VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN FINANCIAL SERVICES AG

HALF-YEARLY FINANCIAL REPORT

JANUARY – JUNE

2017

Key Figures

€ million	June 30, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Total assets	134,043	130,148	121,251	107,231	90,992
Loans to and receivables from customers attributable to					
Retail financing	55,185	53,973	50,665	47,663	40,284
Dealer financing	15,489	14,638	13,967	12,625	11,082
Leasing business	23,148	21,997	19,704	18,320	16,298
Lease assets	15,724	14,696	12,982	10,766	8,545
Customer deposits	34,351	36,149	28,109	26,224	24,286
Equity	18,200	16,951	14,811	11,931	8,883

€ million	H1.2017	H1.2016	H1.2015	H1.2014	H1.2013
Operating profit	788	751	704	582	484
Profit before tax	796	736	761	637	551
Profit after tax	558	515	529	462	405

Percent	June 30, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Equity ratio[1]	13.6	13.0	12.2	11.1	9.8

Percent	March 31, 2017[3]	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Common Equity Tier 1 capital ratio [2]	13.6	11.7	12.0	10.3	–
Tier 1 capital ratio[2]	13.6	11.7	12.0	10.3	8.6
Total capital ratio[2]	14.9	12.6	12.1	10.7	9.6

Number	June 30, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Employees	11,926	11,819	11,746	11,305	9,498
Germany	6,207	6,145	6,167	5,928	5,319
International	5,719	5,674	5,579	5,377	4,179

1 Equity divided by total assets.
2 The regulatory capital ratios for 2013 were calculated in accordance with the German Solvency Regulation (SolvV). Since January 1, 2014, these ratios have been calculated in accordance with article 92 of the Capital Requirements Regulation (CRR). The Common Equity Tier 1 capital ratio has been added in accordance with the requirements in the CRR and other terminology has been aligned with that in the CRR.
3 Since January 1, 2014 Volkswagen Financial Services AG has applied the amended requirements in accordance with the CRR. The regulatory capital ratios as of March 31, 2017 are presented here. The capital ratios as of June 30, 2017 will be calculated within the required time frame stipulated by the banking regulator by no later than August 11, 2017.

RATING (AS OF JUNE 30)	STANDARD & POOR'S				MOODY'S INVESTORS SERVICE		
	Commercial Paper	Senior Unsecured	Senior Subordinated	Outlook	Commercial Paper	Senior Unsecured	Outlook
Volkswagen Financial Services AG	A–2	BBB+	BBB	negative	P–1	A2	negative
Volkswagen Bank GmbH	A–2	A–	BBB+	negative	P–1	Aa3	negative

All figures shown in the report are rounded, so minor discrepancies may arise when amounts are added together. The comparative figures from the previous fiscal year are shown in parentheses directly after the figures for the current reporting period.

Report on Economic Position

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

The Board of Management of Volkswagen Financial Services AG considers the course of business in the year 2017 to date to have been positive. Operating profit generated in the first half of the year exceeded the figure achieved in the corresponding period in 2016.

New business worldwide recorded positive growth in the current year to date.

In the first six months of 2017, Volkswagen Financial Services AG lifted its business volume year-on-year, particularly in Germany and the United Kingdom.

At the end of the first half of 2017 the global share of leased and financed vehicles out of the total deliveries to customers of the Group (penetration) was on a high level at 30.7% (29.4%).

Funding costs were down year-on-year amid higher business volume and generally favorable interest rates.

Credit risks remained on a constant level during the first six months of the current year. This development was aided by continuing stabilization in the economic environment and the sustained recovery in European markets. The risk situation in the Asia/Pacific region was similar to that in the previous year and the challenging risk environment in Latin America persisted. Selected markets with tough market conditions (such as Brazil and Russia) are already subject to very close monitoring. These efforts will be continued so that, if necessary, suitable action can be implemented to ensure that the targets specified for 2017 are achieved.

Steady contract growth in the residual value portfolio has been evident over the first six months of 2017, the main growth driver being the UK market. Other main factors behind this development are the implemented growth programs, continued economic recovery in the markets and further expansion in the fleet business, especially in the Europe region.

In 2016, Volkswagen Financial Services AG initiated a reorganization of its structures. The aim of the restructuring is to segregate the European lending and deposits business from the other financial services activities going forward and to pool this business under Volkswagen Bank GmbH, structured in the future as a direct subsidiary of Volkswagen AG. During the course of 2017, further detailed plans will be drawn up for this restructuring and preparations will be carried out for its implementation in terms of any necessary changes to organizational structures. The intention of the restructuring is to increase transparency and clarity for supervisory authorities, optimize the use of equity and reduce complexity. The new company, Volkswagen Financial Services Digital Solutions GmbH, will develop and provide services for its parent companies Volkswagen Bank GmbH and Volkswagen Financial Services AG and their subsidiaries in the future. The activities of the new company will consist of both system-based services and customer care. The other activities will remain in Volkswagen Financial Services AG, which will still be a direct subsidiary of Volkswagen AG.

Effective January 1, 2017, Volkswagen Financial Services AG acquired around 51% of the shares in LogPay Transport Services GmbH, Eschborn, Germany, a subsidiary of the DVB Bank Group. The deal was completed on June 21, 2017 following approval by the relevant antitrust authorities. This majority equity investment will enable Volkswagen Financial Services AG to integrate the Europe-wide processing of truck and passenger car tolls into its service offering for commercial customers and to further develop its fuel card portfolio. The aim is to become one of the largest fuel suppliers in Europe by 2020.

In light of the expected business growth and to comply with regulatory requirements, Volkswagen AG increased the capital of Volkswagen Financial Services AG by €1.0 billion.

In the first half of 2017, Volkswagen Financial Services AG increased the capital of Volkswagen Bank GmbH, Braunschweig, to strengthen the capital resources of the company. There were no other significant capital increases.

GENERAL ECONOMIC DEVELOPMENT

The global economy saw moderate growth in the first half of 2017. The average expansion rate of gross domestic product (GDP) was up year-on-year in both the industrialized countries and the emerging market economies. Energy and commodity prices, which increased again at the beginning of the year, giving a boost to the economies of individual exporting countries that depend on them, weakened slightly in the course of the second quarter.

The economy of Western Europe recorded stable growth on the whole between January and June 2017, though the rates of change were mixed in both Northern European and Southern European countries.

In Germany, the continuing optimism among consumers and the strong labor market situation allowed the economy to maintain its solid growth course in the reporting period.

The economy in Central Europe continued to perform positively in the first half of 2017. Eastern Europe's economic situation improved on the back of the comparatively higher level of energy prices. Following a prolonged recessionary period in Russia's economy, the turnaround that began at the end of 2016 was maintained in the reporting period. The ongoing conflict between Russia and Ukraine continued to weigh on the economy.

In South Africa, structural deficits and political upheaval on the whole subdued the GDP growth rate during the first six months of 2017.

