financial instruments that have been measured at fair value must be classified within a three-level fair value hierarchy. As such, classification within the individual levels is contingent on the availability of observable market prices.

The fair values of financial instruments, e.g. securities, for which a market price is directly observable are classified in Level 1.

Level 2 contains fair values determined on the basis of foreign exchange rates or interest rate curves using measurement methods relevant to the respective market. This concerns derivatives in particular.

Level 3 contains fair values that are determined using measurement methods that do not take directly observable factors in an active market into account.

The fair value of the other financial instruments corresponds to their carrying amount because there is no active market and because it is impossible to reliably determine the relevant fair value at a reasonable cost.

The following table shows how the financial instruments measured at fair value are categorised in this three level class hierarchy.

| € million | LEVEL 1 31.12.2012 | 31.12.2011 | LEVEL 2 31.12.2012 | 31.12.2011 | LEVEL 3 31.12.2012 | 31.12.2011 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Measured at fair value | | | | | | |
| Derivative financial instruments | – | – | 129 | 169 | – | – |
| Securities | 1,715 | 889 | 3 | 8 | – | – |
| Hedge accounting | | | | | | |
| Derivative financial instruments | – | – | 625 | 540 | – | – |
| **Total** | **1,715** | **889** | **757** | **717** | **–** | **–** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Measured at fair value | | | | | | |
| Derivative financial instruments | – | – | 138 | 133 | – | – |
| Hedge accounting | | | | | | |
| Derivative financial instruments | – | – | 278 | 233 | – | – |
| **Total** | **–** | **–** | **416** | **366** | **–** | **–** |

## 55 | Fair value of financial instruments classed as follows: Assets or liabilities measured at amortised cost, Measured at fair value, Hedge accounting, and Other financial assets

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

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

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

| | FAIR VALUE | | CARRYING AMOUNT | | DIFFERENCE | |
|---|---|---|---|---|---|---|
| € million | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 |
| **Assets** | | | | | | |
| Measured at fair value | | | | | | |
| Derivative financial instruments | 129 | 169 | 129 | 169 | – | – |
| Securities | 1,718 | 897 | 1,718 | 897 | – | – |
| Measured at amortised cost | | | | | | |
| Cash reserve | 355 | 352 | 355 | 352 | – | – |
| Receivables from financial institutions | 2,215 | 3,109 | 2,215 | 3,109 | – | – |
| Receivables from customers | 53,692 | 51,384 | 53,603 | 50,521 | 89 | 863 |
| Other assets | 268 | 234 | 268 | 234 | – | – |
| Hedge accounting | | | | | | |
| Receivables from customers | 16,114 | 11,038 | 16,114 | 11,038 | – | – |
| Derivative financial instruments | 625 | 540 | 625 | 540 | – | – |
| Other financial assets | 540 | 362 | 540 | 362 | – | – |
| **Liabilities** | | | | | | |
| Measured at fair value | | | | | | |
| Derivative financial instruments | 138 | 133 | 138 | 133 | – | – |
| Measured at amortised cost | | | | | | |
| Liabilities to financial institutions | 11,694 | 7,339 | 11,696 | 7,337 | –2 | 2 |
| Liabilities to customers | 29,256 | 27,549 | 29,190 | 27,546 | 66 | 3 |
| Securitised liabilities | 29,621 | 26,329 | 29,180 | 26,233 | 441 | 96 |
| Other liabilities | 307 | 245 | 307 | 247 | 0 | –2 |
| Subordinated capital | 2,795 | 2,765 | 2,691 | 2,677 | 104 | 88 |
| Hedge accounting | | | | | | |
| Liabilities to customers | 1,938 | 2,193 | 1,938 | 2,193 | – | – |
| Derivative financial instruments | 278 | 233 | 278 | 233 | – | – |

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

| % | EUR | USD | GBP | JPY | BRL | MXN | SEK | CZK | AUD | CNY |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest for six months | 0.320 | 0.508 | 0.667 | 0.282 | 7.080 | 4.370 | 1.728 | 0.670 | 3.370 | 4.100 |
| Interest for one year | 0.542 | 0.844 | 1.014 | 0.487 | 7.120 | 4.530 | 1.943 | 0.870 | 3.682 | 4.400 |
| Interest for five years | 0.765 | 0.822 | 1.018 | 0.296 | 8.630 | 5.110 | 1.523 | 0.795 | 3.290 | 4.210 |
| Interest for ten years | 1.565 | 1.743 | 1.863 | 0.827 | – | 5.345 | 2.035 | 1.335 | 3.825 | 4.250 |

## 56 | Risk of counterparty default

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

The credit and default risk from financial assets consists of the risk of a contracting party defaulting and thus no more than the amount of the claims against the respective counterparty based on recognised carrying amounts as well as the irrevocable credit commitments. The maximum credit and default risk is reduced through the collateral held and other credit enhancements in the amount of € 46,936 million (previous year: € 43,622 million). This concerns collateral held for receivables from customers classified as assets measured at amortised cost and hedge accounting. Vehicles and security assignments as well as surety agreements and charges on property are used as collateral.

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 | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 |
| Measured at fair value | 1,847 | 1,066 | 1,847 | 1,066 | – | – | – | – |
| Measured at amortised cost | | | | | | | | |
| Cash reserve | 355 | 352 | 355 | 352 | – | – | – | – |
| Receivables from financial institutions | 2,215 | 3,109 | 2,215 | 3,109 | – | – | – | – |
| Receivables from customers | 55,123 | 51,992 | 51,435 | 48,707 | 1,477 | 1,287 | 2,211 | 1,998 |
| Other assets | 268 | 234 | 262 | 233 | 6 | 1 | 0 | 0 |
| Hedge accounting | | | | | | | | |
| Receivables from customers | 16,469 | 11,348 | 15,671 | 10,798 | 501 | 304 | 297 | 246 |
| Derivative financial instruments | 625 | 540 | 625 | 540 | – | – | – | – |
| Other financial assets | 540 | 362 | 540 | 362 | – | – | – | – |
| **Total** | **77,442** | **69,003** | **72,950** | **65,167** | **1,984** | **1,592** | **2,508** | **2,244** |

In the 2012 financial year, no individual value adjustments on securities measured at fair value were recognised (previous year: € 2 million).

