VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN BANK GMBH

HALF-YEARLY FINANCIAL REPORT

JANUARY – JUNE

2017

Key Figures

€ million	June 30, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Total assets	57,856	56,334	49,206	42,947	39,378
Loans to and receivables from customers attributable to					
Retail financing	25,841	24,940	23,312	21,779	20,431
Dealer financing	11,193	10,538	10,302	8,928	7,973
Leasing business	3,225	3,014	2,502	2,108	1,789
Customer deposits	33,650	35,666	27,877	25,252	23,140
Equity	8,149	7,156	5,030	4,864	4,699

€ million	H1.2017	H1.2016	H1.2015	H1.2014	H1.2013
Operating profit	401	293	293	263	269
Profit before tax	412	316	308	273	270
Profit after tax	291	224	223	189	153

Percent	June 30, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Equity ratio	14.1	12.7	10.2	11.3	11.9

Percent	Mar. 31, 2017[2]	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Common Equity Tier 1 capital ratio[1]	14.6	14.3	11.1	13.2	–
Tier 1 capital ratio[1]	14.6	14.3	11.1	13.2	14.0
Total capital ratio[1]	14.7	14.4	11.2	13.4	14.7

Number	June 30, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Employees	1,305	1,293	1,185	1,123	1,241

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

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

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

Report on Economic Position

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management of Volkswagen Bank GmbH considers the course of business in the year 2017 to date to have been satisfactory. Profit before tax generated in the first half of the year exceeded the figure achieved in the corresponding period in 2016.

New business involving the provision of financing for end consumers grew during the first half of the year, as did the vehicle and capital investment finance business for Volkswagen Group dealers.

In the first six months of 2017, Volkswagen Bank GmbH increased its business volume year-on-year, especially in Germany, France and Italy.

The proportion of deliveries to customers in the Volkswagen Group accounted for by financed vehicles (penetration) in countries in which the Volkswagen Bank GmbH Group has business operations fell slightly in the first six months of the year to 17.4% (previous year: 17.6%) Penetration in the important branches in France and Italy was more than 37% in each country.

Despite the higher volume of business, funding costs were significantly down year-on-year because of the generally favorable interest rates.

Credit risks remained stable during the first six months of the current year. The upturn in some of the Southern European markets adversely affected by the crisis in the eurozone meant that the recognized provisions could be reduced by €52 million. The credit risk portfolio of Volkswagen Bank GmbH has yet to see any effects of the emissions issue at the Volkswagen Group.

In the first half of 2017, Volkswagen Financial Services AG increased the capital of Volkswagen Bank GmbH by €900 million to strengthen the capital resources of the company.

GENERAL ECONOMIC DEVELOPMENT

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

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

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

FINANCIAL MARKETS

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

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

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

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

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

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

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

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

TRENDS IN THE PASSENGER CAR MARKETS

Worldwide demand for passenger cars was up 2.7% in the period from January to June 2017 compared with the prior-year period. Growth was driven by the Asia-Pacific region, Western Europe, South America and Central and Eastern Europe.

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

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

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

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

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

VOLKSWAGEN BANK GMBH GROUP

The shareholding structure of Volkswagen Bank GmbH and the inclusion of the Volkswagen Bank GmbH Group in the consolidated financial statements of Volkswagen Financial Services AG and Volkswagen AG remained unchanged compared with the position as of December 31, 2016.

FINANCIAL PERFORMANCE

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

The companies in the Volkswagen Bank GmbH Group performed satisfactory in the first half of 2017. At €412 million (+30.4%), profit before tax was significantly higher than the figure achieved in the corresponding period in the previous year. Net income from lending and leasing transactions before provision for credit risks was also higher than in the previous year, amounting to €795 million (+24.3%). However, this included income of €104 million from targeted longer-term refinancing operations with Deutsche Bundesbank as part of the TLTRO-II series. This figure arose because the transactions needed to be remeasured following the increase in net lending in the measurement period and the associated adjustment in terms.

As a consequence of the sustained improvement in economic trends, reversals under the provision for credit risks also exceeded the recognition of additions, resulting in a net reversal of €9 million (previous year: net addition of €36.7 million).

General and administrative expenses rose by €44 million to €455 million. The main reasons for this increase were the rise in staff leasing expenses and the increase in the cost of third-party services.

