VOLKSWAGEN BANK

GMBH

HALF-YEARLY FINANCIAL REPORT

JANUARY – JUNE

2020

Key Figures

€ million	June 30, 2020	Dec. 31, 2019
Total assets	68,829	68,445
Loans to and receivables from customers attributable to		
Retail financing	34,021	35,307
Dealer financing	12,816	13,588
Leasing business	2,749	2,752
Customer deposits	31,802	31,733
Equity	10,046	10,027

€ million	H1 2020	H1 2019
Operating result	471	339
Profit before tax	491	353
Profit after tax	358	300

in percent	June 30, 2020	Dec. 31, 2019
Equity ratio	14.6	14.6

in percent	March 31, 2020[2]	Dec. 31, 2019
Common Equity Tier 1 capital ratio[1]	16.3	15.6
Tier 1 capital ratio[1]	16.3	15.6
Total capital ratio[1]	16.3	15.6

Number	June 30, 2020	Dec. 31, 2019
Employees	1,887	1,954

1 Regulatory ratios in accordance with Article 92(1) of the CRR.
2 Since January 1, 2014 Volkswagen Bank GmbH has applied the amended requirements in accordance with the CRR. The regulatory capital ratios as of March 31, 2020 are presented here. The capital ratios as of June 30, 2020 will be calculated within the required time frame stipulated by the banking regulator by no later than August 11, 2020.

RATING (AS OF JUNE 30)	STANDARD & POOR'S			MOODY'S INVESTORS SERVICE		
	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Volkswagen Bank GmbH	A–2	A–	negative	P–1	A1	negative

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

Report on Economic Position

GLOBAL SPREAD OF CORONAVIRUS (SARS-COV-2)

At the end of December 2019, initial cases of a new, sometimes fatal lung disease emerged in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also began to appear outside China from mid-January 2020. In Europe, the number of people infected rose continuously in February, and especially in March and April 2020. The countries particularly badly affected included the United Kingdom, Spain, Italy, France and Germany. While many areas throughout Europe recorded declining numbers of new infections as the second quarter of 2020 progressed, the rate of new infections continued to rise in North, Central and South America, Africa and parts of Asia. Especially in Europe and Asia, the second quarter saw the gradual easing of measures implemented to prevent the spread of the Covid-19 pandemic. This included partially lifting border controls and travel restrictions, relaxing lockdowns as well as the reopening of businesses and public facilities. In addition, the European Commission and numerous European governments approved assistance packages to support the economy. Outside of Europe, governments also introduced measures aimed at shoring up the economy to counteract the enormous disruption to everyday life and economic activity caused by the Covid-19 pandemic.

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management Board of Volkswagen Bank GmbH considers the course of business in the year 2020 to date to have been satisfactory. Profit before tax for the first half of the year amounted to €491 million, which was higher than the figure for the corresponding prior-year period (€353 million). The total number of contracts in the Volkswagen Bank GmbH Group amounted to 3.7 million as of the reporting date. The number of new contracts acquired in the first six months of 2020 was 0.5 million.

Following a moderate trend in credit risk initially, the development over the rest of the first half of 2020 was shaped by the Covid-19 pandemic. In response to the pandemic, the Management Board put in place various measures to provide protection and mitigate the economic impact on the customers of Volkswagen Bank GmbH. It set out action plans to provide assistance for the dealer network, which were implemented on a case-by-case basis following screening. The measures were mainly aimed at stabilizing liquidity at an adequate level and adjusting payment terms. Retail customers, together with business and fleet customers, made the most of the opportunities presented by statutory payment moratoria introduced in various European countries and were also able to make use of the Bank's own measures, such as deferral or extension of existing financing obligations and postponement of vehicle returns that were not possible because dealers were closed. Assistance was only granted if requested by the customer.

These support measures have cushioned any effects from the Covid-19 pandemic on credit risk at Volkswagen Bank GmbH in the first six months of fiscal year 2020. However, it is impossible to rule out an impact on the quality of the credit portfolio at Volkswagen Bank GmbH over the rest of the year, much depending on how the Covid-19 pandemic affects national economies in Europe, growth in those economies and their recovery. The situation in the lending business therefore remains challenging.

The reorganization of Volkswagen Bank Ireland accompanied the sale of the portfolio from Volkswagen Bank GmbH to Volkswagen Financial Services AG. In France, initial modest growth in the first few months of 2020 stemming from the Covid-19 pandemic was followed in the second quarter by a return to steady growth in the volume of contracts in the residual value portfolio with direct residual value risk. The main drivers behind this expansion are the implemented growth programs and further expansion in the fleet business.

GENERAL ECONOMIC DEVELOPMENT

The global spread of the SARS-CoV-2 coronavirus, the associated restrictions, and the resulting downturn in demand and supply meant that growth in the world economy was negative in the first half of 2020. The average rate of expansion of gross domestic product (GDP) was far below the previous year's level in both the advanced economies and the emerging markets. At country level, performance in the reporting period depended on the extent to which the negative impacts of the global Covid-19 pandemic were already materializing. The governments and central banks of numerous countries throughout the world responded in some cases with substantial fiscal and monetary policy measures. This meant cuts in the already relatively low interest rates. There was a significant decline in prices for energy resources, while other commodity prices were, on average, down slightly year-on-year. Currencies in some emerging markets depreciated distinctly in the first half of 2020. Global trade in goods declined further in the reporting period.

As a whole, the economies of Western Europe recorded a sharp fall in growth from January to June 2020. This trend was seen in all countries in Northern and Southern Europe. The impact of national measures to contain the pandemic, including border closures and spatial/physical distancing, caused deep cuts. In some regions, the measures severely restricted everyday life and also had grave economic consequences. During the second quarter, the governments of many European countries started to partially lift restrictions, thus giving rise to a slow economic recovery.

Germany recorded a markedly negative growth rate over the reporting period. The labor market was in a favorable situation at the start of the year, but many companies introduced short-time working throughout the course of the first half of the year. Both business and consumer sentiment saw only a modest improvement – despite the initial easing of restrictions in everyday life and economic activity as well as government assistance packages enacted to support the economy.

The economies in Central and Eastern Europe reported an overall marked decline in the real absolute GDP in the first six months of 2020. This development was also caused by the impact of national measures aimed at preventing the spread of the Covid-19 pandemic.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services were in high demand, particularly in the first three months of 2020. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas. Nevertheless, the reporting period saw the Covid-19 pandemic exert downward pressure on the demand for financial services in virtually every region. The impact from the Covid-19 pandemic was evident around the globe, especially in the second quarter of 2020.

In the European passenger car market, the Covid-19 pandemic mainly affected the second quarter of 2020, resulting in a very sharp contraction in demand for new and used vehicles over the reporting period as a whole. The proportions accounted for by new leases and financing agreements, were maintained even though the absolute figures for such contracts declined.

In Germany, the number of new vehicles financed by loans or leases fell markedly in the reporting period, reflecting the challenges presented by the Covid-19 pandemic. Figures fell short of those in the corresponding prior-year period, predominantly because of the contraction in direct business and in loan finance for individual customers.

The Covid-19 pandemic also led to a substantial drop in demand for commercial vehicles in the reporting period. This gave rise to a fall in leases and financing agreements in Europe, although the penetration rates for financing products rose.

TRENDS IN THE PASSENGER CAR AND LIGHT COMMERCIAL VEHICLES MARKETS

Global demand for passenger cars fell sharply year-on-year from January to June 2020 as a result of the Covid19 pandemic (–28,1%). The slump affected all sales regions, with above-average losses recorded in the overall markets of Western Europe and South America. The decline in demand in Asia-Pacific, North America, Central and Eastern Europe, the Middle East and Africa was smaller by comparison.