These assets are measured in accordance with IAS 39, as already described in items (8) and (9).

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

| € million | NEITHER PAST DUE NOR IMPAIRED 31.12.2012 | NEITHER PAST DUE NOR IMPAIRED 31.12.2011 | RISK CLASS 1 31.12.2012 | RISK CLASS 1 31.12.2011 | RISK CLASS 2 31.12.2012 | RISK CLASS 2 31.12.2011 |
|---|---|---|---|---|---|---|
| Measured at fair value | 1,847 | 1,066 | 1,847 | 1,066 | – | – |
| Measured at amortised cost | | | | | | |
| Cash reserve | 355 | 352 | 355 | 352 | – | – |
| Receivables from financial institutions | 2,215 | 3,109 | 2,215 | 3,109 | – | – |
| Receivables from customers | 51,435 | 48,707 | 43,148 | 42,746 | 8,287 | 5,961 |
| Other assets | 262 | 233 | 262 | 230 | 0 | 3 |
| Hedge accounting | | | | | | |
| Receivables from customers | 15,671 | 10,798 | 12,528 | 8,810 | 3,143 | 1,988 |
| Derivative financial instruments | 625 | 540 | 625 | 540 | – | – |
| Other financial assets | 540 | 362 | 540 | 362 | – | – |
| **Total** | **72,950** | **65,167** | **61,520** | **57,215** | **11,430** | **7,952** |

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

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

| € million | Past due and not impaired 31.12.2012 | Past due and not impaired 31.12.2011 | PAST DUE WITHIN THE FOLLOWING PERIODS up to 1 month 31.12.2012 | up to 1 month 31.12.2011 | 1 to 3 months 31.12.2012 | 1 to 3 months 31.12.2011 | more than 3 months 31.12.2012 | more than 3 months 31.12.2011 |
|---|---|---|---|---|---|---|---|---|
| Measured at fair value | – | – | – | – | – | – | – | – |
| Measured at amortised cost | | | | | | | | |
| Cash reserve | – | – | – | – | – | – | – | – |
| Receivables from financial institutions | – | – | – | – | – | – | – | – |
| Receivables from customers | 1,477 | 1,287 | 1,157 | 938 | 320 | 349 | – | – |
| Other assets | 6 | 1 | 6 | 0 | 0 | 1 | – | – |
| Hedge accounting | | | | | | | | |
| Receivables from customers | 501 | 304 | 378 | 158 | 123 | 146 | – | – |
| Derivative financial instruments | – | – | – | – | – | – | – | – |
| Other financial assets | – | – | – | – | – | – | – | – |
| **Total** | **1,984** | **1,592** | **1,541** | **1,096** | **443** | **496** | **–** | **–** |

Collateral obtained in the financial year just ended for financial assets which are scheduled for disposal:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Vehicles | 84 | 56 |
| Property | – | – |
| Other movables | – | – |
| **Total** | **84** | **56** |

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

## 57 | Liquidity risk

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

The age analysis of financial assets held to manage the liquidity risk is as follows:

| | ASSETS | | PAYABLE ON DEMAND | | UP TO 3 MONTHS | | 3 MONTHS TO 1 YEAR | | 1 TO 5 YEARS | |
|---|---|---|---|---|---|---|---|---|---|---|
| € million | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 |
| Cash reserve | 355 | 352 | 355 | 352 | – | – | – | – | – | – |
| Receivables from financial institutions | 2,215 | 3,109 | 992 | 1,474 | 1,120 | 1,622 | 68 | – | 35 | 13 |
| Securities | 1,585 | 795 | – | – | 135 | – | 153 | 76 | 1,297 | 719 |
| **Total** | **4,155** | **4,256** | **1,347** | **1,826** | **1,255** | **1,622** | **221** | **76** | **1,332** | **732** |

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

| | CASH OUTFLOWS | | REMAINING CONTRACTUAL MATURITY up to 3 months | | 3 months to 1 year | | 1 to 5 years | | more than 5 years | |
|---|---|---|---|---|---|---|---|---|---|---|
| € million | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 |
| Liabilities to financial institutions | 12,254 | 7,953 | 2,627 | 1,748 | 3,529 | 1,989 | 6,057 | 4,170 | 41 | 46 |
| Liabilities to customers | 32,100 | 30,672 | 23,008 | 20,949 | 3,230 | 4,251 | 5,314 | 4,833 | 548 | 639 |
| Securitised liabilities | 30,636 | 27,413 | 4,436 | 4,934 | 6,500 | 6,837 | 17,831 | 14,868 | 1,869 | 774 |
| Derivative financial instruments | 7,093 | 6,313 | 2,309 | 2,262 | 1,835 | 2,428 | 2,949 | 1,622 | 0 | 1 |
| Subordinated capital | 3,478 | 3,592 | 916 | 581 | 288 | 239 | 1,255 | 1,665 | 1,019 | 1,107 |
| Irrevocable credit commitments | 3,201 | 3,549 | 1,027 | 72 | 1,741 | 3,361 | 149 | 116 | 284 | – |
| **Total** | **88,762** | **79,492** | **34,323** | **30,546** | **17,123** | **19,105** | **33,555** | **27,274** | **3,761** | **2,567** |

## 58 | 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 a possible loss in the overall portfolio with a 99% probability of occurring within a 40-day period. It requires an interest rate gap analysis that shows all cash flows resulting from original and derivative financial instruments. The historical market data used to determine the VaR comprise the 1,000 most recent trade dates.

