VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

CONSOLIDATED INTERIM REPORT OF VOLKSWAGEN BANK GMBH

JANUARY – JUNE

2014

Key Figures

€ million	June 30, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Total assets	41,175	39,378	39,220	37,866	32,826
Receivables from customers attributable to					
Retail financing	21,043	20,431	19,557	17,939	17,696
Dealer financing	8,603	7,973	7,738	7,435	6,261
Leasing business	1,977	1,789	1,540	1,412	1,232
Customer deposits	24,467	23,140	23,722	22,592	20,078
Equity	4,855	4,699	5,021	4,883	4,690

€ million	H1 2014	H1 2013	H1 2012	H1 2011	H1 2010
Operating profit	263	269	169	165	122
Profit before tax	273	270	231	243	188
Profit after tax	189	153	181	197	144

%	June 30, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Equity ratio[1]	11.8	11.9	12.8	12.9	14.3

%[2]	Mar. 31, 2014[3]	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Common Equity Tier 1 capital ratio	13.8	–	–	–	–
Tier 1 capital ratio	13.8	14.0	13.5	14.4	15.6
Total capital ratio	14.2	14.7	14.9	16.3	18.6

Number	June 30, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Employees	906	938	864	753	631

RATING (AS OF JUNE 30, 2014)	STANDARD & POOR'S			MOODY'S INVESTORS SERVICE		
	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Volkswagen Bank GmbH	A–2	A–	positive	P–2	A3	positive
Volkswagen Financial Services AG	A–2	A–	positive	P–2	A3	positive

1 Equity ratio = equity divided by total capital.
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 Bank GmbH 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.

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.

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 lower interest rates in the eurozone decline significantly. The decision triggered a further fall in yields on European government bonds and led to a 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.

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 Western and Central Europe regions increased year-on-year, overall market demand 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.

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.

OVERALL ASSESSMENT OF THE COURSE OF BUSINESS

The Management of Volkswagen Bank GmbH considers the course of business in the year to date to have been positive. Profit before tax at the end of the first half of the year was up on the June 30, 2013 level.

Both new consumer financing business and vehicle and investment financing for Volkswagen Group dealers recorded positive growth in the first six months of the year.

Volkswagen Bank GmbH recorded a year-on-year increase in the volume of business especially in the United Kingdom and France in the first half of 2014.

Based on unchanged credit eligibility criteria, the ratio of financed vehicles to deliveries by the Volkswagen Group (penetration rate) decreased slightly to 18.9% (previous year: 19.3%) in the first half of the year in those countries in which the Volkswagen Bank Group operates. The penetration rates at the key French and Italian branches were over 36% in each case. In France, the penetration rate even increased by a further 2.2 percentage points to almost 40% in the past six months.

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. Expected credit losses were mitigated by timely countermeasures.

To strengthen its capital base, Volkswagen Bank GmbH's equity was increased by €150 million by Volkswagen Financial Services AG in the first half of 2014. This measure serves to support business expansion, meets regulatory requirements and underpins the common growth strategy with the Volkswagen Group's brands.

THE VOLKSWAGEN BANK GMBH GROUP

There has been no change compared with December 31, 2013 in the legal position of Volkswagen Bank GmbH under company law and the inclusion of the Volkswagen Bank GmbH Group in the consolidated financial statements of Volkswagen Financial Services AG and Volkswagen AG.

In addition to the companies listed as of the previous reporting date, the consolidated financial statements of Volkswagen Bank GmbH include the consolidated special purpose entities Private Driver 2014–1 UG (haftungsbeschränkt), Private Driver 2014–2 UG (haftungsbeschränkt), Private Driver 2014–3 UG (haftungsbeschränkt) and Driver Twelve GmbH, all of which are domiciled in Frankfurt/Main and were established to execute ABS transactions.

RESULTS OF OPERATIONS

The following disclosures on the results of operations refer to the changes compared with the same period of the previous year.

The course of business in the first half of 2014 was satisfactory for the Volkswagen Bank GmbH companies. Profit before tax was up slightly on the prior-year period to €273 million (+1.5%). Net income from lending and leasing transactions before provisions for risks was 5.0% higher year-on-year, at €605 million.

