

VOLKSWAGEN FINANCIAL SERVICES

AUSTRALIA

A LIVING COMMITMENT
TO OUR CUSTOMERS

Volkswagen Financial Services Australia Pty Limited

Consolidated Interim Report
January – June 2021

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 2021 decreased by \$3.8 million to \$154.8 million year on year, reflecting the low interest rate market environment. Non-interest revenue has increased by \$1.4 million to \$9.7 million.

Interest expenses amounted to \$66.4 million, which is a decrease of \$8.6 million compared to the first six months of 2020. This is largely due to the continued reduction of the RBA Cash Rate, which has led to a further reduction of interest rates on new funding drawdowns as well as existing variable rate funding.

The net gain on financial instruments at fair value is \$10.6 million compared to a net loss of (\$2.6) million during the first six months of 2020.

Expenses from bad and doubtful debts, for the remuneration of the workforce, for depreciation and amortisation and from ordinary activities reduced substantially by \$11.1 million to \$56.2 million compared to prior year. This is largely attributable to decreases of the bad and doubtful debts expenses (down \$9.1 million from prior year).

As a result of the above movements, profit before tax for the first half of 2021 is \$54.7 million, which is \$30.5 million higher than the profit before tax for the first half of 2020 (\$24.2 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 2020.

In the first six months of 2021, the Group’s receivables balances from its lending activities have developed as follows:

- Retail financing has increased by 3% to \$5,328 million as a result of moderate organic growth.
- Dealer financing has grown by 13% to \$1,314 million due to higher stock levels at the dealerships.
- Fleet financing has increased by 40% to \$66 million from the acquisition of additional customers.
- Lease receivables are down by 5% to \$62 million.

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

Opportunity and risk report

OPPORTUNITY REPORT

1 | Macroeconomic opportunities

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 the resulting lockdowns. While the Australian Government has supported a large number of businesses and individuals over the last 18 months, there are a number of uncertainties about the future development of the domestic economy. In addition, an 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 2021 and beyond.

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 2021 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 2021.

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 at least at the same level as the pre-tax result achieved for 2020. This is mainly achieved through a moderate increase in earning assets, as well as reduced funding and risk costs.

Statement of Financial Position

as at 30 June 2021

\$'000	Note	Consolidated	
		30.06.2021	31.12.2020
Current assets			
Cash and cash equivalents		92,980	92,488
Loans to and receivables from customers attributable to			
Retail loan financing	2	1,067,203	868,658
Retail loan financing at fair value through profit or loss	2	165,286	156,941
Dealer loan financing	2	1,314,748	1,168,381
Fleet loan financing	2	25,223	12,415
Lease receivables	2	26,368	24,545
Derivative financial instruments		10,627	4,955
Other financial assets		40,935	14,374
Lease assets		145	3,182
Inventories		389	493
Other assets		115	571
Total current assets		2,744,019	2,347,003
Non-current assets			
Loans to and receivables from customers attributable to			
Retail loan financing	2	3,762,063	3,811,686
Retail loan financing at fair value through profit or loss	2	333,930	317,071
Fleet loan financing	2	41,257	35,039
Lease receivables	2	35,958	40,745
Derivative financial instruments		14,151	31,465
Other financial assets		0	0
Lease assets		9,598	11,034
Property, plant and equipment	3	6,287	7,220
Intangible assets	3	16,273	15,685
Deferred tax assets		50,621	47,260
Total non-current assets		4,270,138	4,317,205
Total assets		7,014,157	6,664,208

Current liabilities			
Liabilities to banks	4	747,278	1,074,209
Medium Term Notes and Commercial Papers issued	4	1,217,766	1,139,006
Asset Backed Securities Notes issued	4	643,567	918,439
Derivative financial instruments		8,400	6,841
Other financial liabilities		79,222	47,193
Lease liabilities		1,306	1,257
Employee entitlements		3,396	4,050
Current tax liabilities		14,046	8,281
Other liabilities		26,245	28,995
Total current liabilities		2,741,226	3,228,271
Non-current liabilities			
Liabilities to banks	4	875,952	430,488
Medium Term Notes and Commercial Papers issued	4	1,732,035	1,535,314
Asset Backed Securities Notes issued	4	1,240,261	1,080,120
Derivative financial instruments		8,063	19,626
Other financial liabilities		0	0
Lease liabilities		3,768	4,481
Employee entitlements		835	726
Total non-current liabilities		3,860,914	3,070,755
Total liabilities		6,602,140	6,299,026
Net assets		412,017	365,182
Equity			
Share capital		195,440	195,440
Reserves		275	(8,236)
Retained earnings		216,302	177,978
Total equity		412,017	365,182