Global demand for light commercial vehicles also decreased sharply from January to June 2020 compared to the prior year.

In Western Europe, demand for passenger cars during the reporting period fell drastically short of the previous year's level. The negative impact from the spread of the SARS-CoV-2 coronavirus was noticeable as early as March. New registrations saw declines on a similar scale in all major individual markets, though the fall in demand slowed overall as the second quarter progressed. The passenger car markets in the UK, Italy and Spain lost around half their volume in the first six months of 2020.

The volume of new registrations of light commercial vehicles in Western Europe fell very sharply below the prior-year figure.

New passenger car registrations in Germany in the first half of 2020 did not match the high level seen in the equivalent period of the previous year. Demand here decreased by more than one-third, a trend amplified by the Covid-19 pandemic and the associated restrictions and prohibitions.

Demand for light commercial vehicles in Germany in the reporting period was substantially lower than in the same period of 2019.

In the Central and Eastern Europe region, sales of passenger cars in the reporting period were substantially below the previous year's level. The development of demand in the year to date has differed from market to market. In the EU countries of Central Europe registered shrinking demand from the beginning of the year.

The volume of light commercial vehicles registered in Central and Eastern Europe decreased sharply compared to the same period in the preceding year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was much lower in the reporting period than in the prior year due to the spread of the SARS-CoV-2 coronavirus.

Demand in the 27 EU states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU27+3), fell drastically short of the 2019 level in the first half of 2020. The previously anticipated downturn in the market was amplified by the Covid-19 pandemic, especially in the second quarter of 2020.

CHANGES IN EQUITY INVESTMENTS

Effective June 2, 2020, DFM Payment Services B.V., Amersfoort, Netherlands, a wholly owned subsidiary of DFM N.V., Amersfoort, Netherlands, a joint venture between Volkswagen Bank GmbH and Pon Holdings B.V. (60%/40%), was wound up. For strategic reasons, payment transactions continue to be offered through the branch of Volkswagen Bank GmbH in the Netherlands.

The branch of Volkswagen Bank GmbH in Dublin, Ireland, was closed on June 30, 2020.

On March 31, 2020, the non-regulated business (mainly comprising finance leases and dealer financing) of Volkswagen Bank GmbH, Ireland Branch, Dublin, Ireland, was sold to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig.

FINANCIAL PERFORMANCE

The companies in the Volkswagen Bank GmbH Group performed satisfactorily in the first half of 2020. At €491 million, profit before tax was higher than the figure achieved in the corresponding period of the previous year (€353 million).

Interest income came to €722 million (previous year: €710 million), a slight increase on the prior-year figure. Interest expenses fell by €8 million to €72 million (previous year: €80 million). Net income from leasing transactions amounted to €123 million compared with €144 million in the first six months of the previous year. The provision for credit risks amounted to a net addition of €60 million (previous year: net addition of €46 million), which equated to a year-on-year increase.

General and administrative expenses declined slightly, from €410 million to €405 million.

Net other operating income/expense rose by €88 million to net income of €151 million, which was predominantly attributable to the sale of the portfolio in Ireland and the reversal of provisions.

Including the net gain on measurement at fair value of €3 million, the net expense from service contracts of €3 million, the net loss on hedges of €8 million and the other components of profit or loss, the Volkswagen Bank GmbH Group generated a profit after tax of €358 million (previous year: €300 million).

NET ASSETS AND FINANCIAL POSITION

The following disclosures on net assets and financial position relate to the changes compared with the balance sheet date of December 31, 2019.

Lending business

The lending business of the Volkswagen Bank GmbH Group mainly consists of vehicle-related loans granted to retail customers, business customers and dealers. These assets amounted to a total of €49.6 billion (previous year: €51.6 billion) and accounted for approximately 72% of the Group's total assets. The fall in the volume of loans and receivables was attributable to the sale of the irish business and to the Covid-19 pandemic.

In the first half of 2020, the volume of retail financing declined from €35.3 billion to €34.0 billion. In the retail financing business, 341 thousand new contracts were entered into during the first six months of 2020; as of the reporting date, the portfolio consisted of 2.8 million current contracts. Germany continued to be responsible for the greatest proportion of the retail financing portfolio in the Volkswagen Bank GmbH Group, accounting for 54.8% of new contracts and 59.7% of current contracts.

The lending volume in dealer financing – which comprises loans to and receivables from dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – went down from €13.6 billion to €12.8 billion.

Receivables from leasing transactions declined slightly, from €2.8 billion to €2.7 billion, and lease assets amounted to €1.6 billion (previous year: €1.7 billion).

Some 50 thousand new leases were signed in the reporting period, bringing the total number of current contracts as of the reporting date to 261 thousand.

Compared to the position at the end of the previous year, the total assets of the Volkswagen Bank GmbH Group had risen from €68.4 billion to €68.8 billion as of the reporting date.

KEY FIGURES BY SEGMENT AS OF JUNE 30, 2020

in thousands [1,2]	VW Bank Group	of which: Germany	of which: Italy	of which: France	of which: Spain	of which: other countries
Current contracts[3]	3,736	1,722	503	792	460	259
Automotive retail financing	2,715	1,587	386	126	452	163
Consumer retail financing	115	103	–	–	7	4
Leasing business	261	–	–	246	–	15
Service/insurance	646	31	117	420	–	77
New contracts[3]	469	187	49	127	44	61
Automotive retail financing	329	176	49	24	44	35
Consumer retail financing	12	11	–	–	–	1
Leasing business	50	–	0	36	0	14
Service/insurance	78	0	0	67	0	11
€ million						
Loans to and receivables from customers attributable to						
Retail financing	34,021	23,800	4,161	829	4,448	784
Direct banking	315	306	–	0	1	9
Dealer financing	12,816	5,833	973	1,920	968	3,122
Leasing business	2,749	–	–	2,628	3	118
Assets leased out	1,633	1	–	1,632	–	–
in percent						
Penetration rates[4]	19.5	10.6	38.3	49.3	36.0	11.5

1 All figures shown are rounded; minor discrepancies may arise from addition of these amounts.
2 A new counting method for determining contract numbers was introduced on January 1, 2018.
3 Current contracts and new contracts in each case in relation to the markets shown for the Volkswagen Bank GmbH Group.
4 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles in each case in relation to the markets shown for the Volkswagen Bank GmbH Group.

Deposit business and borrowings

Significant liability items were liabilities to customers of €40.1 billion (previous year: €38.2 billion), notes and commercial paper issued of €9.3 billion (previous year: €9.6 billion) and liabilities to banks of €6.3 billion (previous year: €7.5 billion).

The customer deposits reported within liabilities to customers amounted to €31.8 billion as of June 30, 2020 (previous year: €31.7 billion).

In addition to the security provided by statutory deposit guarantees, Volkswagen Bank GmbH is also covered by its ongoing membership in the Deposit Protection Fund of the Association of German Banks (Bundesverband deutscher Banken e.V.).

Equity

Volkswagen Bank GmbH's subscribed capital remained unchanged at €318 million; capital reserves amounted to €8.5 billion (previous year: €8.5 billion).

Equity in accordance with IFRSs as of June 30, 2019 was €10.0 billion (previous year: €10.0 billion). This resulted in an equity ratio of 14.6% based on total assets of €68.8 billion.

The regulatory capital ratios were determined in accordance with the Credit Risk Standardized Approach (CRSA) and the standardized approach for operational risk.

