VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

CONSOLIDATED INTERIM REPORT

OF VOLKSWAGEN FINANCIAL SERVICES AG

JANUARY – JUNE

2014

Key Figures

€ million	June 30, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Total assets	100,616	90,992	87,378	76,946	65,332
Receivables from customers attributable to					
Retail financing	43,729	40,284	38,127	33,261	30,505
Dealer financing	11,963	11,082	10,781	10,412	8,828
Leasing business	19,768	16,298	15,312	14,252	13,643
Lease assets	9,623	8,545	7,474	6,382	4,974
Customer deposits	25,329	24,286	24,889	23,795	20,129
Equity	11,842	8,883	8,802	7,704	6,975

€ million	H1 2014	H1 2013	H1 2012	H1 2011	H1 2010
Operating profit	582	484	412	344	264
Profit before tax	637	551	477	418	363
Profit after tax	462	405	365	321	283

%	June 30, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Equity ratio[1]	11.8	9.8	10.1	10.0	10.7

%[2]	Mar. 31, 2014[3]	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Common Equity Tier 1 capital ratio	11.0	–	–	–	–
Tier 1 capital ratio	11.0	8.6	9.2	9.8	10.5
Total capital ratio	11.5	9.6	9.8	10.1	10.5

Number	June 30, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Employees	10,380	9,498	8,770	7,322	6,797
Germany	5,467	5,319	4,971	4,599	4,297
Abroad	4,913	4,179	3,799	2,723	2,500

RATING (AS OF JUNE 30, 2014)	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	P–2	A3	positive
Volkswagen Bank GmbH	A–2	A–	positive	P–2	A3	positive

1 Equity divided by total assets.
2 The regulatory equity ratios for the years 2010 to 2013 were calculated in accordance with the Solvabilitätsverordnung (German Solvency Regulation). Starting on January 1, 2014, these ratios are now calculated in accordance with Article 92 of the Capital Requirements Regulation (CRR). In line with the terminology used in the CRR, the Common Equity Tier 1 capital ratio is now disclosed as an additional ratio and the designation "overall ratio" has been amended to "total capital ratio".
3 Volkswagen Financial Services AG has applied the amended Basel III requirements (CRR/CRD IV) since January 1, 2014. The regulatory capital ratios shown here are those valid as of March 31, 2014. In accordance with the deadline stipulated by banking supervisory rules, the regulatory capital ratios as of June 30, 2014 will be calculated by August 11, 2014.

Key Facts

KEY FIGURES

Volkswagen Financial Services AG recorded a 10.6% increase in total assets as against December 31, 2013 to €100.6 billion as of June 30, 2014. Net income from lending, leasing and insurance transactions before provisions for risks was approximately €1.8 billion higher than in the prior-year period. Profit before tax was up on the first half of 2013 at €637 million.

The total number of contracts was 9,517 thousand; receivables from customers rose by €8.2 billion. This was primarily due to higher business volumes in the Customer Financing area and the leasing business.

Direct banking activities made an important contribution to funding with customer deposits of €25.3 billion.

KEY EVENTS

Acquisition of MAN Finance International GmbH (MFI) as of January 1

This acquisition expands Volkswagen Financial Services AG's business to include the MAN brand's leasing and rental activities.

Launch of Volkswagen Financial Services South Africa Ltd.

The South African joint venture formed between Volkswagen Financial Services AG and First Rand Investment Holding started operating in March. This joint venture enables Volkswagen Financial Services AG to continue its international growth in one of the Volkswagen Group's larger sales markets and support the sale of Group brands by offering attractive financing solutions and services.

Large-scale capital market transactions

Securitized leasing contracts with a volume of approximately €750 million were placed on the market in January as part of the Volkswagen Car Lease 19 transaction. This was followed by Volkswagen Bank GmbH's Driver 12 Auto ABS transaction with a volume of around €1.29 billion, making Driver 12 the largest European ABS transaction since the onset of the financial crisis in 2007. At an international level, Volkswagen Financial Services AG marketed its third Japanese ABS transaction – Driver Japan Three – with a volume of approximately €215 million.

First ruble bond issued

Volkswagen Financial Services issued its first ruble-denominated bond via Volkswagen Bank RUS LLC in June. The bond has a volume of RUB 5 billion and was six times oversubscribed.

Volkswagen Financial Services AG awarded first place

We were awarded first place in the "Great Place to Work" employer competition (over 5,000 employees category) for the second time in a row. We also received the special prize for health promotion. In January, Volkswagen Finance China received the "2014 Top Employer Award" for outstanding HR management. Volkswagen Financial Services in Mexico was also recognized as a "Great Place to Work" at the end of May.

Best automotive bank

Volkswagen Bank GmbH won the automotive banks category in the reader poll conducted by AUTO BILD for the third consecutive year.

Report on Economic Position

GLOBAL ECONOMY

The global economy continued its slight recovery in the first half of 2014, although its strength has been mixed in the different regions. The economic situation in the industrialized nations improved despite the continued presence of structural obstacles. Economic growth in a number of emerging economies slowed due to currency fluctuations and structural deficits.

Western Europe's economic recovery continued in the first six months of 2014. The Northern European countries returned to a moderate growth path, while the recession came to an end in most of the crisis-hit Southern European countries.

The German economy reinforced its upward trend in the first six months of 2014, benefiting in particular from the continued positive consumer sentiment and the stable situation on the labor market.

Economic growth was also positive in Central Europe in the reporting period. However, sentiment deteriorated in Eastern Europe due to the political tensions between Russia and Ukraine.

South Africa's economic situation continued to be impacted by structural deficits and social conflict between January and June 2014. GDP growth decreased slightly on the already low prior-year period level.

Despite the difficult weather-induced conditions at the beginning of the year, the US economy continued its recovery at a slightly stronger pace in the following months. The easing unemployment rate and positive consumer sentiment boosted the economy.

Economic development in Mexico was positive, but remained muted compared with previous years. Growth in Brazil was below prior-year levels in the first six months of 2014. Recessionary trends and sustained very high inflation impacted the situation in Argentina.

The Chinese economy continued to record robust growth in the reporting period, with slightly declining momentum. India's economic growth was curbed by sustained cautious investment spending due to regulatory and financial uncertainties, and a large number of structural deficits. Growth in Japan continued to stabilize on the back of fiscal and monetary policy measures taken to revive the economy.

FINANCIAL MARKETS

The global financial markets recorded moderately positive growth in the first half of 2014 against the background of geopolitical tensions and a slight economic recovery, underpinned by a more expansionary monetary policy.

As expected, the European Central Bank resolved at the beginning of June to cut its key interest rate to a historically low 0.15% and, for the first time in its history, introduced a negative deposit rate. This saw the already low interest rates in the eurozone decline significantly. The decision triggered a further fall in yields on European government bonds and led to a further widening of the yield differentials to bonds in emerging economies. The equity markets registered considerable price gains, with the DAX closing at over 10,000 points for the first time in June. The trend towards lower risk premiums continued for corporate and financial institution bonds. Investors' buying interest was encouraged by the prospect of additional monetary policy measures by the ECB. The gap between risk premiums on corporate bonds in peripheral and core eurozone countries continued to narrow. The European economic crisis appears to have bottomed out and the ECB is now working to combat signs of deflation.