The US economy continued its growth trajectory between January and June 2017, with considerable stimulus being provided by private consumer spending. Based on the stable situation in the labor market and the expected inflation trend, the US Federal Reserve decided once again to raise its key interest rate slightly. GDP growth rates in the neighboring countries of Canada and Mexico were also higher year-on-year.

Brazil's economy remained in recession, though economic output decreased at a slightly slower pace than in the prior-year period. Weak domestic demand and political uncertainty weighed on performance. Amid sustained high inflation, Argentina's economic situation showed a slight improvement.

The Chinese economy maintained its high growth momentum in the reporting period. In India, the growth trend strengthened slightly at a high level as the year progressed. Japan registered relatively solid GDP growth.

FINANCIAL MARKETS

The first half of 2017 saw a recovery in global financial markets, responding to positive trends in key industrialized nations. The fiscal stimulus from the US Federal Reserve (Fed) came later than expected and measures boosting the expansion of credit in China reached their limits. Despite hesitant trends in the global economy and the uncertainty surrounding the implementation of Brexit, financial market sentiment at the end of the first six months of 2017 had become positive again.

Particularly in Europe, the economy was boosted by a continuation of the expansionary monetary policy.

Economic indicators in Germany gave cause for optimism, the DAX ending the first half of the year higher than at the end of 2016. However, Germany faces a negative impact from the expenditure caused by growth in pensions and the integration of refugees.

The European Central Bank (ECB) now holds just under one third of the entire market for benchmark bonds as a result of its corporate sector purchase program (CSPP). It seems likely that the ECB will make an announcement during the autumn of this year that it intends to gradually withdraw the program in 2018.

June saw the start of the official negotiations for the UK's withdrawal from the EU. The UK general election on June 8 unexpectedly returned a parliament in which no party had an overall majority, as a result of which Prime Minister Theresa May formed a minority government with the support of the Democratic Unionist Party (DUP) of Northern Ireland. The financial markets appeared unperturbed.

The outcome of the French parliamentary elections following the election of the new president, Emmanuel Macron, offers the prospect of far-reaching reforms.

It remains to be seen whether there will be further changes in the Italian banking sector after the nationalization of Banco Popolare.

As anticipated, the Fed raised its benchmark rate in June by 25 basis points to a target range of 1.0% to 1.25%. A further hike is likely during the course of the year. However, a weak first quarter and a fall in the inflation rate have cooled speculation in this regard.

In Russia, the cut in oil production in collaboration with the Organization of the Petroleum Exporting Countries (OPEC) had a positive impact on the oil price and strengthened the ruble. Nevertheless, the country did not reach its inflation target. The central bank lowered its key interest rate further.

For the first time since 1989, Moody's rating agency downgraded China's credit rating by one notch to A1. The background to this is a moderate slowdown in economic growth accompanied by a rise in credit risk. The Chinese central bank continues to apply a squeeze to money market liquidity in order to prevent speculation. The resulting rise in money market interest rates has led to a strengthening of the renminbi against the US dollar.

The ASEAN region has experienced modest economic growth, although this has not been the case in India.

The Brazilian real continued to fall in value in response to further political turmoil in the country. The central bank has lowered key interest rates as a consequence of a slight economic recovery and a fall in inflation rates.

TRENDS IN THE PASSENGER CAR MARKETS

Worldwide demand for passenger cars was up 2.7% in the period from January to June 2017 compared with the prior-year period. Growth was driven by the Asia-Pacific region, Western Europe, South America and Central and Eastern Europe. The number of new cars sold in North America, the Middle East and Africa declined.

In the first half of 2017, the Western European passenger car market continued its growth trajectory in spite of ongoing political uncertainty. This positive performance was underpinned by the stable macroeconomic environment. While new registrations in Italy and Spain continued to benefit from high demand for replacement vehicles and considerable growth in demand for commercial customers, the French market recorded an increase that was below average in comparison. In the United Kingdom, the weaker second quarter – due in particular to the change in vehicle taxation as of April 1, 2017 – resulted in passenger car sales falling short of the record level of the prior-year period.

New passenger car registrations in Germany in the first six months of 2017 were up year-on-year for the fourth year in a row. Demand from private and also commercial customers was helped in particular by the ongoing robust development of the economy.

The passenger car market in Central and Eastern Europe saw a marked increase year-on-year in the first half of 2017. As in the three preceding years, the majority of EU markets in Central Europe recorded high growth rates. Passenger car sales in Eastern Europe also rose, starting from a very low level. This was primarily attributable to the growth of the Russian market in the year to date.

After seeing an increase in the first quarter of 2017, new passenger car registrations in South Africa in the reporting period were down slightly overall on the previous year, mainly as a result of the weak economic environment.

In North America, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the period from January to June 2017 fell slightly short of the high prior-year level. At the same time, demand continued to decline in the USA during the second quarter. High consumer confidence, a favorable labor market and manufacturer incentive programs that continue to be attractive were unable to impede the downward trend. The trend in demand towards SUV and pickup models accompanied by a simultaneous decrease in traditional passenger car segments continued in the reporting period. The automotive markets in Canada and Mexico recorded a further increase, exceeding their respective records from the prior-year period.

In South America, the market volume for passenger cars and light commercial vehicles witnessed a marked improvement in the first half of 2017 from the previously low level. After three years of declining new vehicle registrations, moderate growth was registered in Brazil in the reporting period. Brazilian car manufacturing benefited in particular from a rise in exports to Argentina, where new registrations of passenger cars and light commercial vehicles recorded a very high increase from a comparatively low prior-year figure, mainly due to price reductions by the manufacturers.

The Asia-Pacific region recorded by far the highest absolute growth in demand between January and June 2017. A comparatively modest growth rate was registered in the Chinese passenger car market. The main reason for this was the bringing forward of purchases at the end of 2016 in anticipation that the tax rate on vehicles of up to 1.6 l would be raised at the beginning of 2017. In India, passenger car sales rose considerably, largely on the strength of attractive financing terms, a high level of consumer confidence and a large number of new models. The Japanese passenger car market also showed an improvement in the reporting period. The marked upturn compared with the very low prior-year level was generated by ongoing state incentives for fuel-efficient and low-emission vehicles as well as the intro¬duction of new models.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Global demand for light commercial vehicles was down on the previous year's level in the first half of 2017.

In Western Europe new registrations stabilized and exceeded the prior-year level slightly on the back of the sustained positive economic performance. In the reporting period, demand in Germany was also up slightly year-on-year.

Registrations of light commercial vehicles in Central and Eastern Europe recorded a moderate increase compared with the previous year. The market trend in Russia benefited from the recovery of the ruble and falling inflation, which led to a marked increase in registrations year-on-year in the months from January to June 2017.

In North and South America, the light vehicle market is reported as part of the passenger car market, which includes both passenger cars and light commercial vehicles.

In the Asia-Pacific region, demand for light commercial vehicles declined compared with the previous year. Registration volumes in China, the region's dominant market, were down considerably year-on-year. The number of new vehicle registrations in Australia, India, Japan, South Korea and Thailand saw a moderate increase compared with the previous year.