Report on Opportunities and Risks

REPORT ON OPPORTUNITIES

Macroeconomic opportunities

The worldwide spread of SARS-CoV-2 is having a substantial adverse impact throughout society and across all areas of economic life. In particular, it continues to be difficult to assess the consequences for further growth in individual national economies or the global economy as a whole. Volkswagen Bank GmbH's Management Board expects deliveries to customers of the Volkswagen Group to be markedly below the prior-year level. Nevertheless, Volkswagen Bank GmbH predicts that there will be a nascent economic recovery during the course of 2020.

The Management Board of Volkswagen Bank GmbH anticipates the possibility of a global recession. It is likely that there will be diminished rates of global economic growth or a period of below-average growth rates. The macroeconomic environment could also give rise to opportunities for the Volkswagen Bank GmbH Group if actual trends turn out to be better than forecast.

Strategic opportunities

The Volkswagen Bank GmbH Group is continuing to pursue a strategy that focuses on the digitalization and optimization of its product portfolio. It is increasingly leveraging the opportunities for growth in the areas of mobility-related consumer credit and used vehicle finance in all the markets in which the Group has a presence. A second area of focus is the continuous, dynamic streamlining of all processes and systems in order to improve productivity. First and foremost, the priority is to achieve efficiency by focusing on the needs of the customer. This will also underpin Volkswagen Bank GmbH's mission to impress its customers over the coming years with innovative, country-specific financial products, thereby helping to nurture long-term customer loyalty.

RISK REPORT

The model for operational risk was adjusted following an annual review. This led to higher risk values in both the normal scenario and the stress test scenarios. As a result, the operational risk limits for the companies in the Volkswagen Bank GmbH Group were amended.

There were no other material changes in the reporting period to the details set out in the report on opportunities and risks in the 2019 Annual Report.

Human Resources Report

Volkswagen Bank GmbH employed 1,119 people in Germany as of June 30, 2020 (December 31, 2019: 1,121).

A total of 768 people (December 31, 2019: 833) were employed at the international branches of Volkswagen Bank GmbH.

Report on Expected Developments

The Management Board of Volkswagen Bank GmbH predicts that there will be negative growth in the global economy in 2020 as a consequence of the spread of SARS-CoV-2. We still believe that risks will also arise from protectionist tendencies, turmoil in financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively affected by continuing geopolitical tensions and conflicts. Volkswagen Bank GmbH anticipates that both the advanced economies and emerging markets will experience a considerable decline in economic growth. Nevertheless, a nascent economic recovery is predicted during the course of 2020.

In response to the Covid-19 pandemic, we have developed scenarios for the development of the passenger car markets in individual regions in 2020 which, for example, also take account of the trends currently being experienced in China. The scenarios reflect the different timings of the spread of the Covid-19 pandemic in the various geographic regions. In all, we expect the volume of global demand for new vehicles in 2020 to be between 15 and 20% lower than it was the previous year. In Western Europe, we anticipate a fall of around 25% in the volume of new passenger car registrations in 2020 compared to the prior year. Following the drastic decline at the beginning of the second quarter and the marked recovery over the course of the three months, we believe that the market will continue to recover in the third and fourth quarters of 2020, with prior-year levels being reached in individual months. We have assumed a similar but more stable trend for the passenger car markets in Central and Eastern Europe and expect the year-on-year fall in the number of sales in 2020 to be somewhat less sharp here.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2020; on the whole, we anticipate a marked fall in demand due to Covid-19.

In the markets relevant for the Commercial Vehicles Business Area, we expect a substantial year-on-year fall in 2020 of new registrations for both mid-sized and heavy trucks with a gross weight of more than six tonnes.

Volkswagen Bank GmbH believes that automotive financial services will continue to be very important for vehicle sales worldwide over the remainder of 2020.

The Bank expects new contracts, current contracts and the penetration rate to be below the levels recorded in fiscal year 2019, largely because of the global SARS-CoV-2 pandemic, but also because of the asset transfers carried out as part of the restructuring of the Group. The volume of business will reflect these changes. The volume of deposits is projected to remain stable in 2020. Because of the effects described above, Volkswagen Bank GmbH expects both the operating result and return on equity for fiscal year 2020 to fall moderately below the prior-year levels. Despite lower overhead costs, it is anticipated that the cost/income ratio will be higher than the equivalent prior-year figure.

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 currently consider to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of our business. The same applies in the event of material changes in exchange rates against the euro. The same applies should the actual effects of the Covid-19 pandemic differ from the scenario assumed in this report. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2019 Annual Report develop differently to our current expectations, or additional risks and opportunities or other factors emerge that affect the development of our business.

Interim Consolidated Financial Statements (Condensed)

Income Statement of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – June 30, 2020	Jan. 1 – June 30, 2019	Change in percent
Interest income from lending transactions and marketable securities		722	710	1.7
Income from leasing transactions		461	541	−14.8
Depreciation, impairment losses and other expenses from leasing transactions		−338	−397	−14.9
Net income from leasing transactions		123	144	−14.6
Interest expense		−72	−80	−10.0
Income from service contracts		28	36	−22.2
Expenses from service contracts		−32	−51	−37.3
Net income from service contracts		−3	−14	−78.6
Provision for credit risks		−60	−46	30.4
Fee and commission income		97	103	−5.8
Fee and commission expenses		−78	−112	−30.4
Net fee and commission income		19	−9	X
Net gain or loss on hedges		−8	−22	−63.6
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income		3	5	−40.0
General and administrative expenses	1	−405	−410	−1.2
Net other operating income		169	97	74.2
Other operating expenses		−18	−35	−48.6
Net other operating income/expenses		151	63	X
Operating result		**471**	**339**	**38.9**
Share of profits and losses of equity-accounted joint ventures		20	14	42.9
Net gain or loss on miscellaneous financial assets		0	0	X
Other financial gains or losses		0	0	X
Profit before tax		**491**	**353**	**39.1**
Income tax expense		−133	−96	38.5
Profit from continuing operations, net of tax		**358**	**257**	**39.3**
Profit from discontinued operations, net of tax		–	44	X
Profit after tax		**358**	**300**	**19.3**
Profit after tax attributable to the sole shareholder		358	300	19.3
German GAAP profit attributable to the sole shareholder in the event of profit transfer		353	132	X

Statement of Comprehensive Income of the Volkswagen Bank GmbH Group

€ million	Jan. 1 – June 30, 2020	Jan. 1 – June 30, 2019
Profit after tax	**358**	**300**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–1	–32
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	0	9
Pension plan remeasurements recognized in other comprehensive income, net of tax	–1	–22
Fair value valuation of other participations and securities (equity instruments) recognized in other comprehensive income that will not be reclassified to profit or loss, net of tax	0	2
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	–	–
Items that will not be reclassified to profit or loss	**–1**	**–20**
Exchange differences on translating foreign operations		
Gains/losses on currency translation recognized in other comprehensive income	–24	69
Transferred to profit or loss	–	46
Exchange differences on translating foreign operations, before tax	–24	115
Deferred taxes relating to exchange differences on translating foreign operations	–	–
Exchange differences on translating foreign operations, net of tax	–24	115
Hedging transactions		
Fair value changes recognized in other comprehensive income (OCI I)	16	2
Transferred to profit or loss (OCI I)	17	–5
Cash flow hedges (OCI I), before tax	33	–3
Deferred taxes relating to cash flow hedges (OCI I)	–10	1
Cash flow hedges (OCI I), net of tax	23	–2
Fair value changes recognized in other comprehensive income (OCI II)	–	0
Transferred to profit or loss (OCI II)	–	0
Cash flow hedges (OCI II), before tax	–	–
Deferred taxes relating to cash flow hedges (OCI II)	–	–
Cash flow hedges (OCI II), net of tax	–	–
Fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income that may be reclassified to profit or loss		
Fair value changes recognized in other comprehensive income	23	46
Transferred to profit or loss	–	0
Fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income that may be reclassified to profit or loss, before tax	23	46
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income that may be reclassified profit or loss	–7	–14
Fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income that may be reclassified to profit or loss, net of tax	16	32
Share of other comprehensive income of equity-accounted investments that may be reclassified subsequently to profit or loss, net of tax	–	–
Items that may be reclassified to profit or loss	**15**	**145**
Other comprehensive income, before tax	30	128
Deferred taxes relating to other comprehensive income	–16	–3
Other comprehensive income, net of tax	**14**	**125**
Total comprehensive income	**372**	**426**
Total comprehensive income attributable to the sole shareholder	372	426

