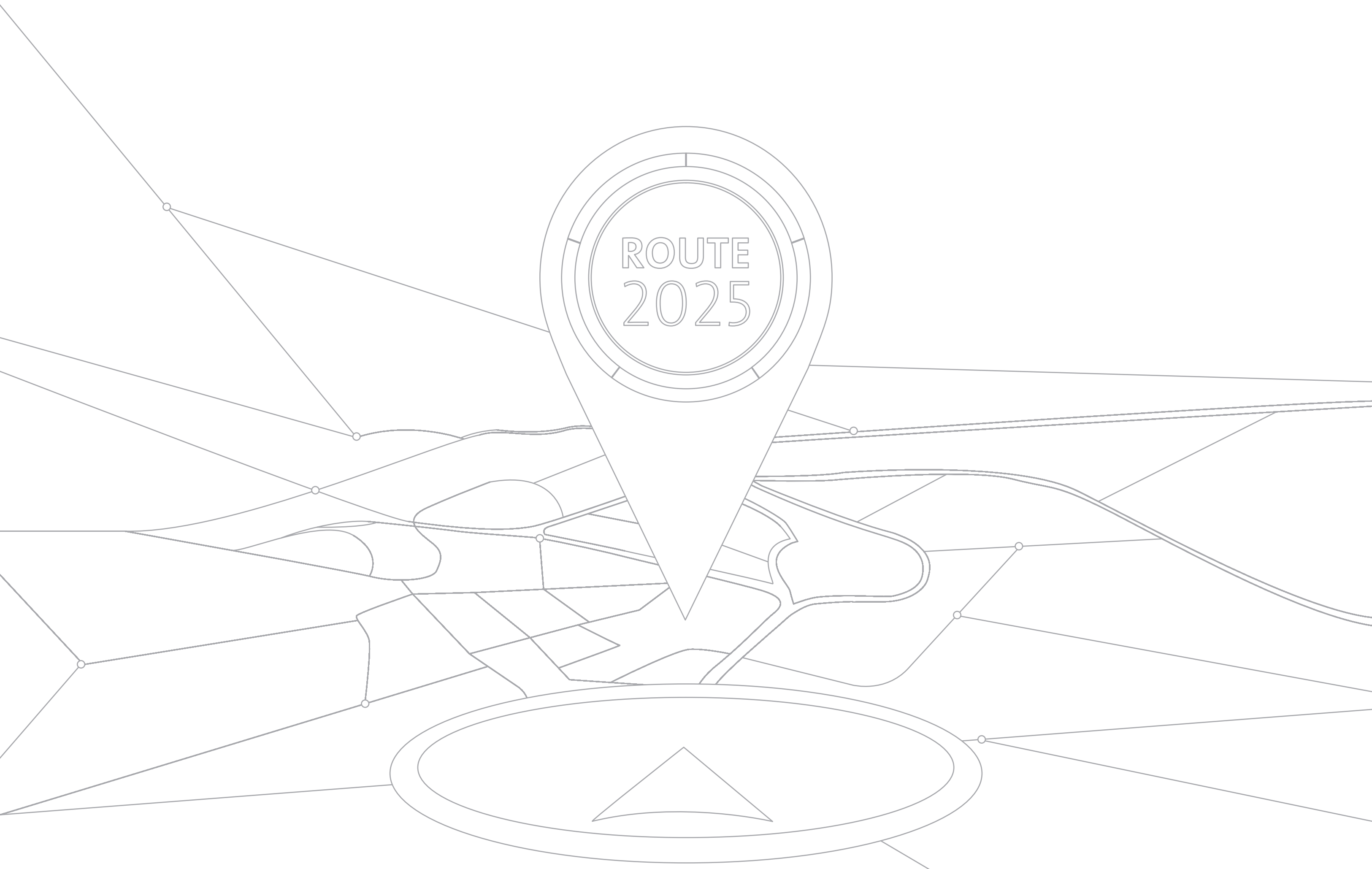
VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY



VOLKSWAGEN FINANCIAL SERVICES AG

GROUP INTERIM REPORT

JANUARY – JUNE

2016

Key Figures

€ million	June 30, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Total assets	125,665	121,251	107,231	90,992	87,378
Loans to and receivables from customers attributable to					
Retail financing	51,869	50,665	47,663	40,284	38,127
Dealer financing	14,432	13,967	12,625	11,082	10,781
Leasing business	20,948	19,704	18,320	16,298	15,312
Lease assets	13,829	12,982	10,766	8,545	7,474
Customer deposits	34,216	28,109	26,224	24,286	24,889
Equity	15,476	14,811	11,931	8,883	8,802

€ million	H1 2016	H1 2015	H1 2014	H1 2013	H1 2012
Operating profit	751	704	582	484	412
Profit before tax	736	761	637	551	477
Profit after tax	515	529	462	405	365

Percent	June 30, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Equity ratio[1]	12.3	12.2	11.1	9.8	10.1

Percent	March 31, 2016[3]	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Common Equity Tier 1 capital ratio[2]	11.7	12.0	10.3	–	–
Tier 1 capital ratio[2]	11.7	12.0	10.3	8.6	9.2
Total capital ratio[2]	11.8	12.1	10.7	9.6	9.8

Number	June 30, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Employees	11,538	11,746	11,305	9,498	8,770
Germany	6,109	6,167	5,928	5,319	4,971
Rest of World	5,429	5,579	5,377	4,179	3,799

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+	Negative	Prime–1	A1	Negative
Volkswagen Bank GmbH	A–2	A-	Negative	Prime–1	A1	Negative

1 Equity divided by total assets.
2 For the years 2012 and 2013, the regulatory capital ratios were calculated in accordance with the German Solvency Regulation (SolvV). 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.
3 Since January 1, 2014 Volkswagen Financial Services AG has applied the amended requirements in accordance with the CRR. The regulatory capital ratios as of March 31, 2016 are presented here. The capital ratios as of June 30, 2016 will be calculated within the required timeframe stipulated by the banking regulator by no later than August 11, 2016.

Key Facts

KEY FIGURES

In the first half of 2016, Volkswagen Financial Services AG increased its total assets compared with December 31, 2015 by 3.6 % to €125.7 billion.

Operating profit amounted to €751 million, thereby exceeding the figure achieved in the corresponding period in 2015.

The total number of contracts was 12,712 thousand and the loans to and receivables from customers rose by €3.7 billion.

Direct banking activities made an important contribution to funding with customer deposits amounting to €34.2 billion.

SIGNIFICANT EVENTS

Greenwheels takes over car sharing from Quicar

On April 1, Volkswagen Financial Services launched a new station-based car sharing service in Hanover through its subsidiary Greenwheels GmbH. Greenwheels, the car sharing market leader in the Netherlands, has therefore taken over from the "Quicar – Share a Volkswagen" project. Volkswagen Financial Services is now pooling its car sharing activities under the Greenwheels brand. The business currently has operations in 21 towns and cities in Germany; Hanover is its 22nd location.

Extensive securitization activity

The proportion of auto asset-backed securities (ABSs) in the funding mix at Volkswagen Financial Services continued to grow in the first half of 2016. Loans and lease receivables with a value of around €1.3 billion were securitized in international ABS transactions in China, Japan and Australia. April 2016 saw the successful placement of the 23rd auto ABS deal (VCL 23) based on the securitization of leases. The total value of the deal was around €750 million.