This yields the following figures:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Interest rate risk | 77 | 116 |
| Currency translation risk | 108 | 84 |
| **Total market price risk** | **126** | **141** |

## 59 | Foreign currency items

In the VW FS AG Group the following assets and liabilities are contained in the currencies shown as at 31.12.2012:

| € million | BRL | GBP | CNY | SEK | AUD | JPY | MXN | NOK | CZK | PLN | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Receivables from financial institutions | 546 | 249 | 79 | 137 | 35 | 44 | 29 | 0 | 0 | 37 | 162 | 1,318 |
| Receivables from customers | 8,040 | 6,966 | 2,109 | 1,905 | 1,931 | 1,804 | 1,195 | 1,007 | 761 | 690 | 714 | 27,122 |
| **Assets** | **8,586** | **7,215** | **2,188** | **2,042** | **1,966** | **1,848** | **1,224** | **1,007** | **761** | **727** | **876** | **28,440** |
| Liabilities to financial institutions | 5,005 | 101 | 1,784 | 0 | 221 | 872 | 270 | – | 413 | 301 | 93 | 9,060 |
| Liabilities to customers | 1,300 | 1,166 | 157 | 249 | 26 | 101 | 146 | 8 | 29 | 440 | 25 | 3,647 |
| Securitised liabilities | 270 | 2,025 | – | 1,359 | 1,501 | 840 | 641 | 16 | 52 | 34 | 6 | 6,744 |
| Subordinated capital | 494 | 854 | – | – | – | – | – | – | – | 7 | – | 1,355 |
| **Liabilities** | **7,069** | **4,146** | **1,941** | **1,608** | **1,748** | **1,813** | **1,057** | **24** | **494** | **782** | **124** | **20,806** |

## 60 | Notes to the hedging policy

### HEDGING POLICY AND FINANCIAL DERIVATIVES

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

### MARKET 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, taking into account limits that are applied uniformly throughout the Group. The ALM Committee makes recommendations as strategic decision-making support for the respective interest rate policy orientation.

The interest rate hedging contracts concluded primarily contain interest rate swaps and combined interest rate/currency swaps. The company's interest hedging agreements comprise micro hedges and portfolio hedges. The portions of the assets or liabilities subject to fixed interest rates that were included in this hedging strategy are recognised at fair value in contrast to the original subsequent measurement (at amortised cost). The resulting effects in the income statement are basically compensated by the countervailing earnings effects of the interest rate hedges (swaps).

Currency risk

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

### LIQUIDITY RISK/REFINANCING RISK

The VW FS AG Group makes provisions for securing against potential liquidity squeezes by maintaining confirmed credit lines at various commercial banks and by using multi-currency-capable continuous issuing programmes. In addition, securities deposited in Volkswagen Bank GmbH's operational safe custody account with Deutsche Bundesbank serve to secure the company's liquidity.

### DEFAULT RISKS

The default risk from financial assets consists of the risk of a contracting party defaulting 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 default risk is considered to be small.

The VW FS AG Group is not subject to any particular risk concentration.

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

| | REMAINING CONTRACTUAL MATURITY | | | | | |
|---|---|---|---|---|---|---|
| | up to 1 year | | 1 to 5 years | | more than 5 years | |
| € million | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 | 31.12.2012 | 31.12.2011 |
| Cash flow hedges | | | | | | |
| Interest rate swaps | 324 | 1,586 | 428 | 3,536 | – | 10 |
| Cross-currency interest rate swaps | 271 | 561 | 219 | 262 | – | – |
| Currency futures contracts | 1,670 | 1,543 | 2 | 186 | – | – |
| Currency swaps | 70 | 9 | 262 | 265 | – | – |
| Other | | | | | | |
| Interest rate swaps | 12,638 | 15,058 | 29,719 | 22,821 | 1,782 | 906 |
| Cross-currency interest rate swaps | 545 | 983 | 1,551 | 1,376 | – | – |
| Currency futures contracts | 62 | 121 | – | – | – | – |
| Currency swaps | 1,190 | 1,089 | – | 10 | – | – |
| **Total** | **16,770** | **20,950** | **32,181** | **28,456** | **1,782** | **916** |

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

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

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

# Segment reporting

## 61 | Division by geographical markets

The reportable segments pursuant to IFRS 8 based on the internal reporting structure of the VW FS AG Group are its geographical markets of Germany, Europe, North and South America as well as Asia Pacific. Foreign branches of German subsidiaries are included in the Europe segment. The Europe segment contains the subsidiaries and branches in the United Kingdom, Italy, France, the Czech Republic, Austria, the Netherlands, Belgium, Spain, Sweden, Ireland, Greece, Portugal and Poland. The North and South America segment contains the subsidiaries in Mexico and Brazil. The Asia Pacific segment contains the subsidiaries in Australia, Japan and China.

The holding company, VW FS AG, and the holding and financing companies in the Netherlands and in Belgium are contained in the “Reconciliation” column. This presentation ensures a distinction between market performance and typical holding and financing functions in the internal reporting system.

The information made available to management for controlling purposes is based on the same accounting policies that are used in external accounting.

The performance of each individual segment is measured on the basis of the operating result and the pre-tax result.

The operating result includes the net income from lending, leasing and insurance transactions after provisions for risks, net commission income as well as general administration expenses and other operating income and expenses. Interest expense, general administration expenses and the other operating income and expenses that are not a component of the operating result essentially comprise interest income and expense from external tax audits, the cost of unwinding discounts for other provisions as well as interest expense for pension provisions and expected income from plan assets of externally financed pension obligations. Interest income not classified as revenue is interest income that is not attributable to the financial services business. It is not a component of the operating result.