Buoyed by the sustained positive economic trend, the risk provisions required were lower than in the prior-year period. They amounted to €51 million, down €31 million on the prior-year figure.

General and administrative expenses rose by €11 million to €351 million. This was mainly the result of volume effects due to the increase in business, the implementation of strategic projects and compliance with stricter regulatory requirements.

Both fee and commission income – mainly from insurance broking – and fee and commission expenses – primarily for sales commissions paid – were higher than in the previous year. In total, net fee and commission income was up 10.7% on the prior-year period.

Including the net loss on the measurement of derivative financial instruments in the amount of €1 million (previous year: net loss of €22 million) and the other components of profit or loss, the Volkswagen Bank GmbH Group recorded profit after tax of €187 million (+23.0%).

Volkswagen Bank GmbH continued to operate successfully in the saturated German market and hence made a significant contribution to the results of the Volkswagen Bank GmbH Group. The German market remained the highest-volume market, accounting for around 61.0% of all contracts and profit before tax of €162 million (+4.6%).

Volkswagen Bank GmbH generated profit before tax of €107 million at its branches (–2.0%). VOLKSWAGEN BANK POLKSA S.A. contributed €4.2 million (–23.4%) to profit before tax.

NET ASSETS AND FINANCIAL POSITION

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

Lending business

At €35.8 billion in total (previous year: €33.9 billion), receivables from customers – which make up the core business of the Volkswagen Bank GmbH Group – continued to account for approximately 86% of the Group's total assets. The higher volume of receivables is due to the increase in business, particularly in Germany, the United Kingdom and France.

The volume of retail financing lending rose by €0.6 billion or 3.0% to €21.0 billion in the first half of 2014. A total of 341 thousand new contracts were signed, as a result of which the total number of contracts increased by 15.1 thousand or 0.7% versus December 31, 2013. Germany was once again the largest market for the Volkswagen Bank GmbH Group, at 1,484 thousand contracts (previous year: 1,477 thousand).

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 by 7.9% to €8.6 billion.

Receivables from leasing transactions were up 5.5% on the prior-year figure to €2.0 billion. Lease assets recorded growth of €55 million to €425 million (+14.8%).

A total of 33 thousand new leasing contracts were signed in the reporting period. As a result, the total number of contracts grew by 17 thousand to 141 thousand contracts in the first half of 2014.

Credit risks to which the Volkswagen Bank GmbH Group is exposed as a result of the crisis in some eurozone countries were accounted for by recognizing valuation allowances, which remained unchanged versus the prior-year reporting date, at €357 million.

Compared with the end of the previous year, the Volkswagen Bank GmbH Group's total assets rose by €1.8 billion or 4.6% to €41.2 billion.

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

in thousands[1]	VW Bank Group	Of which Germany	Of which Italy	Of which France	Other
Current contracts	2,464.9	1,503.1	377.6	390.8	193.5
Retail financing	2,062.7	1,483.6	232.5	182.0	164.6
Leases	141.1	0.0	35.1	99.8	6.2
Service/insurance	261.1	19.5	109.9	109.0	22.7
New contracts	479.4	241.9	82.4	107.8	47.2
Retail financing	340.9	240.7	40.1	24.9	35.1
Leases	33.2	0.0	4.8	25.0	3.4
Service/insurance	105.3	1.2	37.5	58.0	8.6
€ million					
Receivables from customers attributable to					
Retail financing	21,043.1	16,747.0	1,825.1	1,179.0	1,292.1
Dealer financing	8,603.2	3,926.9	567.8	1,256.6	2,851.9
Leasing business	1,976.6	0.0	614.7	1,276.1	85.8
Lease assets	425.4	0.0	0.0	425.4	0.0
%					
Penetration rates[2]	18.9	17.3	36.3	39.5	10.4

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
2 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles, based on Volkswagen Financial Services AG's consolidated entities.

Deposit business and borrowings

The significant liability items are liabilities to customers in the amount of €26.7 billion (+6.6%) and securitized liabilities amounting to €7.1 billion (+28.3%).

Customer deposits reported within liabilities to customers amounted to €24.5 billion as of June 30, 2014 and thus continued to make a large contribution to funding.