Debut bond in renminbi

Volkswagen Financial Services has issued its first-ever bond in renminbi (RMB) and placed the entire issue with Chinese investors. The issue value of the security, which was issued by Volkswagen Finance (China) Co., Ltd., amounted to approximately €270 million.

Lets go digital – banking access by fingerprint

Since the beginning of the year, the update to the latest version of the banking app has included a fingerprint reader function (touch ID), enabling iPhone or iPad users to access banking services from Volkswagen Bank directly via a fingerprint security check without having to enter a password.

Easy going for "Leasy Going"

In the first nationwide leasing business game organized by Volkswagen Financial Services in Germany, 120 teams comprising 480 students from 55 universities competed in the management of a virtual leasing company. Every player in the victorious team, "Leasy Going" from Hamburg University of Technology, will now receive one year's free use of an Audi A3 e-tron – and will also be certain in the knowledge that he or she has what it takes to be a leasing expert.

Triple A: Volkswagen Financial Services "Germany's best employer" for the third time in succession

In January, for the third year in a row, Volkswagen Financial Services came out top in the financial service provider category of the employer competition organized by FOCUS news magazine. The award sponsored by FOCUS, XING, kununu.com and Statista statistics portal was based on Germany's most extensive employee survey.

Best manufacturer car finance provider

In a survey carried out by the "auto, motor und sport" trade magazine, Volkswagen Bank GmbH was voted best brand in the manufacturer car finance provider category for the tenth time in a row. It was also chosen by readers of AUTO BILD as the best manufacturer car finance provider for the fifth time in succession.

Excellent – for the tenth time

In awards presented by "Firmenauto" trade magazine, Volkswagen Financial Services received the readers' prize for best leasing and fleet management company for the tenth time in a row. These accolades are given to businesses that are successful in the fleet market, deliver above-average quality, enjoy huge popularity or that have a special customer focus in their activities.

Report on Economic Position

GLOBAL ECONOMY

The global economy recorded moderate growth in the first six months of 2016, although momentum slowed slightly in both the industrialized nations and emerging economies compared with 2015 as a whole. The relatively low energy and commodity prices weighed on the economies of individual exporting countries that depend on them.

In Western Europe, the economic recovery continued in the reporting period. Whereas the Northern European countries recorded solid economic growth overall, growth rates in Southern Europe presented a more mixed picture. A drastic effect was felt by the UK's Brexit referendum in June 2016, when a small majority voted to leave the European Union (EU). The direct consequences of this were uncertainty in the financial markets and dimmer economic prospects for the United Kingdom and Europe as a whole.

The German economy continued to benefit from positive consumer sentiment and the strong labor market, continuing its growth trajectory in the first six months of 2016.

The positive economic trend in Central Europe continued in the reporting period. The ongoing conflict between Russia and Ukraine and low energy prices had a generally negative effect on the situation in Eastern Europe. Russian economic output continued to decline year-on-year.

In the first six months of 2016, South Africa suffered from a severe drought, structural deficits and political upheaval; this had a dampening effect on the gross domestic product (GDP).

The US economy continued to expand between January and June 2016, albeit more slowly. Significant stimulus was provided by private consumer spending, whereas exports and private capital investments recorded weak growth. In Canada, the rate of expansion reached the comparatively low level of the previous year; by contrast, the Mexican economy grew at a faster pace than in the preceding quarters.

Brazil's economy remained in deep recession in the first six months of 2016. Weak domestic demand, relatively low global commodity prices and political uncertainty weighed on economic performance. Economic output in Argentina retreated in the face of persistently high inflation.

The Chinese economy slowed slightly in the first six months of 2016, primarily as a result of ongoing structural changes, but continued to see a high rate of expansion by global standards. The Indian economy sustained its positive trend, growing at a somewhat stronger pace than in the previous year. Japanese GDP rose slightly, and growth was largely stable in the ASEAN region.

FINANCIAL MARKETS

In the first half of 2016, the trends in global financial markets leaned marginally to the positive despite the doubts surrounding global economic growth and the significant uncertainty generated by the British referendum on membership of the EU, the results of which were awaited with bated breath.

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

At the end of June, the unexpected vote by the British population to leave the European Union ("Brexit") unsettled the financial markets. Following the decision in favor of Brexit, the pound sterling fell sharply against the euro and US dollar. Bond markets reaped the benefit whereas equities markets came under significant pressure. The Bank of England has held out the prospect of stabilization measures.

In European markets, inflation forecasts have fallen slightly despite the greater use of monetary policy instruments. In addition to the action taken by the European Central Bank (ECB) in March to cut its main refinancing rate to 0.0% and to decrease its deposit rate to –0.4%, the ECB also extended its corporate bond buying program. From June, the ECB is inviting tenders in operations with a four-year maturity offering the possibility of an interest credit on maturity if there is sufficient lending to private non-bank financial institutions.

The introduction of the Single Resolution Mechanism at the beginning of the year could have a negative impact on the funding costs of banks as a result of the higher returns for investors caused by the greater risk in bank debt instruments.

Following the decision by the United Kingdom to leave the European Union, all eyes are on the Federal Reserve (Fed) in the US to see whether it continues to press ahead with the upward shift in interest rates. Although trends in the labor market have been positive, growth and the expansion in consumer spending have fallen short of expectations.

In Europe, the downward trend in yields on government bonds has continued. It is only in the US that yields have fluctuated within a certain range around more or less the same level in the first half of 2016.

In Russia, export trade was boosted by the further fall in the value of the ruble but the economy remains under pressure because of the fall in the oil price, sanctions and the high base rate of interest. In March, the government approved an anti-crisis plan involving a package of financial support and reforms.

Brazil continues to suffer from political uncertainty and very high inflation caused by the fallout from the economic crisis.

Weak economic growth persisted in the ASEAN region. In China, economic growth slowed further and remained below 7%. The People's Bank of China (PBOC) is pursuing a cautious monetary policy using flexible instruments and, to date, without the use of quantitative easing. The Japanese yen benefited from the global uncertainty.

TRENDS IN THE PASSENGER CAR MARKETS

Global new passenger car registrations were up 3.1% compared with the prior-year period in the first six months of 2016, although market trends varied from region to region. Demand rose year-on-year in the Asia-Pacific region, Western Europe, North America and Central Europe, while new registrations in South America and Eastern Europe, as well as the Middle East and Africa, were lower than in the first six months of 2015.

The Western European passenger car market continued to recover between January and June 2016 and recorded significant growth. The region continued to profit in particular from the positive macroeconomic environment, low interest rates, low fuel prices, pent-up demand for replacement vehicles and manufacturers' incentive programs. The Italian and Spanish markets saw double-digit growth rates. By contrast, the increase was less pronounced in France and the United Kingdom.

The new passenger car business also recorded positive growth in Germany in the first six months of 2016. Lifted by higher real incomes and the strong labor market, new registrations for business customers continued to increase, while purchases by private buyers rose for the first time in four years. registrations for business customers.

Demand for passenger cars in Central and Eastern Europe declined in the reporting period, although trends in the individual markets were very mixed. Whereas passenger car sales in the Central European EU countries mainly recorded high growth rates, demand continued to decline in Eastern Europe. As a result of the continuing weak economic and politically tense situation, the Russian passenger car market in particular recorded further strong losses.

The downward trend in new passenger car registrations continued in South Africa. In addition to the weak macroeconomic environment, this was due above all to low consumer confidence and high interest rates.

