

VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

HALF-YEARLY FINANCIAL REPORT

JANUARY – JUNE

2023

INTERIM MANAGEMENT REPORT

- 03** Report on Economic Position
- 11** Report on Opportunities and Risks
- 12** Human Resources Report
- 13** Report on Expected Developments

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONDENSED)

- 15** Income Statement
- 16** Statement of Comprehensive Income
- 17** Balance Sheet
- 19** Statement of Changes in Equity
- 20** Cash Flow Statement
- 21** Notes to the Interim Consolidated
Financial Statements
- 40** Responsibility Statement

Key Figures

VOLKSWAGEN FINANCIAL SERVICES AG

€ million	June 30, 2023	Dec. 31, 2022 ¹
Total assets	138,215	133,367
Loans to and receivables from customers attributable to		
Retail financing	23,453	23,907
Dealer financing	6,276	5,536
Leasing business	43,397	41,235
Lease assets	36,340	34,927
Equity	18,021	17,607

€ million	H1 2023	H1 2022 ¹
Operating result	768	1,742
Profit before tax	796	1,763

Percent	June 30, 2023	Dec. 31, 2022
Equity ratio ²	13.0	13.2

Headcount	June 30, 2023	Dec. 31, 2022
Employees	11,549	11,457
Germany	5,949	5,980
International	5,600	5,477

¹ Prior-year restated (see disclosures in the notes to the interim consolidated financial statements on IFRS 17 Insurance Contracts).

² Equity divided by total assets

RATING (AS OF JUNE 30)	STANDARD & POOR'S			MOODY'S INVESTORS SERVICE		
	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Volkswagen Financial Services AG	A-2	BBB+	stable	P-2	A3	stable

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 fiscal year.

Report on Economic Position

RESTRUCTURING OF THE VOLKSWAGEN FINANCIAL SERVICES AG AND VOLKSWAGEN BANK GMBH SUBGROUPS

In March 2023, the management board of Volkswagen Financial Services AG and the board of managing directors of Volkswagen Bank GmbH resolved to initiate a reorganization of the subgroups of Volkswagen Financial Services AG and Volkswagen Bank GmbH.

To implement the planned reorganization, the majority of the German and European companies (including the respective subsidiaries and participations) as well as other assets, liabilities and further legal relationships of Volkswagen Financial Services AG and Volkswagen Bank GmbH (including its participations) shall be consolidated under a new financial holding company supervised by the ECB. The shares in Volkswagen Leasing GmbH subsidiary shall be completely transferred to Volkswagen Bank GmbH. The current Volkswagen Financial Services AG shall act as a holding company for non-European companies. Both the new financial holding company and the holding company for non-European companies will continue to be an integral part of the Volkswagen Group, as wholly owned subsidiaries of Volkswagen AG but with different geographic business focus.

By bundling its activities in an European financial services provider, the refinancing strength of Volkswagen Bank GmbH can best be used for the growth of the leasing business in Germany and Europe. The Volkswagen Group is thus laying the foundation for the successful implementation of the Group's strategy in the mobility sector, taking into account the regulatory framework.

A company-wide program has been set up to prepare for and implement the restructuring. Numerous workstreams, such as supervisory law, company law and tax, regulatory reporting, treasury, human resources, risk management, data provision, IT and processes, accounting and controlling as well as sales, will ensure that all the necessary steps are initiated and implemented and any emerging risks are mitigated in a timely manner.

It is intended to complete the main steps of the reorganization mid-2024.

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

New business was on an uptrend around the globe in the first half of 2023 and up noticeably on the prior-year level due to a rise in vehicle deliveries.

In the first six months of 2023, Volkswagen Financial Services AG increased its business volume slightly compared with the position at the end of 2022, largely as a result of growth in Germany and the United Kingdom.

The global share of financed and leased new vehicles in the Group's worldwide deliveries to customers (penetration) stood at 26.6 (26.3)% at the end of the first half of the year.

Funding costs were very strongly above the prior-year level. Based on higher business volume, this was attributable to higher interest rates and higher funding spreads. Derivatives are entered into for economic interest rate hedging. The positive fair values from prior periods gradually reduce with time to maturity. This effect and the trend in market interest rates led to slightly negative valuations effects in the reporting period.

In the first half of fiscal 2023, the volume of loans and receivables was up slightly on the level at the prior fiscal year-end. The level of provision for credit risks increased slightly against the backdrop of the heightened global uncertainty surrounding the economic and geopolitical situation.

Likewise, the residual value portfolio hardly changed compared with the previous year, whereas residual value risks increased significantly. This was reflected in the risk provision and was mainly the result of marketing revenues returning to normal. All developments continue to be closely monitored and taken into account where necessary.

Overall, the operating result was therefore very sharply down on the prior-year figure.

The Board of Management of Volkswagen Financial Services AG considers the course of business so far in 2023 to have been positive despite the general market environment.

CHANGES IN EQUITY INVESTMENTS

The following material change in equity investments has occurred:

Effective June 22, 2023, Volkswagen Financial Services AG established MyDigitalCar GmbH, Braunschweig, together with Sopra Steria SE, Hamburg. Volkswagen Financial Services AG and Sopra Steria SE each hold 50% of the joint venture company. The digital platform enables vehicle dealers, vehicle fleet operators, and leasing and car rental companies to register their vehicles digitally and therefore optimizes profitability in vehicle management. The establishment of the joint venture marks an important step towards fully digital vehicle registrations.

GENERAL ECONOMIC DEVELOPMENT

The Russia-Ukraine conflict led to increased uncertainty in relation to developments in the global economy and prompted large sections of the community of Western states to impose sanctions on Russia, ranging from extensive trade embargoes to the partial exclusion of Russia from the global financial system. Russia itself, in its role as an energy exporter, restricted deliveries to Europe, particularly deliveries of gas. Although calm began to return to the energy and commodity markets in recent months, some raw material prices remain comparatively elevated. Furthermore, salary trends in the overheated labor markets, among other factors, pose the threat of continued high inflation.

Following the slump in global economic output in 2020, the incipient recovery due to baseline and catch-up effects in 2021 and further normalization of economic activity in 2022 despite the Russia-Ukraine conflict, economic growth continued to recover in the reporting period on average, albeit with diminishing momentum compared with the prior year. This was mainly due to weaker growth in the advanced economies, whereas the rate of change in the emerging markets remained virtually the same overall. At national level, developments depended on the one hand on the intensity with which central banks had to tighten monetary policy to curb the higher inflation – mainly by raising interest rates and scaling back bond-buying – which had a negative impact on consumer spending and investment activity. On the other hand, the extent to which national economies were affected by the consequences of the Russia-Ukraine conflict was a decisive factor. Prices for energy and many other raw materials were lower than in the previous year, and shortages of intermediate products and commodities eased somewhat. Global trade in goods expressed in nominal terms decreased in the reporting period.

The economy in Western Europe recorded positive but lower growth in the first half of 2023, as in the same period of the previous year. This trend was seen in many countries in Northern and Southern Europe. The main reasons for this were the in some cases momentarily significant increases in energy and commodity prices, which had substantially pushed up inflation rates in the previous year and thus had a negative impact on consumer confidence. The recovery in consumer sentiment in the European Union that commenced in the second half of 2022 continued at a low level in the reporting period, while the mood among companies progressively darkened. In addition, the restrictive monetary policy measures taken to rein in inflation impacted on both consumer spending and investment.

Germany registered negative economic growth in the reporting period. Compared with the same period of the prior year, the seasonally adjusted unemployment figures rose on average. After reaching historically high levels in 2022, monthly inflation rates fell though stayed relatively high.

The economies in Central and Eastern Europe recorded growth in real gross domestic product (GDP) overall in the first six months of 2023, that was lower compared with the prior-year period. While economic output in Central Europe developed at a comparatively low positive rate, GDP in the Eastern Europe region rose again in the second quarter of 2023 for the first time since the outbreak of the Russia-Ukraine conflict versus the same period of the previous year. Inflation rates across the entire Central and Eastern Europe region declined on average in the reporting period, but remained at a high level.

In the first half of 2023, Türkiye's economy achieved a rate of GDP growth that was weaker than in the previous year, amid very high inflation and depreciation of the local currency. South Africa recorded a slight positive change in economic output amid persistent structural deficits and political challenges.

Gross domestic product in the USA increased year-on-year in the reporting period while at the same time, the rate of growth slowed. Given the high inflation and the tight labor market, the US Federal Reserve maintained its restrictive monetary policy, raising its key interest rate seven times in 2022 and three more times in the first half of 2023. Unemployment remained at a low level in the reporting period. In Canada and Mexico, economic output was also higher than in the same period of 2022.

Brazil's economy achieved somewhat weaker growth in the 2023 reporting period than in the previous year, combined with declining monthly inflation rates. Argentina saw economic output growing slower on the whole year-on-year amid very high inflation and the continued collapse of the currency.

China's economic output rose faster in the reporting period compared to the prior-year period, positively influenced by the repeal of the zero-Covid strategy. India registered positive but weaker economic growth year-on-year. Japan also recorded a positive albeit low GDP growth rate compared with the same period of the previous year.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Demand for automotive financial services was at a high level in the first half of 2023; however, higher interest rates put pressure on demand for financial services in almost all regions.

