

VOLKSWAGEN FINANCIAL SERVICES

AUSTRALIA

A LIVING COMMITMENT
TO OUR CUSTOMERS

Volkswagen Financial Services Australia Pty Limited

Consolidated Interim Report
January – June 2023

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 2023 increased by \$43.6 million to \$247.5 million year on year, mostly resulting from a favourable contribution from retail and dealer financing and higher interest rate. Non-interest revenue has increased by \$4.0 million to \$6.7 million.

Interest expenses amounted to \$190 million, which is an increase of \$118 million compared to the first six months of 2022.

The net gain on financial instruments at fair value is \$9.4 million compared to a net loss of \$24.1 million during the first six months of 2022.

Expenses from bad and doubtful debts, for the remuneration of the workforce, for depreciation and amortisation and from ordinary activities increased substantially by \$21.8 million compared to prior year. This is largely attributable to increase of the bad and doubtful debts expenses (up by \$20.4 million from prior year).

As a result of the above movements, profit before tax for the first half of 2023 is \$23.1 million, which is \$50.7 million lower than the profit before tax for the first half of 2022 (\$73.9 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 2023.

In the first six months of 2023, the Group’s receivables balances from its lending activities have developed as follows:

- Retail financing has increased by 1.5% to \$5,493 million as a result of moderate organic growth.
- Dealer financing has grown by 66.7% to \$2,299 million due to higher stock levels at the dealerships.
- Fleet financing has increased by 7.7% to \$63.7 million.
- Lease receivables are up by 58.8% to \$84.2 million.

Opportunity and risk report

OPPORTUNITY REPORT

1 | Macroeconomic opportunities

While global economic and financial outlook face a number of challenges in 2023, a slowdown in Australian economy growth may not necessarily mean Australia will enter into recession. We expect below-trend growth in 2023 rather than a recession. Inflation has stayed persistently high in 2022 which has resulted in an upward revision of the outlook from RBA's policy rate. There are good reasons to think that the Australian economy has passed the peak of inflation this cycle. The global demand and supply imbalance for goods continues to be resolved, higher interest rates are helping to tackle inflation pressure, positive migration policy will support to combat labour market shortages and shorten delivery time. The Australian economy remains strong and the unemployment rate is at its lowest level in decades. Broader measures of labour underutilisation that include workers who are underemployed are also expected to remain around their lowest levels in many years in the near term.

The Management of Volkswagen Financial Services Australia expects that the total automotive market in Australia will continue to grow in 2023 post COVID and supply chain resumes to pre-COVID level.

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, Cupra, Lamborghini and Porsche) and with its national multi-franchise Dealer network. In 2023 VWFS 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 2023.

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 strong in 2023 but lower than 2022 due to funding cost increase as result of the Reserve Bank of Australia's monetary policy that is to lift interest rate in order to manage inflation challenges.

Statement of Financial Position

as at 30 June 2023

\$'000	Note	Consolidated	
		30.06.2023	31.12.2022
Current assets			
Cash and cash equivalents		133,393	38,429
Loans to and receivables from customers attributable to			
Retail loan financing at amortised cost	2	1,516,554	1,488,033
Retail loan financing at fair value through profit or loss	2	63,100	97,361
Dealer loan financing	2	2,056,051	1,692,590
Fleet loan financing	2	21,620	20,744
Lease receivables	2	42,327	23,225
Derivative financial instruments		6,595	27,849
Other financial assets		14,182	20,676
Lease assets		12,530	8,762
Current tax assets		28,850	22,509
Inventories		576	591
Other assets		707	21,847
Total current assets		3,896,485	3,462,616
Non-current assets			
Loans to and receivables from customers attributable to			
Retail loan financing	2	3,757,510	3,600,174
Retail loan financing at fair value through profit or loss	2	156,402	235,495
Dealer loan financing	2	243,051	150,700
Fleet loan financing	2	42,119	40,303
Lease receivables	2	41,965	39,992
Derivative financial instruments		76,749	48,081
Lease assets		31,517	21,984
Property, plant and equipment	3	2,602	3,419
Intangible assets	3	27,294	24,154
Deferred tax assets		41,157	44,021
Total non-current assets		4,420,366	4,208,323
Total assets		8,316,851	7,670,939