The US investment climate was buoyed by low interest rates, a stable fiscal policy and a gradual return to normality (tapering of the US Federal Reserve's asset purchase program).

The Russian central bank is working to combat inflation and initially raised its key interest rate by 200 basis points, but left it unchanged for the remainder of the first half of the year.

The picture in the financial markets in the emerging economies was mixed in the first half of the year. The low interest rate environment means that capital is again flowing into these countries, although they still have a latent vulnerability to fluctuations.

Within Latin America, Mexico recorded a much more positive economic trend than Brazil; however, the Mexican central bank had cut the key interest rate. The situation in Brazil remains extremely muted. The central bank was only able to prevent the real from sliding by continually increasing its key interest rate and intervening in the foreign exchange market.

In China, state control over the economy is becoming increasingly complex. The government aims to meet its 7.5% growth target for the current year without taking more forceful measures.

High inflation continues to exert pressure on the Indian economy despite movements towards a more expansionary monetary policy.

TRENDS IN THE PASSENGER CAR MARKETS

Global demand for passenger cars continued to grow between January and June 2014, despite a slight slowdown and mixed trends at a regional level. While the number of new registrations in the Asia-Pacific region, Western Europe, North America and Central Europe increased year-on-year, overall market demand in Latin America in particular as well as Eastern Europe was lower than in the first half of 2013. The weak currencies of key emerging economies pushed prices up and thus put pressure on demand.

Signs of stabilization in the passenger car markets continued in Western Europe. Despite increased sales in the first six months of 2014, overall the markets remain at a low level. While the positive economic environment in the United Kingdom and Spain's continuation of its government purchase incentives led to double-digit growth rates for new passenger car registrations, France and Italy recorded growth in the reporting period at a level only slightly exceeding last year's weak figures.

Growth in new registrations in Germany slowed as the year progressed. Demand was underpinned by commercial purchases and the stable macroeconomic environment.

In the period January to June 2014, the markets for passenger cars in Central and Eastern Europe were mixed. While the number of new registrations in Central Europe grew significantly, overall passenger car sales in Eastern Europe saw a sharp decline. Sales in Russia and Ukraine in particular recorded a significant decrease due to the political tensions in recent months.

South Africa saw a continuation of the downward sales trend observed since the fourth quarter of 2013. Coupled with weak consumer sentiment, higher interest rates and mobility costs led to a decline in the market.

In North America, the automotive market showed further improvement on the prior-year period. After weak sales caused by the extreme weather conditions at the start of the year, sales in the USA were boosted by backlog effects, attractive financing conditions and continuing high replacement demand. Demand was particularly strong for models in the SUV and pickup segments. Market volumes also increased in Canada.

The number of new passenger car registrations in Latin America in the first six months of 2014 was significantly below the prior-year figure, and the decline in demand accelerated further in recent months. By contract, sales stagnated in Mexico on a level with the strong prior-period figures. In Brazil, the generally weaker economic environment, higher vehicle prices and less favorable financing conditions had a negative impact on market trends. The market collapse in Argentina compared with the record level in the prior-year period was mainly attributable to the tax increase on higher-value passenger car purchases at the beginning of the year, together with buyer reluctance due to decreasing real incomes and sharp increases in interest rates.

Demand for passenger cars in the Asia-Pacific region recorded the world's highest absolute increase from January to June 2014. By far the highest increase in market volumes was recorded in China, the world's largest single market. In particular, models in the SUV segment recorded higher-than-average growth rates. Passenger car sales in India were down slightly year-on-year in the reporting period. The market was able to recover to some extent in the second quarter due to the temporary cut in excise tax – for vehicles, among other things – initially until June 30, 2014. In Japan, new passenger car registrations remained high. However, growth slowed at the end of the reporting period due to the VAT increase effective April 1, 2014.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Global demand for light commercial vehicles rose moderately year-on-year in the period from January to June 2014.

Light commercial vehicle sales in the Western European market exceeded the prior-year figures in the period under review on the back of economic stabilization in Western Europe. Countries such as Italy or Spain, which continue to be impacted by the debt crisis, saw in part considerable market growth.

In Central and Eastern Europe, demand for light commercial vehicles was mixed in the first half of 2014. While many markets – including the Czech Republic, Croatia and Hungary – recorded double-digit growth rates as against the previous year, demand declined in Russia and Ukraine due mainly to political tensions and their economic impact.

In North America, the number of new registrations for light commercial vehicles in the first six months of 2014 was higher than in the previous year.

Ongoing difficult economic conditions in Latin America led to a decrease in light commercial vehicle sales in the region's core markets in the period under review. However, Brazil exceeded the 2013 figure thanks to higher demand for new SUVs, which are included in light commercial vehicles in this market. The rise in the number of new SUVs registered in Argentina was unable to compensate for the decline in demand for light commercial vehicles triggered by the tax hike on higher-value vehicles at the beginning of the year.

Demand in China, the dominant market for light commercial vehicles in the Asia-Pacific region, rose year-on-year in the first half of 2014. The Indian market was negatively impacted by weak economic growth and persistently high inflation; demand fell considerably as against the prior-year period. In Japan, demand for light commercial vehicles increased in the reporting period compared with the period from January to June 2013 as a result of pull-forward effects from a VAT increase as of April 1, 2014. Demand for light commercial vehicles in the ASEAN region was mixed. While a number of small markets saw strong growth, demand in Thailand and some other countries declined after government incentive programs expired.

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes fell short of the 2013 figure in the first six months of 2014.

New vehicle registrations in the Western European market were on a level with the previous year. Sales were up significantly year-on-year in Germany, the largest market in Western Europe.

New vehicle registrations in Central and Eastern Europe declined appreciably as against the previous year. The figure for Russia was down significantly year-on-year due to the weak ruble and more difficult financing conditions caused by the tense political situation.

In North America, demand in the period from January to June 2014 clearly exceeded the prior-year figure. The truck market experienced a growth trend due to increased construction activities and higher demand for replacement vehicles in the heavy truck segment.

The number of new vehicle registrations in Latin America was well below the 2013 figure in the first half of 2014. Vehicle sales in the Brazilian truck market were down significantly year-on-year as a result of the deterioration in the macroeconomic environment and more restrictive financing conditions.

The Asia-Pacific region – excluding the Chinese market – saw sales decline in the reporting period. Weak economic growth and high interest rates led to a considerable contraction of the Indian market. By contrast, demand in the world's largest truck market, China, was up slightly year-on-year in the first six months of 2014. This trend was buoyed by the delay in implementing the most recent emission standards.

New bus registrations worldwide were down on the previous year in the first half of 2014.

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 to date to have been positive. Profit before tax in the first half of the year was up on the 2013 figure.

New business around the world recorded positive growth in the period under review.

Volkswagen Financial Services AG saw business volumes increase year-on-year in the first six months of 2014 as a result of the acquisition of MAN Finance International GmbH and growth, in particular in Europe and China.