The European passenger car market was still affected by shortages in the reporting period. Vehicle deliveries nevertheless increased and were up on the prior-year period. Demand for financial services products also grew; however, as a percentage of vehicle deliveries, the figure was down on the equivalent figure for 2022. The positive trend in the financing of used vehicles continued. The sale of after-sales products such as servicing, maintenance and spare parts agreements continued to expand.

In Germany, persistent challenges presented by parts supply in vehicle production and by logistics chains continued to impact vehicle sales and the financial services business. Nevertheless, the increase in deliveries of new vehicles led to a higher volume of both leasing and financing contracts in the first half of 2023. New vehicle penetration was down on the comparative figure for 2022, however. New contracts for used vehicles exceeded the previous year's levels. The number of new after-sales contracts also increased and was above the 2022 level in the reporting period. The number of new contracts in the insurance business was also higher year-on-year.

The Turkish market was influenced by very high inflation and very difficult, short-term refinancing. To minimize interest rate risks, interest-bearing financial services business was conducted in a manner that was very restrictive. Meanwhile, the sale of lease returns developed positively.

In South Africa, financed vehicle purchases remained difficult due to the subdued economic conditions, higher vehicle prices, increased energy prices and limited energy availability. The South African central bank raised its key interest rate again in May 2023. This was the tenth rate hike in a row, causing borrowing costs to rise to their highest level since May 2009.

Vehicle deliveries in the North America region improved year-on-year in the first half of 2023. New vehicle penetration in the USA and Canada was above the previous year's level. In Mexico, meanwhile, the penetration of leasing and financing contracts declined. The absolute number of new contracts for leasing, financing and after-sales products in the region as a whole was higher than the figures for the first half of 2022.

In the South America region, the positive growth trend in the volume of new vehicle sales continued, albeit at a slower pace in some cases. The market for financial services benefited from increased deliveries and the economic recovery. Argentina continued to record excess demand, exacerbated by limited supply due to restrictions on imports. Higher interest rates, high inflation and the continued collapse of the currency increased the proportion of cash purchases; however, the level of financing contracts was stable. In Brazil, there was an increase in the number of new financing contracts.

On the Chinese automotive market, demand for automotive financial services began to recover. Sales of electric vehicles continued to rise, resulting in higher demand for associated financing and leasing products in the reporting period. In Japan, there was a positive trend in demand for automotive financial services. A relatively low interest rate by international comparison and attractive financial service offerings in many places were key features of this market.

The financial services business in the market for heavy commercial vehicles was slightly up on the prior-year level in the first half of 2023. The lengthy delivery times for commercial vehicles are gradually beginning to return to normal. The borrowing habits of commercial vehicle customers changed due to rising interest rates: the decision on financing is moving closer to the time of vehicle delivery as customers speculate on interest rates falling.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In the first half of 2023, the volume of the global passenger car market was noticeably above the comparative figure for 2022 at 36.5 million vehicles (+9.2%). The performance of the largest passenger car markets was positive, due among other things to the weak prior-year figures. While the supply situation for intermediates improved compared with 2022, particularly the consequences of the Russia-Ukraine conflict and pull-forward effects generated by state subsidies expiring at the end of the previous year dampened the trend in new registrations in individual markets. Significant growth was recorded in the overall markets of the Western Europe, Middle East and North America regions. The markets of the Central and Eastern Europe, South America and Asia-Pacific regions were slightly to noticeably higher than the prior-year level. The market in Africa fell significantly short of the prior-year volume.

In the first half of 2023, the global volume of new registrations for light commercial vehicles was significantly higher (+15.5%) than in the previous year.

In Western Europe, the number of new passenger car registrations in the first half of the 2023 reporting year increased significantly year-on-year by +17.9% to 6.0 million vehicles. The performance of the large individual passenger car markets was positive across the board: France (+15.4%), United Kingdom (+18.4%), Italy (+22.7%) and Spain (+23.2%) all exceeded the levels recorded in the first half of 2022 by a significant to strong degree.

The volume of new registrations for light commercial vehicles in Western Europe in the reporting period was significantly higher than for the same period of the previous year (+13.5%).

At 1.4 million, the total number of new passenger car registrations in Germany in the first six months of 2023 was significantly higher than the weak prior-year level (+12.9%). Disruption in global logistic chains restricted vehicle availability at the beginning of the year. More recently, parts availability improved further, giving a boost to domestic production. Production in Germany in the first half of 2023 rose to 2.2 million vehicles (+32.4%) and passenger car exports grew to 1.7 million units (+32.5%).

Sales of light commercial vehicles in Germany in the first six months of 2023 were significantly higher than the 2022 figure, recording an increase of 17.2%.

In the Central and Eastern Europe region, the volume of the passenger car market rose noticeably (+5.2%) after the severe slump in 2022 as a whole. However, the pace of growth varied in the individual markets. After the weak prior-year figures, a significant recovery could be observed in Central Europe, specifically in the Czech Republic (+16.8%) and Poland (+12.1%).

In the first half of 2023, the market volume of light commercial vehicles in Central and Eastern Europe was noticeably down on the prior-year level (-6.7%).

The volume of the passenger car market in Türkiye at the end of the reporting period was 54.5% above the figure for the first half of 2022. The South African passenger car market fell slightly short of the prior-year level (-0.6%), while the Africa region as a whole registered a significant decline (-10.8%).

The volume of new registrations of light commercial vehicles in Türkiye rose by 47.3% in the first six months of 2023 on the comparable 2022 figure; South Africa recorded strong growth (+21.5%).

Sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North America region rose significantly in the first half of 2023 to 9.2 million vehicles (+12.8%). Within this region, the market volume in the USA also grew significantly to 7.7 million units (+12.6%). The Canadian automotive market registered a noticeable increase in sales figures to 812 thousand units (+8.1%) in the reporting period, while new registrations of passenger cars and light commercial vehicles in Mexico saw a sharp rise to 633 thousand vehicles (+22.1%) compared with the prior-year period.

In the South America region, the volume of new passenger car and light commercial vehicle registrations was at 1.7 million units in the first six months of 2023, slightly more than in the comparative prior-year period (+2.0%). The positive growth trend that had commenced in the previous year tapered off during the reporting period. In Brazil, the number of new registrations was noticeably higher than the level for the prior-year period at 935 thousand units (+9.6%). In the Argentinian market, demand for passenger cars and light commercial vehicles rose significantly by +13.5% to 222 thousand units.

In the Asia-Pacific region, the volume of the passenger car market in the first half of 2023 was noticeably higher than the previous year's figure at 16.7 million units (+5.7%). The trend in demand for passenger cars in the region was largely determined by developments in the Chinese passenger car market. Here, state subsidies and incentive programs expired at the end of 2022, causing pull-forward effects in vehicle purchases and consequently reducing the number of vehicle registrations at the beginning of 2023. Demand initially recovered as the period went on, due for example to discounts and new regional incentive programs, but weakened again at the end of the reporting period. Overall, the volume of demand in China totaled 9.8 million units, slightly above the level of the first half of 2022 (+3.3%). In India, passenger car sales rose significantly by 10.3% compared with the prior-year period, increasing to 1.9 million units. New registrations in the Japanese passenger car market in the reporting period were also up significantly year-on-year at 2.1 million units (+18.6%).

The volume of demand for light commercial vehicles in the Asia-Pacific region in the first six months of 2023 was significantly above the level for the prior-year period (+16.4%). Registration volumes in China, the region's dominant market and the largest market worldwide, experienced a very strong rise of +31.5% compared to the prior year. The number of new vehicle registrations in India was on a level with the previous year (0.0%), in Japan this figure was significantly up on the previous year (+10.3%).

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 significantly higher in the reporting period than in the same period of 2022. Truck markets globally were strongly up on the previous year's level. This was due to an improved situation in global supply chains and the very strong recovery in China, the world's largest truck market, following the end of the country's zero-Covid strategy.

Sales volume in the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3), was significantly higher in the first six months of 2023 than in the prior year. The shortages in parts supplies have largely been overcome. New registrations in Germany, the largest market in this region, rose strongly. Demand on the UK and French markets was significantly up on the prior year. Türkiye recorded a very sharp increase in new registrations compared with the previous year. Demand was up noticeably in the South African market. The truck market in North America is divided into weight classes 1 to 8. In the segments relevant for Volkswagen – Class 6 to 8 (8.85 tonnes or heavier) – new registrations were up strongly on the previous year's figure. In Brazil, the largest market in the South America region, demand for trucks in the first half of 2023 was significantly down on the previous year's level due to the introduction of a new emissions standard at the beginning of 2023.

In the first half of 2023, there was a very strong rise in demand overall in the bus markets that are relevant for the Volkswagen Group compared with the same period of the prior year. Demand for buses in the EU27+3 markets in the reporting period was up significantly on the level of the previous year, with the picture varying from country to country. The school bus segment in the US and Canada delivered a much stronger performance than in the prior year. Demand for buses in Mexico was also much stronger than in the previous year. In Brazil, demand also increased and was up very strongly on the prior-year figure.

FINANCIAL PERFORMANCE

The disclosures on financial performance relate to the changes compared with the corresponding prior-year period.

In the first half of 2023, Volkswagen Financial Services AG's entities delivered a stable performance in a difficult economic environment.