Current liabilities			
Liabilities to banks	4	1,763,953	1,789,190
Medium Term Notes and Commercial Papers issued	4	1,034,367	1,090,871
Intercompany Loan	4	458,187	0
Asset Backed Securities Notes issued	4	813,115	351,102
Derivative financial instruments		11,733	13,016
Other financial liabilities		27,906	28,309
Lease liabilities		1,437	1,359
Employee entitlements		4,409	5,085
Other liabilities		19,508	10,870
Total current liabilities		4,134,615	3,289,802
Non-current liabilities			
Liabilities to banks	4	582,824	406,892
Medium Term Notes and Commercial Papers issued	4	1,158,191	1,457,152
Intercompany Loan	4	0	0
Asset Backed Securities Notes issued	4	1,856,641	1,962,277
Derivative financial instruments		75,031	63,445
Lease liabilities		1,016	1,766
Employee entitlements		982	896
Total non-current liabilities		3,674,685	3,892,428
Total liabilities		7,809,300	7,182,230
Net assets		507,551	488,709
Equity			
Share capital		195,440	195,440
Cash-flow hedges reserve		4,105	1,454
Retained earnings		308,006	291,815
Total equity		507,551	488,709

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 2023

\$'000	Note	Consolidated	
		30.06.2023	30.06.2022
Net income from operations			
Interest income from lending transactions			
Cash and cash equivalents		1,771	168
Retail financing		146,498	125,944
Dealer financing		55,160	15,127
Fleet financing		3,590	3,248
<i>Subtotal: Interest income measured at the effective interest rate method</i>		207,019	144,487
Retail financing accounted for at fair value through profit or loss		7,960	15,426
Interest income from derivatives		35,274	41,057
Income from operating lease transactions		5,318	2,901
Interest expense		(190,263)	(71,874)
Interest expense on lease liability		(65)	(95)
Non-interest revenue		6,794	2,675
Net gains/losses on financial instruments at fair value (incl. hedge ineffectiveness of designated relationships)		9,456	(24,122)
Total net income from operations		81,493	110,455
Bad and doubtful debts expenses		(25,918)	(5,445)
Employee expenses		(13,852)	(13,679)
Depreciation and amortisation expenses		(5,741)	(4,157)
Other expenses from ordinary activities		(12,850)	(13,251)
Profit before income tax		23,132	73,923
Income tax expenses		(6,941)	(22,178)
Profit for the year attributable to owners		16,191	51,745
Change in fair value of cash flow hedges		2,651	(2,148)
Net change in deferred tax for cash flow hedges		0	0
Other comprehensive income for the year		2,651	(2,148)
Total comprehensive income attributable to owners		18,842	49,597

Notes to the interim financial statements

as at 30 June 2023

GENERAL

1 | Accounting policies

The same accounting policies that were used in the annual financial statements for 2022 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 2023 annual report.

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

For the financial year beginning 1 January 2023, there are no new accounting standards that have a significant impact on the Group's financial statements.