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was above the prior-year figure between January and June 2017.

Demand in Western Europe saw a moderate increase over the 2016 level. New registrations in Germany, Western Europe's largest market, were slightly higher year-on-year in the first half of 2017. Demand in Italy also developed positively, with programs to promote investment and demand for replacement vehicles pushing up demand significantly.

In the Central and Eastern Europe region, the positive economic performance led to much higher registration volumes than in the previous year. Demand in Russia showed a substantial improvement, buoyed by the incipient recovery of the economy along with declining inflation rates.

Registration volumes in South America were perceptibly lower than in 2016. In Brazil, the region's largest market, demand for trucks decreased sharply on the prior-year period as a result of the continuing weak economic climate and political tensions. Political reforms and stimulus from the agricultural sector resulted in a very sharp increase in registration volumes in Argentina in the first half of 2017.

In the first six months of 2017, registration volumes for mid-sized and heavy trucks in the US market were noticeably lower than the previous year's level.

Demand for buses in the markets that are relevant for the Volkswagen Group was distinctly up on the previous year in the period from January to June 2017.

FINANCIAL PERFORMANCE

The disclosures on financial performance relate to the changes compared with the corresponding period in 2016.

The companies in the Volkswagen Financial Services AG Group performed well in the first half of 2017. At €788 million (+4.9%), operating profit exceeded the figure achieved in the corresponding period in the previous year. Net income from lending, leasing and insurance transactions before provision for credit risks was higher than in the previous year, amounting to €2,147 million (+8.9%).

The provision for credit risks amounted to €259 million, slightly above the level in the prior-year period. Credit risks to which the Volkswagen Financial Services AG Group is exposed as a result of various critical situations (economic crises, Brexit impact, block on sales) in some eurozone countries and in the United Kingdom, Russia, Brazil, Mexico, India and the Republic of Korea were accounted for in the reporting period by recognizing valuation allowances. In the first half of 2017, these valuation allowances were decreased by €21 million.

General and administrative expenses were slightly higher than the prior-year level at €1,122 million.

Fee and commission income, which largely stems from insurance broking, was below the level of the previous year.

The share of profits and losses of equity-accounted investments was roughly at the level of the prior-year period at €36 million (–5.3%).

As a result of the net gain on the measurement of derivative financial instruments in the amount of €17 million (previous year: net loss of €72 million) and the other components of profit or loss, the Volkswagen Financial Services AG Group's profit after tax rose year-on-year to €558 million (+8.3%).

The German companies in the Volkswagen Financial Services AG Group performed successfully in the saturated market environment and made a significant contribution to the profits of the business. These companies continue to generate the highest business volumes within the Volkswagen Financial Services AG Group, accounting for 46.9% of all existing contracts.

NET ASSETS AND FINANCIAL POSITION

The disclosures on net assets and financial position relate to the changes compared with the balance sheet date of December 31, 2016.

Lending Business

At €119.4 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Financial Services AG Group – accounted for approximately 89.1% of the Group's total assets. The positive trend reflected, in particular, the expansion of business in Germany and the UK.

The volume of retail financing lending rose by €1.2 billion or 2.2% to €55.2 billion. The number of new contracts was 1,005 thousand (+4.6% compared with the first half of 2016). As a consequence, the number of current contracts rose to 5,217 thousand (+6.7%). Volkswagen Bank GmbH remained the largest individual company with 2,165 thousand current contracts (previous year: 2,169 thousand).

The lending volume in dealer financing – which comprises loans to and receivables from Group dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – increased to €15.5 billion (+5.8%).

Receivables from leasing transactions were up 5.2% year-on-year to €23.1 billion. Lease assets recorded growth of €1.0 billion to €15.7 billion (+7.0%).

A total of 482 thousand new leasing contracts were signed in the reporting period, surpassing the figure for the first half of 2016 (+7.8%). The number of leased vehicles as of June 30, 2017, was 2,074 thousand, a year-on-year increase of 10.9%. As in previous years, the largest contribution came from Volkswagen Leasing GmbH, which had a contract portfolio of 1,349 thousand leased vehicles (previous year: 1,230 thousand).

Total assets of the Volkswagen Financial Services AG Group rose to €134.0 billion (+3.0%). This growth is primarily the result of the increase in loans to and receivables from customers and in lease assets and hence reflects the business expansion over the reporting period.

The number of service and insurance contracts as of June 30, 2017 was 6,396 thousand (previous year: 5,953 thousand). The total of 1,355 thousand new contracts was slightly below the figure for the first half of 2016 (–3.1%).

KEY FIGURES BY SEGMENT AS OF JUNE 30, 2017

Thousands	VW FS AG	Germany	Europe	Latin America	Asia-Pacific	Other companies[1]
Current contracts	13,687	6,269	4,542	1,267	1,599	9
Retail financing	5,217	1,599	1,582	765	1,270	0
Leasing business	2,074	1,273	683	84	26	9
Service/insurance	6,396	3,396	2,277	418	304	0
New contracts	2,842	1,208	1,029	244	359	1
Retail financing	1,005	258	329	113	305	0
Leasing business	482	298	158	22	3	1
Service/insurance	1,355	653	542	110	51	0
€ million						
Loans to and receivables from customers attributable to						
Retail financing	55,185	20,515	19,140	4,069	11,461	–
Dealer financing	15,489	5,328	6,746	991	1,779	645
Leasing business	23,148	16,745	5,573	545	275	11
Lease assets	15,724	9,276	5,646	154	507	141
Investment[2]	3,771	2,042	1,587	83	14	45
Operating profit	788	330	348	60	145	–99
Percent						
Penetration[3]	30.7 %	56.7 %	38.9 %	44.6 %	15.4 %	–

1 The Other companies segment comprises VW FS AG, the holding and financing companies in the Netherlands, France and Belgium, EURO Leasing companies in Germany, Denmark and Poland, Volkswagen Insurance Brokers GmbH and Volkswagen Versicherung AG.
2 Corresponds to additions to lease assets classified as noncurrent assets.
3 Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles, based on Volkswagen Financial Services AG's consolidated entities.

Deposit Business and Borrowings

The significant liability items were liabilities to banks in the amount of €18.6 billion (+9.3%), liabilities to customers amounting to €48.1 billion (–2.7%) and notes and commercial paper issued of €39.4 billion (+4.2%).

The customer deposits reported within the liabilities to customers, in particular Volkswagen Bank GmbH's deposits, declined from €36.1 billion as of December 31, 2016 to €34.4 billion as of June 30, 2017 (–5.0%) but therefore continued to make a significant contribution to funding.

Complementing the statutory deposit guarantees, Volkswagen Bank GmbH is also a member of the Deposit Protection Fund of the Association of German Banks.

Equity

The subscribed capital remained unchanged at €441 million in the reporting period. Equity in accordance with IFRSs amounted to €18.2 billion as of June 30, 2017 (previous year: €17.0 billion). This resulted in an equity ratio of 13.6% based on total assets of €134.0 billion.