Fee and commission income – largely derived from insurance broking – as well as fee and commission expenses (mainly sales commission paid out by the bank) were lower than in the first half of 2016. Fee and commission income fell by approximately €17 million and fee and commission expenses (mainly for sales commissions) were down by €30 million, resulting in a net fee and commission income of €6 million (previous year: net expense of €8 million).

Including the net loss on the measurement of derivative financial instruments in the amount of €5 million (previous year: net loss of €3 million) and the other components of profit or loss, the Volkswagen Bank GmbH Group generated a profit after tax of €291 million (+30.2%).

Some 51.0% of current contracts in the Volkswagen Bank GmbH Group are held with customers in Germany, which therefore represents the largest market in terms of volume, generating profit before tax of €249 million (+32.9%).

Volkswagen Bank GmbH reported a profit before tax of €146 million (+28.8%) from its branches. Volkswagen Bank Polska S.A. contributed €17 million (previous year: €6 million) to the profit before tax.

NET ASSETS AND FINANCIAL POSITION

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

Lending Business

Loans to and receivables from customers relating to the financing of purchases and sales, and also arising from leasing and the direct bank business, represent the core business of the Volkswagen Bank GmbH Group. As of June 30, 2017, these assets amounted to a total of €40.5 billion (previous year: €38.7 billion) and accounted for approximately 70% of the Group's total assets. The increase in the volume of loans and receivables resulted from business expansion, particularly in Germany, France and Italy.

In the first half of 2017, the volume of retail financing rose by €0.9 billion or 3.6% to €25.8 billion. The Volkswagen Bank GmbH Group entered into 373 thousand new contracts and the volume of current contracts grew by 19 thousand or 0.9% compared with December 31, 2016. With a total of 1,573 thousand current contracts (previous year: 1,554 thousand), Germany remained the largest market for the Volkswagen Bank GmbH Group.

The lending volume in dealer financing – which comprises loans to and receivables from dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – rose by 6.2% to €11.2 billion.

Receivables from leasing transactions were also up 7.0% year-on-year to €3.2 billion. Lease assets recorded growth of €77 million to €954 million (+8.8%).

Some 51 thousand new leases were signed in the reporting period. The portfolio of leases grew by 16 thousand to 246 thousand leases in the first half of 2017. Credit risks to which the Volkswagen Bank GmbH Group is exposed as a result of the crisis in some eurozone countries were accounted for by recognizing valuation allowances under the provision for credit risks. The upturn in some of these countries meant that the recognized provisions could be reduced by €52 million.

As of June 30, 2017, the total assets of the Volkswagen Bank GmbH Group had risen by €1.5 billion or 2.7% compared with December 31, 2016 to €57.9 billion.

KEY FIGURES BY SEGMENT AS OF JUNE 30, 2017

Thousands	VW Bank Group	of which Germany	of which Italy	of which France	Other
Current contracts	3,122	1,592	608	645	277
Retail financing	2,216	1,573	289	135	220
Leasing business	246	–	48	180	18
Service/insurance	660	19	272	330	39
New contracts	587	256	132	143	55
Retail financing	373	255	54	23	41
Leasing business	51	–	9	37	5
Service/insurance	162	1	69	82	10
€ million					
Loans to and receivables from customers attributable to					
Retail financing	25,841	20,515	2,390	926	2,010
Dealer financing	11,193	5,319	736	1,456	3,681
Leasing business	3,225	–	948	2,063	215
Lease assets	954	–	–	954	–
Percent					
Penetration rates[1]	17.4	13.3	37.1	39.1	10.2

1 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles, based on Volkswagen Financial Services AG's consolidated entities.

Deposit Business and Borrowings

The significant liability items were liabilities to customers in the amount of €36.0 billion (–5.0%), liabilities to banks amounting to €7.5 billion (+52.6%) and notes and commercial paper issued of €4.1 billion (–4.5%).

The customer deposits reported within liabilities to customers amounted to €33.7 billion as of June 30, 2017 (–5.7%). Customer deposits therefore funded 58.2% of the business volume (previous year: 63.3%).