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

Equity

Volkswagen Bank GmbH's subscribed capital remained unchanged at €318.3 million in the first six months of 2014. In the first half of the year, Volkswagen Financial Services AG contributed €105 million to Volkswagen Bank GmbH's capital reserves, which amounted to €3,946 million as of June 30, 2014.

The regulatory capital ratios were calculated using the Credit Risk Standardized Approach (CRSA) and the Standardized Approach for operational risk.

Net of the profit transfer to Volkswagen Financial Services AG, equity in accordance with IFRSs was €4.9 billion (previous year: € 4.7 billion). This results in an equity ratio of 11.8% based on the total equity and liabilities of €41.2 billion.

Report on Opportunities and Risks

REPORT ON OPPORTUNITIES

Macroeconomic opportunities

With deliveries to customers of the Volkswagen Group projected to record a slight increase year-on-year, the Management of Volkswagen Bank GmbH 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, the Volkswagen Bank GmbH Group believes that developing innovative products that are tailored to customers' changing mobility requirements offers additional opportunities. Growth areas 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 conducted as of December 31, 2013 combined credit, equity, issuer and counterparty risk under the higher-level risk category of counterparty credit risk. This change also implemented the aggregate limit for counterparty credit risk (also scheduled for 2014), under 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. Starting on January 1, 2014, operational losses from the loss database have also been 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

There were no significant events after June 30, 2014.

Human Resources Report

As of June 30, 2014, 2,303 employees (December 31, 2013: 2,199) of Volkswagen Financial Services AG worked in Volkswagen Bank GmbH's business units under personnel leasing arrangements.

Due to banking supervision requirements, other staff are employed directly by Volkswagen Bank GmbH. These employees numbered 108 in Germany as of June 30, 2014 (December 31, 2013: 173). There are plans to transfer these employees to Volkswagen Financial Services AG effective July 1, 2014. The branches of Volkswagen Bank GmbH employed 798 staff (December 31, 2013: 765) and VOLKSWAGEN BANK POLSKA S.A. employed 289 staff (December 31, 2013: 303).

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. Volkswagen Bank GmbH's 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. The industrialized nations will probably record moderate rates of expansion.

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.

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 aforementioned factors and market trends produce the following overall picture: earnings expectations are based on the assumption that funding costs will remain stable and that there will continue to be considerable uncertainty as regards overall conditions in the real economy, as well as about its effects on risk costs, among other factors.

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 stable 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.

Despite the assumption that pressure on margins will continue to grow this year, 2014 operating profit is expected to be slightly higher than the previous year's level on the back of the volume growth.

The increase in earnings is also expected to produce a higher return on equity than in the previous year.

This report contains forward-looking statements on the business development of the Volkswagen Bank GmbH Group. 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 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 BANK GMBH GROUP

€ million	Note	Jan. 1 – June 30, 2014	Jan. 1 – June 30, 2013	Change in percent
Interest income from lending transactions before provisions for risks[1]		672	680	−1.2
Net income from leasing transactions before provisions for risks		60	51	17.6
Interest expense[1]		−127	−155	−18.1
Net income from lending and leasing transactions before provisions for risks	1	605	576	5.0
Provisions for risks from lending and leasing business		−53	−84	−36.9
Net income from lending and leasing transactions after provisions for risks		552	492	12.2
Fee and commission income		136	125	8.8
Fee and commission expenses		−105	−97	8.2
Net fee and commission income		31	28	10.7
Net gain/loss on the measurement of derivative financial instruments and hedged items		−1	−22	−95.5
Share of profits and losses of equity-accounted joint ventures		–	6	X
Net gain/loss on marketable securities and miscellaneous financial assets		4	4	33.3
General and administrative expenses	2	−351	−340	3.2
Net other operating income/expense		38	103	−63.1
Profit before tax		**273**	**270**	**1.1**
Income tax expense		−84	−117	−28.2
Profit after tax		**189**	**153**	**23.5**
Profit after tax attributable to Volkswagen Financial Services AG		189	153	23.5
German GAAP profit attributable to Volkswagen Financial Services AG in the event of profit transfer		182	778	−76.6

