

VOLKSWAGEN FINANCIAL SERVICES

AUSTRALIA

A LIVING COMMITMENT
TO OUR CUSTOMERS

Volkswagen Financial Services Australia Pty Limited

Consolidated Interim Report
January – June 2022

Analysis of business development and position

This Consolidated Interim Report of Volkswagen Financial Services Australia Pty Ltd (the “Company”) includes the Company as well as its controlled entities in accordance with AASB 10 (the “Group”).

RESULTS OF OPERATIONS OF THE GROUP

The notes on the results of operations concern changes relative to the same period from the previous year.

The interest and similar revenue in the first six months of 2022 increased by \$38.7 million to \$203.8 million year on year, mostly resulting from a favourable contribution from derivatives. Non-interest revenue has decreased by \$7 million to \$2.6 million.

Interest expenses amounted to \$71.9 million, which is a decrease of \$2.4 million compared to the first six months of 2021.

The net loss on financial instruments at fair value is \$24.1 million compared to a net gain of \$11.5 million during the first six months of 2021.

Expenses from bad and doubtful debts, for the remuneration of the workforce, for depreciation and amortisation and from ordinary activities reduced substantially by \$19.7 million to \$36.5 million compared to prior year. This is largely attributable to decreases of the bad and doubtful debts expenses (down \$19.7 million from prior year).

As a result of the above movements, profit before tax for the first half of 2022 is \$73.9 million, which is \$19.1 million higher than the profit before tax for the first half of 2021 (\$54.7 million).

ASSETS AND FINANCIAL POSITION OF THE GROUP

The notes on the assets and financial position concern changes relative to the balance sheet date 31 December 2022.

In the first six months of 2022, the Group’s receivables balances from its lending activities have developed as follows:

- Retail financing has increased by 2.4% to \$5,412 million as a result of moderate organic growth.
- Dealer financing has grown by 11.2% to \$1,379 million due to higher stock levels at the dealerships.
- Fleet financing has decreased by 13.6% to \$56 million.
- Lease receivables are down by 7.6% to \$53 million.

The Group has a stable liquidity base and continues to monitor it closely.

Opportunity and risk report

OPPORTUNITY REPORT

1 | Macroeconomic opportunities

There are a number of uncertainties about the future development of domestic economy. Inflation in Australia is high but not as high as it is in many other countries. Strong demand, low unemployment rate and capacity constraints are playing a major role to the upward pressure on prices. The Management of Volkswagen Financial Services Australia expects that the total automotive market in Australia will continue to be adversely impacted by the ongoing Covid-19 pandemic and supply chain constraints. Ongoing global shortage of semiconductors continues to impact most car manufacturers and has the potential to limit supply into the Australian market for the remainder of 2022.

2 | Strategic opportunities

The Group continues to focus on growth opportunities through maintaining and developing its close relationship with the VW Group brands (Volkswagen Passenger & Light Commercial Vehicles, Audi, Skoda, Ducati, Bentley and Porsche) and with its national multi-franchise Dealer network. In 2022 VWFS Australia has continued to develop and support its Dealer network by promoting new business initiatives in used vehicles and customer retention. These strategic opportunities are targeted through the Group's three core finance products – retail financing, wholesale financing and fleet financing – as well as its range of related services offerings.

As part of the global VW network, the Group is able to benefit from innovations and new products being developed and rolled out across the VW Group.

RISK REPORT

1 | Summary

The Group's activities expose it to a variety of financial risks including credit, liquidity and market risk (including interest rate risk and residual value risk) as well as operational and compliance risk. There were no material changes regarding the risk types and our risk management methods in the period.

2 | Events after the balance sheet date

There are no material subsequent events which have occurred after 30 June 2022.

Anticipated development

Based on the positive effect of its strategic initiatives described above, the Board of Directors of Volkswagen Financial Services Australia anticipates the Group's pre-tax annual result to be around the same level as the pre-tax result achieved for 2021. This is mainly achieved through a moderate increase in earning assets, and by managing funding and risk costs closely. Further increases in market interest rates are anticipated and the effects on funding costs are monitored on a regular basis.