€ million	Jan. 1 – June 30, 2020	Jan. 1 – June 30, 2019
Breakdown of total comprehensive income attributable to Volkswagen AG		
Continuing operations	372	247
Discontinued operations	–	178

Balance Sheet
of the Volkswagen Bank GmbH Group

€ million	Note	June 30, 2020	December 31, 2019	Change in percent
Assets				
Cash reserve		7.761	3.471	X
Loans to and receivables from banks		579	444	30.4
Loans to and receivables from customers attributable to				
Retail financing		34,021	35,307	−3.6
Dealer financing		12,816	13,588	−5.7
Leasing business		2,749	2,752	−0.1
Other loans and receivables		2,716	3,635	−25.3
Total loans to and receivables from customers		52,301	55,282	−5.4
Derivative financial instruments		140	51	X
Marketable securities		3,664	3,556	3.0
Equity-accounted joint ventures		265	245	8.2
Miscellaneous financial assets		9	9	0.0
Intangible assets	2	34	39	−12.8
Property and equipment	2	29	25	16.0
Assets leased out	2	1,633	1,657	−1.4
Investment property		0	1	−100.0
Deferred tax assets		1,828	1,870	−2.2
Current tax assets		71	51	39.2
Other assets		514	549	−6.4
Assets held for sale (IFRS 5)[1]		–	1,195	X
Total assets		**68,829**	**68,445**	**0.6**

€ million	Note	June 30, 2020	December 31, 2019	Change in percent
Equity and liabilities				
Liabilities to banks		6,258	7,478	−16.3
Liabilities to customers		40,119	38,247	4.9
Notes, commercial paper issued		9,331	9,563	−2.4
Derivative financial instruments		7	70	−90.0
Provisions		405	453	−10.6
Deferred tax liabilities		2,041	1,992	2.5
Current tax liabilities		165	139	18.7
Other liabilities		390	370	5.4
Subordinated capital		66	105	−37.1
Liabilities related to the assets held for sale (IFRS 5)		–	–	–
Equity		10,046	10,027	0.2
Subscribed capital		318	318	–
Capital reserves		8,498	8,498	–
Retained earnings		1,227	1,223	0.3
Other reserves		3	−12	X
Total equity and liabilities		**68,829**	**68,445**	**0.6**

1 Please refer to the disclosures in note (41) of the 2019 Annual Report “Assets held for sale”.

Statement of Changes in Equity of the Volkswagen Bank GmbH Group

				OTHER RESERVES						
					Hedging transactions					
€ million	Subscribed capital	Capital reserves	Retained earnings	Currency translation	Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)	Equity and debt instruments	Equity-accounted investments	Non-controlling interests	Total equity
Balance as of Jan. 1, 2019	**318**	**8,531**	**3,006**	**−235**	**1**	**–**	**18**	**0**	**–**	**11,639**
Profit after tax	–	–	300	–	–	–	–	–	–	300
Other comprehensive income, net of tax	–	–	−22	115	−2	–	34	–	–	125
Total comprehensive income	**–**	**–**	**278**	**115**	**−2**	**–**	**34**	**–**	**–**	**426**
Capital increases	–	–	–	–	–	–	–	–	–	–
Distribution of non-cash assets from the disposal of companies[1]	–	−212	−2,009	–	–	–	–	–	–	−2,222
Changes resulting from non-cash contribution by shareholder Volkswagen AG[1]	–	448	203	–	1	–	–	–	–	651
Other changes[2]	–	–	−132	–	–	–	–	–	–	−132
Balance as of June 30, 2019	**318**	**8,767**	**1,345**	**−120**	**0**	**–**	**53**	**0**	**–**	**10,363**
Balance as of Jan. 1, 2019	**318**	**8,498**	**1,223**	**−48**	**0**	**–**	**35**	**0**	**–**	**10,027**
Profit after tax	–	–	358	–	–	–	–	–	–	358
Other comprehensive income, net of tax	–	–	−1	−24	23	–	16	–	–	14
Total comprehensive income	**–**	**–**	**357**	**−24**	**23**	**–**	**16**	**–**	**–**	**372**
Capital increases	–	–	–	–	–	–	–	–	–	–
Other changes[2]	–	–	−353	–	–	–	–	–	–	−353
Balance as of June 30, 2020	**318**	**8,498**	**1,227**	**−71**	**23**	**–**	**51**	**0**	**–**	**10,046**

1 The disclosures relating to the changes are presented in the section “Basis of Consolidation” of the Half-Yearly Financial Report 2019.
2 The figures show the share of HGB profit attributable to the sole shareholder.

Cash Flow Statement
of the Volkswagen Bank GmbH Group

€ million	Jan. 1 – June 30, 2020	Jan. 1 – June 30, 2019
Profit before tax[1]	**491**	**353**
Depreciation, amortization, impairment losses and reversals of impairment losses	132	424
Change in provisions	−47	−3
Change in other noncash items	−1	−12
Gain/loss on disposal of financial assets and items of property and equipment	0	−19
Net interest expense and dividend income	−727	−730
Other adjustments	−1	1
Change in loans to and receivables from banks	−135	−657
Change in loans to and receivables from customers	2,757	−2,821
Change in lease assets	−171	−655
Change in other assets related to operating activities	32	−6
Change in liabilities to banks	−1,220	−2,192
Change in liabilities to customers	1,923	6,447
Change in notes, commercial paper issued	−226	1,961
Change in other liabilities related to operating activities	20	36
Interest received	799	810
Dividends received	0	0
Interest paid	−72	−80
Income taxes paid	−52	−49
Cash flows from operating activities	**3,502**	**2,808**
Proceeds from disposal of investment property	–	–
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	–	–
Acquisition of subsidiaries and joint ventures	0	–
Proceeds from disposal of other assets	1,328	474
Acquisition of other assets	−1	−6
Change in investments in marketable securities	−123	349
Cash flows from investing activities	**1,204**	**817**
Proceeds from changes in capital	–	0
Dividend payment/profit transfer to Volkswagen AG	−365	−204
Change in cash funds attributable to subordinated capital	−39	−27
Repayments of lease liabilities[2]	−1	−2
Cash flows from financing activities	**−405**	**−233**
Cash and cash equivalents at end of prior period	**3,471**	**1,858**
Cash flows from operating activities	3,502	2,808
Cash flows from investing activities	1,204	817
Cash flows from financing activities	−405	−233
Effect of exchange rate changes	−11	1
Cash and cash equivalents at end of period	**7,761**	**5,251**

Further information on the cash flow statement is presented in note (6).

1 Profit before tax is now used as the starting point for the presentation of the cash flows from operating activities. The prior-year figures have been adjusted accordingly.