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

Equity

Volkswagen Bank GmbH's subscribed capital amounted to €318 million and thus remained unchanged in the first half of 2017. In the first six months of 2017, Volkswagen Financial Services AG increased Volkswagen Bank GmbH's capital by €900 million. As a result, the capital reserves of Volkswagen Bank GmbH amounted to €6,9 billion as of June 30, 2017.

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

Equity in accordance with IFRSS as of June 30, 2017 was €8.1 billion (previous year: €7.2 billion). This resulted in an equity ratio (equity divided by total assets) of 14.1% based on total assets of €57.9 billion.

Report on Opportunities and Risks

REPORT ON OPPORTUNITIES

Macroeconomic Opportunities

Against the backdrop of further economic growth in the vast majority of markets, the Management of Volkswagen Bank GmbH expects to see a modest increase in the number of vehicle deliveries to Volkswagen Group customers. Volkswagen Bank GmbH supports this positive trend by providing financial services products designed to promote sales.

Strategic Opportunities

In the opinion of Volkswagen Bank GmbH, products that are already well established in our core markets can be launched in growth markets throughout Europe to exploit opportunities for further profitable growth. The digitalization of our business presents a significant opportunity for the Volkswagen Bank GmbH Group. The aim is to ensure that all our products are also available online by 2025. By expanding digital sales channels, we are addressing the changing needs of our customers and strengthening our competitive position.

A number of companies and portfolios are being transferred to the Volkswagen Bank GmbH Group as part of the restructuring program initiated for Volkswagen Financial Services AG. This will present the Volkswagen Bank GmbH Group with the opportunity to develop a stronger international focus.

RISK REPORT

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

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

Human Resources Report

As of June 30, 2017, 2,796 employees (December 31, 2016: 2,786) of Volkswagen Financial Services AG were assigned to Volkswagen Bank GmbH's business units under staff leasing arrangements.

Other personnel continue to be employed directly by Volkswagen Bank GmbH under legacy employment contracts. These employees numbered 1 (December 31, 2016: 1) in Germany as of June 30, 2017. The branches of Volkswagen Bank GmbH employed 966 staff (December 31, 2016: 955); Volkswagen Bank Polska S.A. had 338 employees (December 31, 2016: 337).

Report on Expected Developments

The Management of Volkswagen Bank GmbH expects the global economy to record slightly higher growth in 2017 than in the previous year. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We expect the economic upturn to continue in the large majority of industrialized nations, with stable rates of expansion overall.

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

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

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

We expect trends in the passenger car markets in the individual regions to be mixed in 2017. Overall, growth in global demand for new vehicles will probably be slower than in 2016. We anticipate that sales volume in Western Europe and the German passenger car market will be slightly higher than in the previous year.

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

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

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

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

We expect the operating profit (including positive nonrecurring items) for fiscal year 2017 to exceed the level achieved in fiscal year 2016. This forecast is based on the current corporate structure of Volkswagen Bank GmbH and does not take into account any future changes that may result from the restructuring program that has been initiated.

The tighter capital requirements and the resulting significantly greater capital adequacy will probably lead to a slight decline in return on equity in 2017 compared with the previous year. We forecast that the cost/income ratio in 2017 will be at the level of the previous year.

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

Interim Consolidated Financial Statements (Condensed)

Income Statement of the Volkswagen Bank GmbH Group

€ million	Note	Jan. 1 – June 30, 2017	Jan. 1 – June 30, 2016	Change in percent
Interest income from lending transactions before provision for credit risks		780	659	18.4
Net income from leasing transactions before provision for credit risks		99	90	10.0
Interest expense		–85	–109	–22.0
Net income from lending and leasing transactions before provision for credit risks	1	795	639	24.3
Provision for credit risks from lending and leasing business		9	–37	X
Net income from lending and leasing transactions after provision for credit risks		803	603	33.2
Fee and commission income		135	152	–11.2
Fee and commission expenses		–129	–160	–19.4
Net fee and commission income		6	–8	X
Net gain/loss on the measurement of derivative financial instruments and hedged items		–5	–3	66.7
Net gain/loss on marketable securities and miscellaneous financial assets[1]		8	17	–52.9
General and administrative expenses	2	–455	–410	11.0
Net other operating income/expenses		55	117	–53.0
Profit before tax		**412**	**316**	**30.4**
Income tax expense		–121	–92	31.5
Profit after tax		**291**	**224**	**30.2**
Profit after tax attributable to Volkswagen Financial Services AG		291	224	30.2
The GAAP profit/loss attributable to Volkswagen Financial Services AG in the event of loss absorption/profit transfer.		190	135	40.7

1 In the prior year, this item included income of €14 million from the disposal of noncurrent assets that had previously been classified as held for sale.

