

VOLKSWAGEN FINANCIAL SERVICES

AUSTRALIA

A LIVING COMMITMENT
TO OUR CUSTOMERS

Volkswagen Financial Services Australia Pty Limited

Consolidated Interim Report
January – June 2020

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 2020 decreased by \$8.2 million to \$160.9 million year on year, mainly due to low volumes of new business written in March and April 2020 as a result of the Covid-19 situation. Non-interest revenue has decreased by \$1.4 million to \$8.3 million.

Interest expenses amounted to \$75.1 million, which is a decrease of \$11.6 million compared to the first six months of 2019. This is largely due to the significant reduction of the RBA Cash Rate between July 2019 and March 2020, which has led to lower interest rates on new funding drawdowns as well as existing variable rate funding.

The net loss on financial instruments at fair value is (\$2.6) million compared to a net loss of (\$19.0) million during the first six months of 2019.

Expenses from ordinary activities increased by \$13.3 million to \$67.3 million compared to prior year. This increase is largely attributable to increases of the bad and doubtful debts expenses (up \$10.2 million from prior year) and expenses for manufacturer campaigns (up \$2.2 million from prior year).

As a result of the above movements, profit before tax for the first half of 2020 is \$24.2 million, which is \$5.0 million higher than the profit before tax for the first half of 2019 (\$19.2 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 2019.

In the first six months of 2020, the Group was able to maintain its levels of Retail and Fleet financing, while the outstanding balance of Dealer loan financing decreased by \$0.2 billion to \$1.6 billion compared to the prior year. The net book value of its earning assets decreased from \$6.8 billion to \$6.6 billion.

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 be below 2019 levels. This is attributed to a number of political, financial and health issues within the Australian market. The June 2020 year to date total new vehicle sale figure is 20.2% lower than June 2019. The Federal Government's support initiative to business and consumers has led to a slight recovery in vehicle sales in June, but there is no doubt that the vehicle industry will be under pressure for the remainder of 2020.

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 2020 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 2020.

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 pre-tax result achieved for 2019. This is mainly achieved through increased earning assets and improved margins, while risk costs are expected to be above 2019 levels.

Statement of Financial Position

as at 30 June 2020

\$'000	Note	Consolidated	
		30.06.2020	31.12.2019
Current assets			
Cash and cash equivalents		300,573	105,663
Loans to and receivables from customers attributable to			
Retail loan financing	2	1,053,028	1,005,281
Dealer loan financing	2	1,575,290	1,766,879
Fleet loan financing	2	7,374	9,524
Lease receivables	2	26,155	29,690
Derivative financial instruments		8,763	5,643
Miscellaneous financial assets		28,953	18,027
Lease assets		4,133	4,132
Other assets		25,985	8,734
Total current assets		3,030,254	2,953,573
Non-current assets			
Loans to and receivables from customers attributable to			
Retail loan financing	2	3,962,358	3,931,300
Fleet loan financing	2	26,238	26,437
Lease receivables	2	42,172	41,228
Derivative financial instruments		37,055	37,771
Lease assets		10,375	10,039
Property, plant and equipment	3	7,872	8,769
Intangible assets	3	13,002	9,654
Deferred tax assets		34,678	33,076
Total non-current assets		4,133,750	4,098,274
Total assets		7,164,004	7,051,847

Current liabilities			
Liabilities to banks	4	1,584,060	1,086,757
Medium Term Notes and Commercial Papers issued	4	1,039,717	878,694
Asset Backed Securities Notes issued	4	789,444	761,949
Derivative financial instruments		12,831	6,745
Other financial liabilities		67,013	37,177
Employee entitlements		2,967	3,981
Current tax liabilities		3,251	2,818
Other liabilities		60,488	22,305
Total current liabilities		3,559,771	2,800,426
Non-current liabilities			
Liabilities to banks	4	215,380	420,607
Medium Term Notes and Commercial Papers issued	4	1,537,347	1,938,686
Asset Backed Securities Notes issued	4	1,488,750	1,539,504
Derivative financial instruments		27,601	30,044
Other financial liabilities		5,076	5,739
Employee entitlements		680	648
Total non-current liabilities		3,274,834	3,935,228
Total liabilities		6,834,605	6,735,654
Net assets		329,399	316,193
Equity			
Share capital		195,440	195,440
Reserves		(5,968)	(2,231)
Retained earnings		139,927	122,984
Total equity		329,399	316,193