The ratio of financed or leased vehicles to total Group deliveries worldwide (penetration rate) again rose year-on-year and amounted to 26.3% (24.3%) as of the end of June 2014. This increase was largely attributable to the positive development of the penetration rate in the Chinese market, which was well above expectations at 10.3% (4.2%) in the first half of the year. Funding costs were lower than in the first half of 2013 due among other things to the continued low interest rates, despite the increase in business volumes.

Overall, the credit risk situation stabilized in the first six months of the current fiscal year. Slight signs of recovery were visible in the Southern European markets, which had been hard hit by the euro crisis. The credit risk situation in the German and UK markets continued to develop positively. Risks in the Russian, Turkish, Brazilian and Indian markets rose slightly as a result of exchange rate fluctuations in individual emerging economies.
Vehicle residual values attributable to leasing contracts developed solidly overall in the first half of 2014 on the back of the recovery of the European automotive market. In addition, the intensification of marketing activities in previous years had a stabilizing impact on residual value risks and net gains from vehicle marketing.

Volkswagen Financial Services AG expanded its business to include the MAN brand's leasing and rental activities with the acquisition of MAN Finance International GmbH, Munich, as of January 1, 2014.

The move is designed to strengthen the financial services activities and thus support the MAN Truck & Bus division's sales targets. In addition, Volkswagen Versicherungsvermittlung GmbH, Braunschweig, acquired MAN Versicherungsvermittlung GmbH, Munich, as of January 1, 2014. Systematically bundling the brokerage business in the Volkswagen Financial Services AG's industrial insurance business will further optimize the range of services and the terms offered to intragroup customers.

After launching the pilot phase in December 2013, Volkswagen Financial Services South Africa Ltd. commenced full operations across the country as of March 1, 2014. Its product portfolio comprises customer and dealer financing, as well as brokerage services for insurance products. Volkswagen Financial Services AG holds 51% of the company, while the joint venture partner, First Rand Investment Holding, holds a 49% interest.

Volkswagen Capital Advisory Sdn. Bhd. was formed in February 2014 as a wholly owned subsidiary of Volkswagen Financial Services AG in preparation for the start of business operations in Malaysia.

Porsche Bank AG, Salzburg, and Volkswagen Financial Services AG, Braunschweig, entered into a joint venture agreement on the formation of a sales financing business in Santiago de Chile in May 2014. The joint venture company was formed under the name Porsche Volkswagen Servicios Financieros Chile SpA in June 2014.

Volkswagen AG increased Volkswagen Financial Services AG's equity by €2.3 billion in anticipation of the business growth in existing and new markets.

In the first half of 2014, Volkswagen Financial Services AG implemented capital increases at the following companies to strengthen their equity:

- Volkswagen Bank GmbH, Braunschweig, Germany
- Volkswagen Finance (China) Co., Ltd., Beijing, China
- VOLKSWAGEN FINANCIAL SERVICES SOUTH AFRICA (PTY) LTD, Sandton, South Africa
- Volkswagen Financial Services Korea Co., Ltd, Seoul, South Korea
- OOO Volkswagen Bank RUS, Moscow, Russia
- Volkswagen Versicherungsvermittlung GmbH, Braunschweig, Germany
- Volkswagen Capital Advisory Sdn. Bhd., Kuala Lumpur, Malaysia

These measures serve to support business expansion, meet regulatory requirements and underpin the common growth strategy with the Volkswagen Group's brands.

RESULTS OF OPERATIONS

The disclosures on the results of operations refer to changes compared with the prior-year comparative period.

The first half of 2014 saw the Volkswagen Financial Services AG companies on a positive track. Profit before tax was up 15.6% on the prior-year level to €637 million. Net income from lending, leasing and insurance transactions before provisions for risks was 12.2% higher than in the prior-year period at €1,797 million.

Provisions for risks declined year-on-year to €170 million. Credit risks to which the Volkswagen Financial Services AG Group is exposed as a result of the crisis in some eurozone countries were accounted for by recognizing valuation allowances, which rose by €9 million compared with the prior-year reporting date.

General and administrative expenses were up on the prior-year level to €1 billion. The main drivers in this case were volume effects due to the increase in business, the implementation of strategic projects and compliance with stricter regulatory requirements.

Fee and commission income, primarily from insurance broking, was up on the prior-year level.

The share of profits and losses of equity-accounted investments was down 65.4% year-on-year to €18 million. The decline is primarily the result of the intragroup restructuring of Volkswagen Bank GmbH's 50% equity interest in Global Mobility Holding B.V.; this company holds 100% of LeasePlan Corporation N.V., which was sold to Volkswagen AG effective January 22, 2013.

Including the net gain on the measurement of derivative financial instruments in the amount of €33 million (previous year: €7 million) and the other components of profit or loss, the Volkswagen Financial Services AG Group lifted its profit after tax by 14.1% year-on-year to €462 million.

Thanks to their successful operations in a saturated market environment, the German companies of Volkswagen Financial Services AG made a significant contribution to its results. At around 47.3% of all contracts, they continue to account for the highest business volumes in the Volkswagen Financial Services AG Group.

NET ASSETS AND FINANCIAL POSITION

The disclosures on the net assets and financial position refer to changes compared with December 31, 2013.

Lending business

At €91.0 billion in total, receivables from customers – which make up the core business of the Volkswagen Financial Services AG Group – and lease assets accounted for approximately 90.5% of the Group's total assets. The positive trend is reflected in the increase in business, particularly in Germany, the United Kingdom and China.

The volume of retail financing lending rose by €3.4 billion or 8.6% to €43.7 billion. The number of new contracts was 790 thousand (+ 5.1% compared with the first half of 2013). As a result, the total number of contracts increased to 4,173 thousand (+5.6%). With a portfolio of 2,063 thousand contracts (previous year: 2,033 thousand), Volkswagen Bank GmbH again accounted for the largest number of contracts.

The lending volume in dealer financing – which comprises receivables from Group dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – increased to €12 billion (+7.9%).

Receivables from leasing transactions were up 21.3% year-on-year to €19.8 billion. Lease assets recorded growth of €1.1 billion to €9.6 billion (+12.6%).

A total of 353 thousand new leasing contracts were signed in the reporting period, surpassing the figure for the first half of 2013 by 22,1%. The number of leased vehicles as of June 30, 2014 was 1,541 thousand, a year-on-year increase of 9.6%. As in previous years, the largest contribution came from Volkswagen Leasing GmbH, which had a contract portfolio for 1,082 thousand leased vehicles (previous year: 1,014 thousand).

Volkswagen Financial Services AG's total assets rose by 10.6% year-on-year to €100.6 billion. This growth is primarily the result of the increase in receivables from customers and lease assets and hence reflects the business expansion in the past reporting period.

The number of service and insurance contracts as of June 30, 2014 was 3,803 thousand (previous year: 3,492 thousand). The volume of new business was up 37.9% on the first half of 2013 to 778 thousand contracts.