Report on Opportunities and Risks

REPORT ON OPPORTUNITIES

Macroeconomic Opportunities

The management of Volkswagen Financial Services AG expects with – in the majority of markets – further economic growth a moderate increase in deliveries to customers of the Volkswagen Group.This positive trend is supported from Volkswagen Financial Services AGby providing financial services products designed to promote sales.

The probability of a global recession is considered to be overall low. However, diminished rates of global economic growth or a period of below-average growth rates cannot be ruled out. The macroeconomic environment could also give rise to opportunities for Volkswagen Financial Services AG if actual trends turn out to be better than the forecast.

Strategic Opportunities

As well as continuing its international focus by tapping new markets, Volkswagen Financial Services AG believes that developing innovative products that are tailored to customers' changing mobility requirements offers additional opportunities. Growth areas such as mobility products and service offerings (long-term rental, car sharing) are being systematically developed and expanded. Further opportunities may be created by launching established products in new markets.

The digitalization of our business represents a significant opportunity for Volkswagen Financial Services AG. The aim is to ensure that all products are also available online around the world by 2025, thereby enabling the Company to enhance efficiency. By expanding digital sales channels, we are promoting direct sales and facilitating the development of a platform for used vehicle finance. We are thereby addressing the changing needs of our customers and strengthening our competitive position.

RISK REPORT

In the risk-bearing capacity analysis, the confidence level for solely Pillar II risks (market risk, especially interest rate risk, earnings risk) was increased from 90% to 99% in the going concern approach. As before, funding risk continues to be reported with a confidence level of 99%. The confidence level used for all other risks remains unchanged at 90%.

Other than these items, there were no other material changes in the reporting period to the details set out in the report on opportunities and risks in the 2016 Annual Report.

Human Resources Report

Volkswagen Financial Services AG had 11,735 active employees worldwide as of June 30, 2017. In addition to the active workforce in the first half of 2017, Volkswagen Financial Services AG had 59 employees who had reached the passive phase of their partial retirement agreements, and 132 vocational trainees. The total number of employees at Volkswagen Financial Services AG as of June 30, 2017 was therefore 11,926, an increase of 1% on the headcount of 11,819 at the end of 2016.

In the German market, the headcount increase of 62 was primarily attributable to the recruitment of specialists. Currently, 6,207 people are employed in Germany.

Based on economic considerations, 367 employees of Volkswagen Servicios S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

Report on Expected Developments

The Board of Management of Volkswagen Financial Services AG expects the global economy to record slightly higher growth in 2017 than in the previous year. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We expect the economic upturn to continue in the large majority of industrialized nations, with stable rates of expansion overall. Most emerging markets will probably see faster growth than in the previous year. We expect the strongest rates of expansion in Asia's emerging economies.

Financial markets will continue to be exposed to existing uncertainties caused by geopolitical tensions and in relation to future developments in the eurozone.

In European markets, a slower rise in inflation and stronger economic growth is anticipated overall. It is therefore unlikely that the ECB will introduce further economic stimulus measures. The ECB will probably announce during the course of 2017 that it is going to bring its quantitative easing program to an end, although the program itself is expected to continue until mid-2018. Any termination of the program would most affect Portugal and Italy. It is also anticipated that the ECB will raise interest rates on deposits. The accompanying scarcity of German government bonds will lead to an upturn in yields, particularly on long-dated bonds.

Delays in the legislative process in the USA, together with the legal initiatives announced by President Trump, will cause a slowdown in global growth. It is probable that there will be a further hike in the US federal funds rate during the second half of the year and the recovery in the US economy is expected to continue.

In China, the further slowdown in economic growth is projected to continue over the rest of the year.

However, the rebound in the Brazilian economy will be maintained in the second half of the year and further recovery is also expected in Russia in the remainder of 2017.

We expect trends in the passenger car markets in the individual regions to be mixed in 2017. Overall, growth in global demand for new vehicles will probably be slower than in 2016. We anticipate that sales volume in Western Europe and the German passenger car market will be slightly higher than in the previous year. In the Central and Eastern European markets, demand for passenger cars should exceed the weak prior-year figure. We expect that the market volume for pas¬senger cars and light commercial vehicles (up to 6.35 tonnes) in North America in 2017 will be a little lower than the prior-year figure. On the South American market for passenger cars and light commercial vehicles, overall demand is expected to rise moderately compared with the previous year. The passenger car markets in the Asia-Pacific region look set to continue their growth trajectory at a slightly weaker pace.

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2017. Overall, we envisage a slight increase in demand.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2017 are set to rise moderately above the prior-year level.

We expect automotive financial services to continue to be of high importance for worldwide vehicle sales in 2017.

We anticipate that the trend toward an increase in new contracts and growth in the portfolio of current contracts from previous years will continue. In addition, we assume that in 2017 we will again be able to raise our penetration rate slightly in a vehicle market which will remain characterized by growth overall. We expect the business volume to increase again in 2017. Regarding the volume of deposits at Volkswagen Bank GmbH, we anticipate a moderate contraction in the level of these deposits in 2017 compared with the previous year.

It is expected that the operating profit for fiscal year 2017 will reach at least the level of the operating profit achieved in fiscal year 2016 after adjustment for non-recurring items, which included support payments from the Volkswagen Group in connection with the diesel issue. This forecast is based on the current corporate structure of Volkswagen Financial Services AG and does not take into account any future changes that may result from the restructuring program that has been initiated.

The tighter capital requirements and the resulting significantly greater capital adequacy will probably lead to a slight decline in return on equity in 2017 compared with the previous year. Based on the forecast profit for the year, we expect the cost/income ratio in 2017 to be at or slightly below the level of the previous year.

This report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and of the financial and automotive markets, which we have made on the basis of the information available to us and which we currently consider to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of our business. The same applies in the event of material changes in exchange rates against the euro. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2016 Annual Report develop differently to our current expectations, or additional risks and opportunities or other factors emerge that affect the development of our business.