Statement of Comprehensive Income of the Volkswagen Bank GmbH Group

€ million	Jan. 1 – June 30, 2017	Jan. 1 – June 30, 2016
Profit after tax	**291**	**224**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	3	–13
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	–1	4
Pension plan remeasurements recognized in other comprehensive income, net of tax	2	–9
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	–	–
Items that will not be reclassified to profit or loss	**2**	**–9**
Exchange differences on translating foreign operations		
Gains/losses on currency translation recognized in other comprehensive income	2	–34
Reclassified to profit or loss	–	–
Exchange differences on translating foreign operations, before tax	2	–34
Deferred taxes relating to exchange differences on translating foreign operations	–	–
Exchange differences on translating foreign operations, net of tax	2	–34
Cash flow hedges		
Fair value changes recognized in other comprehensive income	0	0
Reclassified to profit or loss	0	1
Cash flow hedges, before tax	0	1
Deferred taxes relating to cash flow hedges	0	0
Cash flow hedges, net of tax	0	1
Available-for-sale financial assets		
Fair value changes recognized in other comprehensive income	–20	31
Reclassified to profit or loss	–	–12
Available-for-sale financial assets, before tax	–20	19
Deferred taxes relating to available-for-sale financial assets	6	–8
Available-for-sale financial assets, net of tax	–13	11
Share of other comprehensive income of equity-accounted investments that may be reclassified subsequently to profit or loss, net of tax	–	–
Items that may be reclassified subsequently to profit or loss	**–12**	**–22**
Other comprehensive income, before tax	–15	–26
Deferred taxes relating to other comprehensive income	6	–4
Other comprehensive income, net of tax	**–10**	**–31**
Total comprehensive income	**282**	**193**
Total comprehensive income attributable to Volkswagen Financial Services AG	282	193

Balance Sheet
of the Volkswagen Bank GmbH Group

€ million	Note	June 30, 2017	Dec. 31, 2016	Change in percent
Assets				
Cash reserve		1,395	1,457	–4.3
Loans to and receivables from banks		2,657	1,944	36.7
Loans to and receivables from customers attributable to				
Retail financing		25,841	24,940	3.6
Dealer financing		11,193	10,538	6.2
Leasing business		3,225	3,014	7.0
Other loans and receivables		6,360	7,175	–11.4
Total loans to and receivables from customers		46,619	45,667	2.1
Derivative financial instruments		230	221	4.1
Marketable securities		4,248	4,455	–4.6
Miscellaneous financial assets		3	3	0.0
Intangible assets	3	39	39	0.0
Property and equipment	3	9	9	0.0
Lease assets	3	954	877	8.8
Investment property		1	1	0.0
Deferred tax assets		1,193	1,212	–1.6
Current tax assets		30	53	–43.4
Other assets		479	396	21.0
Total		**57,856**	**56,334**	**2.7**

€ million	Note	June 30, 2017	Dec. 31, 2016	Change in percent
Liabilities				
Liabilities to banks		7,524	4,930	52.6
Liabilities to customers		36,037	37,938	–5.0
Notes, commercial paper issued		4,117	4,311	–4.5
Derivative financial instruments		20	43	–53.5
Provisions		478	425	12.5
Deferred tax liabilities		1,088	1,070	1.7
Current tax liabilities		74	89	–16.9
Other liabilities		220	217	1.4
Subordinated capital		149	155	–3.9
Equity		8,149	7,156	13.9
Subscribed capital		318	318	–
Capital reserves		6,926	6,026	14.9
Retained earnings		930	826	12.6
Other reserves		–26	–14	–85.7
Total		**57,856**	**56,334**	**2.7**