The North American automotive market recorded further year-on-year growth between January and June 2016. Sales figures for passenger cars and light commercial vehicles (up to 6.35 tonnes) in the USA reached their highest level for a first half-year period since 2001. The primary drivers of the still stable unit sales were in particular strong consumer confidence, the sound employment situation, financing conditions that continue to be attractive and low fuel prices. Vehicles in the SUV, pickup and van segments were the main beneficiaries of the favorable conditions. By contrast, demand for notchback and hatchback saloons was again lower than the year before. The automotive markets in Canada and Mexico also expanded, in each case reaching new highs for a first half-year period.

The markets for passenger cars and light commercial vehicles in the South American region continued to contract sharply overall in the first six months of 2016. The main cause of this trend was the collapse in demand in Brazil to its lowest level since 2006. The ongoing recession, coupled with high unemployment, falling real incomes and restrictive lending policies were the main reasons behind the continued crisis affecting unit sales. By contrast, new vehicle registrations in Argentina increased compared with the comparatively low prior-year level. This uptick in demand was supported by rebates and attractive financing conditions offered by the manufacturers.

Overall passenger car market volumes in the Asia-Pacific region recorded the strongest absolute growth in the first six months of 2016. By far the highest increase in sales was recorded in China. The tax break introduced on October 1, 2015 on purchases of vehicles with engine sizes of up to 1.6 l again had a positive effect, as did the sustained high demand for attractively priced entry-level models in the SUV segment. Passenger car sales in India rose year-on-year in the reporting period. The positive trend was attributable in particular to ongoing economic growth, low oil prices and a large number of new models. In Japan, the number of new passenger car registrations declined further in the first six months of 2016. However, the downward trend diminished significantly in the second quarter since the prior-year level was already weaker because of the tax increase on mini vehicles (up to 660 cm^3) that took effect on April 1, 2015.

Malaysia, one of the largest markets in the ASEAN region, recorded a year-on-year decline in the reporting period.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Global demand for light commercial vehicles was up slightly on the previous year's level in the first six months of 2016.

New registrations increased markedly year-on-year in Western Europe on the back of the positive economic performance. Demand in Germany saw moderate growth in the reporting period compared with the 2015 comparative period.

Registrations of light commercial vehicles in Central and Eastern Europe recorded a noticeable increase compared with the previous year. Sustained political and economic tensions in Russia caused a moderate drop in registrations there in the period from January to June 2016.

In North and South America, the light vehicle market is reported as part of the passenger car market, which includes both passenger cars and light commercial vehicles.

In the Asia-Pacific region, demand for light commercial vehicles was distinctly higher than in the previous year. Registration volumes in China, the region's dominant market, were up year-on-year. The number of new vehicle registrations in India recorded a sharp increase compared with the year before. Japan saw a decline in new registrations. Vehicle registrations in the ASEAN region were on a level with the previous year.

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes increased year-on-year in the period from January to June 2016.

The positive economic trend in Western Europe resulted in a significant increase in demand; high growth rates in new registrations were recorded in Italy, France and the Netherlands. New registrations in Germany, the largest market in Western Europe, were up noticeably on the prior-year level in the first six months of 2016. Higher investments and a slight increase in exports had a positive effect on the industry.

In the Central and Eastern European markets, the number of new vehicle registrations was up significantly year-on-year. While the region's economic performance was positive on the whole, the tense economic and political situation, the currency weakness and difficult financing conditions in Russia resulted in a year-on-year decline in demand.

The slowdown in US economic growth impacted the truck market in North America: following high growth rates in 2015, vehicle registrations were down slightly on the previous year. Registration volumes in the US market were also down slightly on the previous year's level in the first six months of 2016.

New registrations declined substantially year-on-year in South America. In Brazil, the region's largest market, demand for trucks was down considerably on the prior-year level as a result of the persistently weak economic performance and the high inflation rates. The number of new vehicle registrations in Argentina fell sharply between January and June 2016 because of pull-forward effects in 2015 attributable to the introduction of the Euro 5 emission standard.

Demand for mid-sized and heavy trucks in the Asia-Pacific region (excluding the Chinese market) increased significantly year-on-year. India saw a continuation of the positive economic trend in the first six months of 2016. Demand for replacement vehicles and an improvement in the investment climate led to a significant increase in registration volumes there.

Registrations in the world's largest truck market, China, rose appreciably compared with the weak prior-year level.

Demand for buses in the markets that are relevant for the Volkswagen Group was down significantly on the previous year in the first six months of 2016.

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

The Board of Management of Volkswagen Financial Services AG considers the course of business in the year 2016 to date to have been positive. Operating profit generated in the first half of the year exceeded the figure achieved in the corresponding period in 2015. New business worldwide recorded positive growth in the current year to date.

In the first six months of 2016, Volkswagen Financial Services AG lifted its business volume year-on-year, particularly in Germany.

The global share of leased and financed vehicles out of the total deliveries to customers of the Group (penetration) at the end of the first half of 2016 was on a high level at 29.4% (previous year: 26.5%).

Refinancing costs were down slightly year-on-year amid higher business volume and generally favorable interest rates.

Credit risks remained stable during the first six months of the current year. A slight sustained trend toward recovery is evident in the Southern European markets badly affected by the euro crisis. The persistent macroeconomic uncertainty in individual emerging markets has caused a further increase in the risks in the Brazilian and Russian markets. The credit risk portfolio of Volkswagen Financial Services AG has yet to see any effects of the emissions issue at the Volkswagen Group.

Steady contract growth in the residual value portfolio has been evident over the first six months of 2016, the main growth driver being the United Kingdom market. The remarketing results has remained stable in the first half of 2016.

Fleetzil Locaçoes e Serviços Ltda., based in Curitiba, Brazil, was established on May 31, 2016. Volkswagen Finance Overseas B.V., Amsterdam, holds more than 99% of the shares. Autovisão Brasil Desenvolvimento de Negocios Ltda., a wholly owned subsidiary of Volkswagen do Brasil, holds the remaining share. Fleetzil will offer the local "Locação" product to generate further expansion in the fleet business in Brazil. The company is scheduled to commence operating activities in the third quarter of 2017.

In light of the expected business growth and to comply with regulatory requirements, Volkswagen AG increased the capital of Volkswagen Financial Services AG by €500 million.

In the first half of 2016, Volkswagen Financial Services AG increased the capital of Volkswagen Bank GmbH, Braunschweig, to strengthen the capital resources of the company. There were no other significant capital increases.

RESULTS OF OPERATIONS

The disclosures on the results of operations relate to the changes compared with the corresponding period in 2015.

The companies in the Volkswagen Financial Services AG Group performed well in the first half of 2016. At €751 million (+ 6.7%), operating profit exceeded the figure achieved in the corresponding period in the previous year. It was not affected by the emissions issue. Net income from lending, leasing and insurance transactions before provision for credit risks amounted to €1,971 million (+ 0.1%), roughly at the level of the previous year.

The provision for credit risks was below the previous year's level at €245 million. Credit risks to which the Volkswagen Financial Services AG Group is exposed as a result of the crisis in some eurozone countries and in Russia and Brazil were accounted for by recognizing provisions for credit risks. In the first half of 2016, these provisions were increased by €49 million.

General and administrative expenses were slightly below the prior-year level at €1,063 million.

Fee and commission income, which largely stems from insurance broking, was below the level of the previous year.

The share of profits and losses of equity-accounted investments rose year-on-year to €38 million (+ 81%).

In particular, due to the net loss on the measurement of derivative financial instruments in the amount of €72 million (previous year: net gain of €35 million) and the other components of profit or loss, the Volkswagen Financial Services AG Group's profit after tax declined slightly to €515 million (– 2.6%).