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 2020

\$'000	Note	Consolidated	
		30.06.2020	30.06.2019
Net income from operations			
Interest income from lending transactions			
Cash and cash equivalents		366	2,006
Retail financing		122,297	116,562
Dealer financing		19,680	30,160
Fleet financing		2,918	2,418
<i>Subtotal: Interest income measured at the effective interest rate method</i>		<i>145,261</i>	<i>151,146</i>
Retail financing accounted for at fair value through profit or loss		13,331	14,117
Income from operating lease transactions		2,279	3,806
Interest expense		(75,132)	(86,682)
Non-interest revenue		8,331	9,782
Net gains/losses on financial instruments at fair value (incl. hedge ineffectiveness of designated relationships)		(2,570)	(18,950)
Total net income from operations		91,500	73,219
Bad and doubtful debts expenses		(33,639)	(23,440)
Employee expenses		(12,517)	(11,217)
Depreciation and amortisation expenses		(3,286)	(4,649)
Other expenses from ordinary activities		(17,854)	(14,674)
Profit before income tax		24,204	19,239
Income tax expenses		(7,261)	(5,772)
Profit for the year attributable to owners		16,943	13,467
Change in fair value of cash flow hedges		(5,339)	(4,370)
Net change in deferred tax for cash flow hedges		1,602	(1,311)
Other comprehensive income for the year		(3,737)	(5,681)
Total comprehensive income attributable to owners		13,206	7,786

Notes to the interim financial statements

as at 30 June 2020

GENERAL

1 | Accounting policies

The same accounting policies that were used in the annual financial statements for 2019 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 2019 annual report.

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

For the financial year beginning 1 January 2020, 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:

30.06.2020 CONSOLIDATED \$'000	Principal	Unearned income	Unamortised income and expenses	Credit and RV risk provisions	Fair value adjustments	Net balance
Loans						
Retail loans	5,313,994	(302,822)	87,144	(83,506)	576	5,015,386
Dealer loans	1,583,510	0	0	(8,220)	0	1,575,290
Fleet loans	45,506	(3,053)	1,194	(10,035)	0	33,612
Total loans	6,943,010	(305,875)	88,338	(101,761)	576	6,624,288
Lease receivables						
Retail lease receivables	19,169	(1,310)	551	(1,400)	0	17,010
Fleet lease receivables	59,553	(5,672)	0	(2,564)	0	51,317
Total lease receivables	78,722	(6,982)	551	(3,964)	0	68,327
Total	7,021,732	(312,857)	88,889	(105,725)	576	6,692,615

31.12.2019 CONSOLIDATED \$'000	Principal	Unearned income	Unamortised income and expenses	Credit and RV risk provisions	Fair value adjustments	Net balance
Loans						
Retail loans	4,893,763	(275,492)	75,702	(56,385)	(2,254)	4,635,334
Dealer loans	1,731,801	0	0	(3,486)	0	1,728,315
Fleet loans	15,401	(1,334)	960	(1)	0	15,026
Total loans	6,640,965	(276,826)	76,662	(59,872)	(2,254)	6,378,675
Lease receivables						
Retail lease receivables	35,165	(2,471)	1,081	(874)	0	32,901
Fleet lease receivables	65,113	(7,072)	0	(331)	0	57,710
Total lease receivables	100,278	(9,543)	1,081	(1,205)	0	90,611
Total	6,741,243	(286,369)	77,743	(61,077)	(2,254)	6,469,286

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 31.12.2019	Additions and transfers in	Disposals and transfers out	Depreciation	Net book value 30.06.2020
Property, plant and equipment					
Leasehold improvements	1,699	0	0	(176)	1,523
Computer and office equipment	164	0	0	(34)	130
Right of use assets					
Buildings	6,571	0	0	(631)	5,940
Equipment	335	0	0	(56)	279
Total property, plant and equipment	8,769	0	0	(897)	7,872
Intangible assets					
Computer software	3,531	0	0	(925)	2,606
Software under development	6,123	4,314	(41)	0	10,396
Total intangible assets	9,654	4,314	(41)	(925)	13,002
Total	18,423	4,314	(41)	(1,822)	20,874