2 Separate presentation of payments by lessees to repay lease liabilities. The prior-year figures have been adjusted accordingly.

Notes to the Half-Yearly Financial Statements

of the Volkswagen Bank GmbH Group as of June 30, 2020

General Information

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

Volkswagen AG, Wolfsburg, is the sole shareholder of Volkswagen Bank GmbH.

Volkswagen AG and Volkswagen Bank GmbH have entered into a control and profit-and-loss transfer agreement.

Basis of Presentation

Volkswagen Bank GmbH prepared its consolidated financial statements for the year ended December 31, 2019 in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code). These interim consolidated financial statements for the period ended June 30, 2020 have therefore also been prepared in accordance with IAS 34. They represent a condensed version compared with the full consolidated financial statements. No review of these interim consolidated financial statements has been carried out by an auditor.

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

Accounting Policies

Volkswagen Bank GmbH has applied all financial reporting standards adopted by the EU and subject to mandatory application as of January 1, 2020.

The discount rate applied for pension provisions in Germany reported in these interim consolidated financial statements was 1.1% (December 31, 2019: 1.1%).

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

Otherwise, the same consolidation methods and accounting policies as those applied in the 2019 Consolidated Financial Statements (as described in the “Accounting Policies” disclosures) have generally been used in the preparation of the interim consolidated financial statements and the calculation of the prior-year comparative figures. A detailed description of these methods and policies was published in the notes to the consolidated financial statements in the 2019 Annual Report.

In addition, the effects of new standards were described in detail under “New and revised IFRSs not applied”. The 2019 Consolidated Financial Statements can also be accessed on the Internet at www.vwfs.com/arvwbank19.

The preparation of the interim consolidated financial statements requires management to make certain estimates and assumptions that affect the recognition and measurement of assets, liabilities, income and expenses, and the disclosures relating to contingent assets and liabilities for the reporting period. As future business performance is subject to unknown factors that, in part, lie outside the control of the Group, assumptions and estimates are subject to uncertainty. In particular, the global spread of coronavirus (SARS-CoV-2) is leading to heightened uncertainty because it is having a substantial adverse impact throughout society and in all areas of economic life. Furthermore, the consequences for the further growth in individual national economies and in the global economy as a whole cannot be reliably projected at present. For further information in this regard please refer to the details in the Report on Economic Position and the Report on Opportunities and Risks in the Interim Management Report.

Changes in residual values continue to be very closely monitored because of their importance in relation to the recoverable amounts of lease assets, which particularly depend on the residual value of the lease vehicles at the end of the lease term. An appropriate provision is continuing to be recognized for the existing portfolio on the basis of a regular portfolio assessment and monthly reviews. Targeted measures in coordination with the Group brands are helping to stabilize residual values.

As regards the recoverability of financial assets, targeted measures such as the deferral of payments and assistance for the dealer organization provided jointly with the Group brands are offsetting some of the impact from a slight overall deterioration in the credit risk situation.

Impairment tests carried out in the previous year were reviewed in the first half of fiscal year 2020 to assess whether there had been any further impairment of goodwill or of joint ventures. The Volkswagen Bank GmbH Group is currently assuming that the pandemic is a temporary event that will not have a permanent negative effect on the long-term performance of the Group, and has therefore adjusted the budget planning for 2020 and 2021 in line with current expectations for the purposes of the reviews. In addition, cost of capital rates were updated for the first half of fiscal year 2020 and individual measurement parameters were adjusted.

Overall, the reviews did not give rise to any requirement for the recognition of additional impairment losses in respect of the assets referred to above.

Basis of Consolidation

In addition to Volkswagen Bank GmbH, the consolidated financial statements cover 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 has power over potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and has the ability to use its power to influence those returns.

The main changes to the basis of consolidation for the Volkswagen Bank GmbH Group in the first half of 2020 are set out below.

The branch of Volkswagen Bank GmbH in Dublin, Ireland, was closed on June 30, 2020. Beforehand, the non-regulated business (mainly comprising finance leases and dealer financing) of Volkswagen Bank GmbH, Ireland Branch, Dublin, Ireland, was sold to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig, and the branch's remaining business was transferred to Volkswagen Bank GmbH.

The structured entities Driver Twelve GmbH, in liquidation, Frankfurt am Main, and Driver thirteen UG (haftungsbeschränkt), in liquidation, Frankfurt am Main, were wound up with entries in the commercial register dated January 24, 2020 and June 2, 2020 respectively. In addition, Driver España six, Fondo de Titulización, Madrid, Spain, was established on February 24, 2020.

Effective June 2, 2020, DFM Payment Services B.V., Amersfoort, Netherlands, a wholly owned subsidiary of DFM N.V., Amersfoort, Netherlands, a joint venture between Volkswagen Bank GmbH and Pon Holdings B.V., was wound up. For strategic reasons, payments transactions continue to be offered through the branch of Volkswagen Bank GmbH in the Netherlands.

DISPOSAL GROUP

On March 31, 2020, the non-regulated business portfolio of Volkswagen Bank GmbH, Ireland Branch, Dublin, Ireland, was sold to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig, in return for a consideration of €1,328 million. The portfolio primarily consists of finance lease and dealer financing business.

The following table shows the carrying amounts of the assets and liabilities as of the derecognition date:

€ million	IFRS carrying amounts as of the derecognition date
Loans to and receivables from customers attributable to	1,244
Dealer financing[1]	185
Leasing business[1]	1,039
Other loans and receivables	20
Other assets	3
Total assets	**1,247**
Liabilities to customers	6
Current tax liabilities	2
Total liabilities	**8**
Net assets	**1,239**

1 Of the loans to and receivables from customers arising from dealer financing and from the leasing business, amounts of €231 million and 964 million respectively were classified as held for sale as of December 31, 2019 and reported in a separate balance sheet line item in accordance with IFRS 5.

A gain of €88.6 million was realized on the sale and this amount was recognized under other operating income.

The disposal formed part of the intragroup restructuring projects and continued the work begun in 2016 to reorganize Volkswagen's Financial Services division. As part of this restructuring, the European lending and deposits business was pooled in Volkswagen Bank GmbH and systematically separated from the other activities at Volkswagen Financial Services AG.

In the presentation of reportable segments within the meaning of IFRS 8, in which activities are broken down according to the geographical markets in which the Volkswagen Bank GmbH Group operates, the Ireland branch was assigned to the “Other” segment.

Interim Consolidated Financial Statements Disclosures

1. General and Administrative Expenses

€ million	Jan. 1 – June 30, 2020	Jan. 1 – June 30, 2019
Personnel expenses	–98	–106
Non-staff operating expenses	–293	–294
Advertising, public relations and sales promotion expenses	–7	–4
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–6	–6
Other taxes	–1	–1
Income from the reversal of provisions and accrued liabilities	0	0
Total	**–405**	**–410**

2. Changes in Selected Assets

€ million	Net carrying amount as of Jan. 1, 2020	Basis of consolidation additions/changes	Disposals/other changes	Depr./amort./ impairment	Net carrying amount as of June 30, 2020
Intangible assets	39	1	1	4	34
Property and equipment	25	10	5	2	29
Assets leased out	1.657	285	114	195	1,633

3. Classes of Financial Instruments

Financial instruments are divided into the following classes in the Volkswagen Bank GmbH Group:

> Measured at fair value
> Measured at amortized cost
> Derivative financial instruments designated as hedges
> Not allocated to any measurement category
> Credit commitments and financial guarantees (off-balance-sheet)