The German companies in the Volkswagen Financial Services AG Group performed successfully in the saturated market environment and made a significant contribution to the profits of the business. These companies continue to generate the highest business volumes within the Volkswagen Financial Services AG Group, accounting for 46.9% of all existing contracts.

NET ASSETS AND FINANCIAL POSITION

The disclosures on net assets and financial position relate to the changes compared with the balance sheet date of December 31, 2015.

Since January 1, 2016, a new method has been used to determine the contract figures. The figures for the previous year and the equivalent period in 2015 have been restated accordingly.

Lending Business

At €110.3 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 87.8% of the Group's total assets. The positive trend reflected, in particular, the expansion of business in Germany.

The volume of retail financing lending rose by €1.2 billion or 2.4% to €51.9 billion. The number of new contracts was 960 thousand (+ 8.0% compared with the first half of 2015). As a consequence, the number of current contracts rose to 4,888 thousand (+ 2.9%). With a total of 2,169 thousand current contracts, (previous year: 2,149 thousand), Volkswagen Bank GmbH remained the largest individual company.

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 €14.4 billion (+ 3.3%).

Receivables from leasing transactions were up 6.3% year-on-year to €20.9 billion. Lease assets recorded growth of €0.8 billion to €13.8 billion (+ 6.5%).

A total of 447 thousand new leasing contracts were signed in the reporting period, surpassing the figure for the first half of 2015 (+ 14.8%). The number of leased vehicles as of June 30, 2016, was 1,870 thousand, a year-on-year increase of 4.9%. As in previous years, the largest contribution again came from Volkswagen Leasing GmbH, which had a contract portfolio of 1,230 thousand leased vehicles (previous year: 1,181 thousand).

Total assets of the Volkswagen Financial Services AG Group rose to €125.7 billion (+ 3.6%). This growth is primarily the result of the increase in loans to and receivables from customers and in lease assets and hence reflects the business expansion over the reporting period.

The number of service and insurance contracts as of June 30, 2016 was 5,953 thousand (previous year: 5,548 thousand). The total of 1,398 thousand new contracts surpassed the figure for the first half of 2015 (+25.7%).

KEY FIGURES BY SEGMENT AS OF JUNE 30, 2016[1]

Thousands	VW FS AG	Germany	Europe	Latin America	Asia-Pacific	Other companies[2]
Current contracts	12,712	5,966	4,117	1,219	1,396	13
Retail financing	4,888	1,574	1,482	789	1,043	0
Leasing business	1,870	1,171	578	78	30	13
Service/insurance	5,953	3,222	2,057	352	322	0
New contracts	2,806	1,245	1,011	225	323	1
Retail financing	960	247	321	118	274	0
Leasing business	447	281	140	19	5	1
Service/insurance	1,398	717	550	88	43	0
€ million						
Loans to and receivables from customers attributable to						
Retail financing	51,869	19,308	17,695	4,937	9,929	–
Dealer financing	14,432	4,957	6,030	980	1,718	747
Leasing business	20,948	15,225	4,927	494	294	8
Lease assets	13,829	8,343	4,432	113	816	126
Investment[3]	3,279	1,616	1,413	68	144	38
Operating profit	751	350	303	31	123	–60
Percent						
Penetration[4]	29.4%	55.4%	39.4%	45.8%	13.8%	–

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts. Since January 1, 2016, a new method has been used to determine the contract figures.
2 The Other companies segment comprises VW FS AG, the holding and financing companies in the Netherlands, France and Belgium, EURO Leasing companies in Germany, Denmark and Poland, VW Insurance Brokers GmbH and Volkswagen Versicherung AG.
3 Corresponds to additions to lease assets classified as noncurrent assets.
4 Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles, based on Volkswagen Financial Services AG's consolidated entities.

Deposit Business and Borrowings

The significant liability items were liabilities to banks in the amount of €16.2 billion (+ 3.0%), liabilities to customers amounting to €49.7 billion (+ 13.5%) and notes and commercial paper issued of €36.6 billion (–8.3%).

The customer deposits reported within the liabilities to customers, in particular Volkswagen Bank GmbH's deposits, rose from €28.1 billion as of December 31, 2015 to €34.2 billion as of June 30, 2016 (+ 21.7%) and therefore made a significant contribution to funding.

Complementing the statutory deposit guarantees, Volkswagen Bank GmbH is also a member of the Deposit Protection Fund of the Association of German Banks.

Equity

The subscribed capital remained unchanged at €441 million in the reporting period. Equity in accordance with IFRSs amounted to €15.5 billion as of June 30, 2016 (previous year: €14.8 billion). This resulted in an equity ratio of 12.3% based on total assets of €125.7 billion.

Report on Opportunities and Risks

REPORT ON OPPORTUNITIES

Macroeconomic Opportunities

Based on the forecast of a slight year-on-year increase in deliveries of vehicles to customers of the Volkswagen Group, the Board of Management of Volkswagen Financial Services AG anticipates a further rise in sales of financial services products in global markets, assuming that economic growth is maintained.

Strategic Opportunities

The Board of Management believes that there will be opportunities for further profitable growth from the global introduction in growth markets of products that are already well established in our core markets.

Additional opportunities will be generated by the systematic development of new growth areas based on innovative mobility and service products and by further internationalization focused on opening up new regions and countries.

The digitalization of our business represents a significant opportunity for Volkswagen Financial Services AG. The aim is to ensure that all our products worldwide are also available online by 2025.

RISK REPORT

Against the background of the specific details – expected back at the end of 2015 – concerning the risk reporting requirements for intercompany loans under the amended German Minimum Requirements for Risk Management (MaRisk), loans granted to entities in the Volkswagen Group are now reported under a separate category of counterparty default risk. A separate limit for this risk category is also provided for in accordance with the system for risk-bearing capacity analysis and Group management. This limit has been set since January 2016 as part of the general decisions on limits. This adjustment of the risk categories under counterparty default risk has not given rise to any fundamental changes relating to the portfolio of receivables relevant to this type of risk. The new reporting system increases transparency regarding the composition of the receivables under counterparty default risk in the risk-bearing capacity analysis.

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 2015 Annual Report.

Report on Post-Balance Sheet Date Events

There were no significant events in the period after June 30, 2016 up to July 25, 2016.

Human Resources Report

Volkswagen Financial Services AG had 11,357 active employees worldwide as of June 30, 2016. In addition to the active workforce in the first half of 2016, Volkswagen Financial Services AG had 52 employees who had reached the passive phase of their partial retirement agreements, and 129 vocational trainees. The total number of employees at Volkswagen Financial Services AG as of June 30, 2016 was therefore 11,538, a decrease of 1.8% on the headcount of 11,746 at the end of 2015. The economic situation in Brazil and Russia, and its impact on the automotive business, was the main contributing factor to the fall in the number of employees.

In the German market, the increase of 110 employees was attributable to the recruitment of specialists and the further expansion of marketing activities in the Truck & Bus Financing unit. Currently, 6,109 people are employed in Germany.

Application of the principle of substance over form means that 340 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

The global economy saw moderate growth in the first six months of 2016. Both in industrialized nations and in emerging economies, momentum slowed slightly compared with 2015 as a whole. The Volkswagen Group's Board of Management expects the global economy to record the same level of growth in 2016 as in the previous year. Risks will arise from potential turbulence in the financial markets – including as a result of a future Brexit from the EU – and structural deficits in individual countries. In addition, growth prospects continue to be hurt by geopolitical tensions and conflicts. We expect the positive economic trend in industrialized nations to continue, with moderate rates of expansion overall. In all probability, growth in emerging economies will be at a similar level to the previous year. We expect the strongest rates of expansion in Asia's emerging economies.