Although the operating result declined very sharply year-on-year, by 55.9% to €768 (1,742) million, this is due in particular to positive one-time items in the prior-year period attributable to the fair value measurement of financial instruments and the marketing of used vehicles. The result for the current six-month period was also negatively impacted by the interest-margin situation.

Interest income from lending transactions and marketable securities was very sharply up on the prior-year figure at €1,486 million (+32.7%).

Net income from leasing transactions rose significantly by 17.7% year-on-year to €2,668 (2,267) million due to the growth in business volumes.

Interest expenses were very sharply up on the prior-year figure at €2,135 (807) million due to higher interest rates and funding spreads.

Net income from service contracts came to €101 (134) million, a strong decrease on the prior-year figure.

Net income from insurance business stood at €81 million (+32.8%) recording a very sharp increase on the previous year's level.

At €187 (453) million, the provision for credit risks was down very sharply on the previous year. Additional valuation allowances were required on a country-specific basis in the provision for credit risks for the VW FS AG Group because, in some instances, the standard models and processes implemented, including the credit risk parameters used, did not fully capture the risks from global economic uncertainties and critical situations. In the first half of 2023, these valuation allowances decreased by €150 million to €718 million overall and thus had a positive impact on the provision for credit risk.

Net fee and commission income amounted to €23 (– 6) million, a very sharp increase on the prior-year figure.

The net gain/loss on financial instruments measured at fair value amounted to €– 67 (648) million. The positive fair values from prior periods gradually reduce with time to maturity. This effect and the trend in market interest rates led to slight measurement losses in the reporting period.

General and administrative expenses exceeded the prior-year period's level slightly and stood at €1,310 million (+3.1%).

Net other operating income was very strongly above the prior-year period at €117 million (+62.5%), particularly reflecting a positive impact from foreign currency measurement (other than hedges).

The share of profits and losses of equity accounted joint ventures amounted to €58 (39) million.

The other financial result of €–1 (–18) million and the other components of profit or loss led to profit after tax for the Volkswagen Financial Services AG Group of €526 million, which represented a year-on-year decrease (–60.9%).

NET ASSETS AND FINANCIAL POSITION

Unless otherwise stated, the disclosures on net assets and financial position relate to the changes compared with the balance sheet date of December 31, 2022.

Lending Business

The total assets of Volkswagen Financial Services AG rose by €4.8 billion to €138.2 billion.

At €125.8 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Financial Services AG Group – accounted for approximately 91% of the Group's total assets.

The volume of retail financing lending decreased by €0.5 billion to €23.5 billion (–1.9%).

The number of new contracts was 466 thousand (+3.1% compared with the figure for the first half of 2022). The number of current contracts decreased to 2,491 thousand (–2.1%).

The lending volume in dealer financing – which comprises loans to and receivables from Group dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – increased to €6.3 billion (+13.4%).

Receivables from leasing transactions were noticeably above the prior-year level at €43.4 billion (+5.2%). Lease assets recorded growth of €1.4 billion to €36.3 billion (4.0%).

A total of 731 thousand new leasing contracts were signed in the reporting period, clearly surpassing the figure for the first half of 2022 (+14.8%). The number of leased vehicles as of June 30, 2023, was 3,810 thousand, a year-on-year increase of 0.6%. As in previous years, the largest contribution came from Volkswagen Leasing GmbH, which had a contract portfolio of 1,822 (1,834) thousand lease vehicles.

The number of service and insurance contracts as of June 30, 2023 was 9,559 (9,755) thousand. The total of 1,800 thousand new contracts was above the figure for the first half of 2022 (+8.0%).

The German companies continued to account for the highest business volumes with 30.8% of all current contracts.

KEY FIGURES BY SEGMENT AS OF JUNE 30, 2023

in thousands	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other companies ¹	VW FS AG Group
Current contracts	4,890	2,003	596	1,161	756	527	5,927	15,859
Retail financing	1	8	80	1,160	390	143	708	2,491
of which: consolidated	1	8	80	1,160	390	143	417	2,200
Leasing business	1,725	962	125	1	61	45	889	3,810
of which: consolidated	1,725	962	125	–	–	45	569	3,427
Service/insurance	3,163	1,032	390	–	305	338	4,331	9,559
of which: consolidated	3,163	1,032	217	–	205	338	2,510	7,465
New contracts	875	445	90	204	212	117	1,055	2,997
Retail financing	0	7	15	204	84	27	128	466
of which: consolidated	0	7	15	204	84	27	76	414
Leasing business	319	200	19	0	29	10	153	731
of which: consolidated	319	200	19	–	9	10	97	654
Service/insurance	556	238	55	–	98	79	774	1,800
of which: consolidated	556	238	29	–	67	79	428	1,396
€ million								
Loans to and receivables from customers attributable to								
Retail financing	–	249	896	9,055	5,638	1,424	6,191	23,453
Dealer financing	12	0	164	982	635	535	3,948	6,276
Leasing business	19,675	17,360	1,093	1	7	607	4,654	43,397
Lease assets	24,336	3,606	1,784	1	0	108	6,505	36,340
Investment ²	5,281	930	292	1	–	6	1,334	7,844
Operating result	215	245	55	135	43	73	2	768
Percent								
Penetration ³	54.5%	45.6%	47.6%	11.4%	46.3%	41.2%	23.0%	26.6%
of which: consolidated	54.5%	45.6%	47.6%	11.4%	37.5%	41.2%	15.0%	24.1%

¹ The Other Companies segment covers the following markets: Australia, Belgium, the Czech Republic, France, India, Ireland, Italy, Japan, Korea, Luxembourg, Poland, Portugal, Russia and Spain. Relating to the number of contracts and penetration, it also covers the following markets: Argentina, the Netherlands, Norway, Switzerland, South Africa, Taiwan and Turkey. It also includes the Volkswagen Financial Services AG holding company, the holding and financing companies in Belgium and the Netherlands, the EURO--Leasing companies in Denmark and Germany, Volkswagen Insurance Brokers GmbH, Volkswagen Versicherung AG, Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi--Händlerbetriebe mbH and consolidation effects.

² Corresponds to additions to lease assets classified as noncurrent assets.

³ Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles

Deposit Business and Borrowings

The significant liability items were liabilities to banks in the amount of €18.0 billion (+4.1%), liabilities to customers amounting to €28.3 billion (+16.7%) and notes and commercial paper issued amounting to €62.8 billion (–0.4%)

Equity

The subscribed capital remained unchanged at €441 million in the reporting period. Equity in accordance with IFRSs was €18.0 (17.6) billion. This resulted in an equity ratio of 13.0% based on total assets of €138.2 billion.

Report on Opportunities and Risks

The Board of Management of Volkswagen Financial Services AG anticipates that, amid challenging market conditions, deliveries to customers of the Volkswagen Group in 2023 will stand between 9 million and 9.5 million vehicles. This assumes that the shortages of intermediates and commodities and the bottlenecks in logistics will become less intense. Challenges will arise in particular from the economic situation, the increasing intensity of competition, volatile commodity, energy and foreign exchange markets, and more stringent emissions-related requirements.

The global economic trend is currently being shaped by factors such as geopolitical tensions. Global economic growth will also depend to a large extent on how inflation develops in various currency areas. A further increase in interest rates in the various currency areas is quite possible given the inflation situation. This, in turn, could impact negatively on consumption and the investment climate.

This tense macroeconomic environment could also give rise to opportunities for Volkswagen Financial Services AG if actual trends turn out to be better than the forecast.

In addition to maintaining its international focus by tapping into new markets, Volkswagen Financial Services AG believes that developing innovative products that are tailored to customers' changing mobility requirements offers additional opportunities. Growth areas such as mobility products and service offerings are being systematically developed and expanded. Further opportunities may be created by launching established products in new markets.

Volkswagen Financial Services AG expects to be presented with opportunities arising from the digitalization of its business. The aim is to make all key products also available online around the world and to expand the Company's role as the Volkswagen Group's central mobility platform provider, thereby enabling it to enhance efficiency. By expanding digital sales channels, Volkswagen Financial Services AG is promoting direct sales to complement its dealership business. Changing customer needs are thus addressed and the competitive position of Volkswagen Financial Services AG reinforced.

In the reporting period, there were no material changes to the details regarding the Internal Control System and Internal Risk Management System set out in the report on opportunities and risks in the 2022 Annual Report.

Human Resources Report

Volkswagen Financial Services AG had 11,240 active employees worldwide as of June 30, 2023. In addition to the active workforce, Volkswagen Financial Services AG had 178 vocational trainees and 131 employees who had reached the passive phase of their partial retirement agreements. The total number of employees at Volkswagen Financial Services AG as of June 30, 2023 was therefore 11,549. Currently, 5,949 people are employed in Germany.

Owing to economic considerations, 239 employees of Volkswagen Servicios S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

Report on Expected Developments

Our planning is based on the assumption that global economic output will grow overall in 2023 albeit at a slower pace. The persistently high inflation in many regions and the resulting restrictive monetary policy measures taken by central banks are expected to increasingly dampen consumer spending. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, continuing geopolitical tensions and conflicts are weighing on growth prospects; risks continue to be associated with the Russia-Ukraine conflict. Furthermore, it cannot be ruled out that risks may also arise if new variants of the SARS-CoV-2 virus occur, particularly with regard to regional outbreaks and the measures associated with these. We assume that both the advanced economies and the emerging markets will show positive momentum on average, but with below-average growth in gross domestic product (GDP).