KEY FIGURES BY SEGMENT AS OF JUNE 30, 2014[1]

In thousands	VW FS AG	Germany	Europe	Asia-Pacific	Latin America	MFI
Current contracts	9,517	4,505	3,008	765	1,154	85
Retail financing	4,231	1,521	1,160	641	845	6
Leases	1,483	1,023	385	6	61	66
Service/insurance	3,803	1,961	1,462	118	248	13
New contracts	1,921	825	692	235	157	13
Retail financing	790	246	252	217	74	1
Leases	353	240	90	2	12	9
Service/insurance	778	338	350	17	70	2
€ million						
Receivables from customers attributable to						
Retail financing	43,729	16,747	13,287	6,232	7,196	267
Dealer financing[2]	11,963	3,927	5,193	1,054	1,189	44
Leasing business	19,768	12,723	3,640	180	477	2,748
Lease assets	9,623	6,694	2,620	1	4	304
Investments[3]	2,090	1,324	691	0	2	73
Operating profit[2]	582	328	181	51	146	5
%						
Penetration[4]	26.3	57.3	45.4	11.3	36.5	41.7

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
2 Holding and financing companies are allocated to the VW FS AG column.
3 Corresponds to additions to lease assets classified as noncurrent assets.
4 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 include liabilities to credit institutions in the amount of €11.3 billion (+1.2%), liabilities to customers amounting to €36.4 billion (+7.9%) and securitized liabilities of €35.0 billion (+10.9%).

Customer deposits reported within liabilities to customers, particularly those of Volkswagen Bank GmbH, amounted to €25.3 billion as of June 30, 2014 and thus made a significant contribution to funding.

In addition to the cover provided by statutory deposit insurance, Volkswagen Bank GmbH is also a member of the Deposit Protection Fund of the Bundesverband deutscher Banken e.V. (Association of German Banks).

Equity

The subscribed capital of €441 million again remained unchanged in the reporting period. Equity in accordance with IFRSs was €11.8 billion (previous year: €8.9 billion). This results in an equity ratio of 11.8% based on the total equity and liabilities of €100.6 billion.

Report on Opportunities and Risks

REPORT ON OPPORTUNITIES

Macroeconomic opportunities

With deliveries of vehicles to customers of the Volkswagen Group projected to record a slight increase year-on-year, the Board of Management of Volkswagen Financial Services AG is expecting further economic growth to lead to the sustained expansion of sales of financial services products in the global markets.

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 new mobility products and service offerings (long-term rental, car sharing) are being systematically leveraged and expanded. Further opportunities may be created by launching established products in markets in which they have not previously been offered.

RISK REPORT

Risk inventory and risk limitation

The project to introduce a risk limit system for operational and liquidity risk was implemented on schedule in 2014. In addition, the risk inventory as of December 31, 2013 subsumed credit, equity, issuer and counterparty risk to the higher-level risk category of counterparty credit risk. This change also implemented the aggregate limit for counterparty credit risk that was also scheduled for 2014, as a result of which all the risk types specified above are additionally limited on an individual basis.

Operational risk

The methodology for calculating expected losses (EL) and unexpected losses (UL) for operational risk was modified. Previously, only the results from the self-assessment were used to calculate the risk. Since January 1, 2014, operational losses from the loss database are also factored into the calculation of EL and UL. Additionally, operational risk factors arising from projects (project risks) are now included in the EL and UL calculation.

There were no other material changes in the reporting period compared with the disclosures in the report on opportunities and risks contained in the 2013 Annual Report.

Report on Post-Balance Sheet Date Events

Other than the matters described above, there were no significant events in the period up to July 18, 2014.

Human Resources Report

As of June 30, 2014, Volkswagen Financial Services AG had 10,179 active employees worldwide. In addition to its active workforce, Volkswagen Financial Services AG had 78 employees in the passive phase of their partial retirement and 123 vocational trainees in the first six months of this year. Volkswagen Financial Services AG's total workforce at June 30, 2014 therefore numbered 10,380, a 9.3% increase compared with the figure of 9,498 at the 2013 year-end. This increase was attributable primarily to volume growth in the financing, leasing and insurance product segments. The acquisition of MAN Finance International as of January 1, 2014 increased the total headcount by a further 521 people.

In the German market, the increase in the number of employees by 148 is attributable to the recruitment of specialists and to the further expansion of market activities, especially in the leasing business. Additionally, 33 temporary employees were taken over as permanent employees. The workforce in Germany currently numbers 5,467.

Application of the principle of substance over form means that 293 employees of VOLKSWAGEN SERVICIOS SA DE CV, Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

Report on Expected Developments

The global economy continued its slight recovery in the first six months of 2014, although its strength has been mixed in the different regions. The Volkswagen Group's Board of Management expects the global economy to record slightly stronger growth in 2014 than in the previous year, despite some uncertainties. The financial markets still entail risks resulting above all from the strained debt situation of many countries. While the industrialized nations will probably record moderate rates of expansion, we continue to anticipate that growth will be strongest in the emerging economies of Asia.

The further cut in key interest rates by the ECB on June 5, 2014 is designed to counter any deflationary trends and will fuel consumer spending, although there is a risk that the equity and real estate markets will overheat. Long-term inflation expectations in the eurozone are stable; however, it is likely that the ECB will fulfill its mandate to ensure monetary stability and adopt further measures to counter the risk of deflation. 2014 is expected to be another record year in the primary market for European corporate bonds.

The US and Mexican economies experienced a weak start to 2014, but have recovered slowly and are expected to record GDP growth by the end of the year. At the same time, the Fed has signaled that it will stop its quantitative easing program.

Modest year-on-year growth is expected in China over the rest of the year, even if no significant monetary policy measures are announced.

The Brazilian real and the Russian ruble are expected to devalue further.

Global demand for passenger cars continued to grow between January and June 2014, despite a slight slowdown and mixed trends at a regional level. We expect trends in the passenger car markets in the individual regions to again be mixed in fiscal year 2014. Overall, growth in global demand for new vehicles will probably be somewhat slower than in 2013. We anticipate a slight recovery in demand for automobiles in Western Europe, and volumes in the German market are also likely to increase again somewhat in 2014. The passenger car markets in Central and Eastern Europe will be clearly below the prior-year level. The upward trend in North America will probably weaken, while the Latin American passenger car markets will be down significantly on the previous year. We anticipate further growth in 2014 for the markets in the Asia-Pacific region that are strategically important for the Volkswagen Group, although momentum there is expected to be lower than in the previous year.

The global markets for light commercial vehicles will probably experience slight growth overall in 2014, with the individual regions recording mixed trends.

We anticipate that the overall volume in the markets for trucks and buses that are relevant for the Volkswagen Group will decrease in 2014 as against the previous year due to the increasingly difficult conditions in Latin America and Eastern Europe.

We are expecting to see a continuation in the trend towards growth in the number of new contracts and the portfolio of existing contracts seen in previous years. Based on the trends in recent years, we are forecasting constant growth in new contracts and current contracts to remain stable at the prior-year level in 2014. With both the number of new contracts and the number of vehicles delivered set to rise, we are projecting a slight improvement in the penetration rate for 2014. We are expecting the volume of business to grow considerably in 2014. Deposits at Volkswagen Bank GmbH are forecast to continue the trend recorded in recent years, with a slight increase projected for 2014.