Global demand for passenger cars continued to rise in the first six month of 2016, although there was regional variation in the markets. We expect trends in the passenger car markets in the individual regions to be mixed over the year as a whole, too. Overall, global demand for new vehicles will probably rise at a similar pace to 2015. We anticipate that demand volume in Western Europe and the German passenger car market will be slightly higher than in the previous year. In the Central and Eastern European markets, demand for passenger cars is estimated to be slightly lower than the weak prior-year figure. In North America, we expect last year's positive trend to continue at a slightly weaker pace. Volumes in the South American markets will probably fall noticeably short of the prior-year figures. The passenger car markets in the Asia-Pacific region look set to continue their growth path at a similar pace.

Global demand for light commercial vehicles will probably see a slight increase in 2016. We expect trends to vary from region to region.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2016 will probably be on the previous year's level overall with performance varying from region to region, while demand in the relevant bus markets will decline noticeably.

We expect automotive financial services to continue to grow in importance worldwide in 2016.

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 2016 we will again be able to boost our penetration rate slightly in an overall growing vehicle market. We expect the business volume to increase again in 2016. Compared to the reporting period, a rise in the level of deposits is projected for Volkswagen Bank GmbH in 2016, despite the persistently low interest rates.

We expect the operating profit in the 2016 fiscal year to be at least at the previous year's level.

The tighter capital requirements and the associated significant rise in capital adequacy will probably lead to a slight decline in return on equity in 2016 compared with the previous year. Based on the forecast profit for the period, we expect the cost-income ratio in 2016 to be at or slightly below the level of the previous year.

This report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in relation to the global economy and of the financial and automotive markets, which we have made on the basis of the information available to us and which we consider to be realistic at the time of going to press. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Consequently, any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of our business. The same applies in the event of significant changes in exchange rates against the euro. Actual development of the business may also differ from the forecasts if the actual trends in the key performance indicators and in the risks and opportunities for which estimations and assessments were presented in the 2015 Annual Report turn out to be different from current expectations or if additional risks and/or opportunities or other factors affecting business performance arise.

Interim Consolidated Financial Statements (Condensed)

INCOME STATEMENT OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Note	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Change in percent
Interest income from lending transactions		1,908	1,984	−3.8
Net income from leasing transactions before provision for credit risks		715	727	−1.7
Interest expense		−689	−770	−10.5
Net income from insurance business		37	28	32.1
Net income from lending, leasing and insurance transactions before provision for credit risks	1	1,971	1,969	0.1
Provision for credit risks from lending and leasing business		−245	−306	−19.9
Net income from lending, leasing and insurance transactions after provision for credit risks		1,725	1,663	3.7
Fee and commission income		287	306	−6.2
Fee and commission expenses		−224	−233	−3.9
Net fee and commission income		63	73	−13.7
Net gain/loss on the measurement of derivative financial instruments and hedged items		−72	35	X
Share of profits and losses of equity-accounted joint ventures		38	21	81.0
Net gain/loss on marketable securities and miscellaneous financial assets[1]		20	1	X
General and administrative expenses	2	−1,063	−1,071	−0.7
Net other operating income/expenses		25	39	−35.9
Profit before tax		**736**	**761**	**−3.3**
Taxes on income		−221	−232	−4.7
Profit after tax		**515**	**529**	**−2.6**
Profit after tax attributable to Volkswagen AG		515	529	−2.6
German GAAP profit attributable to Volkswagen AG in the event of loss absorption/profit transfer		213	181	17.7

1 This item includes 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 FINANCIAL SERVICES AG GROUP

€ million	Jan. 1-June 30, 2016	Jan. 1-June 30, 2015
Profit after tax	**515**	**529**
Pension plan remeasurements recognized in other comprehensive income	–	–
Pension plan remeasurements recognized in other comprehensive income, before tax	−136	33
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	40	−10
Pension plan remeasurements recognized in other comprehensive income, net of tax	−96	23
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	**−96**	**23**
Exchange differences on translating foreign operations	–	–
Gains/losses on currency translation recognized in other comprehensive income	−67	149
Reclassified to profit or loss	–	–
Exchange differences on translating foreign operations, before tax	−67	149
Deferred taxes relating to exchange differences on translating foreign operations	–	–
Exchange differences on translating foreign operations, net of tax	−67	149
Cash flow hedges	–	–
Fair value changes recognized in other comprehensive income	1	−1
Reclassified to profit or loss	3	−2
Cash flow hedges, before tax	3	−4
Deferred taxes relating to cash flow hedges	−1	2
Cash flow hedges, net of tax	2	−1
Available-for-sale financial assets	–	–
Fair value changes recognized in other comprehensive income	38	−17
Reclassified to profit or loss	−11	0
Available-for-sale financial assets, before tax	27	−17
Deferred taxes relating to available-for-sale financial assets	−10	4
Available-for-sale financial assets, net of tax	17	−13
Share of other comprehensive income of equity-accounted investments that may be reclassified subsequently to profit or loss, net of tax	5	1
Items that may be reclassified subsequently to profit or loss	**−43**	**135**
Other comprehensive income, before tax	−168	162
Deferred taxes relating to other comprehensive income	29	−3
Other comprehensive income, net of tax	**−139**	**158**
Total comprehensive income	**377**	**687**
Total comprehensive income attributable to Volkswagen AG	377	687

BALANCE SHEET OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Note	June 30, 2016	Dec. 31, 2015	Change in percent
Assets				
Cash reserve		671	1,416	−52.6
Loans to and receivables from banks		3,418	2,940	16.3
Loans to and receivables from customers attributable to				
Retail financing		51,869	50,665	2.4
Dealer financing		14,432	13,967	3.3
Leasing business		20,948	19,704	6.3
Other loans and receivables		9,252	8,435	9.7
Total loans to and receivables from customers		96,501	92,771	4.0
Derivative financial instruments		1,361	1,178	15.5
Marketable securities		3,107	2,936	5.8
Equity-accounted joint ventures		584	538	8.6
Miscellaneous financial assets		209	206	1.5
Intangible assets	3	143	149	−4.0
Property and equipment	3	310	317	−2.2
Lease assets	3	13,829	12,982	6.5
Investment property		15	15	0.0
Deferred tax assets		1,955	1,703	14.8
Current tax assets		127	320	−60.3
Other assets		3,436	3,780	−9.1
Total		**125,665**	**121,251**	**3.6**

€ million	Note	June 30, 2016	Dec. 31, 2015	Change in percent
Equity and Liabilities				
Liabilities to banks		16,190	15,721	3.0
Liabilities to customers		49,691	43,764	13.5
Notes, commercial paper issued		36,598	39,913	−8.3
Derivative financial instruments		455	249	82.7
Provisions		1,665	1,449	14.9
Deferred tax liabilities		1,253	1,072	16.9
Current tax liabilities		327	329	−0.6
Other liabilities		1,806	1,599	12.9
Subordinated capital		2,206	2,344	−5.9
Equity		15,476	14,811	4.5
Subscribed capital		441	441	–
Capital reserves		9,724	9,224	5.4
Retained earnings		5,841	5,634	3.7
Other reserves		−531	−488	8.8
Total		**125,665**	**121,251**	**3.6**