Statement of Changes in Equity of the Volkswagen Bank GmbH Group

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES Currency translation	Cash flow hedges	Available-for-sale financial assets	Total equity
Balance as of Jan. 1, 2016	**318**	**3,946**	**757**	**–12**	**0**	**21**	**5,030**
Profit after tax	–	–	224	–	–	–	224
Other comprehensive income, net of tax	–	–	–9	–34	1	11	–31
Total comprehensive income	–	–	215	–34	1	11	193
Capital increase	–	480	–	–	–	–	480
Other changes[1]	–	–	–131	–	0	–	–131
Balance as of June 30, 2016	**318**	**4,426**	**841**	**–46**	**0**	**33**	**5,572**
Balance as of January 1, 2017	**318**	**6,026**	**826**	**–54**	**0**	**40**	**7,156**
Profit after tax	–	–	291	–	–	–	291
Other comprehensive income, net of tax	–	–	2	2	0	–13	–10
Total comprehensive income	–	–	294	2	0	–13	282
Capital increase	–	900	–	–	–	–	900
Other changes[1]	–	–	–190	–	–	–	–190
Balance as of June 30, 2017	**318**	**6,926**	**930**	**–52**	**0**	**27**	**8,149**

1 The “Other changes” item includes the German GAAP profit/loss attributable to Volkswagen Financial Services AG in the event of loss absorption/profit transfer.

Cash Flow Statement of the Volkswagen Bank GmbH Group

€ million	Jan. 1 – June 30, 2017	Jan. 1 – June 30, 2016
Profit after tax	**291**	**224**
Depreciation, amortization, impairment losses and reversals of impairment losses	92	138
Change in provisions	54	32
Change in other noncash items	164	282
Gain/loss on disposal of financial assets and items of property and equipment	0	0
Net interest income and dividend income	–779	–619
Other adjustments	0	–2
Change in loans to and receivables from banks	–708	–997
Change in loans to and receivables from customers	–972	–2,814
Change in lease assets	–173	–159
Change in other assets related to operating activities	–83	125
Change in liabilities to banks	2,593	520
Change in liabilities to customers	–1,687	6,271
Change in notes, commercial paper issued	–200	–2,106
Change in other liabilities related to operating activities	3	12
Interest received	855	724
Dividends received	8	3
Interest paid	–85	–109
Income taxes paid	–68	–21
Cash flows from operating activities	**–695**	**1,504**
Proceeds from disposal of investment property	–	–
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	0	3
Acquisition of subsidiaries and joint ventures	–	–30
Proceeds from disposal of other assets	0	0
Acquisition of other assets	–3	–2
Change in investments in securities	153	–2,390
Cash flows from investing activities	**150**	**–2,419**
Proceeds from changes in capital	900	480
Profit transfer to Volkswagen Financial Services AG	–414	–268
Change in cash funds attributable to subordinated capital	–6	–34
Cash flows from financing activities	**480**	**178**
Cash and cash equivalents at end of prior period	**1,457**	**1,352**
Cash flows from operating activities	–695	1,504
Cash flows from investing activities	150	–2,419
Cash flows from financing activities	480	178
Effect of exchange rate changes	3	–2
Cash and cash equivalents at end of period	**1,395**	**613**

Notes to the Interim Consolidated Financial Statements

of the Volkswagen Bank GmbH Group for the Period Ended June 30, 2017

General Information

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

Volkswagen Financial Services AG, Braunschweig, is the sole shareholder of Volkswagen Bank GmbH.

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

Basis of Presentation

Volkswagen Bank GmbH prepared its consolidated financial statements for the year ended December 31, 2016 in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code). These interim consolidated financial statements for the period ended June 30, 2017 has therefore also been prepared in accordance with IAS 34. The scope of the content is condensed compared with the full consolidated financial statements.

Unless otherwise stated, amounts are shown in millions of euros (€ million) and are rounded. This may give rise to minor discrepancies when amounts are added together.

No review of these interim consolidated financial statements has been carried out by an independent auditor.

Accounting Policies

Volkswagen Bank GmbH has applied all financial reporting standards adopted by the EU and subject to mandatory application from January 1, 2017.

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

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

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

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

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

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

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

Basis of Consolidation

In addition to Volkswagen Bank GmbH, the consolidated financial statements comprise all significant German and foreign subsidiaries, including structured entities, that are controlled by Volkswagen Bank GmbH. This is the case if Volkswagen Bank GmbH has power over potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and has the ability to use its power to influence those returns.