Statement of Financial Position

as at 30 June 2022

\$'000	Note	Consolidated	
		30.06.2022	31.12.2021
Current assets			
Cash and cash equivalents		56,143	442,496
Loans to and receivables from customers attributable to			
Retail loan financing at amortised cost	2	1,607,320	1,105,007
Retail loan financing at fair value through profit or loss	2	136,274	110,725
Dealer loan financing	2	1,218,749	987,693
Fleet loan financing	2	14,264	22,595
Lease receivables	2	20,179	23,067
Derivative financial instruments		49,181	17,046
Other financial assets		25,703	17,841
Lease assets		4,220	4,744
Inventories		57	143
Other assets		732	754
Total current assets		3,132,822	2,732,111
Non-current assets			
Loans to and receivables from customers attributable to			
Retail loan financing	2	3,381,936	3,693,663
Retail loan financing at fair value through profit or loss	2	286,596	371,107
Dealer loan financing	2	161,152	237,087
Fleet loan financing	2	41,792	41,108
Lease receivables	2	33,618	34,834
Derivative financial instruments		67,794	11,507
Lease assets		15,649	10,911
Property, plant and equipment	3	4,396	5,228
Intangible assets		22,210	18,614
Deferred tax assets		52,282	47,445
Total non-current assets		4,067,425	4,471,504
Total assets		7,200,247	7,203,615

Current liabilities			
Liabilities to banks	4	1,372,251	612,248
Medium Term Notes and Commercial Papers issued	4	1,367,530	1,498,511
Asset Backed Securities Notes issued	4	658,048	431,942
Derivative financial instruments		40,501	10,343
Other financial liabilities		30,887	29,038
Lease liabilities		1,303	1,263
Employee entitlements		4,013	4,602
Current tax liabilities		1,414	5,412
Other liabilities		12,370	27,260
Total current liabilities		3,488,317	2,620,619
Non-current liabilities			
Liabilities to banks	4	400,899	545,632
Medium Term Notes and Commercial Papers issued	4	1,456,723	1,807,449
Asset Backed Securities Notes issued	4	1,343,460	1,821,847
Derivative financial instruments		67,161	13,371
Lease liabilities		2,551	3,213
Employee entitlements		892	837
Total non-current liabilities		3,271,686	4,192,349
Total liabilities		6,760,003	6,812,968
Net assets		440,244	390,647
Equity			
Share capital		195,440	195,440
Cash-flow hedges reserve		(571)	1,577
Retained earnings		245,375	193,630
Total equity		440,244	390,647

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income

from 1 January to 30 June 2022

\$'000	Note	Consolidated	
		30.06.2022	30.06.2021
Net income from operations			
Interest income from lending transactions			
Cash and cash equivalents		168	85
Retail financing		125,944	127,214
Dealer financing		15,127	11,509
Fleet financing		3,248	3,191
<i>Subtotal: Interest income measured at the effective interest rate method</i>		144,487	141,999
Retail financing accounted for at fair value through profit or loss		15,426	12,883
Interest income from derivatives		41,057	7,871
Income from operating lease transactions		2,901	2,322
Interest expense		(71,874)	(74,313)
Interest expense on lease liability		(95)	(122)
Non-interest revenue		2,675	8,775
Net gains/losses on financial instruments at fair value (incl. hedge ineffectiveness of designated relationships)		(24,122)	11,566
Total net income from operations		110,455	110,981
Bad and doubtful debts expenses		(5,445)	(24,547)
Employee expenses		(13,679)	(12,919)
Depreciation and amortisation expenses		(4,157)	(3,671)
Other expenses from ordinary activities		(13,251)	(15,095)
Profit before income tax		73,923	54,749
Income tax expenses		(22,178)	(16,425)
Profit for the year attributable to owners		51,745	38,324
Change in fair value of cash flow hedges		(2,148)	8,511
Net change in deferred tax for cash flow hedges		0	0
Other comprehensive income for the year		(2,148)	8,511
Total comprehensive income attributable to owners		49,597	46,835

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Notes to the interim financial statements

as at 30 June 2022

GENERAL

1 | Accounting policies

The same accounting policies that were used in the annual financial statements for 2021 were applied to the preparation of the interim financial statements and the determination of the corresponding amounts for the previous year. A detailed description of these methods is contained in the notes to the annual financial statements of the 2021 annual report.

The consolidated interim financial statements were not subject to a review.

For the financial year beginning 1 January 2022, there are no new accounting standards that have a significant impact on the Group's financial statements.