## Division by geographical markets 2011:

| € million | Germany | Europe | North/ South America | Asia Pacific | Total segments | Recon- ciliation | Group |
|---|---|---|---|---|---|---|---|
| | 01.01. – 31.12.2011 | | | | | | |
| Revenue from lending transactions with third parties | 1,240 | 732 | 1,090 | 156 | 3,218 | 25 | 3,243 |
| Revenue from intersegment lending transactions | 158 | 0 | 0 | 0 | 158 | –158 | – |
| Segment revenue from lending transactions | 1,398 | 732 | 1,090 | 156 | 3,376 | –133 | 3,243 |
| Revenue from leasing and service transactions | 4,636 | 2,875 | 132 | 7 | 7,650 | –10 | 7,640 |
| Premiums earned from insurance business | 47 | 1 | – | – | 48 | – | 48 |
| Commission income | 282 | 108 | 48 | 3 | 441 | 0 | 441 |
| **Revenue** | **6,363** | **3,716** | **1,270** | **166** | **11,515** | **–143** | **11,372** |
| Cost of sales from lending, leasing and service transactions | –2,973 | –2,332 | –10 | –2 | –5,317 | – | –5,317 |
| Write-ups on leased assets and investment property | 6 | 1 | – | – | 7 | – | 7 |
| Depreciation and impairment losses on leased assets and investment property | –862 | –333 | 0 | –1 | –1,196 | – | –1,196 |
| of which impairment losses pursuant to IAS 36 | –63 | –7 | – | – | –70 | – | –70 |
| Expenses from insurance business | –33 | 0 | – | – | –33 | 0 | –33 |
| Interest expense (part of the operating result) | –1,012 | –315 | –675 | –93 | –2,095 | 112 | –1,983 |
| Provisions for risks arising from lending and leasing business | –228 | –84 | –195 | –5 | –512 | –1 | –513 |
| Commission expenses | –142 | –115 | –32 | –2 | –291 | 3 | –288 |
| Result from financial instruments (part of the operating result) | – | – | – | – | – | 3 | 3 |
| General administration expenses (part of the operating result) | –712 | –263 | –164 | –48 | –1,187 | –65 | –1,252 |
| Other operating result (part of the operating result) | –39 | 39 | 10 | 3 | 13 | 1 | 14 |
| **Segment result (operating result)** | **368** | **314** | **204** | **18** | **904** | **–90** | **814** |
| Interest income not classified as revenue | 26 | 5 | 0 | 0 | 31 | –4 | 27 |
| Interest expense (not part of the operating result) | –1 | 0 | 0 | 0 | –1 | –1 | –2 |
| Result from financial instruments (not part of the operating result) | 5 | –4 | –1 | 0 | 0 | –25 | –25 |
| Result from available-for-sale assets | –2 | – | – | – | –2 | – | –2 |
| Result from joint ventures accounted for using the equity method | – | – | – | – | – | 132 | 132 |
| Result from other financial assets | 8 | – | – | – | 8 | – | 8 |
| General administration expenses (not part of the operating result) | –3 | 0 | 0 | 0 | –3 | –4 | –7 |
| Other operating result (not part of the operating result) | 1 | 0 | –13 | – | –12 | – | –12 |
| **Pre-tax result** | **402** | **315** | **190** | **18** | **925** | **8** | **933** |
| Taxes on income and earnings | –122 | –86 | –76 | –8 | –292 | 17 | –275 |
| **Net income** | **280** | **229** | **114** | **10** | **633** | **25** | **658** |
| | | | | | | | |
| **Segment assets** | **34,060** | **17,437** | **9,313** | **3,288** | **64,098** | **358** | **64,456** |
| **of which non-current** | **20,241** | **9,278** | **4,441** | **1,910** | **35,870** | **–** | **35,870** |
| **Segment liabilities** | **43,889** | **15,508** | **8,257** | **3,156** | **70,810** | **–7,174** | **63,636** |

Division by geographical markets 2012:

| € million | Germany | Europe | North/ South America | Asia Pacific | Total segments | Recon- ciliation | Group |
|---|---|---|---|---|---|---|---|
| | 01.01. – 31.12.2012 | | | | | | |
| Revenue from lending transactions with third parties | 1,184 | 812 | 1,175 | 387 | 3,558 | 61 | 3,619 |
| Revenue from intersegment lending transactions | 123 | 0 | – | 0 | 123 | –123 | – |
| Segment revenue from lending transactions | 1,307 | 812 | 1,175 | 387 | 3,681 | –62 | 3,619 |
| Revenue from leasing and service transactions | 5,312 | 3,315 | 109 | 11 | 8,747 | –8 | 8,739 |
| Premiums earned from insurance business | 65 | 3 | – | – | 68 | – | 68 |
| Commission income | 289 | 115 | 70 | 3 | 477 | 0 | 477 |
| **Revenue** | **6,973** | **4,245** | **1,354** | **401** | **12,973** | **–70** | **12,903** |
| Cost of sales from lending, leasing and service transactions | –3,425 | –2,597 | –8 | –2 | –6,032 | – | –6,032 |
| Write-ups on leased assets and investment property | 1 | 1 | – | – | 2 | – | 2 |
| Depreciation and impairment losses on leased assets and investment property | –1,065 | –413 | –2 | –1 | –1,481 | – | –1,481 |
| of which impairment losses pursuant to IAS 36 | –101 | –12 | – | – | –113 | – | –113 |
| Expenses from insurance business | –46 | –1 | – | – | –47 | – | –47 |
| Interest expense (part of the operating result) | –914 | –339 | –629 | –198 | –2,080 | 65 | –2,015 |
| Provisions for risks arising from lending and leasing business | –67 | –123 | –254 | –31 | –475 | 1 | –474 |
| Commission expenses | –138 | –149 | –44 | –11 | –342 | 5 | –337 |
| Result from financial instruments (part of the operating result) | –8 | – | – | – | –8 | 0 | –8 |
| General administration expenses (part of the operating result) | –792 | –355 | –196 | –111 | –1,454 | –69 | –1,523 |
| Other operating result (part of the operating result) | –39 | 25 | 0 | 4 | –10 | –32 | –42 |
| **Segment result (operating result)** | **480** | **294** | **221** | **51** | **1,046** | **–100** | **946** |
| Interest income not classified as revenue | 23 | 5 | 0 | 0 | 28 | –3 | 25 |
| Interest expense (not part of the operating result) | –1 | 0 | – | 0 | –1 | –6 | –7 |
| Result from financial instruments (not part of the operating result) | –97 | –15 | –4 | 1 | –115 | –11 | –126 |
| Result from available-for-sale assets | 0 | –1 | – | – | –1 | – | –1 |
| Result from joint ventures accounted for using the equity method | – | – | – | – | – | 147 | 147 |
| Result from other financial assets | 29 | 4 | – | – | 33 | – | 33 |
| General administration expenses (not part of the operating result) | –3 | 0 | 0 | 0 | –3 | –5 | –8 |
| Other operating result (not part of the operating result) | –4 | 0 | –12 | – | –16 | – | –16 |
| **Pre-tax result** | **427** | **287** | **205** | **52** | **971** | **22** | **993** |
| Taxes on income and earnings | –111 | –76 | –82 | –18 | –287 | 23 | –264 |
| **Net income** | **316** | **211** | **123** | **34** | **684** | **45** | **729** |
| **Segment assets** | **36,434** | **20,100** | **9,229** | **5,796** | **71,559** | **303** | **71,862** |
| **of which non-current** | **22,388** | **10,966** | **4,795** | **3,564** | **41,713** | **–** | **41,713** |
| **Segment liabilities** | **45,532** | **18,003** | **8,462** | **5,434** | **77,431** | **–4,980** | **72,451** |