Interim Consolidated Financial Statements Disclosures

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

€ million	Jan. 1 – June 30, 2017	Jan. 1 – June 30, 2016
Interest income from lending and money market transactions	780	659
Income from leasing transactions and service contracts	348	300
Expenses from leasing transactions and service contracts	–153	–122
Depreciation of and impairment losses on lease assets and investment property	–96	–88
Interest expense	–85	–109
Total	**795**	**639**

Interest income from lending and money market transactions includes income of €104 million (previous year: none) from targeted longer-term refinancing operations with Deutsche Bundesbank. This figure arose from a remeasurement at amortized cost following the increase in net lending in the measurement period and the associated adjustment in terms for these transactions.

2. General and Administrative Expenses

€ million	Jan. 1 – June 30, 2017	Jan. 1 – June 30, 2016
Personnel expenses	–48	–45
Non-staff operating expenses	–393	–351
Advertising, public relations and sales promotion expenses	–9	–9
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–4	–5
Other taxes	0	0
Total	**–455**	**–410**

3. Changes in Selected Assets

€ million	Net carrying amount Jan. 1, 2017	Adds./changes basis of consolidation	Disposals/other changes	Depr./amort./impairment	Net carrying amount June 30, 2017
Intangible Assets	39	2	1	–3	39
Property and equipment	9	1	0	–1	9
Lease assets	877	248	–76	–96	954

4. Classes of Financial Instruments

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

- Financial assets and liabilities measured at fair value
- Assets and liabilities measured at amortized cost
- Derivative financial instruments designated as hedges
- Credit commitments and financial guarantees
- Not within the scope of IFRS 7

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

	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT WITHIN THE SCOPE OF IFRS 7	
€ million	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016
Assets										
Cash reserve	1,395	1,457	–	–	1,395	1,457	–	–	–	–
Loans to and receivables from banks	2,657	1,944	–	–	2,657	1,944	–	–	–	–
Loans to and receivables from customers[1]	46,619	45,667	–	–	46,619	45,667	–	–	0	0
Derivative Financial Instruments	230	221	6	8	–	–	225	213	–	–
Marketable securities	4,248	4,455	4,248	4,455	–	–	–	–	–	–
Equity-accounted joint ventures	–	–	–	–	–	–	–	–	–	–
Miscellaneous financial assets	3	3	0	0	–	–	–	–	3	3
Other assets	479	396	–	–	320	258	–	–	159	139
Total	**55,631**	**54,143**	**4,254**	**4,463**	**50,990**	**49,326**	**225**	**213**	**161**	**141**
Liabilities										
Liabilities to banks	7,524	4,930	–	–	7,524	4,930	–	–	–	–
Liabilities to customers	36,037	37,938	–	–	36,037	37,938	–	–	–	–
Notes, commercial paper issued	4,117	4,311	–	–	4,117	4,311	–	–	–	–
Derivative financial instruments	20	43	7	15	–	–	13	28	–	–
Other liabilities	220	217	–	–	61	60	–	–	158	156
Subordinated capital	149	155	–	–	149	155	–	–	–	–
Total	**48,067**	**47,595**	**7**	**15**	**47,888**	**47,396**	**13**	**28**	**158**	**156**

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

The “Credit commitments and financial guarantees” class contains obligations under irrevocable credit commitments amounting to €1,924 million (December 31, 2016: €1,544 million).

5. Fair Value Disclosures

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

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

Level 1 is used to report the fair value of financial instruments such as marketable securities for which a price can be directly determined from an active market.

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

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

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

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016
Assets						
Measured at fair value						
Derivative financial instruments	–	–	6	8	–	–
Marketable securities	2,140	2,191	2,108	2,264	–	–
Miscellaneous financial assets	–	–	–	–	0	0
Derivative financial instruments designated as hedges	–	–	225	213	–	–
Total	**2,140**	**2,191**	**2,339**	**2,485**	**0**	**0**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	7	15	–	–
Derivative financial instruments designated as hedges	–	–	13	28	–	–
Total	**–**	**–**	**20**	**43**	**–**	**–**

