

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