The trend in the automotive industry closely follows global economic developments. We assume that competition in the international automotive markets will intensify further. Uncertainty may arise from the continued shortage of intermediates and commodities. This may be further exacerbated by the fallout from the Russia-Ukraine conflict and, in particular, lead to rising prices and a declining availability of energy.

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2023. Overall, the global volume of new car sales is expected to be noticeably higher than in the previous year. For 2023, we anticipate that the volume of new passenger car registrations in Western Europe will be significantly above that recorded in the previous year. In the German passenger car market, we predict a noticeable increase in the volume of new registrations in 2023 compared with the previous year. Sales of passenger cars in 2023 are expected to significantly exceed the prior-year figures in markets in Central and Eastern Europe – subject to the further development of the Russia-Ukraine conflict. The volume of sales in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America in 2023 is forecast to be significantly higher than the level seen the previous year. We anticipate that new registrations in the South American markets in 2023 will be on a level with the previous year. The passenger car markets in the Asia-Pacific region are expected to be noticeably up on the prior-year level in 2023.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed; on the whole, we expect a significant increase in the sales volume for 2023.

For 2023, we expect to see a noticeable upwards trend in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year in the markets that are relevant for the Volkswagen Group, with variations from region to region. A significant increase in overall demand is anticipated for 2023 in the bus markets relevant for the Volkswagen Group, whereby this will vary depending on the region.

We assume that automotive financial services will prove highly important to global vehicle sales in 2023.

Forecasting the interest rate risk at Group level is only possible to a limited extent. As a result of the current crises, interest rates are rising across the main financial markets. We expect interest rates in the eurozone to also rise slightly by the end of the year. Interest rate risk is monitored continuously. Potential changes in interest rates are simulated if necessary to determine their effect on profits.

The other significant types of risk are continuously monitored, particularly in light of current economic and political developments. The current rises in prices, primarily for energy and other commodities, and the bottle necks in global supply chains will also remain the biggest challenges going forward.

It is anticipated that new business will perform better in the second half of the year than in the first as a result of higher vehicle deliveries.

The penetration rate will probably be noticeably above the prior-year level. New contracts and business volume are expected to rise noticeably year-on-year. The volume of current contracts at the end of the year will remain at the prior-year level.

Due to the shortage of semiconductors, fiscal year 2022 was affected by the particularly positive development in the marketing of used vehicles. By contrast, business is expected to normalize again in 2023 as vehicle deliveries rise. It is also assumed that funding costs will increase very strongly as a result of the general rise in interest rates and net interest income will be in line with the prior-year figure despite growth in business.

Against this backdrop, the operating result for fiscal year 2023 is projected to be down drastically as compared with the prior-year figure.

The forecast earnings performance and stable capital adequacy will probably result in a return on equity in 2023 that is drastically below the prior-year's level. It is likely that there will be a very strong year-on-year rise in the cost/income ratio in 2023.

This report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to changes in the economic, political and legal environment in individual countries, economic regions and markets, in particular for financial services and the automotive industry; these assumptions have been made on the basis of the information available and Volkswagen Financial Services AG currently considers them to be realistic. The estimates given entail a degree of risk, and actual developments may differ from those forecast. If material parameters relating to key sales markets vary from the assumptions, or material changes arise from the exchange rates, energy or other commodities or supply of parts relevant to the Volkswagen Group, the performance of the business will be affected accordingly. In addition, expected business performance may vary if the key performance indicators and risks and opportunities presented in the 2022 Annual Report turn out to be different from current expectations, or additional risks and opportunities or other factors emerge that affect the development of the business.

Income Statement

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – June 30, 2023	Jan. 1 – June 30, 2022 restated ¹	Change in percent
Interest income from lending transactions and marketable securities		1,486	1,120	32.7
Income from leasing transactions		12,087	10,647	13.5
Depreciation, impairment losses and other expenses from leasing transactions		-9,419	-8,380	12.4
Net income from leasing transactions		2,668	2,267	17.7
Interest expense		-2,135	-807	X
Income from service contracts		1,289	1,188	8.5
Expenses from service contracts		-1,189	-1,054	12.8
Net income from service contracts		101	134	-24.6
Income from insurance transactions		144	138	4.3
Expenses from insurance transactions		-62	-77	-19.5
Net income from insurance business		81	61	32.8
Provision for credit risks		-187	-453	-58.7
Fee and commission income		308	263	17.1
Fee and commission expenses		-284	-269	5.6
Net fee and commission income		23	-6	X
Net gain or loss on hedges		-11	-21	-47.6
Net gain/loss on financial instruments measured at fair value		-67	648	X
Net gain/loss on derecognition of financial assets measured at amortized cost		3	-	X
General and administrative expenses	1	-1,310	-1,271	3.1
Other operating income		584	471	24.0
Other operating expenses		-467	-399	17.0
Net other operating income/expenses		117	72	62.5
Operating result		768	1,742	-55.9
Share of profits and losses of equity-accounted joint ventures		58	39	48.7
Net gain/loss on miscellaneous financial assets		-30	-1	X
Other financial gains or losses		-1	-18	-94.4
Profit before tax		796	1,763	-54.8
Income tax expense		-270	-417	-35.3
Profit after tax		526	1,346	-60.9
Profit after tax attributable to noncontrolling interests		0	0	0.0
Profit after tax attributable to Volkswagen AG		526	1,346	-60.9
German GAAP profit/loss attributable to Volkswagen AG in the event of loss absorption/profit transfer.		-27	-296	-90.9

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

Statement of Comprehensive Income

of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – June 30, 2023	Jan. 1 – June 30, 2022 restated ¹
Profit after tax	526	1,346
Pension plan remeasurements recognized in other comprehensive income	–	–
Pension plan remeasurements recognized in other comprehensive income, before tax	–4	299
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	1	–89
Pension plan remeasurements recognized in other comprehensive income, net of tax	–3	209
Fair value valuation of equity instruments that will not be reclassified to profit or loss, net of tax	–	–
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	0	0
Items that will not be reclassified to profit or loss	–3	209
Exchange differences on translating foreign operations	–	–
Gains/losses on currency translation recognized in other comprehensive income	–53	327
Transferred to profit or loss	–	–
Exchange differences on translating foreign operations, before tax	–53	327
Deferred taxes relating to exchange differences on translating foreign operations	–	–
Exchange differences on translating foreign operations, net of tax	–53	327
Hedging transactions	–	–
Fair value changes recognized in other comprehensive income (OCI I)	48	67
Transferred to profit or loss (OCI I)	–103	–45
Cash flow hedges (OCI I), before tax	–55	22
Deferred taxes relating to cash flow hedges (OCI I)	26	–10
Cash flow hedges (OCI I), net of tax	–29	12
Fair value changes recognized in other comprehensive income (OCI II)	–	–
Transferred to profit or loss (OCI II)	–	–
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 debt instruments that may be reclassified to profit or loss	–	–
Fair value changes recognized in other comprehensive income	1	–15
Transferred to profit or loss	–	0
Fair value valuation of debt instruments that may be reclassified to profit or loss, before tax	1	–15
Deferred taxes relating to fair value valuation of debt instruments that may be reclassified to profit and loss	0	5
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax	1	–11
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	–55	–25
Items that may be reclassified to profit or loss	–136	304
Other comprehensive income, before tax	–166	608
Deferred taxes relating to other comprehensive income	27	–95
Other comprehensive income, net of tax	–139	513
Total comprehensive income	387	1,859
Total comprehensive income attributable to noncontrolling interests	0	1
Total comprehensive income attributable to Volkswagen AG	387	1,858

¹ Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

Balance Sheet

of the Volkswagen Financial Services AG Group

€ million	Note	June 30, 2023	Dec. 31, 2022 restated ¹	Change in percent
Assets				
Cash reserve		2	2	0.0
Loans to and receivables from banks		3,926	3,406	15.3
Loans to and receivables from customers attributable to				
Retail financing		23,453	23,907	-1.9
Dealer financing		6,276	5,536	13.4
Leasing business		43,397	41,235	5.2
Other loans and receivables		16,375	16,177	1.2
Total loans to and receivables from customers		89,501	86,855	3.0
Value adjustment on portfolio fair value hedges		-195	-156	25.0
Derivative financial instruments		1,710	1,488	14.9
Marketable securities		284	268	6.0
Equity-accounted joint ventures		640	722	-11.4
Miscellaneous financial assets		677	626	8.1
Intangible assets	2	110	105	4.8
Property and equipment	2	372	364	2.2
Lease assets	2	36,340	34,927	4.0
Investment property		69	71	-2.8
Deferred tax assets		1,173	1,226	-4.3
Current tax assets		255	278	-8.3
Other assets		3,181	2,607	22.0
Assets held for sale (IFRS 5)		171	577	-70.4
Total		138,215	133,367	3.6