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

STATEMENT OF COMPREHENSIVE INCOME OF THE VOLKSWAGEN BANK GMBH GROUP

€ million	Jan. 1 – June 30, 2014	Jan. 1 – June 30, 2013
Profit after tax	**189**	**153**
Pension plan remeasurements recognized in other comprehensive income	–9	5
Deferred taxes relating to pension plan remeasurements	3	–2
Items that will not be reclassified to profit or loss	**–7**	**3**
Available-for-sale financial assets (marketable securities):		
Fair value changes recognized in other comprehensive income	1	10
Transferred to profit or loss	–	22
Deferred taxes relating to available-for-sale financial assets	0	–9
Cash flow hedges:		
Fair value changes recognized in other comprehensive income	1	–19
Transferred to profit or loss	–3	9
Deferred taxes relating to cash flow hedges	0	3
Exchange differences on translating foreign operations	5	–11
Share of other comprehensive income of equity-accounted investments that may be reclassified subsequently to profit or loss, net of tax	–	4
Items that may be reclassified subsequently to profit or loss	**5**	**9**
Other comprehensive income, net of tax	**–1**	**12**
Total comprehensive income	**188**	**165**
Total comprehensive income attributable to Volkswagen Financial Services AG	188	165

BALANCE SHEET OF THE VOLKSWAGEN BANK GMBH GROUP

€ million	Note	June 30, 2014	Dec. 31, 2013	Change in percent
Assets				
Cash reserve		18	216	−91.7
Receivables from credit institutions		984	522	88.5
Receivables from customers attributable to				
Retail financing		21,043	20,431	3.0
Dealer financing		8,603	7,973	7.9
Leasing business		1,977	1,789	10.5
Other receivables		4,220	3,744	12.7
Total receivables from customers		35,843	33,937	5.6
Derivative financial instruments		80	104	−23.1
Marketable securities		2,472	2,912	−15.1
Miscellaneous financial assets		3	2	50.0
Intangible assets	3	48	50	−4.0
Property, plant and equipment	3	14	15	−6.7
Lease assets	3	425	371	14.6
Investment property		1	1	0.0
Deferred tax assets		897	883	1.6
Current tax assets		30	45	−33.3
Other assets		358	320	11.9
Total		**41,175**	**39,378**	**4.6**

€ million	Note	June 30, 2014	Dec. 31, 2013	Change in percent
Equity and Liabilities				
Liabilities to credit institutions		513	2,181	−76.5
Liabilities to customers		26,716	25,071	6.6
Securitized liabilities		7,082	5,518	28.3
Derivative financial instruments		173	106	63.2
Provisions		312	299	4.3
Deferred tax liabilities		725	715	1.4
Current tax liabilities		57	55	3.6
Other liabilities		100	103	−2.5
Subordinated capital		641	631	1.6
Equity		4,855	4,699	3.3
Subscribed capital		318	318	–
Capital reserves		3,946	3,796	4.0
Retained earnings		601	600	0.2
Other reserves		−10	−15	−33.3
Total		**41,175**	**39,378**	**4.6**

STATEMENT OF CHANGES IN EQUITY OF THE VOLKSWAGEN BANK GMBH GROUP

				OTHER RESERVES				
€ million	Subscribed capital	Capital reserves	Retained earnings	Currency translation reserve	Cash flow hedges	Fair value measurement of marketable securities	Equity-accounted investments	Total equity
Balance at Jan. 1, 2013	**318**	**3,596**	**1,139**	**−26**	**11**	**−13**	**−4**	**5,021**
Profit after tax	–	–	153	–	–	–	–	153
Other comprehensive income, net of tax	–	–	3	−11	−7	23	4	12
Total comprehensive income	–	–	156	−11	−7	23	4	165
Appropriation to capital reserves	–	200	–	–	–	–	–	200
Other changes[1]	–	–	−778	–	–	–	–	−778
Balance at June 30, 2013	**318**	**3,796**	**517**	**−37**	**4**	**10**	**–**	**4,608**
Balance at Jan. 1, 2014	**318**	**3,796**	**600**	**−29**	**4**	**10**	**–**	**4,699**
Profit after tax	–	–	189	–	–	–	–	189
Other comprehensive income, net of tax	–	–	−7	5	−1	1	–	−1
Total comprehensive income	–	–	182	5	−1	1	–	188
Appropriation to capital reserves	–	150	–	–	–	–	–	150
Other changes[1]	–	–	−182	–	–	–	–	−182
Balance at June 30, 2014	**318**	**3,946**	**601**	**−24**	**3**	**11**	**–**	**4,855**