Based on the assumption that pressure on margins will continue to grow this year, 2014 operating profit is expected to match the previous year's level.

The stiffer capital adequacy requirements and the associated higher level of own funds required will result in a significantly lower return on equity in 2014 compared with 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 consider to be realistic at the time of going to press. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Consequently, 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 the 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 2013 Annual Report develop in a way other than we are currently expecting, 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, 2014	Jan. 1 – June 30, 2013	Change in percent
Interest income from lending transactions[1]		1,737	1,684	3.1
Net income from leasing transactions before provisions for risks[1]		776	638	21.6
Interest expense[1]		−739	−734	0.7
Net income from insurance business		23	13	76.9
Net income from lending, leasing and insurance transactions before provisions for risks	1	1,797	1,601	12.2
Provisions for risks from lending and leasing business		−170	−226	−24.8
Net income from lending, leasing and insurance transactions after provisions for risks		1,627	1,375	18.3
Fee and commission income		291	253	15.0
Fee and commission expenses		−259	−171	51.5
Net fee and commission income		32	82	−61.0
Net gain/loss on the measurement of derivative financial instruments and hedged items		33	7	X
Share of profits and losses of equity-accounted joint ventures		18	52	−65.4
Net gain/loss on marketable securities and miscellaneous financial assets		7	3	X
General and administrative expenses	2	−1,000	−888	12.6
Net other operating expense/income		−80	−80	0.0
Profit before tax		**637**	**551**	**15.6**
Income tax expense		−175	−146	19.9
Profit after tax		**462**	**405**	**14.1**
Profit after tax attributable to Volkswagen AG		462	405	14.1
German GAAP profit attributable to Volkswagen AG in the event of loss absorption/profit transfer		−14	627	X

1 Figures for the prior-year period adjusted. See note (1) for further details.

STATEMENT OF COMPREHENSIVE INCOME OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Note	Jan. 1 – June 30, 2014	Jan. 1 – June 30, 2013
Profit after tax		**462**	**405**
Pension plan remeasurements recognized in other comprehensive income		–39	28
Deferred taxes relating to pension plan remeasurements		12	–8
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax		0	–
Items that will not be reclassified to profit or loss		**– 27**	**20**
Available-for-sale financial assets (marketable securities):			
– Fair value changes recognized in other comprehensive income		4	14
– Transferred to profit or loss		0	22
Deferred taxes relating to available-for-sale financial assets		–1	–11
Cash flow hedges			
– Fair value changes recognized in other comprehensive income		–2	–19
– Transferred to profit or loss		–3	12
Deferred taxes relating to cash flow hedges		1	2
Exchange differences on translating foreign operations		112	–128
Share of other comprehensive income of equity-accounted investments that may be reclassified subsequently to profit or loss, net of tax		0	2
Items that may be reclassified subsequently to profit or loss		**111**	**– 106**
Other comprehensive income, net of tax		**84**	**– 86**
Total comprehensive income		**546**	**319**
Total comprehensive income attributable to Volkswagen AG		546	319

BALANCE SHEET
OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Note	June 30, 2014	Dec. 31, 2013	Change in percent
Assets				
Cash reserve		32	220	−85.5
Receivables from credit institutions		2,472	2,019	22.4
Receivables from customers attributable to				
Retail financing		43,729	40,284	8.6
Dealer financing		11,963	11,082	7.9
Leasing business		19,768	16,298	21.3
Other receivables		5,958	5,527	7.8
Total receivables from customers		81,418	73,191	11.2
Derivative financial instruments		539	509	5.9
Marketable securities		2,038	2,451	−16.9
Equity-accounted joint ventures		416	384	8.3
Miscellaneous financial assets		713	622	14.6
Intangible assets	3	185	154	20.1
Property, plant and equipment	3	277	264	4.9
Lease assets	3	9,623	8,545	12.6
Investment property		22	18	22.2
Deferred tax assets		1,042	710	46.8
Current tax assets		126	161	−21.7
Other assets		1,713	1,744	−1.8
Total		**100,616**	**90,992**	**10.6**

€ million	Note	June 30, 2014	Dec. 31, 2013	Change in percent
Equity and Liabilities				
Liabilities to credit institutions		11,269	11,134	1.2
Liabilities to customers		36,375	33,705	7.9
Securitized liabilities		34,966	31,516	10.9
Derivative financial instruments		484	326	48.5
Provisions		1,630	1,459	11.7
Deferred tax liabilities		231	330	−30.0
Current tax liabilities		227	364	−37.6
Other liabilities		1,392	1,141	22.0
Subordinated capital		2,200	2,134	3.1
Equity		11,842	8,883	33.3
Subscribed capital		441	441	–
Capital reserves		6,964	4,709	47.9
Retained earnings		4,600	4,004	14.9
Other reserves		−163	−271	−39.9
Total		**100,616**	**90,992**	**10.6**

STATEMENT OF CHANGES IN EQUITY OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES: Currency translation	OTHER RESERVES: Cash flow hedges	OTHER RESERVES: Fair value measurement of marketable securities	OTHER RESERVES: Equity-accounted investments	Total equity
Balance at Jan. 1, 2013	**441**	**4,709**	**3,659**	**9**	**6**	**– 18**	**– 4**	**8,802**
Profit after tax	–	–	405	–	–	–	–	405
Other comprehensive income, net of tax	–	–	20	–128	–5	25	2	–86
Total comprehensive income	–	–	425	–128	–5	25	2	319
Appropriation to capital reserves	–	–	–	–	–	–	–	–
Other changes[1]	–	–	–627	–	–	–	–	–627
Balance at June 30, 2013	**441**	**4,709**	**3,457**	**– 119**	**1**	**7**	**– 2**	**8,494**
Balance at Jan. 1, 2014	**441**	**4,709**	**4,004**	**–266**	**1**	**7**	**–13**	**8,883**
Profit after tax	–	–	462	–	–	–	–	462
Other comprehensive income, net of tax	–	–	–27	112	–4	3	0	84
Total comprehensive income	–	–	435	112	–4	3	0	546
Appropriation to capital reserves	–	2,255	–	–	–	–	–	2,255
Changes in consolidated Group	–	–	147	8	–9	–	–2	144
Other changes[1]	–	–	14	–	–	–	–	14
Balance at June 30, 2014	**441**	**6,964**	**4,600**	**–146**	**–12**	**10**	**–15**	**11,842**