¹ Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

€ million	Note	June 30, 2023	Dec. 31, 2022 restated ¹	Change in percent
Equity and Liabilities				
Liabilities to banks		17,956	17,242	4.1
Liabilities to customers		28,256	24,219	16.7
Notes, commercial paper issued		62,814	63,078	-0.4
Derivative financial instruments		2,722	2,424	12.3
Provisions for pensions and other post-employment benefits		297	291	2.1
Underwriting provisions and other provisions		946	983	-3.8
Deferred tax liabilities		930	980	-5.1
Current tax liabilities		721	767	-6.0
Other liabilities		2,499	2,388	4.6
Subordinated capital		2,960	2,909	1.8
Liabilities associated with assets held for sale (IFRS 5)		92	478	-80.8
Equity		18,021	17,607	2.4
Subscribed capital		441	441	-
Capital reserves		2,816	2,816	-
Retained earnings		16,012	15,462	3.6
Other reserves		-1,251	-1,115	12.2
Equity attributable to noncontrolling interests		2	3	-33.3
Total		138,215	133,367	3.6

¹ Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

Statement of Changes in Equity

of the Volkswagen Financial Services AG Group

€ million	OTHER RESERVES										Total equity
	Subscribed capital	Capital reserves	Retained earnings	Currency translation	Hedging transactions		Equity and debt instruments	Equity-accounted investments	Non-controlling interests		
					Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)					
Balance as of Jan. 1, 2022 before corrections	441	2,816	12,148	-908	9	-	2	-77	2	14,433	
Adjustments due to accounting changes in accordance with IFRS 17 ¹	-	-	-39	-	-	-	-	1	-	-39	
Balance as of Jan. 1, 2022 after corrections	441	2,816	12,109	-908	9	-	2	-76	2	14,395	
Profit after tax ¹	-	-	1,346	-	-	-	-	-	0	1,346	
Other comprehensive income, net of tax ¹	-	-	209	326	12	-	-11	-25	1	513	
Total comprehensive income¹	-	-	1,555	326	12	-	-11	-25	1	1,859	
Capital increases	-	-	-	-	-	-	-	-	-	-	
Other changes ²	-	-	-113	-	-	-	-	-	-	-113	
As of June 30, 2022¹	441	2,816	13,552	-582	21	-	-9	-101	3	16,141	
As of Jan. 1, 2023	441	2,816	15,462	-1,028	-9	-	-14	-64	3	17,607	
Profit after tax	-	-	526	-	-	-	-	-	0	526	
Other comprehensive income, net of tax	-	-	-3	-53	-29	-	1	-55	-1	-139	
Total comprehensive income	-	-	523	-53	-29	-	1	-55	0	387	
Capital increases	-	-	-	-	-	-	-	-	-	-	
Other changes ³	-	-	27	-	-	-	-	-	-	27	
As of June 30, 2023	441	2,816	16,012	-1,081	-39	-	-13	-119	2	18,021	

¹ Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

² Includes German GAAP (HGB) profit/loss attributable to Volkswagen AG in the event of loss absorption/profit transfer and effects of full consolidation of Volkswagen Mobility Services S.p.A., Bolzano.

³ Includes German GAAP (HGB) profit/loss attributable to Volkswagen AG in the event of loss absorption/profit transfer.

Cash Flow Statement

of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – June 30, 2023	Jan. 1 – June 30, 2022 restated ¹
Profit before tax	796	1,763
Depreciation, amortization, impairment losses and reversals of impairment losses	2,798	2,617
Change in provisions	-44	-337
Change in other noncash items	-174	1,084
Loss on disposal of financial assets and items of property and equipment	0	1
Net interest expense and dividend income	-738	-1,211
Other adjustments	0	-1
Change in loans to and receivables from banks	-561	1,564
Change in loans to and receivables from customers	-4,368	-1,495
Change in lease assets	-4,105	-3,650
Change in other assets related to operating activities	-605	141
Change in liabilities to banks	941	2,010
Change in liabilities to customers	3,815	3,541
Change in notes, commercial paper issued	-335	-5,280
Change in other liabilities related to operating activities	85	-42
Interest received	2,860	2,017
Dividends received	13	2
Interest paid	-2,135	-807
Income taxes paid	-254	-301
Cash flows from operating activities	-2,012	1,616
Proceeds from disposal of investment property	-	-
Acquisition of investment property	-	-
Proceeds from disposal of subsidiaries and joint ventures	1	33
Acquisition of subsidiaries and joint ventures	-85	-54
Proceeds from disposal of other assets	3	10
Acquisition of other assets	-30	-20
Change in investments in marketable securities	-12	20
Cash flows from investing activities	-123	-12
Proceeds from changes in capital	-	-
Distribution to Volkswagen AG	-	-400
Profit transferred to/loss assumed by Volkswagen AG	1,697	-771
Change in cash funds attributable to subordinated capital	36	-71
Repayment of liabilities arising from leases	-18	-11
Cash flows from financing activities	1,714	-1,253
Cash and cash equivalents at end of prior period	560	33
Cash flows from operating activities	-2,012	1,616
Cash flows from investing activities	-123	-12
Cash flows from financing activities	1,714	-1,253
Effect of exchange rate changes	-87	130
Cash and cash equivalents at end of period²	52	515

¹ Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

² The cash reserve contains cash and cash equivalents attributable to the disposal group.

Notes to the Interim Consolidated Financial Statements

of the Volkswagen Financial Services AG Group as of June 30, 2023

General Information

Volkswagen Financial Services Aktiengesellschaft (VW FS AG) has the legal structure of a stock corporation. It has its registered office at Gifhorner Strasse, Braunschweig, and is registered in the Braunschweig commercial register (HRB 3790).

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

Basis of Presentation

VW FS AG prepared its consolidated financial statements for the year ended December 31, 2022 in accordance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) and also 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, 2023 have therefore also been prepared in accordance with IAS 34 and represent a condensed version compared with the full consolidated financial statements. These interim financial statements have not been reviewed by an auditor.

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

Accounting Policies

VWFS AG has applied all financial reporting standards adopted by the EU which are subject to mandatory application starting January 1, 2023.

The discount rate applied to German pension provisions reported in these interim consolidated financial statements was 3.6% (December 31, 2022: 3.7%). The decrease in the discount rate led to an increase of the pension provisions, the associated deferred taxes and the actuarial losses on pension provisions recognized in equity under retained earnings. The income tax expense for the interim consolidated financial statements is calculated in accordance with IAS 34 (Interim Financial Reporting) using the average tax rate anticipated for the entire fiscal year. Some countries in which the Volkswagen Group operates have introduced statutory provisions governing minimum taxation in accordance with the OECD guidelines establishing a new global minimum taxation regime. In line with the amendments to IAS 12 adopted by the IASB in May 2023, the Volkswagen Group does not take into account the potential effects of those provisions on deferred taxes.

Otherwise, the same consolidation methods and accounting policies as those applied in the 2022 consolidated financial statements have generally been used in the preparation of the interim consolidated financial statements and the calculation of the prior-year comparative figures. A detailed description of

these methods and policies was published in the notes to the consolidated financial statements in the 2022 Annual Report.

In addition, the effects of new standards were described in detail under “New and Revised IFRSs Not Applied”. The 2022 Consolidated Financial Statements can also be accessed on the internet at www.vwfs.com/arvwfsag22.

IFRS 17 INSURANCE CONTRACTS

IFRS 17 revises the requirements for insurance contract accounting. In the VW FS AG Group, IFRS 17 is being applied for the first time as of January 1, 2023 and affects insurance and reinsurance contracts. The transition was made applying the fully retrospective approach, unless this was impracticable. This was the case when not all the necessary historical information was available without undue cost or effort, especially for multi-year contracts. In these cases, the VW FS AG Group generally applies the modified retrospective approach.

Measurement is carried out at the level of portfolios, which have to be disaggregated based on their profitability, into contracts entered into per quarter and further into specific measurement groups. They are measured on the basis of expected future discounted cash flows and a risk component plus a contractual service margin. For groups of insurance contracts categorized as profitable at the date of initial recognition, the expected profit is recognized in this service margin and realized over the coverage period as services are provided. Insurance contract accounting under IFRS 17 is based solely on the general measurement model. It is mandatory to discount claims reserves. A risk adjustment for nonfinancial risk must also be applied.

Net of deferred taxes, initial application results in a change in equity of €–18 million as of January 1, 2023 and €–38 million as of January 1, 2022. This is due mainly to the change to the system used to determine insurance business provisions.

In addition, the netting of cash flows in measuring the amount of provisions likewise leads to a reduction in insurance business assets and provisions.

The change to the system used to recognize income and expenses has no significant effect on the income statement.

The comparative period was adjusted accordingly.

Effects of the Russia-Ukraine Conflict

The start of the Russia-Ukraine conflict in February 2022 led not only to a humanitarian crisis but also brought market upheaval around the world. There have been substantial price rises, particularly on the energy and commodity markets, and significant increases in interest and inflation rates have been observed internationally. There were some signs of normalization in the markets in the first half of fiscal year 2023.

The financial services activities of the VW FS AG Group in Russia were negatively affected by the Russia-Ukraine conflict and the impact of the international sanctions. Volkswagen’s decision to suspend vehicle production in Russia affected new financial services business in the country in particular.

As of June 30, 2023, Volkswagen Financial Services AG’s subsidiaries in Russia were still classified as a disposal group in accordance with IFRS 5 (see “Disposal Groups Held for Sale (IFRS 5)”).