Interim Consolidated Financial Statements (Condensed)

Income Statement of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – June 30, 2017	Jan. 1 – June 30, 2016	Change in percent
Interest income from lending transactions		2,083	1,908	9.2
Net income from leasing transactions before provision for credit risks		662	715	–7.4
Interest expense		–656	–689	–4.8
Net income from insurance business		58	37	56.8
Net Income from lending, leasing and insurance transactions before provision for credit risks	1	2,147	1,971	8.9
Provision for credit risks from lending and leasing business		–259	–245	5.7
Net income from lending, leasing and insurance transactions after provision for credit risks		1,888	1,725	9.4
Fee and commission income		276	287	–3.8
Fee and commission expenses		–247	–224	10.3
Net fee and commission income		30	63	–52.4
Net gain/loss on the measurement of derivative financial instruments and hedged items		17	–72	X
Share of profits and losses of equity-accounted joint ventures		36	38	–5.3
Net gain/loss on marketable securities and miscellaneous financial assets		–43	20	X
General and administrative expenses	2	–1,122	–1,063	5.6
Net other operating income/expenses		–10	25	X
Profit before tax		**796**	**736**	**8.2**
Income tax expense		–238	–221	7.7
Profit after tax		**558**	**515**	**8.3**
Profit after tax attributable to Volkswagen AG		558	515	8.3
German GAAP profit attributable to Volkswagen AG in the event of loss absorption/profit transfer		138	213	–35.2

Statement of Comprehensive Income of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – June 30, 2017	Jan. 1 – June 30, 2016
Profit after tax	**558**	**515**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	37	–136
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	–11	40
Pension plan remeasurements recognized in other comprehensive income, net of tax	26	–96
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	–1	0
Items that will not be reclassified to profit or loss	**25**	**–96**
Exchange differences on translating foreign operations		
Gains/losses on currency translation recognized in other comprehensive income	–167	–67
Reclassified to profit or loss	–	–
Exchange differences on translating foreign operations, before tax	–167	–67
Deferred taxes relating to exchange differences on translating foreign operations	–	–
Exchange differences on translating foreign operations, net of tax	–167	–67
Cash flow hedges		
Fair value changes recognized in other comprehensive income	–10	1
Reclassified to profit or loss	0	3
Cash flow hedges, before tax	–10	3
Deferred taxes relating to cash flow hedges	3	–1
Cash flow hedges, net of tax	–7	2
Available-for-sale financial assets		
Fair value changes recognized in other comprehensive income	–16	38
Reclassified to profit or loss	1	–11
Available-for-sale financial assets, before tax	–15	27
Deferred taxes relating to available-for-sale financial assets	6	–10
Available-for-sale financial assets, net of tax	–9	17
Share of other comprehensive income of equity-accounted investments that may be reclassified subsequently to profit or loss, net of tax	–12	5
Items that may be reclassified subsequently to profit or loss	**–195**	**–43**
Other comprehensive income, before tax	–168	–168
Deferred taxes relating to other comprehensive income	–2	29
Other comprehensive income, net of tax	**–170**	**–139**
Total comprehensive income	**387**	**377**
Total comprehensive income attributable to Volkswagen AG	387	377

Balance Sheet
of the Volkswagen Financial Services AG Group

€ million	Note	June 30, 2017	Dec. 31, 2016	Change in percent
Assets				
Cash reserve		1,429	1,478	–3.3
Loans to and receivables from banks		2,353	2,236	5.2
Loans to and receivables from customers attributable to				
Retail financing		55,185	53,973	2.2
Dealer financing		15,489	14,638	5.8
Leasing business		23,148	21,997	5.2
Other loans and receivables		9,865	9,957	–0.9
Total loans to and receivables from customers		103,687	100,564	3.1
Derivative financial instruments		866	1,297	–33.2
Marketable securities		2,842	2,993	–5.0
Equity-accounted joint ventures		657	633	3.8
Miscellaneous financial assets		307	288	6.6
Intangible assets	3	145	150	–3.3
Property and equipment	3	313	314	–0.3
Lease assets	3	15,724	14,696	7.0
Investment property		14	14	0.0
Deferred tax assets		1,600	1,834	–12.8
Current tax assets		529	156	X
Other assets		3,577	3,495	2.3
Total		**134,043**	**130,148**	**3.0**

€ million	Note	June 30, 2017	Dec. 31, 2016	Change in percent
Equity and liabilities				
Liabilities to banks		18,613	17,034	9.3
Liabilities to customers		48,137	49,454	–2.7
Notes, commercial paper issued		39,438	37,849	4.2
Derivative financial instruments		227	413	–45.0
Provisions for pensions and other post-employment benefits		444	478	–7.1
Underwriting provisions and other provisions		1,262	1,212	4.1
Deferred tax liabilities		1,329	1,151	15.5
Current tax liabilities		429	494	–13.2
Other liabilities		2,141	1,929	11.0
Subordinated capital		3,822	3,183	20.1
Equity		18,200	16,951	7.4
Subscribed capital		441	441	–
Capital reserves		11,449	10,449	9.6
Retained earnings		7,009	6,564	6.8
Other reserves		–699	–503	39.0
Total		**134,043**	**130,148**	**3.0**

Statement of Changes in Equity of the Volkswagen Financial Services AG Group

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES				Total equity
				Currency translation	Cash flow hedges	Available-for-sale financial assets	Equity-accounted investments	
Balance as of Jan. 1, 2016	**441**	**9,224**	**5,634**	**–460**	**–7**	**21**	**–42**	**14,811**
Profit after tax	–	–	515	–	–	–	–	515
Other comprehensive income, net of tax	–	–	–96	–67	2	17	5	–139
Total comprehensive income	–	–	420	–67	2	17	5	377
Capital increases	–	500	–	–	–	–	–	500
Other changes[1]	–	–	–213	–	–	–	–	–213
Balance as of June 30, 2016	**441**	**9,724**	**5,841**	**–527**	**–5**	**39**	**–37**	**15,476**
Balance as of Jan. 1, 2017	**441**	**10,449**	**6,564**	**–514**	**10**	**36**	**–35**	**16,951**
Profit after tax	–	–	558	–	–	–	–	558
Other comprehensive income, net of tax	–	–	26	–167	–7	–9	–13	–170
Total comprehensive income	–	–	583	–167	–7	–9	–13	387
Capital increases	–	1,000	–	–	–	–	–	1,000
Other changes[1]	–	–	–138	–	–	–	–	–138
Balance as of June 30, 2017	**441**	**11,449**	**7,009**	**–681**	**3**	**26**	**–47**	**18,200**

1 German GAAP profit/loss attributable to Volkswagen AG in the event of loss absorption/profit transfer

Cash Flow Statement
of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – June 30, 2017	Jan. 1 – June 30, 2016
Profit after tax	**558**	**515**
Depreciation, amortization, impairment losses and reversals of impairment losses	1,646	1,606
Change in provisions	27	202
Change in other noncash items	670	988
Gain/loss on disposal of financial assets and items of property and equipment	0	0
Net interest income and dividend income	–1,793	–1,651
Other adjustments	–1	–2
Change in loans to and receivables from banks	–179	–443
Change in loans to and receivables from customers	–4,329	–5,121
Change in lease assets	–2,518	–2,443
Change in other assets related to operating activities	–121	317
Change in liabilities to banks	1,851	97
Change in liabilities to customers	–1,144	6,269
Change in notes, commercial paper issued	1,905	–2,749
Change in other liabilities related to operating activities	217	242
Interest received	2,528	2,337
Dividends received	–78	3
Interest paid	–656	–689
Income taxes paid	–279	–59
Cash flows from operating activities	**–1,696**	**–581**
Proceeds from disposal of investment property	–	0
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	0	0
Acquisition of subsidiaries and joint ventures	–28	–6
Proceeds from disposal of other assets	2	2
Acquisition of other assets	–33	–22
Change in investments in securities	130	–176
Cash flows from investing activities	**71**	**–201**
Proceeds from changes in capital	1,000	500
Distribution/profit transfer to Volkswagen AG	–130	–420
Change in cash funds attributable to subordinated capital	704	–42
Cash flows from financing activities	**1,574**	**39**
Cash and cash equivalents at end of prior period	**1,478**	**1,416**
Cash flows from operating activities	–1,696	–581
Cash flows from investing activities	71	–201
Cash flows from financing activities	1,574	39
Effect of exchange rate changes	2	–2
Cash and cash equivalents at end of period	**1,429**	**671**

See note (7) for disclosures on the cash flow statement.