Reconciliation:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| **Total segment revenue** | **12,973** | **11,515** |
| Not allocated | 319 | 305 |
| Consolidation | −389 | −448 |
| **Consolidated revenue** | **12,903** | **11,372** |
| | | |
| **Total segment result (operating result)** | **1,046** | **904** |
| Not allocated | −112 | −94 |
| Consolidation | 12 | 4 |
| **Consolidated operating result** | **946** | **814** |
| | | |
| **Total segment result before taxes** | **971** | **925** |
| Not allocated | 531 | 861 |
| Consolidation | −509 | −853 |
| **Consolidated profit/loss before tax** | **993** | **933** |
| | | |
| **Total segment assets** | **71,559** | **64,098** |
| Not allocated | 303 | 358 |
| Consolidation | – | – |
| **Consolidated assets acc. to segment reporting** | **71,862** | **64,456** |
| | | |
| **Total segment liabilities** | **77,431** | **70,810** |
| Not allocated | 10,489 | 10,343 |
| Consolidation | −15,469 | −17,517 |
| **Consolidated liabilities acc. to segment reporting** | **72,451** | **63,636** |

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

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

Information regarding the most important products (lending and leasing business) is contained in the income statement (item 21).

The additions to non-current leased assets amount to € 2,101 million (previous year: € 1,857 million) in Germany, € 974 million (previous year: € 914 million) in the Europe segment, € 2 million (previous year: € 1 million) in the North and South America segment and none (previous year: none) in the Asia Pacific segment. The investments in the other assets are of secondary importance.

In the internal reporting, items are combined. The following table shows the allocation of these items to the disclosures in the segment reporting:

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Interest income from lending transactions | 3,644 | 3,221 |
| ./. Interest income not classified as revenue | 25 | 27 |
| Net income from leasing transactions before provisions for risks | 1,228 | 1,192 |
| ./. Expenses from leasing business and service contracts | −6,032 | −5,259 |
| ./. Depreciation and impairment losses on leased assets and investment property | −1,481 | −1,196 |
| ./. Write-ups on leased assets and investment property | 2 | 7 |
| Net income from insurance business | 21 | 15 |
| ./. Expenses from insurance business | −47 | −33 |
| Commission income | 477 | 441 |
| Revenue included in the other operating result | – | 49 |
| **Consolidated revenue** | **12,903** | **11,372** |
| | | |
| Net income from leasing transactions before provisions for risks | 1,228 | 1,192 |
| ./. Income from leasing transactions and service contracts | 8,741 | 7,647 |
| ./. Depreciation and impairment losses on leased assets and investment property | −1,481 | −1,196 |
| Cost of sales included in the other operating result | – | −58 |
| **Consolidated cost of sales from lending, leasing and service transactions** | **−6,032** | **−5,317** |
| | | |
| Receivables from customers arising from | | |
| Retail financing | 38,127 | 33,261 |
| Wholesale financing | 10,781 | 10,412 |
| Leasing business | 15,312 | 14,252 |
| Other receivables | 5,497 | 3,634 |
| of which not included in segment assets | −5,329 | −3,485 |
| Leased assets | 7,474 | 6,382 |
| **Consolidated assets acc. to segment reporting** | **71,862** | **64,456** |
| | | |
| Liabilities to financial institutions | 11,696 | 7,337 |
| of which not included in segment liabilities | −2 | 0 |
| Liabilities to customers | 31,128 | 29,739 |
| of which not included in segment liabilities | −2,008 | −2,073 |
| Securitised liabilities | 29,180 | 26,233 |
| of which not included in segment liabilities | −234 | −277 |
| Subordinated capital | 2,691 | 2,677 |
| **Consolidated liabilities acc. to segment reporting** | **72,451** | **63,636** |

# Other notes

## 62 | Cash flow statement

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

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

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

## 63 | Off-balance sheet obligations

| € million | 31.12.2012 | 31.12.2011 |
|---|---|---|
| **Contingent liabilities** | | |
| Liabilities from surety and warranty agreements | 200 | 39 |
| Other contingent liabilities | 66 | 72 |
| **Other financial obligations** | | |
| Purchase obligations | 64 | 28 |
| Other | 7 | 2 |
| **Other obligations** | | |
| Irrevocable credit commitments | 3,201 | 3,549 |

A total of € 511 million (previous year: € 449 million) in fiduciary assets and liabilities of the savings and trust company belonging to the South American subsidiaries were not included in these consolidated financial statements.

The obligations under non-cancellable rental and leasing contracts in the VW FS AG Group trigger expenses of € 19 million (previous year: € 7 million) in the 2013 financial year, € 28 million (previous year: € 31 million) in the 2014 to 2017 financial years and € 17 million (previous year: € 17 million) in the financial years thereafter.