Basis of Consolidation

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

The following changes were made to the basis of consolidation in the reporting period:

Together with Sopra Steria SE, Hamburg, Volkswagen Financial Services AG established, the joint venture MyDigitalCar GmbH in Braunschweig. The company operates a digital vehicle-registration platform for Germany. For reasons of materiality, the 50% interest is not accounted for using the equity method.

In connection with the planned restructuring of the Volkswagen Financial Services Group, Volkswagen Financial Services AG established the subsidiary Volkswagen Finance Europe B.V., Amsterdam, Netherlands. As of the reporting date, the company was not yet consolidated.

EURO-Leasing GmbH, a subsidiary of Volkswagen Financial Services AG, acquired 100% of the shares in an off-the-shelf company. Renamed Euromobil GmbH, the company is to take over EURO-Leasing GmbH's passenger car business in the second half of 2023. As of the reporting date, the subsidiary was stated at cost.

The unconsolidated Chinese subsidiary Volkswagen Leasing (Suzhou) Co., Ltd., Suzhou, was liquidated in the current fiscal year.

Disposal Groups Held for Sale (IFRS 5)

As of June 30, 2023, consolidated subsidiaries OOO Volkswagen Bank RUS, Moscow/Russia, OOO Volkswagen Group Finanz, Moscow/Russia and OOO Volkswagen Financial Services RUS, Moscow/Russia were still classified as a disposal group held for sale and presented separately in the balance sheet in the line items "Assets held for sale (IFRS 5)" and "Liabilities associated with assets held for sale (IFRS 5)" in accordance with IFRS 5. It is currently expected that the sale plan can be completed in the second half of 2023. The main groups of assets classified as held for sale and liabilities of the disposal group described are presented below:

€ million	Jun 30, 2023	Dec. 31, 2022
Financial assets	55	562
Miscellaneous assets	10	15
Assets held for sale (IFRS 5)	65	577
Financial liabilities	33	465
Miscellaneous liabilities	10	13
Liabilities associated with assets held for sale (IFRS 5)	43	478

In addition, the passenger car business of the consolidated subsidiary EURO-Leasing GmbH, Sittensen, was classified as a disposal group held for sale as of June 30, 2023 in accordance with the provisions of IFRS 5. After resolutions were passed by the responsible bodies in the first half of 2023, the sale plan is expected to be completed in the second half of 2023. Under the sale plan, the passenger car business will first be spun off into a wholly owned subsidiary of EURO-Leasing GmbH and that subsidiary then sold pro rata. The disposal group as a whole is subject to the measurement provisions of IFRS 5 because it contains assets that fall within the scope of IFRS 5. Measurement of the disposal group at the lower of the carrying amount and fair value less costs to sell did not result in the recognition of an impairment loss. Figures for the disposal group are reported on the balance sheet in the separate balance sheet items “Assets held for sale (IFRS 5)” and “Liabilities associated with assets held for sale (IFRS 5)”. The main groups of assets classified as held for sale and liabilities of the disposal group are presented below:

€ million	Jun 30, 2023
Financial assets	49
Lease Assets	46
Miscellaneous assets	12
Assets held for sale (IFRS 5)	107
Financial liabilities	46
Miscellaneous liabilities	3
Liabilities associated with assets held for sale (IFRS 5)	49

The disposal group is not presented as a separate IFRS 8 operating segment. The disposal group is instead included in segment reporting under “Germany”.

Interim Consolidated Financial Statements Disclosures

1. General and Administrative Expenses

The breakdown of general and administrative expenses is shown in the following table:

€ million	Jan. 1 – June 30, 2023	Jan. 1 – June 30, 2022 restated ¹
Personnel expenses	-578	-534
Non-staff operating expenses	-666	-676
Advertising, public relations and sales promotion expenses	-29	-28
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	-35	-32
Other taxes	-9	-7
Income from the reversal of provisions and accrued liabilities	6	6
Total	-1,310	-1,271

¹ Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

2. Changes in Selected Assets

€ million	Net carrying amount as of January 1, 2023	Basis of consolidation addi- tions/changes	Disposals/other changes	Depr./amort./ impairment	Net carrying amount as of June 30, 2023
Intangible assets	105	16	0	12	110
Property and equipment	364	42	-11	23	372
Lease assets	34,927	10,548	-6,419	2,717	36,340

3. Classes of Financial Instruments

Financial instruments are divided into the following classes in the VW FS AG 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 relevant balance sheet items to the classes of financial instruments:

€ million	CLASS OF FINANCIAL INSTRUMENTS											
	BALANCE SHEET ITEM		MEASURED AT AMORTIZED COST ²		MEASURED AT FAIR VALUE		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT ALLOCATED TO ANY MEASUREMENT CATEGORY		NOT ALLOCATED TO ANY CLASS OF FINANCIAL INSTRUMENTS	
	June 30, 2023	Dec. 31, 2022 restated ¹	June 30, 2023	Dec. 31, 2022 restated ¹	June 30, 2023	Dec. 31, 2022	June 30, 2023	Dec. 31, 2022	June 30, 2023	Dec. 31, 2022	30.6.2023	Dec. 31, 2022 restated ¹
Assets												
Cash reserve	2	2	2	2	-	-	-	-	-	-	-	-
Loans to and receivables from banks	3,926	3,406	3,926	3,406	-	-	-	-	-	-	-	-
Loans to and receivables from customers	89,501	86,855	45,957	45,418	146	202	-	-	43,397	41,235	1	0
Value adjustment on portfolio fair value hedges	-195	-156	-	-	-	-	-	-	-195	-156	-	-
Derivative financial instruments	1,710	1,488	-	-	726	531	984	957	-	-	-	-
Marketable securities	284	268	-	-	284	268	-	-	-	-	-	-
Miscellaneous financial assets	677	626	-	-	0	0	-	-	-	-	677	626
Current tax assets	255	278	14	64	-	-	-	-	-	-	241	214
Other assets	3,181	2,607	994	824	-	-	-	-	-	-	2,187	1,783
Assets held for sale (IFRS 5)	171	577	104	562	-	-	-	-	0	0	67	15
Total	99,512	95,951	50,997	50,276	1,156	1,002	984	957	43,202	41,079	3,173	2,638
Equity and liabilities												
Liabilities to banks	17,956	17,242	17,956	17,242	-	-	-	-	-	-	-	-
Liabilities to customers	28,256	24,219	26,015	22,139	-	-	-	-	160	152	2,081	1,928
Notes, commercial paper issued	62,814	63,078	62,814	63,078	-	-	-	-	-	-	-	-
Derivative financial instruments	2,722	2,424	-	-	618	418	2,104	2,005	-	-	-	-
Current tax liabilities	721	767	417	502	-	-	-	-	-	-	304	265
Other liabilities	2,499	2,388	240	225	-	-	-	-	-	-	2,259	2,163
Subordinated capital	2,960	2,909	2,960	2,909	-	-	-	-	-	-	-	-
Liabilities associated with assets held for sale (IFRS 5)	92	478	78	463	-	-	-	-	2	1	13	13
Total	118,021	113,505	110,481	106,558	618	418	2,104	2,005	162	153	4,656	4,370

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

2 Loans to and receivables from customers, liabilities to customers and notes, commercial paper issued contain underlying transactions of fair value hedges.

The “Credit commitments and financial guarantees” class contains obligations under irrevocable credit commitments and financial guarantees amounting to €1,360 million (December 31, 2022: €1,507 million).

4. Fair Value Disclosures

The principles and methods of fair value measurement have generally remained unchanged compared with those applied in the previous year. Detailed disclosures on the measurement principles and methods can be found in the 2022 Annual Report.

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

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

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

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

The fair values of loans to and receivables from customers are allocated to Level 3 because these fair values are measured using inputs that are not observable in active markets. An equity investment measured at fair value through other comprehensive income and using inputs that are not observable in the market are also reported under Level 3. The main inputs used to measure this equity investment are strategic planning and cost of equity rates.

Level 3 also includes the fair values of separately recognized derivatives in connection with early termination rights embedded in finance leases. Inputs for determining the fair value of derivatives in connection with the risk of early termination are forecasts and estimates of used vehicle residual values for the models concerned as well as yield curves.

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:

€ million	LEVEL 1		LEVEL 2		LEVEL 3	
	June 30, 2023	Dec. 31, 2022	June 30, 2023	Dec. 31, 2022	June 30, 2023	Dec. 31, 2022
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	146	202
Derivative financial instruments	–	–	726	531	–	–
Marketable securities	210	196	75	73	–	–
Miscellaneous financial assets	–	–	–	–	0	0
Derivative financial instruments designated as hedges	–	–	984	957	–	–
Total	210	196	1,785	1,560	146	202
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	537	334	81	84
Derivative financial instruments designated as hedges	–	–	2,104	2,005	–	–
Total	–	–	2,641	2,339	81	84

The following table shows the changes in the loans to and receivables from customers and equity investments measured at fair value and allocated to Level 3.

€ million	Jan. 1 – June 30, 2023	Jan. 1 – June 30, 2022
Balance as of Jan. 1	202	316
Foreign exchange differences	–8	12
Changes in basis of consolidation	–	–
Portfolio changes	–48	–44
Measured at fair value through profit or loss	0	–11
Measured at fair value through other comprehensive income	–	–
Balance as of June 30	146	272

The amounts recognized in profit or loss for loans to and receivables from customers resulting in a net gain of €0 million (previous year: net loss of €11 million) have been reported in the income statement under the item “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”. Of the amounts recognized in profit or loss, a net gain of €0 million (previous year: net loss of €11 million) was attributable to loans to and receivables from banks and loans to and receivables from customers held as of the reporting date.