Notes to the Interim Consolidated Financial Statements

of the Volkswagen Financial Services AG Group for the Period Ended June 30, 2017

General Information

Volkswagen Financial Services Aktiengesellschaft (VW FS AG) has its registered office at Gifhorner Strasse, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 3790).

Volkswagen AG, Wolfsburg, is the sole shareholder of the parent company, VW FS AG. Volkswagen AG and VW FS AG have entered into a control and profit-and-loss transfer agreement.

Basis of Presentation

VW FS AG prepared its consolidated financial statements for the year ended December 31, 2016 in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code). These interim consolidated financial statements for the period ended June 30, 2017 have therefore also been prepared in accordance with IAS 34 and the scope of the content is condensed compared with the full consolidated financial statements. No review of these interim financial statements has been carried out by an independent auditor.

Unless otherwise stated, amounts are shown in millions of euros (€ million). All amounts shown are rounded, so minor discrepancies may arise when amounts are added together

Accounting Policies

VW FS AG has applied all financial reporting standards adopted by the EU and subject to mandatory application from January 1, 2017.

Under IAS 7 (Statement of Cash Flows), additional disclosures have been required since January 1, 2017 in relation to cash and non-cash changes in financial liabilities arising from the financing activities reported in the cash flow statement. The disclosures must be included for the first time in the annual financial statements for 2017.

Amendments to IAS 12 (Income Taxes) applicable since January 1, 2017 have clarified the recognition of deferred tax assets for unrealized losses related to assets measured at fair value.

As part of the annual improvements project for IFRSs (2014–2016 cycle), the International Accounting Standards Board (IASB) published amendments to IFRS 12 (Disclosure of Interests in Other Entities) to be applied from January 1, 2017 onward. These amendments clarified that the disclosures under IFRS 12 would generally also be required for subsidiaries, joint arrangements, associates and unconsolidated structured entities even if they were classified as held for sale, as held for distribution, or as discontinued operations.

The changes referred to above do not have any material impact on the financial position or financial performance of the VW FS AG Group. These changes have not yet been adopted under European law, although this is anticipated for the fourth quarter of 2017.

In these interim consolidated financial statements, a discount rate of 2.1% (December 31, 2016: 1.8%) has been used for pension provisions in Germany. The increase in the discount rate has led to a reduction in the pension provisions, in the associated deferred taxes, and in the actuarial losses related to pension provisions recognized under retained earnings within equity.

The income tax expense for the interim consolidated financial statements has been calculated in accordance with IAS 34 (Interim Financial Reporting) using the average tax rate anticipated for the entire fiscal year.

Otherwise, the same consolidation methods and accounting policies as those applied in the 2016 consolidated financial statements have generally been used in the preparation of the interim consolidated financial statements and the calculation of the prior-year comparative figures. A detailed description of these methods and policies was published in the notes to the consolidated financial statements in the 2016 Annual Report. In addition, the effects of new standards were described in detail under New and Revised IFRS Not Applied. The 2016 Consolidated Financial Statements can also be accessed on the Internet at www.vwfs.com/ar16.

Basis of Consolidation

In addition to VW FS AG, the consolidated financial statements cover all significant German and non-German subsidiaries, including structured entities, controlled directly or indirectly by VW FS AG. This is the case if VW FS AG has power over potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and has the ability to use its power to influence those returns.

Interim Consolidated Financial Statements Disclosures

1. Net Income from Lending, Leasing and Insurance Transactions before Provision for Credit Risks

€ million	Jan. 1 – June 30, 2017	Jan. 1 – June 30, 2016
Interest income from lending and money market transactions	2,083	1,908
Income from leasing transactions and service contracts	7,692	7,256
Expenses from leasing transactions and service contracts	–5,579	–5,194
Depreciation of and impairment losses on lease assets and investment property	–1,451	–1,346
Interest expense	–656	–689
Net income from insurance business	58	37
Total	**2,147**	**1,971**

Interest income from lending and money market transactions includes income of €104 million from targeted longer-term refinancing operations with Deutsche Bundesbank. This figure arose from a remeasurement at amortized cost following the increase in net lending in the measurement period and the associated adjustment in terms for these transactions.

2. General and Administrative Expenses

€ million	Jan. 1 – June 30, 2017	Jan. 1 – June 30, 2016
Personnel expenses	–495	–471
Non-staff operating expenses	–570	–509
Advertising, public relations and sales promotion expenses	–18	–23
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–36	–36
Other taxes	–3	–23
Total	**–1,122**	**–1,063**

3. Changes in Selected Assets

€ million	Net carrying amount Jan. 1, 2017	Adds./changes basis of consolidation	Disposals/other changes	Depr./amort./ impairment	Net carrying amount June 30, 2017
Intangible assets	150	11	–1	15	145
Property and equipment	314	23	–3	21	313
Lease assets	14,696	6,754	–4,275	1,451	15,724

4. Classes of Financial Instruments

Financial instruments are divided into the following classes in the VW FS AG Group:
- Measured at fair value
- Financial assets measured at amortized cost
- Derivative financial instruments designated as hedges
- Financial liabilities measured at amortized cost
- Credit commitments and financial guarantees
- Not within the scope of IFRS 7

The following table shows a reconciliation of the balance sheet items to the classes of financial instruments:

€ million	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST[1]		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT WITHIN THE SCOPE OF IFRS 7	
	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016
Assets										
Cash reserve	1,429	1,478	–	–	1,429	1,478	–	–	–	–
Loans to and receivables from banks	2,353	2,236	–	–	2,353	2,236	–	–	–	–
Loans to and receivables from customers	103,687	100,564	–	–	103,687	100,564	–	–	0	–
Derivative financial instruments	866	1,297	166	142	–	–	700	1,156	–	–
Marketable securities	2,842	2,993	2,842	2,993	–	–	–	–	–	–
Equity-accounted joint ventures	657	633	–	–	–	–	–	–	657	633
Miscellaneous financial assets	307	288	0	0	–	–	–	–	307	287
Other assets	3,577	3,495	–	–	1,295	1,242	–	–	2,283	2,253
Total	**115,717**	**112,984**	**3,008**	**3,135**	**108,764**	**105,520**	**700**	**1,156**	**3,246**	**3,173**
Liabilities										
Liabilities to banks	18,613	17,034	–	–	18,613	17,034	–	–	–	–
Liabilities to customers	48,137	49,454	–	–	48,137	49,454	–	–	0	–
Notes, commercial paper issued	39,438	37,849	–	–	39,438	37,849	–	–	–	–
Derivative financial instruments	227	413	120	120	–	–	107	293	–	–
Other liabilities	2,141	1,929	–	–	764	690	–	–	1,377	1,239
Subordinated capital	3,822	3,183	–	–	3,822	3,183	–	–	–	–
Total	**112,379**	**109,861**	**120**	**120**	**110,774**	**108,210**	**107**	**293**	**1,377**	**1,239**

1 Some of the loans to and receivables from customers and liabilities to customers have been designated as hedged items in fair value hedges and are therefore subject to fair value adjustments. The loans to and receivables from customers and liabilities to customers in the class "Measured at amortized cost" are therefore measured neither entirely at fair value nor entirely at amortized cost.