## 64 | Average number of employees during the financial year

| | 2012 | 2011 |
|---|---|---|
| Salaried employees | 8,354 | 7,033 |
| Trainees | 118 | 113 |
| **Total** | **8,472** | **7,146** |

## 65 | Related parties

Related parties as defined by IAS 24 are persons or entities which can be influenced by VW FS AG or which can influence VW FS AG or are influenced by another related party of VW FS AG.

Volkswagen AG, Wolfsburg, is the sole shareholder of VW FS AG. Furthermore, with an equity stake of 50.73%, Porsche Automobil Holding SE, Stuttgart, owned the majority of the voting shares in Volkswagen AG as at the balance sheet date. The extraordinary Annual General Meeting of Volkswagen AG on 3 December 2009 resolved to give the German state of Lower Saxony the right to appoint board members. Hence Porsche SE can no longer appoint the majority of the members of Volkswagen AG's Supervisory Board as long as the state of Lower Saxony is holding at least 15% of the ordinary shares. However, Porsche SE has the opportunity to participate in the Volkswagen Group's corporate decision making. On 1 August 2012, Porsche SE integrated its holding company operations into Volkswagen AG by way of a transfer of individual rights. With regard to the remaining 50.1% of the shares in Porsche Holding, Stuttgart, still held by Porsche SE up until the integration of its holding company operations into Volkswagen AG, Porsche SE and Volkswagen AG granted each other mutual put and call options within the framework of their general agreement. The strike price for the two options was € 3,883 million and was subject to specific adjustments. In the course of the integration, the legal position of Porsche SE from the put and call options was transferred to Volkswagen AG, as a result of which the options expired in the confusion of the rights.

According to the notification dated 9 January 2013, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights of Volkswagen AG on 31 December 2012. In addition – as described above – the Annual General Meeting of Volkswagen AG resolved on 3 December 2009 that the State of Lower Saxony is entitled to appoint two members of the Supervisory Board.

A control and profit transfer agreement exists between the sole shareholder, Volkswagen AG, and VW FS AG. The business relations between the two companies are handled at normal market terms.

Volkswagen AG and its subsidiaries make refinancing funds available to the companies of the VW FS AG Group at normal market terms. Furthermore, collateral from Volkswagen AG and its subsidiaries was furnished in our favour within the framework of the operating business.

To support sales promotion campaigns, the companies of the VW FS AG Group receive financial contributions from the production companies and importing companies of the Volkswagen Group.

All business relations with non-consolidated subsidiaries and joint ventures of VW FS AG as well as other Group entities that are related parties within the Volkswagen AG Group are handled at normal market terms.

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

| 2012 financial year<br>€ million | Supervisory Board | Board of Manage-ment | Volkswagen AG | Porsche | Other related parties within the Group | Non-consoli-dated sub-sidiaries | Joint ventures |
|---|---|---|---|---|---|---|---|
| Receivables | 0 | 0 | 43 | – | 1,014 | 262 | 3,931 |
| Allowances on receivables | – | – | – | – | – | – | – |
| of which: additions, current year | – | – | – | – | – | – | – |
| Obligations | 4 | 5 | 1,903 | 871 | 7,597 | 64 | 1 |
| Interest income | 0 | 0 | 11 | 0 | 140 | 4 | 96 |
| Interest expense | 0 | 0 | –17 | 0 | –156 | 0 | 0 |
| Services and products provided | – | – | 438 | 1 | 1,293 | 47 | 6 |
| Services and products received | – | – | 6,102 | 6 | 3,081 | 16 | 12 |

| 2011 financial year<br>€ million | Supervisory Board | Board of Manage-ment | Volkswagen AG | Porsche | Other related parties within the Group | Non-consoli-dated sub-sidiaries | Joint ventures |
|---|---|---|---|---|---|---|---|
| Receivables | 0 | 0 | 126 | 0 | 656 | 23 | 2,405 |
| Allowances on receivables | – | – | – | – | – | – | – |
| of which: additions, current year | – | – | – | – | – | – | – |
| Obligations | 2 | 2 | 2,652 | 3 | 4,780 | 42 | 150 |
| Interest income | 0 | 0 | 14 | – | 163 | 1 | 54 |
| Interest expense | 0 | 0 | –21 | 0 | –43 | 0 | 0 |
| Services and products provided | – | – | 432 | 3 | 303 | 22 | 4 |
| Services and products received | – | – | 6,256 | 12 | 891 | 8 | 9 |
| Provision of sureties | – | – | – | – | – | – | 84 |

Since the integration of the holding company operations into Volkswagen AG on 1 August 2012, the Porsche column only shows the business relationships with Porsche SE. The obligations chiefly result from term deposits of Porsche SE held with Volkswagen Bank GmbH. The column "Other related parties within the Group" includes, in addition to fellow subsidiaries, joint ventures and associated companies that are Group entities and as such are related parties of Volkswagen AG. The service relationships with the Supervisory Board and the Board of Management include the corresponding groups of people at VW FS AG and the Group parent, Volkswagen AG. The relationships to benefit plans and to the state of Lower Saxony were of minor importance, as in the previous year.

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

| COMPENSATION OF THE BOARD OF MANAGEMENT<br>€ million | 2012 | 2011 |
|---|---|---|
| Short-term benefits | 6 | 6 |
| Termination benefits | – | – |
| Post-employment benefits | 5 | 2 |

The employee representatives in the Supervisory Board who are employed at VW FS AG continue to receive a regular salary under the terms of their employment contract. This is based on the regulations set out in the German Works Constitution Act (Betriebsverfassungsgesetz) and constitutes appropriate remuneration for their corresponding function or activity in the company. The same applies to the management representative in the Supervisory Board.

Total emoluments of former members of the Board of Management and their surviving dependants amounted to € 0.4 million (previous year: € 0.4 million). The provisions for current pensions and pension expectancies made for this group of persons amount to € 12 million (previous year: € 10 million).