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

				OTHER RESERVES				
€ million	Subscribed capital	Capital reserves	Retained earnings	Currency translation	Cash flow hedges	Available-for-sale financial assets	Equity-accounted investments	Total equity
Balance as of Jan. 1, 2015	**441**	**6,964**	**4,807**	**−266**	**−12**	**16**	**−19**	**11,931**
Profit after tax	–	–	529	–	–	–	–	529
Other comprehensive income, net of tax	–	–	23	149	−1	−13	1	158
Total comprehensive income	–	–	552	149	−1	−13	1	687
Capital increase	–	1,060	–	–	–	–	–	1,060
Other changes[1]	–	–	−181	–	–	–	–	−181
Balance as of June 30, 2015	**441**	**8,024**	**5,178**	**−118**	**−13**	**2**	**−18**	**13,497**
Balance as of Jan. 1, 2016	**441**	**9,224**	**5,634**	**−460**	**−7**	**21**	**−42**	**14,811**
Profit after tax	–	–	515	–	–	–	–	515
Other comprehensive income, net of tax	–	–	−96	−67	2	17	5	−139
Total comprehensive income	–	–	420	−67	2	17	5	377
Capital increase	–	500	–	–	–	–	–	500
Other changes[1]	–	–	−213	–	–	–	–	−213
Balance as of June 30, 2016	**441**	**9,724**	**5,841**	**−527**	**−5**	**39**	**−37**	**15,476**

1 German GAAP profit 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, 2016	Jan. 1 – June 30, 2015
Profit after tax	**515**	**529**
Depreciation, amortization, impairment losses and reversals of impairment losses	1,606	1,402
Change in provisions	202	5
Change in other noncash items	988	−237
Gain/loss on disposal of financial assets and items of property and equipment	0	1
Net interest income and dividend income	−1,651	−1,654
Other adjustments	−2	1
Change in loans to and receivables from banks	−443	337
Change in loans to and receivables from customers	−5,121	−4,184
Change in lease assets	−2,443	−1,915
Change in other assets related to operating activities	317	148
Change in liabilities to banks	97	384
Change in liabilities to customers	6,269	714
Change in notes, commercial paper issued	−2,749	3,045
Change in other liabilities related to operating activities	242	142
Interest received	2,337	2,414
Dividends received	3	9
Interest paid	−689	−770
Income taxes paid	−59	−161
Cash flows from operating activities	**−581**	**210**
Proceeds from disposal of investment property	0	0
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	0	0
Acquisition of subsidiaries and joint ventures	−6	−75
Proceeds from disposal of other assets	2	3
Acquisition of other assets	−22	−32
Change in investments in securities	−176	−1,141
Cash flows from investing activities	**−201**	**−1,245**
Proceeds from changes in capital	500	1,060
Distribution/profit transfer to Volkswagen AG	−420	−147
Change in cash funds attributable to subordinated capital	−42	−48
Cash flows from financing activities	**39**	**865**
Cash and cash equivalents at end of previous period	**1,416**	**451**
Cash flows from operating activities	−581	210
Cash flows from investing activities	−201	−1,245
Cash flows from financing activities	39	865
Effect of exchange rate changes	−2	6
Cash and cash equivalents at end of period	**671**	**287**

See note (7) for disclosures on the cash flow statement.

Notes to the Interim Consolidated Financial Statements

OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP FOR THE PERIOD ENDED JUNE 30, 2016

General Information

Volkswagen Financial Services Aktiengesellschaft (VW FS AG) has its registered office at Gifhorner Strasse, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 3790).

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

Basis of Presentation

VW FS AG prepared its consolidated financial statements for the year ended December 31, 2015 in accordance with 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) 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, 2016 have therefore also been prepared in accordance with IAS 34 and the scope of the content is condensed compared with the full consolidated financial statements. No review of this interim report has been carried out by an independent auditor.

Unless otherwise stated, amounts are shown in millions of euros (€ million). All amounts shown are rounded, so minor discrepancies may arise from addition of these amounts.

Accounting Policies

VW FS AG has applied all financial reporting standards adopted by the EU and subject to mandatory application from January 1, 2016.

A number of amendments to International Financial Reporting Standards resulting from the Annual Improvements Project 2012 and Annual Improvements Project 2014 have come into force since January 1, 2016. These amendments include changes to IFRS 3, IFRS 7, IFRS 8, IFRS 13 and IAS 24. Additional disclosure requirements regarding the derecognition of financial instruments have been added to IFRS 7. These additional disclosures do not have any effect on the presentation of the VW FS AG Group's ABS transactions.

There has also been a requirement since January 1, 2016 to apply amendments to IAS 19. The amendments concern the accounting treatment of employee contributions to pensions. As a result of these amendments, the VW FS AG Group will change its procedures so that employee contributions in which the amount is independent of the number of years of service (fixed percentage of salary) will, in the future, be deducted from the service cost in the year the amounts are paid.

As a result of the amendments to IAS 16 and IAS 38, it has been clarified with effect from January 1, 2016 that revenue-based methods of measuring depreciation and amortization will generally not be permitted.

The amendments to IFRS described above do not materially affect the VW FS AG Group's net assets, financial position and results of operations.

As a result of the amendments to IAS 1, a large number of conceptual clarifications in relation to reporting were introduced with effect from January 1, 2016. The existing presentation of the VW FS AG Group's interim report is not affected by these conceptual changes and can be retained. The changes also specified that disclosures are only required in the interim report if the content is material.

The other financial reporting standards to be applied for the first time in 2016 reports do not have any significant impact on the presentation of the net assets, financial position and results of operations in the interim report of the VW FS AG Group. A detailed list of these financial reporting standards can be found in the notes to the consolidated financial statements in the 2015 Annual Report under New and Revised IFRS Standards Not Applied.

Changes to the scope of application for IFRS 7 were also applied in the 2015 financial statements. These changes were described in the 2015 notes to the consolidated financial statements in the section headed Financial Instrument Disclosures. The presentation of the corresponding disclosures has been adjusted accordingly in this interim report for the VW FS AG Group.

In these interim consolidated financial statements, a discount rate of 1.5% (December 31, 2015: 2.7%) has been used for pension provisions in Germany. The reduction in the discount rate led to an increase in pension provisions, in the associated deferred taxes and in the actuarial losses on pension provisions recognized within retained earnings.

The income tax expense for the period covered by the interim report 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 2015 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 2015 Annual Report. This report can also be accessed on the internet at www.vwfs.de.

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.

During the reporting period, the subsidiary MAN Financial Services S.p.A, Dossobuono di Villafranca, Italy, was merged into Volkswagen Bank GmbH. This had no impact on the VW FS AG Group's net assets, financial position and results of operations.