The "Credit commitments and financial guarantees" class contains obligations under irrevocable credit commitments and financial guarantees amounting to €3,105 million (previous year: €2,721 million).

5. Fair Value Disclosures

The principles and methods of fair value measurement have generally remained unchanged compared with those applied in 2016. Detailed disclosures on the measurement principles and methods can be found in the 2016 Annual Report.

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. Classification to the individual levels is dictated by the extent to which the main inputs used in determining the fair value are observable in the market or not.

Level 1 is used to report the fair value of financial instruments such as marketable securities for which a quoted price is directly observable in an active market.

Level 2 fair values are measured on the basis of inputs observable in the markets, such as exchange rates or yield curves, using market-based valuation techniques. Fair values measured in this way include those for derivatives.

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not directly observable in an active market.

The following table shows the allocation of financial instruments measured at fair value to the three-level fair value hierarchy by class:

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016
Assets						
Measured at fair value						
Derivative financial instruments	–	–	166	142	–	–
Marketable securities	2,683	2,708	158	285	–	–
Miscellaneous financial assets	–	–	–	–	0	0
Derivative financial instruments designated as hedges	–	–	700	1,156	–	–
Total	**2,683**	**2,708**	**1,024**	**1,583**	**0**	**0**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	120	120	–	–
Derivative financial instruments designated as hedges	–	–	107	293	–	–
Total	**–**	**–**	**227**	**413**	**–**	**–**

The table below shows the fair values of the financial instruments.

€ million	FAIR VALUE June 30, 2017	FAIR VALUE Dec. 31, 2016	CARRYING AMOUNT June 30, 2017	CARRYING AMOUNT Dec. 31, 2016	DIFFERENCE June 30, 2017	DIFFERENCE Dec. 31, 2016
Assets						
Measured at fair value						
Derivative financial instruments	166	142	166	142	–	–
Marketable securities	2,842	2,993	2,842	2,993	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	1,429	1,478	1,429	1,478	–	–
Loans to and receivables from banks	2,353	2,236	2,353	2,236	0	0
Loans to and receivables from customers	105,150	102,143	103,687	100,564	1,462	1,579
Other assets	1,295	1,242	1,295	1,242	–	–
Derivative financial instruments designated as hedges	700	1,156	700	1,156	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	120	120	120	120	–	–
Measured at amortized cost						
Liabilities to banks	18,525	16,949	18,613	17,034	–89	–85
Liabilities to customers	48,188	49,525	48,137	49,454	51	71
Notes, commercial paper issued	39,505	37,873	39,438	37,849	67	24
Other liabilities	767	693	764	690	3	4
Subordinated capital	3,388	2,930	3,822	3,183	–434	–253
Derivative financial instruments designated as hedges	107	293	107	293	–	–

The fair value of irrevocable credit commitments equates to the nominal value of the obligations because of the short maturity and the variable interest rate linked to the market interest rate. There are also no differences between the fair value and the nominal value of the obligation in the case of financial guarantees.

Segment Reporting

6. Segment Reporting

The reportable segments in accordance with IFRS 8 are presented on the basis of the internal reporting structure of the VW FS AG Group and are broken down by the geographical markets of Germany, Europe, Latin America and Asia-Pacific.

Foreign branches of German subsidiaries are allocated to the Europe segment. The Europe segment comprises the subsidiaries and branches in the United Kingdom, Italy, France, the Czech Republic, Austria, the Netherlands, Spain, Sweden, Ireland, Greece, Portugal, Poland and Russia. The Latin America segment consists of the subsidiaries in Mexico and Brazil. The Asia-Pacific segment consists of the subsidiaries in Australia, Japan, China, India and the Republic of Korea.

The Other Companies segment comprises VW FS AG, the holding and financing companies in the Netherlands, France and Belgium, EURO Leasing companies in Germany, Denmark and Poland, Volkswagen Insurance Brokers GmbH and Volkswagen Versicherung AG.

In the internal reporting structure, this presentation ensures that there is a separation between market activities on one side and typical holding company or financing functions, industry business, primary insurance business and reinsurance business on the other side.

BREAKDOWN BY GEOGRAPHICAL MARKET FOR THE FIRST HALF OF 2016:

	JAN. 1, 2016 – JUNE 30, 2016							
€ million	Germany	Europe	Latin America	Asia-Pacific	Segments total	Other companies	Consoli-dation	Group
Revenue from lending transactions with third parties	446	648	426	430	1,949	18	0	1,967
Intersegment revenue from lending transactions	47	0	–	–	47	56	–102	1
Total segment revenue from lending transactions	493	648	426	430	1,996	73	–102	1,967
Revenue from leasing and service transactions	4,070	2,761	57	208	7,095	104	–9	7,190
Insurance premiums earned	–	–	–	–	–	97	-	97
Fee and commission income	147	79	54	4	284	17	–14	287
Revenue	**4,709**	**3,488**	**537**	**641**	**9,374**	**292**	**–125**	**9,541**
Cost of sales attributable to lending, leasing and service transactions	–2,918	–2,182	–15	–62	–5,177	–100	4	–5,273
Reversals of impairment losses on lease assets and investment property	3	11	–	0	15	–	–	15
Depreciation of and impairment losses on lease assets and investment property	–760	–433	–10	–130	–1,333	–13	–	–1,346
of which impairment losses in accordance with IAS 36	–47	–41	–5	–1	–93	–	–	–93
Expenses from insurance business	–	–	–	–	–	–73	14	–60
Interest expense (component of operating profit or loss)	–160	–182	–226	–167	–736	–48	102	–682
Provision for credit risks from lending and leasing business	–49	–44	–140	–11	–243	–2	–	–245
Fee and commission expenses	–104	–122	–28	–34	–288	63	–	–224
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	–4	–	–	–	–4	–	–	–4
General and administrative expenses (component of operating profit or loss)	–456	–234	–85	–118	–893	–501	335	–1,058
Net other operating income/expenses (component of operating profit or loss)	89	2	–2	3	92	323	–327	88
Segment profit or loss (operating profit or loss)	**350**	**303**	**31**	**123**	**807**	**–60**	**3**	**751**
Interest income not classified as revenue	4	0	0	–	4	1	0	5
Interest expense (not a component of operating profit or loss)	–1	–	–3	0	–4	–4	–	–7
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	–12	–22	–1	–1	–37	–30	–1	–68
Share of profits and losses of equity-accounted joint ventures	–	–	–	–	–	–	38	38
Net gain/loss on marketable securities and miscellaneous financial assets	–1	5	–	–	4	201	–185	20
General and administrative expenses (not a component of operating profit or loss)	–1	0	0	0	–1	–4	–	–5
Net other operating income/expenses (not a component of operating profit or loss)	2	–1	1	0	2	–	–	2
Profit before tax	**341**	**284**	**28**	**122**	**776**	**105**	**–145**	**736**
Income tax expense	–212	–77	–6	–33	–327	19	88	–221
Profit after tax	**129**	**207**	**23**	**90**	**448**	**124**	**–57**	**515**
Segment assets	**47,926**	**33,233**	**6,523**	**12,757**	**100,439**	**881**	**–**	**101,320**
of which noncurrent	**30,358**	**19,992**	**3,218**	**8,330**	**61,898**	**126**	**–**	**62,024**
Segment liabilities	**65,810**	**31,760**	**5,477**	**11,403**	**114,450**	**13,656**	**–27,493**	**100,613**