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

	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
€ million	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016
Assets						
Measured at fair value						
Derivative financial instruments	6	8	6	8	–	–
Marketable securities	4,248	4,455	4,248	4,455	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	1,395	1,457	1,395	1,457	–	–
Loans to and receivables from banks	2,657	1,944	2,657	1,944	1	0
Loans to and receivables from customers	47,257	46,373	46,619	45,667	638	706
Other assets	320	258	320	258	–	–
Derivative financial instruments designated as hedges	225	213	225	213	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	7	15	7	15	–	–
Measured at amortized cost						
Liabilities to banks	7,414	4,835	7,524	4,930	–110	–95
Liabilities to customers	36,048	37,966	36,037	37,938	11	28
Notes, commercial paper issued	4,122	4,317	4,117	4,311	5	5
Other liabilities	61	60	61	60	–	–
Subordinated capital	163	168	149	155	14	13
Derivative financial instruments designated as hedges	13	28	13	28	–	–

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

Segment Reporting

The reportable segments in accordance with IFRS 8 are presented on the basis of the internal reporting structure of the Volkswagen Bank GmbH Group and are broken down by the geographical markets in which the Volkswagen Bank GmbH Group operates.

6. Breakdown by Geographical Market

	JAN. 1 – JUNE 30, 2017					
€ million	Germany	Italy	France	Other	Consolidation	Total
Revenue from lending transactions with third parties	567	58	23	130	–	778
Intersegment revenue from lending transactions	41	–	–	–	–41	–
Total segment revenue from lending transactions	609	58	23	130	–41	778
Revenue from leasing transactions	–	48	297	3	–	348
Fee and commission income	58	42	23	12	–	135
Revenue	**667**	**148**	**343**	**145**	**–41**	**1,262**
Cost of sales attributable to lending and leasing transactions	–	–37	–115	–1	–	–153
Reversal of impairment losses on lease assets and investment property	–	–	–	–	–	–
Depreciation of and impairment losses on lease assets and investment property	–	–	–96	–	–	–96
of which impairment losses in accordance with IAS 36	–	–	–7	–	–	–7
Interest expense (component of operating profit or loss)	–76	–8	–12	–30	41	–85
Provision for credit risks from lending and leasing business	15	–7	–6	8	–	9
Fee and commission expenses	–72	–20	–27	–10	–	–129
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	–7	–	–	–	–	–7
General and administrative expenses (component of operating profit or loss)	–328	–29	–51	–47	1	–454
Net other operating income/expense (component of operating profit or loss)	49	2	8	–2	–1	55
Segment profit or loss (operating profit or loss)	**248**	**47**	**44**	**62**	**–**	**401**
Interest income not classified as revenue	2	–	–	–	–	2
Interest expense (not a component of operating profit or loss)	–	–	–	–	–	–
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	1	–	1	–	–	1
Net gain/loss on marketable securities and miscellaneous financial assets	0	–	–	8	–	8
General and administrative expenses (not a component of operating profit or loss)	0	–	–	0	–	0
Net other operating income/expenses (not a component of operating profit or loss)	–1	–	–	–	–	–1
Profit before tax	**249**	**47**	**44**	**71**	**–**	**412**
Income tax expense	–78	–17	–13	–12	–	–121
Profit after tax	**171**	**30**	**31**	**59**	**–**	**291**
Share of profit after tax attributable to Volkswagen Financial Services AG	171	30	31	59	–	291
Segment assets	**25,918**	**4,074**	**5,399**	**6,073**	**–**	**41,464**
of which noncurrent	**15,703**	**2,075**	**2,971**	**1,411**	**–**	**22,160**
Segment liabilities	**45,157**	**3,770**	**4,476**	**7,307**	**–14,047**	**46,664**