CONSOLIDATED FINANCIAL STATEMENTS DISCLOSURES

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

€ million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015
Interest income from lending and money market transactions	1,908	1,984
Income from leasing transactions and service contracts	7,256	6,659
Expenses from leasing transactions and service contracts	−5,194	−4,796
Depreciation of and impairment losses on lease assets and investment property	−1,346	−1,136
Interest expense	−689	−770
Net income from insurance business	37	28
Total	**1,971**	**1,969**

2. General and Administrative Expenses

€ million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015
Personnel expenses	−471	−476
Non-staff operating expenses	−509	−521
Advertising, public relations and sales promotion expenses	−23	−34
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	−36	−36
Other taxes	−23	−4
Total	**−1,063**	**−1,071**

3. Changes in Selected Assets

€ million	Net carrying amount Jan. 1, 2016	Adds./changes cons. basis	Disposals/other changes	Depr./amort./ impairment	Net carrying amount June 30, 2016
Intangible assets	149	7	3	16	143
Property and equipment	317	15	−2	20	310
Lease assets	12,982	6,413	−4,219	1,346	13,829

4. Classes of Financial Instruments

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

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

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

	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST[1]		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT WITHIN THE SCOPE OF IFRS 7	
€ million	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015
Assets										
Cash reserve	671	1,416	–	–	671	1,416	–	–	–	–
Loans to and receivables from banks	3,418	2,940	–	–	3,418	2,940	–	–	–	–
Loans to and receivables from customers	96,501	92,771	–	–	96,501	92,771	–	–	–	–
Derivative financial instruments	1,361	1,178	190	131	–	–	1,171	1,047	–	–
Marketable securities	3,107	2,936	3,107	2,936	–	–	–	–	–	–
Equity-accounted joint ventures	584	538	–	–	–	–	–	–	584	538
Miscellaneous financial assets	209	206	0	0	–	–	–	–	209	206
Other assets	3,436	3,780	–	–	1,177	1,618	–	–	2,259	2,162
Total	**109,287**	**105,765**	**3,297**	**3,067**	**101,768**	**98,745**	**1,171**	**1,047**	**3,051**	**2,906**
Liabilities										
Liabilities to banks	16,190	15,721	–	–	16,190	15,721	–	–	–	–
Liabilities to customers	49,691	43,764	–	–	49,691	43,764	–	–	–	–
Notes, commercial paper issued	36,598	39,913	–	–	36,598	39,913	–	–	–	–
Derivative financial instruments	455	249	115	105	–	–	340	143	–	–
Other liabilities	1,806	1,599	–	–	616	579	–	–	1,189	1,021
Subordinated capital	2,206	2,344	–	–	2,206	2,344	–	–	–	–
Total	**106,945**	**103,590**	**115**	**105**	**105,301**	**102,321**	**340**	**143**	**1,189**	**1,021**

1 Some of the loans to and receivables from customers and liabilities to 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 and liabilities to 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 and financial guarantees amounting to €2,981 million (previous year: €2,862 million).

5. Fair Value Disclosures

The principles and methods of fair value measurement have generally remained unchanged compared with those applied in 2015. Detailed disclosures on the measurement principles and methods can be found in the 2015 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 quoted price is directly observable in an active market.

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

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, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015
Assets						
Measured at fair value						
Derivative financial instruments	–	–	190	131	–	–
Marketable securities	2,733	2,701	374	223	–	12
Miscellaneous financial assets	–	–	–	–	0	0
Derivative financial instruments designated as hedges	–	–	1,171	1,047	–	–
Total	**2,733**	**2,701**	**1,735**	**1,401**	**0**	**12**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	115	105	–	–
Derivative financial instruments designated as hedges	–	–	340	143	–	–
Total	**–**	**–**	**455**	**249**	**–**	**–**

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

€ million	FAIR VALUE June 30, 2016	FAIR VALUE Dec. 31, 2015	CARRYING AMOUNT June 30, 2016	CARRYING AMOUNT Dec. 31, 2015	DIFFERENCE June 30, 2016	DIFFERENCE Dec. 31, 2015
Assets						
Measured at fair value						
Derivative financial instruments	190	131	190	131	–	–
Marketable securities	3,107	2,936	3,107	2,936	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	671	1,416	671	1,416	–	–
Loans to and receivables from banks	3,419	2,940	3,418	2,940	1	1
Loans to and receivables from customers	98,036	93,826	96,501	92,771	1,534	1,055
Other assets	1,177	1,618	1,177	1,618	–	–
Derivative financial instruments designated as hedges	1,171	1,047	1,171	1,047	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	115	105	115	105	–	–
Measured at amortized cost						
Liabilities to banks	16,216	15,572	16,190	15,721	26	–149
Liabilities to customers	49,924	43,742	49,691	43,764	233	–22
Notes, commercial paper issued	36,810	40,072	36,598	39,913	213	159
Other liabilities	619	581	616	579	3	2
Subordinated capital	2,230	2,357	2,206	2,344	24	13
Derivative financial instruments designated as hedges	340	143	340	143	–	–

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

6. Segment Reporting

The reportable segments in accordance with IFRS 8 are presented on the basis of the internal reporting structure of the VW FS AG Group and are broken down by the geographical markets of Germany, Europe, Latin America and Asia-Pacific.

In contrast to the presentation in the 2015 consolidated financial statements, the MAN FS segment is no longer included following the final integration of the MAN Financial Services Group into the geographical markets of the VW FS AG Group. The companies in the previous MAN FS segment have been allocated to the following geographical markets: Germany, Europe and Other Companies. The prior-year figures for these segments have therefore been restated accordingly. The amended presentation reflects the current internal reporting structure in the VW FS AG Group.

The 2015 consolidated financial statements included a separate reconciliation statement showing a breakdown of the reconciliation effects between non-allocated units and consolidation. The reconciliation statement has now been integrated in the tables showing the breakdown by geographical markets by means of the new Other Companies and Consolidation columns. There is thus no longer a need for a separate reconciliation statement.

Foreign branches of German subsidiaries are allocated to the Europe segment. The Europe segment comprises the subsidiaries and branches in the United Kingdom, Italy, France, the Czech Republic, Austria, the Netherlands, Spain, Sweden, Ireland, Greece, Portugal, Poland and Russia. The Latin America segment consists of the subsidiaries in Mexico and Brazil. The Asia-Pacific segment consists of the subsidiaries in Australia, Japan, China, India and South Korea.

The Other companies segment comprises VW FS AG, the holding and financing companies in the Netherlands, France and Belgium, EURO Leasing companies in Germany, Denmark and Poland, VW 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.

BREAKDOWN BY GEOGRAPHICAL MARKET FOR THE FIRST HALF OF 2015:

	JAN. 1, 2015 – JUNE 30, 2015							
€ million	Germany[1]	Europe[1]	Latin America	Asia-Pacific	Segments total[1]	Other companies[1]	Consoli-dation[1]	Group
Revenue from lending transactions with third parties	460	572	521	440	1,993	20	−3	2,010
Intersegment revenue from lending transactions	39	0	–	–	39	54	−93	0
Total segment revenue from lending transactions	499	572	521	440	2,032	74	−96	2,010
Revenue from leasing and service transactions	4,007	2,338	50	187	6,582	83	−6	6,659
Insurance premiums earned	–	–	–	–	–	80	–	80
Fee and commission income	148	75	68	4	295	15	−4	306
Revenue	**4,654**	**2,985**	**639**	**631**	**8,909**	**252**	**−106**	**9,055**
Cost of sales attributable to lending, leasing and service transactions	−2,911	−1,791	−11	−59	−4,772	−65	–	−4,837
Reversals of impairment losses on lease assets and investment property	1	0	–	–	1	–	–	1
Depreciation of and impairment losses on lease assets and investment property	−686	−327	−1	−113	−1,127	−9	–	−1,136
of which impairment losses in accordance with IAS 36	−55	−17	–	0	−72	–	–	−72
Expenses from insurance business	–	–	–	–	–	−56	4	−52
Interest expense (component of operating profit or loss)	−182	−156	−266	−195	−799	−64	97	−766
Provision for credit risks from lending and leasing business	−48	−196	−47	−15	−306	0	–	−306
Fee and commission expenses	−74	−94	−34	−29	−231	−2	–	−233
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	−2	–	–	–	−2	–	–	−2
General and administrative expenses (component of operating profit or loss)	−441	−253	−93	−113	−900	−480	313	−1,067
Net other operating income/expenses (component of operating profit or loss)	52	7	−9	4	54	299	−306	47
Segment profit or loss (operating profit or loss)	**363**	**175**	**178**	**111**	**827**	**−125**	**2**	**704**
Interest income not classified as revenue	6	0	2	–	8	0	0	8
Interest expense (not a component of operating profit or loss)	−1	–	–	–	−1	−3	–	−4
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	41	−4	1	0	38	−7	6	37
Share of profits and losses of equity-accounted joint ventures	–	–	–	–	–	12	9	21
Net gain/loss on marketable securities and miscellaneous financial assets	−3	5	–	–	2	0	−1	1
General and administrative expenses (not a component of operating profit or loss)	−1	0	0	0	−1	−3	–	−4
Net other operating income/expenses (not a component of operating profit or loss)	0	0	−2	–	−2	–	–	−2
Profit before tax	**405**	**176**	**179**	**111**	**871**	**−126**	**16**	**761**
Taxes on income	−170	−33	−58	−29	−290	67	−9	−232
Profit after tax	**235**	**143**	**121**	**82**	**581**	**−59**	**7**	**529**
Segment assets	**44,077**	**31,384**	**7,769**	**11,745**	**94,975**	**894**	**–**	**95,869**
of which noncurrent	**27,686**	**18,346**	**3,804**	**7,496**	**57,332**	**126**	**–**	**57,458**
Segment liabilities	**56,358**	**28,853**	**6,788**	**10,303**	**102,302**	**14,145**	**−23,820**	**92,627**

1 Presentation amended as described in note 6. Segment Reporting.

BREAKDOWN BY GEOGRAPHICAL MARKET FOR THE FIRST HALF OF 2016:

€ million	JANUARY 1, 2016 – JUNE 30, 2016							
	Germany	Europe	Latin America	Asia-Pacific	Segments total	Other companies	Consolidation	Group
Revenue from lending transactions with third parties	446	648	426	430	1,949	18	0	1,967
Intersegment revenue from lending transactions	47	0	–	–	47	56	–102	1
Total segment revenue from lending transactions	493	648	426	430	1,996	73	–102	1,967
Revenue from leasing and service transactions	4,070	2,761	57	208	7,095	104	–9	7,190
Insurance premiums earned	–	–	–	–	–	97	–	97
Fee and commission income	147	79	54	4	284	17	–14	287
Revenue	**4,709**	**3,488**	**537**	**641**	**9,374**	**292**	**–125**	**9,541**
Cost of sales attributable to lending, leasing and service transactions	–2,918	–2,182	–15	–62	–5,177	–100	4	–5,273
Reversals of impairment losses on lease assets and investment property	3	11	–	0	15	–	–	15
Depreciation of and impairment losses on lease assets and investment property	–760	–433	–10	–130	–1,333	–13	–	–1,346
of which impairment losses in accordance with IAS 36	–47	–41	–5	–1	–93	–	–	–93
Expenses from insurance business	–	–	–	–	0	–73	14	–60
Interest expense (component of operating profit or loss)	–160	–182	–226	–167	–736	–48	102	–682
Provision for credit risks from lending and leasing business	–49	–44	–140	–11	–243	–2	–	–245
Fee and commission expenses	–104	–122	–28	–34	–288	63	–	–224
Net gain/loss on the measurement of derivative financial instruments and hedged items (component of operating profit or loss)	–4	–	–	–	–4	–	–	–4
General and administrative expenses (component of operating profit or loss)	–456	–234	–85	–118	–893	–501	335	–1,058
Net other operating income/expenses (component of operating profit or loss)	89	2	–2	3	92	323	–327	88
Segment profit or loss (operating profit or loss)	**350**	**303**	**31**	**123**	**807**	**–60**	**3**	**751**
Interest income not classified as revenue	4	0	0	–	4	1	0	5
Interest expense (not a component of operating profit or loss)	–1	–	–3	0	–4	–4	–	–7
Net gain/loss on the measurement of derivative financial instruments and hedged items (not a component of operating profit or loss)	–12	–22	–1	–1	–37	–30	–1	–68
Share of profits and losses of equity-accounted joint ventures	–	–	–	–	–	–	38	38
Net gain/loss on marketable securities and miscellaneous financial assets	–1	5	–	–	4	201	–185	20
General and administrative expenses (not a component of operating profit or loss)	–1	0	0	0	–1	–4	–	–5
Net other operating income/expenses (not a component of operating profit or loss)	2	–1	1	0	2	–	–	2
Profit before tax	**341**	**284**	**28**	**122**	**776**	**105**	**–145**	**736**
Taxes on income	–212	–77	–6	–33	–327	19	88	–221
Profit after tax	**129**	**207**	**23**	**90**	**448**	**124**	**–57**	**515**
Segment assets	**47,926**	**33,233**	**6,523**	**12,757**	**100,439**	**881**	**–**	**101,320**
of which noncurrent	**30,358**	**19,992**	**3,218**	**8,330**	**61,898**	**126**	**–**	**62,024**
Segment liabilities	**65,810**	**31,760**	**5,477**	**11,403**	**114,450**	**13,656**	**–27,493**	**100,613**

OTHER DISCLOSURES

7. 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.

8. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

The contingent liabilities of €324 million (December 31, 2015: €272 million) largely relate to legal disputes concerning tax matters in which the criteria for the recognition of a provision in accordance with IAS 37 are not satisfied.

The trust assets and liabilities of the savings and trust entity belonging to the Latin American subsidiaries are not included in the consolidated balance sheet and amounted to €883 million (December 31, 2015: €702 million).

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2016	DUE 2017 – 2020	DUE from 2021	TOTAL 31.12.2015
Purchase commitments in respect of				
property and equipment	10	–	–	10
intangible assets	1	–	–	1
investment property	–	–	–	–
Obligations from[1]				
irrevocable credit and leasing commitments to customers	4,642	0	0	4,642
long-term leasing and rental contracts	29	56	77	161
Miscellaneous financial obligations[1]	66	0	–	66

1 Presentation changed compared with previous year.

€ million	DUE by June 30, 2017	DUE July 1, 2017 – June 30, 2021	DUE from July 1, 2021	TOTAL 30.06.2016
Purchase commitments in respect of				
property and equipment	16	–	–	16
intangible assets	2	–	–	2
investment property	–	–	–	–
Obligations from				
irrevocable credit and leasing commitments to customers	5,037	0	–	5,037
long-term leasing and rental contracts	28	50	52	129
Miscellaneous financial obligations	76	2	–	78

In the case of irrevocable credit and leasing commitments, we expect the customers to draw down the facilities concerned.

9. Executive Bodies of Volkswagen Financial Services AG

Mr. Detlef Kunkel stepped down from the Supervisory Board with effect from April 30, 2016. Dr. Arno Antlitz stepped down as a member of the Remuneration Control Committee on February 24, 2016. Mr. Axel Strotbek was appointed as a member of the Remuneration Control Committee effective February 25, 2016.

10. Events After the Balance Sheet Date

There were no significant events in the period after June 30, 2016 up to July 25, 2016.

11. 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 25, 2016
The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Dr. Christian Dahlheim

Frank Fiedler

Christiane Hesse

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The 2016 Interim Group Report can also be accessed at www.vwfsag.com/hy16.

This Interim Group Report is also available in German.

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