The risk variables relevant to the fair value of the loans to and receivables from customers are risk-adjusted interest rates.

A sensitivity analysis is used to quantify the impact from changes in risk adjusted interest rates on profit or loss after tax.

If risk-adjusted interest rates as of June 30, 2023 had been 100 basis points higher, profit after tax would have been €6 million (previous year: €8 million) lower. If risk-adjusted interest rates as of June 30, 2023 had been 100 basis points lower, profit after tax would have been €4 million (previous year: €4 million) higher.

The risk variables relevant to the fair value of the equity investment 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 investment measured at fair value through other comprehensive income, there would be no material change to equity.

The following table shows the change in derivatives measured at fair value based on Level 3 measurement.

€ million	Jan. 1 – June 30, 2023	Jan. 1 – June 30, 2022
Balance as of Jan. 1	84	132
Foreign exchange differences	3	–3
Changes in basis of consolidation	–	–
Portfolio changes	–	–
Measured at fair value through profit or loss	–6	–36
Measured at fair value through other comprehensive income	–	–
Balance as of June 30	81	93

The amounts recognized in profit or loss resulting in a net loss of €6 million (previous year: net loss of €36 million) have been reported in the income statement under the item “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”. Of the remeasurements recognized in profit or loss, a net gain of €–6 million (previous year: net gain of €–36 million) was attributable to derivatives held as of the reporting date.

Early termination rights can arise from country-specific consumer protection legislation, under which customers may have the right to return used vehicles for which a lease has been signed. The impact on earnings arising from market-related fluctuations in residual values and interest rates is borne by the VW FS AG Group. The market prices of used vehicles are the main risk variable applied to the fair value of derivatives recognized in connection with the risk of early termination. A sensitivity analysis is used to quantify the impact of changes in used vehicle prices on profit or loss after tax. If the used vehicle prices of the vehicles included in the derivatives in connection with the risk of early termination had been 10% higher as of the reporting date, profit after tax would have been €38 million (previous year: €47 million) higher. If the used vehicle prices of the vehicles included in the derivatives in connection with the risk of early termination had been 10% lower as of the reporting date, profit after tax would have been €70 million (previous year: €85 million) lower.

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

€ million	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
	June 30, 2023	Dec. 31, 2022	June 30, 2023	Dec. 31, 2022	June 30, 2023	Dec. 31, 2022
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	146	202	146	202	–	–
Derivative financial instruments	726	531	726	531	–	–
Marketable securities	284	272	284	272	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	2	2	2	2	–	–
Loans to and receivables from banks	3,921	3,401	3,926	3,406	–4	–5
Loans to and receivables from customers	46,178	45,493	45,957	45,418	221	75
Current tax assets	14	64	14	64	–	–
Other assets	994	824	994	824	–	–
Assets held for sale (IFRS 5)	104	562	104	562	–	–
Derivative financial instruments designated as hedges	984	957	984	957	–	–
Not allocated to any measurement category						
Loans to and receivables from customers	42,231	40,280	43,397	41,235	–1,166	–954
Change in fair value from portfolio fair value hedges	–	–	–195	–156	195	156
Assets held for sale (IFRS 5)	–	0	–	0	–	–
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	618	418	618	418	–	–
Measured at amortized cost						
Liabilities to banks	17,934	17,203	17,956	17,242	–22	–39
Liabilities to customers	25,892	21,935	26,015	22,139	–123	–204
Notes, commercial paper issued	62,884	63,172	62,814	63,078	70	94
Current tax liabilities	417	502	417	502	–	–
Other liabilities	240	225	240	225	–0	–0
Subordinated capital	2,054	1,917	2,960	2,909	–907	–992
Liabilities associated with assets held for sale (IFRS 5)	80	463	80	463	–	–
Derivative financial instruments designated as hedges	2,104	2,005	2,104	2,005	–	–

The difference between the carrying amount and fair value 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. Segment Reporting

The delineation between segments follows that used for internal management and reporting purposes in the VW FS AG Group. As the primary key performance indicator, the operating result is reported to the chief operating decision-makers. The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting.

Internal management applies a market-based geographical breakdown. Foreign branches of German subsidiaries are allocated to the markets in which they are based. The geographical markets of Germany, the United Kingdom, Sweden, China, Brazil and Mexico are the segments that are subject to reporting requirements under IFRS 8. Subsidiaries in the VW FS AG Group are aggregated within these segments. In line with internal reporting practice, the German market is composed of companies in Germany, Austria and Denmark. All other companies that can be allocated to geographical markets are brought together under “Other Segments”.

Companies that are not allocated to any geographical market are reported in the reconciliation. The reconciliation also includes the VW FS AG holding company, the holding and financing companies in the Netherlands and Belgium, Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Volkswagen Insurance Brokers GmbH and Volkswagen Versicherung AG. In the internal reporting structure, this presentation ensures that there is a separation between market activities on one side and typical holding company or financing functions, industry business, primary insurance business and reinsurance business on the other side. Effects from consolidation between the segments and from the provision for country risks are additionally included in the reconciliation.

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

In accordance with IFRS 8, noncurrent 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 2023:

€ million	JAN. 1 – JUNE 30, 2023								Recon- ciliation	Group
	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other segments	Segments total		
Interest income from lending transactions and marketable securities in respect of third parties	72	7	32	387	471	134	278	1,382	104	1,486
Income from leasing transactions with third parties	7,262	1,421	1,639	2	0	111	1,651	12,086	1	12,087
of which reversal of impairment losses in accordance with IAS 36	5	–	1	–	–	4	23	33	–	33
Intersegment income from leasing transactions	0	–	–	–	–	–	0	0	0	–
Depreciation, impairment losses and other expenses from leasing transactions	–5,940	–688	–1,521	–2	–	–50	–1,239	–9,440	21	–9,419
of which impairment losses in accordance with IAS 36	–171	–17	–3	0	–	–3	–49	–243	–	–243
Net income from leasing transactions	1,322	733	119	0	0	60	413	2,647	21	2,668
Interest expense	–657	–412	–64	–136	–347	–75	–308	–2,000	–136	–2,135
Income from service contracts with third parties	727	122	–	–	2	2	437	1,290	0	1,289
of which over-time income	69	–	–	–	–	–	233	302	–	302
of which at a point in time income	658	122	–	–	2	2	204	988	0	987
Intersegment income from service contracts	–	–	–	–	–	–	–	–	–	–
Income from insurance business with third parties	–	–	–	–	–	–	–	–	144	144
Intersegment income from insurance business	–	–	–	–	–	–	–	–	–	–
Fee and commission income from third parties	62	2	3	–	31	24	148	270	37	308
Intersegment fee and commission income	–	–	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–2	–2	0	–8	–1	0	–15	–28	–7	–35
Operating result	215	245	54	136	37	75	249	1,011	–244	768

BREAKDOWN BY GEOGRAPHICAL MARKET FOR THE FIRST HALF OF 2022:

€ million	JAN. 1 – JUNE 30, 2022									
	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other segments	Segments total	Reconciliation ¹	Group
Interest income from lending transactions and marketable securities in respect of third parties	8	4	17	480	298	89	218	1,114	6	1,120
Income from leasing transactions with third parties	6,346	1,177	1,509	0	0	110	1,502	10,646	1	10,647
of which reversal of impairment losses in accordance with IAS 36	55	10	4	0	–	6	65	141	–	141
Intersegment income from leasing transactions	0	–	–	–	–	–	0	0	0	–
Depreciation, impairment losses and other expenses from leasing transactions	–5,230	–548	–1,418	–1	0	–54	–1,127	–8,378	–2	–8,380
of which impairment losses in accordance with IAS 36	–28	0	0	–	–	–2	–32	–62	–	–62
Net income from leasing transactions	1,116	629	91	0	0	56	375	2,268	–1	2,267
Interest expense	–83	–142	–10	–171	–218	–35	–143	–801	–6	–807
Income from service contracts with third parties	704	100	–	–	3	0	380	1,188	–1	1,188
of which over-time income	75	–	–	–	–	–	213	288	0	288
of which at a point in time income	629	100	–	–	3	0	167	900	–1	900
Intersegment income from service contracts	–	–	–	–	–	–	–	–	–	–
Income from insurance business with third parties	–	–	–	–	–	–	–	–	138	138
Intersegment income from insurance business	–	–	–	–	–	–	–	–	–	–
Fee and commission income from third parties	62	2	2	–	23	22	129	240	23	263
Intersegment fee and commission income	–	–	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–2	–2	0	–5	–1	0	–13	–24	–8	–32
Operating result	999	621	68	183	32	80	323	2,307	–564	1,742

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

The reported impairment losses and reversals of impairment losses in accordance with IAS 36 related to lease assets.