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 2021

\$'000	Note	Consolidated	
		30.06.2021	30.06.2020
Net income from operations			
Interest income from lending transactions			
Cash and cash equivalents		85	366
Retail financing		127,214	122,297
Dealer financing		11,509	19,680
Fleet financing		3,191	2,918
<i>Subtotal: Interest income measured at the effective interest rate method</i>		<i>141,999</i>	<i>145,261</i>
Retail financing accounted for at fair value through profit or loss		12,883	13,331
Income from operating lease transactions		2,322	2,279
Interest expense		(66,442)	(74,976)
Interest expense on lease liability		(122)	(156)
Non-interest revenue		9,711	8,331
Net gains/losses on financial instruments at fair value (incl. hedge ineffectiveness of designated relationships)		10,630	(2,570)
Total net income from operations		110,981	91,500
Bad and doubtful debts expenses		(24,547)	(33,639)
Employee expenses		(12,919)	(12,517)
Depreciation and amortisation expenses		(3,671)	(3,286)
Other expenses from ordinary activities		(15,095)	(17,854)
Profit before income tax		54,749	24,204
Income tax expenses		(16,425)	(7,261)
Profit for the year attributable to owners		38,324	16,943
Change in fair value of cash flow hedges		8,511	(5,339)
Net change in deferred tax for cash flow hedges		0	1,602
Other comprehensive income for the year		8,511	(3,737)
Total comprehensive income attributable to owners		46,835	13,206

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 2021

GENERAL

1 | Accounting policies

The same accounting policies that were used in the annual financial statements for 2020 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 2020 annual report.

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

For the financial year beginning 1 January 2021, 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:

30.06.2021 CONSOLIDATED \$'000	Principal	Unearned income	Unamortised income and expenses	Credit and RV risk provisions	Fair value adjustments	Net balance
Loans						
Retail loans	5,170,412	(321,823)	93,495	(112,818)	0	4,829,266
Retail loans at fair value through profit or loss	517,997	(37,872)	15,247	0	3,844	499,216
Dealer loans	1,327,997	0	0	(13,249)	0	1,314,748
Fleet loans	76,411	(5,819)	947	(5,059)	0	66,480
Total loans	7,092,817	(365,514)	109,689	(131,126)	3,844	6,709,710
Lease receivables						
Retail lease receivables	17,291	(1,254)	505	(1,524)	0	15,018
Fleet lease receivables	62,727	(5,234)	0	(10,185)	0	47,308
Total lease receivables	80,018	(6,488)	505	(11,709)	0	62,326
Total	7,172,835	(372,002)	110,194	(142,835)	3,844	6,772,036

31.12.2020 CONSOLIDATED \$'000	Principal	Unearned income	Unamortised income and expenses	Credit and RV risk provisions	Fair value adjustments	Net balance
Loans						
Retail loans	4,996,158	(295,490)	84,828	(105,152)	0	4,680,344
Retail loans at fair value through profit or loss	491,416	(34,790)	14,478	0	2,908	474,012
Dealer loans	1,176,165	0	0	(7,784)	0	1,168,381
Fleet loans	63,059	(4,605)	1,034	(12,034)	0	47,454
Total loans	6,726,798	(334,885)	100,340	(124,970)	2,908	6,370,191
Lease receivables						
Retail lease receivables	17,533	(1,234)	514	(3,224)	0	13,589
Fleet lease receivables	57,169	(5,435)	0	(33)	0	51,701
Total lease receivables	74,702	(6,669)	514	(3,257)	0	65,290
Total	6,801,500	(341,554)	100,854	(128,227)	2,908	6,435,481

3 | Fixed assets and Intangible assets

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

CONSOLIDATED \$'000	Net book value 31.12.2020	Additions and transfers in	Disposals and transfers out	Depreciation	Net book value 30.06.2021
Property, plant and equipment					
Leasehold improvements	1,346	0	0	(176)	1,170
Computer and office equipment	350	0	0	(72)	278
Right of use assets					
Buildings	5,300	0	0	(629)	4,671
Equipment	224	0	0	(56)	168
Total property, plant and equipment	7,220	0	0	(933)	6,287
Intangible assets					
Computer software	3,194	600	0	(884)	2,910
Software under development	12,491	872	0	0	13,363
Total intangible assets	15,685	1,472	0	(884)	16,273
Total	22,905	1,472	0	(1,817)	22,560