1 Profit in accordance with the German Commercial Code (HGB) 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, 2014	Jan. 1 – June 30, 2013
Profit after tax	**462**	**405**
Depreciation, amortization, impairment losses and reversals of impairment losses	1,056	994
Change in provisions	133	64
Change in other noncash items	32	388
Gain/loss on disposal of financial assets and items of property, plant and equipment	0	0
Net interest income and dividend income	−1,474	−1,354
Other adjustments	0	4
Change in receivables from credit institutions	−320	415
Change in receivables from customers	−4,184	−3,587
Change in lease assets	−1,635	−1,104
Change in other assets attributable to operating activities	142	364
Change in liabilities to credit institutions	−1,232	−421
Change in liabilities to customers	409	2,128
Change in securitized liabilities	3,210	−148
Change in other liabilities attributable to operating activities	186	177
Interest received	2,208	2,158
Dividends received	14	16
Interest paid	−748	−821
Income taxes paid	−291	−295
Cash flows from operating activities	**– 2,032**	**– 617**
Proceeds from disposal of investment property	–	2
Acquisition of investment property	0	–
Proceeds from disposal of subsidiaries and joint ventures	0	1,678
Acquisition of subsidiaries and joint ventures	−595	−154
Proceeds from disposal of other assets	4	5
Acquisition of other assets	−30	−36
Change in investments in securities	420	−248
Cash flows from investing activities	**– 201**	**1,247**
Proceeds from changes in capital	2,255	–
Distribution/profit transfer to Volkswagen AG	−217	−570
Change in cash funds attributable to subordinated capital	7	15
Cash flows from financing activities	**2,045**	**– 555**
Cash and cash equivalents at end of previous period	**220**	**355**
Cash flows from operating activities	−2,032	−617
Cash flows from investing activities	−201	1,247
Cash flows from financing activities	2,045	−555
Effect of exchange rate changes	0	−1
Cash and cash equivalents at end of period	**32**	**429**

Notes

OF VOLKSWAGEN FINANCIAL SERVICES AG FOR THE PERIOD ENDED JUNE 30, 2014

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 preparation

VW FS AG prepared its consolidated financial statements for fiscal year 2013 in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union, and the Interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC), as well as the additional disclosures required by German commercial law under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code). This Group Interim Report for the period ended June 30, 2014 was therefore also prepared in accordance with IAS 34. It has not been reviewed by an auditor.

Unless otherwise stated, amounts are given in millions of euros (€ million). Technical rounding differences of ± one unit (€, %, etc.) may arise in the tables.

Accounting policies

VW FS AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning on or after January 1, 2014.

The pronouncements contained in the "consolidation package" must be applied effective January 1, 2014. These relate to the new standards IFRS 10, IFRS 11 and IFRS 12, as well as amendments to IAS 28. The basis of consolidation and the subsidiaries to be included in the consolidated financial statements are now defined by IFRS 10. All entities that VW FS AG can control directly or indirectly must be included in the basis of consolidation. The switch from IAS 27 to IFRS 10 did not require the VW FS Group to make any adjustments because the parent/subsidiary relationships and other control relationships are attributable almost entirely to voting rights majorities. There was therefore no requirement to consolidate additional entities or deconsolidate existing ones. Equally, because all significant special purpose entities/structured entities are consolidated in the VW FS Group, no adjustments were required for these entities.

IFRS 11 governs the definition of and accounting for "joint arrangements" in the consolidated financial statements. Joint arrangements are classified into "joint ventures" and "joint operations". Because all entities that are jointly controlled by VW FS AG or one of its subsidiaries are required to be classified as joint ventures, there were no effects from applying IFRS 11.

IFRS 12 governs all disclosures on interests in other entities and thus combines all of the information required to be disclosed in the notes on subsidiaries, joint arrangements, associates, and consolidated and unconsolidated structured entities. The scope of the information to be disclosed was expanded in some cases. IFRS 12 does not result in any additional disclosure requirements in this interim financial report.

Only the equity method in accordance with IAS 28 may be applied to joint ventures and associates effective January 1, 2014. The option to include these entities in the consolidated financial statements using proportionate consolidation was eliminated. Because proportionate consolidation was not used in the past in the VW FS Group, the elimination of this option did not result in any adjustments.

The other accounting pronouncements required to be applied for the first time in fiscal year 2014 are insignificant for the presentation of the net assets, financial position and results of operations in the interim consolidated financial statements. A detailed breakdown of these accounting pronouncements is provided in the notes to the consolidated financial statements in the 2013 Annual Report.

A discount rate of 3.1% (December 31, 2013: 3.7%) was applied to German pension provisions in the accompanying interim consolidated financial statements. The reduction in the discount rate increased the actuarial losses for pension provisions that are recognized in retained earnings.

The income tax expense for the interim reporting period was calculated on the basis of the average annual tax rate that is expected for the entire fiscal year, in accordance with IAS 34, Interim Financial Reporting.

In other respects, the same consolidation methods and accounting policies that were used for the 2013 consolidated financial statements were generally applied to the preparation of the interim consolidated financial statements and the measurement of the prior-year comparatives. A detailed description of the policies and methods applied is published in the notes to the consolidated financial statements in the 2013 Annual Report. This can also be accessed on the Internet at www.vwfsag.com.

Basis of consolidation

In addition to VW FS AG, the consolidated financial statements comprise all significant German and non-German subsidiaries, including structured entities, that are controlled directly or indirectly by VW FS AG. This is the case if VW FS AG obtains 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 is able to influence those returns.

In the course of internal restructuring within the Volkswagen Group, Volkswagen Financial Services AG acquired all shares of MAN Finance International GmbH, Munich, from MAN SE effective January 1, 2014, and thus expanded its financial services business to include the MAN brand's leasing and rental activities. The move is designed to strengthen the financial services activities and thus support the MAN Truck & Bus division's sales targets. The ability to leverage Volkswagen Financial Services AG's infrastructure, resources and expertise in the future will not only permit further expansion of the geographical footprint, but will also support the development of fully integrated transportation solutions for MAN Truck & Bus customers. The aim is to position MAN's financial services as a benchmark in sales promotion for the truck and bus business in the medium term.

The total purchase price amounted to €486 million and was paid in cash. As this was classified as a transaction under common control, the assets acquired and liabilities assumed were measured at their carrying amounts in the consolidated financial statements at the transaction date (predecessor accounting). The difference between the assets acquired and liabilities assumed and the purchase price paid was recognized in other comprehensive income.

DISCLOSURES ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

€ million	Jan. 1 – June 30, 2014	Jan. 1 – June 30, 2013
Interest income from lending and money market transactions	1,737	1,684
Income from leasing transactions and service contracts	5,534	4,921
Expenses from leasing transactions and service contracts	−3,883	−3,505
Depreciation of and impairment losses on lease assets and investment property	−875	−778
Interest expense	−739	−734
Net income from insurance business	23	13
Total	**1,797**	**1,601**

Interest income and expense include components of profit or loss attributable to interest rate hedging derivatives. To enable a better insight into the results of operations, gains and losses on interest rate hedging transactions in the reporting period are presented in the same income statement line item as the hedged item. The prior-year comparatives presented for interest income from lending transactions (€–50 million), income from leasing transactions and service contracts (€–37 million), and interest expense (€+87 million) were adjusted. This did not have any effect overall on profit or loss.