2 | Loans to and receivables from customers

The breakdown of the Group's loans to and receivables from customers is as follows:

30.06.2022 CONSOLIDATED \$'000	Principal	Unearned income	Unamortised income and expenses	Credit and RV risk provisions	Fair value adjustments	Net balance
Loans						
Retail loans at amortised cost	5,348,798	(367,352)	120,916	(113,106)	0	4,989,256
Retail loans at fair value through profit or loss	454,323	(33,721)	13,631	0	(11,363)	422,870
Dealer loans	1,393,848	0	0	(13,947)	0	1,379,901
Fleet loans	69,046	(6,065)	173	(7,098)	0	56,056
Total loans	7,266,015	(407,138)	134,720	(134,151)	(11,363)	6,848,083
Lease receivables						
Retail lease receivables	21,529	(1,635)	663	(439)	0	20,118
Fleet lease receivables	48,093	(4,014)	0	(10,400)	0	33,679
Total lease receivables	69,622	(5,649)	663	(10,839)	0	53,797
Total	7,335,637	(412,787)	135,383	(144,990)	(11,363)	6,901,880

31.12.2021 CONSOLIDATED \$'000	Principal	Unearned income	Unamortised income and expenses	Credit and RV risk provisions	Fair value adjustments	Net balance
Loans						
Retail loans at amortised cost	5,136,010	(323,386)	102,771	(116,725)	0	4,798,670
Retail loans at fair value through profit or loss	497,714	(36,166)	14,917	0	5,367	481,832
Dealer loans	1,239,044	0	0	(14,264)	0	1,224,780
Fleet loans	75,665	(5,913)	289	(6,338)	0	63,703
Total loans	6,948,433	(365,465)	117,977	(137,327)	5,367	6,568,985
Lease receivables						
Retail lease receivables	16,507	(1,184)	490	(506)	0	15,307
Fleet lease receivables	57,543	(4,752)	0	(10,197)	0	42,594
Total lease receivables	74,050	(5,936)	490	(10,703)	0	57,901
Total	7,022,483	(371,401)	118,467	(148,030)	5,367	6,626,886

3 | Fixed assets and Intangible assets

The movement of the Group's fixed assets and intangible assets is as follows:

CONSOLIDATED AND PARENT \$'000	Net book value 31.12.2021	Additions and transfers in	Disposals and transfers out	Depreciation and impairment	Net book value 30.06.2022
Property, plant and equipment					
Leasehold improvements	993	0	0	(176)	817
Computer and office equipment	210	0	0	(48)	162
Right of use assets					
Buildings	3,913	0	0	(608)	3,305
Equipment	112	0	0	0	112
Total property, plant and equipment	5,228	0	0	(832)	4,396
Intangible assets					
Computer software	2,487	103	0	(948)	1,642
Software under development	16,127	4,441	1,277	(1,277)	20,568
Total intangible assets	18,614	4,544	1,277	(2,225)	22,210
Total	23,842	4,544	1,277	(3,057)	26,606

CONSOLIDATED AND PARENT \$'000	Net book value 31.12.2020	Additions and transfers in	Disposals and transfers out	Depreciation	Net book value 31.12.2021
Property, plant and equipment					
Leasehold improvements	1,346	0	0	(353)	993
Computer and office equipment	350	0	0	(140)	210
Right of use assets					
Buildings	5,300	0	0	(1,387)	3,913
Equipment	224	0	0	(112)	112
Total property, plant and equipment	7,220	0	0	(1,992)	5,228
Intangible assets					
Computer software	3,194	1,130	0	(1,837)	2,487
Software under development	12,491	6,773	(3,137)	0	16,127
Total intangible assets	15,685	7,903	(3,137)	(1,837)	18,614
Total	22,905	7,903	(3,137)	(3,829)	23,842

4 | Borrowings

The breakdown of the Group's borrowings is as follows:

30.06.2022 CONSOLIDATED \$'000	Principal	Accrued interest	Capitalised finance costs	Fair value hedge adjustment	Net balance
Unsecured borrowings					
Liabilities to bank	1,770,000	3,150	0	0	1,773,150
Medium Term Notes and Commercial Papers issued	2,822,000	12,895	(1,673)	(8,969)	2,824,253
Total unsecured borrowings	4,592,000	16,045	(1,673)	(8,969)	4,597,403
Secured borrowings					
Asset Backed Securities Notes issued	2,001,948	607	(1,047)	0	2,001,508
Total secured borrowings	2,001,948	607	(1,047)	0	2,001,508
Total	6,593,948	16,652	(2,720)	(8,969)	6,598,911