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

CASH FLOW STATEMENT OF THE VOLKSWAGEN BANK GMBH GROUP

€ million	Jan. 1 – June 30, 2014	Jan. 1 – June 30, 2013
Profit after tax	**189**	**153**
Depreciation, amortization, impairment losses and reversals of impairment losses	104	133
Change in provisions	13	−41
Change in other noncash items	99	162
Gain/loss on disposal of financial assets and items of property, plant and equipment	0	0
Net interest income and dividend income	−594	−573
Other adjustments	0	4
Change in receivables from credit institutions	−461	−161
Change in receivables from customers	−1,886	−1,243
Change in lease assets	−101	−87
Change in other assets attributable to operating activities	−38	−6
Change in liabilities to credit institutions	−1,668	−1,276
Change in liabilities to customers	2,306	876
Change in securitized liabilities	1,564	443
Change in other liabilities attributable to operating activities	−3	−21
Interest received	718	763
Dividends received	4	3
Interest paid	−127	−193
Income taxes paid	−68	−69
Cash flows from operating activities	**51**	**−1,133**
Proceeds from disposal of investment property	–	–
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	–	1,675
Acquisition of subsidiaries and joint ventures	0	−1
Proceeds from disposal of other assets	0	2
Acquisition of other assets	−4	−5
Change in investments in securities	444	−330
Cash flows from investing activities	**440**	**1,341**
Proceeds from changes in capital	150	200
Profit transfer to Volkswagen Financial Services AG	−850	−290
Change in cash funds attributable to subordinated capital	11	−37
Cash flows from financing activities	**−689**	**−127**
Cash and cash equivalents at end of previous period	**216**	**670**
Cash flows from operating activities	51	−1,133
Cash flows from investing activities	440	1,341
Cash flows from financing activities	−689	−127
Effect of exchange rate changes	0	−1
Cash and cash equivalents at end of period	**18**	**750**

Notes to the Interim Consolidated Financial Statements

OF THE VOLKSWAGEN BANK GMBH GROUP FOR THE PERIOD ENDED JUNE 30, 2014

General information

Volkswagen Bank GmbH (VW Bank GmbH) is a limited liability company under German law. It has its registered office at Gifhorner Strasse, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 1819).

Volkswagen Financial Services AG, Braunschweig, is the sole shareholder of Volkswagen Bank GmbH. Volkswagen Financial Services AG and Volkswagen Bank GmbH have entered into a control and profit and loss transfer agreement.

Basis of preparation

Volkswagen Bank GmbH 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.

All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

This Interim Report has not been reviewed by an auditor.

Accounting policies

Volkswagen Bank GmbH 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. The package comprises 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 Volkswagen Bank GmbH 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 Volkswagen Bank GmbH Group to make any adjustments. The special purpose entities and subsidiaries in the Volkswagen Bank GmbH Group were already consolidated prior to the initial application of IFRS 10, so there were no changes in respect of the basis of consolidation and the method of inclusion in the consolidated financial statements.

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". The initial application of IFRS 11 did not result in any changes in respect of the basis of consolidation and the method of including joint ventures or joint operations in the Volkswagen Bank GmbH Group.

IFRS 12 governs 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 Volkswagen Bank GmbH 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, which can also be accessed on the Internet at www.vwfsag.com.

Basis of consolidation

In addition to Volkswagen Bank GmbH, the consolidated financial statements comprise all significant German and non-German subsidiaries, including structured entities, that are controlled directly or indirectly by Volkswagen Bank GmbH. This is the case if Volkswagen Bank GmbH 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 it is able to use its power over the subsidiaries to affect the amount of those variable returns.