2. General and administrative expenses

€ million	Jan. 1 – June 30, 2014	Jan. 1 – June 30, 2013
Personnel expenses	−418	−360
Non-staff operating expenses	−516	−477
Advertising, public relations and sales promotion expenses	−25	−17
Depreciation of property, plant and equipment, and intangible assets	−28	−25
Other taxes	−13	−9
Total	**– 1,000**	**– 888**

3. Changes in selected assets

€ million	Carrying amount at Jan. 1, 2014	Additions/Changes in consolidated Group	Disposals/Other changes	Depreciation, amortization and impairment losses	Carrying amount at June 30, 2014
Intangible assets	154	42	1	12	185
Property, plant and equipment	264	35	−6	16	277
Lease assets	8,545	4,839	−2,887	874	9,623

4. Classes of financial instruments

Financial instruments are divided into the following classes in the VW FS AG Group:

- Financial assets measured at fair value
- Financial assets measured at amortized cost
- Hedge accounting
- Miscellaneous financial assets
- Financial liabilities measured at amortized cost
- Credit commitments
- Not within scope of IFRS 7

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

€ million	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST		HEDGE ACCOUNTING		MISCELLANEOUS FINANCIAL ASSETS		NOT WITHIN SCOPE OF IFRS 7	
	June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013
Assets												
Cash reserve	32	220	–	–	32	220	–	–	–	–	–	–
Receivables from credit institutions	2,472	2,019	–	–	2,472	2,019	–	–	–	–	–	–
Receivables from customers	81,418	73,191	–	–	63,083	54,603	18,335	18,588	–	–	–	–
Derivative financial instruments	539	509	60	89	–	–	479	420	–	–	–	–
Marketable securities	2,038	2,451	2,038	2,451	–	–	–	–	–	–	–	–
Equity-accounted joint ventures	416	384	–	–	–	–	–	–	–	–	416	384
Miscellaneous financial assets	713	622	–	–	–	–	–	–	713	622	–	–
Other assets	1,713	1,744	–	–	683	663	–	–	–	–	1,030	1,081
Total	**89,341**	**81,140**	**2,098**	**2,540**	**66,270**	**57,505**	**18,814**	**19,008**	**713**	**622**	**1,446**	**1,465**
Liabilities												
Liabilities to credit institutions	11,269	11,134	–	–	11,269	11,134	–	–	–	–	–	–
Liabilities to customers	36,375	33,705	–	–	35,310	32,797	1,065	908	–	–	–	–
Securitized liabilities	34,966	31,516	–	–	34,966	31,516	–	–	–	–	–	–
Derivative financial instruments	484	326	137	97	–	–	347	229	–	–	–	–
Other liabilities	1,392	1,141	–	–	516	434	–	–	–	–	876	707
Subordinated capital	2,200	2,134	–	–	2,200	2,134	–	–	–	–	–	–
Total	**86,686**	**79,956**	**137**	**97**	**84,261**	**78,015**	**1,412**	**1,137**	**–**	**–**	**876**	**707**

5. Fair value disclosures

The principles and techniques used for fair value measurement remained unchanged year-on-year. Detailed explanations of the measurement principles and techniques can be found in the 2013 Annual Report.

Fair value generally corresponds to the market or quoted market price (Level 1). If no active market exists, fair value is determined using valuation techniques. Fair values in Level 2, e.g. of derivatives, are measured on the basis of market inputs such as exchange rates or yield curves using market-based valuation techniques. Level 3 fair values are calculated using valuation techniques that incorporate inputs that are not directly observable in active markets.

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

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013
Assets						
Measured at fair value						
Derivative financial instruments	–	–	60	89	–	–
Marketable securities	1,530	1,705	508	746	–	–
Hedge accounting						
Derivative financial instruments	–	–	479	420	–	–
Receivables from customers	–	–	18,335	18,588	–	–
Total	**1,530**	**1,705**	**19,382**	**19,843**	**–**	**–**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	137	97	–	–
Hedge accounting						
Derivative financial instruments	–	–	347	229	–	–
Liabilities to customers	–	–	1,065	908	–	–
Total	**–**	**–**	**1,549**	**1,234**	**–**	**–**

The following table contains an overview of the fair values of financial instruments:

€ million	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
	June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013
Assets						
Measured at fair value						
Derivative financial instruments	60	89	60	89	–	–
Marketable securities	2,038	2,451	2,038	2,451	–	–
Measured at amortized cost						
Cash reserve	32	220	32	220	–	–
Receivables from credit institutions	2,475	2,019	2,472	2,019	3	0
Receivables from customers	64,058	55,479	63,083	54,603	975	876
Other assets	683	663	683	663	–	0
Hedge accounting						
Receivables from customers	18,335	18,588	18,335	18,588	–	–
Derivative financial instruments	479	420	479	420	–	–
Miscellaneous financial assets	713	622	713	622	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	137	97	137	97	–	–
Measured at amortized cost						
Liabilities to credit institutions	11,265	11,125	11,269	11,134	–4	–9
Liabilities to customers	35,500	32,960	35,310	32,797	190	163
Securitized liabilities	35,182	31,729	34,966	31,516	216	213
Other liabilities	519	437	516	434	3	3
Subordinated capital	2,303	2,238	2,200	2,134	103	104
Hedge accounting						
Liabilities to customers	1,065	908	1,065	908	–	–
Derivative financial instruments	347	229	347	229	–	–

SEGMENT REPORTING

6. Segment reporting

The presentation of the reportable segments in accordance with IFRS 8 based on the VW FS AG Group's internal reporting structure changed as described in the following compared with the presentation in the 2013 consolidated financial statements:

1. In the course of the restructuring of the German market as of January 1, 2014, VW Versicherungsvermittlungs-GmbH and Volkswagen Versicherung AG were transferred from the German market to the holding companies in order to reflect the international focus of those companies. Consequently, they were also reclassified in the segment reporting from the Germany segment to the "Reconciliation" column. The French branch of Volkswagen Versicherung AG was also transferred from the Europe segment to the "Reconciliation" column as part of this reclassification. As in previous periods, this column also contains the holding and financing companies. The prior-year figures were adjusted to enhance comparability.
2. The acquisition of the MFI Group effective January 1, 2014 led to the addition of the MFI Group segment to the VW FS AG Group's internal reporting structure. This addition is also reflected in the segment reporting.