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

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:

€ million	JAN. 1 – JUNE 30, 2023					
	Germany	United Kingdom	Sweden	China	Brazil	Mexico
Noncurrent Assets	22,875	3,641	1,357	90	330	58
Additions to lease assets classified as noncurrent assets	5,281	930	292	1	–	6

€ million	JAN. 1 – JUNE 30, 2022 RESTATED ¹					
	Germany	United Kingdom	Sweden	China	Brazil	Mexico
Noncurrent Assets	21,123	3,086	1,594	81	238	43
Additions to lease assets classified as noncurrent assets	4,321	477	332	–	–	5

¹ Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

Investment recognized under other assets was of minor significance.

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

€ million	Jan. 1 – June 30, 2023	Jan. 1 – June 30, 2022 restated ¹
Segment revenue	15,028	13,188
Other companies	531	193
Consolidation	–390	–164
Group revenue	15,169	13,217
Segment profit or loss (operating result)	1,011	2,307
Other companies	–204	–226
Contribution to operating profit by included companies	–34	–43
Consolidation	–6	–295
Operating result	768	1,742
Share of profits and losses of equity-accounted joint ventures	58	39
Net gain or loss on miscellaneous financial assets	–30	–1
Other financial gains or losses	–1	–18
Profit before tax	796	1,763

¹ Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

Other Disclosures

6. Cash Flow Statement

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

7. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

The contingent liabilities of €379 million (December 31, 2022: €373 million) largely related to legal disputes concerning income tax and other tax matters in which the criteria for the recognition of a provision in accordance with IAS 12 and IAS 37 are not satisfied. After an analysis of the individual cases covered by the contingent liabilities, it is believed that the disclosure of further detailed information on individual proceedings, legal disputes and legal risks could seriously prejudice the course of those proceedings.

OTHER FINANCIAL OBLIGATIONS

€ million	DUE	DUE	DUE	TOTAL
	by June 30, 2024	July 1, 2024 – June 30, 2028	From July 1, 2028	June 30, 2023
Purchase commitments in respect of				
Property and equipment	2	–	–	2
Intangible assets	5	–	–	5
Investment property	1	–	–	1
Obligations from				
Irrevocable credit commitments to customers	484	–	–	484
Long-term leasing and rental contracts	5	3	0	8
Miscellaneous financial obligations	55	1	0	56

€ million	DUE	DUE	DUE	TOTAL
	2023	2024 - 2027	From 2028	Dec. 31, 2022
Purchase commitments in respect of				
Property and equipment	5	–	–	5
Intangible assets	1	–	–	1
Investment property	1	–	–	1
Obligations from				
Irrevocable credit commitments to customers	458	–	–	458
Long-term leasing and rental contracts	6	4	0	10
Miscellaneous financial obligations	48	1	–	49

In the case of irrevocable credit commitments, the Company expects the customers to draw down the facilities concerned.

8. Related Party Disclosures

Related parties as defined by IAS 24 are natural persons and entities that VW FS AG 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 VW FS AG, or who are under the influence of another related party of VW FS AG.

Volkswagen AG, Wolfsburg, is the sole shareholder of VW FS AG. 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 cannot elect all of the shareholder representatives to the Supervisory Board of Volkswagen AG via the annual general meeting 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 9, 2023, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights in Volkswagen AG on December 31, 2022 and thus indirectly have significant influence over the VW FS AG 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 VW FS AG 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 VW FS AG Group with funding on an arm's-length basis. As part of funding transactions, Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities sold vehicles to entities in the VW FS AG Group on an arm's-length basis. These transactions are presented in the "Goods and services received" column. Volkswagen AG and its subsidiaries have also furnished collateral for the benefit of VW FS AG within the scope of the operating business.

The "Goods and services provided" column primarily contains income from leasing transactions.

The business transactions with unconsolidated subsidiaries, joint ventures and associates of VW FS AG mainly relate to the provision of funding and services. These transactions are always conducted on an arm's-length basis, e.g. when using the cost plus method for the provision of services.

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

€ million	INTEREST INCOME		INTEREST EXPENSES		GOODS AND SERVICES PROVIDED		GOODS AND SERVICES RECEIVED	
	H1		H1		H1		H1	
	2023	2022 restated ¹	2023	2022	2023	2022	2023	2022
Supervisory Board	–	–	–	–	–	–	–	–
Board of Management	–	–	–	–	–	–	–	–
Volkswagen AG	45	1	–21	–43	563	427	6,271	4,721
Porsche SE	–	–	–	–	0	0	–	–
Other related parties in the consolidated entities	123	43	–363	–126	2,357	1,731	4,360	3,227
Non-consolidated subsidiaries	4	1	–8	–6	30	13	22	21
Joint ventures	108	32	–1	–	212	211	225	241
Associated companies	1	–	–	–	1	1	1	0

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

€ million	LOANS TO AND RECEIVABLES FROM		VALUATION ALLOWANCES ON IMPAIRED LOANS AND RECEIVABLES		OF WHICH ADDITIONS IN CURRENT YEAR		LIABILITIES TO	
	Dec. 31, 2022 restated ¹		Dec. 31, 2022		Dec. 31, 2022		Dec. 31, 2022 restated ¹	
	June 30, 2023	Dec. 31, 2022 restated ¹	June 30, 2023	Dec. 31, 2022	June 30, 2023	Dec. 31, 2022	June 30, 2023	Dec. 31, 2022 restated ¹
Supervisory Board	–	–	–	–	–	–	–	–
Board of Management	–	–	–	–	–	–	–	–
Volkswagen AG	3,417	4,925	–	–	–	–	6,239	6,435
Porsche SE	–	0	–	–	–	–	0	–
Other related parties in the consolidated entities	8,380	7,173	–	–	–	–	24,106	20,019
Non-consolidated subsidiaries	184	236	–	–	–	–	387	545
Joint ventures	8,120	7,254	–	–	–	–	111	112
Associated companies	101	0	100	–	100	–	1	0

1 Prior-year figures restated as described in the explanatory notes on IFRS 17 in the Accounting Policies section.

The “Other related parties in the group of consolidated entities” line includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG’s group of consolidated entities but do not directly belong to VW FS AG. The relationships with the Supervisory Board and the Board of Management comprise relationships with the relevant groups of people at VW FS AG 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.

VW FS AG did not receive any capital contributions from Volkswagen AG in the first half of 2023 or in the first half of 2022. However, VW FS AG and its subsidiaries provided capital contributions of €85 million (previous year: €54 million) to related parties.

Members of the Board of Management and Supervisory Board of VW FS AG are also members of management and supervisory boards of other entities in the Volkswagen Group with which VW FS AG sometimes conducts transactions in the normal course of business. All transactions with these related parties are conducted on an arm's-length basis.

In the first half of 2023, standard short-term bank loans amounting to an average total of €173 million (December 31, 2022: €138 million) were granted to related parties as part of dealer financing.

9. Governing Bodies of Volkswagen Financial Services AG

Dr. Mario Daberkow resigned from the Board of Management on March 15, 2023. Dr. Alena Kretzberg was appointed as his successor on the Board of Management effective March 16, 2023. She is responsible for Information Technology and Processes, Operations.

Effective February 1, 2023, Mr. Patrik Andreas Mayer was appointed to the Supervisory Board of Volkswagen Financial Services AG. He has been a member of the Audit Committee as of February 8, 2023.

Ms. Simone Mahler and Ms. Petra Reinheimer have resigned from the Supervisory Board effective June 30, 2023.

10. Events After the Balance Sheet Date

On July 12, 2023, after obtaining the final approvals from the relevant bodies in the first half of 2023, Volkswagen Financial Services AG and Volkswagen Bank GmbH signed a framework agreement with TRATON SE and TRATON Financial Services AB regarding the transfer of significant parts of new global financial services business at MAN and Volkswagen Truck & Bus. The signing of the framework agreement will be followed by local agreements in the individual markets that will transfer the rights to provide financial solutions to MAN and Volkswagen Truck & Bus customers on a country-by-country basis. Existing customer contracts will remain with Volkswagen Financial Services AG and Volkswagen Bank GmbH. The total sale price agreed in the framework agreement will be recognized proportionately in profit or loss in the consolidated financial statements of Volkswagen Financial Services AG, Volkswagen Leasing GmbH and Volkswagen Bank GmbH at the date of signing of the relevant local agreement.

Effective July 3, 2023, Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, acquired 50% of the shares in Movon AG, Cham, Switzerland, from Amag Leasing AG, Cham, Switzerland. Together with Amag Leasing AG, the fleet business in the Swiss market will be expanded by offering vehicle leasing and vehicle fleets in combination with an extensive range of services.

Apart from these transactions, there were no significant events after June 30, 2023.

Braunschweig, July 21, 2023

Volkswagen Financial Services AG
The Board of Management

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the condensed interim consolidated financial statements in accordance with generally accepted accounting principles give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group over the rest of the fiscal year.

Braunschweig, July 21, 2023

Volkswagen Financial Services AG
The Board of Management



Dr. Christian Dahlheim



Anthony Bandmann



Dr. Alexandra Baum-Ceisig



Frank Fiedler



Dr. Alena Kretzberg

PUBLISHED BY

Volkswagen Financial Services AG
Gifhorner Straße 57
38112 Braunschweig, Germany
Telephone +49 (0) 531 212-0
info@vwfs.com
www.vwfs.com
www.facebook.com/vwfsde

INVESTOR RELATIONS

ir@vwfs.com

This Half-Yearly Financial Report is also available in German at <https://www.vwfs.com/hjfb23>.