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

	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST[1]		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT ALLOCATED TO ANY MEASUREMENT CATEGORY	
€ million	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Assets										
Cash reserve	7,761	3,471	–	–	7,761	3,471	–	–	–	–
Loans to and receivables from banks	579	444	–	–	579	444	–	–	–	–
Loans to and receivables from customers[1]	52,301	55,282	–	–	49,552	52,531	–	–	2,749	2,752
Derivative financial instruments	140	51	15	6	–	–	125	45	–	–
Marketable securities	3,664	3,556	3,664	3,556	–	–	–	–	–	–
Equity-accounted joint ventures	265	245	–	–	–	–	–	–	265	245
Miscellaneous financial assets	9	9	0	0	–	–	–	–	9	9
Current tax assets	71	51	–	–	4	2	–	–	67	48
Other assets	514	549	–	–	329	364	–	–	185	185
Relevant balance sheet items from assets held for sale (IFRS 5)	–	1,195	–	–	–	231	–	–	–	964
Total	**65,304**	**64,852**	**3,679**	**3,562**	**58,226**	**57,043**	**125**	**45**	**3,274**	**4,202**
Equity and liabilities										
Liabilities to banks	6,258	7,478	–	–	6,258	7,478	–	–	–	–
Liabilities to customers	40,119	38,247	–	–	40,039	38,186	–	–	80	61
Notes, commercial paper issued	9,331	9,563	–	–	9,331	9,563	–	–	–	–
Derivative financial instruments	7	70	4	3	–	–	4	67	–	–
Current tax liabilities	165	139	–	–	97	92	–	–	68	47
Other liabilities	390	370	–	–	213	202	–	–	177	168
Subordinated capital	66	105	–	–	66	105	–	–	–	–
Relevant balance sheet items from liabilities related to the assets held for sale (IFRS 5)	–	–	–	–	–	–	–	–	–	–
Total	**56,337**	**55,973**	**4**	**3**	**56,005**	**55,626**	**4**	**67**	**324**	**276**

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

The "Credit commitments and financial guarantees" class contains obligations under irrevocable credit commitments amounting to €2,377 million (December 31, 2019: €2,005 million).

4. Fair Value Disclosures

The principles and methods of fair value measurement have generally remained unchanged compared with those applied in 2019. Detailed disclosures on the measurement principles and methods can be found in the 2019 Annual Report.

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. Financial instruments are classified as "measured at amortized cost", "measured at fair value" and "derivative financial instruments designated as hedges". Classification to the individual levels is dictated by the extent to which the main inputs used in determining the fair value are observable in the market or not.

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

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

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

Most of the loans to and receivables from customers are allocated to Level 3 because their fair value is measured using inputs that are not observable in active markets. Securities from ABS transactions of unconsolidated structured entities are also allocated to Level 3, as are equity investments measured at fair value through other comprehensive income and using inputs that are not observable in the market. The main inputs used to measure these equity investments are strategic planning and cost of equity rates.

There was no need to reclassify instruments to different hierarchy levels in the reporting period.

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

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31 ,2019
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	–	–
Derivative financial instruments	–	–	15	6	–	–
Marketable securities[1]	3,157	2,892	–	–	507	664
Miscellaneous financial assets	–	–	–	–	0	0
Assets held for sale (IFRS 5)	–	–	–	–	–	1,246
Derivative financial instruments designated as hedges	–	–	125	45	–	–
Total	**3,157**	**2,892**	**140**	**51**	**507**	**1,910**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	4	3	–	–
Liabilities related to the assets held for sale (IFRS 5)	–	–	–	–	–	–
Derivative financial instruments designated as hedges	–	–	4	67	–	–
Total	**–**	**–**	**8**	**70**	**–**	**–**

1 Further analyses have revealed that the securities previously shown in Level 2 should be allocated to Level 1.

The following table shows the changes in marketable securities and miscellaneous financial assets measured at fair value and allocated to Level 3.

€ million	2020	2019
Balance as of Jan. 1	**664**	**68**
Foreign exchange differences	−44	−38
Portfolio changes	−112	−90
Changes in basis of consolidation	–	796
Measured at fair value through profit or loss	–	3
Measured at fair value through other comprehensive income	–	–
Balance as of June 30	**507**	**740**

No remeasurement gains or losses in profit or loss were reported under net gain or loss on financial instruments measured at fair value in the reporting period (previous year: €3 million). In the previous year, the remeasurement gains or losses recognized in profit or loss were accounted for entirely by securities held as of the reporting date from ABS transactions of unconsolidated structured entities.

The risk variables relevant to the fair value of the loans to and receivables from customers and marketable securities are risk-adjusted interest rates. A sensitivity analysis is used to quantify the impact of changes in risk-adjusted interest rates on profit or loss after tax. If risk-adjusted interest rates as of June 30, 2020 had been 100 basis points higher, profit after tax would have been €0 million higher (previous year: €2 million). If risk-adjusted interest rates as of June 30, 2020 had been 100 basis points lower, profit after tax would have been €0 million lower (previous year: €2 million).

The risk variables relevant to the fair value of equity investments are the growth rate within strategic planning and the cost of equity rates. If a 10% change were applied to the financial performance (which takes into account the relevant risk variables) of the equity investments measured at fair value through other comprehensive income, there would be no material change to equity.

The following table shows the fair values of the financial instruments:

€ million	Fair value June 30, 2020	Fair value December 31, 2019	Carrying amount June 30, 2020	Carrying amount December 31, 2019	Difference June 30, 2020	Difference December 31, 2019
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	–	–
Derivative financial instruments	15	6	15	6	–	–
Marketable securities	3,664	3,556	3,664	3,556	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	7,761	3,471	7,761	3,471	–	–
Loans to and receivables from banks	579	444	579	444	–	–
Loans to and receivables from customers	49,611	53,159	49,552	52,531	58	628
Current tax assets	4	2	4	2	–	–
Other assets	329	364	329	364	–	–
Assets held for sale (IFRS 5)	–	1,246	–	1,195	–	51
Derivative financial instruments designated as hedges	125	45	125	45	–	–
Not allocated to any measurement category						
Lease receivables	2,719	2,732	2,749	2,752	−30	−19
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	4	3	4	3	–	–
Measured at amortized cost						
Liabilities to banks	6,133	7,454	6,258	7,478	−126	−24
Liabilities to customers	39,973	38,277	40,039	38,186	−66	91
Notes, commercial paper issued	9,335	9,571	9,331	9,563	4	8
Current tax liabilities	97	92	97	92	–	–
Other liabilities	213	202	213	202	0	0
Subordinated capital	64	107	66	105	−2	2
Liabilities related to the assets held for sale (IFRS 5)	–	–	–	–	–	–
Derivative financial instruments designated as hedges	4	67	4	67	–	–

The difference between the fair value and carrying amount of irrevocable credit commitments is not material because of the short maturity and the variable interest rate linked to the market interest rate. Nor is the difference between carrying amount and fair value of financial guarantees material.

Segment Reporting

5. Breakdown by Geographical Market

The presentation of the reportable segments in accordance with IFRS 8 is based on the internal control and reporting structure of the Volkswagen Bank GmbH Group and is broken down according to the geographical markets in which the Volkswagen Bank GmbH Group operates.

Accordingly, the reportable segments are as follows: Germany, Italy, France and Other; the branches in Ireland, Spain, the Netherlands, Greece, the United Kingdom, Portugal and Poland are reported on in the "Other" segment.