€ million	Germany	Europe	Latin America	Asia-Pacific	Total segments	Reconciliation	Group
	JAN. 1, 2013 – JUNE 30, 2013						
Revenue from lending transactions with third parties[1]	476	390	556	220	1,642	34	1,676
Intersegment revenue from lending transactions	44	0	–	–	44	–44	–
Total segment revenue from lending transactions[1]	520	390	556	220	1,686	–10	1,676
Revenue from leasing and service transactions[1]	3,156	1,712	50	5	4,923	–4	4,919
Insurance premiums earned	–	–	–	–	–	42	42
Fee and commission income	135	62	43	2	242	11	253
Revenue	**3,811**	**2,164**	**649**	**227**	**6,851**	**39**	**6,890**
Cost of sales attributable to lending, leasing and service transactions	–2,169	–1,333	–2	–1	–3,505	–	–3,505
Reversals of impairment losses on lease assets and investment property	0	1	–	–	1	–	1
Depreciation of and impairment losses on lease assets and investment property	–551	–227	0	0	–778	–	–778
of which impairment losses in accordance with IAS 36	–52	–5	–	–	–57	–	–57
Expenses from insurance business	–	–	–	–	–	–29	–29
Interest expense (component of operating profit or loss)[1]	–257	–129	–259	–104	–749	16	–733
Provisions for risks from lending and leasing business	–93	–56	–69	–8	–226	0	–226
Fee and commission expenses	–59	–72	–25	–15	–171	0	–171
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	–6	–	–	–	–6	–1	–7
General and administrative expenses (component of operating profit or loss)	–428	–171	–90	–69	–758	–126	–884
Other operating profit or loss (component of operating profit or loss)	–38	10	–47	4	–71	–3	–74
Segment profit or loss (operating profit or loss)	**210**	**187**	**157**	**34**	**588**	**– 104**	**484**
Interest income not classified as sales revenue	9	0	0	0	9	0	9
Interest expense (not a component of operating profit or loss)	–1	0	–	–	–1	0	–1
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	–4	2	3	–2	–1	15	14
Share of profits and losses of equity-accounted joint ventures	–	–	–	–	–	52	52
Net gain/loss on marketable securities and miscellaneous financial assets	0	2	–	–	2	1	3
General and administrative expenses (not a component of operating profit or loss)	–1	0	0	0	–1	–3	–4
Other operating profit or loss (not a component of operating profit or loss)	–1	0	–5	–	–6	–	–6
Profit or loss before tax	**212**	**191**	**155**	**32**	**590**	**– 39**	**551**
Income tax expense	–118	–54	–34	–9	–215	69	–146
Profit after tax	**94**	**137**	**121**	**23**	**375**	**30**	**405**
Segment assets	**37,395**	**20,963**	**9,021**	**6,140**	**73,519**	**637**	**74,156**
of which noncurrent	**22,901**	**11,413**	**4,547**	**3,697**	**42,558**	**–**	**42,558**
Segment liabilities	**45,545**	**18,613**	**8,279**	**5,536**	**77,973**	**– 5,239**	**72,734**

1 Figures for the prior-year period adjusted. See note (1) for further details.

Breakdown by geographical markets, H1 2014:

€ million	JAN. 1, 2014 – JUNE 30, 2014							
	Germany	Europe	Latin America	Asia-Pacific	MFI	Total segments	Reconcil–iation	Group
Revenue from lending transactions with third parties	470	427	509	276	10	1,692	37	1,729
Intersegment revenue from lending transactions	41	0	–	–	0	41	−41	–
Total segment revenue from lending transactions	511	427	509	276	10	1,733	−4	1,729
Sales revenue from leasing and service transactions	3,418	1,882	40	4	194	5,538	−5	5,533
Insurance premiums earned	–	–	–	–	–	–	66	66
Fee and commission income	143	72	62	2	1	280	11	291
Revenue	**4,072**	**2,381**	**611**	**282**	**205**	**7,551**	**68**	**7,619**
Cost of sales attributable to lending, leasing and service transactions	−2,359	−1,430	−2	−1	−91	−3,883	–	−3,883
Reversals of impairment losses on lease assets and investment property	0	0	–	–	1	1	–	1
Depreciation of and impairment losses on lease assets and investment property	−586	−264	−1	0	−24	−875	–	−875
of which impairment losses in accordance with IAS 36	−24	−8	–	–	0	−32	–	−32
Expenses from insurance business	–	–	–	–	–	–	−43	−43
Interest expense (component of operating profit or loss)	−213	−123	−265	−118	−28	−747	9	−738
Provisions for risks from lending and leasing business	−43	−50	−51	−18	−8	−170	0	−170
Fee and commission expenses	−76	−116	−33	−34	0	−259	0	−259
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	−1	–	–	–	–	−1	0	−1
General and administrative expenses (component of operating profit or loss)	−428	−203	−85	−64	−54	−834	−161	−995
Other operating profit or loss (component of operating profit or loss)	−38	−14	−28	4	4	−72	−2	−74
Segment profit or loss (operating profit or loss)	**328**	**181**	**146**	**51**	**5**	**711**	**– 129**	**582**
Interest income not classified as sales revenue	8	0	0	0	–	8	0	8
Interest expense (not a component of operating profit or loss)	−1	0	–	–	–	−1	0	−1
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	26	11	−1	1	–	37	−3	34
Share of profits and losses of equity-accounted joint ventures	–	–	–	–	1	1	17	18
Net gain/loss on marketable securities and miscellaneous financial assets	1	3	–	–	2	6	1	7
General and administrative expenses (not a component of operating profit or loss)	−1	0	0	0	0	−1	−4	−5
Other operating profit or loss (not a component of operating profit or loss)	0	0	−6	–	0	−6	0	−6
Profit or loss before tax	**361**	**195**	**139**	**52**	**8**	**755**	**– 118**	**637**
Income tax expense	−112	−54	−51	−14	9	−222	47	−175
Profit after tax	**249**	**141**	**88**	**38**	**17**	**533**	**– 71**	**462**
Segment assets	**40,175**	**24,846**	**8,867**	**7,467**	**3,364**	**84,719**	**554**	**85,273**
of which noncurrent	**24,667**	**13,971**	**4,336**	**4,478**	**2,158**	**49,610**	**–**	**49,610**
Segment liabilities	**49,358**	**22,098**	**8,044**	**6,809**	**3,173**	**89,482**	**– 7,599**	**81,883**

Reconciliation:

€ million	June 30, 2014	June 30, 2013
Total segment profit or loss (operating profit or loss)	**711**	**588**
Unallocated activities	–112	–108
Consolidation	–17	4
Consolidated operating profit	**582**	**484**
Total segment profit or loss before tax	**755**	**590**
Unallocated activities	64	786
Consolidation	–182	–825
Consolidated profit before tax	**637**	**551**

OTHER DISCLOSURES

7. Cash flow statement

VW FS AG'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

€ million	June 30, 2014	Dec. 31, 2013
Contingent liabilities		
Contingent liabilities from guarantees and indemnity agreements	107	111
Other contingent liabilities	141	103
Other financial obligations		
Purchase commitments	73	70
Miscellaneous	24	9
Other obligations		
Irrevocable credit commitments	4,194	3,367

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 €763 million (December 31, 2013: €601 million).

9. Governing bodies of Volkswagen Financial Services AG

Jörg Thielemann resigned from the Supervisory Board effective March 17, 2014. Gabor Polonyi was appointed to the Supervisory Board of Volkswagen Financial Services AG effective March 17, 2014.

10. Events after the balance sheet date

There were no significant events in the period up to July 18, 2014.

11. Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the condensed interim consolidated financial statements 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 for the remaining months of the fiscal year.

Braunschweig, July 18, 2014
The Board of Management

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Dr. Mario Daberkow

Frank Fiedler

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The 2014 Group Interim Report is also available online at www.vwfsag.com/hy14

This Group Interim Report is also published in German.

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