31.12.2021 CONSOLIDATED \$'000	Principal	Accrued interest	Capitalised finance costs	Fair value hedge adjustment	Net balance
Unsecured borrowings					
Liabilities to bank	1,155,000	2,880	0	0	1,157,880
Medium Term Notes and Commercial Papers issued	3,298,100	14,977	(2,230)	(4,887)	3,305,960
Total unsecured borrowings	4,453,100	17,857	(2,230)	(4,887)	4,463,840
Secured borrowings					
Asset Backed Securities Notes issued	2,254,797	314	(1,322)	0	2,253,789
Total secured borrowings	2,254,797	314	(1,322)	0	2,253,789
Total	6,707,897	18,171	(3,552)	(4,887)	6,717,629

5 | Related parties

Controlling entities

The ultimate parent entity is Volkswagen AG (incorporated in Germany). The intermediate parent entity is Volkswagen Financial Services AG which at 30 June 2022 owns 100% (31 December 2021: 100%) of the issued ordinary shares of Volkswagen Financial Services Australia Pty Limited.

Related party transactions

During the first half of the financial year, the Group recorded the following related party transactions and balances:

\$'000	Consolidated	
	30.06.2022	31.12.2021
Intercompany receivables: included in other financial assets		
Volkswagen Group Australia	96	85
Audi Australia	169	110
Porsche Australia	0	300
Total intercompany receivables	265	495
Intercompany payables: included in other financial liabilities		
Volkswagen Group Australia	10,220	1,894
Audi Australia	58	2,247
Total intercompany payables	10,278	4,141

	Consolidated	
	2022	2021
Expenses from intercompany transactions:		
Volkswagen Financial Services Japan Ltd.: Treasury services	0	318
Volkswagen Financial Services AG, Germany: IT support, DCM guarantee fees and technical assistance	2,276	3,585
Volkswagen Bank GmbH, Germany: Treasury services	0	446
Volkswagen Software Asset Management GmbH, Germany: IT licences and usage fees	226	762
Volkswagen AG, Germany: Insurance premium recharges	31	30
Total expenses from intercompany transactions	2,533	5,141
Cash receipts from Intercompany transactions relating to Retail finance campaigns: capitalised in Retail loan financing		
Volkswagen Group Australia	688	15,357
Audi Australia	882	872
Porsche Australia	328	829
Total Cash receipts from intercompany transactions	1,898	17,058
Cash payments from Intercompany transactions relating to the floorplan: recorded as part of wholesale daily payments		
Volkswagen Group Australia	719,698	1,914,889
Audi Australia	423,957	950,307
Porsche Australia	140,273	194,417
Total Cash payments from intercompany transactions	1,283,928	3,059,613
Cash payments from Intercompany transactions relating to the lease of office space and outgoings: recorded as reduction in lease liability		
Volkswagen Group Australia	921	2,106
Total Cash payments from intercompany transactions	921	2,106

6 | Contingent liabilities

There are no contingent liabilities as at 30 June 2022 (31 December 2021: Nil).

THE BOARD OF DIRECTORS OF VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED

Directors

Mr Jörn Kurzrock	Managing Director
Mr Paul Stanton	Managing Director
Mr Ralf Teichmann	Director
Mr Cheikh Niang	Director


DEFICIENCY OF NET CURRENT ASSETS

The Directors of the Company have prepared the financial statements on a going concern basis despite there being an excess of current liabilities over current assets at 30 June 2022 of \$355.5 million (31 December 2021: excess of current assets of \$111.5 million). Volkswagen Financial Services AG, as the parent entity, has declared that they will provide financial support for a period until 30 September 2023 via Inter-Company Loans, as long as no material changes occur in Volkswagen Financial Services AG, which would impact the financial situation of Volkswagen Financial Services Group. Such material changes are not expected as of 31 July 2022. Therefore the Directors have determined that the Company is able to pay its debts as and when they fall due and therefore the financial statements have been prepared on a going concern basis.

RESPONSIBILITY STATEMENT OF THE BOARD OF DIRECTORS

To the best of our knowledge, the half-year financial statements of Volkswagen Financial Services Australia Pty Limited give a true and fair view of the assets, liabilities, financial position and profit or loss of the Volkswagen Financial Services Australia Pty Limited, and the interim report includes a fair review of the development and performance of Volkswagen Financial Services Australia Pty Limited, together with a description of the material opportunities and risks associated with the expected development of Volkswagen Financial Services Australia Pty Limited in the remaining months of the financial year.

Sydney, 29 July 2022
The Board of Directors

 29.07.2022
Jörn Kurzrock
Managing Director

 29.07.2022
Paul Stanton
Managing Director