## 66 | Corporate bodies of Volkswagen Financial Services AG

The Board of Management is comprised as follows:

**FRANK WITTER**
Chairman of the Board of Management
Corporate Steering
IT, Insurance
Region North America/Region South America (until 31.12.2012),
China/India/ASEAN (from 01.01.2013)

**FRANK FIEDLER**
Finance

**CHRISTIANE HESSE**
Human Resources and Organisation

**DR. MICHAEL REINHART**
Risk Management
Credit Analysis (from 01.01.2012)

**LARS-HENNER SANTELMANN**
Sales and Marketing
Regions Germany (from 01.01.2013), Europe, International, South America (from 01.01.2013)

The Supervisory Board is comprised as follows:

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

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

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

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

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

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

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General Secretary/Principal Representative of IG Metall Braunschweig

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

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

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

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

## 67 | Letter of comfort for our affiliated companies

With the exception of political risks, Volkswagen Financial Services AG hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to creditors in the agreed manner. Moreover, Volkswagen Financial Services AG confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders.

## 68 | Events after the balance sheet date

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

To strengthen equity, a total of € 200 million was paid into the capital reserve of Volkswagen Bank GmbH in January 2013. There were no other significant events up to 8 February 2013.

## 69 | Responsibility statement of the Board of Management

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

Braunschweig, 8 February 2013
The Board of Management

Frank Witter

Frank Fiedler

Christiane Hesse

Dr. Michael Reinhart

Lars-Henner Santelmann

# Independent auditors' report

We have audited the consolidated financial statements prepared by Volkswagen Financial Services Aktiengesellschaft, Braunschweig, consisting of income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes as well as the Group management report, for the financial year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as applicable in the EU and the supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB) is the responsibility of the company's Board of Management. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and on the Group management report.

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

Our audit has not led to any reservations.

In our opinion, which is based on the findings of the audit, the consolidated financial statements are in compliance with IFRS as applicable in the EU and with the supplementary provisions applicable under § 315a Para. 1 HGB, and in accordance with these provisions give a true and fair view of the net assets, financial position and results of the operations of the Group. The Group management report is consistent with the consolidated financial statements, provides a suitable understanding of the Group's situation and suitably presents the opportunities and risks of future development.

Hanover, 8 February 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Harald Kayser | Burkhard Eckes |
| Auditor | Auditor |

# Report of the Supervisory Board

## of Volkswagen Financial Services AG

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

The Supervisory Board is made up of twelve members. There were 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 92%. All Supervisory Board members attended more than one half of the meetings.

### COMMITTEE WORK

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

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

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

### DELIBERATIONS OF THE SUPERVISORY BOARD

Following a detailed review at its meeting on 22 February 2012, the Supervisory Board approved both the consolidated financial statements, the annual financial statements and the management report of Volkswagen Financial Services AG for 2012, which had been prepared by the Board of Management, and accepted the annual report by Internal Audit regarding the results of its audits.

The Board of Management provided extensive reports on the company's and the Group's economic and financial position, both at this meeting and at the meetings on 6 July 2012 and 2 November 2012. In this connection we also dealt in particular with the risk management requirements that the Group must fulfil. Furthermore, we approved the acquisition of leasing portfolios in the Netherlands in order to run the leasing business in cooperation with the importer.

At our meeting on 6 July 2012, we approved the realignment of the motor insurance business to integrate the insurance activities more closely with the Volkswagen Group's value chain along the lines of the banking and leasing business.

At the Supervisory Board meeting on 2 November 2012, the Board of Management briefed us on the adaptation of the control concept for the German market as a consequence of the growing internationalisation and the challenges this presents for Volkswagen Financial Services AG as a holding company and for its Board of Management. At this meeting we discussed loan approval processes with the involvement of the Supervisory Board, specifications for investing in government bonds for liquidity planning purposes and the investment in Global Mobility Holding B.V., Amsterdam, by Volkswagen Bank GmbH. Moreover, in view of the entry into international markets and new product launches, we approved the establishment of a joint venture company in South Africa, the acquisition of a long-term rental company in China and the investment in a car-sharing company. Finally, we approved both the company's and the Group's medium-term financial and investment planning after extensive deliberation.

### AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit both the IFRS consolidated financial statements and the HGB annual financial statements of Volkswagen Financial Services AG for the year ended 31 December 2012, including the accounting and the management reports. The Supervisory Board had at its disposal the consolidated financial statements of Volkswagen Financial Services AG in accordance with IFRS and its annual financial statements in accordance with the German Commercial Code (HGB) for the year ended 31 December 2012, as well as the respective management reports. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the bookkeeping and the management reports, and issued an unqualified auditors' report in each case. The Supervisory Board approves the results of these audits. The Supervisory Board's review of the consolidated financial statements, the annual financial statements and the management reports did not give rise to any reservations. The auditors were present at the Supervisory Board meeting when this item of the agenda was dealt with and they reported on the main results of their audit. At its meeting on 27 February 2013, the Supervisory Board approved both the consolidated financial statements and the annual financial statements of Volkswagen Financial Services AG as prepared by the Board of Management. The consolidated financial statements and the annual financial statements are thereby adopted.

The profit of Volkswagen Financial Services AG for the 2012 financial year, as determined under the German Commercial Code, was transferred to Volkswagen AG in accordance with the existing control and profit transfer agreement.

The Supervisory Board wishes to acknowledge and express its appreciation to the members of the Board of Management, the members of the works council, the managerial staff and all the employees of Volkswagen Financial Services AG and its affiliated companies for their work. Through their great dedication they have all contributed to the ongoing development of Volkswagen Financial Services AG.

Braunschweig, 27 February 2013

Hans Dieter Pötsch
Chairman of the Supervisory Board

# Supervisory Board

## of Volkswagen Financial Services AG

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

**PROF. DR. HORST NEUMANN**
Deputy Chairman
Member of the Board of Management of Volkswagen AG
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Member of the Board of Management
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**JÖRG THIELEMANN (FROM 01.08.2012)**
Head of Customer Service Retail North/East of Volkswagen Bank GmbH

# Glossary

**ASEAN**
Association of South-East Asian Nations. An international alliance of countries in South-East Asia established on 8 August 1967 that pursues political, economic and cultural goals.