In connection with Volkswagen Bank GmbH's securitization transactions, the special purpose entities Driver Twelve GmbH, Private Driver 2014-1 UG (haftungsbeschränkt), Private Driver 2014-2 UG (haftungsbeschränkt) and Private Driver 2014-3 UG (haftungsbeschränkt), each of which is registered in Frankfurt am Main, were initially consolidated in the first six months of 2014.

DISCLOSURES ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

€ million	Jan. 1 – June 30, 2014	Jan. 1 – June 30, 2013
Interest income from lending and money market transactions	672	680
Income from leasing transactions	163	137
Expenses from leasing transactions	–57	–47
Depreciation of and impairment losses on lease assets and investment property	–47	–39
Interest expense	–127	–155
Total	**605**	**576**

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 and interest expense were adjusted: prior-period interest income (€718 million) declined by €38 million to €680 million and interest expense (€193 million) declined by €38 million to €155 million. 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	–49	–55
Non-staff operating expenses	–276	–271
Advertising, public relations and sales promotion expenses	–20	–8
Depreciation of property, plant and equipment, amortization of intangible assets	–5	–5
Other taxes	–1	–1
Total	**–351**	**–340**

3. Changes in selected assets

€ million	Carrying amount at Jan. 1, 2014	Additions	Disposals/ Other changes	Depreciation, amortization and impairment losses	Carrying amount at June 30, 2014
Intangible assets	50	2	0	4	48
Property, plant and equipment	15	2	1	2	14
Lease assets	371	128	27	47	425

4. Classes of financial instruments

Financial instruments are divided into the following classes in the Volkswagen Bank GmbH 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 shows the reconciliation of the 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	18	216	–	–	18	216	–	–	–	–	–	–
Receivables from credit institutions	984	522	–	–	984	522	–	–	–	–	–	–
Receivables from customers	35,843	33,937	–	–	31,437	28,738	4,406	5,199	–	–	–	–
Derivative financial instruments	80	104	20	33	–	–	61	71	–	–	–	–
Marketable securities	2,472	2,912	2,472	2,912	–	–	–	–	–	–	–	–
Miscellaneous financial assets	3	2	–	–	–	–	–	–	3	2	–	–
Other assets	358	320	–	–	295	243	–	–	–	–	63	77
Total	**39,759**	**38,013**	**2,492**	**2,945**	**32,735**	**29,719**	**4,467**	**5,270**	**3**	**2**	**63**	**77**
Liabilities												
Liabilities to credit institutions	513	2,181	–	–	513	2,181	–	–	–	–	–	–
Liabilities to customers	26,716	25,071	–	–	25,651	24,163	1,065	908	–	–	–	–
Securitized liabilities	7,082	5,518	–	–	7,082	5,518	–	–	–	–	–	–
Derivative financial instruments	173	106	35	30	–	–	138	76	–	–	–	–
Other liabilities	100	103	–	–	16	16	–	–	–	–	84	87
Subordinated capital	641	631	–	–	641	631	–	–	–	–	–	–
Total	**35,225**	**33,610**	**35**	**30**	**33,903**	**32,509**	**1,203**	**984**	**–**	**–**	**84**	**87**

The “Credit commitments” class contains obligations under irrevocable credit commitments amounting to €1,437 million (December 31, 2013: €1,271 million).

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.

Level 1 is used to report the fair value of financial instruments (e.g. marketable securities or securitized liabilities) for which a quoted price is directly observable in an active market.

Fair values in Level 2 are measured on the basis of market inputs such as exchange rates or yield curves using market-based valuation techniques. These include derivatives and receivables from/liabilities to customers.

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	–	–	20	33	–	–
Marketable securities	1,732	1,535	1,124	1,377	–	–
Hedge accounting						
Receivables from customers	–	–	4,406	5,199	–	–
Derivative financial instruments	–	–	61	71	–	–
Total	**1,732**	**1,535**	**5,610**	**6,680**	**–**	**–**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	35	30	–	–
Hedge accounting						
Liabilities to customers	–	–	1,065	908	–	–
Derivative financial instruments	–	–	138	76	–	–
Total	**–**	**–**	**1,237**	**1,014**	**–**	**–**

There were no transfers of financial instruments between the levels of the fair value hierarchy in the first six months of 2014.