Loans to and receivables from customers

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

30.06.2023 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	5,777,458	(504,740)	125,386	(124,040)	0	5,274,064
Retail loans at fair value through profit or loss	246,509	(22,001)	6,755	0	(11,761)	219,502
Dealer loans	2,314,627	0	0	(15,525)	0	2,299,102
Fleet loans	75,584	(7,894)	40	(3,991)	0	63,739
Total loans	8,414,178	(534,635)	132,181	(143,556)	(11,761)	7,856,407
Lease receivables						
Retail lease receivables	31,101	(2,910)	895	(425)	0	28,661
Fleet lease receivables	62,849	(4,188)	0	(3,030)	0	55,631
Total lease receivables	93,950	(7,098)	895	(3,455)	0	84,292
Total	8,508,128	(541,733)	133,076	(147,011)	(11,761)	7,940,699

31.12.2022 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	5,493,210	(421,526)	124,334	(107,811)	0	5,088,207
Retail loans at fair value through profit or loss	364,737	(29,299)	10,552	0	(13,134)	332,856
Dealer loans	1,857,055	0	0	(13,765)	0	1,843,290
Fleet loans	71,158	(6,771)	88	(3,428)	0	61,047
Total loans	7,786,160	(457,596)	134,974	(125,004)	(13,134)	7,325,400
Lease receivables						
Retail lease receivables	30,063	(2,501)	903	(431)	0	28,034
Fleet lease receivables	41,101	(3,337)	0	(2,582)	0	35,182
Total lease receivables	71,164	(5,838)	903	(3,013)	0	63,216
Total	7,857,324	(463,434)	135,877	(128,017)	(13,134)	7,388,616

2 | Fixed assets and Intangible assets

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

CONSOLIDATED \$'000	Net book value 31.12.2022	Additions and transfers in	Disposals and transfers out	Depreciation and impairment	Net book value 30.06.2023
Property, plant and equipment					
Leasehold improvements	640	0	0	(176)	464
Computer and office equipment	117	0	0	(44)	73
Right of use assets					
Buildings	2,550	0	0	(597)	1,953
Equipment	112	0	0	0	112
Total property, plant and equipment	3,419	0	0	(817)	2,602
Intangible assets					
Computer software	1,155	1,404	0	(815)	1,744
Software under development	22,999	2,551	0	0	25,550
Total intangible assets	24,154	3,955	0	(815)	27,294
Total	27,573	3,955	0	(1,632)	29,896

30.06.2023 CONSOLIDATED \$'000	Gross cost	Accumulated depreciation	Net book value
Property, plant and equipment			
Leasehold improvements	4,194	(3,730)	464
Computer and office equipment	1,096	(1,023)	73
Right of use assets	8,282	(6,217)	2,065
Total property, plant and equipment	13,572	(10,970)	2,602
Intangible assets			
Computer software	28,799	(27,055)	1,744
Software under development	25,550	0	25,550
Total intangible assets	54,349	(27,055)	27,294
Total	67,921	(38,025)	29,896

CONSOLIDATED \$'000	Net book value 31.12.2021	Additions and transfers in	Disposals and transfers out	Depreciation	Net book value 31.12.2022
Property, plant and equipment					
Leasehold improvements	993	0	0	(353)	640
Computer and office equipment	210	0	0	(93)	117
Right of use assets					
Buildings	3,913	0	0	(1,363)	2,550
Equipment	112	0	0	0	112
Total property, plant and equipment	5,228	0	0	(1,809)	3,419
Intangible assets					
Computer software	2,487	557	0	(1,889)	1,155
Software under development	16,127	8,352	0	(1,480)	22,999
Total intangible assets	18,614	8,909	0	(3,369)	24,154
Total	23,842	8,909	0	(5,178)	27,573

31.12.2022 CONSOLIDATED \$'000	Gross Cost	Accumulated Depreciation	Net book value
Property, plant and equipment			
Leasehold improvements	4,194	(3,554)	640
Computer and office equipment	1,095	(978)	117
Right of use assets	8,283	(5,621)	2,662
Total property, plant and equipment	13,572	(10,153)	3,419
Intangible assets			
Computer software	27,395	(26,240)	1,155
Software under development	22,999	0	22,999
Total intangible assets	50,394	(26,240)	24,154
Total	63,966	(36,393)	27,573