**ASSET-BACKED SECURITIES (ABS)**
Specific form of conversion of payment claims into negotiable securities vis-à-vis a single-purpose company, which have come about through the bundling of certain financial assets of a company.

**Benchmark**
Systematic and continuous process of comparing a company's products, services, key financial figures and processes with those of the industry leaders.

**Captive**
Financial enterprise owned and/or managed by an industrial company.

**Cash flow**
Net payment flows of a period from operating, investing and financing activities.

**Cash flow statement**
Economic parameter which helps to assess a company's ability to pay its bills.

**Commercial paper programme**
Framework programme for short-term debentures which enables money market papers to be issued quickly and flexibly.

**Core capital**
The core capital of the financial holding group, Volkswagen Financial Services AG, is essentially comprised of paid-in capital and reserves less deductible items in accordance with § 10 Para. 2a German Banking Act, such as, for instance, intangible assets or accumulated deficits, as well as 50% of the deductible items in accordance with § 10 Para. 6 German Banking Act, such as certain equity investments in institutes or insurance companies.

**Core capital ratio**
Ratio between core capital and risk-weighted assets.
Core capital/ ((Capital requirement for credit risks + operational risks + market risks) *12.5) * 100

**Derivative**
Financial instrument whose value depends on the value of another original financial instrument. Derivatives is a generic term covering, for example, options, futures, forwards, interest rate swaps and currency swaps.

**Derivative financial instrument (hedging transaction)**
Rights and obligations for covering financial risks associated with original financial instruments.

**Effective interest rate method**
The calculation of interest taking into account all fees paid and received between contracting parties and other remuneration.

**Equity method**
Method of consolidation for integrating companies into consolidated financial statements. It is based on the historical cost of the equity investment, which is updated in line with the development of the pro rata equity in the following years.

**Fair Value**
Applicable value (e. g. market value) at which financial instruments can be bought and sold in a transaction between knowledgeable, willing parties in an arm's length transaction.

**Finance leases**
Type of leasing where the economic ownership of the leased asset passes to the lessee upon expiry of the term of the lease. The leased asset is recognised on the balance sheet of the lessee.

**Financial holding group**
According to the German Banking Act, such a group exists if a financial holding company (Volkswagen Financial Services AG) has subordinated financial institutions, financial services institutions, financial enterprises or providers of ancillary services, and at least one of the subordinated enterprises is a deposit-taking bank (Volkswagen Bank GmbH), for instance.

**GO$^{40}$**
Joint growth plan of the Volkswagen Group brands and Volkswagen Financial Services AG. Intensification of the cooperation between the brands of the Volkswagen Group and Volkswagen Financial Services AG was identified as a driving force in achieving the overall objectives of the Volkswagen Group, optimising profit per customer, customer loyalty and dealer profitability. In addition to other cooperation goals, a penetration rate of 40% by 2015 was set as a target.

**Goodwill**
The difference between the purchase price for an acquired company and the value of the net assets acquired.

**Hedge accounting**
Hedge accounting aims at minimising the contradictory development of derivatives and underlying transactions on the income statement.

**Impairment test**
Impairment tests are carried out regularly to assess the recoverability of assets.

**International Financial Reporting Standards (IFRS)**
Accounting rules prepared by the International Accounting Standards Board (IASB, previously International Accounting Standards Committee (IASC)), an independent association.

**Liable capital**
Core capital and supplementary capital minus deductible items, where the eligible supplementary capital shall not exceed core capital and the eligible subordinated loans shall not exceed 50 % of core capital.

#### Letter of comfort
Declaration of a parent company vis-à-vis third parties, e. g. banks, to meet the liabilities of its affiliate.

#### Minimum Requirements for Risk Management (MaRisk)
The Minimum Requirements for Risk Management (MaRisk) are the central set of rules for qualitative banking supervision. Based on § 25a of the German Banking Act, they provide a flexible and realistic framework for designing banks' risk management systems.

#### Operating leasing
Type of leasing where the economic ownership of the leased asset and thus the realisation risk remains with the lessor upon expiry of the term of the lease. The leased asset is recognised on the balance sheet of the lessor.

#### Overall ratio (regulatory)
The overall ratio must be determined in accordance with § 2 Para. 6 of the Solvency Regulations at the end of each quarter. It represents the ratio between eligible own funds as numerator and 12.5 times the sum of the total capital requirement for credit risks, the capital requirement for operational risks and the sum of the capital requirements for market risk positions including option transactions.

#### Rating
Ratings reflect the opinion of institutions specialising in checking creditworthiness (rating firms, banks, credit insurance providers) with regard to the economic capability, legal obligation and willingness of creditors to meet their payment obligations fully and in due time.

#### Securitisation
Conversion of a pool (clearly defined amount) of assets of the same type into marketable securities. Asset-backed securities (ABS) are securitisation products. The owner of such assets "sells" the pool to an intermediary – a so-called special purpose vehicle (SPV) – which refinances itself through the issuance of securities.

#### Solvency Regulation
Mandatory capital adequacy standard for financial institutions in the Federal Republic of Germany which replaced Principle I effective 1 January 2007.

#### Standardised approach for credit risks
In contrast to the old Principle I, the Solvency Regulation provide for two, more risk-sensitive methods for determining the capital requirements for credit risks: the standardised approach (SACR) and the approach based on internal ratings (IRB approach). Compared to the IRB approach, the standardised approach includes more specific requirements by the banking regulatory authorities regarding the factors determining capital requirements.

#### Supplementary capital
Essentially contingency reserves, participation right liabilities and subordinated liabilities.

#### Swap
Exchange of payment streams which can also take place between different currencies.

#### Value-at-risk
Maximum loss of a portfolio which can occur with a certain probability within a predefined period of time.

#### Volatility
Range of fluctuation, e.g. of markets or in the value of financial instruments.

# Index

## NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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