In the prior-year period, the discontinued operation Volkswagen Finans Sverige AB still constituted a separate geographical segment In line with the internal management and reporting structure. As the income statement for the prior-year period was adjusted for discontinued operations, the effects from the discontinued operation Volkswagen Finans Sverige AB are included in the prior-year reconciliation in addition to the effects of consolidation between the segments (see "Adjustment of prior-year figures" section in the Half-Yearly Financial Report 2019).

The operating result is a primary key performance indicator, and as such is reported to the chief operating decision-makers. The information provided to management for management purposes is based on the same accounting policies as those used for external financial reporting.

All business transactions between the segments – where such transactions take place – are conducted on an arm's-length basis.

In accordance with IFRS 8, non-current assets are reported exclusive of financial instruments, deferred tax assets, post-employment benefits and rights under insurance contracts.

BREAKDOWN BY GEOGRAPHICAL MARKET FOR THE FIRST HALF OF 2019:

€ million	JAN. 1 – JUNE 30, 2019 Germany	Italy	France	Sweden	Other	Reconciliation	Group
Interest income from lending transactions and marketable securities in respect of third parties	457	97	23	12	133	–12	710
Intersegment interest income from lending transactions and marketable securities	46	0	–	–	–	–46	–
Income from leasing transactions with third parties	–	29	415	1,450	96	–1,450	541
of which reversals of impairment losses in accordance with IAS 36	–	–	1	–	–	–	1
Depreciation, impairment losses and other expenses from leasing transactions	0	–18	–310	–1,412	–69	1,412	–397
of which impairment losses in accordance with IAS 36	–	0	–4	–4	–	4	–4
Net income from leasing transactions	0	11	106	38	28	–38	144
Interest expense	–70	–7	–11	–6	–38	52	–80
Income from service contracts with third parties	–	0	26	–	11	–	36
Expenses from service contracts	–	0	–39	–	–12	–	–51
Net income from service contracts	–	0	–13	–	–1	–	–14
Provision for credit risks	–20	–8	–13	0	–6	0	–46
Fee and commission income from third parties	23	46	19	2	15	–2	103
Fee and commission expenses	–28	–50	–20	–1	–14	1	–112
Net fee and commission income	–6	–4	–1	1	2	–1	–9
Net gain or loss on hedges	–22	–	–	–	0	–	–22
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	1	0	0	25	4	–25	5
General and administrative expenses	–270	–32	–64	–23	–47	24	–410
Net other operating income	49	7	15	3	8	15	97
Other operating expenses	–23	–9	–2	–27	–1	27	–35
Net other operating income/expenses	27	–2	13	–24	7	41	63
Operating result	**143**	**55**	**41**	**23**	**81**	**–4**	**339**

BREAKDOWN BY GEOGRAPHICAL MARKET FOR THE FIRST HALF OF 2020:

	JAN. 1 – JUNE 30, 2020					
€ million	Germany	Italy	France	Other	Consolidation	Group
Interest income from lending transactions and marketable securities in respect of third parties	422	94	20	186	–	722
Intersegment interest income from lending transactions and marketable securities	52	–	–	–	–52	–
Income from leasing transactions with third parties	–	–	447	14	–	461
of which reversals of impairment losses in accordance with IAS 36	–	–	2	–	–	2
Depreciation, impairment losses and other expenses from leasing transactions	–	–	–338	–1	–	–338
of which impairment losses in accordance with IAS 36	–	–	–6	–	–	–6
Net income from leasing transactions	–	–	109	14	–	123
Interest expense	–62	–11	–13	–37	52	–72
Income from service contracts with third parties	–	–	28	–	–	28
Expenses from service contracts	–	–	–32	–	–	–32
Net income from service contracts	–	–	–3	–	–	–3
Provision for credit risks	–22	–18	–13	–3	–4	–60
Fee and commission income from third parties	21	26	18	33	–	97
Fee and commission expenses	–13	–24	–6	–34	–	–78
Net fee and commission income	7	2	11	–2	–	19
Net gain or loss on hedges	–8	–	–	0	–	–8
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	–1	0	–	3	0	3
General and administrative expenses	–270	–22	–60	–54	1	–405
Net other operating income	67	4	2	97	–1	169
Other operating expenses	–9	–2	–2	–5	–	–18
Net other operating income/expenses	59	1	0	92	–1	151
Operating result	**176**	**46**	**51**	**201**	**–4**	**471**

Information on the main products (lending and leasing business) can be taken directly from the income statement.

The following table shows a breakdown of the segment profit or loss between continuing and discontinued operations:

€ million	Jan. 1 – June 30, 2020	Jan. 1 – June 30, 2019
Breakdown of segment profit or loss (operating result) for the Group		
Continuing operations	471	316
Discontinued operations	–	23

The breakdown of noncurrent assets in accordance with IFRS 8 and of the additions to noncurrent lease assets by geographical market is shown in the following tables:

	JUNE 30, 2019[1]						
€ million	Germany	Italy	France	Sweden	Other	Reconciliation	Total
Noncurrent assets	393	7	1,488	992	46	–992	1,934
Additions to noncurrent lease assets	0	0	285	54	–	2	341
Additions to miscellaneous assets	60	3	0	1	–2	–	62

1 Prior-year presentation adjusted.

	JUNE 30, 2020					
€ million	Germany	Italy	France	Other	Consolidation	Total
Noncurrent assets	272	10	1,652	40	–	1,975
Additions to noncurrent lease assets	0	–	90	–	–	90
Additions to miscellaneous assets	22	8	–3	–3	–	24

The following table shows the reconciliation to consolidated revenue, consolidated operating result and consolidated profit before tax.

€ million	Jan. 1 – June 30, 2020	Jan. 1 – June 30, 2019
Segment revenue	**1,367**	**2,898**
Minus discontinued operations (Sweden segment)	–	1,464
Consolidation	–52	–46
Group revenue	**1,316**	**1,388**
Segment profit or loss (operating result)	**474**	**343**
Minus discontinued operations (Sweden segment)	–	23
Consolidation	–4	19
Operating result	**471**	**339**
Share of profits and losses of equity-accounted joint ventures	20	14
Net gain or loss on miscellaneous financial assets	0	0
Other financial gains or losses	0	0
Profit before tax	**491**	**353**

Other Disclosures

6. Cash Flow Statement

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

7. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

As of June 30, 2020, there were no other contingent liabilities. As of December 31, 2019, there were other contingent liabilities of €1 million.

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2020	DUE 2021 – 2024	DUE from 2025	TOTAL December 31, 2019
Purchase commitments in respect of				
Property and equipment	0	–	–	0
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
irrevocable credit commitments to customers	1,771	0	0	1,771
long-term leasing and rental contracts	4	0	–	4
miscellaneous financial obligations	11	–	–	11

€ million	DUE until June 30, 2021	DUE 01.07.2021 – 30.06.2025	DUE from July 1, 2025	TOTAL June 30, 2020
Purchase commitments in respect of				
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
loan commitments to unconsolidated subsidiaries	–	–	–	–
irrevocable credit commitments to customers	2,171	0	0	2,171
long-term leasing and rental contracts	2	0	–	2
miscellaneous financial obligations	7	–	–	7

Drawdowns on irrevocable credit commitments are possible at any time.

8. Related Party Disclosures

Related parties as defined by IAS 24 are natural persons and entities that Volkswagen Bank GmbH has control over or over which it has significant influence, or natural persons and entities that have control over or can exercise significant influence over Volkswagen Bank GmbH, or who are under the influence of another related party of Volkswagen Bank GmbH.

Volkswagen AG, Wolfsburg, is the sole shareholder of Volkswagen Bank GmbH.