CONSOLIDATED \$'000	Net book value 31.12.2019	Additions and transfers in	Disposals and transfers out	Depreciation	Net book value 31.12.2020
Property, plant and equipment					
Leasehold improvements	1,699	0	0	(353)	1,346
Computer and office equipment	164	333	0	(147)	350
Right of use assets					
Buildings	6,571	0	0	(1,271)	5,300
Equipment	335	0	0	(111)	224
Total property, plant and equipment	8,769	333	0	(1,882)	7,220
Intangible assets					
Computer software	3,532	1,764	0	(2,102)	3,194
Software under development	6,122	8,507	(2,138)	0	12,491
Total intangible assets	9,654	10,271	(2,138)	(2,102)	15,685
Total	18,423	10,604	(2,138)	(3,984)	22,905

4 | Borrowings

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

30.06.2021 CONSOLIDATED \$'000	Principal	Accrued interest	Capitalised finance costs	Fair value hedge adjustment	Net balance
Unsecured borrowings					
Bank loans	1,620,000	3,230	0	0	1,623,230
Medium Term Notes and Commercial Papers issued	2,933,600	13,319	(2,566)	5,448	2,949,801
Total unsecured borrowings	4,553,600	16,549	(2,566)	5,448	4,573,031
Secured borrowings					
Asset Backed Securities Notes issued	1,884,059	385	(616)	0	1,883,828
Subordinated loans	0	0	0	0	0
Total secured borrowings	1,884,059	385	(616)	0	1,883,828
Total	6,437,659	16,934	(3,182)	5,448	6,456,859

31.12.2020 CONSOLIDATED \$'000	Principal	Accrued interest	Capitalised finance costs	Fair value hedge adjustment	Net balance
Unsecured borrowings					
Liabilities to bank	1,502,000	2,697	0	0	1,504,697
Medium Term Notes and Commercial Papers issued	2,647,600	14,917	(2,690)	14,493	2,674,320
Total unsecured borrowings	4,149,600	17,614	(2,690)	14,493	4,179,017
Secured borrowings					
Asset Backed Securities Notes issued	1,999,304	340	(1,085)	0	1,998,559
Total secured borrowings	1,999,304	340	(1,085)	0	1,998,559
Total	6,148,904	17,954	(3,775)	14,493	6,177,576

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 2021 owns 100% (31 December 2020: 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	
	30.06.2021	31.12.2020
Intercompany receivables: included in other financial assets		
Volkswagen Group Australia	1,489	501
Audi Australia	133	0
Porsche Australia	0	347
Total intercompany receivables	1,622	501
Intercompany payables: included in other financial liabilities		
Volkswagen Group Australia	11,699	1,345
Audi Australia	36,341	29,487
Total intercompany payables	48,039	30,832
	Consolidated	
	2021	2020
Expenses from intercompany transactions:		
Volkswagen International Luxembourg S.A.: Interest expense on subordinated loan (Driver Australia three Trust)	0	11
Volkswagen Financial Services Japan Ltd.: treasury services	0	338
Volkswagen Financial Services AG, Germany: IT support, DCM guarantee fees and technical assistance	331	4,135
Volkswagen Bank GmbH, Germany: treasury services	0	488
Volkswagen Software Asset Management GmbH, Germany: IT licences and usage fees	453	122
Volkswagen AG, Germany: Insurance premium recharges	12	31
Total expenses from intercompany transactions	796	5,125
Cash receipts from Intercompany transactions relating to Retail finance campaigns: capitalised in Retail loan financing		
Volkswagen Group Australia	10,025	20,993
Audi Australia	1	440
Porsche Australia	347	469
Total Cash receipts from intercompany transactions	10,373	21,902
Cash payments from Intercompany transactions relating to the floorplan: recorded as part of wholesale daily payments		
Volkswagen Group Australia	1,070,876	1,445,123
Audi Australia	511,941	829,339
Porsche Australia	119,560	86,311
Cash payments from Intercompany transactions relating to the lease of office space: recorded as reduction in lease liability		
Volkswagen Group Australia	1,053	2,072
Total Cash payments from intercompany transactions	1,053	2,072

6 | Contingent liabilities

There are no contingent liabilities as at 30 June 2021 (31 December 2020: 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

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, 30 July 2021
The Board of Directors



Jörn Kurzrock
Managing Director



Paul Stanton
Managing Director