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

€ million	Germany	Italy	France	Other	Consolidation	Total
	JAN. 1 – JUNE 30, 2016					
Revenue from lending transactions with third parties	460	52	28	115	–	655
Intersegment revenue from lending transactions	40	0	0	0	–40	0
Total segment revenue from lending transactions	500	52	27	115	–40	655
Revenue from leasing transactions	–	42	254	3	1	300
Fee and commission income	84	34	24	10	0	152
Revenue	**584**	**128**	**306**	**128**	**–39**	**1,107**
Cost of sales attributable to lending and leasing transactions	–	–30	–90	–1	0	–122
Reversals of impairment losses on lease assets and investment property	–	–	–	–	–	–
Depreciation of and impairment losses on lease assets and investment property	–	–	–89	–	–	–89
of which impairment losses in accordance with IAS 36	–	–	–6	–	–	–6
Interest expense (component of operating profit or loss)	–102	–9	–13	–25	41	–109
Provision for credit risks from lending and leasing business	–33	–4	–11	12	–	–37
Fee and commission expenses	–93	–20	–36	–10	0	–160
Net gain/loss on the measurement of derivative financial instruments (component of operating profit or loss)	–4	–	–	–	–	–4
General and administrative expenses (component of operating profit or loss)	–295	–28	–43	–43	–1	–410
Net other operating income/expense (component of operating profit or loss)	109	1	2	3	1	115
Segment profit or loss (operating profit or loss)	**167**	**38**	**26**	**62**	**–**	**293**
Interest income not classified as revenue	4	–	–	–	–	4
Interest expense (not a component of operating profit or loss)	0	–	–	–	–	0
Net gain/loss on the measurement of derivative financial instruments (not a component of operating profit or loss)	1	0	0	–	0	1
Net gain/loss on marketable securities and miscellaneous financial assets	14	–	–	3	–	17
General and administrative expenses (not a component of operating profit or loss)	–1	–	–	0	–	–1
net other operating income/expense (not a component of operating profit or loss)	2	0	–	–	–	2
Profit before tax	**188**	**38**	**25**	**65**	**–**	**316**
Income tax expense	–58	–14	–8	–13	–	–92
Profit after tax	**130**	**24**	**18**	**52**	**–**	**224**
Share of profit after tax attributable to Volkswagen Financial Services AG	130	24	18	52	–	224
Segment assets	**24,358**	**3,470**	**4,921**	**5,359**	**–**	**38,108**
of which noncurrent	**14,637**	**1,795**	**2,646**	**1,221**	**–**	**20,299**
Segment liabilities	**44,938**	**3,345**	**4,161**	**6,649**	**–13,107**	**45,986**

Other Disclosures

7. Cash Flow Statement

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

8. Off-Balance-Sheet Liabilities

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2017	DUE 2018 – 2021	DUE From 2022	TOTAL Dec. 31, 2016
Purchase commitments in respect of				
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
irrevocable credit and leasing commitments to customers	1,465	0	–	1,465
long-term leasing and rental contracts	3	5	5	13
Miscellaneous financial obligations	19	2	–	21

€ million	DUE By June 30, 2018	DUE July 1, 2018 – June 30, 2022	DUE From July 1, 2022	TOTAL June 30, 2017
Purchase commitments in respect of				
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Obligations from				
irrevocable credit and leasing commitments to customers	1,856	0	0	1,856
long-term leasing and rental contracts	3	4	5	12
Miscellaneous financial obligations	18	–	–	18

Drawdowns on irrevocable credit commitments are possible at any time.

9. Governing Bodies of Volkswagen Bank GmbH

The members of the Management are as follows:

ANTHONY BANDMANN
Management Chairman
Sales and Marketing
Customer Service, Retail Customers
Human Resources

HARALD HEẞKE
Finance/Corporate Management
Back Office/Dealer Recovery/Risk Management

JENS LEGENBAUER
Europe (excluding Germany)

TORSTEN ZIBELL
Direct Bank
Corporate Development

The members of the Audit Committee are as follows:

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

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

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

GABOR POLONYI
Head of Fleet Customer Management at Volkswagen Leasing GmbH

10. Letter of Comfort for Affiliated Companies

With the exception of political risks, Volkswagen Bank GmbH hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to lenders in the agreed manner. Moreover, Volkswagen Bank GmbH confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders.

11. Events After the Balance Sheet Date

There were no significant events between the end of the reporting period and July 14, 2017.

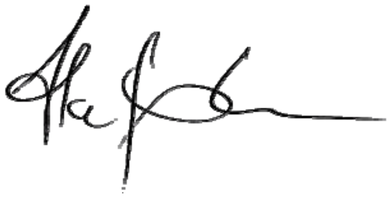
12. Responsibility Statement

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

Braunschweig, July 14, 2017

The Management

Anthony Bandmann



Harald Heßke

Jens Legenbauer

Torsten Zibell

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

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

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VOLKSWAGEN BANK GMBH

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