Porsche Automobil Holding SE, Stuttgart, held the majority of the voting rights in Volkswagen AG as of the reporting date. The Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved the creation of rights of appointment for the State of Lower Saxony. As a result, Porsche SE can no longer appoint a majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore deemed to be a related party as defined by

IAS 24. According to a notification dated January 2, 2020, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights in Volkswagen AG on December 31, 2019. They therefore indirectly have significant influence over the Volkswagen Bank GmbH Group. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment).

The sole shareholder, Volkswagen AG, and Volkswagen Bank GmbH have entered into a control and profit-and-loss transfer agreement.

Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities provide the entities in the Volkswagen Bank GmbH Group with funding on an arm's-length basis. Volkswagen AG and its subsidiaries have also furnished collateral in the Bank's favor as part of the operating business.

The production companies and importers in the Volkswagen Group provide the entities in the Volkswagen Bank GmbH Group with financial subsidies to support sales promotion campaigns.

All business transactions with unconsolidated subsidiaries, joint ventures, associates and other related parties in Volkswagen AG's group of consolidated entities are processed at arm's length.

The two tables below show the transactions with related parties. In these tables, asset and liability items are translated at the closing rate, and income statement items at the weighted average rates for the year.

	INTEREST INCOME H1		INTEREST EXPENSE H1		GOODS AND SERVICES PROVIDED H1		GOODS AND SERVICES RECEIVED H1	
€ million	2020	2019	2020	2019	2020	2019	2020	2019
Supervisory Board	0	0	0	0	–	–	–	–
Management Board/Board of Management	0	0	0	0	–	–	–	–
Volkswagen AG	0	0	–	0	14	22	−7	−2
Porsche SE	–	–	–	–	–	–	–	–
Other related parties in the consolidated entities	29	51	−1	−1,323	1,430	638	−105	−193
Unconsolidated subsidiaries	–	−2	–	–	–	6	–	−2
Joint ventures	2	1	–	0	0	7	−111	−107
Associates	–	–	–	–	–	–	–	–

	LOANS AND RECEIVABLES		VALUATION ALLOWANCES ON IMPAIRED LOANS AND RECEIVABLES		OF WHICH ADDITIONS IN CURRENT YEAR		OBLIGATIONS	
€ million	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Supervisory Board	0	0	–	–	–	–	5	6
Management Board/Board of Management	0	0	–	–	–	–	9	11
Volkswagen AG	1	1	–	–	–	–	2,883	3,454
Porsche SE	–	–	–	–	–	–	–	–
Other related parties in the consolidated entities	2,043	2,025	–	–	–	–	5,352	2,913
Unconsolidated subsidiaries	0	0	–	–	–	–	148	172
Joint ventures	1,817	2,370	–	–	–	–	41	54
Associates[1]	–	–	–	–	–	–	1	6

1 Separate presentation of associates. The prior-year figures have been adjusted accordingly.

The “Other related parties in the group of consolidated entities” line item includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG’s group of consolidated entities. The relationships with the Supervisory Board and the Board of Management comprise relationships with the relevant groups of people at Volkswagen Bank GmbH and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of lesser significance.

The “Goods and services received” column primarily contains sales revenue from vehicle sales. “Goods and services provided” largely resulted from the sale of the non-regulated finance lease and dealer financing business at Volkswagen Bank GmbH, Ireland Branch, Dublin, Ireland, to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, a wholly owned subsidiary of Volkswagen Financial Services AG, Braunschweig.

In the first half of 2020, the Volkswagen Bank GmbH Group did not make any capital contributions to related parties (previous year: €58 million). However, the Volkswagen Bank GmbH Group received capital contributions from Volkswagen AG in an amount of €4 million (previous year: €440 million).

Some members of the Management Board and Supervisory Board/Audit Committee of Volkswagen Bank GmbH are members of supervisory boards of other entities in the Volkswagen Group with which transactions are sometimes conducted in the normal course of business. All transactions with these companies are on an arm’s-length basis.

9. Governing Bodies of the Volkswagen Bank GmbH Group

The members of the Management Board are as follows:

DR. MICHAEL REINHART
Chairman of the Management Board
Corporate Management of Volkswagen Bank GmbH

HARALD HEẞKE
Member of the Management Board of Volkswagen Bank GmbH. Responsible for Finance.

CHRISTIAN LÖBKE
Member of the Management Board of Volkswagen Bank GmbH. Responsible for Risk Management.

DR. VOLKER STADLER
Member of the Management Board of Volkswagen Bank GmbH. Responsible for Operations.

The members of the Supervisory Board as of the reporting date June 30, 2020 were as follows:

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

DR. INGRUN-ULLA BARTÖLKE
Deputy Chairwoman
Head of Group Accounting and External Reporting of Volkswagen AG

SILVIA STELZNER
Deputy Chairwoman
Member of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

MARKUS BIEBER
Managing Director of the General Works Council of Volkswagen AG

BIRGIT DIETZE
Principal Representative of IG Metall Berlin

FRANK FIEDLER
Member of the Board of Management of Volkswagen Financial Services AG
Finance and Purchasing

PROF. DR. SUSANNE HOMÖLLE
Chair of Banking and Finance, University of Rostock

THOMAS KÄHMS
Member of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

LUTZ MESCHKE
Deputy Chairman of the Board of Management and member of the Board of Management of
Dr. Ing. h.c. F. Porsche AG
Finance and IT

DR. HANS-JOACHIM NEUMANN
Head of the Back Office of Volkswagen Bank GmbH

JÜRGEN ROSEMANN
Member of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

LARS HENNER SANTELMANN
Chairman of the Board of Management of Volkswagen Financial Services AG

The composition of the committees of the Supervisory Board of Volkswagen Bank GmbH was as follows as of the reporting date, June 30, 2020:

MEMBERS OF THE AUDIT COMMITTEE
Dr. Ingrun-Ulla Bartölke (Chairwoman)
Prof. Dr. Susanne Homölle (Deputy Chairwoman)
Frank Fiedler
Dr. Hans-Joachim Neumann

MEMBERS OF THE RISK COMMITTEE
Prof. Dr. Susanne Homölle (Chairwoman)
Dr. Jörg Boche (Deputy Chairman)
Frank Fiedler
Silvia Stelzner

MEMBERS OF THE NOMINATION COMMITTEE
Dr. Ingrun-Ulla Bartölke (Chairwoman)
Thomas Kähms (Deputy Chairman)
Lars Henner Santelmann

MEMBERS OF THE REMUNERATION COMMITTEE
Dr. Jörg Boche (Chairman)
Dr. Ingrun-Ulla Bartölke (Deputy Chairwoman)
Thomas Kähms
Lars Henner Santelmann

10. Events After the Balance Sheet Date

There were no significant events in the period between the reporting date for the interim consolidated financial statements and July 24, 2020.

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 24, 2020

Volkswagen Bank GmbH
The Management Board

Dr. Michael Reinhart

Harald Heßke

Christian Löbke

Dr. Volker Stadler

PUBLISHED BY
Volkswagen Bank GmbH
Gifhorner Strasse 57
38112 Braunschweig, Germany
Telephone + 49 (0) 531 212-0
info@vwfs.com
www.vwfs.com

INVESTOR RELATIONS
Telephone +49 (0) 531 212-30 71
ir@vwfs.com

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VOLKSWAGEN BANK GMBH
Gifhorner Straße 57 · 38112 Braunschweig · Germany · Phone +49 (0) 531 212-0
info@vwfs.com · www.vwfs.com · www.facebook.com/vwfsde
Investor Relations: Phone +49 (0) 531 212-30 71 · ir@vwfs.com