3 | Borrowings

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

30.06.2023 CONSOLIDATED \$'000	Principal	Accrued interest	Capitalised finance costs	Fair value hedge adjustment	Net balance
Unsecured borrowings					
Liabilities to bank	2,335,000	11,777	0	0	2,346,777
Intercompany Loans	457,490	697	0	0	458,187
Medium Term Notes and Commercial Papers issued	2,199,900	6,888	(995)	(13,235)	2,192,558
Total unsecured borrowings	4,992,390	19,362	(995)	(13,235)	4,997,522
Secured borrowings					
Asset Backed Securities Notes issued	2,668,628	2,555	(1,427)	0	2,669,756
Total secured borrowings	2,668,628	2,555	(1,427)	0	2,669,756
Total	7,661,018	21,917	(2,422)	(13,235)	7,667,278

31.12.2022 CONSOLIDATED \$'000	Principal	Accrued interest	Capitalised finance costs	Fair value hedge adjustment	Net balance
Unsecured borrowings					
Liabilities to bank	2,185,943	10,139	0	0	2,196,082
Intercompany Loans	0	0	0	0	0
Medium Term Notes and Commercial Papers issued	2,553,000	8,525	(1,881)	(11,621)	2,548,023
Total unsecured borrowings	4,738,943	18,664	(1,881)	(11,621)	4,744,105
Secured borrowings					
Asset Backed Securities Notes issued	2,312,692	1,357	(670)	0	2,313,379
Total secured borrowings	2,312,692	1,357	(670)	0	2,313,379
Total	7,051,635	20,021	(2,551)	(11,621)	7,057,484

4 | 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 2023 owns 100% (31 December 2022: 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	
	30.06.2023	31.12.2022
Intercompany receivables: included in other financial assets		
Volkswagen Group Australia	1,359	965
Total intercompany receivables	1,359	965
Intercompany payables: included in other financial liabilities		
Volkswagen Group Australia	6,344	14,451
Total intercompany payables	6,344	14,451

	Consolidated	
	2023	2022
Expenses from intercompany transactions:		
Volkswagen Financial Services Japan Ltd.: Treasury services	156	155
Volkswagen Financial Services AG, Germany: IT support, DCM guarantee fees and technical assistance	1,682	2,276
Volkswagen Bank GmbH, Germany: Treasury services	414	131
Volkswagen Software Asset Management GmbH, Germany: IT licences and usage fees	4	226
Volkswagen AG, Germany: Insurance premium recharges	16	31
Volkswagen D'LETEREN FINANCE: Expatriate Staff Charges	38	76
Total expenses from intercompany transactions	2,272	2,819
Cash receipts from Intercompany transactions relating to Retail finance campaigns: capitalised in Retail loan financing		
Volkswagen Group Australia	6,420	1,570
Porsche Australia	0	328
Total Cash receipts from intercompany transactions	6,420	1,898
Cash payments from Intercompany transactions relating to the floorplan: recorded as part of wholesale daily payments		
Volkswagen Group Australia	1,860,546	1,143,655
Porsche Australia	149,710	140,273
Automobili Lamborghini Spa	39,418	31,705
Bentley Motors Ltd	34,080	32,995
Ducati ANZ P/L	20,285	16,260
Total Cash payments from intercompany transactions	2,104,039	1,364,888
Cash payments from Intercompany transactions relating to the lease of office space and outgoings: recorded as reduction in lease liability		
Volkswagen Group Australia	1,132	921
Total Cash payments from intercompany transactions	1,132	921

5 | Contingent liabilities

There are no contingent liabilities as at 30 June 2023 (31 December 2022: 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 (until 30 April 2023)
Mr Marcel Fickers	Director (from 1 May 2023)

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 2023 of \$238.1 million (31 December 2022: excess of current assets of \$172.8 million). Volkswagen Financial Services AG, as the parent entity, has declared that they will provide financial support 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 2023. 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, 2 August 2023
The Board of Directors



Jörn Kurzrock
Managing Director



Paul Stanton
Managing Director