CONSOLIDATED \$'000	Net book value 31.12.2018	Adjustment to opening balance 01.01.2019 *	Additions and transfers in	Disposals and transfers out	Depreciation	Net book value 31.12.2019
Property, plant and equipment						
Leasehold improvements	2,052	0	0	0	(353)	1,699
Computer and office equipment	242	0	0	0	(78)	164
Right of use assets						
Buildings	0	7,537	297	0	(1,263)	6,571
Equipment	0	447	0	0	(112)	335
Total property, plant and equipment	2,294	7,984	297	0	(1,806)	8,769
Intangible assets						
Computer software	2,410	0	2,652	0	(1,531)	3,531
Software under development	5,057	0	3,844	(2,778)	0	6,123
Total intangible assets	7,467	0	6,496	(2,778)	(1,531)	9,654
Total	9,761	7,984	6,793	(2,778)	(3,337)	18,423

4 | Borrowings

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

30.06.2020 CONSOLIDATED \$'000	Principal	Accrued interest	Capitalised finance costs	Fair value hedge adjustment	Net balance
Unsecured borrowings					
Bank loans	1,795,000	4,440	0	0	1,799,440
Medium Term Notes and Commercial Papers issued	2,551,600	17,594	(2,445)	10,315	2,577,064
Total unsecured borrowings	4,346,600	22,034	(2,445)	10,315	4,376,504
Secured borrowings					
Asset Backed Securities Notes issued	2,278,988	591	(1,385)	0	2,278,194
Subordinated loans	0	0	0	0	0
Total secured borrowings	2,278,988	591	(1,385)	0	2,278,194
Total	6,625,588	22,625	(3,830)	10,315	6,654,698

31.12.2019 CONSOLIDATED \$'000	Principal	Accrued interest	Capitalised finance costs	Fair value hedge adjustment	Net balance
Unsecured borrowings					
Bank loans	1,500,000	7,364	0	0	1,507,364
Medium Term Notes and Commercial Papers issued	2,799,000	17,416	(4,339)	5,303	2,817,380
Total unsecured borrowings	4,299,000	24,780	(4,339)	5,303	4,324,744
Secured borrowings					
Asset Backed Securities Notes issued	2,299,478	871	(1,891)	0	2,298,458
Subordinated loans	2,995	0	0	0	2,995
Total secured borrowings	2,302,473	871	(1,891)	0	2,301,453
Total	6,601,473	25,651	(6,230)	5,303	6,626,197

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 2020 owns 100% (31 December 2019: 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	
	30.06.2020	31.12.2019
Intercompany receivables: included in other financial assets		
Volkswagen Group Australia	4,812	3,833
Audi Australia	696	160
Total intercompany receivables	5,508	3,993
Intercompany payables: included in other financial liabilities		
Volkswagen Group Australia	13,264	1,312
Audi Australia	35,360	22,211
Total intercompany payables	48,624	23,523
Intercompany borrowings: included in Asset Backed Securities Notes issued		
Volkswagen International Luxembourg S.A.	0	2,991
Total intercompany borrowings	0	2,991
	Consolidated	
	2020	2019
Expenses from intercompany transactions:		
Volkswagen International Luxembourg S.A.: Interest expense for subordinated loans	11	789
Volkswagen Financial Services Japan Ltd.: treasury services	210	377
Volkswagen Financial Services AG, Germany: IT support, DCM guarantee fees and technical assistance	2,192	3,627
Volkswagen Bank GmbH, Germany: treasury services	210	421
Volkswagen Software Asset Management GmbH, Germany: IT licences and usage fees	0	152
Volkswagen AG, Germany: Insurance premium and IT recharges	9	11
Total expenses from intercompany transactions	2,632	5,377
Cash receipts from Intercompany transactions relating to Retail finance campaigns: capitalised in Retail loan financing		
Volkswagen Group Australia	6,115	15,276
Audi Australia	47	662
Total Cash receipts from intercompany transactions	6,162	15,938
Cash payments from Intercompany transactions relating to the lease of office space: recorded as reduction in lease liability		
Volkswagen Group Australia	688	1,329
Total Cash payments from intercompany transactions	688	1,329

6 | Contingent liabilities

There are no contingent liabilities as at 30 June 2020 (31 December 2019: Nil).

THE BOARD OF DIRECTORS OF VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED

Directors

Mr Jörn Kurzrock	Managing Director
Mr Zhong Zhong	Managing Director
Mr Norbert Dorn	Director
Mr Marc Schwekendiek	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 2020 of \$529.5 million (31 December 2019: excess of current assets of \$153.1 million). Volkswagen Financial Services AG, as the parent entity, has declared that they will provide financial support for a period until 30 April 2022 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 30 June 2020. 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, 31 July 2020
The Board of Directors



Jörn Kurzrock
Managing Director



Zhong Zhong
Managing Director