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	20	33	20	33	–	–
Marketable securities	2,472	2,912	2,472	2,912	–	–
Measured at amortized cost						
Cash reserve	18	216	18	216	–	–
Receivables from credit institutions	985	521	984	522	1	–1
Receivables from customers	32,193	29,482	31,437	28,738	757	744
Other assets	295	243	295	243	–	–
Hedge accounting						
Receivables from customers	4,406	5,199	4,406	5,199	–	–
Derivative financial instruments	61	71	61	71	–	–
Miscellaneous financial assets	3	2	3	2	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	35	30	35	30	–	–
Measured at amortized cost						
Liabilities to credit institutions	505	2,172	513	2,181	–8	–9
Liabilities to customers	25,703	24,209	25,651	24,163	53	46
Securitized liabilities	7,094	5,523	7,082	5,518	12	5
Other liabilities	16	16	16	16	–	–
Subordinated capital	676	660	641	631	35	29
Hedge accounting						
Liabilities to customers	1,065	908	1,065	908	–	–
Derivative financial instruments	138	76	138	76	–	–

SEGMENT REPORTING

6. Breakdown by geographical markets

JAN. 1 – JUNE 30, 2014 € million	GERMANY	ITALY	FRANCE	OTHER	CONSOLI-DATION	TOTAL
Revenue from lending transactions with third parties	481	55	36	94	–	665
Intersegment revenue from lending transactions	36	0	0	0	−36	–
Total segment revenue from lending transactions	517	55	36	94	−36	665
Revenue from leasing transactions	–	22	139	1	–	163
Fee and commission income	77	25	28	6	–	136
Revenue	**594**	**102**	**203**	**102**	**−36**	**964**
Cost of sales attributable to lending and leasing transactions	–	−14	−42	−1	–	−57
Reversals of impairment losses on lease assets and investment property	–	–	–	–	–	–
Depreciation of and impairment losses on lease assets and investment property	–	–	−47	–	–	−47
of which impairment losses in accordance with IAS 36	–	–	–	–	–	–
Interest expense (component of operating profit or loss)	−118	−10	−16	−19	36	−127
Provisions for risks from lending and leasing business	−19	−16	−13	−5	–	−53
Fee and commission expenses	−60	−16	−26	−4	–	−105
Net gain/loss on derivative financial instruments (component of operating profit or loss)	−1	–	–	–	–	−1
General and administrative expenses (component of operating profit or loss)	−245	−27	−38	−40	1	−350
Net other operating income/expense	41	−6	−1	4	−1	38
Segment profit or loss (operating profit or loss)	**192**	**13**	**20**	**37**	**–**	**263**
Interest income not classified as revenue	7	–	–	–	–	7
Interest expense (not a component of operating profit or loss)	–	–	–	–	–	–
Net gain/loss on derivative financial instruments (not a component of operating profit or loss)	1	–	0	–	–	1
Share of profits and losses of equity-accounted joint ventures	–	–	–	–	–	–
Net gain/loss on marketable securities and miscellaneous financial assets	0	–	–	4	–	4
General and administrative expenses (not a component of operating profit or loss)	−1	–	–	0	–	−1
Profit before tax	**199**	**13**	**21**	**40**	**–**	**273**
Income tax expense	−60	−6	−11	−8	–	−84
Profit after tax	**139**	**8**	**10**	**32**	**–**	**189**
Profit after tax attributable to Volkswagen Financial Services AG	139	8	10	32	–	189
Segment assets	**20,758**	**3,008**	**4,137**	**4,335**	**–**	**32,238**
of which noncurrent	**12,555**	**1,469**	**2,047**	**854**	**–**	**16,925**
Segment liabilities	**32,441**	**2,878**	**3,549**	**4,005**	**−8,919**	**33,954**

The segment reporting for the previous year is shown in the following table:

JAN. 1 – JUNE 30, 2013 € million	GERMANY	ITALY	FRANCE	OTHER	CONSOLI-DATION	TOTAL
Revenue from lending transactions with third parties	488	57	39	87	–	671
Intersegment revenue from lending transactions	39	0	0	0	–39	–
Total segment revenue from lending transactions	527	57	39	87	–39	671
Revenue from leasing transactions	–	25	112	0	–	137
Fee and commission income	74	19	26	6	–	125
Revenue	**601**	**101**	**177**	**93**	**–39**	**933**
Cost of sales attributable to lending and leasing transactions	–	–12	–34	–1	–	–47
Reversals of impairment losses on lease assets and investment property	–	–	–	–	–	–
Depreciation of and impairment losses on lease assets and investment property	–	–	–39	–	–	–39
of which impairment losses in accordance with IAS 36	–	–	–	–	–	–
Interest expense (component of operating profit or loss)	–145	–11	–19	–19	39	–155
Provisions for risks from lending and leasing business	–56	–13	–8	–7	–	–84
Fee and commission expenses	–52	–11	–31	–3	–	–97
Net gain/loss on derivative financial instruments (component of operating profit or loss)	–6	–	–	–	–	–6
General and administrative expenses (component of operating profit or loss)	– 241	– 26	– 32	– 39	0	– 338
Net other operating income/expense	96	1	2	4	0	103
Segment profit or loss (operating profit or loss)	**197**	**29**	**16**	**27**	**–**	**269**
Interest income not classified as revenue	9	–	–	–	–	9
Interest expense (not a component of operating profit or loss)	0	–	–	–	–	0
Net gain/loss on derivative financial instruments (not a component of operating profit or loss)	–16	–	–	–	–	–16
Share of profits and losses of equity-accounted joint ventures	6	–	–	–	–	6
Net gain/loss on marketable securities and miscellaneous financial assets	0	–	–	3	–	3
General and administrative expenses (not a component of operating profit or loss)	–2	–	–	0	–	–2
Profit before tax	**194**	**29**	**16**	**31**	**–**	**270**
Income tax expense	–94	–11	–5	–7	–	–117
Profit after tax	**100**	**18**	**11**	**24**	**–**	**153**
Profit after tax attributable to Volkswagen Financial Services AG	100	18	11	24	–	153
Segment assets	**19,673**	**2,874**	**3,660**	**3,650**	**–3**	**29,854**
of which noncurrent	**11,589**	**1,445**	**1,759**	**681**	**–**	**15,474**
Segment liabilities	**30,996**	**2,823**	**3,232**	**3,395**	**–8,417**	**32,029**

OTHER DISCLOSURES

7. Cash flow statement

Volkswagen Bank GmbH'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	107	110
Other financial obligations		
Purchase commitments and other obligations	15	13
Other obligations		
Irrevocable credit commitments	1,437	1,271

The contingent liabilities amounting to €107 million (December 31 2013: €110 million) relate solely to guarantees. €6 million of the guarantees is attributable to affiliated companies (December 31 2013: €3 million).

9. Governing bodies of Volkswagen Bank GmbH

The members of the Management are listed in the following:

ANTHONY BANDMANN
Spokesman of the Management
Strategy & Marketing (until December 31, 2013)
Sales Individual Customers & Corporate Customers (until December 31, 2013)
Sales & Marketing (from January 1, 2014)
Customer Service & Process Management Individual Customers (until December 31, 2013)
Customer Service Individual Customers (from January 1, 2014)
International

TORSTEN ZIBELL
Direct Bank
Treasury (until December 31, 2013)
Corporate Development (from January 1, 2014)

DR. HEIDRUN ZIRFAS
Finance/Risk Management (until December 31, 2013)
Finance/Company Steering (from January 1, 2014)
Back Office/Dealer Restructuring (until December 31, 2013)
Back Office/Dealer Restructuring/Risk Management (from January 1, 2014)
Human Resource/Organization (until December 31, 2013)
Human Resources (from January 1, 2014)

The members of the Audit Committee are as follows:

DR. JÖRG BOCHE
Chairman
Executive Vice President of Volkswagen AG
Head of Group Treasury

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

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

GABOR POLONYI
Head of Fleet Customer Management, Volkswagen Leasing GmbH

10. Events after the balance sheet date

There were no significant events between the end of the interim reporting period and July 11, 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 11, 2014

The Management

Anthony Bandmann

Torsten Zibell

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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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