BREAKDOWN BY GEOGRAPHICAL MARKET FOR THE FIRST HALF OF 2017:

	JAN. 1, 2017 – JUNE 30, 2017							
€ million	Germany	Europe	Latin America	Asia-Pacific	Segments total	Other companies	Consoli-dation	Group
Revenue from lending transactions with third parties	549	716	448	482	2,195	5	–	2,199
Intersegment revenue from lending transactions	49	–	–	–	49	52	–101	–
Total segment revenue from lending transactions	597	716	448	482	2,243	57	–101	2,199
Revenue from leasing and service transactions	4,177	3,067	115	187	7,547	143	–8	7,682
Insurance premiums earned	–	–	–	–	–	126	–	126
Fee and commission income	115	88	62	5	270	18	–11	276
Revenue	**4,889**	**3,871**	**626**	**674**	**10,060**	**344**	**–120**	**10,284**
Cost of sales attributable to lending, leasing and service transactions	–2,988	–2,470	–63	–66	–5,587	–119	–27	–5,732
Reversals of impairment losses on lease assets and investment property	3	7	0	1	11	–	–	11
Depreciation of and impairment losses on lease assets and investment property	–820	–502	–6	–108	–1,437	–15	–	–1,451
of which impairment losses in accordance with IAS 36	–81	–57	–1	–2	–141	–	–	–141
Expenses from insurance business	–	–	–	–	–	–80	11	–69
Interest expense (component of operating profit or loss)	–137	–170	–217	–198	–722	–31	101	–652
Provision for credit risks from lending and leasing business	–29	–43	–153	–33	–259	0	–	–259
Fee and commission expenses	–80	–98	–32	–35	–246	–1	–	–247
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	–7	–	–	–	–7	–	–	–7
General and administrative expenses (component of operating profit or loss)	–498	–262	–86	–94	–940	–544	367	–1,117
Net other operating income/expenses (component of operating profit or loss)	–2	15	–7	5	10	347	–329	28
Segment profit or loss (operating profit or loss)	**330**	**348**	**60**	**145**	**884**	**–99**	**3**	**788**
Interest income not classified as revenue	2	0	0	–	2	0	–	2
Interest expense (not a component of operating profit or loss)	–1	–	0	–	–1	–3	–	–4
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	12	15	0	1	28	–4	1	24
Share of profits and losses of equity-accounted joint ventures	–	–	–	–	–	7	29	36
Net gain/loss on marketable securities and miscellaneous financial assets	1	10	–	–	11	–105	51	–43
General and administrative expenses (not a component of operating profit or loss)	0	–1	0	0	–1	–4	–	–5
Net other operating income/expenses (not a component of operating profit or loss)	–1	0	–2	0	–3	–	–	–3
Profit before tax	**344**	**372**	**59**	**146**	**921**	**–207**	**83**	**796**
Income tax expense	–106	–92	–23	–41	–262	11	12	–238
Profit after tax	**238**	**281**	**35**	**105**	**659**	**–197**	**95**	**558**
Segment assets	**51,947**	**37,272**	**5,759**	**14,022**	**109,001**	**797**	**–**	**109,798**
of which noncurrent	**33,374**	**22,823**	**2,780**	**9,122**	**68,099**	**141**	**–**	**68,240**
Segment liabilities	**68,408**	**34,950**	**4,756**	**12,889**	**121,003**	**11,694**	**–26,677**	**106,019**

Other Disclosures

7. Cash Flow Statement

VW FS AG Group's cash flow statement documents changes in cash and cash equivalents attributable to cash flows from operating, investing and financing activities. The narrow definition of cash and cash equivalents comprises only the cash reserve, which consists of cash-in-hand and central bank balances.

8. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

The contingent liabilities of €369 million (December 31, 2016: €364 million) largely relate to legal disputes concerning tax matters in which the criteria for the recognition of a provision in accordance with IAS 37 are not satisfied.

The trust assets and liabilities of the savings and trust entity belonging to the Latin American subsidiaries are not included in the consolidated balance sheet and amounted to €849 million (December 31, 2016: €944 million).

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2017	DUE 2018 – 2021	DUE From 2022	TOTAL Dec. 31, 2016
Purchase commitments in respect of				
property and equipment	56	–	–	56
intangible assets	1	–	–	1
investment property	–	–	–	–
Obligations from				
irrevocable credit and leasing commitments to customers	4,699	0	–	4,700
long-term leasing and rental contracts	27	48	48	123
Miscellaneous financial obligations	80	3	–	83

€ million	DUE By June 30, 2018	DUE July 1, 2018 – June 30, 2022	DUE From July 1, 2022	TOTAL June 30, 2017
Purchase commitments in respect of				
property and equipment	15	–	–	15
intangible assets	0	–	–	0
investment property	–	–	–	–
Obligations from				
irrevocable credit and leasing commitments to customers	5,537	0	0	5,538
long-term leasing and rental contracts	26	45	44	115
Miscellaneous financial obligations	78	1	–	79

In the case of irrevocable credit and leasing commitments, we expect the customers to draw down the facilities concerned.

9. Executive Bodies of Volkswagen Financial Services AG

There were no changes in the first six months of 2017.

10. Events After the Balance Sheet Date

There were no significant events in the period between June 30, 2017 and July 26, 2017.

11. Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the condensed interim consolidated financial statements in accordance with generally accepted accounting principles give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group 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 over the rest of the fiscal year.

Braunschweig, July 26, 2017
The Board of Management

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PUBLISHED BY
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This half-yearly financial report is also available in German at www.vwfsag.de/hj17.

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